THE EXCLUSIVE

Confidential*

November 2019

THE VALUENTUM TEAM

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Closing Some More Winners!

Please note we sent out an email to our members closing several open Exclusive ideas on November 6. Email link here:

http://campaign.r20.constantcontact.com/render?preview=true&m=1110817109903&ca=2946713c-9b4c-4cb1-bc9e-5a7399506aef&id=preview

By Callum Turcan and Brian Nelson, CFA

Highlight Date	Company Name	Highlight Price	Close Price*	Close Date
Income Ideas				
Jun-17	Japan Tobacco (JAPAY) ***NEW***	19.03	11.14*	11/8/2019
Jan-18	TransCanada Corp (TRP)	49.47	49.68	11/6/2019
Feb-19	EastGroup Properties (EGP)	107.58	130.79	11/6/2019
Apr-19	Evergy (EVRG)	57.32	62.53	11/6/2019
May-19	National Health (NHI)	76.43	82.56	11/6/2019
Capital Appreciation Ideas				
Mar-19	Physicians Realty Trust (DOC)	17.82	17.80*	11/6/2019
Jun-19	Green Dot Corporation (GDOT) ***NEW***	72.86	24.54	11/8/2019
Short Idea Considerations				
May-19	Match Group (MTCH)	61.91	60.90	11/6/2019

* Close price does not include cash or stock dividend received since highlight price. Pre-market price, November 6 (source: YahooFinance). Physicians Realty Trust pays a large 4.9% annualized yield. Inclusive of the dividends received, this capital appreciation idea is a winner. Japan Tobacco pays a large 6.2% annualized yield on a trailing twelve month basis (source: Morningstar dividend data), offsetting part of its stock price decline.

Image Shown: We closed six open Exclusive ideas on November 6, securing a nice theoretical gain in EastGroup Properties and National Health, while avoiding a large loss in Match Group that actually ended up turning a small theoretical profit. Additionally, we closed two more open Exclusive ideas on November 8; Green Dot and Japan Tobacco.

Dear Exclusive members,

What a wild ride it was for our **May 2019 short idea consideration** Match Group (MTCH). We highlighted the stock at ~$61.91 per share, betting on a decline, but by August of this year, it hit a 52-week high of $95.32. We didn't panic, however, and sure enough, the stock has now collapsed after concerns about its outlook. As Match Group was trending aggressively downwards in pre-market trading on November 6, we decided to lock in that surprising winner at ~$60.90 per share. Beyond securing a small theoretical gain, **patience paid off by avoiding a large theoretical loss.** In this case, it took a few months, and we looked completely wrong all the way, until the idea worked out. Sometimes, ideas take even longer to work out (e.g. July 2017 short idea Deutsche Lufthansa (DLAKY) took roughly 15 months).

On November 6, we closed six of our open Exclusive ideas (Match Group being one of them) and all six (when including dividend payments) were winners. Additionally, we are closing out two more of our open Exclusive positions today, **June 2017 income generation idea** Japan Tobacco (JAPAY) and **June 2019 capital appreciation** idea Green Dot (GDOT). Unfortunately, those ideas did not pan out in our favor, but we don't expect to win them all. The overall success rates across the Exclusive ideas continue to be fantastic.

We closed out **May 2019 income generation idea** National Health (NHI)---5.3% yield---for a nice ~9% gain not including dividends received. Shares of NHI had fallen precipitously earlier on in the year as investors were worried about the potential loss of rental revenue in the short-term as the healthcare real estate investment trust ('REIT') had to transition numerous properties away from troubled operators. While recognizing National Health's short-term headwinds, we looked past those hurdles and towards its very promising long-term growth trajectory. **As National Health transitioned those properties to more capable operators, shares of NHI perked back up.**

A few members asked about why we closed a few others, **namely April 2019 income idea** utility Evergy (EVRG) -- 3.2% yield -- and **March 2019 capital appreciation idea** Physicians Realty Trust (DOC) – 5.1% yield. We still like these ideas, and it's important to note that while we may adjust our views from an open position to a closed one, it just means we've grown more neutral on the risk-reward situation, not that we've completely soured on the stock and expect a big fall. We also still like the payouts in these two cases, noting that Evergy just raised its dividend ~6% November 6. The reasoning for closing out these two ideas is two-fold, however: first, they've been winners and have paid a nice dividend to boot, but two, the 10-year Treasury yield, a critical driver behind the prices of many high-yielding stocks, has reversed course and now is rising rather aggressively, hitting a three-month high, now almost back to 2%. This has hurt the performance of many utilities and REITs recently -- Evergy's and Physicians Realty Trust's industries, respectively.

October 2019 capital appreciation idea Cloudflare (NET) reported third-quarter earnings on November 7 and we liked what we saw. GAAP revenues were up 48% year-over-year during the third quarter, and even better, Cloudflare's quarterly GAAP gross margin was up over 70 basis points year-over-year. Shares of NET have slipped modestly lower since we highlighted the name, but we remain optimistic on the Software-as-a-Service ('SaaS') company as cybersecurity and IT outsourcing needs remain huge secular growth trends. The firm was sitting on a nice ~$0.7 billion cash-like balance (defined as cash, cash equivalents, marketable securities, and long-term investments) at the end of the third quarter after successfully going public in September 2019, which will fund its growth trajectory for many years without the need to tap capital markets again. Cloudflare had a negligible amount of debt on the books as of the end of the third quarter of this year.

One quick note as we wrap up. Since we closed **August 2019 short idea consideration** Party City (PRTY), a position we highlighted at ~$6.04 per share and quickly exited out of on August 8 at ~$4.50 per share for a nice "gain," it has continued to slide lower. Incredibly, Party City dropped nearly 70% during the trading session November 7 and closed at $2.34 per share on Friday. Although we closed this winner a bit early, we just wanted to point out the ongoing value of the archives of this publication. The value, for example, goes far beyond just the timing of when we highlight and close ideas. While we certainly left some "profits" on the table regarding when we closed Party City, our thesis played out almost perfectly in this case, and a more aggressive short seller could have taken advantage of this beyond when we decide to close the position.

It's so important to note that while we are selecting three of our favorite ideas for consideration each month, a huge portion of the value of the Exclusive publication is that each idea is laid out nicely in thesis form and explained thoroughly. Investors can the use this information as they wish, capitalizing on opportunities as they see fit, being more conservative and more aggressive where appropriate, on the basis of their own goals and risk tolerances. With all this said, we hope you enjoy this November edition of the Exclusive publication. We're as excited about the three ideas in this edition as in any other. Thank you for your membership!

Disclosure: *Callum Turcan and Brian Nelson do not own any of the securities mentioned above.*

Nucor Is One of the Best in a Bad Business

Image Source: *Nucor Corporation - June 2019 IR Presentation*

By Callum Turcan

Steel and steel product producer Nucor Corporation (NUE) bills itself as North America's largest recycler, using scrap metal at its mills in the US to maintain its status as a low cost producer of anything from steel beams to precision castings. The company has 25-scrap based steel mills that can produce 27 million tons of steel per year. Our fair value estimate for Nucor stands at $53 per share after our recent industry update, and we like the firm's dividend coverage as well. Shares of NUE yield ~2.9% and trade just north of our fair value estimate as of this writing.

Strong Free Cash Flows

On October 22, Nucor reported its third-quarter earnings for 2019 (period ended September 28). **Shares of NUE have steadily climbed higher over the past month largely due to growing optimism regarding a US-China trade deal, albeit likely a narrow one if an agreement does materialize.** Nucor's outgoing CEO John Ferriola (retiring at the end of this year) noted that investors shouldn't expect a material pickup in North American steel demand during the remainder of 2019 in a recent interview. Additionally, Nucor's CEO mentioned that the 2020 outlook for North American steel demand remained tough to gauge given ongoing geopolitical considerations (such as a US-China trade deal or ultimately lack thereof, whether the USMCA passes Congress, etc.).

During the first three quarters of 2019, Nucor generated $2.1 billion in net operating cash flow while spending $1.0 billion on capital expenditures. **We caution that Nucor's capital expenditures are expected to rise materially in 2019 versus 2018 levels and are up roughly 58% year-over-year during the first nine months of the year.** Dividends during this period came in just under $0.4 billion, and Nucor allocated $0.2 billion towards share buybacks. Nucor's impressive free cash flow profile, given the problems facing the industry, is largely a product of its focus on recycling scrap metal to keep costs contained while making capital investments that seek to generate meaningful operational efficiencies over time.

In the graphic down below, Nucor highlights the various projects the firm is developing. Moving into higher-value products and pursuing logistical efficiencies represent two key ways management seeks to improve Nucor's margins and profitability levels in any environment.

Strategic Growth Investments NUCOR

Project	Product Type	Completion/ Startup	Budgeted Amount (millions of $USD)
Logistical Advantages			
Rebar Micro Mill in Missouri	Bar	Q4 2019	$250
Rebar Micro Mill in Florida	Bar	H1 2020	$240
Nucor Steel Kankakee Midwest Merchant Bar Expansion	Bar	Q4 2019	$180
Moving Up the Value Chain			
Nucor Steel Gallatin Hot Band Capacity Expansion	Sheet	Mid 2021	$650
Nucor Steel Gallatin Hot Band Galvanizing Line	Sheet	Q3 2019	$176
Nucor Steel Arkansas Specialty Cold Mill Complex	Sheet	H1 2019	$230
Nucor Steel Arkansas Gen 3 Flex Galvanizing Line	Sheet	Mid 2021	$240
Nucor-JFE Joint Venture Galvanizing Line in Mexico*	Sheet	H1 2019	$135*
Logistics & Value			
New Plate Mill in Kentucky	Plate	Late 2022	$1,350
**50-50 joint venture between Nucor and JFE; total budgeted project spend of $270 million*		**Total**	**$3,451**

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Image Shown: Nucor seeks to upgrade several of its facilities to produce higher-value products and to unlock efficiency gains across its logistical networks. **Image Source:** Nucor – June 2019 IR Presentation

Terrible Industry

While Nucor is the leading North American steel producer, not just in terms of volume produced but also taking its low cost operations into account, we still really dislike the industry. Consistently decent returns are hard to come by as exogenous shocks (i.e. the recent slowdown in global industrial activity) often derail even the best of plans and intentions. Here's how we view the steel industry;

> *Firms in the steel industry face strong international competition, especially from China, which can often produce steel at rock-bottom prices thanks to lower-cost operations and structural advantages.* ***Steel producers operate at the whim of the prices of volatile raw materials used in production, namely iron ore, coal, natural gas and scrap.*** *Products are sold on the spot market, while other shipments can often be sold under agreements that do not allow for recovery of changes in input costs. Labor unions and the threat of structural overcapacity add more uncertainty. We think the industry structure is very poor.*

Here's how we see that influencing Nucor's dividend strength;

> *The biggest threat to Nucor's dividend safety, and overall financial health, is the poor structural characteristics of the steel industry. Global overcapacity and lower-cost foreign producers have pressured Nucor's business and should be expected to continue to do so, even as the US works to combat the detriments of low-cost foreign imports through the use of tariffs and bilateral trade agreements (such as the quotas established with South Korea in 2018, limiting steel exports to the US).*
>
> *The firm's balance sheet health could be better; net debt was ~$2.4 billion as of the end of its third quarter of 2019 which ended on September 28 (consisting of over $1.9 billion in total cash, cash equivalents, and short-term investments versus just under $4.4 billion in total short-term and long-term debt and finance lease obligations).* ***Nucor reduced its net debt load by ~$0.5 billion during the first three quarters of 2019 versus year-end 2018 levels. Nucor's investment grade credit ratings (A-/Baa1) are indicative of its financial strength.***
>
> *Competing uses of capital have the potential to impact the pace of dividend expansion moving forward (capital expenditures are expected to rise, particularly in the form of growth investments in its business and share repurchases). Despite the cyclical nature of the steel industry, the company's dividend appears to be on solid ground seen through its Dividend Cushion ratio of 1.6x, earning Nucor a GOOD Dividend Safety rating.*

Nucor has done a great job over the past few fiscal years earning a return on invested capital (ex-goodwill) that consistently exceeded its estimated weighted-average cost of capital, given the numerous structural hurdles facing the North American steel industry in a highly globalized world. We like Nucor's ability to generate shareholder value over the coming years and rate its Economic Castle rating as ATTRACTIVE. However, under more pessimistic assumptions, we forecast Nucor's ROIC (ex-goodwill) would converge with its estimate WACC over the medium-term as you can see in the graphic below;

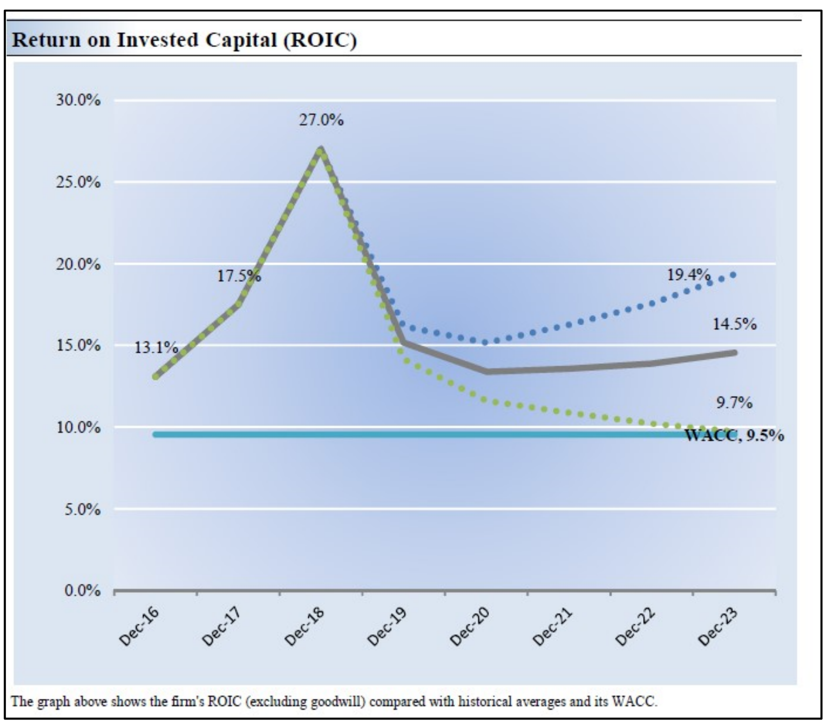


Image Shown: Exogenous shocks could materially hamper Nucor's ability to generate shareholder value.

Concluding Thoughts

We aren't interested in Nucor at this time given the ongoing synchronized slowdown in global economic growth, especially on the industrial side of things, as shares of NUE already trade near our fair value estimate (and risks appeared skewed to the downside). **Nucor is one of the best in the business, but business can be just downright terrible during a recession or a slow growth economy given existing overseas competition and declining North American demand in the event auto sales, construction activity, and other economic activities slow down.** Geopolitical and trade events will continue to loom large over the steel industry going forward.

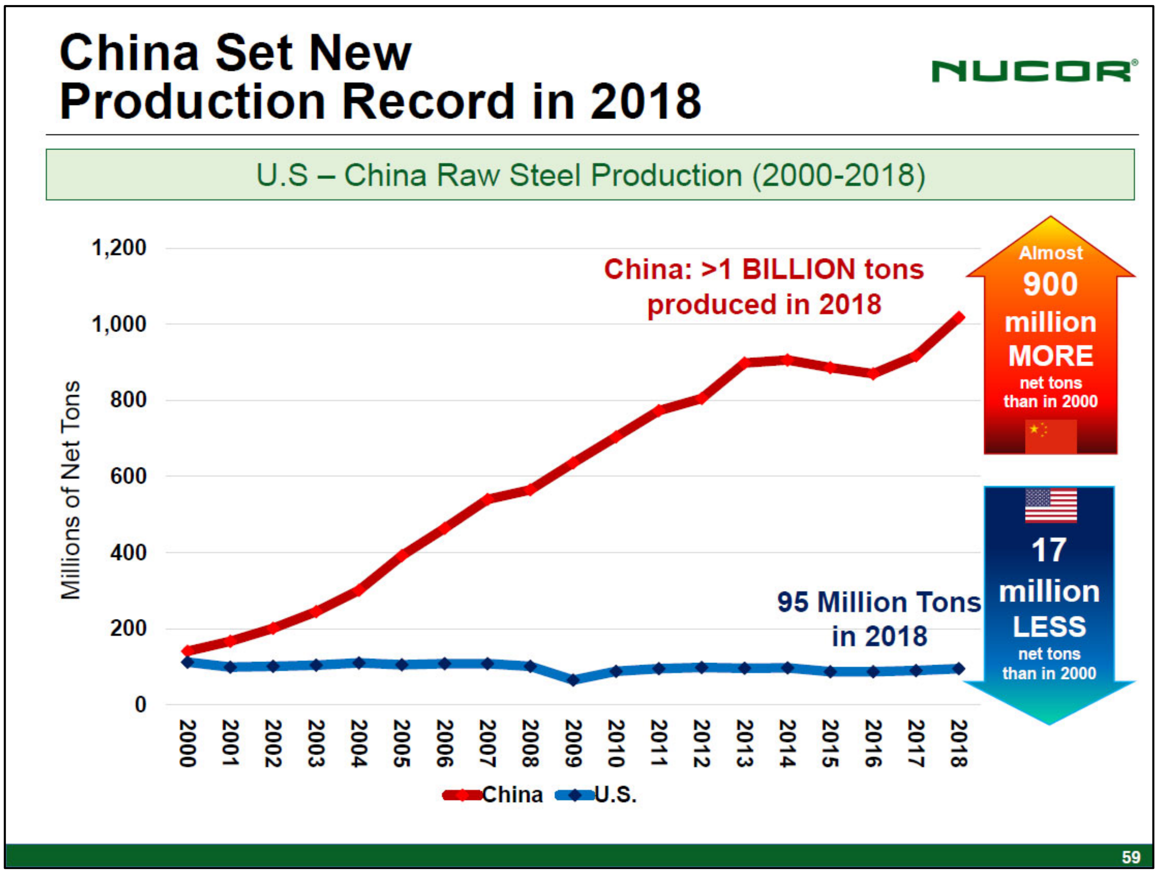


Image Source: Nucor – June 2019 IR Presentation

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

Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above.*

Tracking Exclusive Idea Simulated Performance

INCOME IDEAS

Highlight Date	Company (symbol)	Highlight Price	Annual Divs per Share at Highlight	Current Fwrd Dividends per Share	Current Fwrd Exp Dividend Yield	Time Horizon
Income Ideas						
Jul, 16	Universal Corp (UVV)	57.74	2.12	3.04	5.5%	Closed - 2/12/2017
Aug, 16	B&G Foods (BGS)	51.54	1.68	1.90	11.1%	Closed - 7/17/2017
Sep, 16	Maxim Integrated (MXIM)	41.12	1.32	1.92	3.2%	Closed - 2/12/2017
Oct, 16	Douglas Dynamics (PLOW)	31.94	0.94	1.09	2.1%	Closed - 2/12/2017
Nov, 16	Ennis Inc. (EBF)	14.60	0.70	0.90	4.5%	Closed -- 11/12/2016
Dec, 16	Watsco, Inc. (WSO)	150.57	4.20	6.40	3.6%	Closed - 2/12/2017
Jan, 17	Star Gas Partners (SGU)	11.21	0.41	0.50	5.4%	0-5 yrs
Feb, 17	Moelis & Co (MC)	35.00	1.28	2.00	5.7%	Closed - 6/22/2017
Mar, 17	Park National (PRK)	108.59	3.76	4.04	4.0%	0-20 yrs
Apr, 17	American Software (AMSWA)	10.44	0.44	0.44	2.7%	Closed - 6/22,23/2017
May, 17	NW Natural (NWN)	59.20	1.88	1.91	3.0%	Closed - 10/25/2018
Jun, 17	Japan Tobacco (JAPAY)	19.03	0.60	NA	NA	Closed 11/8/2019
Jul, 17	Vectren Corp (VVC)	58.21	1.68	Acquired	Acquired	Closed 8/30/2017
Aug, 17	National Retail Properties (NNN)	40.50	1.90	2.06	3.7%	Closed - 10/25/2018
Sep, 17	STORE Capital (STOR)	25.72	1.16	1.4	3.5%	Closed - 10/25/2018
Oct, 17	Fortis (FTS)	36.14	1.27	1.45	3.6%	Closed - 4/18/2019
Nov, 17	Black Hills (BKH)	61.23	1.78	2.14	2.9%	Closed - 10/25/2018
Dec, 17	Four Corners Propety Trust (FCPT)	26.03	0.97	1.15	4.2%	Closed - 10/25/2018
Jan, 18	TransCanada Corp (TRP)	49.47	1.98	2.28	4.6%	Closed 11/6/2019

Many members have said that they prefer to focus on the long-term income-oriented dynamics of the income ideas, and we think this makes sense. The formatting of the table reflects a greater focus on the trajectory of the dividend as well as the current forward expected annualized dividend yield. We hope that you find this layout more helpful as you sort through the prior income ideas.

INCOME IDEAS

Highlight Date	Company (symbol)	Highlight Price	Annual Divs per Share at Highlight	Current Fwrd Dividends per Share	Current Fwrd Exp Dividend Yield	Time Horizon
Feb, 18	Siemens (SIEGY)	71.13	2.18	2.17	3.5%	0-20 yrs
Mar, 18	Philips 66 Partners (PSXP)	49.63	2.71	3.46	6.2%	Closed - 10/25/2018
Apr, 18	PS Business Parks (PSB)	113.68	3.40	4.20	2.3%	Closed - 10/25/2018
May, 18	Hubbell (HUBB)	103.97	3.08	3.64	2.5%	Closed - 2/11/2019
Jun, 18	Park Hotels & Resorts (PK)	32.43	1.72	1.80	7.4%	Closed - 5/3/2019
Jul, 18	Healthcare Trust of America (HTA)	27.36	1.22	1.26	4.4%	Closed - 2/11/2019
Aug, 18	QTS Realty Trust (QTS)	44.01	1.64	1.76	3.3%	Closed - 4/18/2019
Sep, 18	Atmos Energy (ATO)	93.62	1.94	2.30	2.1%	Closed - 10/25/2018
Oct, 18	Veolia Environment (VEOEY)	19.70	0.99	1.03	4.1%	Closed 4/18/2019
Nov, 18	Roche Holding (RHHBY)	29.82	1.08	1.07	2.9%	Closed - 2/11/2019
Dec, 18	OGE Energy (OGE)	40.46	1.46	1.55	3.6%	Closed - 2/11/2019
Jan, 19	BAE Systems (BAESY)	24.32	0.92	0.91	3.0%	Closed - 2/11/2019
Feb, 19	EastGroup Properties (EGP)	107.58	2.88	3.00	2.3%	Closed 11/6/2019
Mar, 19	Canadian Natural Resources (CNQ)	26.76	1.01	1.13	4.0%	Closed - 9/24/2019
Apr, 19	Evergy (EVRG)	57.32	1.90	2.02	3.2%	Closed 11/6/2019
May, 19	National Health (NHI)	76.43	4.20	4.20	5.2%	Closed 11/6/2019
Jun-19	Corporate Office Properties Trust (OFC)	28.94	1.10	1.10	3.7%	0-20 yrs
Jul-19	Nuveen Real Estate Income Fund (JRS)	10.63	0.76	0.76	7.2%	0-20 yrs
Aug-19	South32 Limited (SOUHY)	10.01	0.28	0.28	3.2%	0-20 yrs
Sep-19	Bank of America Preferred Stock (ISIN: US0605052291)	26.87	1.50	1.50	5.6%	0-20 yrs
Oct-19	Life Storage	105.41	4.00	4.00	3.7%	0-20 yrs

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

CAPITAL APPRECIATION IDEAS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Capital Appreciation Ideas						
Jul, 16	Bloomin Brands (BLMN)	17.87	19.28	0.07	8.3%	Closed -- 11/12/2016
Aug, 16	Healthcare Srvs Group (HCSG)	38.91	41.02	0.369	6.4%	Closed - 2/12/2017
Sep, 16	Grupo Aeroportuario (ASR)	157.87	181.61	-	15.0%	Closed - 4/5/2017
Oct, 16	Swedish Match (SWMA.ST)	314.80SEK	417.40SEK	17.7	38.2%	Closed - 6/1/2018
Nov, 16	Symrise AG (SYIEY)	16.25	16.34	-	0.6%	Closed - 4/5/2017
Dec, 16	Tootsie Roll (TR)	37.80	38.96	0.90	5.4%	Closed 4/18/2019
Jan, 17	Texas Capital Bancshares (TCBI)	78.05	85.10	-	9.0%	Closed - 2/12/2017
Feb, 17	Arconic (ARNC)	25.90	29.62	-	14.4%	Closed - 2/12/2017
Mar, 17	Tesaro (TSRO)	180.84	122.62	-	-32.2%	Closed - 7/17/2017
Apr, 17	Yum China (YUMC)	31.15	37.67	-	20.9%	Closed - 5/23/2017
May, 17	Galapagos (GLPG)	87.67	76.13	-	-13.2%	Closed - 7/17/2017
Jun, 17	Huntington Ingalls (HII)	193.79	206.39	-	6.5%	Closed 8/18/2017
Jul, 17	Orbital ATK (OA)	102.33	104.65	-	2.3%	Closed 8/18/2017
Aug, 17	Wingstop (WING)	32.28	66.17	3.61	116.2%	Closed - 10/25/2018
Sep, 17	Qualys (QLYS)	51.10	75.44	-	47.6%	Closed - 10/25/2018
Oct, 17	Guidewire Software (GWRE)	78.24	87.50	-	11.8%	Closed - 10/25/2018
Nov, 17	Ferrari N.V. (RACE)	117.43	123.26	0.71	5.6%	Closed - 2/11/2019
Dec, 17	Square (SQ)	38.22	72.61	-	90.0%	Closed - 10/25/2018
Jan, 18	Planet Fitness (PLNT)	33.70	46.41	-	37.7%	Closed - 10/25/2018
Feb, 18	Insulet Corp (PODD)	75.84	82.69	-	9.0%	Closed - 10/25/2018

Many capital appreciation ideas are based on a long-term thesis. However, rapid price-to-fair value convergence may mean we close the ideas relatively quickly, or sooner than expected. Our decision to close an idea may or may not be relevant to you given varying goals and risk tolerances.

CAPITAL APPRECIATION IDEAS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Mar, 18	Preferred Bank (PFBC)	64.01	55.16	1.92	-	0-20 yrs
Apr, 18	Esperion Therapeutics (ESPR)	66.43	40.94	-	-38.4%	Closed - 4/18/2019
May, 18	Heidrick & Struggles (HSII)	37.65	40.77	0.41	9.4%	Closed - 3/9/2019
Jun, 18	Green Dot Corp (GDOT)	72.86	24.54	-	-66.3%	Closed 11/8/2019
Jul, 18	Wix.com (WIX)	105.30	111.93	-	6.3%	Closed - 2/11/2019
Aug, 18	Tactile Systems Technology (TCMD)	50.84	63.52	-	24.9%	Closed - 10/25/2018
Sep, 18	Invitae (NVTA)	13.95	20.84	-	49.4%	Closed - 3/9/2019
Oct, 18	Cigna (CI)	215.72	149.00	0.04	-30.9%	Closed 4/18/2019
Nov, 18	Yeti Holdings (YETI)	16.50	17.99	-	9.0%	Closed - 2/11/2019
Dec, 18	Spotify (SPOT)	135.31	139.65	-	3.2%	Closed - 4/18/2019
Jan, 19	Suncor Energy (SU)	29.32	32.05	-	9.3%	Closed - 2/11/2019
Feb, 19	Delek Holdings (DK)	32.12	37.31	0.27	17.0%	Closed - 4/18/2019
Mar, 19	Physicians Realty Trust (DOC)	17.82	17.80	0.69	3.8%	Closed 11/6/2019
Apr, 19	Everbridge (EVBG)	72.75	98.43	-	35.3%	Closed 7/24/2019
May, 19	Teladoc Health (TDOC)	60.93	68.09	-	11.8%	Closed 7/24/2019
Jun-19	Alteryx (AYX)	95.15	119.29	-	25.4%	Closed 7/24/2019
Jul-19	CrowdStrike (CRWD)	67.21	86.42	-	28.6%	Closed 7/24/2019
Aug-19	Inovalon Holdings (INOV)	17.12	16.67	-	-	0-20 yrs
Sep-19	Avalara (AVLR)	81.10	71.01	-	-	0-20 yrs
Oct-19	Cloudflare Inc (NET)	17.27	16.12			0-20 yrs

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

SHORT IDEA CONSIDERATIONS

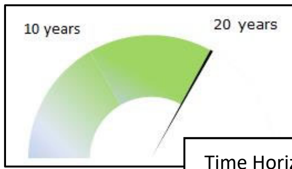
Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Short Idea Considerations						
Jul, 16	Lands' End (LE)	16.76	16.10	NA	3.9%	Closed -- 12/2/2016
Aug, 16	Vivint Solar (VSLR)	2.94	2.85	NA	3.1%	Closed -- 12/2/2016
Sep, 16	Lloyds Banking (LYG)	3.31	2.78	NA	16.0%	Closed -- 11/4/2016
Oct, 16	GoPro (GPRO)	16.68	11.16	NA	33.1%	Closed -- 11/4/2016
Nov, 16	Seritage Growth Properties (SRG)	44.31	42.13	0.25	4.4%	Closed -- 1/6/2017
Dec, 16	Royal Bank of Scotland (RBS)	4.91	5.48	0.68	-	0-5 yrs
Jan, 17	Sequential Brands Group (SQBG)	4.62	4.18	-	9.5%	Closed - 2/12/2017
Feb, 17	Sportman's Warehouse (SPWH)	6.85	6.11	-	10.8%	Closed - 2/12/2017
Mar, 17	Fitbit (FIT)	6.07	5.71	-	5.9%	Closed - 4/5/2017
Apr, 17	Santander Consumer (SC)	12.51	11.65	-	6.9%	Closed - 5/23/2017
May, 17	Snap, Inc (SNAP)	23.19	17.19	-	25.9%	Closed - 5/10/2017
Jun, 17	Mallinckrodt (MNK)	42.65	36.41	-	14.6%	Closed - 8/18/2017
Jul, 17	Deutsche Lufthansa AG (DLAKY)	23.38	21.42	0.94	4.4%	Closed - 10/25/2018
Aug, 17	Del Frisco's (DFRG)	14.35	11.93	-	16.9%	Closed - 10/16/17
Sep, 17	Fiesta Restaurant Group (FRGI)	15.90	14.36	-	9.7%	Closed - 2/11/2019
Oct, 17	Ingles Markets (IMKTA)	26.50	24.20	-	8.7%	Closed - 10/16/17
Nov, 17	Fogo de Chao (FOGO)	10.85	15.62	-	-44.0%	Closed - 3/3/2018
Dec, 17	TrueCar (TRUE)	12.07	10.97	-	9.1%	Closed - 12/28/17

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

SHORT IDEA CONSIDERATIONS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Jan, 18	Shake Shack (SHAK)	44.17	62.06	-	-	0-2 yrs
Feb, 18	iShares Core US Aggregate Bond ETF (AGG)	107.20	104.63	1.93	0.6%	Closed - 10/25/2018
Mar, 18	iShares iBoxx $ High Yield Corporate Bond ETF (HYG)	85.75	86.68	4.936	-6.8%	Closed - 4/18/2019
Apr, 18	Houghton Mifflin Harcourt (HMHC)	7.25	6.70	-	7.6%	Closed - 6/1/18
May, 18	Noodles & Company (NDLS)	7.25	7.04	-	2.9%	Closed - 2/11/2019
Jun, 18	iShares International High Yield Bond ETF (HYXU)	52.40	50.94	-	2.8%	Closed - 10/25/2018
Jul, 18	Installed Building Products (IBP)	56.15	40.10	-	28.6%	Closed - 9/28/2018
Aug, 18	Veritiv Corp (VRTV)	38.80	36.35	-	6.3%	Closed - 9/28/2018
Sep, 18	Box (BOX)	24.55	24.30	-	1.0%	Closed - 9/28/2018
Oct, 18	Modine Manufacturing (MOD)	14.73	12.00	-	18.5%	Closed - 10/25/2018
Nov, 18	Beazer Homes USA (BZH)	9.01	14.06	-		0-2 yrs
Dec, 18	Vera Bradley (VRA)	10.22	9.95	-	2.6%	Closed - 8/23/2019
Jan, 19	RH (RH)	117.84	106.99	-	9.2%	Closed - 4/4/2019
Feb, 19	QuinStreet (QNST)	14.77	12.79	-	13.4%	Closed - 3/9/2019
Mar, 19	Dycom Industries (DY)	47.20	41.74	-	11.6%	Closed - 8/23/2019
Apr, 19	Diplomat Pharmacy (DPLO)	5.69	5.29		7.0%	Closed - 5/16/2019
May, 19	Match Group (MTCH)	61.91	60.90		1.6%	Closed 11/6/2019
Jun-19	Tailored Brands (TLRD)	5.56	4.94	0.18	11.2%	Closed - 7/24/2019
Jul-19	Realogy Holdings (RLGY)	6.55	5.60		14.5%	Closed - 7/24/2019
Aug-19	Party City Holdco (PRTY)	6.04	4.50		25.5%	Closed - 8/8/2019
Sep-19	LendingTree (TREE)	309.02	363.90	-	-	0-2 yrs
Oct-19	Peloton (PTON)	23.01	23.52			0-2 yrs

Income Generation



Time Horizon: Long-term

VICI Properties (VICI)

"With respect to the JACK Cleveland Thistledown acquisition that we announced on October 28, we will not need any additional equity to fund this transaction on a leverage-neutral basis. As I mentioned, we had prudently raised all the equity funding required in our successful June 2019 follow-on offering. Between the 3 announced pending transactions; the Century Portfolio, Eldorado and JACK Cleveland Thistledown, we will add just over $343 million in annual cash rents increasing our annualized rental income by approximately 37% on a run rate basis." – David Kieske, CFO of VICI Properties during the REIT's third quarter 2019 conference call

Thesis

One of the more recent real estate investment trusts to go public ('REITs'), the unconventional gaming and hospitality firm VICI Properties Inc (VICI) is our **November 2019 income generation idea** for the Exclusive publication. **Shares of VICI yield ~4.9% as of this writing.**

We like the recurring nature of VICI Properties' rental revenue streams as the kinds of properties the REIT owns, such as the historic Caesar's Place along the Las Vegas Strip, aren't readily replaceable given the entwined nature of the gaming brand with the casino building itself. VICI Properties bills itself as an "experimental" REIT considering most traditional REITs focus on apartment and office buildings. **We think this REIT's business model is quite intriguing.**

VICI Properties' rental revenues are underpinned by long-term triple-net lease agreements with gaming operators including Caesars Entertainment Corporation (CZR) and privately-held JACK Entertainment. Its relatively small golf course operations operate a bit differently, but note those revenues represented just 3% of its 2018 GAAP revenues. The rental lease agreements come with escalators (modest annual increases at predetermined rates) and rent adjustments (meaningful increases after a predetermined period of time), allowing for VICI Properties to steadily grow its organic cash flows over time.

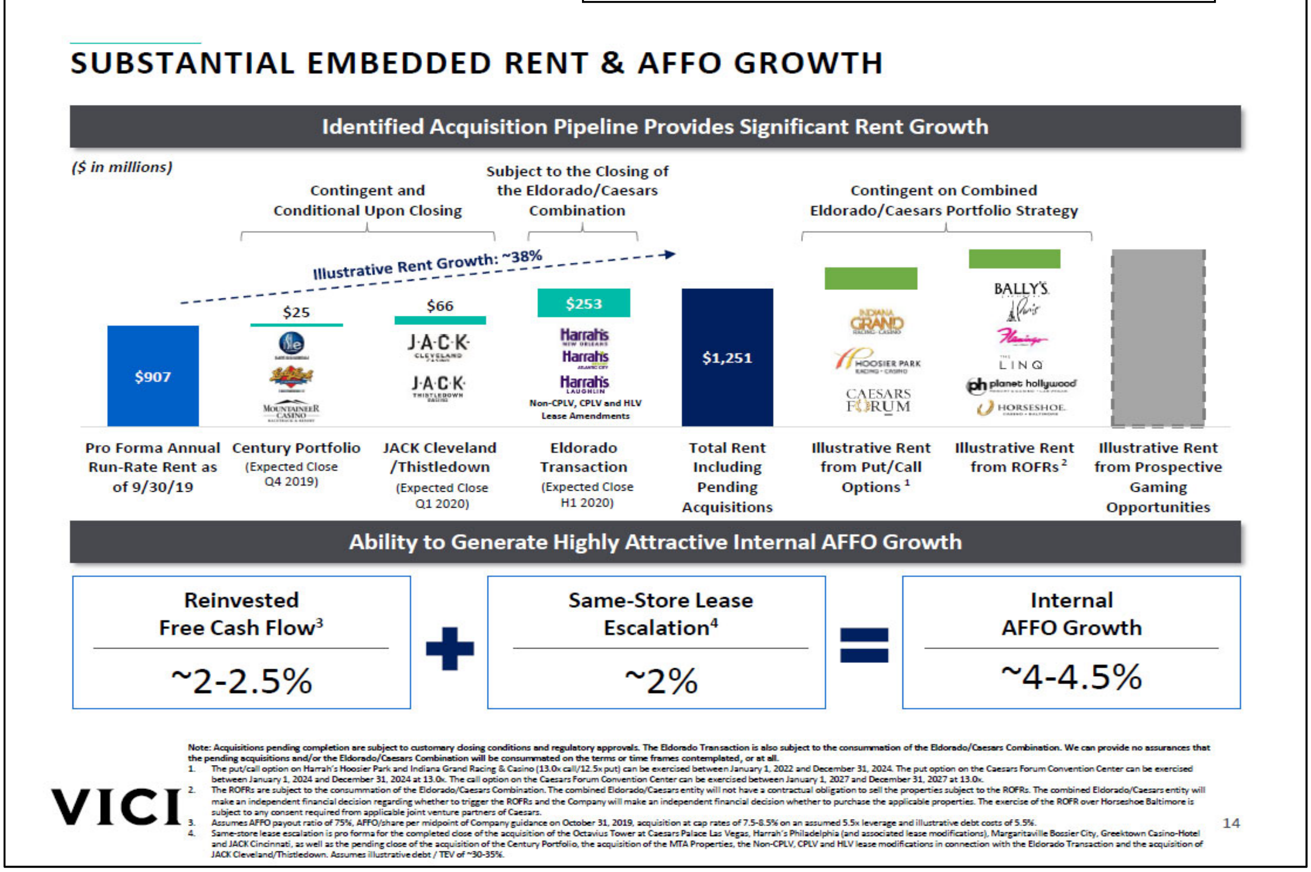
Corporate Profile

VICI Properties Inc (VICI) is a REIT that focuses primarily on acquiring and leasing out higher quality casino properties (that also house hotel rooms, restaurants, bars, and nightclubs) in key gaming and hospitality regions. Those properties are run under the Caesars, Horseshoe, Harrah's Bally's, and other well-known gaming brands.

As of the end of September 2019, the REIT owned roughly two dozen gaming properties (including a horse racing track) across the US and four championship golf courses. These golf courses are managed by a taxable REIT, VICI Golf. VICI Properties owned 34 acres of undeveloped land near the Las Vegas Strip at the end of September 2019. In 2017, VICI Properties was spun off by Caesars Entertainment Corporation. VICI Properties went public in February 2018.

Key Statistics	
VICI Properties (VICI)	
Last Close	$24.28
52 Week Range	$17.64 - $24.73
Market Cap	$11.1B
Revenue (TTM)	$0.9B
Operating Income (TTM)	$0.8B
Forward Dividend Yield	4.9%

Image Source: VICI Properties Inc – November 2019 IR Presentation



In 2018, the REIT's first full year as a standalone entity, VICI Properties generated $0.5 billion in net operating cash flow while spending a negligible amount on capital expenditures (defined in the REIT's 2018 Annual Report as 'acquisition of property and equipment, net of change in related payables'). **Free cash flows of $0.5 billion handily covered ~$0.25 billion in dividend payouts this period; however, we caution VICI Properties remains capital market dependent given its acquisition spree.** The firm acquired a new casino property in Cincinnati, Ohio, late in the third quarter and expects to complete its purchase of three Century Casinos' (CNTY) gaming and hospitality properties (including another horse racetrack) by the end of 2019.

During its third quarter 2019 earnings report, published October 31, management raised VICI Properties full-year adjusted funds from operations ('AFFO') guidance from $1.45-$1.47 per share to $1.47-$1.48 per share. However, please note VICI Properties lowered its AFFO guidance for this year during the second quarter from the $1.47-$1.50 per share forecast given out at the start of 2019. The fluctuations in the REIT's guidance are due to the timing of share issuances and acquisitions for the most part and shouldn't be viewed as structural changes in VICI Properties' underlying financial performance.

VICI Properties boosted its dividend by 3.5% sequentially in September 2019, bringing its annualized payout up to $1.19 per share. On an AFFO basis, VICI Properties' payout ratio would appear to be right around 80%, indicating solid dividend coverage for a REIT assuming the firm retains access to capital markets. In 2018, VICI Properties generated $1.43 per share in AFFO, indicating modest annual growth is expected this year.

With Eldorado Resorts (ERI) set to acquire Caesars Entertainment through a deal expected to close in the first half of 2020, it's important to see how VICI Properties' dynamic with its largest tenant would change on closing. For starters, VICI Properties is helping Eldorado Resorts fund the acquisition by agreeing to purchase numerous properties currently owned by Caesars Entertainment. Here are some key excerpts from the press release detailing the new relationship:

> *"Per the terms of the Master Transaction Agreement, VICI Properties will acquire the land and real estate assets associated with Harrah's New Orleans, Harrah's Laughlin, and Harrah's Atlantic City and modify certain provisions of the existing Caesars lease agreements for total consideration of approximately $3.2 billion in cash. These transactions will result in aggregate incremental annual rent of $252.5 million, for an implied capitalization rate of 7.9%...*
>
> *VICI Properties will be granted rights of first refusal for whole asset sale or sale-leaseback transactions on two Las Vegas Strip properties, and a right of first refusal for a sale-leaseback transaction on Horseshoe Casino Baltimore. The first Las Vegas property will be selected among the following: Flamingo Las Vegas, Bally's Las Vegas, Paris Las Vegas and Planet Hollywood Resort & Casino, with the second property to be one of the previous four plus the LINQ Hotel & Casino…*
>
> *The VICI transactions described above are expected to be accretive immediately upon closing and the Company intends to fund the transactions through a combination of cash on hand, equity and long-term debt financing."*

VICI Properties provides an overview of capitalization structure (as of the end of September 2019) in the graphic below. Please note that VICI Properties did not have any outstanding preferred shares at the end of September, as its Series A preferred equity was automatically converted to common stock back in November 2017. Cash on hand, its recently amended revolving credit line that matures in May 2024 (interest rate is 175 – 200 basis points over LIBOR or 75 – 100 basis points over the base rate), and potential proceeds from its Forward Sales Agreements (regarding future equity issuances) provides funds for expansion.

Capitalization Summary

(Data as of September 30, 2019 unless otherwise indicated)

$ and shares in millions	3Q'19
Revolving Credit Facility ($1,000 million capacity)[1]	$0
Term Loan B Facility	2,100
Second Lien Notes	498
Total Non-CPLV	**2,598**
CPLV CMBS Debt	1,550
Total Debt	**4,148**
Cash and Cash Equivalents & Short Term Investments	(774)
Net Debt	**$3,374**
Total Common Shares Outstanding	461.0
LTM September 30, 2019 Adjusted EBITDA	806
Total Leverage Ratio	**5.1x**
Net Leverage Ratio	**4.2x**

Image Source: VICI Properties – November 2019 IR Presentation

In 2018 and during the first nine months of 2019, VICI Properties leaned on equity issuances to fund its acquisitions and for other corporate purposes. This strategy is to maintain a balanced capitalization structure and to keep its leverage ratios contained.

Since being successfully spun off from Caesars Entertainment in 2017, VICI Properties has opted to bring its net debt load down substantially which we appreciate. Management cut that burden down from ~$4.6 billion at the end of 2017 ($4.8 billion in total debt less $0.2 billion in cash and cash equivalents) to ~$3.4 billion at the end of September 2019 ($4.1 billion in total debt less $0.4 billion in cash and cash equivalents and $0.3 billion in short-term investments). We aren't included restricted cash, which was negligible during this period.

Free cash flows helped make this possible, as did equity issuances, which offset various acquisitions. Please note that management is pursuing accretive deals that grow AFFO on a per share basis. During the first nine months of 2019, VICI Properties generated ~$0.45 billion in net operating cash flow while spending a negligible amount on capital expenditures (defined in its 10-Q filing for the third quarter of 2019 as 'acquisition of property and equipment'). Those free cash flows fully covered ~$0.35 billion in dividend payments made during this period.

Image Source: VICI Properties – Third quarter 2019 10-Q filing

VICI PROPERTIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

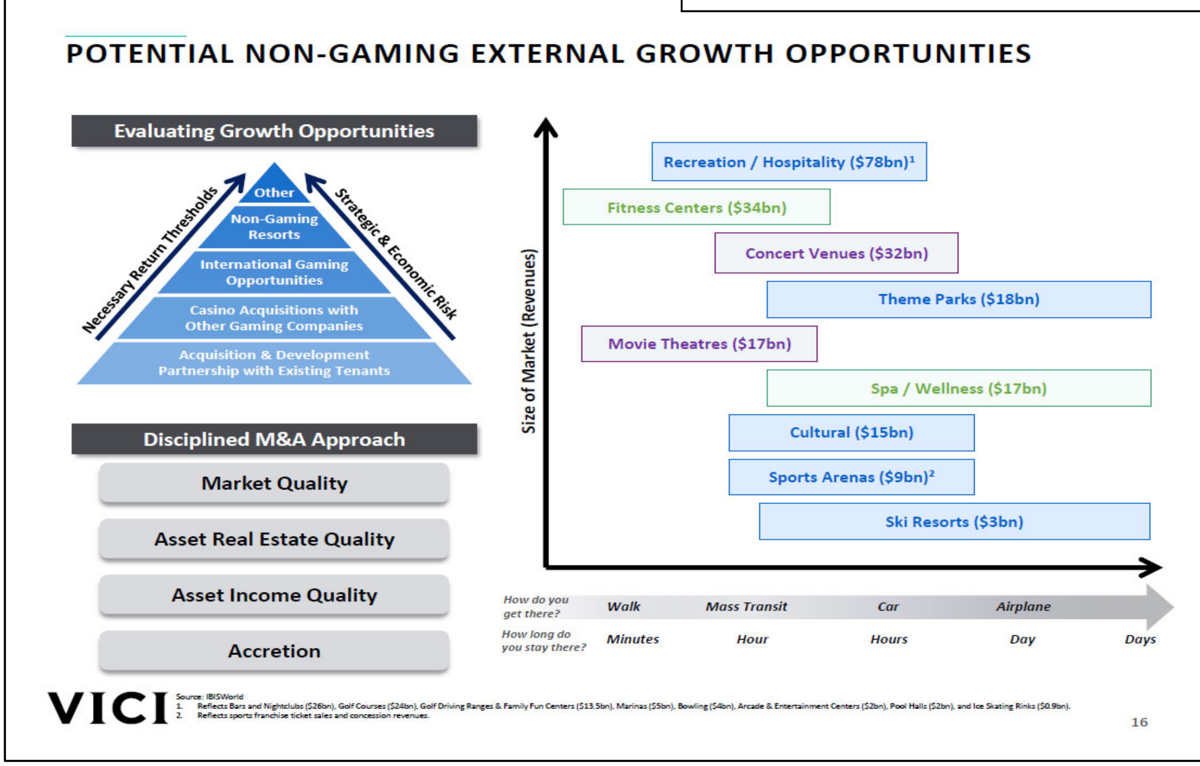
	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Cash flows from operating activities		
Net income	$ 453,568	$ 387,487
Adjustments to reconcile net income to cash flows provided by operating activities:		
Direct financing and sales-type lease adjustments	(2,295)	(39,119)
Stock-based compensation	3,821	1,482
Depreciation	2,948	2,757
Amortization of debt issuance costs and original issue discount	18,180	4,477
Loss on impairment	—	12,334
Loss on extinguishment of debt	—	23,040
Change in operating assets and liabilities:		
Other assets	(5,952)	(19,609)
Accrued interest	9,761	2,077
Deferred revenue	(43,355)	(67,416)
Other liabilities	523	21,007
Net cash provided by operating activities	437,199	328,517
Cash flows from investing activities		
Investments in direct financing and sales-type leases	(1,530,578)	(507,795)
Capitalized transaction costs	(2,004)	(3,442)
Investments in short-term investments	(440,353)	(421,434)
Maturities of short-term investments	618,463	100,758
Proceeds from sale of land	1,044	186
Acquisition of property and equipment	(2,429)	(744)
Net cash used in investing activities	(1,355,857)	(832,471)
Cash flows from financing activities		
Proceeds from offering of common stock, net	1,164,360	1,307,119
Payment of Term Loan B Facility	—	(100,000)
Payment of Revolving Credit Facility	—	(300,000)
Payment of Second Lien Notes	—	(290,058)
Debt issuance costs	(7,727)	(1,117)
Distributions to non-controlling interest	(6,053)	(7,819)
Dividends paid	(366,859)	(156,296)
Net cash provided by financing activities	783,721	451,829

Back in June 2019, the firm raised \$1.1 billion (\$1.0 billion net after expenses) through a common stock offering. Additionally, VICI Properties entered into Forward Sales Agreements that if physically settled on September 30, 2019, would raise \$1.3 billion. Within the firm's 10-Q filing covering the third quarter of 2019, VICI Properties states that;

> *We expect to settle the Forward Sale Agreements entirely by the physical delivery of shares of common stock in exchange for cash proceeds, although we may elect cash settlement or net share settlement for all or a portion of our obligations under the Forward Sale Agreements. The settlement of the Forward Sales Agreements is calculated based on the forward sale price (\$21.50) as adjusted for a floating interest rate factor and other fixed amounts based on the passage of time, as specified in the Forward Sale Agreements.*
>
> *As of September 30, 2019, based on these adjustments, the forward share price was \$20.22 and would result in us receiving \$1.3 billion in cash proceeds if we were to physically settle the Forward Sale Agreements. Alternatively, if we were to net cash settle the Forward Share Agreements, it would result in a cash outflow of \$157.7 million or if were to net share settle the Forward Sale Agreements, it would result in us issuing 6.9 million shares. As of September 30, 2019, we have not settled any portion of the Forward Sale Agreements.*

VICI Properties is targeting a long-term leverage ratio (net debt to adjusted EBITDA on a trailing-twelve month basis) of 5.0x – 5.5x and was well below that ratio as of the end of its third quarter. Free cash flows and equity issuances will help the REIT stay within that brand over the long haul. Going forward, management has big plans for VICI Properties. The REIT may set its sight on properties that have similar characteristics to its top tier casino holdings in the sense that these properties carry significant brand value and are very hard to replace. For now, we think VICI Properties will continue to focus on its core areas, gaming and hospitality (tied into gaming operations), given the sticky nature of these rental revenues. What management wants to convey is that there are potentially similar unconventional REIT opportunities out there that VICI Properties would be glad to participate in, assuming the economics are sound.

Image Source: VICI Properties – November 2019 IR Presentation



We like VICI Properties' business model and appreciate management's commitment to maintaining a balanced capitalization structure. While we would prefer a slightly lower long-term leverage ratio target, VICI Properties' free cash flows and unique focus is reassuring. The REIT's pending transactions are expected to be highly accretive and the lower interest rate environment should greatly behoove its ability to tap capital market at attractive rates (particularly debt markets ahead of its huge acquisition relating to the Eldorado deal). Steadily rising rental revenues from existing properties (annual escalators and rent adjustments) should behoove the long-term trajectory of VICI Properties' cash flows. However, we caution that while it appears VICI Properties retains ample access to capital markets (seen through its revolving credit line getting amended and upsized back in May 2019), Moody's (MCO) rates the REIT's Corporate Family Rating at a speculative Ba3, which we would like to see improve over time as the REIT's asset base grows.

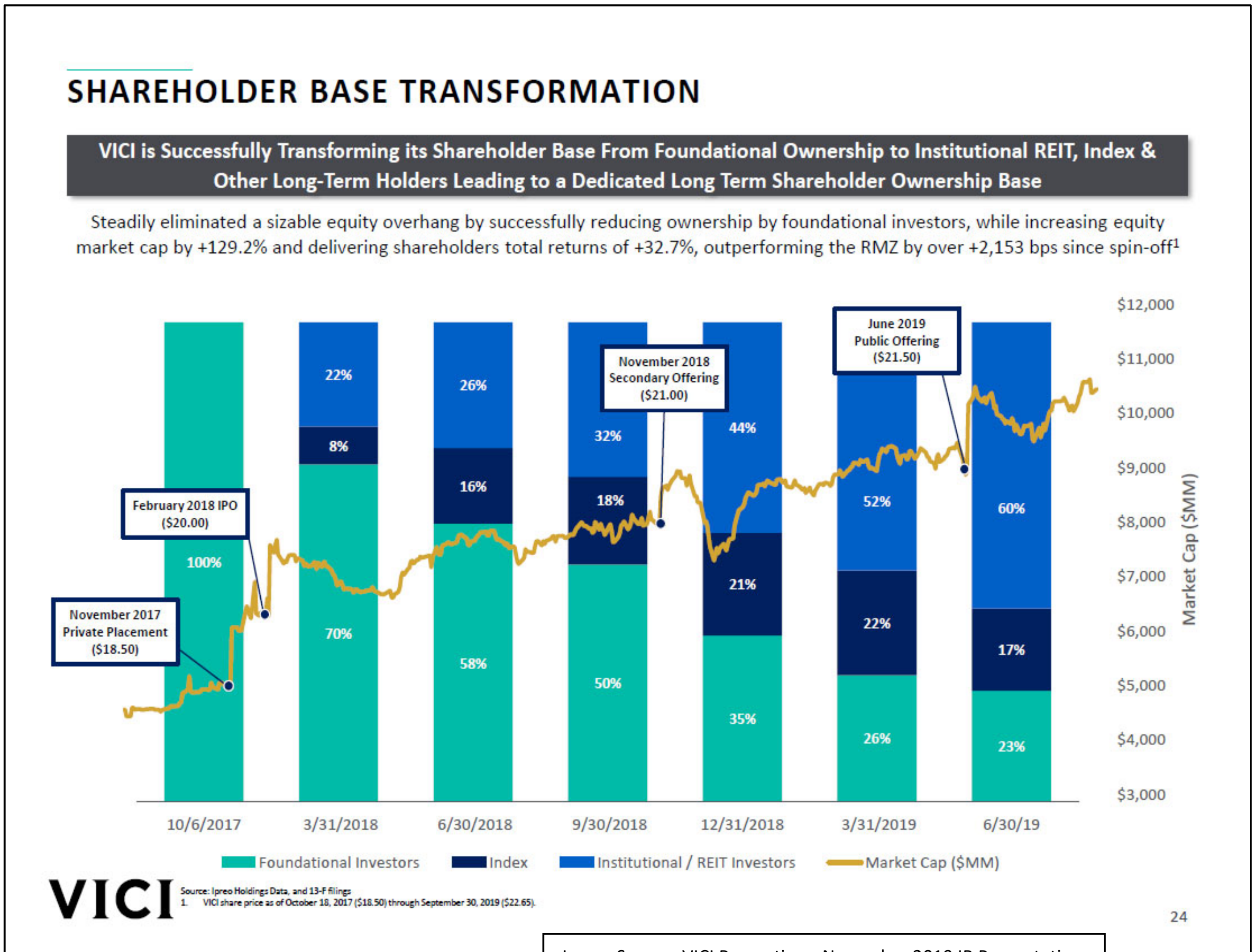
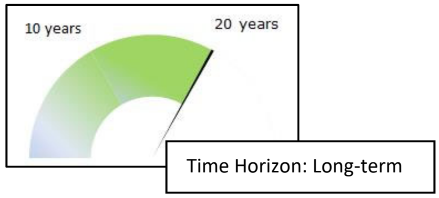


Image Source: VICI Properties – November 2019 IR Presentation

Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above.*



Shopify (SHOP)

"More than a million merchants are now building their businesses on Shopify, as more entrepreneurs around the world reach for independence," said Tobias Lutke, Shopify's CEO. "These merchants chose Shopify because we're making entrepreneurship easier, and we will continue to level the playing field to help merchants everywhere succeed." "Our strong results in the quarter were driven in part by the success of our international expansion, which is just one of the many ways we are investing in the platform," said Amy Shapero, Shopify's CFO. "By carefully balancing these multiple opportunities that have different investment time horizons, we can keep investing in the innovations that will power merchants in the future while helping them grow rapidly today." – Comments made in Shopify's Q3 2019 earnings release

Thesis

Shopify (SHOP) represents our **November 2019 capital appreciation idea**. This company is more than just your typical, rapid growth software as a service ('SaaS') company serving a particular niche. Shopify's single-branch software, for which it charges a monthly subscription, is used to create websites for retailers to sell goods and services on their own websites, through social media, and through marketplaces like Amazon (AMZN) and Ebay (EBAY).

The cheapest subscription starts at about $30, while 5,300 Shopify Plus merchants such as Unilever (UN), Kylie Cosmetics, Allbirds, and MVMT pay several multiples of that for software and services that are above and beyond the basic offering. Aside from the critical software and themes to build up a website, Shopify is also quite a one-stop-shop to serve many more needs for those starting up an online or multi-channel retail shop.

Corporate Profile

Shopify Inc (SHOP) is a leading global commerce company, providing trusted tools to start, grow, market, and manage a retail business of any size. Shopify makes commerce better for everyone with a platform and services that are engineered for reliability, while delivering a better shopping experience for consumers everywhere. Headquartered in Ottawa, Canada, Shopify powers over one million businesses in more than 175 countries and is trusted by brands such as Allbirds, Gymshark, Nestle, Staples, and many more.

Key Statistics	
Shopify (SHOP)	
Last Close	$297.64
52 Week Range	$117.64 - $409.61
Market Cap	$33.1B
Revenue (TTM)	$1.4B
Operating Income (TTM)	-$0.1B
Forward Dividend Yield	N.A.

Using its sheer size serving over 1 million merchants, Shopify basically runs an arbitrage for the benefit of its merchants in offering payments cheaper than the smaller merchants could get on their own, but with enough room left over for Shopify's own take to its gross margin line. Payments make up the bulk of its "Merchant Solutions" revenue, which itself is over half of revenue with "Subscription Solutions" making up the rest. Fully 2/3 of merchants have enabled Shopify payments and the rest must pay a fee (% of gross merchandise volume) instead. Shopify also offers fraud detection on the back of its payments service. Because they have data on so many transactions with so many retailers, their algorithms are quite good at fraud detection, covering the cost of the service, but also allowing retailers to accept as many transactions as possible that make sense to do so, helping to drive the revenue line for both merchants and Shopify.

Shopify also runs an arbitrage with shipping, which it is currently expanding quite substantially. By negotiating good rates with third party shipping and warehouse providers, Shopify's merchants benefit from lower cost shipping, while Shopify benefits from a gross margin stream. These services are very much a win-win for the small- to mid-size merchants and a source of convenience for larger clients.

Another service Shopify offers is its "Capital" initiative. Because they have such great data on its many merchants and because the smaller ones might have trouble finding loans at reasonable rates elsewhere, Shopify has stepped in to buy discounted receivables and offer loans at reasonable rates that also yield a profit margin. **Because they can collect by directly siphoning off the payments from the merchant client's revenue stream, risk is further reduced for Shopify.**

Shopify also offers a point of sale ('POS') system for native online retailers that have decided to open up shops in flagship locations like Allbirds is currently doing. In fact, the company claims that now that they have created their own hardware to go along with their software, that they have a best in class offering that they are going to start selling to "traditional" retailers, regardless of where they are on their journey to become omni-channel.

It's also important to note that Shopify has created quite an impressive ecosystem around its software and services. Shopify runs a marketplace for services for things like digital and professional services, marketers, photographers, etc. Shopify charges referral fees to its partners. Referrals flow both ways and 23,000 partners have referred a merchant to Shopify over the past year.

Shopify has also created a thriving app store with over 3,200 apps at this stage. These apps extend the functionality of the Shopify platform to some more idiosyncratic needs that don't make sense for Shopify to cater towards. Of interest, Shopify has bought out some of the more relevant app providers when it makes sense to offer that service to its whole audience. In fact, Shopify has a history of making acquisitions for talent over the years.

In terms of sales, Shopify has been very non-traditional as far as software companies go. The product has been so hot that they have focused most of their efforts on showing the software and service to people and selling online and through social media. In reality, while there are high end providers of online retailing software that offer customized rollouts, and of course there are other payment gateway providers and lenders, there is no other competitor that offers all of these services in a well-oiled one stop SaaS shop. The entry point is typically the Chief Marketing Officer ('CMO'), instead of a slow-moving technologist that is often trying to protect his or her own hires. Even though Shopify is increasingly moving into outside sales to push Shopify Plus and its POS, they claim that they still don't do steak dinners and endless golf games in order to get where they are trying to go.

This would be an opportune time to mention that for every Allbirds native online or omnichannel retailer that has seen wild success on Shopify's platform, there have been many other failures, but also a key new trend is that old school manufacturers and retailers are now pounding down Shopify's door in order to replicate the branding and marketing success online that they are seeing in the very startups that are trying to disrupt them. So, they have come to Shopify to try to disrupt their own applecart and fight off the digital native invaders.

So, are all of these efforts working? Let's look at some of the evidence of success below. First, you can see from the gross merchandise volume ('GMV') growth in the below graphic that Shopify's merchants are having success selling their own products and services.

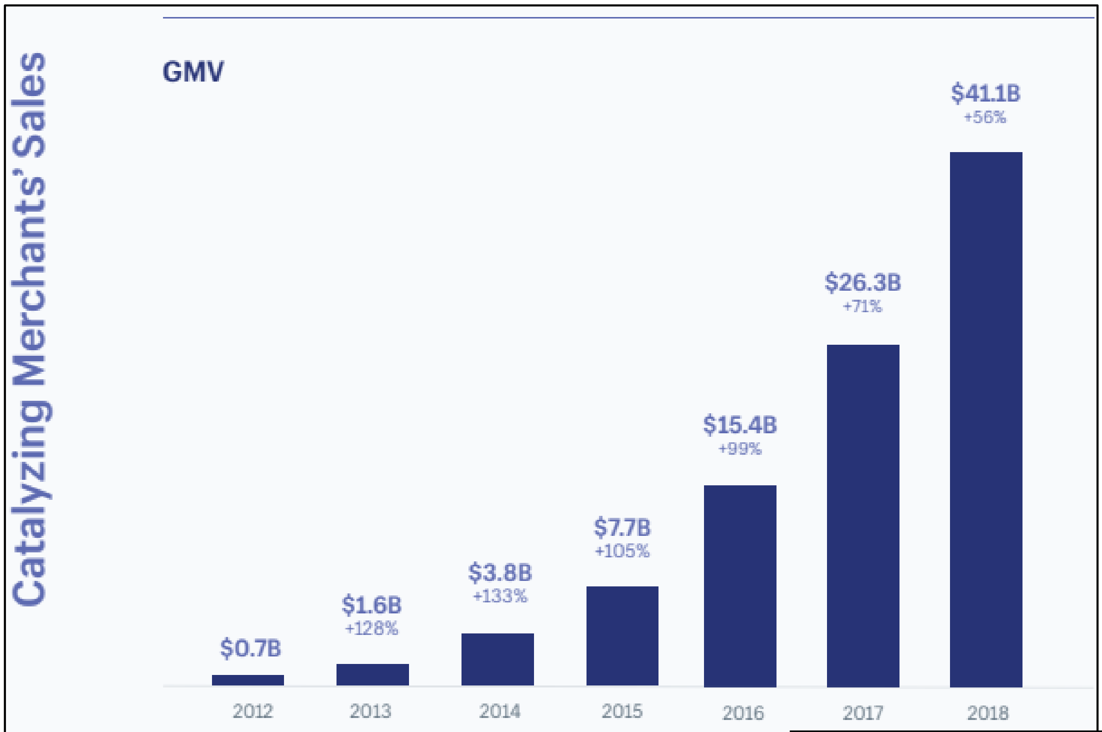


Image Source: Shopify 2018 Year in Review

As you can see in the below graphic, the customers for the merchants are there and they are growing:

Image Source: Shopify 2018 Year in Review

On the back of its merchant clients' successes, Shopify has been rapidly growing both its Merchant Solutions and Subscription Solutions revenue streams, on an ever-higher base:

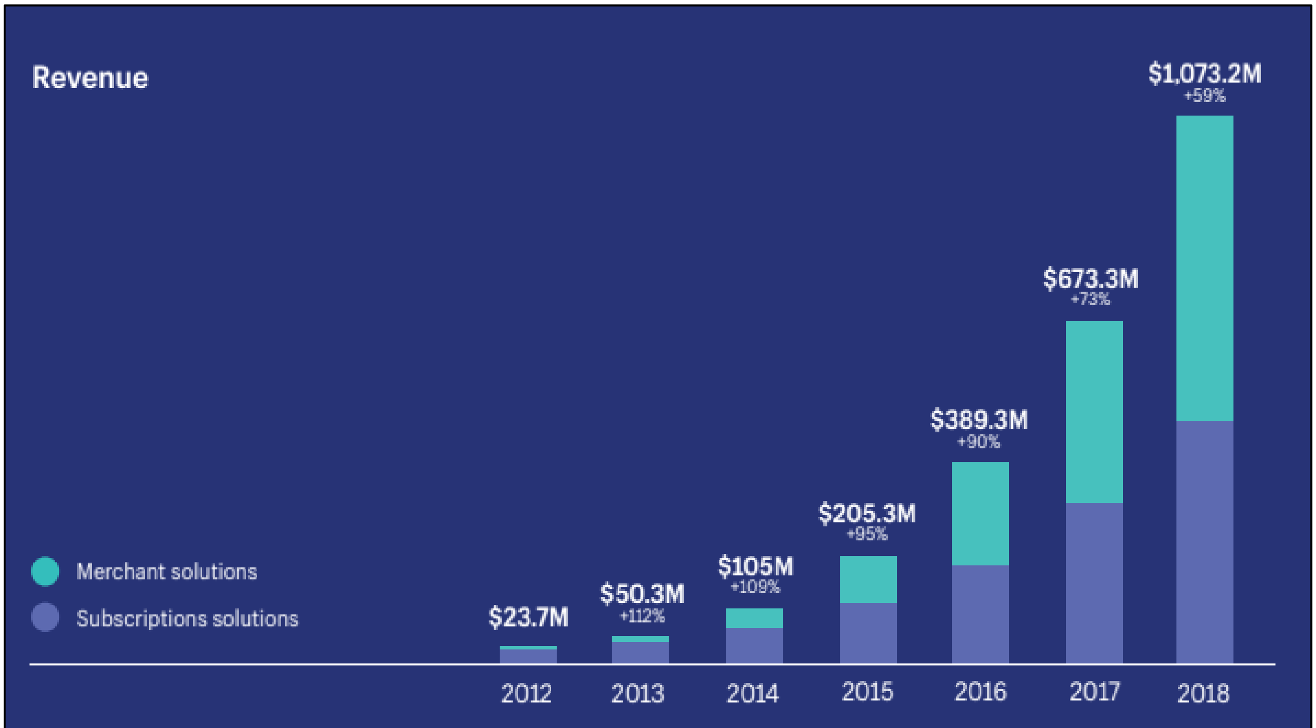
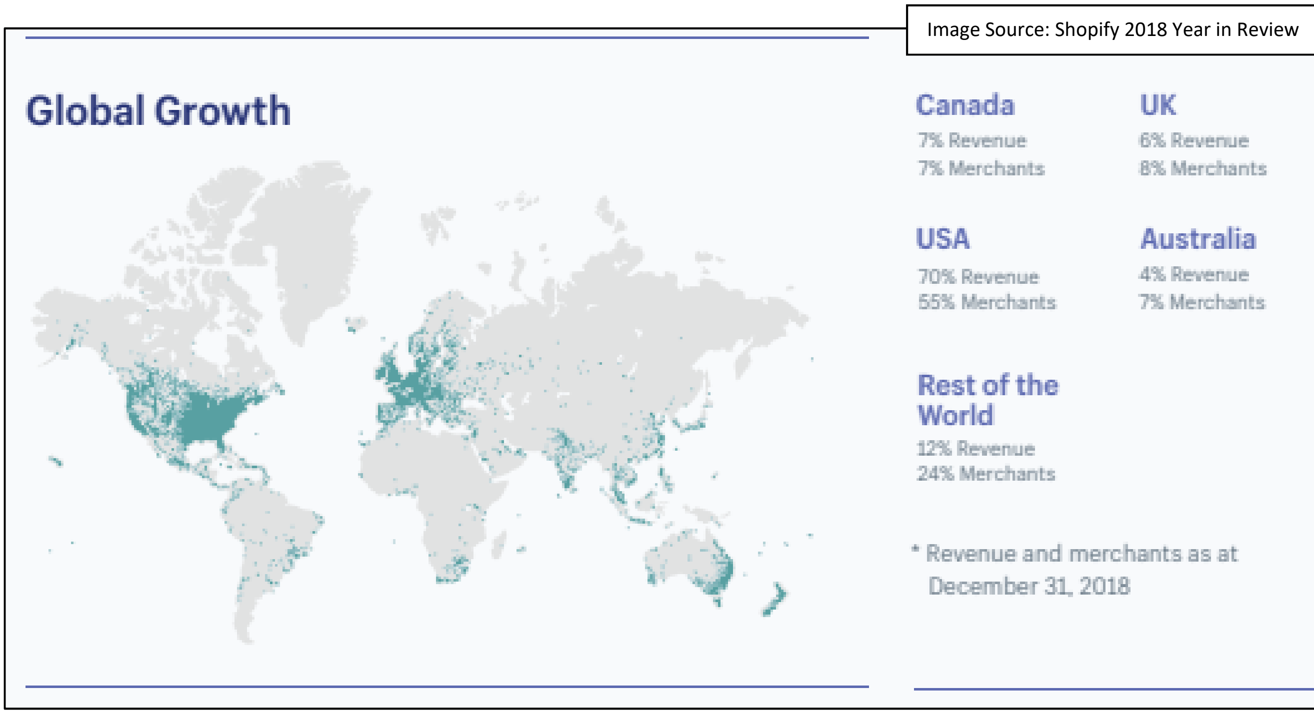


Image Source: Shopify 2018 Year in Review

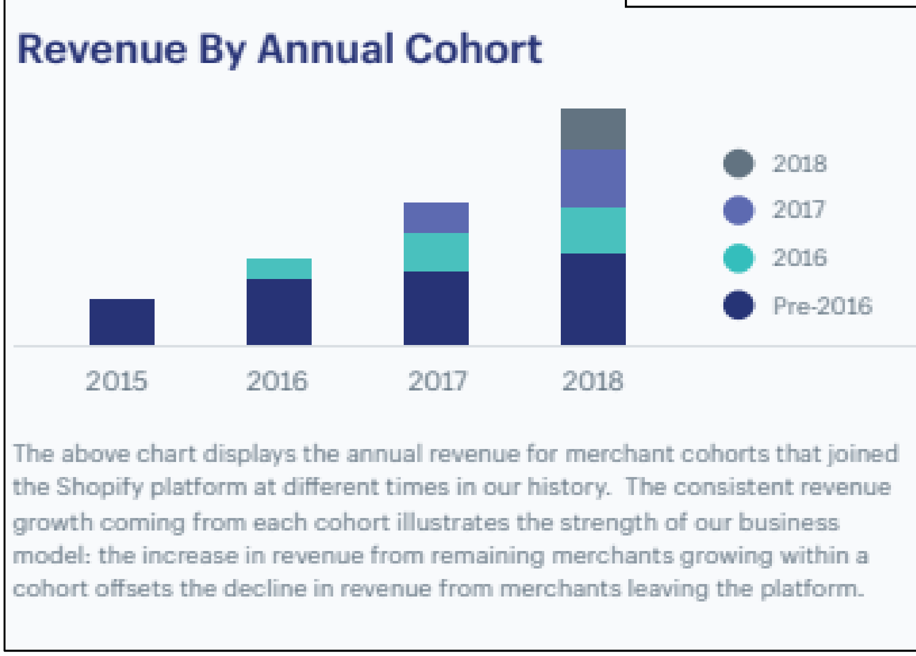
Shopify is also in the process of replicating its success in the English-speaking countries of North America, UK, and Australia, by translating its software and services into more and more languages and countries. **The demand was there before the translation from English took place, so the investment case couldn't be clearer to pursue this path. International growth represents a key part of Shopify's promising growth trajectory.**

Image Source: Shopify 2018 Year in Review



So what types of firms are fueling all of this growth? It is quite clear that while small and medium size businesses ('SMBs') are the bulk of the approximately one million merchants on the platform, a lot of the GMV is concentrated in the hands of the very strongest merchants like the ones that they regularly cite in their communications to analysts. So, is there a lot of churn amongst the SMBs? We were unable to find that stat, but they do disclose the below graphic which shows revenue by recent cohorts. Basically, what it shows is that for whatever churn they experienced, other merchant clients taking on additional software and services made for growing cohorts.

Image Source: Shopify 2018 Year in Review

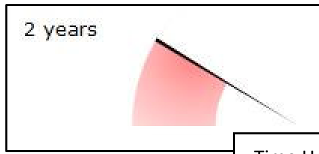


Having pointed out the risk of churn both currently and in the eventual downturn in the economy, the other key risk for Shopify shareholders is of course valuation. In the past 12 months, Shopify has earned $1.4 billion in revenue, so the shares are trading at approximately 25.6 times revenue for a company that is wobbling around the breakeven level as management invests heavily to spur on growth. In fact, the shares have come under a lot of pressure the past couple months along with all other SaaS companies and other rapid growth companies that do not yet produce much in the way of profits. As an investor, the key question is whether or not the company will be able to continue to grow at a rapid clip, and whether the business is truly scalable.

In some cases like Peloton (PTON), the October short idea consideration, we are not believera that the firm's target market is large enough to produce enough profits to justify the current valuation. In other cases like WeWork, we don't believe that the company will be able to scale its way into meaningfully high profit margins. In the case of Shopify and some of the other best in class SaaS companies, we believe in both the growth case as well as the ability to scale the business into high levels of profitability in the future. We think the evidence is there that there is a long growth runway internationally and with layered on services and that the scalability of the business will show up as soon as management slows down its investment in growth. We really like Shopify's long-term growth prospects as a top quality capital appreciation idea.

Disclosure: *Matthew Warren does not own shares in the securities mentioned above.*

Short Consideration



Time Horizon: Short term

Ollie's Bargain Outlet Holdings (OLLI)

"This was certainly, by Ollie's standards, a tough quarter. The…rapid pace of openings and larger footprint of these new stores impacted comparable store sales through increased cannibalization and supply chain pressures that reduced comparable store inventory levels…Our gross margin in the quarter was pressured by both unfavorable merchandise margin as well as deleveraging of supply chain costs as we underestimated the impact of our accelerated new store growth on our operations." – CEO Mark Butler, second-quarter earnings press release, August 2019

Thesis

The short-idea consideration for the November edition of the Exclusive isn't necessary a poor company. The stock has put up solid comparable store sales during the past few years and has material unit store growth prospects ahead of it with little debt on the balance sheet. **However, we feel that an inflection point in the pace of top-line and earnings expansion is upon this big box retailer, and that a reset in its stock price may be coming.** Our **short-idea consideration** for the **November 2019** edition is Ollie's Bargain Outlet Holdings (OLLI).

Corporate Profile

Ollie's Bargain Outlet Holdings (OLLI) is an "extreme discount" retailer that offers customers a broad selection of food, housewares, books and stationery, bed and bath items, floor coverings, electronics and toys, among other items. It was founded in 1982 and now operates more than 300 stores in more than 20 states in the eastern half of the US. It employs more than 7,700 associates, and its principal executive offices are located in Harrisburg, Pennsylvania. The company went public in July 2015.

For those that may not be familiar with the company, the name is somewhat self-explanatory. The company is a bargain retailer, or rather an "extreme value" retailer. As with many discount retailers, the firm offers an assortment of housewares (~15% of sales), food (11%), bed and bath (~10%), books and stationery (~9%), floor coverings (~8%), electronics (~7%) and toys (~7%), health and beauty aids (~6%), among other discounted items. The company's store footprint is located primarily in the eastern half of the United States, and its "warehouse-style stores average approximately 32,500 square feet." Some of its private-label brands include Sarasota Breeze, Steelton Tools, American Way and Commonwealth Classics.

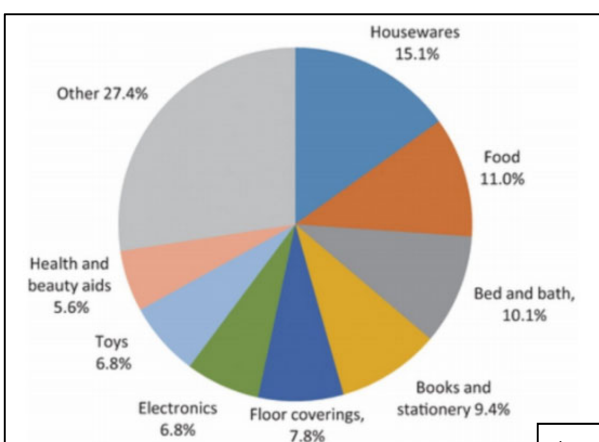


Image Source: Ollie's Bargain Outlet Holdings 10-K

Key Statistics	
Ollie's Bargain Outlet (OLLI)	
Last Close	$60.07
52 Week Range	$53.60 - $103.03
Market Cap	$4.2B
Revenue (TTM)	$1.3B
Operating Income (TTM)	$0.2B
Forward Dividend Yield	N.A.

We don't think Ollie's has an economic moat. An excerpt from its 2018 Annual Report suggests that its "differentiated go-to market strategy is characterized by a…treasure hunt shopping experience, compelling value proposition and witty humorous in-store signage and advertising campaigns." That's not much to lock out the competition. The company says it's known for offering "Good Stuff Cheap," and that the foundation of its strategy is that "everyone in America loves a bargain," but we think Ollie's may be more cyclical and economic-dependent than what investors are betting on when they think of discount retailers.

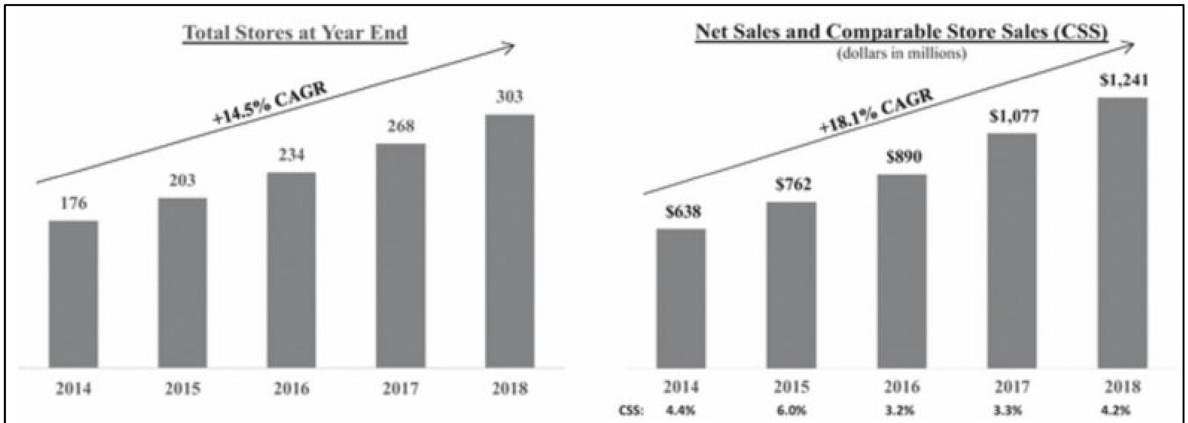


Image Source: Ollie's Bargain Outlet Holdings 10-K

Let's get this out of the way first. Ollie's comparable store sales growth has been strong during this multi-year bull market and expanding economy (see image above), and we believe that management has a lot of unit store growth ahead of it, even if we're skeptical that it will deliver on its goal of having 950+ Ollie's locations across the United States. The firm also has negligible debt, a decent net cash position, and generates solid free cash flows (despite large capital outlays to buy former Toys "R" Us locations, which coincidentally are cannibalizing existing sales). Ollie's is not a poor company by any stretch; we're just saying the market has this one mispriced in a cutthroat retail environment more than 10 years into a bull market.

Ollie's reported second-quarter results in August of this year, and something just didn't add up. Retailers such as Target (TGT), Walmart (WMT) and Dollar General (DG) all posted fantastic second-quarter results, while those of Ollie's suffered. Here's the big issue, from the second-quarter press release: **"Comparable store sales decreased 1.7% from a 4.4% increase in the prior year."** Something may be off with its product assortment, and its bargain-style shopping experience may start to work against it as it struggles to keep fresh assortments. Management could also be distracted as it tries to integrate Toys "R" Us locations, all the while it struggles to limit the cannibalization of existing stores by these new store purchases.

Not only did Ollie's experience weak top-line performance during the second quarter, but net income fell nearly 16%, to $25.2 million, in the period, while earnings per share fell by a similar pace. Adjusted net income fell nearly 10%, while adjusted EBITDA dropped 7%. In an environment where discount retail is shining, either Ollie's is making some serious merchandising errors, or the trajectory of its core business growth is changing as the company deals with a strategic purchasing error in acquiring former Toys "R" Us locations. In either case, that may mean a few quarters of disappointing comparable store sales performance, something that we don't think is completely factored into its valuation.

Here's why: comparable store sales during the past five years have been consistently positive, ranging from 3.2% in 2016 to 6% in 2015. The company's guidance for fiscal 2019, however, was a shocker. Comparable store sales are now expected to ***decline*** by 0.5%-1.5% in the year, a meaningful reduction from the comparable store sales guidance it released in June calling for an ***increase*** of 1%-2%. Though we're not ruling out a bounce back in comps in the near term, we do believe that a new comp trajectory is upon the company, and we think that spells disaster for the stock as the market may simply be writing off the second-quarter disappointment as a hiccup.

	2018	2017	2016	2015	2014
		(in thousands, except per share amounts)			
Consolidated Statement of Income Data:					
Net sales	$ 1,241,377	$ 1,077,032	$ 890,315	$ 762,370	$ 637,975
Cost of sales	743,726	645,385	529,904	459,506	384,465
Gross profit	497,651	431,647	360,411	302,864	253,510
Selling, general and administrative expenses	312,790	278,174	242,891	209,783	178,832
Depreciation and amortization expenses	11,664	9,817	8,443	7,172	6,987
Pre-opening expenses	11,143	7,900	6,883	6,337	4,910
Operating income	162,054	135,756	102,194	79,572	62,781
Interest expense, net	1,261	4,471	5,935	15,416	18,432
Loss on extinguishment of debt	150	798	—	6,710	671
Income before income taxes	160,643	130,487	96,259	57,446	43,678
Income tax expense	25,630	2,893	36,495	21,607	16,763
Net income	$ 135,013	$ 127,594	$ 59,764	$ 35,839	$ 26,915
Earnings per common share:					
Basic	$ 2.16	$ 2.08	$ 0.99	$ 0.67	$ 0.56
Diluted	$ 2.05	$ 1.96	$ 0.96	$ 0.64	$ 0.55
Weighted average common shares outstanding:					
Basic	62,568	61,353	60,160	53,835	48,202
Diluted	65,905	64,950	62,415	55,796	48,609

Image Source: Ollie's Bargain Outlet Holdings 10-K

Let's talk valuation. Adjusted net income is now targeted in the range of $1.95-$2.00 per share for fiscal 2019, meaning **Ollie's is trading at north of 33 times based on the midpoint of its current fiscal-year guidance range, despite management indicating that comp sales will be *negative* for fiscal 2019 and that its adjusted earnings target will be below that achieved on a GAAP basis in 2018.** Though the firm has a modest net cash position, and while its $300+ million in contractual operating leases are definitely manageable in coming years, we think the market is simply getting its valuation "wrong" and missing the change in comp trajectory, which could have implications on expectations of new store growth.

Contractual Obligations

We enter into long-term contractual obligations and commitments in the normal course of business, primarily operating leases.

As of February 2, 2019, our contractual lease obligations were:

	Less than 1 year	1-3 Years	3-5 Years	Thereafter	Total
			(in thousands)		
Lease obligations(1)	$ 60,804	$ 105,333	$ 77,599	$ 65,218	$ 308,954
Capital lease obligations	302	217	160	—	679
Capital lease interest and fees	49	27	10	—	86
Total	$ 61,155	$ 105,577	$ 77,769	$ 65,218	$ 309,719

(1) Includes the initial lease term and optional renewal terms that are reasonably assured and are included in the lease term of our store and distribution center leases in accordance with accounting guidance related to leases.

Image Source: Ollie's Bargain Outlet Holdings 10-K

Where can we be wrong with this short-idea consideration? First, discount retail tends to be counter-cyclical, but Ollie's historical pace of growth during this cyclical upswing coupled with its deteriorating comps suggests that the company may be more exposed to the economic cycle that what investors believe. Second, the company's weak fiscal 2019 may be just a blip, and it may be able to right the ship relatively quickly, avoiding what we're anticipating as an investor reset in the stock. While possible, negative comps speak to core, underlying problems, not easily diagnosed and fixed (particularly as it may have "overreached" with buying the former Toys "R" Us locations).

Third, Chairman, President and CEO Mark Butler has been able to grow this company from 28 stores in 3 states in 2003 to 300+ stores in 20+ states in 2019, so we're not one to count out any risk-taking entrepreneur, even if we expect the share price of Ollie's to face significant pressure in the coming quarters to years (existing store footprint shown in the graphic below). Butler owns ~16% of the stock, too (as of May 2019), so he is heavily aligned with the success of the firm. Lastly, and perhaps peculiarly, Ollie's doesn't have an online retail presence, per se, so any initiatives in this area could be a positive catalyst, though perhaps not as much as that of a "Target" or "Walmart", given Ollie's "treasure-hunt" approach.

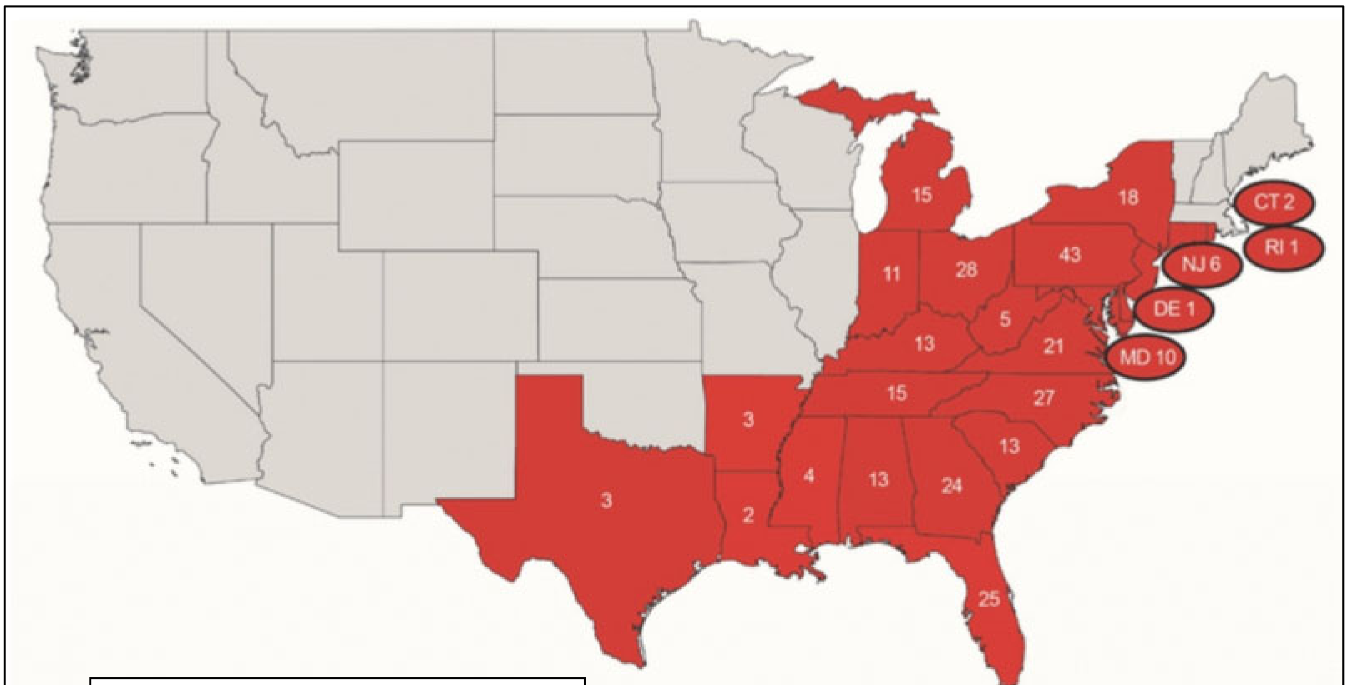


Image Source: Ollie's Bargain Outlet Holdings 10-K

All things considered, Ollie's is a good company, but we think shares are overpriced as they trade north of 30 times current-year earnings. Deteriorating comparable store sales trends could have severe implications on the long-term unit store growth trajectory of the company (something the company is counting on to drive top-line expansion), not to mention its weak comps speak to softness in its core merchandising efforts or strategic missteps in its purchase of former Toys "R" Us locations, as others in retail shine. For a company with a market capitalization north of $4 billion at the time of this writing, shares could be poised for a significant decline, particularly if fiscal 2020 comes up even a little bit short. This big box retailer could re-test its 52-week low of ~$53 per share again, in our view.

Image Source: Ollie's Bargain Outlet Holdings 10-K

Name and Address of Beneficial Owner	Beneficial Ownership of Common Stock: Number of shares	Beneficial Ownership of Common Stock: Percentage of Class
5% Stockholder Not Listed Below:		
Blackrock, Inc.	6,190,043[1]	9.75%
The Vanguard Group	4,511,371[2]	7.11%
Named Executive Officers and Directors:		
Mark Butler	10,333,473[3]	15.82%
Jay Stasz	24,773[4]	*
John Swygert	154,624[5]	*
Omar Segura	19,684[6]	*
Kevin McLain	60,728[7]	*
Thomas Hendrickson	18,761[8]	*
Stanley Fleishman	46,661[9]	*
Stephen White	5,330[10]	
Richard Zannino	—	
Robert Fisch	17,161[11]	*
All Board members and executive officers as a group (11 persons)	10,732,959	16.36%

Inaugural Letter to Members

July 1, 2016

Dear Valued Member,

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

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

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

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

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

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

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

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

Batter up!

Sincerely,

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

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

The Nelson Exclusive: Volume 4, Issue 11

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

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

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

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

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

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