THE EXCLUSIVE

Confidential*

December 2019

THE VALUENTUM TEAM

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We Closed Four Winners

Please note we sent out an email to our members closing several open Exclusive ideas on December 5. Email link here:

http://campaign.r20.constantcontact.com/render?m=1110817109903&ca=00ff76e1-82b7-421a-8e0a-5860ae20ac90

By Callum Turcan and Brian Nelson, CFA

Image Shown: Shopify has been a solid performer since it was highlighted in the November edition of the Exclusive publication.

Dear Exclusive members,

Trust you are doing great!

In the November edition of the Valuentum Exclusive we highlighted **Shopify (SHOP)**, a leading global e-commerce firm at $297.64. We're pleased to report that within the course of a few weeks, shares had skyrocketed to $369.08, and we closed the position for a solid 16% "gain" on December 5. This late in the economic cycle, we're not getting "cute," and when we nail a winner in a short period of time, we're going to take it, and move on. We don't want our winners to turn into losers as broader economic headwinds intensify so late into this economic cycle.

We wanted to bring your attention to one of our latest short idea considerations, **Peloton (PTON)**, highlighted in the October edition of the Exclusive publication. **We think the market is simply getting this story wrong, as shares have been bid up by speculators of late.** Our short thesis remains intact, from our perspective, and the latest advertising miscue suggests there may be some customer backlash this holiday season. Peloton could be in for a big fall in coming quarters. Heading into the year-end holiday season, Peloton recently dropped the price of its digital-only subscription in a bid to juice sales growth.

Along the same lines as to why we closed Shopify, we locked in winner **Cloudflare (NET)**, which was also highlighted in the October edition of the Exclusive. We closed out the position at $18.72, up over 8% from where it was highlighted. We have had some huge winners in the past Exclusive editions, and while some of the latest closes have been more modest in nature, **we think prudence is best.** We want our members to continue to do well. Cloudflare is a top-quality web infrastructure and cybersecurity software-as-a-service ('SaaS') company with a promising growth trajectory, but we aren't looking back as we turn our attention to new opportunities.

Two more ideas that we closed out on December 5 include November 2019 short idea consideration **Ollie's Bargain Outlet Holdings (OLLI)** and August 2019 capital appreciation idea **Inovalon Holdings (INOV)**. Ollie's CEO sadly passed away recently, and while this wasn't part of our thesis on the name, share price action has made it a winner in an otherwise strong bull market. We closed the idea at $59.68. Also for a modest gain, we closed out our Inovalon position at $17.59.

September 2019 short idea consideration **LendingTree (TREE)** was highlighted at $309.02, and initially got away from us after posting third quarter earnings in late-October. We aren't convinced**. In this edition of the Exclusive, we published a follow-up article (starts on Page 5) highlighting why we remain confident in this short idea consideration.** Fundamentally, our thesis is built around the low quality of LendingTree's growth trajectory. Incremental revenues are being completely consumed by incremental operating expense increases (namely rising sales and marketing expenses), leading to non-existent operating income growth. Add in material ongoing equity dilution and legal liabilities (we cover LendingTree's recent legal woes in great detail) to this picture, and shares of TREE could be set to drop significantly over the coming quarters.

October 2019 income generation idea **Life Storage (LSI)** has seen its share price perk up modestly from our highlight price of $105.41. The self-storage company's website notes that Life Storage operates ~850 locations across 29 states in the US, giving the real estate investment trust ('REIT') ample geographical diversity. **Shares of LSI yield ~3.7% as of this writing, and we remain optimistic on the REIT's long-term outlook.**

January 2018 short idea consideration **Shake Shak (SHAK)** is still on our radar as shares have steadily shifted lower since peaking this past September. We think recent industry headwinds will continuing pressuring shares of SHAK going forward. Market research provider TDn2K reported that US restaurant comparable store sales grew by 0.06% in October 2019 (down 0.14% on a rolling three month basis); however, please note that comparable traffic was down 3.13% (down 3.28% on a rolling three month basis). Price increases have been key in maintaining comparable store sales growth as consumers turn to other dining options.

If exogenous shocks continue to slow the US economy down as we get closer to 2020, November 2018 short idea consideration **Beazer Homes USA (BZH)** may not be on such strong footing. On November 13, Beazer Homes USA posted fourth quarter earnings for fiscal 2019 (ended September 30, 2019) and please note its 'Homebuilding Gross Margin' fell substantially year-over-year. Pressures on the company's average selling price may build should US-China trade talks falter, given the risks that poses to the ongoing economic expansion that's very long in the tooth.

On a final note, we would like to continue to emphasize that a large portion of the value of our Exclusive publication comes from each idea being laid out in thesis form and explained thoroughly (for example, you can always access the archives and read through our prior takes). We also highlight both the upside and downside considerations germane to each idea to provide as best a picture we can illustrate. Members 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.

We hope you enjoy this December edition of the Exclusive publication, and furthermore, we hope you get to spend some quality time with your family and friends over the holidays. 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.*

LendingTree's Financials Aren't as Strong as They First Appear

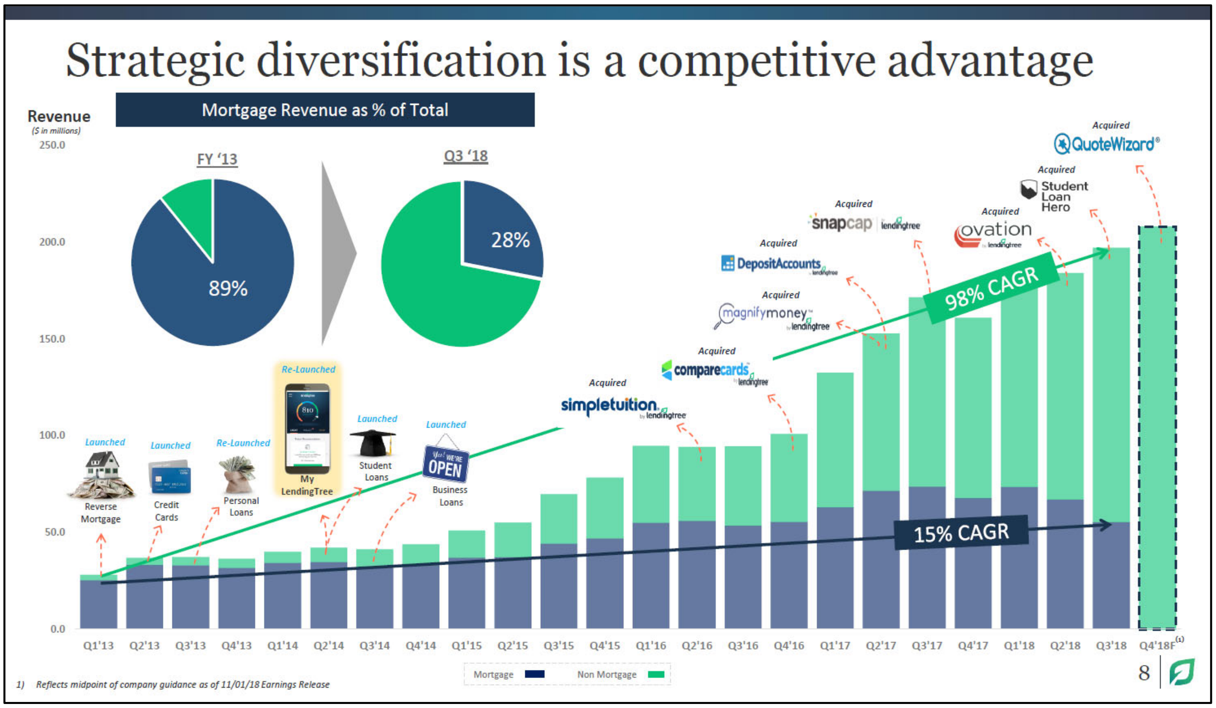


Image Shown: *LendingTree Inc has shifted away from its reliance on mortgage activities over the past several years and towards financial activities including personal loans, credit cards, and more. That transition was largely made possible through numerous acquisitions.* ***Image Source:*** *LendingTree – December 2018 IR Presentation*

By Callum Turcan

On October 30, September 2019 Exclusive short idea consideration **LendingTree Inc (TREE)** reported third quarter earnings that were positively received by the market. **In this note we will cover why we continue to see shares of TREE as significantly overvalued**, but first let's go over what LendingTree did right last quarter. Please keep in mind that after the initial perk up in shares of TREE in the wake of the company's latest earnings report, LendingTree's stock price has since pulled back even though US equities performed quite well in November.

LendingTree's GAAP revenues climbed higher by 58% year-over-year in the third quarter of 2019, enabling its GAAP operating income to increase by 54% year-over-year. Most of this growth is coming from non-mortgage products (LendingTree's operations that deal with personal loans, credit cards, etc.). LendingTree reported that its non-GAAP adjusted EBITDA grew by 39% year-over-year last quarter, however, **as a percent of GAAP revenues that figure fell by ~300 basis points year-over-year**.

Where LendingTree likely won over investors was with its cash flow performance as the firm generated $96 million in free cash flows during the first nine months of 2019. We maintain that aggressive equity dilution makes this picture look a lot more promising than it really is, something we'll cover in greater detail in a moment (non-cash based compensation, which is primarily if not entirely all share-based compensation, totaled $41 million during the first nine months of 2019).

Furthermore, keep in mind LendingTree's GAAP operating margin fell in both the third quarter of 2019 and during the first three quarters of 2019 on a year-over-year basis. **LendingTree's top line growth is largely the product of perennially increasing marketing expenses and its various acquisitions, with incremental revenues completely consumed by incremental operating expenses. The firm's free cash flows are propped up by the company leaning heavily on share-based compensation and ultimately equity dilution.**

LENDINGTREE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands, except per share amounts)			
Revenue	$ 310,605	$ 197,057	$ 851,416	$ 562,193
Costs and expenses:				
Cost of revenue *(exclusive of depreciation and amortization shown separately below)* (1)	17,671	10,838	51,651	22,577
Selling and marketing expense (1)	200,818	124,400	567,338	374,390
General and administrative expense (1)	30,323	22,980	89,391	70,553
Product development (1)	10,200	6,608	30,541	18,835
Depreciation	2,696	1,895	7,737	5,199
Amortization of intangibles	13,778	5,701	41,485	13,628
Change in fair value of contingent consideration	3,839	2,105	21,221	1,197
Severance	179	2,328	636	2,331
Litigation settlements and contingencies	(92)	(88)	(291)	(280)
Total costs and expenses	279,412	176,767	809,709	508,430
Operating income	31,193	20,290	41,707	53,763
Other (expense) income, net:				
Interest expense, net	(4,845)	(2,393)	(15,408)	(8,305)
Other income (expense)	4	(69)	143	(106)
Income before income taxes	26,352	17,828	26,442	45,352
Income tax (expense) benefit	(1,889)	10,534	11,552	63,716
Net income from continuing operations	24,463	28,362	37,994	109,068
Loss from discontinued operations, net of tax	(20,199)	(2,634)	(22,024)	(9,269)
Net income and comprehensive income	$ 4,264	$ 25,728	$ 15,970	$ 99,799

Image Shown: *On the surface, it appears LendingTree's financial performance improved materially during the third quarter of 2019, largely due to rising revenues.* ***Image Source:*** *LendingTree – Third Quarter 2019 Earnings Press Release*

Weighted average shares outstanding:				
Basic	12,890	12,799	12,805	12,437
Diluted	14,632	13,850	14,629	14,299
Income per share from continuing operations:				
Basic	$ 1.90	$ 2.22	$ 2.97	$ 8.77
Diluted	$ 1.67	$ 2.05	$ 2.60	$ 7.63
Loss per share from discontinued operations:				
Basic	$ (1.57)	$ (0.21)	$ (1.72)	$ (0.75)
Diluted	$ (1.38)	$ (0.19)	$ (1.51)	$ (0.65)
Net income per share:				
Basic	$ 0.33	$ 2.01	$ 1.25	$ 8.02
Diluted	$ 0.29	$ 1.86	$ 1.09	$ 6.98
(1) Amounts include non-cash compensation, as follows:				
Cost of revenue	$ 208	$ 123	$ 558	$ 260
Selling and marketing expense	835	1,577	4,867	4,511
General and administrative expense	8,627	8,388	30,534	25,617
Product development	1,127	2,009	4,873	3,996

Image Shown: *When analyzing LendingTree's equity dilution and non-cash compensation (namely if not entirely stock-based compensation), it's clear the company's financial performance is nowhere near as strong as purported to be.* ***Image Source:*** *LendingTree – Third quarter 2019 Earnings Press Release*

Within LendingTree's third quarter 10-Q filing for 2019, the company provided greater detail on the ongoing problems concerning its relationship with subsidiary Home Loan Center ('HLC'). Back in 2012, LendingTree sold off substantially all of HLC's operating assets to Discover Financial Services (DFS) for $56 million in cash, but LendingTree was still on the hook for losses and related liabilities on loans sold before a certain period (loans sold before the deal with Discover closed).

Due to a legal judgement made against HLC in June 2019 for $69 million, HLC filed for Chapter 11 in July, which was subsequently changed to a Chapter 7 bankruptcy petition in September. This bankruptcy filing allowed LendingTree to deconsolidate HLC from its financial statements, but that doesn't mean this saga is over (HLC is now treated as LendingTree's discontinued operations as the bankruptcy filing led to LendingTree no longer having a controlling interest in the company for accounting purposes). HLC alleged that it has claims against its sole shareholder, LendingTree (please note LendingTree, before the bankruptcy filing, continued to own the remaining liabilities and operations of HLC not sold off to Discover), in bankruptcy court. Those claims stem from a January 2016 dividend payment of $40 million HLC declared (those dividends appear to have gone entirely to LendingTree).

While LendingTree notes that it sees the dividend declaration as proper, the firm offered $31 million to HLC in the third quarter of 2019 "for the release of any and all claims against the Company, including the dividend claim." It's important to keep in mind that legal expenses are material here, especially as LendingTree "is obligated to advance any expenses to HLC's former sole director related to these claims and to indemnify such former sole director to the maximum extent permitted by law" relating to this legal battle. LendingTree had recorded a $31 million liability on its balance sheet relating to this potential legal liability as of the end of September 2019, and the firm estimates its potential legal liability from this issue ranges from nothing to up to $40 million. Here's a key excerpt from LendingTree's third quarter 10-Q filling for 2019;

> *"In its filings with the Bankruptcy Court, HLC has indicated that it believes that it has claims against HLC's sole shareholder, LendingTree, LLC, and its former sole director (the Company's Chairman and Chief Executive Officer), relating to the declaration of a dividend by HLC in January 2016 of $40.0 million. The Company is obligated to advance any expenses to HLC's former sole director related to these claims and to indemnify such former sole director to the maximum extent permitted by law. LendingTree, LLC believes the declaration of the dividends was proper, that the amounts paid to LendingTree, LLC following such declarations are not subject to recovery by HLC and that any claims by HLC relating to such dividend declarations are without merit. LendingTree, LLC intends to vigorously contest such claims.*
>
> *During the third quarter of 2019, LendingTree, LLC made a settlement offer to HLC for $31.0 million for the release of any and all claims against the Company, including the dividend claim. LendingTree estimates the range of potential losses related to the dividend matter to be $0.0 million to $40.0 million. An estimated liability of $31.0 million is included in the accompanying consolidated balance sheet as of September 30, 2019 related to LendingTree LLC's ownership in HLC. HLC's voluntary petition under the Bankruptcy Code does not represent an event of default under LendingTree, LLC's Amended and Restated Credit Agreement dated as of November 21, 2017 or the Company's indenture dated May 31, 2017 with respect to the Company's 0.625% Convertible Senior Notes due 2022."*

Furthermore, HLC is facing other legal challenges over loans it sold, including one from Lehman Brothers Holdings (LEHLQ) that's currently ongoing (Lehman Brothers Holdings amended its legal challenge in December 2018). The alleged "Claims Amount" is ~$40 million, but any potential legal liability is hard to determine at this moment. Keep in mind this is all on top of the loan losses and related liabilities HLC expected to realize due to the firm retaining significant liabilities after the 2012 sale of most of its operating assets.

For LendingTree, these legal battles are siphoning off company resources and time that would be better spent elsewhere (which is likely why the company offered a settlement to HLC in the third quarter of this year). At the end of LendingTree's third quarter, the company was sitting on $50 million in cash and cash equivalents (we aren't including its negligible restricted cash position here).

Combined with its free cash flow generation, LendingTree can make good on its potential legal liabilities as they stand today, but that will drain a lot liquidity from its balance sheet. Additionally, LendingTree had $85 million in short-term debt (its drawn revolving credit line) and $261 million in long-term debt, on top of its aforementioned legal liabilities, on the books at the end of September 2019. The $350 million revolving credit facility matures in November 2022.

Keeping this legal saga in mind, note LendingTree has an ongoing share buyback program that seeks to offset some of its shareholder dilution over the years. In the third quarter of 2019, LendingTree had 14.63 million outstanding shares on a weighted-average diluted basis, up from 13.85 million in the same quarter a year ago. **LendingTree spent $94 million repurchasing its stock in 2018, but so far has spent only $4 million buying back its shares during the first three quarters of 2019.**

Aggressive share-based compensation continues to dilute shareholders faster than its buyback program can keep up, especially as free cash flows and cash raised through debt issuance have historically gone towards funding its acquisitions (QuoteWizard, Student Loan Hero, Ovation, SnapCap, DepositAccounts, Magnify Money, CompareCards, and numerous others). With the HLC legal liabilities now looming larger, it's unlikely LendingTree will repurchase a meaningful amount of its stock for the foreseeable future as management focuses on growing the firm's cash pile (which has roughly been cut in half since the end of 2018 through the end of September 2019, due in large part to LendingTree completing its purchase of ValuePenguin in January 2019).

Shares of TREE have advanced since first listing LendingTree as an Exclusive short idea consideration, but we maintain that its financials are nowhere near as strong as they might appear at first glance. **Incremental revenues are completely consumed by incremental operating expenses (seen through LendingTree's deteriorating GAAP operating margin this year), and its free cash flows are largely propped up by aggressive equity dilution.** Factor in legal woes that will materially drain LendingTree's current cash position, and we see shares of TREE as trading at a lofty valuation.

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

Chesapeake Energy's Pain Indicates Nothing "Safe" About Energy MLP Distributions

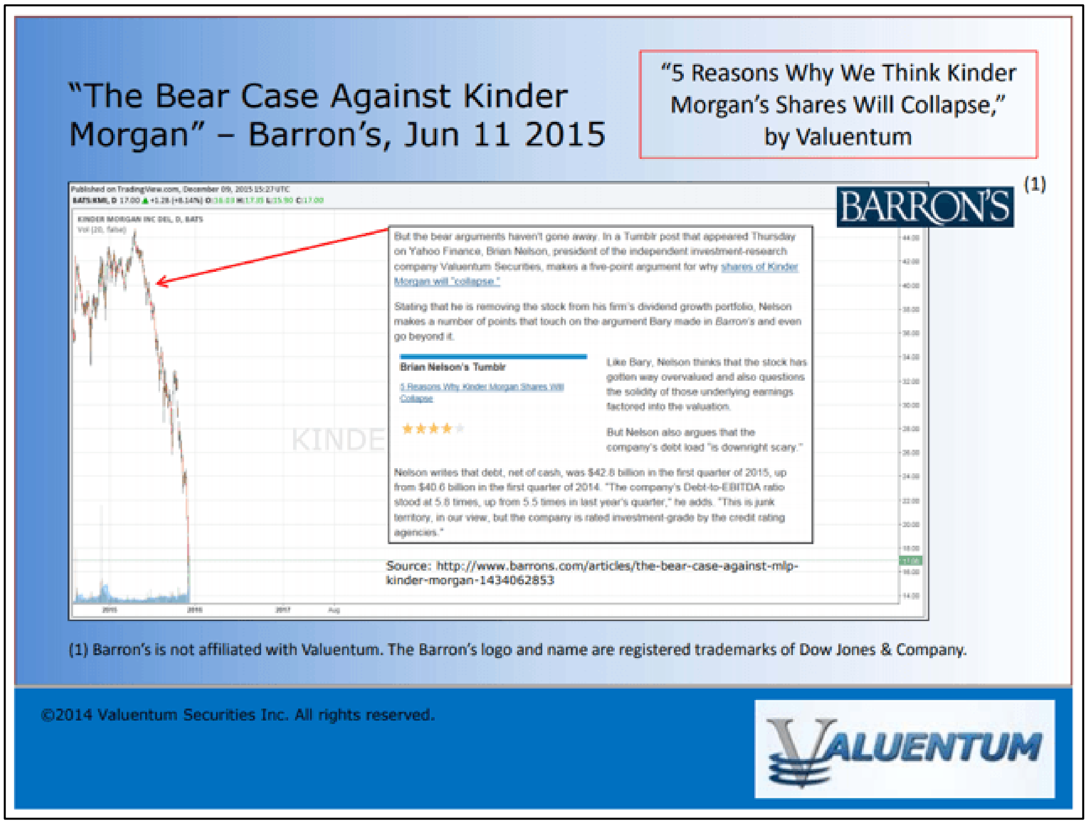


Image Source: *Valuentum slide deck, December 2015. Valuentum turned bearish on Kinder Morgan in June 2015.*

By Callum Turcan and Brian Nelson, CFA

Summary

There is nothing "safe" in the stock market, and given the track record of the distributions of pipeline MLPs, there is nothing "safe" about pipeline MLP distributions.

The MLP business model continues to be phased out, a trend that we anticipated when we made our bearish call on the group in June 2015.

Chesapeake Energy's pain is a yet another reminder of the pipeline MLP group's exposure to energy resource pricing through the health (or rather ill-health) of its customer base.

We continue to encourage pipeline operators to disclose free cash flow (cash flow from operations less all gross capital spending) prominently in press releases, alongside other industry-specific metrics.

Investors of Chesapeake could get completely wiped out in a Chesapeake bankruptcy, and this could have implications across the pipeline MLP arena.

Valuentum has said it before, and we'll say it again: the master limited partnership (MLP) business model for energy equities is on its way out. Since Kinder Morgan (KMI) rolled up its infrastructure in 2014, more than 40% of energy infrastructure is now comprised of C-corps, with midstream after midstream company transitioning away from the MLP business model, a percentage that's up from practically nothing in 2013 and just 15% at the end of 2014, a trend we predicted, despite extreme levels of skepticism years ago. Read more about the fall of energy MLPs and Kinder Morgan in the Preface of the book *Value Trap: Theory of Universal Valuation*.

We also take big objection to research that describes energy MLP distributions as "safe." For starters, there is really nothing "safe" when it comes to equity investing, in general, but the reality is that given the track record of MLP distributions during the past five years, in no way should they be described as being anything close to being "safe." According to data by CBRE Clarion, for example, during the past five years, there have been over 110 distribution/dividend cuts, consisting of "48 outright cuts by MLPs/corps that still exist" and "63 cuts either from mergers w/ backdoor cuts or from MLPs that no longer exist."

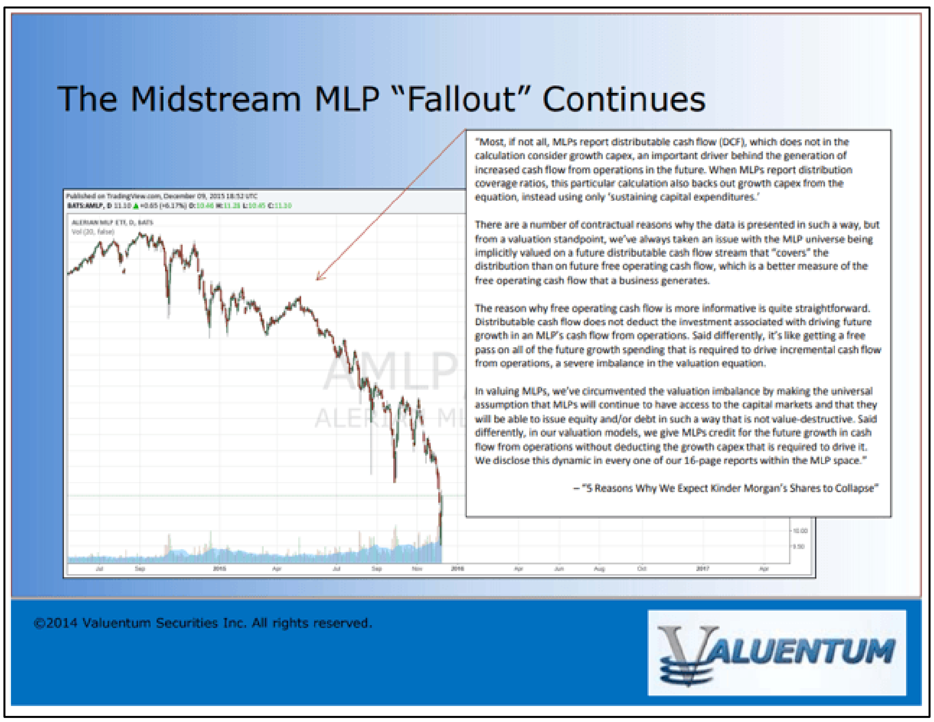


Image Source: *Valuentum slide deck, December 2015. Valuentum released its bearish case on MLPs in June 2015.*

Pipeline Companies Not Immune to Energy Resource Price Volatility

What many had believed about pipeline MLPs is that they were relatively immune to energy resource prices. While this may seem true at face value (given their toll road operations), it's not exactly right. During the fall in MLP prices in 2015 as energy resource prices collapsed, the market began to worry about the implications of the health of pipeline customers, particularly as the credit rating agencies took a hard look at re-rating the independent oil and gas space in the event of lower price decks. As growth prospects for the customers of pipeline equities waned, and as their financial health became a greater concern, many market participants began to come around that pipeline MLPs were implicitly tied to energy resource prices through the health of their customers, if not explicitly tied in certain cases with direct exposure.

This same dynamic is true today. Pipeline MLPs are largely tied to energy resource pricing through the health of their customer base, and this was on display more recently. Chesapeake Energy (CHK) reported abysmal third-quarter results November 5 that showed that total production fell 11% year-over-year, and lower realized natural gas prices and NGL prices contributed to more pain. Chesapeake Energy's large debt load coupled with the lower energy resource prices are now raising worries about whether the firm will be able to continue to operate as a going concern; from the firm's 10-Q:

> *Fluctuations in oil and natural gas prices have a material impact on our financial position, results of operations, cash flows and quantities of oil, natural gas and NGL reserves that may be economically produced. Historically, oil and natural gas prices have been volatile, and may be subject to wide fluctuations in the future.* ***If continued depressed prices persist, combined with the scheduled reductions in the leverage ratio covenant, our ability to comply with the leverage ratio covenant during the next 12 months will be adversely affected which raises substantial doubt about our ability to continue as a going concern.***
>
> *Failure to comply with this covenant, if not waived, would result in an event of default under our Chesapeake revolving credit facility, the potential acceleration of outstanding debt thereunder and the potential foreclosure on the collateral securing such debt, and could cause a cross-default under our other outstanding indebtedness. We are actively pursuing with support from the Board of Directors a variety of transactions and cost-cutting measures, including but not limited to, reduction in corporate discretionary expenditures, refinancing transactions by us or our subsidiaries, capital exchange transactions, asset divestitures, reductions in capital expenditures by approximately 30% in 2020 and operational efficiencies. We believe it is probable that these measures, as we continue to implement them, will enable us to comply with our leverage ratio covenant.*

On December 4, Chesapeake Energy's creditors threw the company a lifeline as the embattled company secured a 4.5-year $1.5 billion first lien term loan, largely to assist in refinancing activities. This will help keep the lights on for a while longer, but still doesn't fix the company's core problems. Chesapeake Energy is still a penny stock, and we have doubts that the firm will be able to make it to the other side of the weakness without some serious shareholder dilution, if not a Chapter 11 filing that completely wipes the equity clean. This is worth repeating: in the event of a Chapter 11 filing, it is very likely that existing shareholders will get nothing. That said, the implications on pipeline MLPs as a result of Chesapeake's weakness and potential reorganization or liquidation is not negligible. Two pipeline equities that are arguably most at risk are Crestwood Energy Partners (CEQP) and Williams (WMB), according to East Daley Capital. Kinder Morgan, Plains All American (PAA), and Energy Transfer (ET) also have some exposure.

Not only is Chesapeake Energy's fundamental (and share price) weakness a stark reminder of just how exposed pipeline MLPs to energy resource pricing, the latest news shocking the energy MLP space is an AP report suggesting "that the FBI has launched a corruption investing into how Pennsylvania issued construction permits for the $3 billion Mariner East pipeline project." This has sent shares of Energy Transfer tumbling. At this point, it is difficult to handicap any outcome of the investigation, but it certainly isn't good news, with Energy Transfer selling off more than 5% during the trading session November 13. Investors continue to have to take a leap of faith to invest in some of the riskier pipeline players, in our view.

We Continue to Call for Improved Transparency

Investors have benefited from improved transparency as many pipeline operators have transitioned away from using the MLP business model to C-corps, and we continue to applaud this trend that has only accelerated the past few years. Convoluted MLP ownership structures continue to be discarded, and in evaluating C-corps, analysts are better able to assess intrinsic value based on "correct" valuation methods, namely the free-cash-flow-to-the-firm process (which considers all capital expenditures). One of the major issues that we identified during 2015, prior to the collapse in pipeline MLP prices, was that many investors were valuing the space excluding growth capital spending, as in the measure distributable cash flow, and others were just focusing on the distribution, which was not supported by free cash flow (FCF), or the traditional measure by which to assess dividend health. In 2015, the MLP business model was a "house of cards," and collapsing energy resource prices caused credit markets to tighten and external capital to dry up.

Had MLPs at the time disclosed free cash flow, instead of distributable cash flow, prominently in press releases, investors would have been able to make better decisions prior to the "crash." Instead, a bubble was created based on distributable cash flow measures and what we describe as financially-engineered distributions, and many investors got burned thinking that such distributions were supported by internal means, as most dividends are with respect to corporates. We maintain our view that pipeline operators that do not cover their distributions with traditional free cash flow (FCF) are capital-market dependent and operate at the whim of the health of the equity and credit markets. Here is a helpful graphic that Valuentum helped S&P Global put together recently that shows how Free Cash Flow (FCF) differs from Distributable Cash Flow (DCF), not to be confused with discounted cash flow, which goes by the same acronym.

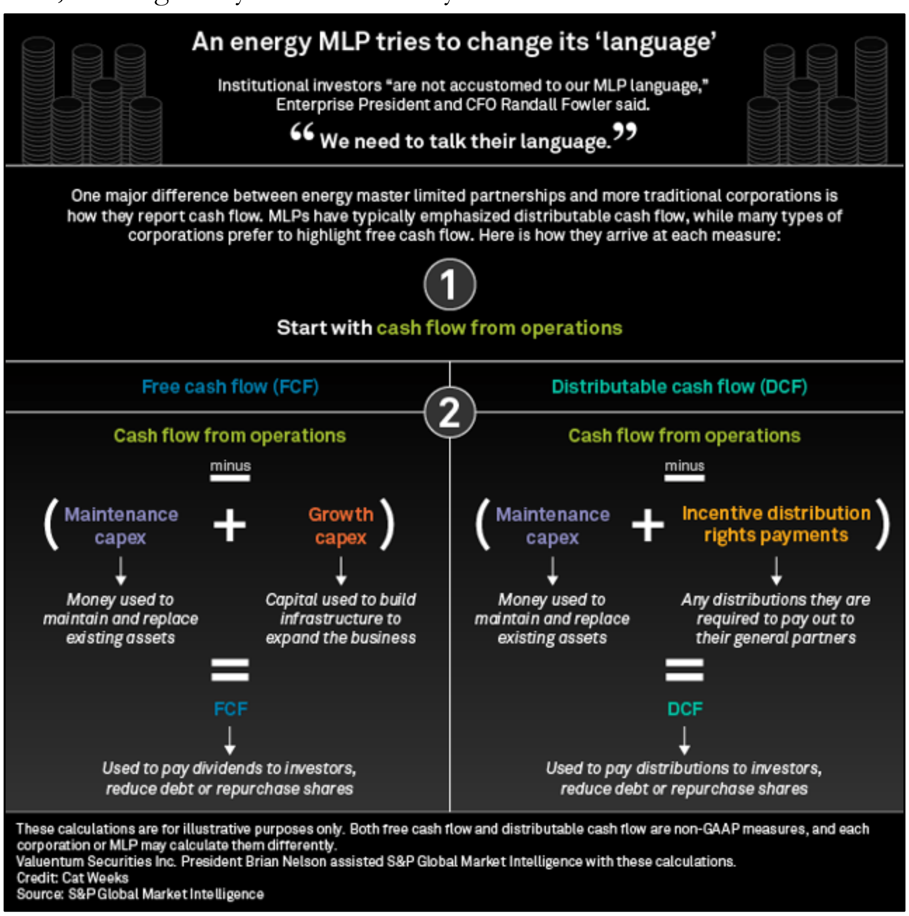


Image Source: *S&P Global*

Please stop saying that pipeline MLP distributions are "safe." Nothing in the stock market is "safe," especially the distributions of a group that have experienced more than a 110+ cuts during the past few years. As has been the case during the fallout in energy in 2015, pipeline MLPs are exposed to volatile energy resource prices via the health of their customer bases, if not directly. Chesapeake has reminded investors of this.

Image Shown: *The Alerian MLP ETF (AMLP) has been absolutely pummeled since we soured on the space in June 2015.*

We maintain our view that the MLP business model will eventually go the way of the dodo bird. We've already witnessed a tremendous reformation in the pipeline MLP space with C-corp transitions and distribution cuts, all of which we predicted many years ago. In fact, we pounded the table saying that this would happen. We encourage the placement of free cash flow (FCF) next to distributable (DCF) cash flow in press releases.

Weak unit price action seen at Energy Transfer says it all. C-corp conversions are the best way to fix this, as better governance and real accountability (to equity holders) is required to keep the "Empire Building" mentality at bay. ET is a midstream MLP that, in our view, could justify a meaningfully higher intrinsic value...if it converted to a C-corp, got rid of its current management team, and focused on free cash flows to pay down its onerous debt burden. The company has some quality assets, but continues to generate negative headlines by pursuing growth projects at all costs (sometimes that works, i.e. the Bakken Pipeline, and sometimes that doesn't work, i.e. Mariner East 2/2X, the Rover Pipeline, the Revolution project, etc etc.), and those growth projects are likely destroying equity holder value at this point. Many investors view ET as home to some of the best midstream assets around, but dislike its spending habits and current management team. On December 3, Energy Transfer indicated it was going to keep moving forward with the Lake Charles LNG import-to-export conversion project, a very expensive endeavor.

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 and Brian Nelson do not own 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	5.7%	Closed - 2/12/2017
Aug, 16	B&G Foods (BGS)	51.54	1.68	1.90	11.3%	Closed - 7/17/2017
Sep, 16	Maxim Integrated (MXIM)	41.12	1.32	1.92	3.4%	Closed - 2/12/2017
Oct, 16	Douglas Dynamics (PLOW)	31.94	0.94	1.09	2.0%	Closed - 2/12/2017
Nov, 16	Ennis Inc. (EBF)	14.60	0.70	0.90	4.4%	Closed -- 11/12/2016
Dec, 16	Watsco, Inc. (WSO)	150.57	4.20	6.40	3.6%	Closed - 2/12/2017
Jan, 17	Star Group (SGU)	11.21	0.41	0.50	5.3%	0-5 yrs
Feb, 17	Moelis & Co (MC)	35.00	1.28	2.00	6.0%	Closed - 6/22/2017
Mar, 17	Park National (PRK)	108.59	3.76	4.04	4.1%	0-20 yrs
Apr, 17	American Software (AMSWA)	10.44	0.44	0.44	2.9%	Closed - 6/22,23/2017
May, 17	NW Natural (NWN)	59.20	1.88	1.91	2.8%	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	3.8%	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	1.44	3.6%	Closed - 4/18/2019
Nov, 17	Black Hills (BKH)	61.23	1.78	2.14	2.8%	Closed - 10/25/2018
Dec, 17	Four Corners Propety Trust (FCPT)	26.03	0.97	1.22	4.4%	Closed - 10/25/2018
Jan, 18	TransCanada Corp (TRP)	49.47	1.98	2.28	4.5%	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
Income Ideas						
Feb, 18	Siemens (SIEGY)	71.13	2.18	2.17	3.4%	0-20 yrs
Mar, 18	Philips 66 Partners (PSXP)	49.63	2.71	3.46	6.3%	Closed - 10/25/2018
Apr, 18	PS Business Parks (PSB)	113.68	3.40	4.20	2.4%	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	7.6%	Closed - 5/3/2019
Jul, 18	Healthcare Trust of America (HTA)	27.36	1.22	1.26	4.2%	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	2.2%	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	2.8%	Closed - 2/11/2019
Dec, 18	OGE Energy (OGE)	40.46	1.46	1.55	3.7%	Closed - 2/11/2019
Jan, 19	BAE Systems (BAESY)	24.32	0.92	0.97	3.3%	Closed - 2/11/2019
Feb, 19	EastGroup Properties (EGP)	107.58	2.88	3.00	2.2%	Closed 11/6/2019
Mar, 19	Canadian Natural Resources (CNQ)	26.76	1.01	1.14	4.1%	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	3.8%	0-20 yrs
Jul-19	Nuveen Real Estate Income Fund (JRS)	10.63	0.76	0.76	7.1%	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	5.5%	0-20 yrs
Oct-19	Life Storage	105.41	4.00	4.00	3.7%	0-20 yrs
Nov-19	VIVI Properties (VICI)	24.28	1.19	1.19	4.8%	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.

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Capital Appreciation Ideas						
Mar, 18	Preferred Bank (PFBC)	64.01	56.01	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	17.59	-	2.7%	Closed 12/5/2019
Sep-19	Avalara (AVLR)	81.10	75.59	-	-	0-20 yrs
Oct-19	Cloudflare Inc (NET)	17.27	18.72	-	8.4%	Closed 12/5/2019
Nov-19	Shopify (SHOP)	297.64	369.08	-	24.0%	Closed - 12/5/2019

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

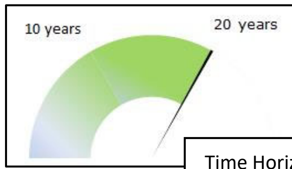
Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Short Idea Considerations						
Jul, 16	Lands' End (LE)	16.76	16.10	NA	3.9%	Closed -- 12/2/2016
Aug, 16	Vivint Solar (VSLR)	2.94	2.85	NA	3.1%	Closed -- 12/2/2016
Sep, 16	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	6.00	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
Jan, 18	Shake Shack (SHAK)	44.17	58.66	-	-	0-2 yrs

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

SHORT IDEA CONSIDERATIONS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Short Idea Considerations						
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	15.20	-		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	350.84	-	-	0-2 yrs
Oct-19	Peloton (PTON)	23.01	32.63			0-2 yrs
Nov-19	Ollie's Bargain Outlet (OLLI)	60.07	59.68		0.6%	Closed - 12/5/2019

Income Generation



Time Horizon: Long-term

Comerica (CMA)

"As a result of our discipline, we met one of Comerica's most important goals—the execution of our enterprise-wide initiative to help grow efficiency and revenue. We launched GEAR Up in July 2016 with an aggressive vision to transform our organization through over 20 separately identified work streams. We took a multifaceted approach to cutting costs, and just as importantly, to enhance revenues. We reduced our workforce by nine percent while freeing up more time for our relationship managers, optimized real estate, streamlined operational processes, enhanced sales programs, and strategically outsourced select technology functions, while reducing system applications… The benefits derived from GEAR Up will continue into 2019 and thereafter. We have achieved, and in many respects surpassed, the expectations that we laid out for GEAR Up when it was launched." – Comerica Incorporated 2018 Annual Report

Thesis

At this point in its long history, **December 2019 income generation idea** --- **3.8% yield** --- Comerica Incorporated (CMA) is a fairly impressive regional bank with loans and deposits of about $51 billion and $56 billion, respectively. It appears to be well-run, particularly over the past few years as they **embarked on a cost cutting plan that boosted efficiency and returns to be amongst the highest of its peer group of regional banks.**

The market is clearly discounting some of this progress as unsustainable considering shares of CMA are trading at a relatively low price-to-earnings ratio of about 9 times. Additionally, the nice juicy yield shares of CMA offers is indicative of a skeptical market. However, we view this discount as an opportunity.

In our view, Comerica is a top-quality bank that provides income seeking investors with a nice income stream in a market where high and sustainable (in all but a severe recession or depression-like scenario) yields are hard to find. Let's first look at the bank's return on assets and equity against (some) of its key peers. As you can see in the upcoming graphic at the start of the next page (Page 21), Comerica ranks right towards the top of this self-selected peer group in return on assets and return on equity.

Corporate Profile

Founded in 1849, Comerica Incorporated (CMA) is a financial services company headquartered in Dallas, Texas, strategically aligned by three business segments: The Business Bank, The Retail Bank and Wealth Management. Comerica focuses on relationships, and helping people and businesses be successful. In addition to Texas, Comerica Bank locations can be found in Arizona, California, Florida, and Michigan, with select businesses operating in several other states, as well as in Canada and Mexico. As of December 31, 2018, Comerica had $70.8 billion in assets, $50.2 billion in loans, $55.6 billion in deposits, 436 banking centers, and 7,865 full-time equivalent employees.

Key Statistics	
Comerica (CMA)	
Last Close	$71.37
52 Week Range	$58.54 - $88.96
Market Cap	$10B
Dividend Yield (TTM)	3.8%
Total Assets (LFQ)	$73B
Diluted EPS (LFQ)	$1.96

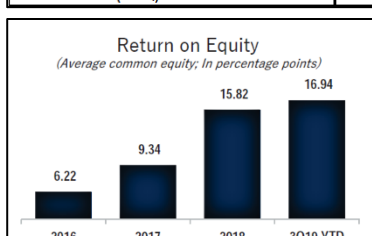


Image Source: Comerica - Investor Presentation

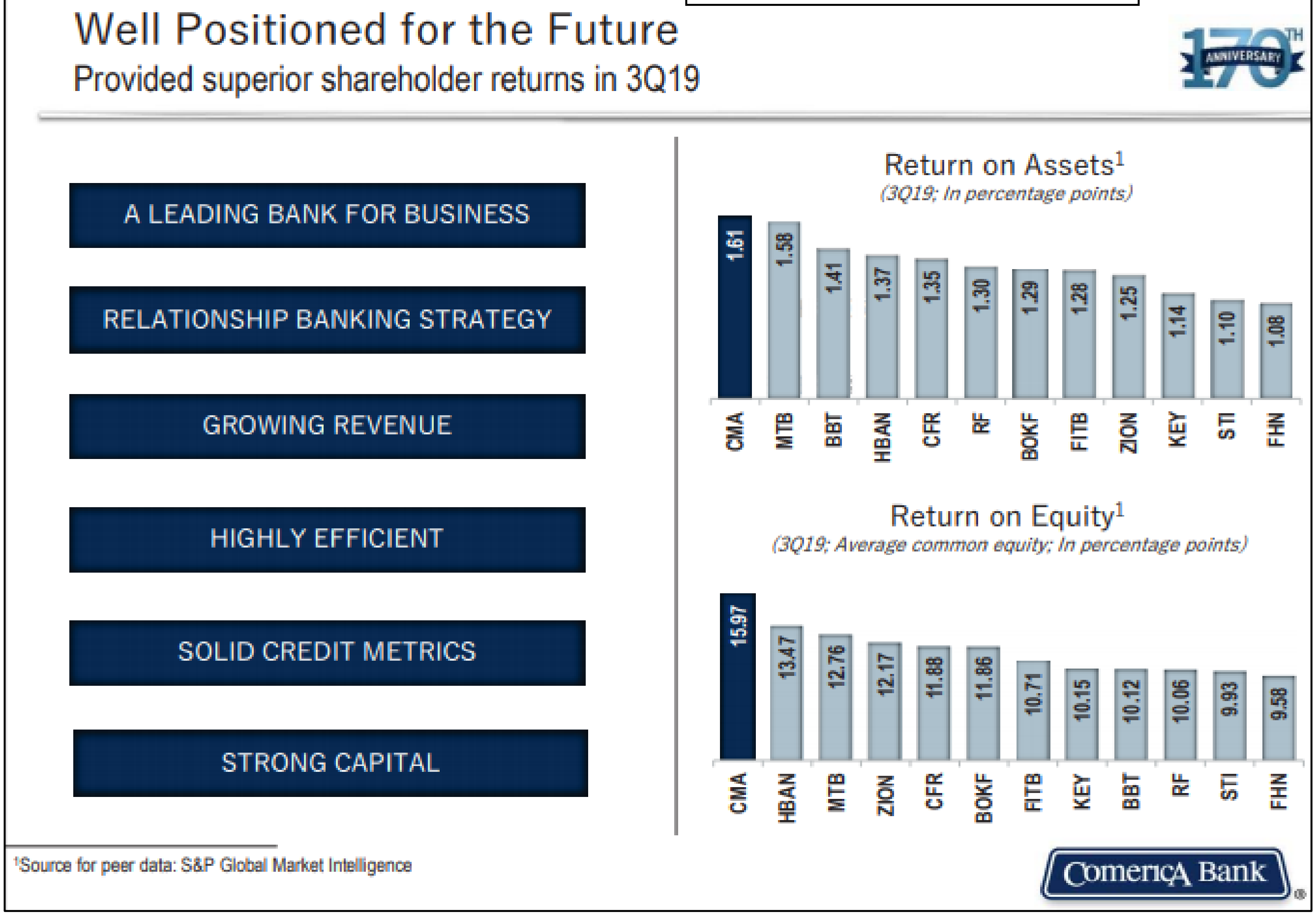


Image Source: Comerica - Investor Presentation

So, how did it achieve an impressive 16% return on equity in the most recent quarter? There are several reasons. **First of all, Comerica enjoys a decent footprint in terms of where it banks customers. Its top three markets are Michigan, California, and Texas. The latter two markets are high growth and appealing markets.** While Michigan is a more questionable market, Comerica does more deposit raising there than it does lending, which helps keep risk in check. You can see in the upcoming graphic down below, that they gather more deposits in Michigan then they turn around and lend out more to California

Deposits by Market:

By Market	3Q19	2Q19	3Q18
Michigan	$20.2	$19.8	$20.7
California	16.7	16.3	16.9
Texas	8.7	8.7	8.9
Other Markets[1]	7.8	7.8	8.5
Finance/Other[2]	2.3	2.4	1.1
TOTAL	$55.7	$55.0	$56.1

Image Source: Comerica - Investor Presentation

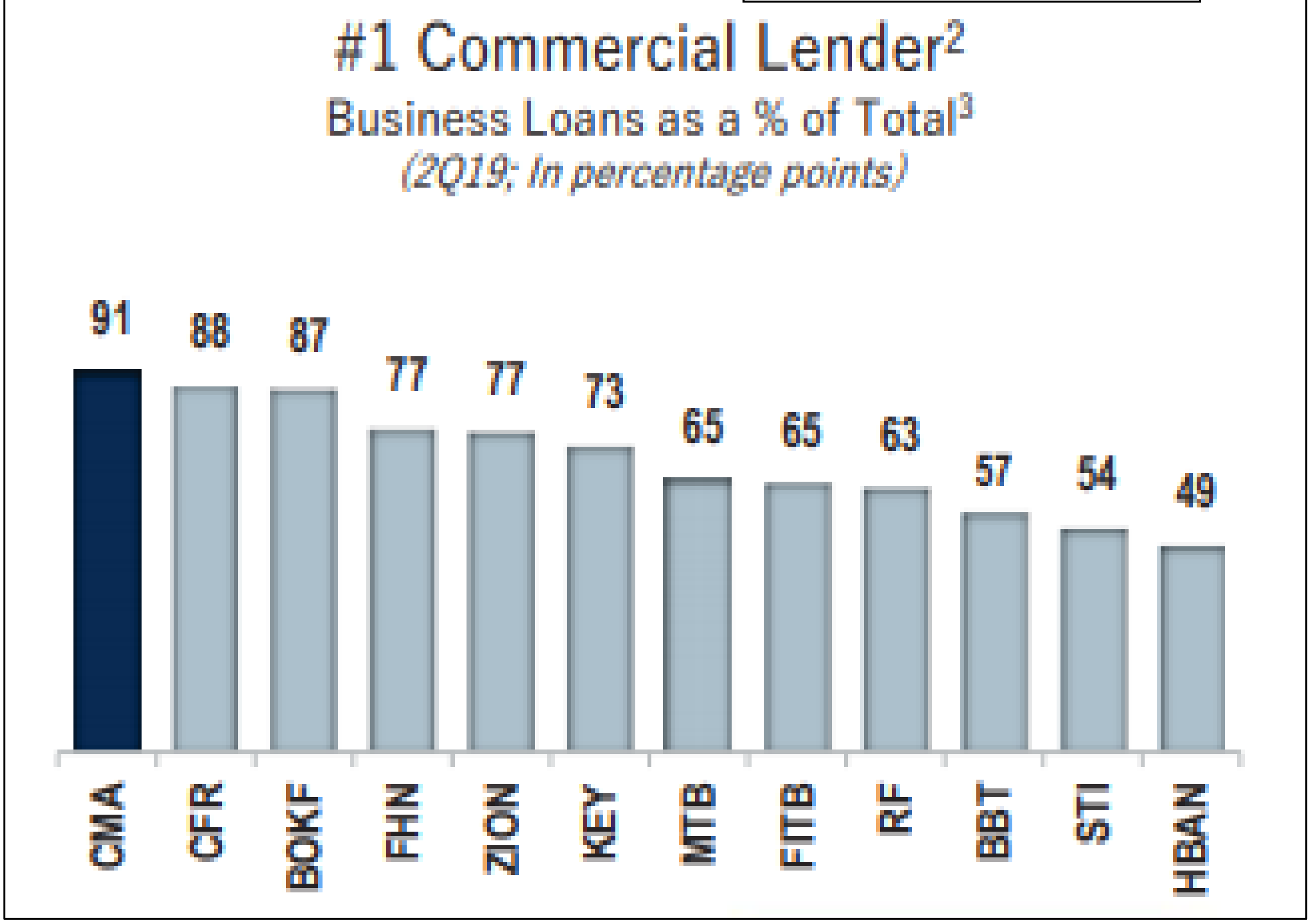
Loans by Market:

By Market	3Q19	2Q19	3Q18
Michigan	$12.6	$12.7	$12.4
California	18.4	18.9	18.1
Texas	10.8	10.7	9.7
Other Markets[1]	9.1	8.7	8.4
TOTAL	$50.9	$51.0	$48.6

Image Source: Comerica - Investor Presentation

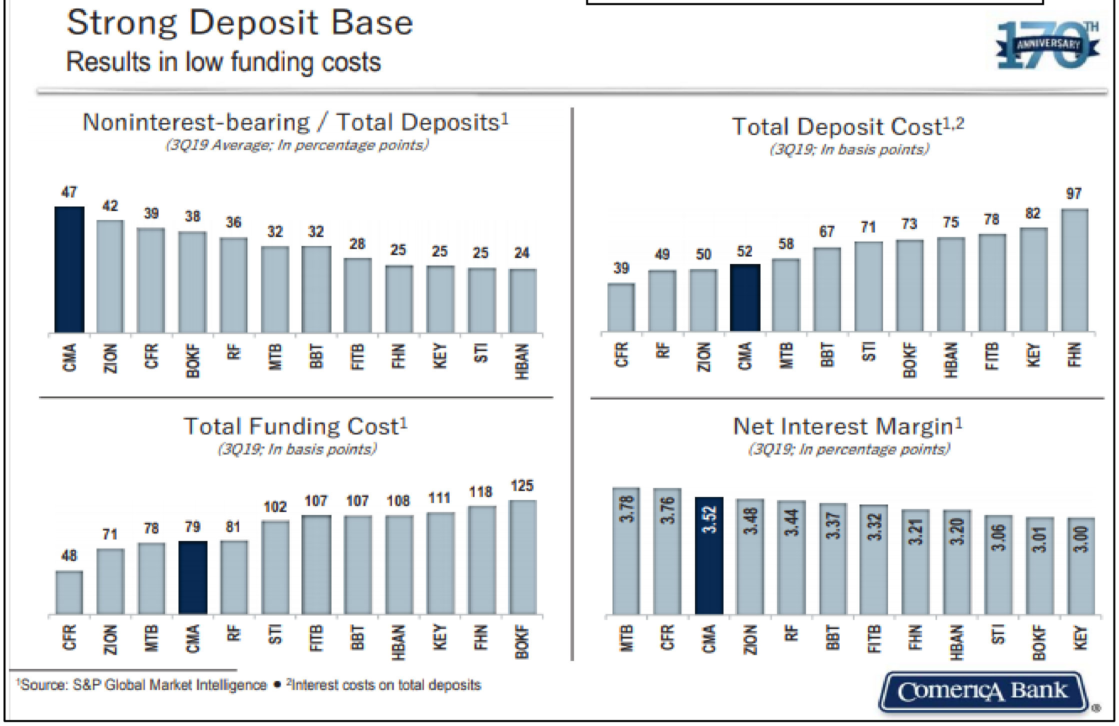
Secondly, **the bank is almost purely a commercial lender**, which is really the area where regional banks can carve out a niche for themselves in the geographies in which they operate. **This is very much a relationship driven business and the credit decisions are made by teams of people as opposed to algorithms centered around FICO scores.** Relationships in the community (such as the chamber of commerce, service organizations, etc.) matter. Sponsoring the local kids' sports teams matters. Networking on the local business scene matters. And while some retail bank customers are drawn in by glossy advertising, small, medium, and even large business owners are more impressed by longstanding relationships. In fact, some small businesses might even be intimidated by the biggest of big banks as opposed to the storefront banker down the street. In the upcoming graphic down below, **you can see just how overweight Comerica is when it comes to commercial lending**.

Image Source: Comerica - Investor Presentation



Comerica has done many things right in its century and a half of banking, including gathering a low-cost deposit base, which is one of the three critical costs when it comes to banking in a commodified landscape – as it is in the United States. Most (~83%) of its noninterest-bearing deposits come from its commercial banking customers, while retail deposits tilt more towards interest bearing. Simply put, regional banks face an uphill battle against the very biggest banks when it comes to retail banking. They sometimes have to pay up for deposits as compared to the biggest banks with their fancy mobile apps, television adds, and dense ATM and branch networks. **But, as compared to its regional banking peers, Comerica is outperforming when it comes to gathering low cost deposits.**

Image Source: Comerica - Investor Presentation



Given that regional banking is quite competitive with many thousands of banks in the country, we doubt that Comerica really has any pricing advantage. Therefore, the higher net interest margins versus most peers that you can see in the graphic up above flows directly from its low-cost deposit base. Thankfully, deposits tend to be quite sticky and this advantage can last for long periods of time if well taken care of. Another very important cost advantage when it comes to banking is which bank is underwriting better credit? We don't think Comerica is drastically different than peers on this front but merely better than the average of its self-selected peer group—as you can see in the upcoming graphic down below.

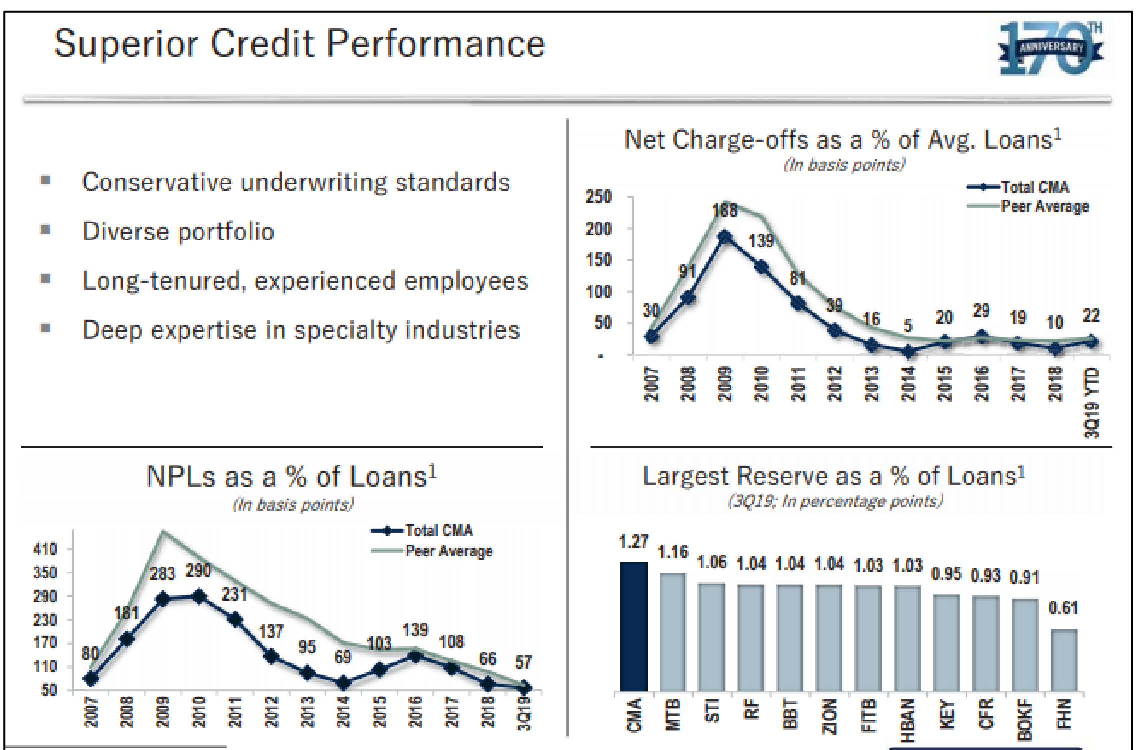
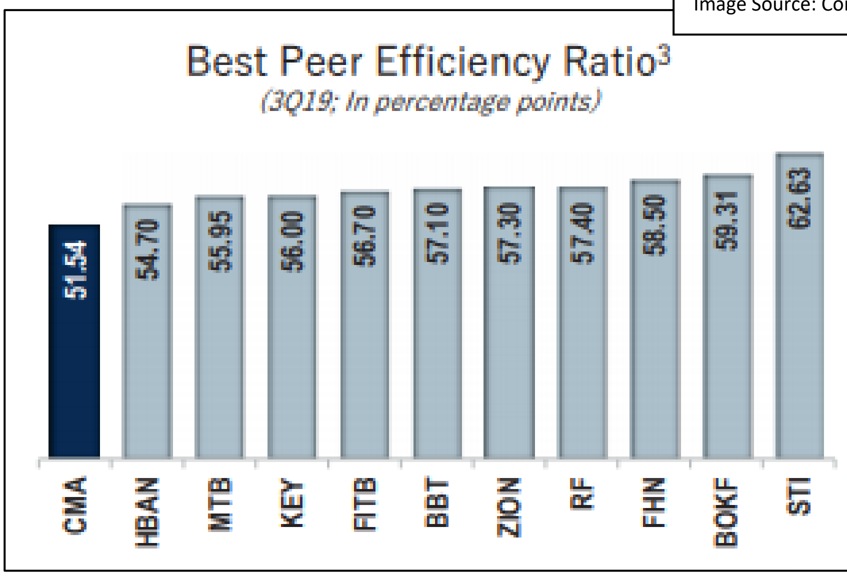


Image Source: Comerica - Investor Presentation

Comerica has fared better than its peers in net charge offs and non-performing loans over the past decade-plus, most notably during the global financial crisis when credit quality was tested in dramatic fashion. During the company's recent quarterly call, management walked through some of the riskier parts of the firm's credit book **to emphasize that they are sharply focused on controlling risk in the overall portfolio. Recent losses are mostly coming from the energy book** as capital markets shut down to some of the over-levered players in this space. **Comerica management expressed that the remaining risk in this book is under control. Given that energy is only about 5% of the overall loan book, the risk does indeed look contained.**

The third key cost area where Comerica truly shines against its peers is regarding its efficiency ratio – or non-interest expense to net revenues. The bank embarked on a serious cost cutting campaign about three years ago and the benefits have been flowing through ever since, improving its efficiency ratio and returns on capital metrics as a result. In the upcoming graphic down below, one can see just how far ahead of its peers Comerica is with its efficiency ratio.

Image Source: Comerica - Investor Presentation

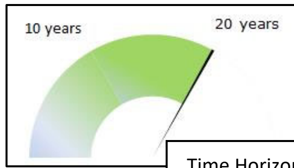


Having gone through the analysis of Comerica relative to its peers regarding the competitiveness of its cost structure, it becomes quite clear that this bank is well-positioned in the industry. The bank has a low cost of funds and is extremely efficient compared to peers. Comerica appears to have its credit risk under control at this stage in the economic cycle, though that will only truly be tested during the next recession. **We are very happy with the bank's 16% return on equity as only very few banks in the country push closer to the 20% level.**

We think the perception of Comerica is tainted by its past. The bank received TARP ('Troubled Asset Relief Plan') money from the US Treasury and only paid it back with a capital raise a few years later. Please note that Comerica got caught up in TARP in large part because of their size and they are tilting away from Michigan quite appropriately with their loan book and growth ambitions. The Comerica of today is a much stronger banking institution than the Comerica of a decade ago. Comerica's outlook looks promising and on top of a nice yield, the bank has been buying back massive amounts of its shares. The total capital return to shareholders has been nothing short of impressive the past couple years.

Disclosure: *Matthew Warren does not own shares of Comerica Incorporated (CMA).*

Capital Appreciation



Time Horizon: Long-term

Datadog (DDOG)

"We are very pleased with our third quarter, which was highlighted by 88% year-over-year revenue growth, and continued traction with larger customers. Datadog has established itself as the leading monitoring and analytics platform and we have continued to extend our capabilities during the quarter…Our recent IPO was an exciting milestone for Datadog and…we believe we are still in the early innings of a very large market opportunity, and we remain focused on solving our customers' pain points."
-- Olivier Pomel, co-founder and CEO of Datadog, November 2019

Thesis

The **December Exclusive capital appreciation idea** is one of speculative nature, but we think it makes the cut for this edition. Datadog (DDOG) is a new issue, going public in September 2019, shortly after reports indicated that it turned down a $7+ billion offer from Cisco (CSCO). The company is a "monitoring and analytics platform for developers, IT operations teams and business users in the cloud age (S-1)," and 'wow' is its revenue growing fast. GAAP revenue came in at $48 million, $101 million, and $198 million in 2016, 2017, and 2018, respectively, **and its quarterly run rate revenue is showing no signs of slowing.**

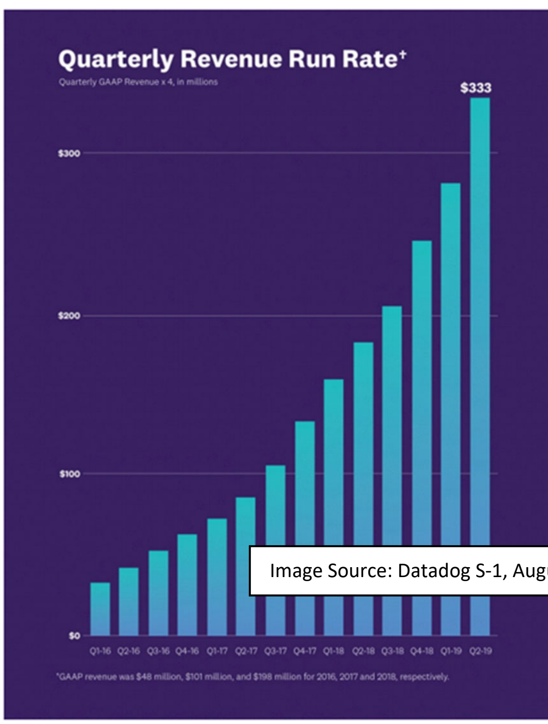


Image Source: Datadog S-1, August 2019

Corporate Profile

Datadog offers an SaaS platform to businesses on a subscription basis that helps integrate and automate infrastructure monitoring, application performance monitoring, and other features to deliver real-time solutions. The company was founded in New York in 2010 and surpassed its first 1,000 customers in 2015. Datadog now has over 8,800 customers and is growing revenue at a rapid pace. Its principal executive offices are in New York.

Key Statistics	
Datadog (DDOG)	
Last Close	$35.91
52 Week Range	$27.55 - $44.09
Market Cap	$11B
Revenue (LFQ)	$96M
Operating Income/(Loss) (LFQ)	($4M)
Total Assets (LFQ)	$1B

Image Source: Datadog S-1, August 2019

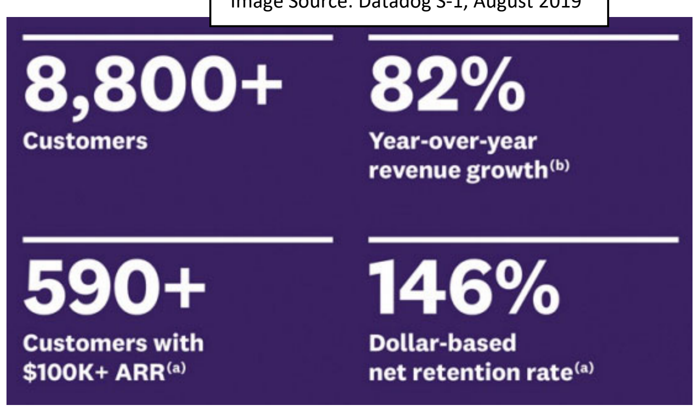


Image Source: Datadog S-1, August 2019

	Year Ended December 31,		Six Months Ended June 30,	
	2017	2018	2018	2019
	(in thousands, except share and per share data)			
Consolidated Statements of Operations Data:				
Revenue	$ 100,761	$ 198,077	$ 85,393	$ 153,272
Cost of revenue(1)(2)	23,414	46,529	18,592	39,928
Gross profit	77,347	151,548	66,801	113,344
Operating expenses:				
Research and development(1)	24,734	55,176	23,297	46,847
Sales and marketing(1)	44,213	88,849	34,617	66,225
General and administrative(1)	11,356	18,556	8,611	13,928
Total operating expenses(3)	80,303	162,581	66,525	127,000
Operating (loss) income	(2,956)	(11,033)	276	(13,656)
Other income, net	843	793	301	556
(Loss) income before income taxes	(2,113)	(10,240)	577	(13,100)
Provision for income taxes	(457)	(522)	(79)	(340)
Net (loss) income	$ (2,570)	$ (10,762)	$ 498	$ (13,440)
Net (loss) income per share attributable to common stockholders, basic and diluted(4)	$ (0.13)	$ (0.46)	$ —	$ (0.51)
Weighted-average shares used to compute net (loss) income per share attributable to common stockholders, basic(4)	20,440	23,650	22,619	26,522
Weighted-average shares used to compute net (loss) income per share attributable to common stockholders, diluted(4)	20,440	23,650	27,176	26,522
Pro forma net loss per share attributable to common stockholders, basic and diluted(4)		$		$
Weighted-average shares used to compute pro forma net loss per share attributable to common stockholders, basic and diluted(4)				

Datadog solves a big problem for businesses. As companies work to re-platform their organizations to the cloud, they are finding that their engineering teams are somewhat "siloed," meaning that developing next-generation solutions in fast-changing cloud systems is challenging, if not impossible for many. Datadog's SaaS platform helps them put it all together, integrating and automating "infrastructure monitoring, application performance monitoring and log management to provide unified, real-time observability for (its) customers' entire stack (S-1)." **The company simply breaks the mold in facilitating the collaboration between development and operations teams.** Here is more on Datadog's background, from the company's S-1, released August 2019:

> From our founding goal of breaking down silos between Dev and Ops, we set out in 2010 to build a real-time data integration platform to turn chaos from disparate sources into digestible and actionable insights. In 2012, we launched our first use case with infrastructure monitoring, purpose-built to handle increasingly ephemeral cloud-native architectures. This enabled us to be deployed on our customers' entire cloud IT environments and gave our product broad usage across Dev, Ops and business teams, in turn allowing us to address a bigger set of challenges through our platform.
>
> In 2017 we launched our application performance monitoring (APM) product, designed to be broadly deployed in very distributed, micro-services architectures. In 2018, we were the first to combine the "three pillars of observability" with the introduction of our log management product. To allow for full-stack observability, in 2019, we launched user experience monitoring and announced network performance monitoring. **Today, we offer end-to-end monitoring and analytics, powered by a common data model that is extensible for potential new use cases.**

Datadog's numbers indicate it is sitting on an extremely valuable platform. As of June 2019, the company had 8,800 customers, up from 3,800 customers in 2016. Its latest quarter report indicated that over 700 of its customers have annual run-rate revenue (ARR) north of $100,000, up from 130 in 2016, and more than 40 have ARR north of $1 million, up from just 2 in 2016. Customers love its product, too. Its dollar-based net retention rate has hovered around 140%-150%+, meaning that it is not only keeping a lot of existing customers, but it is also up-selling them.

Datadog has the right business model, one that is subscription-based and very asset light, which should allow it to turn up the gears with respect to free-cash-flow generation when it wishes. Right now, however, we would expect Datadog to continue to invest in future growth, showing some free-cash-flow burn and modest net losses, and this is okay. Management estimates its current market opportunity to be ~$35 billion, so we want the company to spend to capitalize on this potential growth!

For perspective about the size of its future prospects, the company is targeting revenue of just $350-$352 million during 2019, so we're talking a huge long-term opportunity (market penetration is very low). Datadog's platform is used in "public cloud, private cloud, on-premise and multi-cloud hybrid environments," so its ability to target both legacy and new environments opens the door to this huge potential, in our view, categorized as a significant portion of the IT Operations Management market.

Datadog's key strengths are many. For starters, it is built for next-generation cloud infrastructures and enhances collaboration and data integration across the organization. Its SaaS platform is ubiquitous (used by lots of employees at the end client) and cloud-agnostic (it can be deployed across public clouds, private clouds, on-premise, and the like), and it can be assimilated with complex environments. It uses machine learning at the core, and its SaaS platform is scalable, "monitoring more than 10 trillion events a day."

Here are a few customer-success stories to get a better feel for what Datadog's platform addresses. From its S-1 filing:

> A Fortune 100 pharmaceutical company monitors across public cloud, containerized and on-premise environments, helping eliminate engineers' alert fatigue from disparate tools, reducing mean time to resolution and improving compliance with service-level agreements.
>
> A global shipping and logistics company accelerates the delivery and development of applications, providing them the ability to drive efficiencies in their supply chain, such as fuel cost planning and tracking of shipments.
>
> A large retailer and e-commerce company avoids website outages that cause lost revenue and enables flexible capacity planning to scale-up infrastructure during peak customer demand.

We think a large portion of Datadog's massive multi-billion-dollar opportunity is its own for the taking. Expanding within its own customer base through new use cases and new product rollouts is one area of growth, while expanding internationally is yet another (at the end of 2018, only about a quarter of its ARR came from customers outside North America).

Image Source: Datadog S-1, August 2019

Representative customers by industry vertical are listed below:

Consumer & Retail
Delivery Hero
Expedia Group
GrubHub
Instacart
Mercado Libre
Nextdoor
Peloton
Ring
Starbucks
TrueCar
Wayfair

Financial Services
Coinbase
Credit Suisse
Donnelley Financial Solutions (DFIN)
HSBC
IHS Markit
Jefferies
Morgan Stanley
Nasdaq
RBC
S&P Global
Thomson Reuters

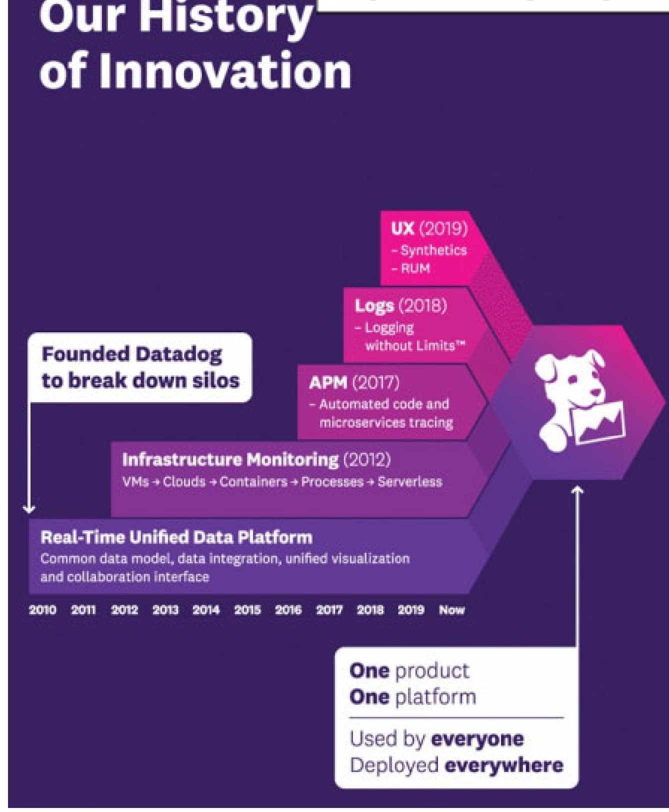
Industrial, Transportation & Healthcare
BrightInsight, a Flex Company
Haier U.S. Solutions
Maersk Group
Qantas
PSEG
ServiceMaster
SHARE NOW
SNCF
TELUS Health
Trimble
UnitedHealth Group/Optum
Wabtec Corporation

Media, Entertainment & Telecommunications
BuzzFeed
Comcast
Condé Nast
Dow Jones
Hearst
Hulu
KDDI Corporation
News Corp UK & Ireland
Nielsen
Schibsted Media Group
Telstra
Vodafone

Technology
Aspect Software
Cvent
Dropbox
Evernote
HashiCorp
Lenovo
Looker
PagerDuty
Pegasystems
Pivotal Software
Salesforce
Samsung Electronics
Twilio
Zendesk

Innovation will be key throughout its expansion phase, too. We agree that the company has a history of continued innovation, but ongoing expansion of the functionality of its current platform will be required to stay relevant in the fast-changing and ever-evolving cloud vertical.

Image Source: Datadog S-1, August 2019



Let's cover some of the risks. First, for an emerging-growth company, a lot could go wrong, not the least of which is failing to live up to its growth expectations. **We think the proof is in the numbers, however, and Cisco's reported interest in the company offers additional downside support, in our view.**

The company could have growing pains, and while one might expect operating losses so early in its growth phase, we'll be expecting it to achieve sustained operating profits and positive free-cash-flow in coming years. As a SaaS cloud-based platform enterprise, keeping its customers' data safe will be paramount, as consequences could be punitive.

Competition will be tough, too, but this is only to be expected. For on-premise infrastructure monitoring, it goes head-to-head with IBM, Microsoft, Micro Focus, BMC and Computer Associates. For APM, it competes with Cisco, New Relic, and Dynatrace Software. In log management, it competes with Splunk and Elastic, while Amazon (AWS), Alphabet (Google Cloud Platform), and Microsoft Azure could all have their hands in potential industry earnings in the years to come.

Finally, investors should be aware of the dual-class structure of its common stock. Olivier Pomel, its co-founder and Chief Executive Officer, and Alexis Lê-Quôc, its co-founder, President and Chief Technology Officer have more than 20% of the voting power of its capital stock. Though we very much like businesses whose top executives are aligned with shareholders, the dual class structure could limit the minority shareholder's influence on future business events.

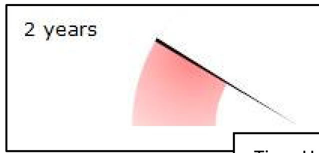
Let's talk valuation. To justify its current market capitalization of ~$10 billion, we'd have to assume in the long run that Datadog can generate operating margins in the mid-30s, about what Cisco puts up, and on a run-rate, after-tax basis (20%), assuming an 8% discount rate (net of growth and capital-structure agnostic), Datadog would need to put up roughly $900 million in annual operating earnings at long-run steady-state, requiring market share grab of 7%-8% of the IT Operations Management market. This looks achievable, in our view. Datadog also has about $760 million in net cash on the books and is well funded to capture share.

Though the road will be a bumpy ride for Datadog, we think the company's outlook is bright, and its scalable, asset-light business model means investors are poised to benefit as efforts are translated into significant free cash flow. We peg a downside fair value estimate of ~$24 per share, or Cisco's speculated offer prior to its initial public offering, **and upside potential to as much as 15% share of the IT Operations Management market, or ~$60 per share.** Datadog is a speculative play on next-generation cloud offerings, and while its shares are ultra-risky, the company makes the cut for this December edition of the Exclusive. Shares trade in the mid-$30s at the time of this writing.

Image Source: Datadog S-1, August 2019

	Beneficial Ownership Before the Offering			
Name of Beneficial Owner	Class A Common Stock Shares	%	Class B Common Stock Shares	% of Total Voting Power Before the Offering
5% Stockholders:				
Entities associated with Index Ventures(1)	—	—	17,833,359	20.1%
Entities associated with OpenView Venture Partners(2)	—	—	14,134,292	16.0
Entities associated with ICONIQ Strategic Partners(3)	—	—	10,048,655	11.3
Entities associated with RTP Ventures(4)	—	—	7,292,720	8.2
Directors and Named Executive Officers:				
Olivier Pomel(5)	—	—	12,705,118	14.1
Alexis Lê-Quôc(6)	—	—	8,051,388	8.9
David Obstler(7)	—	—	900,000	1.0
Laszlo Kopits(8)	—	—	175,832	*
Michael Callahan(9)	—	—	366,554	*
Dev Ittycheria(10)	—	—	622,591	*
Julie Richardson(11)	—	—	50,000	*
Shardul Shah	—	—	—	—
Kirill Sheynkman(12)	—	—	16,378	*
All directors and executive officers as a group (11 persons)(13)	—	—	25,623,390	28.4

Short Consideration



Time Horizon: Short term

Jumia Technologies AG (JMIA)

"We are active in six regions in Africa, which consist of 14 countries that together accounted for 72% of Africa's GDP of €2 trillion, and 74% of African consumer expenditure of €1.4 trillion in 2018, according to the IMF and Euromonitor, respectively. Though still nascent, we believe that e-commerce in Africa is well positioned to grow. In 2018, less than 1% of retail sales for countries measured in our footprint in Africa were conducted online, compared to nearly 24% in China, according to Euromonitor." – Jumia Technologies Prospectus

Thesis

Our Exclusive **short consideration idea for December 2019** is Jumia Technologies (JMIA). The company appears to be capitalizing on several promising secular growth tailwinds including rising consumer spending in Africa and financial technology (payment processing, cross-border transaction solutions, data aggregation for credit risk purposes), **but we don't believe the hype and neither does the market.**

Jumia can best be described as a small cap e-commerce company seeking to become the Amazon (AZMN) of Africa. E-commerce activities conducted on the Jumia Marketplace are supported by Jumia Logistics, the company's fulfillment service which is supported by leased warehouses, pickup stations, and partnerships with over 100 local third-party logistics providers.

Corporate Profile

Jumia Technologies AG (JMIA) is an e-commerce, logistics, and financial services provider in Africa. The company successfully completed its IPO in April 2019 and is headquartered in Germany. The company is split into three key segments; Jumia Marketplace, Jumia Logistics, and JumiaPay. Jumia Technologies' various platforms connects consumers to and sells anything from shoes to groceries to travel offerings and more.

Key Statistics	
Jumia Technologies (JMIA)	
Last Close (USD)	$5.85
52 Week Range (USD)	$4.94 - $49.77
Market Cap (USD)	$0.45B
Revenue (LFQ) (EUR)	$40M
Operating Income/(Loss) (LFQ) (EUR)	($55M)
Total Assets (LFQ) (EUR)	$350M

Jumia Technologies is also in the process of building out its own payment processing company, JumiaPay, that along with Jumia Lending (a segment within JumiaPay acts as an intermediary between Jumia's seller base and third-party financial institutions) represents Jumia Technologies' bet on financial services. Over time, Jumia Technologies aims for greater adoption of JumiaPay across its in-house platform first, before seeking to expand into off-platform areas. Additionally, Jumia Lending generally does not take on credit risk.

From the first three quarters of 2018 to the first three quarters of 2019, Jumia Technologies' IFRS revenue grew by 28% to EUR$111 million. During that period, the company's IFRS gross profit rose by 70% to EUR$51 million, which at first glance could make the firm's business model look scalable. Please note that fulfillment expenses rose by 61% during this period, hitting EUR$54 million, while G&A expenses shot up 64%, hitting EUR$105 million. **Incremental gross profit was completely consumed by rising fulfillment expenses, while growing corporate-overhead was the main reason why Jumia Technologies' IFRS operating loss grew by 43% year-over-year to EUR$167 million.**

Image Source: Jumia Technologies – Third Quarter 2019 Earnings Press Release with Additions from the Author

(UNAUDITED)

Consolidated statement of comprehensive income as of September 30, 2019 and 2018

	For the three months ended		For the nine months ended	
In thousands of EUR	September 30 2019	September 30 2018	September 30 2019	September 30 2018
Revenue	40,057	33,639	111,132	86,773
Cost of revenue	21,937	21,140	60,066	56,751
Gross profit	**18,120**	**12,499**	**51,066**	**30,022**
Fulfillment expense	20,708	13,322	53,512	33,221
Sale and advertising expense	12,916	12,153	40,529	33,408
Technology and content expense	6,984	5,317	19,544	15,856
General and administrative expense	32,660	22,462	105,325	64,292
Other operating income	714	333	1,392	434
Other operating expense	177	162	308	465
Operating loss	**(54,611)**	**(40,584)**	**(166,760)**	**(116,786)**
Finance income	4,390	565	4,912	1,121
Finance costs	(103)	720	1,573	1,136
Loss before Income tax	**(50,118)**	**(40,739)**	**(163,421)**	**(116,801)**
Income tax expense	(208)	161	53	503
Loss for the period	**(49,910)**	**(40,900)**	**(163,474)**	**(117,304)**
Attributable to:				
Equity holders of the Company	(49,818)	(40,038)	(163,228)	(115,428)
Non-controlling interests	(92)	(862)	(246)	(1,876)
Loss for the period	**(49,910)**	**(40,900)**	**(163,474)**	**(117,304)**
Other comprehensive income/loss to be classified to profit or loss in subsequent periods				
Exchange differences on translation of foreign operations - net of tax	(19,771)	(2,374)	(30,278)	(6,660)
Other comprehensive income / (loss) on net investment in foreign operations - net of tax	20,525	2,304	31,310	6,854
Other comprehensive income / (loss)	754	(70)	1,032	194
Total comprehensive loss for the period	**(49,156)**	**(40,970)**	**(162,442)**	**(117,110)**
Attributable to:				
Equity holders of the Company	(49,063)	(40,067)	(162,196)	(115,251)
Non-controlling interests	(93)	(903)	(246)	(1,859)
Total comprehensive loss for the period	**(49,156)**	**(40,970)**	**(162,442)**	**(117,110)**

Jumia Technologies' large operating losses have translated into large negative free cash flows. Due to the firm's IPO that was successfully completed this past April, the company was sitting on EUR$227 million cash and cash equivalents along with EUR$64 million in term deposits at the end of September 2019. Versus just EUR$10 million in total borrowings, Jumia Technologies' net cash position of EUR$281 million is playing a key role in helping prop up its share price given its market cap sits at approximately EUR$450 million as of this writing. **However, during the first nine months of 2019, Jumia Technologies generated EUR-$135 million (negative EUR$135 million) in free cash flow.**

There wasn't a large build in either its inventory or its receivables during this period, indicating that the company can't bank on a major release of working capital in the near-term to turn this picture around. While some retail/e-commerce companies, especially in the US, tend to stockpile inventory ahead of the holiday shopping blitz near the end of the year, completely different dynamics are at play with Jumia Technologies. In 2018, the company notes that "approximately 90% of the items sold on our marketplace were offered by third-party sellers, while we sold the remaining 10% of items directly in order to enhance consumer experience in key categories and regions" according to its prospectus.

Image Source: Jumia Technologies – Third Quarter 2019 Earnings Press Release with Additions from the Author

(UNAUDITED)

Consolidated statement of financial position as of September 30, 2019 and December 31, 2018

In thousands of EUR	As of September 30 2019	December 31 2018
Assets		
Non-current assets		
Property and equipment	17,456	5,020
Intangible assets	60	180
Deferred tax assets	175	175
Other non-current assets	1,430	1,263
Total Non-current assets	**19,121**	**6,638**
Current assets		
Inventories	10,279	9,431
Trade and other receivables	14,005	13,034
Income tax receivables	740	726
Other taxes receivable	6,397	4,172
Prepaid expenses and other current assets	8,491	7,384
Term deposits	64,124	-
Cash and cash equivalents	227,073	100,635
Total Current assets	**331,109**	**135,382**
Total Assets	**350,230**	**142,020**
Equity and Liabilities		
Equity		
Share capital	156,816	133
Share premium	1,018,276	845,787
Other reserves	99,083	66,093
Accumulated losses	(1,032,683)	(862,048)
Equity attributable to the equity holders of the Company	**241,492**	**49,965**
Non-controlling interests	**(369)**	**(117)**
Total Equity	**241,123**	**49,848**
Liabilities		
Non-current liabilities		
Non-current borrowings	6,623	-
Total Non-current liabilities	**6,623**	**-**
Current liabilities		
Current borrowings	3,638	-
Trade and other payables	54,678	47,681
Income tax payables	9,665	10,882
Other taxes payable	5,718	7,288
Provisions for liabilities and other charges	23,126	19,829
Deferred income	5,659	6,492
Total Current liabilities	**102,484**	**92,172**
Total Liabilities	**109,107**	**92,172**
Total Equity and Liabilities	**350,230**	**142,020**

Going forward, we don't see Jumia Technologies reaching profitability anytime soon. Most importantly, we see its rising operating expenses (namely fulfillment and G&A expenses) continuing to consume any incremental gross profit and then some, **resulting in ever larger operating losses**. Jumia Technologies isn't investing the kinds of sums required to truly build scale in the logistics business, especially not for a region as geographically large and diverse as Africa. Even if Jumia Technologies wanted to, it doesn't possess the financial capacity do to so.

Several of Jumia Technologies' key markets include Nigeria, Egypt, Ivory Coast, Ghana, Morocco and Kenya. During the first nine months of 2019, Jumia Technologies spent less than EUR$4 million on capital expenditures (as an aside, the firm incurred EUR$20 million worth of technology and content expenses during this period, highlighting its greater focus on growing its financial services segment). **That is hardly enough to build out the kind of logistics infrastructure** that supported Amazon's march towards becoming one of the largest retailers in the US and the world. Its target markets in Africa are in need of material infrastructure investments that Jumia simply cannot afford to make.

From our perspective, that means that Jumia Technologies' e-commerce strategy points towards never-ending losses without such investments. Warehouses, distribution centers and vehicles/airplanes aren't cheap. Furthermore, while Jumia Technologies has various partners that support its e-commerce logistics, those partners aren't likely to build out the kind of apparatus required to make its e-commerce platform profitable before the company's negative free cash flows completely wipe out its financial cushion.

In our view, Jumia Technologies' best bet is its push into financial services. The success of its financial services wing JumiaPay is entirely dependent on the company first building up significant scale in-house. Total Payment Volume ('TPV') reached EUR$32 million in the third quarter of 2019 as JumiaPay handled 2.1 million transactions while Gross Merchandise Volumes ('GMV') hit EUR$275 million on Jumia Marketplace. Those figures represented large year-over-year growth rates off relatively low bases.

Image Source: Jumia Technologies – Prospectus

It's unlikely that Jumia Technologies has the financial capacity to continue posting such large losses while attempting to scale up. That hasn't stopped management from being optimistic, with co-CEO Sacha Poignonnec noting this during Jumia Technologies' third quarter 2019 earnings conference call with investors;

> *"…we are currently focused on three priorities with JumiaPay. Number one, is to drive the adoption and penetration of JumiaPay within our own ecosystem to develop on-platform payment processing. Two, is to build our financial services marketplace so that our users, both consumers and sellers, will use JumiaPay to access financial services like loans, insurance and many more. And three, is to start processing off-platform payments on behalf of third parties. Let me give you more details on each, and we start with on-platform payment. JumiaPay is currently live in six of our countries of operations."*

As things stand today, it doesn't appear JumiaPay is handling a significant amount or any off-platform payments and is instead 100% reliant on the ecosystem Jumia Marketplace is attempting to create. While Jumia Marketplace volumes and sales continue to grow, the marketplace as it stands today is far too small for Jumia Technologies to wring out meaningful incremental financial service-related revenues to cover annual operating losses in the vicinity of EUR~$200 million.

Over time, the need for digital banking services in Africa will likely be enormous; however, we are talking about a very long time horizon. Additionally, other financial services players, companies with much stronger financial backing and scale, will be competing with Jumia Technologies for that upside. **We don't think Jumia possesses the ability to last long enough as is, given the trajectory the firm is currently on, to simply wait around and let macro tailwinds fundamental alter its financial performance.**

Shares of Jumia Technologies have come under tremendous pressure and we think there's room for additional downside as its net cash position wanes. **With a market capitalization of approximately USD$450 million, there's still plenty of room for shares of JMIA to march lower. By the end of 2020, Jumia Technologies will likely need to consider another capital raise just to keep the lights on.** While news of Jumia Technologies entering new African markets may appear at first to augment the trajectory of its revenue growth, any such move will further stress the company's already weak financial outlook going forward.

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

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
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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.

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

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

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

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

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