THE EXCLUSIVE

Confidential*

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THE VALUENTUM TEAM

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Closing One Capital Appreciation Idea (SFM)

Image Shown: *Sprouts Farmers Market Inc's technicals are now working against the firm.*

Dear members,

Today we are closing out our **May 2020 Capital Appreciation Idea Sprouts Farmers Market Inc (SFM)** at $20.32 per share. Though there are plenty of things to like about Sprouts Farmers Market, this idea has been moving against us over the past few months and we see better opportunities out there now that the company's technicals are working against it.

Recently, we closed out **August 2020 Capital Appreciation Idea Shutterstock Inc (SSTK)**, **October 2020 Capital Appreciation Idea Farfetch Ltd (FTCH)**, and **October 2020 Short Idea Consideration AMC Entertainment Holdings Inc (AMC)** all for nice theoretical "gains." Additionally, we were able to close out our **February 2020 Capital Appreciation Idea HDFC Bank Limited (HDB)** for a "gain" as shares of HDB staged an impressive recovery after tanking earlier on this year. Our **September 2020 Short Idea Consideration SPDR S&P Oil & Gas ETF (XOP)** was also recently closed out for an impressive quick "gain" as oil prices continued to deteriorate. Links to the emails closing out those ideas can be found just below:

http://campaign.r20.constantcontact.com/render?m=1110817109903&ca=e66961a8-8d9c-4242-af46-12e101496bb9

http://campaign.r20.constantcontact.com/render?m=1110817109903&ca=4677845d-3f55-4383-9cd5-98cecd8a5d27

Several of our recent Software-as-a-Service ('SaaS') ideas including **June 2020 Capital Appreciation Idea Cloudera Inc (CLDR)**, **July 2020 Capital Appreciation Idea Zscaler Inc (ZS)**, and **September 2020 Capital Appreciation Idea Okta Inc (OKTA)** have panned out quite favorably, and we were able to close out those ideas for sizable theoretical "gains" ranging from ~7% to ~22%.

As it concerns one of our open Exclusive ideas, shares of our **July 2020 Short Idea Consideration Bloomin' Brands Inc (BLMN)** are starting to come back down. When the firm reported third quarter earnings for fiscal 2020 (period ended September 27, 2020), its GAAP revenues dropped by 20% year-over-year and the firm reported a GAAP net loss for the period. Bloomin' Brands' same-store sales in the US and Brazil were decimated by the ongoing coronavirus ('COVID-19') pandemic and the drag high unemployment rates are starting to have on consumer spending in certain spaces (dining, hospitality, etc.).

There is a growing chance that there will be another round of forced store closures, particularly in the US, due to government orders to contain the pandemic as the US recorded over 121,000 confirmed COVID-19 infections this past Thursday (November 5) according to data from Johns Hopkins University. With confirmed COVD-19 cases on the rise and the election for state-level races in the rear-view mirror for the most part (though some elections remain contested), several states that imposed quarantine measures in the past may reimpose those measures (in some form). That could include prohibiting in-store dining operations, and please note Bloomin' Brands owns the Outback Steakhouse, Carrabba's Italian Grill, Bonefish Grill and Fleming's Prime Steakhouse & Wine Bar restaurant brands (which traditionally have relied heavily on in-store dinning operations as compared to some of its more digitally-savvy peers).

Pivoting now to the race for the US presidency, that remains contested though former Vice President Biden is leading President Trump in several key states including Arizona, Nevada, Georgia, and Pennsylvania as of this writing. Legal challenges are ongoing. What is also important to keep in mind is that it appears that both Senate seats in Georgia, on a federal level, will head to a run-off election (likely to be held in early-January 2021) as no candidate exceeded the threshold ("50% plus one") required to avoid a run-off vote. Depending on what party wins the White House, the outcome of those two Senate races could determine which party will control the Senate (and potentially Congress) come January 2021.

No matter which side of the isle wins, we remain optimistic on the long-term outlook for US equities. Our favorite names remain cash-rich tech firms with stellar cash flow profiles whose outlooks are supported by secular growth tailwinds. Many SaaS firms fit this bill, which is why we often highlight those companies as Capital Appreciation Ideas in the Exclusive publication.

We hope our members are enjoying the success rate our Exclusive publication has been putting up of late, and we are available for any questions. On a final note, we sincerely hope everyone is staying safe out there as we continue to ride out the pandemic.

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

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

Clorox is Thriving in a Post-COVID-19 World

Dividend growth investors looking for consumer staples exposure coupled with a hedge against future epidemics/pandemics might view Clorox as an excellent consideration for their portfolios. Shares yield a healthy ~2.0% at the time of this writing.

By Brian Nelson, CFA

On November 2, Clorox (CLX) reported stellar fiscal first-quarter earnings (period ending September 30) and raised its fiscal 2021 outlook. Revenue during the fiscal first quarter advanced 27% while diluted earnings per share more than doubled, to $3.22. Both figures came in better than expected. Fiscal 2021 revenue growth is now targeted at 5%-9% (versus guidance for a flat- to low-single digit increase previously) while diluted EPS is now expected in the range of $7.70-$7.95 for the year (versus $7.64 consensus). Net cash from operations advanced more than 40% in the period.

The equity value of Clorox has advanced substantially in the presence of the ongoing threat of COVID-19, but there is also increased sustaining value, too, as the world comes to grips that it can never truly become immune to future pandemics, even in this advanced age of medical and technological breakthroughs. Our fair value estimate of Clorox has marched steadily higher during 2020, and it now sits just below $200 per share. Despite the company's massive share-price advance, Clorox's stock is fairly valued, in our view, thanks in large part to the opinion that changes in demand for its products are more structural in nature--meaning consumer buying patterns for cleaning/disinfecting products have permanently changed as a result of COVID-19.

Clorox's products have become hard to find. Several off-brand competitive products have been experiencing higher levels of demand as a result of its brand-name absence, but we expect the Clorox brand name to take back share once its products become more readily available on shelves. Clorox's CEO Linda Rendle's top priority remains "maximizing the supply of (its) products," and prudent increases in capacity to meet surging demand across its portfolio might set up the company for yet another guidance raise as the fiscal year progresses. In a post-COVID-19 world, Clorox's brand name has become considerably more valuable, but the market has definitely taken notice. The company is no hidden gem, by any stretch; the market knows this story well.

The dramatic improvement in operating performance has changed the game at Clorox, in our view, and its dividend ratings have shown commensurate improvement. No longer does the company's net debt position weigh it down, given the tremendous improvement in future expected free cash flow generation that we expect to handily cover growing dividend obligations. Dividend growth investors looking for consumer staples exposure coupled with a hedge against future epidemics/pandemics might view Clorox as an excellent consideration for their portfolios. Shares yield a healthy ~2.0% at the time of this writing.

Image Shown: *Shares of Clorox surged higher over the past year, though its stock price has come in a bit over the past few months.*

Disclosure: *Brian Nelson owns shares in SPY, SCHG, DIA, QQQ, and VOT.*

Coca-Cola's 3.3% Dividend Yield

By Brian Nelson, CFA

There are few companies that have stood the test of time like Coca-Cola (KO). With consumer preferences seemingly changing at the drop of a hat, it is hard to believe that the first glass of Coca-Cola was served in Atlanta more than 100 years ago, in 1886. That's just 10 years after the first commercially successful combustion engine was invented and more than 20 years before the first Model T Ford rolled off the production line.

The next 100 years for Coca-Cola won't be as easy as the first, in our view, given health trends against sugar consumption and efforts to combat the obesity epidemic, but ongoing innovation may continue to keep this beverage giant at the top. Still, our $39 fair value estimate for Coca-Cola implies a company that stockholders perhaps love too much. Shares are exchanging hands at ~$50 each and had almost reached $60 in February 2020, prior to the COVID-19 meltdown.

Without a doubt, stockholders point to a storied history and moaty characteristics and are lured by a healthy dividend yield of 3%+. We think the near- to- intermediate term (next 5-10 years) remains as strong as ever for Coca-Cola, but the company may eventually encounter some stumbles, much like that of other blue chips such as IBM (IBM) and GE (GE) that no longer reign supreme in their respective industries. What we don't like about Coca-Cola relative to our very best ideas is its net debt load. At the end of September, long-term debt stood at $39.5 billion relative to a total cash balance of $18.7 billion.

Now of course we think Coca-Cola will have no problem servicing its debt load, but that's not the point. Net debt is a subtraction from enterprise value to arrive at equity value, and for a company that has the brand strength that it does, there's no reason for the financial leverage at such a great firm, especially as consumer preferences are sure to change in the coming decades. Think of how the tobacco industry is faring given political and government action against the hazards of smoking. Altria's (MO) back is against the ropes. It may be only a matter of time before governments around the world start aggressively targeting sugary beverages with the same fervor. An example is the sweetened beverage tax in Chicago.

For the time being, however, Coca-Cola is as solid as a rock. During the first nine months ended September, net cash flow from operations came in at $6.2 billion, down from $7.8 billion in the year-ago period, but still very robust. Over the same nine-month period, capital expenditures dropped to ~$760 million versus $1.2 billion over the comparable period last year. What this tells us that even during the difficult days of the COVID-19 pandemic, Coca-Cola can still handily cover its dividend obligations, which ran $3.5 billion during the same nine-month period. As of our latest update, Coca-Cola's Dividend Cushion stands at 1, and its dividend health/growth ratings remain solid.

Concluding Thoughts

Members know that we prefer debt-averse companies, and Coca-Cola is not one of them. We would prefer the company deleverage and re-build its borrowing capacity to prepare for the inevitable step up in attacks against sugary sodas that are sure to heat up in coming decades. For the time being, however, Coca-Cola is a free-cash-flow generating powerhouse with a business model that has stood the test of time, despite vastly changing consumer preferences during the past 100+ years. With strong dividend growth/health ratings and a very attractive dividend yield relative to today's 10-year Treasury, income and dividend growth investors may want to take a look at this beverage giant.

Disclosure: *Brian Nelson owns shares in SPY, SCHG, DIA, QQQ, and VOT.*

INCOME IDEAS

Highlight Date	Company (symbol)	Highlight Price	Annual Divs per Share at Highlight	Current Fwrd Dividends per Share	Current Fwrd Exp Dividend Yield	Time Horizon
Income Ideas						
Jul, 16	Universal Corp (UVV)	57.74	2.12	3.08	7.6%	Closed - 2/12/2017
Aug, 16	B&G Foods (BGS)	51.54	1.68	1.90	6.7%	Closed - 7/17/2017
Sep, 16	Maxim Integrated (MXIM)	41.12	1.32	1.92	2.4%	Closed - 2/12/2017
Oct, 16	Douglas Dynamics (PLOW)	31.94	0.94	1.12	3.1%	Closed - 2/12/2017
Nov, 16	Ennis Inc. (EBF)	14.60	0.70	0.90	5.7%	Closed – 11/12/2016
Dec, 16	Watsco, Inc. (WSO)	150.57	4.20	7.10	2.9%	Closed - 2/12/2017
Jan, 17	Star Group (SGU)	11.21	0.41	0.53	5.6%	0-5 yrs
Feb, 17	Moelis & Co (MC)	35.00	1.28	1.53	4.2%	Closed - 6/22/2017
Mar, 17	Park National (PRK)	108.59	3.76	4.08	4.4%	0-20 yrs
Apr, 17	American Software (AMSWA)	10.44	0.44	0.44	2.8%	Closed - 6/22,23/2017
May, 17	NW Natural (NWN)	59.20	1.88	1.92	4.4%	Closed - 10/25/2018
Jun, 17	Japan Tobacco (JAPAY)	19.03	0.60	0.73	7.3%	Closed 11/8/2019
Jul, 17	Vectren Corp (VVC)	58.21	1.68	Acquired	Acquired	Closed 8/30/2017
Aug, 17	National Retail Properties (NNN)	40.50	1.90	2.08	6.2%	Closed - 10/25/2018
Sep, 17	STORE Capital (STOR)	25.72	1.16	1.44	5.3%	Closed - 10/25/2018
Oct, 17	Fortis (FTS)	36.14	1.27	1.52	3.6%	Closed - 4/18/2019
Nov, 17	Black Hills (BKH)	61.23	1.78	2.26	3.8%	Closed - 10/25/2018
Dec, 17	Four Corners Propety Trust (FCPT)	26.03	0.97	1.22	4.7%	Closed - 10/25/2018
Jan, 18	TransCanada Corp (TRP)	49.47	1.98	2.43	6.3%	Closed 11/6/2019
Feb, 18	Siemens (SIEGY)	71.13	2.18	2.12	3.1%	0-20 yrs
Mar, 18	Philips 66 Partners (PSXP)	49.63	2.71	3.50	15.4%	Closed - 10/25/2018
Apr, 18	PS Business Parks (PSB)	113.68	3.40	4.20	3.4%	Closed - 10/25/2018
May, 18	Hubbell (HUBB)	103.97	3.08	3.92	2.6%	Closed - 2/11/2019
Jun, 18	Park Hotels & Resorts (PK)	32.43	1.72	1.00	9.7%	Closed - 5/3/2019
Jul, 18	Healthcare Trust of America (HTA)	27.36	1.22	1.28	4.8%	Closed - 2/11/2019

INCOME IDEAS

Highlight Date	Company (symbol)	Highlight Price	Annual Divs per Share at Highlight	Current Fwrd Dividends per Share	Current Fwrd Exp Dividend Yield	Time Horizon
Income Ideas						
Aug, 18	QTS Realty Trust (QTS)	44.01	1.64	1.88	2.9%	Closed - 4/18/2019
Sep, 18	Atmos Energy (ATO)	93.62	1.94	2.30	2.5%	Closed - 10/25/2018
Oct, 18	Veolia Environment (VEOEY)	19.70	0.99	0.54	2.7%	Closed 4/18/2019
Nov, 18	Roche Holding (RHHBY)	29.82	1.08	1.14	2.5%	Closed - 2/11/2019
Dec, 18	OGE Energy (OGE)	40.46	1.46	1.61	5.1%	Closed - 2/11/2019
Jan, 19	BAE Systems (BAESY)	24.32	0.92	1.20	5.0%	Closed - 2/11/2019
Feb, 19	EastGroup Properties (EGP)	107.58	2.88	3.16	2.2%	Closed 11/6/2019
Mar, 19	Canadian Natural Resources (CNQ)	26.76	1.01	1.30	7.9%	Closed - 9/24/2019
Apr, 19	Evergy (EVRG)	57.32	1.90	2.14	3.9%	Closed 11/6/2019
May, 19	National Health (NHI)	76.43	4.20	4.41	7.8%	Closed 11/6/2019
Jun-19	Corporate Office Properties Trust (OFC)	28.94	1.10	1.10	4.8%	0-20 yrs
Jul-19	Nuveen Real Estate Income Fund (JRS)	10.63	0.76	0.76	10.0%	0-20 yrs
Aug-19	South32 Limited (SOUHY)	10.01	0.28	0.10	1.3%	0-20 yrs
Sep-19	Bank of America Preferred Stock (ISIN: US0605052291)	26.87	1.50	1.50	5.5%	0-20 yrs
Oct-19	Life Storage (LSI)	105.41	4.00	4.28	3.7%	Closed 2/24/2020
Nov-19	VICI Properties (VICI)	24.28	1.19	1.32	5.5%	Closed 2/24/2020
Dec-19	Comerica (CMA)	71.37	2.68	2.72	6.1%	0-20 yrs
Jan-20	Vanguard International High Dividend Yield ETF (VYMI)	63.78	2.68	1.93	3.6%	0-20 yrs
Feb-20	Omnicom Group (OMC)	75.74	2.60	2.60	5.4%	0-20 yrs
Mar-20	JPM-PRC, Preferred Shares Series EE	27.50	1.52	1.52	5.3%	0-20 yrs
Apr-20	iShares Investment Grade Corporate Bond ETF (LQD)	121.10	3.72	3.80	2.8%	0-20 yrs
May-20	United Microelectronics (UMC)	2.57	0.09	0.14	2.6%	Closed 8/8/2020
Jun-20	Eaton Vance (EV)	41.66	1.50	1.50	2.4%	Closed 10/10/2020
Jul-20	Crown Castle (CCI)	171.50	4.80	5.32	3.2%	0-20 yrs
Aug-20	Highwoods Properties (HIW)	39.85	1.92	1.92	6.4%	0-20 yrs
Sep-20	Gladstone Land (LAND)	15.30	0.54	0.54	3.9%	0-20 yrs
Oct-20	Westrock (WRK)	37.80	0.80	0.80	2.4%	0-20 yrs

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

CAPITAL APPRECIATION IDEAS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Capital Appreciation Ideas						
Jul, 16	Bloomin Brands (BLMN)	17.87	19.28	0.07	8.3%	Closed -- 11/12/2016
Aug, 16	Healthcare Srvs Group (HCSG)	38.91	41.02	0.369	6.4%	Closed - 2/12/2017
Sep, 16	Grupo Aeroportuario (ASR)	157.87	181.61	-	15.0%	Closed - 4/5/2017
Oct, 16	Swedish Match (SWMA.ST)	314.80SEK	417.40SEK	17.7	38.2%	Closed - 6/1/2018
Nov, 16	Symrise AG (SYIEY)	16.25	16.34	-	0.6%	Closed - 4/5/2017
Dec, 16	Tootsie Roll (TR)	37.80	38.96	0.90	5.4%	Closed 4/18/2019
Jan, 17	Texas Capital Bancshares (TCBI)	78.05	85.10	-	9.0%	Closed - 2/12/2017
Feb, 17	Arconic (ARNC)	25.90	29.62	-	14.4%	Closed - 2/12/2017
Mar, 17	Tesaro (TSRO)	180.84	122.62	-	-32.2%	Closed - 7/17/2017
Apr, 17	Yum China (YUMC)	31.15	37.67	-	20.9%	Closed - 5/23/2017
May, 17	Galapagos (GLPG)	87.67	76.13	-	-13.2%	Closed - 7/17/2017
Jun, 17	Huntington Ingalls (HII)	193.79	206.39	-	6.5%	Closed 8/18/2017
Jul, 17	Orbital ATK (OA)	102.33	104.65	-	2.3%	Closed 8/18/2017
Aug, 17	Wingstop (WING)	32.28	66.17	3.61	116.2%	Closed - 10/25/2018
Sep, 17	Qualys (QLYS)	51.10	75.44	-	47.6%	Closed - 10/25/2018
Oct, 17	Guidewire Software (GWRE)	78.24	87.50	-	11.8%	Closed - 10/25/2018
Nov, 17	Ferrari N.V. (RACE)	117.43	123.26	0.71	5.6%	Closed - 2/11/2019
Dec, 17	Square (SQ)	38.22	72.61	-	90.0%	Closed - 10/25/2018
Jan, 18	Planet Fitness (PLNT)	33.70	46.41	-	37.7%	Closed - 10/25/2018
Feb, 18	Insulet Corp (PODD)	75.84	82.69	-	9.0%	Closed - 10/25/2018
Mar, 18	Preferred Bank (PFBC)	64.01	34.15	3.12	-	0-20 yrs
Apr, 18	Esperion Therapeutics (ESPR)	66.43	40.94	-	-38.4%	Closed - 4/18/2019
May, 18	Heidrick & Struggles (HSII)	37.65	40.77	0.41	9.4%	Closed - 3/9/2019
Jun, 18	Green Dot Corp (GDOT)	72.86	24.54	-	-66.3%	Closed 11/8/2019

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

CAPITAL APPRECIATION IDEAS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Capital Appreciation Ideas						
Jul, 18	Wix.com (WIX)	105.30	111.93	-	6.3%	Closed - 2/11/2019
Aug, 18	Tactile Systems Technology (TCMD)	50.84	63.52	-	24.9%	Closed - 10/25/2018
Sep, 18	Invitae (NVTA)	13.95	20.84	-	49.4%	Closed - 3/9/2019
Oct, 18	Cigna (CI)	215.72	149.00	0.04	-30.9%	Closed 4/18/2019
Nov, 18	Yeti Holdings (YETI)	16.50	17.99	-	9.0%	Closed - 2/11/2019
Dec, 18	Spotify (SPOT)	135.31	139.65	-	3.2%	Closed - 4/18/2019
Jan, 19	Suncor Energy (SU)	29.32	32.05	-	9.3%	Closed - 2/11/2019
Feb, 19	Delek Holdings (DK)	32.12	37.31	0.27	17.0%	Closed - 4/18/2019
Mar, 19	Physicians Realty Trust (DOC)	17.82	17.80	0.69	3.8%	Closed 11/6/2019
Apr, 19	Everbridge (EVBG)	72.75	98.43	-	35.3%	Closed 7/24/2019
May, 19	Teladoc Health (TDOC)	60.93	68.09	-	11.8%	Closed 7/24/2019
Jun-19	Alteryx (AYX)	95.15	119.29	-	25.4%	Closed 7/24/2019
Jul-19	CrowdStrike (CRWD)	67.21	86.42	-	28.6%	Closed 7/24/2019
Aug-19	Inovalon Holdings (INOV)	17.12	17.59	-	2.7%	Closed 12/5/2019
Sep-19	Avalara (AVLR)	81.10	85.14	-	5.0%	Closed - 2/3/2020
Oct-19	Cloudflare Inc (NET)	17.27	18.72	-	8.4%	Closed 12/5/2019
Nov-19	Shopify (SHOP)	297.64	369.08	-	24.0%	Closed - 12/5/2019
Dec-19	Datadog (DDOG)	35.91	46.21		28.7%	Closed - 2/3/2020
Jan-20	Chewy (CHWY)	29.34	30.72		4.7%	Closed 2/24/2020 -
Feb-20	HDFC Bank Limited (HDB)	58.76	59.52			Closed 10/26/2020
Mar-20	ProShares UltraPro Short Dow30 (SDOW)	57.17	72.98	Highlight price reflects more punitive March 9 open.	27.7%	Closed - 3/12/2020
Apr-20	Royal Gold (RGLD)	93.50	126.04		34.8%	Closed 4/27/2020
May-20	Sprouts Farmers Market (SFM)	25.18	20.32		-19.3%	Closed 11/7/2020
Jun-20	Cloudera (CLDR)	9.86	12.06		22.3%	Closed 6/9/2020
Jul-20	Zscaler (ZS)	125.49	134.34		7.1%	Closed 9/5/2020
Aug-20	Shutterstock (SSTK)	57.79	62.12	0.17	7.8%	Closed 10/26/2020
Sep-20	Okta Inc. (OKTA)	203.44	226.93		11.5%	Closed 10/5/2020
Oct-20	Farfetch (FTCH)	26.62	28.52		7.1%	Closed 10/26/2020

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

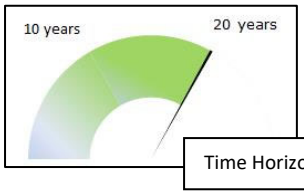
SHORT IDEA CONSIDERATIONS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Short Idea Considerations						
Jul, 16	Lands' End (LE)	16.76	16.10	-	3.9%	Closed -- 12/2/2016
Aug, 16	Vivint Solar (VSLR)	2.94	2.85	-	3.1%	Closed -- 12/2/2016
Sep, 16	Lloyds Banking (LYG)	3.31	2.78	-	16.0%	Closed -- 11/4/2016
Oct, 16	GoPro (GPRO)	16.68	11.16	-	33.1%	Closed -- 11/4/2016
Nov, 16	Seritage Growth Properties (SRG)	44.31	42.13	0.25	4.4%	Closed -- 1/6/2017
Dec, 16	Royal Bank of Scotland (RBS)	4.91	4.19	0.68	0.8%	Closed 3/5/2020
Jan, 17	Sequential Brands Group (SQBG)	4.62	4.18	-	9.5%	Closed - 2/12/2017
Feb, 17	Sportman's Warehouse (SPWH)	6.85	6.11	-	10.8%	Closed - 2/12/2017
Mar, 17	Fitbit (FIT)	6.07	5.71	-	5.9%	Closed - 4/5/2017
Apr, 17	Santander Consumer (SC)	12.51	11.65	-	6.9%	Closed - 5/23/2017
May, 17	Snap, Inc (SNAP)	23.19	17.19	-	25.9%	Closed - 5/10/2017
Jun, 17	Mallinckrodt (MNK)	42.65	36.41	-	14.6%	Closed - 8/18/2017
Jul, 17	Deutsche Lufthansa AG (DLAKY)	23.38	21.42	0.94	4.4%	Closed - 10/25/2018
Aug, 17	Del Frisco's (DFRG)	14.35	11.93	-	16.9%	Closed - 10/16/17
Sep, 17	Fiesta Restaurant Group (FRGI)	15.90	14.36	-	9.7%	Closed - 2/11/2019
Oct, 17	Ingles Markets (IMKTA)	26.50	24.20	-	8.7%	Closed - 10/16/17
Nov, 17	Fogo de Chao (FOGO)	10.85	15.62	-	-44.0%	Closed - 3/3/2018
Dec, 17	TrueCar (TRUE)	12.07	10.97	-	9.1%	Closed - 12/28/17
Jan, 18	Shake Shack (SHAK)	44.17	43.54	-	1.4%	Closed 3/11/2020
Feb, 18	iShares Core US Aggregate Bond ETF (AGG)	107.20	104.63	1.93	0.6%	Closed - 10/25/2018
Mar, 18	iShares iBoxx $ High Yield Corporate Bond ETF (HYG)	85.75	86.68	4.936	-6.8%	Closed - 4/18/2019
Apr, 18	Houghton Mifflin Harcourt (HMHC)	7.25	6.70	-	7.6%	Closed - 6/1/18
May, 18	Noodles & Company (NDLS)	7.25	7.04	-	2.9%	Closed - 2/11/2019
Jun, 18	iShares International High Yield Bond ETF (HYXU)	52.40	50.94	-	2.8%	Closed - 10/25/2018

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

SHORT IDEA CONSIDERATIONS

Highlight Date	Company (symbol)	Highlight Price	Current or "Close" Price	Div's Received	'Hypothetical' 'Closed'Gain %	Time Horizon
Short Idea Considerations						
Jul, 18	Installed Building Products (IBP)	56.15	40.10	-	28.6%	Closed - 9/28/2018
Aug, 18	Veritiv Corp (VRTV)	38.80	36.35	-	6.3%	Closed - 9/28/2018
Sep, 18	Box (BOX)	24.55	24.30	-	1.0%	Closed - 9/28/2018
Oct, 18	Modine Manufacturing (MOD)	14.73	12.00	-	18.5%	Closed - 10/25/2018
Nov, 18	Beazer Homes USA (BZH)	9.01	7.92	-	12.1%	Closed - 3/12/2020
Dec, 18	Vera Bradley (VRA)	10.22	9.95	-	2.6%	Closed - 8/23/2019
Jan, 19	RH (RH)	117.84	106.99	-	9.2%	Closed - 4/4/2019
Feb, 19	QuinStreet (QNST)	14.77	12.79	-	13.4%	Closed - 3/9/2019
Mar, 19	Dycom Industries (DY)	47.20	41.74	-	11.6%	Closed - 8/23/2019
Apr, 19	Diplomat Pharmacy (DPLO)	5.69	5.29		7.0%	Closed - 5/16/2019
May, 19	Match Group (MTCH)	61.91	60.90		1.6%	Closed 11/6/2019
Jun-19	Tailored Brands (TLRD)	5.56	4.94	0.18	11.2%	Closed - 7/24/2019
Jul-19	Realogy Holdings (RLGY)	6.55	5.60		14.5%	Closed - 7/24/2019
Aug-19	Party City Holdco (PRTY)	6.04	4.50		25.5%	Closed - 8/8/2019
Sep-19	LendingTree (TREE)	309.02	285.36	-	7.7%	Closed - 12/13/2019
Oct-19	Peloton (PTON)	23.01	21.97		4.5%	Closed - 3/11/2020
Nov-19	Ollie's Bargain Outlet (OLLI)	60.07	59.68		0.6%	Closed - 12/5/2019
Dec-19	Jumia Tech (JMIA)	5.85	5.32		9.1%	Closed 2/24/2020
Jan-20	Grubhub (GRUB)	47.17	41.13		12.8%	Closed - 3/11/2020
Feb-20	Yum China (YUMC)	42.71	42.09	0.12	1.5%	Closed - 3/11/2020
Mar-20	Manchester United (MANU)	17.08	15.66		8.3%	Closed - 3/11/2020
Apr-20	LendingClub (LC)	7.11	6.92		2.7%	Closed 4/27/2020
May-20	U.S. Global Jets ETF (JETS)	13.64	17.75			0-2 yrs
Jun-20	HealthEquity (HQY)	65.81	62.41		5.2%	Closed – 6/17/2020
Jul-20	Bloomin' Brands (BLMN)	10.09	14.46			0-2 yrs
Aug-20	American Axle (AXL)	7.15	6.86		4.1%	Closed 9/16/2020
Sep-20	SPDR S&P Oil & Gas ETF (XOP)	49.45	43.33	0.378	12.4%	Closed 10/5/2020
Oct-20	AMC Entertainment (AMC)	4.05	2.96		26.9%	Closed 10/14/2020



Time Horizon: Long-term

National Storage Affiliates Trust (NSA)

*"**Our core FFO per share increased 10% in the third quarter compared to the third quarter last year.** This growth is primarily driven by a combination of our ongoing robust acquisition volume, which is consistently accretive to FFO per share and the internalization of our SecurCare PRO in April of 2020. **Our outstanding performance despite the pandemic and related economic turbulence gave us the confidence to increase our third quarter dividend to $0.34 a share, representing growth of 6.3% year-over-year.** And as you saw in our release, we also reinstated full-year 2020 guidance… [T]he top-end of our guidance on core FFO per share of $1.68 is the same as the top-end of the range in our pre-COVID guidance. **The midpoint of our reinstated 2020 core FFO per share guidance is above analyst's consensus and represents 8% growth over 2019.**" --- Tamara Fischer, President and CEO of National Storage, during the company's third quarter of 2020 earnings call*

Thesis

Our **November 2020 Income Generation Idea** is National Storage Affiliates Trust (NSA)---3.9% yield---a self-storage real estate investment trust ('REIT'). We are big fans of its free cash flows, which for a REIT is relatively rare, and National Storage continued to be quite free cash flow during the first nine months of 2020. Though the ongoing coronavirus ('COVID-19') pandemic has created meaningful short-term headwinds for the self-storage industry, National Storage has been able to adeptly navigate the storm. When National Storage reported its third quarter 2020 earnings on November 5, the REIT's core funds from operations ('FFO') came in at $0.44 per share which beat consensus estimates. The firm recently reinstated its full-year core FFO per share guidance for 2020 as you can see in the upcoming graphic down below.

Image Source: National Storage Affiliates Trust – Third Quarter 2020 Earnings Press Release

2020 Guidance

The following table outlines NSA's FFO guidance estimates and related assumptions for the year ended December 31, 2020:

	Ranges for Full Year 2020	
	Low	High
Core FFO per share[(1)]	$ 1.66	$ 1.68
Same store operations (500 stores)		
Total revenue growth	0.75%	1.25%
Property operating expenses growth	1.5%	2.0%
NOI growth	0.25%	1.00%

Corporate Profile

National Storage Affiliates Trust (NSA) is a self-managed real estate investment trust ('REIT') and is the sole general partner of its operating partnership subsidiary NSA OP, LLC. At the end of 2019, National Storage had economic interests in 742 self-storage properties located across 35 US states and Puerto Rico. The REIT bills itself as the sixth largest operator of self-storage facilities in the US. National Storage went public in 2015.

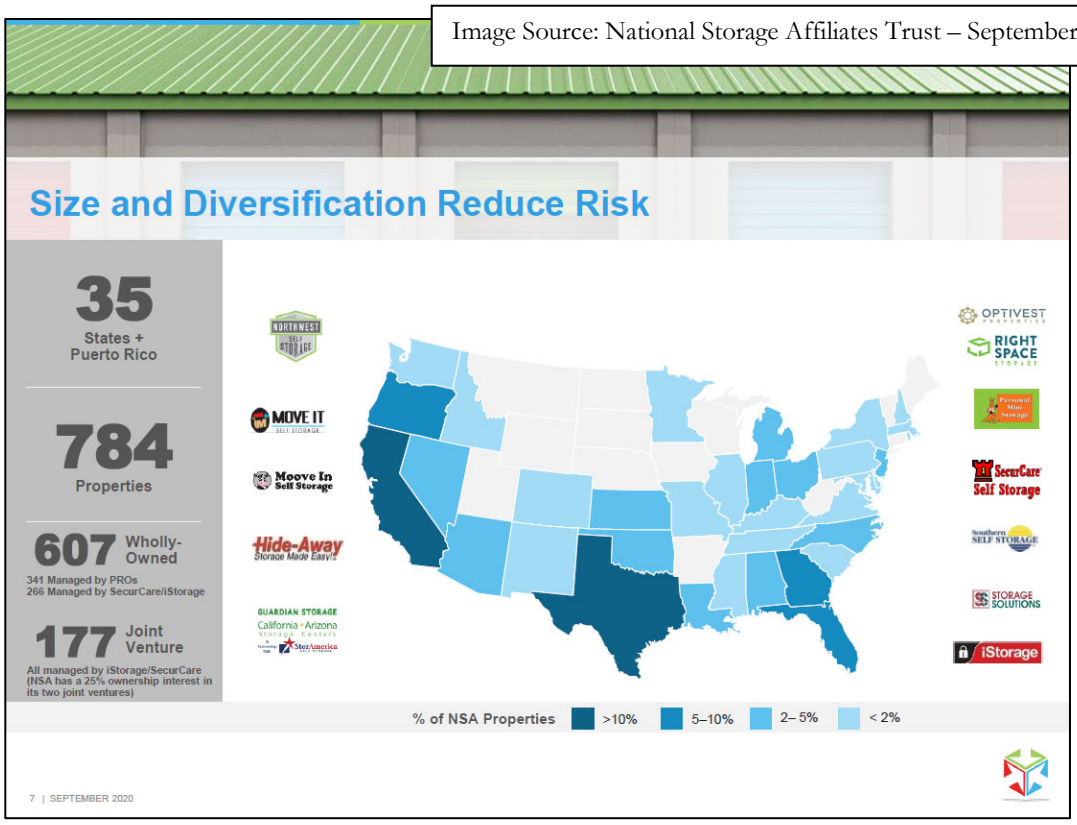
A core strength of self-storage properties is that the rental fees represent a very low percentage of an "average" US household's monthly after-tax income, as compared to say, a monthly mortgage payment or a monthly rental payment for housing needs. That means that over the long haul, pushing through modest- to moderate-sized annual rental rate increases is an easier task given that those increases are off a low base. **Organic net operating income ('NOI') growth, a product of rental rate increases and cost control efforts, can lead to significant core FFO per share growth over time.**

During the COVID-19 pandemic, National Storage's same-store NOI faced meaningful headwinds, but we expect those headwinds will abate going forward. We remain optimistic that a safe and viable COVID-19 vaccine will get discovered in the medium-term, though of course nothing is for certain. Phase 2/3 data from several COVID-19 vaccine candidates is due to be published over the coming months, and we will be paying close attention to those results. In any event, National Storage's outlook is improving, and that is why management had the confidence to reinstate full-year guidance during the REIT's latest earnings update.

Pivoting now, National Storage runs a program where owners of self-storge facilities can exchange those properties for units in National Storage's operating partnership and subordinated performance units in the operating partnership, or an economic stake in subsidiaries of its operating partnership that are meant to be economically equivalent to operating partnership units and subordinated performance units. Those participating regional operators ('PROs') then own an economic stake in the self-storage properties the PROs exchanged with National Storage and its affiliates, and the PROs continue to operate those facilities as regional property managers.

At the end of 2019, National Storage had ten PROs working with it. **We like this program because it allows National Storage to take advantage of the PROs' local expertise and local brand recognition.** Over time, National Storage may seek to brand or co-brand those facilities under its own brand, as market conditions and other factors dictate.

Image Source: National Storage Affiliates Trust – September 2020 IR Presentation



Pivoting now the National Storage's asset base and geographical focus, the REIT is fairly diversified with exposure to many of the top metropolitan areas in the US. These are regions where property price increases have been significant and regions that have experienced strong population growth over the past decade, meaning that there should be ample demand from US households for additional living space in these areas. **Put another way, self-storage options are a cheaper alternative to larger housing units and the related increase in mortgage or rental payments.**

Pivoting now to National Storage's (historical) ability to generate sizable free cash flows. **From 2017 to 2019, the REIT generated ~$143 million in free cash flow per year on average. This fully covered ~$70 million in average annual dividend payments to common and preferred shareholders during this period**, though please keep in mind its distributions to noncontrolling interests averaged ~$66 million per year during this period as well. In the upcoming two graphics down below and at the top of the next page, we underlined its net operating cash flows in red and its capital expenditures in blue.

Image Source: National Storage Affiliates Trust – 2019 Annual Report with additions from the author

NATIONAL STORAGE AFFILIATES TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2019	2018	2017
OPERATING ACTIVITIES			
Net income	$ 66,013	$ 56,326	$ 45,998
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	105,119	89,147	75,115
Amortization of debt issuance costs	2,913	2,569	2,175
Amortization of debt discount and premium, net	(1,427)	(1,469)	(1,570)
Gain on sale of self storage properties	(2,814)	(391)	(5,715)
Mark-to-market changes in value on equity securities	(610)	—	—
Equity-based compensation expense	4,527	3,837	3,764
Equity in losses of unconsolidated real estate ventures	4,970	1,423	2,339
Distributions from unconsolidated real estate ventures	14,551	8,187	5,093
Change in assets and liabilities, net of effects of self storage property acquisitions:			
Other assets	110	(5,713)	(2,398)
Accounts payable and accrued liabilities	5,617	6,597	1,200
Deferred revenue	(2,318)	1,283	(1,713)
Net Cash Provided by Operating Activities	196,651	161,796	124,288
INVESTING ACTIVITIES			
Acquisition of self storage properties	(371,096)	(313,712)	(391,619)
Capital expenditures	(20,594)	(19,014)	(14,656)
Investments in and advances to unconsolidated real estate ventures	—	(165,642)	(15,289)
Distributions from unconsolidated real estate ventures	11,543	—	250
Deposits and advances for self storage property and other acquisitions	(4,438)	(20,977)	(4,923)
Expenditures for corporate furniture, equipment and other	(862)	(403)	(588)
Acquisition of equity securities	(12,674)	—	—
Proceeds from sale of equity securities	5,356	—	—
Acquisition of interest in reinsurance company and related cash flows	(6,600)	—	—
Net proceeds from sale of self storage properties	6,335	5,259	17,534
Net Cash Used In Investing Activities	(393,030)	(514,489)	(409,291)
FINANCING ACTIVITIES			
Proceeds from issuance of common shares	70,637	175,616	140,261
Proceeds from issuance of preferred shares	43,624	—	166,566
Proceeds from issuance of subordinated performance units	—	—	7,000
Borrowings under debt financings	822,000	822,500	760,900
Receipts for OP unit subscriptions	1,271	1,211	1,150
Principal payments under debt financings	(561,628)	(507,239)	(679,104)
Payment of dividends to common shareholders	(74,546)	(62,152)	(47,671)
Payment of dividends to preferred shareholders	(12,390)	(10,350)	(2,300)
Distributions to noncontrolling interests	(76,010)	(63,350)	(57,314)

Image Source: National Storage Affiliates Trust – 2019 Annual Report

NATIONAL STORAGE AFFILIATES TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(dollars in thousands)

	Year Ended December 31,		
	2019	**2018**	**2017**
Debt issuance costs	(8,487)	(2,860)	(2,381)
Equity offering costs	(179)	(727)	(1,034)
Net Cash Provided by Financing Activities	204,292	352,649	286,073
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	7,913	(44)	1,070
CASH, CASH EQUIVALENTS AND RESTRICTED CASH			
Beginning of year	16,363	16,407	15,337
End of year	$ 24,276	$ 16,363	$ 16,407

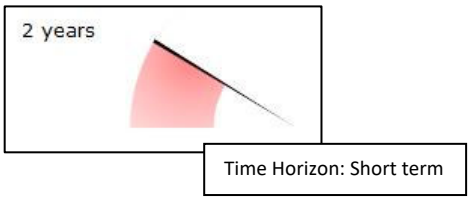
Furthermore, National Storage has spent heavily acquiring new properties in the recent past and will likely remain acquisitive going forward. In order to refinance its large total debt load, raise funds for acquisitions, and still be in a position to continue making good on its payout obligations going forward, National Storage needs to retain constant access to capital markets at attractive rates. **At the end of September 2020, National Storage had about $1.7 billion in total debt outstanding (inclusive of short-term debt) which was marginally offset by a negligible cash balance.** We view its debt burden as manageable given its high quality cash flow profile and historical ability to tap capital markets at attractive rates.

In August 2020, the REIT entered into an agreement to issue out $150 million in 2.99% senior unsecured notes due August 5, 2030 and $100 million in 3.09% senior unsecured notes due August 5, 2032 through a private placement. **National Storage appears to retain quality access to debt markets, in our view, and its strong stock price performance of late indicates it also retains quality access to equity markets as well.** The Kroll Bond Rating Agency reaffirmed the BBB issuer credit rating for NSA OP LLC (National Storage's operating partnership subsidiary) in April 2020.

During the first nine months of 2020, National Storage remained very free cash flow positive. The REIT generated $168 million in net operating cash flow and spent $13 million on capital expenditures during this period, **allowing for approximately $155 million in free cash flow.** National Storage spent $66 million on its 'payment of dividends to common shareholders,' $10 million on its 'distributions to preferred shareholders,' and $54 million on its 'distributions to noncontrolling interests' during this period, all of which were covered by its free cash flows. We appreciate National Storage's quality cash flow profile and expect the self-storage REIT will continue to be very free cash flow positive going forward.

There is a lot to like about National Storage, though we caution that like all REITs, its ability to tap capital markets and its balance sheet need to be closely monitored. As the US economy slowly emerges from the COVID-19 pandemic, National Storage's financial and operational performance should improve considerably. Looking ahead, we see the self-storage REIT being able to keep making good on its generous payout obligations, and that is why we are highlighting National Storage as our Income Generation Idea for November 2020.

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



Veeva Systems Inc (VEEV)

"For the full-year, we now expect total revenue to be $1,415 million to $1,420 million. This increase brings our full-year guidance ahead of the outlook we provided during our fourth quarter call back in early-March. Subscription revenue is expected to be about $1,155 million for the full-year. Commercial Cloud subscription revenue is anticipated to be roughly $585 million, with the Crossix contribution unchanged at $76 million to $78 million… We are also raising our guidance for full-year cash flow from operations, excluding the excess tax benefit to $475 million, up from $450 million previously based upon the strong demand we are seeing in our expected full-year billings." --- Tim Cabral, former CFO of Veeva Systems (retirement was announced in 2019, effective in 2020), during Veeva Systems Inc's second quarter of fiscal 2021 earnings conference call

Corporate Profile
Veeva Systems Inc (VEEV) is a provider of specialized cloud-based software solutions for the life sciences industry. Pharmaceutical, biotechnology, and medical devices companies represent some of its biggest clients. Veeva Systems offers its customers numerous cloud-based solutions including services that support customer relationship management ('CRM'), analytics, research, data and document management, regulatory information management ('RIM'), and quality management operations. Veeva Systems was founded in 2007 and is headquartered in Pleasanton, California.

Thesis

Our **Capital Appreciation Idea for November 2020** is Veeva Systems Inc (VEEV) which offers cloud-based software solutions for the life sciences industry. We are big fans of its high quality cash flow profile, large subscription-based revenues, strong balance sheet, and impressive growth outlook. **Recurring revenues provide for stronger cash flow profiles given the greater visibility of the firm's future sales performance.** Its offerings are very technical and would be hard to replicate, in our view, given the complexities that are inherent within the life sciences industry and healthcare space overall.

Veeva Systems is constantly rolling out new services and improving existing ones to meet the ever-changing needs of its customer base and to support its long-term growth trajectory. For instance, by December 2020, Veeva Systems intends to launch its Veeva Data Cloud offering in the US. Veeva Data Cloud "will include longitudinal patient and prescriber data offerings that will cover retail and specialty distribution channels, initially tailored for commercial use cases such as launch planning, patient segmentation, commercial analytics, AI, territory design, targeting, and incentive compensation."

This cloud-based offering will be powered by the Crossix Data Platform. Please note Veeva Systems acquired Crossix in November 2019 for $430 million in cash along with agreeing to provide certain Crossix employees with long-term equity retention grants worth ~$120 million in total. Looking farther ahead, Veeva Systems intends to launch Veeva Data Cloud in other countries through industry partnerships, acquisitions, and future product development activities. Another important service launch to keep in mind is MyVeema for Doctors.

During Veeva Systems' second quarter of fiscal 2021 (period ended July 31, 2020) earnings call, management had this to say:

> *"We announced MyVeeva for Doctors at Veeva Commercial Summit in June. MyVeeva for Doctors is a website and mobile application to make it easier for doctors to connect with life sciences. It will provide a single place, where doctors can go to get information, services and contact directly from life sciences companies in the standard easy-to-use format. Today, there is no single place for doctors to go for this. MyVeeva for Doctors has the potential to be a game changer. This product will be available at the end of the year for the U.S. market, and we're currently in discussions with a handful of potential early adopters. This type of innovation and product leadership in commercial has allowed us to expand our position as a strategic partner to the industry and gain market share." --- Peter Gassner, founder and CEO of Veeva Systems, during the firm's second quarter of fiscal 2021 earnings conference call*

The telehealth visit space is one supported by enormously powerful secular growth tailwinds in the US and elsewhere. We appreciate that Veeva Systems is expanding its presence in the space. MyVeeva is also getting ready for clinical trial purposes, and those services are expected to launch by the fourth quarter of fiscal 2021 according to management commentary provided during Veeva Systems' first quarter of fiscal 2021 (period ended April 30, 2020) conference call.

From fiscal 2018 (period ended January 31, 2018) to fiscal 2020 (period ended January 31, 2020), Veeva Systems' net operating cash flows almost doubled, reaching $437 million last fiscal year. The company spent just $3 million on capital expenditures in fiscal 2020, allowing for $434 million in free cash flows. Additionally, **Veeva Systems' generated ~$320 million in annual free cash flow on average from fiscal 2018 to fiscal 2020.** In the upcoming graphic down below, the firm's net operating cash flows are underlined in red and its capital expenditures are underlined in blue.

Image Source: Veeva Systems Inc – Fiscal 2020 Annual Report with additions from the author

VEEVA SYSTEMS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

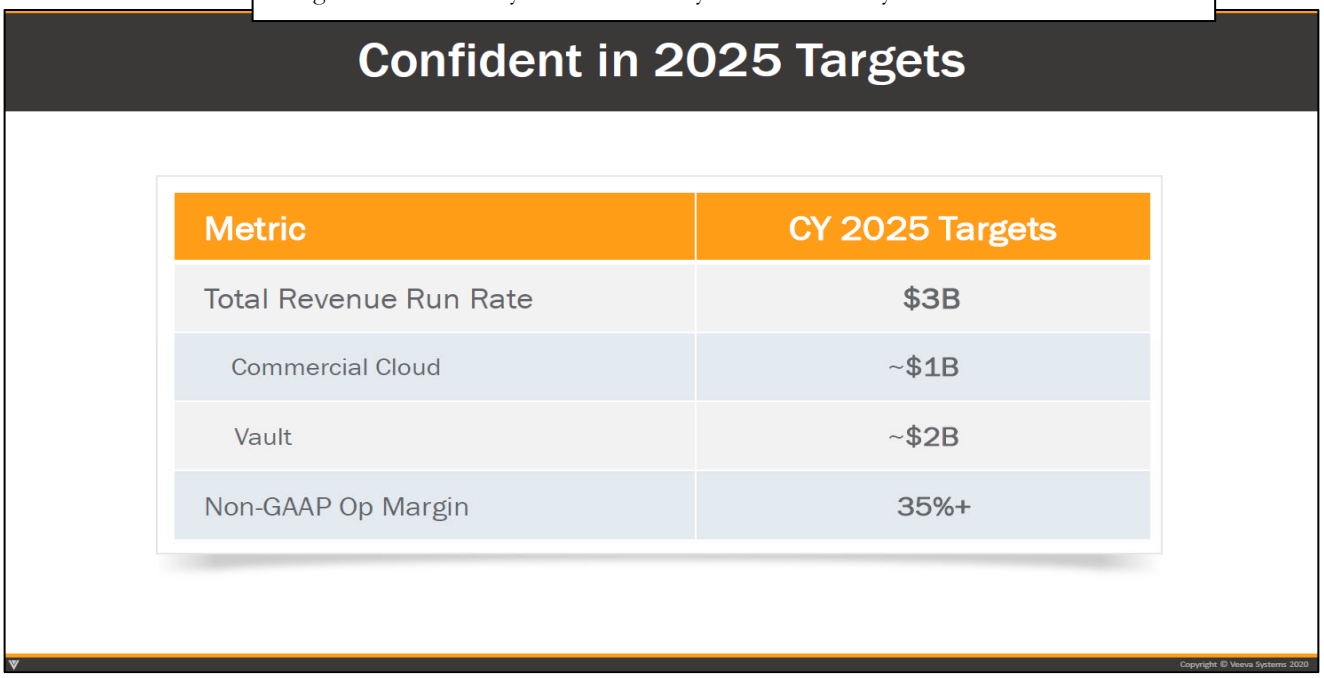
	Fiscal year ended January 31,		
	2020	2019	2018
Cash flows from operating activities			
Net income	$ 301,118	$ 229,832	$ 151,177
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,859	14,071	14,277
Reduction of operating lease right-of-use assets	7,966	—	—
Amortization of premiums (accretion of discount) on short-term investments	(3,274)	(2,431)	1,389
Stock-based compensation	115,906	76,425	54,049
Amortization of deferred costs	20,521	18,378	16,647
Deferred income taxes	(6,663)	(8,091)	1,209
(Gain) Loss on foreign currency from market-to-market derivative	(120)	(177)	265
Bad debt expense (recovery)	244	198	(242)
Changes in operating assets and liabilities:			
Accounts receivable	(55,531)	(78,995)	(47,799)
Unbilled accounts receivable	(14,555)	(4,774)	(4,329)
Deferred costs	(25,237)	(18,941)	(18,795)
Income taxes payable	1,131	637	(2,520)
Prepaid expenses and other current and long-term assets	(2,700)	(10,562)	(2,493)
Accounts payable	2,813	1,822	1,396
Accrued expenses and other current liabilities	(15,230)	963	7,149
Deferred revenue	97,753	89,416	58,240
Operating lease liabilities	(7,480)	—	—
Other long-term liabilities	854	3,056	3,818
Net cash provided by operating activities	437,375	310,827	233,438
Cash flows from investing activities			
Purchases of short-term investments	(752,518)	(726,379)	(437,858)
Maturities and sales of short-term investments	688,091	632,329	294,705
Purchases of property and equipment	(3,113)	(8,440)	(9,633)
Acquisitions, net of cash and restricted cash acquired	(448,162)	—	—
Capitalized internal-use software development costs	(1,208)	(1,379)	(1,734)
Net cash used in investing activities	(516,910)	(103,869)	(154,520)
Cash flows from financing activities			
Reduction of lease liabilities - finance leases	(984)	—	—
Proceeds from exercise of common stock options	10,994	25,910	20,773
Net cash provided by financing activities	10,010	25,910	20,773
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(2,856)	(2,077)	3,089
Net change in cash, cash equivalents, and restricted cash	(72,381)	230,791	102,780
Cash, cash equivalents, and restricted cash at beginning of period	552,178	321,387	218,607
Cash, cash equivalents, and restricted cash at end of period	$ 479,797	$ 552,178	$ 321,387
Cash, cash equivalents, and restricted cash at end of period:			
Cash and cash equivalents	$ 476,733	$ 550,971	$ 320,183
Restricted cash included in other long-term assets	3,064	1,207	1,204
Total cash, cash equivalents, and restricted cash at end of period	$ 479,797	$ 552,178	$ 321,387

Veeva Systems' stellar cash flow profile is a product of its growing subscription-based revenue streams. From fiscal 2018 to fiscal 2020, the firm's GAAP revenues grew by 60%, hitting $1.1 billion. During this period, Veeva System's 'subscription services' sales also grew by 60%, hitting $0.9 billion. **Over 80% of the company's GAAP revenues were generated through subscription services sales in fiscal 2020.**

One of the things we really like about Veeva Systems' is that unlike some of its younger cloud-oriented peers, the firm is GAAP profitable (it posted diluted EPS of $1.90 on a GAAP basis in fiscal 2020). From fiscal 2018 to fiscal 2020, Veeva Systems' GAAP operating income grew by 81%, hitting $0.3 billion. Revenue growth was the primarily reason here, as the company's operating expenses also grew considerably during this period. Looking ahead, the company is well-positioned to capitalize on secular growth tailwinds and the ongoing transition towards cloud-based solutions for the life sciences industry.

In the upcoming graphic down below, management laid out Veeva System's long-term growth ambitions. Keeping in mind the firm generated $1.1 billion in GAAP revenues in fiscal 2020, **Veeva Systems is targeting ~$3 billion in annualized revenues by calendar year 2025.** Rolling out new cloud-based services, pushing into new adjacent markets in the life sciences space and growing its customer base represent the main ways Veeva Systems will grow its top-line over the coming years.

Image Source: Veeva Systems Inc – Analyst & Investor Day Presentation October 2020



There are some downside risks to be aware of here. For instance, changes in the regulatory landscape for pharmaceutical companies, medical device makers, biotech firms, and other companies that operate in the life sciences industry could have an outsized impact on the relevance of Veeva Systems' compliance, regulatory, and document management offerings. Additionally, new market entrants big and small could result in Veeva Systems' customers taking their business elsewhere, and at the very least would put pressure on the firm's ability to push through pricing increases. We have a favorable view of Veeva Systems' differentiated offerings.

Another reason why we are big fans of Veeva Systems is the company carries a pristine balance sheet. At the end of the second quarter of fiscal 2021, Veeva Systems had $1.5 billion in cash, cash equivalents and short-term investments on hand with no debt on the books. The company's financial position is simply stellar and allows the firm to navigate any hurdles that arise due to exogenous shocks, such as those created by the ongoing coronavirus ('COVID-19') pandemic. In the upcoming graphic down below, Veeva Systems' cash-like line-items are underlined in red.

Image Source: Veeva Systems Inc – 10-Q SEC filing covering the second quarter of fiscal 2021 with additions from the author

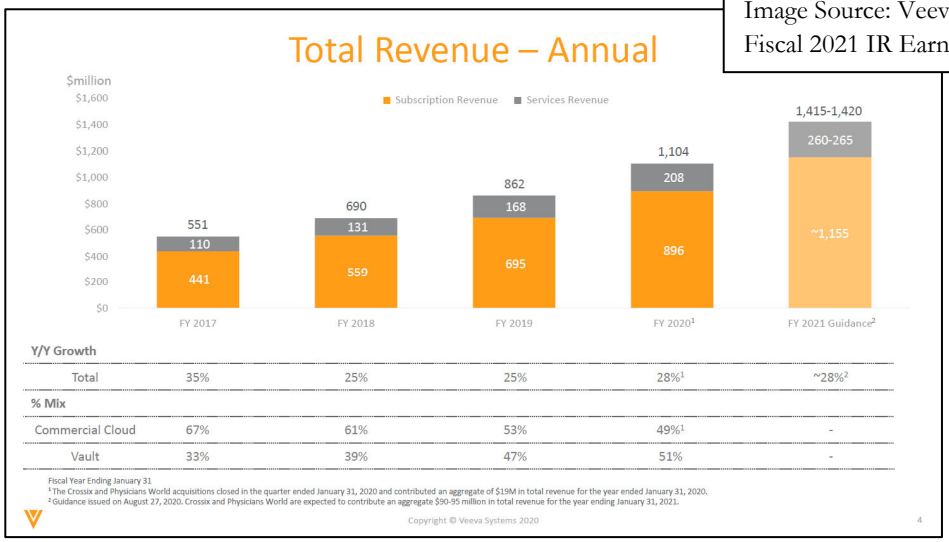
VEEVA SYSTEMS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except number of shares and par value)

	July 31, 2020	January 31, 2020
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 795,782	$ 476,733
Short-term investments	699,707	610,015
Accounts receivable, net of allowance for doubtful accounts of $698 and $617, respectively	220,803	389,690
Unbilled accounts receivable	36,650	32,817
Prepaid expenses and other current assets	32,490	21,869
Total current assets	1,785,432	1,531,124
Property and equipment, net	52,576	54,752
Deferred costs, net	34,645	35,585
Lease right-of-use assets	51,286	49,132
Goodwill	438,529	438,529
Intangible assets, net	124,420	134,601
Deferred income taxes, noncurrent	12,167	11,870
Other long-term assets	17,354	16,184
Total assets	$ 2,516,409	$ 2,271,777
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 16,476	$ 19,420
Accrued compensation and benefits	27,494	25,619
Accrued expenses and other current liabilities	22,763	21,620
Income tax payable	2,464	5,613
Deferred revenue	421,167	468,887
Lease liabilities	11,118	10,013
Total current liabilities	501,482	551,172
Deferred income taxes, noncurrent	1,824	2,417
Lease liabilities, noncurrent	46,187	44,815
Other long-term liabilities	10,189	7,779
Total liabilities	559,682	606,183
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Class A common stock, $0.00001 par value; 800,000,000 shares authorized, 135,638,899 and 133,892,725 issued and outstanding at July 31, 2020 and January 31, 2020, respectively	2	1
Class B common stock, $0.00001 par value; 190,000,000 shares authorized, 15,100,951 and 15,202,858 issued and outstanding at July 31, 2020 and January 31, 2020, respectively	—	—
Additional paid-in capital	850,776	745,475
Accumulated other comprehensive income	6,170	460
Retained earnings	1,099,779	919,658
Total stockholders' equity	1,956,727	1,665,594
Total liabilities and stockholders' equity	$ 2,516,409	$ 2,271,777

One final downside risk consideration concerns the company's surging stock price. Should Veeva Systems stumble for any reason, that could lead to a significant decline in its share price. Investors have high expectations for Veeva Systems, and in our view, the company is in a position to meet and/or exceed those expectations. The company is quite free cash flow positive and can utilize its strong financial position to shore up its market position (through acquisitions and greater R&D investments) against its competitors and potential competitors without stressing its balance sheet (which remains pristine).

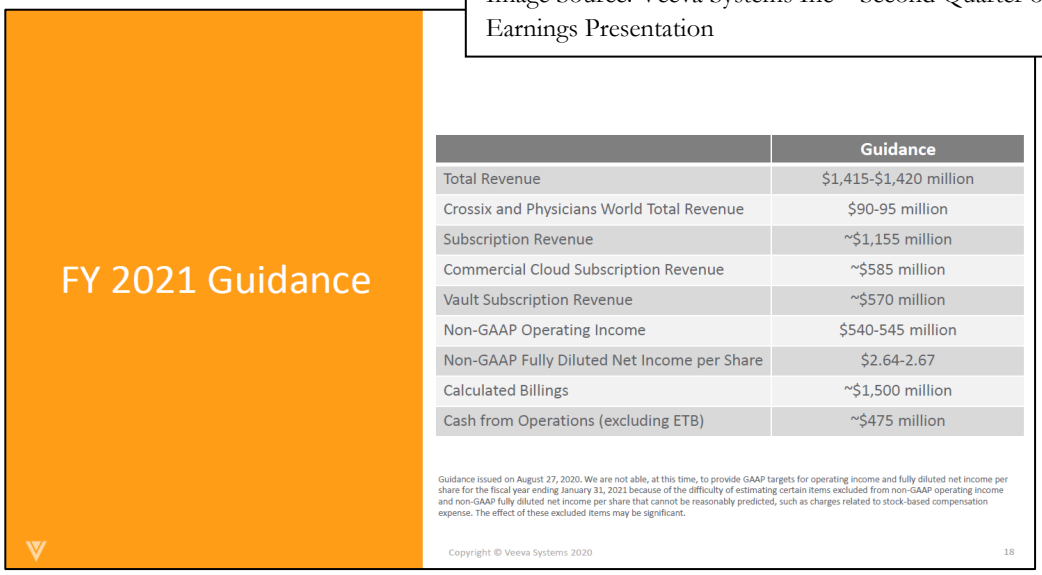
During Veeva System's second quarter of fiscal 2021 earnings call, management noted that **the company had boosted its full-year guidance for fiscal 2021.** We strongly appreciate the firm raising its guidance fiscal 2021 as that indicates Veeva Systems' impressive growth story remains intact. The company is experiencing strong demand for its subscription-based services according to management.

Image Source: Veeva Systems Inc – Second Quarter of Fiscal 2021 IR Earnings Presentation



In the upcoming graphic down below, Veeva Systems provides an overview of its guidance for fiscal 2021. The company expects to report strong revenue, operating income, and net operating cash flow growth this fiscal year versus fiscal 2020 levels.

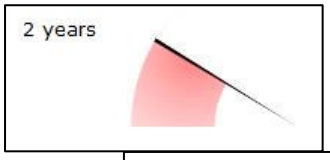
Image Source: Veeva Systems Inc – Second Quarter of Fiscal 2021 IR Earnings Presentation



We are big fans of Veeva Systems' high quality cash flow profile, subscription-based revenues, growth runway, and pristine balance sheet. As new services are launched, Veeva Systems' growth story should continue in earnest. The company has been firing on all-cylinders of late, and we expect that its strong fundamental performance combined with its stellar financial position could lead to significant capital appreciation upside going forward.

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

Short Consideration



Time Horizon: Short term

Noodles & Company (NDLS)

"Total revenue decreased to $106.6 million in the third quarter of 2020, compared to $118.3 million in the third quarter of 2019. This decrease was primarily due to a decline in traffic related to the impact of the COVID-19 pandemic during the quarter, as well as the refranchising of 14 total restaurants since January 2019 and the July 4th and 5th holiday restaurant closures. Additionally, revenue decreased due to temporary restaurant closures as a result of the COVID-19 pandemic."—3Q 2020 Financial Results, October 28, 2020

Thesis

Our **November short idea consideration** for the Exclusive publication is Noodles & Company (NDLS). You may have seen the restaurant or may have even eaten their dishes in the past. The company offers somewhat of a unique concept and menu, but the fast-casual segment of the restaurant industry remains very overcrowded. For a company that's been around for 25 years now, it just turned the corner with respect to profitability in 2019 after years of losses. **Its business model is challenged, in our view.**

Image Source: Noodle's

	Fiscal Year				
	2019	2018	2017	2016	2015
	(in thousands)				
Revenue:					
Restaurant revenue	$ 456,671	$ 453,671	$ 451,599	$ 482,544	$ 450,482
Franchising royalties and fees, and other	5,740	4,170	4,893	4,930	4,969
Total revenue	462,411	457,841	456,492	487,474	455,451
Costs and Expenses:					
Restaurant operating costs (exclusive of depreciation and amortization, shown separately below):					
Cost of sales	117,179	121,102	121,473	130,630	120,455
Labor	150,565	149,746	150,161	161,219	143,145
Occupancy	48,863	49,020	51,877	55,912	50,300
Other restaurant operating costs	66,684	65,575	64,091	73,011	63,549
General and administrative[1][2]	43,446	46,092	39,746	55,654	37,244
Depreciation and amortization	22,086	22,872	24,613	28,134	27,802
Pre-opening	402	50	935	3,131	4,407
Restaurant impairments, closure costs and asset disposals[3]	7,747	7,142	37,446	47,311	29,616
Total costs and expenses	456,972	461,599	490,342	555,002	476,518
Income (loss) from operations	5,439	(3,758)	(33,850)	(67,528)	(21,067)
Loss on extinguishment of debt	746	626	—	—	—
Interest expense, net	2,942	4,305	3,839	2,916	1,432
Income (loss) before income taxes	1,751	(8,689)	(37,689)	(70,444)	(22,499)
Provision (benefit) for income taxes	104	(248)	(207)	1,233	(8,734)
Net income (loss)	1,647	(8,441)	(37,482)	(71,677)	(13,765)
Accretion of preferred stock to redemption value[4]	—	—	(7,967)	—	—
Net income (loss) attributable to common stockholders	$ 1,647	$ (8,441)	$ (45,449)	$ (71,677)	$ (13,765)

Corporate Profile

The first Noodle & Company restaurant was opened in Denver, Colorado, in 1995. The concept serves lunch and dinner and operates within the fast-casual segment of the restaurant industry. As of the end of 2019, the company had 389 company-owned restaurants and 68 franchise restaurants in 29 states and the District of Columbia. A high percentage of its restaurants can be found in Colorado, Illinois, Wisconsin, and Minnesota.

Our experience with Noodles is that its menu offerings and dishes are too expensive. The company suggests that it offers customers considerable value with per person spend of $9.53, but our take is materially different. For a bowl of noodles and maybe a couple ounces of protein, we have a hard time seeing the value proposition, especially when a large portion of its customer base survived their college days on Raman noodles, which can be had for $0.25/pack. Noodles will continue to face an uphill battle when it comes to customer value proposition in this regard.

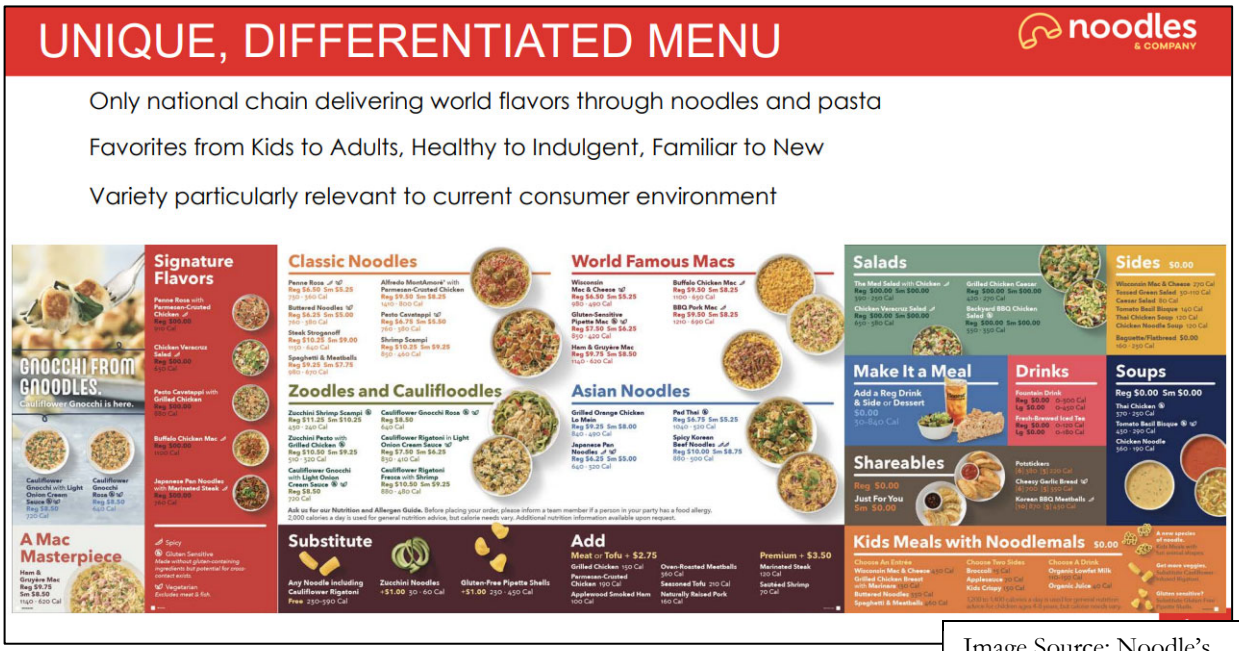


Image Source: Noodle's

Management strives to provide customers with variety as it seeks to be able to serve a larger addressable market for lunch and dinner than its rivals. **However, with increased variety comes higher complexity and higher costs.** For example, while the introduction of zucchini noodles may provide a low-carb, gluten free option and while its cauliflower-infused rigatoni may give customers a plant-based option, all of this comes with higher costs on a dish that should cost but a few quarters, not nearly $10. It's trying to localize a global menu, something very difficult to do.

We think Noodle's restaurant strategy is wrong, too. The company's restaurants are typically 2,600-2,700 square feet and they can be found in both suburban and urban markets. However, while many a customer may enjoy the dine-in feature, we believe the size of its dining areas should be substantially reduced to save costs, and a heightened focus on take-out, delivery, and digital should be pursued to save on overhead. While the COVID-19 made a focus on these areas necessary, they are inevitable trends that will impact Noodle's long-term feasibility.

The fast-casual space, itself, is incredibly competitive, and Noodle's bumps heads with other local established dine-in and take-out restaurants that offer specialized and delicious Japanese, Thai, and Italian cuisines, where noodles are on the menu. It's also very hard to grow into a market when the restaurant's primary course is carb-heavy noodles when so many consumers this day and age are searching for the healthiest option. When you leave Noodle's & Company restaurant, you can feel the food sit in your stomach--and it's not a great feeling. Our guess is that many consumers have a similar experience.

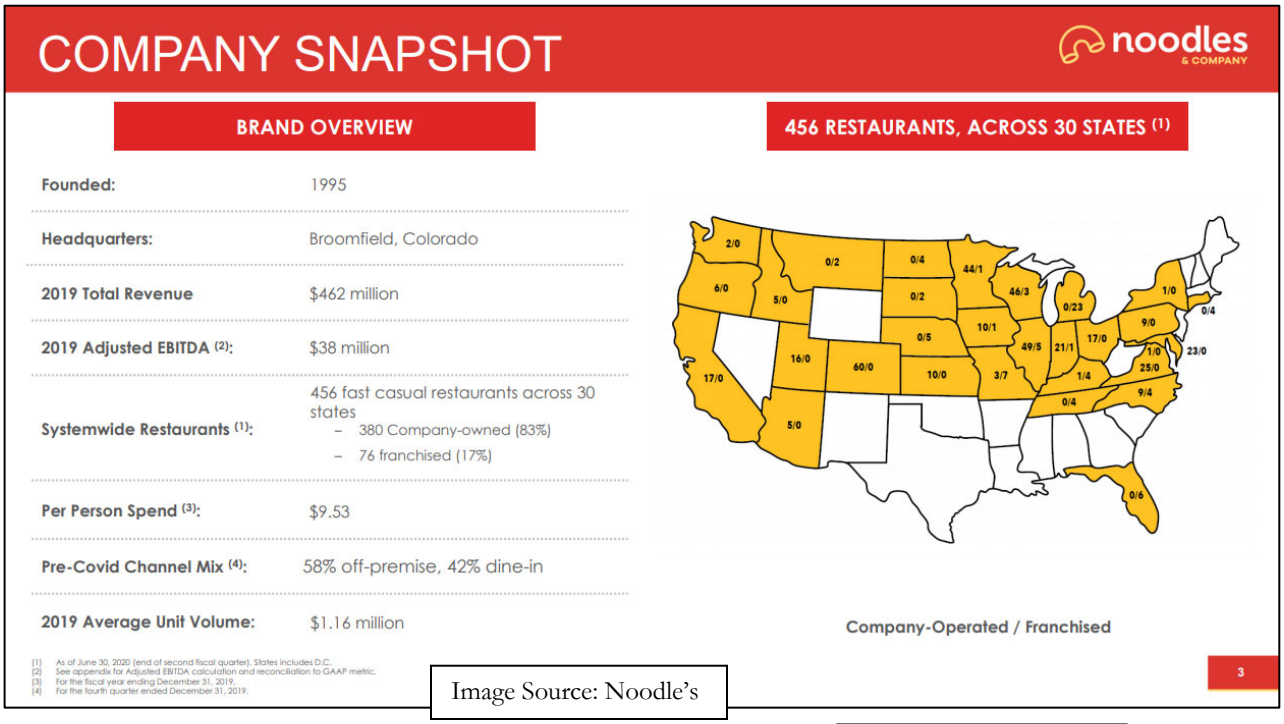


Image Source: Noodle's

Image Source: Noodle's

Selected Operating Data:					
Company-owned restaurants at end of period	389	394	412	457	422
Franchise-owned restaurants at end of period	68	65	66	75	70
Company-owned:					
Average unit volumes (1)	$ 1,163	$ 1,119	$ 1,072	$ 1,075	$ 1,103
Comparable restaurant sales (2)	2.9%	3.4%	(2.7)%	(0.9)%	(0.2)%
Restaurant contribution (3)	$ 73,380	$ 68,228	$ 63,997	$ 61,772	$ 73,033
Restaurant contribution margin (3)	16.1%	15.0%	14.2 %	12.8 %	16.2 %

The writing is on the wall, in our view. **The company had to shut a number of underperforming restaurants a few years ago as comparable store sales started to suffer materially at that time.** For a company that has barely turned the corner with respect to profitability, it's very likely that its growth story has soured, even as it looks to selectively open new stores (it plans to add 10-15 new stores in 2021). Noodle's is navigating through the difficulties of the COVID-19 pandemic, and while digital sales have grown materially during this period, it's hard to say that the long term is bright for this name.

Looking at the balance sheet doesn't make us feel any better either. Though Noodle's has paid down a substantial portion of its revolver (it has ~$52.3 million available), at the end of the third quarter, the company had borrowings of $44 million against a cash balance of $8.6 million. The company does have liquidity to stick around for some time, **but liquidity is not an investment thesis, but rather a survival mechanism.**

Noodle's needs a substantial revamping of its business model from its store strategy to its menu offerings, and frankly, the market may not have the appetite to stomach such changes. At $300+ million in market capitalization at the time of this writing, Noodle's equity value is worth a lot less, in our opinion. On the company's current trajectory, we wouldn't be surprised to see shares cut in half in the years ahead.

Disclosure: *Brian Nelson owns shares in SPY, SCHG, DIA, QQQ, and VOT.*

Inaugural Letter to Members

Dear Valued Member,

July 1, 2016

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

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

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

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

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

Let's talk about what the Exclusive isn't. The Exclusive does not constitute individual investment advice, and the ideas within it are not personal recommendations. Each of you reading should always work with your

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

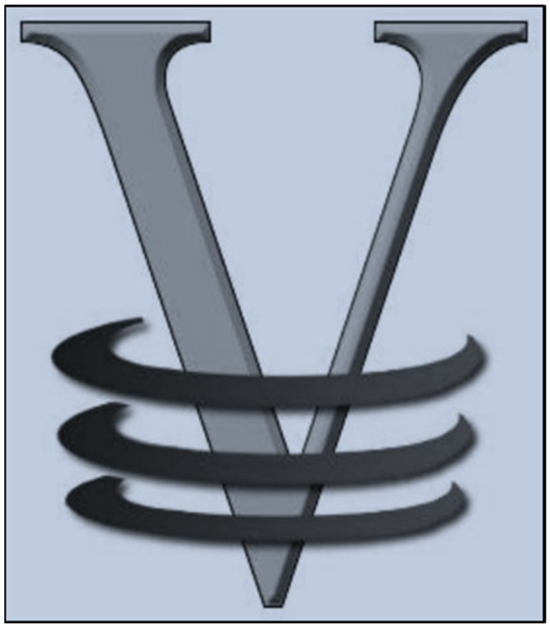
Within the twelve editions of the Nelson Exclusive each year, we'll be highlighting in total 36 ideas for consideration with varying investment parameters. That's a lot. Depending on the time horizon set forth with each idea, fantastic performance might mean a success rate of 60%, great performance might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

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

Batter up!

Sincerely,

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



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

The Nelson Exclusive: Volume 5, Issue 11

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

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

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

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