OUR BEST IDEAS NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

July 15, 2020
Volume 10 Issue 7

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

The Best Ideas Newsletter Portfolio (see page 8): AAPL, BRK-B, CSCO, DG, DIS, FB, GOOG, INTC, JNJ, MSFT, PYPL, SDY, XLV, V and SPY Put Option

Recently Removed: VNQ, XAR (June 11)

Recent Changes: Added SPY Put Option (August 21 expiration, $295 strike) [June 11] --- AAPL, MSFT (June 12)

Inside This Issue

1 Berkshire Hathaway Expands Its Bet on North American Natural Gas
4 Recent Events Concerning Johnson & Johnson
6 Interview with Valuentum's Callum Turcan
8 **Best Ideas Newsletter Portfolio**
9 Freeport-McMoRan's Outlook Improves Considerably
12 Tesla Surges On Promising Production Report
14 Our Thoughts on Warner Music Group Going Public
18 About the Valuentum Buying Index
25 About the Fair Value Range
28 How We Use the Valuentum Buying Index in the Newsletter Portfolio

"The ongoing rebound in commodity prices (crude oil, iron ore, copper) indicates that investors are becoming increasingly confident the global economy is beginning to recover from the COVID-19 pandemic. Potential supply disruptions are also at play here."

-- Callum Turcan

© 2020 Valuentum. All rights reserved.
Reproduction by any means is prohibited.

Berkshire Hathaway Expands Its Bet on North American Natural Gas

Image Shown: *A look at the Cove Point LNG export facility in Maryland, one of half a dozen that are currently operational in the US.* ***Image Source:*** *Dominion Energy Inc – February/March 2018 Fixed Income Investor Meetings Presentation*

By Callum Turcan

On July 5, Berkshire Hathaway Energy, a majority-owned subsidiary of Berkshire Hathaway Inc (BRK.A) (BRK.B), announced it was acquiring natural gas pipeline and storage assets along with an equity stake in a liquified natural gas ('LNG') export facility in Maryland from Dominion Energy Inc (D). This deal is valued at $9.7 billion by enterprise value and is expected to close by the fourth quarter of 2020.

We continue to like Berkshire Hathaway in the Best Ideas Newsletter portfolio. As of the end of 2019, Berkshire Hathaway owned 90.9% of Berkshire Hathaway Energy's common stock. Berkshire Hathaway Energy's asset base "has grown to a $100.8 billion portfolio" according to its early-July 2020 press release.

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

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

Callum Turcan
Associate Investment Analyst, Co-Editor of Valuentum's Newsletters
info@valuentum.com

Matthew Warren
Independent Financials Contributor & Stock and Economic Strategist
info@valuentum.com

Goal of the Best Ideas Newsletter

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

*Berkshire Hathaway...*continued on next page

*Berkshire Hathaway…*from previous page

Berkshire Hathaway's Existing Natural Gas Midstream Assets

Berkshire Hathaway's energy infrastructure asset base includes two long haul pipelines networks which route natural gas from producing to consuming regions in the US. The now 1,700-mile long Kern River Pipeline was acquired by Berkshire Hathaway back in 2002 for almost $1.0 billion when including the assumption of debt, which routes natural gas supplies from the Rocky Mountain region (starting in Wyoming) down to Western US markets (including Utah, Nevada, and California). Also, in 2002, Berkshire Hathaway acquired the now 14,600-mile long Northern Natural Gas Pipeline which runs from Texas up to the Midwest and Great Plains region (catering to multiple natural gas producing and consuming regions) for roughly $1.9 billion including the assumption of debt.

Combined, these two long haul pipelines have the capacity to route 8.5 billion cubic feet of natural gas per day across the US. Berkshire Hathaway Energy has steadily grown the transportation capacity of its Kern River Pipeline over the past two decades. **The deal with Dominion Energy will significantly grow Berkshire Hathaway's exposure to the natural gas transportation and storage space** (also referred to as the midstream industry). Store capacity is needed to support normal operating activities at pipeline assets, though that storage capacity can also be used to speculate on raw energy resources as well.

Deal Overview

Berkshire Hathaway is acquiring all (appears to be the equity) of Dominion Energy Transmission (transports natural gas across six states along the Atlantic Coast and in the Midwest), Questar Pipeline (transports natural gas across Wyoming, Utah, and Colorado) and Carolina Gas Transmission (transports natural gas in South Carolina), half of Iroquois Gas Transmission System (transports natural gas across New York and Connecticut), and a quarter stake in the Cove Point LNG export facility in Maryland (connected to major domestic producing basins through its own pipeline). This one of six LNG export terminals that are currently operational in the US, according to Berkshire Hathaway Energy.

Along with the stake in the LNG facility, this deal includes 7,700 miles of natural gas transmission pipelines with 20.8 billion cubic feet of daily transportation capacity, 900 billion cubic feet of operated natural gas storage capacity, and 364 billion cubic feet of company-owned natural gas storage capacity.

Once the deal closes, Berkshire Hathaway will become operator of the LNG export facility with Dominion Energy retaining a 50% equity stake in the venture alongside an infrastructure fund (Brookfield Super-Core Infrastructure Partners) managed by Brookfield Asset Management Inc (BAM), which acquired a 25% equity stake in the asset for a cash consideration of $2.1 billion back in 2019. The facility exported its first LNG cargo in early-2018.

The Cove Point LNG facility houses one LNG train with the nameplate capacity to export 5.25 million metric tons of LNG per year, with authorization from the US Department of Energy ('DoE') to export up to 5.75 million metric tons per year (equal to roughly 0.8 billion cubic feet of natural gas per day). That capacity is primarily contracted out under long-term fixed fee arrangements to buyers based in India and Japan, meaning that the commodity pricing risk of this asset's future financial performance is reduced to a degree. Cove Point LNG contracted out its capacity under 20-year contracts to India's state-owned GAIL and the ST Cove Point joint-venture owned by Sumitomo Corporation (SSUMY) and Tokyo Gas Co. Ltd. (TKGSF).

As an aside, Dominion Energy and its partner Duke Energy Corporation (DUK) cancelled the embattled Atlantic Coast Pipeline project, which Berkshire Hathaway did not purchase. It is unlikely that any company would have wanted to take on that development given the sea of hurdles the natural gas pipeline project was up against.

*Berkshire Hathaway…*continued on next page

*Berkshire Hathaway…*from previous page

For Dominion Energy, this divestment represents the company shifting back to a rate regulated utility while retaining a passive stake in a US LNG export facility. Rate regulated utilities have very stable cash flow streams, supported by the ability to near-continuously grow their rate bases through several ways including; upgrading old wires (electric transmission and distribution) and pipeline networks, expanding existing systems, shutting down coal-fired power plants and replacing those with natural gas-fired power plants, and making renewable energy investments (such as solar and wind power plants).

Given the US is swimming with natural gas supplies, made possible through the advent of "fracking" (combining horizontal drilling and hydraulic fracturing to unlock vast raw energy resources), **there are likely long-term competitive advantages at the Cove Point LNG export facility.** However, unexpected events such as the coronavirus ('COVID-19') pandemic highlight some of the hurdles such assets can face, namely the perennial risk that some buyers may declare force majeure if times get really tough, including GAIL (though it is not clear what impact, if any, the temporarily cargo deferments for March-April LNG deliveries to GAIL had on the Cove Point LNG asset's financials).

Concluding Thoughts

Berkshire Hathaway's cash pile is simply massive and **it appears the industrial conglomerate's CEO Warren Buffett is finally ready to put some of that cash to use. We view this purchase as a bet on the long-term demand outlook for natural gas in North America and one that complements Berkshire Hathaway's growing bet on renewable energy**, namely wind power plants in the US and Canada as we have noted in the past.

Renewable energy is steadily becoming a much bigger player in North America's electricity grid (including wind power in the US), but to meet demand when the "wind isn't blowing" given the economical limitations of current battery storage technology (while prices for lithium-ion batteries have come down significantly over the past decade, they are still quite expensive relatively speaking for utility-scale operations), natural gas-fired power plants will be required to fill in the gaps for some time.

Natural gas has steadily gained market share in the US electricity generation space over the past decade, largely at the expense of coal. Over the past couple of years, natural has been the single largest source of domestic electricity supply in the US on a net generation basis, as was the case in 2019 according to the US Energy Information Administration ('EIA').

Going forward, natural gas will remain a core part of the US electricity mix for some time. Modern natural gas-fired combined-cycle power plants are very economical and represent a consistent source of low cost electricity supply. Additionally, plummeting natural gas prices in the US over the past decade likely encouraged greater use of natural gas heating options in certain regions (roughly half of US households rely on natural gas heating options as of a few years ago), and furthermore, cheap feedstock prices helped encourage new natural gas-hungry industrial developments to come online in the US (such as petrochemical plants and refinery expansions).

This purchase fits in with Berkshire Hathaway's long-term infrastructure and utility strategy in North America. It will be interesting to see how Mr. Buffett views the deal during Berkshire Hathaway's next update.

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

Recent Events Concerning Johnson & Johnson

Image Source: *Johnson & Johnson – First Quarter of 2020 IR Earnings Presentation*

By Callum Turcan

We include Johnson & Johnson (JNJ) as a top-weighted holding in the Dividend Growth Newsletter portfolio and as a medium-weighted holding in the Best Ideas Newsletter portfolio. The firm's Dividend Cushion ratio sits at a solid 2.1, and please note that this forward-looking dividend coverage ratio factors in our expectations that Johnson & Johnson will grow its per share dividend by mid-single-digits annually over the coming years. Johnson & Johnson earns a "GOOD" Dividend Safety rating and an "EXCELLENT" Dividend Growth rating, with shares of JNJ yielding ~2.8% as of this writing. In our view, **Johnson & Johnson's strong balance sheet and high quality cash flow profile provide it with the financial strength to ride out the storm** created by the ongoing coronavirus ('COVID-19') pandemic with its current dividend policy and financials intact.

COVID-19 Vaccine Update

On June 10, Johnson & Johnson put out a press release noting that the firm had "accelerated the initiation of the Phase 1/2a first-in-human clinical trial of its investigational SARS-CoV-2 vaccine, Ad26.COV2-S, recombinant. Initially scheduled to begin in September, the trial is now expected to commence in the second half of July." We appreciate the news given the urgent need for a COVID-19 vaccine and considering some of Johnson & Johnson's peers are either already in the process of running human clinical trials, such as Moderna Inc (MRNA, or will soon be doing so. Johnson & Johnson's Janssen pharmaceutical unit is working with the Biomedical Advanced Research and Development Authority ('BARDA') which operates as an office of the US Department of Health & Human Services ('HHS'). Here are some additional highlights on the upcoming human clinical trials from Johnson & Johnson's press release:

> *The randomized, double-blind, placebo-controlled Phase 1/2a study will evaluate the safety, reactogenicity (response to vaccination), and immunogenicity (immune response) of the investigational SARS-CoV-2 vaccine, Ad26.COV2-S, recombinant in 1045 healthy adults aged 18 to 55 years, as well as adults aged 65 years and older. The study will take place in the U.S. and Belgium. The Company is in discussions with the National Institutes of Allergy and Infectious Diseases with the objective to start the Phase 3 SARS-CoV-2 vaccine, Ad26.COV2-S, recombinant, clinical trial ahead of its original schedule, pending outcome of Phase 1 studies and approval of regulators.*

*Recent Events Concerning...*continued on next page

Recent Events Concerning…**from previous page**

Please note that Johnson & Johnson is also aggressively ramping up its manufacturing capacity and aims to supply 1 billion doses of the potential vaccine in 2021, assuming the vaccine is both effective and safe. Reportedly, the European Union was in touch with Johnson & Johnson back in June about securing supplies of Johnson & Johnson's COVID-19 potential vaccine. That process could include reserving some of the expected vaccine supplies or purchasing those expected vaccine supplies upfront, though nothing is for certain at this stage.

Baby Power Sales to End

After selling some form of the talc-based Johnson's Baby Powder since the 1890s, Johnson & Johnson is throwing in the towel and discontinuing sales in the US and Canada. This decision was likely in part due to the company reporting ongoing weakness in sales of the product line ('Baby Care' was the only sub-segment within the firm's 'Consumer Health' segment to post a year-over-year decline in sales in the first quarter of 2020).

In our view, the biggest reason the company is cancelling its Johnson's Baby Powder product line in the US and Canada is due to ongoing lawsuits alleging the talc-based product resulted in some consumers getting cancer. This was allegedly due to the talc Johnson & Johnson sourced being contaminated with asbestos (asbestos, a carcinogen, is sometimes located near talc deposits in nature). Please note Johnson & Johnson has emphatically denied the allegations and the firm has contracted third-party labs to prove its Johnson's Baby Powder product does not contained asbestos (so far, those labs have shown that Johnson's Baby Powder does not contain asbestos as alleged by the US Food and Drug Administration last year). We will keep our members informed on the issue as it develops.

Concluding Thoughts

We continue to like Johnson & Johnson in the Best Ideas Newsletter and Dividend Growth Newsletter portfolios. Our fair value estimate for shares of JNJ stands at $148 and there is room for meaningful upside here as the top end of our fair value estimate range sits at $178 per share of JNJ. Once global health authorities begin to get a handle on the ongoing pandemic, that should materially improve Johnson & Johnson's outlook.

The firm's Consumer Health and 'Pharmaceuticals' segments performed very well in the first quarter of this year, but its 'Medical Devices' segment did not as elective surgeries were postponed. Once elective surgeries resume in earnest, Johnson & Johnson's financial performance should improve materially. On a final note, Johnson & Johnson increased its quarterly dividend by 6% sequentially in April 2020, highlighting management's confidence in the firm's future financial performance.

Image Source: *Johnson & Johnson – First Quarter of 2020 IR Earnings Presentation*

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

Interview with Valuentum's Callum Turcan

Callum Turcan helps head up Valuentum's research product and is co-editor of the company's newsletters. We sat down with Callum to get his thoughts on new developments in the market and economy. Let's kick things off with his thoughts on the recent Berkshire/Dominion deal.

Callum: Interesting deal with Dominion (D) and one that likely fits in with Berkshire Hathaway's (BRK.A/BRK.B) long-term utility/infrastructure strategy in North America. Berkshire has steadily grown its wind power generation business over the past decade, but until battery storage technology progresses further (with an eye towards the need for serious cost reductions), natural gas will continue to be used to meet electricity demand when wind turbines are operating at reduced capacity (and in general, as new combined-cycle natural gas power plants are baseload power generators).

Additionally, natural gas heating has become more popular in certain parts of the US as domestic natural gas prices catered over the past decade (due to fracking) and low prices spurred the expansion of certain natural gas-hungry industries in the US as well (new petrochemical plants, enlarged refineries), which further supports the outlook for domestic natural gas demand. Rising US natural gas exports (via LNG facilities and pipelines to Mexico) only represent part of this story, in my view, Mr. Buffett is betting on domestic natural gas demand holding up relatively well over the coming decades.

Question: The Oracle is stepping into infrastructure plays while the midstream energy space is facing some pressure. Chesapeake Energy (CHK), for example, has asked to cancel over $300 million of its pipeline contracts.

Callum: Many onshore US upstream companies have long considered how to get out of (arguably onerous) minimum volume commitments ('MVCs'), many of which were signed during a different era. These agreements played a key role in decimating the shale industry by encouraging uneconomic production to stay online (the economic cost of not drilling was worse than the economic cost of drilling in a low raw energy resources pricing environment given the MVC-related fees and penalties). However, the US court system has generally preferred to keep those agreements in place even during and after bankruptcy (though the pricing of such contracts could be negotiated as all contracts can be during the Chapter 11 process). We will see what happens in 2020 and beyond as Chesapeake's Chapter 11 process makes its way through the system, but we remain cautious on the midstream space (AMLP).

Question: As expected, Wells Fargo (WFC) cut its dividend in the third quarter in response to the Fed's recent stress tests. What are your thoughts on what investors might expect across the banking sector?

Callum: We noted that Wells Fargo's dividend was at risk in our most recent note, "Wells Fargo Faces Regulatory Pressure Amid an Enormous Bad Debt Cycle," April 16, so the news from Wells wasn't unexpected. We're not huge fans of the banking sector, as financials have underperformed terribly during the COVID-19 sell-off and failed to participate meaningfully in the rebound. Wells Fargo cut its quarterly dividend by approximately 80% to $0.10 per share on July 14 (from $0.51 per share previously) after reporting second quarter earnings that missed both consensus top- and bottom-line estimates.

JPMorgan (JPM) expects to maintain its quarterly payout in the third quarter, but CEO Jamie Dimon just recently warned that the bank might have to cut its dividend if there is "significant deterioration" in JPM's outlook. For Bank of America (BAC) and JPM, it does not seem like a dividend cut is imminent (meaning within the coming weeks). We should caution that many market participants are likely assuming more will be done on the fiscal side of things in the US to prop up the economy and wages past July 2020 (considering enhanced unemployment benefits end in July, the stimulus payments were a one-time deal, and Payroll Protection Program loans/grants will go cover so much).

*Interview With...*continued on next page

Interview With...**from previous page**

If there is not additional fiscal stimulus (emergency funding really) in the US, the economic outlook is not great heading into third quarter given rising confirmed COVID-19 cases and the potential for various lockdowns to continue for longer than previously expected. Ultimately, it depends on how federal authorities respond, given the banking sector's dependence on the strength of the broader economy. That said, the stock market is not the economy, and we remain bullish on the markets as the longer-duration components of enterprise valuation swell.

Question: What are your thoughts on the potential for a COVID-19 vaccine sooner than later. We heard from the NIH Director Francis Collins that he is optimistic on a COVID-19 vaccine by year end.

Callum: Key clinical trials are starting up for Moderna (MRNA), AstraZeneca (AZN), and Johnson & Johnson (JNJ). Moderna may have to delay its Phase 3 trial by a few weeks (which was slated to begin this month), but things are moving quickly in the race for a vaccine. The number of shots on goal for a COVID-19 vaccine are tremendous, "Excited By COVID-19 Vaccine Candidates," May 18, and we remain very optimistic that we may soon have COVID-19 on the run.

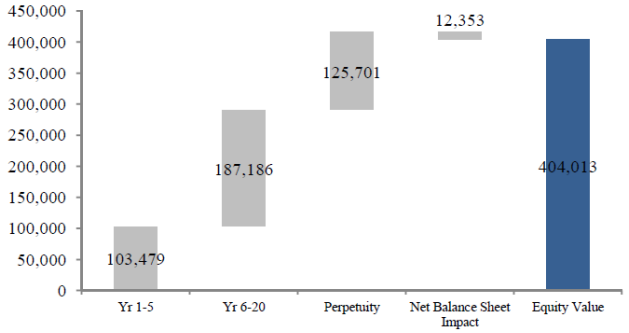
Valuation Analysis

Valuation Assumptions

In Millions of USD (except for per share items)	5-year Projections	
Revenue CAGR %	2.8%	
Avg. EBIT Margin %	34.0%	
Avg. Cash Tax Rate %	15.0%	
Earnings Before Interest CAGR %	6.7%	
Earnings Per Share CAGR %	13.7%	
Free Cash Flow to the Firm CAGR %	6.3%	
Earnings before interest = Net operating profits less adjusted taxes	Long-term Projections	
Phase II --> III FCFF CAGR %	2% (II)	3% (III)
Cost of Equity %	9.5%	
After-tax Cost of Debt %	4.7%	
Discount Rate (WACC) %	9.2%	
Synthetic credit spread = 1.253%	Results	
Phase I Present Value	103,479	
Phase II Present Value	187,186	
Phase III Present Value	125,701	
Total Firm Value	416,366	
Net Balance Sheet Impact	-12,353	
Total Equity Value	404,013	
Diluted Shares Outstanding	2,728.7	
Fair Value per Share	$148.00	

Valuation Breakdown

In the chart below, we show the build up to our estimate of total enterprise value for Johnson & Johnson and the break down to the firm's total equity value, which we estimate to be about 404.01USD billion. The present value of the enterprise free cash flows generated during each phase of our model and the net balance sheet impact, which considers the firm's pension, is displayed. We divide total equity value by diluted shares outstanding to arrive at our $148 per share fair value estimate.



In addition to the firm's cap structure, the net balance sheet impact considers the funded status of the firm's pension (-1560). In Millions of USD

Image Shown*: An overview of our base case scenario valuation assumptions used in our discounted free cash flow models covering Johnson & Johnson.*

Question: We've been hearing a lot about ESG (Environment, Social, Governance) investing. What are some of your thoughts on this trend?

Callum: The record net inflows last year into ESG funds highlights the growing popularity of this investing strategy. The rise of ESG investing strategies goes far beyond financial media headlines as it's becoming increasingly apparent investors are really warming up to the idea and allocating funds towards the space (a dynamic that's likely creating demand for ESG investment research from RIAs and other institutional investors, along with retail investors as well). With ~$200 billion in AUM across all ESG funds (including the ~$20 billion in net inflows seen last year), this space is no longer a niche.

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

Valuentum's Best Ideas Portfolio

By Valuentum Analysts

Recently Removed: VNQ, XAR (June 11, 2020)

Recent Changes: Added SPY Put Option (August 21 expiration, $295 strike) [June 11] --- AAPL, MSFT (June 12)

Valuentum's BEST IDEAS -- as of July 15, 2020

Portfolio Holdings	Symbol	Div Yield %	Fair Value	Economic Castle	VBI Rating	P/FV	Last Close	% of Portfolio
Berkshire Hathaway	BRK-B	0.00%	$229.00	NA	5	0.83	190.56	8%-13%
Facebook	FB	0.00%	$284.00	Attractive	5	0.85	240.28	8%-13%
Alphabet - Class C	GOOG	0.00%	$1436.00	Attractive	6	1.05	1513.64	8%-13%
Visa	V	0.62%	$178.00	Very Attractive	6	1.10	196.55	8%-13%
PayPal	PYPL	0.00%	$200.00	Attractive	5	0.86	172.06	6.5%-8%
SPDR S&P Dividend ETF	SDY	3.10%	NA	NA	UR	NA	93.55	6.5%-8%
Health Care ETF	XLV	2.27%	NA	NA	UR	NA	104.63	6.5%-8%
Cisco	CSCO	3.11%	$51.00	Very Attractive	6	0.91	46.40	5%-6.75%
Intel	INTC	2.24%	$51.00	Attractive	3	1.16	59.03	5%-6.75%
Johnson & Johnson	JNJ	2.73%	$148.00	Attractive	7	1.00	148.26	5%-6.75%
Apple	AAPL	0.84%	$344.00	Attractive	6	1.14	390.90	3.8%-5.4%
Microsoft	MSFT	0.98%	$195.00	Attractive	6	1.07	208.04	3.8%-5.4%
Dollar General	DG	0.76%	$143.00	Attractive	6	1.32	189.43	3.5%-5%
Disney	DIS	0.00%	$111.00	Attractive	4	1.09	120.90	3.5%-5%
SPY put options (Aug expiration, $295 strike)								1.0%
Cash consideration	-	-	-	-	-	-	-	0.0%

UR = Under Review
This portfolio is not a real money portfolio. Data as of July 15, 2020, retrieved from YF, Valuentum.

The cash weighting in the Best Ideas Newsletter portfolio is 0% at the midpoint. The midpoints of our respective weighting ranges sum to ~100% to reflect the range of possible combinations that may result in this allocation.

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

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

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

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

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

Freeport-McMoRan's Outlook Improves Considerably

Image Source: *Freeport-McMoRan Inc – February 2020 IR Presentation*

By Callum Turcan

Global copper, gold, and molybdenum miner Freeport-McMoRan Inc (FCX) suspended its quarterly common dividend in March 2020 and provided a revised outlook for the full-year in April 2020 due to the coronavirus ('COVID-19') pandemic hampering both commodity prices and its operational performance. One of those hurdles involved the Peruvian government imposing restrictions on its Cerro Verde mine in March 2020 (as part of COVID-19 containment efforts), a copper mine that Freeport-McMoRan owns a ~54% stake in. Another hurdle involved the collapse in commodity prices earlier this year (though gold prices have held up quite well in 2020). First, let us provide some background before highlighting why Freeport-McMoRan's outlook has recently improved considerably.

Background

In April 2020, the miner significantly reduced its outlook for its copper and molybdenum production this year from guidance given out in January 2020 (while marginally boosting its forecast for its gold production this year). The firm's April guidance forecasted that Freeport-McMoRan's copper, gold, and molybdenum production would fall in 2020 versus 2019 levels, even after considering the marginal increase in its expected gold production versus previous estimates.

Freeport–McMoRan's...**continued on next page**

*Freeport-McMoRan's…*from previous page

To offset the negative impact of COVID-19, Freeport-McMoRan aggressively reduced its capital investment expectations for 2020 in April while also announcing plans to reduce its operating costs and corporate overhead expenses. These cost saving strategies targeted $0.1 billion in savings from reduced exploration and administrative expenses, a $1.3 billion reduction in its operating expenses (keeping lower total forecasted production volumes in mind) and scaling back its 2020 capital investment expectations by $0.8 billion. In our view, these measures were required considering the miner exited March 2020 with a net debt load of ~$8.5 billion (cash and cash equivalents less short-term debt less current portion of long-term debt) and given that the firm was expecting its cash flows to come under intense pressure.

Outlook Update

Very recently, Freeport-McMoRan reported that its mining operations and developments had been progressing better than feared. Copper prices have been relatively strong of late, assisted by fiscal stimulus measures in China and the potential for supply disruptions in Chile, while gold prices have been steadily climbing year-to-date, supported by very dovish monetary policies worldwide (including policies enacted by the US Fed). Freeport-McMoRan noted stronger copper prices in the second quarter on a sequential basis would improve its financial performance versus previous assumptions during a July 6 press release. Here is a key excerpt from that press release highlighting its improving operational and financial outlook (emphasis added):

> *FCX's 2020 revised operating plans are focused on safeguarding its business in an uncertain public health and economic environment, advancing the ramp-up of underground production at Grasberg to establish large-scale, low-cost copper and gold production, and advancing initiatives in the Americas to position FCX for significant increases in cash flows in 2021 and beyond.*
>
> ***During the second quarter, FCX met or exceeded several key performance targets included in its April 2020 revised operating plans**. Second-quarter 2020 copper sales are expected to exceed the April 2020 estimate of 690 million pounds by approximately 8 percent and gold sales are expected to exceed the April 2020 estimate of 165 thousand ounces by approximately 10 percent.*

With that in mind, the Cerro Verde mining operation has performed in-line with Freeport-McMoRan's April 2020 guidance through early-July. **Outperformance came from Freeport-McMoRan's Indonesian operations.** Freeport-McMoRan owns a ~49% stake in the PT-Freeport Indonesia ('PT-FI') joint venture (with the Indonesian government owning the remaining stake), though its economic interest in the venture sits at ~81% through 2022 due to a complex transaction involving the Indonesian government, Freeport-McMoRan, and Rio Tinto plc (RTPPF) that was completed in December 2018.

What makes PT-FI venture important is the Grasberg minerals district is in Papua, Indonesia, which is home to a massive gold and copper mine. In 2019, PT-FI commenced commercial mining operations at the Grasberg Block Cave underground mine after completing open pit mining activities the same year. Additional resources are being recovered from the Deep Mill Level Zone ('DMLZ'). Here is another excerpt from Freeport-McMoRan's July 6 press release (emphasis added):

> *Significant progress was achieved at Cerro Verde during the second quarter to restore operations following COVID-19 restrictions imposed by the Peruvian government in March 2020. Strict health protocols have been implemented and a plan for Cerro Verde was approved by the Peruvian government in second quarter 2020. During June, Cerro Verde mill operations averaged 315,000 metric tons of ore per day, **approximately 80 percent of the 2019 annual average. Cerro Verde's operating rates are in line with the April 2020 operating plan**…*

*Freeport-McMoRan's…*continued on next page

*Freeport–McMoRan's…*from previous page

> *…The ramp-up of underground production at the Grasberg minerals district in Indonesia continues as-planned. During the second quarter,* ***combined production rates from the Grasberg Block Cave and Deep MLZ (DMLZ) underground mines exceeded 54,000 metric tons of ore per day, approximately 9 percent above the April 2020 estimate*** *and 46 percent above the first-quarter 2020 average.*
>
> *At the end of June 2020, combined production from the Grasberg Block Cave and DMLZ averaged approximately 70,000 metric tons of ore per day.* ***PT Freeport Indonesia expects its 2021 copper and gold production to approximate 1.4 billion pounds of copper and 1.4 million ounces of gold, nearly double projected 2020 levels.***

We appreciate that Freeport-McMoRan has been able to resume mining operations and mine development activities in earnest. A combination of stronger commodity prices and better than expected production figures (versus guidance given out in April 2020) has considerably improved the miner's near-term cash flow outlook.

Freeport-McMoRan expects to commence production at its Lone Star copper leach project in Arizona soon as the development remains "on track to produce approximately 200 million pounds of copper per annum beginning in the second half of 2020." The Lone Star development is wholly-owned by Freeport-McMoRan and bringing commercial mining operations online should further enhance its cash flow outlook.

Balance Sheet and Liquidity Update

Freeport-McMoRan continued to carry a large net debt load as of early-July 2020. This upcoming excerpt is from its July 6 press release (emphasis added):

> *At June 30, 2020, FCX had no amounts drawn under its $3.5 billion revolving credit facility.* ***At June 30, 2020, total consolidated debt is estimated to approximate $9.9 billion and consolidated cash is estimated to approximate $1.5 billion.***
>
> *The 2020 financial estimates in this press release are based on modeled results and subject to further changes upon completion of FCX's normal closing process and finalization of quarterly financial and accounting procedures.*

Generating positive net operating cash flows going forward would be a significant improvement from its weak first quarter performance, when Freeport-McMoRan generated negative operating cash flows and thus negative free cash flows. Freeport-McMoRan's liquidity position appears solid as most of its $3.5 billion revolving credit facility does not mature until April 2024 (~$3.3 billion matures in April 2024, ~$0.2 billion matures April 2023), granting the miner access to liquidity during these harrowing times (on top of its sizable cash position). The miner would be well advised to cut down on its net debt load over the coming years, if able to do so, in order to improve its long-term financial trajectory and flexibility.

Concluding Thoughts

While most miners (outside of pure play gold miners) came under intense pressure during the first several months of 2020, things are beginning to turn around. Shares of FCX surged by almost 11% on July 6 during normal trading hours after the miner published its update. That being said, Freeport-McMoRan still remains exposed to a second wave of confirmed COVID-19 infections in the event quarantine efforts are imposed again in key economies around the globe.

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

Tesla Surges On Promising Production Report

Image Shown: *Shares of Tesla Inc have more than tripled year-to-date, as of this writing, due to growing optimism about the electric vehicle and battery maker's long-term growth outlook.*

By Callum Turcan

On July 2, Tesla Inc (TSLA) provided an update on the number of electric vehicles it produced and delivered during the second quarter of 2020, when its domestic manufacturing capabilities were hit the hardest by the ongoing coronavirus ('COVID-19') pandemic. This report likely acted as the catalyst for the latest run up in shares of TSLA as its technicals have "gone parabolic" of late.

Production Update

During the second quarter of this year, Tesla reported that it produced ~82,300 vehicles (including ~6,300 of the more expensive Model S/X vehicles) and delivered ~90,700 vehicles (including ~10,600 Model S/X vehicles) even though production operations at its Freemont, California, vehicle manufacturing plant were negatively impacted by the pandemic. Operations at Tesla's 'Gigafactory' (battery making facility) near Reno, Nevada, were also negatively impacted by the COVID-19 outbreak and reportedly operations at its relatively new vehicle manufacturing plant in Shanghai, China, were negatively impacted by lingering effects of the coronavirus last quarter as well (keeping in mind China was hit hardest by the pandemic during the first quarter of this year).

Tesla is reportedly in the process of aggressively expanding its 'Gigafactory Shanghai' facility to both increase its annualized vehicle production and to allow for the manufacturing complex to build more of the parts used in its Tesla vehicles (to reduce dependence on third-party suppliers). While Tesla is currently producing its Model 3 vehicle offerings at the production plant, by the first quarter of 2021 (depending on how things play out given uncertainties created by the pandemic) the company aims to begin producing its Model Y vehicles offerings at Gigafactory Shanghai as well.

*Tesla Surges...*continued on next page

*Tesla Surges...*from previous page

The Model 3 vehicle offering is considered Tesla's way to break into the "mass auto market" though the vehicle is still priced far above what some consider to be the average automobile a middle class US consumer could afford (and that likely holds true for developed markets worldwide). Over time, a growing manufacturing presence would likely enable Tesla to offer automobiles with far lower starting pricing points, thus enabling the electric vehicle maker to further extent its growth runway by expanding its target market.

Concluding Thoughts

Having a global manufacturing presence helped Tesla mitigate some of the major headwinds created by the ongoing pandemic. In the first quarter of 2020, Tesla leaned on its domestic manufacturing facilities to produce ~102,700 vehicles (supporting ~88,500 vehicle deliveries that quarter) as its overseas production operations were curtailed by the pandemic and related quarantine efforts. Pivoting to the second quarter, while Tesla's overseas production operations experienced some road bumps, for the most part its Gigafactory Shanghai was able to offset domestic production losses as Tesla's Freemont facility went offline in late-March and did not restart until May. Operations at its Gigafactory in Reno slowed to a crawl in late-March before ramping back up in May.

Though Tesla's vehicle production dropped sequentially in the second quarter of 2020, many investors and the market at-large are likely expecting the company's production to quickly ramp up over the coming quarters. **Tesla's vehicle deliveries actually rose during the second quarter versus the first**, which is impressive.

Shares of Tesla have surged this year and as of this writing have more than tripled year-to-date. **We like the long-term outlook for Tesla's free cash flows, though its valuation has run far above the top end of our fair value estimate range.** As Tesla ramps its production back up in the US and continues to expand its overseas production capabilities, the electric vehicle and battery maker's outlook will likely continue to improve, though the pandemic will remain a major concern until a COVID-19 vaccine becomes available.

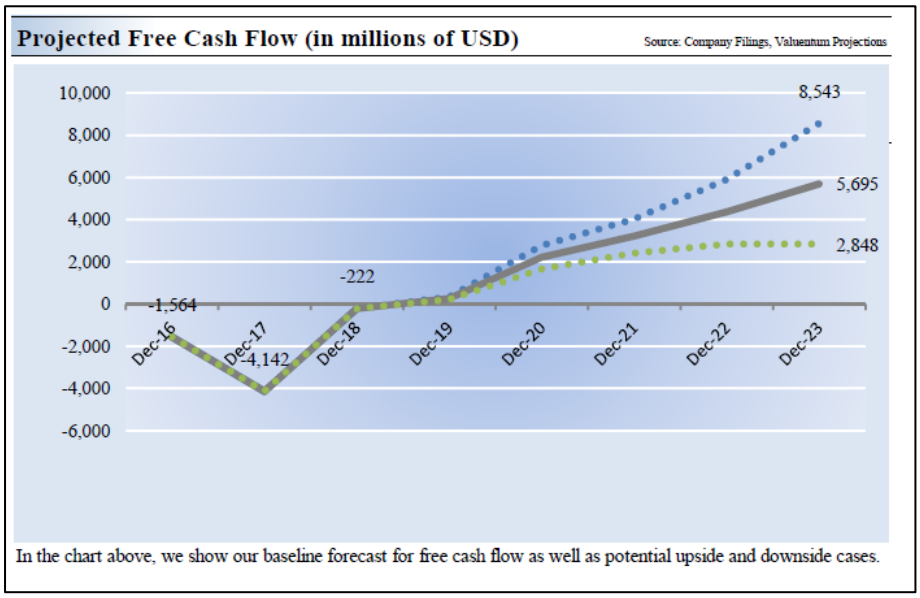


Image Shown: *We are optimistic on Tesla's free cash flow trajectory, though we caution its valuation has run far ahead of even our modest optimistic scenarios.*

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

Our Thoughts on Warner Music Group Going Public

***Image Shown**: Shares of Warner Music Group Corp have drifted lower since going public on June 3.*

By Callum Turcan

Warner Music Group Corp (WMG) went public on June 3, though shares were sold by the company's stockholders in the IPO and not the firm itself, meaning these proceeds are not expected to go to Warner Music Group. The company owns various record labels including Atlantic Records, Warner Records, Elektra Records and Parlophone Records along with its global music publishing business Warner Chappell Music. For some background, please note Warner Music Group counts Ed Sheeran, Bruno Mars, and Cardi B as some of its recording artists and on the music publishing business side of things songwriters including Twenty One Pilots, Lizzo and Katy Perry are part of the firm's team. In 2011, Access Industries purchased Warner Music Group and took the company private after the firm was previously publicly traded from 2005 to 2011.

During the IPO, 77 million Class A shares (with the underwriters having the ability to purchase an additional 11.55 million Class A shares) are being sold by privately-held Access Industries and other parties. Access Industries is owned and run by multibillionaire Leonard "Len" Blavatnik who will effectively control Warner Music Group post-IPO due to the firm's dual class structure (from the firm's S-1/A SEC filing):

> *Access Industries is a privately-held industrial group with long-term holdings worldwide. [The company was] founded in 1986 by British-American industrialist and philanthropist Len Blavatnik…*
>
> *Following the completion of this offering, Access will hold an aggregate of 440,000,000 shares of our [Warner Music Group's] Class B common stock, representing approximately 99.2% of the total combined voting power of our outstanding common stock (or an aggregate of 429,500,000 shares of our Class B common stock, representing approximately 99.1% of the total combined voting power of our outstanding common stock if the underwriters exercise in full their option to purchase additional shares of our Class A common stock from the selling stockholders) and approximately 86.3% of the economic interest (or approximately 84.2% of the economic interest if the underwriters exercise in full their option to purchase additional shares of our Class A common stock from the selling stockholders).*
>
> *Accordingly, Access will have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of our directors and the approval of any change in control transaction. We believe that this voting structure aligns our interests in creating stockholder value.*

*Our Thoughts…*continued on next page

*Our Thoughts...*from previous page

While shareholders of Class A stock will have an economic interest in the company, they will not have any meaningful say in how the company is run as "each share of Class B common stock is entitled to 20 votes per share" while "each share of Class A common stock is entitled to one vote per share" and that's unlikely to change anytime soon. Stephen Cooper is CEO of Warner Music Group, Max Lousada is CEO of the Recorded Music division of Warner Music Group, Michael Lynton is Chairman of the Board, and Len Blavatnik is Vice Chairman of the Board.

Warner Music Group cites data from the International Federation of the Phonographic Industry ('IFPI') when it noted that "the recorded music industry generated $20.2 billion in global revenue in 2019 and has consistently grown since 2015" with digital leading the way. **Streaming revenues accounted for 88% of the industry's digital sales in 2019, and digital sales accounted for 64% or $12.9 billion of the recorded music industry's total revenues that year.** Furthermore, digital sales rose by 18% in 2019, with streaming revenues up 24%. Warner Music Group, citing IFPI data, noted that the global recorded music industry's revenues grew by 9% CAGR since 2015 (apparently through 2019).

Streaming services appear to have fundamentally altered the trajectory of the recorded music industry's financials in a very positive way. Many companies including Apple Inc (AAPL), Alphabet Inc (GOOG) (GOOGL), Amazon Inc (AMZN), iHeartMedia Inc (IHRT), Spotify Technology SA (SPOT), and others offer some form of music streaming services. What makes streaming appealing for the recorded music industry is that piracy becomes far less of a concern. For established businesses that play music in-store, generally speaking (especially for corporate chains), those entities prefer to have lawfully acquired in-store music options due to the legal implications of not doing so (generally under commercial music streaming agreements). For consumers, many prefer the streaming music experience due to the ability to find new bands, songs, genres, and the wide selection of content available.

Citing IFPI data once again, Warner Music Group notes that there were 341 million global paid music streaming service subscribers at the end of 2019, up from 255 million at the end of 2018, with room to grow given that there are over 3 billion smartphone users in the world, according to data from Statista cited by Warner Music Group. Please note Warner Music Group's fiscal year ends in September. From fiscal 2015 to fiscal 2019, Warner Music Group grew its GAAP revenues 51%, which hit $4.5 billion in fiscal 2019 (period ended September 30, 2019). Over this period, Warner Music Group's GAAP net income flipped from approximately -$0.1 billion (negative $0.1 billion) to approximately positive $0.3 billion. **The uplift from rising streaming revenues was key to turning the firm's financial performance around.**

	Six Months Ended March 31,		Fiscal Year Ended September 30,				
(in millions)	2020	2019	2019	2018	2017	2016	2015
Statement of Operations Data:							
Revenues	$ 2,327	$ 2,293	$ 4,475	$ 4,005	$ 3,576	$ 3,246	$ 2,966
Interest expense, net	(66)	(72)	(142)	(138)	(149)	(173)	(181)
Net income (loss)	48	153	258	312	149	30	(88)
Less: Income (loss) attributable to noncontrolling interest	(2)	—	(2)	(5)	(6)	(5)	(3)
Net income (loss) attributable to the Company.	46	153	256	307	143	25	(91)
Balance Sheet Data (at period end):							
Cash and equivalents	$ 484	$ 470	$ 619	$ 514	$ 647	$ 359	$ 246
Total assets	6,124	5,902	6,017	5,344	5,718	5,335	5,574
Total debt (including current portion of long-term debt)	2,983	2,990	2,974	2,819	2,811	2,778	2,947
Total equity (deficit)	(285)	(120)	(269)	(320)	308	210	239
Cash Flow Data:							
Cash flows provided by (used in):							
Operating activities	$ 164	$ 99	$ 400	$ 425	$ 535	$ 342	$ 222
Investing activities	(51)	(293)	(376)	405	(126)	(8)	(95)
Financing activities	(245)	151	88	(955)	(128)	(216)	(19)
Depreciation & amortization	132	137	269	261	251	293	309
Capital expenditures	(28)	(59)	(104)	(74)	(44)	(42)	(63)

	Six Months Ended March 31,		Fiscal Year Ended September 30,				
(in millions, except share and per share amounts)	2020	2019	2019	2018	2017	2016	2015
Earnings/(Loss) Per Share:							
Earnings/(Loss) per share—common stock							
Basic and Diluted	$0.09	$0.30	$0.51	$0.61	$0.29	$0.05	$(0.18)
Weighted average common shares outstanding	501,991,944	501,991,944	501,991,944	502,630,835	503,392,885	503,392,885	503,392,885
Dividends Per Share:							
Dividends per share—common stock							
Basic and Diluted	$0.15	$0.12	$0.59	$1.84	$0.17	$ —	$ —

Image Shown: *Warner Music Group's financials have improved over the past several fiscal years.* ***Image Source:*** *Warner Music Group – S-1/A SEC Filing*

*Our Thoughts...*continued on next page

***Our Thoughts...*from previous page**

During the first half of fiscal 2020 (six month period ended March 31, 2020), Warner Music Group's GAAP revenues were up a little over 1% year-over-year, keeping in mind the coronavirus ('COVID-19') pandemic likely negatively influenced its financials during the second half of this period as it spread worldwide. While Warner Music Group's physical sales dropped by 23% year-over-year in the first half of fiscal 2020, its digital sales rose by 9% year-over-year.

Fiscal Year Ended September 30, 2019 Compared with Fiscal Year Ended September 30, 2018 and Fiscal Year Ended September 30, 2017

Consolidated Results

Revenues

The Company's revenues were composed of the following amounts (in millions):

	For the Fiscal Year Ended September 30,			*2019 vs. 2018*		*2018 vs. 2017*	
	2019	2018	2017	$ Change	% Change	$ Change	% Change
Revenue by Type							
Digital	$2,343	$2,019	$1,692	$ 324	16%	$ 327	19%
Physical	559	630	667	(71)	-11%	(37)	-6%
Total Physical and Digital	2,902	2,649	2,359	253	10%	290	12%
Artist services and expanded-rights	629	389	385	240	62%	4	1%
Licensing	309	322	276	(13)	-4%	46	17%
Total Recorded Music	3,840	3,360	3,020	480	14%	340	11%
Performance	183	212	197	(29)	-14%	15	8%
Digital	271	237	187	34	14%	50	27%
Mechanical	55	72	65	(17)	-24%	7	11%
Synchronization	120	119	112	1	1%	7	6%
Other	14	13	11	1	8%	2	18%
Total Music Publishing	643	653	572	(10)	-2%	81	14%
Intersegment eliminations	(8)	(8)	(16)	—	— %	8	-50%
Total Revenues	$4,475	$4,005	$3,576	$ 470	12%	$ 429	12%
Revenue by Geographical Location							
U.S. Recorded Music	$1,656	$1,460	$1,329	$ 196	13%	$ 131	10%
U.S. Music Publishing	300	294	258	6	2%	36	14%
Total U.S.	1,956	1,754	1,587	202	12%	167	11%
International Recorded Music	2,184	1,900	1,691	284	15%	209	12%
International Music Publishing	343	359	314	(16)	-4%	45	14%
Total International	2,527	2,259	2,005	268	12%	254	13%
Intersegment eliminations	(8)	(8)	(16)	—	— %	8	-50%
Total Revenues	$4,475	$4,005	$3,576	$ 470	12%	$ 429	12%

72

Image Shown: *Digital sales are a crucial part of Warner Music Group's total revenues and its main source of growth going forward, with an eye on rising global demand for paid music streaming services.* ***Image Source:*** *Warner Music Group – S-1/A SEC Filing*

As of March 31, 2020, Warner Music Group carried $3.0 billion in total debt versus $0.5 billion in cash and cash equivalents. **The firm's debt maturity schedule is staggered and manageable, though having a relatively large net debt position could create hurdles in the future.**

	Actual As of March 31, 2020	Pro Forma As of March 31, 2020
	(in millions)	
Cash and equivalents	$ 484	$ 381
Debt (a)		
Revolving Credit Facility (b)	—	—
Senior Term Loan Facility due 2023 (c)	1,315	1,315
5.000% Senior Secured Notes due 2023 (d)	298	298
4.125% Senior Secured Notes due 2024 (e)	339	339
4.875% Senior Secured Notes due 2024 (f)	218	218
3.625% Senior Secured Notes due 2026 (g)	492	492
5.500% Senior Notes due 2026 (h)	321	321
Total debt (i)	$ 2,983	$ 2,983
Equity		
Class A common stock, $0.001 par value per share; (i) Actual: 1,000,000,000 shares authorized, 0 shares issued and outstanding and (ii) Pro Forma: 1,000,000,000 shares authorized, 70,000,000 shares issued and outstanding	—	—
Class B common stock, $0.001 par value per share; (i) Actual: 1,000,000,000 shares authorized, 510,000,000 shares issued and outstanding and (ii) Pro Forma: 1,000,000,000 shares authorized, 440,000,000 shares issued and outstanding	1	1
Additional paid-in capital	1,127	1,127
Accumulated deficit	(1,166)	(1,269)
Accumulated other comprehensive loss, net	(268)	(268)
Total Warner Music Group Corp. deficit	$ (306)	$ (409)
Noncontrolling interest	21	21
Total deficit	$ (285)	$ (388)
Total capitalization	$ 2,698	$ 2,595

Image Shown: *An overview of Warner Music Group's balance sheet.* ***Image Source:*** *Warner Music Group – S-1/A SEC Filing*

***Our Thoughts...*continued on next page**

Our Thoughts...**from previous page**

During the first half of fiscal 2020, Warner Music Group generated over $0.1 billion in free cash flow as you can see in the upcoming graphic down below.

Consolidating Statement of Cash Flows (Unaudited)
For The Six Months Ended March 31, 2020

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Cash flows from operating activities									
Net income	$ 46	$ 95	$ 140	$ (233)	$ 48	$ 45	$ 45	$ (90)	$ 48
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation and amortization	—	74	58	—	132	—	—	—	132
Unrealized gains and remeasurement of foreign-denominated loans and foreign currency forward exchange contracts	6	(3)	(10)	—	(7)	—	—	—	(7)
Deferred income taxes	—	—	(31)	—	(31)	—	—	—	(31)
Net loss on investments	—	15	—	—	15	—	—	—	15
Non-cash interest expense	3	—	—	—	3	—	—	—	3
Equity-based compensation expense	—	160	—	—	160	—	—	—	160
Equity gains, including distributions	(108)	(148)	—	256	—	(45)	(45)	90	—
Changes in operating assets and liabilities:									
Accounts receivable, net	—	11	(5)	—	6	—	—	—	6
Inventories	—	—	9	—	9	—	—	—	9
Royalty advances	—	(26)	(21)	—	(47)	—	—	—	(47)
Accounts payable and accrued liabilities	—	80	(166)	(23)	(109)	—	—	—	(109)
Royalty payables	—	(42)	80	—	38	—	—	—	38
Accrued interest	—	—	—	—	—	—	—	—	—
Operating lease liabilities	—	(2)	—	—	(2)	—	—	—	(2)
Deferred revenue	—	13	(27)	—	(14)	—	—	—	(14)
Other balance sheet changes	4	(18)	(23)	—	(37)	—	—	—	(37)
Net cash (used in) provided by operating activities	(49)	209	4	—	164	—	—	—	164
Cash flows from investing activities									
Acquisition of music publishing rights and music catalogs, net	—	(12)	(6)	—	(18)	—	—	—	(18)
Capital expenditures	—	(18)	(10)	—	(28)	—	—	—	(28)
Investments and acquisitions of businesses, net of cash received	—	(1)	(4)	—	(5)	—	—	—	(5)
Advances from issuer	49	—	—	(49)	—	—	—	—	—
Net cash provided by (used in) investing activities	49	(31)	(20)	(49)	(51)	—	—	—	(51)
Cash flows from financing activities									
Dividend by Acquisition Corp. to Holdings Corp.	—	(244)	—	—	(244)	—	—	—	(244)
Distribution to noncontrolling interest holder	—	—	(1)	—	(1)	—	—	—	(1)
Change in due (from) to issuer	—	(49)	—	49	—	—	—	—	—
Net cash used in financing activities	—	(293)	(1)	49	(245)	—	—	—	(245)
Effect of exchange rate changes on cash and equivalents	—	—	(3)	—	(3)	—	—	—	(3)
Net decrease in cash and equivalents	—	(115)	(20)	—	(135)	—	—	—	(135)
Cash and equivalents at beginning of period	—	386	233	—	619	—	—	—	619
Cash and equivalents at end of period	$ —	$ 271	$ 213	$ —	$ 484	$ —	$ —	$ —	$ 484

Image Shown: *Warner Music Group is comfortably free cash flow positive.* ***Image Source:*** *Warner Music Group – S-1/A SEC Filing*

Please note Warner Music Group intends on paying out a regular dividend according to its S-1/A SEC Filing (emphasis added):

> ***The Company intends to institute a regular quarterly dividend to holders of our Class A common stock and Class B common stock whereby we intend to pay quarterly cash dividends of $0.12 per share. We expect to pay the first dividend under this policy in September 2020.*** *The declaration of each dividend will continue to be at the discretion of our board of directors and will depend on our financial condition, earnings, liquidity and capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends, restrictions imposed by Delaware law, general business conditions and any other factors that our board of directors deems relevant in making such a determination. Therefore, there can be no assurance that we will pay any dividends to holders of our common stock, or as to the amount of any such dividends.*

Concluding Thoughts

Warner Music Group's financials are steadily improving, and its growth outlook looks promising due to rising paid streaming subscribers worldwide, though its net debt load is a concern (recent refinancing activities indicates the company retains access to capital markets at attractive rates). The company's services will likely remain in high demand during the pandemic as they are primarily provided digitally. This is an interesting company to keep on your radar, though shares still aren't cheap as WMG is still trading above its IPO price of $25 per share as of this writing.

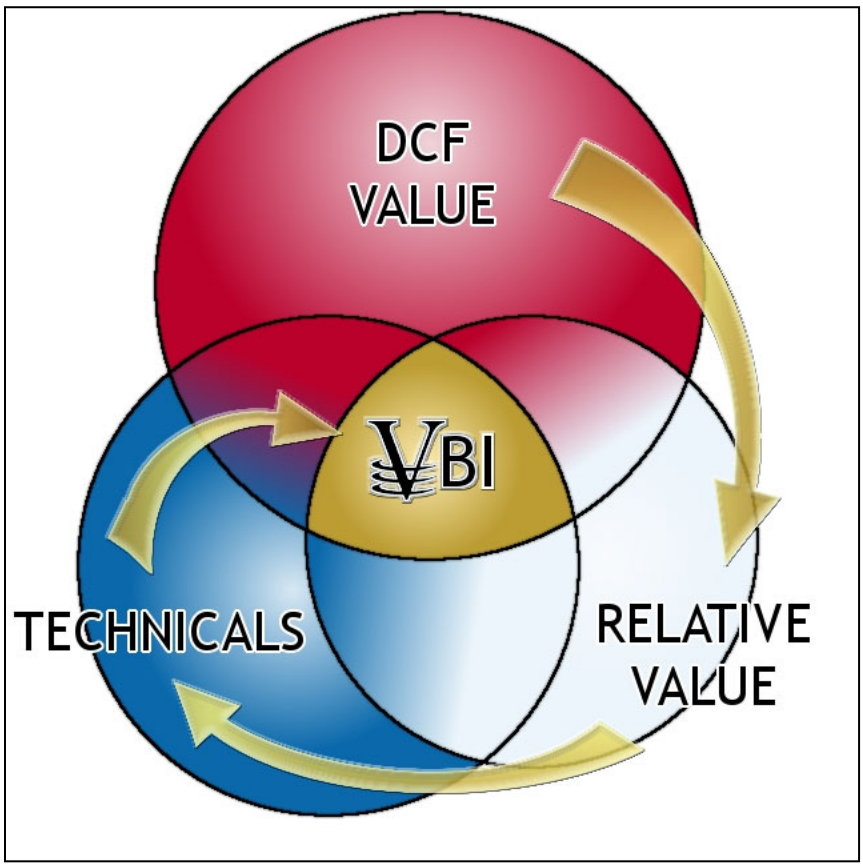
Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above.*

Our Methodology – The Valuentum Buying Index (VBI)

By Valuentum Analysts

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

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



Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

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

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

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

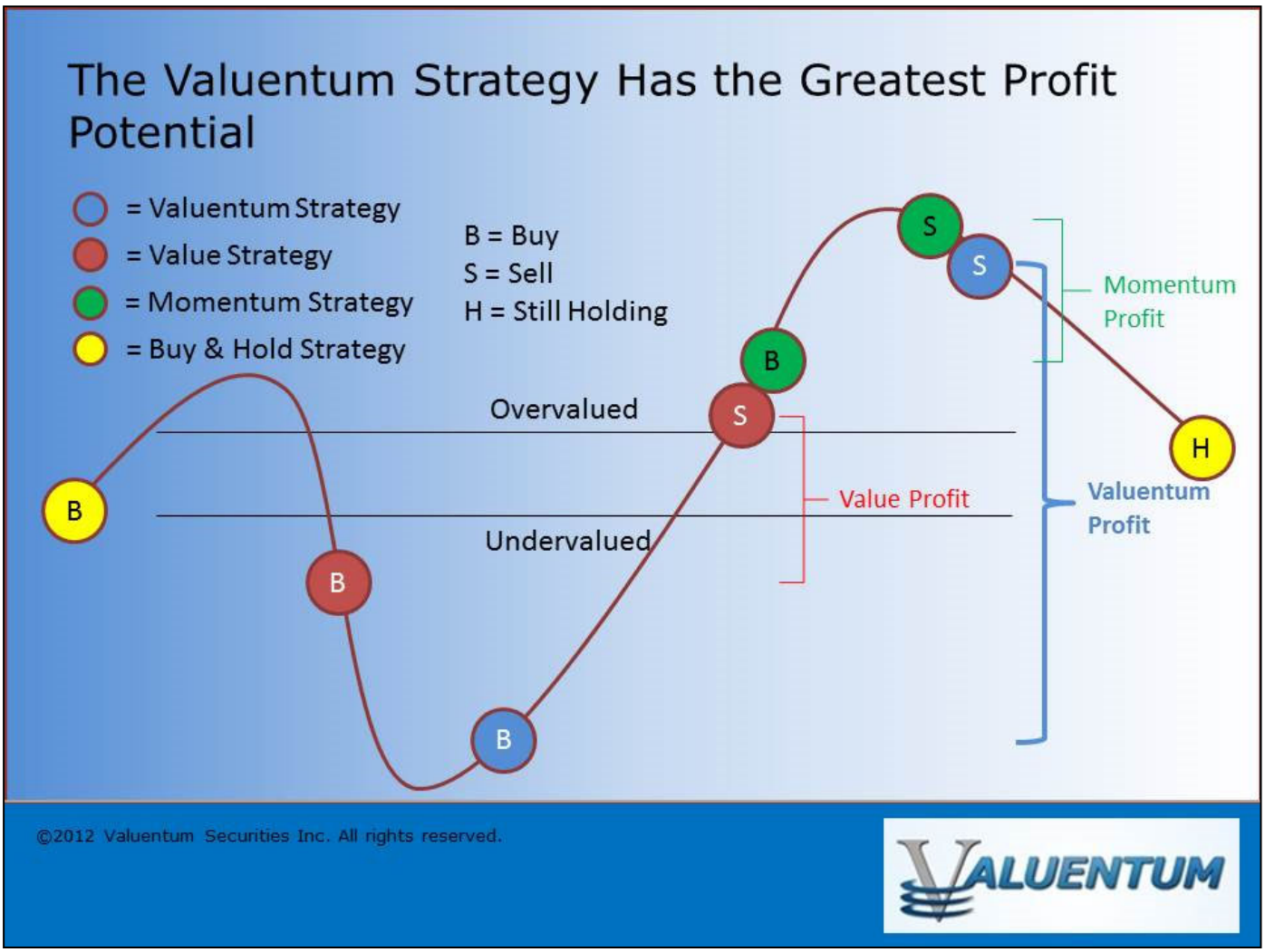


Illustration for educational purposes only.

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

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

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

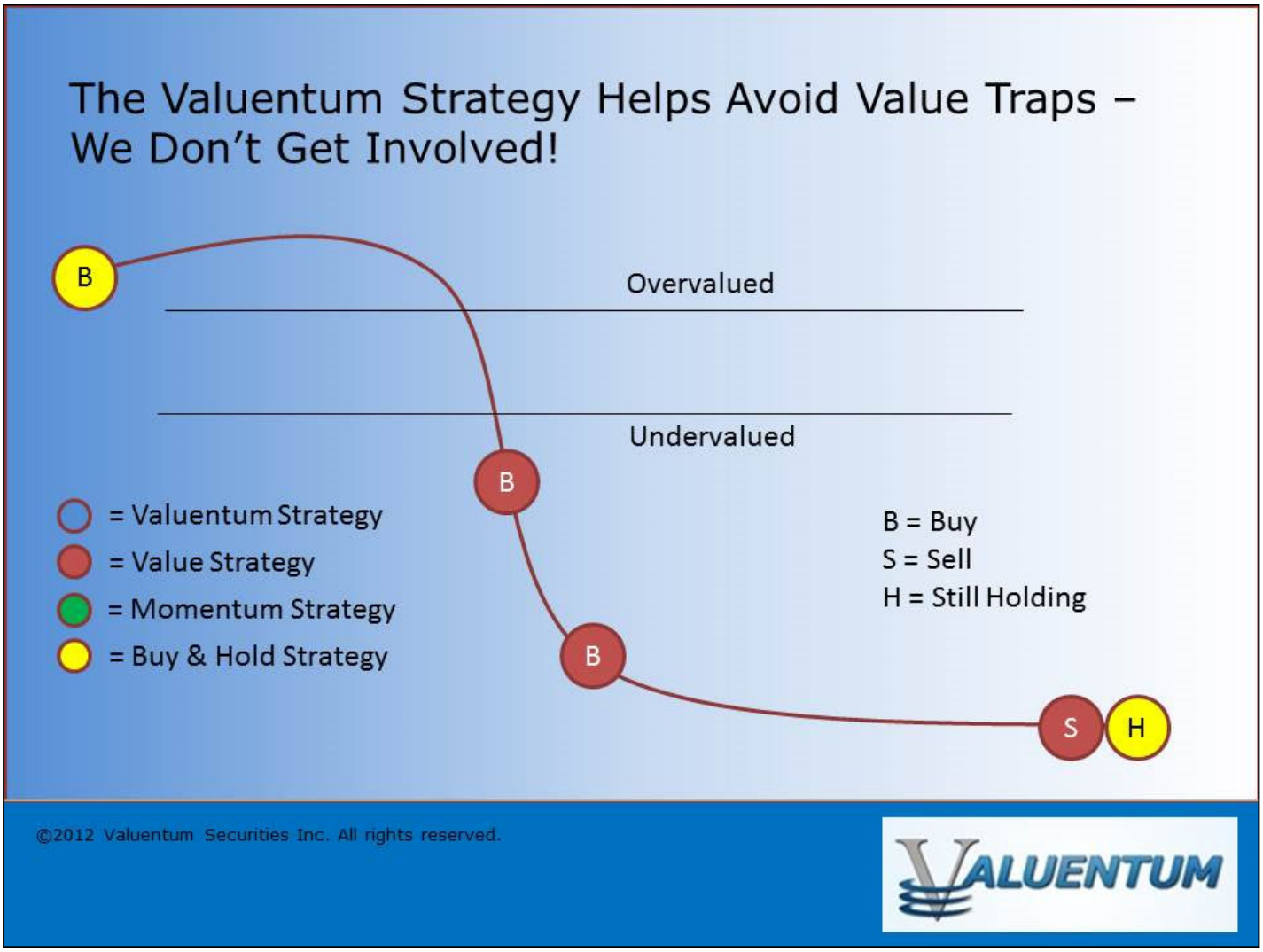


Illustration for educational purposes only.

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

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

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

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

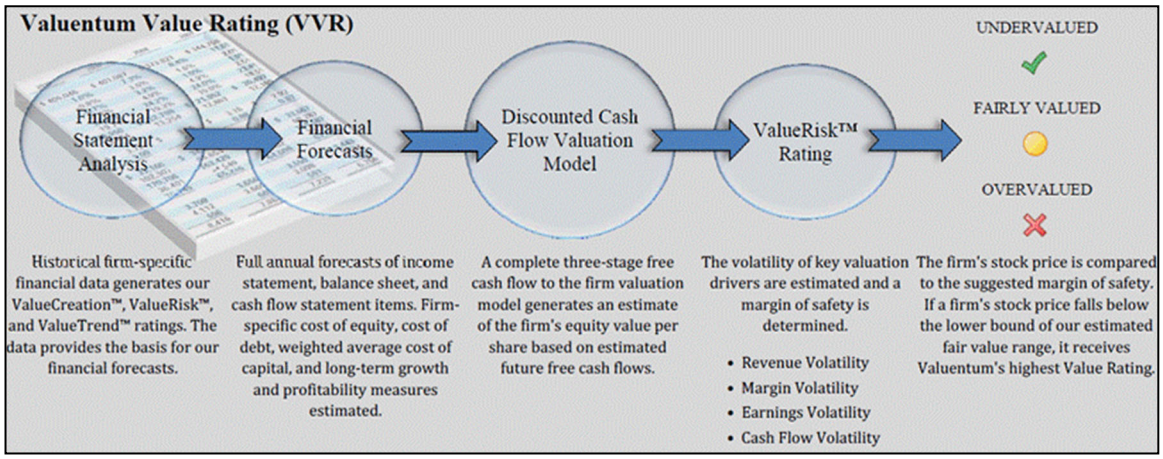


Illustration for educational purposes only.

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

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

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

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

Illustration for educational purposes only.

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

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

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

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

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

valuation criteria).

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

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

Putting It All Together - the Valuentum Buying Index

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

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

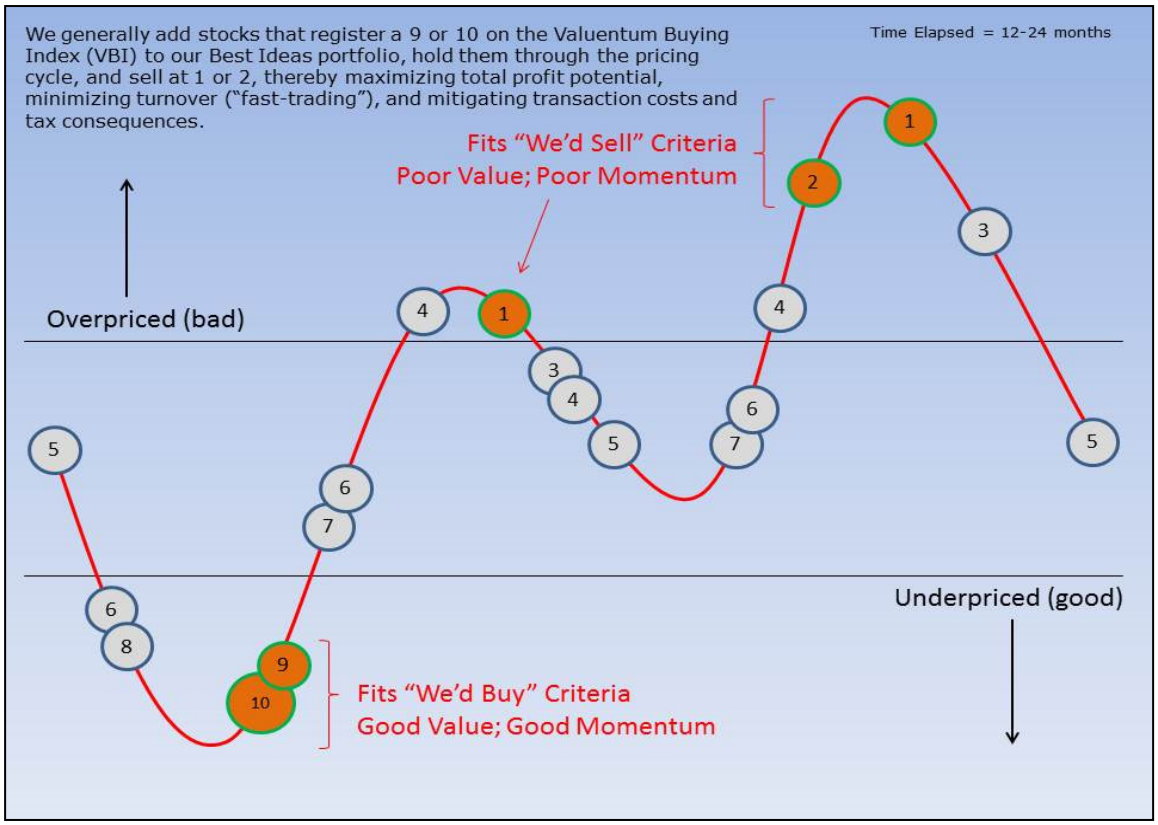


Illustration for educational purposes only.

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index **continued from previous page**

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

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

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

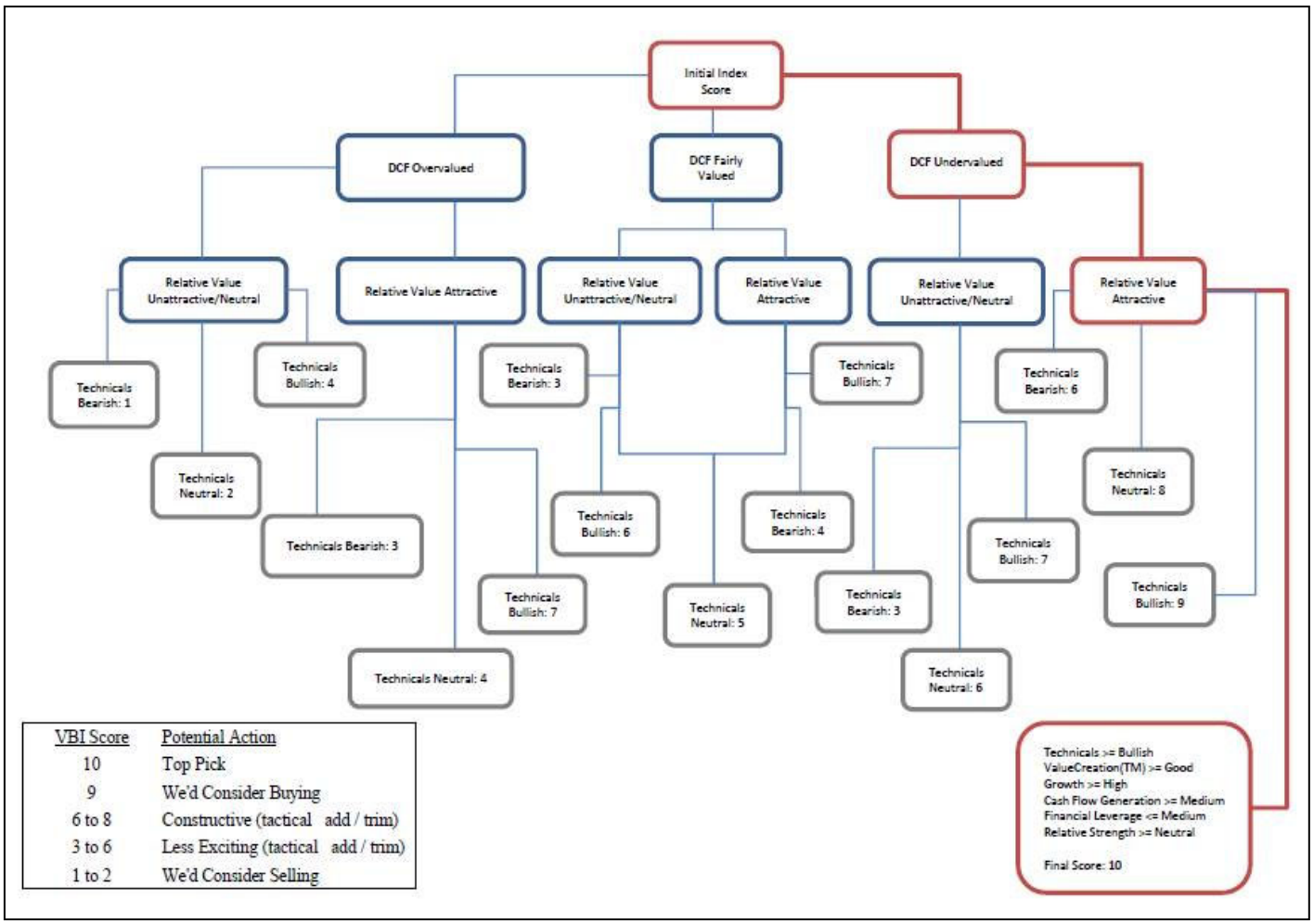


Illustration for educational purposes only.

About the Fair Value Range

By Valuentum Analysts

Understanding the Fair Value Range and Why It's Important

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

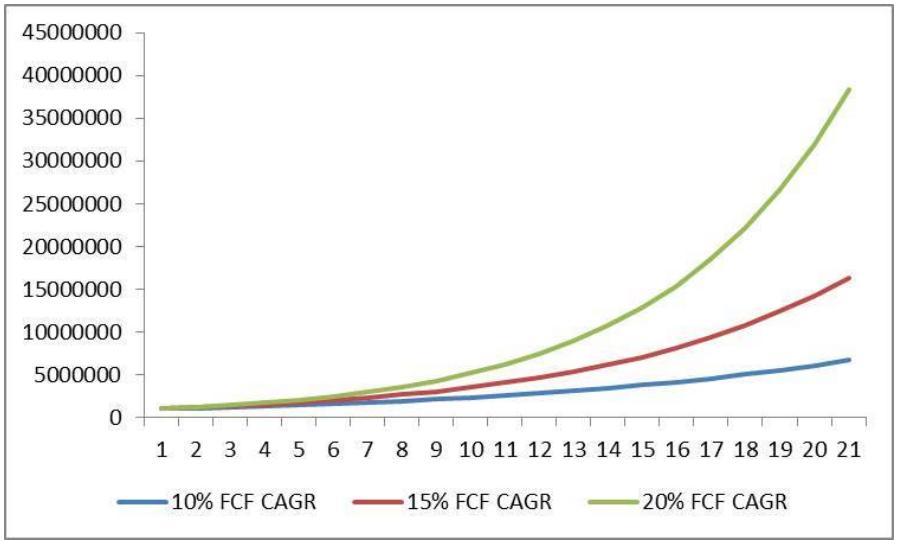
One of the most important concepts of the Valuentum methodology (and valuation in general) is the understanding that the value of a company is a range of probable valuation outcomes, not a single point estimate. Even well-seasoned stock analysts are guilty of saying that a company's shares are worth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

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

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

But why the large range in many cases?

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



About the Fair Value Range continued on next page

About the Fair Value Range continued from previous page

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

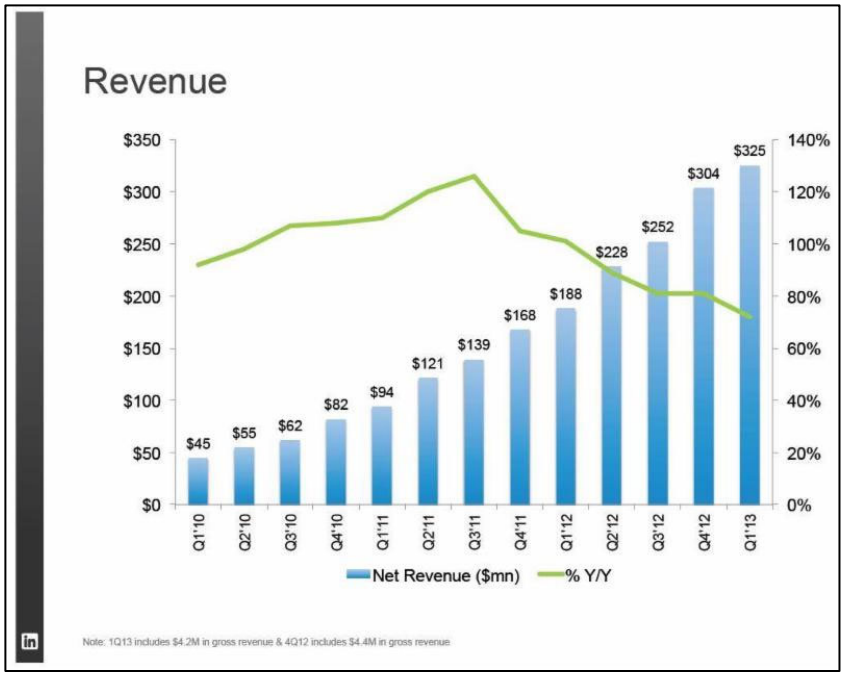


Image Source: LinkedIn

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

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

Shares collapsed in a huge way.

About the Fair Value Range continued on next page

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

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

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

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

By Valuentum Analysts

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

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

The Valuentum Buying Index Has Checks and Balances

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

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

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

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

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

How We Use continued from previous page

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

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

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

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

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

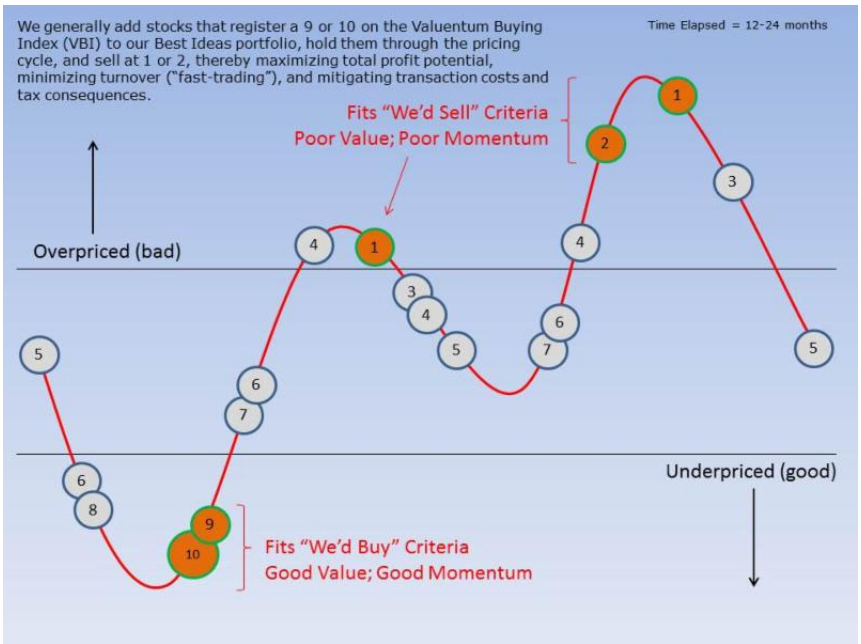


Image shown for informational/illustration purposes only. Valuentum is an investment research publishing company.

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

How We Use continued from previous page

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

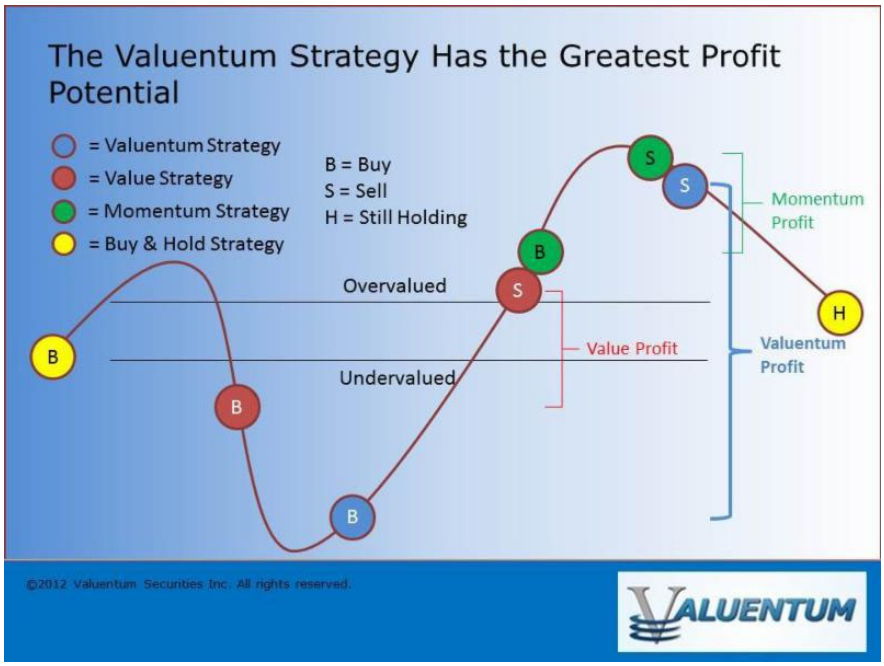


Image shown for informational/illustration purposes only. Valuentum is an investment research publishing company.

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

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

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

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

How We Use **continued from previous page**

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

Some Examples of the Valuentum Buying Index In Action

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

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

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

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

About Our Name

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

-- Warren Buffett, Berkshire Hathaway annual report, 1992

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

Valuentum Best Ideas Newsletter: Volume 10, Issue 7

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

Copyright ©2020 by Valuentum, Inc. All rights reserved.

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

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

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

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

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

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

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