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Published Quarterly

Announcing a New Tool for the Intelligent Investor!

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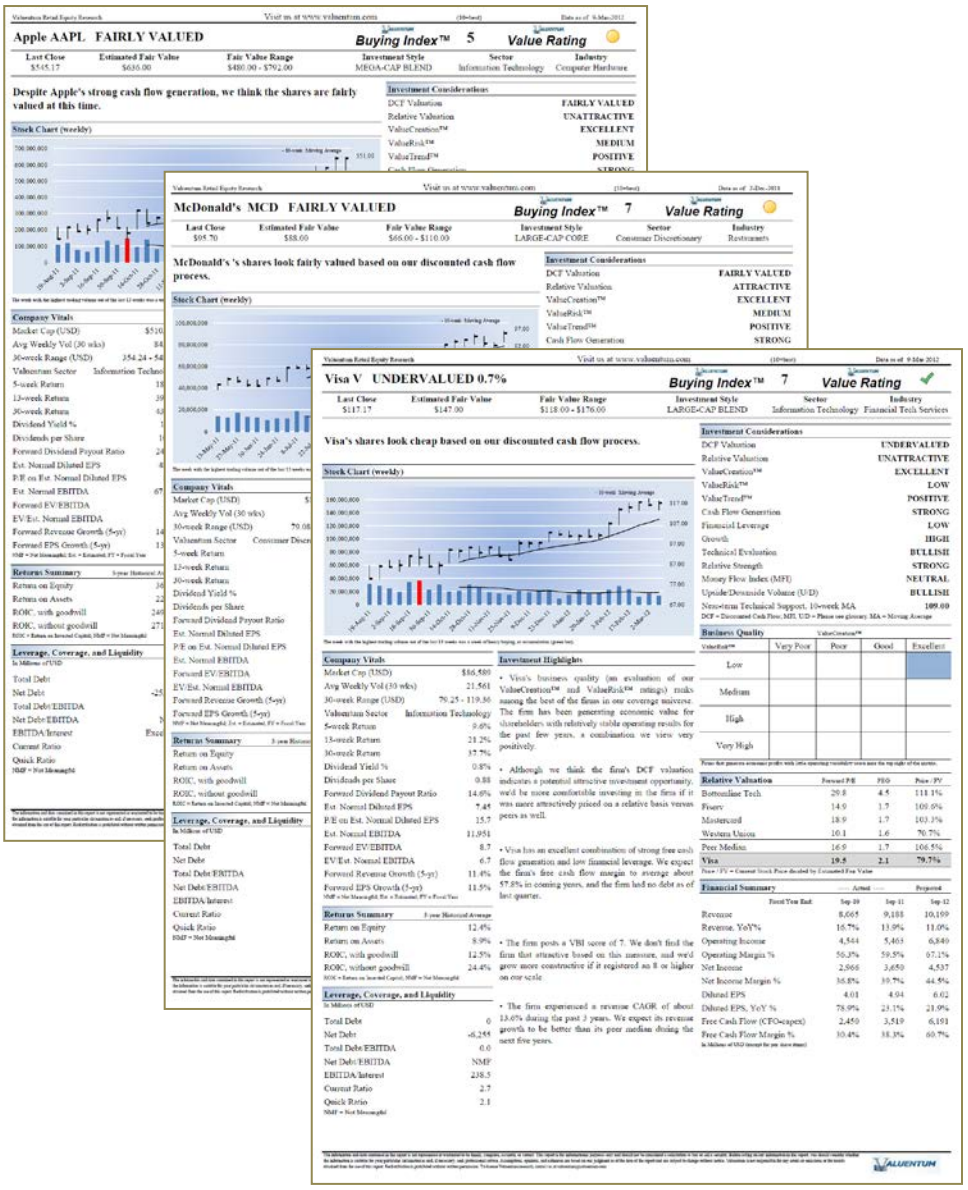
- Updated Quarterly

This publication can help you:

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

Valuentum

Ideas100™



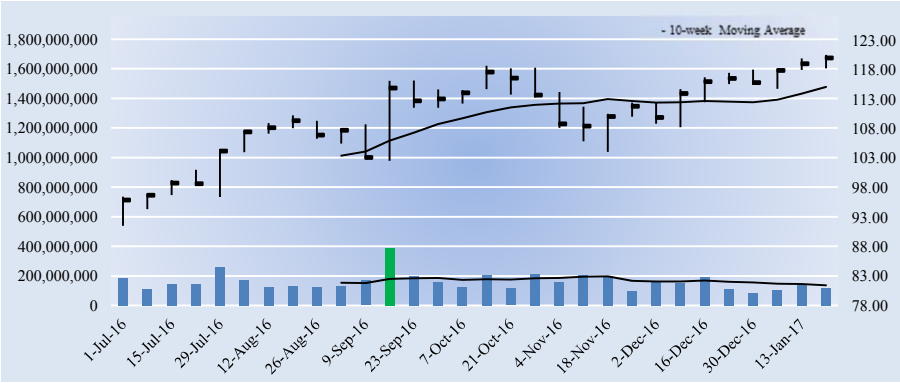
Apple AAPL UNDERVALUED 8.3%

Buying Index™ 7 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$159.00	$130.00 - $188.00	MEGA-CAP VALUE	Information Technology	Computer Hardware

Apple is expecting a return to meaningful top-line growth in fiscal 2017.

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)	$660,034
Avg Weekly Vol (30 wks)	160,723
30-week Range (USD)	91.5 - 120.5
Valuentum Sector	Information Technology
5-week Return	3.6%
13-week Return	2.5%
30-week Return	29.0%
Dividend Yield %	1.9%
Dividends per Share	2.28
Forward Dividend Payout Ratio	25.3%
Est. Normal Diluted EPS	10.51
P/E on Est. Normal Diluted EPS	11.4
Est. Normal EBITDA	87,759
Forward EV/EBITDA	6.7
EV/Est. Normal EBITDA	5.8
Forward Revenue Growth (5-yr)	4.3%
Forward EPS Growth (5-yr)	6.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	38.9%
Return on Assets	17.8%
ROIC, with goodwill	204.8%
ROIC, without goodwill	265.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	87,032
Net Debt	-150,553
Total Debt/EBITDA	1.2
Net Debt/EBITDA	NMF
EBITDA/Interest	48.4
Current Ratio	1.4
Quick Ratio	3.4

NMF = Not Meaningful

Investment Highlights

• Apple is as much a brand as it is one of the world's most innovative companies. The firm is no longer known for its iPods and personal computers, as the proliferation of the iPhone over the past several years has been a sight to behold. The company's execution remains top notch, and we expect it to continue to roll out innovative products in smartphones and wearable technology, its most recent major product launch.

• Apple'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.

• Criticism over the firm's dependence on sales of the iPhone gained momentum in fiscal 2016, as the second quarter of the fiscal year marked the first quarterly sales decline in 13 years. High levels of demand for the iPhone 7 and multiple safety issues at rival Samsung have eased concerns for the time being, however. A return to meaningful top-line growth is expected in fiscal 2017.

• Investors should pay close attention to the firm's gross margin, which fell to 38% in fiscal 2016 from 40% in fiscal 2015 and is expected to remain below the 40% mark in the near term. Pricing and cost pressures may be unavoidable, and the strengthening of the US dollar will impact results as Apple generates more than two-thirds of its revenue outside the US.

• Apple's cash hoard is more than some of the market capitalizations of the largest companies in the S&P 500. The company retains tremendous flexibility in this regard, and we continue to expect dividend increases and share buybacks.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**NEUTRAL**
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)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**115.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
BlackBerry	353.0	NMF	79.2%
Cray	48.4	0.8	77.7%
Hewlett-Packard	9.2	2.3	77.5%
IBM	13.8	1.4	104.6%
Peer Median	31.1	1.4	78.5%
Apple	**13.3**	**2.1**	**75.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-15	Sep-16	Sep-17
Revenue	233,715	215,639	227,499
Revenue, YoY%	27.9%	-7.7%	5.5%
Operating Income	71,230	60,024	64,511
Operating Margin %	30.5%	27.8%	28.4%
Net Income	53,394	45,687	49,609
Net Income Margin %	22.8%	21.2%	21.8%
Diluted EPS	9.22	8.31	9.02
Diluted EPS, YoY %	42.8%	-9.9%	8.6%
Free Cash Flow (CFO-capex)	69,778	52,276	47,812
Free Cash Flow Margin %	29.9%	24.2%	21.0%

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.

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

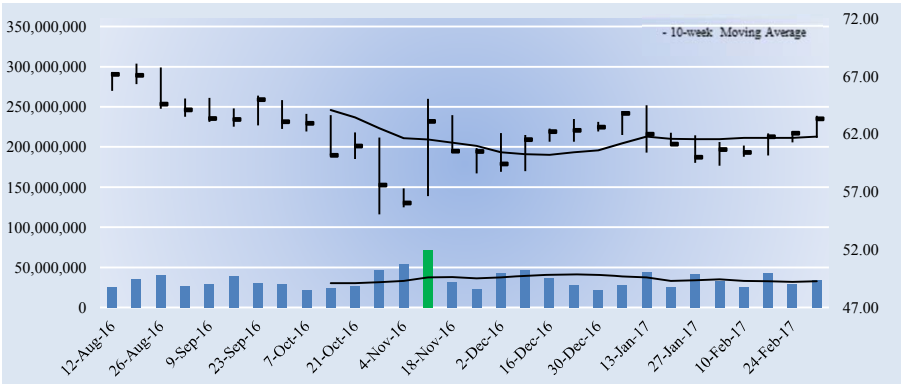
AbbVie ABBV FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$71.00	$55.00 - $87.00	LARGE-CAP VALUE	Health Care	Pharmaceuticals - Big

The largest unknown that continues to plague AbbVie is the fate of the patent covering Humira.

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)	$103,688
Avg Weekly Vol (30 wks)	34,651
30-week Range (USD)	55.0623 - 68.1239
Valuentum Sector	Health Care
5-week Return	5.7%
13-week Return	NA
30-week Return	NA
Dividend Yield %	4.0%
Dividends per Share	2.56
Forward Dividend Payout Ratio	70.6%
Est. Normal Diluted EPS	5.46
P/E on Est. Normal Diluted EPS	11.6
Est. Normal EBITDA	13,577
Forward EV/EBITDA	13.5
EV/Est. Normal EBITDA	9.4
Forward Revenue Growth (5-yr)	7.1%
Forward EPS Growth (5-yr)	14.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	114.3%
Return on Assets	11.2%
ROIC, with goodwill	41.3%
ROIC, without goodwill	82.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	31,671
Net Debt	23,264
Total Debt/EBITDA	3.8
Net Debt/EBITDA	2.8
EBITDA/Interest	11.6
Current Ratio	1.5
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• AbbVie discovers, develops, manufactures, and sells pharmaceutical products across the globe. 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 and accounted for more than 60% of 2015 sales.

• AbbVie was one of the first major drugmakers to promise to keep drug price increases to less than 10% in 2017. Though regulatory scrutiny may ease under a Republican White House, Trump has claimed pharma firms are 'getting away with murder.'

• AbbVie had plans to buy 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, then bought Stemcentrx for nearly $6 billion.

• The largest unknown that continues to plague AbbVie is the fate of the patent covering Humira. The European patent is set to expire in 2018, thus opening the door for a biosimilar challenger to steal market share. Though the patent on Humira expired in the US in 2016 management believes it has adequate patent protection well into 2022.

• 2017 may be the last full year of Humira protected sales. The expected decline in European revenue in 2018 coupled with an increase in competition and the unknown status of the Humira patent in the US leave AbbVie extremely vulnerable in the coming years.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**NEGATIVE**
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	**62.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Abbott	64.0	0.6	102.8%
Eli Lilly	20.2	2.0	128.9%
Merck	17.3	1.6	111.0%
Pfizer	13.4	1.2	90.8%
Peer Median	18.7	1.4	106.9%
AbbVie	**17.5**	**1.4**	**89.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	19,960	22,859	25,638
Revenue, YoY%	6.2%	14.5%	12.2%
Operating Income	4,161	7,537	8,491
Operating Margin %	20.8%	33.0%	33.1%
Net Income	1,774	5,144	5,976
Net Income Margin %	8.9%	22.5%	23.3%
Diluted EPS	1.10	3.14	3.63
Diluted EPS, YoY %	-57.2%	185.2%	15.4%
Free Cash Flow (CFO-capex)	2,937	7,003	6,562
Free Cash Flow Margin %	14.7%	30.6%	25.6%

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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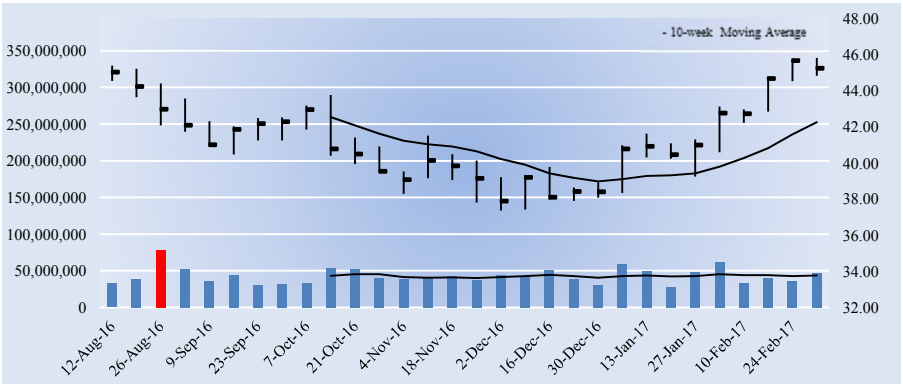
Abbott ABT FAIRLY VALUED

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	Health Care	Pharmaceuticals - Big

More than 16% of the world's population will be 65 or older by 2050, offering meaningful 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).

Company Vitals

Market Cap (USD)	$67,124
Avg Weekly Vol (30 wks)	43,187
30-week Range (USD)	37.38 - 45.835
Valuentum Sector	Health Care
5-week Return	10.7%
13-week Return	18.7%
30-week Return	0.4%
Dividend Yield %	2.3%
Dividends per Share	1.06
Forward Dividend Payout Ratio	149.9%
Est. Normal Diluted EPS	2.45
P/E on Est. Normal Diluted EPS	18.4
Est. Normal EBITDA	6,412
Forward EV/EBITDA	24.6
EV/Est. Normal EBITDA	10.9
Forward Revenue Growth (5-yr)	7.6%
Forward EPS Growth (5-yr)	13.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	9.5%
Return on Assets	4.9%
ROIC, with goodwill	7.8%
ROIC, without goodwill	12.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	9,001
Net Debt	2,876
Total Debt/EBITDA	2.1
Net Debt/EBITDA	0.7
EBITDA/Interest	26.6
Current Ratio	1.5
Quick Ratio	1.0

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. 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 diagnostics segment has some solid products in the pipeline that could kick-start growth, and it remains #1 in blood screening. More than 16% of the world's population will be 65 or older by 2050, offering meaningful opportunities across Abbott's portfolio.

• 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 coronary stents) segments either.

• Abbott recently acquired St. Jude Medical for $25 billion, in hopes of creating a premier medical device leader. Annual pre-tax synergies of $500 million are expected by 2020, and Abbot has assumed or will refinance $5.7 billion of STJ debt. It is targeting a net debt-to-EBITDA ratio of 3.5x in 2018; deleveraging will be a high priority.

• Abbott continues to expand its global presence, particularly in Latin America and Russia. It also continues to expand its global infrastructure presence. The firm recently sold its Medical Optics unit to Johnson & Johnson for ~$4.3 billion in cash.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	GOOD
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	42.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
AbbVie	17.5	1.4	89.2%
Eli Lilly	20.2	2.0	128.9%
Merck	17.3	1.6	111.0%
Pfizer	13.4	1.2	90.8%
Peer Median	17.4	1.5	100.9%
Abbott	**64.0**	**0.6**	**102.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	20,247	20,405	20,853
Revenue, YoY%	-7.3%	0.8%	2.2%
Operating Income	2,599	2,867	1,339
Operating Margin %	12.8%	14.1%	6.4%
Net Income	1,721	2,606	1,049
Net Income Margin %	8.5%	12.8%	5.0%
Diluted EPS	1.13	1.73	0.71
Diluted EPS, YoY %	-25.6%	53.5%	-59.1%
Free Cash Flow (CFO-capex)	2,598	1,856	2,081
Free Cash Flow Margin %	12.8%	9.1%	10.0%

In Millions of USD (except for per share items)

Structure of the Big Pharma Industry — GOOD

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

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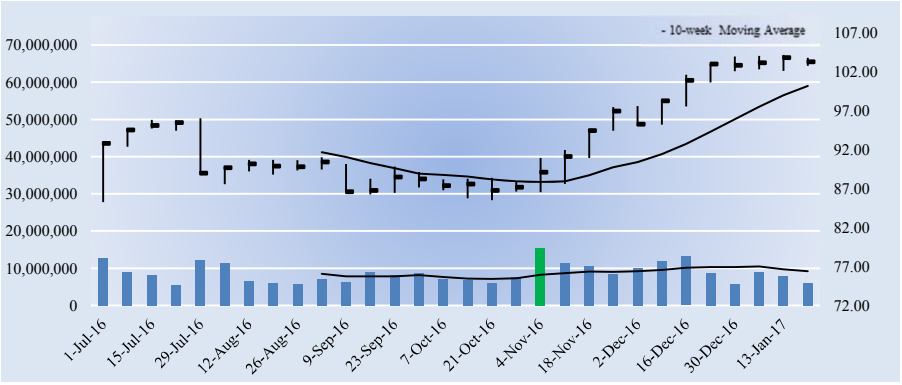
Automatic Data Processing ADP FAIRLY VALUED

Buying Index™ 5 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$108.00	$86.00 - $130.00	LARGE-CAP VALUE	Information Technology	Staffing Services

ADP believes its runway for growth is a long one, though its operating environment is evolving.

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)	$47,397
Avg Weekly Vol (30 wks)	8,779
30-week Range (USD)	85.23 - 104.09
Valuentum Sector	Information Technology
5-week Return	2.5%
13-week Return	18.2%
30-week Return	20.1%
Dividend Yield %	2.2%
Dividends per Share	2.28
Forward Dividend Payout Ratio	61.5%
Est. Normal Diluted EPS	3.88
P/E on Est. Normal Diluted EPS	26.6
Est. Normal EBITDA	2,586
Forward EV/EBITDA	4.9
EV/Est. Normal EBITDA	4.8
Forward Revenue Growth (5-yr)	3.4%
Forward EPS Growth (5-yr)	3.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	26.5%
Return on Assets	4.3%
ROIC, with goodwill	34.2%
ROIC, without goodwill	83.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,008
Net Debt	-35,048
Total Debt/EBITDA	0.9
Net Debt/EBITDA	NMF
EBITDA/Interest	39.1
Current Ratio	1.1
Quick Ratio	1.1

NMF = Not Meaningful

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. The company was founded in 1949 and is based in New Jersey.

• 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 believes its runway for growth is a long one, though its operating environment is evolving. The increasing complexity of regulatory compliance, trends toward the use of big data, and the globalization of businesses and the additional complexities that come along with cross-border operations are all expected to help drive demand.

• In fiscal 2017, ADP is expecting material growth throughout its business. It anticipates growing total revenue 7%-8%, boosted by worldwide new business bookings growing 4%-6%. Adjusted diluted earnings per share guidance has been set at a growth range of 11%-13% from $3.25 in fiscal 2016.

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

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	UNATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
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	100.00

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
Korn/Ferry	12.7	1.4	84.7%
Manpower	15.0	1.8	103.2%
Insperity	19.7	1.6	104.3%
Paychex	27.4	3.1	128.1%
Peer Median	17.4	1.7	103.8%
Automatic Data Processing	**27.9**	**9.9**	**95.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-15	Jun-16	Jun-17
Revenue	10,939	11,668	12,520
Revenue, YoY%	-10.4%	6.7%	7.3%
Operating Income	1,636	1,813	2,127
Operating Margin %	15.0%	15.5%	17.0%
Net Income	1,377	1,493	1,669
Net Income Margin %	12.6%	12.8%	13.3%
Diluted EPS	2.89	3.25	3.71
Diluted EPS, YoY %	-7.0%	12.4%	14.0%
Free Cash Flow (CFO-capex)	1,570	1,474	1,685
Free Cash Flow Margin %	14.4%	12.6%	13.5%

In Millions of USD (except for per share items)

Structure of the Staffing Services Industry — NEUTRAL

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

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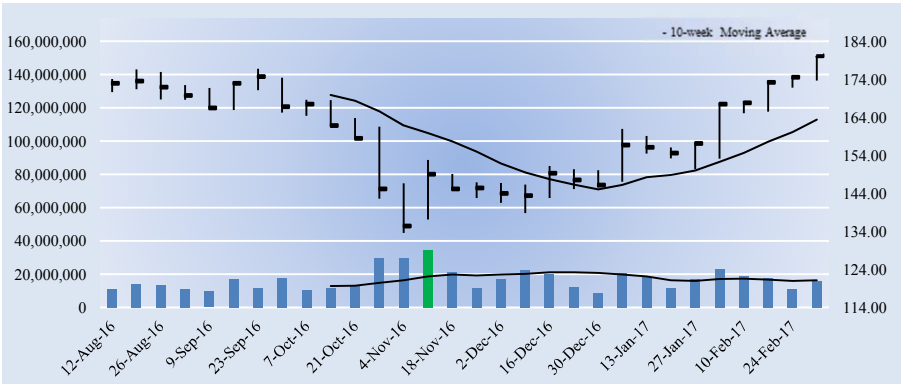
Amgen AMGN FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$178.00	$142.00 - $214.00	LARGE-CAP CORE	Health Care	Pharmaceuticals - Big

Amgen sees material growth potential in its pipeline of biosimilars, including an FDA approved biosimilar for AbbVie's Humira.

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)	$135,871
Avg Weekly Vol (30 wks)	16,831
30-week Range (USD)	133.64 - 180.53
Valuentum Sector	Health Care
5-week Return	14.7%
13-week Return	23.9%
30-week Return	4.0%
Dividend Yield %	2.6%
Dividends per Share	4.60
Forward Dividend Payout Ratio	37.2%
Est. Normal Diluted EPS	12.30
P/E on Est. Normal Diluted EPS	14.7
Est. Normal EBITDA	13,346
Forward EV/EBITDA	9.7
EV/Est. Normal EBITDA	9.9
Forward Revenue Growth (5-yr)	1.3%
Forward EPS Growth (5-yr)	2.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	24.7%
Return on Assets	9.3%
ROIC, with goodwill	27.5%
ROIC, without goodwill	50.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	34,596
Net Debt	-3,489
Total Debt/EBITDA	2.9
Net Debt/EBITDA	NMF
EBITDA/Interest	19.1
Current Ratio	4.1
Quick Ratio	3.7

NMF = Not Meaningful

Investment Highlights

• 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. It will continue to successfully execute on new product launches as well. The firm has been a pioneer since 1980 and is headquartered in Thousand Oaks, California.

• Through 2018 Amgen is targeting double digit adjusted EPS growth annually, an adjusted operating margin of 52%-54%, $1.5 billion in gross cost savings, as well as material headcount and facilities footprint reductions. It is on track with all targets.

• Amgen sees material growth potential in its pipeline of biosimilars, including an FDA approved biosimilar for AbbVie's Humira. Its biosimilar pipeline has biologics along various stages for drugs that totaled more $60 billion in worldwide sales in 2016. The firm continues to invest for the long run, and management is excited about its pipeline in the areas of atherosclerosis and heart failure.

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

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

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	HIGH
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	163.00

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	64.0	0.6	102.8%
Eli Lilly	20.2	2.0	128.9%
Merck	17.3	1.6	111.0%
Pfizer	13.4	1.2	90.8%
Peer Median	18.7	1.4	106.9%
Amgen	**14.6**	**6.2**	**101.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	21,662	22,991	23,106
Revenue, YoY%	8.0%	6.1%	0.5%
Operating Income	8,519	9,927	11,488
Operating Margin %	39.3%	43.2%	49.7%
Net Income	6,939	7,722	9,228
Net Income Margin %	32.0%	33.6%	39.9%
Diluted EPS	9.06	10.24	12.36
Diluted EPS, YoY %	35.2%	13.1%	20.7%
Free Cash Flow (CFO-capex)	9,082	9,517	10,615
Free Cash Flow Margin %	41.9%	41.4%	45.9%

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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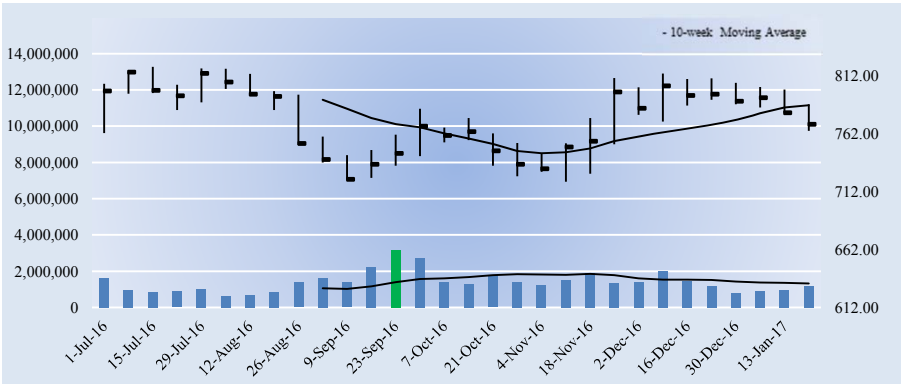
AutoZone AZO FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$645.00	$516.00 - $774.00	LARGE-CAP CORE	Consumer Discretionary	Specialty Retail - auto

AutoZone has put up more than 40 consecutive quarters of double-digit earnings per share expansion.

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)	$23,476
Avg Weekly Vol (30 wks)	1,395
30-week Range (USD)	720.45 - 819.54
Valuentum Sector	Consumer Discretionary
5-week Return	-3.0%
13-week Return	3.0%
30-week Return	0.7%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	55.93
P/E on Est. Normal Diluted EPS	13.8
Est. Normal EBITDA	2,957
Forward EV/EBITDA	10.9
EV/Est. Normal EBITDA	9.5
Forward Revenue Growth (5-yr)	4.3%
Forward EPS Growth (5-yr)	10.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	-73.4%
Return on Assets	14.9%
ROIC, with goodwill	38.3%
ROIC, without goodwill	43.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,924
Net Debt	4,734
Total Debt/EBITDA	2.1
Net Debt/EBITDA	2.0
EBITDA/Interest	15.8
Current Ratio	0.9
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 ~$54 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 is focusing on its new mantra 'Yes, We've Got It!' This includes increased training for store employees, an increased sales payroll, and an increase in weekly deliveries to stores from once per week to three or more times per week. A materially expanding hub network will be necessary.

• It's difficult to beat the consistency of AutoZone's performance. The company has put up more than 40 consecutive quarters of double-digit earnings per share expansion. Inventory availability initiatives remain key to its success.

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	VERY BEARISH
Relative Strength	NEUTRAL
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Resistance, 10-wk MA	786.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
AutoNation	12.7	1.6	82.0%
CarMax	20.1	1.6	109.3%
O'Reilly Automotive	25.4	2.0	126.9%
Penske	13.2	0.9	100.4%
Peer Median	16.6	1.6	104.8%
AutoZone	**16.7**	**1.9**	**119.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-15	Aug-16	Aug-17
Revenue	10,187	10,636	11,104
Revenue, YoY%	7.5%	4.4%	4.4%
Operating Income	1,953	2,060	2,262
Operating Margin %	19.2%	19.4%	20.4%
Net Income	1,160	1,241	1,374
Net Income Margin %	11.4%	11.7%	12.4%
Diluted EPS	36.03	40.70	46.00
Diluted EPS, YoY %	14.1%	13.0%	13.0%
Free Cash Flow (CFO-capex)	1,035	1,078	1,298
Free Cash Flow Margin %	10.2%	10.1%	11.7%

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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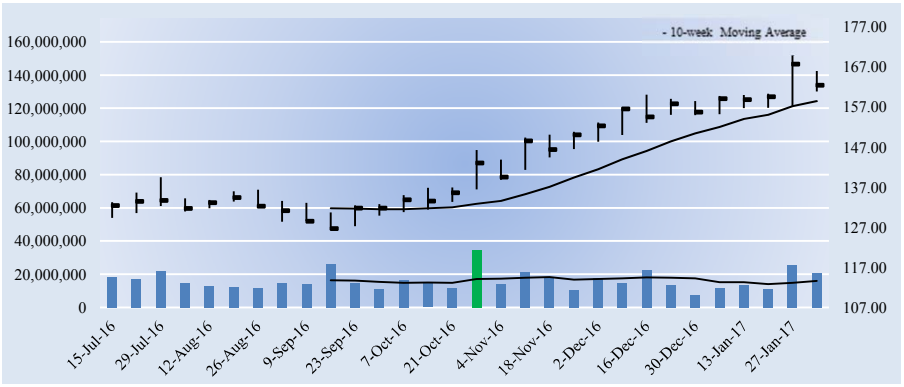
Boeing BA FAIRLY VALUED

Buying Index™ 5 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$167.00	$134.00 - $200.00	LARGE-CAP VALUE	Industrials	A&D Prime

Boeing's core commercial business is executing wonderfully, and its massive backlog continues 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)	$104,553
Avg Weekly Vol (30 wks)	16,404
30-week Range (USD)	126.31 - 170
Valuentum Sector	Industrials
5-week Return	3.9%
13-week Return	14.8%
30-week Return	24.1%
Dividend Yield %	3.5%
Dividends per Share	5.68
Forward Dividend Payout Ratio	60.6%
Est. Normal Diluted EPS	11.84
P/E on Est. Normal Diluted EPS	13.7
Est. Normal EBITDA	11,983
Forward EV/EBITDA	10.3
EV/Est. Normal EBITDA	8.4
Forward Revenue Growth (5-yr)	2.6%
Forward EPS Growth (5-yr)	14.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	84.1%
Return on Assets	5.4%
ROIC, with goodwill	21.3%
ROIC, without goodwill	26.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,506
Net Debt	-3,523
Total Debt/EBITDA	0.9
Net Debt/EBITDA	NMF
EBITDA/Interest	24.3
Current Ratio	1.2
Quick Ratio	0.4

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

Investment Highlights

• Boeing is the largest manufacturer of commercial jetliners and military aircraft combined. Boeing also makes rotorcraft, electronic and defense systems, missiles, satellites, launch vehicles and advanced information and communication systems. The firm is a major service provider to NASA. It was founded in 1916 and is now based in Chicago, Illinois.

• The aerospace giant is benefiting from a benign operating environment. Global economic growth continues (albeit modestly), air passenger traffic is healthy, defense markets are firming with renewed threats, and commercial aviation remains a long-term growth market.

• Boeing's massive commercial aerospace backlog of unfulfilled deliveries gives it excellent visibility and a growth trajectory better than most other firms of similar size. Its revolutionary 787 has changed the economics of air travel, and we expect deliveries to remain robust in coming years. Technical concerns with any new plane (737 MAX, 777X) are a big risk, however.

• Boeing earns an 'A' rating from the credit agencies, and the firm's balance sheet remains healthy despite a recent dip in its cash balance in 2016 due to share repurchases and the timing of cash flows. We think the firm has learned from the recent global financial crisis, but cyclical end markets will always be a risk.

• Boeing's outlook for 2017 is solid. It is expecting GAAP EPS to be in a range of $10.25-$10.45 in the year, while free cash flow is expected to expand to roughly $8.45 billion from $7.9 billion in 2016. The company's core commercial business is executing wonderfully.

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	**NEUTRAL**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**OVERBOUGHT**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**158.00**

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 Dynamics	18.6	1.7	122.9%
Lockheed Martin	19.9	1.9	131.8%
Northrop Grumman	19.3	1.9	130.7%
Raytheon	19.7	1.9	134.8%
Peer Median	19.5	1.9	131.3%
Boeing	**17.3**	**1.5**	**97.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	96,114	94,571	92,207
Revenue, YoY%	5.9%	-1.6%	-2.5%
Operating Income	7,170	5,538	7,958
Operating Margin %	7.5%	5.9%	8.6%
Net Income	5,176	4,895	6,034
Net Income Margin %	5.4%	5.2%	6.5%
Diluted EPS	7.45	7.60	9.37
Diluted EPS, YoY %	0.7%	2.1%	23.3%
Free Cash Flow (CFO-capex)	6,913	7,886	8,451
Free Cash Flow Margin %	7.2%	8.3%	9.2%

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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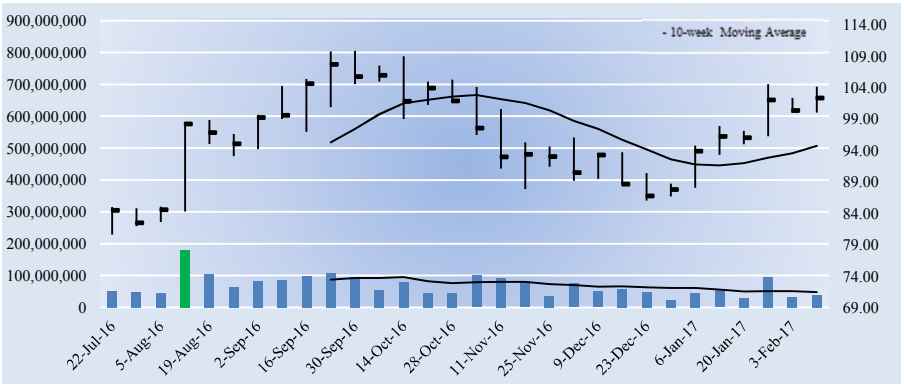
Alibaba BABA UNDERVALUED 5.5%

Buying Index™ 7 | Value Rating ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$135.00	$108.00 - $162.00	MEGA-CAP BLEND	Consumer Discretionary	Internet & Catalog Retail

Alibaba has a robust marketplaces operation and is a mobile commerce leader, but the upside catalyst to shares rests on its monetization rate.

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)	$262,246
Avg Weekly Vol (30 wks)	68,542
30-week Range (USD)	80.6 - 109.87
Valuentum Sector	Consumer Discretionary
5-week Return	8.7%
13-week Return	10.7%
30-week Return	27.0%
Dividend Yield %	0.0%
Dividends per Share (in CNY)	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS (in CNY	20.84
P/E on Est. Normal Diluted EPS	33.8
Est. Normal EBITDA (in CNY)	75,577
Forward EV/EBITDA	84.7
EV/Est. Normal EBITDA	23.1
Forward Revenue Growth (5-yr)	33.9%
Forward EPS Growth (5-yr)	12.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	41.5%
Return on Assets	20.0%
ROIC, with goodwill	44.1%
ROIC, without goodwill	44.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of CNY

Total Debt	57,771
Net Debt	-59,271
Total Debt/EBITDA	1.6
Net Debt/EBITDA	NMF
EBITDA/Interest	18.4
Current Ratio	2.6
Quick Ratio	2.2

NMF = Not Meaningful

Investment Highlights

• Alibaba has been generating significant economic value (ROIC-less-WACC) during the past few years. The company benefits greatly from a network effect and will continue to benefit from favorable demographic trends in China. Altaba and Softbank own a nice slice of the firm.

• Alibaba is widely known as being synonymous with e-commerce in China. The firm owns Taobao.com, the country's largest online shopping destination, Tmall, China's largest third-party plaform for brands and retailers, and Juhuasuan, China's most popular group buying marketplace.

• Alibaba has a robust marketplaces operation and is a mobile commerce leader. Total gross merchandising volume (GMV) on its China retail marketplaces is staggeringly large. As of the third quarter of fiscal 2017, the firm has ~495 million mobile MAUs, and it controls ~75% of total mobile retail GMV in China. The company's rapid mobile growth helped it surpass RMB 100 billion in revenue in fiscal 2016.

• The upside catalyst to Alibaba's shares rests on its monetization rate. Though the firm manages its business for growth in GMV and active buyers, the Street is laser-focused on this metric. If Alibaba surprises only a few basis points to the upside on this metric, shares could surge.

• We think Alibaba's shares are worth well north of $100 each. Though risks are abundant with operators in China (regulatory/legal/corporate governance), the company is underpriced. Price-to-fair value convergence will take some time, however.

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	MEDIUM
Growth	AGGRESSIVE
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Support, 10-week MA	793.00

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
eBay	16.6	NMF	101.9%
Expedia	22.4	1.6	96.6%
Amazon.com	NMF	NMF	144.2%
Priceline.com	25.2	1.7	96.6%
Peer Median	22.4	1.7	99.2%
Alibaba	**199.8**	**0.3**	**75.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Mar-15	Mar-16	Mar-17
Revenue (CNY)	76,204	101,143	155,963
Revenue, YoY%	45.1%	32.7%	54.2%
Non-GAAP Operating Income	23,135	29,102	11,856
Non-GAAP EBIT Margin %	30.4%	28.8%	7.6%
Non-GAAP Net Income	24,261	71,460	9,031
Non-GAAP NI Margin %	31.8%	70.7%	5.8%
Non-GAAP Diluted EPS (CNY)	9.70	27.89	3.52
Non-GAAP Dil EPS, YoY %	-2.9%	187.4%	-87.4%
Non-GAAP Free Cash Flow	33,512	45,991	3,470
Non-GAAP FCF Margin %	44.0%	45.5%	2.2%

In Millions of CNY (except for per share items)

Structure of the Internet & Catalog Retail Industry — GOOD

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

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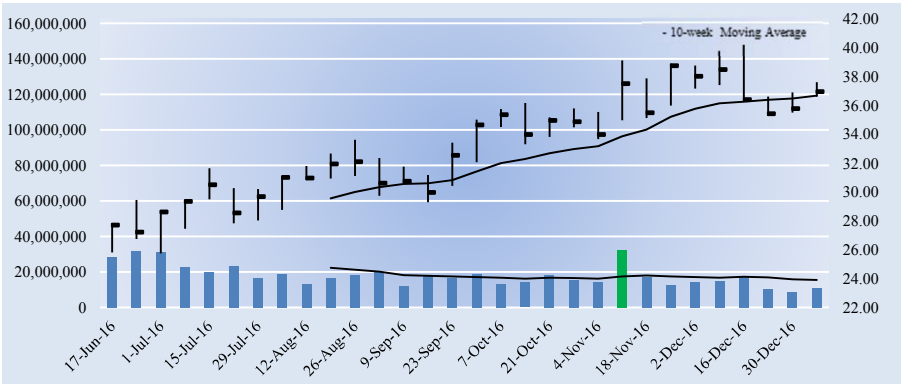
BHP Billiton BHP FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Neutral	$33.00	$25.00 - $41.00	LARGE-CAP CORE	Materials	Mining - diversified

BHP Billiton boasts a diversified portfolio, but its 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)	$129,202
Avg Weekly Vol (30 wks)	18,119
30-week Range (USD)	25.75 - 40.2
Valuentum Sector	Materials
5-week Return	-4.0%
13-week Return	3.6%
30-week Return	39.2%
Dividend Yield %	1.6%
Dividends per Share	0.60
Forward Dividend Payout Ratio	45.3%
Est. Normal Diluted EPS	1.84
P/E on Est. Normal Diluted EPS	20.1
Est. Normal EBITDA	27,162
Forward EV/EBITDA	6.8
EV/Est. Normal EBITDA	5.7
Forward Revenue Growth (5-yr)	5.8%
Forward EPS Growth (5-yr)	-211.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	5.3%
Return on Assets	2.9%
ROIC, with goodwill	13.3%
ROIC, without goodwill	13.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	36,421
Net Debt	25,981
Total Debt/EBITDA	2.0
Net Debt/EBITDA	1.4
EBITDA/Interest	21.9
Current Ratio	1.4
Quick Ratio	1.1

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.

• Suppressed 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 since has not spelled relief. Profits have remained under pressure, and the company was forced to cut its dividend by 75% in February 2016.

• BHP Billiton's success is tied to growth in China. Sales to China have represented roughly one third of its business historically. The country's biggest steel-producing province recently announced planned cuts in its steel and iron making capacity for 2017 that are twice as large as capacity cuts in 2016, which should help reduce global oversupply in both the steel and iron ore markets.

• 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 remains tied to commodity price swings, which are often unpredictable.

• BHP breaks the variance in its EBIT performance into controllable and uncontrollable factors, and the firm attributes more than $10.7 billion of the decline in EBIT in fiscal 2016 to net price impact. Change in controllable cash costs of $1.4 billion was not nearly enough to offset this.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**GOOD**
ValueRisk™	**MEDIUM**
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)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**37.00**

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

Business Quality

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	11.8	NMF	141.2%
Freeport McMoRan	50.9	NMF	93.1%
Rio Tinto	14.8	NMF	89.3%
Vale	9.1	NMF	114.1%
Peer Median	13.3	NMF	103.6%
BHP Billiton	**27.9**	**NMF**	**112.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-15	Jun-16	Jun-17
Revenue	44,636	30,912	39,444
Revenue, YoY%	-33.6%	-30.7%	27.6%
Operating Income	12,965	9,898	11,796
Operating Margin %	29.0%	32.0%	29.9%
Net Income	3,422	-6,385	7,027
Net Income Margin %	7.7%	-20.7%	17.8%
Diluted EPS	0.64	-1.20	1.32
Diluted EPS, YoY %	-75.2%	-287.0%	-210.3%
Free Cash Flow (CFO-capex)	7,105	3,344	8,726
Free Cash Flow Margin %	15.9%	10.8%	22.1%

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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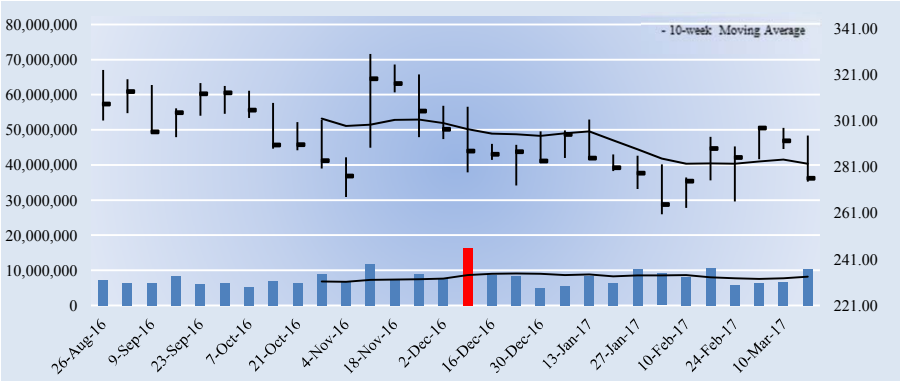
Biogen BIIB FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$299.00	$209.00 - $389.00	LARGE-CAP VALUE	Health Care	Biotechnology

Biogen continues to advance its pipeline, and potential new therapies could be game changers at the company.

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)	$60,408
Avg Weekly Vol (30 wks)	7,888
30-week Range (USD)	260.5 - 329.83
Valuentum Sector	Health Care
5-week Return	-0.1%
13-week Return	-3.7%
30-week Return	-12.7%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	24.60
P/E on Est. Normal Diluted EPS	11.2
Est. Normal EBITDA	7,485
Forward EV/EBITDA	9.2
EV/Est. Normal EBITDA	8.3
Forward Revenue Growth (5-yr)	3.7%
Forward EPS Growth (5-yr)	10.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	33.4%
Return on Assets	20.4%
ROIC, with goodwill	30.2%
ROIC, without goodwill	40.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,517
Net Debt	1,622
Total Debt/EBITDA	1.4
Net Debt/EBITDA	0.4
EBITDA/Interest	Excellent
Current Ratio	2.6
Quick Ratio	1.9

NMF = Not Meaningful

Investment Highlights

• Biogen is a global biotech firm that focuses on therapies for the treatment of multiple sclerosis (MS), neurodegenerative diseases, and other autoimmune disorders. The firm continues to advance its pipeline, and potential new therapies could be game changers at the company. It recently bought Convergence Pharma.

• The company has a nice balance between early-stage and emerging mid- and late-stage prospects. Management is excited about the launch of Spinraza, the first drug approved by the FDA for treatment of spinal muscular atrophy.

• The company observed positive interim results from early trials of its investigational Alzheimer's disease treatment aducanumab (BIIB037) in patients with prodromal or mild Alzheimer's disease in 2015 and 2016, and it was ultimately granted a 'Fast Track' designation from the FDA. Though the drug is still in testing, the opportunity for Biogen is tremendous, and the firm will continue to pour R&D spending into it.

• 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.

• Biogen recently completed the spin-off of its hemophilia portfolio into an independent, publicly-traded company name Bioverativ (BIVV). Maximizing the potential of ELOCTATE and ALPROLIX will be a near term priority for the new attacker of the $10+ billion hematology market.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**VERY BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**282.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Alexion Pharma	69.5	2.7	73.1%
BioMarin Pharma	NMF	NMF	124.5%
Celgene	20.8	1.5	89.8%
Regeneron	49.4	2.2	96.8%
Peer Median	49.4	2.2	93.3%
Biogen	**13.1**	**1.5**	**92.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	10,764	11,449	11,277
Revenue, YoY%	10.9%	6.4%	-1.5%
Operating Income	3,676	3,894	6,044
Operating Margin %	34.1%	34.0%	53.6%
Net Income	3,547	3,703	4,535
Net Income Margin %	33.0%	32.3%	40.2%
Diluted EPS	15.34	16.92	21.15
Diluted EPS, YoY %	24.0%	10.3%	25.0%
Free Cash Flow (CFO-capex)	3,058	3,795	4,627
Free Cash Flow Margin %	28.4%	33.1%	41.0%

In Millions of USD (except for per share items)

Structure of the Biotechnology Industry — GOOD

Firms in the biotechnology industry face no certain future. Drug development is complex, difficult, and risky, and failure rates are high. Product development cycles are extended—approximately 10 to 15 years from discovery to market. A potential new medicine must undergo years of testing to establish safety/efficacy. Sales depend on reimbursement from third-party payers. Competition can be fierce when biosimilar products exist, though patents are material competitive advantages. We like the group on the basis of patent protection, but the timing of expiration of such patents should be watched closely.

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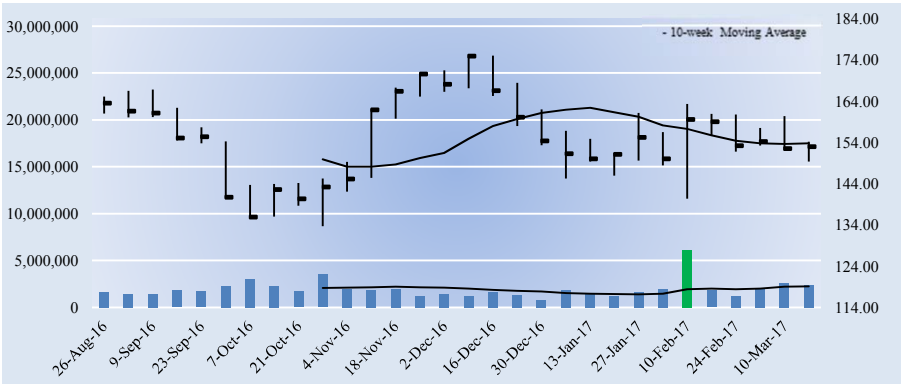
Buffalo Wild Wings BWLD FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$177.00	$142.00 - $212.00	MID-CAP VALUE	Consumer Discretionary	Restaurants - Fast Cas & Full Svc

Buffalo Wild Wings still has plenty of room to grow its restaurant base.

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)	$2,828
Avg Weekly Vol (30 wks)	1,955
30-week Range (USD)	133.71 - 175.1
Valuentum Sector	Consumer Discretionary
5-week Return	-4.4%
13-week Return	-8.2%
30-week Return	-6.6%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	8.93
P/E on Est. Normal Diluted EPS	17.1
Est. Normal EBITDA	416
Forward EV/EBITDA	9.2
EV/Est. Normal EBITDA	7.0
Forward Revenue Growth (5-yr)	6.6%
Forward EPS Growth (5-yr)	20.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.5%
Return on Assets	10.3%
ROIC, with goodwill	22.7%
ROIC, without goodwill	25.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	209
Net Debt	93
Total Debt/EBITDA	0.7
Net Debt/EBITDA	0.3
EBITDA/Interest	71.5
Current Ratio	0.7
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

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

• Buffalo Wild Wings has plenty of room to grow its restaurant base. The firm now has well over 1,200 restaurants and believes it can achieve 1,700 locations in the US, and we completely agree. We're equally excited about its new PizzaRev concept, which could do to pizza what Chipotle has done to burritos.

• B-Dubs plans to grow into a globally-connected brand through franchising. It has a minimal franchised presence in Mexico and the Philippines in addition to ~15 company-owned restaurants in Canada. The firm continues to seek opportunities in markets around the world and recently opened restaurants in Dubai and Saudi Arabia, but international expansion efforts have disappointed of late.

• Buffalo Wild Wings' same-store sales growth outpaced casual dining trends from 2011-2015 before falling at a faster comparative rate in 2016. Company-owned restaurants have outperformed franchised restaurants in same-store sales, but management is exploring plans to refranchise its worst performing company-owned restaurants.

• Buffalo Wild Wings continues to invest in technology to improve the guest experience and attract new demographics. Long-term sales drivers include the launching of delivery services and a loyalty program, the latter of which has been 'in the works' for years now.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**VERY BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**154.00**

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
Chipotle	48.9	4.6	83.2%
Darden Restaurants	19.3	2.0	105.0%
Brinker	13.8	1.4	94.3%
Panera Bread	30.7	2.0	119.2%
Peer Median	25.0	2.0	99.6%
Buffalo Wild Wings	**26.3**	**1.5**	**86.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	1,813	1,987	2,136
Revenue, YoY%	19.6%	9.6%	7.5%
Operating Income	146	145	155
Operating Margin %	8.1%	7.3%	7.3%
Net Income	95	95	107
Net Income Margin %	5.2%	4.8%	5.0%
Diluted EPS	4.97	5.12	5.82
Diluted EPS, YoY %	0.3%	3.1%	13.5%
Free Cash Flow (CFO-capex)	65	141	141
Free Cash Flow Margin %	3.6%	7.1%	6.6%

In Millions of USD (except for per share items)

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

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

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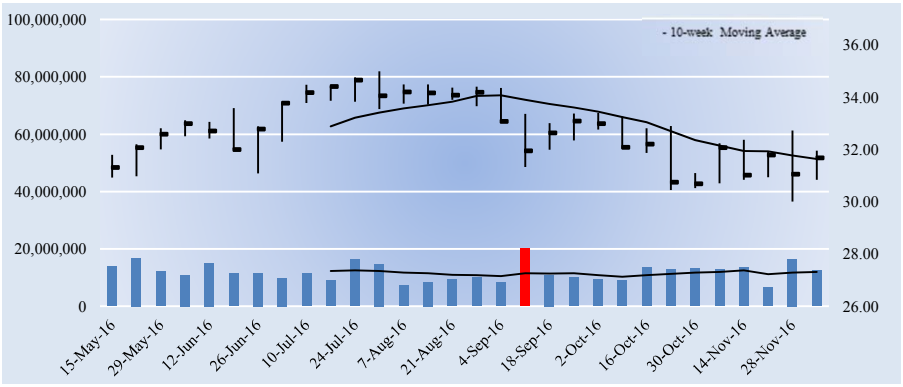
CA Tech CA UNDERVALUED 7.3%

Buying Index™ 6 **Value Rating** ✓

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

CA Tech's business is driven by its strong relationships with its large installed customer base.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$13,527
Avg Weekly Vol (30 wks)	11,892
30-week Range (USD)	30.01 - 34.99
Valuentum Sector	Information Technology
5-week Return	1.7%
13-week Return	-3.6%
30-week Return	0.6%
Dividend Yield %	3.2%
Dividends per Share	1.02
Forward Dividend Payout Ratio	39.9%
Est. Normal Diluted EPS	2.71
P/E on Est. Normal Diluted EPS	11.7
Est. Normal EBITDA	1,916
Forward EV/EBITDA	6.8
EV/Est. Normal EBITDA	6.6
Forward Revenue Growth (5-yr)	1.3%
Forward EPS Growth (5-yr)	9.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	14.9%
Return on Assets	7.2%
ROIC, with goodwill	16.2%
ROIC, without goodwill	71.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,953
Net Debt	-859
Total Debt/EBITDA	1.3
Net Debt/EBITDA	NMF
EBITDA/Interest	29.6
Current Ratio	1.2
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• CA Tech provides IT management solutions that help customers manage complex IT environments to support business services. Organizations leverage CA Tech's software and SaaS solutions to accelerate innovation and secure data and identities, from the data center to the cloud. The company was founded in 1974 and is headquartered in New York, New York.

• CA Tech expects to invest aggressively in its business, with roughly $300-$500 million allocated to acquisition opportunities each year. The firm also plans to return billions in cash to shareholders in coming years.

• CA Tech's business is driven by its strong relationships with its large installed customer base. The firm boasts strong operating margins, and it expects to drive cash flow from operations of ~$1 billion per annum. We like its approach to capital allocation, but acquisition activity should be monitored, as it has the potential to eat up a significant amount of capital.

• There's a lot to like about CA Tech. The firm has a viable strategy and is executing well. However, investors should pay close attention to order trends. The firm has opportunity as its addressable market remains healthy and growing and is expected to grow to $44 billion by 2020 from recent levels near $31 billion.

• CA Tech's future growth is expected to come from its Development Operations, Agile Management, and Security opportunities, three rapidly growing markets. All three markets are expected to grow by an 8% CAGR or higher through calendar 2020.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical 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
F5 Networks	26.5	3.2	117.8%
Microsoft	29.5	2.1	110.7%
Oracle	19.6	1.3	84.4%
Salesforce.com	71.9	NMF	101.7%
Peer Median	28.0	2.1	106.2%
CA Tech	**12.4**	**1.8**	**75.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Mar-15	Mar-16	Mar-17
Revenue	4,262	4,025	4,045
Revenue, YoY%	-5.6%	-5.6%	0.5%
Operating Income	1,185	1,147	1,491
Operating Margin %	27.8%	28.5%	36.9%
Net Income	810	769	1,080
Net Income Margin %	19.0%	19.1%	26.7%
Diluted EPS	1.84	1.80	2.56
Diluted EPS, YoY %	-8.5%	-1.9%	41.9%
Free Cash Flow (CFO-capex)	893	960	1,360
Free Cash Flow Margin %	21.0%	23.9%	33.6%

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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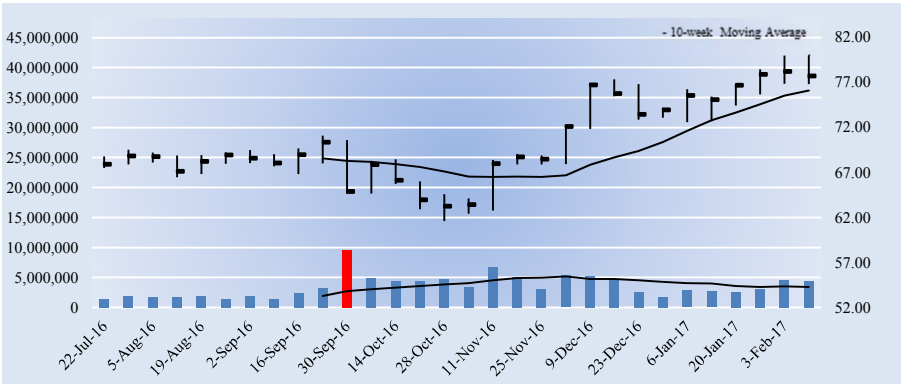
CBOE CBOE OVERVALUED 15%

Valuentum Buying Index™ 4 | Valuentum Value Rating ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$55.00	$44.00 - $66.00	MID-CAP CORE	Financials	Exchanges

Proprietary products continue to account for a growing percentage of CBOE's transaction fee revenue.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$6,325
Avg Weekly Vol (30 wks)	3,513
30-week Range (USD)	61.58 - 80.1
Valuentum Sector	Financials
5-week Return	3.2%
13-week Return	14.1%
30-week Return	13.0%
Dividend Yield %	1.3%
Dividends per Share	1.00
Forward Dividend Payout Ratio	39.8%
Est. Normal Diluted EPS	3.24
P/E on Est. Normal Diluted EPS	24.0
Est. Normal EBITDA	456
Forward EV/EBITDA	17.1
EV/Est. Normal EBITDA	13.7
Forward Revenue Growth (5-yr)	6.2%
Forward EPS Growth (5-yr)	13.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	71.9%
Return on Assets	47.4%
ROIC, with goodwill	153.3%
ROIC, without goodwill	155.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-97
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	59.6
Current Ratio	2.8
Quick Ratio	2.7

NMF = Not Meaningful

Investment Highlights

• 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. The company was founded in 1973 and is headquartered in Chicago.

• The CBOE maintains 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.

• CBOE believes it is well-positioned to capitalize on major trends in its industry, including the packaging of more sophisticated strategies into simple and cost-effective products. Such exchange traded products (ETPs) now account for ~30% of total US equity market trades in terms of dollar value. The firm's multi-asset class product line should help its global expansion initiatives.

• CBOE Holdings is expanding its outreach and investor education around the world. The firm established its first international business development outpost with the opening of an office in London, the United Kingdom in mid-2016. It is also working to broaden the global reach of VIX futures trading.

• Proprietary products continue to account for a growing percentage of transaction fee revenue. For example, index options and futures contracts accounted for more than 89% of transaction fees in the fourth quarter of 2016 compared to just over 83% in the same period of 2015.

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)	BULLISH
Near-term Technical Support, 10-week MA	76.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
CME Group	26.2	2.9	114.4%
IntercontinentalExchange	19.0	2.5	110.9%
KCG	4.9	NMF	97.7%
NASDAQ	109.6	0.4	102.6%
Peer Median	22.6	2.5	106.7%
CBOE	**30.9**	**2.6**	**141.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	635	645	673
Revenue, YoY%	2.8%	1.7%	4.3%
Operating Income	320	298	318
Operating Margin %	50.4%	46.2%	47.2%
Net Income	205	187	204
Net Income Margin %	32.3%	28.9%	30.3%
Diluted EPS	2.46	2.27	2.51
Diluted EPS, YoY %	10.6%	-7.6%	10.8%
Free Cash Flow (CFO-capex)	206	185	223
Free Cash Flow Margin %	32.4%	28.8%	33.1%

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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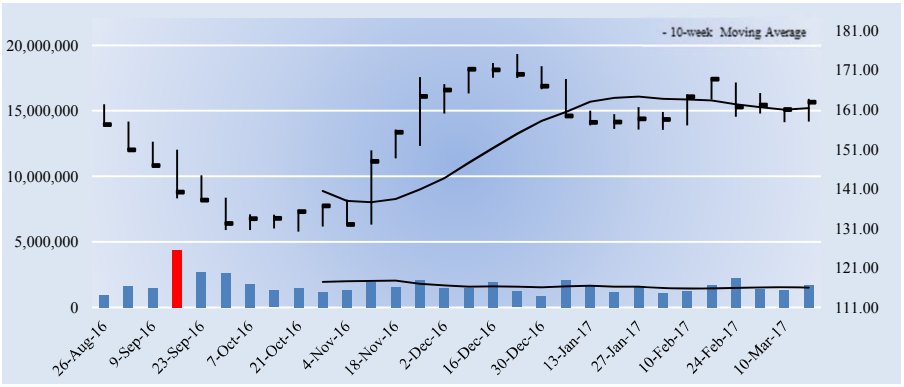
Cracker Barrel CBRL FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$171.00	$137.00 - $205.00	MID-CAP VALUE	Consumer Discretionary	Restaurants - Fast Cas & Full Svc

Cracker Barrel is laser-focused on improving margins, and its differentiated concept is without parallel.

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)	$3,922
Avg Weekly Vol (30 wks)	1,701
30-week Range (USD)	130.15 - 175.04
Valuentum Sector	Consumer Discretionary
5-week Return	-1.2%
13-week Return	-5.0%
30-week Return	0.9%
Dividend Yield %	2.8%
Dividends per Share	4.60
Forward Dividend Payout Ratio	55.2%
Est. Normal Diluted EPS	10.96
P/E on Est. Normal Diluted EPS	14.9
Est. Normal EBITDA	481
Forward EV/EBITDA	10.9
EV/Est. Normal EBITDA	8.7
Forward Revenue Growth (5-yr)	4.0%
Forward EPS Growth (5-yr)	12.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	30.8%
Return on Assets	10.9%
ROIC, with goodwill	21.6%
ROIC, without goodwill	21.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	400
Net Debt	249
Total Debt/EBITDA	1.1
Net Debt/EBITDA	0.7
EBITDA/Interest	25.5
Current Ratio	1.0
Quick Ratio	0.5

NMF = Not Meaningful

Investment Highlights

• Cracker Barrel is principally engaged in the operation of the Cracker Barrel Old Country Store concept. Stores consist of a rustic, old country-store design offering a full-service restaurant menu featuring home-style country food. A typical store serves 1,000 guests a day and employs 100+ people. The company was founded in 1969 and is headquartered in Tennessee.

• The firm is laser-focused on improving margins via re-engineering processes to reduce costs and creating a more efficient box for new stores. Yearly price increases to the tune of 2%-3% should be expected. EPS is targeted to advance 7%-8% on an annual basis.

• We think Cracker Barrel is a differentiated concept. The company generates ~20% of revenue from its retail business, while ~40% of its customers are travelers. Its retail shop produces sales per square foot of ~$440 million and gross margins around 50%. The 'Cracker Barrel' experience begins with rockers on its front porch, which are also a top seller in its retail shop.

• Cracker Barrel continues to earn high marks for 'uniqueness' from consumers. The Cracker Barrel experience is full of nostalgia, homemade authenticity, affordable quality, southern country heritage, and is largely viewed as a relaxing, family friendly environment. Such a reputation is irreplaceable.

• Cracker Barrel is dedicated to growing its store base and has approximately 150 new site opportunities outside of its core Southeastern market. The firm has also opened a prototype for its take on fast-casual dining, called 'Holler & Dash Biscuit House.'

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Support, 10-week MA	161.00

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
Chipotle	48.9	4.6	83.2%
Darden Restaurants	19.3	2.0	105.0%
Brinker	13.8	1.4	94.3%
Panera Bread	30.7	2.0	119.2%
Peer Median	25.0	2.0	99.6%
Cracker Barrel	**19.6**	**1.6**	**95.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jul-15	Jul-16	Jul-17
Revenue	2,842	2,912	2,956
Revenue, YoY%	5.9%	2.5%	1.5%
Operating Income	255	280	302
Operating Margin %	9.0%	9.6%	10.2%
Net Income	164	189	201
Net Income Margin %	5.8%	6.5%	6.8%
Diluted EPS	6.82	7.86	8.33
Diluted EPS, YoY %	23.6%	15.4%	6.0%
Free Cash Flow (CFO-capex)	243	157	195
Free Cash Flow Margin %	8.6%	5.4%	6.6%

In Millions of USD (except for per share items)

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

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

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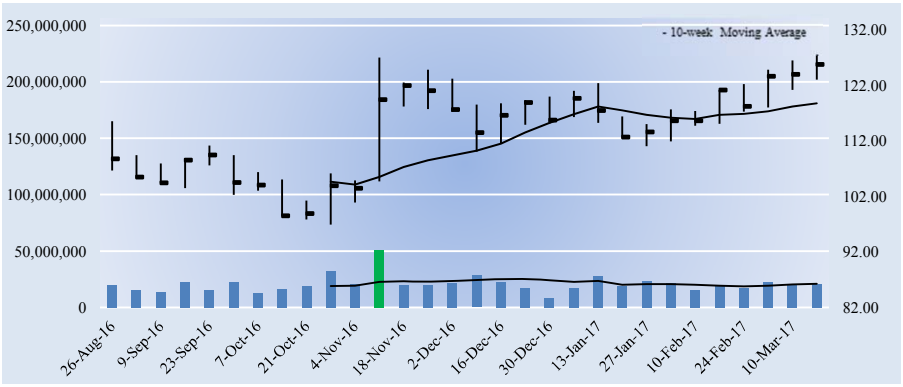
Celgene CELG FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$140.00	$105.00 - $175.00	LARGE-CAP BLEND	Health Care	Biotechnology

Worldwide sales of Celgene's Revlimid continue to grow at a fast clip and account for more than half of the company's overall sales.

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)	$101,031
Avg Weekly Vol (30 wks)	20,905
30-week Range (USD)	96.93 - 127.64
Valuentum Sector	Health Care
5-week Return	8.4%
13-week Return	7.8%
30-week Return	11.5%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	8.92
P/E on Est. Normal Diluted EPS	14.1
Est. Normal EBITDA	9,389
Forward EV/EBITDA	15.8
EV/Est. Normal EBITDA	11.4
Forward Revenue Growth (5-yr)	13.2%
Forward EPS Growth (5-yr)	32.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	30.2%
Return on Assets	9.2%
ROIC, with goodwill	31.0%
ROIC, without goodwill	44.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	14,289
Net Debt	6,320
Total Debt/EBITDA	3.9
Net Debt/EBITDA	1.7
EBITDA/Interest	7.4
Current Ratio	3.7
Quick Ratio	3.3

NMF = Not Meaningful

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. The firm was founded in 1986 and is headquartered in New Jersey.

• Celgene has some notable compounds in the inflammatory disease area thanks in part to its purchase of Receptos in 2015, which gave it control of Ozanimod, a treatment for Relapsing Multiple Sclerosis and Ulcerative Colitis currently in phase 3 testing.

• Worldwide sales of Celgene's Revlimid (MDS, multiple myeloma, MCL) continue to grow at a fast clip, and Revlimid's net sales accounted for mroe than half of Celgene's overall sales in 2016. Pomalyst (multiple myeloma) has performed well as of late as well. Near term results should be enhanced by the approval of Otezla (psoriatic arthritis) in 2015, and 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 as follows: $13-$13.4 billion in net sales and adjusted diluted EPS of $7.10-$7.25. For 2020, management is looking for $21+ billion in sales and adjusted diluted EPS of $13.00.

• 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).

Investment Considerations

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Alexion Pharma	69.5	2.7	73.1%
Biogen	13.1	1.5	92.3%
BioMarin Pharma	NMF	NMF	124.5%
Regeneron	49.4	2.2	96.8%
Peer Median	49.4	2.2	94.6%
Celgene	**20.8**	**1.5**	**89.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	9,256	11,229	13,284
Revenue, YoY%	20.7%	21.3%	18.3%
Operating Income	2,554	3,204	6,268
Operating Margin %	27.6%	28.5%	47.2%
Net Income	1,602	1,999	4,819
Net Income Margin %	17.3%	17.8%	36.3%
Diluted EPS	1.94	2.49	6.06
Diluted EPS, YoY %	-18.8%	28.1%	143.5%
Free Cash Flow (CFO-capex)	2,198	3,740	5,064
Free Cash Flow Margin %	23.7%	33.3%	38.1%

In Millions of USD (except for per share items)

Structure of the Biotechnology Industry — GOOD

Firms in the biotechnology industry face no certain future. Drug development is complex, difficult, and risky, and failure rates are high. Product development cycles are extended—approximately 10 to 15 years from discovery to market. A potential new medicine must undergo years of testing to establish safety/efficacy. Sales depend on reimbursement from third-party payers. Competition can be fierce when biosimilar products exist, though patents are material competitive advantages. We like the group on the basis of patent protection, but the timing of expiration of such patents should be watched closely.

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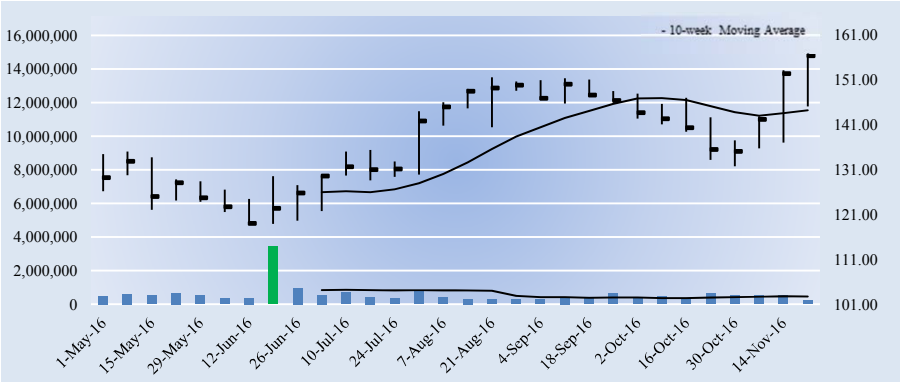
Churchill Downs CHDN OVERVALUED 11.7%

Buying Index™ 4 **Value Rating** ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$115.00	$92.00 - $138.00	MID-CAP CORE	Consumer Discretionary	Gaming

Momentum is moving in the right direction at Churchill Downs.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$2,748
Avg Weekly Vol (30 wks)	571
30-week Range (USD)	118.76 - 157
Valuentum Sector	Consumer Discretionary
5-week Return	10.4%
13-week Return	5.1%
30-week Return	16.7%
Dividend Yield %	0.7%
Dividends per Share	1.15
Forward Dividend Payout Ratio	20.0%
Est. Normal Diluted EPS	7.48
P/E on Est. Normal Diluted EPS	20.9
Est. Normal EBITDA	372
Forward EV/EBITDA	11.0
EV/Est. Normal EBITDA	9.2
Forward Revenue Growth (5-yr)	5.5%
Forward EPS Growth (5-yr)	19.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	8.2%
Return on Assets	3.3%
ROIC, with goodwill	7.8%
ROIC, without goodwill	13.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	782
Net Debt	678
Total Debt/EBITDA	3.0
Net Debt/EBITDA	2.6
EBITDA/Interest	9.2
Current Ratio	0.3
Quick Ratio	0.3

NMF = Not Meaningful

Investment Highlights

• Churchill Downs is home of the Kentucky Derby, and the firm continues to evolve. It now owns five racetracks, six casinos, the world's largest distributor of casual games (Big Fish), the country's leading online wagering business (TwinSpires.com), and a variety of other assets. The company was founded in 1928 and is headquartered in Louisville, Kentucky.

• Though the Kentucky Derby is stronger than ever in terms of attendance, wagering, strategic partnerships and overall prominence, the company's growth-through-diversification strategy should allow it to overcome the challenges of its traditional racing operations during economic troughs.

• Churchill Downs is undergoing a transformation, as it considers shedding some of its horseracing assets in favor of casino and entertainment businesses. Though its future acquisition plans are fraught with overpayment and selection risk, the market loves the transformation, and management is executing fantastically.

• Building and acquiring online gaming platforms will be key to continued growth, but adding slot-machine gaming and video poker operations at racetracks where alternative gaming is authorized is important as well. This is a large opportunity for its namesake in Louisville.

• Though organic measures aren't readily available, we've been very surprised by the company's ability to drive top-line expansion and earnings growth. We give management a lot of credit, but shares appear overvalued at recent price levels.

Investment Considerations

DCF Valuation	**OVERVALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**GOOD**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**HIGH**
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	**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
Boyd Gaming	NMF	1.5	101.5%
Las Vegas Sands	26.5	1.5	136.6%
MGM Resorts	24.5	NMF	136.5%
Penn National	15.0	10.7	82.2%
Peer Median	24.5	1.5	119.0%
Churchill Downs	**27.3**	**2.2**	**136.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	813	1,212	1,315
Revenue, YoY%	4.3%	49.1%	8.5%
Operating Income	94	143	181
Operating Margin %	11.5%	11.8%	13.7%
Net Income	46	65	101
Net Income Margin %	5.7%	5.4%	7.7%
Diluted EPS	2.64	3.71	5.74
Diluted EPS, YoY %	-14.1%	40.7%	54.7%
Free Cash Flow (CFO-capex)	85	219	176
Free Cash Flow Margin %	10.4%	18.0%	13.4%

In Millions of USD (except for per share items)

Structure of the Gaming Industry — NEUTRAL

The gaming industry is heavily regulated and particularly sensitive to discretionary spending. Significant future gaming revenue growth will come from the Asian markets, especially Macao. Possession of a gaming subconcession by the Chinese government is an advantage, though competition remains intense among existing Macao rivals. The Las Vegas strip competes with casinos located on Native American tribal lands, gaming websites, off-track facilities, and state lotteries. We're generally neutral on the structure of the group, though the financial leverage of constituents is worth watching closely.

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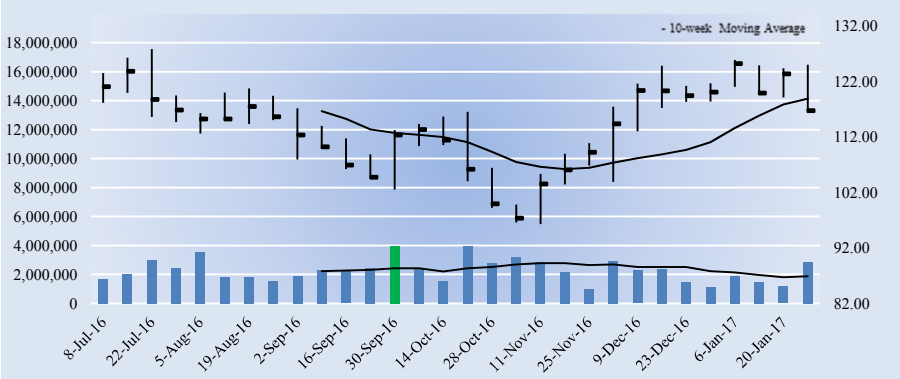
Core Labs CLB FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$119.00	$74.00 - $164.00	MID-CAP BLEND	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 selling, or distribution (red bar).

Company Vitals

Market Cap (USD)	$5,148
Avg Weekly Vol (30 wks)	2,290
30-week Range (USD)	96.3 - 127.82
Valuentum Sector	Energy
5-week Return	-2.5%
13-week Return	17.2%
30-week Return	-5.1%
Dividend Yield %	1.9%
Dividends per Share	2.20
Forward Dividend Payout Ratio	118.4%
Est. Normal Diluted EPS	3.92
P/E on Est. Normal Diluted EPS	29.8
Est. Normal EBITDA	250
Forward EV/EBITDA	39.2
EV/Est. Normal EBITDA	21.4
Forward Revenue Growth (5-yr)	14.3%
Forward EPS Growth (5-yr)	36.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	233.4%
Return on Assets	22.3%
ROIC, with goodwill	45.2%
ROIC, without goodwill	67.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	216
Net Debt	202
Total Debt/EBITDA	1.9
Net Debt/EBITDA	1.8
EBITDA/Interest	9.7
Current Ratio	1.8
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• Core Labs is a Netherlands-based company 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. Though the recent environment has been troubling, shareholders have been very pleased since its IPO in 1995.

• Core Labs experienced a material decline in its business in 2016, but increased activity onshore in the US should help as energy resource markets continue toward normalization. BP's Mad Dog and Chevron's Tengiz are two key opportunities. The company notes major capital projects from potential customers 'will rise above 20 in 2017, more than doubling the 9 approved in 2016.'

• 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. Free cash flow of ~$120 million in 2016 was nearly double net income during the year.

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

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**HIGH**
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)	**IMPROVING**
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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Helmerich & Payne	-62.0	NMF	105.3%
Oceaneering Intl	42.4	0.3	85.6%
Oil States Intl	-45.4	NMF	104.9%
Superior Energy	-14.4	NMF	96.2%
Peer Median	-29.9	0.3	100.5%
Core Labs	**62.8**	**2.2**	**98.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	798	595	658
Revenue, YoY%	-26.5%	-25.4%	10.6%
Operating Income	188	86	107
Operating Margin %	23.5%	14.4%	16.2%
Net Income	115	64	82
Net Income Margin %	14.4%	10.7%	12.4%
Diluted EPS	2.68	1.45	1.86
Diluted EPS, YoY %	-53.6%	-45.9%	28.3%
Free Cash Flow (CFO-capex)	196	120	114
Free Cash Flow Margin %	24.5%	20.2%	17.3%

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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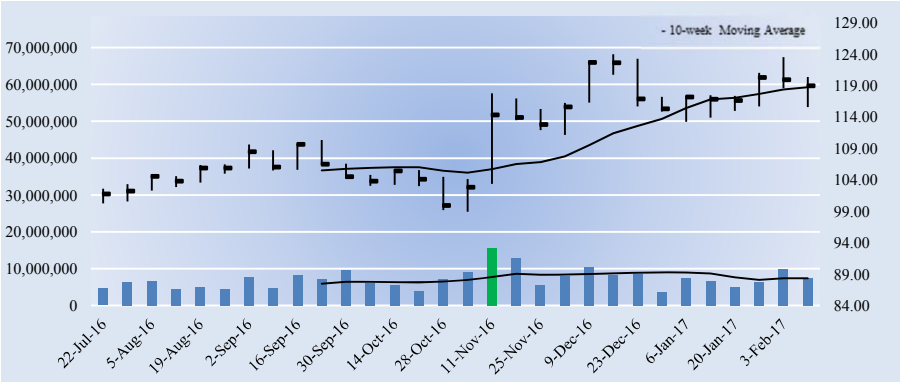
CME Group CME FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$104.00	$83.00 - $125.00	LARGE-CAP CORE	Financials	Exchanges

CME's two main competitive strengths include providing highly liquid markets and offering the most diverse product line.

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)	$40,203
Avg Weekly Vol (30 wks)	7,229
30-week Range (USD)	98.95 - 124.01
Valuentum Sector	Financials
5-week Return	1.9%
13-week Return	4.1%
30-week Return	17.0%
Dividend Yield %	2.2%
Dividends per Share	2.64
Forward Dividend Payout Ratio	58.2%
Est. Normal Diluted EPS	5.29
P/E on Est. Normal Diluted EPS	22.5
Est. Normal EBITDA	3,075
Forward EV/EBITDA	15.5
EV/Est. Normal EBITDA	13.2
Forward Revenue Growth (5-yr)	7.4%
Forward EPS Growth (5-yr)	11.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	4.8%
Return on Assets	1.8%
ROIC, with goodwill	12.2%
ROIC, without goodwill	39.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,241
Net Debt	444
Total Debt/EBITDA	1.0
Net Debt/EBITDA	0.2
EBITDA/Interest	19.9
Current Ratio	1.0
Quick Ratio	0.1

NMF = Not Meaningful

Investment Highlights

• 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 and is based in Chicago.

• Electronic trading value accounts for ~80% of its business, and the firm generates the most clearing and transaction fee revenue from its interest rate (~25% of sales) and energy (~20%) product lines.

• 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.

• CME employs a unique annual variable dividend that is paid at the end of year or the first quarter following the year and creates opportunity to sweep excess cash to shareholders. Income investors looking for high levels of dependability may want to explore other options.

• CME's business has a high degree of operating leverage, which was on full display in the full year 2016 when its incremental operating margin was an impressive 92%, a figure that jumps to 96% without license fees.

Investment Considerations

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

Relative Valuation

	Forward P/E	PEG	Price / FV
CBOE	30.9	2.6	141.2%
IntercontinentalExchange	19.0	2.5	110.9%
KCG	4.9	NMF	97.7%
NASDAQ	109.6	0.4	102.6%
Peer Median	25.0	2.5	106.7%
CME Group	**26.2**	**2.9**	**114.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	3,113	3,327	3,595
Revenue, YoY%	6.0%	6.9%	8.1%
Operating Income	1,840	2,113	2,388
Operating Margin %	59.1%	63.5%	66.4%
Net Income	1,127	1,247	1,541
Net Income Margin %	36.2%	37.5%	42.9%
Diluted EPS	3.35	3.69	4.53
Diluted EPS, YoY %	14.8%	10.0%	22.9%
Free Cash Flow (CFO-capex)	1,151	1,401	1,788
Free Cash Flow Margin %	37.0%	42.1%	49.7%

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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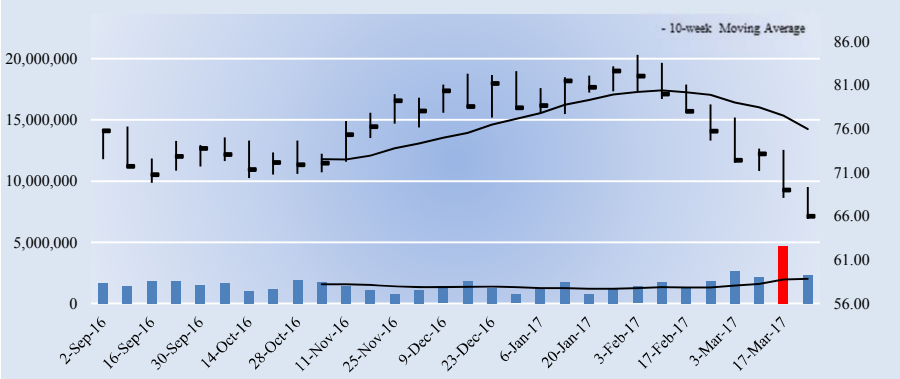
Compass Minerals CMP FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$70.00	$48.00 - $92.00	MID-CAP BLEND	Materials	Chemicals - agriculture

Compass Minerals generates some hefty operating margins.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$2,228
Avg Weekly Vol (30 wks)	1,617
30-week Range (USD)	65.65 - 84.4
Valuentum Sector	Materials
5-week Return	-15.4%
13-week Return	-19.2%
30-week Return	-9.7%
Dividend Yield %	4.4%
Dividends per Share	2.88
Forward Dividend Payout Ratio	83.6%
Est. Normal Diluted EPS	6.32
P/E on Est. Normal Diluted EPS	10.4
Est. Normal EBITDA	374
Forward EV/EBITDA	14.5
EV/Est. Normal EBITDA	9.3
Forward Revenue Growth (5-yr)	10.3%
Forward EPS Growth (5-yr)	14.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	28.2%
Return on Assets	10.7%
ROIC, with goodwill	14.2%
ROIC, without goodwill	15.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,325
Net Debt	1,248
Total Debt/EBITDA	5.0
Net Debt/EBITDA	4.7
EBITDA/Interest	7.8
Current Ratio	1.9
Quick Ratio	1.1

NMF = Not Meaningful

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 solid.

• 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 firm's diverse end market exposure helps mitigate cyclicality to a degree.

• Compass recently acquired a leading Brazilian specialty plant nutrition company Poduquimica Industria e Comercia. The agreement began with a 35% stake and it now has to full ownership. It provides entry into one of the largest agriculture markets in the world, but near-term pressures are prevalent in the weakened Brazilian economy.

• 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!

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	HIGH
ValueTrend™	NEGATIVE
Cash Flow Generation	WEAK
Financial Leverage	HIGH
Growth	HIGH
Technical Evaluation	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Resistance, 10-wk MA	76.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
CF Industries	103.2	NMF	97.3%
Monsanto	23.6	1.5	92.4%
Potash Corp	31.8	1.3	89.6%
Scotts Miracle-Gro	21.3	2.5	136.3%
Peer Median	27.7	1.5	94.8%
Compass Minerals	**19.1**	**0.5**	**94.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	1,099	1,138	1,510
Revenue, YoY%	-14.3%	3.6%	32.7%
Operating Income	221	175	116
Operating Margin %	20.2%	15.3%	7.7%
Net Income	159	163	117
Net Income Margin %	14.5%	14.3%	7.7%
Diluted EPS	4.73	4.82	3.44
Diluted EPS, YoY %	-27.2%	1.9%	-28.5%
Free Cash Flow (CFO-capex)	-80	-15	-21
Free Cash Flow Margin %	-7.3%	-1.3%	-1.4%

In Millions of USD (except for per share items)

Structure of the Agricultural Chemicals Industry — NEUTRAL

The agricultural chemical industry is highly competitive. Product innovation, intellectual property protection, worldwide distribution, and farmer relationships are keys to success in the seeds and genomics business. The potash, phosphate, nitrogen, and rock salt markets have minimal product differentiation, though producers can gain an advantage in markets close to their sources of supply or when costs (transportation, processing) can be minimized. We're generally neutral on the structure of the group due to commodity price swings, but firms can carve out competitive advantages in local markets.

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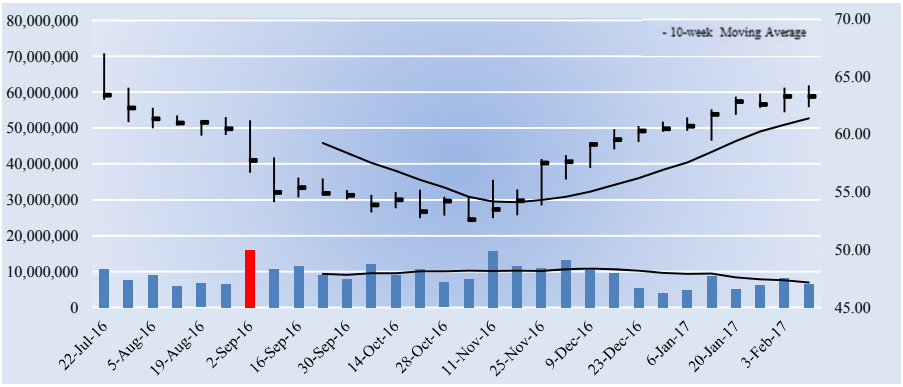
Campbell Soup CPB FAIRLY VALUED

Buying Index™ 5 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$52.00	$40.00 - $64.00	LARGE-CAP CORE	Consumer Staples	Food Products - Large

Campbell Soup's cost saving initiatives have done well thus far, and it recently upped is cost savings target.

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)	$19,677
Avg Weekly Vol (30 wks)	8,985
30-week Range (USD)	52.585 - 66.99
Valuentum Sector	Consumer Staples
5-week Return	4.9%
13-week Return	18.8%
30-week Return	-5.3%
Dividend Yield %	2.2%
Dividends per Share	1.40
Forward Dividend Payout Ratio	45.0%
Est. Normal Diluted EPS	3.45
P/E on Est. Normal Diluted EPS	18.3
Est. Normal EBITDA	1,979
Forward EV/EBITDA	12.5
EV/Est. Normal EBITDA	11.6
Forward Revenue Growth (5-yr)	1.8%
Forward EPS Growth (5-yr)	16.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	46.1%
Return on Assets	8.3%
ROIC, with goodwill	16.8%
ROIC, without goodwill	26.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,533
Net Debt	3,237
Total Debt/EBITDA	2.5
Net Debt/EBITDA	2.3
EBITDA/Interest	12.3
Current Ratio	0.7
Quick Ratio	0.4

NMF = Not Meaningful

Investment Highlights

• 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. The company was founded in 1869.

• Campbell Soup plans to strengthen its core business by focusing on transparency and digital marketing and e-commerce while expanding into faster-growing spaces, including health and well-being and developing markets.

• Campbell Soup is responding to dramatic shifts impacting the food industry from changing consumer behavior and demographics to the shift to digital. The company is working to reduce costs in its efforts to permanently return to profitable growth, and it recently upped its cost savings program target to $450 million by 2020 from $300 million by 2018.

• 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.

• Campbell Soup recently released its guidance for fiscal 2017. The firm expects sales to be flat to up 1%, adjusted EBIT to grow 1%-4%, and adjusted earnings per share to advance 2%-5% to a range of $3.00-$3.09. Our estimates are roughly in-line with management's projections.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**NEUTRAL**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**OVERBOUGHT**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**61.00**

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
ConAgra Brands	23.2	2.7	102.2%
General Mills	20.2	3.6	125.5%
Kellogg	38.8	1.8	118.8%
Mondelez Intl	21.1	1.8	118.4%
Peer Median	22.2	2.3	118.6%
Campbell Soup	**20.3**	**2.2**	**121.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jul-15	Jul-16	Jul-17
Revenue	8,082	7,961	8,001
Revenue, YoY%	-2.2%	-1.5%	0.5%
Operating Income	1,221	1,102	1,524
Operating Margin %	15.1%	13.8%	19.0%
Net Income	666	563	961
Net Income Margin %	8.2%	7.1%	12.0%
Diluted EPS	2.13	1.81	3.11
Diluted EPS, YoY %	-15.0%	-14.9%	71.8%
Free Cash Flow (CFO-capex)	802	1,122	1,103
Free Cash Flow Margin %	9.9%	14.1%	13.8%

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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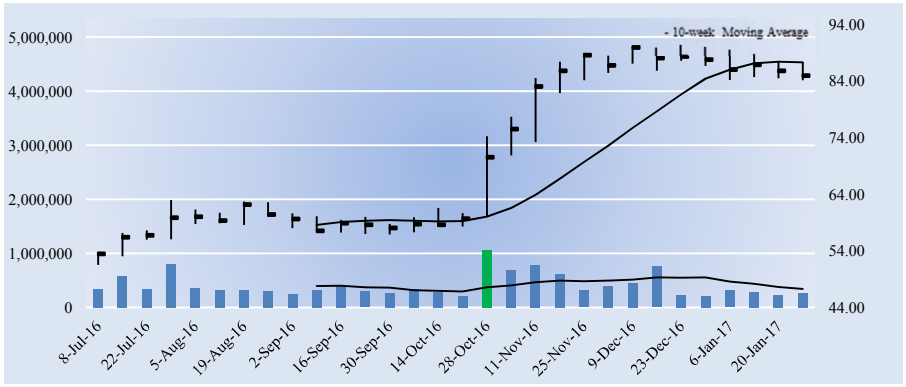
Capella Education CPLA FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$67.00	$44.00 - $90.00	SMALL-CAP CORE	Consumer Discretionary	Education Services

Capella has the best business model in the for-profit education space.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$1,045
Avg Weekly Vol (30 wks)	412
30-week Range (USD)	51.5 - 90.4
Valuentum Sector	Consumer Discretionary
5-week Return	-4.2%
13-week Return	19.1%
30-week Return	60.2%
Dividend Yield %	1.9%
Dividends per Share	1.64
Forward Dividend Payout Ratio	45.6%
Est. Normal Diluted EPS	4.13
P/E on Est. Normal Diluted EPS	20.6
Est. Normal EBITDA	103
Forward EV/EBITDA	10.1
EV/Est. Normal EBITDA	9.1
Forward Revenue Growth (5-yr)	2.9%
Forward EPS Growth (5-yr)	7.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	20.6%
Return on Assets	15.4%
ROIC, with goodwill	154.6%
ROIC, without goodwill	271.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-116
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	3.2
Quick Ratio	2.9

NMF = Not Meaningful

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.

• Hands down, Capella has the best business model in the for-profit education space. We're huge fans of its online-based platform, which keeps investment in check, and the firm is one of the few in its industry actually expanding. A potential reduction in federal government spending at the graduate student level in the Trump administration could impact results.

• 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.

• A healthy dividend, an ongoing share buyback program, strong free cash flow and a pristine balance sheet make Capella a standout. As of the end of the third quarter of 2016, the firm had cash and marketable securities of ~$140 million and no debt.

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	**VERY BEARISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**87.00**

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
Apollo Group	39.4	NMF	99.5%
Career Education	65.1	NMF	140.9%
DeVry	12.8	NMF	103.0%
Strayer Education	24.6	1.8	119.2%
Peer Median	32.0	1.8	111.1%
Capella Education	**23.6**	**3.4**	**126.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	422	430	429
Revenue, YoY%	1.5%	2.0%	-0.4%
Operating Income	64	67	67
Operating Margin %	15.2%	15.6%	15.7%
Net Income	38	40	44
Net Income Margin %	9.0%	9.3%	10.2%
Diluted EPS	3.03	3.27	3.60
Diluted EPS, YoY %	8.1%	7.9%	10.1%
Free Cash Flow (CFO-capex)	45	40	54
Free Cash Flow Margin %	10.6%	9.2%	12.5%

In Millions of USD (except for per share items)

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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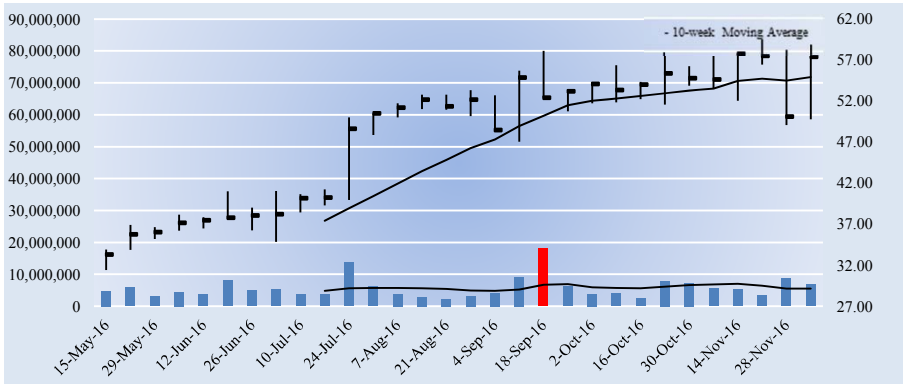
Cirrus Logic CRUS OVERVALUED 2.4%

Buying Index™ 7 **Value Rating** ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$47.00	$38.00 - $56.00	MID-CAP GROWTH	Information Technology	Specialized Semi's

Cirrus Logic continues to participate in the fast-growing, yet evolving, portable audio and LED lighting markets.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$3,785
Avg Weekly Vol (30 wks)	5,754
30-week Range (USD)	31.39 - 59.5
Valuentum Sector	Information Technology
5-week Return	2.4%
13-week Return	19.6%
30-week Return	80.9%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	4.41
P/E on Est. Normal Diluted EPS	13.0
Est. Normal EBITDA	478
Forward EV/EBITDA	8.2
EV/Est. Normal EBITDA	7.8
Forward Revenue Growth (5-yr)	9.8%
Forward EPS Growth (5-yr)	19.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	13.8%
Return on Assets	10.7%
ROIC, with goodwill	31.1%
ROIC, without goodwill	39.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	160
Net Debt	-69
Total Debt/EBITDA	0.7
Net Debt/EBITDA	NMF
EBITDA/Interest	68.5
Current Ratio	4.0
Quick Ratio	2.5

NMF = Not Meaningful

Investment Highlights

• Cirrus Logic's vision is to be the world's first choice in high-performance analog and digital signal processing components. A fabless semiconductor firm, it targets fast growing markets such as portable audio and LED lighting. The buyout of Wolfson Microelectronics will enhance differentiation and add new product categories.

• The firm has a proven track record of engineering execution. It also has strong relationships with tier-one global OEMs that are seeking differentiation. Leveraging initial design-in success into long-term opportunities remains core.

• Cirrus Logic is one of Apple's most widely-known suppliers. Though the narrative surrounding Apple continues to center on where incremental growth will come from, Cirrus continues to be optimistic about opportunities. Demand for portable audio products has driven growth for Cirrus as of late, and the firm is anticipating solid growth to continue through fiscal 2018. Our fair value estimate has increased as a result.

• Cirrus continues to participate in the fast-growing, yet evolving, portable audio and LED lighting markets. Global smartphone unit sales continue to surge, while the addressable market for replacement LED light bulbs is rapidly expanding. The company is well-positioned, and we like the strength of its balance sheet to fuel future growth.

• Cirrus has been able to stay competitive in its rapidly evolving end markets thanks to robust R&D spending. In fiscal years 2011-2016, R&D spend at the firm grew at a 33% CAGR to nearly $270 million, or nearly a quarter of revenue.

Investment Considerations

DCF Valuation	**OVERVALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**HIGH**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Support, 10-week MA	**55.00**

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
Linear Technology	30.9	2.4	104.1%
Microchip Technology	17.6	2.1	131.7%
Nvidia	37.6	3.1	176.6%
Xilinx	24.7	3.1	119.0%
Peer Median	27.8	2.7	125.3%
Cirrus Logic	**14.0**	**1.6**	**122.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Mar-15	Mar-16	Mar-17
Revenue	917	1,169	1,518
Revenue, YoY%	28.3%	27.6%	29.8%
Operating Income	128	169	380
Operating Margin %	14.0%	14.4%	25.0%
Net Income	55	124	265
Net Income Margin %	6.0%	10.6%	17.5%
Diluted EPS	0.85	1.87	4.10
Diluted EPS, YoY %	-48.7%	121.5%	118.9%
Free Cash Flow (CFO-capex)	127	109	239
Free Cash Flow Margin %	13.8%	9.3%	15.7%

In Millions of USD (except for per share items)

Structure of the Specialized Semiconductor Industry — POOR

The specialized semiconductor industry is intensely competitive and has been characterized by price erosion and rapid technological change. Participants compete with major domestic/international semiconductor companies and often have to defend intellectual property rights against entities that have copied proprietary product lines. Firms are exposed to the global economic cycle, wide supply/demand fluctuations, and continuously face the risk of excess or obsolete inventories. Constituents must introduce new products with more features at higher prices to maintain margins. We don't like the group.

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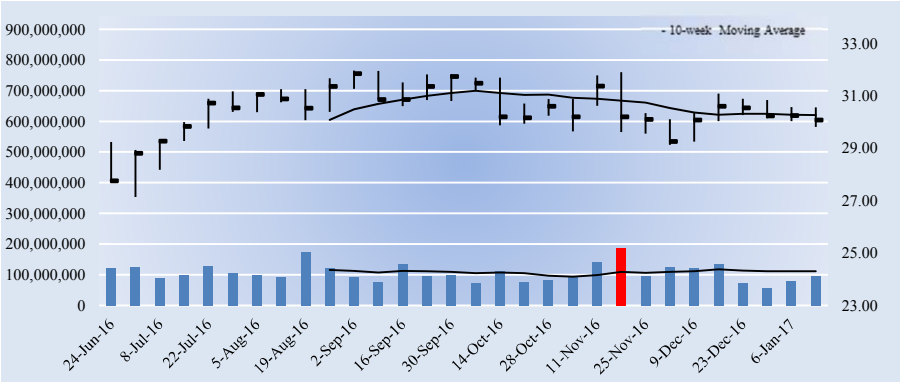
Cisco CSCO UNDERVALUED 13.1%

Buying Index™ 3 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$42.00	$34.00 - $50.00	LARGE-CAP VALUE	Information Technology	Networking Equipment

We like the progress Cisco is making in its transition to a software and subscription based business model.

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)	$152,996
Avg Weekly Vol (30 wks)	107,052
30-week Range (USD)	27.13 - 31.95
Valuentum Sector	Information Technology
5-week Return	0.0%
13-week Return	-0.2%
30-week Return	3.5%
Dividend Yield %	3.5%
Dividends per Share	1.04
Forward Dividend Payout Ratio	43.4%
Est. Normal Diluted EPS	2.61
P/E on Est. Normal Diluted EPS	11.5
Est. Normal EBITDA	17,585
Forward EV/EBITDA	7.0
EV/Est. Normal EBITDA	6.6
Forward Revenue Growth (5-yr)	1.8%
Forward EPS Growth (5-yr)	6.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	15.5%
Return on Assets	8.3%
ROIC, with goodwill	26.6%
ROIC, without goodwill	61.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	28,643
Net Debt	-37,113
Total Debt/EBITDA	1.9
Net Debt/EBITDA	NMF
EBITDA/Interest	22.3
Current Ratio	3.2
Quick Ratio	3.0

NMF = Not Meaningful

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, and we like the progress it is making in its transition to a software and subscription based business model. It was founded in 1984 and is headquartered in California.

• Cisco has been acquisitive as of late. Instead of targeting suppliers to improve its gross margin, the firm's M&A strategy will be focused on disruptive technology and software and cloud acquisitions that will positively impact gross margins.

• 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 July 2016, the firm has repurchased more than $112 billion in shares, and has more than $15 billion remaining authorized for share repurchases.

• 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 $65.8 billion in cash and cash equivalents at the end of fiscal 2016. Such a cash hoard gives it tremendous financial flexibility to pursue value-creating acquisitions and/or significantly increase the dividend.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**VERY BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**30.00**

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
Finisar	13.6	2.1	105.2%
Juniper Networks	13.3	1.7	82.0%
Knowles Corp	19.2	NMF	109.3%
Nokia	24.8	0.5	59.4%
Peer Median	16.4	1.7	93.6%
Cisco	**12.6**	**2.4**	**71.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jul-15	Jul-16	Jul-17
Revenue	49,161	49,247	48,311
Revenue, YoY%	4.3%	0.2%	-1.9%
Operating Income	11,254	12,928	14,453
Operating Margin %	22.9%	26.3%	29.9%
Net Income	8,981	10,739	12,030
Net Income Margin %	18.3%	21.8%	24.9%
Diluted EPS	1.75	2.11	2.39
Diluted EPS, YoY %	17.4%	20.9%	13.4%
Free Cash Flow (CFO-capex)	11,325	12,424	13,350
Free Cash Flow Margin %	23.0%	25.2%	27.6%

In Millions of USD (except for per share items)

Structure of the Networking Equipment Industry — POOR

Firms in the networking equipment industry provide products for transporting data, voice, and video within businesses and around the world. Participants must adapt to address virtualization/cloud-driven needs in the enterprise data center market; the convergence of video, collaboration, and networked mobility technologies; and the move toward programmable, virtual networks. The industry is characterized by low barriers to entry, rapid technological change and significant pricing competition. Gross margins can be volatile and should be watched closely. We don't like the structure of the group.

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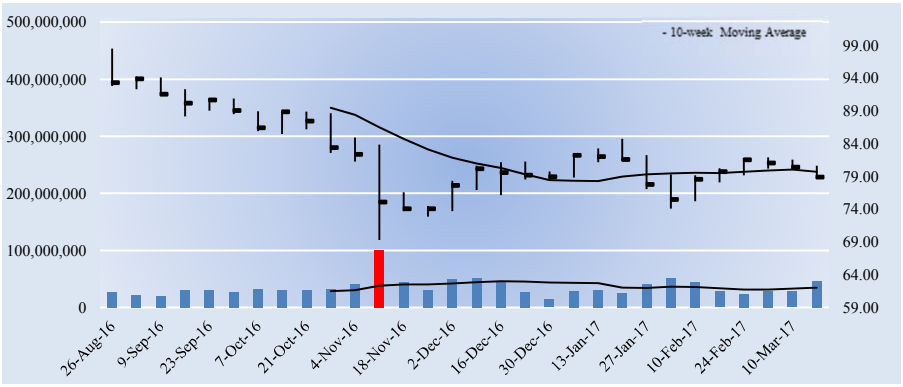
CVS Caremark CVS UNDERVALUED 5.2%

Buying Index™ 6 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$104.00	$83.00 - $125.00	LARGE-CAP VALUE	Consumer Staples	Food Retailers

CVS Caremark's integrated model includes both pharmacies and medical clinics, enabling the firm to gain a greater share of health care spending.

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)	$85,112
Avg Weekly Vol (30 wks)	35,538
30-week Range (USD)	69.3 - 98.44
Valuentum Sector	Consumer Staples
5-week Return	-0.1%
13-week Return	-0.5%
30-week Return	-18.7%
Dividend Yield %	2.5%
Dividends per Share	2.00
Forward Dividend Payout Ratio	33.8%
Est. Normal Diluted EPS	7.50
P/E on Est. Normal Diluted EPS	10.5
Est. Normal EBITDA	16,791
Forward EV/EBITDA	7.8
EV/Est. Normal EBITDA	6.5
Forward Revenue Growth (5-yr)	4.8%
Forward EPS Growth (5-yr)	13.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	13.5%
Return on Assets	6.1%
ROIC, with goodwill	10.8%
ROIC, without goodwill	24.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	27,531
Net Debt	24,073
Total Debt/EBITDA	2.1
Net Debt/EBITDA	1.9
EBITDA/Interest	11.9
Current Ratio	1.2
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• The 2007 merger of CVS Corp and Caremark created the largest pharmacy health care provider in the US. The company has more than 7,800 retail locations and operates in 98 of the top 100 US drugstore markets. Its PBM business serves more than 60 million plan members. The company was founded in 1892 and is headquartered in Rhode Island.

• CVS recently acquired Target's pharmacies and clinics and it will operate the acquired pharmacies in a store-within-a-store format. The deal expands its footprint of pharmacies by ~20% (adding more than 1,660) and clinics by ~8% (adding ~80 clinics).

• CVS Caremark's integrated model includes both pharmacies and medical clinics, enabling the firm to gain a greater share of health care spending. The power of this integrated model has created a sustainable competitive advantage highlighted by the growth of CVS/pharmacy's share of its own PBM's retail network claims.

• CVS recently announced a multi-year enterprise streamlining initiative, which it expects to deliver $700-$750 million in annual savings by 2021 or $3 billion cumulatively over the next five years. In 2017, the firm is anticipating adjusted EPS to be in a range of $5.77-$5.93, with free cash flow generation between $6.0-$6.4 billion.

• Though we like the company's business model, efforts to reduce prescription drug costs and pharmacy reimbursement rates could impact long-term profitability. Investors should watch new developments closely.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**VERY BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**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
Costco	29.5	1.7	119.0%
Kroger	13.4	0.9	82.1%
Target	13.4	2.2	82.3%
Wal-Mart	16.0	2.1	107.5%
Peer Median	14.7	1.9	94.9%
CVS Caremark	**13.3**	**1.2**	**75.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	153,290	177,526	184,272
Revenue, YoY%	10.0%	15.8%	3.8%
Operating Income	9,454	10,338	11,437
Operating Margin %	6.2%	5.8%	6.2%
Net Income	5,228	5,318	6,322
Net Income Margin %	3.4%	3.0%	3.4%
Diluted EPS	4.64	4.93	5.92
Diluted EPS, YoY %	16.8%	6.2%	20.1%
Free Cash Flow (CFO-capex)	6,045	7,845	6,222
Free Cash Flow Margin %	3.9%	4.4%	3.4%

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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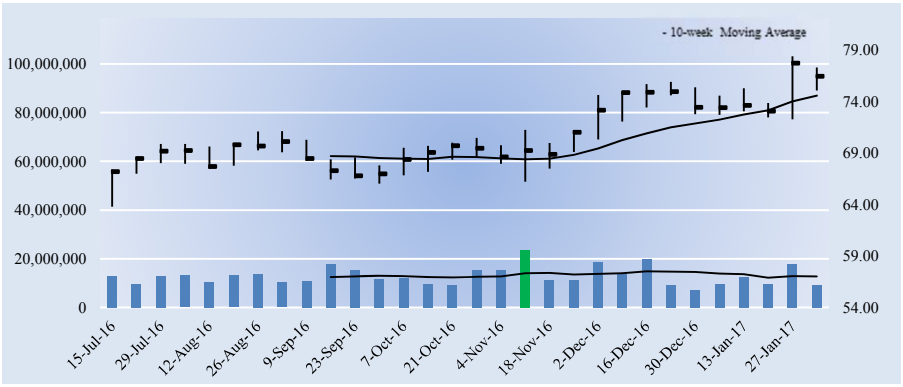
DuPont DD FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$64.00	$51.00 - $77.00	LARGE-CAP CORE	Materials	Chemicals - broad

DuPont has agreed to a merger of equals with Dow Chemical, but the deal is facing intense regulatory scrutiny. Divestitures may be more substantial than originally anticipated.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$67,032
Avg Weekly Vol (30 wks)	12,905
30-week Range (USD)	63.7611 - 78.36
Valuentum Sector	Materials
5-week Return	4.0%
13-week Return	10.1%
30-week Return	19.6%
Dividend Yield %	2.0%
Dividends per Share	1.52
Forward Dividend Payout Ratio	40.8%
Est. Normal Diluted EPS	4.60
P/E on Est. Normal Diluted EPS	16.6
Est. Normal EBITDA	6,968
Forward EV/EBITDA	11.8
EV/Est. Normal EBITDA	10.0
Forward Revenue Growth (5-yr)	3.8%
Forward EPS Growth (5-yr)	14.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.2%
Return on Assets	5.8%
ROIC, with goodwill	14.4%
ROIC, without goodwill	17.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	8,536
Net Debt	2,569
Total Debt/EBITDA	1.4
Net Debt/EBITDA	0.4
EBITDA/Interest	16.0
Current Ratio	1.9
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• DuPont has seven reportable segments: Agriculture, Electronics & Communications, Industrial Biosciences, Nutrition & Health, Performance Materials, Safety & Protection and Other. The firm separated its 'Performance Chemicals' segment through a US tax-free spin-off to shareholders in mid-2015.

• 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.

• 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. DuPont will hardly be recognizable in a few years, however.

• DuPont has agreed to a merger of equals with Dow Chemical in an all-stock deal. The new company will split into three separate entities roughly 18-24 months after the deal closes. Synergies could be as high as $3 billion within 2 years of closing, but regulatory pressure is mounting and the firms will likely have to divest more businesses than originally anticipated.

• The separation into three separate businesses following the merger will please activist investor Nelson Peltz, who had pressured the firm to do just that. Deal integration and the streamlining of overlapping costs will now become front and center at future board room conversations.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**75.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Ecolab	27.2	2.4	135.7%
PPG Industries	30.8	0.7	99.9%
Dow Chemical	14.6	2.0	118.1%
Praxair	20.3	1.9	119.9%
Peer Median	23.7	2.0	119.0%
DuPont	**20.5**	**1.9**	**119.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	25,130	24,594	25,184
Revenue, YoY%	-11.5%	-2.1%	2.4%
Operating Income	3,565	4,667	4,615
Operating Margin %	14.2%	19.0%	18.3%
Net Income	1,953	2,513	3,252
Net Income Margin %	7.8%	10.2%	12.9%
Diluted EPS	2.17	2.87	3.73
Diluted EPS, YoY %	-44.8%	32.0%	30.1%
Free Cash Flow (CFO-capex)	687	2,281	3,244
Free Cash Flow Margin %	2.7%	9.3%	12.9%

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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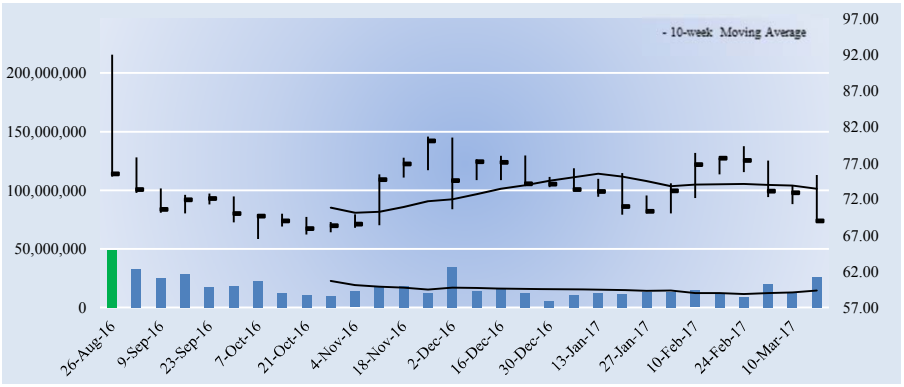
Dollar General DG FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$75.00	$60.00 - $90.00	LARGE-CAP VALUE	Consumer Discretionary	Multiline Retail - discount

Dollar General is the largest discount retailer in the US by number of stores, and it continues to add to its store count in a meaningful way.

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)	$19,468
Avg Weekly Vol (30 wks)	17,566
30-week Range (USD)	66.5 - 92.01
Valuentum Sector	Consumer Discretionary
5-week Return	-10.9%
13-week Return	-10.0%
30-week Return	-24.3%
Dividend Yield %	1.5%
Dividends per Share	1.04
Forward Dividend Payout Ratio	23.1%
Est. Normal Diluted EPS	5.62
P/E on Est. Normal Diluted EPS	12.3
Est. Normal EBITDA	2,971
Forward EV/EBITDA	9.1
EV/Est. Normal EBITDA	7.6
Forward Revenue Growth (5-yr)	6.4%
Forward EPS Growth (5-yr)	9.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	21.1%
Return on Assets	10.3%
ROIC, with goodwill	14.2%
ROIC, without goodwill	27.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,212
Net Debt	3,024
Total Debt/EBITDA	1.3
Net Debt/EBITDA	1.2
EBITDA/Interest	25.0
Current Ratio	1.4
Quick Ratio	0.1

NMF = Not Meaningful

Investment Highlights

• Dollar General is the largest discount retailer in the US by number of stores with over 13,000 neighborhood stores in 44 states. It provides products that are frequently used and replenished such as food, snacks, and health and beauty aids. The company helps shoppers: 'Save time, Save money, Every day.'

• As with many of its peers, one of the biggest catalysts for Dollar General in coming periods will be suppressed prices at the gas pump. Its core demographic is more sensitive to the price at the pump than other consumers, and crude oil's fall from $100+ per barrel is welcome news.

• Dollar General has put up 27 consecutive years of same-store sales growth as of 2016. The firm continues to add new stores to its portfolio and plans to add as many as 1,000 in 2017. The company lost the battle for Family Dollar's assets to Dollar Tree, despite a higher offer. It may have been a blessing in disguise.

• Dollar General sees the opportunity for an additional 13,000 locations across the US, many of which will be developed as small format stores with less than 6,000 square feet. These small format stores enable the firm to optimize merchandise mixes in each store and reduce occupancy costs. Such growth initiatives are expected to help drive $30 billion in sales in 2020.

• In fiscal 2017, management is anticipating net sales growth of 4%-6% and same-store sales growth of slightly positive to up 2%. Diluted earnings per share guidance has been issued in a range of $4.25-$4.50, compared to $4.43 in fiscal 2016.

Investment Considerations

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Big Lots	12.2	2.0	104.2%
Dollar Tree	16.8	1.7	95.8%
PriceSmart	28.7	1.8	122.6%
Fred's Inc	NMF	NMF	118.8%
Peer Median	16.8	1.8	111.5%
Dollar General	**15.3**	**1.7**	**92.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jan-16	Jan-17	Jan-18
Revenue	20,369	21,987	23,372
Revenue, YoY%	7.7%	7.9%	6.3%
Operating Income	1,940	2,063	2,071
Operating Margin %	9.5%	9.4%	8.9%
Net Income	1,165	1,251	1,256
Net Income Margin %	5.7%	5.7%	5.4%
Diluted EPS	3.95	4.43	4.49
Diluted EPS, YoY %	13.2%	12.3%	1.4%
Free Cash Flow (CFO-capex)	887	1,044	917
Free Cash Flow Margin %	4.4%	4.8%	3.9%

In Millions of USD (except for per share items)

Structure of the Multiline Retail (discount) Industry — GOOD

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

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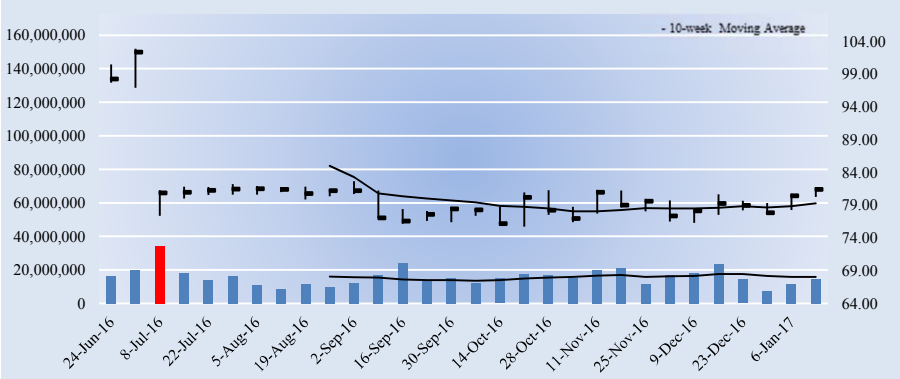
Danaher DHR FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$72.00	$58.00 - $86.00	LARGE-CAP CORE	Industrials	Conglomerates

Danaher has split into two independent, publicly-traded companies, and we're still big fans of the entity.

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)	$57,644
Avg Weekly Vol (30 wks)	15,962
30-week Range (USD)	75.71 - 102.79
Valuentum Sector	Industrials
5-week Return	4.4%
13-week Return	6.6%
30-week Return	-17.8%
Dividend Yield %	0.6%
Dividends per Share	0.50
Forward Dividend Payout Ratio	13.9%
Est. Normal Diluted EPS	4.70
P/E on Est. Normal Diluted EPS	17.3
Est. Normal EBITDA	5,268
Forward EV/EBITDA	16.4
EV/Est. Normal EBITDA	13.2
Forward Revenue Growth (5-yr)	1.2%
Forward EPS Growth (5-yr)	10.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	11.8%
Return on Assets	7.1%
ROIC, with goodwill	9.3%
ROIC, without goodwill	24.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	12,870
Net Debt	12,080
Total Debt/EBITDA	2.8
Net Debt/EBITDA	2.7
EBITDA/Interest	27.8
Current Ratio	1.3
Quick Ratio	0.8

NMF = Not Meaningful

Investment Highlights

• Danaher has completed its acquisition of Pall Corp. and has now separated into two independent, publicly traded companies, one being a science and technology company that includes Pall and operates under the Danaher name. The other is a diversified industrial growth business operating under the name Fortive.

• Danaher makes innovative products and provides services to professional, medical, industrial, and commercial customers. Its portfolio of premier brands, including Lange and Beckman Coulter, is among the most highly recognized in each of the markets it serves.

• Danaher continues to experience pressure from a challenging economic environment, particularly from its industrially-oriented end markets, but acquisitions and strong execution are expected to continue to drive growth. The post-split company expects full year 2017 adjusted diluted net earnings per share to be in a range of $3.85-$3.95. Non-GAAP core revenue growth is targeted at 3%-4%.

• Roughly 60% 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, the firm continues to drive gross margins higher. The Danaher Business System ensures the firm will stay competitive across the variety of market segments it serves.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**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)	**IMPROVING**
Near-term Technical Support, 10-week MA	**79.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
General Electric	18.7	3.0	87.1%
Honeywell	17.7	2.8	115.8%
3M	21.6	3.2	125.8%
United Technologies	16.7	1.6	105.0%
Peer Median	18.2	2.9	110.4%
Danaher	**22.6**	**1.6**	**113.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	19,914	20,563	17,047
Revenue, YoY%	4.2%	3.3%	-17.1%
Operating Income	3,431	3,469	3,390
Operating Margin %	17.2%	16.9%	19.9%
Net Income	2,598	2,599	2,528
Net Income Margin %	13.0%	12.6%	14.8%
Diluted EPS	3.63	3.67	3.61
Diluted EPS, YoY %	-4.3%	1.1%	-1.7%
Free Cash Flow (CFO-capex)	3,161	3,169	3,222
Free Cash Flow Margin %	15.9%	15.4%	18.9%

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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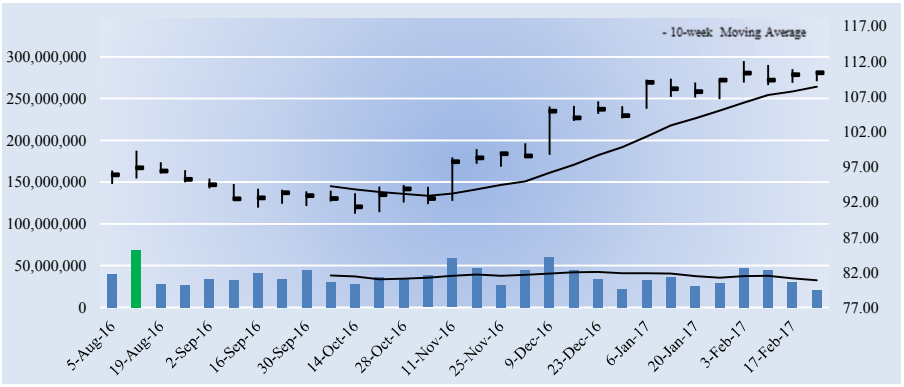
Disney DIS FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$98.00	$76.00 - $120.00	LARGE-CAP CORE	Consumer Discretionary	Media - entertainment

Disney has an innate ability to leverage creative success across its entire company.

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)	$180,814
Avg Weekly Vol (30 wks)	37,537
30-week Range (USD)	90.315 - 111.99
Valuentum Sector	Consumer Discretionary
5-week Return	2.8%
13-week Return	12.0%
30-week Return	14.7%
Dividend Yield %	1.4%
Dividends per Share	1.56
Forward Dividend Payout Ratio	26.0%
Est. Normal Diluted EPS	7.52
P/E on Est. Normal Diluted EPS	14.7
Est. Normal EBITDA	20,389
Forward EV/EBITDA	11.4
EV/Est. Normal EBITDA	9.6
Forward Revenue Growth (5-yr)	4.9%
Forward EPS Growth (5-yr)	9.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	19.9%
Return on Assets	10.3%
ROIC, with goodwill	13.3%
ROIC, without goodwill	24.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	20,170
Net Debt	15,560
Total Debt/EBITDA	1.2
Net Debt/EBITDA	0.9
EBITDA/Interest	47.7
Current Ratio	1.0
Quick Ratio	0.8

NMF = Not Meaningful

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. It was founded in 1923 and is headquartered in California.

• We've been somewhat generous in our model for Disney. We are building in mid single-digit revenue growth and solid margin expansion, as well as using one of the lowest costs of equity within our coverage universe.

• 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'--though the threat of 'cord-cutting' should not be ignored.

• Disney has found itself amid reports it may be a candidate to take out a disruptive player in the broader media space such as Twitter or Netflix. The company has been interested in new digital distribution options as it continues to battle the cord-cutting movement. Though we're not advocating debt-fueled growth, it has material leverage potential on its balance sheet.

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

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
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	108.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
IMAX Corp	30.6	1.9	109.2%
Live Nation	NMF	NMF	90.1%
Madison Square Garden	NMF	NMF	118.5%
News Corp	32.4	1.7	93.6%
Peer Median	31.5	1.8	101.4%
Disney	**18.4**	**2.0**	**112.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-15	Sep-16	Sep-17
Revenue	52,465	55,632	56,800
Revenue, YoY%	7.5%	6.0%	2.1%
Operating Income	13,224	14,358	14,575
Operating Margin %	25.2%	25.8%	25.7%
Net Income	8,382	9,391	9,636
Net Income Margin %	16.0%	16.9%	17.0%
Diluted EPS	4.90	5.73	6.00
Diluted EPS, YoY %	15.0%	16.8%	4.7%
Free Cash Flow (CFO-capex)	6,644	8,440	8,721
Free Cash Flow Margin %	12.7%	15.2%	15.4%

In Millions of USD (except for per share items)

Structure of the Media (entertainment) Industry — NEUTRAL

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

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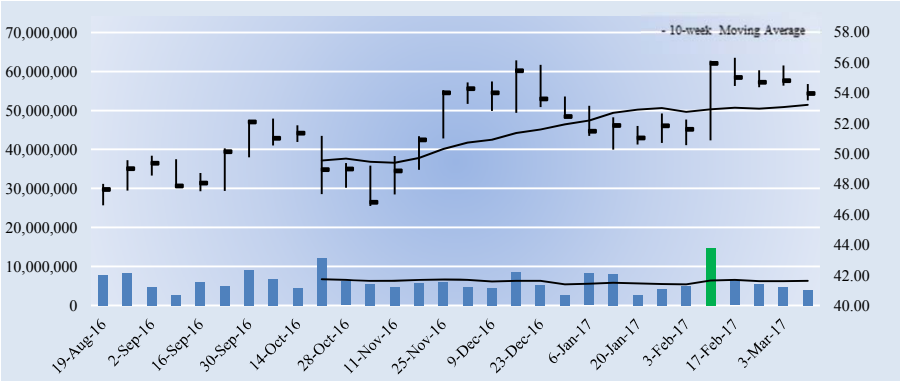
Dunkin' Brands DNKN FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$46.00	$37.00 - $55.00	MID-CAP CORE	Consumer Discretionary	Restaurants - Fast Food & Coffee

Dunkin' Brands' store count growth has been impressive, but its opportunity for expansion remains significant.

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)	$4,992
Avg Weekly Vol (30 wks)	6,163
30-week Range (USD)	46.55 - 56.3
Valuentum Sector	Consumer Discretionary
5-week Return	4.7%
13-week Return	0.0%
30-week Return	14.3%
Dividend Yield %	2.4%
Dividends per Share	1.29
Forward Dividend Payout Ratio	53.7%
Est. Normal Diluted EPS	2.94
P/E on Est. Normal Diluted EPS	18.3
Est. Normal EBITDA	562
Forward EV/EBITDA	14.3
EV/Est. Normal EBITDA	12.5
Forward Revenue Growth (5-yr)	4.5%
Forward EPS Growth (5-yr)	10.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	28.9%
Return on Assets	5.0%
ROIC, with goodwill	11.4%
ROIC, without goodwill	18.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,435
Net Debt	2,004
Total Debt/EBITDA	5.5
Net Debt/EBITDA	4.6
EBITDA/Interest	4.4
Current Ratio	1.4
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• Dunkin' Brands is one of the world's leading franchisors of quick service restaurants serving hot and cold coffee and baked goods, as well as hard-serve ice cream. It truly has a world-class operation and supply chain. The firm's growth opportunity in China is quite attractive. It was founded in 1950 and is headquartered in Massachusetts.

• The coffee space is not without significant and intense competition. Starbucks continues to dominate the premium space, and McDonald's all day breakfast has increased competition. Even the likes of Taco Bell has stepped up efforts with its new breakfast menu.

• Dunkin' Brands is 100% franchised, including more than 12,250 Dunkin' Donuts restaurants and 7,800 Baskin-Robbins restaurants. We like its asset-light operations, which translates into strong free cash flow. The company's long-term international growth opportunity is also remarkable at an estimated 15,000+ units (there are roughly 8,700 restaurants outside the US today).

• The Dunkin' Brands of the future could reach a breathtaking 30,000+ restaurants across the globe. The firm's long-term goal includes 17,000+ Dunkin' Donuts in the US. 2015 marked the third consecutive year of 5%+ growth in restaurant count. It also plans to launch a ready-to-drink coffee line in 2017.

• ~65% of all transactions at Dunkin' Brands take place before 11 AM, offering the firm significant opportunity to expand its day-part relevance. It will attempt to do this through increased perks while targeting PM snacking and a younger audience.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	HIGH
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	DETERIORATING
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.

Relative Valuation

	Forward P/E	PEG	Price / FV
McDonald's	20.6	2.7	136.1%
Starbucks	25.3	2.1	109.1%
Wendy's Co	28.5	1.5	147.2%
Yum! Brands	23.4	1.5	98.9%
Peer Median	24.4	1.8	122.6%
Dunkin' Brands	**22.4**	**2.4**	**117.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	811	829	847
Revenue, YoY%	8.3%	2.2%	2.2%
Operating Income	361	391	439
Operating Margin %	44.5%	47.2%	51.8%
Net Income	105	196	220
Net Income Margin %	13.0%	23.6%	26.0%
Diluted EPS	1.08	2.11	2.40
Diluted EPS, YoY %	-34.4%	95.1%	13.7%
Free Cash Flow (CFO-capex)	155	261	299
Free Cash Flow Margin %	19.2%	31.5%	35.2%

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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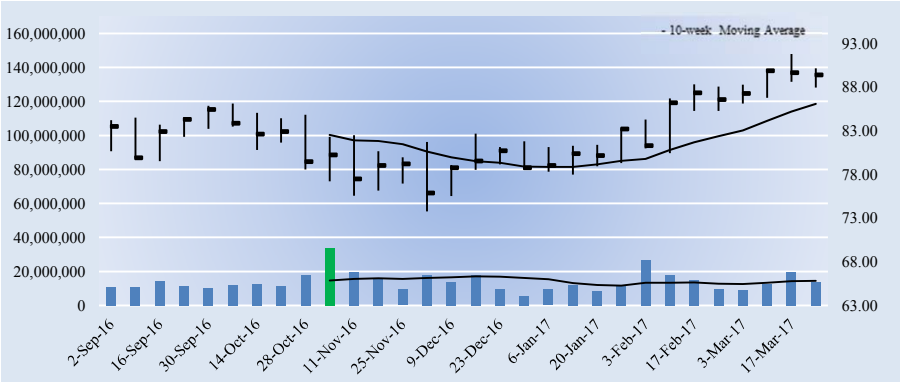
Electronic Arts EA FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$69.00	$48.00 - $90.00	LARGE-CAP CORE	Information Technology	Software - graphics

EA's revenue from mobile has grown considerably in recent years and is a great opportunity for future growth.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$29,486
Avg Weekly Vol (30 wks)	14,119
30-week Range (USD)	73.74 - 91.815
Valuentum Sector	Information Technology
5-week Return	2.3%
13-week Return	10.3%
30-week Return	10.2%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	4.40
P/E on Est. Normal Diluted EPS	20.3
Est. Normal EBITDA	2,179
Forward EV/EBITDA	13.9
EV/Est. Normal EBITDA	12.3
Forward Revenue Growth (5-yr)	5.5%
Forward EPS Growth (5-yr)	6.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	24.2%
Return on Assets	10.9%
ROIC, with goodwill	41.6%
ROIC, without goodwill	169.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,150
Net Debt	-2,684
Total Debt/EBITDA	1.1
Net Debt/EBITDA	NMF
EBITDA/Interest	52.1
Current Ratio	1.8
Quick Ratio	1.7

NMF = Not Meaningful

Investment Highlights

• Electronic Arts develops, markets, publishes and distributes game software content and services that can be played by consumers on a variety of video game machines and electronic devices such as PlayStations 3 and 4, Xbox 360, Xbox One, and Wii. Some of its titles include Battlefield, UFC, and EA Sports offerings for nearly every major American sport.

• EA's revenue from mobile has grown considerably in recent years and is a great opportunity for future growth. The segment's gains have more than offset negative PC trends. The firm's console segment has performed well in recent quarters.

• Multiple industry trends are changing EA's operating environment. Online gameplay and the digital distribution of games are leading the digital transformation. Business models have emerged with focuses on extended product engagement, mobile opportunities, and predictable subscription-based revenue. The importance and dependability of franchises cannot be denied, however.

• New consoles tend to drive growth at EA, so investors should pay close attention to the strategies of Nintendo (Wii), Microsoft (Xbox One) and Sony (PS). Digital share (mobile/handhelds, extra content, full game downloads) of overall interactive entertainment industry spending has advanced to 70% of the total in recent years.

• The company's portfolio of brands includes wholly-owned brands such as Battlefield, Mass Effect, Need for Speed, The Sims, Bejeweled, and Plants v. Zombies. We like EA's considerable brand recognition and strength.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
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	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
Activision	24.9	2.4	132.8%
KongZhong	20.5	NMF	74.2%
Take-Two	48.0	NMF	145.3%
Zynga	39.6	NMF	140.0%
Peer Median	32.3	2.4	136.4%
Electronic Arts	**23.1**	**3.8**	**129.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Mar-15	Mar-16	Mar-17
Revenue	4,515	4,396	4,752
Revenue, YoY%	26.3%	-2.6%	8.1%
Operating Income	948	898	1,723
Operating Margin %	21.0%	20.4%	36.3%
Net Income	875	1,156	1,277
Net Income Margin %	19.4%	26.3%	26.9%
Diluted EPS	2.69	3.50	3.87
Diluted EPS, YoY %	NMF	30.1%	10.4%
Free Cash Flow (CFO-capex)	972	1,130	1,440
Free Cash Flow Margin %	21.5%	25.7%	30.3%

In Millions of USD (except for per share items)

Structure of the Software (graphics) Industry — POOR

The software (graphics) industry is composed of a variety of firms from online gaming entities to technology-based-language learning companies. Industry constituents compete for the leisure time, attention and discretionary spending of consumers. The social gaming space, in particular, is evolving rapidly, and new entrants will inevitably drive down outsize returns over time. Performance of many participants is “hit” driven. If companies don’t deliver “hit” products to the market, operating results will suffer. Rapid technological change makes obsolescence a possibility. We don’t like the group’s structure.

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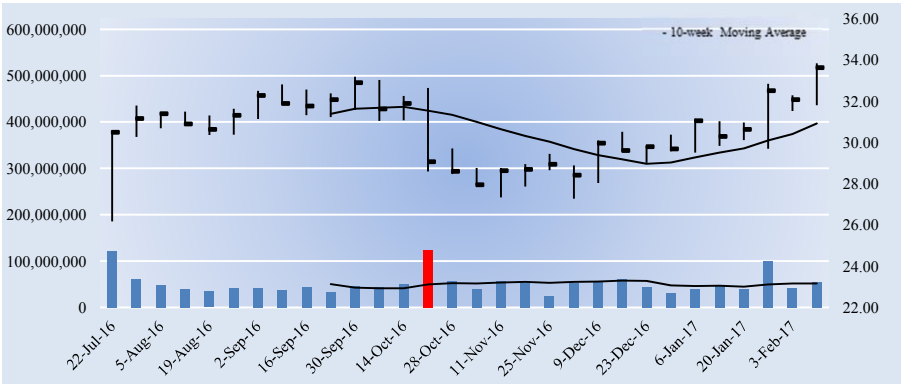
eBay EBAY FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$33.00	$26.00 - $40.00	LARGE-CAP CORE	Consumer Discretionary	Internet & Catalog Retail

Investors can expect eBay's revenue growth to be in the low-single digits and an operating margin comfortably above the 30% mark.

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)	$38,473
Avg Weekly Vol (30 wks)	52,455
30-week Range (USD)	26.1699 - 33.84
Valuentum Sector	Consumer Discretionary
5-week Return	8.5%
13-week Return	17.5%
30-week Return	28.2%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	2.65
P/E on Est. Normal Diluted EPS	12.7
Est. Normal EBITDA	4,125
Forward EV/EBITDA	13.6
EV/Est. Normal EBITDA	9.8
Forward Revenue Growth (5-yr)	4.4%
Forward EPS Growth (5-yr)	-11.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	32.0%
Return on Assets	13.4%
ROIC, with goodwill	18.7%
ROIC, without goodwill	150.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	8,960
Net Debt	1,811
Total Debt/EBITDA	3.0
Net Debt/EBITDA	0.6
EBITDA/Interest	Excellent
Current Ratio	2.3
Quick Ratio	2.0

NMF = Not Meaningful

Investment Highlights

• eBay is a global commerce and payments company that connects buyers and sellers worldwide. Activist investor Carl Icahn no longer holds shares in this security, and it has been separated from PayPal since July 2015. The company was founded in 1995 and is headquartered in San Jose, California.

• eBay is still a powerhouse even after letting go of its prized PayPal. During 2016, the firm processed $84 billion in gross merchandise value from ~167 million active buyers and over 25 million active sellers. It had more than 1 billion listings, helping push eBay's revenue in 2016 to nearly $9 billion.

• The company's business continues its resurgence, with active user growth recently reaching levels not seen since 2007. Targeting convenience and customer service via a site redesign has resonated with users. Mobile performance has also been fantastic, and international operations continue to account for a larger portion of overall GMV.

• Investors can expect revenue growth in the low-single digits and an operating margin comfortably above the 30% mark. Low capital intensity and predictable cash flows speak to high business quality. Management is expecting meaningful growth acceleration in its marketplace platform in 2017.

• In 2017, eBay is now expecting FX-neutral revenue growth of 6%-8%, or total revenue of $9.3-$9.5 billion. Non-GAAP earnings per share from continuing operations guidance has been issued in a range of $1.98-$2.03, and free cash flow is expected to be roughly flat from 2016.

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	31.00

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
Expedia	22.4	1.6	96.6%
Liberty Interactive	19.9	NMF	80.5%
Amazon.com	NMF	NMF	144.2%
Priceline.com	25.2	1.7	96.6%
Peer Median	22.4	1.7	96.6%
eBay	**16.6**	**NMF**	**101.9%**

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

Financial Summary

	- Actual -		Split Adjusted	Post - Proj
Fiscal Year End:	Dec-15	Dec-16	Dec-17	
Revenue	8,592	8,979	9,410	
Revenue, YoY%	-2.3%	4.5%	4.8%	
Non-GAAP Operating Income	2,197	2,325	2,247	
Non-GAAP Operating Margin %	25.6%	25.9%	23.9%	
Non-GAAP Net Income	1,947	7,285	2,322	
Non-GAAP Net Income Margin	22.7%	81.1%	24.7%	
Non-GAAP Diluted EPS	1.60	6.37	2.03	
Non-GAAP Diluted EPS, YoY %	-330.8%	299.0%	NMF	
Free Cash Flow (CFO-capex)	2,209	2,201	2,738	
Free Cash Flow Margin %	25.7%	24.5%	29.1%	

In Millions of USD (except for per share items)

Structure of the Internet & Catalog Retail Industry — GOOD

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

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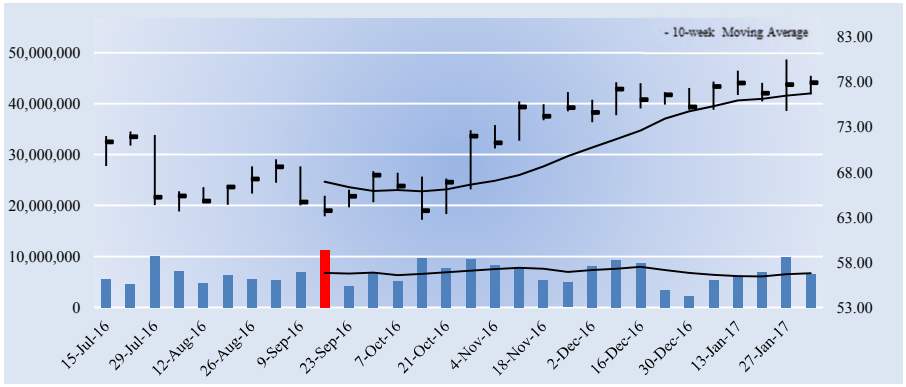
Eastman Chemical EMN FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$91.00	$73.00 - $109.00	LARGE-CAP VALUE	Materials	Chemicals - broad

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.

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)	$11,560
Avg Weekly Vol (30 wks)	6,814
30-week Range (USD)	62.7 - 80.48
Valuentum Sector	Materials
5-week Return	2.7%
13-week Return	7.5%
30-week Return	13.3%
Dividend Yield %	2.6%
Dividends per Share	2.04
Forward Dividend Payout Ratio	27.7%
Est. Normal Diluted EPS	8.22
P/E on Est. Normal Diluted EPS	9.5
Est. Normal EBITDA	2,516
Forward EV/EBITDA	7.8
EV/Est. Normal EBITDA	7.1
Forward Revenue Growth (5-yr)	2.8%
Forward EPS Growth (5-yr)	8.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.7%
Return on Assets	5.6%
ROIC, with goodwill	9.8%
ROIC, without goodwill	14.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,594
Net Debt	6,413
Total Debt/EBITDA	3.2
Net Debt/EBITDA	3.2
EBITDA/Interest	8.0
Current Ratio	NA
Quick Ratio	NA

NMF = Not Meaningful

Investment Highlights

• 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. It was founded in 1920 and is headquartered in Tennessee.

• Eastman's portfolio transformation has led material earnings growth over the past 5 years. The firm's Advanced Materials and Additives & Functional Products segments have grown as a percentage of earnings and have led the charge in earnings growth.

• Eastman is looking for its specialty businesses to drive growth in 2017 with new innovative products driving higher margins and accelerating earnings growth. Aggressive cost reductions can be expected as well. Near-term headwinds include uncertain global economic growth, a stronger US dollar, and volatile raw material and energy prices.

• Two thirds of the company's sales comes from product lines with leading market positions, from additives (cellulosic polymers, insoluble sulfurs) 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. Adjusted EPS growth is expected to be 8%-12% in 2017, and free cash flow is being targeted at ~$1 billion.

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	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
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
DuPont	20.5	1.9	119.4%
Ecolab	27.2	2.4	135.7%
PPG Industries	30.8	0.7	99.9%
Dow Chemical	14.6	2.0	118.1%
Peer Median	23.8	1.9	118.7%
Eastman Chemical	**10.6**	**1.5**	**85.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	9,648	9,008	9,179
Revenue, YoY%	1.3%	-6.6%	1.9%
Operating Income	1,567	1,449	1,717
Operating Margin %	16.2%	16.1%	18.7%
Net Income	848	866	1,091
Net Income Margin %	8.8%	9.6%	11.9%
Diluted EPS	5.66	5.84	7.35
Diluted EPS, YoY %	14.2%	3.1%	26.0%
Free Cash Flow (CFO-capex)	960	759	896
Free Cash Flow Margin %	10.0%	8.4%	9.8%

In Millions of USD (except for per share items)

Structure of the Chemicals Industry — POOR

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

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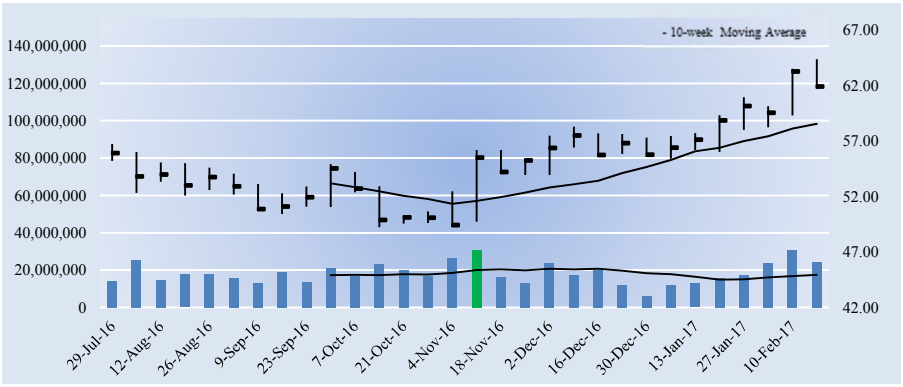
Emerson Electric EMR FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$52.00	$42.00 - $62.00	LARGE-CAP CORE	Industrials	Electrical Equipment

There are a number of moving parts in Emerson Electric's business as it works to align its portfolio with its two core verticals. Underlying sales trends have not been great.

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)	$40,030
Avg Weekly Vol (30 wks)	18,411
30-week Range (USD)	49.22 - 64.365
Valuentum Sector	Industrials
5-week Return	9.0%
13-week Return	13.4%
30-week Return	11.1%
Dividend Yield %	3.1%
Dividends per Share	1.92
Forward Dividend Payout Ratio	74.0%
Est. Normal Diluted EPS	3.22
P/E on Est. Normal Diluted EPS	19.2
Est. Normal EBITDA	3,584
Forward EV/EBITDA	14.4
EV/Est. Normal EBITDA	12.1
Forward Revenue Growth (5-yr)	-2.2%
Forward EPS Growth (5-yr)	9.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	23.9%
Return on Assets	9.4%
ROIC, with goodwill	20.2%
ROIC, without goodwill	40.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,646
Net Debt	3,464
Total Debt/EBITDA	2.0
Net Debt/EBITDA	1.0
EBITDA/Interest	16.3
Current Ratio	1.2
Quick Ratio	0.7

NMF = Not Meaningful

Investment Highlights

• 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 and is headquartered in St. Louis, Missouri.

• Current market conditions are weighing on top-line results, as the uncertainty in oil prices and slow growth of capital spending across the globe has forced management to reevaluate its expectations. The firm is reviewing its cost structure and cutting jobs, which will result in significant SG&A savings.

• Underlying sales trends have not been encouraging in recent quarters. Global economies are not displaying much core strength as industrial capital spending has been weakened. The firm expects 'Automation Solutions' sales to be down mid-single digits in fiscal 2017, while 'Commercial & Residential Solutions' sales are projected to grow 3%-5% in the year.

• There are a number of moving parts in Emerson's business. The firm recently agreed to sell its network power division to Platinum Equity for $4 billion and will sell its motor and generator business to Nidec for $1.2 billion. Emerson has also agreed to buy Pentair's valves and controls business for $3.15 billion as it works to align its portfolio with its two core verticals.

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

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	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**59.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Barnes Group	18.4	2.3	116.9%
Parker-Hannifin	20.7	2.4	125.1%
Pentair	16.6	1.6	96.9%
Roper Technologies	22.6	2.4	136.3%
Peer Median	19.6	2.3	121.0%
Emerson Electric	**23.8**	**2.6**	**119.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-15	Sep-16	Sep-17
Revenue	22,304	14,522	10,557
Revenue, YoY%	-9.1%	-34.9%	-27.3%
Operating Income	3,864	2,798	2,607
Operating Margin %	17.3%	19.3%	24.7%
Net Income	2,710	1,590	1,662
Net Income Margin %	12.2%	10.9%	15.7%
Diluted EPS	4.01	2.46	2.60
Diluted EPS, YoY %	31.4%	-38.6%	5.6%
Free Cash Flow (CFO-capex)	1,844	2,434	2,289
Free Cash Flow Margin %	8.3%	16.8%	21.7%

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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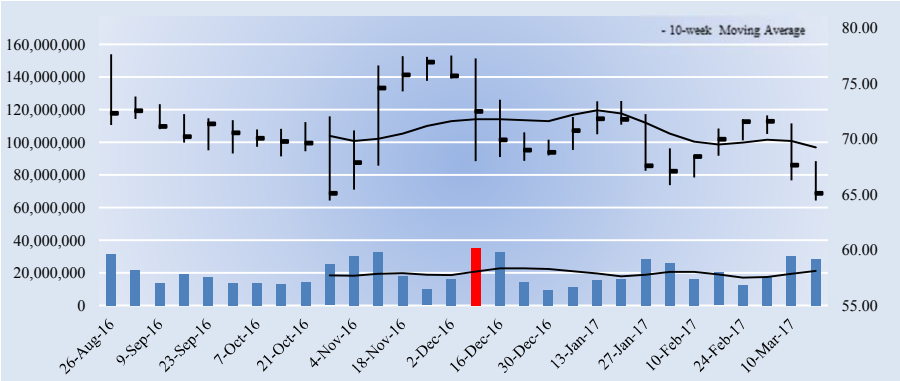
Express Scripts ESRX UNDERVALUED 13.7%

Buying Index™ 6 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$93.00	$74.00 - $112.00	LARGE-CAP VALUE	Health Care	Healthcare Products

In addition to its scale advantage, Express Scripts is using various tools to lower healthcare costs.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$41,098
Avg Weekly Vol (30 wks)	20,168
30-week Range (USD)	64.45 - 77.61
Valuentum Sector	Health Care
5-week Return	-5.0%
13-week Return	-7.6%
30-week Return	-14.7%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	7.50
P/E on Est. Normal Diluted EPS	8.7
Est. Normal EBITDA	7,856
Forward EV/EBITDA	7.3
EV/Est. Normal EBITDA	6.8
Forward Revenue Growth (5-yr)	3.0%
Forward EPS Growth (5-yr)	6.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	14.5%
Return on Assets	5.0%
ROIC, with goodwill	12.6%
ROIC, without goodwill	53.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	15,568
Net Debt	12,491
Total Debt/EBITDA	2.1
Net Debt/EBITDA	1.7
EBITDA/Interest	10.4
Current Ratio	0.8
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• Express Scripts is the largest pharmacy benefit management (PBM) company in the US. The firm offers a full range of services to its clients, which include managed care organizations, health insurers, employers, and government health programs. It generates revenue via the delivery of prescription drugs through its network of retail pharmacies.

• Express Scripts is well-positioned for growth. The growing cost of prescription drugs is unsustainable for payers and patients, and the constant shifting in the healthcare landscape will require and innovative, comprehensive approach, opening the door for PBMs.

• Investors should expect Express Scripts' EBITDA to grow at a 10%-20% rate as it benefits from secular growth trends. We expect the specialty pharmacy market to account for most of this expansion as it becomes a larger source of overall spending on healthcare. The company is anticipating 2017 non-GAAP EPS to be in a range of $6.82-$7.02.

• Prescription drugs play an important role in healthcare, and total medical costs for employers continue to outpace the rate of inflation. This opens the door to opportunity for PBMs to develop innovative strategies to keep medications affordable. Express Scripts' scale is a key advantage.

• Aside from its scale advantage, Express Scripts is using various tools to lower healthcare costs, including the managing of retail pharmacy networks. Its generic fill rate, the percentage of all prescription drug 'fills' that are generic, climbed to 85% in 2016 from 57% in 2006.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
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	**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
AmerisourceBergen	14.8	1.9	82.6%
Henry Schein	23.4	1.9	118.1%
McKesson	11.6	2.6	78.7%
STAAR Surgical	NMF	NMF	123.8%
Peer Median	14.8	1.9	100.3%
Express Scripts	**9.3**	**1.7**	**70.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	101,752	100,288	102,494
Revenue, YoY%	0.9%	-1.4%	2.2%
Operating Income	4,339	5,088	7,053
Operating Margin %	4.3%	5.1%	6.9%
Net Income	2,476	3,404	4,419
Net Income Margin %	2.4%	3.4%	4.3%
Diluted EPS	3.56	5.39	7.00
Diluted EPS, YoY %	34.7%	51.4%	29.8%
Free Cash Flow (CFO-capex)	4,552	4,589	4,502
Free Cash Flow Margin %	4.5%	4.6%	4.4%

In Millions of USD (except for per share items)

Structure of the Healthcare Products Distributors Industry — NEUTRAL

The healthcare distributors industry is made up of wholesale medical equipment products distributors, serving the dental, medical and animal health markets, and wholesale drug providers, which distribute pharmaceuticals, medical products/services, and other healthcare technologies. Both sub-spaces are highly competitive and continue to experience growth as a result of the aging population, increased healthcare awareness, and the proliferation of medical technology and testing. Participants face pricing pressure from both customers and suppliers as a result of competition. We're neutral on the group.

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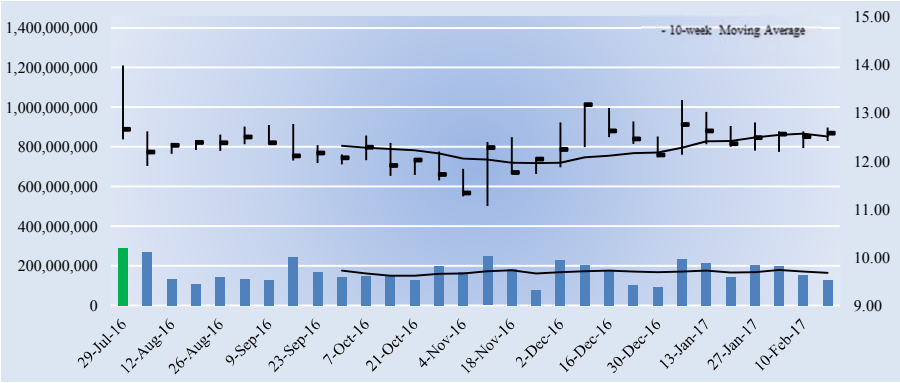
Ford F FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Neutral	$16.00	$12.00 - $20.00	LARGE-CAP VALUE	Consumer Discretionary	Auto Manufacturers

Not to be left behind by innovative peers, Ford is investing in emerging opportunities.

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)	$50,345
Avg Weekly Vol (30 wks)	171,286
30-week Range (USD)	11.07 - 13.99
Valuentum Sector	Consumer Discretionary
5-week Return	-0.6%
13-week Return	6.9%
30-week Return	-9.2%
Dividend Yield %	4.8%
Dividends per Share	0.60
Forward Dividend Payout Ratio	52.1%
Est. Normal Diluted EPS	2.09
P/E on Est. Normal Diluted EPS	6.0
Est. Normal EBITDA	18,323
Forward EV/EBITDA	7.2
EV/Est. Normal EBITDA	5.0
Forward Revenue Growth (5-yr)	2.6%
Forward EPS Growth (5-yr)	10.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	24.6%
Return on Assets	2.9%
ROIC, with goodwill	4.1%
ROIC, without goodwill	4.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	103,988
Net Debt	41,719
Total Debt/EBITDA	6.5
Net Debt/EBITDA	2.6
EBITDA/Interest	20.7
Current Ratio	2.1
Quick Ratio	2.0

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

Investment Highlights

• Ford has been around since the turn of last century, producing and selling automobiles. The company also engages in other businesses, including financing vehicles. Recent performance in the US has been its best since the Financial Crisis. Sales in China have also been fantastic in recent quarters, though global economic concerns will always be present.

• US auto sales have experienced a strong run as of late. 2016 was a record year for the industry in terms of sales, and Ford was not left out of the growth as it continues to capture pent-up demand from the Great Recession. Average selling prices have increased due in part to improved product mix.

• Ford continues to implement its 'ONE FORD' plan successfully and accelerate development of new vehicles customers want. The company continues to have success driving operating margin improvement and has reduced North America's structural costs by more than $9 billion since 2005. It also recently announced a sizable investment plan in electronic solutions.

• Market share in China and sales of the F-150 are worth watching closely at Ford, as they are key drivers of overall performance. The company's 2017 outlook is generally lower than 2016 due to a focus on investments in emerging opportunities (electronic and autonomous vehicles), which will be partially offset by cost reductions in other areas of the business.

• We like the firm's ability to generate strong automotive cash flow while reducing pension obligations. Ford now boasts an investment-grade credit rating and expects to maintain it through the course of the economic cycle.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**POOR**
ValueRisk™	**MEDIUM**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
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	**13.00**

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 Motors	6.2	1.9	86.6%
Honda	11.2	1.0	90.3%
Harley-Davidson	14.6	1.6	107.4%
Toyota	10.6	NMF	70.6%
Peer Median	10.9	1.6	88.4%
Ford	**10.9**	**0.2**	**78.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	144,077	149,558	151,800
Revenue, YoY%	-1.9%	3.8%	1.5%
Operating Income	3,745	8,064	4,787
Operating Margin %	2.6%	5.4%	3.2%
Net Income	3,187	7,373	4,608
Net Income Margin %	2.2%	4.9%	3.0%
Diluted EPS	0.79	1.84	1.15
Diluted EPS, YoY %	-55.0%	133.8%	-37.5%
Free Cash Flow (CFO-capex)	7,044	8,974	12,800
Free Cash Flow Margin %	4.9%	6.0%	8.4%

In Millions of USD (except for per share items)

Structure of the Auto Manufacturers Industry — VERY POOR

The auto manufacturers industry is characterized by high fixed costs, substantial operating leverage, and intense competition. Vehicle sales are impacted by general economic conditions, which are largely out of the control of participants, and by the cost of credit and fuel. Excess capacity, price discounting and other marketing initiatives can pressure the top line, while rising raw material and labor costs can squeeze the bottom line. Changing consumer preferences in type, model and fuel-efficiency can cause abrupt shifts in market share. The structural characteristics of the group are very poor.

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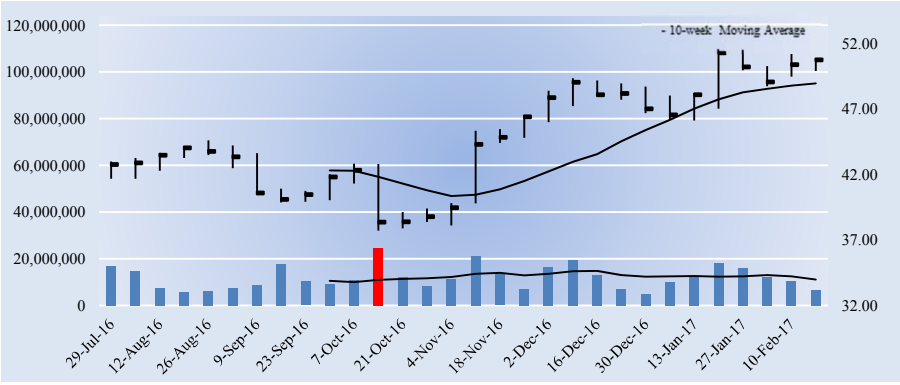
Fastenal FAST FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$41.00	$31.00 - $51.00	LARGE-CAP CORE	Industrials	Distributors

Fastenal's strategic focus is on becoming the best same-day supplier of industrial and construction products worldwide.

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)	$14,663
Avg Weekly Vol (30 wks)	12,081
30-week Range (USD)	37.7 - 51.56
Valuentum Sector	Industrials
5-week Return	5.8%
13-week Return	12.7%
30-week Return	20.8%
Dividend Yield %	2.5%
Dividends per Share	1.28
Forward Dividend Payout Ratio	68.9%
Est. Normal Diluted EPS	2.45
P/E on Est. Normal Diluted EPS	20.7
Est. Normal EBITDA	1,191
Forward EV/EBITDA	16.0
EV/Est. Normal EBITDA	12.5
Forward Revenue Growth (5-yr)	7.8%
Forward EPS Growth (5-yr)	13.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	27.1%
Return on Assets	20.9%
ROIC, with goodwill	26.7%
ROIC, without goodwill	26.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	390
Net Debt	277
Total Debt/EBITDA	0.4
Net Debt/EBITDA	0.3
EBITDA/Interest	138.4
Current Ratio	6.2
Quick Ratio	2.2

NMF = Not Meaningful

Investment Highlights

• Each of Fastenal's 2,600+ stores is a local, one-stop shop for a variety of OEM, MRO and construction supplies. The firm's value proposition to customers centers on working within a decentralized environment to deliver local product to local people. The company was founded in 1967 and is headquartered in Minnesota.

• Fastenal's motto is 'Growth through Customer Service.' The firm believes it can grow market share by providing the greatest value to the customer. Fastenal's ability to grow is amplified if it can service the customer at the closest economic point of contact. Execution remains critical.

• Fastenal believes its local store network, along with its increasing 'keep-fill' initiatives close to customer locations, gives it an important structural advantage over other distributors who have embraced e-commerce. The company's strategic focus will continue to be on becoming the best same-day supplier of industrial and construction products worldwide.

• Fastenal is expecting many of the sluggish business conditions that existed in 2016 to carry into 2017, though it is generally more optimistic about the year. Management took a more favorable tone with respect to process industries, but OEM fastener demand has remained weak for multiple quarters.

• As it relates to operations, Fastenal is our favorite distributor. The firm's local storefront model provides a unique method of expanding availability and providing cost savings to customers. Its platform can't be easily replicated by peers.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	UNATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	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

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
Anixter	15.9	1.6	108.8%
W.W. Grainger	21.2	1.1	121.4%
MSC Industrial	26.1	2.1	139.4%
WESCO	18.5	1.6	110.8%
Peer Median	19.9	1.6	116.1%
Fastenal	**27.3**	**2.3**	**123.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	3,869	3,962	4,224
Revenue, YoY%	3.6%	2.4%	6.6%
Operating Income	827	795	825
Operating Margin %	21.4%	20.1%	19.5%
Net Income	516	499	532
Net Income Margin %	13.3%	12.6%	12.6%
Diluted EPS	1.77	1.73	1.86
Diluted EPS, YoY %	6.4%	-2.3%	7.6%
Free Cash Flow (CFO-capex)	392	325	415
Free Cash Flow Margin %	10.1%	8.2%	9.8%

In Millions of USD (except for per share items)

Structure of the Industrial Distributors Industry — GOOD

Though consolidating, the industrial distributors industry remains fragmented and highly competitive. Delivering cost savings, convenience, and product availability are the major competitive factors. Some rivals use vans to sell products in markets away from their warehouses, while others rely on mail order, websites or telemarketing sales. Still, others operate stores and use centralized distribution centers to supply their networks. The industry is economically-sensitive and exposed to the threat of aggressive pricing strategies, but we generally like the group's massive distribution platforms that are difficult to replicate.

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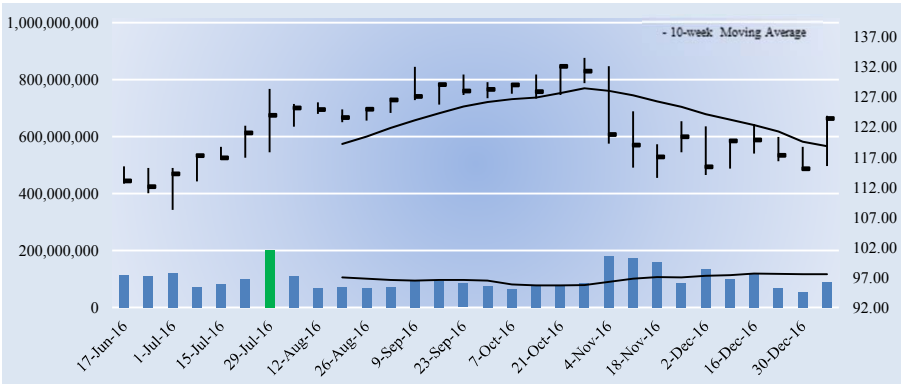
Facebook FB UNDERVALUED 4.5%

Buying Index™ 7 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$172.00	$129.00 - $215.00	MEGA-CAP BLEND	Information Technology	Internet Software & Svcs

We're huge fans of Facebook's free cash flow generation, and while the company faces both risks and opportunities, we think it belongs in the Best Ideas Newsletter 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)	$352,089
Avg Weekly Vol (30 wks)	100,312
30-week Range (USD)	108.23 - 133.5
Valuentum Sector	Information Technology
5-week Return	6.4%
13-week Return	-4.8%
30-week Return	7.3%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	7.35
P/E on Est. Normal Diluted EPS	16.8
Est. Normal EBITDA	38,465
Forward EV/EBITDA	15.1
EV/Est. Normal EBITDA	8.7
Forward Revenue Growth (5-yr)	29.1%
Forward EPS Growth (5-yr)	51.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	10.5%
Return on Assets	9.1%
ROIC, with goodwill	37.7%
ROIC, without goodwill	70.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	315
Net Debt	-18,119
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	263.5
Current Ratio	11.2
Quick Ratio	10.9

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. The company was founded in 2004 and is headquartered in California.

• It's unfair to lump Facebook in with other social media companies. Facebook is generating billions in revenue and is turning a nice profit as it hauls in free cash flow. The company's balance sheet is pristine with ~$26 billion in net cash at the end of the third quarter of 2016. Long-term investors are taking notice.

• As data coverage improves, the number of mobile users continues to grow. Facebook is well-positioned, and millennials are increasingly accessing its platform from mobile devices. For younger demographics, advertisers may have to go to Facebook to find their desired target market. Mobile ad revenue accounts for ~85% of total ad revenue.

• 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.

• Facebook's monthly active users (MAUs) and mobile monthly active users are growing at tremendous rates. As of the end of 2016, MAUs rose to ~1.8 billion and mobile MAUs rose to ~1.7 billion compared to less than 950 million mobile MAUs at the end of 2013.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**AGGRESSIVE**
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	**119.00**

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	34.9	NMF	95.9%
Alphabet	23.1	1.5	87.2%
WebMD	26.3	2.8	105.0%
Yahoo	NMF	NMF	100.6%
Peer Median	26.3	2.1	98.2%
Facebook	**28.8**	**1.9**	**71.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	12,466	17,928	27,304
Revenue, YoY%	58.4%	43.8%	52.3%
Operating Income	4,994	6,225	19,089
Operating Margin %	40.1%	34.7%	69.9%
Net Income	2,925	3,669	12,369
Net Income Margin %	23.5%	20.5%	45.3%
Diluted EPS	1.10	1.29	4.29
Diluted EPS, YoY %	85.4%	17.1%	233.8%
Free Cash Flow (CFO-capex)	3,626	6,871	11,188
Free Cash Flow Margin %	29.1%	38.3%	41.0%

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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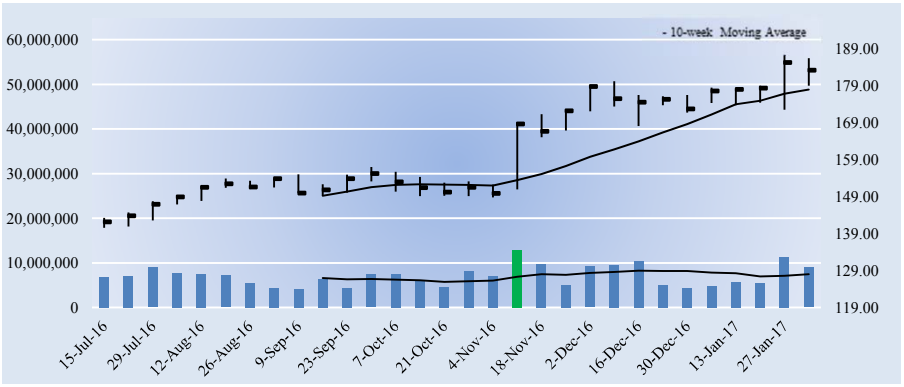
General Dynamics GD OVERVALUED 2.2%

Buying Index™ 7 | Value Rating ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$149.00	$119.00 - $179.00	LARGE-CAP CORE	Industrials	A&D Prime

General Dynamics is forecasting sales to rise by an average of 5.6% annually through 2020. We've raised our fair value estimate as a result of increased top-line expectations.

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)	$56,840
Avg Weekly Vol (30 wks)	7,121
30-week Range (USD)	140.56 - 187.37
Valuentum Sector	Industrials
5-week Return	5.0%
13-week Return	21.0%
30-week Return	30.3%
Dividend Yield %	1.7%
Dividends per Share	3.04
Forward Dividend Payout Ratio	30.8%
Est. Normal Diluted EPS	12.22
P/E on Est. Normal Diluted EPS	15.0
Est. Normal EBITDA	5,668
Forward EV/EBITDA	12.3
EV/Est. Normal EBITDA	10.3
Forward Revenue Growth (5-yr)	3.7%
Forward EPS Growth (5-yr)	8.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	24.9%
Return on Assets	8.6%
ROIC, with goodwill	18.9%
ROIC, without goodwill	66.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,888
Net Debt	1,554
Total Debt/EBITDA	0.8
Net Debt/EBITDA	0.3
EBITDA/Interest	52.3
Current Ratio	1.2
Quick Ratio	0.5

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. It was founded in 1899 and is based in Virginia.

• At the end of 2016, the firm's backlog of unfulfilled business orders was ~$60 billion, a ~10% decrease from the end of 2015. Strong demand for the company's defense and Gulfstream products has resulted in a solid book-to-bill ratio.

• The modest growth across General Dynamics' business is expected to begin projecting higher in 2017 and beyond. In its Aerospace segment, the return to full production and delivery of its G500 model in 2018 and the G600 model in 2019 will be a key growth driver. The company is forecasting sales to rise by an average of 5.6% annually through 2020.

• Management remains steadfast to its focus on improving margins, generating cash, and improving returns on capital. Strong operating leverage in its aerospace segment, resilient performance in combat systems, and healthy navy construction work offer an optimistic outlook, even as backlog may slip slightly in the near term.

• The firm continues to raise its dividend each year. Strong free cash flow generation and a focus on return on invested capital will make continued increases something to bet on. It expects to return all of its free cash flow to shareholders in the form of dividends and buybacks in 2017.

Investment Considerations

DCF Valuation	OVERVALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	DETERIORATING
Near-term Technical Support, 10-week MA	178.00

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
Lockheed Martin	19.9	1.9	131.8%
Northrop Grumman	19.3	1.9	130.7%
Raytheon	19.7	1.9	134.8%
Boeing	17.3	1.5	97.2%
Peer Median	19.5	1.9	131.3%
General Dynamics	**18.6**	**1.7**	**122.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	31,469	31,353	31,510
Revenue, YoY%	2.0%	-0.4%	0.5%
Operating Income	4,178	4,309	4,277
Operating Margin %	13.3%	13.7%	13.6%
Net Income	2,965	3,062	3,029
Net Income Margin %	9.4%	9.8%	9.6%
Diluted EPS	9.08	9.86	9.86
Diluted EPS, YoY %	15.9%	8.7%	-0.1%
Free Cash Flow (CFO-capex)	2,038	1,806	3,115
Free Cash Flow Margin %	6.5%	5.8%	9.9%

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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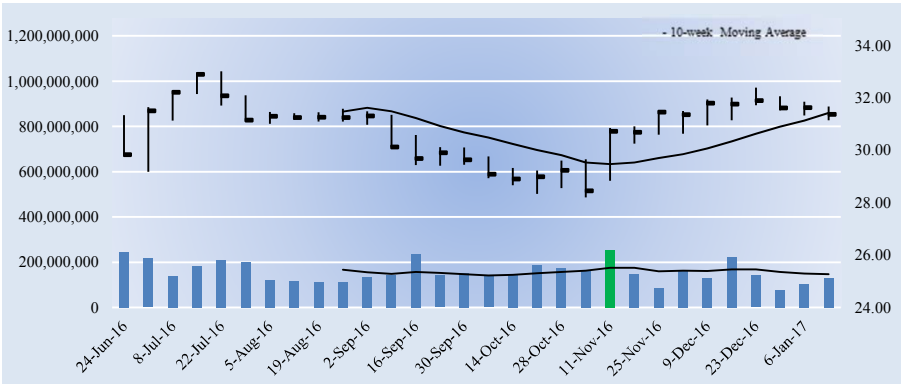
General Electric GE FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$36.00	$31.00 - $41.00	MEGA-CAP VALUE	Industrials	Conglomerates

GE has largely completed its portfolio transformation to reduce exposure to financials. Management is targeting $2 per share in earnings in 2018.

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)	$314,102
Avg Weekly Vol (30 wks)	158,443
30-week Range (USD)	28.19 - 33
Valuentum Sector	Industrials
5-week Return	-1.0%
13-week Return	8.5%
30-week Return	1.7%
Dividend Yield %	3.1%
Dividends per Share	0.96
Forward Dividend Payout Ratio	57.3%
Est. Normal Diluted EPS	2.03
P/E on Est. Normal Diluted EPS	15.5
Est. Normal EBITDA	32,161
Forward EV/EBITDA	14.5
EV/Est. Normal EBITDA	12.7
Forward Revenue Growth (5-yr)	4.3%
Forward EPS Growth (5-yr)	75.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	8.6%
Return on Assets	2.5%
ROIC, with goodwill	15.9%
ROIC, without goodwill	26.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	198,276
Net Debt	95,820
Total Debt/EBITDA	10.2
Net Debt/EBITDA	4.9
EBITDA/Interest	5.6
Current Ratio	-1.2
Quick Ratio	1.4

NMF = Not Meaningful

Investment Highlights

• GE is one of the largest and most diversified industrial firms in the world, with products/services ranging from aircraft engines to power generation and beyond. The company has largely completed its portfolio transformation to reduce exposure to financials. It was founded in 1892 and is headquartered in Connecticut. GE bought Alstom's power business in 2015.

• In 2017, GE is expecting organic growth of 3%-5% and core margin expansion to drive operating earnings per share to a range of $1.60-$1.70. Cash flow from operating activities is expected to remain robust, and the company is looking to hit $2 per share in earnings in 2018.

• 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 financials and shedding its SIFI designation were smart moves, in our view. Not only did we like the monetization of a portion of its far-reaching financial operations, 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 industrial giant has paid an amazing $150+ billion in dividends since 1970. It is one of our top income ideas and expects to return a considerable amount to investors via dividends in 2017 and beyond.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	HIGH
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	IMPROVING
Near-term Technical Resistance, 10-wk MA	31.00

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	22.6	1.6	113.0%
Honeywell	17.7	2.8	115.8%
3M	21.6	3.2	125.8%
United Technologies	16.7	1.6	105.0%
Peer Median	19.6	2.2	114.4%
General Electric	**18.7**	**3.0**	**87.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	148,589	117,386	119,851
Revenue, YoY%	1.7%	-21.0%	2.1%
Operating Income	25,076	14,634	23,314
Operating Margin %	16.9%	12.5%	19.5%
Net Income	15,345	1,369	16,541
Net Income Margin %	10.3%	1.2%	13.8%
Diluted EPS	1.52	0.14	1.68
Diluted EPS, YoY %	2.8%	-91.0%	1126.6%
Free Cash Flow (CFO-capex)	14,095	20,410	23,888
Free Cash Flow Margin %	9.5%	17.4%	19.9%

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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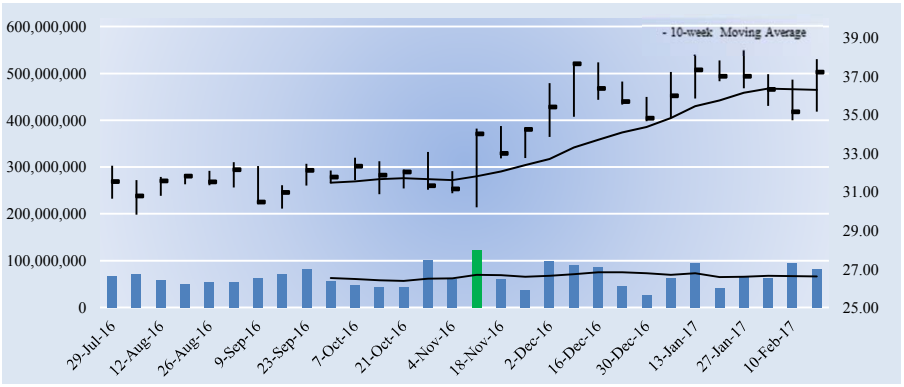
General Motors GM FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$43.00	$30.00 - $56.00	LARGE-CAP VALUE	Consumer Discretionary	Auto Manufacturers

GM is still working to expand its EBIT-adjusted margins, and it is establishing a solid position in the rapidly expanding Chinese auto 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).

Company Vitals

Market Cap (USD)	$61,041
Avg Weekly Vol (30 wks)	66,747
30-week Range (USD)	29.82 - 38.375
Valuentum Sector	Consumer Discretionary
5-week Return	-0.3%
13-week Return	12.0%
30-week Return	15.6%
Dividend Yield %	4.1%
Dividends per Share	1.52
Forward Dividend Payout Ratio	25.3%
Est. Normal Diluted EPS	6.27
P/E on Est. Normal Diluted EPS	5.9
Est. Normal EBITDA	19,796
Forward EV/EBITDA	5.2
EV/Est. Normal EBITDA	5.1
Forward Revenue Growth (5-yr)	2.6%
Forward EPS Growth (5-yr)	3.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	17.5%
Return on Assets	3.6%
ROIC, with goodwill	1.3%
ROIC, without goodwill	1.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	63,111
Net Debt	39,710
Total Debt/EBITDA	4.9
Net Debt/EBITDA	3.1
EBITDA/Interest	29.2
Current Ratio	1.1
Quick Ratio	0.7

NMF = Not Meaningful

Investment Highlights

• General Motors makes cars, crossovers, trucks and parts. The firm's brand names include Buick, Cadillac, Chevrolet, and GMC, among others. Founded in 1908 in Detroit, General Motors has become synonymous with American manufacturing. A 'new' and leaner GM emerged from bankruptcy in July 2009.

• General Motors continues to improve. Its fixed costs have been reduced by roughly 25% since 2007, putting it on much more solid footing. Management is targeting a 20% ROIC, but investments in next generation technology may take a while to generate substantial returns.

• General Motors has significantly improved its break-even point. On an EBIT-adjusted basis, break-even is roughly 10 million total US industry units (a level not reached in more than 20 years). During the past three years, the auto maker has posted an EBIT-adjusted margin of roughly 7%+. The company's North America EBIT-adjusted number is the best its been in years.

• Though there will be hiccups along the way, we don't think GM is finished expanding operating margins. Its intermediate-term goal is for EBIT-adjusted margins to be greater than 10% as it continues to reduce fixed costs and improve efficiency. Recall costs have been more annoying than tragic.

• China will eventually become the world's largest vehicle market, and GM has used its first-mover advantage to become one of the dominant players in the highly-fragmented country. It may be looking to unload some of its European operations in the near future.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**POOR**
ValueRisk™	**MEDIUM**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**HIGH**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**36.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Ford	10.9	0.2	78.6%
Honda	11.2	1.0	90.3%
Harley-Davidson	14.6	1.6	107.4%
Toyota	10.6	NMF	70.6%
Peer Median	11.1	1.0	84.5%
General Motors	**6.2**	**1.9**	**86.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	155,929	152,356	166,380
Revenue, YoY%	0.3%	-2.3%	9.2%
Operating Income	1,650	4,897	10,558
Operating Margin %	1.1%	3.2%	6.3%
Net Income	3,949	9,687	9,769
Net Income Margin %	2.5%	6.4%	5.9%
Diluted EPS	1.66	5.91	6.00
Diluted EPS, YoY %	-47.9%	255.4%	1.6%
Free Cash Flow (CFO-capex)	2,970	3,817	7,003
Free Cash Flow Margin %	1.9%	2.5%	4.2%

In Millions of USD (except for per share items)

Structure of the Auto Manufacturers Industry — VERY POOR

The auto manufacturers industry is characterized by high fixed costs, substantial operating leverage, and intense competition. Vehicle sales are impacted by general economic conditions, which are largely out of the control of participants, and by the cost of credit and fuel. Excess capacity, price discounting and other marketing initiatives can pressure the top line, while rising raw material and labor costs can squeeze the bottom line. Changing consumer preferences in type, model and fuel-efficiency can cause abrupt shifts in market share. The structural characteristics of the group are very poor.

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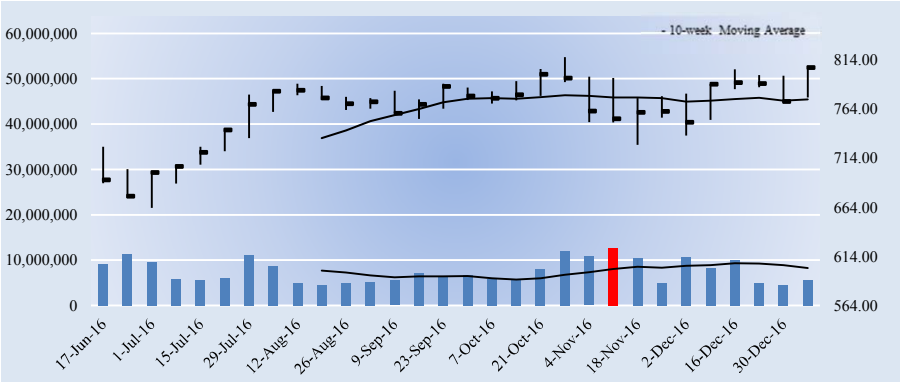
Alphabet GOOG FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$924.00	$739.00 - $1109.00	MEGA-CAP BLEND	Information Technology	Internet Software & Svcs

The company formerly known as Google continues to impress. We like shares so much that we include them in the Best Ideas Newsletter 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)	$553,881
Avg Weekly Vol (30 wks)	7,574
30-week Range (USD)	663.284 - 816.68
Valuentum Sector	Information Technology
5-week Return	6.4%
13-week Return	3.7%
30-week Return	12.5%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	49.98
P/E on Est. Normal Diluted EPS	16.1
Est. Normal EBITDA	46,042
Forward EV/EBITDA	14.3
EV/Est. Normal EBITDA	10.6
Forward Revenue Growth (5-yr)	14.2%
Forward EPS Growth (5-yr)	22.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	15.1%
Return on Assets	12.0%
ROIC, with goodwill	46.3%
ROIC, without goodwill	70.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,220
Net Debt	-67,846
Total Debt/EBITDA	0.2
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	4.7
Quick Ratio	4.4

NMF = Not Meaningful

Investment Highlights

• Known for its search dominance that it maintains, Google is 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 we now value shares over $900 each. The company lost ~$3.6 billion in 'Other Bets' in 2015, suggesting core levels of profitability are much higher than reported.

• 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, in our view, and its future remains bright.

• Google continues to grow revenue at a healthy pace. The company 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. YouTube and programmatic advertising offer additional upside potential.

• Google has a strong future in search, and we continue to be in awe of the strength in this division. A number of years ago, the company 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. GOOGL is Class A stock, and GOOG 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™	**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)	**BEARISH**
Near-term Technical Support, 10-week MA	**774.00**

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	34.9	NMF	95.9%
Facebook	28.8	1.9	71.8%
WebMD	26.3	2.8	105.0%
Yahoo	NMF	NMF	100.6%
Peer Median	28.8	2.3	98.2%
Alphabet	**23.1**	**1.5**	**87.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	66,001	74,989	89,237
Revenue, YoY%	10.3%	13.6%	19.0%
Operating Income	16,496	19,360	28,186
Operating Margin %	25.0%	25.8%	31.6%
Net Income	13,620	16,348	23,449
Net Income Margin %	20.6%	21.8%	26.3%
Diluted EPS	20.10	23.79	34.82
Diluted EPS, YoY %	1.5%	18.4%	46.4%
Free Cash Flow (CFO-capex)	11,417	16,109	20,348
Free Cash Flow Margin %	17.3%	21.5%	22.8%

In Millions of USD (except for per share items)

Structure of the Internet Software & Services Industry — NEUTRAL

The Internet software/services industry is composed of a variety of companies with rapidly-changing business models. Most focus on improving the ways people connect with information, either via Internet search or by social media platforms, and generate revenue primarily by delivering cost-effective online advertising. Constituents earn significant returns on invested capital due to their capital-light operations, though competition remains fierce. We expect most companies in this group to look substantially different 10 years from now than they do today. Overall, we're neutral on the structure.

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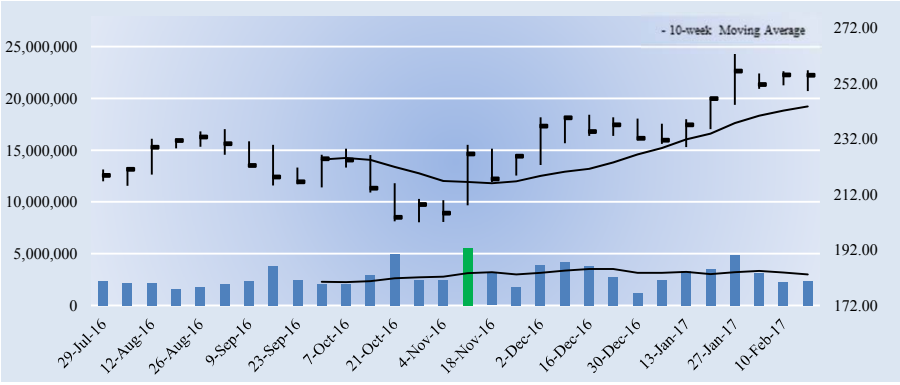
W.W. Grainger GWW FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$210.00	$163.00 - $257.00	LARGE-CAP CORE	Industrials	Distributors

W.W. Grainger controls ~6% share of the North American MRO 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).

Company Vitals

Market Cap (USD)	$15,512
Avg Weekly Vol (30 wks)	2,881
30-week Range (USD)	201.94 - 262.715
Valuentum Sector	Industrials
5-week Return	7.7%
13-week Return	16.1%
30-week Return	17.1%
Dividend Yield %	1.9%
Dividends per Share	4.88
Forward Dividend Payout Ratio	40.7%
Est. Normal Diluted EPS	18.89
P/E on Est. Normal Diluted EPS	13.5
Est. Normal EBITDA	1,856
Forward EV/EBITDA	11.7
EV/Est. Normal EBITDA	9.4
Forward Revenue Growth (5-yr)	4.8%
Forward EPS Growth (5-yr)	23.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	28.1%
Return on Assets	13.5%
ROIC, with goodwill	21.6%
ROIC, without goodwill	25.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,247
Net Debt	1,973
Total Debt/EBITDA	1.6
Net Debt/EBITDA	1.4
EBITDA/Interest	20.6
Current Ratio	1.9
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• W.W. Grainger is a leading broad line distributor of maintenance, repair and operating (MRO) products in North America, with expanding global operations. The worldwide MRO market is estimated to be roughly $560 billion, with North America accounting for ~25% of that figure. Grainger was founded in Chicago in 1927.

• Grainger uses a multichannel business model (catalogs, e-commerce, etc.) to distribute supplies to customers in the US and Canada. The company is not immune to global economic threats and the risks of unexpected product shortages, however.

• The North American MRO market remains highly fragmented, offering acquisition opportunities for participants. Grainger controls ~6% share of the North American market, while the other top 10 distributors account for ~24%. Grainger is expecting a return to growth for the US industrial/export MRO market in 2017 after two consecutive years of declines.

• Grainger has a solid position with larger and more complex customers, boasting increasing market share. The firm's high-service, high-touch model plays right into the hands of these larger businesses, a $37 billion market in the US, but a unique pricing dynamic has entered this niche market, suppressing growth.

• Grainger is adapting its business to better serve the new age customer. The proliferation of online shopping has made customers more aware of pricing competition, and larger customers are increasingly expecting distributors to cater to their needs.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
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)	**BULLISH**
Near-term Technical Support, 10-week MA	**244.00**

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
Anixter	15.9	1.6	108.8%
Fastenal	27.3	2.3	123.7%
MSC Industrial	26.1	2.1	139.4%
WESCO	18.5	1.6	110.8%
Peer Median	22.3	1.9	117.3%
W.W. Grainger	**21.2**	**1.1**	**121.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	9,973	10,137	10,604
Revenue, YoY%	0.1%	1.6%	4.6%
Operating Income	1,300	1,120	1,231
Operating Margin %	13.0%	11.0%	11.6%
Net Income	769	606	675
Net Income Margin %	7.7%	6.0%	6.4%
Diluted EPS	11.69	9.96	12.00
Diluted EPS, YoY %	0.9%	-14.8%	20.5%
Free Cash Flow (CFO-capex)	616	719	659
Free Cash Flow Margin %	6.2%	7.1%	6.2%

In Millions of USD (except for per share items)

Structure of the Industrial Distributors Industry — GOOD

Though consolidating, the industrial distributors industry remains fragmented and highly competitive. Delivering cost savings, convenience, and product availability are the major competitive factors. Some rivals use vans to sell products in markets away from their warehouses, while others rely on mail order, websites or telemarketing sales. Still, others operate stores and use centralized distribution centers to supply their networks. The industry is economically-sensitive and exposed to the threat of aggressive pricing strategies, but we generally like the group's massive distribution platforms that are difficult to replicate.

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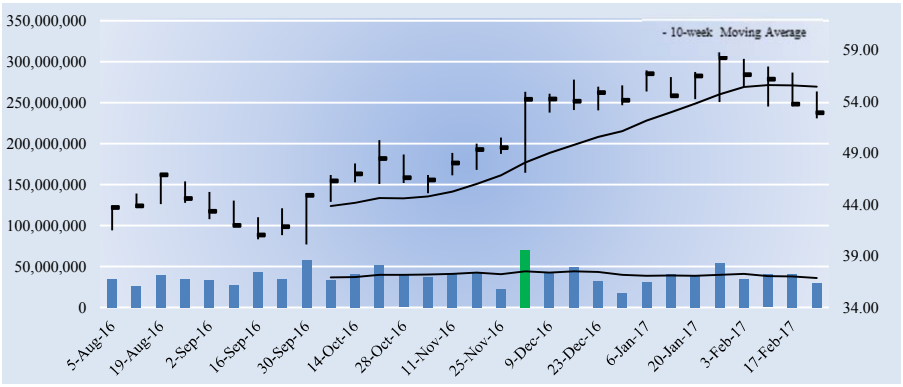
Halliburton HAL FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$46.00	$37.00 - $55.00	LARGE-CAP GROWTH	Energy	Energy Equipment - Large

We've raised our fair value estimate for Halliburton thanks to cost savings coupled with what looks to be a rebounding crude oil 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).

Company Vitals

Market Cap (USD)	$45,521
Avg Weekly Vol (30 wks)	38,918
30-week Range (USD)	40.12 - 58.78
Valuentum Sector	Energy
5-week Return	-3.9%
13-week Return	6.5%
30-week Return	21.8%
Dividend Yield %	1.4%
Dividends per Share	0.72
Forward Dividend Payout Ratio	59.4%
Est. Normal Diluted EPS	2.91
P/E on Est. Normal Diluted EPS	18.2
Est. Normal EBITDA	6,055
Forward EV/EBITDA	14.3
EV/Est. Normal EBITDA	8.9
Forward Revenue Growth (5-yr)	12.3%
Forward EPS Growth (5-yr)	-189.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	-9.2%
Return on Assets	-2.9%
ROIC, with goodwill	11.7%
ROIC, without goodwill	13.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	12,377
Net Debt	8,368
Total Debt/EBITDA	NMF
Net Debt/EBITDA	-4.4
EBITDA/Interest	-2.7
Current Ratio	2.9
Quick Ratio	2.0

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 has scrapped its plans to acquire Baker Hughes as a result of scrutiny from US and European regulators. Halliburton was forced to pay Baker Hughes a $3.5 billion breakup fee, which it paid for with cash on hand.

• Following the breakup of the merger agreement with Baker Hughes, Halliburton plans to invest in areas where it has been weaker and will look at selective acquisitions to augment its offerings. The company was able to cut structural costs by ~25% or $1 billion on an annualized basis in 2016. We've raised our fair value estimate thanks to such cost savings and what looks to be a rebounding crude oil market.

• 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.

• Top-line growth and profits have been under considerable pressure the past few years, which caused the firm to look elsewhere (consolidation) for growth. Though the crude oil market looks to be rebalancing, the hit rate on production cut quotas, and new production capacity, should be watched closely.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**GOOD**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**WEAK**
Financial Leverage	**HIGH**
Growth	**HIGH**
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	**55.00**

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	182.3	NMF	116.8%
National Oilwell Varco	NMF	NMF	99.5%
Weatherford Intl	NMF	NMF	69.6%
Schlumberger	44.3	NMF	105.5%
Peer Median	113.3	NMF	102.5%
Halliburton	**43.6**	**NMF**	**114.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	23,633	15,887	18,874
Revenue, YoY%	-28.1%	-32.8%	18.8%
Operating Income	2,320	-3,421	1,983
Operating Margin %	9.8%	-21.5%	10.5%
Net Income	-666	-5,761	1,023
Net Income Margin %	-2.8%	-36.3%	5.4%
Diluted EPS	-0.78	-6.69	1.21
Diluted EPS, YoY %	-119.4%	757.0%	-118.1%
Free Cash Flow (CFO-capex)	722	-2,499	1,521
Free Cash Flow Margin %	3.1%	-15.7%	8.1%

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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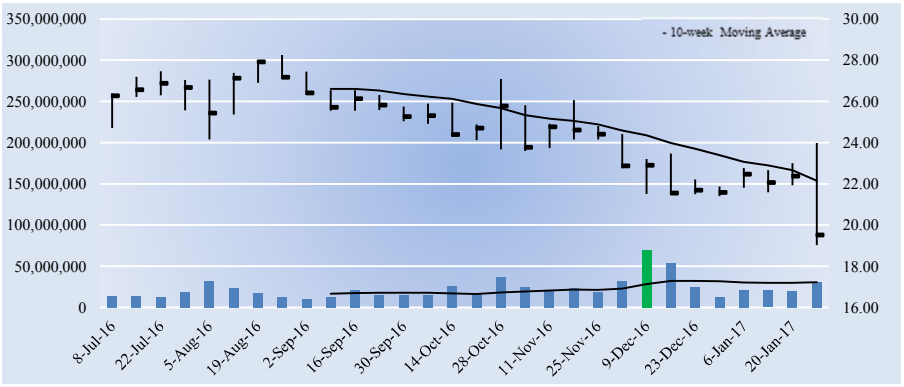
Hanesbrands Inc HBI UNDERVALUED 12.8%

Buying Index™ 6 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$27.00	$22.00 - $32.00	MID-CAP VALUE	Consumer Discretionary	Retail - Men's, Women's, Kids' Apparel

We've adjusted our fair value estimate for Hanesbrands after tweaking our near-term forecasts. The company is not immune to retail traffic pressures.

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)	$7,504
Avg Weekly Vol (30 wks)	23,008
30-week Range (USD)	19.02 - 28.24
Valuentum Sector	Consumer Discretionary
5-week Return	-10.2%
13-week Return	-24.1%
30-week Return	-23.8%
Dividend Yield %	3.1%
Dividends per Share	0.60
Forward Dividend Payout Ratio	42.4%
Est. Normal Diluted EPS	2.14
P/E on Est. Normal Diluted EPS	9.1
Est. Normal EBITDA	1,205
Forward EV/EBITDA	11.2
EV/Est. Normal EBITDA	8.1
Forward Revenue Growth (5-yr)	5.7%
Forward EPS Growth (5-yr)	19.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	46.1%
Return on Assets	9.7%
ROIC, with goodwill	19.8%
ROIC, without goodwill	26.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,625
Net Debt	2,306
Total Debt/EBITDA	3.7
Net Debt/EBITDA	3.3
EBITDA/Interest	6.0
Current Ratio	1.9
Quick Ratio	0.2

NMF = Not Meaningful

Investment Highlights

• Hanesbrands makes every day basic apparel under some of the world's strongest apparel brands, including Hanes, Champion, Playtex, Bali, JMS/Just My Size, barely there, Wonderbra and Gear for Sports. Hanes is the third-largest apparel brand in terms of dollars. It was founded in 1901 and is headquartered in North Carolina.

• Cotton costs can impact performance, but we believe Hanesbrands has better pricing power than most to handle such input cost volatility. For example, the company raised selling prices double-digits, multiple times, in one year because it faced the highest cotton costs since the American Civil War.

• Hanesbrands' operations are broken down into four segments: Innerwear, Activewear, International, and Direct-to-Consumer. Its innerwear segment accounts for more than 45% of total sales and has the highest operating margin of the four segments in the mid-20% range. The firm's mantra of 'Sell More, Spend Less, and Make Acquisitions' is geared towards driving double-digit annual EPS expansion.

• Financial metrics continue to move in the right direction at Hanesbrands. Net sales have jumped from $3.7 billion in 2009 to more than $5.7 billion in 2015. Operating profit exceeded $595 million in 2015, up from $335 million in 2009. The recent acquisition of Pacific Brands will provide a boost to such growth.

• Competition is heating up in the 'underwear' space beyond PVH's Calvin Klein and Berkshire's Fruit of the Loom. Under Armour is hoping to make a splash with new products and increased advertising. An Iso-Chill fabric for UA's boxerjocks may gain some traction.

Investment Considerations

DCF Valuation	**UNDERVALUED**
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)	**IMPROVING**
Near-term Technical Resistance, 10-wk MA	**22.00**

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
Ascena Retail	NMF	NMF	85.7%
Chico's FAS	18.5	7.2	100.1%
Carter's Inc	16.8	1.6	89.0%
Limited Brands	16.9	1.2	81.6%
Peer Median	16.9	1.6	87.4%
Hanesbrands Inc	**13.8**	**0.9**	**72.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	5,325	5,732	6,028
Revenue, YoY%	15.1%	7.6%	5.2%
Operating Income	564	595	758
Operating Margin %	10.6%	10.4%	12.6%
Net Income	405	429	544
Net Income Margin %	7.6%	7.5%	9.0%
Diluted EPS	0.99	1.06	1.41
Diluted EPS, YoY %	22.2%	7.2%	33.1%
Free Cash Flow (CFO-capex)	444	128	528
Free Cash Flow Margin %	8.3%	2.2%	8.8%

In Millions of USD (except for per share items)

Structure of the Specialty Apparel (Men's-Women's-Kid's) Industry — NEUTRAL

The retail clothing space is incredibly competitive, very fragmented, and heavily exposed to cyclical pressures and consumer spending patterns. Distribution and storefronts remain crucial, but online threats are becoming ever more apparent. Predicting the correct fashion styles during various seasons of the year continues to be the primary driver impacting the operating results of constituents, and brands can fall out of favor with consumers relatively quickly. Though some firms have developed a dedicated customer following that has helped mitigate abrupt market share shifts, we're generally neutral on the industry.

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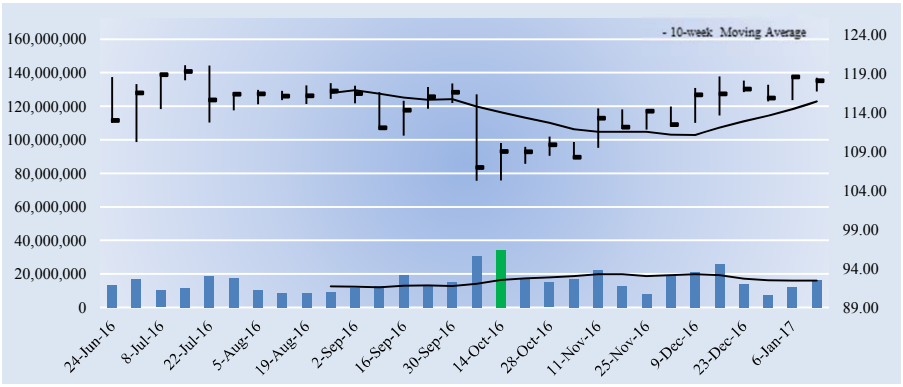
Honeywell HON FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$102.00	$82.00 - $122.00	LARGE-CAP CORE	Industrials	Conglomerates

Honeywell's 2017 outlook may have been tempered by some headwinds at the back end of 2016. Its reported top line results may face some pressure through the course of the year.

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)	$93,193
Avg Weekly Vol (30 wks)	15,779
30-week Range (USD)	105.2475 - 120.02
Valuentum Sector	Industrials
5-week Return	1.4%
13-week Return	8.5%
30-week Return	0.7%
Dividend Yield %	2.3%
Dividends per Share	2.66
Forward Dividend Payout Ratio	39.9%
Est. Normal Diluted EPS	7.52
P/E on Est. Normal Diluted EPS	15.7
Est. Normal EBITDA	9,175
Forward EV/EBITDA	11.8
EV/Est. Normal EBITDA	10.6
Forward Revenue Growth (5-yr)	2.4%
Forward EPS Growth (5-yr)	6.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	25.9%
Return on Assets	9.6%
ROIC, with goodwill	16.6%
ROIC, without goodwill	36.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	12,068
Net Debt	4,510
Total Debt/EBITDA	1.6
Net Debt/EBITDA	0.6
EBITDA/Interest	24.9
Current Ratio	1.1
Quick Ratio	0.9

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. The company was founded in 1920 and is based in New Jersey.

• For an industrial giant, Honeywell generates nice margins. The company 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 liked former CEO Dave Cote a lot. We hope new head honcho Darius Adamczyk will continue the executive team's focus on investing in high return-on-investment capex, which, in our view, is all that stakeholders could ask for. Honeywell's paying of a competitive dividend is icing on the cake, and the company's M&A track record speaks for itself.

• Honeywell's 2017 outlook may have been tempered by some headwinds at the back end of 2016. The company is targeting 2017 earnings per share of $6.85-$7.10, but anticipates a 1%-2% year-over-year revenue decline. Organic growth is expected to be 1%-3%, however, and segment margins are targeted to leap 70-110 basis points during the year.

• There have been some rumors swirling around Honeywell as of late regarding activists on the hunt (namely Nelson Peltz's Trian). Shares of Honeywell aren't necessarily cheap or mispriced, and management has been doing a good job, in our view.

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)	DETERIORATING
Near-term Technical Support, 10-week MA	115.00

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	22.6	1.6	113.0%
General Electric	18.7	3.0	87.1%
3M	21.6	3.2	125.8%
United Technologies	16.7	1.6	105.0%
Peer Median	20.1	2.3	109.0%
Honeywell	**17.7**	**2.8**	**115.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	40,306	38,581	39,854
Revenue, YoY%	3.2%	-4.3%	3.3%
Operating Income	5,831	6,828	7,397
Operating Margin %	14.5%	17.7%	18.6%
Net Income	4,239	4,768	5,235
Net Income Margin %	10.5%	12.4%	13.1%
Diluted EPS	5.33	6.04	6.67
Diluted EPS, YoY %	8.3%	13.3%	10.3%
Free Cash Flow (CFO-capex)	4,020	4,460	5,000
Free Cash Flow Margin %	10.0%	11.6%	12.5%

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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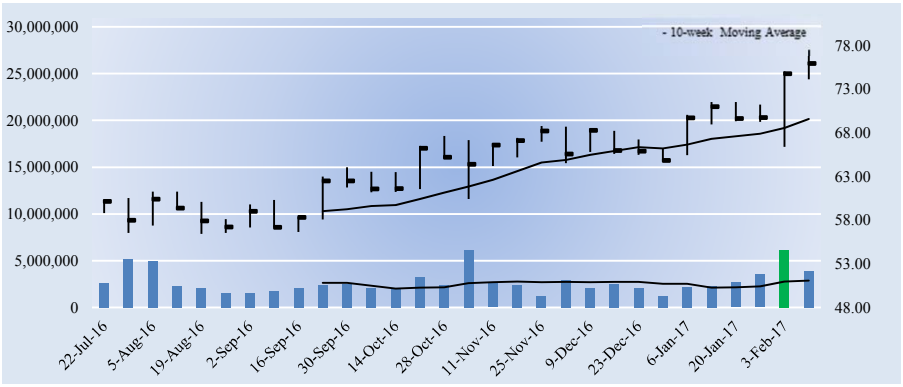
InterActive Corp IAC FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$68.00	$49.00 - $87.00	MID-CAP CORE	Consumer Discretionary	Internet & Catalog Retail

InterActive Corp believes it has two major market opportunities: online migration and millennials buying homes.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$6,024
Avg Weekly Vol (30 wks)	2,746
30-week Range (USD)	56.41 - 77.46
Valuentum Sector	Consumer Discretionary
5-week Return	9.1%
13-week Return	13.8%
30-week Return	28.9%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	3.47
P/E on Est. Normal Diluted EPS	21.9
Est. Normal EBITDA	749
Forward EV/EBITDA	8.5
EV/Est. Normal EBITDA	8.3
Forward Revenue Growth (5-yr)	3.7%
Forward EPS Growth (5-yr)	-235.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	5.5%
Return on Assets	2.0%
ROIC, with goodwill	16.1%
ROIC, without goodwill	73.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,602
Net Debt	184
Total Debt/EBITDA	3.6
Net Debt/EBITDA	0.4
EBITDA/Interest	4.1
Current Ratio	2.6
Quick Ratio	2.3

NMF = Not Meaningful

Investment Highlights

• IAC is an advertising company with more than 50 diversified Internet businesses. IAC's brands reach millions of unique users across more than 30 countries and a wide range of demographics. Its sites include Ask.com, Match.com and HomeAdvisor. The company was founded in 1986 and is headquartered in New York, New York.

• IAC believes it has two major market opportunities: online migration and millennials buying homes. Homeowners ages 18-34 are twice as likely to hire a pro online compared to homeowners aged 50 or higher.

• InterActive Corp doesn't have the best corporate governance practices. Chairman Barry Diller holds 100% of IAC's outstanding Class B shares and approximately 42.5% of the total outstanding voting power of IAC. Minority shareholders don't have much say on the direction of the firm. The company is now trading under the ticker 'IAC'.

• Fundamentals continue to move in the right direction at InterActive nonetheless. Dating revenue is advancing at a modest pace thanks to paid subscriber growth, and growth at HomeAdvisor continues to be impressive. Inorganic growth continues to be a key portion of its strategy.

• IAC continues to monetize its holdings. IAC now holds an 86%+ stake in Match Group (MTCH), which went public in late 2015. IAC suspended its dividend following the IPO. We like IAC's potential to continue to monetize hidden assets.

Investment Considerations

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

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
eBay	16.6	NMF	101.9%
Expedia	22.4	1.6	96.6%
Amazon.com	NMF	NMF	144.2%
Priceline.com	25.2	1.7	96.6%
Peer Median	22.4	1.7	99.2%
InterActive Corp	**22.1**	**NMF**	**111.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	3,231	3,140	3,112
Revenue, YoY%	3.9%	-2.8%	-0.9%
Operating Income	194	243	531
Operating Margin %	6.0%	7.7%	17.1%
Net Income	113	-16	274
Net Income Margin %	3.5%	-0.5%	8.8%
Diluted EPS	1.36	-0.52	3.43
Diluted EPS, YoY %	-48.8%	-138.7%	-754.3%
Free Cash Flow (CFO-capex)	287	214	398
Free Cash Flow Margin %	8.9%	6.8%	12.8%

In Millions of USD (except for per share items)

Structure of the Internet & Catalog Retail Industry — GOOD

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

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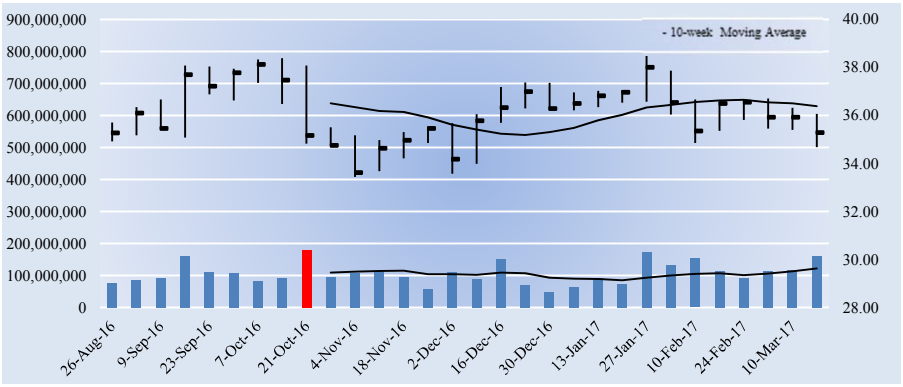
Intel INTC FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$42.00	$34.00 - $50.00	LARGE-CAP VALUE	Information Technology	Broad Line Semiconductors

Intel has agreed to acquire Mobileye for $15.3 billion in cash. We like the move.

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)	$171,941
Avg Weekly Vol (30 wks)	107,052
30-week Range (USD)	33.42 - 38.45
Valuentum Sector	Information Technology
5-week Return	-0.8%
13-week Return	-2.9%
30-week Return	0.2%
Dividend Yield %	3.1%
Dividends per Share	1.09
Forward Dividend Payout Ratio	38.8%
Est. Normal Diluted EPS	3.09
P/E on Est. Normal Diluted EPS	11.4
Est. Normal EBITDA	26,911
Forward EV/EBITDA	7.0
EV/Est. Normal EBITDA	6.5
Forward Revenue Growth (5-yr)	2.3%
Forward EPS Growth (5-yr)	9.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	18.7%
Return on Assets	11.3%
ROIC, with goodwill	26.2%
ROIC, without goodwill	33.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	25,283
Net Debt	3,468
Total Debt/EBITDA	1.1
Net Debt/EBITDA	0.2
EBITDA/Interest	50.8
Current Ratio	1.7
Quick Ratio	1.3

NMF = Not Meaningful

Investment Highlights

• Intel designs and manufactures advanced integrated digital technology platforms, which are used in PCs, servers, tablets, smartphones, automobiles, automated factory systems, and medical devices. The company recently completed the acquisition of Altera in a near-$17 billion deal before agreeing to acquire Mobileye, a global leader in computer vision and machine learning, for $15.3 billion.

• Intel's merger with Altera enables it to compete in new classes of products in its high-growth Data Center and Internet of Things segments, and its purchase of Mobileye is expected to deliver similar growth avenues in the rapidly expanding autonomous driving market.

• Intel believes it has a virtuous cylce of growth as we move into 'the next Industrial Revolution,' or the Internet of Things. Intel's products speed up the connectivity of devices to data centers and the cloud while enabling larger amounts of storage at a lower cost. As more devices are equipped with such technology, demand for the same technology should increase on the data center end, and vice versa.

• Intel's agreement to buy Mobileye will position it as a leader in the provision of end-to-end solutions in the automated driving market, expanding the reach of its virtuous cycle of growth. Management expects to pay for the deal with cash from the balance sheet, and annual cost synergies of $195 million are being targeted by 2019.

• We view the Mobileye deal as largely value-neutral, but we love the potential it brings in terms of broadening Intel's addressable market. Apple is now reportedly using Intel modems in iPhones aimed at emerging markets, helping the company take iPhone share from rivals such as Qualcomm.

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)	BULLISH
Near-term Technical Resistance, 10-wk MA	36.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Advanced Micro Devices	NMF	NMF	152.3%
Broadcom	12.7	NMF	97.5%
STMicroelectronics	42.7	2.5	134.9%
Texas Instruments	22.8	3.2	132.5%
Peer Median	22.8	2.9	133.7%
Intel	**12.6**	**1.7**	**84.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	55,355	59,387	59,921
Revenue, YoY%	-0.9%	7.3%	0.9%
Operating Income	14,356	14,760	17,298
Operating Margin %	25.9%	24.9%	28.9%
Net Income	11,420	10,316	13,551
Net Income Margin %	20.6%	17.4%	22.6%
Diluted EPS	2.33	2.12	2.81
Diluted EPS, YoY %	0.8%	-9.3%	32.7%
Free Cash Flow (CFO-capex)	11,571	12,183	9,877
Free Cash Flow Margin %	20.9%	20.5%	16.5%

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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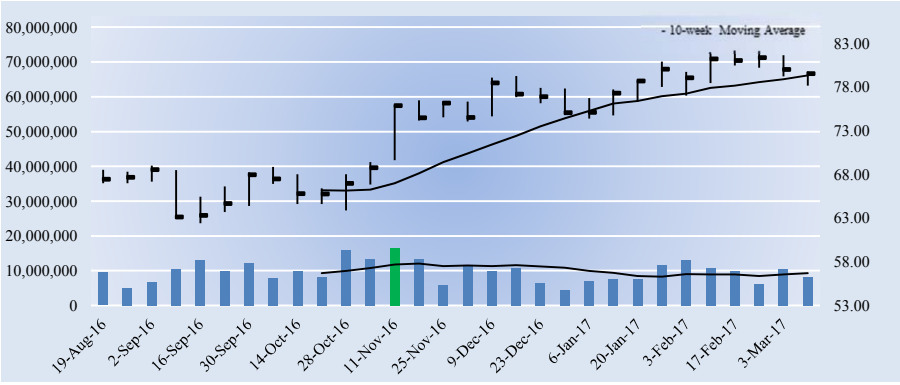
Ingersoll-Rand IR FAIRLY VALUED

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 CORE	Industrials	Machinery & Tools

Ingersoll-Rand estimates that 75% of infrastructure globally that will exist in 2050 has yet to be built, offering it significant sustainable growth opportunity.

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)	$20,803
Avg Weekly Vol (30 wks)	9,812
30-week Range (USD)	62.4 - 82.17
Valuentum Sector	Industrials
5-week Return	1.0%
13-week Return	1.3%
30-week Return	16.2%
Dividend Yield %	2.0%
Dividends per Share	1.60
Forward Dividend Payout Ratio	35.4%
Est. Normal Diluted EPS	5.48
P/E on Est. Normal Diluted EPS	14.5
Est. Normal EBITDA	2,544
Forward EV/EBITDA	10.3
EV/Est. Normal EBITDA	9.1
Forward Revenue Growth (5-yr)	3.0%
Forward EPS Growth (5-yr)	3.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.5%
Return on Assets	6.0%
ROIC, with goodwill	7.5%
ROIC, without goodwill	14.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,070
Net Debt	2,356
Total Debt/EBITDA	2.3
Net Debt/EBITDA	1.3
EBITDA/Interest	8.1
Current Ratio	1.6
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

• Ingersoll-Rand's diverse portfolio of industrial products have well-recognized brand names, including Ingersoll-Rand, American Standard, and Trane. Following the spinoff of Allegion, the company restructured from four reporting business segments to two—Climate and Industrial. The firm was founded in 1872 and is headquartered in Ireland.

• Management continues to invest in innovation and growth, and we think the most attractive part of its operations rests in its aftermarket business, which accounts for ~30% of revenue.

• Ingersoll-Rand is well-positioned to capitalize on the needs driven by the global urban population, which is expected to expand to 6.4 billion by 2050 or a 70%-85% increase from recent levels. The firm has an excellent position to leverage its large installed equipment base to expand higher-margin services revenue.

• Ingersoll-Rand estimates that 75% of infrastructure globally that will exist in 2050 has yet to be built, offering it significant sustainable growth opportunity. India offers above average growth opportunity, where 85% of buildings that will exist in 2050 have yet to be built.

• Strong performance in North America and Asia Pacific are expected to more than offset weakness in Latin America and the Middle East in Ingersoll-Rand's Climate segment, while its Industrial segment continues to expect declines in all of its regions.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**GOOD**
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	**79.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Dover	21.3	1.7	109.7%
Flowserve	41.4	0.7	112.2%
Graco	24.8	2.7	129.5%
Illinois Tool Works	21.5	2.9	142.6%
Peer Median	23.1	2.2	120.9%
Ingersoll-Rand	**17.6**	**1.6**	**118.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	13,301	13,509	13,793
Revenue, YoY%	3.2%	1.6%	2.1%
Operating Income	1,458	1,573	2,020
Operating Margin %	11.0%	11.6%	14.6%
Net Income	689	1,443	1,158
Net Income Margin %	5.2%	10.7%	8.4%
Diluted EPS	2.57	5.52	4.51
Diluted EPS, YoY %	-21.3%	114.4%	-18.1%
Free Cash Flow (CFO-capex)	446	1,182	1,172
Free Cash Flow Margin %	3.4%	8.7%	8.5%

In Millions of USD (except for per share items)

Structure of the Machinery & Tools Industry — GOOD

The machinery and tools industry is fragmented and highly competitive. Most constituents offer a wide range of products in a myriad of markets. Firms are heavily exposed to fluctuating raw material prices (steel, resins, chemicals) and the vicissitudes of the global economic cycle, including customer capital/maintenance budgets. Several companies are recognized worldwide for their strong brand names and reputation for quality, innovation and value, and we view such attributes as material competitive advantages. Though pricing competition is not absent, we like the structural characteristics of the group.

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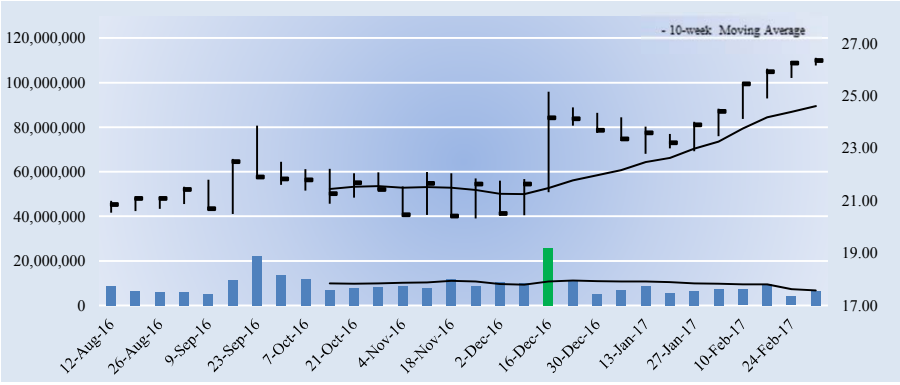
Jabil Circuit JBL FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$34.00	$26.00 - $43.00	MID-CAP VALUE	Information Technology	Electronic Suppliers

Jabil Circuit is focused on expanding its position as a global provider of electronic manufacturing services 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)	$5,075
Avg Weekly Vol (30 wks)	9,260
30-week Range (USD)	20.32 - 26.44
Valuentum Sector	Information Technology
5-week Return	11.1%
13-week Return	27.3%
30-week Return	27.3%
Dividend Yield %	1.2%
Dividends per Share	0.32
Forward Dividend Payout Ratio	15.4%
Est. Normal Diluted EPS	2.50
P/E on Est. Normal Diluted EPS	10.5
Est. Normal EBITDA	1,599
Forward EV/EBITDA	4.4
EV/Est. Normal EBITDA	3.9
Forward Revenue Growth (5-yr)	2.9%
Forward EPS Growth (5-yr)	15.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	7.9%
Return on Assets	1.9%
ROIC, with goodwill	12.1%
ROIC, without goodwill	14.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,120
Net Debt	1,208
Total Debt/EBITDA	1.7
Net Debt/EBITDA	1.0
EBITDA/Interest	9.0
Current Ratio	1.1
Quick Ratio	0.4

NMF = Not Meaningful

Investment Highlights

• Jabil is focused on expanding its position as a global provider of electronic manufacturing services and solutions. The company operates in two segments, Electronics Manufacturing Services (EMS) and Diversified Manufacturing Services (DMS). The industry is highly competitive, and consistent innovation is necessary to survival. Jabil was founded in Michigan in 1966.

• Jabil's revenue is split roughly 60/40 between EMS and DMS. Management continues to invest for the future, in areas such as automation, 3D printing, acoustics, optics, and active alignment, with the last two being targeted at augmented reality.

• Jabil presents investors with a rather interesting situation. After reporting slightly better than expected results in the fourth quarter of its fiscal 2016, the firm announced a restructuring plan in global capacity and administrative support, which it expects to result in charges of $195 million over two years. The goal of the plan is the optimization of organizational effectiveness in a more moderate growth environment.

• Jabil Circuit's fiscal 2019 financial targets suggest there may be upside to our fair value estimate for shares due to our forecasts being slightly more conservative. Revenue is being targeted at $20.5 billion, while non-GAAP core operating income is projected to be ~$815 million. Core non-GAAP EPS guidance has been issued at $3 for the year.

• Jabil Circuit's yield isn't as high as some of our other dividend growth ideas, but the firm's Dividend Cushion ratio is rather solid. Management may be taking a cautious stance in light of the uncertain industry backdrop, but we think the payout is poised for growth.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**WEAK**
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	**25.00**

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
Amphenol Corp	24.0	2.4	143.8%
Corning	16.4	NMF	111.5%
LG Display	17.0	0.7	87.1%
TE Connectivity	16.9	2.2	116.2%
Peer Median	16.9	2.2	113.9%
Jabil Circuit	**12.7**	**1.3**	**77.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-15	Aug-16	Aug-17
Revenue	17,899	18,353	18,702
Revenue, YoY%	13.6%	2.5%	1.9%
Operating Income	588	534	731
Operating Margin %	3.3%	2.9%	3.9%
Net Income	293	254	397
Net Income Margin %	1.6%	1.4%	2.1%
Diluted EPS	1.49	1.32	2.08
Diluted EPS, YoY %	NMF	NMF	NMF
Free Cash Flow (CFO-capex)	278	-8	298
Free Cash Flow Margin %	1.6%	0.0%	1.6%

In Millions of USD (except for per share items)

Structure of the Electronic Suppliers Industry — POOR

The electronic suppliers industry is composed of firms that provide services to companies that use electronic components. The industry is very cyclical, subject to rapid changes in technology, and highly competitive (from both rivals and customers). Participants generally do not have proprietary manufacturing processes, and performance is tied to the success of their customers' products in the market. Significant pricing pressure and shifts in market share are common, and component supply shortages and rising commodity costs can pressure margins. We don't like the structure of the group.

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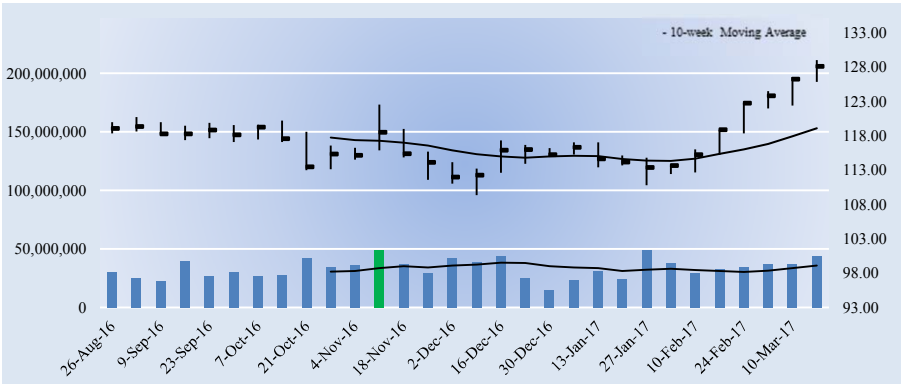
Johnson & Johnson JNJ FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$121.00	$97.00 - $145.00	MEGA-CAP CORE	Consumer Staples	Household Products

Johnson & Johnson's oncology division is a force to be reckoned with, and its broader pharma pipeline will be a primary driver of growth.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$357,147
Avg Weekly Vol (30 wks)	33,528
30-week Range (USD)	109.32 - 129
Valuentum Sector	Consumer Staples
5-week Return	11.1%
13-week Return	10.3%
30-week Return	6.8%
Dividend Yield %	2.5%
Dividends per Share	3.20
Forward Dividend Payout Ratio	45.0%
Est. Normal Diluted EPS	8.01
P/E on Est. Normal Diluted EPS	16.0
Est. Normal EBITDA	30,625
Forward EV/EBITDA	12.3
EV/Est. Normal EBITDA	11.2
Forward Revenue Growth (5-yr)	4.0%
Forward EPS Growth (5-yr)	8.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.6%
Return on Assets	12.0%
ROIC, with goodwill	22.7%
ROIC, without goodwill	32.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	27,126
Net Debt	-14,781
Total Debt/EBITDA	1.1
Net Debt/EBITDA	NMF
EBITDA/Interest	34.3
Current Ratio	2.5
Quick Ratio	2.0

NMF = Not Meaningful

Investment Highlights

• 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. The company was founded in 1885 and is headquartered in New Brunswick, New Jersey.

• We're fans of J&J's capital allocation strategy. It uses ~30% of free cash flow in value creating acquisitions, and the other ~70% is returned to shareholders through dividends and share repurchases. 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, and it has shifted its focus to fewer and bigger ideas.

• Top-line growth at Johnson & Johnson will be driven by its impressive pharma portfolio pipeline, which will be supported by its steady consumer product business. The firm has 10 new molecular entities it believes have $1+ billion in individual sales potential that it expects to file for approval by 2019 as of the fall of 2016.

• 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 both newsletter portfolios, and we expect future dividend expansion.

Investment Considerations

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Colgate-Palmolive	25.0	2.7	123.3%
Procter & Gamble	23.5	2.5	123.0%
Clorox	25.5	2.7	140.3%
Kimberly-Clark	20.9	2.8	119.0%
Peer Median	24.2	2.7	123.1%
Johnson & Johnson	**18.0**	**2.5**	**105.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	70,074	71,890	75,341
Revenue, YoY%	-5.7%	2.6%	4.8%
Operating Income	18,289	21,165	23,898
Operating Margin %	26.1%	29.4%	31.7%
Net Income	15,409	16,540	19,661
Net Income Margin %	22.0%	23.0%	26.1%
Diluted EPS	5.48	5.93	7.11
Diluted EPS, YoY %	-3.9%	8.3%	19.9%
Free Cash Flow (CFO-capex)	16,106	15,541	20,059
Free Cash Flow Margin %	23.0%	21.6%	26.6%

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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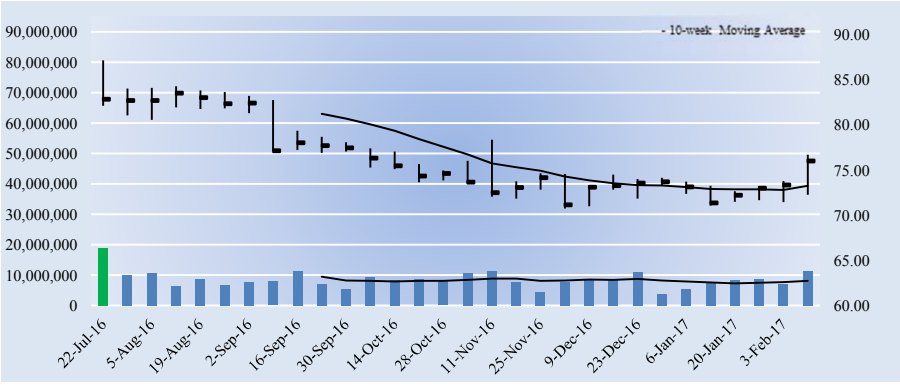
Kellogg K FAIRLY VALUED

Buying Index™ 6 | Value Rating

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

Kellogg's strategy is relatively simple: to win in breakfast and 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).

Company Vitals

Market Cap (USD)	$27,056
Avg Weekly Vol (30 wks)	8,599
30-week Range (USD)	70.735 - 87.16
Valuentum Sector	Consumer Staples
5-week Return	3.7%
13-week Return	4.9%
30-week Return	-11.6%
Dividend Yield %	2.7%
Dividends per Share	2.08
Forward Dividend Payout Ratio	106.2%
Est. Normal Diluted EPS	3.97
P/E on Est. Normal Diluted EPS	19.1
Est. Normal EBITDA	2,456
Forward EV/EBITDA	21.5
EV/Est. Normal EBITDA	14.1
Forward Revenue Growth (5-yr)	-0.4%
Forward EPS Growth (5-yr)	24.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	35.2%
Return on Assets	6.7%
ROIC, with goodwill	11.8%
ROIC, without goodwill	21.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	7,759
Net Debt	7,508
Total Debt/EBITDA	4.8
Net Debt/EBITDA	4.6
EBITDA/Interest	7.2
Current Ratio	0.6
Quick Ratio	0.3

NMF = Not Meaningful

Investment Highlights

• 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. Other brands include Kelloggs, Keebler, Cheez-It, Murray, Austin, and Famous Amos. More than 100 years ago, W.K. Kellogg founded the company, and it is based in Michigan.

• 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.

• Kellogg's long-term growth targets include low-single-digit revenue growth, mid-single-digit operating profit growth, and earnings per share growth of 6%-8%, all of which are on a constant currency basis. The firm is also expecting approximately $400-$450 million in base productivity and structural cost savings in 2017.

• Kellogg is expecting strong currency-neutral operating profit growth of 7%-9% in 2017. Full-year earnings per share guidance on a comparable, constant-currency basis has been set at $3.91-$3.97, while free cash flow is expected to be in a range of $1.1-$1.2 billion, compared to $1.1 billion in 2016.

• Kellogg recently announced it will exit the direct store delivery network model of its US snacks business and transition to a warehouse model, with completion expected by the end of 2017. The move is expected to bring the US snacks business' operating margin in line with Kellogg North America's.

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	BULLISH
Relative Strength	NEUTRAL
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	73.00

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

Business Quality

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
ConAgra Brands	23.2	2.7	102.2%
Campbell Soup	20.3	2.2	121.7%
General Mills	20.2	3.6	125.5%
Mondelez Intl	21.1	1.8	118.4%
Peer Median	20.7	2.4	120.0%
Kellogg	**38.8**	**1.8**	**118.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	14,580	13,525	13,014
Revenue, YoY%	-1.4%	-7.2%	-3.8%
Operating Income	1,024	1,091	1,096
Operating Margin %	7.0%	8.1%	8.4%
Net Income	632	614	691
Net Income Margin %	4.3%	4.5%	5.3%
Diluted EPS	1.76	1.72	1.96
Diluted EPS, YoY %	-64.5%	-1.8%	13.6%
Free Cash Flow (CFO-capex)	1,211	1,138	1,121
Free Cash Flow Margin %	8.3%	8.4%	8.6%

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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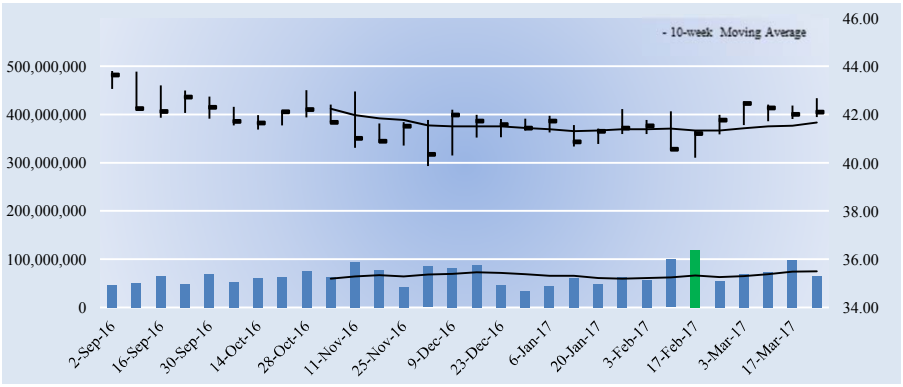
Coca-Cola KO FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$39.00	$31.00 - $47.00	LARGE-CAP CORE	Consumer Staples	Beverages - nonalcoholic

Coca-Cola expects to complete the refranchising of its bottling operations by the end of 2017.

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)	$183,938
Avg Weekly Vol (30 wks)	66,658
30-week Range (USD)	39.88 - 43.83
Valuentum Sector	Consumer Staples
5-week Return	2.2%
13-week Return	1.3%
30-week Return	-2.8%
Dividend Yield %	3.5%
Dividends per Share	1.48
Forward Dividend Payout Ratio	78.4%
Est. Normal Diluted EPS	2.21
P/E on Est. Normal Diluted EPS	19.1
Est. Normal EBITDA	12,826
Forward EV/EBITDA	18.3
EV/Est. Normal EBITDA	16.2
Forward Revenue Growth (5-yr)	-3.1%
Forward EPS Growth (5-yr)	12.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	25.1%
Return on Assets	7.8%
ROIC, with goodwill	21.8%
ROIC, without goodwill	30.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	45,709
Net Debt	23,508
Total Debt/EBITDA	4.4
Net Debt/EBITDA	2.3
EBITDA/Interest	14.2
Current Ratio	1.3
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• 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. Do not count out the giant's ability to innovate. The company was founded in 1886 and is based in Atlanta, Georgia.

• The company boasts a number of competitive advantages: its brands, financial strength, distribution system, global reach, and a deep executive bench. Nevertheless, we don't expect the 'cola wars' with Pepsi to subside anytime soon, nor will social pressures against sugary drinks will wane.

• We live in a thirsty world. From 2014-2016, the non-alcoholic ready-to-drink (NARTD) beverage category retail value has advanced by over $100 billion and is expected to grow more than $110 billion from 2017-2019. Coca-Cola is very well-positioned to capture incremental growth driven by growing middle-classes across the world.

• Coca-Cola is in the midst of refranchising its bottling operations, which is expected to be completed by the end of 2017. Such a move is projected to expand margins and result in higher returns in the long run, though top- and bottom-line results will be negatively impacted by the sale of profitable businesses in the near term.

• 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 and margin enhancement.

Investment Considerations

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

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
National Beverage	37.1	2.7	191.6%
Monster Beverage	39.4	2.8	123.5%
Dr Pepper Snapple	21.0	2.4	125.9%
PepsiCo	21.6	2.4	119.3%
Peer Median	29.4	2.6	124.7%
Coca-Cola	**22.3**	**2.3**	**108.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	44,294	41,863	34,997
Revenue, YoY%	-3.7%	-5.5%	-16.4%
Operating Income	8,728	8,626	9,822
Operating Margin %	19.7%	20.6%	28.1%
Net Income	7,351	6,527	8,165
Net Income Margin %	16.6%	15.6%	23.3%
Diluted EPS	1.67	1.49	1.89
Diluted EPS, YoY %	4.6%	-10.4%	26.4%
Free Cash Flow (CFO-capex)	7,968	6,345	8,968
Free Cash Flow Margin %	18.0%	15.2%	25.6%

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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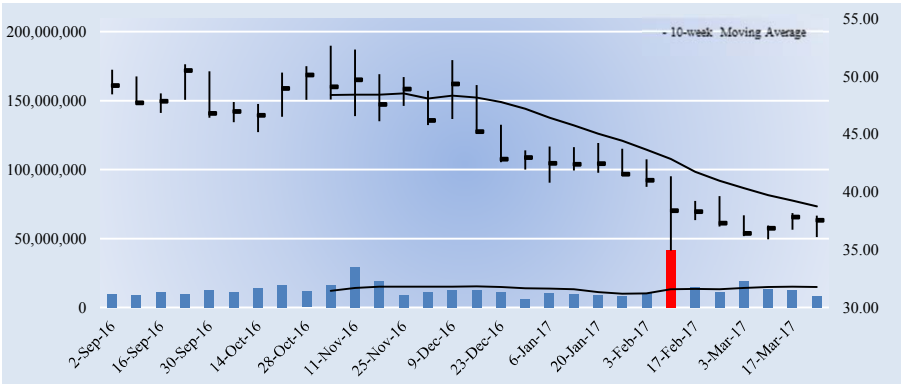
Michael Kors Hldg KORS UNDERVALUED 27.8%

Buying Index™ 6 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$60.00	$48.00 - $72.00	MID-CAP VALUE	Consumer Discretionary	Luxury - Ultra & Aspirational

Michael Kors is cutting back on discounting in hopes of restoring the allure of its brand.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$7,101
Avg Weekly Vol (30 wks)	13,412
30-week Range (USD)	34.92 - 52.67
Valuentum Sector	Consumer Discretionary
5-week Return	-1.9%
13-week Return	-11.6%
30-week Return	-24.3%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	4.45
P/E on Est. Normal Diluted EPS	8.4
Est. Normal EBITDA	1,356
Forward EV/EBITDA	5.0
EV/Est. Normal EBITDA	4.7
Forward Revenue Growth (5-yr)	0.2%
Forward EPS Growth (5-yr)	2.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	36.3%
Return on Assets	30.1%
ROIC, with goodwill	64.1%
ROIC, without goodwill	64.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2
Net Debt	-700
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	807.5
Current Ratio	3.8
Quick Ratio	2.3

NMF = Not Meaningful

Investment Highlights

• Michael Kors is a global luxury lifestyle brand led by a renowned, award-winning designer. The company operates its business in three segments—retail, wholesale and licensing. The Michael Kors name has become synonymous with timeless, luxurious fashion. The company is poised to take share in the growing accessories product category.

• Growth rates at Michael Kors have been incredible in previous years, but poor performance in a difficult retail environment in the United States has effectively put an end to such trends. Increased pressure from Amazon in the apparel space is not helping.

• As Michael Kors continues to battle a difficult operating enviroment in the US, initiatives to restore growth include the launch of wearable technology, the development of a mens' sportswear and leather goods business, and growing its digital flagship business. The firm is also cutting back on discounting to restore the allure of its brand.

• The firm operates in the global luxury goods industry, which is estimated to be north of $275 billion. Industry tends to be resilient during economic downturns. Michael Kors is targeting $4.5 billion in long-term sales in North America and $1.5 billion in Europe, but growth has ground to a halt in recent quarters.

• The Michael Kors collection establishes the aesthetic authority of its entire brand and is carried in many of the finest luxury department stores in the world, including Bergdorf Goodman, Saks, and Neiman Marcus.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**39.00**

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
Coach	18.0	1.8	95.3%
Luxottica	27.3	3.8	99.1%
Ralph Lauren	14.5	1.6	81.9%
Tiffany	23.9	2.8	127.2%
Peer Median	21.0	2.3	97.2%
Michael Kors Hldg	**8.9**	**1.7**	**62.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Mar-15	Mar-16	Mar-17
Revenue	4,371	4,712	4,476
Revenue, YoY%	32.0%	7.8%	-5.0%
Operating Income	1,258	1,186	1,111
Operating Margin %	28.8%	25.2%	24.8%
Net Income	881	839	794
Net Income Margin %	20.2%	17.8%	17.7%
Diluted EPS	4.28	4.44	4.20
Diluted EPS, YoY %	33.2%	3.7%	-5.3%
Free Cash Flow (CFO-capex)	472	848	793
Free Cash Flow Margin %	10.8%	18.0%	17.7%

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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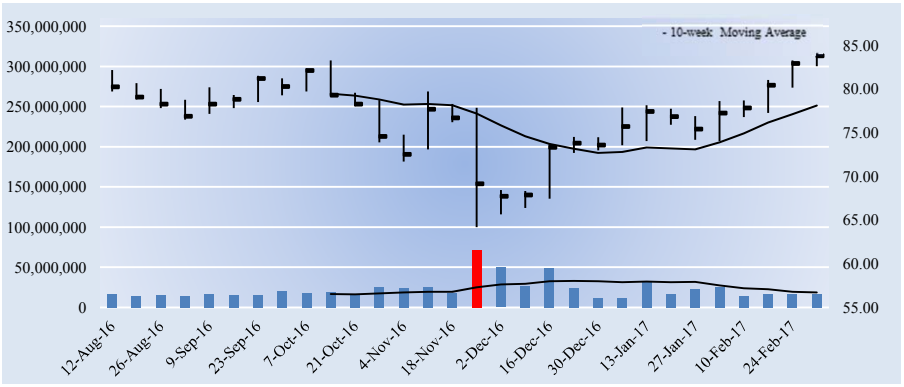
Eli Lilly LLY OVERVALUED 6.9%

Buying Index™ 4 | Value Rating ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$65.00	$52.00 - $78.00	LARGE-CAP CORE	Health Care	Pharmaceuticals - Big

Investors should keep an eye on Eli Lilly's pipeline, as product approval risk is accentuated by near-term patent challenges.

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)	$88,960
Avg Weekly Vol (30 wks)	22,756
30-week Range (USD)	64.18 - 84.135
Valuentum Sector	Health Care
5-week Return	11.6%
13-week Return	22.9%
30-week Return	2.9%
Dividend Yield %	2.5%
Dividends per Share	2.08
Forward Dividend Payout Ratio	50.2%
Est. Normal Diluted EPS	4.78
P/E on Est. Normal Diluted EPS	17.5
Est. Normal EBITDA	7,669
Forward EV/EBITDA	13.5
EV/Est. Normal EBITDA	12.2
Forward Revenue Growth (5-yr)	3.0%
Forward EPS Growth (5-yr)	16.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.6%
Return on Assets	6.9%
ROIC, with goodwill	24.0%
ROIC, without goodwill	29.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	10,305
Net Debt	4,267
Total Debt/EBITDA	1.9
Net Debt/EBITDA	0.8
EBITDA/Interest	28.8
Current Ratio	1.4
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• 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 2016 and beyond while building a sustainable R&D engine. It was founded in 1876 and is headquartered in Indianapolis, Indiana.

• Investors should keep an eye on Eli Lilly's pipeline, as product approval risk is accentuated by near-term patent challenges for Cialis, which brought in ~$2.5 billion in sales in 2016. Generic competitors for Cialis are expected by 2018. Its strength in diabetes is being mitigated to a degree by poor reimbursement

• Eli Lilly is fighting 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 and total sales fell more than 15%. Cost control and the advancement of its Phase III pipeline will be critical to long-term success. New products have been driving the bulk of revenue growth in recent quarters.

• Pipeline headliner Solanezumab (Alzheimer's) failed to meet its clinical endpoint, with Lilly deciding to bypass submitting the product to the FDA for approval. The loss of this product is quite the blow to Lilly as the pharma giant continues to grapple to produce a viable treatment for Alzheimer's disease.

• Cyramza and Trulicity have helped to make up for the loss of Zeprexa and Cymbalta, as has the inclusion of recently acquired Novartis Animal Health. Cyramza and Trulicity may become even more important after recent late-stage pipeline developments.

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)	BULLISH
Near-term Technical Support, 10-week MA	78.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
AbbVie	17.5	1.4	89.2%
Abbott	64.0	0.6	102.8%
Merck	17.3	1.6	111.0%
Pfizer	13.4	1.2	90.8%
Peer Median	17.4	1.3	96.8%
Eli Lilly	**20.2**	**2.0**	**128.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	19,959	21,222	22,135
Revenue, YoY%	1.7%	6.3%	4.3%
Operating Income	3,057	3,841	5,361
Operating Margin %	15.3%	18.1%	24.2%
Net Income	2,408	2,738	4,353
Net Income Margin %	12.1%	12.9%	19.7%
Diluted EPS	2.26	2.58	4.14
Diluted EPS, YoY %	1.6%	14.1%	60.6%
Free Cash Flow (CFO-capex)	1,898	3,814	4,795
Free Cash Flow Margin %	9.5%	18.0%	21.7%

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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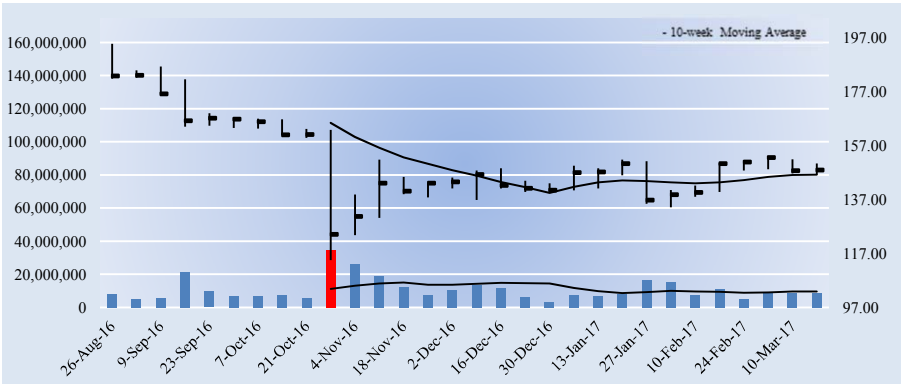
McKesson MCK UNDERVALUED 1.4%

Buying Index™ 7 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$188.00	$150.00 - $226.00	LARGE-CAP VALUE	Health Care	Healthcare Products

As with its industry peers, McKesson will benefit from a number of long-term tailwinds, but it is not without its share of near-term challenges.

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)	$34,468
Avg Weekly Vol (30 wks)	10,906
30-week Range (USD)	114.53 - 194.66
Valuentum Sector	Health Care
5-week Return	5.3%
13-week Return	3.5%
30-week Return	-23.6%
Dividend Yield %	0.8%
Dividends per Share	1.12
Forward Dividend Payout Ratio	8.8%
Est. Normal Diluted EPS	12.54
P/E on Est. Normal Diluted EPS	11.8
Est. Normal EBITDA	5,604
Forward EV/EBITDA	6.8
EV/Est. Normal EBITDA	6.9
Forward Revenue Growth (5-yr)	2.6%
Forward EPS Growth (5-yr)	5.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	20.8%
Return on Assets	3.6%
ROIC, with goodwill	16.1%
ROIC, without goodwill	37.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	8,154
Net Debt	4,106
Total Debt/EBITDA	1.8
Net Debt/EBITDA	0.9
EBITDA/Interest	13.1
Current Ratio	1.1
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• As a pharmaceutical distributor and healthcare technology firm, McKesson provides systems for medical supply management, pharmacy automation, and care management. McKesson is #1 in pharma distribution in the US and Canada, generics distribution and medical-surgical distribution. The company was founded in 1833 and is headquartered in San Francisco, California.

• The company has grown revenue at a 5% CAGR and adjusted EPS at a 17% CAGR since 2007. Management is optimistic that its focus on higher-margin products and services will drive long-term margin expansion in its distribution segment.

• As with its industry peers, McKesson will benefit from a number of long-term tailwinds: aging population (prescription demand), specialty growth, manufacturer support, and drug pipeline improvement. We would expect the pharmaceuticals industry to grow at a low-single-digit pace in the near future.

• However, McKesson is not without its share of near-term challenges, including fewer expected generic launches than prior years, the moderation of pharmaceutical pricing trends, and customer consolidation leading to higher negotiating leverage for customers in areas such as customer pricing competitiveness.

• The firm generates razor-thin margins, and its business model has substantial earnings leverage. However, investors should be aware of the potential for such earnings leverage to cut both ways in times of economic strength and weaknesses.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**146.00**

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
AmerisourceBergen	14.8	1.9	82.6%
Express Scripts	9.3	1.7	70.0%
Henry Schein	23.4	1.9	118.1%
STAAR Surgical	NMF	NMF	123.8%
Peer Median	14.8	1.9	100.3%
McKesson	**11.6**	**2.6**	**78.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Mar-15	Mar-16	Mar-17
Revenue	179,045	190,884	199,474
Revenue, YoY%	30.1%	6.6%	4.5%
Operating Income	3,118	3,748	4,721
Operating Margin %	1.7%	2.0%	2.4%
Net Income	1,775	2,290	2,970
Net Income Margin %	1.0%	1.2%	1.5%
Diluted EPS	7.55	9.83	12.75
Diluted EPS, YoY %	29.5%	30.1%	29.7%
Free Cash Flow (CFO-capex)	2,736	3,184	3,452
Free Cash Flow Margin %	1.5%	1.7%	1.7%

In Millions of USD (except for per share items)

Structure of the Healthcare Products Distributors Industry — NEUTRAL

The healthcare distributors industry is made up of wholesale medical equipment products distributors, serving the dental, medical and animal health markets, and wholesale drug providers, which distribute pharmaceuticals, medical products/services, and other healthcare technologies. Both sub-spaces are highly competitive and continue to experience growth as a result of the aging population, increased healthcare awareness, and the proliferation of medical technology and testing. Participants face pricing pressure from both customers and suppliers as a result of competition. We're neutral on the group.

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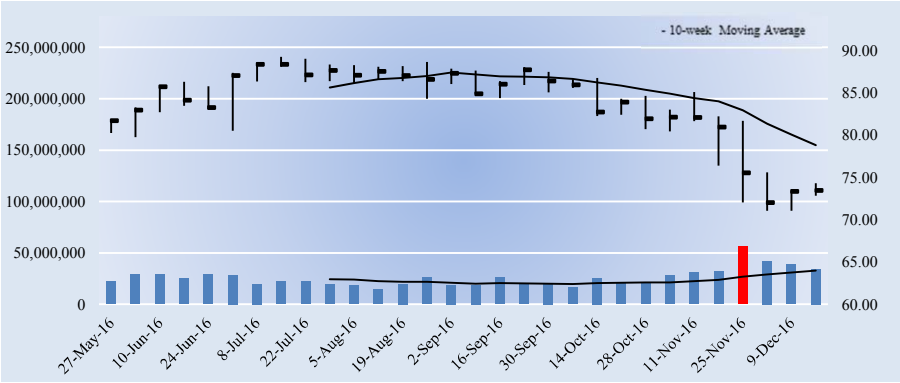
Medtronic MDT FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$76.00	$61.00 - $91.00	LARGE-CAP VALUE	Health Care	Medical Devices

Medtronic's emerging market business should be a strong source of growth.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$104,747
Avg Weekly Vol (30 wks)	25,646
30-week Range (USD)	71.035 - 89.27
Valuentum Sector	Health Care
5-week Return	-10.7%
13-week Return	-14.6%
30-week Return	-8.8%
Dividend Yield %	2.3%
Dividends per Share	1.72
Forward Dividend Payout Ratio	37.6%
Est. Normal Diluted EPS	4.95
P/E on Est. Normal Diluted EPS	14.9
Est. Normal EBITDA	12,450
Forward EV/EBITDA	10.7
EV/Est. Normal EBITDA	9.9
Forward Revenue Growth (5-yr)	3.3%
Forward EPS Growth (5-yr)	15.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	10.0%
Return on Assets	5.2%
ROIC, with goodwill	16.6%
ROIC, without goodwill	36.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	31,240
Net Debt	18,606
Total Debt/EBITDA	3.5
Net Debt/EBITDA	2.1
EBITDA/Interest	6.4
Current Ratio	3.3
Quick Ratio	2.6

NMF = Not Meaningful

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 and traces its roots back to the late 1940s.

• The integration of Covidien may steal the headlines in coming quarters, but all three of Medtronic's legacy businesses are performing well on a constant currency basis. 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 mid-single-digit constant currency revenue growth for fiscal 2017 and diluted non-GAAP earnings per share in the range of $4.55-$4.65, which includes a hefty currency headwind.

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)	BEARISH
Near-term Technical Resistance, 10-wk MA	79.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Intuitive Surgical	28.6	2.1	118.1%
Varian Medical Systems	18.3	1.9	118.3%
Waters	20.7	2.4	112.4%
Zimmer Biomet	12.9	1.9	84.1%
Peer Median	19.5	2.0	115.2%
Medtronic	**16.1**	**2.0**	**96.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Apr-15	Apr-16	Apr-17
Revenue	20,261	28,833	29,640
Revenue, YoY%	19.1%	42.3%	2.8%
Operating Income	4,675	6,067	8,707
Operating Margin %	23.1%	21.0%	29.4%
Net Income	2,675	3,538	6,589
Net Income Margin %	13.2%	12.3%	22.2%
Diluted EPS	2.41	2.48	4.58
Diluted EPS, YoY %	-20.2%	2.9%	84.4%
Free Cash Flow (CFO-capex)	4,331	4,172	6,024
Free Cash Flow Margin %	21.4%	14.5%	20.3%

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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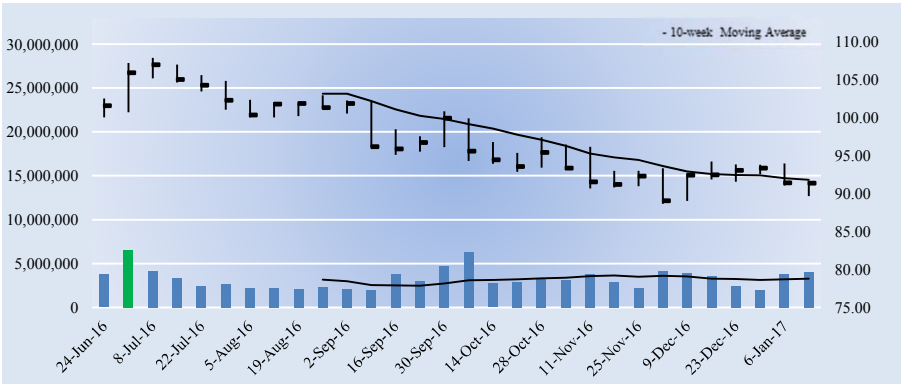
McCormick MKC FAIRLY VALUED

Buying Index™ 3 **Value Rating**

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

With 22% market share, which is ~4x the size of the next largest global competitor, McCormick is the global leader in spices and seasonings.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$11,805
Avg Weekly Vol (30 wks)	3,289
30-week Range (USD)	88.64 - 107.84
Valuentum Sector	Consumer Staples
5-week Return	-1.0%
13-week Return	-3.2%
30-week Return	-9.1%
Dividend Yield %	2.1%
Dividends per Share	1.88
Forward Dividend Payout Ratio	49.1%
Est. Normal Diluted EPS	4.91
P/E on Est. Normal Diluted EPS	18.6
Est. Normal EBITDA	980
Forward EV/EBITDA	16.1
EV/Est. Normal EBITDA	13.4
Forward Revenue Growth (5-yr)	4.5%
Forward EPS Growth (5-yr)	15.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.7%
Return on Assets	9.3%
ROIC, with goodwill	15.5%
ROIC, without goodwill	35.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,396
Net Debt	1,283
Total Debt/EBITDA	1.9
Net Debt/EBITDA	1.8
EBITDA/Interest	13.4
Current Ratio	1.1
Quick Ratio	0.5

NMF = Not Meaningful

Investment Highlights

• McCormick 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, McCormick has a solid near-term outlook. The closing of recent acquisitions, new products and a re-launch 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.

• With 22% market share, which is ~4x the size of the next largest global competitor, McCormick is the global leader in spices and seasonings. The firm continues to grow its presence in emerging markets. As of January 31, 2016, 17% of McCormick sales were generated from emerging markets, excluding JV's, compared to 7% in 2008.

• Over 60% 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.

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	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Resistance, 10-wk MA	92.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Dean Foods	12.9	NMF	104.6%
Hormel Foods	20.7	1.6	98.7%
Smucker	16.8	1.6	105.6%
Tyson Foods	12.7	2.3	101.6%
Peer Median	14.9	1.6	103.1%
McCormick	**23.9**	**1.9**	**114.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Nov-14	Nov-15	Nov-16
Revenue	4,243	4,296	4,421
Revenue, YoY%	2.9%	1.3%	2.9%
Operating Income	608	610	703
Operating Margin %	14.3%	14.2%	15.9%
Net Income	438	402	488
Net Income Margin %	10.3%	9.4%	11.0%
Diluted EPS	3.34	3.11	3.83
Diluted EPS, YoY %	15.2%	-6.9%	23.0%
Free Cash Flow (CFO-capex)	371	462	477
Free Cash Flow Margin %	8.7%	10.7%	10.8%

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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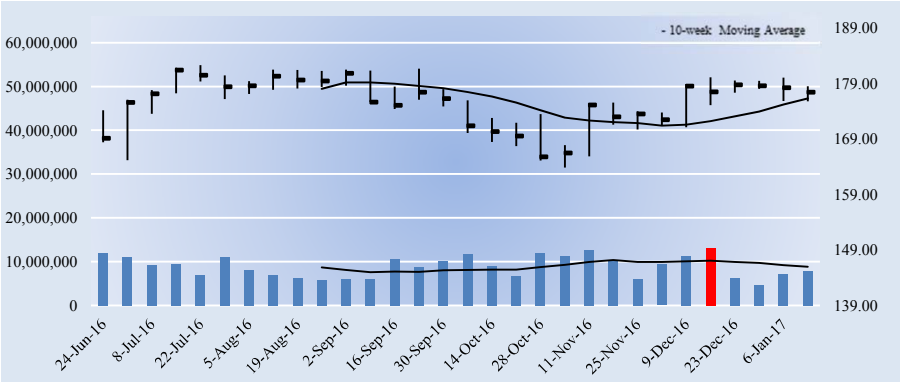
3M MMM OVERVALUED 0.8%

Buying Index™ 4 **Value Rating** ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$141.00	$106.00 - $176.00	LARGE-CAP CORE	Industrials	Conglomerates

We love 3M as a company, but its stock price is rather frothy.

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)	$113,033
Avg Weekly Vol (30 wks)	8,950
30-week Range (USD)	163.85 - 182.27
Valuentum Sector	Industrials
5-week Return	-0.5%
13-week Return	4.0%
30-week Return	3.8%
Dividend Yield %	2.5%
Dividends per Share	4.44
Forward Dividend Payout Ratio	53.9%
Est. Normal Diluted EPS	9.38
P/E on Est. Normal Diluted EPS	18.9
Est. Normal EBITDA	9,923
Forward EV/EBITDA	13.7
EV/Est. Normal EBITDA	12.3
Forward Revenue Growth (5-yr)	2.5%
Forward EPS Growth (5-yr)	7.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	32.8%
Return on Assets	14.9%
ROIC, with goodwill	23.5%
ROIC, without goodwill	35.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	10,843
Net Debt	8,927
Total Debt/EBITDA	1.3
Net Debt/EBITDA	1.1
EBITDA/Interest	56.2
Current Ratio	1.5
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• 3M is fundamentally a science-based company and holds over 100,000 patents. 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. 3M is perhaps among the most innovative firms in our coverage universe. Believe it or not, 3M started as a small mining venture in 1902.

• 3M recently agreed to acquire fall protection equipment provider Capital Safety from KKR for $2.5 billion. Management believes the deal better positions the firm to take advantage of the rapidly growing, regulatory driven market of workplace safety.

• 3M has ambitious goals for the period 2016-2020. The conglomerate expects annual organic local-currency sales growth of 2-5%, annual earnings per share expansion of 8-11%, 20% return on invested capital, and 100% free cash flow conversion of net income. Our revenue and earnings expectations are in-line with management's in the near term, and our future forecasts reveal a nice pace of future growth.

• 3M continues to be well-positioned for ongoing success, in our view. For the full-year 2017, the company is targeting earnings per share in the range of $8.45-$8.80 on organic local currency growth of 1%-3% and free cash flow conversion of 95%-105%. We think the outlook is achievable.

• 3M has accelerated its dividend growth in recent periods and has turned a lot of heads as a result. Though we like its dividend health 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	**OVERVALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
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)	**BEARISH**
Near-term Technical Support, 10-week MA	**176.00**

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	22.6	1.6	113.0%
General Electric	18.7	3.0	87.1%
Honeywell	17.7	2.8	115.8%
United Technologies	16.7	1.6	105.0%
Peer Median	18.2	2.2	109.0%
3M	**21.6**	**3.2**	**125.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	31,821	30,274	30,425
Revenue, YoY%	3.1%	-4.9%	0.5%
Operating Income	7,135	6,946	7,457
Operating Margin %	22.4%	22.9%	24.5%
Net Income	4,956	4,833	5,224
Net Income Margin %	15.6%	16.0%	17.2%
Diluted EPS	7.49	7.58	8.23
Diluted EPS, YoY %	11.5%	1.3%	8.5%
Free Cash Flow (CFO-capex)	5,133	4,959	5,512
Free Cash Flow Margin %	16.1%	16.4%	18.1%

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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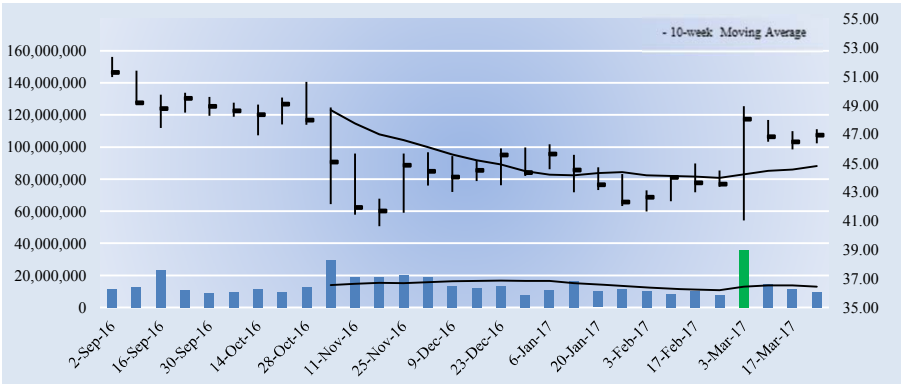
Monster Beverage MNST FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$38.00	$29.00 - $48.00	LARGE-CAP GROWTH	Consumer Staples	Beverages - nonalcoholic

Monster Beverage will benefit from access to Coca-Cola's bottlers and international distribution network.

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)	$28,156
Avg Weekly Vol (30 wks)	14,083
30-week Range (USD)	40.64 - 52.3533
Valuentum Sector	Consumer Staples
5-week Return	7.4%
13-week Return	2.9%
30-week Return	-10.0%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	1.69
P/E on Est. Normal Diluted EPS	27.8
Est. Normal EBITDA	1,730
Forward EV/EBITDA	21.0
EV/Est. Normal EBITDA	14.6
Forward Revenue Growth (5-yr)	11.4%
Forward EPS Growth (5-yr)	17.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	32.4%
Return on Assets	25.3%
ROIC, with goodwill	69.2%
ROIC, without goodwill	77.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-2,920
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	7.0
Quick Ratio	6.6

NMF = Not Meaningful

Investment Highlights

• Monster Beverage is a leading marketer/distributor of energy drinks. The company makes Monster Energy brand energy drinks, Java Monster brand coffee+energy drinks, and other beverages. Its products are sold in 110+ countries on 6 continents. Coca-Cola has acquired a ~17% stake in the firm. The company was founded in 1985 and is headquartered in California. It recently underwent a 3-for-1 stock split.

• Monster Beverage faces heightened risk regarding product safety, given legal complaints alleging that the firm's beverages may not be safe. It continues to contest such claims. The firm also faces headwinds related to proposed taxes on sugary drinks, which are gaining steam across the US.

• Monster Beverage continues to experience competition from new entrants in the energy drink and energy shot categories. The firm's products compete with Red Bull, Rockstar, Full Throttle, No Fear, Amp, and NOS, while its Java Monster line competes with a number of Starbucks' products. Product innovation, as in its Ultra line extension, will remain key.

• Though Coca-Cola provides additional safety to Monster, we love the firm's balance sheet strength. As of the end of 2016, Monster had nearly $600 million in cash and cash equivalents and short-term investments, compared to no long-term debt on its balance sheet.

• Monster will benefit from access to Coca-Cola's bottlers and international distribution network, which it is in the process of implementing into its operations in coming quarters. Distribution costs as a percentage of sales have fallen in recent quarters.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	UNATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	NEGATIVE
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)	BULLISH
Near-term Technical Support, 10-week MA	45.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
National Beverage	37.1	2.7	191.6%
Coca-Cola	22.3	2.3	108.0%
Dr Pepper Snapple	21.0	2.4	125.9%
PepsiCo	21.6	2.4	119.3%
Peer Median	22.0	2.4	122.6%
Monster Beverage	**39.4**	**2.8**	**123.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	2,465	2,723	3,049
Revenue, YoY%	9.7%	10.5%	12.0%
Operating Income	748	732	1,166
Operating Margin %	30.3%	26.9%	38.2%
Net Income	483	547	715
Net Income Margin %	19.6%	20.1%	23.4%
Diluted EPS	0.92	0.95	1.19
Diluted EPS, YoY %	-52.7%	2.4%	25.9%
Free Cash Flow (CFO-capex)	566	481	614
Free Cash Flow Margin %	22.9%	17.6%	20.1%

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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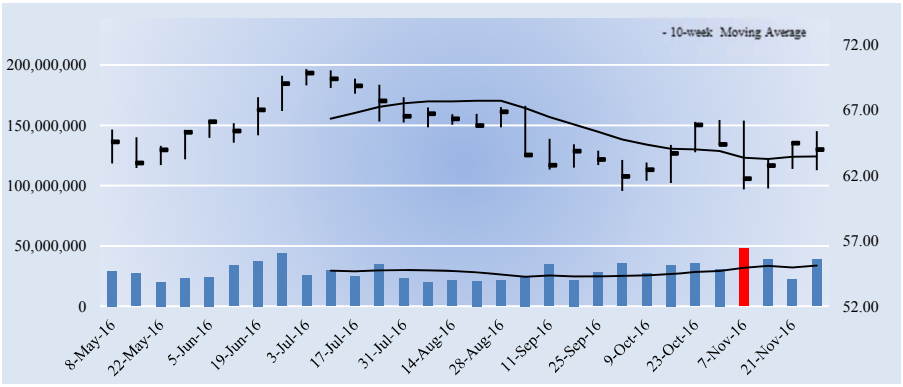
Altria Group MO FAIRLY VALUED

Buying Index™ 6 **Value Rating**

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

Altria now has approximately 10.2% equity interest in the new AB InBev.

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)	$125,484
Avg Weekly Vol (30 wks)	29,289
30-week Range (USD)	60.82 - 70.15
Valuentum Sector	Consumer Staples
5-week Return	-2.9%
13-week Return	-4.3%
30-week Return	1.3%
Dividend Yield %	3.8%
Dividends per Share	2.44
Forward Dividend Payout Ratio	77.1%
Est. Normal Diluted EPS	3.54
P/E on Est. Normal Diluted EPS	18.1
Est. Normal EBITDA	10,659
Forward EV/EBITDA	14.0
EV/Est. Normal EBITDA	12.8
Forward Revenue Growth (5-yr)	3.3%
Forward EPS Growth (5-yr)	8.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	136.2%
Return on Assets	13.2%
ROIC, with goodwill	29.2%
ROIC, without goodwill	43.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	12,919
Net Debt	10,550
Total Debt/EBITDA	1.6
Net Debt/EBITDA	1.3
EBITDA/Interest	10.3
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 was founded in 1919 and is headquartered in Richmond, Virginia.

• Altria now has approximate 10.2% equity interest in the new AB InBev, and it received ~$5.3 billion in pre-tax cash from the combination of AB InBev and SABMiller that has created a global beer giant. Altria supported the deal, and we think it will be a long-term positive.

• 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 is expecting 2016 full-year adjusted diluted EPS to be in a range of $2.98-$3.04, excluding restructuring charges. This target is very near the firm's annual expectation of growing adjusted diluted EPS growth of 7%-9%. It is also undertaking a productivity initiative, expected to deliver $300 million in savings by the end of 2017.

• 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	**BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**IMPROVING**
Near-term Technical Support, 10-week MA	**63.00**

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
British American	19.0	1.4	117.3%
Philip Morris	19.7	1.8	106.1%
Reynolds American	22.8	2.0	97.9%
Vector Group	28.3	3.0	96.2%
Peer Median	21.2	1.9	102.0%
Altria Group	**20.2**	**3.0**	**110.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	17,945	18,854	19,589
Revenue, YoY%	1.6%	5.1%	3.9%
Operating Income	7,253	8,084	9,501
Operating Margin %	40.4%	42.9%	48.5%
Net Income	4,747	5,200	6,143
Net Income Margin %	26.5%	27.6%	31.4%
Diluted EPS	2.40	2.65	3.16
Diluted EPS, YoY %	33.2%	10.5%	19.3%
Free Cash Flow (CFO-capex)	4,177	5,540	7,161
Free Cash Flow Margin %	23.3%	29.4%	36.6%

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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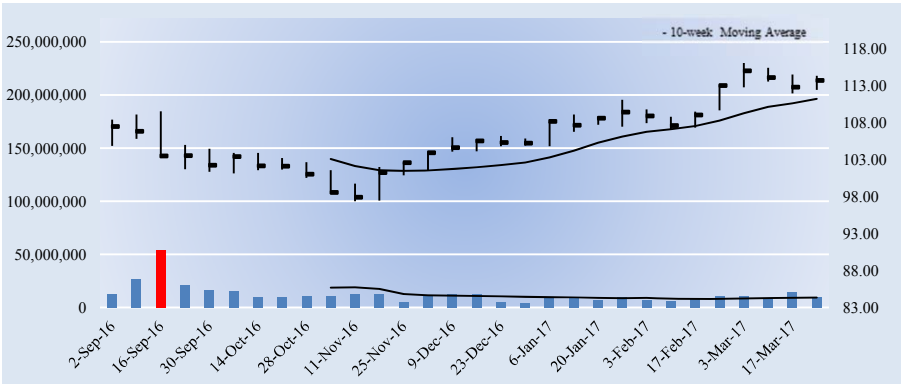
Monsanto MON FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$123.00	$98.00 - $148.00	LARGE-CAP VALUE	Materials	Chemicals - agriculture

Our fair value estimate represents the likelihood Monsanto's deal with Bayer gets done given regulatory pressures, though it may still be too genenrous.

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)	$50,822
Avg Weekly Vol (30 wks)	12,576
30-week Range (USD)	97.35 - 116.04
Valuentum Sector	Materials
5-week Return	3.7%
13-week Return	8.2%
30-week Return	5.4%
Dividend Yield %	1.9%
Dividends per Share	2.16
Forward Dividend Payout Ratio	44.9%
Est. Normal Diluted EPS	6.71
P/E on Est. Normal Diluted EPS	16.9
Est. Normal EBITDA	5,191
Forward EV/EBITDA	14.2
EV/Est. Normal EBITDA	11.2
Forward Revenue Growth (5-yr)	5.7%
Forward EPS Growth (5-yr)	25.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	26.8%
Return on Assets	9.9%
ROIC, with goodwill	22.2%
ROIC, without goodwill	32.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	9,040
Net Debt	7,304
Total Debt/EBITDA	2.7
Net Debt/EBITDA	2.1
EBITDA/Interest	7.8
Current Ratio	1.2
Quick Ratio	0.7

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 has agreed to be acquired by Bayer for $128 per share in cash, or a total consideration of ~$66 billion. Annual synergies of ~$1.5 billion are expected after three years, with additional synergies coming in future years. Bayer has agreed to a $2 billion break-up fee as well.

• The deal with Bayer represents the largest all-cash deal on record and will give the company control of roughly one-quarter of the combined world market for seeds and pesticides. Material regulatory pressure should be expected, and the firms have launched roughly $2.5 billion in asset sales in hopes of appeasing regulators. Large amounts of divestitures could result in a synergy target reduction.

• What differentiates Monsanto from a lot of other smaller players in the industry is its dedication to innovation. The firm 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.

• 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.

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 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
CF Industries	103.2	NMF	97.3%
Compass Minerals	19.1	0.5	94.2%
Potash Corp	31.8	1.3	89.6%
Scotts Miracle-Gro	21.3	2.5	136.3%
Peer Median	26.6	1.3	95.7%
Monsanto	**23.6**	**1.5**	**92.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-15	Aug-16	Aug-17
Revenue	15,001	13,502	14,110
Revenue, YoY%	-5.4%	-10.0%	4.5%
Operating Income	3,916	2,672	3,344
Operating Margin %	26.1%	19.8%	23.7%
Net Income	2,286	1,319	2,106
Net Income Margin %	15.2%	9.8%	14.9%
Diluted EPS	4.75	2.95	4.81
Diluted EPS, YoY %	-8.6%	-37.9%	63.0%
Free Cash Flow (CFO-capex)	2,093	1,596	2,302
Free Cash Flow Margin %	14.0%	11.8%	16.3%

In Millions of USD (except for per share items)

Structure of the Agricultural Chemicals Industry — NEUTRAL

The agricultural chemical industry is highly competitive. Product innovation, intellectual property protection, worldwide distribution, and farmer relationships are keys to success in the seeds and genomics business. The potash, phosphate, nitrogen, and rock salt markets have minimal product differentiation, though producers can gain an advantage in markets close to their sources of supply or when costs (transportation, processing) can be minimized. We're generally neutral on the structure of the group due to commodity price swings, but firms can carve out competitive advantages in local markets.

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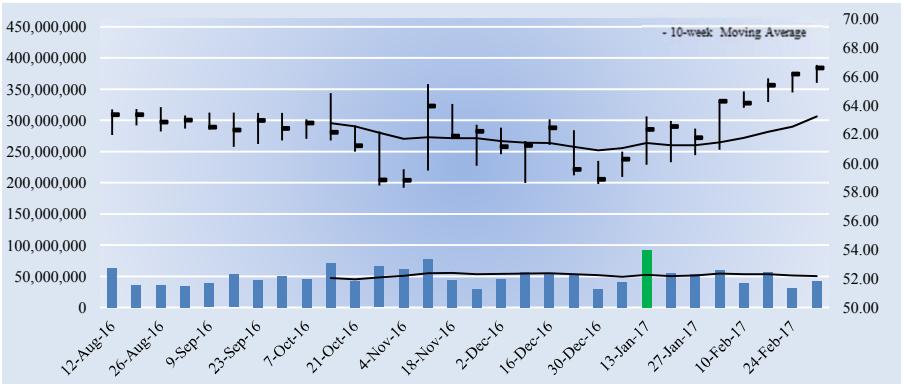
Merck MRK FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$60.00	$48.00 - $72.00	LARGE-CAP CORE	Health Care	Pharmaceuticals - Big

Merck has the #1 treatment for advanced Melanoma in the US in KEYTRUDA, which can be expected to be a core driver of growth 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)	$185,558
Avg Weekly Vol (30 wks)	50,163
30-week Range (USD)	58.29 - 66.8
Valuentum Sector	Health Care
5-week Return	8.2%
13-week Return	8.2%
30-week Return	6.3%
Dividend Yield %	2.8%
Dividends per Share	1.88
Forward Dividend Payout Ratio	48.7%
Est. Normal Diluted EPS	4.43
P/E on Est. Normal Diluted EPS	15.0
Est. Normal EBITDA	18,569
Forward EV/EBITDA	11.9
EV/Est. Normal EBITDA	10.6
Forward Revenue Growth (5-yr)	3.0%
Forward EPS Growth (5-yr)	28.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	14.4%
Return on Assets	6.7%
ROIC, with goodwill	11.2%
ROIC, without goodwill	17.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	24,842
Net Debt	10,501
Total Debt/EBITDA	2.9
Net Debt/EBITDA	1.2
EBITDA/Interest	12.5
Current Ratio	1.8
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• Merck is a global health care company that delivers innovative health solutions through its prescription medicines, vaccines, and biologic therapies. Januvia/Janumet for type 2 diabetes and Zetia/Vytorin for cholesterol (cardiovascular) are its two largest revenue drivers within its pharma business. The company was founded in 1891 and is headquartered in New Jersey.

• Merck has the #1 treatment for advanced Melanoma in the US in KEYTRUDA. The drug is launching in more than 40 markets across the world now, and the firm is ready to begin reaping the benefits after a period of suppressed growth due to the loss of exclusivity of multiple drugs.

• Merck's recent results reveal in many ways the company has turned the corner with respect to the "patent cliff" and the expiration of exclusivity on its blockbuster Singulair and Nasonex. Worldwide sales, adjusted for currency and acquisitions and divestitures, grew 1% in 2016 as non-GAAP adjusted earnings per share advanced to $3.78 per share from $3.59 in the year-ago period.

• Merck continues to advance its late-stage pipeline, and we think it has promising potential therapies in cancer, antibiotic resistance, cardiometabolic disease, hepatitis C, and Alzheimer's disease. That worldwide sales are advancing at a mid-single-digit clip is a notable positive, and we continue to expect its recent acquisition of Cubist to pay dividends.

• Merck expects 2017 worldwide sales to be in a range of $38.6-$40.1 billion, compared to $39.8 billion in 2016. Full-year GAAP EPS is anticipated to be between $2.47 and $2.62, up substantially from $2.04 in 2016.

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)	**BULLISH**
Near-term Technical Support, 10-week 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
AbbVie	17.5	1.4	89.2%
Abbott	64.0	0.6	102.8%
Eli Lilly	20.2	2.0	128.9%
Pfizer	13.4	1.2	90.8%
Peer Median	18.9	1.3	96.8%
Merck	**17.3**	**1.6**	**111.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	39,498	39,807	39,688
Revenue, YoY%	-6.5%	0.8%	-0.3%
Operating Income	7,547	6,030	13,895
Operating Margin %	19.1%	15.1%	35.0%
Net Income	4,442	3,920	10,699
Net Income Margin %	11.2%	9.8%	27.0%
Diluted EPS	1.56	1.41	3.86
Diluted EPS, YoY %	-61.6%	-10.0%	174.3%
Free Cash Flow (CFO-capex)	11,255	8,762	11,429
Free Cash Flow Margin %	28.5%	22.0%	28.8%

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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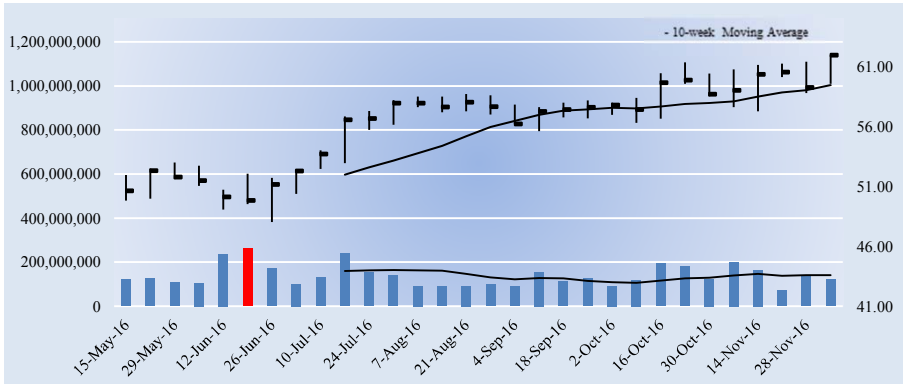
Microsoft MSFT FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$56.00	$45.00 - $67.00	MEGA-CAP CORE	Information Technology	Software

Contrary to popular belief, Microsoft is not a tech dinosaur. We're not fond of the LinkedIn deal, but the firm's financial profile remains impressively strong.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$511,500
Avg Weekly Vol (30 wks)	138,653
30-week Range (USD)	48.04 - 61.99
Valuentum Sector	Information Technology
5-week Return	3.7%
13-week Return	10.7%
30-week Return	22.0%
Dividend Yield %	2.5%
Dividends per Share	1.56
Forward Dividend Payout Ratio	74.3%
Est. Normal Diluted EPS	3.08
P/E on Est. Normal Diluted EPS	20.1
Est. Normal EBITDA	43,653
Forward EV/EBITDA	13.9
EV/Est. Normal EBITDA	10.4
Forward Revenue Growth (5-yr)	1.3%
Forward EPS Growth (5-yr)	19.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	23.5%
Return on Assets	12.5%
ROIC, with goodwill	51.0%
ROIC, without goodwill	78.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	53,687
Net Debt	-59,553
Total Debt/EBITDA	1.6
Net Debt/EBITDA	NMF
EBITDA/Interest	43.7
Current Ratio	2.5
Quick Ratio	2.3

NMF = Not Meaningful

Investment Highlights

• Microsoft's products include operating systems, cloud services, server applications, desktop and server management tools, software development tools, video games, and online advertising. Its hardware devices include the Surface and the Xbox One gaming and entertainment console. One of its biggest assets is its cash on the balance sheet, which stands above ~$100 billion!

• 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. Financial discipline and strong execution remain hallmarks of its business.

• Microsoft's Windows business has been the bread-and-butter of the company for such a long time, but investor focus has begun to shift to the company's other segments as its business model moves towards the cloud. Microsoft is a core holding in the Dividend Growth Newsletter portfolio, and we think it continues to provide investors with a strong dividend growth opportunity.

• Contrary to popular belief, Microsoft is not a tech dinosaur. CEO Satya Nadella has reignited innovation in the company, and customer excitement for new devices and platorms, Windows 10, Office 365 and Azure is increasing. However, we're not fans of the firm's decision to acquire professional networking firm LinkedIn.

• Microsoft recently acquired LinkedIn for over $26 billion in cash. The deal is expected to be dilutive to EPS in fiscal 2017 and 2018. The firm's impressive financial profile gives us confidence in it moving forward, but its pristine credit rating has been put on review following the announcement of the deal.

Investment Considerations

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

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Adobe Systems	34.7	2.4	118.5%
F5 Networks	26.5	3.2	117.8%
Oracle	19.6	1.3	84.4%
Salesforce.com	71.9	NMF	101.7%
Peer Median	30.6	2.4	109.7%
Microsoft	**29.5**	**2.1**	**110.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-14	Jun-15	Jun-16
Revenue	86,833	93,580	85,320
Revenue, YoY%	11.5%	7.8%	-8.8%
Operating Income	27,886	28,172	25,880
Operating Margin %	32.1%	30.1%	30.3%
Net Income	22,074	12,193	17,041
Net Income Margin %	25.4%	13.0%	20.0%
Diluted EPS	2.63	1.48	2.10
Diluted EPS, YoY %	1.8%	-43.8%	42.2%
Free Cash Flow (CFO-capex)	26,746	23,136	24,982
Free Cash Flow Margin %	30.8%	24.7%	29.3%

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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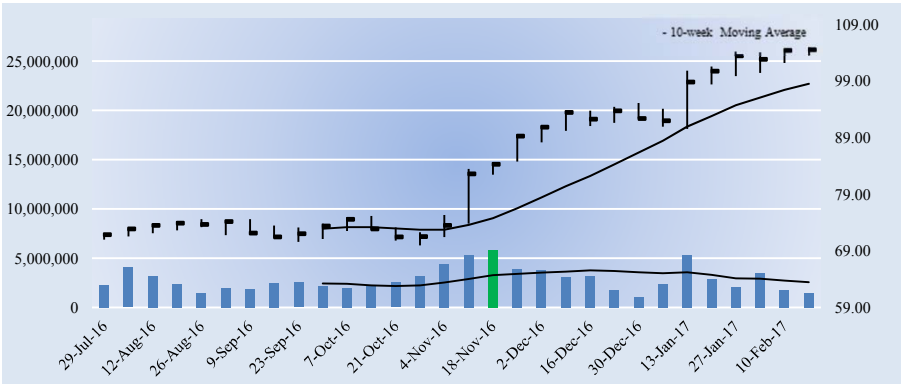
MSC Industrial MSM OVERVALUED 13.9%

Buying Index™ 4 | Value Rating ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$75.00	$60.00 - $90.00	MID-CAP CORE	Industrials	Distributors

MSC Industrial benefits greatly from its largest 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)	$6,387
Avg Weekly Vol (30 wks)	2,878
30-week Range (USD)	69.96 - 104.98
Valuentum Sector	Industrials
5-week Return	5.0%
13-week Return	21.4%
30-week Return	46.1%
Dividend Yield %	1.7%
Dividends per Share	1.80
Forward Dividend Payout Ratio	44.9%
Est. Normal Diluted EPS	5.37
P/E on Est. Normal Diluted EPS	19.5
Est. Normal EBITDA	584
Forward EV/EBITDA	15.3
EV/Est. Normal EBITDA	11.9
Forward Revenue Growth (5-yr)	5.2%
Forward EPS Growth (5-yr)	13.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	17.6%
Return on Assets	11.3%
ROIC, with goodwill	15.0%
ROIC, without goodwill	23.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	607
Net Debt	554
Total Debt/EBITDA	1.4
Net Debt/EBITDA	1.2
EBITDA/Interest	77.1
Current Ratio	2.1
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• MSC Industrial is one of the largest direct marketers of a broad range of industrial products to industrial customers in the United States, satisfying their maintenance, repair and operations (MRO) supply requirements. It has roughly a dozen customer fulfillment centers. The company was founded in 1941 and is headquartered in New York.

• MSC Industrial continues to invest in its e-commerce capabilities and add new products to its portfolio. The firm now has more than 1 million product SKUs available through its database. Management is focused on share gains.

• MSC Industrial benefits greatly from its largest customers. As of 2015, 42% of the firm's revenue potential came from 2% of customers. Conversely, 5% of revenue potential came from the smallest 57% of customers. Its top customers demand value-added services, while smaller customers require an efficient cost-to-serve business model.

• The MRO industry continues to consolidate and remains very large and fragmented. There are 150,000 distributors in North America chasing roughly $150 billion in spending. Fiscal 2017 will likely be characterized as another year of low growth with a focus on margin expansion.

• We generally like MSC Industrial's business strategy that focuses on being an integrated, low-cost solution to its customers' MRO requirements. The firm remains laser-focused on reducing customer costs.

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)	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
Anixter	15.9	1.6	108.8%
Fastenal	27.3	2.3	123.7%
W.W. Grainger	21.2	1.1	121.4%
WESCO	18.5	1.6	110.8%
Peer Median	19.9	1.6	116.1%
MSC Industrial	**26.1**	**2.1**	**139.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-15	Aug-16	Aug-17
Revenue	2,910	2,864	2,884
Revenue, YoY%	4.4%	-1.6%	0.7%
Operating Income	380	376	380
Operating Margin %	13.0%	13.1%	13.2%
Net Income	231	231	244
Net Income Margin %	7.9%	8.1%	8.5%
Diluted EPS	3.76	3.79	4.01
Diluted EPS, YoY %	-0.7%	0.6%	5.9%
Free Cash Flow (CFO-capex)	198	313	237
Free Cash Flow Margin %	6.8%	10.9%	8.2%

In Millions of USD (except for per share items)

Structure of the Industrial Distributors Industry — GOOD

Though consolidating, the industrial distributors industry remains fragmented and highly competitive. Delivering cost savings, convenience, and product availability are the major competitive factors. Some rivals use vans to sell products in markets away from their warehouses, while others rely on mail order, websites or telemarketing sales. Still, others operate stores and use centralized distribution centers to supply their networks. The industry is economically-sensitive and exposed to the threat of aggressive pricing strategies, but we generally like the group's massive distribution platforms that are difficult to replicate.

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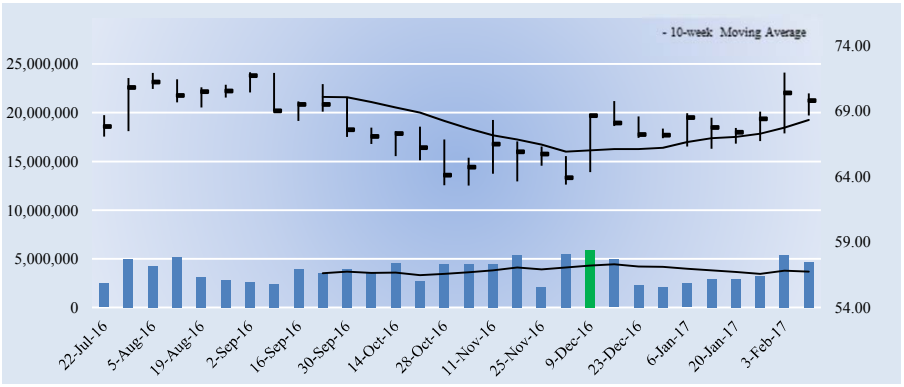
NASDAQ NDAQ FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$68.00	$54.00 - $82.00	LARGE-CAP CORE	Financials	Exchanges

NASDAQ has a high-quality business model. Roughly 70% of revenue is subscription or recurring, and meaningful operating leverage exists.

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)	$11,950
Avg Weekly Vol (30 wks)	3,779
30-week Range (USD)	63.3 - 71.92
Valuentum Sector	Financials
5-week Return	2.0%
13-week Return	4.7%
30-week Return	1.6%
Dividend Yield %	1.8%
Dividends per Share	1.28
Forward Dividend Payout Ratio	201.2%
Est. Normal Diluted EPS	4.30
P/E on Est. Normal Diluted EPS	16.2
Est. Normal EBITDA	1,352
Forward EV/EBITDA	34.0
EV/Est. Normal EBITDA	10.2
Forward Revenue Growth (5-yr)	6.1%
Forward EPS Growth (5-yr)	17.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	7.0%
Return on Assets	3.5%
ROIC, with goodwill	8.5%
ROIC, without goodwill	35.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,364
Net Debt	1,806
Total Debt/EBITDA	2.3
Net Debt/EBITDA	1.7
EBITDA/Interest	9.4
Current Ratio	1.1
Quick Ratio	0.3

NMF = Not Meaningful

Investment Highlights

• NASDAQ's global offerings include trading and clearing across multiple asset classes, market data products, financial indexes, capital formation solutions, financial services and market technology products and services. It operates the NASDAQ Stock Market in the US and several exchanges in Europe.

• Despite increased uncertainty, NASDAQ has a high-quality business model, where 70% of revenue is subscription or recurring. The firm's low capital intensity results in high operating leverage, and transaction revenue is poised to rebound from volatility-driven volumes.

• We like NASDAQ's fundamentals. However, the firm is caught up in the high-frequency-trading (HFT) controversy. HFT refers to computerized trading using proprietary algorithms. It is estimated that 50% of stock volume in the US is currently driven by HFT. New regulations regarding HFT could have negative implications on NASDAQ.

• Over the next 3-5 years, NASDAQ is expecting organic revenue growth in the mid-single digits in its Information Services and Technology Solutions segments and organic revenue growth in the low-single digits in its Listing Services segment. Mid-single digit organic revenue growth is anticipated in its non-trading segments.

• The company has a #1 or #2 market share in business units that represent more than 90% of revenue. Disciplined internal investment and opportunistic acquisitions may provide further upside potential.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**IMPROVING**
Near-term Technical Support, 10-week MA	**68.00**

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
CBOE	30.9	2.6	141.2%
CME Group	26.2	2.9	114.4%
IntercontinentalExchange	19.0	2.5	110.9%
KCG	4.9	NMF	97.7%
Peer Median	22.6	2.6	112.6%
NASDAQ	**109.6**	**0.4**	**102.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	3,500	3,403	3,705
Revenue, YoY%	9.0%	-2.8%	8.9%
Operating Income	835	902	254
Operating Margin %	23.9%	26.5%	6.9%
Net Income	414	428	108
Net Income Margin %	11.8%	12.6%	2.9%
Diluted EPS	2.39	2.50	0.64
Diluted EPS, YoY %	6.4%	4.4%	-74.5%
Free Cash Flow (CFO-capex)	547	552	242
Free Cash Flow Margin %	15.6%	16.2%	6.5%

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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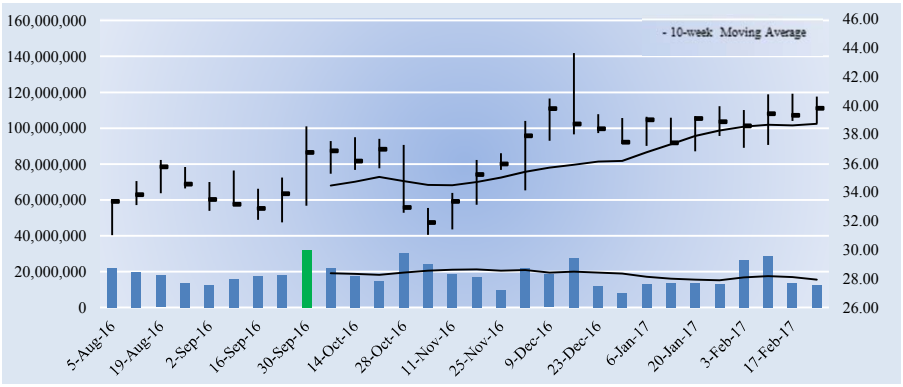
National Oilwell Varco NOV FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Unattractive	$40.00	$28.00 - $52.00	LARGE-CAP VALUE	Energy	Energy Equipment - Large

National Oilwell Varco expects long-term demand trends to be in its favor. Its near-term demand outlook looks to be picking back up as well, and we've raised our fair value esimate as a result.

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)	$14,961
Avg Weekly Vol (30 wks)	18,220
30-week Range (USD)	31 - 43.63
Valuentum Sector	Energy
5-week Return	2.9%
13-week Return	10.4%
30-week Return	24.3%
Dividend Yield %	0.5%
Dividends per Share	0.20
Forward Dividend Payout Ratio	-53.5%
Est. Normal Diluted EPS	0.98
P/E on Est. Normal Diluted EPS	40.7
Est. Normal EBITDA	1,533
Forward EV/EBITDA	27.5
EV/Est. Normal EBITDA	10.9
Forward Revenue Growth (5-yr)	7.6%
Forward EPS Growth (5-yr)	-177.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	-2.8%
Return on Assets	-1.8%
ROIC, with goodwill	12.0%
ROIC, without goodwill	18.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,214
Net Debt	1,806
Total Debt/EBITDA	NMF
Net Debt/EBITDA	-2.5
EBITDA/Interest	-7.0
Current Ratio	2.6
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

• 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. The company was founded in 1862 and is headquartered in Houston, Texas.

• We like National Oilwell Varco's fundamentals quite a bit, but the firm has not been spared from the tremendous weakness in the oil and gas industry. The significant volatility historically experienced in the industry will not change anytime soon.

• National Oilwell Varco expects long-term demand trends to be in its favor. By the year 2040 there will be ~2 billion more people, creating a more than 130% larger global economy with a greater than 35% increase in global energy demand. Its near-term demand outlook looks to be picking back up, and we've raised our fair value esimate as a result.

• In April 2016, National Oilwell Varco slashed its dividend by nearly 90%. Though the crude oil market looks to be rebounding, we must remind investors of the risk for another leg down in energy resource pricing. Global production cut quota hit rates should be monitored.

• 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.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
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)	**BULLISH**
Near-term Technical Support, 10-week MA	**39.00**

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
Baker Hughes	182.3	NMF	116.8%
Halliburton	43.6	NMF	114.9%
Weatherford Intl	NMF	NMF	69.6%
Schlumberger	44.3	NMF	105.5%
Peer Median	44.3	NMF	110.2%
National Oilwell Varco	**NMF**	**NMF**	**99.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	14,757	7,251	7,273
Revenue, YoY%	-31.2%	-50.9%	0.3%
Operating Income	1,299	-1,439	-95
Operating Margin %	8.8%	-19.8%	-1.3%
Net Income	-769	-2,412	-141
Net Income Margin %	-5.2%	-33.3%	-1.9%
Diluted EPS	-1.99	-6.41	-0.37
Diluted EPS, YoY %	-134.9%	222.8%	-94.2%
Free Cash Flow (CFO-capex)	879	676	-1,471
Free Cash Flow Margin %	6.0%	9.3%	-20.2%

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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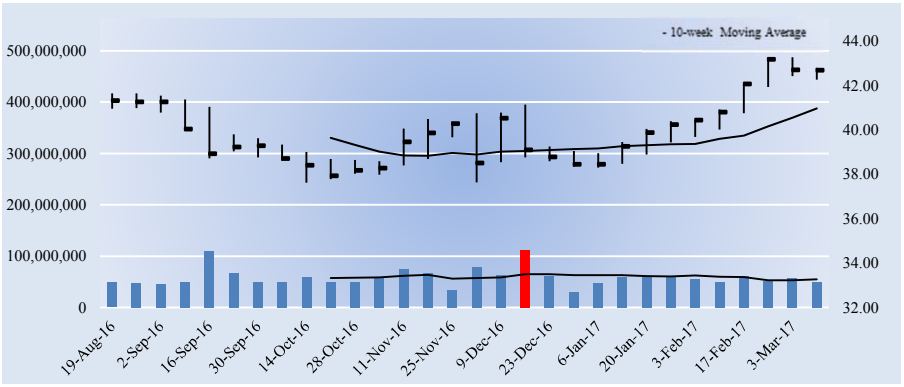
Oracle ORCL FAIRLY VALUED

Buying Index™ 7 **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	Information Technology	Software

We're big fans of Oracle's net cash position and free cash flow generating capacity.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$183,737
Avg Weekly Vol (30 wks)	58,525
30-week Range (USD)	37.62 - 43.26
Valuentum Sector	Information Technology
5-week Return	5.5%
13-week Return	5.8%
30-week Return	4.1%
Dividend Yield %	1.8%
Dividends per Share	0.76
Forward Dividend Payout Ratio	29.4%
Est. Normal Diluted EPS	3.10
P/E on Est. Normal Diluted EPS	13.8
Est. Normal EBITDA	19,593
Forward EV/EBITDA	9.8
EV/Est. Normal EBITDA	8.8
Forward Revenue Growth (5-yr)	3.2%
Forward EPS Growth (5-yr)	11.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	21.1%
Return on Assets	10.2%
ROIC, with goodwill	30.0%
ROIC, without goodwill	85.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	43,855
Net Debt	-12,270
Total Debt/EBITDA	2.8
Net Debt/EBITDA	NMF
EBITDA/Interest	10.6
Current Ratio	3.7
Quick Ratio	3.6

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 on-premise software, hardware systems, services, and cloud businesses account for ~70%, ~13%, ~9%, and ~8% of total revenues, respectively.

• Oracle has positioned itself nicely against Salesforce.com. Oracle sold more than $2.2 billion of new SaaS and PaaS business in fiscal 2016, which would have surpassed Salesforce.com's target. Competition will remain intense.

• Oracle will continue to focus on growing its cloud business. The segment only accounted for ~8% of total revenue in fiscal 2016 but has been growing at an impressive rate since fiscal 2010. This growth has helped drive an increase in recurring revenue over the same time period. Competition remains fierce in the space.

• Oracle continues to build its recurring revenue base, which has grown at a compound annual growth rate of 7% from fiscal 2011 to fiscal 2016. Recurring revenue accounted for 74% of total revenue, compared to 62% in fiscal 2011, good for a 7% 5-year CAGR. We like the momentum of such a dynamic.

• Oracle's recent large dividend hike speaks to the cash rich nature of its business. As of the end of fiscal 2016, it had more than $56 million in cash, cash equivalents and marketable securities compared to just under $44 billion in total debt.

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 Support, 10-week 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
Adobe Systems	34.7	2.4	118.5%
Salesforce.com	71.9	NMF	101.7%
F5 Networks	26.5	3.2	117.8%
Microsoft	29.5	2.1	110.7%
Peer Median	32.1	2.4	114.2%
Oracle	**16.5**	**1.7**	**83.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	May-15	May-16	May-17
Revenue	38,226	37,047	37,529
Revenue, YoY%	-0.1%	-3.1%	1.3%
Operating Income	14,289	13,104	14,951
Operating Margin %	37.4%	35.4%	39.8%
Net Income	9,938	8,901	10,908
Net Income Margin %	26.0%	24.0%	29.1%
Diluted EPS	2.21	2.07	2.59
Diluted EPS, YoY %	-7.2%	-6.3%	25.1%
Free Cash Flow (CFO-capex)	12,945	12,372	12,819
Free Cash Flow Margin %	33.9%	33.4%	34.2%

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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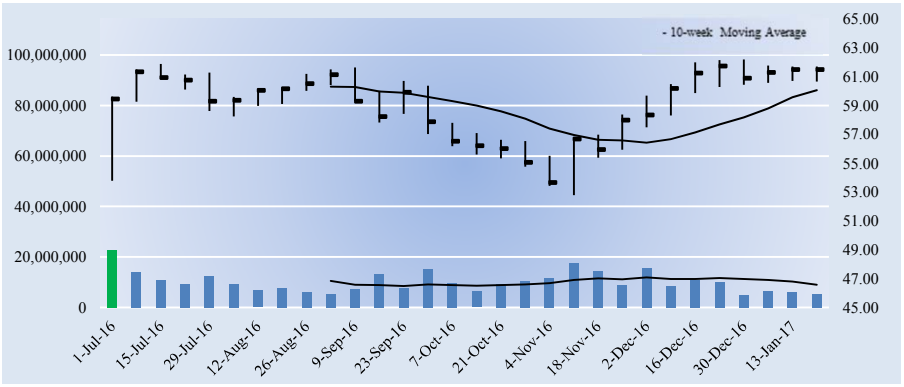
Paychex PAYX OVERVALUED 5.6%

Buying Index™ 4 **Value Rating** ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$48.00	$38.00 - $58.00	LARGE-CAP CORE	Information Technology	Staffing Services

Paychex is a leader in the payroll, human resource, and benefits outsourcing 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)	$22,283
Avg Weekly Vol (30 wks)	10,145
30-week Range (USD)	52.7767 - 62.18
Valuentum Sector	Information Technology
5-week Return	-0.1%
13-week Return	9.2%
30-week Return	13.2%
Dividend Yield %	3.0%
Dividends per Share	1.84
Forward Dividend Payout Ratio	82.1%
Est. Normal Diluted EPS	2.73
P/E on Est. Normal Diluted EPS	22.5
Est. Normal EBITDA	1,556
Forward EV/EBITDA	13.9
EV/Est. Normal EBITDA	11.5
Forward Revenue Growth (5-yr)	6.5%
Forward EPS Growth (5-yr)	9.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	38.1%
Return on Assets	10.7%
ROIC, with goodwill	-6.8%
ROIC, without goodwill	5.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-4,350
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	1.1
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

• Paychex 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. The company was founded in 1979 and is headquartered in New York.

• Paychex recently announced the acquisition of Advance Partners, a leading provider of integrated financial, operational, and strategic services to support the temporary staffing industry. This may become more of a trend, given the fragmented nature of the industry and Paychex's cash balance.

• Paychex has two primary revenue sources: Payroll (~60% of sales) and Human Resource Services (~40%). Its payroll services target small businesses with 1-50 employees and mid-market businesses with 50-1,000 employees. Its HRS segment is a leader in complimentary services sold to payroll clients (retirement, insurance and HR).

• In fiscal 2017, Paychex is expecting total service revenue growth of 7%-8%, and adjusted net income growth of approximately 8%. Its HRS segment is expected to lead the charge with 12%-14% growth for the year. Operating margin, net of certain items is anticipated to be ~38%. Our forecasts are on the generous side for the year.

• 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 ratio. This is largely due to its fantastic, cash-rich balance sheet.

Investment Considerations

DCF Valuation	**OVERVALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**POOR**
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	**60.00**

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

Business Quality

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Automatic Data Processing	27.9	9.9	95.6%
Korn/Ferry	12.7	1.4	84.7%
Manpower	15.0	1.8	103.2%
Insperity	19.7	1.6	104.3%
Peer Median	17.4	1.7	99.4%
Paychex	**27.4**	**3.1**	**128.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	May-15	May-16	May-17
Revenue	2,740	2,952	3,194
Revenue, YoY%	8.8%	7.7%	8.2%
Operating Income	1,012	1,101	1,183
Operating Margin %	36.9%	37.3%	37.0%
Net Income	675	757	808
Net Income Margin %	24.6%	25.6%	25.3%
Diluted EPS	1.85	2.09	2.24
Diluted EPS, YoY %	8.0%	12.8%	7.4%
Free Cash Flow (CFO-capex)	793	921	844
Free Cash Flow Margin %	28.9%	31.2%	26.4%

In Millions of USD (except for per share items)

Structure of the Staffing Services Industry — NEUTRAL

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

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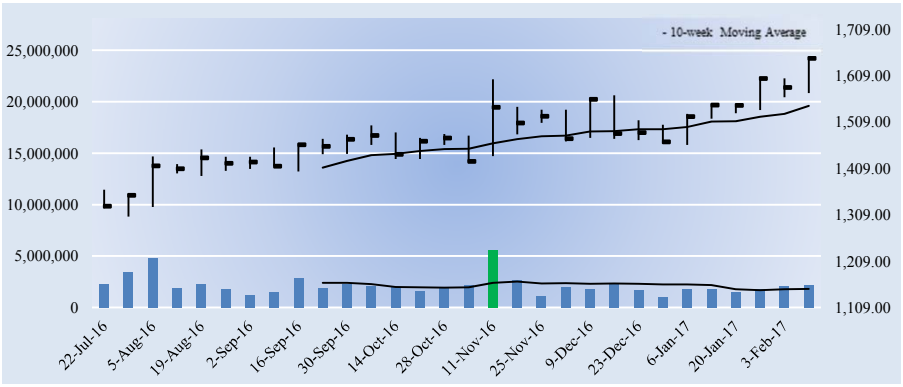
Priceline.com PCLN FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$1705.00	$1364.00 - $2046.00	LARGE-CAP BLEND	Consumer Discretionary	Internet & Catalog Retail

Priceline's partnerships allow it to offer an enhanced customer experience, driving increased conversion and traffic.

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)	$84,948
Avg Weekly Vol (30 wks)	2,184
30-week Range (USD)	1305.09 - 1649.65
Valuentum Sector	Consumer Discretionary
5-week Return	8.5%
13-week Return	6.9%
30-week Return	23.6%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	91.64
P/E on Est. Normal Diluted EPS	18.0
Est. Normal EBITDA	6,162
Forward EV/EBITDA	19.4
EV/Est. Normal EBITDA	14.4
Forward Revenue Growth (5-yr)	13.4%
Forward EPS Growth (5-yr)	19.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	31.9%
Return on Assets	19.0%
ROIC, with goodwill	82.2%
ROIC, without goodwill	208.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,158
Net Debt	3,509
Total Debt/EBITDA	1.7
Net Debt/EBITDA	1.0
EBITDA/Interest	22.5
Current Ratio	2.5
Quick Ratio	2.3

NMF = Not Meaningful

Investment Highlights

• Priceline is a leader in global online hotel reservations. The firm is composed of four primary brands--Booking.com, priceline.com, Agoda.com, Kayak and Rentalcars.com--and several ancillary brands. Bookings growth continues to be excellent across its platforms. The company was founded in 1997 and is headquartered in Connecticut.

• Demand in Priceline's business model is boosted by a virtuous cycle. Its partnerships allow it to offer an enhanced customer experience, driving increased conversion and traffic. Growing traffic levels give it the opportunity to test and improve customer and partner satisfaction.

• Priceline has made a habit of issuing conservative quarterly guidance, which the market tends not to like. Investors should be prepared for material swings on quarterly reports due to such guidance, and the firm's equity may be better served by management not issuing such punitive quarterly guidance. Nevertheless, we continue to have confidence in the firm's fundamentals.

• As it rides the wave of secular growth in Internet penetration in travel, Priceline will also benefit from expansion into new markets in North America, the Asia Pacific, and South America. The company's strong brand helps prop up share in the mature US market.

• Priceline.com is a stock that is going to experience a tremendous amount of volatility, but investors can't argue with its strong financial performance as of late. EBITDA and free cash flow have both advanced at a more than 30% CAGR since 2010.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
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)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**1544.00**

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
eBay	16.6	NMF	101.9%
Expedia	22.4	1.6	96.6%
Liberty Interactive	19.9	NMF	80.5%
Amazon.com	NMF	NMF	144.2%
Peer Median	19.9	1.6	99.2%
Priceline.com	**25.2**	**1.7**	**96.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	8,442	9,224	10,903
Revenue, YoY%	24.3%	9.3%	18.2%
Operating Income	3,073	3,259	4,218
Operating Margin %	36.4%	35.3%	38.7%
Net Income	2,422	2,551	3,355
Net Income Margin %	28.7%	27.7%	30.8%
Diluted EPS	45.67	49.45	65.36
Diluted EPS, YoY %	26.5%	8.3%	32.2%
Free Cash Flow (CFO-capex)	2,783	2,928	3,794
Free Cash Flow Margin %	33.0%	31.7%	34.8%

In Millions of USD (except for per share items)

Structure of the Internet & Catalog Retail Industry — GOOD

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

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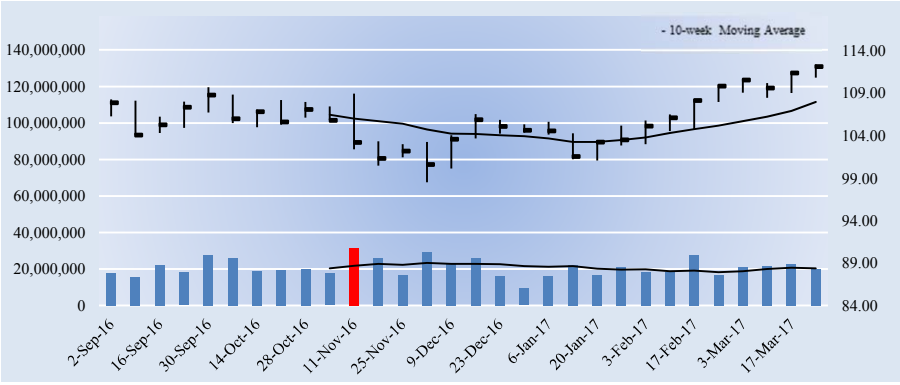
PepsiCo PEP FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$94.00	$75.00 - $113.00	LARGE-CAP CORE	Consumer Staples	Beverages - nonalcoholic

We're huge fans of Pepsi's brand portfolio, but competition remains fierce.

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)	$162,798
Avg Weekly Vol (30 wks)	20,772
30-week Range (USD)	98.5 - 112.38
Valuentum Sector	Consumer Staples
5-week Return	3.7%
13-week Return	6.7%
30-week Return	4.3%
Dividend Yield %	2.7%
Dividends per Share	3.01
Forward Dividend Payout Ratio	58.1%
Est. Normal Diluted EPS	6.15
P/E on Est. Normal Diluted EPS	18.2
Est. Normal EBITDA	15,870
Forward EV/EBITDA	13.3
EV/Est. Normal EBITDA	11.6
Forward Revenue Growth (5-yr)	3.3%
Forward EPS Growth (5-yr)	10.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	41.4%
Return on Assets	8.5%
ROIC, with goodwill	17.5%
ROIC, without goodwill	26.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	36,945
Net Debt	20,820
Total Debt/EBITDA	3.0
Net Debt/EBITDA	1.7
EBITDA/Interest	9.1
Current Ratio	1.3
Quick Ratio	1.1

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, and Aunt Jemima, among others. The US accounts for about half of revenue. The company was founded in 1898 and is headquartered in New York.

• Though Pepsi may be impacted by volatile macro pressures, particularly in developing and emerging markets, its strength in North America is undeniable. 2016 marked the third consecutive year in which it was the largest contributor to US reatil food and beverage growth.

• 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, and has nineteen $1 billion global brands sold in the US.

• In 2017, Pepsi is expecting organic revenue growth of 3%, but currency headwinds will reduce its reported figure. Core EPS are expected to grow to ~$5.09 for the full year, while free cash flow is expected to be approximately flat at ~$7 billion. Management expects to spend $4.5 billion on dividends and $2 billion on share repurchases in the year.

• Though we do not expect Pepsi's dividend to continue to grow as it has in the past, 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. 2017 marks the 45th consecutive year of a dividend increase.

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	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	108.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
National Beverage	37.1	2.7	191.6%
Coca-Cola	22.3	2.3	108.0%
Monster Beverage	39.4	2.8	123.5%
Dr Pepper Snapple	21.0	2.4	125.9%
Peer Median	29.7	2.6	124.7%
PepsiCo	**21.6**	**2.4**	**119.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	63,056	62,799	63,239
Revenue, YoY%	-5.4%	-0.4%	0.7%
Operating Income	9,712	9,785	11,402
Operating Margin %	15.4%	15.6%	18.0%
Net Income	5,452	6,329	7,523
Net Income Margin %	8.6%	10.1%	11.9%
Diluted EPS	3.67	4.36	5.18
Diluted EPS, YoY %	-13.9%	18.7%	18.9%
Free Cash Flow (CFO-capex)	7,575	7,107	7,193
Free Cash Flow Margin %	12.0%	11.3%	11.4%

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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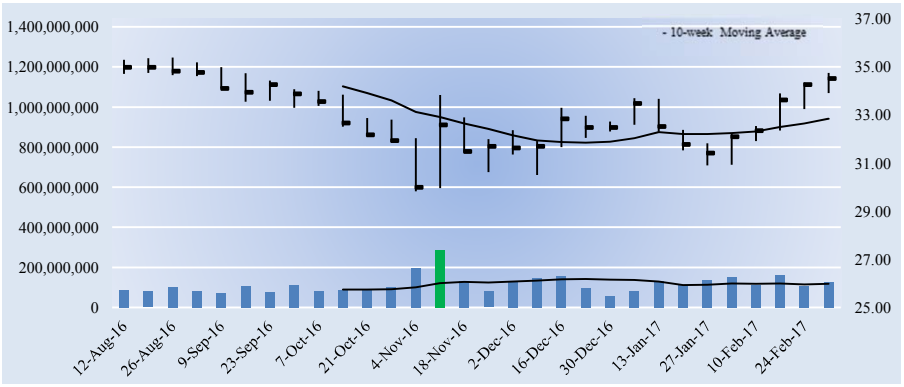
Pfizer PFE FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$38.00	$30.00 - $46.00	MEGA-CAP VALUE	Health Care	Pharmaceuticals - Big

Pfizer has a strong track record of approvals, which has played a key role in the evolution of its 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).

Company Vitals

Market Cap (USD)	$212,609
Avg Weekly Vol (30 wks)	116,305
30-week Range (USD)	29.83 - 35.38
Valuentum Sector	Health Care
5-week Return	9.7%
13-week Return	8.8%
30-week Return	-2.2%
Dividend Yield %	3.7%
Dividends per Share	1.28
Forward Dividend Payout Ratio	49.5%
Est. Normal Diluted EPS	3.00
P/E on Est. Normal Diluted EPS	11.5
Est. Normal EBITDA	30,026
Forward EV/EBITDA	8.7
EV/Est. Normal EBITDA	7.9
Forward Revenue Growth (5-yr)	2.3%
Forward EPS Growth (5-yr)	23.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	11.4%
Return on Assets	4.6%
ROIC, with goodwill	11.5%
ROIC, without goodwill	20.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	42,086
Net Debt	24,236
Total Debt/EBITDA	2.2
Net Debt/EBITDA	1.2
EBITDA/Interest	16.4
Current Ratio	1.3
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• 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. The firm was founded in 1849 and is headquartered in New York, New York.

• Pfizer continues to deliver novel and differentiated future potential products. The firm has the potential for more than 20 approvals from 2016-2020, including 7 new molecular entities (NMEs). Further, it has 6 near-term growth platforms with potential for significant market opportunity.

• Pfizer has a strong track record of approvals, which has played a key role in the evolution of its business. The firm is now #1 in non-viral anti-infective treatments, #1 in total biosimilar sales, the leading company in global off-patent sterile injectables, and has a leading position in emerging markets, which can be expected to drive growth in the near term.

• 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 recently had the US Department of the Treasury effectively nix its agreement to acquire Allergan in an all-stock tax-inversion deal. Pfizer abandoned the deal and acquired Anacor Pharmaceuticals for $5.2 billion. The key target of the deal is Anacor's eczema gel product.

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)	**BULLISH**
Near-term Technical Support, 10-week MA	**33.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
AbbVie	17.5	1.4	89.2%
Abbott	64.0	0.6	102.8%
Eli Lilly	20.2	2.0	128.9%
Merck	17.3	1.6	111.0%
Peer Median	18.9	1.5	106.9%
Pfizer	**13.4**	**1.2**	**90.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	48,851	52,824	53,299
Revenue, YoY%	-1.5%	8.1%	0.9%
Operating Income	12,976	13,730	21,566
Operating Margin %	26.6%	26.0%	40.5%
Net Income	6,949	7,198	15,606
Net Income Margin %	14.2%	13.6%	29.3%
Diluted EPS	1.11	1.17	2.59
Diluted EPS, YoY %	-21.5%	5.2%	121.2%
Free Cash Flow (CFO-capex)	13,192	13,902	19,438
Free Cash Flow Margin %	27.0%	26.3%	36.5%

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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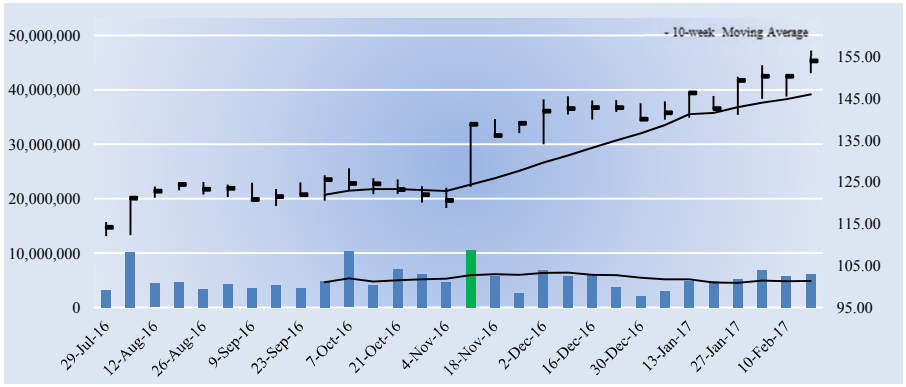
Parker-Hannifin PH OVERVALUED 3.8%

Buying Index™ 4 | Value Rating ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$123.00	$98.00 - $148.00	LARGE-CAP CORE	Industrials	Electrical Equipment

Parker-Hannifin recently agreed to acquire Clarcor in an all-cash deal for ~$4.3 billion.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$21,069
Avg Weekly Vol (30 wks)	5,317
30-week Range (USD)	112.09 - 156.44
Valuentum Sector	Industrials
5-week Return	5.8%
13-week Return	12.4%
30-week Return	36.3%
Dividend Yield %	1.7%
Dividends per Share	2.64
Forward Dividend Payout Ratio	35.5%
Est. Normal Diluted EPS	8.63
P/E on Est. Normal Diluted EPS	17.8
Est. Normal EBITDA	2,037
Forward EV/EBITDA	12.0
EV/Est. Normal EBITDA	10.8
Forward Revenue Growth (5-yr)	2.5%
Forward EPS Growth (5-yr)	11.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.9%
Return on Assets	7.5%
ROIC, with goodwill	14.9%
ROIC, without goodwill	25.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,037
Net Debt	933
Total Debt/EBITDA	2.0
Net Debt/EBITDA	0.6
EBITDA/Interest	10.9
Current Ratio	2.2
Quick Ratio	1.7

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 55 consecutive fiscal years. It was founded in 1918 and is headquartered in Cleveland, Ohio.

• When it comes to industrial entities, Parker-Hannifin is among the strongest. It boasts top quartile performance in free-cash-flow generation and return on invested capital. Investors should keep a close eye on Parker-Hannifin's operating margins as well, which have expanded nicely as of late.

• Parker-Hannifin is remaining cautious in its outlook for fiscal 2017, and sales are projected to be roughly flat in the year while margins are expected to expand. Management is seeing progress towards stabilization and a decelerating rate of decline in many of its key markets. Adjusted earnings per share guidance has been increased to a range of $7.05-$7.55 from $6.40-$7.10.

• 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 17% segment operating margins by fiscal year 2020. Its free cash flow conversion (free cash flow > net income) is consistently fantastic.

• Parker-Hannifin recently agreed to acquire Clarcor in an all-cash deal for ~$4.3 billion. The merger combines Clarcor's solid US presence with Parker-Hannifin's international strength. Annual run-rate synergies of $140 million are expected three years after closing.

Investment Considerations

DCF Valuation	OVERVALUED
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	146.00

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	18.4	2.3	116.9%
Emerson Electric	23.8	2.6	119.0%
Pentair	16.6	1.6	96.9%
Roper Technologies	22.6	2.4	136.3%
Peer Median	20.5	2.4	117.9%
Parker-Hannifin	**20.7**	**2.4**	**125.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-15	Jun-16	Jun-17
Revenue	12,712	11,361	11,372
Revenue, YoY%	-3.8%	-10.6%	0.1%
Operating Income	1,512	1,178	1,528
Operating Margin %	11.9%	10.4%	13.4%
Net Income	1,012	807	1,008
Net Income Margin %	8.0%	7.1%	8.9%
Diluted EPS	6.97	5.89	7.43
Diluted EPS, YoY %	1.5%	-15.5%	26.1%
Free Cash Flow (CFO-capex)	1,086	1,020	1,170
Free Cash Flow Margin %	8.5%	9.0%	10.3%

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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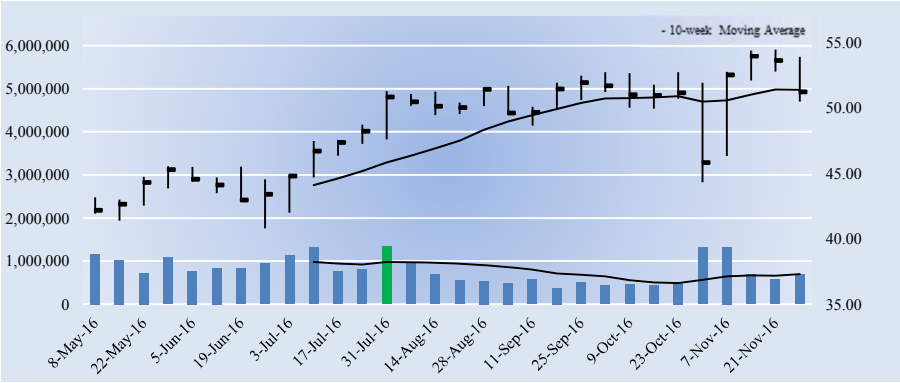
Plantronics Inc PLT FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$51.00	$41.00 - $61.00	SMALL-CAP CORE	Information Technology	Communications Equipment

Plantronics is a world leader in personal audio communications for professionals and consumers.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$1,791
Avg Weekly Vol (30 wks)	797
30-week Range (USD)	40.81 - 54.51
Valuentum Sector	Information Technology
5-week Return	-0.1%
13-week Return	-0.6%
30-week Return	20.7%
Dividend Yield %	1.2%
Dividends per Share	0.60
Forward Dividend Payout Ratio	18.8%
Est. Normal Diluted EPS	3.69
P/E on Est. Normal Diluted EPS	13.9
Est. Normal EBITDA	205
Forward EV/EBITDA	10.2
EV/Est. Normal EBITDA	9.2
Forward Revenue Growth (5-yr)	3.8%
Forward EPS Growth (5-yr)	15.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	15.2%
Return on Assets	11.7%
ROIC, with goodwill	51.1%
ROIC, without goodwill	54.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	490
Net Debt	94
Total Debt/EBITDA	3.4
Net Debt/EBITDA	0.7
EBITDA/Interest	5.7
Current Ratio	5.5
Quick Ratio	4.8

NMF = Not Meaningful

Investment Highlights

• Plantronics is a world leader in personal audio communications for professionals and consumers. Its services span solutions for unified communication to Bluetooth headsets. The company also makes specialty products under the Clarity brand. It was founded in 1961 and is headquartered in Santa Cruz, California.

• Plantronics' target financial model calls for gross margins in the 50%-52% range and operating margins in the 20%-23% range. The company's profit margins have been quite volatile during the past decade. Investors should expect this volatility to continue.

• Plantronics believes it has a long runway of growth ahead of it in its Unified Communications (UC) segment, which is currently the key strategic focus at Plantronics. The company is expecting modest overall growth in fiscal 2017 and anticipates operating margin expansion to drive earnings growth in the year.

• Beyond its expectations for fiscal 2017 revenue growth to be in the low to mid-single digits range, Plantronics expects revenue to advance at a 6%-7% CAGR through fiscal 2019. Its 'Consumer' segment (27% of fiscal 2016 revenue) is projected to grow at a ~10% CAGR, while its 'Enterprise' segment is looking to hit a ~5% revenue CAGR.

• The firm's business is sensitive to economic cycles, but the demand for headsets has generally grown over time for both business and consumer applications. Motorola, Samsung, LG and Bose can be considered competitors. Currency moves may pose headwinds.

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	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Resistance, 10-wk MA	51.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
EchoStar	26.2	2.7	108.1%
Harris Corp	40.6	1.1	114.1%
QUALCOMM	17.3	1.6	96.8%
ViaSat	56.9	3.0	126.3%
Peer Median	33.4	2.1	111.1%
Plantronics Inc	**16.1**	**1.6**	**100.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Mar-15	Mar-16	Mar-17
Revenue	865	857	889
Revenue, YoY%	5.7%	-0.9%	3.8%
Operating Income	140	123	163
Operating Margin %	16.2%	14.4%	18.3%
Net Income	112	68	110
Net Income Margin %	13.0%	8.0%	12.4%
Diluted EPS	2.63	1.96	3.19
Diluted EPS, YoY %	1.6%	-25.7%	63.0%
Free Cash Flow (CFO-capex)	132	116	98
Free Cash Flow Margin %	15.3%	13.6%	11.1%

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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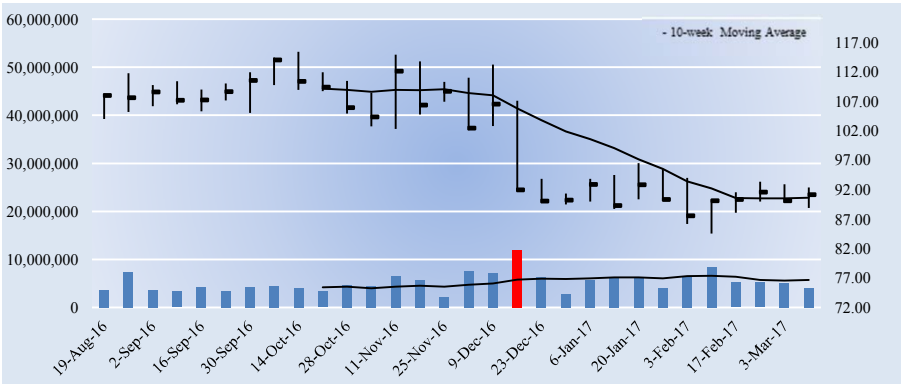
PVH Corp PVH FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$111.00	$89.00 - $133.00	MID-CAP VALUE	Consumer Discretionary	Luxury - Established Brands

Tommy Hilfiger and Calvin Klein account for about 75% of PVH Corp's revenue and about 85% of its earnings before interest and taxes.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$7,572
Avg Weekly Vol (30 wks)	5,286
30-week Range (USD)	84.53 - 115.4
Valuentum Sector	Consumer Discretionary
5-week Return	4.0%
13-week Return	-14.6%
30-week Return	-12.4%
Dividend Yield %	0.2%
Dividends per Share	0.15
Forward Dividend Payout Ratio	2.2%
Est. Normal Diluted EPS	8.18
P/E on Est. Normal Diluted EPS	11.1
Est. Normal EBITDA	1,236
Forward EV/EBITDA	9.6
EV/Est. Normal EBITDA	8.3
Forward Revenue Growth (5-yr)	2.6%
Forward EPS Growth (5-yr)	7.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	8.9%
Return on Assets	3.6%
ROIC, with goodwill	7.5%
ROIC, without goodwill	11.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,217
Net Debt	2,660
Total Debt/EBITDA	3.2
Net Debt/EBITDA	2.7
EBITDA/Interest	8.6
Current Ratio	1.8
Quick Ratio	0.8

NMF = Not Meaningful

Investment Highlights

• PVH Corp is one of the world's largest apparel companies. The firm leverages a diversified portfolio of brands--including Calvin Klein, Tommy Hilfiger, Van Heusen, IZOD, ARROW, and GH Bass & Co--and markets them globally. The company was founded in 1881 and is based in New York.

• Tommy Hilfiger and Calvin Klein account for about 75% of the firm's revenue and about 85% of its earnings before interest and taxes. The continued success of these two brands remains vital to PVH's long-term health. PVH acquired The Warnaco Group in February 2013.

• By the end of 2017, PVH sees an incremental $2.5 billion in global growth prospects for Tommy Hilfiger via broadening distribution and growing emerging market share. It sees a similar magnitude of opportunity for Calvin Klein. Sales growth for both brands has been modest as of late, however.

• PVH recently acquired True&Co, an e-commerce retailer, for an undisclosed sum. While the deal may not be a blockbuster needle mover in terms of immediate growth potential, we like what the decision to acquire a data and analytics driven entity. Integration and execution risk are certainly present, however.

• Tracing its roots back to the late 19th century, PVH has come a long way. It has wholesale, retail, e-commerce and licensing channels, and the firm's Asia and Latin American operations account for 20%+ of operating income.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	GOOD
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	HIGH
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	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
Nike	23.9	2.1	97.3%
Philips	15.5	1.6	105.1%
Sony	NMF	0.7	99.1%
VF Corp	17.1	1.7	99.9%
Peer Median	17.1	1.6	99.5%
PVH Corp	**13.3**	**1.4**	**82.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jan-15	Jan-16	Jan-17
Revenue	8,241	8,020	8,189
Revenue, YoY%	0.7%	-2.7%	2.1%
Operating Income	613	744	800
Operating Margin %	7.4%	9.3%	9.8%
Net Income	439	572	573
Net Income Margin %	5.3%	7.1%	7.0%
Diluted EPS	5.27	6.89	6.83
Diluted EPS, YoY %	203.3%	30.7%	-0.9%
Free Cash Flow (CFO-capex)	533	636	596
Free Cash Flow Margin %	6.5%	7.9%	7.3%

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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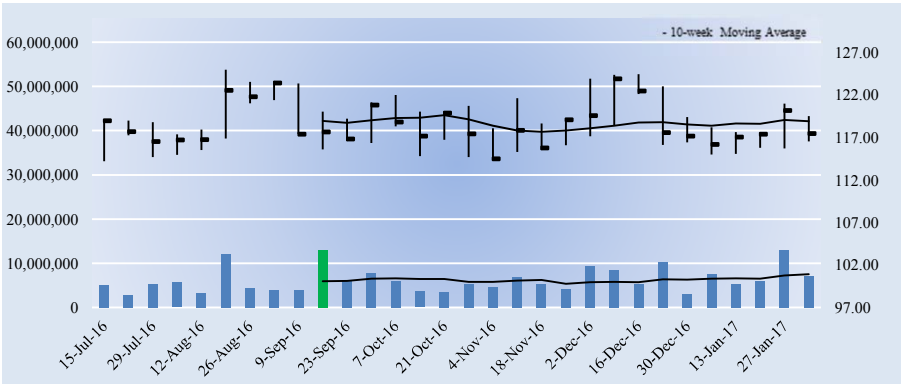
Praxair PX FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$98.00	$76.00 - $120.00	LARGE-CAP CORE	Materials	Chemicals - broad

Praxair recently entered a nonbinding merger of equals agreement with German industrial gas firm Linde. We're not sold on the deal, and intense regulatory scrutiny is likely.

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)	$33,803
Avg Weekly Vol (30 wks)	6,291
30-week Range (USD)	114.21 - 125
Valuentum Sector	Materials
5-week Return	-0.4%
13-week Return	1.3%
30-week Return	2.2%
Dividend Yield %	2.7%
Dividends per Share	3.15
Forward Dividend Payout Ratio	54.4%
Est. Normal Diluted EPS	7.28
P/E on Est. Normal Diluted EPS	16.1
Est. Normal EBITDA	4,291
Forward EV/EBITDA	11.9
EV/Est. Normal EBITDA	10.0
Forward Revenue Growth (5-yr)	5.5%
Forward EPS Growth (5-yr)	11.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	31.0%
Return on Assets	8.4%
ROIC, with goodwill	11.5%
ROIC, without goodwill	14.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	9,515
Net Debt	8,991
Total Debt/EBITDA	2.8
Net Debt/EBITDA	2.6
EBITDA/Interest	18.1
Current Ratio	1.2
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• 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. It was founded in 1907 and is headquartered in Connecticut.

• Praxair serves a diverse range of end markets, with no individual market accounting for more than a quarter of sales. Manufacturing, metals, energy and chemicals all account for 10% or more, however, and the cyclicality of these markets cannot be ignored.

• Praxair recently entered a nonbinding merger of equals agreement with German industrial gas firm Linde. The deal would create the world's largest industrial gas firm in terms of annual sales (~$30 billion on a pro forma basis), but regulatory scrutiny can be expected. ~$5 billion in annual sales generating assets may have to be divested, which could jeopardize the $1 billion annual synergy target.

• 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 (~15% of sales).

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

Relative Valuation

	Forward P/E	PEG	Price / FV
DuPont	20.5	1.9	119.4%
Ecolab	27.2	2.4	135.7%
PPG Industries	30.8	0.7	99.9%
Dow Chemical	14.6	2.0	118.1%
Peer Median	23.8	1.9	118.7%
Praxair	**20.3**	**1.9**	**119.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	10,776	10,534	10,845
Revenue, YoY%	-12.2%	-2.2%	3.0%
Operating Income	2,465	2,315	2,450
Operating Margin %	22.9%	22.0%	22.6%
Net Income	1,547	1,500	1,657
Net Income Margin %	14.4%	14.2%	15.3%
Diluted EPS	5.35	5.21	5.79
Diluted EPS, YoY %	-6.6%	-2.6%	11.0%
Free Cash Flow (CFO-capex)	1,154	1,308	1,425
Free Cash Flow Margin %	10.7%	12.4%	13.1%

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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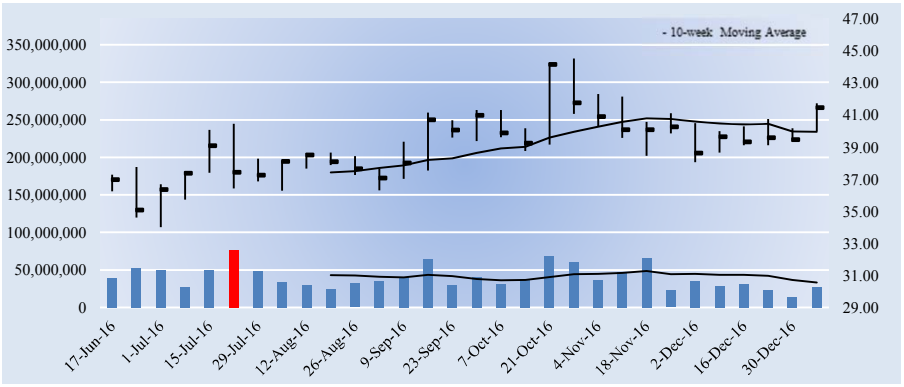
PayPal PYPL FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$46.00	$37.00 - $55.00	LARGE-CAP BLEND	Information Technology	Financial Tech Services

PayPal continues to set itself up for long-term success via partnerships that are aimed at accelerating the adoption of digital payments.

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)	$50,942
Avg Weekly Vol (30 wks)	40,248
30-week Range (USD)	34 - 44.52
Valuentum Sector	Information Technology
5-week Return	6.7%
13-week Return	3.3%
30-week Return	13.6%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	2.07
P/E on Est. Normal Diluted EPS	20.1
Est. Normal EBITDA	4,078
Forward EV/EBITDA	16.0
EV/Est. Normal EBITDA	11.7
Forward Revenue Growth (5-yr)	14.8%
Forward EPS Growth (5-yr)	21.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	9.3%
Return on Assets	3.7%
ROIC, with goodwill	16.5%
ROIC, without goodwill	25.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-3,411
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	1.5
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• PayPal operates as a technology platform company that enables digital and mobile payments on behalf of consumers and merchants worldwide. The company's platform allows customers to pay and get paid, transfer and withdraw funds to their bank accounts, and hold balances in their PayPal accounts in various currencies. PayPal was spun off from eBay in July 2015.

• PayPal will continue to innovate and update its products and platform. The firm recently updated its order-ahead function, which allows customer to have orders ready and paid for when they arrive at a store, and it has helped in the race for digital wallet customers.

• PayPal's business is subject to extensive government regulation and oversight, as well as complex, overlapping and frequently changing rules, regulations and legal interpretations. Additionally, any factors that increase the costs of cross-border trade or restrict, delay, or make cross-border trade more difficult would lower its revenues and profits and could harm our business, providing additional geopolitical risk.

• PayPal continues to set itself up for long-term success. The firm has announced partnerships with Visa, MasterCard, and Discover that enhance customer service features, particularly in the area of digital payments. For example, its partnership with Visa allows Visa cards to be a clear and equal payment method on PayPal platforms.

• PayPal has done well in expanding its customer base and deepening engagement. For example, both active customer accounts and number of payment transactions per customer account increased at a double-digit rate in the third quarter of 2016.

Investment Considerations

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

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Bottomline Tech	29.7	NMF	79.6%
Fiserv	24.5	1.9	144.5%
Mastercard	28.5	2.5	103.6%
Visa	24.7	1.8	97.9%
Peer Median	26.6	1.9	100.7%
PayPal	**27.4**	**1.9**	**90.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	8,025	9,248	10,848
Revenue, YoY%	19.3%	15.2%	17.3%
Operating Income	1,268	1,461	2,265
Operating Margin %	15.8%	15.8%	20.9%
Net Income	419	1,228	1,869
Net Income Margin %	5.2%	13.3%	17.2%
Diluted EPS	0.34	1.00	1.52
Diluted EPS, YoY %	-56.1%	191.9%	51.6%
Free Cash Flow (CFO-capex)	1,728	1,824	2,179
Free Cash Flow Margin %	21.5%	19.7%	20.1%

In Millions of USD (except for per share items)

Structure of the Financial Tech Services Industry — EXCELLENT

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

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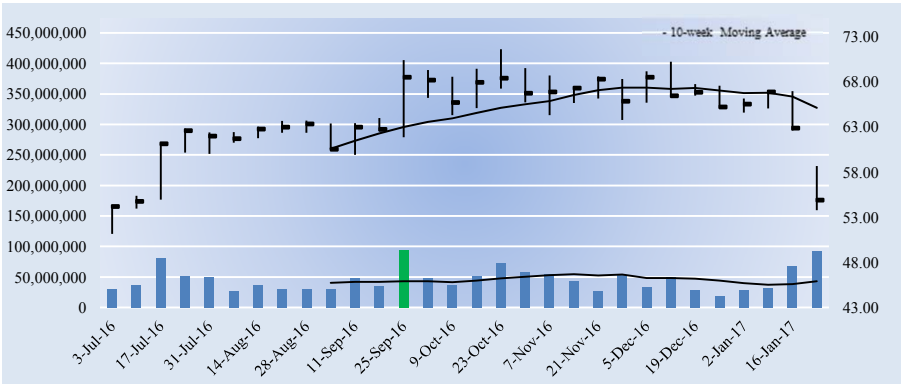
QUALCOMM QCOM FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$62.00	$50.00 - $74.00	LARGE-CAP VALUE	Information Technology	Communications Equipment

Apple and the Federal Trade Commission have accused QUALCOMM of anticompetitive practices.

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)	$82,210
Avg Weekly Vol (30 wks)	46,023
30-week Range (USD)	51.16 - 71.62
Valuentum Sector	Information Technology
5-week Return	-18.3%
13-week Return	-20.5%
30-week Return	3.6%
Dividend Yield %	3.9%
Dividends per Share	2.12
Forward Dividend Payout Ratio	44.3%
Est. Normal Diluted EPS	5.35
P/E on Est. Normal Diluted EPS	10.3
Est. Normal EBITDA	9,447
Forward EV/EBITDA	8.1
EV/Est. Normal EBITDA	8.0
Forward Revenue Growth (5-yr)	1.8%
Forward EPS Growth (5-yr)	9.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	17.7%
Return on Assets	15.4%
ROIC, with goodwill	65.4%
ROIC, without goodwill	116.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	11,757
Net Debt	-6,891
Total Debt/EBITDA	1.5
Net Debt/EBITDA	NMF
EBITDA/Interest	25.9
Current Ratio	3.1
Quick Ratio	2.9

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. The firm has one of the strongest Economic Castles in our coverage, but a breakup may be on the table. Job cuts to the tune of ~15% of its workforce have been announced.

• QUALCOMM acquired NXP Semiconductors in a cash deal worth ~$47 billion, building on mobile technology leadership in connectivity and Systems on a Chip. The firm expects to realize $500 million in annualized run-rate cost synergies within two years of the deal closing.

• You know a company's intellectual property is one-of-a-kind when it continues to face antitrust lawsuits. However, serious concerns arose after the Federal Trade Commission and Apple filed charges against QUALCOMM for anticompetitive behavior. The FTC claims the firm disrupted the supply of baseband processors to obtain elevated royalties and other favorable license terms.

• While the $1 billion lawsuit is grabbing headlines, the underlying issue is that Apple is essentially attacking how QUALCOMM runs its licensing business model. These developments come shortly after QUALCOMM was fined $854 million by South Korean regulators for unfair trade practices. We think the NXP deal may be at risk as a result.

• QUALCOMM is better positioned than most in its industry. The company owns a strong patent portfolio in CDMA and OFDMA (among others), and its licensing model continues to generate elevated margins and strong returns on capital.

Investment Considerations

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

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
CIENA	57.9	4.0	85.2%
Harris Corp	40.6	1.1	114.1%
EchoStar	26.2	2.7	108.1%
ViaSat	56.9	3.0	126.3%
Peer Median	48.8	2.9	111.1%
QUALCOMM	**11.5**	**1.5**	**88.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-15	Sep-16	Sep-17
Revenue	25,281	23,554	23,813
Revenue, YoY%	-4.6%	-6.8%	1.1%
Operating Income	7,069	6,269	7,832
Operating Margin %	28.0%	26.6%	32.9%
Net Income	5,271	5,705	6,860
Net Income Margin %	20.8%	24.2%	28.8%
Diluted EPS	3.22	3.81	4.79
Diluted EPS, YoY %	-26.9%	18.4%	25.7%
Free Cash Flow (CFO-capex)	4,512	6,861	7,618
Free Cash Flow Margin %	17.8%	29.1%	32.0%

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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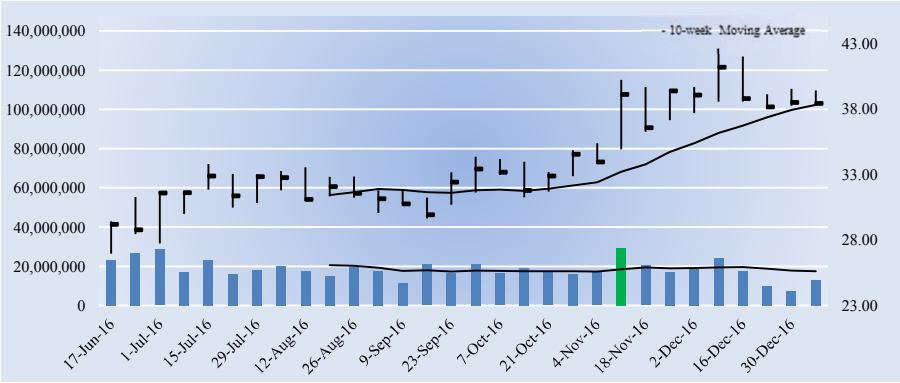
Rio Tinto RIO FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Neutral	$43.00	$32.00 - $54.00	LARGE-CAP VALUE	Materials	Mining - diversified

We've raised our fair value estimate for Rio Tinto as a result of materially higher near-term revenue expectations. Metal prices should benefit from planned supply cuts in China in 2017.

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)	$70,050
Avg Weekly Vol (30 wks)	18,541
30-week Range (USD)	26.95 - 42.61
Valuentum Sector	Materials
5-week Return	-2.4%
13-week Return	14.9%
30-week Return	38.2%
Dividend Yield %	3.9%
Dividends per Share	1.51
Forward Dividend Payout Ratio	58.2%
Est. Normal Diluted EPS	3.63
P/E on Est. Normal Diluted EPS	10.6
Est. Normal EBITDA	13,060
Forward EV/EBITDA	8.3
EV/Est. Normal EBITDA	6.4
Forward Revenue Growth (5-yr)	2.5%
Forward EPS Growth (5-yr)	-253.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	4.1%
Return on Assets	1.7%
ROIC, with goodwill	18.1%
ROIC, without goodwill	18.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	23,624
Net Debt	14,154
Total Debt/EBITDA	2.2
Net Debt/EBITDA	1.3
EBITDA/Interest	14.6
Current Ratio	1.5
Quick Ratio	1.2

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.

• China's leading steel- and iron-producing province plans to cut its production capacity for 2017 by twice the amount it cut 2016 capacity. Metal prices should benefit from the reduced supply, and our fair value estimate for Rio has been increased as a result of increased near-term revenue expectations.

• 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 more than $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	FAIRLY VALUED
Relative Valuation	NEUTRAL
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)	BULLISH
Near-term Technical Support, 10-week MA	38.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
BHP Billiton	27.9	NMF	112.0%
Cliffs Natural Resources	11.8	NMF	141.2%
Freeport McMoRan	50.9	NMF	93.1%
Vale	9.1	NMF	114.1%
Peer Median	19.9	NMF	113.1%
Rio Tinto	**14.8**	**NMF**	**89.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	47,664	34,829	34,690
Revenue, YoY%	-6.9%	-26.9%	-0.4%
Operating Income	13,007	6,334	5,515
Operating Margin %	27.3%	18.2%	15.9%
Net Income	6,527	-866	4,736
Net Income Margin %	13.7%	-2.5%	13.7%
Diluted EPS	3.51	-0.47	2.60
Diluted EPS, YoY %	78.0%	NMF	NMF
Free Cash Flow (CFO-capex)	6,124	4,698	4,848
Free Cash Flow Margin %	12.8%	13.5%	14.0%

In Millions of USD (except for per share items)

Structure of the Diversified Mining Industry — POOR

The diversified mining industry is highly cyclical and almost entirely commoditized, with little differentiation from one firm to the next. Rising input costs can only be passed on to consumers if industry-wide prices increase. Exploration and development require large capital investments, which could pressure cash flows during weak economic times. A miner's position on the cost curve for each respective resource is a critical investment consideration, given the volatility of commodity prices. Though emerging market growth will be a key source of demand for years to come, we don't like the structure of the group.

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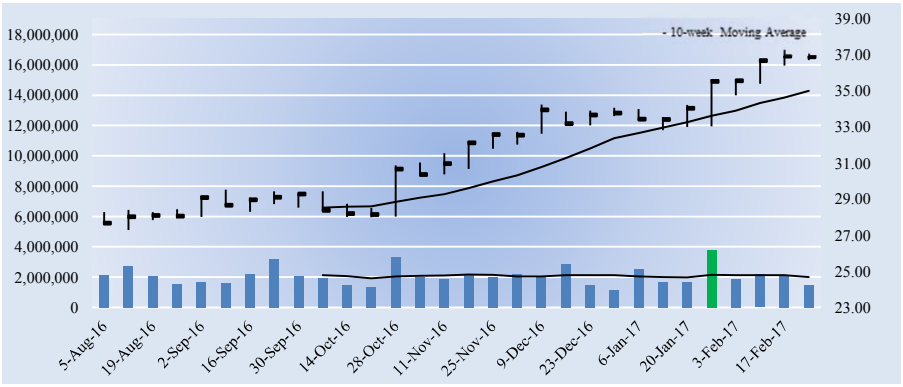
Rollins ROL OVERVALUED 24.1%

Buying Index™ 4 **Value Rating** ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$22.00	$17.00 - $28.00	MID-CAP CORE	Materials	Chemicals - mid/small

Roughly 80% of the Rollins' revenues are of the recurring variety, but its share price continues to run ahead of its fundamental free cash flow stream.

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)	$8,066
Avg Weekly Vol (30 wks)	2,088
30-week Range (USD)	27.29 - 37.29
Valuentum Sector	Materials
5-week Return	8.1%
13-week Return	13.5%
30-week Return	30.9%
Dividend Yield %	1.2%
Dividends per Share	0.46
Forward Dividend Payout Ratio	59.9%
Est. Normal Diluted EPS	1.08
P/E on Est. Normal Diluted EPS	34.3
Est. Normal EBITDA	420
Forward EV/EBITDA	25.5
EV/Est. Normal EBITDA	18.9
Forward Revenue Growth (5-yr)	5.8%
Forward EPS Growth (5-yr)	16.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	30.8%
Return on Assets	17.8%
ROIC, with goodwill	35.3%
ROIC, without goodwill	64.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-135
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	1.2
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• Rollins provides pest and termite control services. Its wholly-owned subsidiary Orkin is the world's largest and serves customers across the globe. It has over 2 million residential and commercial customers. The Orkin brand name is a valuable asset to the firm. The company was founded in 1948 and is headquartered in Atlanta, Georgia.

• R. Randall and Gary Rollins, Chairman and Vice Chairman/CEO, respectively, have substantial ownership interest in the company. This is perhaps one of the reasons why shares are trading at such a lofty premium to underlying fundamentals. There's not many external shares for sale.

• We're big fans of Rollins' strong balance sheet, which boasted a net cash position of ~$143 million as of the end of 2016. We also like the fact that ~80% of the firm's revenues are of the recurring variety, giving its business a degree of predictability. The growing awareness of the positive health impact pest control can have should continue to help drive demand.

• Orkin is a 110+ year-old company. The 'Orkin' man icon has ~70% brand awareness, and Rollins spends 5% of revenues annually to preserve the brand. Pest control is a recession-resistant market, and Rollins controls 20% of the commercial market. It has high customer retention and strong pricing.

• Rollins has fetched a significant premium market multiple relative to peers. We don't think it deserves it, and we'd be nervous owning shares at current levels. Its price is ahead of its fundamental free cash flow stream.

Investment Considerations

DCF Valuation	**OVERVALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
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	**35.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Albemarle	26.0	1.9	133.6%
FMC Corp	16.9	1.5	105.7%
Intl Flavors	24.8	1.5	128.9%
Olin Corp	22.1	NMF	110.0%
Peer Median	23.4	1.5	119.4%
Rollins	**48.1**	**3.3**	**167.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	1,412	1,485	1,573
Revenue, YoY%	5.5%	5.2%	5.9%
Operating Income	219	241	265
Operating Margin %	15.5%	16.2%	16.9%
Net Income	138	152	168
Net Income Margin %	9.8%	10.2%	10.7%
Diluted EPS	0.63	0.70	0.77
Diluted EPS, YoY %	11.8%	10.6%	10.3%
Free Cash Flow (CFO-capex)	165	156	193
Free Cash Flow Margin %	11.7%	10.5%	12.3%

In Millions of USD (except for per share items)

Structure of the Chemicals Industry — POOR

The chemicals (mid/small) 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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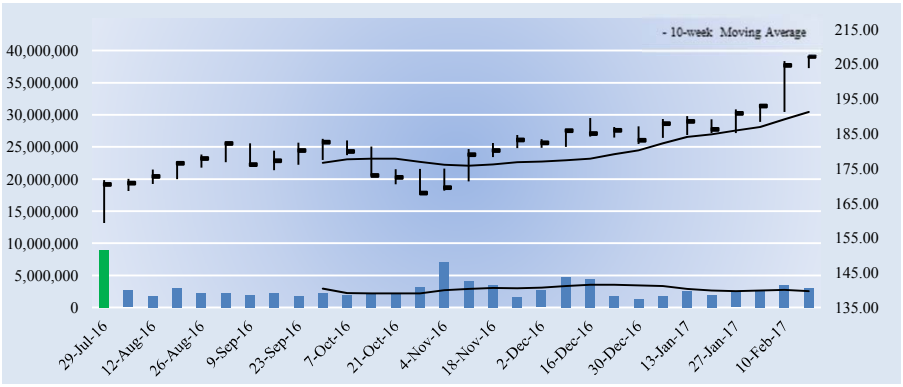
Roper Technologies ROP OVERVALUED 12.1%

Buying Index™ 2 | Value Rating ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$152.00	$122.00 - $182.00	LARGE-CAP CORE	Industrials	Electrical Equipment

Roper Technologies recently agreed to acquire Deltek, a business software company, for $2.8 billion.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$21,224
Avg Weekly Vol (30 wks)	2,930
30-week Range (USD)	159.28 - 207.6
Valuentum Sector	Industrials
5-week Return	10.2%
13-week Return	14.3%
30-week Return	25.5%
Dividend Yield %	0.7%
Dividends per Share	1.40
Forward Dividend Payout Ratio	15.3%
Est. Normal Diluted EPS	10.64
P/E on Est. Normal Diluted EPS	19.5
Est. Normal EBITDA	1,967
Forward EV/EBITDA	15.5
EV/Est. Normal EBITDA	13.6
Forward Revenue Growth (5-yr)	8.2%
Forward EPS Growth (5-yr)	13.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	13.4%
Return on Assets	6.9%
ROIC, with goodwill	11.1%
ROIC, without goodwill	28.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,210
Net Debt	5,452
Total Debt/EBITDA	4.8
Net Debt/EBITDA	4.2
EBITDA/Interest	11.6
Current Ratio	1.2
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• 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. The company was founded in 1981 and is based in Sarasota, Florida.

• Roper's businesses that serve upstream oil and gas customers have come under pressure recently, and we're not sure when a long-term sustainable recovery will be here to stay. The firm's Medical and RF Technology segments have helped to offset the energy-related weakness.

• 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 is a tremendous generator of free cash flow, which has exceeded net income for nearly two consecutive decades and has been ~135% of net income over the past 14 years. Strong and sustainable margins and high incremental operating profit cause the firm to expect such tremendous cash generation to continue.

• Roper recently agreed to acquire Deltek, a business software company, for $2.8 billion. Management expects the acquisition to deliver revenue of $535 million, EBITDA of $200 million, and free cash flow of $80 million in 2017.

Investment Considerations

DCF Valuation	OVERVALUED
Relative Valuation	UNATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	HIGH
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	191.00

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	18.4	2.3	116.9%
Emerson Electric	23.8	2.6	119.0%
Parker-Hannifin	20.7	2.4	125.1%
Pentair	16.6	1.6	96.9%
Peer Median	19.6	2.3	117.9%
Roper Technologies	**22.6**	**2.4**	**136.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	3,582	3,790	4,586
Revenue, YoY%	0.9%	5.8%	21.0%
Operating Income	1,028	1,055	1,468
Operating Margin %	28.7%	27.8%	32.0%
Net Income	696	659	948
Net Income Margin %	19.4%	17.4%	20.7%
Diluted EPS	6.85	6.43	9.17
Diluted EPS, YoY %	7.0%	-6.2%	42.7%
Free Cash Flow (CFO-capex)	890	924	1,095
Free Cash Flow Margin %	24.8%	24.4%	23.9%

In Millions of USD (except for per share items)

Structure of the Electrical Equipment Industry — NEUTRAL

The fragmented electrical equipment industry includes firms that primarily provide flow control and electrical components. Order trends and backlog are largely driven by the overall health of the economy, while all constituents must deal with volatile raw material prices. Most operate high fixed-cost business models, where operating leverage should be monitored closely, and face intense global competition. Still, we like the group's exposure to recurring maintenance, repair, and overhaul (MRO) revenue and its large and growing emerging-market opportunities. We're generally neutral on the industry's structure.

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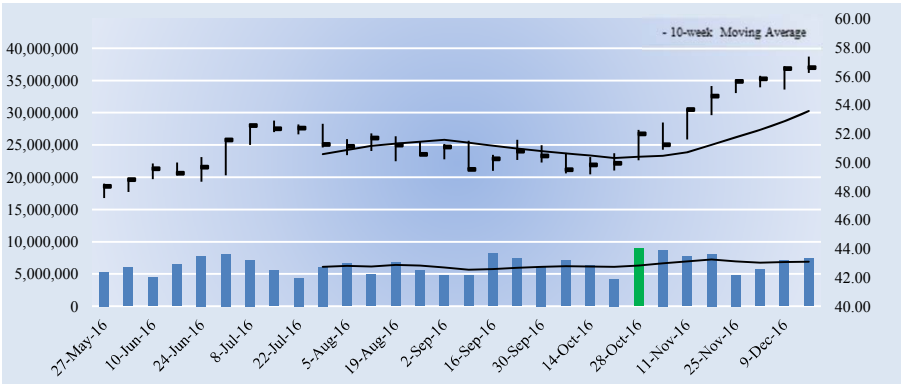
Republic Services RSG FAIRLY VALUED

Buying Index™ 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	Industrials	Environmental Services

Through long-term exclusive franchise contracts with municipalities, Republic Services 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)	$19,886
Avg Weekly Vol (30 wks)	6,416
30-week Range (USD)	47.525 - 57.3599
Valuentum Sector	Industrials
5-week Return	5.5%
13-week Return	12.8%
30-week Return	18.4%
Dividend Yield %	2.3%
Dividends per Share	1.28
Forward Dividend Payout Ratio	57.6%
Est. Normal Diluted EPS	2.91
P/E on Est. Normal Diluted EPS	19.4
Est. Normal EBITDA	3,094
Forward EV/EBITDA	10.1
EV/Est. Normal EBITDA	8.9
Forward Revenue Growth (5-yr)	3.4%
Forward EPS Growth (5-yr)	12.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	8.1%
Return on Assets	3.1%
ROIC, with goodwill	6.5%
ROIC, without goodwill	16.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	7,574
Net Debt	7,542
Total Debt/EBITDA	2.8
Net Debt/EBITDA	2.8
EBITDA/Interest	7.4
Current Ratio	0.7
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. The company was founded in 1996 and is based in Phoenix, Arizona.

• 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.

• In 2017, Republic Services expects mid- to high-single digit earnings and free cash flow growth after adjusting for taxes. Adjusted diluted earnings per share is expected to be in a range of $2.31 to $2.36 in the year, which excludes the impact of restructuring charges. Adjusted free cash flow is projected to be in a range of $875-$900 million.

• Republic Services generates ~60% of its total revenue in more attractive franchise and small and mid-size markets. In its franchise markets, it is an exclusive service provider boasting long-term contracts and optimal operating density. In small and mid-size markets it is typically the market leader, is vertically integrated and has strong operating density.

• 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	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**HIGH**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**54.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Clean Harbors	408.6	0.7	117.9%
Stericycle	16.1	1.5	79.5%
Waste Connections	30.8	NMF	158.2%
Waste Management	23.8	2.0	125.1%
Peer Median	27.3	1.5	121.5%
Republic Services	**25.5**	**2.1**	**117.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	8,788	9,115	9,370
Revenue, YoY%	4.4%	3.7%	2.8%
Operating Income	1,255	1,563	1,551
Operating Margin %	14.3%	17.2%	16.5%
Net Income	548	750	766
Net Income Margin %	6.2%	8.2%	8.2%
Diluted EPS	1.53	2.13	2.22
Diluted EPS, YoY %	-5.6%	39.6%	4.1%
Free Cash Flow (CFO-capex)	667	734	694
Free Cash Flow Margin %	7.6%	8.0%	7.4%

In Millions of USD (except for per share items)

Structure of the Environmental Services Industry — GOOD

The oligopolistic US non-hazardous solid-waste services industry is dominated by Waste Management, Republic Services and Waste Connections, which collectively generate over half of industry revenue and control an equal percentage of valuable disposal capacity. Most operators boast strong returns on capital and predictable cash flow streams, buoyed in part by real pricing expansion. The landfill business has significant barriers to entry, while Stericycle's niche in the medical-waste industry and US Ecology's monopolistic radioactive waste disposal assets are compelling. We like the structure of the group.

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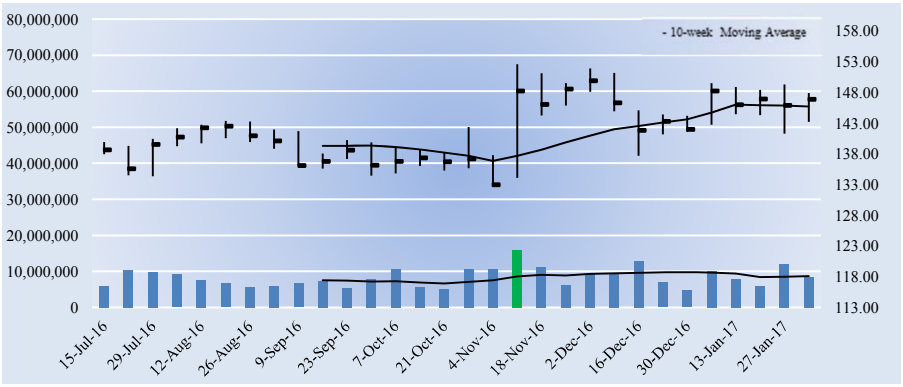
Raytheon RTN OVERVALUED 10.8%

Buying Index™ 4 **Value Rating** ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$109.00	$87.00 - $131.00	LARGE-CAP CORE	Industrials	A&D Prime

Raytheon is anticipating recent momentum in bookings to continue in the year.

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)	$43,597
Avg Weekly Vol (30 wks)	8,395
30-week Range (USD)	132.89 - 152.5797
Valuentum Sector	Industrials
5-week Return	2.4%
13-week Return	9.0%
30-week Return	5.9%
Dividend Yield %	2.0%
Dividends per Share	2.93
Forward Dividend Payout Ratio	39.2%
Est. Normal Diluted EPS	9.66
P/E on Est. Normal Diluted EPS	15.2
Est. Normal EBITDA	4,616
Forward EV/EBITDA	12.1
EV/Est. Normal EBITDA	9.9
Forward Revenue Growth (5-yr)	3.8%
Forward EPS Growth (5-yr)	10.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	21.3%
Return on Assets	7.6%
ROIC, with goodwill	14.0%
ROIC, without goodwill	84.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,335
Net Debt	1,932
Total Debt/EBITDA	1.4
Net Debt/EBITDA	0.5
EBITDA/Interest	16.2
Current Ratio	1.7
Quick Ratio	0.5

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. The company was founded in 1922 and is headquartered in Massachusetts.

• Raytheon is well-positioned to take advantage of its growing international market. International revenue accounts for roughly 30% of total sales, and international bookings accounted for ~41% of total backlog at the end of 2016.

• Strong bookings and backlog numbers as of late has led management to anticipate solid growth in 2017; revenue is expected to advance to a range of $24.8-$25.3 billion, compared to $24.1 billion in 2016, and earnings per share from continuing operations is projected to be in a range of $7.20-$7.35, compared to $7.44 in 2016.

• In addition to strong sales and earnings growth in 2017, Raytheon is anticipating recent momentum in bookings to continue in the year. Though it is not expecting to hit record bookings levels seen in 2016, $25-$26 billion in bookings for the year is a solid pace. Bookings often pick up in the second half of the year.

• Raytheon is leading a development team that is aiming to make mobile applications viable for up to 100 years despite hardware and other operating services changes. While this may seem like a farfetched idea, the development may be worth watching.

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)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**146.00**

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 Dynamics	18.6	1.7	122.9%
Lockheed Martin	19.9	1.9	131.8%
Northrop Grumman	19.3	1.9	130.7%
Boeing	17.3	1.5	97.2%
Peer Median	18.9	1.8	126.8%
Raytheon	**19.7**	**1.9**	**134.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	23,247	24,069	25,080
Revenue, YoY%	1.8%	3.5%	4.2%
Operating Income	3,013	3,240	3,227
Operating Margin %	13.0%	13.5%	12.9%
Net Income	2,061	2,210	2,196
Net Income Margin %	8.9%	9.2%	8.8%
Diluted EPS	6.75	7.45	7.47
Diluted EPS, YoY %	-3.1%	10.3%	0.4%
Free Cash Flow (CFO-capex)	1,889	2,227	1,845
Free Cash Flow Margin %	8.1%	9.3%	7.4%

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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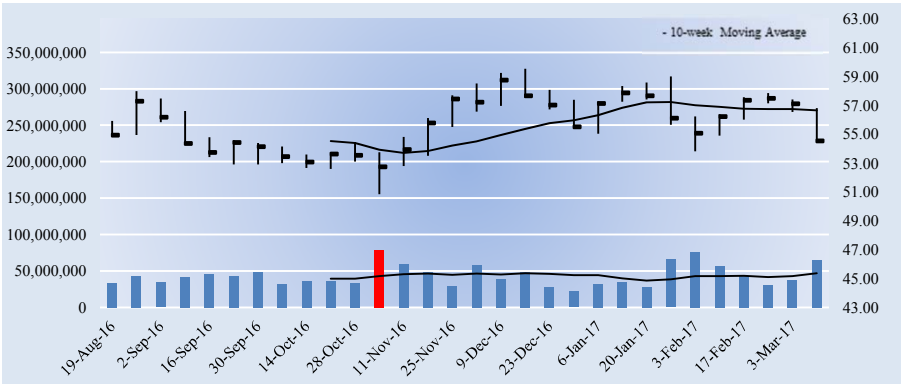
Starbucks SBUX FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$50.00	$40.00 - $60.00	LARGE-CAP GROWTH	Consumer Discretionary	Restaurants - Fast Food & Coffee

Starbucks has one of the strongest and most-recognized brands in the world, giving it notable pricing power.

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)	$81,070
Avg Weekly Vol (30 wks)	43,763
30-week Range (USD)	50.84 - 59.54
Valuentum Sector	Consumer Discretionary
5-week Return	-0.9%
13-week Return	-6.9%
30-week Return	-2.0%
Dividend Yield %	1.7%
Dividends per Share	0.90
Forward Dividend Payout Ratio	41.8%
Est. Normal Diluted EPS	2.84
P/E on Est. Normal Diluted EPS	19.2
Est. Normal EBITDA	7,567
Forward EV/EBITDA	14.2
EV/Est. Normal EBITDA	10.9
Forward Revenue Growth (5-yr)	9.5%
Forward EPS Growth (5-yr)	13.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	46.8%
Return on Assets	21.1%
ROIC, with goodwill	45.2%
ROIC, without goodwill	60.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,602
Net Debt	1,339
Total Debt/EBITDA	0.7
Net Debt/EBITDA	0.3
EBITDA/Interest	60.1
Current Ratio	1.0
Quick Ratio	0.7

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.

• Starbucks' China division is growing at a tremendous overall pace, as the firm is opening a store in China almost every day. Management expects its China business will eventually be larger than its US business. Performance in the region has been solid.

• 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. Annual price increases across the menu appear to have become commonplace. We also like its unparalleled beverage innovation, recent step-change in food quality, and renewed focus on tea.

• Starbucks has achievable fiscal 2016 targets. Management expects revenue growth to be between 8% and 10% and global comparable store sales expansion in the mid-single digits; it anticipates openening an impressive 2,100 net new stores in the year. Non-GAAP EPS is targeted in the range of $2.12-$2.14.

• Investors should be cognizant that input (coffee) costs can be volatile. A variety of factors can influence the price of coffee, such as the strength of South American currencies relative to the dollar and weather patterns.

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	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Resistance, 10-wk 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
Dunkin' Brands	22.4	2.4	117.3%
McDonald's	20.6	2.7	136.1%
Wendy's Co	28.5	1.5	147.2%
Yum! Brands	23.4	1.5	98.9%
Peer Median	22.9	2.0	126.7%
Starbucks	**25.3**	**2.1**	**109.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-15	Sep-16	Sep-17
Revenue	19,163	21,316	22,915
Revenue, YoY%	16.5%	11.2%	7.5%
Operating Income	3,351	3,854	4,695
Operating Margin %	17.5%	18.1%	20.5%
Net Income	2,757	2,818	3,198
Net Income Margin %	14.4%	13.2%	14.0%
Diluted EPS	1.82	1.90	2.15
Diluted EPS, YoY %	34.5%	NMF	NMF
Free Cash Flow (CFO-capex)	2,445	3,135	2,899
Free Cash Flow Margin %	12.8%	14.7%	12.7%

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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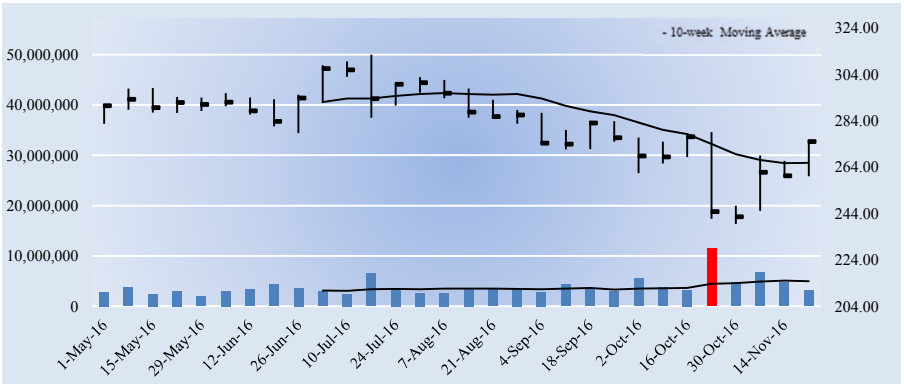
Sherwin-Williams SHW FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$228.00	$171.00 - $285.00	LARGE-CAP CORE	Consumer Discretionary	Specialty Retailers

Sherwin-William's customer mix continues to improve towards its higher margin Paint Contractors customer base.

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)	$25,854
Avg Weekly Vol (30 wks)	3,865
30-week Range (USD)	239.48 - 312.48
Valuentum Sector	Consumer Discretionary
5-week Return	-1.3%
13-week Return	-3.8%
30-week Return	-3.6%
Dividend Yield %	1.2%
Dividends per Share	3.36
Forward Dividend Payout Ratio	27.0%
Est. Normal Diluted EPS	16.06
P/E on Est. Normal Diluted EPS	17.1
Est. Normal EBITDA	2,418
Forward EV/EBITDA	14.1
EV/Est. Normal EBITDA	11.4
Forward Revenue Growth (5-yr)	5.2%
Forward EPS Growth (5-yr)	12.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	73.5%
Return on Assets	14.9%
ROIC, with goodwill	36.1%
ROIC, without goodwill	59.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,963
Net Debt	1,757
Total Debt/EBITDA	1.1
Net Debt/EBITDA	1.0
EBITDA/Interest	29.8
Current Ratio	1.2
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• Sherwin-Williams makes and sells paint, coatings and related products to professional, industrial, commercial and retail customers primarily in North and South America with additional operations in the Caribbean region, Europe and Asia. The company was founded in 1866 and is headquartered in Cleveland, Ohio.

• We think the company has brand power. It has the #1 architectural paint brand (SWP), the #1 stain (Minwax), the #1 aerosol paint (Krylon), the #1 auto specialty paint (Dupli-Color), the #1 painting tool brand (Purdy), and the #1 wood sealer (Thompson's).

• Sherwin-William's customer mix continues to improve towards its higher margin Paint Contractors customer base, which made up approximately 60% of total sales. The firm's controlled distribution network makes up 75% of total sales and allows the firm to have a direct relationship with the end user while also having control over brands, pricing and the pace and place of growth.

• Most of the firm's revenue and profit comes from its 'Paint Stores' segment. The top 10 suppliers in the coatings industry account for nearly 60% of global share. Though there are more than 15,000 firms in the industry, Sherwin-Williams is among the top 3, trailing Akzo Nobel and PPG.

• Sherwin-Williams' short-term results are sensitive to global trends and end-market demands. For example, in 2015 heavy rains has slowed construction in the US, and the strong dollar has impacted reported international results, particularly in Latin America.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	VERY BULLISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Support, 10-week MA	266.00

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
Best Buy	14.1	2.2	105.9%
Home Depot	20.5	1.8	119.6%
Lowe's	18.2	1.5	112.8%
Office Depot	11.8	3.5	81.2%
Peer Median	16.2	2.0	109.3%
Sherwin-Williams	**22.1**	**1.9**	**120.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	11,130	11,339	11,759
Revenue, YoY%	9.3%	1.9%	3.7%
Operating Income	1,342	1,646	1,749
Operating Margin %	12.1%	14.5%	14.9%
Net Income	866	1,054	1,160
Net Income Margin %	7.8%	9.3%	9.9%
Diluted EPS	8.83	11.21	12.46
Diluted EPS, YoY %	18.4%	26.9%	11.2%
Free Cash Flow (CFO-capex)	881	1,213	1,181
Free Cash Flow Margin %	7.9%	10.7%	10.0%

In Millions of USD (except for per share items)

Structure of the Specialty Retailers Industry — NEUTRAL

The specialty retail segment is fragmented, highly competitive, and economically-sensitive. The group covers a broad array of businesses and is dominated by retailers with large brick-and-mortar store footprints. Though some constituents may be insulated from e-commerce competition, others risk obsolescence as product distribution moves to digital means, and online retailers offer lower prices for identical goods and services. We're fairly neutral on the structure of the industry, though some constituents will inevitably face secular and permanent declines.

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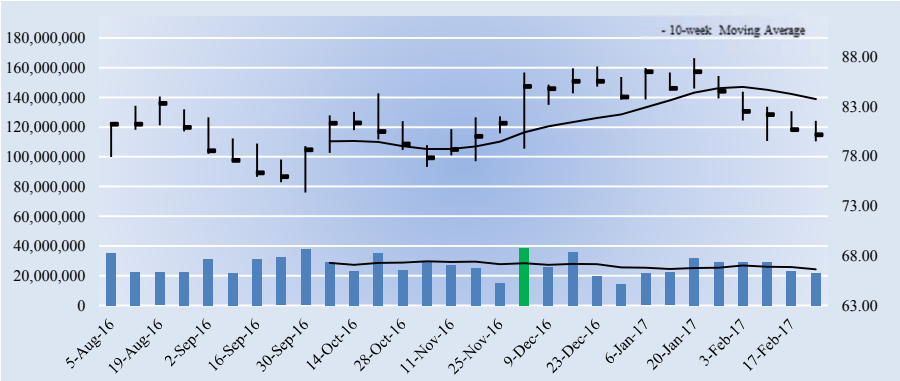
Schlumberger SLB FAIRLY VALUED

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 GROWTH	Energy	Energy Equipment - Large

Schlumberger continues to navigate the tumultuous energy resource pricing environment by adjusting capacity.

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)	$108,764
Avg Weekly Vol (30 wks)	26,992
30-week Range (USD)	74.33 - 87.84
Valuentum Sector	Energy
5-week Return	-6.6%
13-week Return	-1.5%
30-week Return	0.5%
Dividend Yield %	2.5%
Dividends per Share	2.00
Forward Dividend Payout Ratio	110.6%
Est. Normal Diluted EPS	3.82
P/E on Est. Normal Diluted EPS	21.0
Est. Normal EBITDA	13,501
Forward EV/EBITDA	14.3
EV/Est. Normal EBITDA	8.8
Forward Revenue Growth (5-yr)	12.5%
Forward EPS Growth (5-yr)	-232.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	5.4%
Return on Assets	3.2%
ROIC, with goodwill	17.4%
ROIC, without goodwill	29.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	19,616
Net Debt	10,359
Total Debt/EBITDA	3.1
Net Debt/EBITDA	1.6
EBITDA/Interest	11.2
Current Ratio	1.6
Quick Ratio	1.2

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. The company was founded in 1926 and is based in Houston, Texas.

• Schlumberger is maintaining a constructive view of the oil market as supply and demand appear to be tightening. Third party sources have pegged global demand for 2017 between 1.3-1.6 million barrels per day compared to ~1.5 million in 2016.

• Schlumberger recently completed its acquisition of Cameron International for $14.8 billion in cash and stock. The transaction is expected to be accretive to Schlumberger's earnings in the first year after closing (April 2016), and synergies of $300 million and $600 million are expected in the first and second years. More industry consolidation has increased competition for complete drilling and production systems.

• Though Schlumberger has materially reduced its operating capacity the firm has maintained its core capabilities beyond that of its current operating requirements, which will create operating leverage that will allow the firm to improve both its market share and margins as crude oil markets stabilize.

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

Investment Considerations

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Baker Hughes	182.3	NMF	116.8%
Halliburton	43.6	NMF	114.9%
National Oilwell Varco	NMF	NMF	99.5%
Weatherford Intl	NMF	NMF	69.6%
Peer Median	113.0	NMF	107.2%
Schlumberger	**44.3**	**NMF**	**105.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	35,711	28,010	31,371
Revenue, YoY%	-26.9%	-21.6%	12.0%
Operating Income	5,566	2,285	3,721
Operating Margin %	15.6%	8.2%	11.9%
Net Income	2,072	-1,687	2,453
Net Income Margin %	5.8%	-6.0%	7.8%
Diluted EPS	1.63	-1.24	1.81
Diluted EPS, YoY %	NMF	NMF	NMF
Free Cash Flow (CFO-capex)	5,909	3,576	4,173
Free Cash Flow Margin %	16.5%	12.8%	13.3%

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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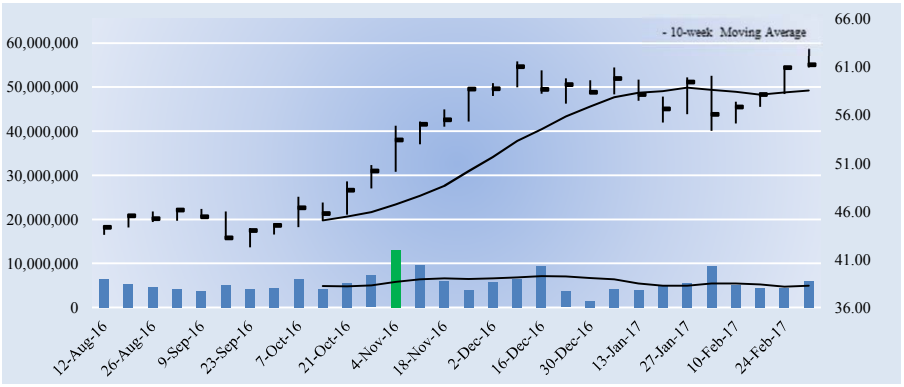
Spirit AeroSystems SPR FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$64.00	$51.00 - $77.00	MID-CAP VALUE	Industrials	A&D Suppliers

We don't think the ties between Boeing and Spirit will ever be severed.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$7,775
Avg Weekly Vol (30 wks)	5,635
30-week Range (USD)	42.26 - 62.9
Valuentum Sector	Industrials
5-week Return	3.9%
13-week Return	3.5%
30-week Return	40.4%
Dividend Yield %	0.2%
Dividends per Share	0.10
Forward Dividend Payout Ratio	2.0%
Est. Normal Diluted EPS	5.37
P/E on Est. Normal Diluted EPS	11.4
Est. Normal EBITDA	1,199
Forward EV/EBITDA	7.4
EV/Est. Normal EBITDA	6.8
Forward Revenue Growth (5-yr)	2.6%
Forward EPS Growth (5-yr)	9.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	29.5%
Return on Assets	9.9%
ROIC, with goodwill	25.6%
ROIC, without goodwill	25.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,087
Net Debt	389
Total Debt/EBITDA	1.1
Net Debt/EBITDA	0.4
EBITDA/Interest	16.7
Current Ratio	1.9
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• Spirit is one of the largest independent non-OEM (original equipment manufacturer) aircraft parts designers and manufacturers of commercial aerostructures in the world. It is the largest independent supplier of aerostructures to Boeing. The company was founded in 1927 and is headquartered in Wichita, Kansas.

• The commercial aerospace industry is one of the strongest industries on the market with significant visibility thanks in part to the burgeoning backlogs at the airframe makers. We expect upside to management's revenue and earnings guidance.

• The company makes aerostructures for every Boeing commercial aircraft currently in production besides the 787, including the majority of the airframe content for the Boeing 737, the most popular major commercial aircraft in history. The company's backlog has expanded to over $47 billion at the end of 2016 from $19 billion in 2006.

• Spirit is expecting very modest revenue growth in 2017, with guidance coming in a range of $6.8-$6.9 billion compared to ~$6.8 billion in 2016. Earnings per diluted share guidance has been issued in a range of $4.60-$4.85, while free cash flow is being targeted at $450-$500 million for the year compared to over $460 million in 2016.

• We like Spirit's industry leading capability from design using base materials to a fully installed operational flight deck to reliable delivery and support. We don't think the ties between Boeing and Spirit will ever be severed.

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 BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**59.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Astronics	17.6	1.4	81.9%
Rockwell Collins	17.8	1.9	118.3%
Hexcel Corp	19.5	1.9	116.5%
Rockwell Collins	15.8	2.4	112.3%
Peer Median	17.7	1.9	114.4%
Spirit AeroSystems	**12.5**	**1.8**	**95.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	6,644	6,793	6,874
Revenue, YoY%	-2.3%	2.2%	1.2%
Operating Income	863	737	881
Operating Margin %	13.0%	10.9%	12.8%
Net Income	789	470	621
Net Income Margin %	11.9%	6.9%	9.0%
Diluted EPS	5.66	3.70	4.89
Diluted EPS, YoY %	NMF	NMF	32.2%
Free Cash Flow (CFO-capex)	930	463	563
Free Cash Flow Margin %	14.0%	6.8%	8.2%

In Millions of USD (except for per share items)

Structure of the A&D Supplier Industry — GOOD

The aerospace supply chain will benefit from the multi-year backlogs at the airframe makers, Boeing and Airbus. Though the current upswing looks robust, commercial aerospace has historically been cyclical and remains influenced by airline profits, passenger traffic, credit-market health, and geopolitical conditions. Participants generally operate under contracts with significant long-term price concessions, so cost-containment remains critical. The strongest suppliers are those that have long-standing customer relationships, technical expertise, and state-of-the-art manufacturing facilities. We like the group.

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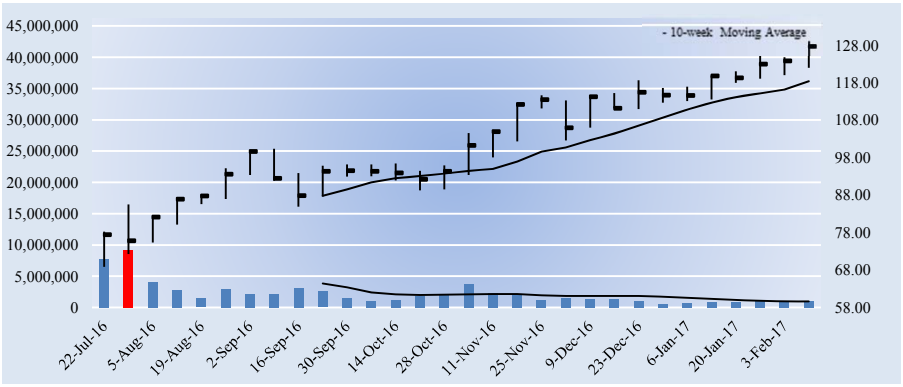
Stamps.com STMP FAIRLY VALUED

Buying Index™ 5 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$106.00	$80.00 - $133.00	MID-CAP GROWTH	Consumer Discretionary	Internet & Catalog Retail

We've raised our fair value estimate for Stamps.com due to increased expectations for revenue growth on the back of recent acquisitions. Its rising debt load should be watched, however.

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)	$2,099
Avg Weekly Vol (30 wks)	2,212
30-week Range (USD)	68.82 - 128.99
Valuentum Sector	Consumer Discretionary
5-week Return	11.9%
13-week Return	23.0%
30-week Return	71.4%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	8.75
P/E on Est. Normal Diluted EPS	14.6
Est. Normal EBITDA	203
Forward EV/EBITDA	11.2
EV/Est. Normal EBITDA	10.8
Forward Revenue Growth (5-yr)	16.1%
Forward EPS Growth (5-yr)	-304.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.0%
Return on Assets	14.5%
ROIC, with goodwill	37.5%
ROIC, without goodwill	53.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	162
Net Debt	88
Total Debt/EBITDA	2.8
Net Debt/EBITDA	1.5
EBITDA/Interest	146.9
Current Ratio	1.0
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• Stamps.com provides Internet-based services for mailing letters and packages. The firm's PC Postage service allows customers to print US postage using any PC, any ordinary printer, and an Internet connection--a significant convenience for customers. The company was founded in 1996 and is headquartered in California.

• Stamps.com is firing on all cylinders. In its second quarter of 2016, for example, core mailing and shipping revenue, including small business and enterprise customers, advanced 72% versus the prior-year period. Adjusted EBITDA soared in the period.

• Though email and social media have dampened growth in the US postage market, it remains large at over $50 billion annually and consists of roughly 8 million small businesses and 14 million home businesses. Along withe the above opportunities, Stamps.com continues to target growth via acquisitions. In 2016, it acquired ShippingEasy after buying Endicia in 2015.

• The firm's mailing and shipping business has a degree of recurring revenue in it. Service revenue is earned through various subscription and transaction based revenue models, and supply store and package insurance are recurring in nature. This adds some reliability to its growth prospects.

• Seemingly with each passing year, Stamps.com registers the highest postage printed by its customer base, the highest number of paid customers, the highest package volume in its shipping area, and the highest number of enterprise customers.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	HIGH
Growth	AGGRESSIVE
Technical Evaluation	NEUTRAL
Relative Strength	STRONG
Money Flow Index (MFI)	OVERBOUGHT
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.

Relative Valuation

	Forward P/E	PEG	Price / FV
eBay	16.6	NMF	101.9%
Expedia	22.4	1.6	96.6%
Amazon.com	NMF	NMF	144.2%
Priceline.com	25.2	1.7	96.6%
Peer Median	22.4	1.7	99.2%
Stamps.com	**15.2**	**NMF**	**120.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	147	214	356
Revenue, YoY%	15.2%	45.3%	66.3%
Operating Income	32	51	184
Operating Margin %	21.9%	23.7%	51.7%
Net Income	37	-4	139
Net Income Margin %	25.0%	-2.0%	39.0%
Diluted EPS	2.25	-0.26	8.42
Diluted EPS, YoY %	-17.1%	NMF	NMF
Free Cash Flow (CFO-capex)	49	44	151
Free Cash Flow Margin %	33.3%	20.6%	42.5%

In Millions of USD (except for per share items)

Structure of the Internet & Catalog Retail Industry — GOOD

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

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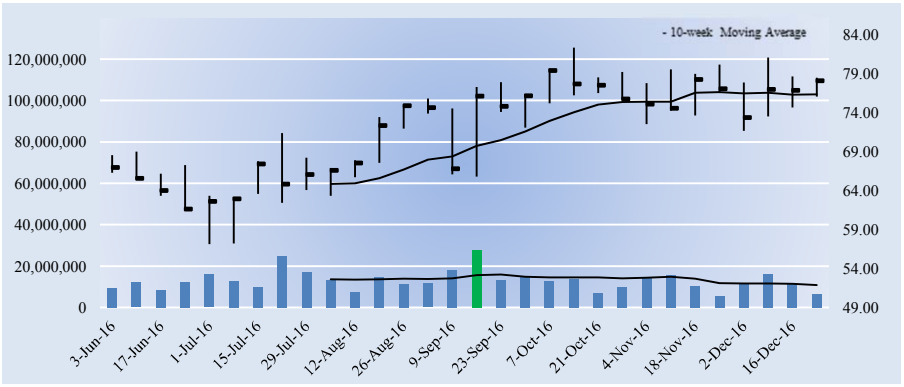
Skyworks SWKS FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$93.00	$70.00 - $116.00	LARGE-CAP VALUE	Information Technology	Integrated Circuits

Skyworks is capitalizing on the strength of mobile and the Internet of Things.

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)	$14,990
Avg Weekly Vol (30 wks)	12,994
30-week Range (USD)	57.1106 - 82.275
Valuentum Sector	Information Technology
5-week Return	-0.5%
13-week Return	5.5%
30-week Return	17.7%
Dividend Yield %	1.4%
Dividends per Share	1.12
Forward Dividend Payout Ratio	18.2%
Est. Normal Diluted EPS	7.29
P/E on Est. Normal Diluted EPS	10.7
Est. Normal EBITDA	2,105
Forward EV/EBITDA	8.0
EV/Est. Normal EBITDA	6.6
Forward Revenue Growth (5-yr)	6.9%
Forward EPS Growth (5-yr)	9.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	25.8%
Return on Assets	22.5%
ROIC, with goodwill	38.2%
ROIC, without goodwill	65.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-1,084
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	9.5
Quick Ratio	7.1

NMF = Not Meaningful

Investment Highlights

• Skyworks is an innovator of high performance analog semiconductors. The firm supports automotive, broadband, energy management, GPS, industrial, medical, military, wireless networking, and smartphone/tablet applications. Its products run the gamut from amplifiers to voltage regulators. The company was founded in 1962 and is headquartered in Massachusetts.

• Skyworks has a degree of customer concentration risk. Foxconn Technology Group accounted for 40% of net revenue in fiscal 2016. At the end of the fiscal year, its three largest accounts receivables balances comprised 54% of aggregate gross accounts receivable.

• The company's recent fundamental strength is being driven by the proliferation of connectivity across a broad range of end markets and applications. The global trend to connect 'everything' is playing into Skyworks' hands. The total number of connected devices, for example, could reach an impressive 75+ billion by 2020.

• Skyworks is capitalizing on the strength of mobile and the Internet of Things. Mobile devices are rapidly evolving to address the massive demand for data and speed, and the firm is well-positioned to help resolve such a complex issue. We've increased our fair value estimate as a result of expectations for higher demand to remain.

• Power management is a significant growth avenue for Skyworks. Its market potential of $2+ billion is a needle-mover and spans LED flash drivers to analog devices in smartphones and e-book readers.

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	**VERY BULLISH**
Relative Strength	**NEUTRAL**
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

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
Analog Devices	21.5	3.0	117.2%
Marvell Tech	24.4	NMF	119.3%
Semtech Corp	33.6	3.4	153.6%
Taiwan Semiconductor	14.5	2.1	100.2%
Peer Median	23.0	3.0	118.3%
Skyworks	**12.7**	**1.7**	**83.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-15	Sep-16	Sep-17
Revenue	3,258	3,289	3,526
Revenue, YoY%	42.2%	0.9%	7.2%
Operating Income	1,027	1,124	1,478
Operating Margin %	31.5%	34.2%	41.9%
Net Income	798	995	1,191
Net Income Margin %	24.5%	30.3%	33.8%
Diluted EPS	4.10	5.18	6.14
Diluted EPS, YoY %	72.4%	26.5%	18.5%
Free Cash Flow (CFO-capex)	563	900	1,129
Free Cash Flow Margin %	17.3%	27.4%	32.0%

In Millions of USD (except for per share items)

Structure of the Integrated Circuits Industry — VERY POOR

Firms in the integrated circuits industry make components that form the electronic building blocks used in electronic systems and equipment. The industry is notoriously cyclical and subject to significant economic upturns and downturns, as well as rapid technological changes. Firms must innovate to survive, and products stocked in inventory can sometimes become obsolete before they are even shipped. Severe pricing competition and lengthy manufacturing cycles only add uncertainty to the mix. We're not fans of the structure of the integrated circuits space.

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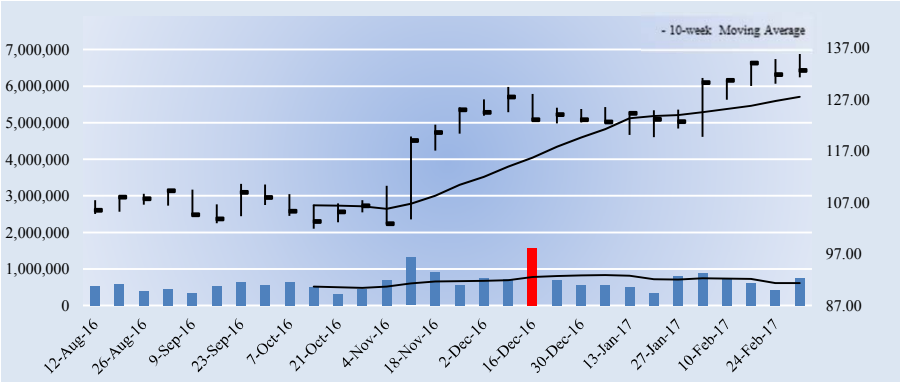
Teledyne TDY OVERVALUED 14%

Buying Index™ 4 **Value Rating** ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$95.00	$76.00 - $114.00	MID-CAP CORE	Industrials	A&D Suppliers

Teledyne's growth strategy includes organic and inorganic components.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$4,706
Avg Weekly Vol (30 wks)	645
30-week Range (USD)	101.9 - 135.89
Valuentum Sector	Industrials
5-week Return	8.8%
13-week Return	5.3%
30-week Return	25.0%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	6.83
P/E on Est. Normal Diluted EPS	19.4
Est. Normal EBITDA	445
Forward EV/EBITDA	14.2
EV/Est. Normal EBITDA	11.7
Forward Revenue Growth (5-yr)	6.0%
Forward EPS Growth (5-yr)	9.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	14.1%
Return on Assets	7.2%
ROIC, with goodwill	10.7%
ROIC, without goodwill	23.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	618
Net Debt	519
Total Debt/EBITDA	1.8
Net Debt/EBITDA	1.5
EBITDA/Interest	14.7
Current Ratio	1.7
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• Teledyne provides enabling technologies for industrial growth markets. Over 45% of revenue comes from its instrumentation business, ~25% from aerospace and defense electronics, and the balance from digital imaging and engineered systems. The company was founded in 1960 and is headquartered in California.

• The firm had been working to discontinue its aerospace castings and aerospace engines businesses since 2000, and the process is now complete. While we are not particularly fond of these moves, we can't complain about EPS expansion during that time.

• Teledyne continues to transition its business. Among its greatest accomplishments are advancing international sales to nearly 45% of revenue from less than 20% in 2001 and bolstering its EBITDA margin to the teens from about 4% over the same time period. We like that the firm is plowing more and more money back into research and development.

• Teledyne's growth strategy includes organic and inorganic components. The firm plans to leverage its unique technology and scale advantages in key markets and develop products that will allow it to gain market share. Aggressive cost reduction can be expected as well, as can ongoing strategic acquisitions.

• Looking at Teledyne's consistent GAAP earnings per share growth is comforting. From 2001 through the end of 2015, it advanced EPS at a ~26% CAGR, with expansion in every year until 2015. EBITDA margin has climbed steadily since the turn of the century as well.

Investment Considerations

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Rockwell Collins	17.8	1.9	118.3%
Hexcel Corp	19.5	1.9	116.5%
Spirit AeroSystems	12.5	1.8	95.7%
Spirit AeroSystems	10.3	NMF	76.2%
Peer Median	15.2	1.9	106.1%
Teledyne	**24.0**	**2.7**	**139.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	2,298	2,150	2,300
Revenue, YoY%	-4.0%	-6.4%	7.0%
Operating Income	282	254	274
Operating Margin %	12.3%	11.8%	11.9%
Net Income	196	191	198
Net Income Margin %	8.5%	8.9%	8.6%
Diluted EPS	5.44	5.38	5.52
Diluted EPS, YoY %	-5.3%	-1.1%	2.7%
Free Cash Flow (CFO-capex)	163	230	179
Free Cash Flow Margin %	7.1%	10.7%	7.8%

In Millions of USD (except for per share items)

Structure of the A&D Supplier Industry — GOOD

The aerospace supply chain will benefit from the multi-year backlogs at the airframe makers, Boeing and Airbus. Though the current upswing looks robust, commercial aerospace has historically been cyclical and remains influenced by airline profits, passenger traffic, credit-market health, and geopolitical conditions. Participants generally operate under contracts with significant long-term price concessions, so cost-containment remains critical. The strongest suppliers are those that have long-standing customer relationships, technical expertise, and state-of-the-art manufacturing facilities. We like the group.

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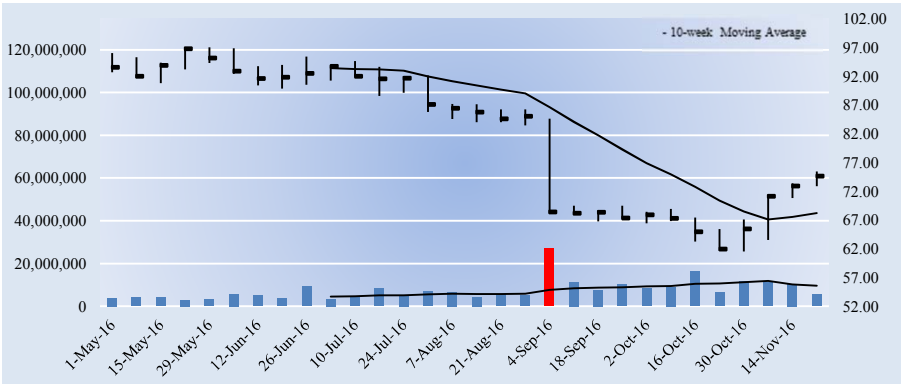
Tractor Supply Co TSCO FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$76.00	$61.00 - $91.00	LARGE-CAP VALUE	Consumer Discretionary	Specialty Retailers

Tractor Supply Co has a loyal customer base and significant growth potential.

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)	$10,210
Avg Weekly Vol (30 wks)	7,540
30-week Range (USD)	61.5 - 97
Valuentum Sector	Consumer Discretionary
5-week Return	14.7%
13-week Return	-11.8%
30-week Return	-21.6%
Dividend Yield %	1.3%
Dividends per Share	0.96
Forward Dividend Payout Ratio	29.3%
Est. Normal Diluted EPS	4.64
P/E on Est. Normal Diluted EPS	16.1
Est. Normal EBITDA	1,095
Forward EV/EBITDA	12.5
EV/Est. Normal EBITDA	9.4
Forward Revenue Growth (5-yr)	8.2%
Forward EPS Growth (5-yr)	17.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	29.5%
Return on Assets	18.6%
ROIC, with goodwill	27.8%
ROIC, without goodwill	28.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	168
Net Debt	104
Total Debt/EBITDA	0.2
Net Debt/EBITDA	0.1
EBITDA/Interest	267.8
Current Ratio	2.2
Quick Ratio	0.1

NMF = Not Meaningful

Investment Highlights

• Tractor Supply Co is the largest operator of retail farm and ranch stores in the US with approximately 1,500 stores in more than 45 states, focused on supplying the lifestyle needs of recreational farmers and ranchers. It was founded in 1938 and is based in Tennessee.

• The company continues to have an 'operating profit' philosophy. It has a balanced focus on sales and margin, and the firm will not risk market share for margin rate. We like this focus quite a bit as it often leads to higher returns on capital.

• Though Tractor Supply Co has a loyal customer base, weather and other seasonal factors can impact quarterly results. It believes it has growth opportunities in feed, live goods, and equipment for the sustainably conscious consumer, as well as in services to support the rural lifestyle its loyal customers need.

• Tractor Supply has significant growth potential. Management believes its total store potential could reach 2,100 -- hundreds more than it has today. The company's expansion potential is broad across the US. It will spend ~$240 million in fiscal 2016 to support 120 new store openings.

• The market clearly loves Tractor Supply's shares. Though we're huge fans of its business model and brand strength, investors are paying up for shares. Its earnings multiples are unattractive at recent levels.

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	VERY BULLISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	IMPROVING
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
Best Buy	14.1	2.2	105.9%
Home Depot	20.5	1.8	119.6%
Lowe's	18.2	1.5	112.8%
Office Depot	11.8	3.5	81.2%
Peer Median	16.2	2.0	109.3%
Tractor Supply Co	**22.8**	**1.4**	**98.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	5,712	6,227	6,725
Revenue, YoY%	10.6%	9.0%	8.0%
Operating Income	589	651	695
Operating Margin %	10.3%	10.4%	10.3%
Net Income	371	410	439
Net Income Margin %	6.5%	6.6%	6.5%
Diluted EPS	2.66	3.00	3.27
Diluted EPS, YoY %	14.8%	12.8%	9.1%
Free Cash Flow (CFO-capex)	249	193	325
Free Cash Flow Margin %	4.4%	3.1%	4.8%

In Millions of USD (except for per share items)

Structure of the Specialty Retailers Industry — NEUTRAL

The specialty retail segment is fragmented, highly competitive, and economically-sensitive. The group covers a broad array of businesses and is dominated by retailers with large brick-and-mortar store footprints. Though some constituents may be insulated from e-commerce competition, others risk obsolescence as product distribution moves to digital means, and online retailers offer lower prices for identical goods and services. We're fairly neutral on the structure of the industry, though some constituents will inevitably face secular and permanent declines.

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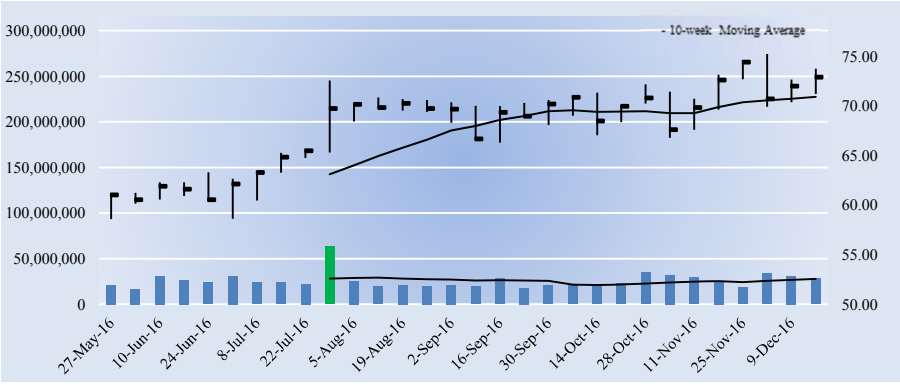
Texas Instruments TXN OVERVALUED 9.5%

Buying Index™ 4 **Value Rating** ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$55.00	$44.00 - $66.00	LARGE-CAP CORE	Information Technology	Broad Line Semiconductors

Texas Instruments boasts a diverse product portfolio, but it faces intense competition from a long list of rivals.

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)	$76,024
Avg Weekly Vol (30 wks)	25,774
30-week Range (USD)	58.6 - 75.25
Valuentum Sector	Information Technology
5-week Return	3.9%
13-week Return	4.4%
30-week Return	23.9%
Dividend Yield %	2.7%
Dividends per Share	2.00
Forward Dividend Payout Ratio	62.7%
Est. Normal Diluted EPS	3.69
P/E on Est. Normal Diluted EPS	19.8
Est. Normal EBITDA	6,558
Forward EV/EBITDA	13.1
EV/Est. Normal EBITDA	11.7
Forward Revenue Growth (5-yr)	3.5%
Forward EPS Growth (5-yr)	7.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	25.3%
Return on Assets	14.7%
ROIC, with goodwill	26.9%
ROIC, without goodwill	41.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,120
Net Debt	902
Total Debt/EBITDA	0.7
Net Debt/EBITDA	0.2
EBITDA/Interest	62.9
Current Ratio	2.8
Quick Ratio	1.7

NMF = Not Meaningful

Investment Highlights

• 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. It was founded in 1930 and is headquartered in Dallas, Texas.

• Demand for Texas Instruments' personal electronics products have been under a bit of pressure recently. Automotive and Industrial demand has kept overall demand for its products relatively stable. We love its focus on long-term free cash flow growth, however.

• 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' capital allocation strategy is to grow, generate and return cash to shareholders over the long term. Organic growth remains the priority for use of capital, and automotive and industrial R&D spending has led the way in recent years. Expanding 300mm Analog production will continue to be a focus.

• Texas Instruments' acquisition of National Semiconductor has not changed our view on the firm's dividend strength. The move has met management's objectives thus far, as it has leveraged and strengthened its competitive advantages.

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	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**71.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Advanced Micro Devices	NMF	NMF	152.3%
Broadcom	12.7	NMF	97.5%
Intel	13.5	2.1	86.5%
STMicroelectronics	42.7	2.5	134.9%
Peer Median	13.5	2.3	116.2%
Texas Instruments	**22.8**	**3.2**	**132.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	13,045	13,000	13,403
Revenue, YoY%	6.9%	-0.3%	3.1%
Operating Income	4,226	4,532	4,729
Operating Margin %	32.4%	34.9%	35.3%
Net Income	2,821	2,986	3,296
Net Income Margin %	21.6%	23.0%	24.6%
Diluted EPS	2.61	2.86	3.19
Diluted EPS, YoY %	34.5%	9.6%	11.5%
Free Cash Flow (CFO-capex)	3,507	3,717	3,787
Free Cash Flow Margin %	26.9%	28.6%	28.3%

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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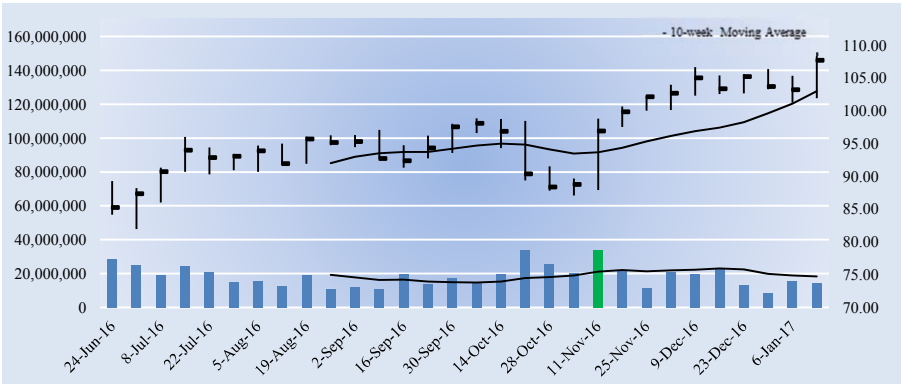
Union Pacific UNP FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$97.00	$78.00 - $116.00	LARGE-CAP CORE	Industrials	Railroads

Pricing strength has been a huge lever for Union Pacific, and the company continues to align its resources to current demand levels.

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)	$93,600
Avg Weekly Vol (30 wks)	18,833
30-week Range (USD)	81.962 - 108.98
Valuentum Sector	Industrials
5-week Return	2.2%
13-week Return	11.3%
30-week Return	21.8%
Dividend Yield %	2.2%
Dividends per Share	2.42
Forward Dividend Payout Ratio	47.7%
Est. Normal Diluted EPS	6.42
P/E on Est. Normal Diluted EPS	16.8
Est. Normal EBITDA	11,323
Forward EV/EBITDA	11.3
EV/Est. Normal EBITDA	9.4
Forward Revenue Growth (5-yr)	2.1%
Forward EPS Growth (5-yr)	7.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.9%
Return on Assets	9.4%
ROIC, with goodwill	11.5%
ROIC, without goodwill	11.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	14,201
Net Debt	12,810
Total Debt/EBITDA	1.3
Net Debt/EBITDA	1.2
EBITDA/Interest	17.7
Current Ratio	1.3
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• One of America's most recognized companies, Union Pacific links 23 states in the western two-thirds of the country by rail, providing a critical link in the global supply chain. The railroad's diversified business mix includes agricultural products, automotive, chemicals, coal, industrial products and intermodal.

• Pricing strength has been a huge lever for Union Pacific, and the company continues to align its resources to current demand levels. Total volumes have been under pressure in recent years, but Trump's infrastructure-related growth plans have increased optimism for the industry.

• We expect Union Pacific's operating ratio to be among the best in the railroad group by the end of this decade, and we like its exposure to growth in Mexico as well as future export expansion on the West Coast. However, it has experience volatility as of late. In the third quarter of 2016, the railroad's operating ratio of 62.1% was up 1.8 points year-over-year.

• As with its peers, the firm is levered to coal, though we note its mix is more of the Powder River Basin variety, which should continue to take share from Central Appalachian coal in the domestic market. Global coal oversupply isn't helping matters. The firm also boasts a strong Dividend Cushion ratio and a decent annual yield.

• Our forecasts for Union Pacific include one of the lowest cost of equity assumptions and relatively strong top-line performance in the out-years coupled with strong operating earnings performance. If the company comes up short, there is downside risk to the valuation.

Investment Considerations

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

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Canadian National	20.5	1.5	116.4%
CSX Corp	21.9	1.8	138.5%
Kansas City Southern	18.9	2.0	108.9%
Norfolk Southern	20.1	2.1	119.6%
Peer Median	20.3	1.9	118.0%
Union Pacific	**21.2**	**1.7**	**111.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	23,988	21,813	19,941
Revenue, YoY%	9.2%	-9.1%	-8.6%
Operating Income	9,677	8,976	7,618
Operating Margin %	40.3%	41.1%	38.2%
Net Income	5,180	4,772	4,364
Net Income Margin %	21.6%	21.9%	21.9%
Diluted EPS	5.75	5.49	5.07
Diluted EPS, YoY %	22.0%	-4.5%	-7.6%
Free Cash Flow (CFO-capex)	3,039	2,694	4,019
Free Cash Flow Margin %	12.7%	12.4%	20.2%

In Millions of USD (except for per share items)

Structure of the Railroads Industry — GOOD

The railroad industry operates at a significant competitive advantage relative to motor transportation in that it can charge lower rates for long-haul bulk shipments (coal, grain, rock). Still, participants face competition from other railroads that operate parallel routes, from motor carriers that provide similar services, and from barges in routes close to inland and Gulf Coast waterways. Operating a railroad is a capital-intensive proposition, and participants face cost pressures from both union labor and fuel. Pricing and volume trends in commodity categories can be quite volatile from year to year. We like the group.

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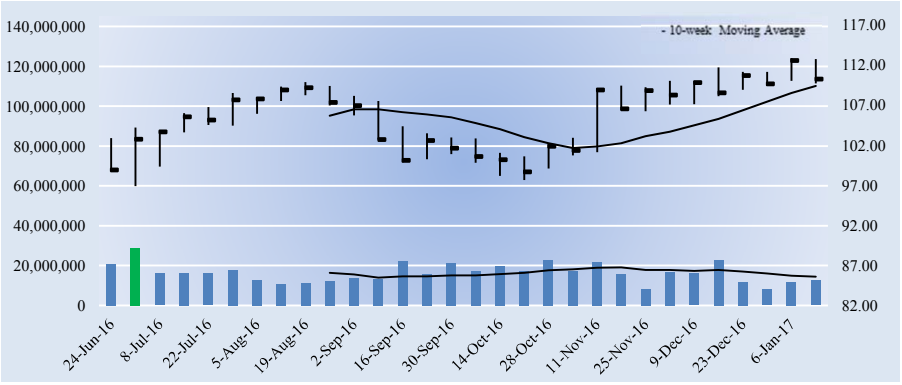
United Technologies UTX FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$105.00	$84.00 - $126.00	LARGE-CAP CORE	Industrials	Conglomerates

2017 is shaping up to be as good a year as 2016 was for United Tech, but some investors may still be disappointed.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$97,346
Avg Weekly Vol (30 wks)	16,322
30-week Range (USD)	96.89 - 112.83
Valuentum Sector	Industrials
5-week Return	0.7%
13-week Return	10.1%
30-week Return	8.0%
Dividend Yield %	2.4%
Dividends per Share	2.64
Forward Dividend Payout Ratio	39.9%
Est. Normal Diluted EPS	7.51
P/E on Est. Normal Diluted EPS	14.7
Est. Normal EBITDA	12,600
Forward EV/EBITDA	9.8
EV/Est. Normal EBITDA	9.0
Forward Revenue Growth (5-yr)	3.0%
Forward EPS Growth (5-yr)	14.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	18.6%
Return on Assets	6.2%
ROIC, with goodwill	9.2%
ROIC, without goodwill	18.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	19,320
Net Debt	16,204
Total Debt/EBITDA	2.1
Net Debt/EBITDA	1.7
EBITDA/Interest	9.9
Current Ratio	1.2
Quick Ratio	0.8

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 include UTC Propulsion & Aerospace Systems, which includes Pratt & Whitney aircraft engines and UTC Aerospace Systems products. The company was founded in 1934.

• United Tech parted ways with a valuable asset recently in Sikorsky Aircraft. Lockheed Martin was the lucky winner, but the $9 billion price tag makes parting with it a little easier for United Tech. Buybacks appear forthcoming, and restructuring initiatives aren't over.

• Though it may pose a near-term headwind to incremental growth, China will be a long-term growth driver for United Tech. More than 100 million more people are expected to urbanize in China in the next five years, and estimates suggest there will be even more cities in China with more than 1 million inhabitants by 2025, as it continues to transition to a consumer consumption economy.

• We're big fans of United Tech'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.

• 2017 is shaping up to be as good a year as 2016 was for United Tech, but some investors may still be disappointed. Management is targeting earnings per share in 2017 to be in the range of $6.30-$6.60 on sales of $57.5-$59 billion.

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	**109.00**

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
Danaher	22.6	1.6	113.0%
General Electric	18.7	3.0	87.1%
Honeywell	17.7	2.8	115.8%
3M	21.6	3.2	125.8%
Peer Median	20.1	2.9	114.4%
United Technologies	**16.7**	**1.6**	**105.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	65,100	56,098	56,939
Revenue, YoY%	4.0%	-13.8%	1.5%
Operating Income	8,518	7,502	9,649
Operating Margin %	13.1%	13.4%	16.9%
Net Income	6,220	3,996	5,775
Net Income Margin %	9.6%	7.1%	10.1%
Diluted EPS	6.82	4.52	6.62
Diluted EPS, YoY %	9.8%	-33.7%	46.2%
Free Cash Flow (CFO-capex)	5,435	3,877	5,514
Free Cash Flow Margin %	8.3%	6.9%	9.7%

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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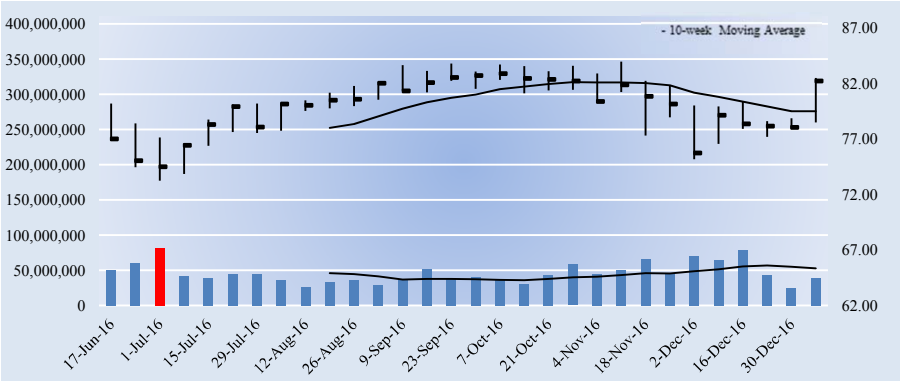
Visa V FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$84.00	$67.00 - $101.00	LARGE-CAP BLEND	Information Technology	Financial Tech Services

Visa is the largest retail electronic payments network based on payments volume, total volume and number of transactions.

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)	$198,455
Avg Weekly Vol (30 wks)	46,271
30-week Range (USD)	73.25 - 83.96
Valuentum Sector	Information Technology
5-week Return	7.3%
13-week Return	-1.1%
30-week Return	4.1%
Dividend Yield %	0.7%
Dividends per Share	0.60
Forward Dividend Payout Ratio	18.1%
Est. Normal Diluted EPS	4.53
P/E on Est. Normal Diluted EPS	18.1
Est. Normal EBITDA	15,118
Forward EV/EBITDA	15.9
EV/Est. Normal EBITDA	13.5
Forward Revenue Growth (5-yr)	12.3%
Forward EPS Growth (5-yr)	18.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	20.4%
Return on Assets	14.0%
ROIC, with goodwill	39.0%
ROIC, without goodwill	76.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	15,882
Net Debt	5,917
Total Debt/EBITDA	1.5
Net Debt/EBITDA	0.6
EBITDA/Interest	24.0
Current Ratio	1.8
Quick Ratio	1.6

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 has acquired Visa Europe in a deal valued north of 21 billion euros ($23+ billion). The deal has unified the brand globally after eight years as separate companies. The transaction includes a payment of 16.5 billion euros upfront and another of as much as 4.7 billion euros after the fourth anniversary of the deal's completion. Visa has issued $15+ billion debt to finance the deal.

• In fiscal 2017, Visa is expecting net revenue growth of 16%-18% on a nominal dollar basis, which includes a negative 1%-1.5% impact from foreign currency, and client incentives are projected to be 20.5%-21.5% of gross revenues. Adjusted, diluted earnings per share growth is projected to be in the mid-teens in the year on a non-GAAP basis.

• 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	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**HIGH**
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	**79.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Bottomline Tech	29.7	NMF	79.6%
Fiserv	24.5	1.9	144.5%
Mastercard	28.5	2.5	103.6%
Western Union	13.5	3.9	90.3%
Peer Median	26.5	2.5	96.9%
Visa	**24.7**	**1.8**	**97.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-15	Sep-16	Sep-17
Revenue	13,880	15,082	17,872
Revenue, YoY%	9.3%	8.7%	18.5%
Operating Income	9,078	9,762	12,263
Operating Margin %	65.4%	64.7%	68.6%
Net Income	6,328	5,991	7,861
Net Income Margin %	45.6%	39.7%	44.0%
Diluted EPS	2.58	2.48	3.32
Diluted EPS, YoY %	19.5%	-3.6%	33.9%
Free Cash Flow (CFO-capex)	6,170	5,051	9,103
Free Cash Flow Margin %	44.5%	33.5%	50.9%

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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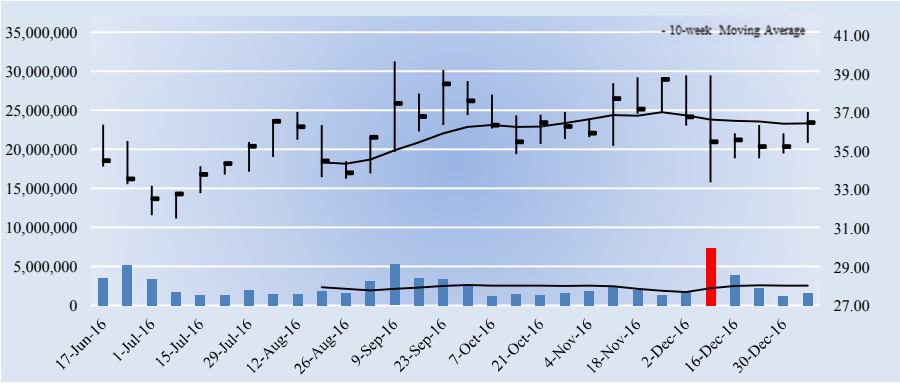
Verint VRNT UNDERVALUED 9.6%

Buying Index™ 7 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$50.00	$40.00 - $60.00	MID-CAP VALUE	Information Technology	Business Services

Verint is a global leader in 'Actionable Intelligence' solutions and value-added services.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$2,297
Avg Weekly Vol (30 wks)	2,461
30-week Range (USD)	31.5201 - 39.68
Valuentum Sector	Information Technology
5-week Return	-1.6%
13-week Return	0.1%
30-week Return	0.8%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	2.87
P/E on Est. Normal Diluted EPS	12.7
Est. Normal EBITDA	385
Forward EV/EBITDA	7.8
EV/Est. Normal EBITDA	6.8
Forward Revenue Growth (5-yr)	2.3%
Forward EPS Growth (5-yr)	61.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	6.8%
Return on Assets	2.1%
ROIC, with goodwill	9.7%
ROIC, without goodwill	70.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	738
Net Debt	318
Total Debt/EBITDA	4.0
Net Debt/EBITDA	1.7
EBITDA/Interest	5.4
Current Ratio	1.7
Quick Ratio	1.5

NMF = Not Meaningful

Investment Highlights

• Verint is a global leader in 'Actionable Intelligence' solutions and value-added services. The firm's solutions enable organizations to extract and analyze information from customer interactions and operational data to make more effective decisions. The company was founded in 1994 and is headquartered in New York.

• Demand for Verint's solutions is being driven by organizations' need for intelligence to create an engaged workforce and smarter customer engagements. The firm's advanced actionable intelligence platform continues to grow.

• Verint has a culture of innovation. The firm has invested more than $1 billion in R&D during the past 10 years and has 600+ patents and applications. The company seeks to address three important challenges: Customer Engagement Optimization; Security Intelligence; and Fraud Risk and Compliance.

• The company's revenue trends have been very impressive. Non-GAAP revenue has advanced to more than $1.1 billion from just over $200 million in 2005. For fiscal 2017, Verint is expecting a temporary step back in revenue while maintaining its ambitious long-term target of double-digit revenue growth.

• Verint's large installed base provides stability and recurring revenue. The firm has opportunities for growth as its addressable market continues to expand. Profitability should increase as costs are scaled.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**HIGH**
Growth	**MODEST**
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	**36.00**

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Accenture	19.6	2.0	117.5%
Amdocs	15.4	1.9	107.2%
IHS Markit	20.6	1.6	114.6%
VMware	18.5	1.9	94.8%
Peer Median	19.1	1.9	110.9%
Verint	**14.6**	**2.1**	**73.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jan-15	Jan-16	Jan-17
Revenue	1,128	1,130	1,062
Revenue, YoY%	24.4%	0.2%	-6.0%
Operating Income	79	68	227
Operating Margin %	7.0%	6.0%	21.4%
Net Income	31	18	161
Net Income Margin %	2.7%	1.6%	15.1%
Diluted EPS	0.52	0.28	2.50
Diluted EPS, YoY %	-47.8%	-46.2%	793.4%
Free Cash Flow (CFO-capex)	165	127	261
Free Cash Flow Margin %	14.6%	11.2%	24.6%

In Millions of USD (except for per share items)

Structure of the Business Services Industry — NEUTRAL

Firms in the business services space primarily focus on management consulting, technology/data-integration services/software and outsourcing solutions. Participants generate high returns on invested capital, but the business services marketplace is very competitive, and firms can often face pressure from off-shore service providers in lower-cost locations (India, Philippines and China). Such competition may inhibit firms' ability to obtain sufficient pricing for services, and economic conditions may hinder the capability of clients to pay for such services. Still, we're generally neutral on the group.

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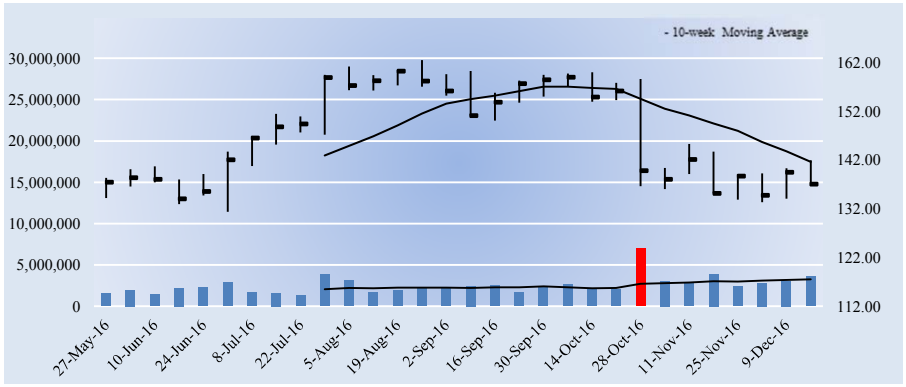
Waters WAT FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$122.00	$96.00 - $148.00	LARGE-CAP CORE	Health Care	Medical Devices

Global demand for Waters' service plans continues to increase, which should continue to drive recurring revenue higher.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$11,390
Avg Weekly Vol (30 wks)	2,538
30-week Range (USD)	131.35 - 162.53
Valuentum Sector	Health Care
5-week Return	-4.0%
13-week Return	-11.2%
30-week Return	1.3%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	7.85
P/E on Est. Normal Diluted EPS	17.5
Est. Normal EBITDA	851
Forward EV/EBITDA	14.3
EV/Est. Normal EBITDA	12.5
Forward Revenue Growth (5-yr)	5.2%
Forward EPS Growth (5-yr)	10.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	24.7%
Return on Assets	12.0%
ROIC, with goodwill	39.3%
ROIC, without goodwill	53.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,668
Net Debt	-731
Total Debt/EBITDA	2.5
Net Debt/EBITDA	NMF
EBITDA/Interest	18.4
Current Ratio	5.7
Quick Ratio	5.1

NMF = Not Meaningful

Investment Highlights

• 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. It was founded in 1958 and is based in Massachusetts.

• We like the recent expansion in recurring revenue at Waters. Recent innovations of the firm's spectrometer and liquid chromatograph should help boost the growth of recurring revenue via licensing arrangements. Global demand for service plans continues to increase.

• In the near term, Waters is assuming a continued strong foundation in its biopharmaceutical end markets and stable growth in its recurring revenues. This should help support mid-single-digit constant currency sales growth in the year. On a non-GAAP basis, earnings per diluted share are expected to be in a range of $6.48-$6.58.

• 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.

• Investors should be aware of the tendency for demand in Waters' governmental and academic markets served, which include the US, Europe, and Japan, to be lumpy. A growing recurring revenue stream should help mitigate the risks associated with these markets.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	UNATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	MEDIUM
Growth	MODEST
Technical Evaluation	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Resistance, 10-wk MA	142.00

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Intuitive Surgical	28.6	2.1	118.1%
Medtronic	16.1	2.0	96.7%
Varian Medical Systems	18.3	1.9	118.3%
Zimmer Biomet	12.9	1.9	84.1%
Peer Median	17.2	1.9	107.4%
Waters	**20.7**	**2.4**	**112.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	1,989	2,042	2,161
Revenue, YoY%	4.5%	2.7%	5.8%
Operating Income	533	575	652
Operating Margin %	26.8%	28.2%	30.2%
Net Income	416	465	541
Net Income Margin %	20.9%	22.8%	25.1%
Diluted EPS	4.89	5.60	6.62
Diluted EPS, YoY %	-6.0%	14.6%	18.2%
Free Cash Flow (CFO-capex)	390	455	538
Free Cash Flow Margin %	19.6%	22.3%	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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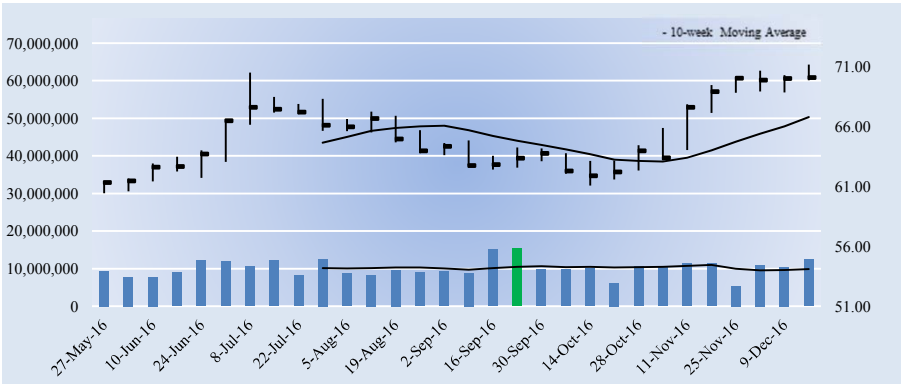
Waste Management WM OVERVALUED 4.4%

Buying Index™ 4 | Value Rating ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$56.00	$45.00 - $67.00	LARGE-CAP CORE	Industrials	Environmental Services

Waste Management generates the waste industry's best ROIC.

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)	$31,949
Avg Weekly Vol (30 wks)	10,138
30-week Range (USD)	60.42 - 71.17
Valuentum Sector	Industrials
5-week Return	3.6%
13-week Return	11.8%
30-week Return	15.4%
Dividend Yield %	2.4%
Dividends per Share	1.70
Forward Dividend Payout Ratio	57.6%
Est. Normal Diluted EPS	3.56
P/E on Est. Normal Diluted EPS	19.7
Est. Normal EBITDA	4,037
Forward EV/EBITDA	11.4
EV/Est. Normal EBITDA	10.1
Forward Revenue Growth (5-yr)	3.6%
Forward EPS Growth (5-yr)	20.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.9%
Return on Assets	3.4%
ROIC, with goodwill	12.1%
ROIC, without goodwill	18.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	8,981
Net Debt	8,942
Total Debt/EBITDA	2.7
Net Debt/EBITDA	2.6
EBITDA/Interest	8.8
Current Ratio	0.9
Quick Ratio	0.8

NMF = Not Meaningful

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. It was founded in 1987 and is headquartered in Houston, Texas.

• Waste Management generates the waste industry's best ROIC thanks to the high-quality nature of its earnings and disciplined investment practices. Its relative strength in this area was on display in 2015 when its pricing and productivity initiatives overcame headwinds in recycling commodity prices.

• 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, and the company's Valuentum Dividend Cushion ratio has improved. Dividend growth investors should expect annual expansion in the dividend going forward.

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	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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Clean Harbors	408.6	0.7	117.9%
Republic Services	25.5	2.1	117.9%
Stericycle	16.1	1.5	79.5%
Waste Connections	30.8	NMF	158.2%
Peer Median	28.1	1.5	117.9%
Waste Management	**23.8**	**2.0**	**125.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	13,996	12,961	13,557
Revenue, YoY%	0.1%	-7.4%	4.6%
Operating Income	2,221	2,142	2,298
Operating Margin %	15.9%	16.5%	16.9%
Net Income	1,298	753	1,331
Net Income Margin %	9.3%	5.8%	9.8%
Diluted EPS	2.79	1.65	2.95
Diluted EPS, YoY %	1236.4%	-40.8%	78.6%
Free Cash Flow (CFO-capex)	1,180	1,265	1,839
Free Cash Flow Margin %	8.4%	9.8%	13.6%

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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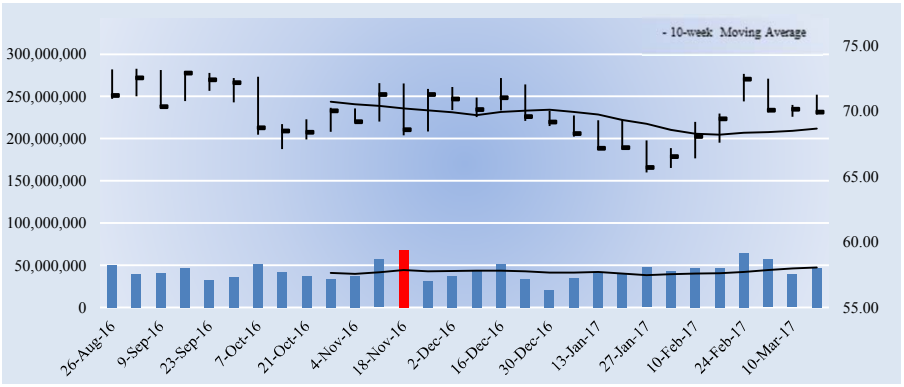
Wal-Mart WMT FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$65.00	$52.00 - $78.00	MEGA-CAP CORE	Consumer Staples	Food Retailers

Wal-Mart International and e-commerce initiatives are two key growth drivers for Wal-Mart, but online competition is only intensifying.

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)	$217,498
Avg Weekly Vol (30 wks)	43,263
30-week Range (USD)	65.28 - 73.19
Valuentum Sector	Consumer Staples
5-week Return	2.3%
13-week Return	-1.3%
30-week Return	-4.3%
Dividend Yield %	2.9%
Dividends per Share	2.04
Forward Dividend Payout Ratio	46.8%
Est. Normal Diluted EPS	5.02
P/E on Est. Normal Diluted EPS	13.9
Est. Normal EBITDA	35,682
Forward EV/EBITDA	7.8
EV/Est. Normal EBITDA	7.2
Forward Revenue Growth (5-yr)	2.5%
Forward EPS Growth (5-yr)	5.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	19.3%
Return on Assets	7.6%
ROIC, with goodwill	13.5%
ROIC, without goodwill	15.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	45,938
Net Debt	39,071
Total Debt/EBITDA	1.4
Net Debt/EBITDA	1.2
EBITDA/Interest	13.9
Current Ratio	0.9
Quick Ratio	0.2

NMF = Not Meaningful

Investment Highlights

• 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. Social pressures will keep the retail giant in the news, and sometimes not in the best of light.

• 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, and e-commerce initiatives should be watched closely.

• Wal-Mart International is a major source of growth for the company. 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 recent agreement with JD.com could provide the firm with the boost it needs in the Chinese online marketplace.

• Taking a page out of Costco's playbook, Wal-Mart is increasing its minimum employee wages in an effort to reduce training costs. We think the move will eventually bear fruit, as it incidentally increases entry barriers. Cost pressures will hurt in the near term, however.

• The pace of Wal-Mart's latest dividend increase (2%) leaves a bit to be desired, and its earnings per share outlook for fiscal 2018 targeted in the range of $4.20-$4.40 per share implies no growth from last year's levels ($4.38). Fundamentals remain under pressure.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	UNATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	MEDIUM
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	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
Costco	29.5	1.7	119.0%
Kroger	13.4	0.9	82.1%
Target	13.4	2.2	82.3%
Walgreens Boots Alliance	17.0	2.4	108.7%
Peer Median	15.2	2.0	95.5%
Wal-Mart	**16.0**	**2.1**	**107.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jan-16	Jan-17	Jan-18
Revenue	482,130	485,873	495,105
Revenue, YoY%	-0.7%	0.8%	1.9%
Operating Income	24,105	22,764	22,476
Operating Margin %	5.0%	4.7%	4.5%
Net Income	14,694	13,643	13,442
Net Income Margin %	3.0%	2.8%	2.7%
Diluted EPS	4.57	4.38	4.36
Diluted EPS, YoY %	-9.5%	-4.0%	-0.5%
Free Cash Flow (CFO-capex)	15,912	20,911	12,877
Free Cash Flow Margin %	3.3%	4.3%	2.6%

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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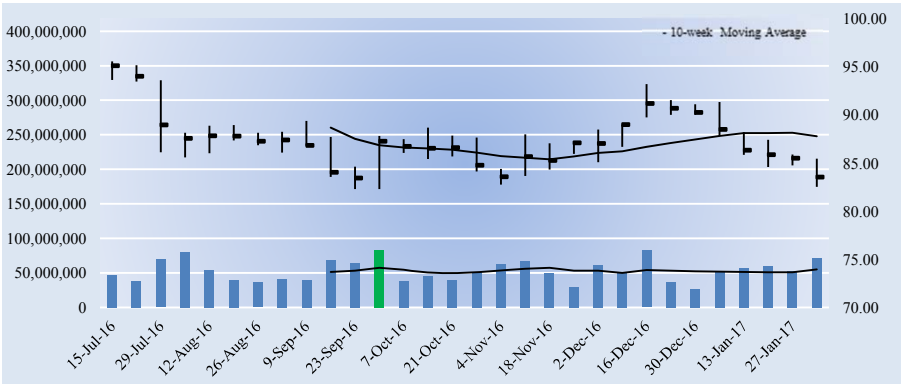
Exxon Mobil XOM FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$97.00	$62.00 - $132.00	MEGA-CAP VALUE	Energy	Major Oil & Gas

Exxon Mobil remains best in class, in our view, as evidenced by its leading return on capital employed performance, which should benefit from a rebalancing global oil 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).

Company Vitals

Market Cap (USD)	$350,534
Avg Weekly Vol (30 wks)	53,333
30-week Range (USD)	82.29 - 95.55
Valuentum Sector	Energy
5-week Return	-8.1%
13-week Return	-1.1%
30-week Return	-10.9%
Dividend Yield %	3.6%
Dividends per Share	3.00
Forward Dividend Payout Ratio	159.7%
Est. Normal Diluted EPS	5.33
P/E on Est. Normal Diluted EPS	15.7
Est. Normal EBITDA	51,107
Forward EV/EBITDA	14.6
EV/Est. Normal EBITDA	7.5
Forward Revenue Growth (5-yr)	5.4%
Forward EPS Growth (5-yr)	16.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.2%
Return on Assets	8.1%
ROIC, with goodwill	8.5%
ROIC, without goodwill	8.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	38,687
Net Debt	34,982
Total Debt/EBITDA	1.3
Net Debt/EBITDA	1.1
EBITDA/Interest	99.5
Current Ratio	0.8
Quick Ratio	0.4

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 had 25 BOEB of total proved reserves at the end of 2015.

• Though Exxon recently lost its coveted, pristine AAA credit rating, its financial health is still solid. The executive team continues to focus on fundamentals in a lower price environment while selectively investing in potential opportunities.

• Exxon Mobil's return on capital employed performance has been impacted by suppressed energy resource pricing. Nevertheless, the firm's ROCE performance is consistently better than that of its peers on average from 2011-2015, and its upstream earnings-per-barrel recently surpassed that of Chevron for best in its peer group.

• 2015 marked the first time in over two decades that Exxon Mobil failed to replace all of its oil equivalents pumped with new discoveries and acquisitions. The company's reserve-replacement ratio fell to 0.67 after 21 consecutive years of remaining above 1, and the firm expects to report a reserve-replacement ratio below 1 in 2016 as well.

• Exxon Mobil's dividend is better than that of peers, and we expect growth in it for many years to come. The energy giant's Dividend Cushion ratio is near parity (1), however. The company is best in class, in our view.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	POOR
ValueRisk™	HIGH
ValueTrend™	NEGATIVE
Cash Flow Generation	MEDIUM
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Resistance, 10-wk MA	88.00

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	38.8	NMF	94.2%
ConocoPhillips	-17.7	NMF	105.4%
Chevron	84.1	0.7	103.0%
PetroChina	205.1	0.2	85.0%
Peer Median	61.5	0.5	98.6%
Exxon Mobil	**44.5**	**0.5**	**86.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	411,939	268,882	226,094
Revenue, YoY%	-6.0%	-34.7%	-15.9%
Operating Income	34,082	12,883	11,305
Operating Margin %	8.3%	4.8%	5.0%
Net Income	32,520	16,150	7,883
Net Income Margin %	7.9%	6.0%	3.5%
Diluted EPS	7.59	3.85	1.88
Diluted EPS, YoY %	3.0%	-49.3%	-51.2%
Free Cash Flow (CFO-capex)	12,164	3,854	6,191
Free Cash Flow Margin %	3.0%	1.4%	2.7%

In Millions of USD (except for per share items)

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

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

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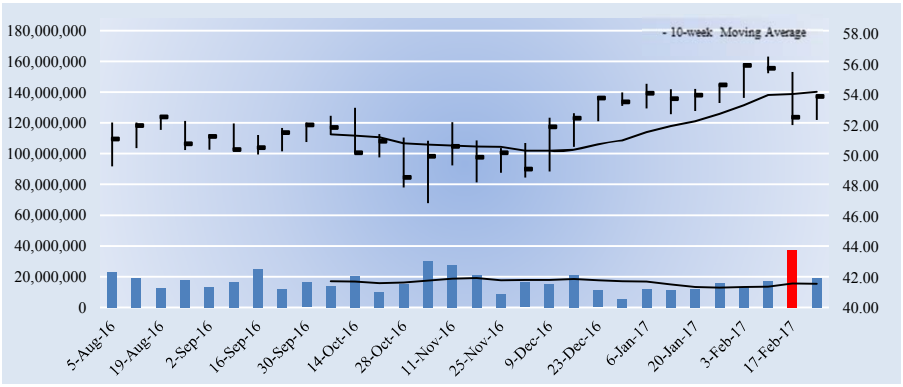
Zoetis ZTS OVERVALUED 12.8%

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	Health Care	Pharma - Generic/Other

Zoetis is fairly well-diversified from a geographical standpoint, but its share price has outrun its fundamentals.

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)	$27,049
Avg Weekly Vol (30 wks)	17,023
30-week Range (USD)	46.86 - 56.5035
Valuentum Sector	Health Care
5-week Return	0.4%
13-week Return	7.8%
30-week Return	6.8%
Dividend Yield %	0.8%
Dividends per Share	0.42
Forward Dividend Payout Ratio	25.7%
Est. Normal Diluted EPS	2.52
P/E on Est. Normal Diluted EPS	21.4
Est. Normal EBITDA	2,462
Forward EV/EBITDA	18.4
EV/Est. Normal EBITDA	12.5
Forward Revenue Growth (5-yr)	5.3%
Forward EPS Growth (5-yr)	36.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	18.2%
Return on Assets	7.2%
ROIC, with goodwill	14.4%
ROIC, without goodwill	17.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,868
Net Debt	3,714
Total Debt/EBITDA	3.8
Net Debt/EBITDA	2.9
EBITDA/Interest	10.2
Current Ratio	2.2
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• Zoetis is a leader in the discovery, development, manufacture and commercialization of animal health medicines and vaccines, with a focus on both livestock and companion animals. It has five major product categories: antiinfectives, vaccines, parasiticides, medicated feed additives and other pharmaceutical products. It was spun off from Pfizer in early 2013.

• Zoetis is fairly well-diversified from a geographical standpoint. The US still accounts for ~40% of revenue, but the EAME region and Canada/Latin America and Asia/Pacific aren't small drivers. Its long-term growth proposition is focused on growing revenue in-line or faster than the market.

• Zoetis' 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 veterinary medicine industry is now dominated by four major players, making major consolidation near the top of the industry unlikely.

• Zoetis recently acquired PHARMAQ, the global leader in vaccines and innovation for health products in aquaculture, for $765 million. The move strengthened Zoetis' core livestock business with industry-leading vaccines and pharmaceuticals for farmed fish, the fastest growing segment of the animal health industry.

• For 2017, management has set its revenue target to the range of $5.1-$5.225 billion and adjusted earnings per share guidance has been set in the range of $2.26-$2.36. Demand for meat protein continues to drive livestock business growth.

Investment Considerations

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

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

Business Quality

ValueCreation™

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Allergan	NMF	NMF	86.4%
Gilead Sciences	8.2	NMF	65.4%
Valeant Pharma	NMF	NMF	59.9%
Teva Pharma	7.4	3.7	68.0%
Peer Median	7.8	3.7	66.7%
Zoetis	**32.9**	**2.2**	**138.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-14	Dec-15	Dec-16
Revenue	4,785	4,765	4,888
Revenue, YoY%	4.9%	-0.4%	2.6%
Operating Income	969	1,070	1,464
Operating Margin %	20.3%	22.5%	30.0%
Net Income	588	335	830
Net Income Margin %	12.3%	7.0%	17.0%
Diluted EPS	1.18	0.67	1.64
Diluted EPS, YoY %	16.7%	-43.3%	145.2%
Free Cash Flow (CFO-capex)	446	440	497
Free Cash Flow Margin %	9.3%	9.2%	10.2%

In Millions of USD (except for per share items)

Structure of the Pharmaceuticals Industry — GOOD

The pharmaceuticals 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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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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