OUR BEST IDEAS NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

June 15, 2019
Volume 9 Issue 6

Valuentum Securities Inc.
www.valuentum.com info@valuentum.com

The Best Ideas Portfolio (see page 8): AAPL, BRK-B, BKNG, CSCO, DG, FB, GM, GOOG, INTC, JNJ, PYPL, SDY, XLE, XLF, XLV, VNQ, V

Brian M. Nelson, CFA
President, Equity Research
brian@valuentum.com

Christopher Araos
Associate Stock and Dividend Analyst
Info@valuentum.com

Callum Turcan
Co-Editor, Associate Investment Analyst
info@valuentum.com

Matthew Warren
Independent Bank and Financials Contributor
info@valuentum.com

Inside This Issue

1 US Government Launches Anti-Trust War Against Alphabet, Apple, and Facebook
3 Dollar General Continues to Lead
6 Beyond Meat's Market: $5 Billion or $1.5 Trillion?
8 **Best Ideas Newsletter Portfolio**
9 The Valuentum Economic Roundtable
13 VBI 9-Rated AmerisourceBergen Now On Our Radar
18 The Watch List
20 About the Valuentum Buying Index
27 About the Fair Value Range
30 How We Use the Valuentum Buying Index in the Newsletter Portfolio

US Government Launches Anti-Trust War Against Alphabet, Apple, and Facebook

Image shown: Technology shares took a beating back during the June 3 trading session.

By Brian Nelson, CFA and Callum Turcan

> ***The DOJ and FTC are coming after Alphabet, Apple and Facebook, and we can't help but feel the moves are in some ways politically motivated. Even if regulators decide to break up these companies, it doesn't mean they will "confiscate" their businesses. Worst case scenario, perhaps pieces of their businesses would be auctioned off at arguably above-market prices, which could be a net positive.***

Nobody seemingly wants big "new" tech to win, and while such a dynamic may counterintuitively turn them into great long-term investments as a result, the stock-price behavior by some of the tech heavyweights, including Alphabet (GOOG, GOOGL) and Facebook (FB), continues to frustrate. **Seemingly anytime these behemoths make a turn for the better, something comes out of the woodwork to knock them back down. We'd be foolish to believe that the odds are purposely stacked against them**, but when it comes to search technology and posting pictures online, one might think government regulators have better things to do? Apparently not. On May 31, which for reference was a Friday, Bloomberg reported that the US Department of Justice was getting ready to launch an anti-trust investigation into Alphabet.

> "We don't agree with the decision to launch the (antitrust) investigations, and we're maintaining our fair value estimates for Alphabet, Apple and Facebook."
>
> – Brian Nelson, CFA

Goal of the Best Ideas Newsletter

The goal of the Best Ideas Newsletter is to highlight ideas with strong capital appreciation potential and to update readers about new developments in the market. A simulated portfolio of capital appreciation ideas is presented on page 8 of each edition.

© 2019 Valuentum. All rights reserved. Reproduction by any means is prohibited.

*US Government Launches…*continued on next page

*US Government Launches...*from previous page

While some are pointing this out to be a positive development (which it might be), at the core we think the news is utterly ridiculous. Shares of big tech names aggressively moved lower during the June 3 trading session the following Monday.

Not only is the DOJ looking to break up Alphabet, but it is also probing Apple (AAPL). Further, news hit the wire that the Federal Trade Commission is evaluating Facebook's effects on digital competition. We're not sure what the FTC is looking into, but if anything, Facebook has leveled the playing field when it comes to digital rivalries. At no time in history can a company enter an industry and compete toe-to-toe and easily with industry behemoths on a neutral field/platform such as Facebook. We're just not sure why the DOJ and FTC are pursuing such initiatives.

In some ways, we can't help but feel the moves are politically motivated, perhaps encouraged by a Republican White House that has faced unfair criticism from the media at times. What is important to note, however, is that Google and Facebook are not the media. These companies have made the lives of Americans a lot easier, even if we do have some reservations about social media, and they have only increased competition within and across industries.

On June 11, the House Judiciary Committee held a hearing that involved several publishers launching scathing attacks into several of America's big tech companies, Google, Apple, and Facebook in particular. As one might expect, the individuals representing those publications also lamented about the current state of the news media in America. Many of the arguments brought up focused on market share and how certain tech firms have become juggernauts in their respective fields, which we view as a sign of the value those companies have generated for consumers, investors, and businesses alike. Technology companies that become big tend to do so precisely because they offer a product (like Apple's iPhone) or service (Facebook in many ways is the telephone directory of the 21st^{t} Century, replacing the now obsolete white pages) that happens to be very valuable for consumers, enabling these firms to gain the kind of scale required to be competitive in such a fast-moving industry.

We don't agree with the decision to launch the investigations, and we're maintaining our fair value estimates for Alphabet, Apple and Facebook. Even if regulators decide to break up these companies, it doesn't mean they will "confiscate" their businesses. Worst case scenario, perhaps pieces of their businesses would be auctioned off at arguably above-market prices, which could be a net positive. All things considered, we think regulators and the markets are making a mountain out of molehill. It will be years before there may be any material decision stemming from these investigations, but the overhang may only serve to further depress market confidence in Alphabet's, Apple's and Facebook's shares, which have been under pressure for several months. Congressional hearings can drum up negative sentiment quickly, even if there's no immediate chance of legislative, regulatory, or judicial action.

As of June 14, shares in some of the aforementioned big tech names have recovered to varying degrees, and we will be closely monitoring potential DOJ and FTC action going forward. Serious legislative action appears less likely, at least in the medium-term, given the ongoing partisanship that has stymied Congress for a while now. We still like Apple, Alphabet and Facebook as ideas in the Best Ideas Newsletter portfolio.

Callum Turcan owns shares of Facebook (FB), Alphabet (GOOGL), and Apple (AAPL). Some of the companies written about in this article may be included in Valuentum's simulated newsletter portfolios. Contact Valuentum for more information about its editorial policies.

Dollar General Continues to Lead

Image Source: Dollar General Corporation – IR 2016 Presentation

By Callum Turcan

Dollar General Corporation (DG) is one of the holdings in the simulated Best Ideas Newsletter, and shares yield 1% as of this writing. The company had ~15,500 stores situated across 44 states as of March 1, 2019, making Dollar General the largest discount retailer by store count. Its business model is built around selling low-cost items that e-commerce firms couldn't economically ship without being part of a much larger order. Around three-quarters of Dollar General's stores are located in towns with populations of 20,000 or less, giving it another edge on its competitors like Amazon Inc (AMZN) due to the logistical problems that arise when selling very small volumes of low-cost items outside of major demand regions (namely metropolitan areas).

Great Growth Story

We like Dollar General's growth trajectory (as it plans to continue expanding its small-box store footprint via new stores) and its impressive same-store sales performance, with 29 consecutive years of growth as of fiscal 2018. Furthermore, we see Dollar General's promising free cash flow potential and strong payout coverage (Dividend Cushion ratio stands at 2.9x) culminating into a great dividend growth story (earning the firm both an Excellent Dividend Growth and Dividend Safety rating). While its net debt load is a concern, we expect Dollar General's free cash flows over the next five years will handily cover its forecasted dividend obligations. Moody's Corporation (MCO) rates Dollar General's unsecured debt at an investment grade credit rating of Baa2 with a stable outlook.

At the end of 2018, Dollar General's management thought the company could possibly add another 12,000-13,000 stores to its footprint in markets all across America (there could be a lot of room for upside in northwestern American markets and states that it doesn't already have operations in). While its current stores on average have roughly 7,400 square feet of selling space, some of these new stores will be even smaller with less than 6,000 square feet to keep occupancy costs low. Small and nimble is Dollar General's way of capitalizing on strong US consumer spending growth prospects without directly competing with its big box peers, preferring to use geographical proximity and convenience to its advantage. Consumables represent the vast majority of Dollar General's business, representing ~77.5% of its net sales in FY2018. Note that Dollar General's fiscal year generally ends in early-February or late-January (FY2018 ended on February 1, 2019).

*Dollar General...*continued on next page

*Dollar General…*from previous page

During the first quarter of FY2019, Dollar General continued to perform well. Same-store sales growth came in at 3.8% year-over-year, driving growth across the board. Net sales rose by over 8% while its GAAP diluted EPS rose by $0.12 to $1.48, good for almost 9% year-over-year growth. However, note that its gross margins weakened by almost 25 basis points year-over-year due to rising transportation costs and greater consumable sales, which generally carry lower margins. **Going forward, Dollar General plans to continue scaling back promotional price cuts to bolster its profitability. That's the right call in our view as Dollar General has witnessed a material increase in traffic to its stores as well.** Management had this to say about Dollar General's first quarter FY2019 performance during the earnings conference call:

> *"Turning now to our first quarter performance. We delivered comp sales growth of 3.8%, additionally net sales grew 8.3% to $6.6 billion compared to net sales of $6.1 billion in the first quarter of 2018. This strong net sales performance in the first quarter of 2019 showed once again that we can continue to drive sales growth from both new stores and mature stores.* ***Additionally, during the first quarter, we continue to gain market share and highly consumable product sales, which was a key driver of our strong and balanced performance****. Syndicated data indicated we had mid to high single digit growth in both units and dollars over the 4, 12, 24 and 52 week periods ending May 4, 2019.*
>
> ***Our 3.8% comp growth rate for the first quarter of 2019 resulted from both an increase in average basket size as well as our highest customer traffic growth in over a year****. Driving profitable traffic to our stores remains a priority, and we're pleased to see our efforts delivering during the quarter. We saw another very strong quarter of growth in sales of consumables. Our non-consumable sales growth was driven by strong results in both seasonal and home."*

The apparel business is one that's hard to earn an economic return in, which is why management also stated that Dollar General has been reducing store space allocated to selling apparel in favor of better opportunities. Having a small in-store inventory and limited selling space makes managing limited offerings crucial to Dollar General's financial performance. We are supportive of Dollar General shifting towards items that it has more of a competitive advantage in selling, such as consumables, and away from products that are better left to traditional retailers and the e-commerce industry. That includes moving into the produce space, with Dollar General adding produce offerings to 50 additional stores during the first quarter, bringing its store count with produce offerings up to 480 with plenty of room to grow.

Financials Overview

Dollar General's net operating cash flow climbed by 34% from FY2016 to FY2018 while its capital expenditures rose by 31% during this period, enabling its free cash flow to expand from $1.0 billion to $1.4 billion, good for 35% growth. Consistent and growing free cash flow is one of the things we really appreciate about Dollar General. As of May 3, 2019, Dollar General was sitting on $0.3 billion in cash & cash equivalents versus $2.7 billion in long-term obligations and a negligible amount of its current portion of long-term liabilities, resulting in a net debt position of ~$2.45 billion.

While that net debt is concerning in the sense Dollar General is undergoing significant expansion (management intends on adding 975 stores to the firm's asset base this fiscal year on top of 1,000 planned remodels and 100 relocations), its strong free cash flow makes that net debt position very manageable. As does its investment grade credit rating and stellar track-record when it comes to same-store sales growth. Dollar General opened 240 stores, remodeled 330 stores, and relocated 27 stores during the first quarter so it appears the firm is on-track to meet FY2019 guidance. Management's guidance for FY2019 calls for 7% annual net sales growth, annual same-store sales growth of 2.5%, annual operating profit growth of 4% - 6%, and diluted EPS of $6.30 - $6.50 (up sharply from $5.97 in FY2017 on a GAAP basis).

*Dollar General…*continued on next page

Dollar General...from previous page

Capital expenditures are expected to climb further to $0.8 billion this fiscal year while management intends on repurchasing $1.0 billion additional shares, effectively utilizing the firm's remaining share buyback authority (which stood at $1.1 billion at the end of the first quarter). Keep in mind this guidance includes the expected impact from the additional tariffs the Trump administration placed on Chinese imports in May 2019, as those cost increases will filter into Dollar General's financials (core price increases and lower levels of promotional price reductions will help offset potential negative impacts to a degree).

What We Think

We like the multiline discount retail space. Here's a concise summary of our thoughts on the industry from our 16-page Stock Report:

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

Here is how we view Dollar General's key strengths from our two-page Dividend Report:

> Dollar stores sell a variety of inexpensive bargain goods, **items that generally won't make sense economically to be distributed via e-commerce given the shipping costs. The ease at which consumers can visit their local dollar store (and the collection of low-priced goods in one place) is also a big advantage.** Dollar General has a tremendous track record of same-store sales performance. The company has a fantastic counter-cyclical business model, too, as performance often improves in times of macroeconomic pressure. For example, results from the Great Recession of 2008 and 2009 showed same-store sales leaping 9% and 9.5%, respectively.

Equity analysis always requires investors to monitor the downside risks as well, which we cover here (also from our two-page Dividend Report):

> If there may be one thing that we're not too big of fans of at Dollar General, it would be its balance sheet. But we might be a little nitpicky here, as its debt load is quite manageable. Its balance sheet health is not what we would like it to be for a retailer in the midst of such growth plans (we always prefer a net cash position), but free cash flow generation should be sufficient in handling the debt load and expansion plans, in our view. Free cash flow covers the dividend nicely. We would only expect management to keep raising the payout and buying back shares, though we would like to see some deleveraging a bit. The dividend is solid, nonetheless.

Concluding Thoughts

Shares of Dollar General are trading near ~$130 per share, which is near the very upper end of our fair value range, indicating shares are richly priced as things stand today. However, the resilience of DG in the face of ongoing trade turbulence and the related declines in major indexes has been quite impressive. We are holding onto Dollar General in the Best Ideas Newsletter portfolio for the time being, and we continue to like the story as the stock is supported by a great growth trajectory (same-store sales growth combined with new store openings and moving into new product offerings). Management likes to reward investors with significant payout growth, with Dollar General's low yield a product of strong capital appreciation. Dollar General's quarterly dividend rose from $0.22 per share in calendar year 2015 to $0.32 in 2019, and we expect there's plenty of room for upside in the years ahead.

Callum Turcan does not own shares in any of the securities mentioned above. Some of the companies written about in this article may be included in Valuentum's simulated newsletter portfolios. Contact Valuentum for more information about its editorial policies.

Beyond Meat's Market: $5 Billion or $1.5 Trillion?

Image Shown: The Beyond Burger accounted for about 70% of the company's sales in 2018.

By Valuentum Analysts

The big question: how big is Beyond Meat's opportunity? Is it $5 billion or $1.5 trillion?

Shares of Beyond Meat Inc (BYND), one of the fastest-growing plant-based meat companies, have exploded higher since the meatless-meat producer went public in May. While this isn't a stock we normally would like given the short operating history and lofty market expectations, we wanted to draw attention to the enormous potential Beyond Meat is targeting. As of the market close on June 10, Beyond Meat had a market capitalization of $10.1 billion. We estimate that if Beyond Meat is able to generate an adjusted EBITDA margin in the mid-teens over the long-term and win just a small slice of the global meat market, there may be more to the company than initially meets the eye, meaning the market's euphoric opinion of shares may not be completely irrational.

For example, a report cited by Statista expects the global market for processed meats will rise to $1.5 trillion by 2022. Assuming Beyond Meat wins just 0.5% of that market and can generate an adjusted EBITDA margin of 15% (management expects the company will realize an adjusted EBITDA margin in the mid-teens as of its latest quarterly conference call), that implies $7.5 billion in sales and $1.1 billion in adjusted EBITDA by 2022. It's possible that the global market for processed meats may even be larger by 2022, as according to Beyond Meat's S-1 filing, the global industry currently stands at $1.4 trillion.

Capturing a small slice of a huge market isn't always easy, however. In fact, many companies in other industries seek to do this and they come up short all the time. The global meat market is one that is not going away, in any case, even if other market research services are less optimistic. ResearchandMarkets expects the global meat market to grow to $1.5 trillion by 2026, hitting that target four years later than the forecast cited by Statista. Assuming Beyond Meat can generate an adjusted EBITDA multiple of 10x in the mid-2020s, that provides some justification to its current valuation, which we still see as very generous, however.

Beyond Meat's Market ...continued on next page

Beyond Meat's Market ...from previous page

After all, we're talking about EBITDA multiples on normalized EBITDA margins more than a half decade from now. There's a lot that can go wrong. All we've witnessed from the company through 2018 is EBITDA losses, cumulatively to the tune of $58.8 million during the past three years. Adjusted EBITDA is only targeted at breakeven in 2019. Net losses have piled, up, too, and it was only last year when it finally generated a gross profit (revenue > cost of goods sold). We can't forget that Beyond Meat was founded in 2009, too, not last year or the year before. It has been around for a while, even though it has only been public for a few months. Why has it taken so long to just get to this point in the adoption curve?

Regardless, many are forecasting a huge jump from the $40 million in sales Beyond Meat reported during the first quarter of 2019 (report released June 6), a number that was up 215% on a year-over-year basis. Management is targeting a revenue increase of 140% for the full year, which may even be conservative. There's the possibility for Beyond Meat's products to end up in the menus at McDonald's (MCD), Shake Shack (SHAK), Wendy's (WEN), Sonic (SONC), Burger King (QSR), KFC (YUM) and even Starbucks (SBUX) stores, which represents a few potential catalysts in the medium term. Products are currently being sold in grocery stores such as Kroger (KR) and Whole Foods and restaurants such as TGI Friday's, A&W Canada and Carl's Jr.

However, in order to justify Beyond Meat's lofty valuation as things stand today, investors are expecting the meatless-meat producer to continue growing revenue at triple-digits through the early-2020s. That will depend in large part on whether Beyond Meat can win over major customer accounts, keeping in mind there is a lot of competition in the protein market (for both meat and meatless products**). Tyson (TSN) won't be sitting idly by as it just recently announced it was launching a meatless nugget offering that is due in stores this summer, which will be followed up by other meatless offerings. Nestle (NSRGY) and other animal protein companies, including Cargill and Hormel (HRL), are also not going to sit idly by.**

The price of Beyond Meat's offerings may be holding the adoption curve back at the moment. Beyond Meat's meatless beef is retailing for ~$12 per pound, according to Barron's, while ground beef usually retails at $4 per pound in America. The company's meatless sausage offerings go for over $10 per pound, which Barron's notes is 70% more than comparable offerings with meat. That's usually far outside the range of the "ordinary" American household budget when it comes to regular protein purchases, but note that over time, it's conceivable Beyond Meat will be able to materially reduce its average sales price (as its production costs per unit should in theory move significantly lower over time due to economics of scale, efficiency gains, and technological improvements in the meatless protein industry). Scale is the key part of this story. Consumers who may be interested in purchasing Beyond Meat's meatless products at a lower price point could be won over if the company either lowered prices for existing products or launched middle-market protein options.

Beyond Meat would logically like to retain its ability to sell some of its offerings at the high price point, which could also be achieved through premium offerings (ultimately leading to a tiered product offering system based on quality and product category). Bigger picture, the scale built up catering to American consumers through domestic production facilities could be used to generate a competitive advantage on the international arena if Beyond Meat decides to aggressively pursue growth overseas. Scale is already having a very favorable impact on Beyond Meat, with the company's gross margin up to 26.8% of net revenue during the first quarter of 2019, a major improvement over its first quarter 2018 gross margin of 16.1%. Management expects Beyond Meat can maintain a gross margin in the mid-30s, according to commentary during the firm's latest quarterly conference call.

Though the company's products and IPO have caught a lot of fanfare, we're keeping a level head. Veggie (vegan) burgers have been around for a long time, with many crediting its creation in the early 1980s. Veggie burgers contain no meat of any kind either. Is this just another offering in the veggie category**? Is the market extrapolating share of the entire processed meats market when it should be calculating share within the vegan and vegetarian market, which is expected to be about $5 billion by 2020? $5 billion or $1.5 trillion? That's a big difference.** Management wants its products to be sold in meat cases, but is it just another version of a veggie burger? Vegans and vegetarians are less than 5% of the population. Is this a product for vegans and vegetarians, not the other way around?

Beyond Meat's Market...continued on page 9

Valuentum's Best Ideas Portfolio

By Valuentum Analysts

Latest newsletter portfolio changes
April 17: CMG removed, AAPL increased
April 18: VRNT removed, VNQ added

Valuentum's BEST IDEAS -- as of June 15, 2019

Portfolio Holdings	Symbol	Div Yield %	Fair Value	Economic Castle	VBI Rating	P/FV	Last Close	% of Portfolio
Berkshire Hathaway	BRK-B	0.00%	$229.00	NA	5	0.90	205.16	7%-12%
Facebook	FB	0.00%	$227.00	Very Attractive	7	0.80	181.33	7%-12%
Alphabet - Class C	GOOG	0.00%	$1401.00	Very Attractive	3	0.77	1085.35	7%-12%
Visa	V	0.62%	$153.00	Attractive	7	1.11	169.66	7%-12%
Apple Corp.	**AAPL**	1.76%	$222.00	Highest Rated	6	0.87	192.74	**7%-12%**
SPDR S&P Dividend ETF	SDY	2.53%	NA	NA	UR	NMF	100.77	5.5%-7%
Energy Select SPDR	XLE	3.52%	NA	NA	UR	NMF	61.01	5.5%-7%
Health Care ETF	XLV	1.61%	NA	NA	UR	NMF	91.25	5.5%-7%
Cisco	CSCO	2.69%	$56.00	Very Attractive	3	0.98	54.75	4%-5.5%
Intel	INTC	2.86%	$53.00	Attractive	4	0.87	46.19	4%-5.5%
Johnson & Johnson	JNJ	2.90%	$147.00	Attractive	7	0.95	140.09	4%-5.5%
Booking Holdings	BKNG	0.00%	$2133.00	Highest Rated	4	0.83	1775.50	2.5%-4%
Dollar General	DG	0.94%	$111.00	Attractive	6	1.22	135.69	2.5%-4%
Financial Select SPDR ETF	XLF	2.02%	NA	NA	UR	NMF	27.24	2.5%-4%
General Motors	GM	4.56%	$49.00	Attractive	6	0.73	35.66	2.5%-4%
PayPal	PYPL	0.00%	$116.00	Attractive	6	1.00	116.17	2.5%-4%
Vanguard REIT ETF	**VNQ**	3.96%	NA	NA	UR	NMF	89.70	**2.5%-4%**
Cash consideration	-	-	-	-	-	-	-	0.0%

UR = Under Review
This portfolio is not a real money portfolio. Data as of June 15, 2019.

We've taken the cash weighting in the Best Ideas Newsletter portfolio to 0%. The midpoints of our respective weighting ranges sum to 100% to reflect the range of possible combinations that may result in this allocation.

Goal: The Best Ideas Newsletter portfolio seeks to find stocks that have both good value and good momentum characteristics and typically includes in the portfolio each idea from a Valuentum Buying Index rating of a 9 or 10 (consider buying) to a rating of a 1 or 2 (consider selling). Just like a value manager may not include every single undervalued company in the market in his/her portfolio, not all highly-rated companies on the Valuentum Buying Index are included in the portfolio.

We may tactically add to or trim existing positions in the portfolio on the basis of sector or broader market considerations, but we seek to capture a stock's entire pricing cycle (from being underpriced with strong momentum to being overpriced with poor momentum). The Best Ideas Newsletter portfolio puts the Valuentum Buying Index into practice.

Every person has different goals and different risk tolerances, so where before in the newsletter portfolios, we would outline the specific percentage weighting, we think providing ranges make much more sense. For example, depending on someone's risk tolerances, a larger cash position in an overheated market may be prudent. On the other hand, the longer one's time horizon, perhaps a smaller cash position may make more sense.

Ideas may not add up to 100% on either the low % or high % due to rounding and/or other combinations / permutations.

Standard Disclaimer: The simulated Best Ideas Newsletter portfolio is for information purposes only and should not be considered a solicitation to buy or sell any security. Valuentum is not responsible for any errors or omissions or for results obtained from the use of the simulated Best Ideas Newsletter portfolio and accepts no liability for how readers may choose to utilize the content.

*Beyond Meat's Market...*from page 7

The key innovation behind the company's products is that they are supposed to have the same "taste, texture other sensory attributes of popular animal-based meat products (S-1)," but will this be the case for all consumers? Will those that grill during the warm summer months and tailgate before sporting events trade their tradition for meatless patties that generate their protein from yellow peas? We think many will try the meatless burger, but as with anything, it will more than likely come down to taste, and we know how particular some can be when it comes to a great burger or sizzling steak. The company has already introduced Beyond Beef, "which is designed to replicate the versatility of beef," but is it really going to replace the tradition at the dinner table? What about other plant-based protein competitors such as Boca Foods, Field Rost, Impossible Foods, and Lightlife? Surely, they will develop competitive products, too.

Concluding Thoughts

While shares of Beyond Meat are richly valued, this is a company seeking to capitalize on a very promising long-term growth opportunity in a market that has been around since the dawn of human civilization. It's not often that something like the global protein market might get disrupted, but we're not jumping to any conclusions. We think the firm's next few quarterly reports will be fantastic as various channels test the market, and this could make for a strong multi-year streak of impressive performance (given marketing and sales promotions at grocery stores and restaurants), but when it comes to valuation and long-term investment considerations, will this be sustainable? It's truly anyone's guess, and while speculators are having a lot of fun with shares, we're comfortable watching things from the sidelines. Give the Beyond Burger a taste test and let us know what you think!

The Valuentum Economic Roundtable

By Valuentum Analysts

We sat down with the Valuentum team to get their thoughts on the global economy and key issues that may threaten this near 10-year bull market.

Let's start with Valuentum's Bank and Financials Contributor Matthew Warren, and then we'll go around the horn.

Matthew Warren: It's interesting what's happening at the nexus of the consumer and various retailers. It reminds me of the pockets of discretionary weakness back in 2008. I made money on Men's Warehouse (TLRD) puts back then. Nobody is really in a rush to buy a suit, especially if they are concerned about their job prospects. At least we only have CLOs (collateralized loan obligations) and Europe/China stress to ponder over this time. Much less stress if corporates hit balance sheet troubles as compared to a housing finance catastrophe last time. I hope Europe can limp along regardless of what may go down in China. If we all get dragged into deflation, then we are really in trouble. Let's hope that remains a tail risk.

Brian Nelson: I've been very skeptical of this monetary-policy-led recovery all these years, though stocks aren't terribly overpriced if forecasts do come to fruition. What I struggle with is the concept of NIRP (negative interest rate policy). If there is no zero bound to the cost of borrowing, then how should we think about valuation. Stocks could truly reach bubble levels if discount rates approach zero as a result of the possibility of NIRP policy. I feel like there has to be some self-correcting mechanism that would punish moral hazard, but has one of the lessons of the Financial Crisis been that moral hazard is not punished? Will the Fed just continue to bail out the markets time and time again? That interest rate lever is a big one, and the Fed may very well have the markets in the palm of its hand.

*The Valuentum Economic...*continued on next page

*The Valuentum Economic…*from previous page

Many weaker retailers, clothing and apparel, particularly mall-based may not make it to the other end of the next recession. Even some of the department stores may see their equity pummeled, even some of the stronger ones like Kohl's (KSS), Nordstrom (JWN) and Macy's (M). J.C. Penney (JCP) has almost reached its end. Some of the full-service restaurants could make for some great short-idea considerations. What is interesting is that as we follow many of the consumer staples equities, many of them are trading at 20+ times forward earnings with net debt on the books and muted growth. McDonald's (MCD) and Clorox (CLX) seem very pricey. It's very difficult to get to their prices with a DCF (discounted cash-flow model). Consumer staples stocks may turn into the Nifty Fifty of years past.

If we do enter another recession with tightened credit, credit-market dependent equities may fare the worst (low quality REITs, MLPs and those paying out more in distributions than they generate in FCF), as they did during the credit crunch. Highly-leveraged corporate equities, too. $22 trillion in sovereign US debt; $6 trillion in corporate debt; negative interest rates across the globe, and the US feels like nothing in the world quite matters, not even too much related to a trade war with China.

It's hard to put one's finger on the exact catalyst that may unwind this 10-year bull market, but the market and/or yield curve inversion itself could be one (if only for its psychological implications). If people sell because they think an inverted yield curve is a precursor to recession, selling of stock and pulling back discretionary spending as a result may actually cause the recession. The markets may then correct, and we could see a multi-year unwind, but even still, it would seem the next recession may only be minor, unless something really unfolds as in a breakdown of market structure, something I talk about in *Value Trap*.

Matthew Warren: Regarding NIRP (negative interest rate policy), it's hard to argue with the impact on valuation (via both cheap borrowing and the equity discount rate). Warren Buffett concedes that if you knew rates would stay this low for a long time, then stocks are in fact a bargain. However, a big part of me thinks that if you model the low cost of capital that comes with NIRP into perpetuity, then you should also model weak top line growth that comes with a very stagnant economy. Isn't that the lesson of Japan? Isn't that where Europe seems to also be headed as well? Is the US also headed down the same road?

I do think there is a limit to the effectiveness of NIRP in terms of stimulating the economy. Look at auto sales (even with low rates) appearing to get very tired. Look at credit cards and student loans. Is there really much more creditworthy demand that can be stimulated with low cost debt? If anything, it appears the banks have to charge a large (credit-card) NIM for the risk/reward to be enticing, at least in their aggregated opinion. It ends up being a debt trap for those that take on too much, and then they are stymied by debt service--in many cases for life.

he high valuations on equities, bonds, and other assets certainly create a wealth effect for the small minority of the population that owns those assets in a size that is material to their overall situation. But with that comes inequality, and of course the rich don't have the same propensity to spend as those with lesser means. The basic concept that capital's higher returns than wage inflation will cause wealth to accumulate and stoke inequality almost seems inevitable. And historically, does inequality ever correct itself without a depression in asset prices? Granted this might be a very long game I am referring to here and not something for this year or even the next decade?

Of course we can go without recession for some time. I don't see why not. The banks do not appear to be sitting on a mess like they usually are as a precursor to recession. You mention the circular nature of a stock selloff itself causing a recession, and I think you are spot on. That's why the Fed gets involved every time we get a 20% pullback. Talk about the tail wagging the dog! I agree that marginal retailers and full-service restaurants make for good short idea fishing. I just read Nordstrom's conference call earlier this week, and it sounded pretty pathetic.

*The Valuentum Economic…*continued on next page

*The Valuentum Economic…*from previous page

I think the Nifty Fifty in bond-like stocks can be partially justified. I have thought for a while that I would rather own a staple with pricing power rather than a long government bond with fixed payments. I think a bullet-proof staple with substantial pricing power and substantially inelastic demand for its products should have a lower cost of equity closer to that of bonds than a full 10% cost of equity. If you think about McDonalds, I know California is an extreme example, but that is one of the only places where you can feed yourself for 5 bucks (AND ONLY IF you buy one of the rotating sales items).

In good times, there are people (working poor and those sticking to a budget) trying to eat cheap and in bad times, there are additional people trading down to eat cheap. I don't think that means you model huge growth or margins different from what they have experienced, but what is the right cost of equity for a company in this position? If the market were to give you a full 10%, I would take that over 2.3% Treasury bonds every day of the week.

Brian Nelson: Tremendous insights. Thank you Matt. Callum, what has been on your mind with respect to recent economic readings?

Callum Turcan: While the official (U-3) seasonally adjusted unemployment rate in America stood at 3.6% in April 2019 (from the Bureau of Labor Statistics), note that the U-6 measure of unemployment (seasonally adjusted) was significantly higher at 7.3%, as one would expect. However, also note that America's labor force participation rate stood at 65.7% of the working age population in January 2009, before crashing lower to just 62.8% as of April 2019 (far below the 1990s-2000s average). It's conceivable there is more slack in the labor market than America's very low official unemployment rate would suggest (as has arguably been the case for the better part of this decade), which has been depressing wage growth for some time (until more recently).

The BLS reported that hourly wage growth hit 3.2% year-over-year in April 2019, while weekly wages were up 2.9% year-over-year. Whether or not American hourly wages continue to grow over 3% annually may depend on how trade wars and potential interest rate cuts pan out, as the supposedly hot jobs market hasn't yielded the kind of wage growth (over the past decade) one would suspect in a truly tight labor market. Please note that the given wage growth figures are not adjusted for inflation and that the CPI-U stood at 2.0% in April 2019, depressing real wage growth significantly. A material reduction in the nominal wage growth rate, due to weakening macroeconomic conditions, could lead to real wage growth reaching close to zero (from roughly ~1% as of April 2019) in the aggregate (distribution effects are a different story).

Brian Nelson: Interesting. Let's now address a few questions from members. Here goes: What are your thoughts on the possibility of a recession coming sooner than anticipated based on: 1) Recent series of interest rates hikes in the US--on the monetary policy side, the Fed's 13 tightening cycles since WWII, 10 have pushed the economy into a slowdown or a recession. 2) Rate of publicly traded companies buying back their outstanding shares – unprecedented debt-for-equity swap done this cycle, borrowing at low interest rates and buying back their stocks, and 3) Bond yields have come down and yield curve has flattened?

Matthew Warren: As it relates to the first question, the Fed has been trying to normalize rates as much as possible against the backdrop of a benign macro situation, hoping the yield curve would remain stable and upward sloping. After all of the QE by the Fed and other monetary institutions around the world, it amounted to an experiment to see how much the real economy could handle more normalized rates. The experiment began to fail at higher levels of short rates above 2%. The housing and auto economies both started to slow as higher rates began to impact demand. The yield curve ultimately inverted as a result, as market participants began to fear an outright recession as a result of the higher rates.

*The Valuentum Economic…*continued on next page

*The Valuentum Economic...*from previous page

This of course has led to "the pivot" by the Fed, basically going on pause instead of the future hikes that they had been discussing. This brought long rates back down and relieved some of the burgeoning stress, especially on the housing market--at what amounts to high housing prices in many of the hotter markets around the country. Time will tell whether past hikes cause further problems and whether the Fed ultimately needs to cut current rates, which the Fed Futures market has now baked in. What is clear is that there is a lot of debt in the world, especially government and corporate debt, and there is a level of rates that begins to cause stress. I think the Fed has learned that lesson.

Brian Nelson: Regarding the second question, I do think there should be some cause for concern as it relates to the hundreds of billions in buybacks, if not trillion-plus in share repurchases in recent years. There is a school of thought that suggests the price of the stock just doesn't matter, since those selling shareholders are benefiting from the high prices at which the company buys back its stock.

It's an interesting perspective, but we tend to favor the school of thought that suggests that buybacks should serve to benefit the majority of shareholders, which are almost always continuing shareholders, or those not looking to shed shares. That means we'd prefer companies buy back stock below levels of reasonably estimated intrinsic values. Many companies are doing this today, but many companies are not.

Likewise, not all buybacks are good and not all buybacks are bad, but many executive teams are using buyback programs in ways that may not benefit continuing shareholders. We'd much rather see companies accumulate some excess cash on the balance sheets and wait until the next downturn, the timing uncertain, to deploy that capital at much lower share prices to add considerable value relative to prices now nearly 10 years into a bull market.

Many want executives to put cash to work right away, but we encourage management teams to be prudent and deploy capital only when the time is right. As many learned during the Great Recession, capital is not always readily available when it is needed the most. While it seems today that companies can almost borrow at will, credit conditions are far from static, and just like investors, we think companies should have some dry powder, too, in the form of cold hard net cash.

When it comes to the inverted yield curve, I think the implications are more behavioral than anything else. The Fed doesn't want to take steps to aggressively drive a further inversion of the yield curve, most likely due to what it might signal. People are worried about the yield-curve inversion, and therefore may take actions that actually cause a recession, actions that may have not happened had the yield-curve signal not happened. This is why we're starting to hear the Fed talking about cutting rates, in my opinion.

Matt, anything further to add?

Matthew Warren: I would like to emphasize a risk to the system I mentioned earlier in leveraged loans and corporate/business debt levels. While I think most banks haven't been overly aggressive in lending to businesses and corporates on balance sheet during this cycle, I do think that the $1.1 trillion levered loan market--often packaged into collateralized loan obligations (CLOs)--has been aggressively lending to corporations, with fewer and fewer protections for the lender. The borrowing companies are generally junk status and paying higher interest rates than you would find with investment grade bonds for instance.

In a recession, many of these companies could fall further into junk status and face real difficulties in servicing their high debt levels. It is not hard to picture that the credit markets could tighten (higher rates and more covenants) or even seize up for some of the more levered firms, leaving them stranded. If these firms were unable to roll over their high debt levels, they would be forced to pay back debt as it came due or face distress. If many of these companies either went bankrupt or were forced to radically de-lever their balance sheets, they would not have the funds available to reinvest in their businesses, denting economic growth. Those institutions holding the debt would also face substantial losses, especially as much of this debt is held in levered investment vehicles outside the banking system, amplifying losses in a downturn.

*The Valuentum Economic...*continued on next page

*The Valuentum Economic...*from previous page

Brian Nelson: Callum, what are some of the signals the energy markets are giving us?

Callum Turcan: With the 12-month West Texas Intermediate futures curve plummeting from an average price of mid-$60s per barrel a few months ago down to the low-$50s as of June 6, watch out for potential capital expenditure reductions in America's shale patch. A combination of pressure from oil & gas investors seeking a more disciplined approach to capital allocation on top of already weak balance sheets could potentially force US upstream independents to scale back spending by a lot if oil prices don't improve (particularly the small- and medium-sized players).

This may act as a modest headwind to American economic growth, particularly if economic activity slows down in major oil producing regions that heavily utilize hydraulic fracturing technology (including states like Texas, Oklahoma, North Dakota, Wyoming, Colorado, and more). States that produce or are prospective for a material amount of natural gas liquids, such as Ohio and Pennsylvania (through the Utica and Marcellus shale plays), could also be negatively impacted. The negative impacts could potentially involve layoffs, reduced tax receipts (production taxes are a major revenue source for many local and state governments), reduced drilling & completion activity (which feeds into the layoffs), potential cuts in local/state government expenditures, cuts in local/state government services as a byproduct of spending cuts, reduced property values on a regional basis, and higher levels of credit write-offs (specifically for regional banks).

Brian Nelson: Thank you for your thoughts everyone!

Callum Turcan: We appreciate the community feedback from our subscribers and on Valuentum, and we plan to do more for these in the future as major macroeconomic and geopolitical events unfold.

VBI 9-Rated AmerisourceBergen Now On Our Radar

Let's take a look at VBI 9-rated stock AmerisourceBergen, a pharmaceutical sourcing and distribution company that yields 2% as of this writing. We like AmerisourceBergen's dividend growth story, strong free cash flow generation, guidance raise, and relatively low net debt load. We'll also cover AmerisourceBergen's downside risks as well as its upside potential. Shares appear undervalued as things stand today, with ABC trading below the low end of our fair value estimate range.

By Callum Turcan

Pharmaceutical sourcing and distribution company AmerisourceBergen (ABC) popped up on our radar in early-June; its fundamentals are rock-solid and its technical readings indicate Wall Street is starting to take notice. **The company just registered a 9 on the Valuentum Buying Index.** This American healthcare company has consistently generated meaningful shareholder value by earning a return on invested capital (excluding goodwill) that exceeds its weighted-average cost of capital, indicating management has historically been able to locate and capitalize on quality investment opportunities. We like AmerisourceBergen's dividend growth trajectory and see its payout as very well covered, keeping in mind the firm yields 1.9% as of this writing. For reference, AmerisourceBergen's fiscal year ends in September.

Here is a quick note from our 16-page Stock Report covering AmerisourceBergen;

> *AmerisourceBergen is looking for growth via the animal health market, a fragmented marketplace with potential in both the companion animal and production animal areas. Expanding access to the evolving drug category of biosimilars and follow-on biologics in the US market is another area for growth potential.*

*VBI 9–Rated...*continued on next page

*VBI 9–Rated…*from previous page

Financial Overview

We like AmerisourceBergen's ability to generate excess cash as its business model is relatively capex-light, though we note the firm's net operating cash flow has been volatile in the past. From FY2016 to FY2018, for example, AmerisourceBergen's net operating cash flow dropped from $3.2 billion to $1.4 billion while its GAAP net income climbed from $1.4 billion to $1.6 billion. This cash flow volatility is largely a product of large swings in AmerisourceBergen's working capital, but note that its net operating cash flow still averaged $2 billion from FY2016 to FY2018 while its capital expenditures averaged $0.4 billion during this period, enabling very consistent free cash flow generation (defined as net operating cash flow less capital expenditures).

The company spends $0.3 billion annually on its dividend payments, providing for excellent payout coverage as its net debt load is very tame. At the end of its second quarter FY2019, which ended March 31, 2019, AmerisourceBergen was sitting on $4.6 billion in total debt (defined as short-term debt, long-term debt, and long-term financing obligations) versus $2.9 billion in cash & cash equivalents. **With less than $1.8 billion in net debt, AmerisourceBergen's balance sheet is relatively strong**, providing for a dividend growth story built on solid foundations. AmerisourceBergen spent roughly $1.1 billion repurchasing its stock over the past three fiscal years on average, which will compete for free cash flow as it relates to dividend increases.

For the most part AmerisourceBergen's maturities are staggered, with a $0.4 billion term-loan coming due in 2020 followed by $1.0 billion in liabilities maturing in 2021, which could easily be covered with cash on hand and/or future free cash flow generation. It isn't until 2024 that another $0.5 billion tranche comes due. Having a well-planned credit profile better enables AmerisourceBergen to navigate the turbulent waters of America's healthcare industry. AmerisourceBergen's unsecured debt carries an investment grade Baa2 credit rating from Moody's Corporation (MCO).

Note 6. Debt

Debt consisted of the following:

(in thousands)	March 31, 2019	September 30, 2018
Revolving credit note	$ —	$ —
Term loans due in 2020	399,655	398,665
Overdraft facility due 2021 (£30,000)	14,820	13,269
Receivables securitization facility due 2021	500,000	500,000
Multi-currency revolving credit facility due 2023	—	—
$500,000, 3.50% senior notes due 2021	498,650	498,392
$500,000, 3.40% senior notes due 2024	497,499	497,255
$500,000, 3.25% senior notes due 2025	495,972	495,632
$750,000, 3.45% senior notes due 2027	742,678	742,258
$500,000, 4.25% senior notes due 2045	494,406	494,298
$500,000, 4.30% senior notes due 2047	492,355	492,222
Capital lease obligations	50	745
Nonrecourse debt	156,388	177,453
Total debt	4,292,473	4,310,189
Less AmerisourceBergen Corporation current portion	164,840	13,976
Less nonrecourse current portion	118,133	137,681
Total, net of current portion	$ 4,009,500	$ 4,158,532

Image Shown: A look at AmerisourceBergen's liabilities as of the end of March 31, 2019.
Image Source: AmerisourceBergen – 10-Q for the second quarter of FY2019

*VBI 9–Rated…*continued on next page

*VBI 9–Rated…*from previous page

What we really like about AmerisourceBergen is management's commitment to serious payout increases. From late-2009 to mid-2019 (calendar year), the company's quarterly payout grew from $0.08 per share to $0.40, and we think there is an enormous room for growth in this area as stated previously. Dividend payments serve several purposes. Not only do they reward shareholders with income, but they indicate the level of confidence management teams have in the enterprise's ability to keep generating free cash flow. AmerisourceBergen is guiding to spend $0.3 billion on capital expenditures in FY2019, enabling $1.4-$1.6 billion in free cash flow generation according to management forecasts.

Guidance Commentary

Last quarter, AmerisourceBergen raised its non-GAAP adjusted EPS forecast for FY2019 from $6.65-$6.85 to $6.70-$6.90, indicating growing confidence in its fundamentals. AmerisourceBergen generated non-GAAP adjusted EPS of $6.49 in FY2018, implying 5% annual growth at the midpoint of its FY2019 guidance. Management is also guiding for modest single-digit revenue growth this fiscal year. On an operating income basis, AmerisourceBergen expects stronger growth at its 'Global Commercialization Services & Animal Health' division than its 'Pharmaceutical Distribution Services' division in FY2019, but both segments are still expected to grow this fiscal year.

As an additional bonus, management now sees AmerisourceBergen's diluted share count moving down to 214 million in FY2019 (versus previous guidance of 215 million shares) compared to 220 million in FY2018, a product of share buybacks. **We see shares of AmerisourceBergen as being significantly undervalued as of this writing, trading below the low end of our range of potential values, which is derived from our rigorous discounted free cash flow analysis.** That indicates share buybacks, as long as they are kept within reasonable parameters, represent good uses of capital. Deleveraging is also a possibility, as we prefer companies with large net cash balances versus those with net debt loads, but we expect AmerisourceBergen will continue to return a large amount of cash to shareholders.

FY19 Financial Guidance

Expectations on an Adjusted (non-GAAP) Basis[1],[2]	
Revenue	Mid-single digit percent growth
Diluted Earnings Per Share	***$6.70 to $6.90***
Operating Expense	Mid-single digit percent growth
Operating Income	Low-single digit percent growth
Pharmaceutical Distribution Services Operating Income	Low-single digit percent growth
Global Commercialization Services & Animal Health Operating Income	High-single digit percent growth
Effective Tax Rate	21% to 22%
Diluted weighted shares outstanding	***~214M***
Free Cash Flow	$1.4B to $1.6B
Capital Expenditures	~$300M

(1) Bold, italicized numbers indicate updates to FY2019 financial guidance

(2) FY2019 financial guidance includes consolidation of Brazil

The Company does not provide forward-looking guidance on a GAAP basis as certain information, the probable significance of which cannot be determined, is not available and cannot be reasonably estimated. Please refer to the exhibit to the Company's most recent Current Report on Form 8-K furnished under Item 2.02 for more information.

9 CONFIDENTIAL

AmerisourceBergen

Image Shown: AmerisourceBergen expects modest top-line and bottom-line growth in FY2019. Management recently revised the company's non-GAAP adjusted EPS estimate for FY2019 up by $0.05 at the midpoint, indicating growing confidence in AmerisourceBergen's ability to perform. Image Source: AmerisourceBergen – IR Presentation

*VBI 9–Rated…*continued on next page

*VBI 9-Rated...*from previous page

What We Think

Here is a concise except from our two-page Dividend Report that sums up how we view AmerisourceBergen's key strengths, particularly as it relates to its dividend coverage;

> *It's hard not to like AmerisourceBergen's revenue and adjusted operating income growth over the past several years. Revenue has advanced more than 70% since fiscal 2011. The US pharma market continues to provide the company with growth opportunities, and management recently finalized the largest and most complex contract in its history with Walgreens Boots Alliance Inc (WBA). The firm is targeting free cash flow that exceeds net income and returning 30%+ of free cash flow to shareholders each year via dividends and buybacks. Cash flow from operations has fallen to $1.4 billion in fiscal 2018 from ~$3.2 billion in fiscal 2015, though free cash flow of ~$1.1 billion in fiscal 2018 was still far in excess of annual cash dividend obligations of $333 million.*

Some Wall Street analysts have noted that AmerisourceBergen may be a takeover target, a thesis supported in part by its low net debt load, strong free cash flow generation, and its historic ability to earn a very strong return on invested capital (excluding goodwill), a strength we see as continuing into the future. McKesson Corporation (MCK) and Cardinal Health Inc (CAH), in theory, could be potential buyers as they represent AmerisourceBergen's main competitors. Keep in mind that this theory needs to be weighed against AmerisourceBergen's potential legal liabilities as it relates to the ongoing opioid crisis in America, which could be extensive. We are activity monitoring this situation closely.

As always, keep in mind that when doing equity analysis, one should monitor a potential investment's upside and downside risks. Here is how we view AmerisourceBergen's potential weaknesses, from our two-page Dividend Report;

> *AmerisourceBergen has a lot going for it, including immense scale in its sourcing and distribution businesses, but ongoing investments in its infrastructure will be necessary for supply chain support; capex is but a fraction of operating cash flow, however. We very much like management's focus on generating economic profit (ROIC>WACC), but acquisitions will be a part of its future.* ***Share buybacks will be ongoing, eating up capital that could otherwise go toward a higher dividend payment, but we have no real qualms with the firm's financial health****. Long-term debt was ~$4.6 billion at the end the second quarter of 2019 (cash stood at ~$2.9 billion), indicating AmerisourceBergen's dividend growth story will have to contend with a net debt position.*

Other downsides include Walgreen's representing a third of its FY2018 revenue, followed up by Express Scripts at 13%, keeping in mind Express Scripts is now owned by Cigna Corporation (CI) after Cigna's enormous $67.0 billion deal (including debt) was completed last year. AmerisourceBergen's top ten customers represented 68% of its FY2018 revenue, highlighting how losing any one of its key customers could have a materially adverse impact on its financials.

Here is a brief overview of how we view the healthcare products and distribution industry to set the stage for this piece (from our 16-page Stock Report):

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

*VBI 9-Rated...*continued on next page

VBI 9–Rated...from previous page

Concluding Thoughts

AmerisourceBergen's dividend growth story looks great, as its current payout represents only a moderate slice of its annual free cash flow generation. While its net operating cash flow has historically been volatile, the company continues to be very free cash flow positive, aided by its capex-light business model. That, combined with its relatively low net debt load, provides for tremendous dividend coverage. We caution, however, that this dividend growth story will have to compete for capital with AmerisourceBergen's share repurchasing program, as those buybacks are quite material uses of cash. Management's recent guidance raise for FY2019 provides for additional certainty in AmerisourceBergen's ability to continue performing well over the coming quarters. This is a company that's worth keeping on your radar, and one now rated 9 on the Valuentum Buying Index.

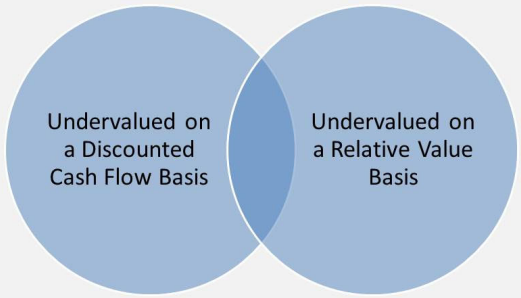
Readers should keep in mind that shares of ABC haven't performed well over the past few years since spiking in 2015, which is why it's so important for the technicals to indicate investor sentiment is changing before making any big decisions regarding AmerisourceBergen. Our fair value range is $83 - $125 per share of ABC, and we love its 3.5x Dividend Cushion raito, dividend growth propsects, and very attractive Economic Castle rating.

Callum Turcan does not own shares in any of the securities mentioned above. Some of the companies written about in this article may be included in Valuentum's simulated newsletter portfolios. Contact Valuentum for more information about its editorial policies.

The Watch List

By Valuentum Analysts

The Valuentum Buying Index (VBI), which places a considerable emphasis on a firm's valuation, is the primary driver behind companies included in the Best Ideas Newsletter portfolio (see page 8). However, the size of our coverage universe lends itself to a plethora of new ideas beyond the ones we seek to capitalize on. Below, we provide a unique screen that sorts companies we feel are undervalued on both a DCF and relative value basis (the first two pillars of our VBI; the third is a technical/momentum assessment).



"By overlaying a relative valuation process on a robust forward-looking discounted cash flow valuation methodology, "pure" value investors add an extra degree of conviction to their undervalued ideas. For the ideas in this screen to register the highest rating on the Valuentum Buying Index, however, the market would also have to agree that shares are undervalued, as evidenced by an advancing stock price, one that has good momentum." – Valuentum's Brian Nelson, CFA

We update this screen monthly and deliver it to you in our newsletter. You'll see we often hold a number of these stocks in our portfolio, and we continue to monitor the remainder for the most opportune time to add them. The names on this list are the cream of the crop for the value investor and can supplement your "shopping list" of new ideas.

[Screen expanded to include stocks with NEUTRAL and UNATTRACTIVE relative value ratings.]

You'll notice there are not many ideas in this market that pass this stringent "value" test. We continue to emphasize that some of our best ideas are included in the newsletter portfolios.

Company Name	Symbol	Industry	Price/Fair Value	DCF Valuation	Relative Valuation
Stamps.com	STMP	Internet & Catalog Retail	0.59	UNDERVALUED	NEUTRAL
Avid Tech	AVID	Software - graphics	0.60	UNDERVALUED	NEUTRAL
Mylan	MYL	Pharma - Generic/Other	0.63	UNDERVALUED	NEUTRAL
Cardinal Health	CAH	Healthcare Products	0.65	UNDERVALUED	ATTRACTIVE
Fluor	FLR	E&C	0.65	UNDERVALUED	ATTRACTIVE
Continental Resources	CLR	Independent Oil & Gas	0.65	UNDERVALUED	ATTRACTIVE
Tenneco	TEN	Auto Parts Suppliers	0.68	UNDERVALUED	NEUTRAL
CVS Health	CVS	Food Retailers	0.68	UNDERVALUED	NEUTRAL
SMART Global Holdings	SGH	Computers & Peripherals	0.70	UNDERVALUED	NEUTRAL
General Motors	GM	Auto Manufacturers	0.71	UNDERVALUED	NEUTRAL
Gilead Sciences	GILD	Pharma - Generic/Other	0.73	UNDERVALUED	NEUTRAL
AutoNation	AN	Specialty Retail - auto	0.73	UNDERVALUED	ATTRACTIVE
EOG Resources	EOG	Independent Oil & Gas	0.74	UNDERVALUED	NEUTRAL
Valero Energy	VLO	Refiners	0.76	UNDERVALUED	NEUTRAL
Mosaic	MOS	Chemicals - agriculture	0.77	UNDERVALUED	ATTRACTIVE
AmerisourceBergen	ABC	Healthcare Products	0.78	UNDERVALUED	ATTRACTIVE
Discover Financial	DFS	Banks & Money Centers	0.78	UNDERVALUED	UNATTRACTIVE
LG Display	LPL	Electronic Suppliers	0.79	UNDERVALUED	UNATTRACTIVE
Tapestry	TPR	Luxury - Ultra & Aspirational	0.79	UNDERVALUED	ATTRACTIVE

The price-to-fair value measures reflect the metric at the time of report publishing and may differ from today's metric.

*Ideas...*continued on next page

*Ideas…*from previous page

Sourcing Ideas from the Valuentum Buying Index

The first table below showcases stocks that may fit the bill of the Valuentum investor, with each posting a 9 or a 10 on the Valuentum Buying Index. These are names that we may swap into the simulated Best Ideas Newsletter portfolio on the long side (if not already held) should their upside potential become greater than our current holdings, in our view.

We also show firms that register a 1 or 2 on the VBI. These names represent put-option candidates, or stocks that we might generally avoid. We provide the respective lists below, and each company's stock report can be found on our website at www.valuentum.com.

AmeriSourceBergen (ABC) is the only company in our coverage that registers either a 9 or 10 on the Valuentum Buying Index at this time (the best rating). ***See page 13.***

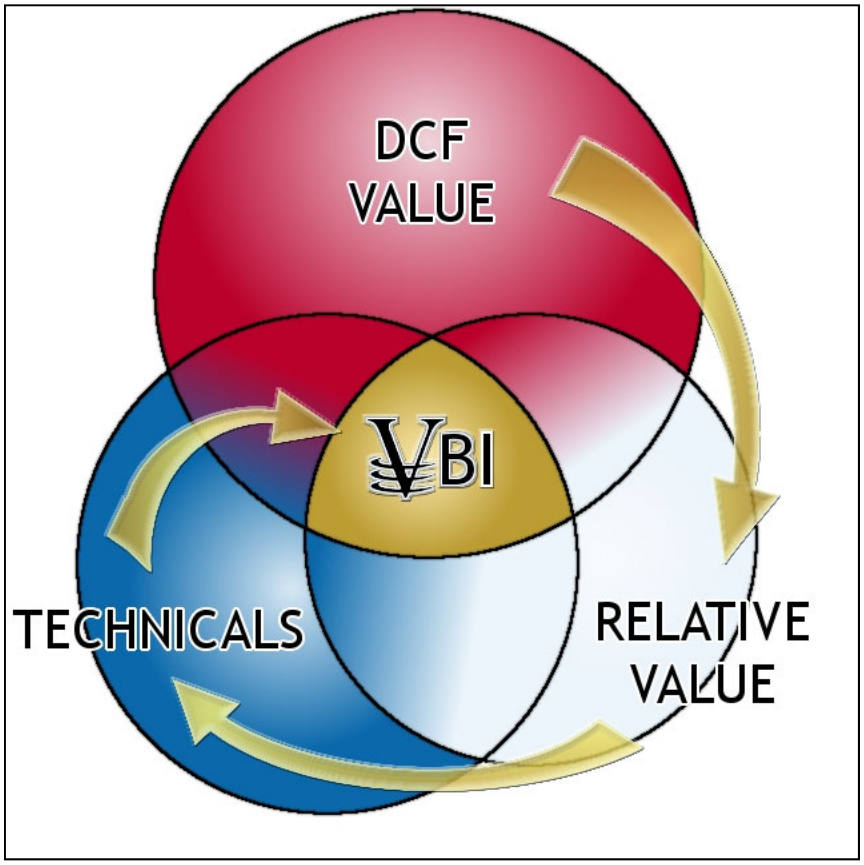
Company Name	Symbol	Sector	Industry	VBI
Lancaster Colony	LANC	Consumer Staples	Food Products	1
McCormick	MKC	Consumer Staples	Food Products	1
RBC Bearings	ROLL	Industrials	Machinery & Tools	1
Brown-Forman	BF.B	Consumer Staples	Beverages - alcoholic	2
Diageo	DEO	Consumer Staples	Beverages - alcoholic	2
Ecolab	ECL	Materials	Chemicals - broad	2
Amphenol Corp	APH	Information Technology	Electronic Suppliers	2
Corning	GLW	Information Technology	Electronic Suppliers	2
Dolby	DLB	Information Technology	Electronic Suppliers	2
Waste Connections	WCN	Industrials	Environmental Services	2
MBIA Inc	MBI	Financials	Insurance - Property & Casualty	2
Selective Insurance	SIGI	Financials	Insurance - Property & Casualty	2
Jack Henry	JKHY	Information Technology	IT Services	2
LVMH	LVMHF	Consumer Discretionary	Luxury - Ultra & Aspirational	2
Graco	GGG	Industrials	Machinery & Tools	2
Bright Horizons Family	BFAM	Consumer Discretionary	Personal Services	2
McDonald's	MCD	Consumer Discretionary	Restaurants - Fast Food & Coffee	2
Cree	CREE	Information Technology	Semi Equipment	2
Synopsys	SNPS	Information Technology	Semi Equipment	2
VeriSign	VRSN	Information Technology	Software - security	2
Allete	ALE	Energy	Utilities	2
MGE Energy	MGEE	Energy	Utilities	2
Sempra Energy	SRE	Energy	Utilities	2

Our Methodology – The Valuentum Buying Index (VBI)

By Valuentum Analysts

At Valuentum, we think some of the best opportunities arise from an understanding of a variety of investing disciplines in order to identify the most attractive stocks at any given time. Valuentum therefore analyzes each stock across a wide spectrum of philosophies, from deep value through momentum investing. We think companies that are attractive from a number of investment perspectives--whether it be growth, value, income, momentum, etc.--have the greatest probability of capital appreciation and relative outperformance. The more deep-pocketed institutional investors that are interested in the stock for reasons based on their respective investment mandates, we posit the more likely it will be bought and the more likely the price will move higher to converge to its "true" intrinsic value (buying a stock pushes its price higher). On the other hand, we think the worst stocks will be shunned by most investment disciplines and display expensive valuations, poor technicals and deteriorating momentum indicators.

We think stocks that meet our demanding criteria fall in the center of the Venn diagram below, displaying attractive characteristics from a discounted cash-flow basis, a relative value basis, and with respect to a technical and momentum assessment. The size of the circles generally reveals the relative emphasis we place on each investment consideration, while the arrows display the order of our process -- value first then technicals and momentum last. We may like firms that are undervalued both on a discounted cash flow (DCF) basis and relative value basis, but we won't like firms just because they're currently exhibiting attractive technical or momentum indicators. We're not traders or speculators. We target the long term, and we want to have a strong process to support the ideas we deliver to our subscribers.



Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

The center of the Venn diagram above, the Valuentum Buying Index (VBI) combines rigorous financial and valuation analysis with an evaluation of a firm's technicals and momentum indicators to derive a rating between 1 and 10 for each company (10=best). Because the process factors in a technical and momentum assessment after evaluating a firm's investment merits via a rigorous DCF and relative-value process, the VBI attempts to identify entry and exit points on what we consider to be the most undervalued stocks.

We think research firms that just focus on valuation may expose readers to a stock on its way down (a falling knife), while those that just use technical and momentum indicators may expose portfolios to significantly overpriced stocks at their peaks. It is our view that only when both sides of the investment spectrum are combined can investors find undervalued stocks at potentially timely prices for consideration.

Let's examine the chart below, which showcases how the Valuentum process, by definition, may have the greatest profit potential of any common investing strategy. The Valuentum process targets adding stocks to actively-managed portfolios when both value and momentum characteristics are "good" and removing them when both value and momentum characteristics are "bad" (blue circles: Buy --> Sell). We define the Valuentum strategy as capturing the entire equity pricing cycle, while the value and momentum strategies individually truncate profits, as illustrated in the image below.

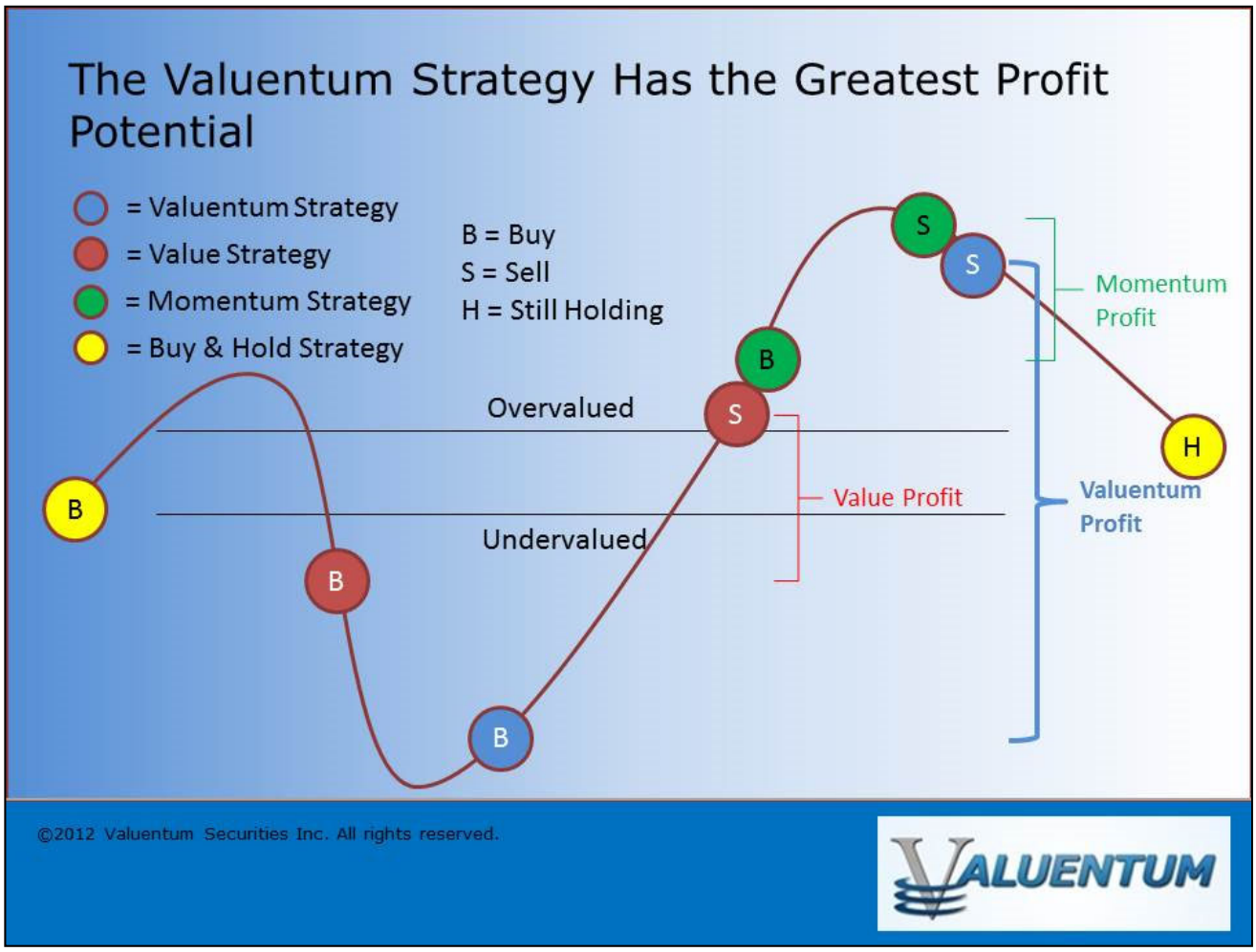


Illustration for educational purposes only.

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

Furthermore, we think Valuentum subscribers are less likely to be involved in so-called value traps because we demand material revenue and earnings growth for firms to earn a 10 on the Valuentum Buying Index. Value traps often occur as a result of secular declines in a firm's products or services, resulting in deteriorating revenue and earnings trends (and often a falling stock price). We also think Valuentum subscribers are less likely to be exposed to these "falling knives" since the process requires firms to not only be undervalued, in our opinion, but also be exhibiting bullish technical and momentum indicators before we would consider adding them to the newsletter portfolios.

Since the stock market is a forward-looking mechanism, price usually leads fundamentals. Without a turnaround in price, the risk that the fundamentals of an undervalued stock have not turned for the positive is higher. Where value strategies may encourage the buying of a stock all the way down regardless of whether fundamentals ever turn (red circles: Buy --> Sell), the Valuentum strategy attempts to steer clear of these situations. The Valuentum Buying Index is designed to wait for technical improvement in the equity, which often precedes fundamental changes at the company.

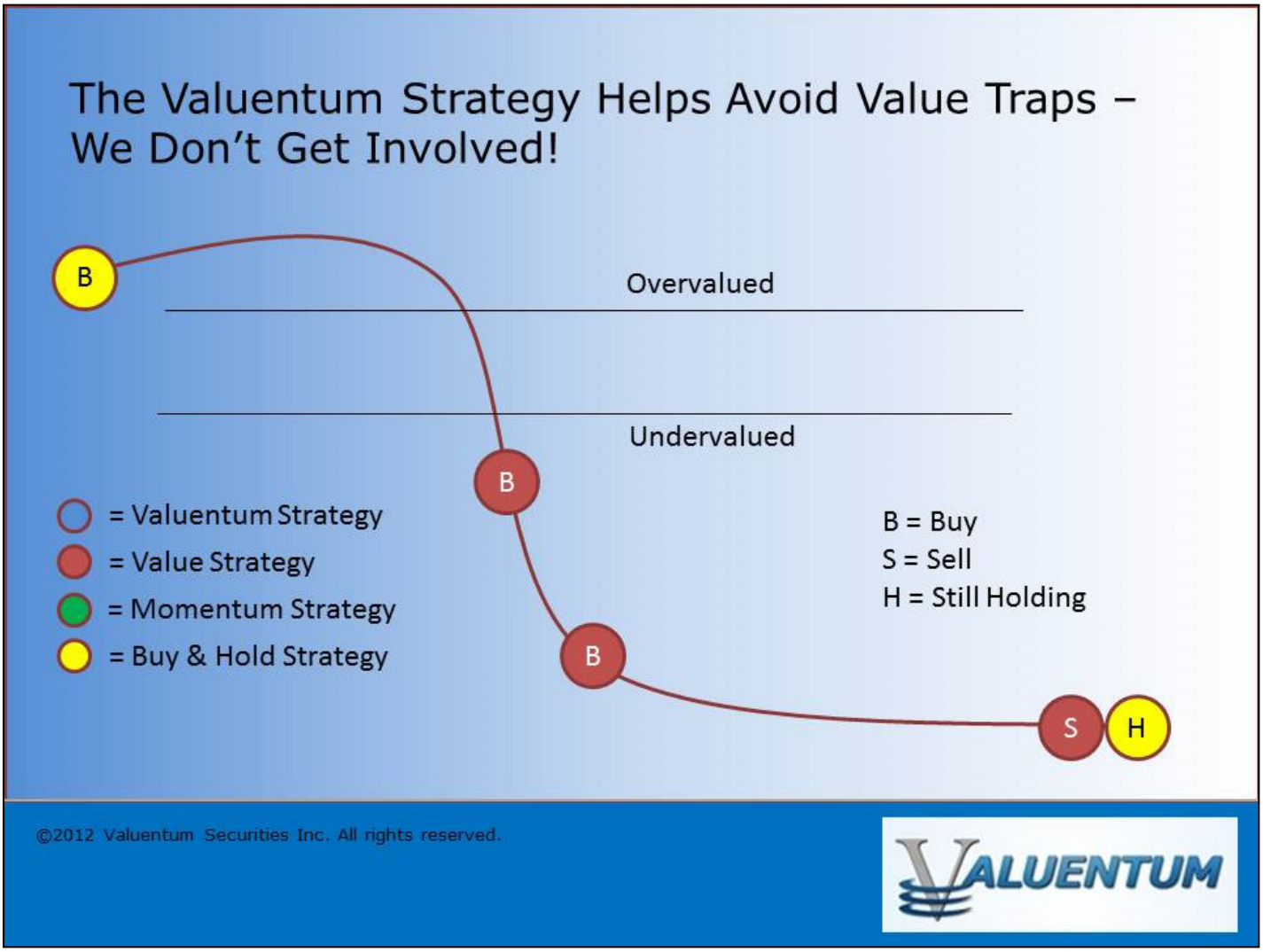


Illustration for educational purposes only.

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

Let's walk through the three investment pillars of our stock-selection methodology.

I. The Valuentum Buying Index Applies A Rigorous Discounted Cash Flow Valuation Process

The Valuentum Buying Index methodology starts with in-depth financial statement analysis, where we derive our ValueCreation, ValueRisk, and ValueTrend ratings, which together provide a quantitative assessment of the strength of a firm's competitive advantages. We compare a company's return on invested capital (ROIC) to our estimate of its weighted average cost of capital (WACC) to assess whether it is creating economic profit for shareholders (ROIC less WACC equals economic profit). Firms that have improving economic profit spreads over their respective cost of capital score high on our ValueCreation and ValueTrend measures, while firms that have relatively stable returns score well with respect to our ValueRisk evaluation, which impacts our margin-of-safety assessment.

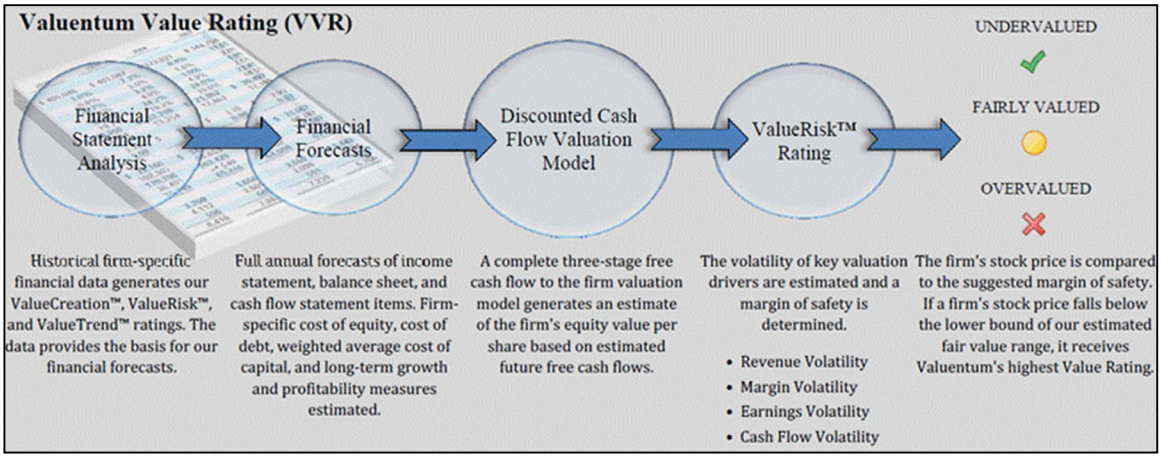


Illustration for educational purposes only.

After evaluating historical trends, we then make full annual forecasts for each item on a company's income statement and balance sheet to arrive at a firm's future free cash flows. We derive a company-specific cost of equity (using a fundamental beta based on the expected uncertainty of key valuation drivers) and a cost of debt (considering the firm's capital structure and synthetic credit spread over the risk-free rate), culminating in our estimate of a company's weighted average cost of capital (WACC). We don't use a market price-derived beta, as we embrace market volatility, which may provide investors with opportunities to buy attractive stocks at bargain-basement levels, in our view. A forward-looking Economic Castle rating is then derived.

We then assess each company within our three-stage free cash flow to the firm (enterprise cash flow) valuation model, which generates an estimate of a company's equity value per share based on its discounted future free cash flows and the company's net balance sheet impact, including other adjustments to equity value (namely pension and OPEB adjustments). Our ValueRisk rating, which considers the underlying uncertainty of the capacity of the firm to continue to generate value for shareholders, sets the margin of safety bands around this fair value estimate. For firms that are trading below the lower bound of our margin of safety band, we consider these companies undervalued based on our DCF process. For firms that are trading above the higher bound of our margin of safety band, we consider these companies overvalued based on our DCF process.

We think a focus on discounted cash-flow (DCF) valuation helps to prevent investors from exposing their portfolios to significantly overpriced stocks at their peaks. The image below reveals how pure momentum investors may expose their portfolios to pricing extremes and dramatic falls (green circles: Buy --> Sell). The Valuentum Buying Index attempts to steer clear from these situations.

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

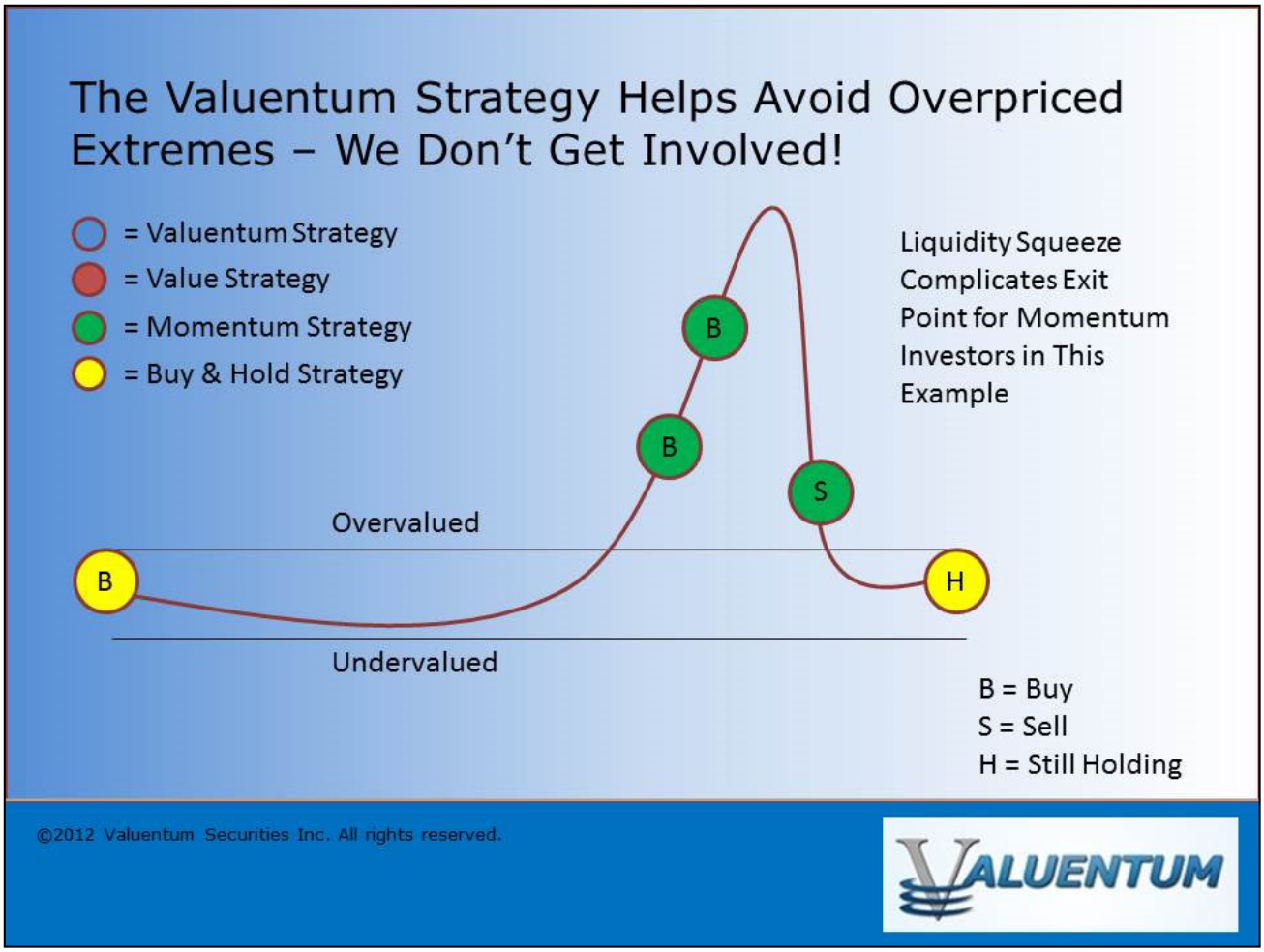


Illustration for educational purposes only.

II. The Valuentum Buying Index Incorporates A Forward-Looking Relative Value Assessment

Our discounted cash-flow process allows us to arrive at an absolute view of the firm's intrinsic value. However, we also understand the critical importance of assessing firms on a relative value basis, versus both their industry and peers. Many institutional money-managers--those that drive stock prices--pay attention to a company's price-to-earnings (PE) ratio and price-earning-to-growth (PEG) ratio in making buy/sell decisions. With this in mind, we have included a forward-looking relative value assessment in our process to further augment our rigorous discounted cash-flow process. If a company is undervalued on both a price-to-earnings ratio and a price-earnings-to-growth (PEG) ratio versus industry peers, we would consider the firm to be attractive from a relative value standpoint.

III. The Valuentum Buying Index Seeks to Avoid Value Traps, Falling Knives and Opportunity Cost

Once we have estimated a firm's intrinsic value on the basis of our discounted cash-flow process, determined if it is undervalued according to its firm-specific margin of safety bands, and assessed whether it has relative value versus industry peers, we then evaluate the company's technical and momentum indicators in an attempt to consider entry and exit points on the stock (but only after it meets our stringent

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

valuation criteria).

Rigorous valuation analysis and technical analysis are not mutually exclusive, and we believe both can be used together to bolster idea generation. An evaluation of a stock's moving averages, relative strength, upside-downside volume, and money flow index are but a few considerations we look at with respect to a technical and momentum assessment of a company's stock.

We embrace the idea that the future is inherently unpredictable and that not all fundamental factors can be included in a valuation model. By extension, we use technical and momentum analysis in an attempt to help safeguard against value traps, falling knives, and the opportunity cost of holding an undervalued equity for years before it potentially converges to "fair value." Other research firms may not consider opportunity cost as a legitimate expense for investors.

Putting It All Together - the Valuentum Buying Index

Though the time frame varies depending on each idea, on a theoretically basis, we would expect our best ideas to "work out" over a 12-24 month time horizon (on average) -- the duration of any individual idea can vary considerably, however. We tend to include firms in the Best Ideas Newsletter portfolio when they register a 9 or 10 on our Valuentum Buying Index (VBI) and tend to remove firms from the Best Ideas Newsletter portfolio when they register a 1 or 2 on the Valuentum Buying Index.

In theory, the Valuentum Buying Index attempts to maximize profits on every idea within the Best Ideas Newsletter portfolio, with the understanding that momentum does exist and that prices over and under shoot intrinsic value all of the time. A value strategy (10 --> 5), for example, may truncate potential profits, while a momentum strategy (4 --> 1), for example, may ignore profits generated via value assessments. The Valuentum Buying Index seeks to capture the entire profit potential, as shown below.

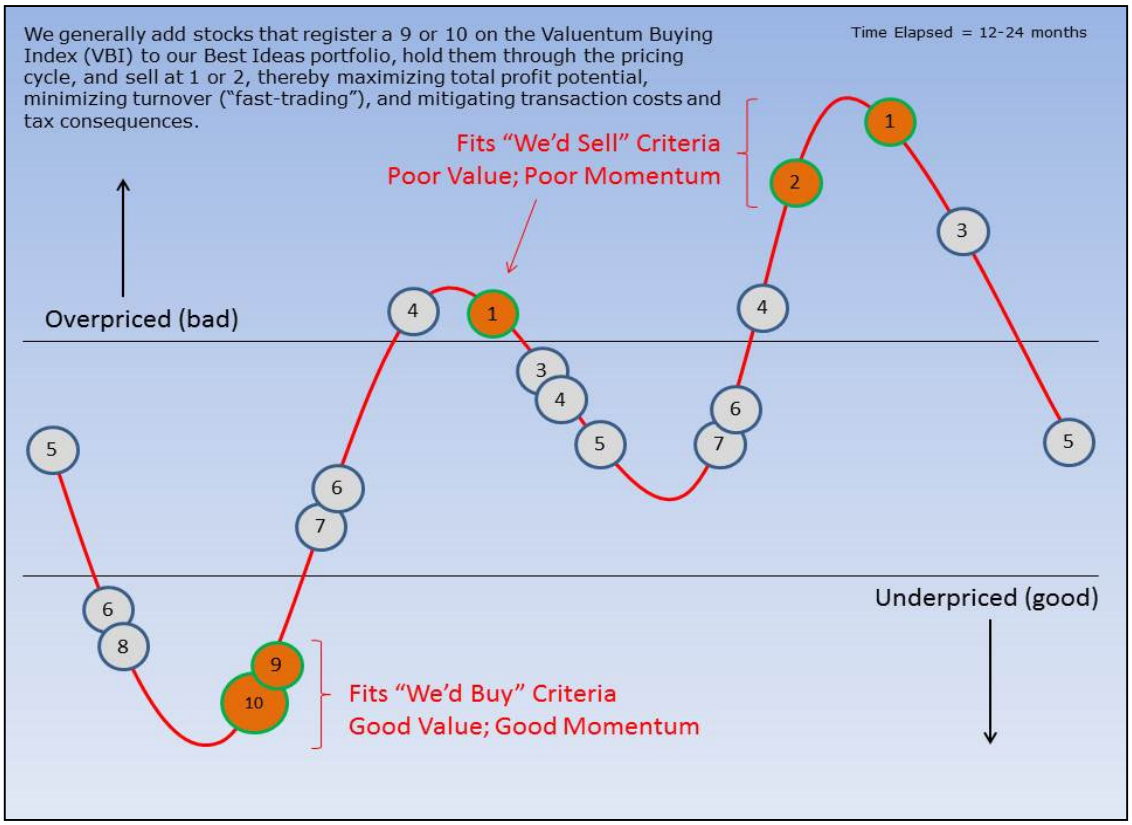


Illustration for educational purposes only.

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

Let's follow the red line on the flow chart below to see how a firm can score a 10, the best mark on the Valuentum Buying Index (a "Top Pick"). Please click here to view an enlarged pdf version.

First, the company would need to be 'UNDERVALUED' on a DCF basis and 'ATTRACTIVE' on a relative value basis. The stock would also have to be exhibiting 'BULLISH' technicals. The firm would need a ValueCreation rating of 'GOOD' or 'EXCELLENT', exhibit 'HIGH' or 'AGGRESSIVE' growth prospects, and generate at least a 'MEDIUM' or 'NEUTRAL' assessment for cash flow generation, financial leverage, and relative price strength.

This is a tall order for any company. Firms that don't make the cut for a 10 are ranked accordingly, with the least attractive stocks garnering a score of 1 ("We'd sell"). Most of our coverage universe falls between 3 and 7, but at any given time there could be large number of companies garnering either high or low scores, especially at market lows or tops, respectively.

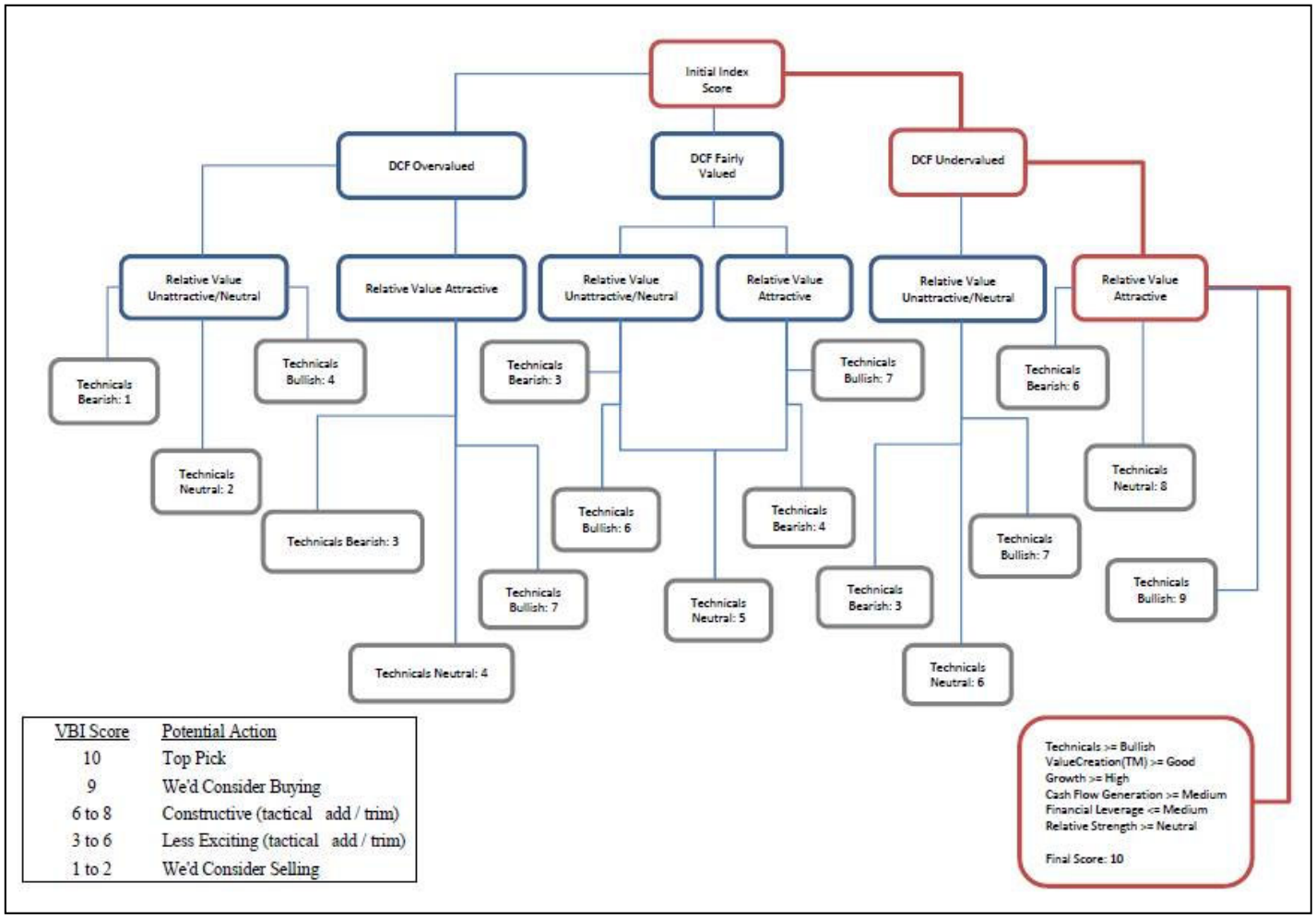


Illustration for educational purposes only.

Our Methodology – The Valuentum Buying Index continued on next page

About the Fair Value Range

By Valuentum Analysts

Understanding the Fair Value Range and Why It's Important

FAQ: Why do you use such a wide fair value range for certain companies?

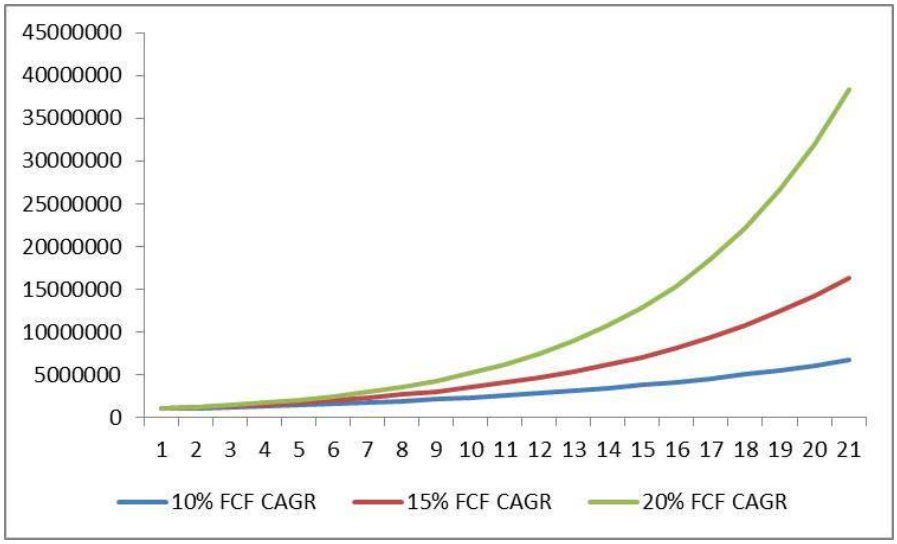
One of the most important concepts of the Valuentum methodology (and valuation in general) is the understanding that the value of a company is a range of probable valuation outcomes, not a single point estimate. Even well-seasoned stock analysts are guilty of saying that a company's shares are worth exactly $25 or a firm's stock is worth exactly $100. The reality is that, in the first case, the company's shares are probably worth somewhere between $20 and $30, and in the latter case, the stock is worth somewhere between $75 and $125.

Why? Because all of the value of a company is generated in the future (future earnings and free cash flow), and the future is inherently unpredictable (unknowable). If the future could be predicted with absolute certainly (knowable), then a stock analyst could say a company's shares are worth precisely this, or that a firm's stock is worth precisely that. Not *because he or she would know where the stock would be trading at*, but because he or she would know precisely what future free cash flows would be (and all other modeling facts-not assumptions in this case) and arrive at the exact and non-debatable value of the firm.

But the truth of the matter is that nobody knows the future, and analysts can only estimate what a company's future free cash flow stream will look like. Certain unexpected factors will hurt that free cash flow stream relative to forecasts, while other unexpected factors will boost performance. That's how a downside fair value estimate and an upside fair value estimate is generated, or in the words of Warren Buffett and Benjamin Graham how a "margin of safety" is generated. Only the most likely scenario represents the point fair value estimate. Any stock analyst that says a company is worth a precise figure--whether it's $1 or $100--falls short of understanding one of the most important factors behind valuation.

But why the large range in many cases?

Well, there are many firms in our coverage universe that have a very large range of outcomes in their future free cash flow growth. And because discounting free cash flows is an integral part of calculating the fair value estimate of a company, the range of fair values will also be large. To illustrate this point, let's take a look at the difference between the levels of free cash flows in Year 20 under three different future growth rates: 10%, 15%, and 20%. Though the growth rate between each scenario is but 5 percentage points, the magnitude of the free cash flow difference is astounding many years into the future, and our discounted cash-flow process considers the long-term intrinsic value of firms.



About the Fair Value Range continued on next page

About the Fair Value Range continued from previous page

Under these future free-cash-flow scenarios, if we assume an 8% discount rate and 100,000 shares outstanding (and no debt), the difference in the fair value estimate between the upside case (green line) and downside case (blue line) would be an incredible $68 per share ($82 per share less $14 per share). That's a huge fair value range (80%+), and all because of just a 10 percentage point difference in a future free cash flow growth assumption. For firms that are growing cash flows at 200% or 300% per annum, a large range of fair value outcomes is not only inevitable but also very reasonable. In other words, the Valuentum framework provides an avenue to quantify the upside and downside risks investors are taking in high uncertainty and fast-growing enterprises.

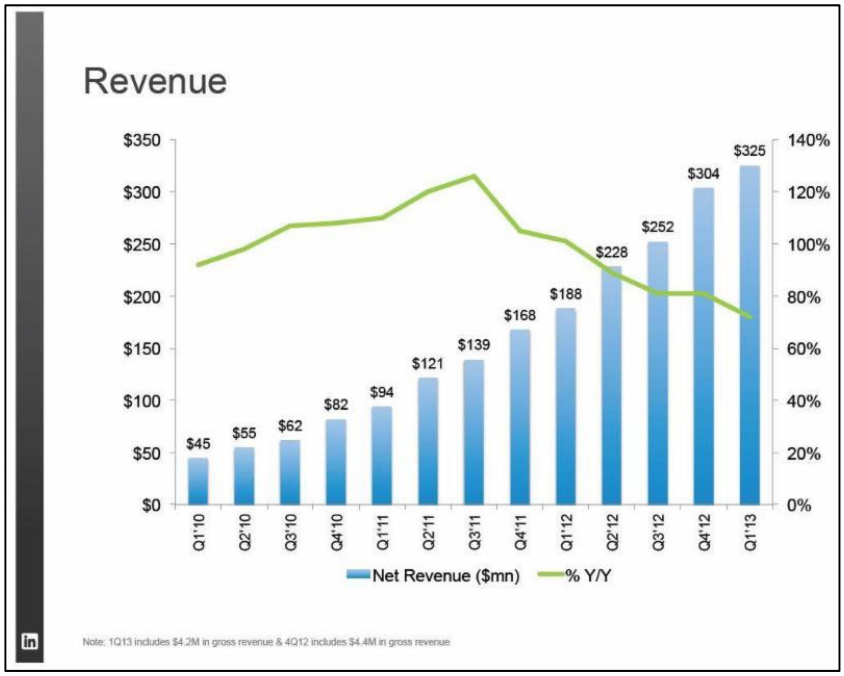


Image Source: LinkedIn

To really hit this point home, shown above is a slide of LinkedIn's (LNKD) revenue from the first quarter of 2010 through the first quarter of 2013. The green line (mapped to the right axis) shows LinkedIn's revenue growth rate. Let's assume revenue expansion translates into similar free cash flow growth expectations (not exactly a precise assumption, given the leverage in LinkedIn's business model), but bear with us for simplistic illustrative purposes. Will LinkedIn's revenue/cash flows expand at a 20% rate, a 40% rate, or a 60% rate (or an even greater pace) through year 20?

It's a very, very difficult question to answer. Remember how significant that 10 percentage point spread was in the hypothetical example above? Well, it's even more significant for LinkedIn. We know LinkedIn's free cash flows will expand, and expand fast, but just how fast is certainly debatable. To a very large extent, that's why LinkedIn's range of probable outcomes (fair value range) is so large. Understanding the cone of fair value outcomes of a company is helpful because the size of the range tends to be positively correlated to the equity's volatility. If you recall, look at what happened to LinkedIn's stock recently when investors ratcheted down their long-term growth assumptions (and by extension, the company's intrinsic value).

Shares collapsed in a huge way.

About the Fair Value Range continued on next page

About the Fair Value Range **continued from previous page**

But it was largely because of that same weakness in equity pricing that drove Microsoft (MSFT) to take the leap to buy LinkedIn's equity outright just a few months later. Over just a very short period of time, LinkedIn's shares effectively collapsed and then surged as the chart below shows (its intrinsic value range didn't change much, however). Having a fair value range that adequately captures both the upside and downside cases for a company's shares remains an integral part of stock investing. Not only does it help hone in on the potential risk-reward profile of an equity at any given time, it also helps reveal the attractiveness of various "entry" or "exit" points using a robust free-cash-flow based and fundamentally-sound intrinsic value estimate as the anchor.

We're scouring our coverage universe for firms that are trading outside of their respective fair value ranges. A firm trading below the low end of its fair value range, for example, is undervalued, while a firm trading above its fair value range is overvalued. The fair value range for each company captures the inherent uncertainty of the trajectory of that firm's unique future free cash flow stream. For the 1,000+ companies we include in our coverage universe, we provide a discounted cash flow derived fair value estimate and a corresponding fair value range -- *and a robust discounted cash-flow process is only one aspect of our service*.

How We Use the Valuentum Buying Index in the Best Ideas Newsletter Portfolio

By Valuentum Analysts

We often receive questions about how we use the Valuentum Buying Index (VBI) rating system, one of the key metrics we use to source ideas, but we think it is equally important to mention up front that it is only one of the many facets of our website and services. For example, if you haven't checked out the Dividend Cushion ratios on the stocks in your portfolio or the dividend growth product (from individual reports to the newsletter and beyond), surely you are not maximizing your membership! Don't forget about the Economic Castle rating and the Nelson Exclusive publication, too.

No matter your strategy or process though (it is not for us to say what is best for you), the Valuentum Buying Index rating system is still a helpful tool to have at your disposal, even if you are not using it. Admittedly, the VBI, as we call it, is not as easy to evaluate as 1, 2, 3, or even buying 9s and 10s and selling 1s and 2s until their VBI changes upon the next update. Generally speaking, we measure the process over longer-term time periods--from the time a company registers a rating to a defined time in the future--not an interim update basis. Please read more our case study, where Valuentum Buying Index ratings, as of September 2013, were recorded and the performance of stocks were measured from that time through September 2014.

The Valuentum Buying Index Has Checks and Balances

With prudence and care, the Valuentum Buying Index process and its components are carried out. Our analyst team spends most of its time thinking about the intrinsic value of companies within the context of a discounted cash-flow model and evaluating the risk profile of a company's revenue model. We have checks and balances, too. First, we use a fair value range in our valuation approach as we embrace the very important concept that value is a range and not a point estimate. A relative value overlay as the second pillar helps to add conviction in the discounted cash-flow process, while a technical and momentum overlay seeks to provide confirmation in all of the valuation work. There's a lot happening behind the scenes even before a VBI rating is published, but it will always be just one factor to consider.

Within any process, of course, we value the human, qualitative overlay, which captures a wealth of experience and common sense. We strive to surface our best ideas for members, and flying blind is never a good strategy, in our opinion. In probably one of the most obvious cases, for example, an experienced investor knows when a price-to-earnings (P/E) ratio isn't informative (as in the case of negative or negligible earnings), but a quantitative rating system that uses a P/E ratio may not know any better. That's why the VBI has checks and balances and focuses on the discounted cash-flow process first and foremost, but the human, qualitative overlay is still extremely important, especially when considering various business models and unique "un-modelable" risks. In our opinion, a golf club is only as good as the player that uses it, and in a similar light, a financial model or a rating system is only as good as the user that applies it.

That said, for the sake of transparency, we measure the performance* of the portfolios in the Best Ideas Newsletter and Dividend Growth Newsletter. The portfolios, in part, represent data points measuring the outcome of the work we do on the website, rolled into an assessment: our best ideas for each respective strategy. The ideas in the portfolios in the Best Ideas Newsletter and Dividend Growth Newsletter have been evaluated by our analyst team for consideration in the newsletter portfolios. The thoughts behind the weighting of each idea and the portfolio management process revealed in full transparency on a month to month basis may be worth the cost of a membership alone, even if you're not using the portfolios!

Here's why this is important. In a market environment where more than 90% of large-cap funds have trailed the S&P 500 in the 5-year period ending August 31, 2016, the Best Ideas Newsletter portfolio* has exceeded its benchmark return over a similar time period. What's more, we showcased this performance in full transparency, and we wrote every single day, and some days weren't all that great. When patience

*How We Use...*continued on next page

How We Use continued from previous page

may be the secret to success in investing, a lot could have gone wrong with the temptation to do something each day. Obviously, we're very disciplined, but we also credit the portfolio outperformance to the VBI methodology itself. It is a very helpful tool.

** Actual results may differ from simulated information being presented. The Best Ideas Newsletter portfolio and Dividend Growth Newsletter portfolio are not real money portfolios. Results are hypothetical and do not represent actual trading.*

The Valuentum Buying Index Is One of Many Important Factors to Consider

That said, let's talk about how the VBI helps to inform which ideas we include in the Best Ideas Newsletter portfolio. This is where some clarification is probably important. For one, the word choice is critical, "inform," because the VBI is generally just one factor that goes into whether we add a company to the Best Ideas Newsletter portfolio, even if the VBI is one of the most important factors. Second, the timing element or duration concept is a key consideration. We've noticed via our statistical backtesting that a momentum factor can be much more pronounced (powerful) over longer periods of time. This was one of the interesting findings of our academic white paper study (2012). We try to consider this dynamic with the update cycle of our reports (and the time horizon for ideas to work out). That's why our reports are updated regularly (generally on a quarterly basis) or after material events and not daily or weekly. Perhaps most practically though, we don't think portfolio churn is the way to generate outperformance. Momentum may be high turnover, but Valuentum is low turnover.

Though the time frame varies depending on each idea that we consider for the Best Ideas Newsletter portfolio, we would expect our best ideas to generally work out over a 12-24 month time horizon (on average). Not all ideas will be successful, however. Our "holding period" is targeted to be much, much longer for some ideas in the Dividend Growth Newsletter portfolio, as income and dividend growth are other key factors (in addition to the Valuentum Buying Index and capital appreciation potential). The time horizon or duration concept is where the Valuentum Buying Index rating system becomes more complicated than a simple 1, 2, 3. For example, we tend to "add" stocks to the Best Ideas Newsletter portfolio when they register a 9 or 10 on the Valuentum Buying Index (VBI), "hold" them for some time depending on a number of variables (the VBI, market conditions, sector weightings within the portfolio itself), and then we tend to "remove" stocks from our Best Ideas Newsletter portfolio when they register a 1 or 2 on the VBI. You'll notice that we have a qualitative overlay for the Best Ideas Newsletter portfolio (and one for the Dividend Growth Newsletter portfolio, too, based on dividend-related considerations).

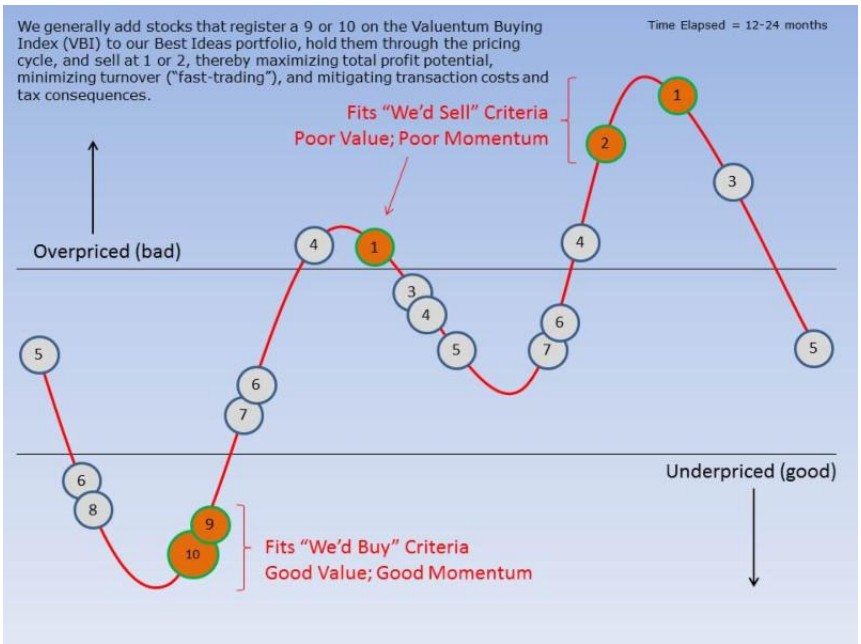


Image shown for informational/illustration purposes only. Valuentum is an investment research publishing company.

*How We Use...*continued on next page

How We Use continued from previous page

But why don't we churn our ideas by updating daily and trading a lot? Obviously, we don't think that's the secret to investment success. In quite the opposite approach, we strive to maximize profits on every idea that we pursue, with the understanding that momentum does exist and that prices over and under shoot intrinsic value all of the time. For example, as shown in the image above, a value strategy (10 --> 5) truncates potential profits, while a momentum strategy (4 --> 1) ignores profits generated via value assessments. At Valuentum, we're after the entire profit potential of each idea. So, for example, if a firm is added to the Best Ideas Newsletter portfolio as a 10 and is removed as a 5, we would have truncated profit potential by not letting it run to lower ratings. Most of our highly-rated Valuentum Buying Index rated stocks have generated the "outperformance" of the Best Ideas Newsletter portfolio, but these stocks' ratings declined over time as they were held (a good thing -- a declining VBI rating generally means the share price has advanced, assuming all else is well).

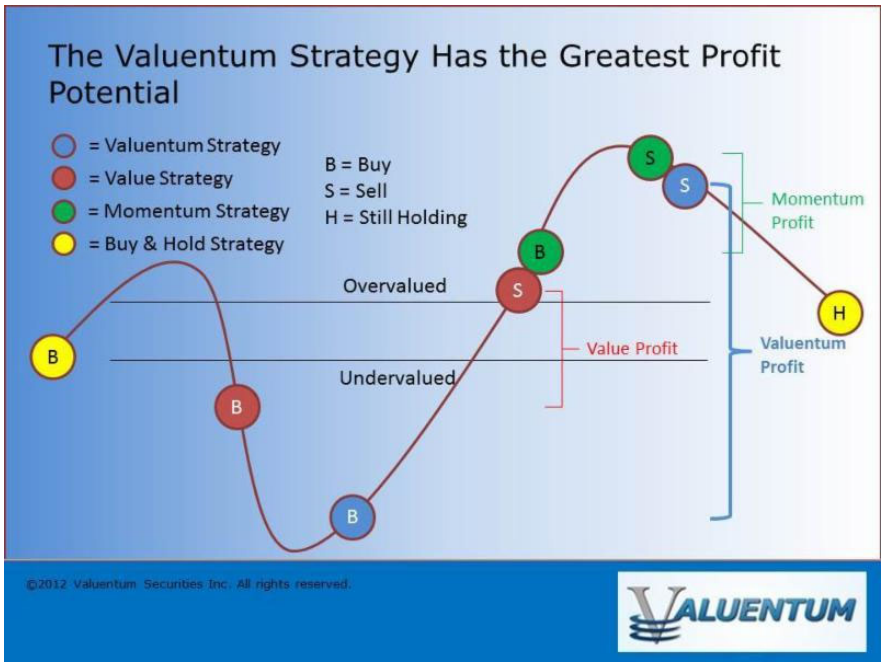


Image shown for informational/illustration purposes only. Valuentum is an investment research publishing company.

Not All Highly-Rated Stocks Are Added to the Newsletter Portfolios

Regarding the Valuentum process, as it is executed in the Best Ideas Newsletter portfolio, we do not "add" all stocks that register a 9 or 10, nor do we add the ones we do immediately thereafter. For example, Google (GOOG, GOOGL), now Alphabet, a current Best Ideas Newsletter portfolio "holding," registered a 10 on the Valuentum Buying Index, but we remained patient and didn't "add" the company to our portfolio until after it reported earnings at the time, providing us with an even better entry point (as new information came to light). There are more "structural/timing" instances like the one with Alphabet, for example, that are extremely difficult to capture in any model, and understandably aren't as obvious to those outside looking in. Macro-economic, broader market valuation, and sector weighting considerations are other factors that impact the qualitative portfolio management process.

But why not add every highly-rated stock on the Valuentum Buying Index to the Best Ideas Newsletter portfolio? Think of it as if you were to imagine a value investor not adding and holding every undervalued stock to his/her portfolio. He or she wants the very best ones, in his or her opinion -- obviously, that means having to leave some good ideas behind. And then, of course, there are always tactical and sector weighting considerations in any portfolio construction, yet another reason why the human touch remains a vital aspect of the Valuentum process. At the core of how we use the VBI in the Best Ideas Newsletter portfolio, however, is a qualitative portfolio management overlay. The VBI rating helps to inform the

*How We Use...*continued on next page

How We Use **continued from previous page**

process, but the Valuentum team makes the allocation decisions of the newsletter portfolio on the basis of a number of other firm-specific and portfolio criteria. Sometimes, under certain market conditions, we may even have to relax the VBI criteria entirely in order to do what we think is required to achieve newsletter portfolio goals.

Some Examples of the Valuentum Buying Index In Action

Okay, a couple examples. Take pre-split eBay (EBAY), which many years ago included PayPal (PYPL), as an example of our process in action. The stock initially flashed a rating of 10 in late September 2011, and we "added" it to the Best Ideas Newsletter portfolio. The VBI rating changed to a 6 in December 2011 and then back to a 10 in May 2012, but because the rating never breached a 1 or 2, we did not remove the position from the Best Ideas Newsletter portfolio. In the case of pre-split eBay, we sought to capture the entire pricing cycle and avoided truncating it as most pure value investors often do (and what we would had done, if we had removed the stock at that time). In many ways, pre-split eBay/PayPal has become one of the better examples to use for illustrating the prolonged outperformance driven by undervalued stocks that are beginning to generate good momentum. [We no longer include eBay in the newsletter portfolio, but its split-off PayPal is retained.]

There have been more straightforward opportunities in the Best Ideas Newsletter portfolio, too, especially in the case of EDAC Tech, which tripled since it was added to the newsletter portfolio (never registering below a 9 along the way), and then of course, Apple (APPL), Visa (V) and Altria (MO), but it is usually through the nuances of the process that one truly comes to understand it (as in the eBay example). Not to be overlooked either, the Valuentum Buying Index rating also informs us when we may consider "removing" a position from the newsletter portfolios. Kinder Morgan (KMI), for example, registered a 1 on the Valuentum Buying Index just prior to its notorious fall and dividend cut. The VBI ratings on each stock's most recent 16-page report, downloadable directly from the website at www.valuentum.com, reflect our current opinion on the company.

In all, the Valuentum Buying Index rating system, as with all methodologies, helps to inform the investment decision process, but in constructing the newsletter portfolio, a qualitative overlay is not only necessary, in my view, but helps to optimize performance. If the returns of the Best Ideas Newsletter portfolio during the past 5+ years are any measure of the VBI rating system, it is performing fantastically well. Of course, please always contact your financial advisor to determine if any idea or strategy may be right for you.

** Actual results may differ from simulated information being presented. The Best Ideas Newsletter portfolio and Dividend Growth Newsletter portfolio are not real money portfolios. Results are hypothetical and do not represent actual trading. Valuentum is an investment research publishing company.*

About Our Name

But how, you will ask, does one decide what [stocks are] "attractive"? Most analysts feel they must choose between two approaches customarily thought to be in opposition: "value" and "growth,"...We view that as fuzzy thinking...Growth is always a component of value [and] the very term "value investing" is redundant.

-- Warren Buffett, Berkshire Hathaway annual report, 1992

At Valuentum, we take Buffett's thoughts one step further. We think the best opportunities arise from an understanding of a variety of investing disciplines in order to identify the most attractive stocks at any given time. Valuentum therefore analyzes each stock across a wide spectrum of philosophies, from deep value through momentum investing. And a combination of the two approaches found on each side of the spectrum (value/momentum) in a name couldn't be more representative of what our analysts do here; hence, we're called Valuentum.

Valuentum Best Ideas Newsletter: Volume 9, Issue 6

Valuentum's Best Ideas Newsletter is published monthly. To receive this newsletter on a monthly basis, please subscribe to Valuentum by visiting our website at www.valuentum.com. Or contact us at info@valuentum.com.

Copyright ©2019 by Valuentum, Inc. All rights reserved.

No part of this publication may be reproduced in any form or by any means.

The information contained in this report is not represented or warranted to be accurate, correct, complete, or timely. This report is for informational purposes only and should not be considered a solicitation to buy or sell any security. No warranty or guarantee may be created or extended by sales or promotional materials, whether by email or in any other format. The securities or strategies mentioned herein may not be suitable for all types of investors. The information contained in this report does not constitute any advice, especially on the tax consequences of making any particular investment decision. This material is not intended for any specific type of investor and does not take into account an investor's particular investment objectives, financial situation or needs. This report is not intended as a recommendation of the security highlighted or any particular investment strategy. Before acting on any information found in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.

The sources of the data used in this report are believed by Valuentum to be reliable, but the data's accuracy, completeness or interpretation cannot be guaranteed. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report and accepts no liability for how readers may choose to utilize the content. In no event shall Valuentum be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained in this document. Investors should consider this report as only a single factor in making their investment decision.

Valuentum is not a money manager, is not a registered investment advisor, and does not offer brokerage or investment banking services. Valuentum has not received any compensation from the company or companies highlighted in this report. Valuentum, its employees, independent contractors and affiliates may have long, short or derivative positions in the securities mentioned herein. Information and data in Valuentum's valuation models and analysis may not capture all subjective, qualitative influences such as changes in management, business and political trends, or legal and regulatory developments. Redistribution is prohibited without written permission. Readers should be aware that information in this work may have changed between when this work was written or created and when it is read. There is risk of substantial loss associated with investing in financial instruments.

Valuentum's company-specific forecasts used in its discounted cash flow model are rules-based. These rules reflect the experience and opinions of Valuentum's analyst team. Historical data used in our valuation model is provided by Xignite and from other publicly available sources including annual and quarterly regulatory filings. Stock price and volume data is provided by Xignite. No warranty is made regarding the accuracy of any data or any opinions. Valuentum's valuation model is based on sound academic principles, and other forecasts in the model such as inflation and the equity risk premium are based on long-term averages. The Valuentum proprietary automated text-generation system creates text that will vary by company and may often change for the same company upon subsequent updates.

Valuentum uses its own proprietary stock investment style and industry classification systems. Peer companies are selected based on the opinions of the Valuentum analyst team. Research reports and data are updated periodically, though Valuentum assumes no obligation to update its reports, opinions, or data following publication in any form or format. Performance assessment of Valuentum metrics, including the Valuentum Buying Index, is ongoing, and we intend to update investors periodically, though Valuentum assumes no obligation to do so. Not all information is available on all companies. There may be a lag before reports and data are updated for stock splits and stock dividends.

The portfolio in the Valuentum Best Ideas Newsletter is hypothetical and does not represent real money. Past simulated performance, whether backtested or walk-forward or other, is not a guarantee of future results. Actual results may differ from simulated portfolio information being presented in this newsletter. For general information about Valuentum's products and services, please contact us at valuentum@valuentum.com or visit our website at www.valuentum.com.