THE EXCLUSIVE

Confidential*

May 2019

THE VALUENTUM TEAM

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Closed Exclusive Ideas from April 18

A version of this article was sent to members via email April 18.

By Brian Nelson, CFA

To our Exclusive members, I want you to know we're still extremely excited with how things are going in the Exclusive publication. Back in April 18, we made a few adjustments. We closed a number of ideas (see table below), but note we also extended the 'Time Horizon' for a couple of our ideas. Our January 2017 income idea Star Gas Partners (SGU) **just upped its payout 6.4%, now $0.50 on an annual basis**, and we're going to be extending its 'Time Horizon' to 0-5 years, from 0-2 years.

We're also going to be extending the 'Time Horizon' for our December 2016 short-idea consideration, Royal Bank of Scotland (RBS). This one has moved against us for some time, but we're going to keep this one open for a little bit longer. **If this one works out, that would make 16 out of the first 16 short-idea considerations "working out"** over a time horizon that showed the markets advancing rather aggressively. This is phenomenal to me.

The following table lists ideas that we closed back on April 18, 2019.

Highlight Date	Company Name	Close Price*	Close Date
Income Ideas			
Oct-17	Fortis (FTS)	37.29	4/18/2019
Aug-18	QTS Realty Trust (QTS)	45.85	4/18/2019
Oct-18	Veolia Environment (VEOEY)	23.59	4/18/2019
Capital Appreciation Ideas			
Dec-16	Tootsie Roll (TR)	38.96	4/18/2019
Apr-18	Esperion Therapeutics (ESPR)	40.94	4/18/2019
Oct-18	Cigna (CI)	149.00	4/18/2019
Dec-18	Spotify (SPOT)	139.65	4/18/2019
Feb-19	Delek Holdings (DK)	37.31	4/18/2019
Short Idea Considerations			
Mar-18	iShares iBoxx $ High Yield Corp Bond (HYG)	86.68	4/18/2019

* Close price does not include cash or stock dividend received since highlight price.

Image Shown: *These are the recent changes made to Valuentum's Exclusive idea list on April 18. Please note that the Exclusive list is not a simulated portfolio as with the Best Ideas Newsletter portfolio or Dividend Growth Newsletter portfolio, for example.*

In Case You Missed It…

My father is retired now. He worked as a stationary engineer for probably 30+ years around a couple hospitals in the Chicagoland area. He'd always make time for his family. I think he'd be out the door at 5am but be home by 3pm or so to spend time with me and my brother on the baseball field or in whatever interests we might have.

I think he was influenced by a different generation than most baby boomers. My grandfather, his father, was born in 1905, and my father was the youngest of his siblings, born in 1950. It's almost as though a generation was skipped as most my age probably don't have a grandfather that would have been nearly 115 years of age next January. My grandfather passed in 1964, 55 years ago now.

I remember one time my father received an award from the hospital that he had worked at for some 15-20 years at the time. He had worked in the boiler room for most of his life, and this particular award was in part because he had saved the hospital from burning down, as my mom told me. I thought it was incredible. Would it be in the newspapers?

Well, to my surprise, it wasn't. It made sense -- things that nobody knows about don't become "news." I don't think my dad cared that much about accolades. He'd always be the one that would be the first to the problem with his tools, and fix it before anyone would really know. Nobody probably knows all the work he has done all these years. He wasn't one to leave his tools around to show that he'd completed the job. He just did it because it was the right thing to do.

Interestingly, there's another part of my father when it came to his sons. He didn't want to be praised or receive medals or what have you, but he always told me that I needed to speak up about the things that I had accomplished, and be proud, so they know why they should be doing business with you or why they should work with you. It's sad, but I don't think anyone that works at the hospital may even remember my father.

What I've learned is that my father is right. I think inside of me is a person that runs first to do the job and doesn't leave his tools behind for accolades. But then, there's another part of me that embraces my father's wisdom and wants to make sure that you know that you are working with one of the best financial publishers out there. In this day and age where media is bombarding everyone, our boutique shop doesn't have a choice.

So far, in this Exclusive publication, I feel that we've done something incredible, and we've done it largely "behind the scenes," out of the eye of CNBC, Bloomberg, Twitter and even our regular website subscribers. Word of mouth is the greatest marketing method around. While my father told me to speak up when things are going great (even though he never did), I'm asking you to speak up for this Exclusive publication! Why?

Quite simply, I don't think anyone else out there has come close to doing as well as we've done in managing the ideas in this publication. Both the capital appreciation ideas and short-idea considerations have a success rate* running at approximately 80%. This is simply incredible in a world where many financial professionals are getting paid 1%-2% of a person's entire net worth every year just to hold an index fund that trails the market after fees. Nothing is more powerful than what you say about our team and our company. I hope you make some noise for us and this publication. Please note that we also changed the password to view the archives of the Exclusive publication to the following: **Exclusive*2019**

The password can be entered on the 'Newsletter Archive' page at the following link: https://nelsonexclusive.wixsite.com/home

Thank you!

** Success rate: The percentage of ideas highlighted in the Exclusive that have moved in the direction of our thesis (i.e. up for 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.*

Updates on Key Open Ideas, One More Close

Income Ideas

March 2017 idea **Park National (PRK)** reported decent first-quarter results April 20. The company still sports a very healthy dividend yield north of 4%. Though profits faced difficult year-over-year comparisons, management was upbeat in the press release, with CEO David L. Trautman indicating that the "year has begun with great momentum." We'd like to see this show up more in the numbers, but for the moment, we're watching performance closely for year-over-year improvement.

June 2017 idea **Japan Tobacco (JAPAY)** has been one of our worst-performing income ideas, unfortunately. The social opposition to smoking and the proliferation of new vaping devices have weighed on the entire industry, but we think the sell-off in Japan Tobacco is way overdone. During its first-quarter, report released April 26, adjusted operating profit at constant-currency increased more than 7% on a year-over-year basis thanks to strong pricing. The executive team is buying back stock hand over fist. We think the market is getting this one wrong. Its dividend history is shown in image below.

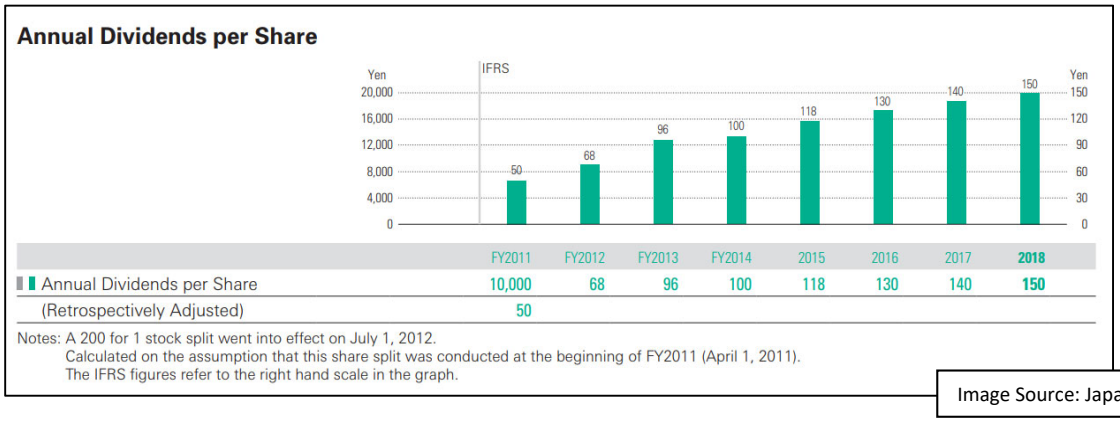


Image Source: Japan Tobacco

TransCanada Resources (TRP) has come roaring back since the December 2018 doldrums, and the company is bumping up against 52-week highs. The January 2018 idea reported record first-quarter results May 3. Comparable earnings for the period came in at $1.07 per common share compared to $0.98 per common share in the year-ago period. Management continues to be very pleased with the performance of its portfolio and noted that it expects earnings and cash flow are forecast to continue to advance. The executive team also indicated that new projects will help "support annual dividend growth of 8%-10% through 2021." We wouldn't be surprised to see TransCanada shares continue to catch favor among investors.

Closing: Our June 2018 idea was **Park Hotels & Resorts (PK)**. The company has come roaring back since late last year, and with dividends, it is now in the money from its highlight price. We think the company is yet another lesson in patience and in letting our ideas and the market work itself out as dividends are collected. Nomura is excited about the stock, but it has run its course, in our view. We're closing and not looking back. We are using the May 3 close price of $32.98.

Our November 2018 **Roche Holding (RHHBY)** issued a solid first-quarter report April 2019. Group sales advanced 8% at constant-currency rates, while its pharmaceuticals division increased 10% thanks to strength at Ocrevus, Perjeta, Hemlibra and Tecentriq. Roche raised its outlook for 2019 to mid-single digit sales growth. We still like this dividend payer but pharma is difficult to play given political pressure on drug prices. In any case, Roche expects to "further increase its dividend in Swiss francs." The company remains solid, in our view. Roche, as an income idea, was closed February 11, 2019.

Canadian Natural Resources (CNQ) has climbed from under $27 per share when highlighted in March 2019 to ~$28 as of this writing, down a bit from the recent highs of ~$31. Things haven't really deteriorated as crude oil prices have improved since then and the income thesis remains the same. Plus, there is now a more pro-oil industry government coming to Alberta (NDP was pro-oil, but UCP is more so) with the possibility of a CPC-federal government coming into power soon with elections in Canada coming up this October, which ties into the thesis that a CPC-government (aided by a very friendly provincial government in Alberta) could get a new oilsands pipeline built (which would be huge for Canadian Natural Resources). We're watching developments closely.

Capital Appreciation Ideas

Our timing on **Preferred Bank (PFBC)** just wasn't right. This March 2018 idea continues to have great promise, and while it did fill a void of banking capital appreciation ideas in the Exclusive, the idea has been underwater for some time now. Fundamentals remain sound, however, and the company's first-quarter report only reinforced our thesis. Preferred Bank posted $1.23 per share in earnings, which compares favorably to $1.09 registered in last year's quarter. We'll be watching its portfolio closely, given its disposition of two non-performing assets this quarter, but ROE is still solid. Preferred Bank remains a very unique banking idea.

Green Dot (GDOT) has been working its way back since bottoming in early March. The company received a recent upgrade from KBW, and we're generally optimistic on its ability to grow with new clients to mitigate pressure from Walmart revenue. The company's fiscal fourth-quarter results, released February 20, were solid. Revenue, GAAP net income and GAAP diluted earnings per share leapt 12%, 17% and 13% on an organic basis, respectively. Looking ahead to 2019, non-GAAP operating revenues are targeted to advance 10% year-over-year, while adjusted EBITDA is expected to increase 16% year-over-year at the midpoint. We're not seeing much to justify the selloff in shares.

Short Ideas

December 2016 **Royal Bank of Scotland (RBS)** might finally be ready to break lower in a big way. On April 26, the bank reported first-quarter results that showed operating profit before tax falling from the year-ago period. Management also noted the following with respect to its outlook: "While we retain the outlook guidance we provided in the 2018 Annual Results document, we recognize that the ongoing impact of Brexit uncertainty on the economy, and associated delay in business borrowing decisions, is likely to make income growth more challenging in the near term." We've been waiting a long time for our thesis to play out, but it seems as though it finally may be.

January 2018 idea **Shake Shack's (SHAK)** same-store sales growth in its first quarter, results released May 2, were stronger than expected, and the guidance raise for fiscal year 2019 sent shares up 7% during after-hours trading. The company's margins tanked during the quarter, however, which to us could indicate that its sales growth is being juiced by promotional gimmicks. Shake Shack's first-quarter 2019 level operating margin (a non-GAAP metric provided by the company) of 21% was down 400 basis points from the same period last year. On a GAAP basis, its operating margin tanked by almost 270 basis points to 3.9% last quarter. Projected same-store sales growth is a bullish factor for sure, especially when combined with new store openings, but margin contraction certainly isn't. We think we're still going to be right on this idea.

November 2018 idea **Beazer Homes (BZH)** hasn't exactly worked out as intended, but it is still early on in our thesis. Homebuilding stocks are ultra-cyclical beasts, and once the market even gets a sniff that the builders are in trouble, we doubt many will stick around, given what happened during the last cycle. Beazer's performance isn't bad at the moment, even though it took a few impairments on several of its California assets. We're not expecting a steady decline in shares, but rather a quarter that resets the trajectory. We're too far into the economic cycle to be excited about homebuilders, and we think Beazer fills a void in the Exclusive short idea line-up in this respect.

December 2018 idea **Vera Bradley (VRA)** had one of the best quarters from a price perspective out of any small-cap name. That's sometimes how short-idea considerations can play out. However, shares are now well off their mid-March 2019 near-term highs, and frankly it's hard for us to get excited about a company whose comparable sales are falling more than 10%+, even if the number is better than the vast 14%+ decline expected by the market at the time. Backing out its net cash position of $157 million, the company is trading at about 10 times the high end of its earnings per share guidance for this year. Any slip up in the bottom-line numbers, and Vera's shares will plummet, in our view.

Valuentum has now highlighted over 100 ideas in the Exclusive publication with fantastic success rates! If you would like for us to comment on previously-highlighted ideas, please just email us at info@valuentum.com, and we will include our updated thoughts in the subsequent edition. Thank you!

Tracking Exclusive Idea Simulated Performance

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
Income Ideas						
Jul, 16	Universal Corp (UVV)	57.74	2.12	3.00	5.6%	Closed - 2/12/2017
Aug, 16	B&G Foods (BGS)	51.54	1.68	1.90	7.3%	Closed - 7/17/2017
Sep, 16	Maxim Integrated (MXIM)	41.12	1.32	1.84	3.1%	Closed - 2/12/2017
Oct, 16	Douglas Dynamics (PLOW)	31.94	0.94	1.09	2.9%	Closed - 2/12/2017
Nov, 16	Ennis Inc. (EBF)	14.60	0.70	0.90	4.5%	Closed -- 11/12/2016
Dec, 16	Watsco, Inc. (WSO)	150.57	4.20	6.40	4.5%	Closed - 2/12/2017
Jan, 17	Star Gas Partners (SGU)	11.21	0.41	0.5	5.3%	0-5 yrs
Feb, 17	Moelis & Co (MC)	35.00	1.28	2.00	4.8%	Closed - 6/22/2017
Mar, 17	Park National (PRK)	108.59	3.76	4.04	4.1%	0-20 yrs
Apr, 17	American Software (AMSWA)	10.44	0.44	0.44	3.4%	Closed - 6/22,23/2017
May, 17	NW Natural (NWN)	59.20	1.88	1.90	2.8%	Closed - 10/25/2018
Jun, 17	Japan Tobacco (JAPAY)	19.03	0.60	0.68	6.0%	0-20 yrs
Jul, 17	Vectren Corp (VVC)	58.21	1.68	Acquired	Acquired	Closed 8/30/2017
Aug, 17	National Retail Properties (NNN)	40.50	1.90	2.00	3.8%	Closed - 10/25/2018
Sep, 17	STORE Capital (STOR)	25.72	1.16	1.32	3.9%	Closed - 10/25/2018
Oct, 17	Fortis (FTS)	36.14	1.27	1.35	3.7%	Closed - 4/18/2019

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.

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
Income Ideas						
Nov, 17	Black Hills (BKH)	61.23	1.78	2.02	2.8%	Closed - 10/25/2018
Dec, 17	Four Corners Propety Trust (FCPT)	26.03	0.97	1.15	4.0%	Closed - 10/25/2018
Jan, 18	TransCanada Corp (TRP)	49.47	1.98	2.23	4.7%	0-20 yrs
Feb, 18	Siemens (SIEGY)	71.13	2.18	2.17	3.6%	0-20 yrs
Mar, 18	Philips 66 Partners (PSXP)	49.63	2.71	3.38	6.8%	Closed - 10/25/2018
Apr, 18	PS Business Parks (PSB)	113.68	3.40	4.20	2.7%	Closed - 10/25/2018
May, 18	Hubbell (HUBB)	103.97	3.08	3.36	2.6%	Closed - 2/11/2019
Jun, 18	Park Hotels & Resorts (PK)	32.43	1.72	1.80	5.8%	Closed - 5/3/2019
Jul, 18	Healthcare Trust of America (HTA)	27.36	1.22	1.24	4.5%	Closed - 2/11/2019
Aug, 18	QTS Realty Trust (QTS)	44.01	1.64	1.76	3.9%	Closed - 4/18/2019
Sep, 18	Atmos Energy (ATO)	93.62	1.94	2.10	2.1%	Closed - 10/25/2018
Oct, 18	Veolia Environment (VEOEY)	19.70	0.99	1.20	5.1%	Closed 4/18/2019
Nov, 18	Roche Holding (RHHBY)	29.82	1.08	1.07	3.3%	Closed - 2/11/2019
Dec, 18	OGE Energy (OGE)	40.46	1.46	1.46	3.5%	Closed - 2/11/2019
Jan, 19	BAE Systems (BAESY)	24.32	0.92	1.38	5.4%	Closed - 2/11/2019
Feb, 19	EastGroup Properties (EGP)	107.58	2.88	2.88	2.5%	0-20 yrs
Mar, 19	Canadian Natural Resources (CNQ)	26.76	1.01	1.04	3.5%	0-20 yrs
Apr, 19	Evergy (EVRG)	57.32	1.90	1.90	3.3%	0-20 yrs

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
Capital Appreciation Ideas						
Jul, 16	Bloomin Brands (BLMN)	17.87	19.28	0.07	8.3%	Closed -- 11/12/2016
Aug, 16	Healthcare Srvs Group (HCSG)	38.91	41.02	0.369	6.4%	Closed - 2/12/2017
Sep, 16	Grupo Aeroportuario (ASR)	157.87	181.61	-	15.0%	Closed - 4/5/2017
Oct, 16	Swedish Match (SWMA.ST)	314.80SEK	417.40SEK	17.7	38.2%	Closed - 6/1/18
Nov, 16	Symrise AG (SYIEY)	16.25	16.34	-	0.6%	Closed - 4/5/2017
Dec, 16	Tootsie Roll (TR)	37.80	38.96	0.90	5.4%	Closed 4/18/2019
Jan, 17	Texas Capital Bancshares (TCBI)	78.05	85.10	-	9.0%	Closed - 2/12/2017
Feb, 17	Arconic (ARNC)	25.90	29.62	-	14.4%	Closed - 2/12/2017
Mar, 17	Tesaro (TSRO)	180.84	122.62	-	-32.2%	Closed - 7/17/2017
Apr, 17	Yum China (YUMC)	31.15	37.67	-	20.9%	Closed - 5/23/2017
May, 17	Galapagos (GLPG)	87.67	76.13	-	-13.2%	Closed - 7/17/2017
Jun, 17	Huntington Ingalls (HII)	193.79	206.39	-	6.5%	Closed 8/18/2017
Jul, 17	Orbital ATK (OA)	102.33	104.65	-	2.3%	Closed 8/18/2017
Aug, 17	Wingstop (WING)	32.28	66.17	3.61	116.2%	Closed - 10/25/2018
Sep, 17	Qualys (QLYS)	51.10	75.44	-	47.6%	Closed - 10/25/2018
Oct, 17	Guidewire Software (GWRE)	78.24	87.50	-	11.8%	Closed - 10/25/2018
Nov, 17	Ferrari N.V. (RACE)	117.43	123.26	0.71	5.6%	Closed - 2/11/2019

CAPITAL APPRECIATION IDEAS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Capital Appreciation Ideas						
Dec, 17	Square (SQ)	38.22	72.61	-	90.0%	Closed - 10/25/2018
Jan, 18	Planet Fitness (PLNT)	33.70	46.41	-	37.7%	Closed - 10/25/2018
Feb, 18	Insulet Corp (PODD)	75.84	82.69	-	9.0%	Closed - 10/25/2018
Mar, 18	Preferred Bank (PFBC)	64.01	50.05	1.32	-	0-20 yrs
Apr, 18	Esperion Therapeutics (ESPR)	66.43	40.94	-	-38.4%	Closed - 4/18/2019
May, 18	Heidrick & Struggles (HSII)	37.65	40.77	0.41	9.4%	Closed - 3/9/2019
Jun, 18	Green Dot Corp (GDOT)	72.86	66.68	-	-	0-20 yrs
Jul, 18	Wix.com (WIX)	105.30	111.93	-	6.3%	Closed - 2/11/2019
Aug, 18	Tactile Systems Technology (TCMD)	50.84	63.52	-	24.9%	Closed - 10/25/2018
Sep, 18	Invitae (NVTA)	13.95	20.84	-	49.4%	Closed - 3/9/2019
Oct, 18	Cigna (CI)	215.72	149.00	0.04	-30.9%	Closed 4/18/2019
Nov, 18	Yeti Holdings (YETI)	16.50	17.99	-	9.0%	Closed - 2/11/2019
Dec, 18	Spotify (SPOT)	135.31	139.65	-	3.2%	Closed - 4/18/2019
Jan, 19	Suncor Energy (SU)	29.32	32.05	-	9.3%	Closed - 2/11/2019
Feb, 19	Delek Holdings (DK)	32.12	37.31	0.27	17.0%	Closed - 4/18/2019
Mar, 19	Physicians Realty Trust (DOC)	17.82	18.35	0.23	-	0-20 yrs
Apr, 19	Everbridge (EVBG)	72.75	74.17	-	-	0-20 yrs

Success rate: The percentage of ideas highlighted in the 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.

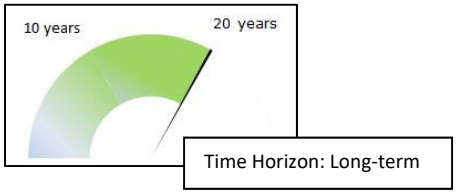
SHORT IDEA CONSIDERATIONS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Short Idea Considerations						
Jul, 16	Lands' End (LE)	16.76	16.10	NA	3.9%	Closed -- 12/2/2016
Aug, 16	Vivint Solar (VSLR)	2.94	2.85	NA	3.1%	Closed -- 12/2/2016
Sep, 16	Lloyds Banking (LYG)	3.31	2.78	NA	16.0%	Closed -- 11/4/2016
Oct, 16	GoPro (GPRO)	16.68	11.16	NA	33.1%	Closed -- 11/4/2016
Nov, 16	Seritage Growth Properties (SRG)	44.31	42.13	0.25	4.4%	Closed -- 1/6/2017
Dec, 16	Royal Bank of Scotland (RBS)	4.91	6.37	0.34	-	0-5 yrs
Jan, 17	Sequential Brands Group (SQBG)	4.62	4.18	-	9.5%	Closed - 2/12/2017
Feb, 17	Sportman's Warehouse (SPWH)	6.85	6.11	-	10.8%	Closed - 2/12/2017
Mar, 17	Fitbit (FIT)	6.07	5.71	-	5.9%	Closed - 4/5/2017
Apr, 17	Santander Consumer (SC)	12.51	11.65	-	6.9%	Closed - 5/23/2017
May, 17	Snap, Inc (SNAP)	23.19	17.19	-	25.9%	Closed - 5/10/2017
Jun, 17	Mallinckrodt (MNK)	42.65	36.41	-	14.6%	Closed - 8/18/2017
Jul, 17	Deutsche Lufthansa AG (DLAKY)	23.38	21.42	0.94	4.4%	Closed - 10/25/2018
Aug, 17	Del Frisco's (DFRG)	14.35	11.93	-	16.9%	Closed - 10/16/17
Sep, 17	Fiesta Restaurant Group (FRGI)	15.90	14.36	-	9.7%	Closed - 2/11/2019
Oct, 17	Ingles Markets (IMKTA)	26.50	24.20	-	8.7%	Closed - 10/16/17

The tables above are provided for the sole purpose of transparency, to allow readers to measure Exclusive ideas in a way they feel is most appropriate. Ideas within the 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 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 Exclusive may be appropriate for you.

SHORT IDEA CONSIDERATIONS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Short Idea Considerations						
Nov, 17	Fogo de Chao (FOGO)	10.85	15.62	-	-44.0%	Closed - 3/3/2018
Dec, 17	TrueCar (TRUE)	12.07	10.97	-	9.1%	Closed - 12/28/17
Jan, 18	Shake Shack (SHAK)	44.17	60.20	-	-	0-2 yrs
Feb, 18	iShares Core US Aggregate Bond ETF (AGG)	107.20	104.63	1.93	0.6%	Closed - 10/25/2018
Mar, 18	iShares iBoxx $ High Yield Corporate Bond ETF (HYG)	85.75	86.68	4.936	-6.8%	Closed - 4/18/2019
Apr, 18	Houghton Mifflin Harcourt (HMHC)	7.25	6.70	-	7.6%	Closed - 6/1/18
May, 18	Noodles & Company (NDLS)	7.25	7.04	-	2.9%	Closed - 2/11/2019
Jun, 18	iShares International High Yield Bond ETF (HYXU)	52.40	50.94	-	2.8%	Closed - 10/25/2018
Jul, 18	Installed Building Products (IBP)	56.15	40.10	-	28.6%	Closed - 9/28/2018
Aug, 18	Veritiv Corp (VRTV)	38.80	36.35	-	6.3%	Closed - 9/28/2018
Sep, 18	Box (BOX)	24.55	24.30	-	1.0%	Closed - 9/28/2018
Oct, 18	Modine Manufacturing (MOD)	14.73	12.00	-	18.5%	Closed - 10/25/2018
Nov, 18	Beazer Homes USA (BZH)	9.01	12.51	-		0-2 yrs
Dec, 18	Vera Bradley (VRA)	10.22	12.67	-		0-2 yrs
Jan, 19	RH (RH)	117.84	106.99	-	9.2%	Closed - 4/4/2019
Feb, 19	QuinStreet (QNST)	14.77	12.79	-	13.4%	Closed - 3/9/2019
Mar, 19	Dycom Industries (DY)	47.20	51.71	-	-	0-2 yrs
Apr, 19	Diplomat Pharmacy (DPLO)	5.69	5.91		-	0-2 yrs



National Health Investors Inc (NHI)

"For the quarter ended December 31, our debt capital metrics were net debt to annualized EBITDA at 4.5x, weighted average debt maturity at 5.3 years and fixed charge coverage ratio at 5.6x. For the year ended December 31, our weighted average cost of debt was 3.9%. NHI ended the fourth quarter with $84 million outstanding on our revolver, leaving us with $466 million in available revolver capacity." --- John Spaid, EVP of Finance, during the REIT's fourth quarter 2018 conference call

Thesis

The Population Reference Bureau published a report back in 2016 that noted the number of Americans who are aged 65 and over will rise from 15% of the population in 2016 to almost 24% by 2060. That will see the number of Americans in that age cohort more than double to 98 million over this period, creating an enormous opportunity for companies like National Health Investors Inc (NHI). This healthcare-focused REIT is perfectly situated to capitalize on powerful long-term demographic trends through its existing asset base and ongoing growth strategy. A combination of debt and equity is used to finance its acquisition of new cash flow generating properties that operate in this space. National Health has come under pressure over the past few months due to concerns over some of its troubled tenants, which we see as an opportunity as its long-term thesis remains firmly intact due to the high probably of growing demand for senior housing and assisted living services. Short-term cash flow disruptions can be handled through National Health's largely undrawn revolving credit line, solid payout coverage, rising cash flow generation, and relatively low net debt load.

Corporate Profile

National Health Investors Inc is self-managed REIT focused on providing financing for senior housing and other related medical investments including; independent living facilities, assisted living facilities, entrance-fee communities, senior living campuses, skilled nursing facilities, specialty hospitals and medical office buildings. As of February 19, 2019, National Health had investments involving 232 properties across 33 states with a large presence in the coastal states and the Midwest. **The senior housing focused REIT yields 5.6% as of this writing.**

America is getting older, and that's a very lucrative proposition for a REIT like National Health Investors Inc. Growth opportunities are everywhere. For example, National Health acquired an assisted living & memory care facility in Michigan for $11 million at the beginning of May, which was funded through its revolving credit line. That asset houses 60 units with 14 more units under construction, and the facility is expected to open this summer. An affiliate of Comfort Care Senior Living has already leased the building from National Health.

Back in February, National Health acquired a senior living community in Florida for $38 million, which was owned by an affiliate of Holiday Retirement, one of the REIT's four main operators. That was funded through its amended master lease agreement with Holiday Retirement, which was reached in November 2018. This growth is made possible in part to the great need for additional senior housing facilities. In National Health's 2018 annual report the company notes that;

> *"According to the Administration on Aging ("AoA") of the US Department of Health and Human Services, in 2016, the latest year for which data is available, 49.2 million people were age 65 or older in the United States (a 33% increase over the last ten years).* ***Census estimates showed that, by 2040, those 65 or older are expected to constitute 21.7% of the population. The population aged 85 and above is projected to rise from 6.4 million in 2016 to 14.6 million in the US by 2040 (a 129% increase).****"*

National Health derives most of its income from four operators; Senior Living Communities, Bickford Senior Living, Holiday Retirement, and National HealthCare Corporation (NHC). That leaves it exposed to operatorship risks, as the loss of any one of those four income streams would have an adverse effect on National Health's financials. As this is a growing industry powered by strong demographic tailwinds, National Health's partners should continue to experience strong demand for their offerings which speaks favorably for their ability to continue paying the REIT in a timely manner. Its troubled tenants are relatively small partners compared to its four core operators.

Image Source: National Health Investors

Major Tenants

As discussed in Note 2 to the consolidated financial statements, we have four lessees (including their affiliated entities, which are the legal tenants) from whom we individually derive at least 10% of our rental income as follows (*dollars in thousands*):

	Asset Class	Original Investment Amount	Rental Income Year Ended December 31, 2018		Rental Income Year Ended December 31, 2017		Lease Renewal
Senior Living Communities	EFC	$ 551,459	$ 45,868	16%	$ 45,735	17%	2029
Bickford Senior Living	ALF	531,918	50,093	18%	41,606	16%	Various
Holiday Retirement	ILF	493,378	43,311	15%	43,817	17%	2035
National HealthCare Corporation	SNF	171,297	37,843	13%	37,467	14%	2026
All others	Various	1,067,842	103,698	38%	96,544	36%	Various
		$ 2,815,894	$ 280,813		$ 265,169		

We should cover why National Health was forced to cut its payout back in 2000, and why we think things are much different now. Back then, National Health's deteriorating credit rating and upcoming liquidity crunch forced the REIT to cut its annual payout from $2.96 per share in 1999 to $1.28 per share a year later. The REIT's annual payout fell further still in 2001 before steadily rebounding.

In August 1999, Moody's placed National Health's unsecured Baa3 investment grade credit rating on review for a potential downgrade. Limited liquidity, a lack of scale, operational challenges facing some of its key operators, weakening coverage ratios, and upcoming debt maturities (its revolving credit line at the time matured in October 2000) resulted in three credit rating downgrades from 1999 to 2000, sending National Health's credit rating firmly into the junk category. As a REIT, National Health needs to retain access to capital markets and when that stops being the case, adjustments must be made. While we don't see this scenario playing out again, this is an important reminder of the pitfalls that companies reliant on external financing to sustain their business model face.

Since 2000, the growth in National Health's asset base (leading to greater scale on top of greater geographical and operatorship diversify), its solid leverage ratio (low for the REIT world), and very powerful demographic tailwinds have culminated in a much stronger REIT both financially and operationally. Note National Health's relatively low net debt to adjusted EBITDA ratio of 4.5x at the end of 2018.

S&P Global mentioned in a 'Request for Comment' report published back in September 2017 that REITs with debt-to-EBITDA ratios between 4.5x – 7.5x had "intermediate" levels of leverage, which moves down to "modest" below the 4.5x level. Over the past five years, National Health's leverage ratio has ranged between 4.2x – 4.5x. Going forward, management has set a 4.0x – 5.0x leverage ratio target, which we are supportive of as that indicates National Health will pursue a more sustainable growth trajectory and one that is cognizant of the limits of debt financing. While Moody's no longer issues out credit ratings on National Health, note that the REIT was able to raise $300 million through a five-year term loan at 30-day LIBOR plus 125 basis points back in September 2018. That highlights its ability to keep raising funds as needed at competitive levels.

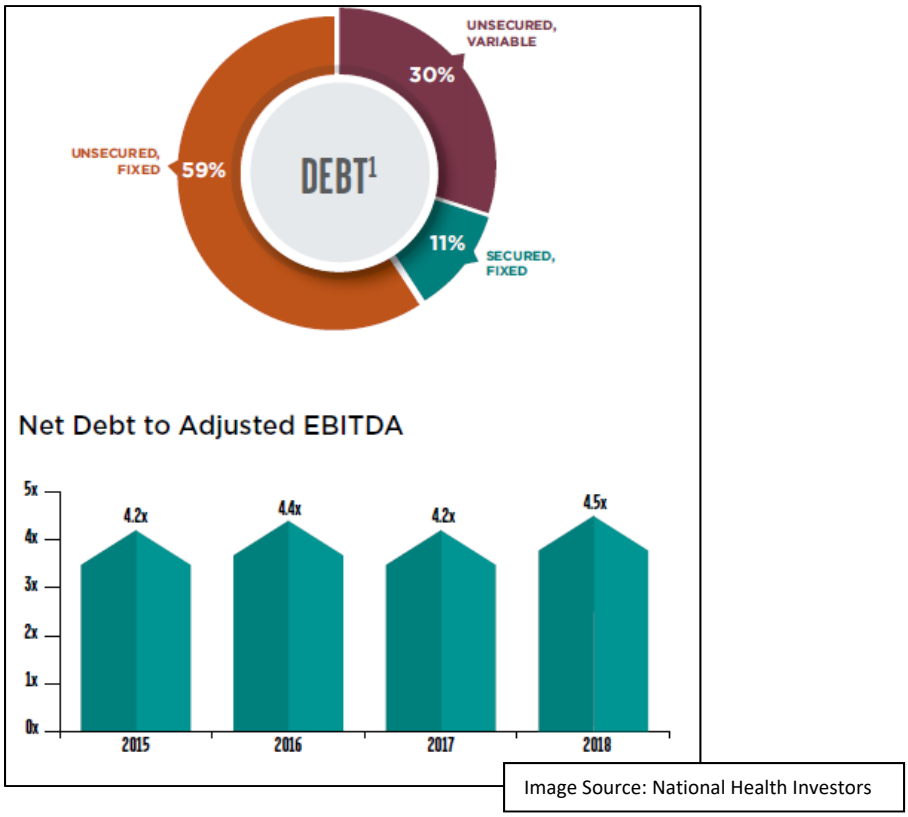


Image Source: National Health Investors

Since 2001, National Health was been able to either grow or maintain (growth every year except from 2008 to 2009, when its dividend was held flat) its regular payout on an annual basis. Occasionally in the past, the REIT paid out a special dividend but that hasn't happened since the start of 2013.

Heading into the REIT's first quarter earnings release due out later this May, management raised National Health's quarterly payout by 5% to $1.05 per share ($4.20 per share on an annualized basis). That's a sign of management's growing confidence in National Healthcare's future cash flow generation. Last year, National Health's dividend payout ratio on a normalized FFO and AFFO basis averaged 73.2% and 79.6%, respectively, on a quarterly basis. **A payout ratio south of 80.0% gives National Health a nice buffer against potential downside risks, which so happens has just come in handy for that reason.**

National Health is guiding for $5.43 – 5.53 in normalized FFO per share this year, up marginally from 2018 levels of $5.46 per share. The REIT forecasts normalized AFFO of $5.04 – 5.10 per share this year, up marginally from 2018 levels of $5.04 per share. Last year, National Health posted annual growth in its normalized FFO and AFFO of 3% and 6%, respectively. Keep in mind the company revised the bottom end of its 2018 guidance upwards in August 2018 versus expectations laid out in May 2018, indicating the firm has set conservative guidance in the past. Management is targeting an FFO payout ratio in the mid-70s percentile range and an AFFO payout ratio in the low-to-mid-80s percentile range for 2019.

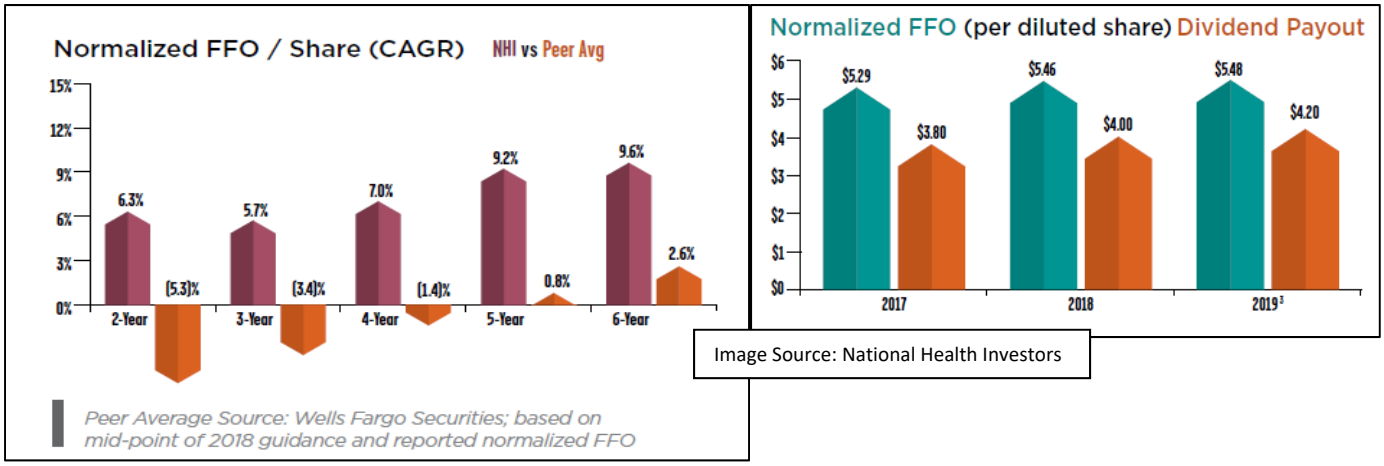


Image Source: National Health Investors

As of National Health's fourth quarter 2018 earnings report, three of its very troubled tenants were creating uncertainty around its 2019 financial performance (those tenants represented 3.6% of National Health's 2018 revenue). National Health is actively retaking possession of those properties to begin the transition process towards more reliable tenants and had already taken possession of several properties as of its fourth quarter earnings release.

The REIT is also experiencing trouble with two of its other tenants which combined represented ~2% of its annual revenue last year (one tenant was expected to transition during the first quarter out of their single property in Wisconsin, or at least begin the process, and National Health deployed a wait-and-see approach with the other tenant).

Deposits, escrow accounts, legal rulings, and other factors give National Health some security but ultimately, making sure its properties remain cash flow generating assets is the most important thing. Strong demand for senior housing and assisted living offerings make these properties appealing. Specialty properties are harder to come by and don't face the same type of competition from ordinary buildings, and due to the various regulations governing the types of facilities National Health is investing in, that limits competition to a degree. Combined, that helps ensure high occupancy rates, but short-term problems will arise from troubled tenants from time to time.

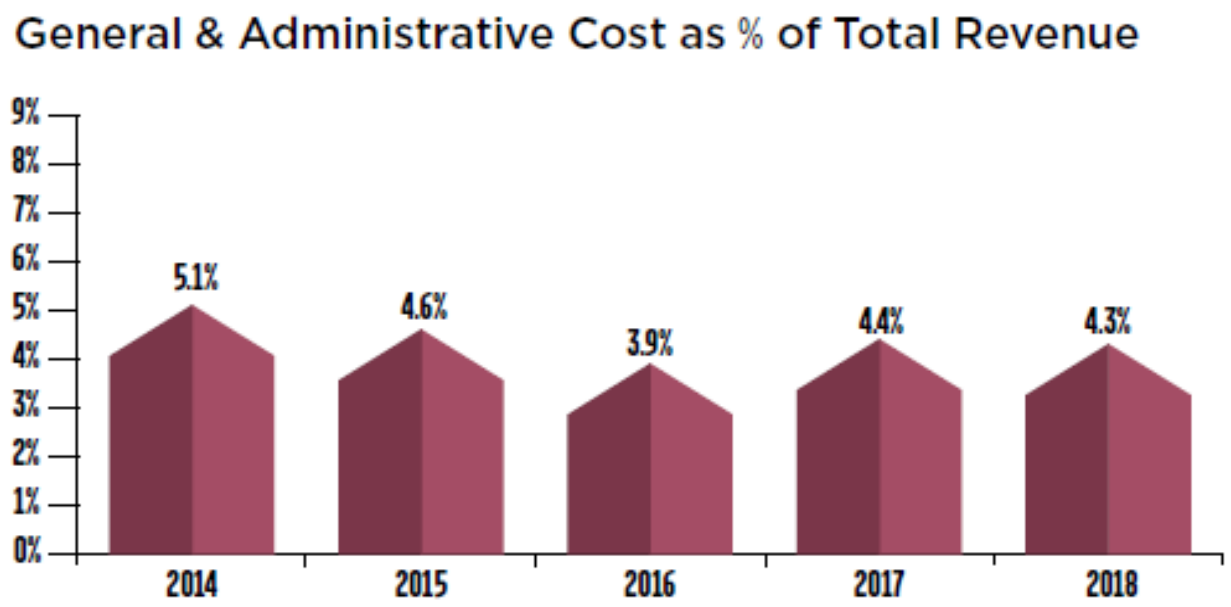
During the REIT's fourth quarter 2018 conference call, management noted that National Health's 2019 guidance would likely be updated as more information becomes available. Churn and fluctuations in occupancy rates are to be expected in the REIT industry, and as senior housing and related facilities are still very much in demand in America, there is a good chance National Health will be able to find better operators for those troubled locations within a reasonable timeframe.

That being said, these events cause short-term disruptions in cash flow generation, highlighting the value of having a payout ratio below 80%. Management has already factored in the expected negative impact from these events yet still has enough confidence to grow National Health's dividend this year. Part of this strategy rests on having ample access to liquidity through its revolver, on top of access to other debt markets. National Health's revolving credit line has $550 million in total borrowing capacity and was drawn by $84 million as of the end of last year, giving the REIT plenty of access to funds as needed. The credit line doesn't mature until August 2022. Back in 2000, National Health's revolving credit line was fully tapped and had only $100 million in borrowing capacity. Fast forward two decades and the benefits of scale become very clear.

National Health raised $34 million issuing shares under its at-the-market program during the fourth quarter of last year, funds which went towards paying off its credit line to maintain the liquidity buffer. That ATM program had $192 million in remaining capacity at the end of 2018 according to management commentary. In the past, that program has generally been used balance National Health's capital structure and raise funds for smaller acquisitions without having to pursue larger equity-offerings than needed. This allows for a more tailored approach to tapping capital markets, enabling National Health to better control its cost of capital.

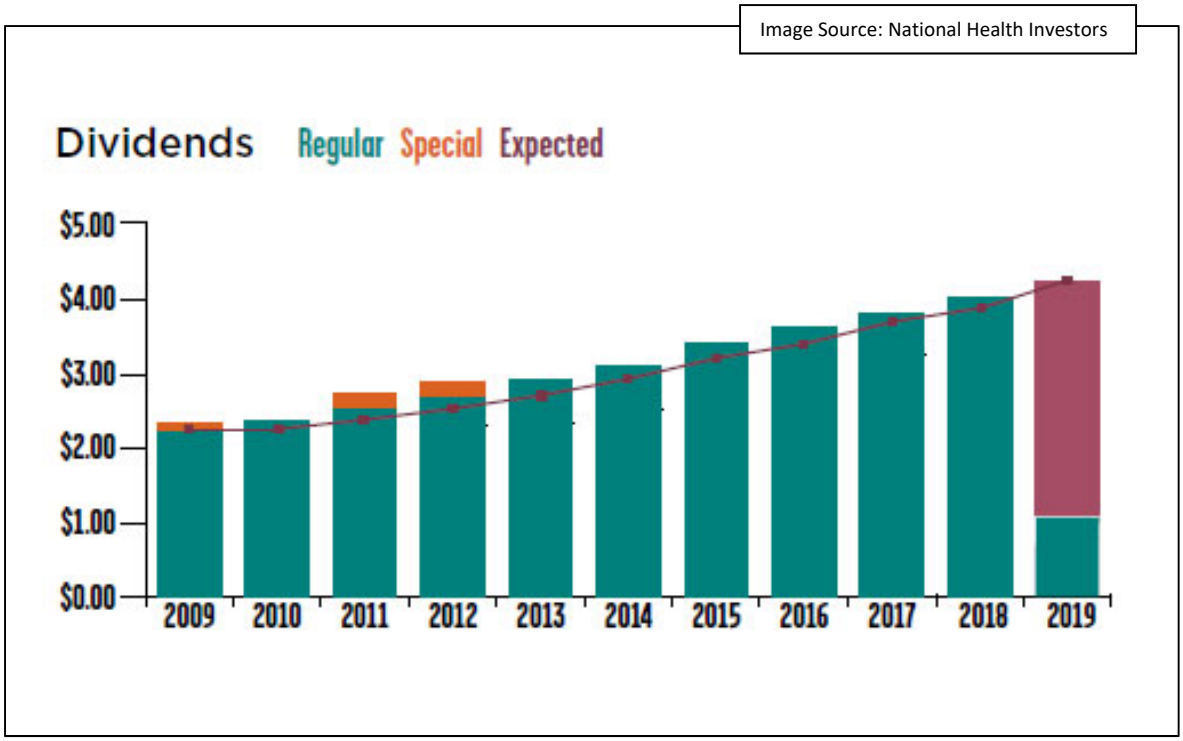
One thing we like about National Health is its focus on keeping G&A expenses as a percent of revenue contained. Since 2014, there has been a noticeable downward trend in the REIT's corporate overhead as a percent of revenue, indicating scale is having a positive factor on its financial performance.

Image Source: National Health Investors



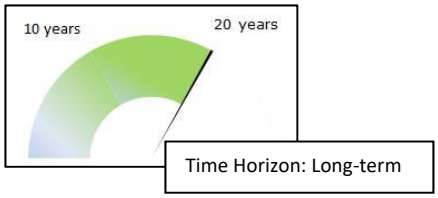
National Health is a high-yielding play on what some refer to as a the "greying of America," with very powerful demographic trends offering the REIT an enormous growth runway. As long as management continues to focus on keeping debt levels contained so National Health's cost of capital remains competitive, the firm should have no problem expanding its asset base. **Short-term headwinds at National Health may have created an opening for long-term income investors seeking a high yield.**

Image Source: National Health Investors



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

Capital Appreciation



Teladoc HEALTH

Teladoc Health Inc (TDOC)

"Dear fellow shareholders, Teladoc Health had an extraordinary year of growth and accomplishments in 2018 driven by our relentless focus on the execution of our key priorities—growing our client base across all channels, expanding our suite of services, and extending our global reach. We delivered record results across key financial and operational metrics, exceeding our expectations. We are especially pleased with the growth of our visits and utilization, which demonstrates that mainstream adoption of virtual care is past the point of inevitability." - Teladoc CEO Jason Gorevic – 2018 Annual Report

Speculative Idea

Thesis

Teladoc Health Inc (TDOC) is the largest and most global provider of virtual healthcare services. While there is certainly competition from the likes of MDLive, Inc., American Well Corporation, and Grand Rounds, Inc. and other smaller industry participants, Teladoc has been rapidly scaling its first mover advantage via organic and acquisitive growth. **In fact, the company guides for 20-30% annual organic revenue growth and has been delivering against that lofty goal.**

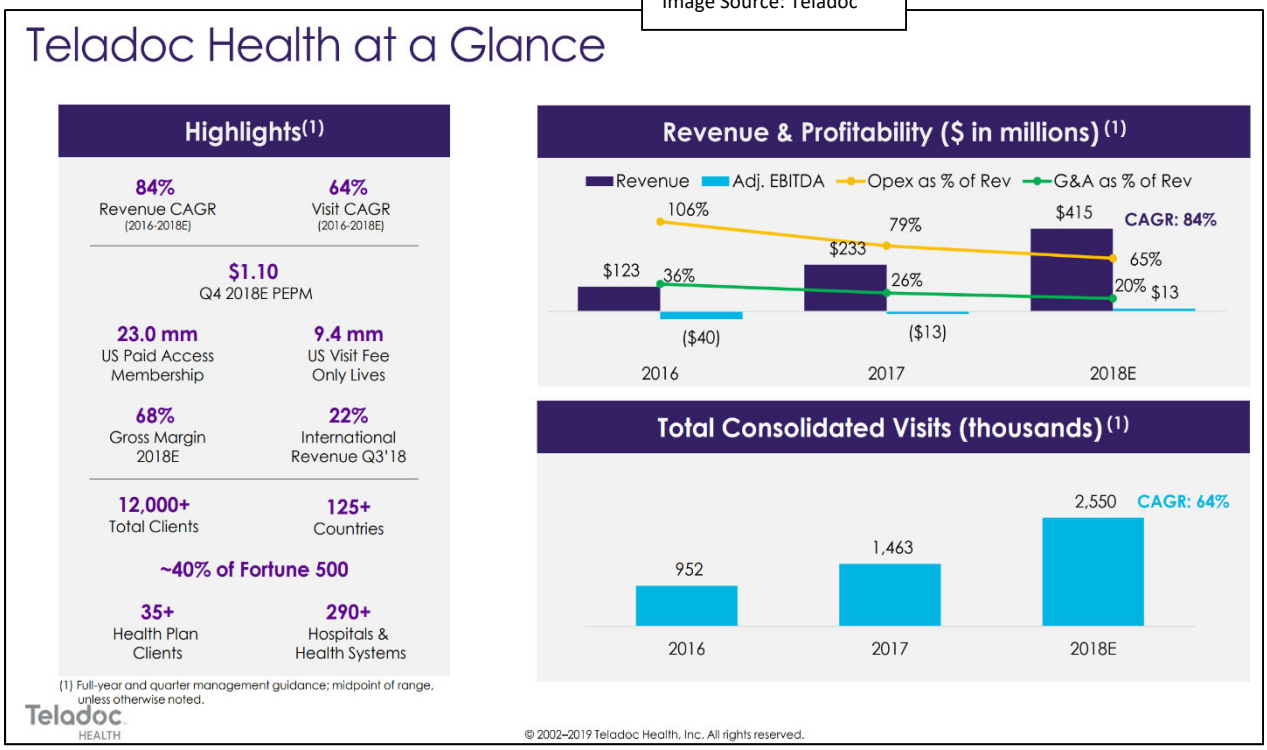
The industry is really in a rather nascent stage, but we would argue that the business model has already proven it has a place in the global healthcare industry. Teladoc Health solutions are transforming the access, cost and quality dynamics of healthcare delivery for all of its market participants. Members rely on Teladoc Health to remotely access affordable, on-demand healthcare whenever and wherever they choose.

Corporate Profile

Teladoc, Inc. was incorporated in the state of Texas in June 2002 and changed its state of incorporation to the state of Delaware in October 2008. Effective August 10, 2018, Teladoc, Inc. changed its corporate name to Teladoc Health, Inc. from Teladoc, Inc. The Company's principal executive offices are located in Purchase, New York, Lewisville, Texas and Barcelona, Spain. Teladoc is the global leader in providing virtual healthcare services with a focus on high quality, lower costs, and improved outcomes around the world. The company doesn't currently pay a dividend.

Employers, health plans, health systems and consumers ('Clients') purchase Teladoc solutions to reduce their healthcare spending and offer convenient, affordable, high-quality healthcare to their employees or beneficiaries. Teladoc's network of physicians and other healthcare professionals ('Providers') have the ability to generate meaningful income and deliver their services more efficiently with no administrative burden.

Image Source: Teladoc



Teladoc already serves about 40% of the Fortune 500 and their list of clients includes some of the largest health insurance providers in the country such as United Healthcare. Not only are the clients and partnerships in place, but you can see in the above graphic that the patient visits are rapidly growing too, showing that the end customers are taking up the service at a rapid clip.

While most of its competitors are smaller and US centric, Teladoc has global ambitions and you can see its footprint in the graphic below. The fact that virtual healthcare is working in so many disparate geographies with wildly different hospital industries, public/private dynamics, and varying regulatory schemes provides yet more evidence that virtual healthcare has a place in modern medicine and that the end patients are willing to go down this road.

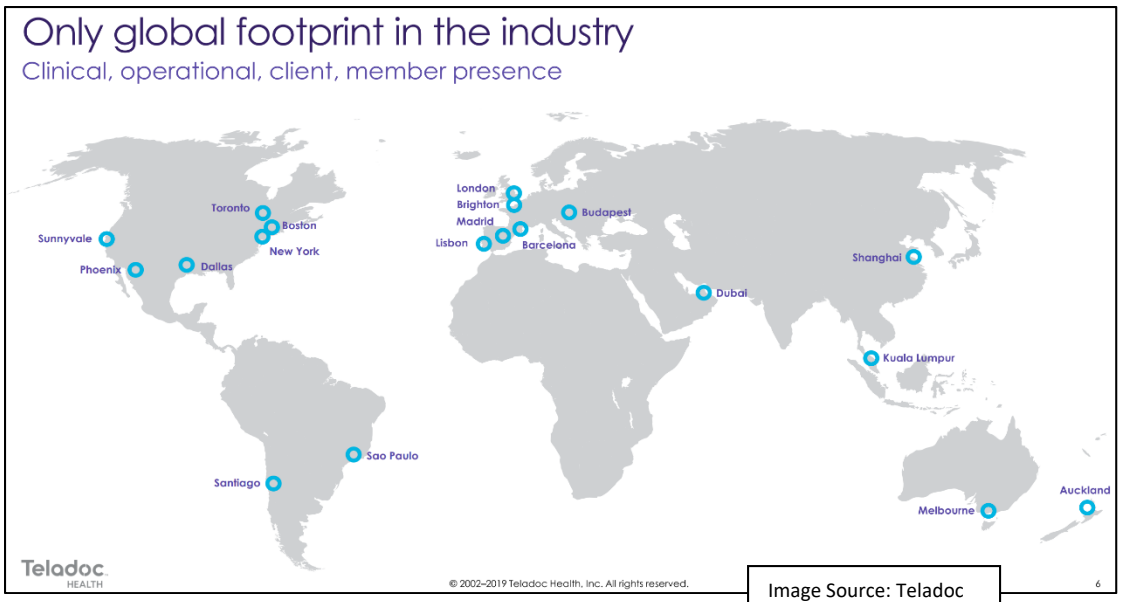


Image Source: Teladoc

The below graphic shows some of the 2018 client wins by Teladoc. These are household names. These are large professional organizations with professional buying organizations and a lot at stake in terms of public relations. Any doubts or skepticism some might voice about the attractiveness of virtual healthcare versus traditional in person healthcare must be curtailed by the evidence that Teladoc is winning in the market place with well-respected clients.

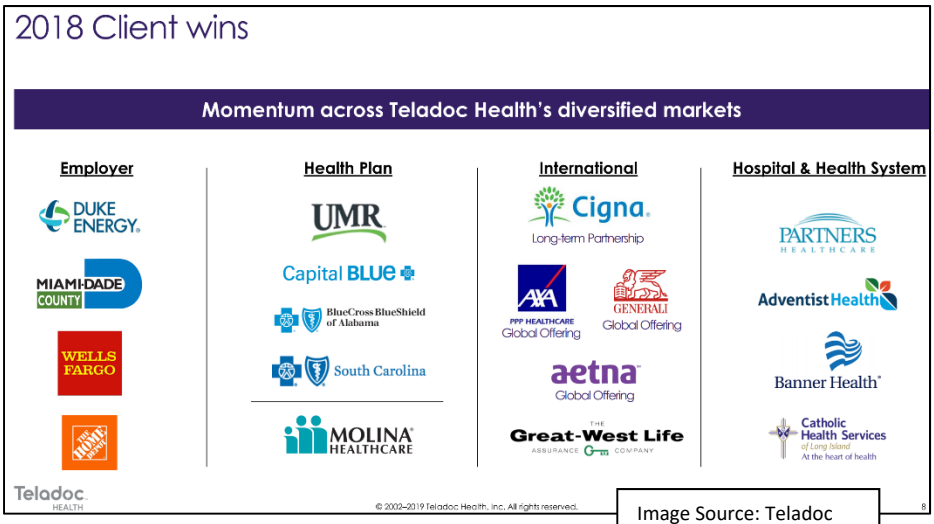


Image Source: Teladoc

So, what exactly does Teladoc offer to its clients you might be asking yourselves? The below graphic gives you an idea just how broad the offering is. Some practices like behavioral health are almost a slam dunk and in fact has been growing at over 100% recently at Teladoc. In other cases, virtual medicine can serve as a triage and then a referral on to in person care. In fact, virtual first is getting a big push from Teladoc and it is being taken up by some clients. This can be a lower cost entry into the healthcare system and the referrals can be tailored according to the health insurers most important goals of keeping overall system costs down while keeping up quality of care.

Since we've been dancing around the issue of why virtual healthcare, let's get more explicit. This is simply a lower cost, on demand model, albeit with some limitations of not being in person. It is a widely used cliché, but this is an Uber-type model in a healthcare setting. The doctors are independent contractors and make themselves available as a group 24-7-365. They are accessed increasingly direct via mobile devices as the call center recedes in importance.

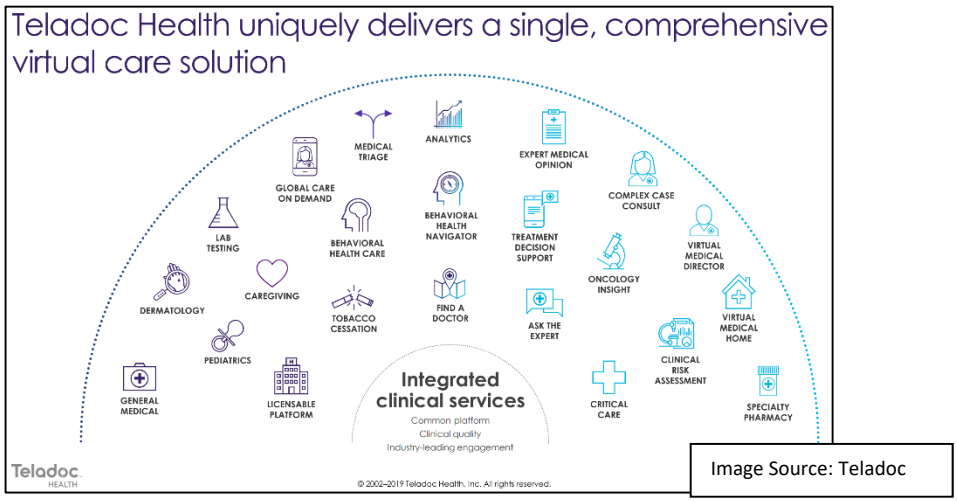
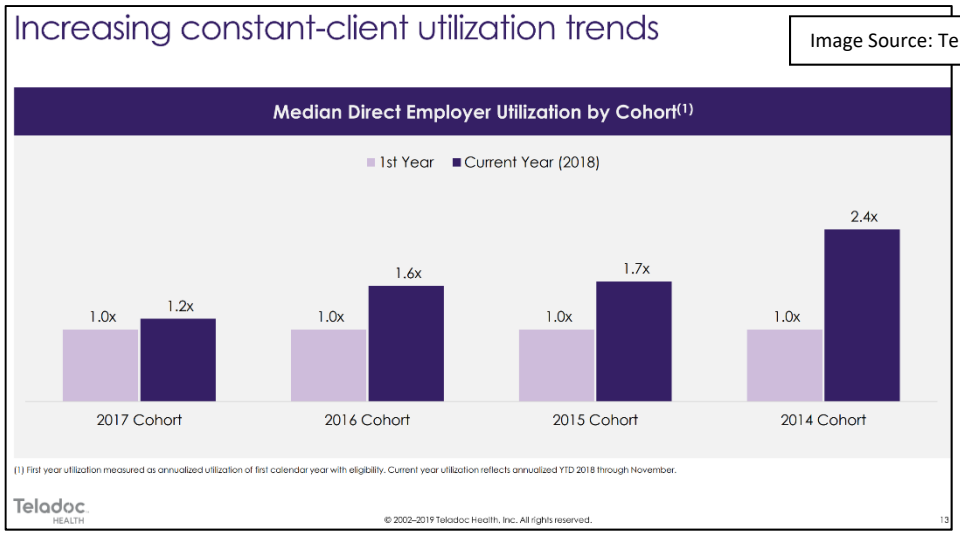


Image Source: Teladoc

So Teladoc and its peers offer a platform of lower priced and lower cost healthcare services that is disruptive to the normal model of in office or in hospital healthcare. Is it being taken up? The below graphic highlights that the answer is yes and more and more over time. The longer a patient has access to Teladoc's services, the more virtual doctor visits they use each year thereafter. We would argue this wouldn't be taking place if the patient was not seeing value in the exchange with the doctor. And aren't consumers demanding immediate access to services via their mobile devices for all other categories of services? Why not healthcare?



So what does all of this mean for Teladoc and its shareholders? As you can see in the graphic below, astounding revenue growth over the past five years has been the result. This has been achieved both organically and via acquisition of smaller competitors. The less appealing thing that you will notice is that Teladoc is yet to make a net profit. In large part, this is because the company has been re-investing its outsized gross margins in order to pursue rapid sales growth. The company has raised capital both through share issuances and convertible debt offerings to fund its losses and acquisitions to date. Importantly, the company is guiding toward its first year of positive cash flow this year in 2019.

Image Source: Teladoc

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Consolidated Statements of Operations Data (in thousands):					
Revenue	$ 417,907	$ 233,279	$ 123,157	$ 77,384	$ 43,528
Cost of revenue	128,735	61,623	31,971	21,041	9,929
Gross profit	289,172	171,656	91,186	56,343	33,599
Operating expenses:					
Advertising and marketing	85,109	57,663	34,720	20,236	7,662
Sales	59,154	37,984	26,243	17,976	11,571
Technology and development	54,373	34,459	21,815	14,210	7,573
Legal	1,866	1,485	4,117	8,878	1,311
Regulatory	2,115	3,387	3,158	2,433	429
Acquisition and integration related costs	10,391	13,196	6,959	551	196
Gain on sale	(5,500)	—	—	—	—
General and administrative	116,916	79,781	48,568	42,981	17,687
Depreciation and amortization	35,602	19,095	8,270	4,863	2,320
Loss from operations	(70,854)	(75,394)	(62,664)	(55,785)	(15,150)
Amortization of warrants and loss on extinguishment of debt	—	14,122	8,454	—	—
Interest expense, net	26,112	17,491	2,588	2,199	1,499
Net loss before taxes	(96,966)	(107,007)	(73,706)	(57,984)	(16,649)
Income tax (benefit) provision	118	(225)	510	36	388
Net loss	$ (97,084)	$ (106,782)	$ (74,216)	$ (58,020)	$ (17,037)
Net loss per share, basic and diluted	$ (1.47)	$ (1.93)	$ (1.75)	$ (2.91)	$ (10.25)
Weighted-average shares used to compute basic and diluted net loss per share	65,844,908	55,427,460	42,330,908	19,917,348	1,962,845

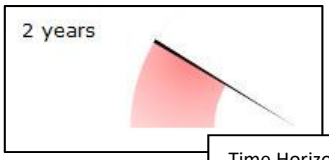
	As of December 31,				
	2018	2017	2016	2015	2014
Consolidated Balance Sheet Data (in thousands):					
Cash, cash equivalents and short-term investments	$ 478,534	$ 122,306	$ 65,808	$ 137,348	$ 46,436
Working capital	470,296	115,909	61,644	133,592	44,175
Total assets	1,528,876	824,391	303,670	229,737	91,839
Stockholders' equity (deficit)	1,013,119	558,903	230,870	178,564	(67,535)

As a side note, we wish the company did not place so much emphasis on adjusted EBITDA, which strips out the costs of doing business such as interest, taxes, and depreciation, but also stock payments which are clearly being used to retain key employees. These are all costs of doing business and any investor that is willing to ignore them is playing a fool's game.

Given its string of losses, Teladoc is really like a venture capital investment that is early to trade on the public markets. So far, that has turned out to be quite the opportunity for those that have stuck with an investment. Where too from here? The answer is that this is a highly speculative investment, which cannot be denied. That said, the company is guiding for something like 20% EBITDA margins in the coming years. If the company can keep compounding its revenues at 20-30% organically for several years to come and scale its business into profitability, there is a distinct possibility of future gains in Teladoc shares.

Just realize that this is not a consideration for a core holding, but rather a speculative-swing-for-the-fences growth idea for consideration. We think Teledoc will deliver outsized revenue growth. Can the company also deliver the profitability? Time will tell, but this one is definitely one for the radar. We'll be monitoring shares closely going forward, and we won't hesitate to take "gains" if the market presents them to us.

Disclosure: Independent contributor Matthew Warren wrote this article. Matthew doesn't own shares in any of the companies mentioned in this article.



Time Horizon: Short term

Match Group Inc (MTCH)

Thesis

Our short idea consideration for the month of May is Match Group Inc (MTCH). The company is in the top 30 "shorts as a percentage of float," according to the *Wall Street Journal*, and for good reason, in our opinion. We're more than 9 years into one of the strongest bull markets in history, and high-beta Internet properties dependent on discretionary income may come under considerable pressure when the going gets tough.

Up front, we need to be clear. Match Group is growing like a weed (revenue advanced 21% during the fourth quarter of 2018), and the company is generating strong adjusted EBITDA, operating cash flow, and free cash flow. Operating cash flow for 2018 was a robust $603 million, for example, while free cash flow came in at $572 million, so we're talking about a very healthy company growing nicely.

Corporate Profile

Match Group is a relatively new issue on the marketplace, having gone public in late 2015. The company's brands focus on providing dating products to hundreds of millions of singles. Match Group has a diverse portfolio of apps and products, but its bread and butter Internet property is Tinder. The company was incorporated in 2009 as a wholly-owned subsidiary of InterActive Corp.

What we're trying to say is that this is not one of our typical short idea considerations. We're betting on a negative change in future expectations, not secular disruption or continued decline in weakening fundamentals, exacerbated by a heavy debt load. This means that we'll be paying extra close attention to its technicals, and we won't hesitate to lock it in as a winner on any weakness.

Image Source: Match

The company's key Internet property has been a hit with millennials. Tinder has grown faster than any other product in the online dating category, and users love its "right swipe" feature. The company uses a freemium model, and for subscriptions it heavily relies on users wanting to pay for unlimited use of its "right swipe" feature. The company has other Internet properties, too, including Match, PlentyOfFish, Meetic, OkCupid, Pairs and Hinge, but nothing has captured the millennial dating scene quite like Tinder.

Our short thesis on Match is rather simple. Right now, economic times are good, and discretionary spending is rather healthy. However, we would expect a rather sharp fall in spending on dating apps once the economy heads south. The existence of a basic freemium service may also limit the sustainability of subscription-based revenue. Not only this, but the dating industry is incredibly competitive, and Match's financials speak to a castle that rivals may be looking to capture. We're not sure it has a moat to protect returns.

Where Apple has made fantastic hardware and developed an incredible ecosystem, and Facebook has allowed users to connect with their families by posting some of their most treasured images, it's hard to really get behind a dating app that connects strangers with the swipe of a thumb. We don't think it has the stickiness of other brands, and its target market may be rather limited, as of course, the end game of using its product may eventually land the user outside the dating scene (e.g. a long-term relationship, marriage).

Here's the bottom line: Tinder has a limited operating history. Competition is fierce. Switching costs by users are practically nil. Just how much of a competitive advantage is the "right swipe" feature, and there's always the brand risk of inappropriate actions by its users, which could permanently damage its business. Furthermore, the company is a controlled entity, with IAC owning more than 80% of its outstanding shares of capital stock and nearly 98% of its combined voting power.

Image Source: Match

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except per share data)				
Statement of Operations Data:					
Revenue	$ 1,729,850	$ 1,330,661	$ 1,118,110	$ 909,705	$ 836,458
Earnings from continuing operations	472,969	355,977	178,341	133,163	165,091
Loss from discontinued operations	(378)	(5,650)	(6,328)	(12,676)	(16,732)
Net earnings attributable to Match Group, Inc. shareholders	477,939	350,148	171,451	120,383	147,764
Earnings per share from continuing operations attributable to Match Group, Inc. shareholders:					
Basic	$ 1.73	$ 1.35	$ 0.71	$ 0.76	$ 1.02
Diluted	$ 1.61	$ 1.20	$ 0.66	$ 0.72	$ 0.98
Earnings per share attributable to Match Group, Inc. shareholders:					
Basic	$ 1.73	$ 1.33	$ 0.68	$ 0.69	$ 0.92
Diluted	$ 1.61	$ 1.18	$ 0.64	$ 0.65	$ 0.88
Dividend declared per share	$ 2.00	$ —	$ —	$ —	$ —

	December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Balance Sheet Data:					
Total assets	$ 2,053,061	$ 2,130,146	$ 2,048,678	$ 1,909,392	$ 1,302,109
Long-term debt, net including current maturities	1,515,911	1,252,696	1,176,493	1,216,871	—
Long-term debt, related party	—	—	—	—	190,586

We have to reiterate, however, that Match is one healthy company at the moment. Since 2014, revenue has more than doubled, net earnings have more than tripled, while diluted earnings per share have doubled (see image above). Match's free cash flow generation is tremendous, coming it at north of $570 million in 2018, up from under $300 million in fiscal 2017, and this makes its $1.5 billion long-term debt load quite manageable.

Long-term debt maturities:

Years Ending December 31,	(In thousands)
2022	$ 425,000
2023	260,000
2024	400,000
2027	450,000
Total	1,535,000
Less: Unamortized original issue discount	7,352
Less: Unamortized debt issuance costs	11,737
Total long-term debt, net	$ 1,515,911

Image Source: Match

We're not betting on the demise of Match, but rather that the market is building in too great of assumptions to justify its share price. At this writing, shares are bumping against all-time highs, and it sports a market capitalization of nearly $17 billion. At a 10% discount rate and factoring in the debt, that would imply long-term run-rate free cash flow of about $1.85 billion. If we assume normalized long-term growth of 3%, then that number is $1.3 billion. Right now, Match is running at $570 million.

Our fair value estimate for Match stands at $50 per share and assumes normalized free cash flow generation of $1 billion, the same capital structure, and a growing perpetuity of 3% at a 10% discount rate. Any hiccup in the company's growth trajectory versus future expectations, and shares will come a-tumbling down. We won't hesitate to close the position at the first opportunity, as there may be no reason for majority owner InterActive to pull it back within its corporate umbrella if things get really bad. Be careful with this one.

Inaugural Letter to Members

July 1, 2016

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.

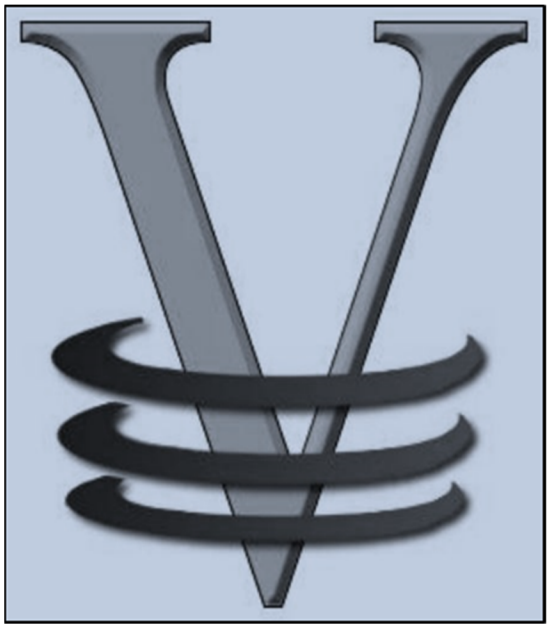
Within the twelve editions of the Nelson Exclusive each year, we'll be highlighting in total 36 ideas for consideration with varying investment parameters. That's a lot. Depending on the time horizon set forth with each idea, fantastic performance might mean a success rate of 60%, great performance might 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 5

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

Corrections and Amplifications: There are no changes to the success rates from the prior edition as a result of these corrections. The tables of the Exclusive in this edition correct a typo in the close dates for Tesaro and Galapagos (7/17/2017) and Yeti Holdings and Suncor Energy (2/11/2019) and TrueCar (12/28/2017). There are no changes to the prices. Hypothetical "gains" have been added for Swedish Match and are now inclusive of dividends for Ferrari, Heidrick & Struggles, and Seritage Growth. A typo for the close prices (a) and highlight price for (a) GoPro and TrueCar and (b) Deutsche Lufthansa have been fixed, respectively. In the newsletter, typos for the close dates for Moelis, American Software, and Roche Holdings were corrected. No change to the success rates from the prior edition as a result of these corrections.

(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.

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