THE EXCLUSIVE

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THE VALUENTUM TEAM

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Table of Contents

Locking in Some Winners…….……...…….3

Tracking Nelson Exclusive Idea Simulated Performance ……..4-9

Income…….4
Capital Appreciation…….6
Short Idea Considerations…….....8

Income Generation: EastGroup Properties (EGP)…….....10

Capital Appreciation: Delek Holdings US (DK).....…….……..…..……....15

Short Idea Consideration: QuinStreet (QNST)……...……...…….…….21

Inaugural Letter to Members, July 2016…….…….24

Locking In Some Winners

Hi everyone!

I'm going to keep this month's introduction short, but I wanted to let you know that we're going to lock in some winners as a result of the market's strong rally thus far in 2019. Please reach out to me at brian@valuentum.com or Kris at kris@valuentum.com if you have any specific questions at the following companies, but at the core, we're being opportunistic.

Income Generation
Hubbell (HUBB)
Healthcare Trust of America (HTA)
Roche (RHHBY)
OGE Energy (OGE)
BAE Systems (BAESY)
Capital Appreciation
Ferrari (RACE)
Wix (WIX)
Yeti (YETI)
Suncor Energy (SU)
Short-Idea Considerations
Fiesta Restaurant Group (FRGI)
Noodles & Co (NDLS)

*** The ideas "closed" above will be reflected as closed in the March edition of the Exclusive publication, but they are closed as of today. They are not closed in the tables that follow.**

One quick note from Beazer from my colleague Kris Rosemann: *We continue to believe November 2018 short idea Beazer (BZH) is an overly-leveraged homebuilder and will have a hard time sustaining its improved financial performance, especially if recent concerns over the health of the housing market materialize. This belief was supported, at least to a degree, after the company's first quarter report led to material selling pressure, though not enough pressure to turn this idea into a winner…yet. Homebuilding revenue for Beazer advanced 9% on a year-over-year basis despite new home closings advancing only 1.6%, and we're not sure revenue growth based on substantial price increases is a sustainable strategy beyond the near term. New orders in the quarter fell 12.1% from the year-ago period as its cancellation rate rose by nearly a full percentage point to 19.8%, and the dollar value of homes in backlog fell 15.8% from the first quarter of fiscal 2018 despite the average selling price of homes in backlog rising nearly 5%. Adjusted EBITDA fell 5.5% in the period on a year-over-year basis, and we think the culmination of this materially weakened financial performance highlights the underlying health of the business. Though it has been reduced materially from recent years, we are still very wary of Beazer's 5.8x net debt-to-adjusted EBITDA ratio, and the potential for adjusted EBITDA to continue facing pressure (guidance for the second quarter of fiscal 2019 is "below last year") will only exacerbate the issues related to its lofty debt load.*

That's all for now. I hope that you enjoy this month's edition of the Exclusive publication.

Kind regards,

Brian Nelson, CFA
brian@valuentum.com

Tracking Nelson Exclusive Idea Simulated Performance

Highlight Date	Company (symbol)	Highlight Price	Annual Divs per Share at Highlight	Current Fwrd Dividends per Share	Current Fwrd Exp Dividend Yield	Time Horizon	Notes - Data as of February 8, 2019
Income Ideas							
Jul, 16	Universal Corp (UVV)	57.74	2.12	3.00	5.2%	Closed - 2/12/2017	Universal has years of dividend growth ahead of it, but we closed this big winner for the time being. We still like it, and shares have surged recently!
Aug, 16	B&G Foods (BGS)	51.54	1.68	1.90	7.3%	Closed - 7/17/2017	B&G Foods has taken its share of lumps, the latest coming from Amazon's entrance into the grocery business with the proposed purchase of Whole Foods. We closed the idea.
Sep, 16	Maxim Integrated (MXIM)	41.12	1.32	1.84	3.4%	Closed - 2/12/2017	We closed position due to fickle nature of tech. Solid net cash position, strong free cash flow -- near 3% yield. May re-establish idea in future.
Oct, 16	Douglas Dynamics (PLOW)	31.94	0.94	1.06	2.9%	Closed - 2/12/2017	We closed as stock had been suspiciously volatile on little news. Insider buying though. We still like it and may re-establish in future.
Nov, 16	Ennis Inc. (EBF)	14.60	0.70	0.90	4.4%	Closed -- 11/12/2016	We captured more than 2 years' worth of income via capital appreciation in a very short period of time. Unfortunately, this ended in a quick "trade." Dividend growth has been solid since highlight.
Dec, 16	Watsco, Inc. (WSO)	150.57	4.20	6.40	4.4%	Closed - 2/12/2017	We closed this idea. Investors have been assessing impact on demand from HVAC price hikes at key customer Carrier (UTX). We still like it, but it is a cyclical industrial.
Jan, 17	Star Gas Partners (SGU)	11.21	0.41	0.47	5.0%	0-2 yrs	Star Gas raised its dividend ~7% in April 2018. Fiscal second quarter performance showed a 28.6% increase in total revenue thanks to solid volume growth and per-gallon price increases.
Feb, 17	Moelis & Co (MC)	35.00	1.28	1.88	4.1%	Closed - 7/22/2017	We closed Moelis & Co for a strong gain amid a flurry of deals. Special dividends are the cherry on top of this income generator and are not included in our measure of its yield.
Mar, 17	Park National (PRK)	108.59	3.76	4.04	4.1%	0-20 yrs	The bank's loan book advanced slowly in 2017 and has continued to do so through three quarters in 2018. It recently raised the dividend for the first time since 2007.
Apr, 17	American Software (AMSWA)	10.44	0.44	0.44	3.9%	Closed - 7/22,23/2017	An email delay by us caused a notication to be delayed until after material information impacted AMSWA's stock. As a result, price adjusted from price in email to the low price of the next trading day to reflect conservative, punitive accounting ($12.04 --> $10.57).
May, 17	NW Natural (NWN)	59.20	1.88	1.90	3.1%	Closed - 10/25/2018	Nice dividend yield. Customer growth ensues, and returns have been solid. We closed this idea as rising interest rates presented a threat to share price advances.
Jun, 17	Japan Tobacco (JAPAY)	19.03	0.60	0.67	5.5%	0-20 yrs	Tobacco stocks have done well during this multi-year bull market. Japan Tobacco is an interesting idea with a strong yield, but regulatory changes could be on the horizon in Japan that may pose challenges.
Jul, 17	Vectren Corp (VVC)	58.21	1.68	1.92	2.7%	Closed 8/30/2017	Vectren has been acquired by CenterPoint Energy (CNP) for $72 per share in cash, a significant premium to our highlight price and a nice premium over more recent share price levels.
Aug, 17	National Retail Properties (NNN)	40.50	1.90	2.00	3.8%	Closed - 10/25/2018	We continue to like the resiliency of National Retail Properties' real estate portfolio, and shares offer a solid dividend yield. However, we closed this idea for a strong gain after more than a year of collecting dividend checks.
Sep, 17	STORE Capital (STOR)	25.72	1.16	1.32	3.8%	Closed - 10/25/2018	STORE Capital's AFFO payout ratio is solid and points to potential future dividend growth, and we were able to take advantage of this dividend growth as well as a nice level of capital appreciation before closing our position.
Oct, 17	Fortis (FTS)	36.14	1.27	1.36	3.8%	0-20 yrs	Fortis' rate base is expected to increase at an annual rate of 5% over the next five years, while annual dividend growth guidance has been set at 6% for the same period. Currency translation can cause volatility in dividends.

Many members have said that they prefer to focus on the long-term income-oriented dynamics of the income ideas, and we think this makes sense.

The formatting of the table reflects a greater focus on the trajectory of the dividend as well as the current forward expected annualized dividend yield.

We hope that you find this layout more helpful as you sort through the prior income ideas.

Highlight Date	Company (symbol)	Highlight Price	Annual Divs per Share at Highlight	Current Fwrd Dividends per Share	Current Fwrd Exp Dividend Yield	Time Horizon	Notes - Data as of February 8, 2019
Income Ideas							
Nov, 17	Black Hills (BKH)	61.23	1.78	2.02	2.9%	Closed - 10/25/2018	Black Hills boasts an impressive dividend track record, and 2018 marked its 49th consecutive year of growth in its annual dividend. We closed this position for a small gain as rising interest rates added risk to potential share price appreciation.
Dec, 17	Four Corners Propety Trust (FCPT)	26.03	0.97	1.15	4.1%	Closed - 10/25/2018	We continue to have high hopes for this young REIT as a dividend payer as it offers a very competitive dividend yield, but we were content to close our position for a small gain.
Jan, 18	TransCanada Corp (TRP)	49.47	1.98	2.10	5.0%	0-20 yrs	TransCanada offers investors a ~5% yield, and annual dividend hikes have become common. A raise in the first quarter of 2018 marked the 18th consecutive annual dividend increase. News related to the Keystone pipeline can have an impact on share price performance.
Feb, 18	Siemens (SIEGY)	71.13	2.18	2.30	4.4%	0-20 yrs	The 'German GE' could benefit from GE's recent missteps, and we expect its industrial technology portfolio to play a meaningful role in the proliferation of the Industrial Internet of Things. Dividends can be impacted by currency exchange rates.
Mar, 18	Philips 66 Partners (PSXP)	49.63	2.71	3.34	6.8%	Closed - 10/25/2018	Philips 66 Partners' distribution yield is top notch, and we like the backing of Philips 66 and its major shareholder, Berkshire Hathaway. We closed this idea as rising interest rates present additional risk to share price appreciation.
Apr, 18	PS Business Parks (PSB)	113.68	3.40	4.20	2.9%	Closed - 10/25/2018	PS Business Parks was a nice winner for us in a short time period, and it continues to offer a competitive dividend yield. We took advantage of a strong third quarter report and closed our 'position.'
May, 18	Hubbell (HUBB)	103.97	3.08	3.36	2.9%	0-20 yrs	Hubbell continues to expect solid end market growth in coming years, and the company recently upped its free cash flow target for 2020. It projects a ~$3.85 per share annual dividend by 2020 on a 40%-50% payout ratio.
Jun, 18	Park Hotels & Resorts (PK)	32.43	1.72	1.72	5.8%	0-20 yrs	We're looking for the strength of the US economy to continue driving hotel demand. This lodging REIT boasts an impressive dividend yield but a limited track record. It aims to pay 65%-70% of AFFO in dividends annually, which results in a larger than normal fourth quarter dividend that is not factored into our yield calculation.
Jul, 18	Healthcare Trust of America (HTA)	27.36	1.22	1.24	4.4%	0-20 yrs	Medical office buildings remain in high demand, and Healthcare Trust of America is well-positioned to take advantage. The REIT boasts a strong dividend yield and an investment grade credit rating.
Aug, 18	QTS Realty Trust (QTS)	44.01	1.64	1.64	3.8%	0-20 yrs	QTS Realty carries a junk-territory credit rating and concerns remain around its weighted average lease term. However, we like the competitive position its software-defined data center platform provides.
Sep, 18	Atmos Energy (ATO)	93.62	1.94	2.10	2.1%	Closed - 10/25/2018	Atmos Energy was a short term winner that we closed for a small gain in hopes of avoiding any outside pressures from rising interest rates. The utility continues to boast an impressive dividend track record, but its yield could be better, especially given the level of the 10-year Treasury yield.
Oct, 18	Veolia Environment (VEOEY)	19.70	0.99	0.99	4.7%	0-20 yrs	There's just something that gets us excited about a garbage hauler with a ~5% dividend yield. You won't find many high-yielders in the environmental-services space in the US, but one is present in France in Veolia Environnement.
Nov, 18	Roche Holding (RHHBY)	29.82	1.08	1.08	3.2%	0-20 yrs	We continue to like this European pharma giant as an income idea thanks to its material free cash flow generation ability. Its pipeline should be monitored as it relates to long-term income generation, but its solid yield of ~3.4% is hard not to like.
Dec, 18	OGE Energy (OGE)	40.46	1.46	1.46	3.5%	0-20 yrs	This idea from the defensive utilities space offers a solid dividend yield and an investment grade credit rating thanks in large part to its regulated utility operations. Double-digit dividend growth is expected in the near term.
Jan, 19	BAE Systems (BAESY)	24.32	0.92	0.92	3.4%	0-20 yrs	BAE Systems is a trusted defense company of a number of governments around the globe, most notably the US and UK, and it is a top 6 US defense contractor. It carries a solid ~3.4% dividend yield.

The information provided in the tables is offered for the convenience of the reader, for illustrative purposes only, and no actual trading is taking place. Actual results may differ from the simulated information being presented. Valuentum is a publisher of financial information, not a money manager, broker, or financial advisor.

CAPITAL APPRECIATION IDEAS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon	Notes - Data as of February 8, 2019
Capital Appreciation Ideas							
Jul, 16	Bloomin Brands (BLMN)	17.87	19.28	0.07	8.3%	Closed -- 11/12/2016	We took what the market gave us. We may re-open idea again. We still believe in long term. Stock very cheap.
Aug, 16	Healthcare Srvs Group (HCSG)	38.91	41.02	0.369	6.4%	Closed - 2/12/2017	We closed this one. Nice streak of consecutive quarterly dividend increases. Very strong end market, and we may re-open in the future.
Sep, 16	Grupo Aeroportuario (ASR)	157.87	181.61	-	15.0%	Closed - 4/5/2017	We closed this idea. The strength in the US dollar had hurt. We still love the long-term picture though. Travel to Cancún not going away.
Oct, 16	Swedish Match (SWMA.ST)	314.80SEK	417.40EK	17.7	-	Closed - 6/1/18	Tobacco (snus) demand is about as resilient as it gets through the economic cycle. We've closed this position for a strong gain.
Nov, 16	Symrise AG (SYIEY)	16.25	16.34	-	0.6%	Closed - 4/5/2017	We closed this idea, but we still like it. EBITDA margins don't get much steadier than Symrise's (18-22% from 2006-2015) though.
Dec, 16	Tootsie Roll (TR)	37.80	35.87	0.81	-	0-20 yrs	A fantastic company with excellent financials. Potential big dividend growth story with takeout catalyst as a growing possibility. Two stock dividend adjustments (3/3/17, 3/5/18) reflected in price.
Jan, 17	Texas Capital Bancshares (TCBI)	78.05	85.10	-	9.0%	Closed - 2/12/2017	Stock grew too extended, so we closed with expectations to re-establish. It's important to gain your trust -- and simulated profits go a long way in doing so.
Feb, 17	Arconic (ARNC)	25.90	29.62	-	14.4%	Closed - 2/12/2017	We closed this idea. We may re-establish again, but this type of gain in one week is hard not to be prudent with.
Mar, 17	Tesaro (TSRO)	180.84	122.62	-	-32.2%	Closed - 7/7/2017	Very risky biotech. Not for everybody. We highlighted this one to fill an industry void among considerations. We have closed it.
Apr, 17	Yum China (YUMC)	31.15	37.67	-	20.9%	Closed - 5/23/2017	The long-term potential of Yum China is amazing. If you haven't read our thesis on shares, please do so. We closed this idea on strong share-price performance, but we may look at it again.
May, 17	Galapagos (GLPG)	87.67	76.13	-	-13.2%	Closed - 7/7/2017	Another very risky biotech. Shares are not for everybody, and principle could be completely wiped out if things go wrong with this consideration. We closed the idea.
Jun, 17	Huntington Ingalls (HII)	193.79	206.39	-	6.5%	Closed 8/18/2017	The Navy needs more ships with more advanced capabilities, and Huntington Ingalls is at the center of this need. We closed it, but the company is a compelling idea.
Jul, 17	Orbital ATK (OA)	102.33	104.65	-	2.3%	Closed 8/18/2017	The geopolitical environment is becoming more heated, and it seems that tensions with North Korea have only heightened. We closed it, but we like Orbital's position to benefit.
Aug, 17	Wingstop (WING)	32.28	66.17	3.61	116.2%	Closed - 10/25/2018	Buffalo Wild Wings' younger cousin may be taking a bite out of its share. The company paid a special dividend of $3.17 per share in early 2018, and we closed it after its share price more than doubled.
Sep, 17	Qualys (QLYS)	51.10	75.44	-	47.6%	Closed - 10/25/2018	One of the most interesting cybersecurity ideas on the market today. We continue to like shares, which received a nice boost from a strong fourth-quarter 2017 report, but we closed it for a strong gain.
Oct, 17	Guidewire Software (GWRE)	78.24	87.50	-	11.8%	Closed - 10/25/2018	We like this indirect "play" on the insurance business. Its fundamentals are top notch. We closed the position for yet another nice gain.

CAPITAL APPRECIATION IDEAS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon	Notes - Data as of February 8, 2019
Capital Appreciation Ideas							
Nov, 17	Ferrari N.V. (RACE)	117.43	124.28	0.71	-	0-20 yrs	Ferrari's shares may not be as cheap as we would like, but it's hard to argue with the company's brand strength. Shares will continue to be extremely volatile.
Dec, 17	Square (SQ)	38.22	72.61	-	90.0%	Closed - 10/25/2018	This financial technology company has a long runway of growth ahead of its, but execution risk and competition should not be taken lightly. Because of this risk, we closed it at nearly double the highlight price.
Jan, 18	Planet Fitness (PLNT)	33.70	46.41	-	37.7%	Closed - 10/25/2018	Planet Fitness recently hit milestones of 1,500 locations in all 50 states, and it has more than 10.5 million members in all. It is now moving into the Mexican market, and we closed our position at an impressive gain.
Feb, 18	Insulet Corp (PODD)	75.84	82.69	-	9.0%	Closed - 10/25/2018	Insulet expects top-line growth to remain robust in 2018 with revenue growth guidance coming in at 18%-21% for the year. We closed our position for a solid gain.
Mar, 18	Preferred Bank (PFBC)	64.01	48.64	1.02	-	0-20 yrs	We like the seasoned management team at Preferred Bank, as well as its recent earnings growth trajectory. The business/credit cycle is worth watching. We like the added bonus of a nice little dividend.
Apr, 18	Esperion Therapeutics (ESPR)	66.43	45.27	-	-	0-20 yrs	Shares of Esperion were pummeled after mortality rates in a late-stage study of its bempedoic acid treatment spooked investors. This idea may be too risky for some investors.
May, 18	Heidrick & Struggles (HSII)	37.65	31.89	0.26	-	0-20 yrs	Heidrick & Struggles has a solid niche in sourcing and placing top-level senior executives, and the fast-changing business environment continues to present it with ongoing growth opportunities.
Jun, 18	Green Dot Corp (GDOT)	72.86	72.53	-	-	0-20 yrs	This banking entity and financial technology provider may have hit an operational inflection point in its record-setting first quarter of 2018. Walmart accounts for ~40% of operating revenue.
Jul, 18	Wix.com (WIX)	105.30	111.01	-	-	0-20 yrs	Wix's pace of registered user and premium subscription expansion is as incredible, as it is consistent. Wix has grown the number of registered users to 125 million at the end of the first quarter of 2018 from 32 million at the end of the first quarter of 2013.
Aug, 18	Tactile Systems Technology (TCMD)	50.84	63.52	-	24.9%	Closed - 10/25/2018	This at-home medical system provider is not as profitable as prior Exclusive capital appreciation ideas, but it is growing rapidly and boasts a strong balance sheet to support further growth.
Sep, 18	Invitae (NVTA)	13.95	13.89	-	-	0-20 yrs	Invitae is a genetic information company and is a very speculative idea. The company's mission is to make genetic information mainstream in medicine to help improve lives.
Oct, 18	Cigna (CI)	215.72	181.37	-	-	0-20 yrs	Cigna is a managed care company with a diverse revenue stream thanks in large part to legacy run-off operations from its time as a broad-line insurance entity. It recently bought Express Scripts as the day of the pure-play PBM wind down.
Nov, 18	Yeti Holdings (YETI)	16.50	17.92	-	-	0-20 yrs	Shares of Yeti faced pressure following its first public earnings report, but we still like the long-term growth potential of the company. The upside for its brand is significant, but execution risk is present.
Dec, 18	Spotify (SPOT)	135.31	134.71	-	-	0-20 yrs	Spotify is one of the largest global music streaming subscription services and is at the forefront of the digital transformation of the music industry. Top-line growth has been tremendous in recent years, and free cash flow generation is improving.
Jan, 19	Suncor Energy (SU)	29.32	32.24	-	-	0-20 yrs	Suncor Energy is Canada's miniature version of an integrated oil & gas company. The stability provided by its downstream assets allows the company to weather turbulent energy markets. A 5%+ dividend yield is an added benefit.

Success rate: The percentage of ideas highlighted in the Nelson Exclusive that have moved in the direction of our thesis (i.e. up for income or capital appreciation ideas and down for short idea considerations) through the current price or closed price, with consideration of cash and stock dividends. Success rates do not consider trading costs or tax implications.

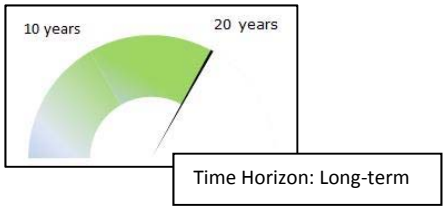
SHORT IDEA CONSIDERATIONS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon	Notes - Data as of February 8, 2019
Short Idea Considerations							
Jul, 16	Lands' End (LE)	16.76	16.10	NA	3.9%	Closed -- 12/2/2016	We were worried Eddie Lampert may start buying more heavily. Very volatile equity. Not being greedy, so we closed position.
Aug, 16	Vivint Solar (VSLR)	2.94	2.85	NA	3.1%	Closed -- 12/2/2016	Stock wasn't acting right despite an ongoing negative solar backdrop. We locked gain in as a result.
Sep, 16	Lloyds Banking (LYG)	3.31	2.78	NA	16.0%	Closed -- 11/4/2016	We didn't like Lyolds' leverage and were worried about Brexit. We picked our spot to take profits.
Oct, 16	GoPro (GPRO)	16.68	11.12	NA	33.3%	Closed -- 11/4/2016	This was a big winner. We continue to have concerns, and the stock keeps falling. We're not looking back, however.
Nov, 16	Seritage Growth Properties (SRG)	44.31	42.13	0.25	5.5%	Closed -- 1/6/2017	The REIT continues to trade on euphoric expectations, but we closed this for a gain. Dividends work against us as it relates to short performance. Buffett is watching.
Dec, 16	Royal Bank of Scotland (RBS)	4.91	6.27	0.05	-	0-2 yrs	The stock rallied alongside financials peers. We're watching it closely as Brexit looms. Royal Bank of Scotland recently announced plans to pay its first dividend since the financial crisis.
Jan, 17	Sequential Brands Group (SQBG)	4.62	4.18	-	9.5%	Closed 2/12/2017	We locked this short idea in. Retail continues to get pummeled, and we picked the right spot at the right time.
Feb, 17	Sportman's Warehouse (SPWH)	6.85	6.11	-	10.8%	Closed 2/12/2017	As with Sequential Brands, we picked the right spot at the right time. We locked in this big gain, too.
Mar, 17	Fitbit (FIT)	6.07	5.71	-	5.9%	Closed 4/5/2017	Very timely short idea again. We locked this in. The success rate on short idea considerations remains fantastic.
Apr, 17	Santander Consumer (SC)	12.51	11.65	-	6.9%	Closed 5/23/2017	Subprime auto may be in for a rough landing. We're expecting continued tough times, but we're going to lock this idea in.
May, 17	Snap, Inc (SNAP)	23.19	17.19	-	25.9%	Closed 5/10/2017	Fantastic timing! Another short idea consideration homerun! See May 10 email: 'Another Exclusive Homerun: Oh SNAP'
Jun, 17	Mallinckrodt (MNK)	42.65	36.41	-	14.6%	Closed - 8/18/2017	There's a lot of hair on this one. Famed short seller Jim Chanos doesn't like it. We locked in this winner.
Jul, 17	Deutsche Lufthansa AG (DLAKY)	23.05	21.42	0.94	3.0%	Closed - 10/25/2018	We think Ryanair will be a thorn in Deutsche Lufthansa's side in the coming years, and the cyclical nature of the airline industry won't ever go away. We closed this idea as a winner, though it took some patience.
Aug, 17	Del Frisco's (DFRG)	14.35	11.93	-	16.9%	Closed - 10/16/17	We locked in a solid gain after its third-quarter results left a good deal to be desired. Restaurant traffic continues to face pressure.
Sep, 17	Fiesta Restaurant Group (FRGI)	15.90	14.38	-	-	0-2 yrs	Fiesta continues to close units in the overheated restaurant space. Geographic concentration adds to risk. Buyout rumors have been helping smaller restaurant shares of late, however.
Oct, 17	Ingles Markets (IMKTA)	26.50	24.20	-	8.7%	Closed - 10/16/17	We closed this idea quickly as shares faced pressure due to industry-wide concerns over margin performance. The idea worked out well.

SHORT IDEA CONSIDERATIONS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon	Notes - Data as of February 8, 2019
Short Idea Considerations							
Nov, 17	Fogo de Chao (FOGO)	10.85	15.62	-	-44.0%	Closed - 3/3/2018	Fogo de Chao has accepted a buyout offer from Rhone Capital for $15.75 per share. Takeout risk is a key consideration for short sellers, and should not be taken lightly.
Dec, 17	TrueCar (TRUE)	12.07	10.84	-	10.2%	Closed - 12/27/17	We closed this idea quickly for a solid 'gain' as shares continue to face pressure due in part to poor recent performance and concerns surrounding its relationship with the USAA persist.
Jan, 18	Shake Shack (SHAK)	44.17	50.84	-	-	0-2 yrs	Weak traffic trends across the restaurant space, a saturated burgers and fries market, and meaningful execution risk are key considerations working against Shake Shack.
Feb, 18	iShares Core US Aggregate Bond ETF (AGG)	107.20	104.63	1.93	0.6%	Closed - 10/25/2018	Rising interest rates continue to work against long-duration fixed income vehicles. We expect such a development to persist in the near term, but the monthly yield of this idea should be noted.
Mar, 18	iShares iBoxx $ High Yield Corporate Bond ETF (HYG)	85.75	84.79	4.175	-	0-2 yrs	Demand for high-yield debt remains solid, but investors have begun to reduce risk exposure as volatility rises and spreads widen. The first quarter of 2018 marked the underlying index's works quarter since 2008.
Apr, 18	Houghton Mifflin Harcourt (HMHC)	7.25	6.70	-	7.6%	Closed - 6/1/18	Houghton Mifflin Harcourt missed consensus bottom-line estimates in the first quarter of 2018, and both net sales and billings fell by 1%. Weak fundamentals allowed us to close this idea quickly for a nice gain.
May, 18	Noodles & Company (NDLS)	7.25	7.03	-	-	0-2 yrs	Shares of Noodles & Company bounced after the company raised 2018 guidance but have faced selling pressure more recently. Turnarounds are notoriously difficult, and management still faces an uphill climb.
Jun, 18	iShares International High Yield Bond ETF (HYXU)	52.40	50.94	-	2.8%	Closed - 10/25/2018	Political turmoil in Italy continues to weigh on market expectations in the region. Moody's has placed the country's credit rating on review for downgrade. We closed this idea for a nice gain.
Jul, 18	Installed Building Products (IBP)	56.15	40.10	-	28.6%	Closed - 9/28/2018	Shares have been somewhat volatile since the highlight date but dropped after the company's second quarter results disappointed. We closed this idea for a big gain, and shares have continued facing pressure
Aug, 18	Veritiv Corp (VRTV)	38.80	36.35	-	6.3%	Closed - 9/28/2018	Shares of Veritiv surged following a strong second quarter report, but its long-term outlook remains challenged as a result of secular declines in key business segments. We closed it for a nice gain.
Sep, 18	Box (BOX)	24.55	24.30	-	1.0%	Closed - 9/28/2018	We closed this idea for a nice gain in a very short amount of time, but it proved to be premature, as shares have faced even more pressure since then. Regardless, it was another successful short idea.
Oct, 18	Modine Manufacturing (MOD)	14.73	12.00	-	18.5%	Closed - 10/25/2018	Modine Manufacturing was a very timely short idea that delivered a strong double digit return in less than a month's time. The timing of the close was very appropriate as its third quarter report was strong.
Nov, 18	Beazer Homes USA (BZH)	9.01	11.45	-		0-2 yrs	Shares of Beazer Homes jumped following a better than expected fiscal fourth quarter report, but we think this highly-leveraged homebuilder will have difficulty sustaining improved financial performance, espeically if recent housing market concerns materialize.
Dec, 18	Vera Bradley (VRA)	9.01	9.11	-		0-2 yrs	This short idea, which was a play on the ongoing US-China trade dispute due to its supply chain, was a home run as shares were pummeled by a poor quarterly report less than a week after the highlight date. We missed the boat with respect to an opportunistic close.
Jan, 19	RH (RH)	117.84	134.01	-		0-2 yrs	This short idea also has a bit of exposure to the ongoing US-China trade dispute, but management is confident it will be able to offset the negative impact. Shares will likely remain volatile as this story unfolds.
	Average Capital Efficiency* for 'Closed' Positions					Varies	Performance information is hypothetical and "trading" is simulated. Information provided in table for illustrative purposes only.

The tables above are provided for the sole purpose of transparency, to allow readers to measure Nelson Exclusive ideas in a way they feel is most appropriate. Ideas within the Nelson Exclusive are not constructed as a portfolio, nor should they be viewed as a portfolio, and performance information is hypothetical and "trading" is simulated. "Hypothetical annualized returns," now labeled "Capital Efficiency," cannot be achieved and are provided for the sole purpose of rightsizing each idea to a common measurement period (one year), to compare ideas 'closed' within one year to ones 'open' longer than one year, taking into account capital efficiency. A reader, for example, may view a 20% hypothetical return over a period of five weeks as much better than a 20% hypothetical return over a period of five years. Whereas both represent 20% hypothetical returns, hypothetical annualized performance is much different under each case. Readers may have different views and time horizons. To retain independence, neither Valuentum nor Brian Nelson own any shares, nor do they plan to own any shares, of any companies highlighted in the Nelson Exclusive. Importantly, shorting stocks involves a number of abnormal risks, including theoretically the infinite loss of capital, and is not for everyone. Valuentum is a financial publisher not a financial advisor. Please contact your personal financial advisor to determine if any idea in the Nelson Exclusive may be appropriate for you.



EastGroup Properties (EGP)

"Industrial property fundamentals are solid and continue improving in the vast majority of our markets. Based on this strength, we continue investing in, upgrading and geographically diversifying our portfolio. As we pursue these opportunities, we're also committed to maintaining a strong, healthy balance sheet with improving metrics as demonstrated by the record equity raise last year. We view this combination of pursuing opportunities while continually improving our balance sheet as an effective strategy to manage risk while capitalizing on a strong current operating environment. This mix of our strategy, our team and our markets has us optimistic about the future."– Marshall Loeb, President and CEO, fourth quarter earnings call

Thesis

This month's income idea comes to us from the real estate investment trust space, and it holds a solid investment grade credit rating to go along with a budding dividend growth track record. In fact, EastGroup Properties was able to keep its payout fully intact through the course of the Financial Crisis of late last decade while larger peers such as Prologis (PLD) and Liberty Property Trust (LPT). EastGroup has increased its dividend in 23 of the past 26 years, with the exceptions coming in the 2009-2011 period, and it has raised the payout in each of the last seven years. Shares yield ~2.7% as of this writing.

Corporate Profile

EastGroup Properties is an industrial-focused real estate investment trust with facilities in major Sunbelt markets across the US, most notable in Texas, Florida, California, Arizona, and North Carolina. The REIT is headquartered in Mississippi.

Key Statistics	
Last Close	$107.58
52-week range	$77.74-$108.46
Market Cap	$728 M
Avg Daily Vol (30 wks)	191,991
Annual Dividend Yield	2.68%
Trailing Dividend Payout Ratio (FFO)	62%
Trailing P/FFO	23.0
Credit rating	Baa2

EastGroup operates within the attractive industrial REIT space, which continues to benefit from the proliferation of e-commerce and the necessary distribution infrastructure. EastGroup's portfolio consists of business distribution buildings (88% of total properties), bulk distribution buildings (9% of total), and business service buildings (3% of total). It seeks to serve location-sensitive customers, which enables it to compete on location and not rental rates. The REIT works to key the specifications of its properties to local markets while retaining maximum flexibility for the customer, and it targets properties surrounding transportation features.

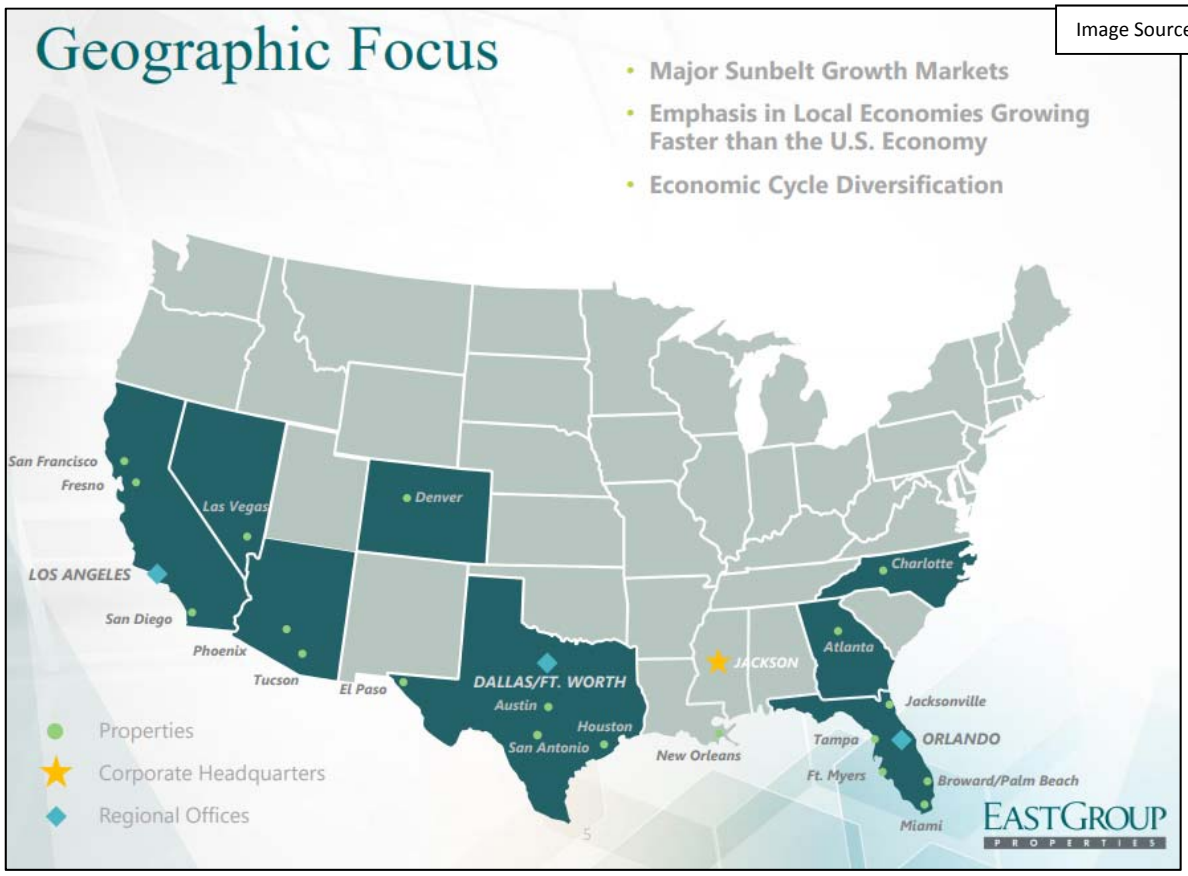
We agree with EastGroup and its peers that logistics and distribution real estate is an attractive vertical as supply chains are critical to the success of any given business. EastGroup focuses on last mile e-commerce locations, giving it exposure to a rapidly expanding industry. According to Prologis, global e-commerce sales are projected to grow by 152% from 2015-2020 as the adoption rate continues to march higher, and e-fulfillment requires as much as three times the distribution facility space compared to that of brick-and-mortar retail as a result of the mass number of shipping parcels, necessary high inventory levels, and increased product variety.

We like the potential for rents to move higher for EastGroup Properties due in part to the fact that rent accounts for less than 5% of total supply chain costs, according to third party estimates. This rate may change in the future as supply chains become increasingly efficient thanks to technology driving down transportation costs, and rent should be driven higher by customer demand for quality locations near population or other transportation centers to meet necessary deliveries. EastGroup is well aware of this demand driver, as evidenced by its principle to compete on location and not on rent.

On a market-specific basis, EastGroup expects supply to remain in check, especially in shallow bay industrial properties, as supply is current institutionally controlled, which should keep new deliveries disciplined and focused on big box construction. Also keeping supply in check is rising construction costs. Raw material inflation and a tight labor market are driving building costs higher, making new supply less attractive for potential developers. As mentioned, the demand side of the supply/demand dynamic appears poised for continued growth.

That is not to say that EastGroup is immune to larger macroeconomic forces. The company has yet to report an impact from factors such as the recent government shutdown, ongoing trade disputes, and broader macroeconomic uncertainty, but its customers may be vulnerable to these dynamics. EastGroup is also reliant on local economies in the regions it serves to a degree as its property net operating income is somewhat concentrated. As of the third quarter of 2018, its 35% of its property NOI was generated in Texas, with Florida and California accounted for 28% and 14%, respectively. Within Texas, the Houston market is estimated to be ~14% of NOI in 2019, and that mark may continue to fall as management works to diversify its markets served.

Image Source: EastGroup



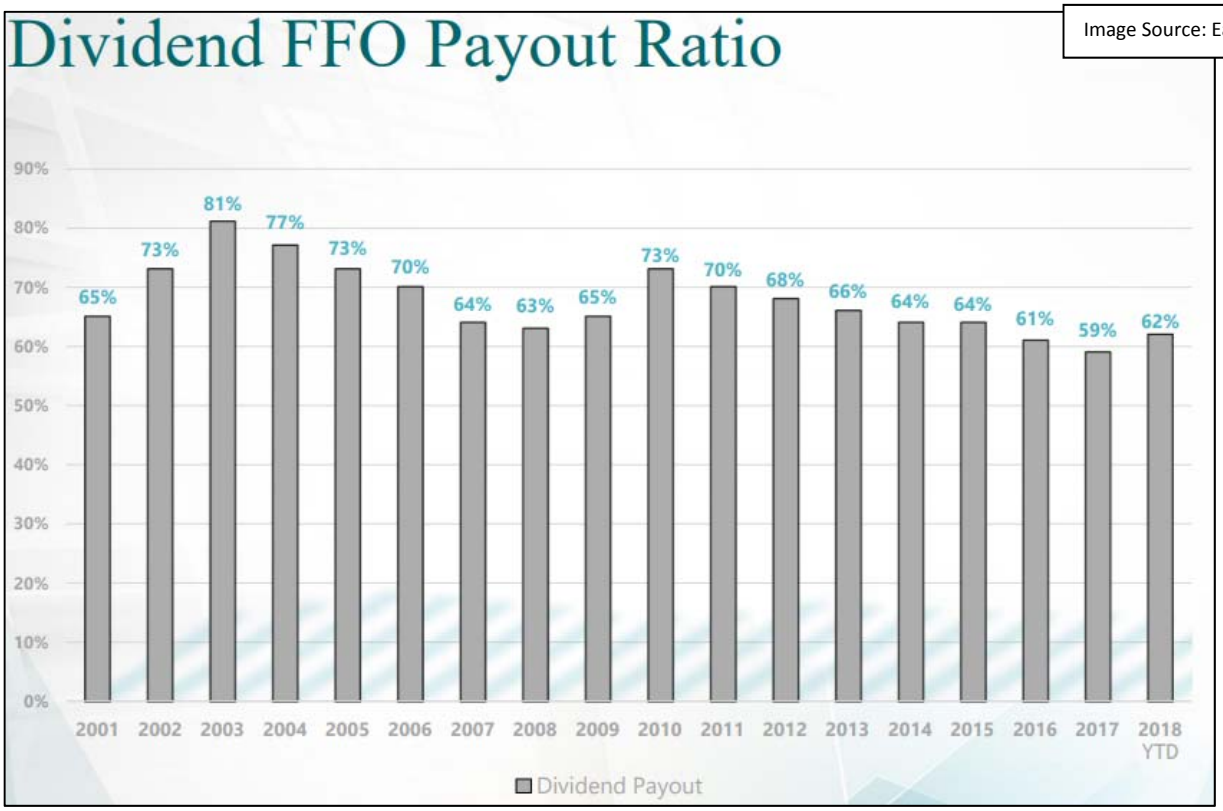
Though it has a degree of geographic concentration, EastGroup offsets that risk somewhat with a lack of tenant concentration as its top ten customers account for only 8.3% of total annualized base rent as of the end of 2018. The REIT holds a solid investment grade credit rating (Baa2), but its adjusted debt-to-pro forma EBITDA ratio was 4.72x at the end of 2018. This degree of financial leverage is not uncommon for a REIT, but investors should note that the adjustment made to its debt load is the subtraction of $150 million in development and value-add properties in lease-up or under construction.

Occupancy rates have been strong for EastGroup properties of late, and its 96.8% occupied mark at the end of the fourth quarter of 2018 was the 22nd consecutive quarter in which its occupancy has been above 95% (dating back to the third quarter 2013). Management fully expects this streak to continue in 2019 as its average month-end occupancy guidance for the year comes in at 96.2%.

Same property NOI in 2019 is expected to grow at 3.5%-4.5% on a cash basis from 2018 levels, and management continues to expect positive re-leasing spreads due to a lack of suitable land, a tight commercial real estate market, and rising construction costs in its markets. GAAP re-leasing spreads came in at a robust 15.8% in the full year 2018. FFO per share is expected to rise to a range of $4.79-$4.89 in 2019 compared to $4.67 in 2018, which was a 9.6% increase over 2017 levels.

These trends suggest EastGroup should be able to continue raising its dividend, but we must warn that the payout is dependent upon access to the capital markets as is typical of a REIT. Nevertheless, we like the potential for ongoing dividend growth, due in part to EastGroup's reasonable FFO payout ratio, which has hovered around the 60% mark in recent years. The historical average across the industries for REITs has been estimated at ~71% by Nareit, suggesting upside potential is present in EastGroup's payout ratio. The REIT's dividend yield may not be as enticing as that of some of its peers, but we like its potential to continue building upon its budding track record.

Image Source: EastGroup



As it relates to the inherent interest rate-sensitivity that comes with an investment in REITs, we think the increasingly dovish commentary coming from the fed has warded off some of the negative sentiment surrounding the space. The Fed may be paying very close attention to the 1-10 year Treasury yield curve, as it is a well-followed measure that many market observers believe to be indicative of a coming recession. While the true validity of that indication remains up for debate, the Fed is aware of the potential behavioral implications that it could produce. If investors see an indicator, however valid, pointing to a recession, which could cause consumers to pull back on economy-driving spending, resulting in a self-fulfilling prophecy of sorts. In other words, we're expected a dovish stance from the Fed to continue.

All things considered, we like the potential for EastGroup Properties to continue delivering a growing stream of income for its shareholders. An attractive market backdrop that appears poised to deliver rent growth, a solid investment grade credit rating, and a health FFO payout ratio all point to the REIT building upon its budding dividend track record.

EASTGROUP PROPERTIES

Financial Statistics
($ in thousands, except per share data)
(Unaudited)

Image Source: EastGroup

	Years Ended				
	2018	2017	2016	2015	2014
ASSETS/MARKET CAPITALIZATION					
Assets	$ 2,131,705	1,953,221	1,825,764	1,661,904	1,572,112
Equity Market Capitalization	3,348,269	3,071,927	2,461,251	1,802,957	2,040,967
Total Market Capitalization (Debt and Equity) [1]	4,458,037	4,183,620	3,566,865	2,835,194	2,974,144
Shares Outstanding - Common	36,501,356	34,758,167	33,332,213	32,421,460	32,232,587
Price per share	$ 91.73	88.38	73.84	55.61	63.32
FFO CHANGE					
FFO per diluted share	$ 4.67	4.26	4.02	3.67	3.47
Change compared to same period prior year	9.6%	6.0%	9.5%	5.8%	7.4%
COMMON DIVIDEND PAYOUT RATIO					
Dividend distribution	$ 2.72	2.52	2.44	2.34	2.22
FFO per diluted share	4.67	4.26	4.02	3.67	3.47
Dividend payout ratio	58%	59%	61%	64%	64%
COMMON DIVIDEND YIELD					
Dividend distribution	$ 2.72	2.52	2.44	2.34	2.22
Price per share	91.73	88.38	73.84	55.61	63.32
Dividend yield	2.97%	2.85%	3.30%	4.21%	3.51%
FFO MULTIPLE					
FFO per diluted share	$ 4.67	4.26	4.02	3.67	3.47
Price per share	91.73	88.38	73.84	55.61	63.32
Multiple	19.64	20.75	18.37	15.15	18.25
INTEREST & FIXED CHARGE COVERAGE RATIOS					
EBITDAre	$ 201,301	180,507	167,196	153,574	145,461
Interest expense	35,106	34,775	35,213	34,666	35,728
Interest and fixed charge coverage ratios	5.73	5.19	4.75	4.43	4.07
DEBT-TO-EBITDAre RATIO					
Debt	$ 1,105,787	1,108,282	1,101,333	1,027,909	929,465
EBITDAre	201,301	180,507	167,196	153,574	145,461
Debt-to-EBITDAre ratio	5.49	6.14	6.59	6.69	6.39
Adjusted debt-to-pro forma EBITDAre ratio	4.72	5.44	6.03	6.11	5.74
DEBT-TO-TOTAL MARKET CAPITALIZATION [1]	24.9%	26.6%	31.0%	36.4%	31.4%

ISSUER RATINGS [2]	Issuer Rating	Outlook
Moody's Investors Service	Baa2	Stable

[1] Before deducting unamortized debt issuance costs.
[2] A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency.

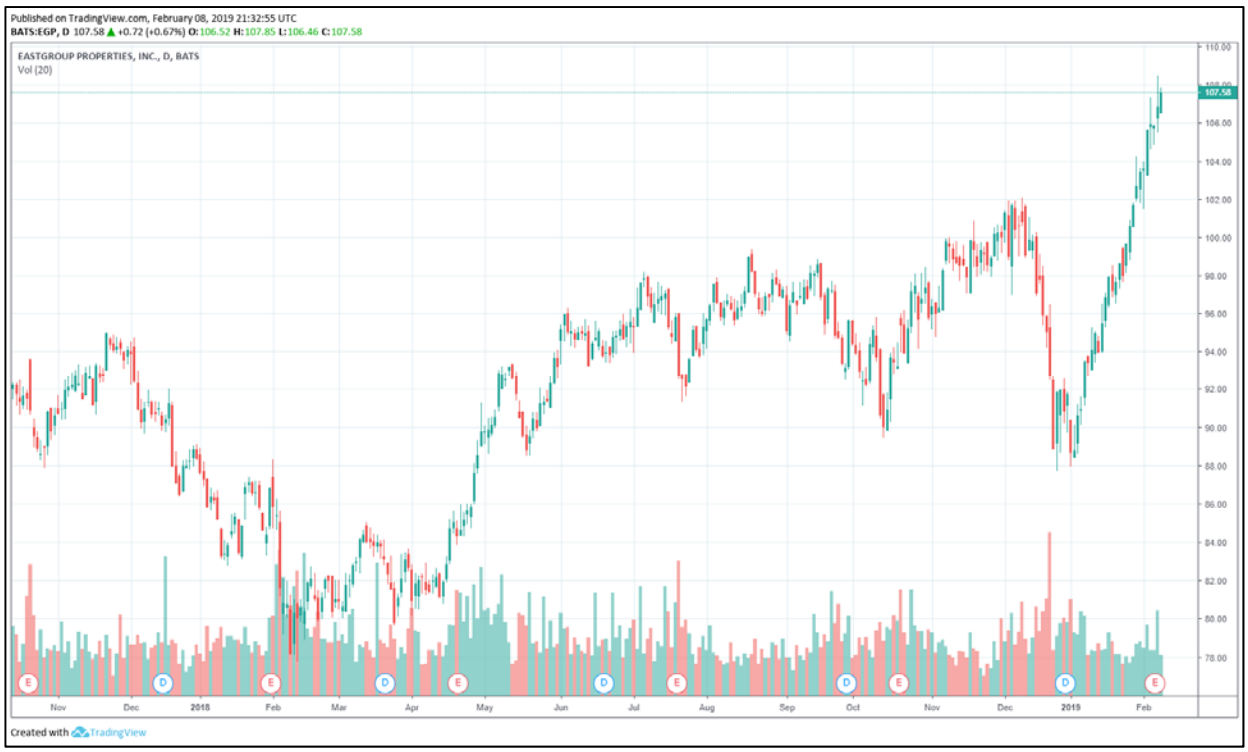
EASTGROUP PROPERTIES

Top 10 Customers by Annualized Base Rent
As of December 31, 2018
(Unaudited)

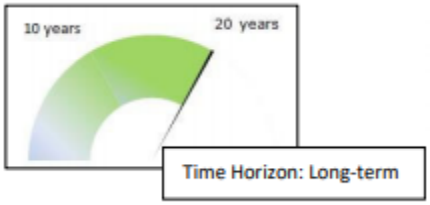
	Customer	# of Leases	Location	Total SF Leased	% of Total Portfolio	% of Total Annualized Base Rent [1]
1	The Chamberlain Group	2	Tucson, AZ	350,000	0.9%	1.1%
2	WNA Comet West, Inc.	1	Los Angeles, CA	411,000	1.0%	1.1%
3	Essendant Co.	1	Orlando, FL	404,000	1.0%	1.0%
4	Mattress Firm	1	Houston, TX	202,000		
		1	Tampa, FL	109,000		
		1	Jacksonville, FL	49,000		
		1	Ft. Myers, FL	25,000		
					1.0%	0.9%
5	Price Transfer	1	Los Angeles, CA	262,000	0.7%	0.8%
6	Kuehne & Nagel, Inc.	2	Houston, TX	172,000		
		2	Charlotte, NC	106,000		
					0.7%	0.8%
7	Iron Mountain Information Management, Inc.	2	Tampa, FL	184,000		
		2	Phoenix, AZ	59,000		
		1	Ft. Lauderdale, FL	45,000		
		1	Jacksonville, FL	40,000		
					0.8%	0.7%
8	Medtronic Inc.	1	Santa Barbara, CA	82,000	0.2%	0.7%
9	Arizona Nutritional Supplements LLC	2	Phoenix, AZ	228,000	0.6%	0.6%
10	U.S. Postal Service	1	Houston, TX	110,000		
		1	New Orleans, LA	99,000		
		2	Tampa, FL	59,000		
					0.7%	0.6%
		26		2,996,000	7.6%	8.3%

[1] Calculation: Customer Annualized Base Rent as of 12/31/18 (without S/L Rent) / Total Annualized Base Rent (without S/L Rent).

Image Source: EastGroup



Capital Appreciation



Delek US Holdings (DK)

"Currently, we believe that our stock is very attractive investment relative to other opportunities. Consistent with our - this assessment, as well as our commitment to return excess cash flow to shareholders, we intend to repurchase $150 million of Delek stock or 30% of our new [$500] million authorization in the fourth quarter of 2018. In addition, our Board of Directors approved a 4% increase in our regular quarterly dividend." – Ezra Uzi Yemin, - CEO and Chairman, third quarter 2018 conference call

Thesis

After tumbling from over $50 a share in the Summer of 2018 to the low $30s as of this writing, it appears likely that Delek US Holdings Inc's stock price has fully incorporated the negative impact the shrinking Midland WTI to Cushing WTI differential will have on its refining margins. During this period, management utilized Delek's strong cash flow generation and balance sheet to fund share buybacks while increasing its yield, which stood at 3.2% as of this writing.

A combination of shareholder friendly policies, strong financials, and investments in growth projects that will generate positive EBITDA regardless of where crack spreads go could provide a series of very powerful catalysts for Delek US Holdings as we move forward in 2019. Recent downstream activity in the US Gulf Coast region could also potentially make Delek US Holdings a take-out target, as several big players look to expand their light sweet refining capacity in the region to support rising Permian oil production.

Delek US consolidates its financial performance with its midstream MLP Delek Logistics Partners LP. When excluding its midstream MLP's balance sheet from the parent company, Delek US Holdings had a positive net cash position at the end of September 2018 (where its cash pile exceeded the value of its debt). As current assets of $2.9 billion outstripped current liabilities of $2.0 billion on a consolidated basis at the end of the third quarter of 2018, Delek's ample liquidity protects its dividend yield while allowing for significant share repurchases. See the attached balance sheet statement at the end of this piece for more information.

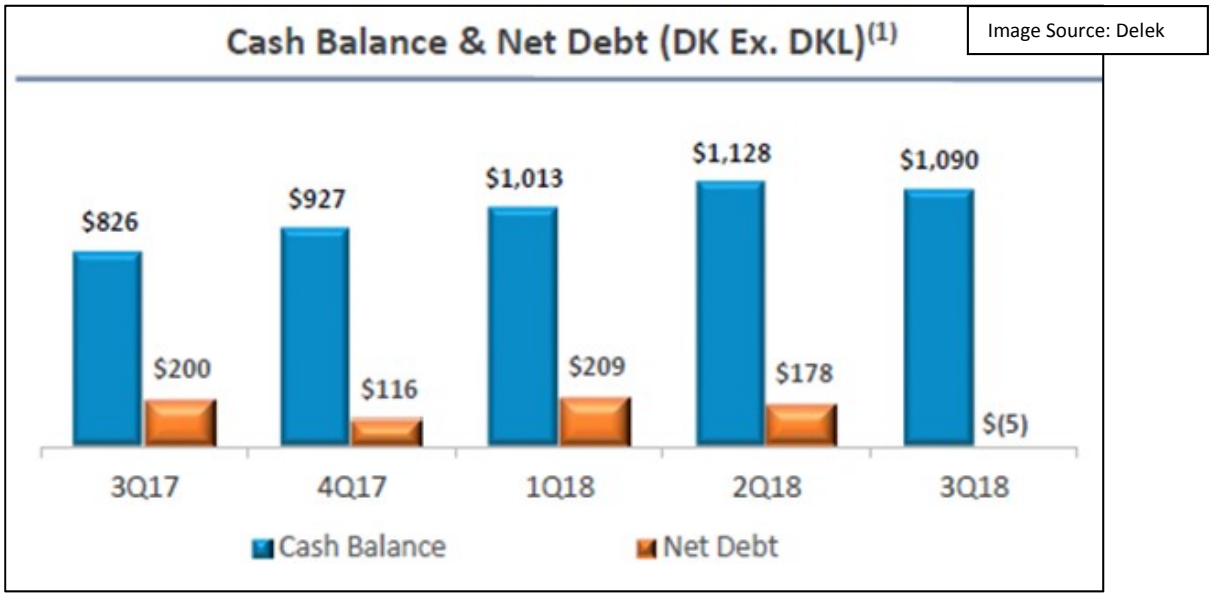
Corporate Profile

Delek US Holdings Inc (DK) operates four refineries in the US Gulf Coast region (two in Texas, one in both Louisiana and Arkansas) which combined have 302,000 barrels of crude throughput capacity per day. The company is one of the largest licensees of 7-Eleven (SVDNF) convenience stores, which also sell motor fuel, with 300 locations in Texas and New Mexico. Delek US Holdings owns 63% of Delek Logistics Partners LP (DKL) and the vast majority of the MLP's general partner. That midstream MLP owns a large portion of Delek US Holdings' key cash flow generating infrastructure assets such as pipelines and storage facilities, which support the parent company's downstream operations. The financial statements of Delek US Holdings Inc and Delek Logistics Partners LP are consolidated.

Key Statistics	
Last Close	$32.12
52-week range	$29.51-$61.57
Market Cap	$2.6 B
Avg Daily Vol	1,772,707
Trailing P/E	8.0
Net Debt (LFY)	$534 M
Net Debt/Adj. EBITDA (LFY)	1.3x

During the first three quarters of 2018, Delek added $0.2 billion in net cash to its balance sheet, up from $0.1 billion during the same period in 2017. The firm's cash flow statements are noisy due to recent divestments and the impact of consolidating its financial statements with its midstream spin-off. Delek US Holdings tripled its net income generation on a year-over-year basis during the first nine months of 2018 to just over $0.2 billion. Looking at just the third quarter of 2018, Delek's adjusted EBITDA climbed over $0.3 billion versus less than $0.2 billion during the same quarter in 2017.

Management has leveraged Delek's strong balance sheet to repurchase $0.2 billion of its shares during the first three quarters of 2018, with another $0.2 billion targeted for the final quarter of last year. Combined, that is equal to ~15% of its market capitalization. At the end of September 2018, Delek had $0.1 billion in share repurchasing authority remaining, which was increased by $0.5 billion in November 2018. It is likely Delek will continue to repurchase its stock as market conditions warrant. Additional dividend increases are also likely as its annual payout rose from $0.60 a share in 2017 to $0.96 in 2018.



When taking a look at Delek's refining margins on a per barrel basis a clear trend immerges during the first three quarters of 2018. Refineries that process larger volumes of West Texas Intermediate (domestic light sweet) oil supplies as a percentage of the crude slate (total oil volumes being refined) tend to sport much stronger refining margins. Delek's two refineries in Texas have ample access to light sweet oil supplies from upstream plays including the Permian Basin in West Texas and the Eagle Ford in South Texas, and from major oil hubs at Cushing (Oklahoma), Nederland (Texas), and Houston (Texas). Keep in mind domestic light sweet oil supplies can be sourced from multiple locations including Midland, Houston, and Cushing, but that the prices for those barrels can change materially based on location.

Below is a look at Delek's refining margin (otherwise known as crack spread) and crude slate composition during the first three quarters of 2018, but it should be noted that this only looks at domestic light sweet oil supplies as a percent of the crude slate (instead of including West Texas Sour and other domestic oil grades). Delek's Tyler, Big Spring, and El Dorado refineries ran entirely on domestic crude supplies in 2018 as of the end of September. However, as you can see when comparing its downstream performance in Texas versus its performance in Arkansas, it is the ability to process large volumes of cost-advantaged light sweet oil supplies that gives Delek an edge.

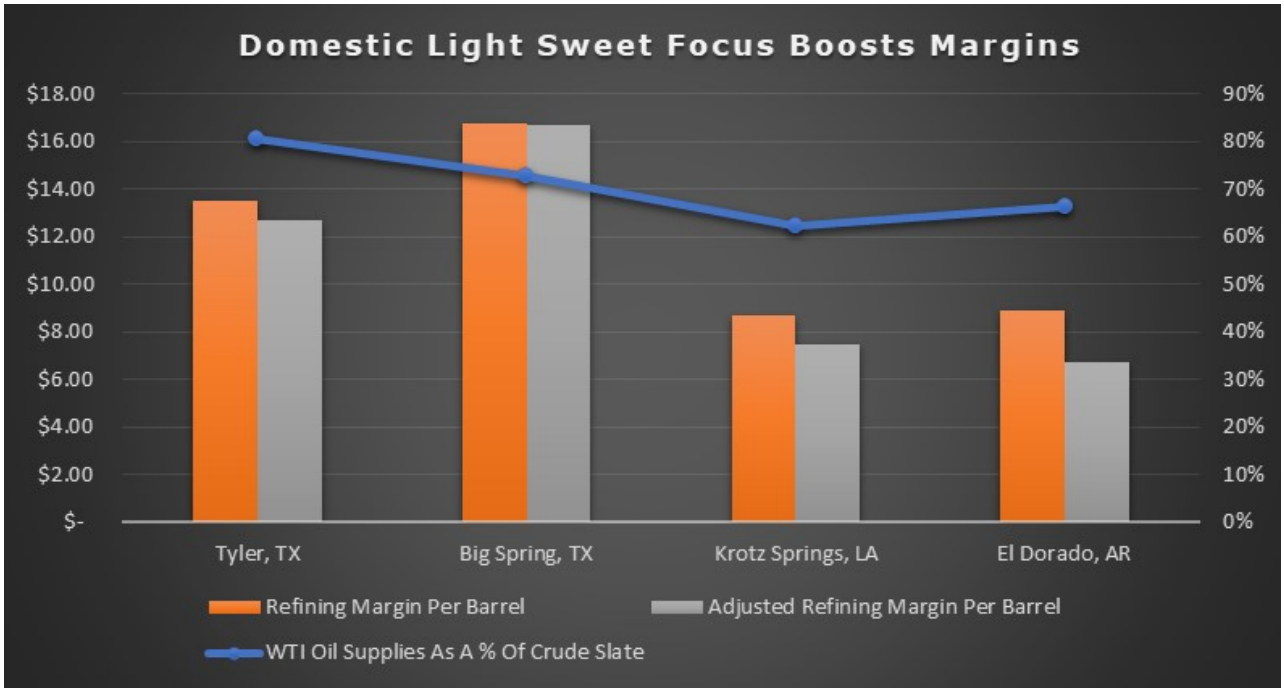


Image Source: Delek US Holdings Inc - Third Quarter of 2018 Earnings Press Release – Graph made by author

Delek US Holdings has access to 207,000 barrels of crude supplies per day from the Permian Basin, a key positive considering Midland WTI (based on light sweet oil deliveries to the West Texas hub) tends to trade a few dollars below light sweet oil deliveries to Cushing, Oklahoma. More importantly, Brent trades at a hefty premium to WTI and has been doing so for a long time, even though the ban on American oil exports was lifted at the end of 2015.

Having access to ample supplies of light sweet oil, a task made extremely easy due to the ongoing fracking boom in America, gives Delek an edge over its international peers. While the weakening of the Midland-to-WTI (Cushing) differential from the second half of 2018 into 2019 will put near-term pressure on Delek's crack spreads, its long-term structural advantages are still important.

Due to production declines in Canada, Mexico, Venezuela, and OPEC+ (as part of the ongoing output curtailment deal), a significant amount of heavy oil supplies has recently been removed from the market. Heavy oil no longer trades at a nice discount to lighter oil grades. This is seen through the narrowing of the Brent-Dubai EFS spread, which shrunk to below $1 per barrel near the end of January 2019. That spread is used to value the premium light sweet barrels trade over heavy sour barrels to incorporate the additional refining costs associated with running oil volumes that are heavier (lower API rating) with a higher sulfur content by weight.

Strong diesel crack spreads are working in the downstream industry's favor while a glut of gasoline is weighing negatively on gasoline crack spreads. Delek benefits from a tightening physical market for heavier crude grades as that has sharply increased diesel crack spreads but remains heavily exposed to weakness in the global gasoline market considering its light crude slate. Lighter oil grades produce larger amounts of gasoline than heavier crude grades, while medium-light crude grades are ideal for distillate production (diesel, fuel oil, and jet fuel). Delek will likely attempt to maximize its distillate production going forward by adjusting its refining process and crude slate to the degree that it can.

Delek is banking on the coming IMO 2020 rule changes and the cost-advantaged nature of domestic light sweet oil supplies to ride out the storm. The International Marine Organization has stipulated that the sulfur content in all marine fuels must drop from 3.5% to 0.5% by 2020.

Ultra-low sulfur diesel is expected to be a big winner, as are refineries capable of extracting large sulfur volumes from sour crude. Roughly a quarter of Delek's crude throughput volumes at its Big Spring refinery is West Texas Sour (a medium sour crude grade), with the rest represented by light sweet volumes. As market conditions warrant, Delek could increase its West Texas Sour crude slate up to 100% to both capitalize on stronger diesel crack spreads and downward pressure on the price of oil supplies with a high sulfur content. Its El Dorado refinery in Arkansas can process either 100% light sweet or medium sour oil supplies, giving the firm another way to make the most of the coming IMO 2020 rule change.

To bolster its financial performance, Delek US Holdings is making investments in projects that either aren't influenced by crack spreads or will still generate positive EBITDA regardless of fluctuations in market prices for energy products. The $113 million alkylation project at its Krotz Springs Refinery in Louisiana is expected to be completed during the first quarter of 2019 and is forecasted to add $45 – 50 million to Delek's annual EBITDA generation. Alkylation projects enable Delek's refineries to produce larger quantities of high-value refined products (namely gasoline) and smaller amounts of low-value products (such as isobutane).

Delek is developing an oil gathering system in the Permian Basin that will run for 250 miles and have the capacity to gathering 300,000 barrels of crude per day. By 2022, management expects that project will add $40 – 50 million to Delek's annual EBITDA generation. Before then, Delek has a sizeable economic interest in a long-haul oil pipeline that will carry crude out of the Permian Basin to key domestic markets along the Gulf Coast or for export. That 600-mile long pipeline is expected to be completed by the second half of 2020. Midstream projects tend to sport utility-like returns, providing the firm with growth avenues that aren't dependent on crack spreads but are dependent on picking quality plays to invest in. As the Permian oil boom remains well underway, these appear to be good investment decisions.

Both of those midstream assets may get dropped down to Delek Logistics Partners in the future, however, Delek US Holdings is contemplating rolling its midstream MLP back up into the parent company. This is due to the old midstream model where the master limited partnerships were getting bled dry by the incentive distribution rights owned by the general partners no longer representing a viable corporate structure (seen by the wave of consolidation gripping the midstream industry). The cost of capital for midstream MLP's tends to be very high, and that is the case with Delek Logistics Partners. During its third quarter of 2018 conference call management noted:

> *"Obviously, we looked at what Valero (VLO) did [consolidated its midstream MLP back into the parent company] and we will need to look at our MLP carefully. As the cost of capital for MLP today, for us, is higher than the cost of capital for DK. I'm not suggesting that we will do something next week. But over the next 18 months, that's something that we will need to look at, including simplifying the structure with the IDRs."*

It is an entirely different story when it comes to funds from operations, as this is where its upstream divisions play a much larger role. Rising oil prices during most of 2018 had a very powerful impact on its cash flow generation, which was made possible due to Suncor's ability to circumvent the worst of the widening WTI-WCS differential.

Several big pieces of news has come out recently which could have major implications for the downstream industry in Texas and the Gulf Coast at-large. Chevron Corporation (CVX) is purchasing Petrobras' (PBR) 112,000 barrel per day refinery in Pasadena, Texas, for $350 million. That purchase would be integrated with Chevron's upstream Permian division to ensure rising light sweet oil volumes in West Texas and Southeast New Mexico could reach refineries capable of running large amounts of that type of crude grade.

Exxon Mobil Corporation (XOM) is adding a third CDU, crude distillation unit, at its Beaumont refinery in Texas which will make the refining complex America's largest once completed. Another CDU will add 250,000 – 350,000 bpd of crude throughput capacity to the facility, bringing total crude throughput capacity north of 600,000 bpd. This expansion will ensure Exxon Mobil's growing upstream Permian division has access to ample light sweet refining capacity, highlighting how large energy firms are using a combination of financial largess and integration to support their long-term upstream growth ambitions.

What makes these recent developments particularly important is that it is clear refineries in the Gulf Coast, especially Texas, with the capacity to process significant amounts of light sweet barrels are quite valuable. Building a new refinery from scratch is a harder task than acquiring an operation that has room to grow, which is why it is likely Chevron will increase the crude throughput capacity of the Pasadena refinery. Part of the deal included "143 acres of additional land."

Taking this a step further, it is possible there could be serious interest in Delek US Holdings' asset base in the future. In particular, there could be interest from firms with upstream operations in the Permian Basin or downstream operators with a large US Gulf Coast presence that are seeking better economies of scale. As the firm has a strong balance sheet and a relatively small market capitalization, it is worth keeping in mind that Delek is a potential take-out target within the downstream space. There has been plenty of interest in downstream deal making over the past year considering Marathon Petroleum Corporation (MPC) merged with Andeavor back in October 2018.

Delek US Holdings Inc is making major investments in growth projects that will bolster its cash flow generation in ways that aren't directly correlated with downstream market conditions, improving its investment thesis by modestly reducing its exposure to volatile crack spreads. Share buybacks, dividend increases, a strong balance sheet, and an asset base that may to attractive to large suitors makes this downstream player one to keep on your radar as it gets ready to report earnings on February 19, which will be followed up by its conference call a day later. As the market has already heavily discounted shares of Delek US Holdings Inc, it presents an interesting way to directly play the ongoing American fracking boom while still having the security of a financially stable downstream operator with very shareholder friendly policies.

Part I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Delek US Holdings, Inc.

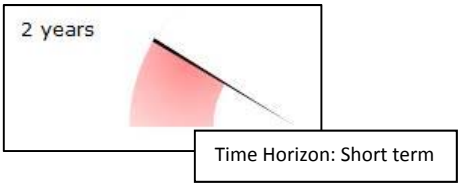
Condensed Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,109.1	$ 931.8
Accounts receivable, net	736.9	579.6
Accounts receivable from related parties	3.1	2.1
Inventories, net of inventory valuation reserves	923.9	808.4
Assets held for sale	—	160.0
Other current assets	88.4	129.9
Total current assets	2,861.4	2,611.8
Property, plant and equipment:		
Property, plant and equipment	2,897.2	2,772.5
Less: accumulated depreciation	(754.8)	(631.7)
Property, plant and equipment, net	2,142.4	2,140.8
Goodwill	857.8	816.6
Other intangibles, net	105.8	101.1
Equity method investments	131.3	138.1
Other non-current assets	60.0	126.8
Total assets	$ 6,158.7	$ 5,935.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	1,108.1	$ 973.4
Accounts payable to related parties	2.2	1.7
Current portion of long-term debt	32.0	590.2
Obligation under Supply and Offtake Agreements	478.7	435.6
Liabilities associated with assets held for sale	—	105.9
Accrued expenses and other current liabilities	384.6	564.9
Total current liabilities	2,005.6	2,671.7
Non-current liabilities:		
Long-term debt, net of current portion	1,830.0	875.4
Environmental liabilities, net of current portion	136.1	68.9
Asset retirement obligations	76.9	72.1
Deferred tax liabilities	175.2	199.9
Other non-current liabilities	37.8	83.0
Total non-current liabilities	2,256.0	1,299.3
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 par value, 110,000,000 shares authorized, 90,432,492 shares and 81,533,548 shares issued at September 30, 2018 and December 31, 2017, respectively	0.9	0.8
Additional paid-in capital	1,168.8	900.1
Accumulated other comprehensive income	6.4	6.9
Treasury stock, 8,302,905 shares and 762,623 shares, at cost, as of September 30, 2018 and December 31, 2017, respectively	(356.3)	(25.0)
Retained earnings	901.5	767.8
Non-controlling interests in subsidiaries	175.8	313.6
Total stockholders' equity	1,897.1	1,964.2
Total liabilities and stockholders' equity	$ 6,158.7	$ 5,935.2

Image Source: Delek

Disclosure: Independent energy contributor Callum Turcan wrote this article., Callum doesn't own shares in any of the companies mentioned in this article.

Short Consideration



QuinStreet (QNST)

Thesis

This month's short idea has its fair share of risk due to the potential for an upside surprise, but we don't need to rehash the inherent risks of selling any given stock short. QuinStreet is working to take advantage of the shift of marketing strategies to digital advertising media, which requires analytic, data-driven marketing, quantifiable results-based relationships, and more fragmented media buying. QuinStreet delivers measurable marketing results to its clients in the form of a qualified lead, inquiry, click, call, application, or customer, which the client then can convert into a sale.

QuinStreet lists its media buying power, proprietary technologies, and extensive data and experience in performance marketing as its key competitive advantages, but we are of the opinion that its media buying power advantage is poised to take a meaningful hit beginning in the back half of its fiscal 2019 (ends June 2019). A key risk embedded in its business model is that its contracts with clients are terminable at any time and do not contain minimum spending requirements.

Corporate Profile

QuinStreet is a leader in performance marketing products and technologies, and its approach to performance marketing technologies enables its clients to engage high intent digital media or traffic from a number of device types, in multiple formats, and in a range of cost-per-action forms of contact. Revenue is generated by selling measurable online marketing results to clients. The majority of its operations and revenue are in North America, and it has budding businesses in Brazil and India.

Key Statistics	
Last Close	$14.77
52-week range	$9.76-$20.02
Market Cap	$728 M
Avg Daily Volume (30 weeks)	788,339
Shares Outstanding	49.29 M
Float	42.78 M
Short Ratio	5.69
Short % of Float	17.1%
Shares short (prior month)	3.04 M

This risk reared its ugly head in the second quarter of fiscal 2019 when QuinStreet's largest client in its education segment, Dream Center Education Holdings, terminated its relationship with the marketing firm. Dream Center accounted for 13% of the company's accounts receivable as of the end of fiscal 2018, noting the importance of the client to QuinStreet's buying power in the education sector of media. This is an important factor to note as the loss of its largest education client not only impacts results due to the outright loss of the client, but it also erodes the company's media buying power and efficiency, which will impact the rates it receives in buying media for other clients.

Outside of the loss of Dream Center, QuinStreet is optimistic over the long-term opportunity it sees in education, but management is anticipating some short-term frustration as the loss of Dream Center will outweigh its growth in other areas of education. The development highlights the negative aspects of having contracts that terminable at any time, and the company has significant exposure to its largest clients. Insurance provider Progressive Corporation (PGR) is its largest client and accounted for 23% of total sales in fiscal 2018, and QuinStreet's top 20 clients accounted for 57% of its fiscal 2018 sales. The loss of any of these customers could have a similar impact to that of the loss of Dream Center, though at to a potentially lesser extent.

While financial services customers account for more than 70% of total revenue (education comes in at 16% of total revenue with other accounting for 13%) as of the second quarter of fiscal 2019, QuinStreet faces cyclicality in its other end markets served, most notably in its mortgage-serving business. The refinancing

market is notably cyclical, and management expects a downturn in refinancing to persist in the near term as higher interest rates relative to recent years are discouraging individuals from refinancing personal loans. This has resulted in a pullback in spending from providers of refinancing services.

Though interest rates have stabilized, and even come down a touch in terms of mortgage rates, more recently, QuinStreet does not expect it to have a materially positive impact on media spending from service providers. This downturn is beyond its control, and while it is working to gain share in the market, management expects significant weakness in its mortgage-serving business in the back half of fiscal 2019 with the potential for it to persist beyond the near term depending on the future trajectory of rates.

Despite expectations for difficult year-over-year comparisons in its mortgage business and the loss of a major client in its education business in the back half of the fiscal year, management reiterated its expectations for 15%-20% revenue growth and adjusted EBITDA margin expansion to 10% (was ~8.6% in fiscal 2018). This may be setting QuinStreet up for yet another materially disappointing quarterly report in the near term. However, the potential for its financial services clients to offset this weakness exists, and this is a key risk to the short thesis surrounding the company.

QuinStreet has a solid balance sheet as it holds no debt and ~$62 million in cash and cash equivalents as of the end of the second quarter of fiscal 2019. Fiscal 2018 marked its first year of GAAP profitability since fiscal 2012, but it has been able to generate positive free cash flow in each of the last two fiscal years thanks in part to its tremendously capital-light business model. This cash-rich business model has the potential to work against short sellers if it is able to continue scaling its business effectively, but we are of the opinion that the outside forces, including the loss of a major client eroding media buying power and efficiency and a potentially prolonged downturn in its mortgage business, could have a material impact on this dynamic.

Shares of QuinStreet are trading at a lofty multiple of nearly 23x fiscal 2019 consensus earnings expectations, which is indicative of the market's expectations for robust top-line growth to continue. Any disappointment relative to these expectations has the potential to weigh meaningfully on shares, as evidenced by the ~20% one-day drop in shares following the release of its fiscal 2019 second quarter report, but it is important to note that this dynamic can cut both ways in the event of an upside surprise. Quarterly pops and drops should be expected, and this level of potential volatility is not for the faint of heart.

Image Source: QuinStreet

	June 30,				
	2018	2017	2016	2015	2014
			(In thousands)		
Consolidated Balance Sheets Data:					
Cash and cash equivalents	$ 64,700	$ 49,571	$ 53,710	$ 60,468	$ 84,177
Working capital	69,592	47,301	44,264	69,549	110,412
Total assets	220,296	174,308	193,102	205,153	276,843
Long-term liabilities	3,938	3,672	4,631	20,740	65,448
Total debt	—	—	15,000	15,049	77,263
Total stockholders' equity	148,326	118,082	124,752	135,585	145,151

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
			(In thousands)		
Consolidated Statements of Cash Flows Data:					
Net cash provided by operating activities	$ 26,979	$ 18,536	$ 1,015	$ 6,133	$ 18,377
Depreciation and amortization	7,767	11,377	15,087	18,867	26,097
Capital expenditures	610	1,160	1,859	3,346	5,455

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
			(In thousands)		
Other Financial Data:					
Adjusted EBITDA [1]	$ 34,679	$ 12,010	$ 7,853	$ 9,984	$ 24,189

Image Source: QuinStreet

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Net revenue	$ 404,358	$ 299,785	$ 297,706	$ 282,140	$ 282,549
Cost of revenue [1]	345,947	269,409	270,963	252,002	241,907
Gross profit	58,411	30,376	26,743	30,138	40,642
Operating expenses: [1]					
Product development	13,805	13,476	16,431	17,948	19,548
Sales and marketing	10,414	9,189	12,020	14,544	16,385
General and administrative	18,556	15,934	17,166	16,823	17,046
Impairment of goodwill	—	—	—	—	95,641
Restructuring charges	—	2,441	—	—	—
Total operating expenses	42,775	41,040	45,617	49,315	148,620
Operating income (loss)	15,636	(10,664)	(18,874)	(19,177)	(107,978)
Interest income	181	138	61	72	115
Interest expense	—	(346)	(585)	(3,818)	(3,825)
Other income (expense), net	687	(2,416)	112	2,671	1,493
Interest and other income (expense), net	868	(2,624)	(412)	(1,075)	(2,217)
Income (loss) before income taxes	16,504	(13,288)	(19,286)	(20,252)	(110,195)
(Provision for) benefit from income taxes	(574)	1,080	(134)	244	(36,209)
Net income (loss)	$ 15,930	$ (12,208)	$ (19,420)	$ (20,008)	$ (146,404)
Net income (loss) per share: [2]					
Basic	$ 0.34	$ (0.27)	$ (0.43)	$ (0.45)	$ (3.36)
Diluted	$ 0.32	$ (0.27)	$ (0.43)	$ (0.45)	$ (3.36)
Weighted-average shares used in computing net income (loss) per share:					
Basic	46,417	45,594	45,197	44,454	43,528
Diluted	49,872	45,594	45,197	44,454	43,528

July 1, 2016

Inaugural Letter to Members

Dear Valued Member,

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

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

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

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

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

Let's talk about what the Exclusive isn't. The Exclusive does not constitute individual investment advice, and the ideas within it are not personal recommendations. Each of you reading should always work with your

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

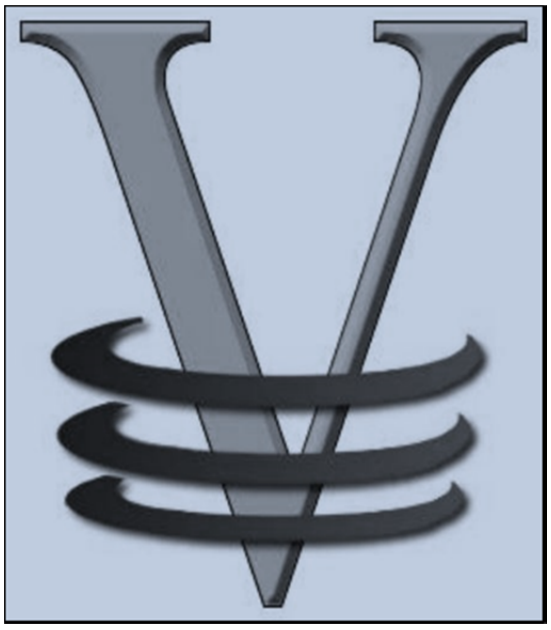
Within the twelve editions of the Nelson Exclusive each year, we'll be highlighting in total 36 ideas for consideration with varying investment parameters. That's a lot. Depending on the time horizon set forth with each idea, fantastic performance might mean a success rate of 60%, great performance might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

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

Batter up!

Sincerely,

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



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

The Nelson Exclusive: Volume 4, Issue 2

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

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

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

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