

Valens Conviction Long List

12 April 2019



Value stocks top our April Valens Conviction Long List, with Capital One Financial (COF) remaining at the top of our list. Our other picks this month are: CRUS, CVS, FSLR, GRMN, WGO, EBAY, PINC, MTZ, HIG, THRM, ASGN, DISC.A, FB, LRCX, DHI, MYL, GILD, TPR, AMN, NOV, CTXS, and BHC.

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DISCLOSURES

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- Capital One Financial (COF) remains our top pick. COF continues to have a strong franchise and is benefiting from the higher rate environment, and reduced competition. COF trades below peers, with improving returns and growing management confidence per Earnings Call Forensics™
- Cirrus Logic Inc. (CRUS) is in the second spot on the list, due to accelerating fundamental momentum and very low market expectations. CRUS is gaining share and seeing a favorable product cycle, with strong returns and growing management confidence per Earnings Call Forensics™
- Even after the strong rally through Q1, valuations remain suppressed relative to strong profitability. 14 Value names make up the largest portion of our Conviction Long List this month, and GARP make up the second largest group, with seven names
- The sectors with the most companies in the April list are Consumer Discretionary and Health Care, with six firms. Technology has four, Communication Services, Financials, and Industrials have two, and Energy has one company
- We removed Alphabet (GOOGL) and Planet Fitness (PLNT) from the list. GOOGL had seen a strong rebound to start the year, approaching prior all-time highs, however at the same time, management has been showing more concerns about cost pressures, their need for ramping capex, and forecasts for ROA' have taken a step down for the first time in 3+ years, pointing to deceleration for the business. With higher valuations that were approaching a poor risk-reward level, and declining momentum, GOOGL was no longer a compelling idea. PLNT was removed because of how successful the idea had been. Valuations had reached levels very close to the high end of valuation ranges, while management's actions to bring stores onto the balance sheet had changed the business dynamics
- We added CVS Health (CVS), MasTec (MTZ), and Discovery (DISC.A) to the idea list this month. CVS has the opportunity to recreate the fundamental transformation that United Healthcare executed the past 6+ years after the Aetna acquisition. MasTec is being valued like an average Construction & Engineering firm in a late cycle period, when it actually is a 5G play that has strong order book and visibility for the next several years. Discovery is being priced as though it is doomed because of cord cutting, but the stickiness of their content and economic moats say otherwise

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TICKER	COMPANY	SECTOR	PRICE (\$)	MCAP (\$bn)	ROA' FY1	V/A'	V/E'	STYLE	INTRINSIC PRICE RANGE
COF	Capital One Financial Corporation	Financials	85.63	40.2	14%	1.0	7.2	Deep Value	\$70 - \$170
CRUS	Cirrus Logic Inc.	Info Tech	43.99	2.6	13%	1.6	15.0	Value	\$25 - \$115
CVS	CVS Health Corporation	Health Care	53.87	69.9	18%	3.0	16.8	GARP	\$45 - \$115
FSLR	First Solar, Inc.	Info Tech	60.77	6.4	4%	0.7	18.2	Deep Value	\$50 - \$120
GRMN	Garmin Ltd.	Cons Disc	88.80	16.8	18%	3.4	18.7	GARP	\$75 - \$130
WGO	Winnebago Industries, Inc.	Cons Disc	34.03	1.1	25%	2.7	10.2	Value	\$25 - \$100
EBAY	eBay Inc.	Cons Disc	37.72	33.0	17%	1.9	12.2	Value	\$20 - \$90
PINC	Premier, Inc.	Health Care	33.57	2.1	85%	8.7	10.1	Value	\$25 - \$150
MTZ	MasTec, Inc.	Industrials	50.44	3.8	9%	1.6	17.2	GARP	\$35 - \$100
HIG	The Hartford Financial Services Group, Inc.	Financials	49.98	18.0	12%	1.3	9.6	Value	\$40- \$85
THRM	Gentherm Incorporated	Cons Disc	40.43	1.4	13%	1.9	14.9	Value	\$30 - \$125
ASGN	ASGN Incorporated	Industrials	66.04	3.5	48%	6.6	13.6	Value	\$40 - \$125
DISC.A	Discovery, Inc.	Comm Serv	30.59	20.9	77%	8.6	11.2	Value	\$25 - \$65
FB	Facebook, Inc.	Comm Serv	177.82	507.5	30%	6.8	22.8	GARP	\$130 - \$400
LRCX	Lam Research Corporation	Info Tech	190.84	29.1	29%	3.8	13.3	Value	\$120 - \$400
DHI	DR Horton Inc.	Cons Disc	43.93	16.4	13%	1.6	11.8	Value	\$30 - \$105
MYL	Mylan N.V.	Health Care	27.22	14.0	34%	3.0	8.7	Value	\$25 - \$135
GILD	Gilead Sciences, Inc.	Health Care	67.40	85.9	34%	3.1	9.2	Value	\$60 - \$500
TPR	Tapestry, Inc.	Cons Disc	33.41	9.7	20%	3.3	14.5	Value	\$27.5 - \$90
AMN	AMN Healthcare Services, Inc.	Health Care	49.40	2.3	29%	4.9	17.1	GARP	\$40 - \$125
NOV	National Oilwell Varco, Inc.	Energy	28.68	11.0	5%	1.5	30.4	GARP	\$22.5 - \$105
CTXS	Citrix Systems, Inc.	Info Tech	101.56	13.4	38%	7.2	18.9	GARP	\$75 - \$225
BHC	Bausch Health Companies Inc.	Health Care	26.12	9.2	56%	6.2	11.1	Value	\$10 - \$210

Metrics for the financials are based on ROE', P/B', P/E'

Data Date:11-April-2019

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EBAY	<u>eBay Inc.</u>	<u>20</u>
PINC	<u>Premier, Inc.</u>	<u>23</u>
MTZ	<u>MasTec, Inc.</u>	<u>26</u>
HIG	<u>The Hartford Financial Services Group, Inc.</u>	<u>28</u>
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ASGN	<u>ASGN Incorporated</u>	<u>34</u>
DISC.A	<u>Discovery, Inc.</u>	<u>36</u>
FB	<u>Facebook, Inc.</u>	<u>39</u>
LRCX	<u>Lam Research Corporation</u>	<u>42</u>
DHI	<u>DR Horton Inc.</u>	<u>45</u>
MYL	<u>Mylan N.V.</u>	<u>47</u>
GILD	<u>Gilead Sciences, Inc.</u>	<u>50</u>
TPR	<u>Tapestry, Inc.</u>	<u>53</u>
AMN	<u>AMN Healthcare Services, Inc.</u>	<u>56</u>
NOV	<u>National Oilwell Varco, Inc.</u>	<u>59</u>
CTXS	<u>Citrix Systems, Inc.</u>	<u>62</u>
BHC	<u>Bausch Health Companies, Inc.</u>	<u>64</u>

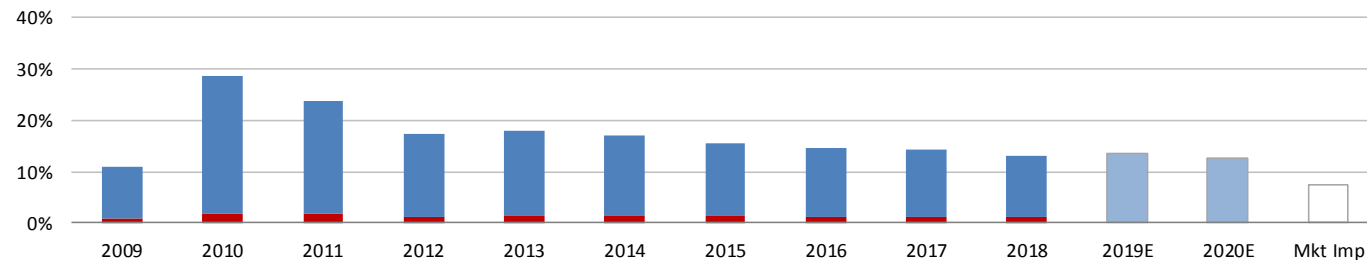
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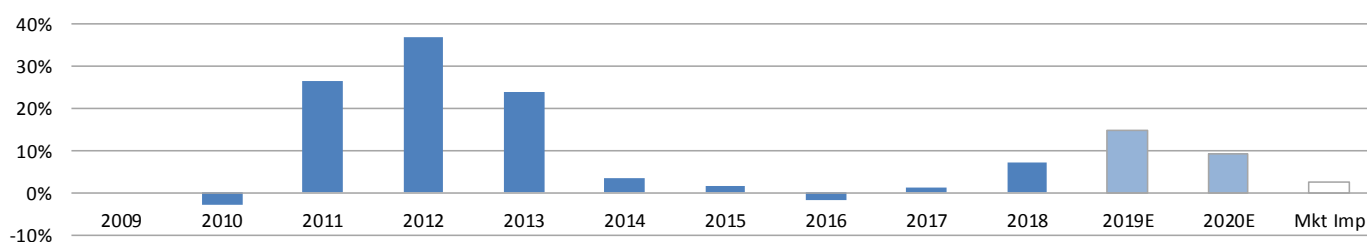


Capital One Financial Corporation (COF)

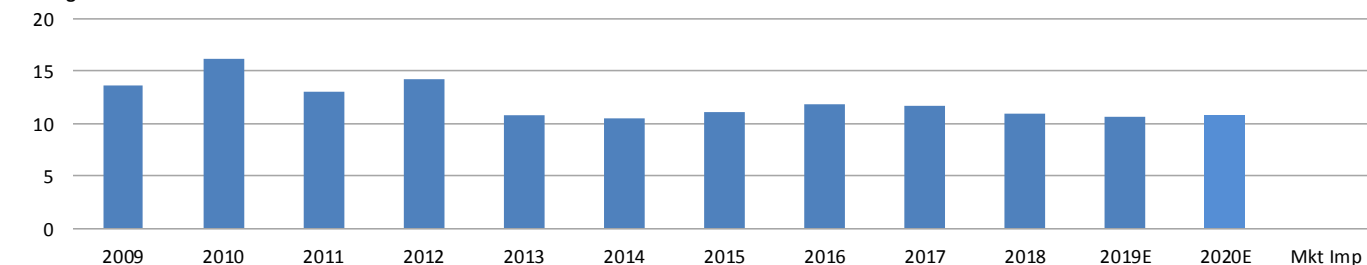
ROE/ROA



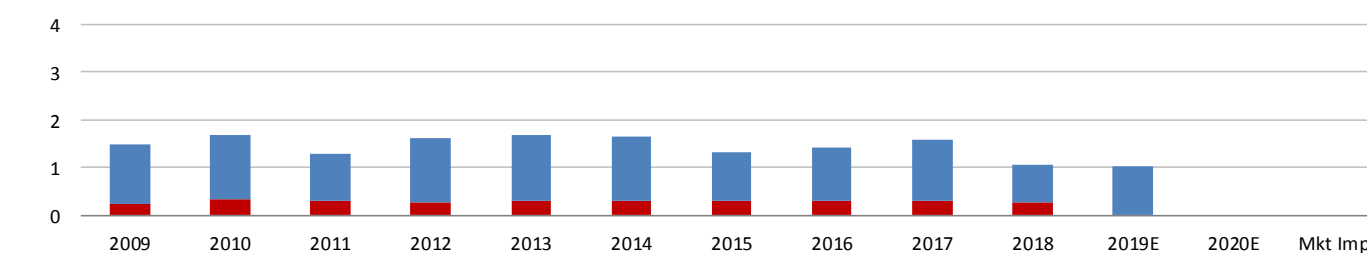
Equity Growth



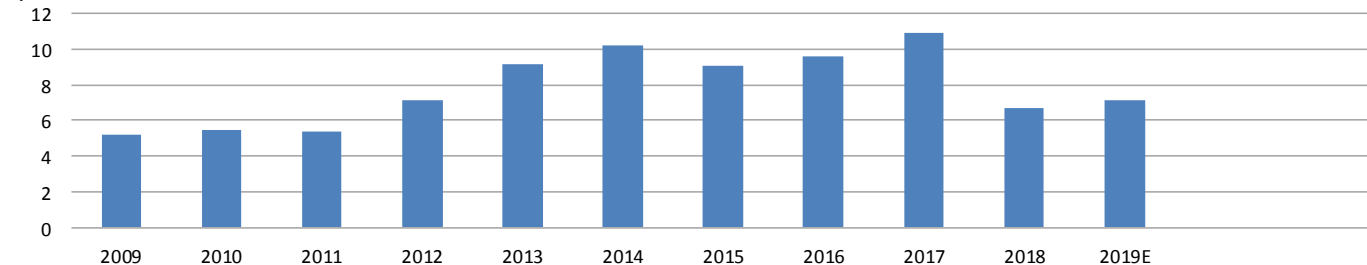
Leverage



Market Cap/Equity and EV/Assets



P/E



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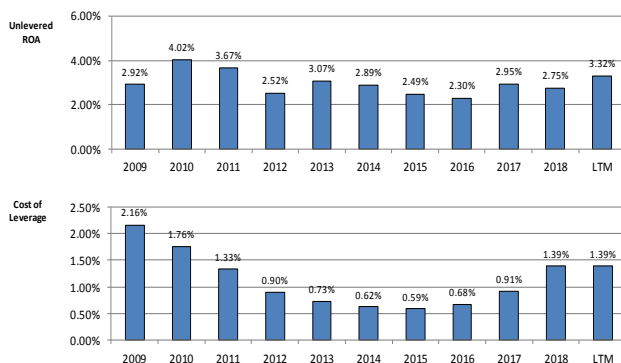


Capital One Financial Corporation (COF)		Deep Value
Sector	Financials	Intrinsic Price Range:
Price (\$)	85.63	\$70 - \$170
MCap (\$bn)	40.19	Comments:
ROA' (FY1)	14%	-
V/A'	1.0	
Fwd V/E'	7.2	

Capital One Financial Corporation provides various financial products and services in the United States, the United Kingdom, and Canada. The company offers non-interest-bearing and interest-bearing deposits, such as checking accounts, money market deposit accounts, negotiable order of withdrawals, savings deposits, and time deposits.

Valuations & Market Expectations

COF trades well below peer multiple levels at 7.2x Uniform P/E (Fwd V/E') approaching trough valuations in 2009-2011. Their peers in the Consumer Finance (57% of their business) space averaged an 8x+ Fwd V/E', and in the Regional Bank (43% of their business) space average a 9x+ Fwd V/E', highlighting that they are trading at a discount. They also remain to be one of the few financial companies trading around book value, at 0.85x traditional P/B, even though their 14% ROE' is above community bank peer levels, highlighting how this is unjustified.



COF has benefited over the past 10 years from consistently having stronger returns than most of their peers in the banking business, which is due to the high ROE' their credit card business generates, similar to AXP and DFS. Because of this, the company has consistently had much more robust Unlevered ROA'. Also, while this had been trending down in recent years due to higher competition in their lending business, for instance in the auto business, this has reversed recently. They had also benefited from falling leverage costs which reversed the trend, and is likely to continue due to rising interest rates.

At current valuations, the market is pricing in ROE' to fall from 13%-14% levels of the past two years, and this year, to 8% levels going forward. The market is expecting the trend around rising cost of leverage to continue, and also expecting the recent inflection in Unlevered ROA to reverse, and for COF to see falling profitability and rising costs. However, their trend around declining earnings power of their balance sheet appears to be shifting going forward, given the stabilizing and declining competition in their markets as alternative lenders have become less active, as can be seen significantly in the past year and a half plus.

Also, while the cost of borrowing is likely to continue to rise going forward, even if it does rise to 2%, levels seen in 2009-2010, this will not be a cause for concern after COF had transformed into a more balanced business with both Consumer Finance and Regional Banking arms. If they can improve unlevered ROA back to 2014-2015 levels, they would keep ROE' roughly flat going forward, not see it fall. If they can improve Unlevered ROA levels to 2010-2011 levels, they could even see ROE' recover back to the 20%+ levels they saw in those years, justifying incremental upside.

As mentioned before, the main reason for the declining unlevered ROA of the business until recently had been increased competition, and in several of their markets, new competitors who had appeared, for instance in subprime auto lending and in credit cards, are becoming less focused in the space.

This has contributed to the recent rise in unlevered ROA', and it is likely to power ROE' to maintain and even improve, as analysts are forecasting.



Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that COF management is very well aligned to grow and improve their profitability going forward. Both short-term and long-term compensation are based on several factors: revenue, expense management, earnings, EPS, ROA, ROTCE, capital management, TSR, credit performance, underwriting quality, risk management and compliance, and balance sheet strength. This compensation framework will focus management on the exact issues they need to focus on to improve and maintain profitability while driving growth. The ROA, ROTCE, earnings, and EPS metrics will drive management to maximize the profitability of their lending, while the underwriting quality, risk management, and expense management metrics will drive them to control expenses that they can manage. Finally, the revenue metric will drive them to sustain growth while doing this.

Earnings Call Forensics™

Earnings Call Forensics™ of the firm's Q1 (4/24), Q2 (7/19), Q3 (10/23), and Q4 2018 (1/22/2019) earnings calls also highlighted a significant positive inflection for management outlook for the business, pointing to positive fundamental trends. In the Q4 call, management showed confidence about pre-tax growth strength, how well positioned they are for where they are in the cycle, how their returns are rising, and how they are being responsible extending credit to their customers. They also show confidence about how well positioned they are for various potential rate environments.

This was in line with prior calls, where management showed confidence around purchase volume growth trends, revenue growth, and Domestic Card business momentum. They were also confident about investing in IT to improve their customer experiences, and about how they are managing exposure to less attractive businesses.

While management may be concerned about the Walmart relationship, and the macro environment two and a half to three years out, and controlling risk in that part of the market, management showed a strong positive inflection around areas like their outlook for consumer banking, EPS outlook, and around competitive dynamics, pointing to the management team seeing strongly improving fundamentals.

Conclusion

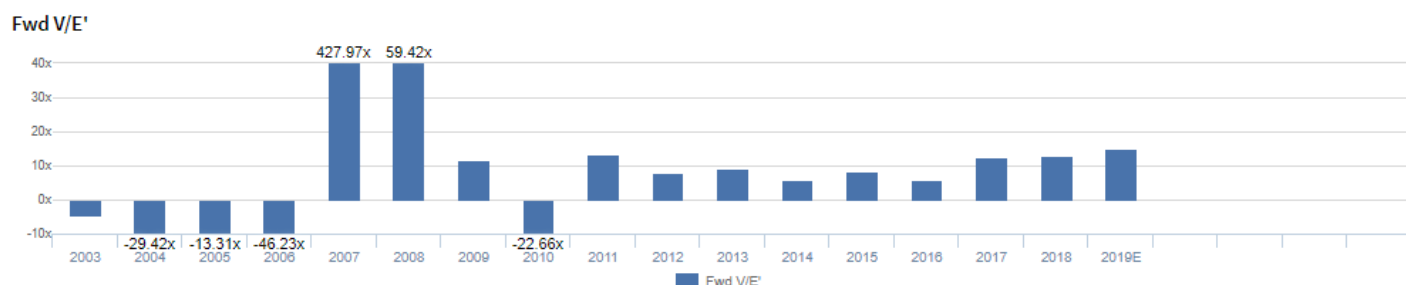
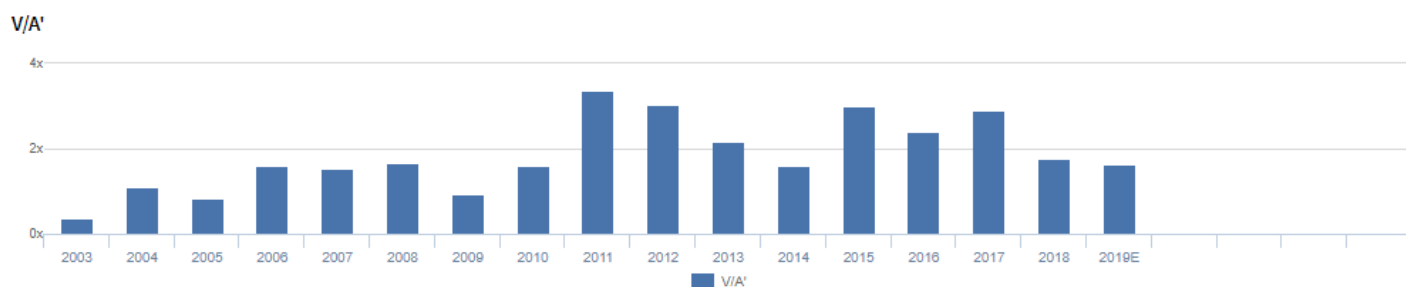
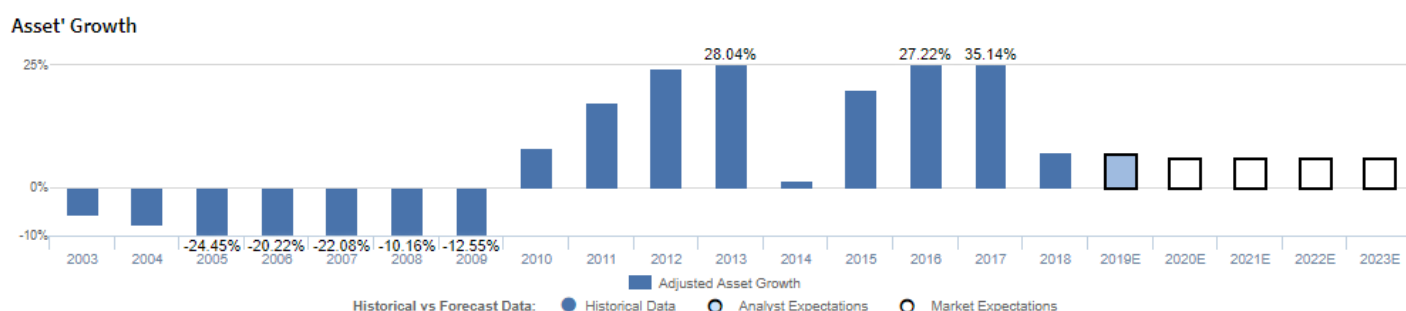
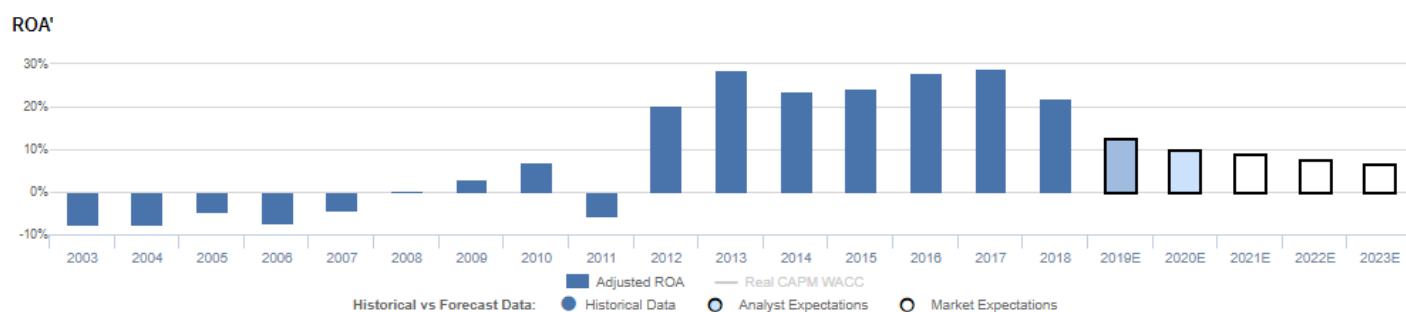
While equity markets are pricing COF much worse than their peers across their businesses, COF management is seeing reasons to think that they will continue to have strong returns, and that fundamentals are shifting, with favorable alignment meaning management will focus on the correct issues to drive operations. Management also appears to be seeing strengthening overall fundamental tailwinds. Based on these factors, markets appear too pessimistic, spelling reasons for equity upside.

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Cirrus Logic, Inc. (CRUS)



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Cirrus Logic Inc. (CRUS)		Value
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	43.99	\$25 - \$115
MCap (\$bn)	2.60	Comments:
ROA' (FY1)	13%	-
V/A'	1.6	
Fwd V/E'	15.0	

Cirrus Logic, Inc. develops analog and mixed-signal integrated circuits for a range of customers who are primarily electronics manufacturers. The company delivers its products for a range of audio, industrial and energy-related applications. Its two product lines include Portable Audio and Non-Portable Audio, and Other.

Valuations & Market Expectations

At current valuations, market expectations for [CRUS](#) remain modest. CRUS successfully improved Uniform ROA (ROA') over the last several years, from what was below cost-of-capital levels to 22%-28% over the last six years. This was primarily due to Uniform Earnings Margin expansion and steady Uniform Asset Turns improvement. The company has been able to generate and maintain these superior returns thanks to their positioning in the premium audio market for Apple and Android products and other end markets, where they have a superior position and pricing power thanks to their competitive advantages.

ROA' is projected to stabilize at around 10% levels going forward. However, at a current Uniform P/E (Fwd V/E') of 15x, market expectations are much more pessimistic. Markets are currently pricing in Uniform Asset Growth to remain at low 2018 levels of 6% over the next several years, but for ROA' to decline from current 22% levels to 7% over the next five years. Considering the company's steady ROA' the last several years and steady growth, the company appears undervalued.

Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that management is correctly aligned to focus on Uniform Earnings Margin improvement, implying that expectations for continued declines are likely too negative. Moreover, with a focus on growth, management may also be able to exceed low growth expectations.

Credit analysis also highlights no credit risks for the business that could limit equity multiples. Finally, after the Wolfson acquisition, management appears to see an increase in fundamental momentum that could warrant an ROA' expansion sooner than what analysts are projecting.

Earnings Call Forensics™

During the Q3 2019 earnings call (1/30), management showed continued confidence in their outlook for the business. Management showed confidence in the potential of their products around closed-loop controllers, voice biometrics, and potential new user groups for their offerings beyond their core smart-phone market, such as around biometric voice. While management may be concerned about margins in the near-term, management confidence about their product positioning and new market investments points to reason for a positive outlook for the business.

Conclusion

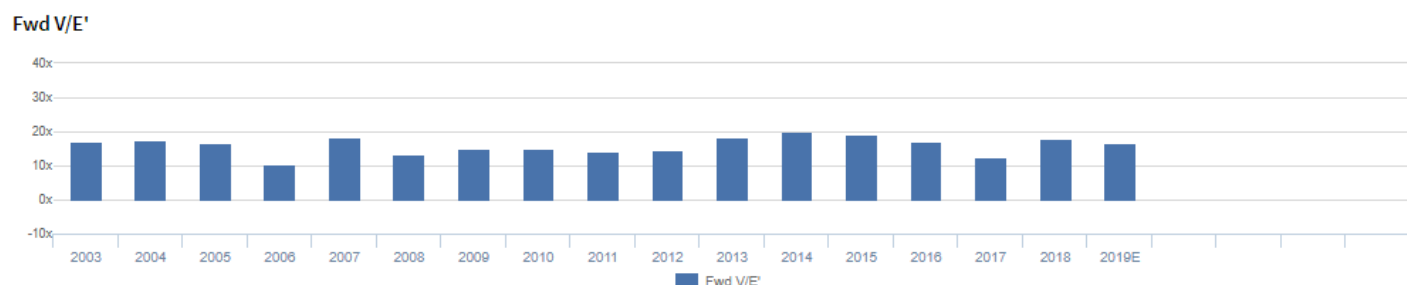
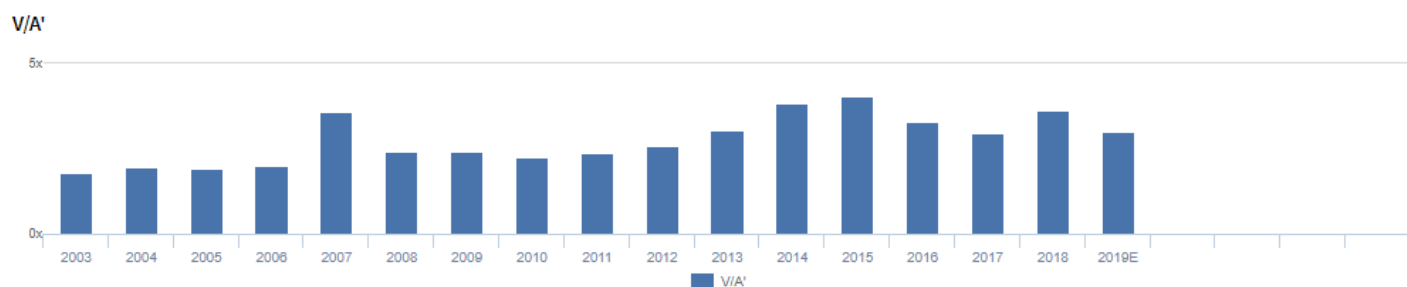
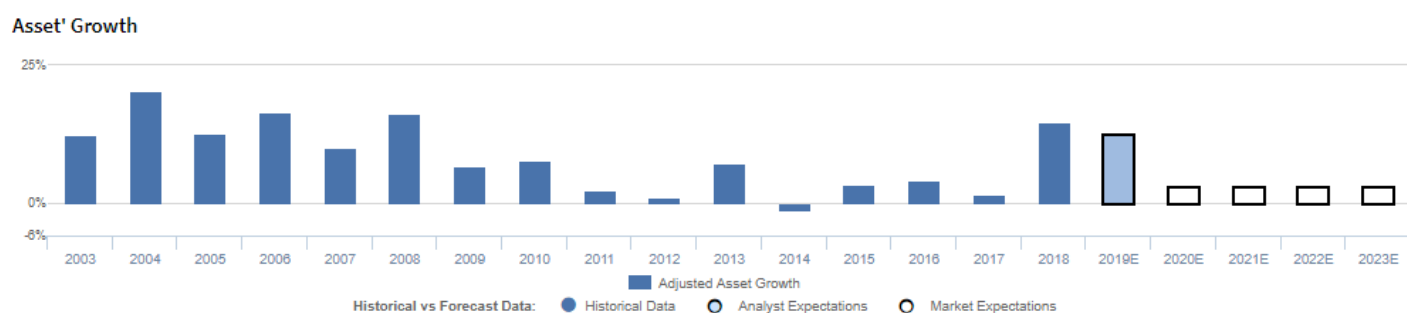
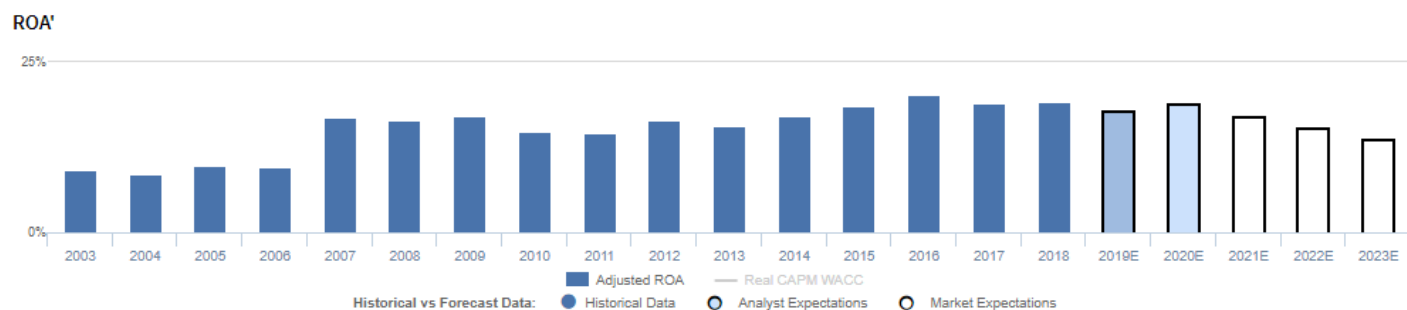
Current market expectations are for a collapse in ROA', and management alignment to improve operations, acquisitions potentially facilitating incremental growth, their longer-term competitive advantages, and their confidence about their positioning in the market signal the potential for significant equity upside going forward.

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CVS Health Corporation (CVS)



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CVS Health Corporation (CVS)		GARP
Sector	Health Care	Intrinsic Price Range:
Price (\$)	53.87	\$45 - \$115
MCap (\$bn)	69.89	Comments:
ROA' (FY1)	18%	-
V/A'	3.0	
Fwd V/E'	16.8	

CVS Health Corporation is the nation's premier health innovation company helping people on their path to better health. They serve an estimated 38 million people through traditional, voluntary and consumer-directed health insurance products and related services, including rapidly expanding Medicare Advantage offerings. The Company believes its innovative health care model increases access to quality care, delivers better health outcomes and lowers overall health care costs.

Valuations & Market Expectations

CVS is trading at a 16.8x Uniform P/E (Fwd V/E') after having fallen to \$50 from \$80 in the aftermath of their closing of their Aetna acquisition. The market is expecting Uniform ROA to fade from last year's 19% levels inclusive of Aetna, to 14% over the next several years, with 3% Uniform Asset growth, at the low end of historical levels.

CVS has a legacy as a strong performing business, especially since their acquisition of Caremark in 2007, which transformed the company from a retail pharmacy business into a retail pharmacy and PBM business with significantly higher ROA'. Since 2010, as the company has successfully integrated those two businesses, ROA' has risen from 15% levels to 19%+. Now with the acquisition of Aetna, which did not significantly impact CVS's ROA', the company can take the next step in their transformation.

Aetna's largest competitor, United Healthcare (UNH) has seen significant ROA' expansion the past 5 years, seeing ROA' expand from 30% to 45%, a 1500bps gain, thanks in part to their investment and focus in growing their big data analytics platform, as part of their Optum subsidiary. By combining data from their claims data, PBM, and other information sources, they can offer value add solutions to produce better patient outcomes, help hospitals and other care providers, and partner with pharma/biotech, med tech, and other healthcare suppliers to realize value. With CVS's combination with Aetna, they have an opportunity to push this similar strategy, leading to significant potential ROA' expansion, even as the market is pricing the company for ROA' compression going forward.

Considering the low market expectations for the combined company, and a potential operational inflection for the business going forward, there appears to be equity upside.

Incentives Dictate Behavior™

Management is favorably aligned at CVS to focus on the drivers that will yield ROA' expansion, not contraction as the market is pricing in. Long-term compensation is based on RONA and EBITDA, meaning management will be driven to improve their margins and turns, to expand ROA', but also will seek to do this while growing going forward. Short-term compensation is based on operating profit and customer service and satisfaction, helping drive higher NPS and likely higher margins. CEO Merlo is also a material owner of CVS equity, further aligning him with investors.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q4 2018 (2/20) earnings call highlighted positive signals from management.

Management showed confidence around script growth in their Retail and Long-Term Care segment, and showed confidence around the impact of their outlook for rebate exposures. They were also confident about how they are already starting to attack ways to save money across segments such as through having Retail and Aetna work together on clinical outreach programs. Management is confident about incremental services they can offer across their businesses, and around their ability to hit synergies targets of \$750mn by 2020.

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Conclusion

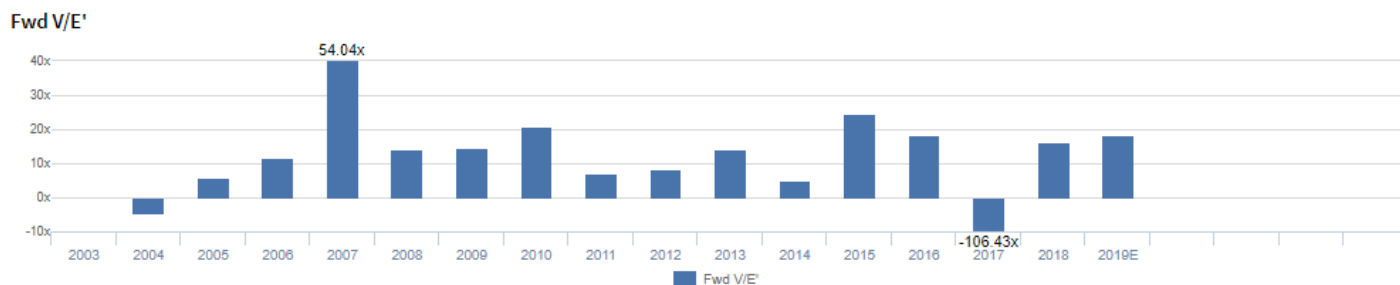
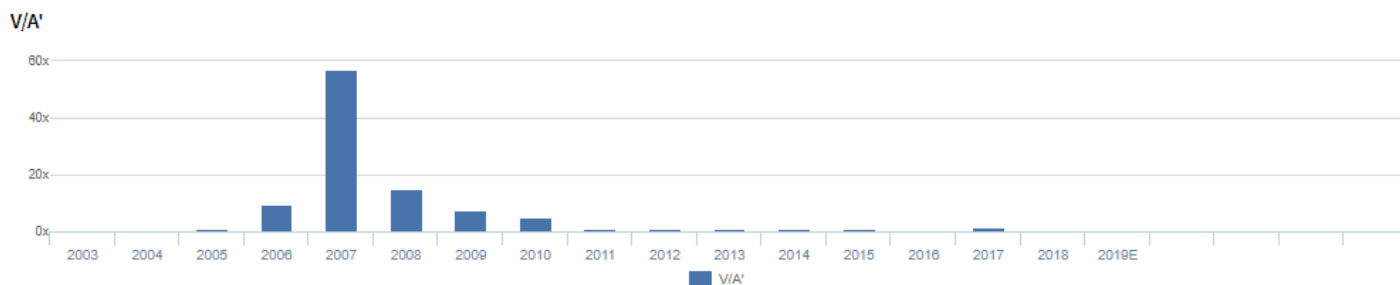
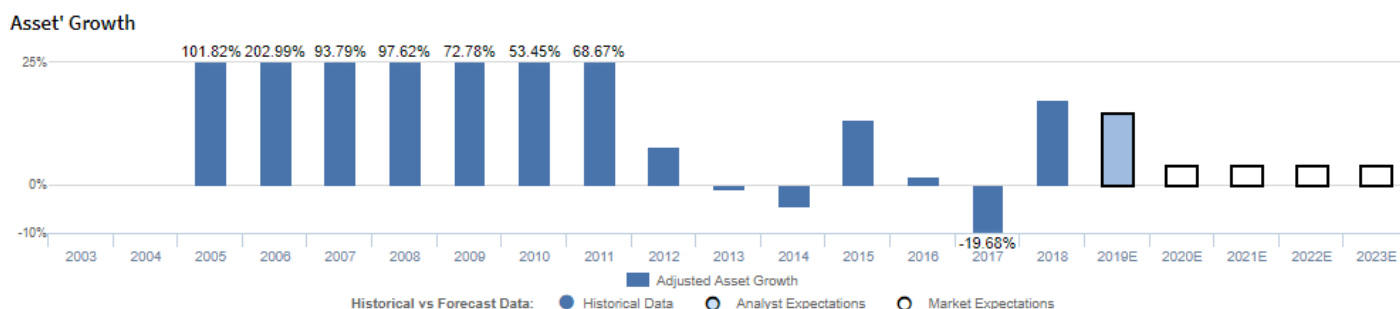
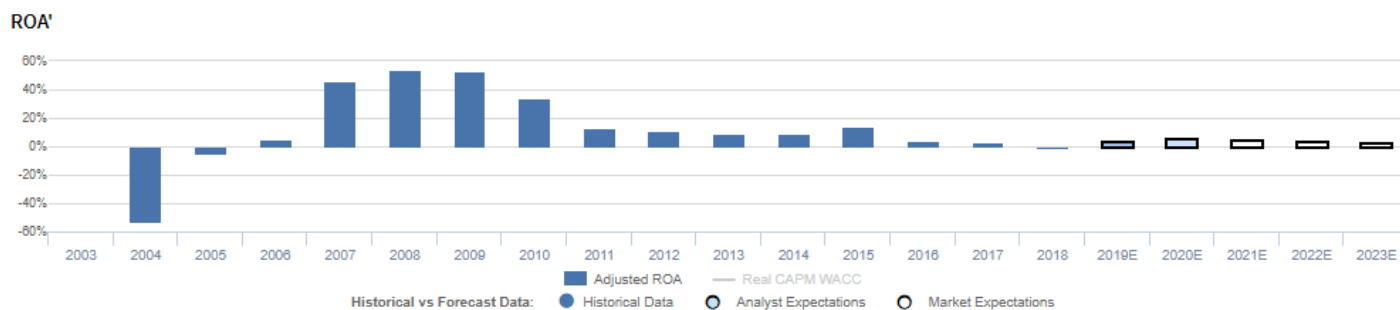
Considering low market expectations, combined with the potential for a positive transformation in CVS's business going forward, favorable management alignment, and growing management optimism about their outlook for the business, there appears to be significant equity upside for CVS going forward.

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First Solar, Inc. (FSLR)



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First Solar, Inc. (FSLR)		Deep Value
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	60.77	\$50 - \$120
MCap (\$bn)	6.40	Comments:
ROA' (FY1)	4%	-
V/A'	0.7	
Fwd V/E'	18.2	

First Solar, Inc. is a global provider of solar energy solutions that designs, manufactures and sells photovoltaic (PV) solar modules with thin-film semiconductor technology. It also develops, designs, constructs, and sells PV solar power solutions. The company also manufactures crystalline silicon solar modules with high-power density, mono-crystalline technology, and provides single-axis mounting systems with tracking capabilities.

Valuations & Market Expectations

FSLR is trading at the trough of historical valuations, at a very inexpensive 0.7x Uniform P/B (V/A'). Markets are expecting Uniform ROA (ROA'), which has actually been relatively resilient versus peers, and was at 8%+ as recently as 2015, to remain at well below corporate average, and FSLR's historical levels going forward.

The markets appear to be pricing the company to only see Uniform ROA rebound back to 3% levels, with modest 3%-4% Uniform Asset Growth going forward. The company has only had ROA' below 3% one year in the past 12, in 2018. At current valuations, the market is pricing FSLR below all of their pure-play solar peers relative to assets, even though FSLR has shown itself to be the best of all the operators in terms of maintaining their profitability through challenging cycles.

The solar industry has seen substantial compression in profitability, as can be seen with FSLR's drop in Uniform ROA from 40%+ levels in 2008-2009 to 8% levels in 2013-2015. Additionally, as the market grew saturated, growth opportunities have slowed down dramatically too, falling from consistent 50%+ levels before 2012 to near 0% levels the last several years.

However, as stated above, even as the market has grown more challenging, with many peers falling to dramatically negative Uniform ROA or even having credit issues, FSLR has done an excellent job maintaining positive Uniform ROA, with Uniform Earnings Margin never turning negative until 2018, and Uniform Asset Turns not falling as materially as others did, until 2018. FSLR's infrastructure-focused business has offered more stability than peers have. Even in 2017-2018, the reason for the steep decline in returns was management's decision to "skip" a cycle of R&D development, leaping directly to their Series 6 from the Series 4 offering, and the related investments, as management has intelligently looked forward in the market.

Considering the company's consistently superior execution relative to peers, they deserve higher valuations than peers, not lower valuations, and certainly with their historical Uniform ROA better than peer's and corporate-average levels, a Uniform P/B above 1x.

Also, even as peers have struggled with debt, FSLR has one of the least levered balance sheets of any of their peers, dramatically reducing the risk to their business. That said, even if they do have a few periods of challenging operations, they likely will not have problems managing through them, as peers would, since they have a more flexible capital structure compared to their peers and significant cash availability. At a sub 1x Uniform P/B, the market however is pricing FSLR as though they do have some credit risk. As markets begin to understand the difference in quality between FSLR and peers, and risk, the company is likely to see valuation upside.

Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that management compensation at FSLR is focused on maintaining profitability and asset efficiency, further confirming they are likely to not see Uniform ROA fall off a cliff as markets expect. Specifically, FSLR's short-term compensation framework focuses on operating income, operating cash flow, cost per watt, efficiency, and revenue and bookings metrics.

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Long-term compensation is based on ROIC and gigawatts installed in sustainable markets. This compensation framework clearly focuses management on seeking to generate growth, but only in ways that also generate sustainable strong profitability.

Earnings Call Forensics™

Earnings Call Forensics™ analysis of the Q4 2018 earnings call (2/21) highlights growing confidence from management about their progress with the Series 6. Management showed confidence in Series 6 manufacturing ramp-up, and their progress with their second Series 6 plant construction. They also showed confidence in trends in net sales growth and large order volume continuing in a favorable direction. Management were confident about cost controls improving margins also, as they showed confidence in SG&A and R&D expense reductions as they manage ramp up and start-up costs.

Management may have some concerns about near-term fleet underutilization, and about bringing glass production in house. However, considering management's growing bullish about their outlook on their execution on Series 6, related demand, and controlling expenses, current market expectations appear too pessimistic.

Conclusion

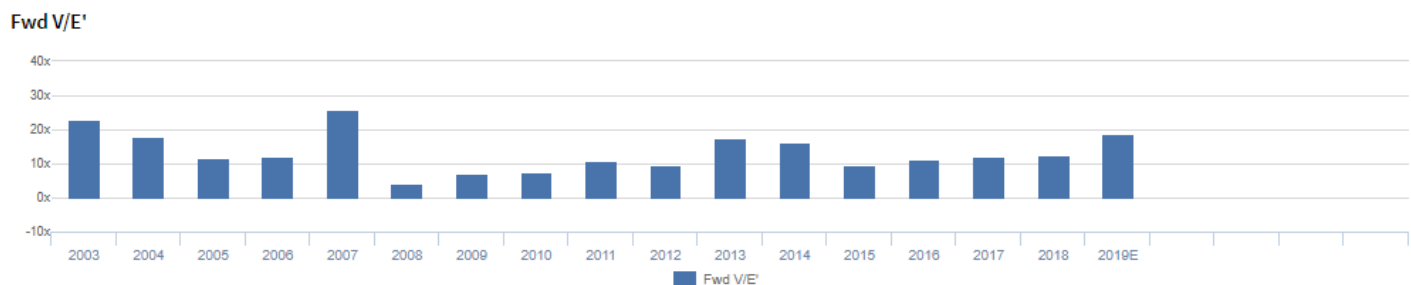
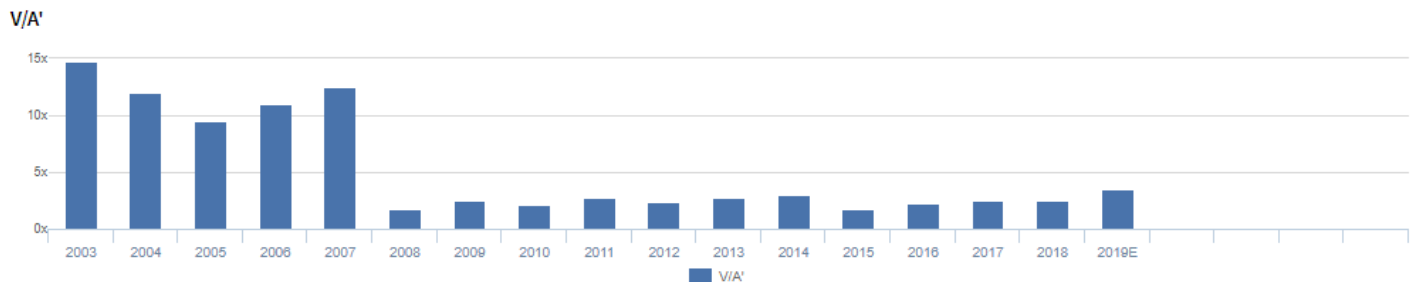
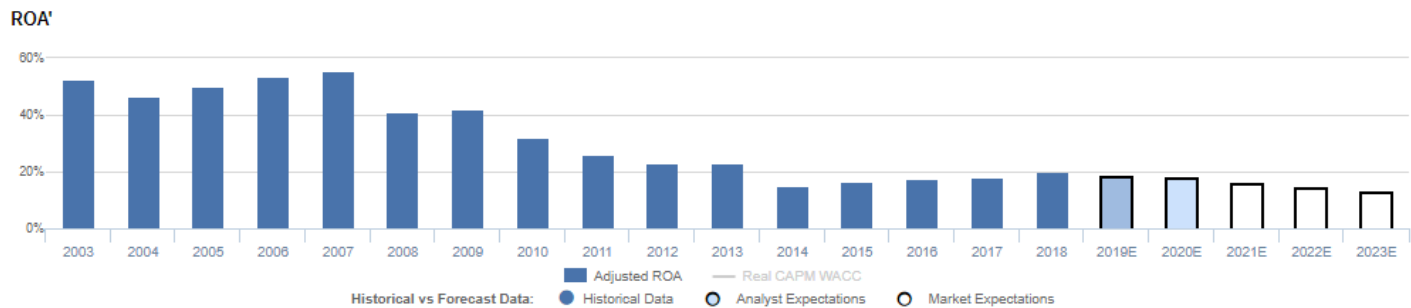
Current irrationally low valuations, management's strong execution and alignment, and their confidence in improving fundamental momentum spell potential for substantial equity upside for FSLR.

Valens Conviction Long List

12 April 2019



Garmin Ltd. (GRMN)



Valens Conviction Long List

12 April 2019



Garmin Ltd. (GRMN)		GARP
Sector	Cons Disc	Intrinsic Price Range:
Price (\$)	88.80	\$75 - \$130
MCap (\$bn)	16.82	Comments:
ROA' (FY1)	18%	-
V/A'	3.4	
Fwd V/E'	18.7	

Garmin Ltd. and subsidiaries offer global positioning system (GPS) navigation and wireless devices and applications. The Company operates through five segments. It offers a range of auto navigation products, as well as a range of products and applications designed for the mobile GPS market.

Valuations & Market Expectations

GRMN is currently trading at a 18.7x Uniform P/E (Fwd V/E'). At these levels, the market is pricing in expectations for Uniform ROA to decline from 20% in 2018 to 13% by 2023 accompanied by 8% Uniform Asset growth. These expectations imply that the market believes the firm's competitive advantage has completely dissolved, and the firm will see profitability fade towards historical corporate averages.

However, analyst forecasts show that the market may be too pessimistic, as sell-side consensus estimates reflect expectations for ROA' to maintain at current levels going forward, not decline. Analysts recognize that the company has done an excellent job over the past several years of transitioning from their legacy GPS market, which has been disrupted by Google Maps and other offerings, into niche offerings, like active lifestyle products, aviation, marine, and other outdoor products. As the company has executed this transition, they have seen improvement in ROA', while also seeing steady growth for the underlying business.

Current market expectations, for them to be removed or competed away from these niches where the company still has growth opportunities, appears overly pessimistic.

Incentives Dictate Behavior™

GRMN's management compensation framework is focused on revenue growth, operating income growth, and operating margin. This is important as it points to why market expectations for a material negative inflection in returns and growth is unlikely. Management is specifically motivated to continue to find growth opportunities. On top of this, the inflection in ROA' from 2014 to 2017 has specifically been on the back of margin recovery. To expect this to reverse also appears to be too pessimistic and inconsistent with management's strategic focus.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q4 2018 earnings call (2/20) highlight positive markers. Management had confidence in their new offerings coming, in particular in 2020, and the strength of their customer relationships. They were also confident about their overall growth rate, including the strength of their double-digit growth in four of their five segments for FY2018. These markers were similar to markers they had during the Q2 and Q3 calls around their strong performance, and their new offerings.

While management may not be confident about fitness, and may have some concerns about competition in that area in particular, their confidence about growth, new products and partnerships, and strong customer relationships creating sticky revenue, point to bullish fundamentals the market is not recognizing.

Conclusion

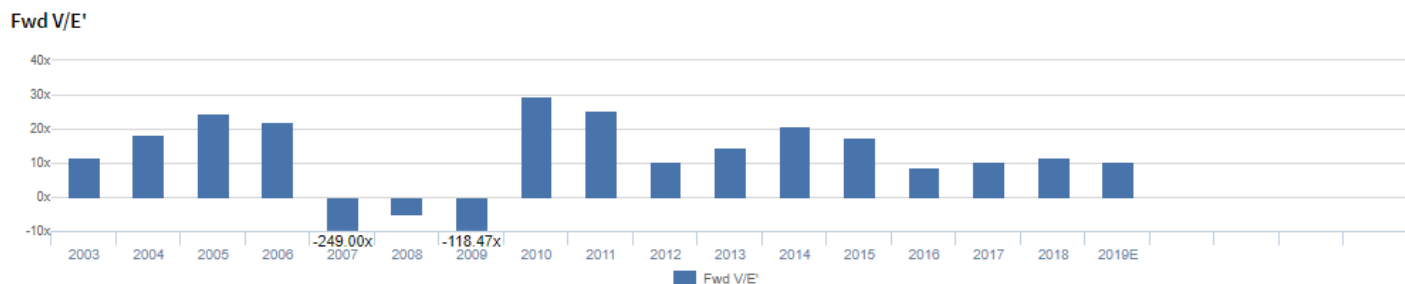
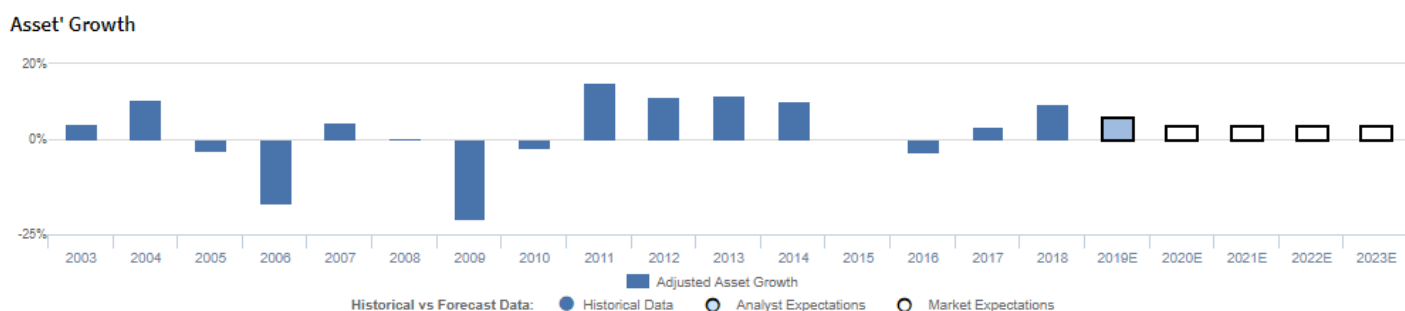
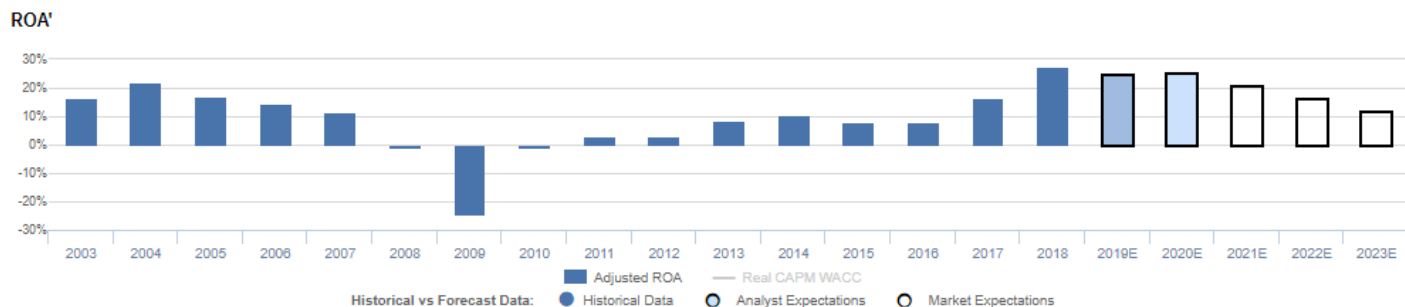
Considering low market expectations, management's success in driving operational growth, their strong alignment, management's long-term strategy to defend their profitability, and management's growing confidence about their outlook, there appears to be substantial opportunity for equity upside going forward.

Valens Conviction Long List

12 April 2019



Winnebago Industries, Inc. (WGO)



Valens Conviction Long List

12 April 2019



Winnebago Industries, Inc. (WGO)			Value
Sector	Cons Disc	Intrinsic Price Range:	
Price (\$)	34.03	\$25 - \$100	
MCap (\$bn)	1.08	Comments:	
ROA' (FY1)	25%	-	
V/A'	2.7		
Fwd V/E'	10.2		

Winnebago Industries, Inc. manufactures recreation vehicles primarily used in leisure travel and outdoor recreation activities. It sells its products through independent dealers, primarily throughout the United States and Canada. Other products manufactured by the company consists primarily of original equipment manufacturing parts for other manufacturers, commercial vehicles, and commercial transit buses.

Valuations & Market Expectations

WGO is trading at a 10.2x Uniform P/E (Fwd V/E'), at the low end of historical valuations. The market is expecting 4% Uniform Asset (Asset') growth going forward, toward the lower end of historical Uniform Asset growth levels. The market also expects Uniform ROA to be at 12% levels over the next several years, even though analysts expect ROA' to sustain at current 25%+ levels in the next several years.

Before the Great Recession, WGO was consistently a double-digit ROA' business. WGO regularly generated a 13%+ ROA' with steady Uniform Asset growth, underlying the strong fundamentals of the business in a normal cycle. This is also highlighted by how well the company has rebounded since the Great Recession.

WGO also has several key factors that position it well in the current environment. The firm has age-wave tailwinds, with many baby boomers entering retirement, growing their potential addressable market. Historically, the largest buyer of Winnebago's products has been retirees in the U.S. As this market grows, demand for Winnebago's offerings are only likely to grow, indicating that Winnebago is likely to see rising sales even if they do not take market share.

Also, WGO recently has strategically used their limited leverage to make a smart strategic acquisition, acquiring Grand Design RV to help grow their footprint. This should help the company continue to drive growth, and their ability to improve this business as they have improved their own should create further value. Specifically, this acquisition has led to a significant transformation of the profitability of the business, more towards THO and other peers, that have historically had much stronger returns than WGO. This can partially be attributable to growth in WGO moving into a more diversified offering in the space, with the acquisition powering a significant expansion into the Towables market.

Incentives Dictate Behavior™

Management is actively incentivized to focus on improving ROA', with short-term compensation focused on ROA and net income, while long-term compensation is focused on ROE. The short-term ROA and net income compensation metrics are likely to drive management to focus on improving both parts of the DuPont formula, margins, and asset utilization. This should drive ROA' higher over time, contrary to market expectations. Also, the focus on an ROE metric means that management will not necessarily shy away from using leverage to grow the business, if it makes sense to, which is a positive for the company's ability to find growth capital.

Members of management are also material owners of the company. Several members of the management team own an excess of 1.1x their average compensation, favorably aligning them with investors. That said, management would be well compensated in a change in control. This creates an increase in likelihood of management to sell the company, a further possible catalyst for equity holders.

Earnings Call Forensics™

Also, during the Q2 2019 earnings call (3/25), management continued to show positive signals seen since Q3 2018. Management showed confidence around the strength of their 2019 start and its sustainability.

Valens Conviction Long List

12 April 2019



Management also appear to be confident about their revenue mix tailwinds helping offset cost pressures in the business, and about their ability to support more timely RV order deliveries now, reducing working capital needs. Management was also confident in their ability to expand their Class B product segment, and the significant market share opportunity they have with only 10% of the market in their hands in North America.

This is in line with management's confidence in the Q3 2018 to Q1 2019 calls about their outlook. While management may be exaggerating near-term market share gains, and how strong the spring sales season will be for them, their confidence in the strong fundamental momentum of the company signals that fundamentals continue to be robust, even as the market is acting as though the sky is falling.

Conclusion

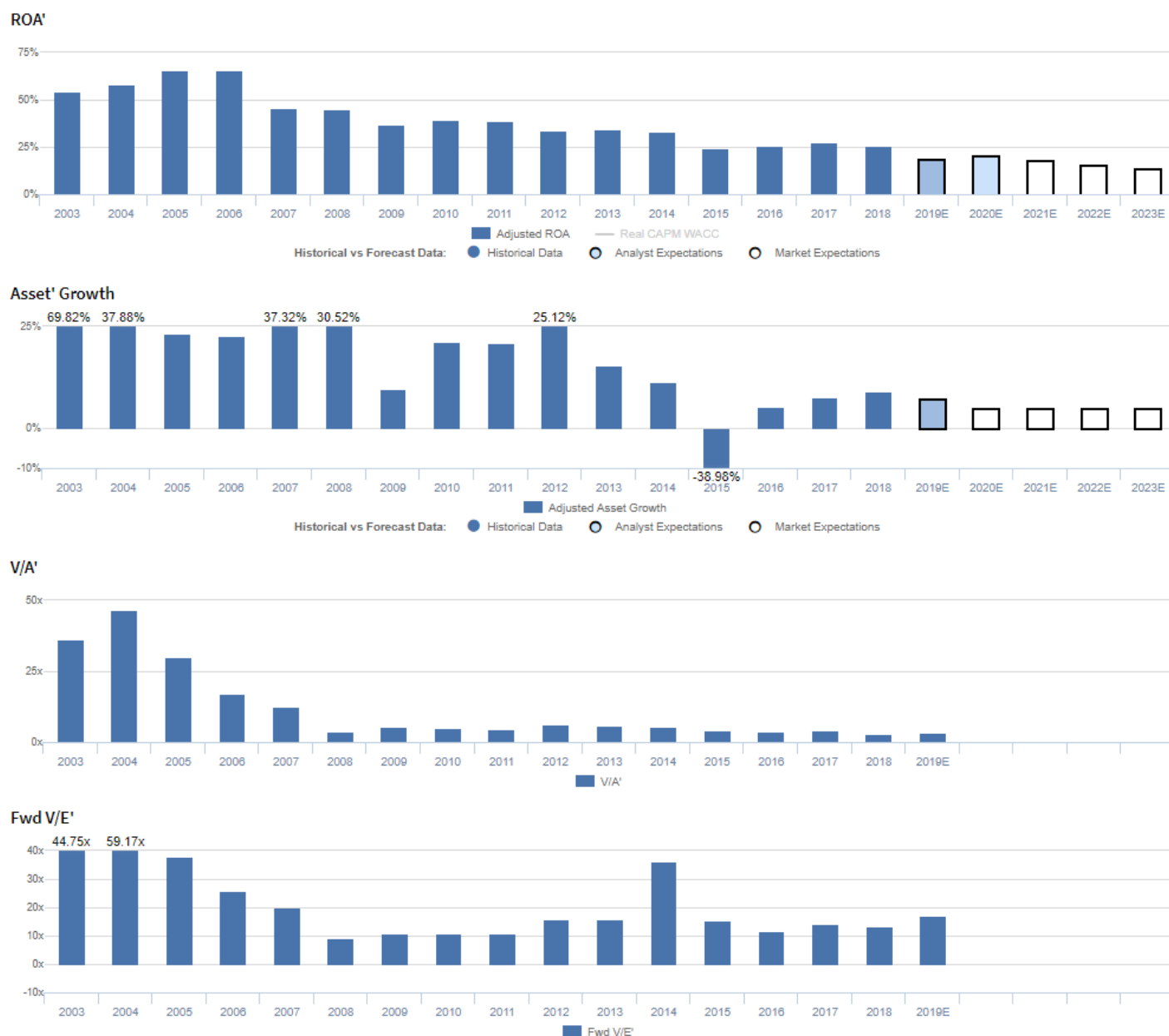
WGO's strong long-term macro tailwinds, which the market undervalues, strong management alignment, and growing confidence about business tailwinds and growth justify equity upside.

Valens Conviction Long List

12 April 2019



eBay Inc. (EBAY)



Valens Conviction Long List

12 April 2019



eBay Inc. (EBAY)		Value
Sector	Cons Disc	Intrinsic Price Range:
Price (\$)	37.72	\$20 - \$90
MCap (\$bn)	33.00	Comments:
ROA' (FY1)	17%	-
V/A'	1.9	
Fwd V/E'	12.2	

eBay Inc. operates commerce platforms that connect various buyers and sellers worldwide. Its platforms enable sellers to organize and offer their inventory for sale; and buyers to find and purchase it virtually. The company's platforms enable users to find, buy, sell, and pay for items through various online, mobile, and offline channels.

Valuations & Market Expectations

At current 17x Uniform P/E (Fwd V/E'), and low 3.2x Uniform P/B (V/A') for [EBAY](#), the market is pricing in a significant collapse in profitability for the business. The market is expecting the company to see ROA' fade from 26% in 2018 to 14% levels in 2023, with 5% Asset' growth, well below historical levels.

Since spinning off PayPal in 2015, EBAY has seen remarkably steady profitability, and has been able to reaccelerate their investment in growth. Before 2015, with PayPal's payment business included, EBAY had a robust ROA' that was regularly above 30%, though it had been steadily declining due to competitive pressures across their businesses. However, since the spinoff, ROA' has been consistently around 25% each year. This has been driven by the robust profitability and steady growth of EBAY's core markets, particularly the Marketplace segment they are best known for, and StubHub, which also makes up over 10% of their business. These are markets that EBAY effectively owns, and from which they have a healthy take rate from transactions. The strength of the network effects in both of their markets has driven their economic moats, as customers understand that the greatest selection for either market will be on an EBAY platform.

The strong economic moat for the business helps explain the company's stable ROA' the last several years. Also, while it initially appears analysts are forecasting ROA' to decline to 19% going forward, in reality, expectations are for ROA' to remain level, highlighting analysts also believe in the stability and strength of EBAY's business.

Incentives Dictate Behavior™

Management's compensation framework should focus management on improving margins and sustaining growth in particular, with some focus on all three value drivers. Management's long-term compensation framework, focused on ROIC, operating profit, and revenue, which will focus management on maintaining their profitability while driving growth, as they have done in the past three years. Short-term compensation is focused on revenue and net income, also focusing management on improving margin and driving growth.

Earnings Call Forensics™

Earnings Call Forensics™ of Q2 (7/18) through Q4 2018 earnings calls (1/22) highlights positive signals from management. Management has confidence in their ability to deliver strong earnings growth, through operating margin expansion, and confidence in their marketing strategies. They also have confidence in marketplace platform growth, their promoted listing expansion strategy and their strength internationally, particularly in Germany, Australia, and India. Management is also confident in improving their buyer and seller experiences through streamlining their product experience.

Management may have some concerns about competitive pressures and their ability to add incremental value across their offerings. However, management's confidence about executing on their strategies and driving earnings growth based on the metrics they are compensated on points to reasons for optimism for the company.

Valens Conviction Long List

12 April 2019



Conclusion

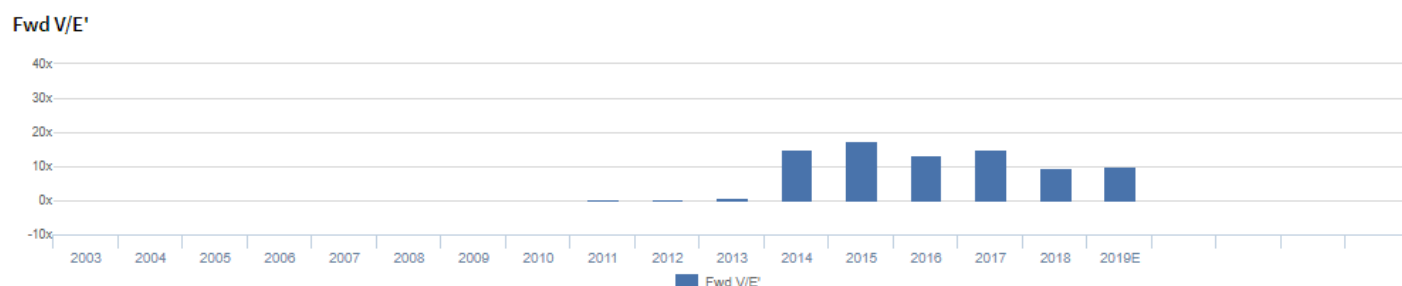
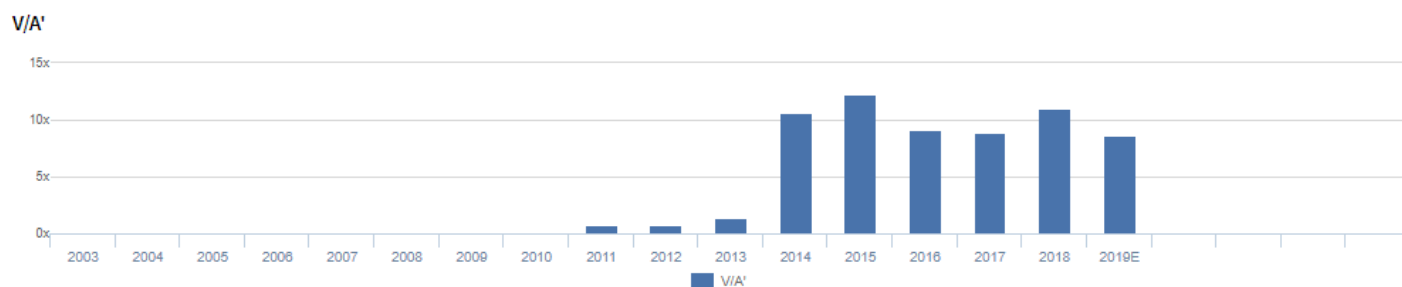
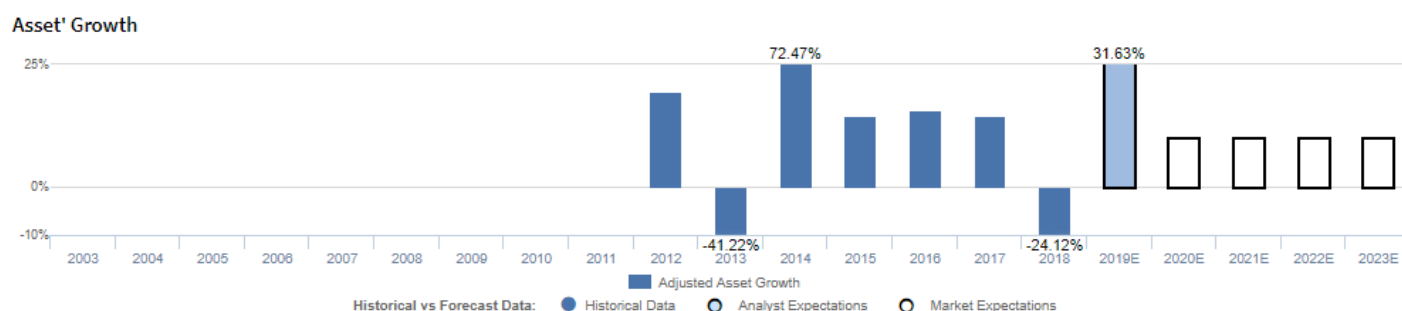
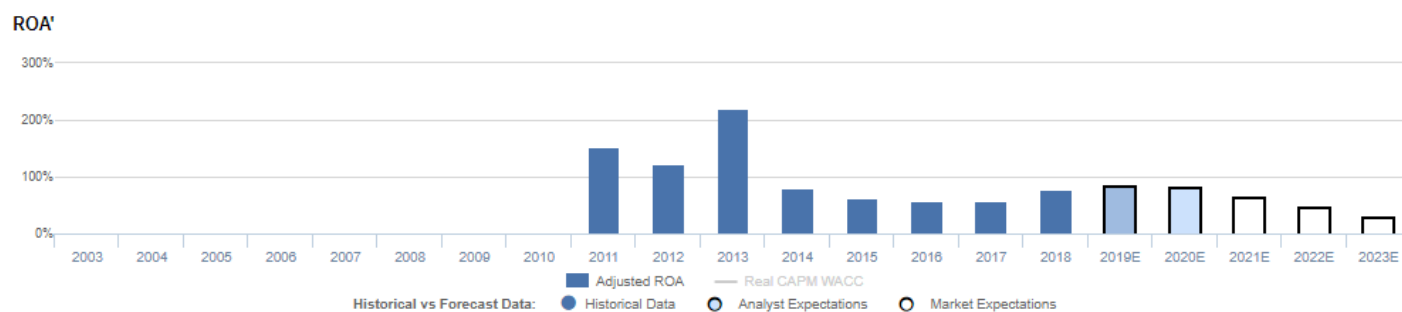
Considering EBAY's strong economic moats, management's execution since the PayPal spin-off that the market is not recognizing, favorable management alignment, and accelerating fundamental momentum for the business, there appears to be significant reason for equity upside for EBAY going forward.

Valens Conviction Long List

12 April 2019



Premier, Inc. (PINC)



Valens Conviction Long List

12 April 2019



Premier, Inc. (PINC)		Value
Sector	Health Care	Intrinsic Price Range:
Price (\$)	33.57	\$25 - \$150
MCap (\$bn)	2.14	Comments:
ROA' (FY1)	85%	-
V/A'	8.7	
Fwd V/E'	10.1	

Premier, Inc. is a healthcare improvement company. They collaborate with members to co-develop innovations that would improve the way care is delivered to patients. Together with its subsidiaries and affiliates, they are a leading healthcare improvement company, uniting an alliance of approximately 3,900 U.S. hospitals and health systems and approximately 150,000 other providers and organizations to transform healthcare.

Valuations & Market Expectations

PINC currently trades at the low end of valuations since the IPO, at a 10.1x Uniform P/E (Fwd V/E'). At these low valuations, the market is pricing in Asset' growth for the company to continue at the low end of historical levels at 10%, with ROA' falling from 78% last year to 31% over the next several years, seeing returns cut by more than half. On the other hand, sell-side analysts, recognizing the building positive fundamentals for the business, are forecasting ROA' to improve, rising to 85%, thanks to acceleration in the company's various businesses.

The company has consistently been producing ROA' above 50% level the past seven years, with steady 10%+ Asset' growth for most of that period too. The company's strong base return business comes from their legacy GPO (group purchasing organization) business, where they serve as an aggregator of purchasing power for hospitals and other health providers for durable medical equipment, pharmaceuticals, disposable supplies and other equipment, combined with the company's innovative, Oracle-like strategy, of expanding to fill other niches of needs for their customers.

The company has pursued a strategy similar to what Oracle did in the software market in the 2000s, by starting with the "utility" (database) part of the software market, and then acquiring higher value add businesses (ERP, dashboarding, etc) and selling that into current customers. They have expanded from the GPO business into clinical informatics and pharmacy informatics, to support their customers in optimizing their processes, to lead to higher value add sales and increased wallet share. They have also expanded to support value-based care initiatives, innovating in technology in this area to further gain share in a growing area of the health care market. This helps defend their core business while also driving growth, through their expanded offerings, both from strategic acquisitions and organic growth.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q2 2019 earnings call (2/5) highlights a continuation of bullish trends seen in Q3 2018 - Q1 2019 calls. Management showed confidence in their strategy around bundled payments, their trend in growth across their segments, and in particular their revenue growth trends in their Supply Chain Services segment. Management also showed confidence in their recent acquisition of Stanson, how strong the performance of Stanson's EHR notifications solution was, how Stanson fits into their efforts to differentiate themselves, and the people they have brought onboard to help to continue to drive their strategic initiatives. These markers were in line with confidence in Stanson, their revenue growth, and their overall outlook in prior calls.

Management may have some concerns about the impact of CMS proposals around Medicare Advantage to their business, around chronic drug shortages, and around hospital utilization trends impacting their business. However, management's continued confidence about revenue growth and initiatives to diversify their revenue sources and strengthen their relationships with clients point to continued strong fundamental tailwinds for the company.

Valens Conviction Long List

12 April 2019



Conclusion

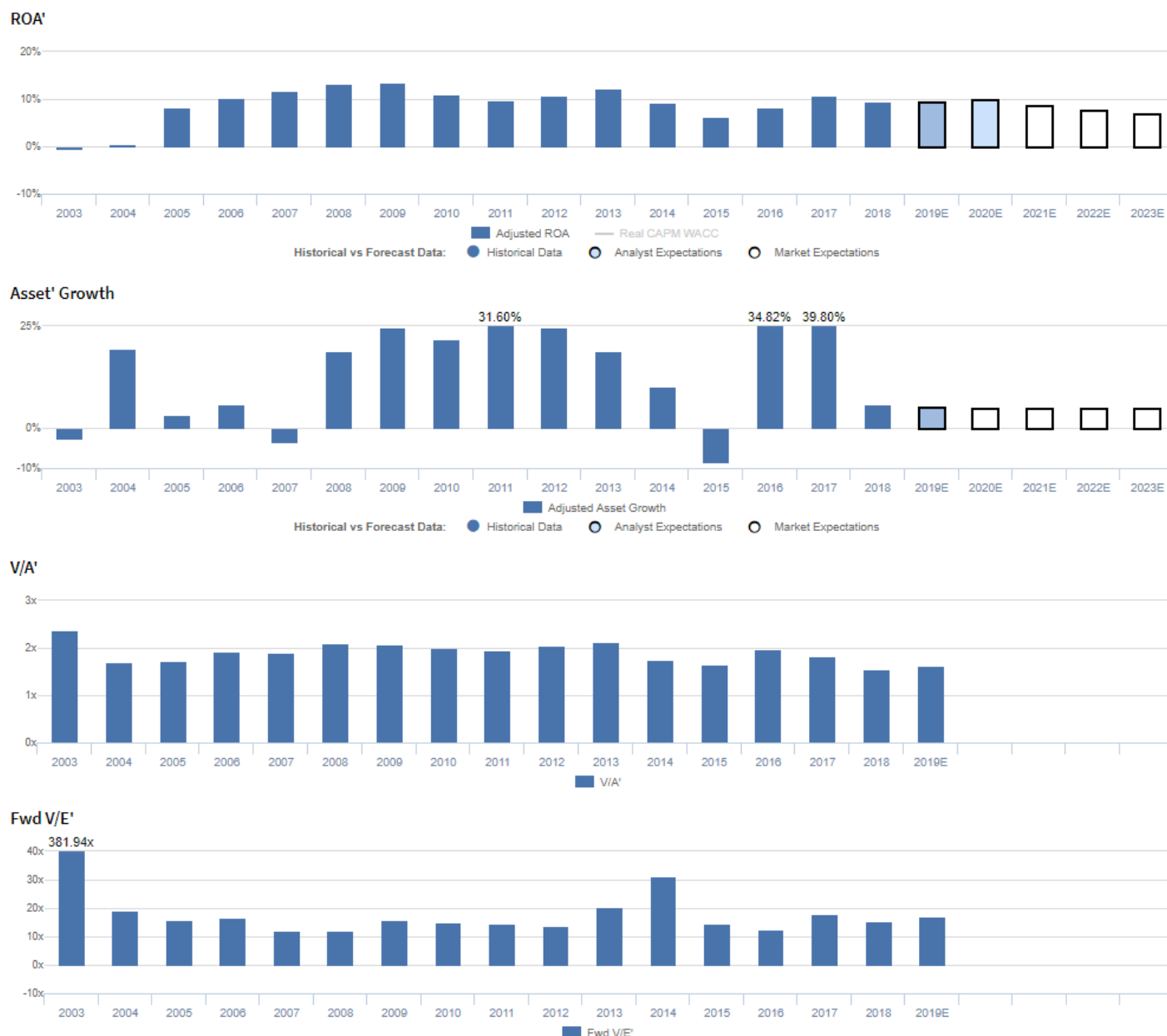
The market's exaggerated concerns about PINC's legacy business, combined with management's smart strategic expansion strategy into areas with secular growth trend, strong overall positioning for the company, and growing management confidence about their outlook for the business all point to significant potential equity upside.

Valens Conviction Long List

12 April 2019



MasTec, Inc. (MTZ)



Valens Conviction Long List

12 April 2019



MasTec, Inc. (MTZ)		Value
Sector	Industrials	Intrinsic Price Range:
Price (\$)	50.44	\$35 - \$100
MCap (\$bn)	3.78	Comments:
ROA' (FY1)	9%	-
V/A'	1.6	
Fwd V/E'	17.2	

MasTec, Inc., an infrastructure construction company, provides engineering, building, installation, maintenance, and upgrade services for communications, energy, utility, and other infrastructure primarily in the United States and Canada. It operates through five segments: Communications, Oil and Gas, Electrical Transmission, Power Generation and Industrial, and Other.

Valuations & Market Expectations

[MTZ](#) is trading at a 17.2x Uniform P/E (Fwd V/E'), in line with recent valuations. At current valuations, the market is expecting ROA' to fade from 10% in 2018 to 7% levels, with Asset' growth at the lower end of historical averages, at 5% going forward.

Part of current market pessimism, with Uniform P/B (V/A') at the low end of levels for the past 15+ years, may be concerned about potential slower economic growth going forward pressuring demand for MTZ, as a construction & engineering firm. In particular, markets may be concerned about their exposure to the oil end market, with it making up 47% of their business.

However, MTZ has several special tailwinds in their end markets that are likely to help benefit them and preserve their ROA' around 10%, as analysts forecast, instead of seeing it fade as markets appear concerned may happen.

In their Communications end market (37% of revenue), they are benefiting from tailwinds around 5G implementation and through AT&T (one of their main customers in this space) investment in other unique services, which give them a long-term tailwind and visibility in this market.

Also, in the Energy market (47% of their revenue) they are the largest US pipeline contractor, and with the US continuing to invest in both natural gas and oil pipelines to help get expanding production where it needs to go, there are likely continued tailwinds in this end market, as opposed to risks for a reversal in profitability.

Considering the tailwinds they have in their end markets, and market pessimism about the outlook for the company, there appears to be significant upside potential for the name.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q4 2018 earnings call (3/1) highlights positive signals from management for many of the factors that are likely to warrant sustained strong ROA'. Management was confident about the potential of 5G, their long-term oil & gas market outlook, and their capital structure giving them room to invest and grow. They were also confident about growth opportunities in their Communications segment, and in their ability to sustain Power Generation and Industrial segment revenue growth.

Management may be concerned about their ability to sustain the recent rate of EBITDA growth and margin expansion, and about continued acceleration in Communications backlog. However, these concerns are about driving incremental improvements for the business, as opposed to seeing fundamentals shift, and with overall confidence, markets appear overly pessimistic about their outlook for the company.

Conclusion

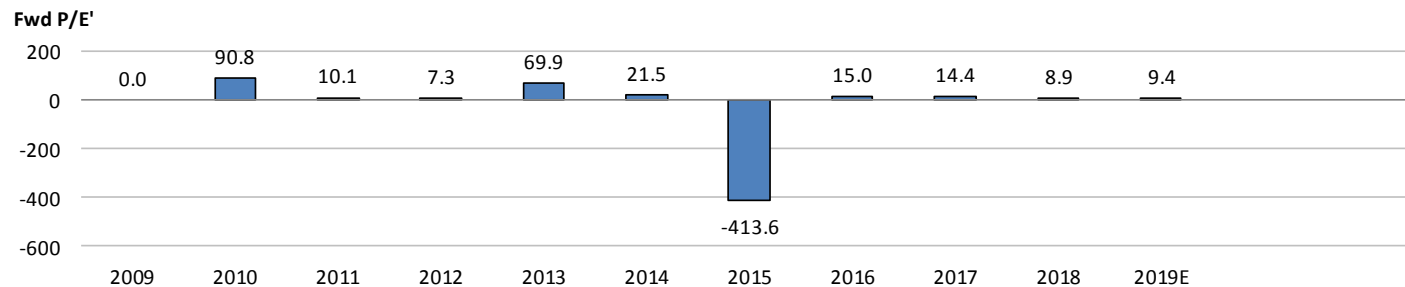
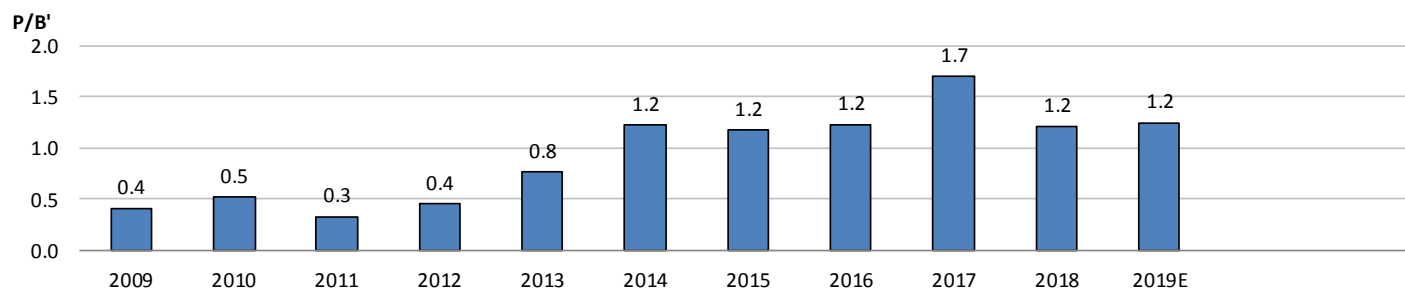
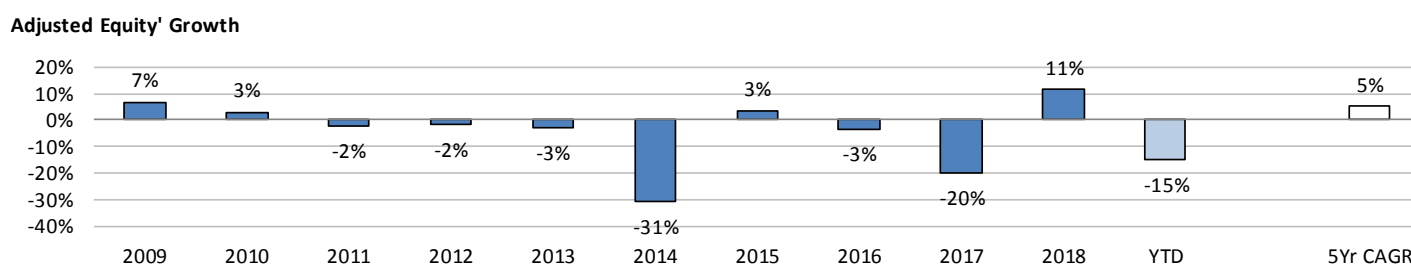
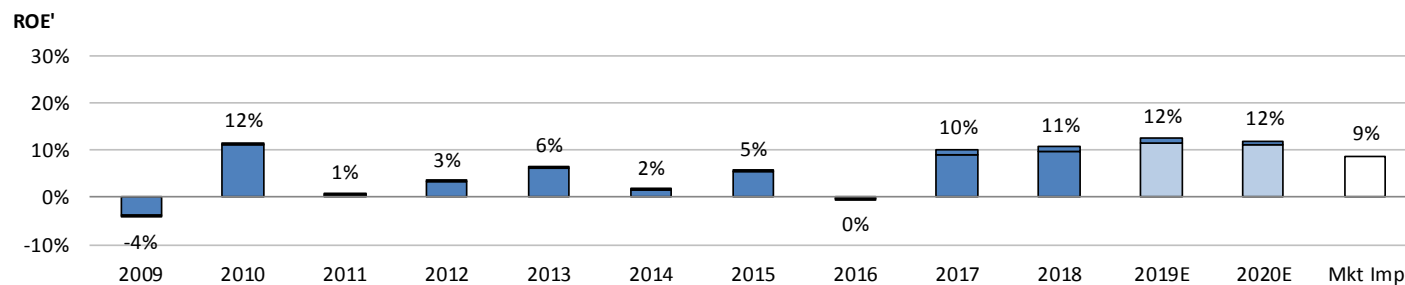
MTZ's strong end market tailwinds, favorable operational positioning and strong execution, and growing management confidence about their outlook in the business point to reasons for optimism and equity upside going forward.

Valens Conviction Long List

12 April 2019



The Hartford Financial Services Group, Inc. (HIG)



Valens Conviction Long List

12 April 2019



The Hartford Financial Services Group, Inc. (HIG) Value		
Sector	Financials	Intrinsic Price Range:
Price (\$)	49.98	\$40- \$85
MCap (\$bn)	18.03	Comments:
ROA' (FY1)	12%	-
V/A'	1.3	
V/E'	9.6	

The Hartford Financial Services Group, Inc., through its subsidiaries, provides insurance and financial services to individual and business customers in the United States. It operates through five segments: Commercial Lines, Personal Lines, Property & Casualty Other Operations, Group Benefits, and Mutual Funds.

Valuations & Market Expectations

HIG appears to be trading in line with recent historical valuations, at a 1.2x Uniform P/B (V/A'). However, it is actually trading at the lower end of historical valuations outside of the financial crisis. The company is also trading at an inexpensive 9.6x Uniform P/E (Fwd V/E'), which is at the lower end of valuations for the past 10 years, and the lower end of valuations before the financial crisis too, which ranged from 8x to 16x+ levels.

The company has seen incredibly weak profitability the past 10 years, with ROE' ranging from -17% in 2008 to 10%-11% in 2017/2018, and only just improving from weak 8% or below levels as recently as 2017. However, before the financial crisis, and the impact that low interest rates had on the profitability of insurance companies, HIG consistently had a 15%+ ROE'. With interest rates returning to more normal levels, HIG has started to see the fundamentals accelerate for the business, pointing to reasons to be able to expect them to sustain ROE' more in line with historical 15%+ levels, while the market is still only pricing ROE' to stabilize at 9% in a more normal rate environment, highlighting the market's pessimism.

While the market is pessimistic about the economic outlook, investment returns, and their workers compensation business, holding down valuations, fundamentals are in the midst of accelerating, pointing to reasons for optimism.

Incentives Dictate Behavior™

HIG's management compensation is aligned to focus on expanding profitability. Short-term compensation is based on core earnings, while long-term compensation is based on core ROE. Both of these compensation metrics will focus on management executing on expanding their ROE', pointing to reasons to expect them to manage the business more towards historical norms for profitability.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q4 2018 (2/5) earnings call highlights some confidence from management. They are confident in reinvestment rate strength going forward, and about managing cat losses and their integration of the Aetna book of business. However, management showed less confidence in several potential areas for the business. Specifically management did not show confidence they had in Q3 2018 about their Commercial business, or about capital level strength.

Also, management appears to have continued concerns about the Talcott sale, and they may be overstating confidence in hitting Navigators synergies. Management also may not be confident about continued near-term yield improvements on their investments. They also may not be confident about continued stabilization and improvement of workers comp trends going forward.

While management may not be confident about hitting synergy targets, or sustaining recent favorable operating trends, their lack of concern about negative inflections that could cause profitability to depress, as markets expect, point to continued reason for optimism.

Valens Conviction Long List

12 April 2019



Conclusion

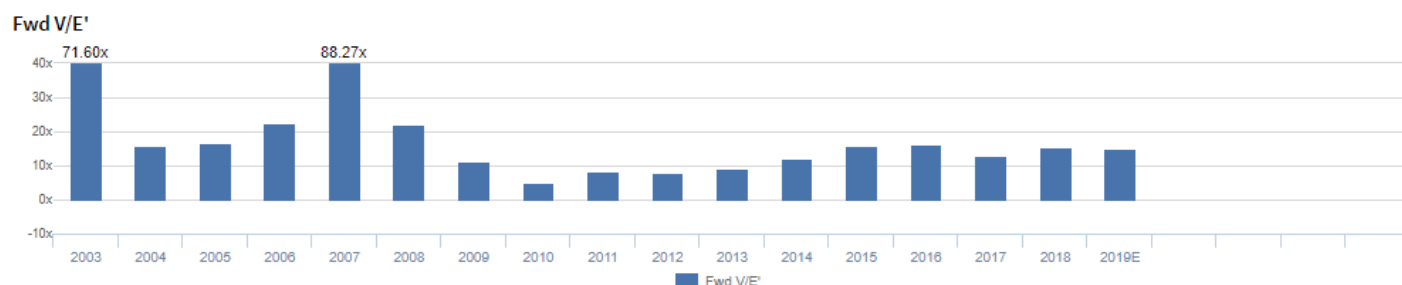
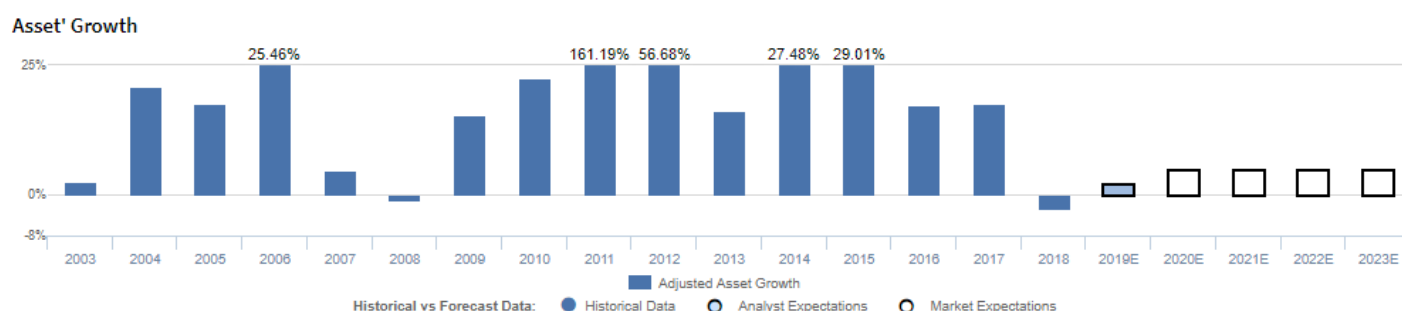
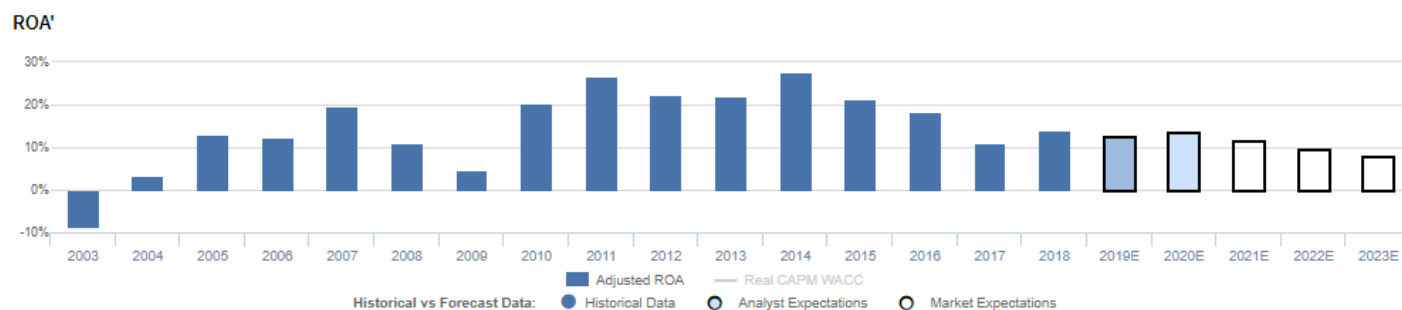
Considering the market's bearish sentiment, HIG's appropriate management compensation framework, growing confidence in their outlook, and favorable fundamental trends, there appears to be equity upside potential for HIG.

Valens Conviction Long List

12 April 2019



Gentherm Incorporated (THRM)



Valens Conviction Long List

12 April 2019



Gentherm Incorporated (THRM)			Value
Sector	Cons Disc	Intrinsic Price Range:	
Price (\$)	40.43	\$30 - \$125	
MCap (\$bn)	1.36	Comments:	
ROA' (FY1)	13%	-	
V/A'	1.9		
Fwd V/E'	14.9		

Gentherm Incorporated is a global technology company engaged in the design, development, and manufacturing of thermal management technologies. Its products provide solutions for automotive passenger comfort and convenience, battery thermal management, remote power generation, patient temperature management, environmental product testing, and other consumer and industrial temperature control needs.

Valuations & Market Expectations

THRM is trading at a 14.9x Uniform P/E (Fwd V/E'), in the middle of historical valuations. The market appears to expect Uniform Asset Growth to be at the lower end of rates since 2009, at around 5% a year, with low profitability expectations too. THRM recently saw ROA' decline to 10% after having been steady at 3x-4x cost-of-capital the prior seven years, and the market is pricing that to continue, with ROA' fading to 8% levels, only slightly above cost-of-capital levels. However, analysts recognize that an inflection is likely coming for the company, with forecasts for ROA' to remain around 13%-14% levels in 2018 going forward in 2019 and 2020, highlighting the long-term tailwinds the company has. Clearly, while the market is worried about the 2017 decline, it is not recognizing that ROA' has recovered in 2018 and is likely to maintain as the company continues to execute and demand remains strong.

The market does not appear to be giving THRM credit for the fundamentals surrounding the premium-ization of the volume car market. As lower end cars have upgraded to premium offering that THRM is a market leader in, such as heated steering wheels and heated/cooled seats, THRM has been able to see their business gain operating scale, seeing Uniform Asset Turns rise materially, which has also benefited Uniform Earnings Margin, thanks to the natural contribution margin gains that come with scaling the business. Many of these factors are likely to be sustainable for the company.

Also, even with concerns about overall auto sales volumes peaking, secular growth plays like THRM, that have gotten punished with the rest of the sector and traded in line with the sector, are likely to still be able to show fundamental outperformance even as more main-line supplier peers suffer when volumes suffer. This is because they are likely to continue to see higher penetration of their offerings into customers vehicles, as auto companies continue to view offerings like theirs as necessary even in lower-end vehicles, as opposed to premium add-ons.

Considering pessimistic market expectations, and in particular, the market's unjustified lack of confidence in the company's ability to either sustain their profitability or continue to increase penetration in the market, THRM appears to have fundamental upside.

Earnings Call Forensics™

Earnings Call Forensics™ of the firm's Q4 2018 earnings call (2/21) highlighted a negative inflection from the Q3 call. Management did show confidence about seat heating awards for Mercedes' electric vehicles. However, when they talked about improving manufacturing efficiencies and take rate, their growth initiatives, in particular organic growth, and their ability to drive incremental innovation, they showed less confidence.

While management may not be confident about near-term growth factors and opportunities for incremental margin expansion, it is important to note the market is already pricing in weaker growth, and not pricing in any ROA' expansion. Considering management is not concerned about profitability compression, that is a positive signal for the equity.

Valens Conviction Long List

12 April 2019



Conclusion

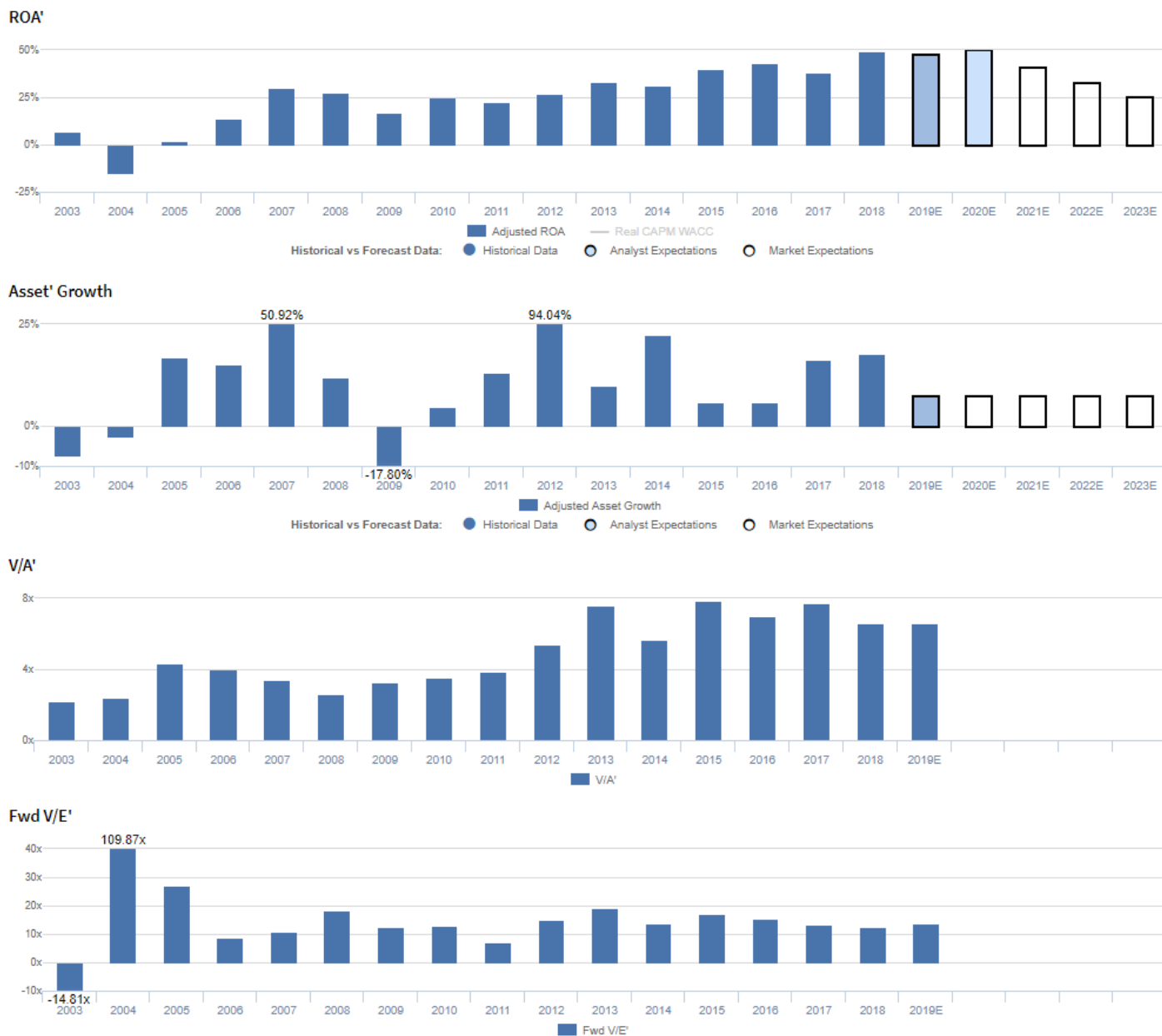
Considering the market's bearish sentiment, management's lack of concern about margins and profitability, and THRM's secular growth stories in the cyclical auto market, equity upside appears justified longer term, even though management's concerns highlight potential macro growth headwinds.

Valens Conviction Long List

12 April 2019



ASGN Incorporated (ASGN)



Valens Conviction Long List

12 April 2019



ASGN Incorporated (ASGN)		Value
Sector	Industrials	Intrinsic Price Range:
Price (\$)	66.04	\$40 - \$125
MCap (\$bn)	3.48	Comments:
ROA' (FY1)	48%	-
V/A'	6.6	
Fwd V/E'	13.6	

ASGN Incorporated provides IT and professional services in the technology, creative/digital, engineering, and life sciences fields across commercial and government sectors in the United State and internationally. The company operates through Apex, Oxford, and ECS segments.

Valuations & Market Expectations

ASGN is trading at a 13.6x Uniform P/E (Fwd V/E'), in the middle of valuations over the past 7+ years. The market is currently pricing in expectations for Asset' growth to slow to the lower end of historical levels, at around 7.5% a year, with ROA' fading from current 49% levels to 25% levels. This is well below analyst expectations for ROA' to maintain around 48%-50% levels, or what the company has produced the past six years, where ROA' has consistently been above 30% levels, and above 35% levels the past three years.

The company has seen significant improvement in profitability since 2011 because of the company's strategic efforts to focus on high growth areas in the employment services market, providing professional services solutions around the IT market, and in particular around high technology solutions, such as around cloud, cybersecurity, AI, machine learning, IT modernization, and creative/digital development efforts. They have actively sought out markets where there will be high demand for their staff and solutions, and grown in those markets.

The company is currently trading at the lower end of the 52-week range for valuation, because of concerns in the market around economic growth and staffing, with the US already at very strong fully employed levels, meaning risk to staffing demands and solutions development may be more for weaker, not stronger, demand. However, even if the overall industry suffers headwinds in two to three years in any economic downturn, ASGN has a level of an economic moat because of their positioning in high demand high tech industries, where spending is likely to remain much stronger than it will in other markets. The company's smart positioning in these higher demand markets has helped fuel their higher ROA' and is likely to enable that to sustain going forward.

Earnings Call Forensics™

Earnings Call Forensics™ of ASGN's Q4 2018 (2/13) earnings call highlights mixed to positive signals for the near-term outlook. Management was confident about the sustainability of their strong EBITDA growth going forward. They also showed confidence about their long-term outlook for their end market and demand there. Management also showed confidence about their pro-forma revenue growth guidance hitting the 8.5%-9.7% range going forward.

Management did show some concern about mix issues between Apex and Life Sciences impacting margins, and about headcount growth potentially exceeding expectations. Management may also be overstating their success in getting larger accounts on Creative Circle, and may be overstating how well positioned ECS is for several of their markets. Management may also be downplaying concerns about their contract awards and book-to-bill rate going forward.

Tellingly, while management may be concerned about some of their businesses, they are confident about EBITDA, revenue, and end market growth rates in the near-term and long-term for the business overall, showing reason for confidence about ROA' and Asset' growth exceeding expectations.

Conclusion

Considering the market's pessimistic outlook for the company, strong secular growth drivers, and management's optimism about their outlook for the business, there is reason to expect equity upside for ASGN.

Valens Conviction Long List

12 April 2019



Discovery, Inc. (DISC.A)



Valens Conviction Long List

12 April 2019



Discovery, Inc. (DISC.A)		Value
Sector	Comm Serv	Intrinsic Price Range:
Price (\$)	30.59	\$25 - \$65
MCap (\$bn)	20.94	Comments:
ROA' (FY1)	77%	-
V/A'	8.6	
Fwd V/E'	11.2	

Discovery, Inc., is a global media company that provides content across multiple distribution platforms, including linear platforms such as pay-television ("pay-TV"), free-to-air ("FTA") and broadcast television, authenticated GO applications, digital distribution arrangements and content licensing arrangements.

Valuations & Market Expectations

[DISC.A](#) is trading at a low 11.2x Uniform P/E (Fwd V/E'), at the lower end of historical valuations for the company. At these valuations, the market appears to be pricing in no real organic growth for DISC.A going forward, with ROA' falling back below the lower end of profitability since 2009.

DISC.A has a strong international footprint and a unique set of assets that they have steadily acquired over the past 10+ years through smart, small acquisitions to drive growth, and gain control of unique areas of the content marketplace, building moats around their business. These acquisitions have included acquiring Scripps in 2018, Eurosport International in 2014/2015, the Oprah Winfrey network in 2017, amongst many others. They have built a strong international footprint, and also a robust business in the female demographic that is unique.

Their strong footprint also enables them to scale their acquired businesses, like Scripps, into new demos and geographies, to help fuel incremental growth, driving further ROA' and revenue expansion. This strategy of aggregating niche offerings and empowering and expanding them, has enabled DISC.A to maintain industry leading ROA' that have actually been expanding the past 4 years, with ROA' rising from 54% in 2015 to 77% in 2018. This is projected to continue, with ROA' expanding to 81% through 2020, even as the market is pricing in ROA' compression going forward.

The market appears concerned about DISC.A being pressured by cord cutting, with the idea that they are like a Viacom who has tertiary networks that people do not need to consume or pay for. On the other hand, they have identified ways to make lower cost content (i.e. live content) that is also in high demand for their niches, which has allowed, and is likely to allow them to continue to, sustain and expand profitability, which they're likely to only further monetize as they expand into areas like SVOD.

Incentives Dictate Behavior™

One overhang for the company's valuation has been the controlling stake the Newhouse family has (26%). This has been steadily decreasing over the past 10 years, from 33% of common equity in 2008 to 26% currently, but still sits as a blocking stake for DISC.A to be consolidated by any other entity. However, the family has not prevented the company's strategy to justify these concerns.

DISC.A management is aligned well with shareholders, with free cash flow, net revenue, and OIBDA metrics driving both short-term and long-term compensation. While net revenue and OIBDA compensation could drive management to solely focus on growth, free cash flow compensation guarantees they do not over-invest while investing in growth, hurting profitability.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q3 2018 earnings call (11/8) highlights positive signals from management. Management showed confidence around growth for TLC, driven by 90 Day Fiance, and how they could actually benefit from less "over-stuffed" cable subscription plans.

Valens Conviction Long List

12 April 2019



Management was also confident about the strength of the Scripps IP they have acquired and the unique niche of that business. Management also is confident about FX tailwinds for the business, and about continued margin acceleration after their recent deals.

While management may be concerned about their sports channel performance in Europe, and about the scope of growth opportunities with some of the skinny bundle offerings from Sling, Hulu, and DirecTV, overall confidence from management about their positioning and outlook point to reasons the market is currently overly pessimistic.

Conclusion

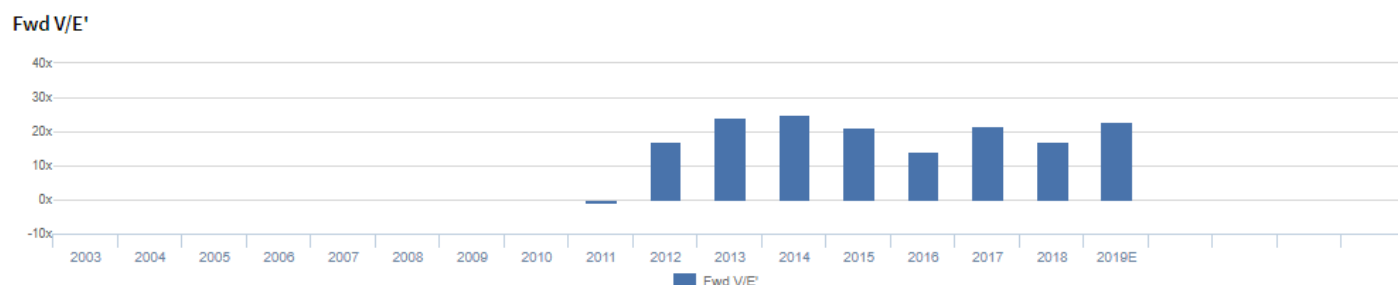
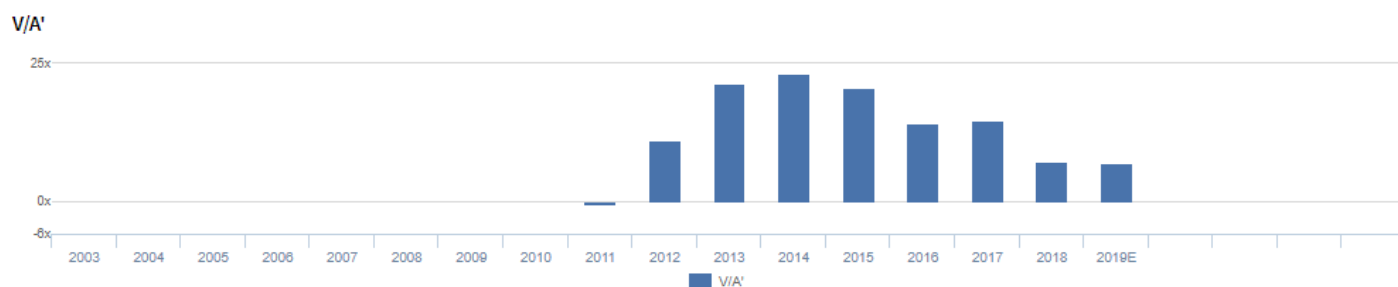
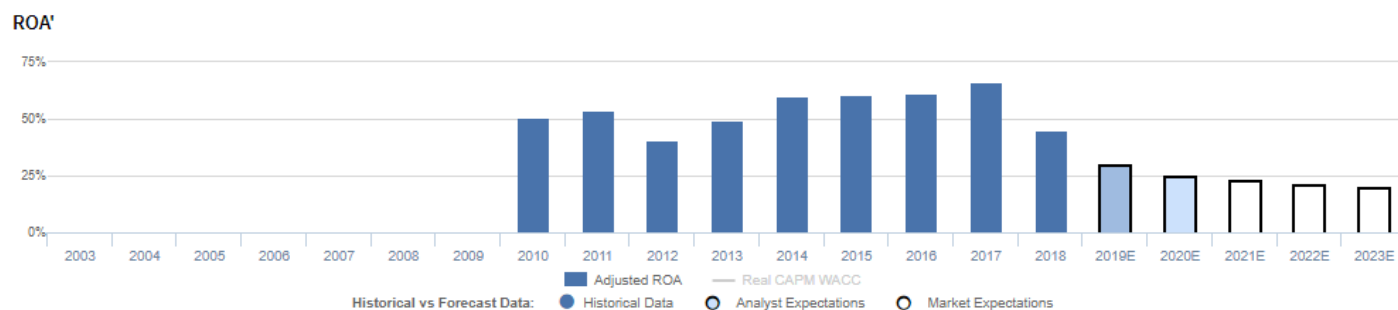
Market pessimism about the broadcast space and DISC.A's position in it appears to be overstated, thanks to the company's strong profitability and robust economic moats, strong management execution and alignment, and growing management confidence about their outlook for the business.

Valens Conviction Long List

12 April 2019



Facebook, Inc. (FB)



Valens Conviction Long List

12 April 2019



Facebook, Inc. (FB)		GARP
Sector	Comm Serv	Intrinsic Price Range:
Price (\$)	177.82	\$130 - \$400
MCap (\$bn)	507.50	Comments:
ROA' (FY1)	30%	-
V/A'	6.8	
Fwd V/E'	22.8	

Facebook, Inc. is a social networking company whose products include Facebook, Instagram, Messenger, and WhatsApp. The company builds online and mobile-based platforms that enable people to connect and share their opinions, ideas, photos and videos, and to engage in other activities through mobile devices and personal computers.

Valuations & Market Expectations

FB is trading at a 22.8x Uniform P/E (Fwd V/E'). The market appears to expect Uniform Asset growth for the firm to decline to around 15% a year going forward, with ROA' declining towards 20% levels over the next several years as the firm fails to maintain the robust returns from their investments, driven by higher costs and declining growth.

Historically FB has done an excellent job of focusing on monetizing their business, before and after their IPO. Around the time of the IPO, the company was going through a transition from their prior desktop focus to a much stronger mobile focus that the market doubted. The company has successfully navigated this transition, seeing ROA' robustly rebound from 2012 lows of 41% up to 60% in the four subsequent years, even as Uniform Asset growth remained robust at north of 30% every year.

The company has also done an excellent job of identifying potential disruptive technology ahead of peers and ahead of the market. This includes the acquisition of brands like Instagram, WhatsApp, and Oculus before they matured into high growth and profitable businesses. They have since transitioned those businesses, in particular Instagram, into profitable businesses offering further growth drivers for the company along with their base platform.

The company has also consistently gotten better at leveraging their data to improve targeting, enabling them to take a larger share of advertising across their platforms, driving further growth. The market is currently focusing on the risks for Facebook, around increased regulatory oversight and costs, and slowing growth. However, they are not capturing how FB has repeatedly used those costs to drive incremental growth and innovation on their platform historically, a trend they are likely to continue.

Considering the growth drivers, the company still has, including monetizing WhatsApp and Oculus, incremental monetization growth in Instagram and Facebook, and the aggregate growth of the online advertising market, FB appears to be well positioned for continued sustained growth and strong ROA'. This makes current expectations appear too negative.

For incremental context, at current valuations the market is expecting Asset' growth significantly below the company's long-term revenue growth rate and what more mature competitors like Alphabet have sustained over the past several years, meaning the company is likely to see steady to even potentially expanding Asset' Turns, which should help the company maintain ROA' at higher levels than the market is expecting.

Management is forecasting operating margin to fall over the next few years from 47% in 2017 to mid-30% levels due to higher costs. If we assume this is true and the company does not execute on monetizing these investments as they have before, a flat Asset' Turns number and Earnings' Margin declining by roughly 1,200bps translates into a decline in ROA from 65% in 2017 to 52% in the coming years, not far away from 2018 45% ROA'. This is a significantly less aggressive slope of decline in returns than the market or analysts are forecasting, with expectations that ROA' will decline by 2/3 in the next few years from analysts and the market.

Valens Conviction Long List

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Incentives Dictate Behavior™

Management's compensation framework should focus them on sustaining their historical growth by increasing their user base and user engagement to drive revenue growth, while also trying to stabilize and improve ROA' over time through improved capital expenditure efficiency. These indicate that expectations for slowing growth and sustained ROA' compression are too negative.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q4 2018 earnings call (1/30) highlights some continued favorable trends, but also some areas of near-term headwinds for the company. Management showed confidence about growth trends for their advertising business, and about the trend for adoption of marketing tools by smaller advertisers. They also showed confidence about the return in their capex investments, and the trends they are seeing in their Watch tab. Management continues to be confident about monetization trends for the business.

On the other hand, management did show less confident about monetization of their messaging services than they had previously. Also, management may be overstating confidence about sustaining overall revenue growth. Finally, management showed less confidence about being able to effectively invest in infrastructure for safety and security while using that same infrastructure to facilitate innovation.

Management is showing some concerns about continued near-term expense pressures, but their continued confidence about strong monetization and the intelligence about their investment strategies shows reason to believe the market is overly pessimistic about the company.

Conclusion

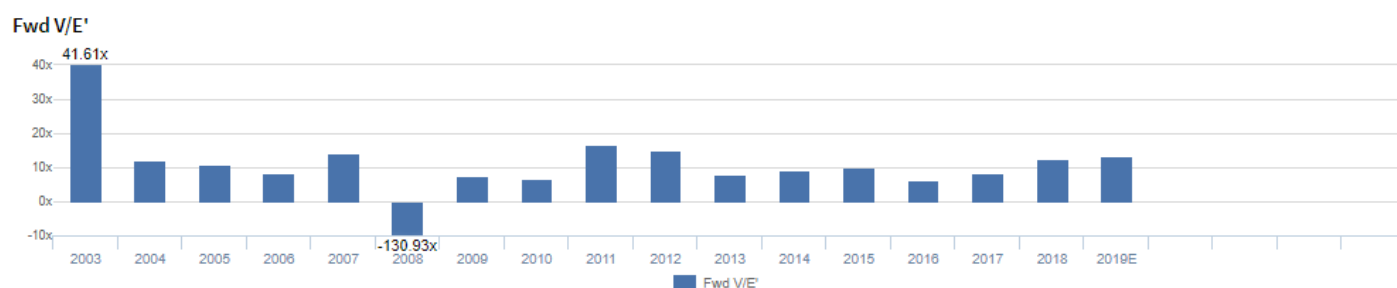
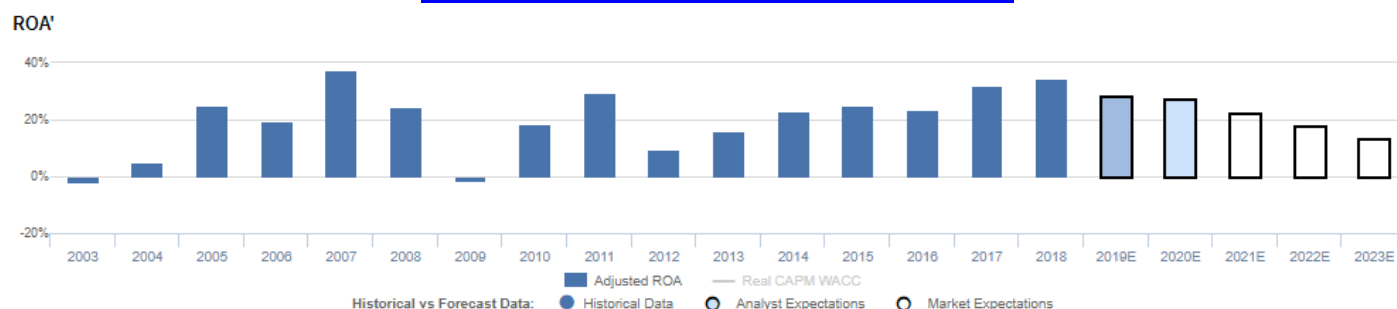
The market's perception of FB having significant operating issues, powering very low valuations, combined with FB's strong fundamental momentum and excellent execution, justifies equity upside.

Valens Conviction Long List

12 April 2019



Lam Research Corporation (LRCX)



Valens Conviction Long List

12 April 2019



Lam Research Corporation (LRCX)			Value
Sector	Info Tech	Intrinsic Price Range:	
Price (\$)	190.84	\$120 - \$400	
MCap (\$bn)	29.12	Comments:	
ROA' (FY1)	29%	-	
V/A'	3.8		
Fwd V/E'	13.3		

Lam Research Corporation is a supplier of wafer fabrication equipment and services to the semiconductor industry. It operates through manufacturing and servicing of wafer processing semiconductor manufacturing equipment segment. The company offers its products in United States, Europe, Taiwan, Korea, Japan, China, and Southeast Asia.

Valuations & Market Expectations

LRCX currently trades at an inexpensive 13.3x Uniform P/E (Fwd V/E'). At these levels, the company is trading at the bottom end of the Semiconductor Equipment Segment's Uniform P/E. The market clearly appears to be pricing in a negative cycle for LRCX in the near-term. However, there are several reasons that the market expectation is incorrect and too pessimistic.

LRCX has seen sustained Uniform ROA (ROA') above cost-of-capital in each of the last eight years, and sustained improvement with ROA' for the past six years, the longest sustained trend in the last 20 years for the company. Often that would be reason for pause for a Semiconductor Equipment company, as these are notoriously cyclical firms. However, LRCX has seen Uniform ROA plateau the past four years, and this stability might be a sign of a new dynamic for them and their customers that is driving potential for sustained stable strong profitability for the next several years.

The market is pricing Uniform ROA to fall from 34% levels in 2018 and projected 29% levels in 2019 down to 13%, with Uniform Asset growth also slowing to the low end of growth rates over the past seven years, at 10%. The market appears to be too pessimistic.

One of LRCX's core businesses and competitive niches is in the equipment they make for various stages of production for flash storage, including NAND and DRAM. Their end market industry is undergoing rapid sustained growth thanks to demand for storage. Importantly, the industry has become much more concentrated, which benefits LRCX as it has reduced the amplitude of the boom-or-bust competitive cycles the industry goes through, helping smooth LRCX's profitability. Rapidly growing demand for the content their customers produce provides them with confirmed growing demand for their equipment, and a more rational customer base reduces the volatility of that demand, leading to more stability and visibility. It is significant to notice that even as the ROA' at clients like MU have been far more volatile, rising above and falling below 0%, LRCX has had steady returns. MU's pricing environment may be volatile, but their need for equipment to expand capacity is not. Considering the growth window for the industry, LRCX could see sustained Uniform ROA stability going forward.

Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that management is compensated to focus on maintaining their margins going forward, while also growing their share of their market. This drives management to maintain profitability at current strong levels, maintaining Uniform ROA as most of the volatility on LRCX's Uniform ROA has historically come from Uniform Margin. It also drives them to continue to take share in a strongly growing market, maintaining their historical growth rates going forward.

Earnings Call Forensics™

Importantly, Earnings Call Forensics™ of the Q2 2019 (1/23) earnings call highlights confidence from management about opportunities to expand operations, however they were also confident about adjusting their guidance because of concerns for the outlook from other firms in the technology space.

Valens Conviction Long List

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Overall management showed less positive signals about their near-term outlook on the Q2 call. Management showed concerns about EPS growth guidance and market share outlook. They also showed concerns about their NAND and SSD end markets, and about the potential for higher capex pressures in the near-term.

While management did show some concerns about trends sustaining in the short-term, overall growth opportunities and long-term tailwinds for the business point to reason for optimism going beyond near-term quarters.

Conclusion

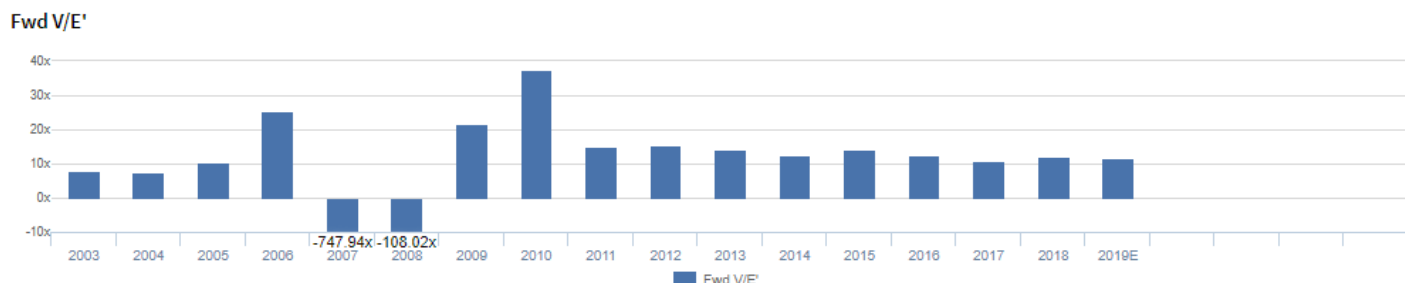
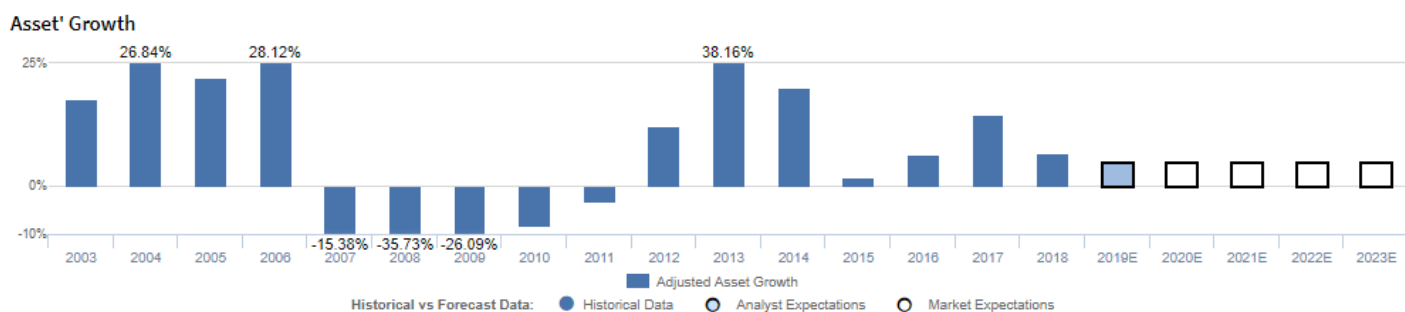
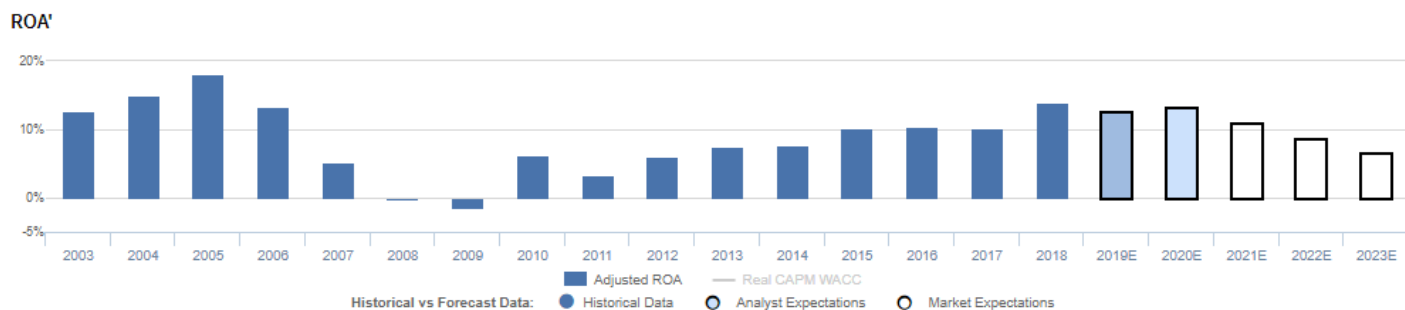
Long-term macro tailwinds for the business, strong corporate performance, and favorable management alignment all spell reasons for equity upside for LRCX going forward, even with near-term potential headwinds.

Valens Conviction Long List

12 April 2019



D.R. Horton, Inc. (DHI)



Valens Conviction Long List

12 April 2019



DR Horton Inc. (DHI)		Value
Sector	Cons Disc	Intrinsic Price Range:
Price (\$)	43.93	\$30 - \$105
MCap (\$bn)	16.40	Comments:
ROA' (FY1)	13%	-
V/A'	1.6	
Fwd V/E'	11.8	

D.R. Horton, Inc. is a homebuilding company engaged in the acquisition and development of land and the construction and sale of residential homes. The company designs, builds, and sells single-family detached homes on lots it develops and on fully-developed lots purchased ready for home construction. To a lesser extent, DHI builds and sells attached homes, such as town homes, duplexes, triplexes and condominiums.

Valuations & Market Expectations

DHI is trading at a 1.6x UAFRS-based P/B (V/A'), in the middle of recent valuations. Uniform P/E (Fwd V/E') trades at the lower end of historical valuations at a 11.8x multiple. The market is expecting Uniform ROA to fall to 6%-7% levels from 14% levels in 2018 and forecast 13% levels in 2019-2020, with 5% Uniform Asset Growth going forward.

The company has been moving into the lower-end segment with their Express brand, which they are focused on expanding. It is a lower price offering that targets first-time home buyers, an area of the market that has been severely depressed and underserved until recently. However, it is accelerating with improving economic conditions, implying that expectations for slower growth are likely too negative. Also, while the Express segment is a lower margin segment, the higher volumes is likely to generate are likely to boost Uniform Asset Turns which have been suppressed across the Homebuilding sector since the crash, potentially boosting Uniform ROA.

On top of this, the company is also focusing on their Freedom Homes brand, which targets retirees that are downsizing their homes. Considering the current age wave phenomenon for both Millennials focused on first-time homebuying, and Baby-Boomers who are now retiring and moving into this market, DHI has intelligently positioned themselves ahead of many peers to benefit from macro factors that will boost growth.

Incentives Dictate Behavior™

Management's compensation framework should focus management on improving all three value drivers, with pre-tax income, peer-relative ROI, peer-relative SG&A margins, and peer-relative gross profit driving management to seek to grow faster than peers while also improving margins and asset utilization.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q1 2019 (1/25) earnings call highlights new concerns from management. Management no longer showed the confidence they had recently seen around growth trends, acquisitions, and COGS management. Instead, they did show concerns about pricing and home cost pressures, and inventory levels. They also showed concerns about EPS and pre-tax income outlook. Lastly, they continued to show concerns about integrating Forestar into their business.

These near-term concerns about inventory and profitability may present headwinds for the stock, however in the longer-term, low market expectations imply the market is already pricing in a much more negative outlook, which management's comments do not justify, signaling reason for equity upside.

Conclusion

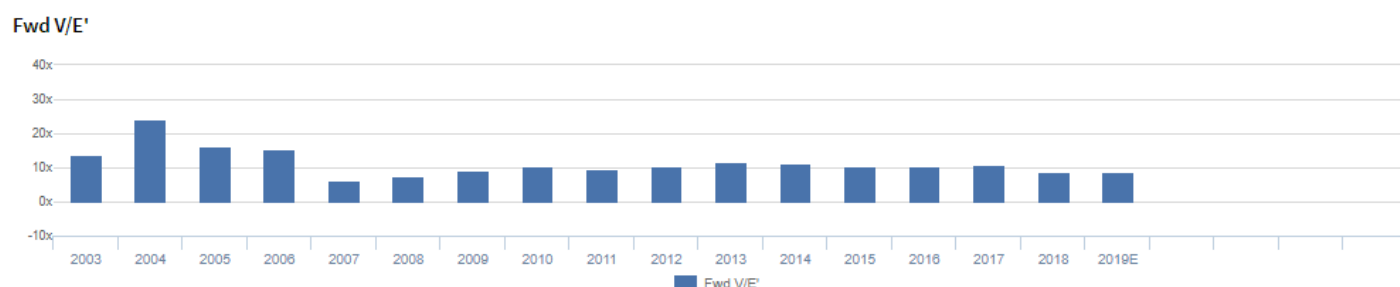
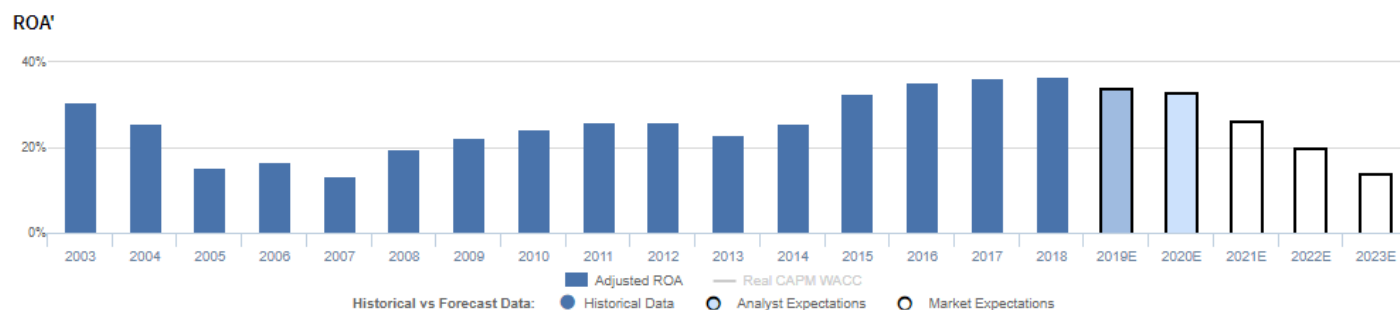
Low market expectations are for Uniform ROA and Uniform Asset Growth, combined with management's strategic shift into secular growth areas of their business, signal opportunity for equity upside, even with near-term potential headwinds.

Valens Conviction Long List

12 April 2019



Mylan N.V. (MYL)



Valens Conviction Long List

12 April 2019



Mylan N.V. (MYL)		Value
Sector	Health Care	Intrinsic Price Range:
Price (\$)	27.22	\$25 - \$135
MCap (\$bn)	14.04	Comments:
ROA' (FY1)	34%	-
V/A'	3.0	
Fwd V/E'	8.7	

Mylan N.V. is a global generic and specialty pharmaceuticals company. The company operates an active pharmaceutical ingredient manufacturer and runs a specialty business focused on respiratory, allergy, and psychiatric therapies.

Valuations & Market Expectations

MYL is trading at a 8.7x Uniform P/E (Fwd V/E'). At these levels, the market is pricing in expectations for declining profitability, from 37% in 2018 to a historically low 14%, accompanied by low 2.5% Uniform Asset Growth.

Mylan has historically been a highly profitable business, with Uniform ROA (ROA') consistently more than triple the cost of capital. Even in trough years such as 2000-2001 and 2005-2007, ROA' only bottomed at 13%-16% levels. More recently, ROA' has shifted to 23%-37% levels driven by substantial improvements in Adjust Earnings Margin, from lows near 20% in 2005-2007 to 29%+ in recent years. Meanwhile, Uniform Asset Turns have remained mostly flat over that time period, ranging from 0.8x to 1.1x in 2011, and back to 1.2x more recently.

Additionally, the firm has been able to significantly grow their business since 2000, largely through acquisitions, including Merck's Generics business in 2007, Abbott's Non-U.S. Specialty and Branded Generics business in 2015, and the Meda AB transaction. This has led to Uniform Asset Growth peaking at 20%+ levels in 2000 and 2004, and 55% to 70% levels in 2007-2008, with modest positive growth in other years. However, market expectations are for the company to see historically below average growth going forward.

This indicates that if the company were to just sustain profitability levels and growth rates as they continue to integrate Meda, there could be equity upside. Also, if EpiPen issues, which are related to less than 10% of Mylan's business, does not lead to the product completely vanishing, which is a highly unlikely scenario, the firm should see ROA' stabilizing at much higher levels than markets expect.

Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that management is focused on growing their drug franchise while also improving and maintaining both margin and asset utilization. Their short-term compensation is based on global regulatory submissions, which will drive management to attempt to continue to innovate to drive growth. It is also based on EPS and free cash flow, which should focus them on improving margin and limiting working capital and capex investment to improve asset utilization. Their long-term compensation, which is focused on ROIC, should also focus management on improving margins and turns.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q4 2018 earnings call (2/26) highlights a negative inflection from the prior Q3 call. Management did show confidence about new product launches offsetting generic erosion, and about their share of the MS market. However, management may not be confident about several recent particular launches, in particular UPELRI and Fulphila. Also, management may not be confident about overall revenue growth, G&A cost trends, and their ability to improve operating leverage. Lastly, they may be concerned about their success with plant restructuring initiatives.

Management's concerns about near-term revenue and margin trends, and recent launches, may cause some near-term fundamental volatility, but their confidence in long-term shifts in their mix driving profitability and sustaining the business highlight how overly pessimistic current valuations are.

Valens Conviction Long List

12 April 2019



Conclusion

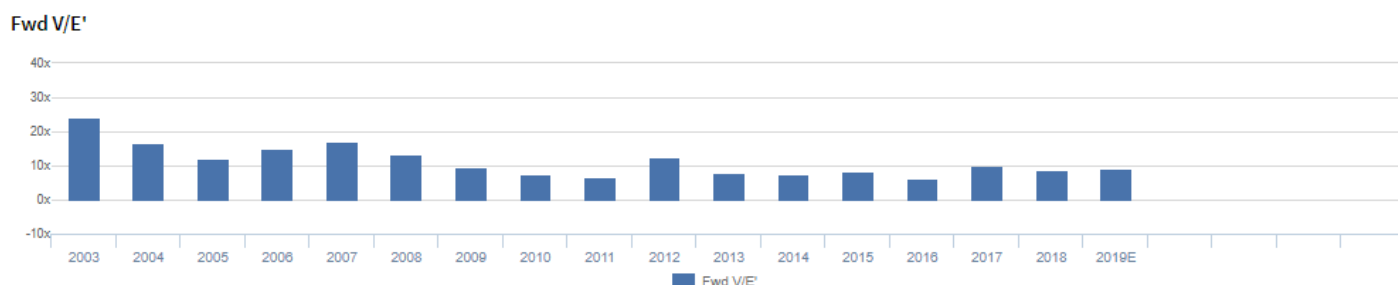
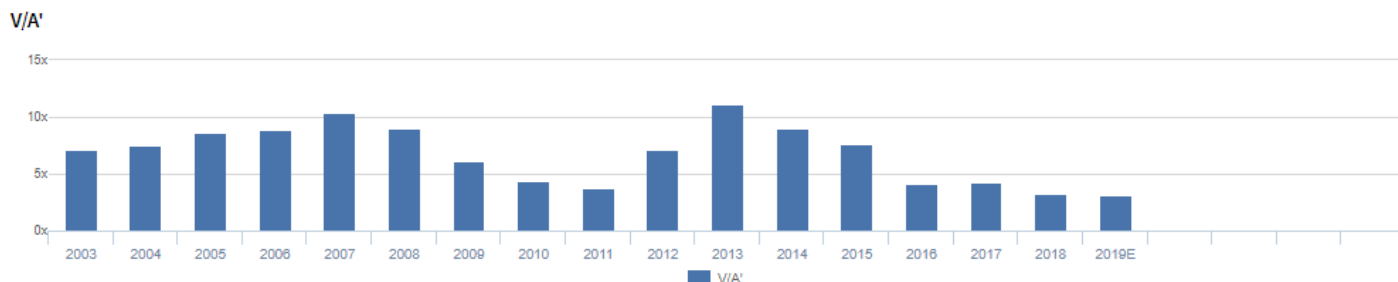
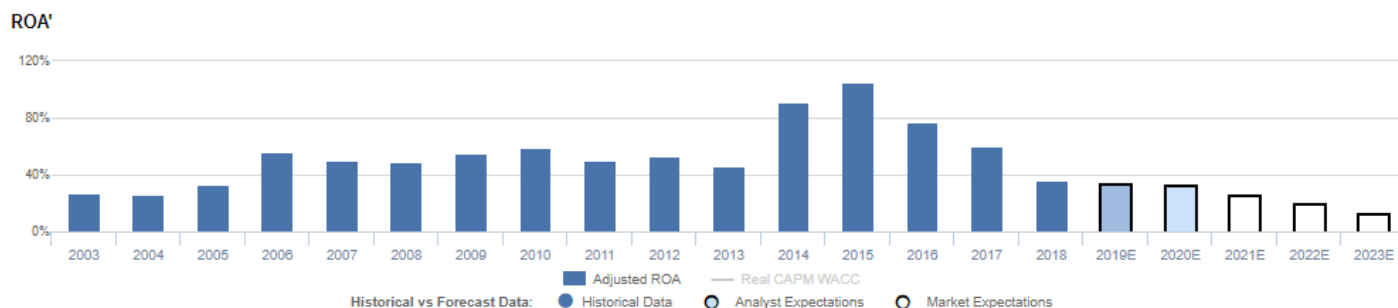
Considering low market expectations, MYL's success around both innovation and acquisition, and proper management alignment, there appears to be material equity upside for the company going forward, even with near-term potential fundamental momentum.

Valens Conviction Long List

12 April 2019



Gilead Sciences, Inc. (GILD)



Valens Conviction Long List

12 April 2019



Gilead Sciences, Inc. (GILD)		Value
Sector	Health Care	Intrinsic Price Range:
Price (\$)	67.40	\$60 - \$500
MCap (\$bn)	85.93	Comments:
ROA' (FY1)	34%	-
V/A'	3.1	
Fwd V/E'	9.2	

Gilead Sciences, Inc. is a research-based biopharmaceutical company that discovers, develops and commercializes medicines in areas of unmet medical need. The company's portfolio of products and pipeline of investigational drugs includes treatments for Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), liver diseases, cancer, inflammatory and respiratory diseases and cardiovascular conditions.

Valuations & Market Expectations

GILD is trading at a 3.1x Uniform P/B (V/A'), at the bottom of historical valuations. The company is also trading at incredibly inexpensive valuations relative to Uniform Earnings, with Uniform P/E (Fwd V/E') at 9.2x, well below peer valuations. The market is expecting Uniform ROA to fall to 13% levels from 36% 2018 levels, with 5% Uniform Asset growth going forward, at the lower end of historical growth rates for the company.

GILD has been phenomenally successful the past 15+ years because of their focus on two chronic conditions. First, they focused on HIV, and are a key player in the HIV cocktail market, largely owning this market. Then, in 2012 they acquired Pharmasset, gaining Pharmasset's drugs in development to treat Hepatitis and other liver conditions. Once they brought those drugs to the market through clinical trials, releasing Harvoni, Sovaldi, and others, they saw ROA' jump from prior robust 40% levels to 80%+ levels in 2014-2016.

However, market expectations have come down for GILD significantly since 2015, as V/A' fell from 7.6x levels to 4.2x levels by 2017, as the market has been concerned about two key factors for the firm. The first is a concern that their liver drugs, which have exceptionally high prices, are going to see their prices pushed down because of concerns about GILD earning excess profitability, and the drugs being unaffordable to the health care system. There's an expectation that GILD will see prices pushed down, leading to Uniform ROA falling towards peer average levels of 15%-30%, because of these issues. This issue is one that continues to hang over the company to a degree.

Also, the market has been concerned that GILD will not be able to find a "next big thing" to deploy capital into similar to how they were able to strategically acquire Pharmasset for \$11bn before the value of the business truly exploded. However, GILD has appeared to answer that question quite robustly with their recently announced acquisition of KITE Pharma in August 2017. KITE, which focuses on gene therapy for cancer treatments in particular, is in an area of the market that, just after GILD's announced acquisition, had a very favorable announcement with the first gene therapy drug (Novartis' CAR T-cell therapy) being approved in the US.

If GILD is able to be a major player in this market, as they are in their other markets, there is significant growth upside, and likelihood that the company can maintain their historical 40%+ returns, justifying significant upside.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q4 2018 earnings call (2/14) highlights growing concerns from management. Management may lack confidence in their guidance for COGS, R&D, capex, and overall profitability. Also, management may be exaggerating their confidence in their ability to hit their cell therapy franchise growth expectations, or their outlook for legacy drugs internationally. Management also may be downplaying concerns with several of their trials, including MANTA, and about the impact of the generic version of Letairis hitting the market. Lastly, management may be concerned about their broad registration plan for B-Cell Lymphoma, and other cancer initiatives.

Valens Conviction Long List

12 April 2019



Management's concerns about costs may pressure near-term margins, as does their uncertainty about their drug outlook. However, with market expectations already for a total collapse of the company's profitability, and the company unconcerned about HIV or liver drug reimbursement rates, the market appears to be excessively pessimistic about their core business.

Conclusion

Low market expectations for Uniform ROA and Uniform Asset growth, combined with management's success in finding unique growth areas where they can own the market, and management's lack of concern about reimbursement rates for their core drug portfolio point to equity upside going forward.

Valens Conviction Long List

12 April 2019



Tapestry, Inc. (TPR)



Valens Conviction Long List

12 April 2019



Tapestry, Inc. (TPR)		Value
Sector	Cons Disc	Intrinsic Price Range:
Price (\$)	33.41	\$27.5 - \$90
MCap (\$bn)	9.69	Comments:
ROA' (FY1)	20%	-
V/A'	3.3	
Fwd V/E'	14.5	

Tapestry, Inc. provides luxury accessories and lifestyle brands in the United States, Japan, China, Hong Kong, Macau, East Asia, Europe, Canada, Taiwan, South Korea, Malaysia, and Singapore. It operates through three segments: Coach, Kate Spade, and Stuart Weitzman.

Valuations & Market Expectations

TPR is currently trading at a 14.5x Uniform P/E (Fwd V/E'), at the low end of historical levels ex-2008-2010. At these levels, the market is pricing in expectations for Uniform ROA to decline from 25% in FY2018 to all-time low levels of 15% by FY2023 accompanied by modest 3% Uniform Asset growth. These expectations imply that the market believes the firm's brand value and competitive advantages will continue to decay, and it will grow at below peer average levels.

However, analyst forecasts show that the market may be too pessimistic, as sell-side consensus estimates reflect expectations for ROA' to recover going forward, not decline. Analysts recognize that the company has strategically adjusted their strategy for Coach and also has begun pursuing a strategy following in the likes of LVMH, adding new brands through strategic acquisitions to gain market share and better align strategies. Analysts forecast similar 3% growth going forward, but with ROA' remaining around 24%-25% through FY2020.

Tapestry, formerly Coach, went through a challenging period from FY2012-2015, as the company's saturation of the US luxury market, and in particular, an outdated aesthetic and willingness to discount in the outlet market led to significant loss of brand strength, pricing power, and saw ROA' fade from 40% levels to 20% levels.

Towards the tail end of that downturn, the company had a management change, with Victor Luis taking over in January 2014, and re-focusing the company. This began with a strategy of repositioning the brand, but has subsequently continued with the company focusing on following LVMH's strategy of buying up premium brands, sometimes at advantageous prices, a strategy that CEO Luis saw firsthand in his time at LVMH. The company bought Stuart Weitzman in 2015, and Kate Spade & Company (Kate Spade, Jack Spade, Liz Claiborne, etc) in 2017, to begin to build a broader bench of brands. The goal of the strategy is to operate the brands, and extract value from both a lower cost-centralized approach to some parts of operations, and to help the businesses improve on their overall strategy. As forecasts for ROA' to recover, the strategy is already succeeding.

Credit Cash Flow Prime™

One of the important factors for TPR to continue to pursue this growth strategy is their access to credit, and the company has ample access, with limited debt maturities coming up and ample liquidity. The company has \$1bn in cash available to invest, and has only \$1.6bn of debt versus a \$10bn market cap and over \$2bn a year in UAFRS gross cash earnings. With only \$400mn in debt coming due in the next six years, and ample incremental liquidity and ability to take on leverage, the company has significant room for further smart acquisitions, especially with many luxury brand valuations distressed because of concerns with China and the world economy overall in the near-term.

Incentives Dictate Behavior™

TPR's compensation framework is focused on net income, revenue, operating income growth, and EPS in the short-term and net income and RONA in the long-term. TPR's biggest issue that caused their ROA' collapse earlier this decade was a loss of pricing power that led to Earnings' Margin declines, so this margin heavy compensation framework is very appropriate. Also, the RONA compensation metric will make sure management continues to seek to improve asset efficiency, which has been trending positively recently.

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Finally, the revenue compensation and the profitability metrics will also continue to focus the company on growing organically and through acquisitions, which should continue to power growth and align management appropriately to execute where the market does not expect they can.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q2 2019 earnings call (2/7) highlighted that management may have some concerns about operations in the near-term. While management showed confidence about their partnership to make Kate Spade mobile accessories, they may be concerned about their strategy around Coach mobile accessories. Also, they may be exaggerating their confidence about their outlook for Chinese sales growth and their China strategy. Moreover, they may be downplaying concerns about their brand marketing efforts and concept store strategy in the near-term.

Management's concerns about Chinese growth in particular and brand marketing efforts may cause near-term volatility. However, with the market already focused on downside in China and not believing in a turnaround, as they continue to execute on their integration, brand, and operational improvements, significant upside is warranted.

Conclusion

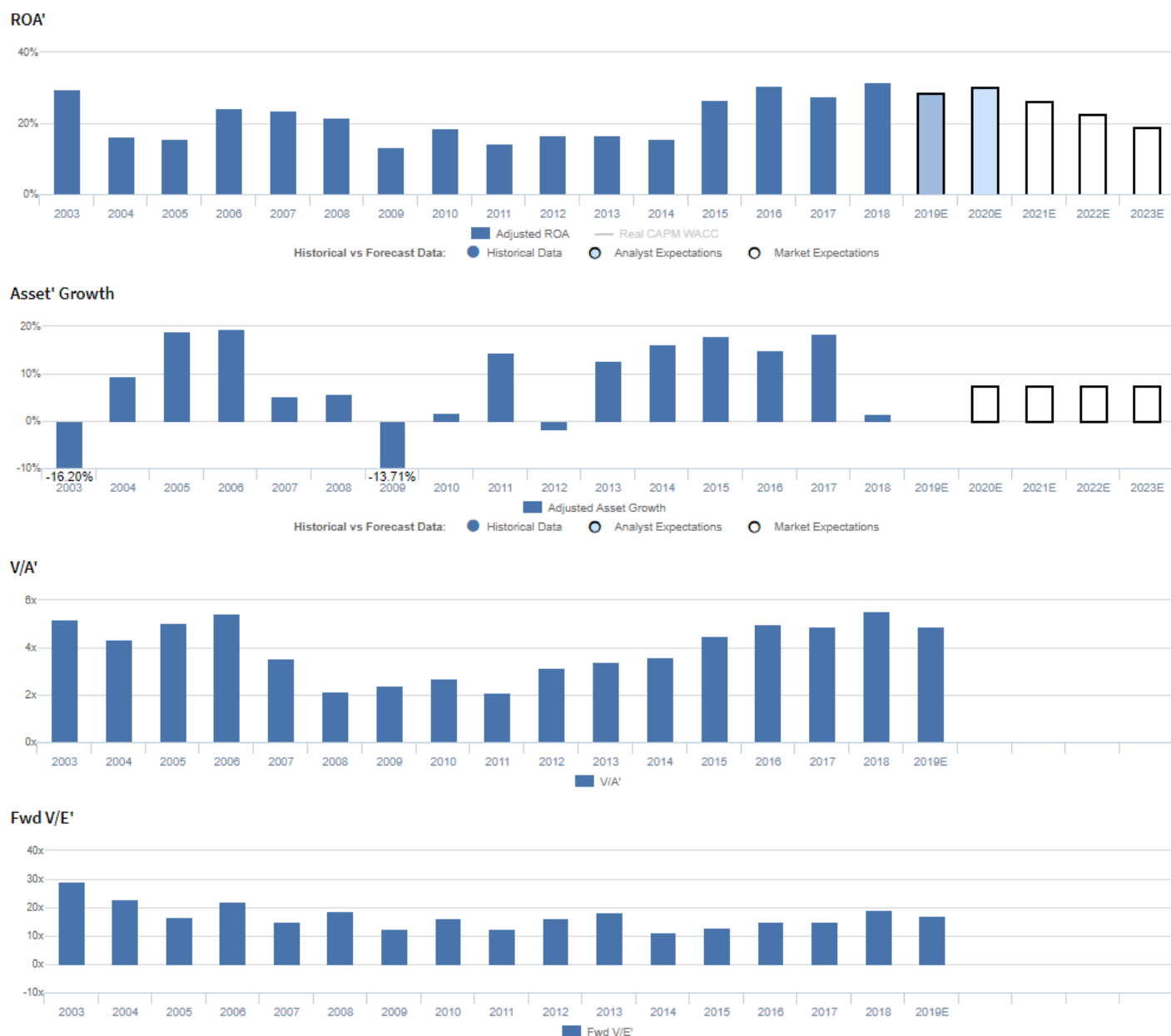
Considering low market expectations, management's success thus far in executing their new strategy, their strong alignment, and credit availability to finance growth, there appears to be substantial opportunity for equity upside going forward, even if there could be near-term volatility.

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AMN Healthcare Services, Inc. (AMN)



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AMN Healthcare Services, Inc. (AMN)		GARP
Sector	Health Care	Intrinsic Price Range:
Price (\$)	49.40	\$40 - \$125
MCap (\$bn)	2.32	Comments:
ROA' (FY1)	29%	-
V/A'	4.9	
Fwd V/E'	17.1	

AMN Healthcare Services, Inc. provides healthcare workforce solutions and staffing services in the United States. The company operates through three segments: Nurse and Allied Solutions, Locum Tenens Solutions, and Other Workforce Solutions.

Valuations & Market Expectations

[AMN](#) is trading at the high end of historical valuations, with an 17.1x Uniform P/E (Fwd V/E') and a 4.9x Uniform P/B (V/A'), which initially may make the company appear expensive. However, higher valuations may be warranted based on the transformation the company is going through. Even at current valuations, the market is pricing in ROA' to fall from current 32%+ levels to 19%, with Asset' growth at the lower end of levels since 2011, at 7.5% a year.

Historically AMN saw ROA' range from 15% at the lower end of cycles to 30% at the higher end of cycles, warranting market expectations for long-run ROA' at mid-cycle levels. As a market leader, and one of the largest companies in their core business of travel nurse staffing across the nation, along with Locus Tenens Solutions (physician, clinicians, and other non-nurse medical professional staffing on a short-term basis), their business appears to have high but stable visibility. The market overall is having a secular growth trend, because of increased demand for healthcare, with an aging US population, however this will impact demand, and therefore revenue growth, but not necessarily impact margins.

However, AMN has been doing several strategic things over the past three years that have changed the trend of their business. Firstly, they have been rolling up the travel nursing, nurse staffing, and other travel medical staffing businesses, to gain more scale, helping boost profitability in a sustainable way. They have also been focusing their acquisitions on adding technology solutions on top of their staffing services, enabling improved optimization of staff in the medical facilities they are focused on, and focusing on staff positioning higher in the management chain at medical facilities, including in management, and in senior management positions. These efforts have helped improve the stickiness of their relationships, and helped them gain higher margins, while increased scale has helped their asset efficiency slightly. These shifts have helped support the company's ROA' inflection since 2015 from 15% levels to 25%+ levels.

Considering the efforts the company has gone through to maintain and transform their business into a higher return business, there is reason to believe they can exceed market expectations going forward.

Earnings Call Forensics™

Earnings Call Forensics of AMN's Q4 2018 earnings call (2/14) highlights some near-term concerns for the company. Management is confident about potential staffing acquisitions in their Allied segment. However, they may be downplaying concerns about their relationship with Tenet Healthcare, and may be overstating their ability to ramp up Locum Tenens hiring and downplaying concerns about their nursing recruitment strategy. Management may also be downplaying concerns about revenue mix across their segments impacting margins, and may be exaggerating their confidence in their free cash flow outlook.

While management may have some concerns, it is important to note that management's concerns are about sustaining current rates of operational improvement, as opposed to concerns about seeing declines in profitability or revenue going forward. This helps point to reasons why market expectations remain overly pessimistic.

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Conclusion

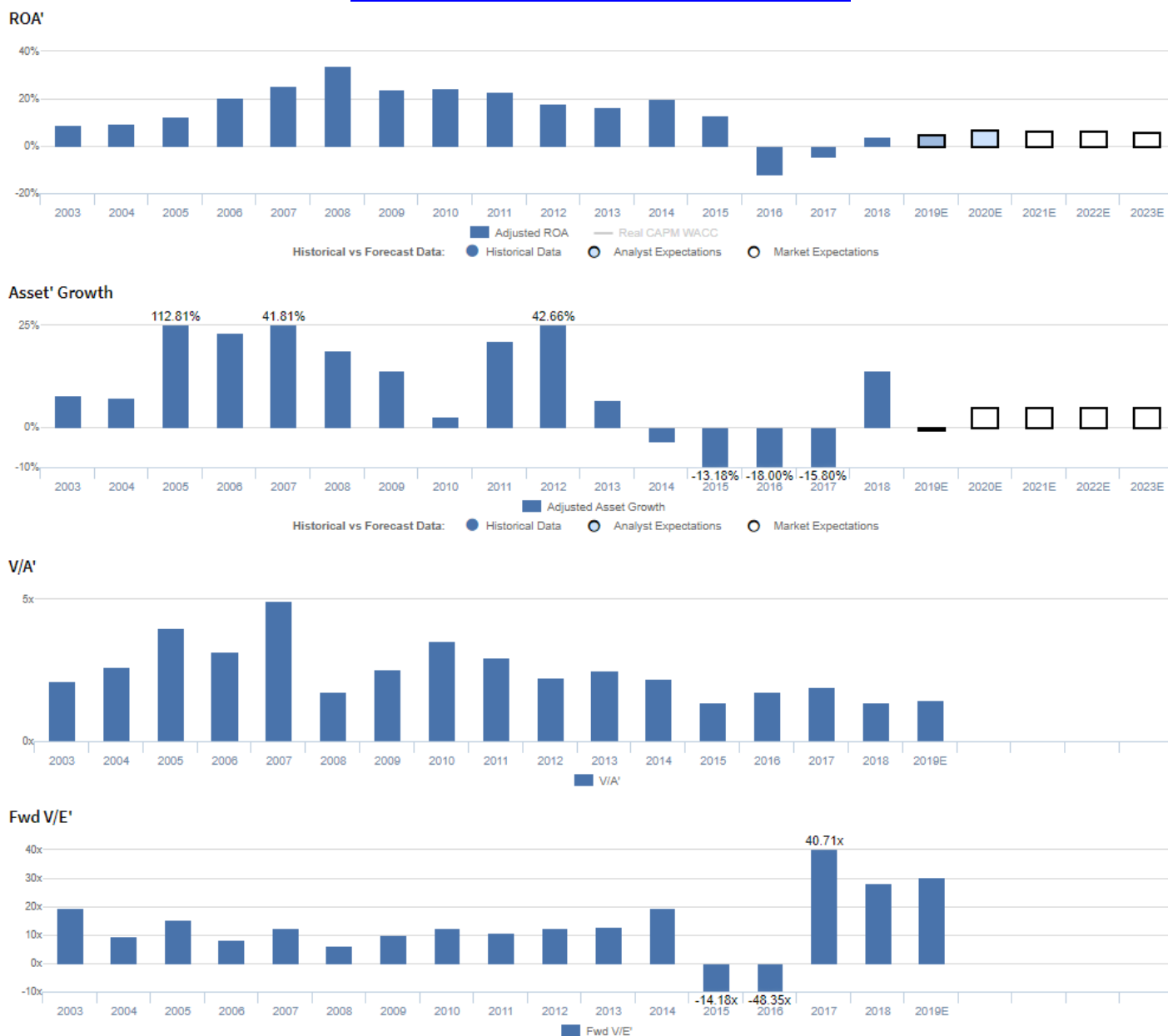
AMN has executed successfully on transforming their business, and management has a strong strategy for maintaining and improving their business. While near-term concerns about sustaining the rate of improvement may cause some volatility, management's lack of concerns about giving back recent fundamental gains in the business, or about their strategy points to reason to expect continued equity upside going forward.

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National Oilwell Varco, Inc. (NOV)



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National Oilwell Varco, Inc. (NOV)		GARP
Sector	Energy	Intrinsic Price Range:
Price (\$)	28.68	\$22.5 - \$105
MCap (\$bn)	11.00	Comments:
ROA' (FY1)	5%	-
V/A'	1.5	
Fwd V/E'	30.4	

National Oilwell Varco, Inc. is engaged in providing design, manufacture, and sale of equipment and components used in oil and gas drilling, completion and production operations. It also provides oilfield services to the upstream oil and gas industry. It makes and supports the capital equipment and integrated systems needed to drill oil and gas wells on land and offshore.

Valuations & Market Expectations

NOV is trading at a Uniform P/B (V/A') of 1.5x, well below historical valuations. The markets are now expecting Uniform ROA (ROA') to rebound from 2016 negative levels to only the low end of historical levels over the past 10 years, at 5%-6% going forward, in line with analyst forecasts for 2019. The markets also expect substantially slower growth, which does not appear justified based on NOV's historical execution, even if energy market fundamentals warrant operational issues that could hurt profitability and growth in the near term.

In essence, the market is currently expecting the near-term fundamental headwinds for the business to continue in perpetuity, and also expecting the company to not be a tactical acquirer going forward, when this is explicitly what management continues to plan to do.

Financial Red Flag™

Financial Red Flag™ analysis highlights that management has historically been strong acquirers, making acquisitions at reasonable valuations and integrating well to drive growth. NOV also has a safe credit profile, implying that it should also have easy access to markets to acquire.

Credit Cash Flow Prime™

As a strategic acquirer, the company needs access to capital and flexibility to increase leverage to take on potential acquisitions. NOV has ample credit liquidity, with a significant cash buffer over obligations, and cash flows that consistently exceed operating obligations. The company has a Valens iCDS of 110bps, highlighting the company is a low credit risk that should have no issues accessing the credit markets to finance incremental acquisitions.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q4 call (2/7) highlights continued mostly negative markers from management. Management did show excitement when talking about the potential of unconventional shale technologies, and the revenue contribution they are receiving from oil-field service companies. They were also confident about seeing a positive cycle for pressure pumping.

However, management may be downplaying concerns about revenue, EBITDA, and bookings outlook. The also may be downplaying concerns about both their US and international off-shore end markets, and may be exaggerating the positive trends in several of their business segments. Management also may be exaggerating how their solutions can provide cost savings benefits to their clients, and the growth potential for several of their offerings.

These markers appear to point to concerns about management about the speed of any rebound for their market, which may limit near-term upside, though none of the markers point to structural risks for NOV's long-run profitability and outlook, versus current expectations.

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Conclusion

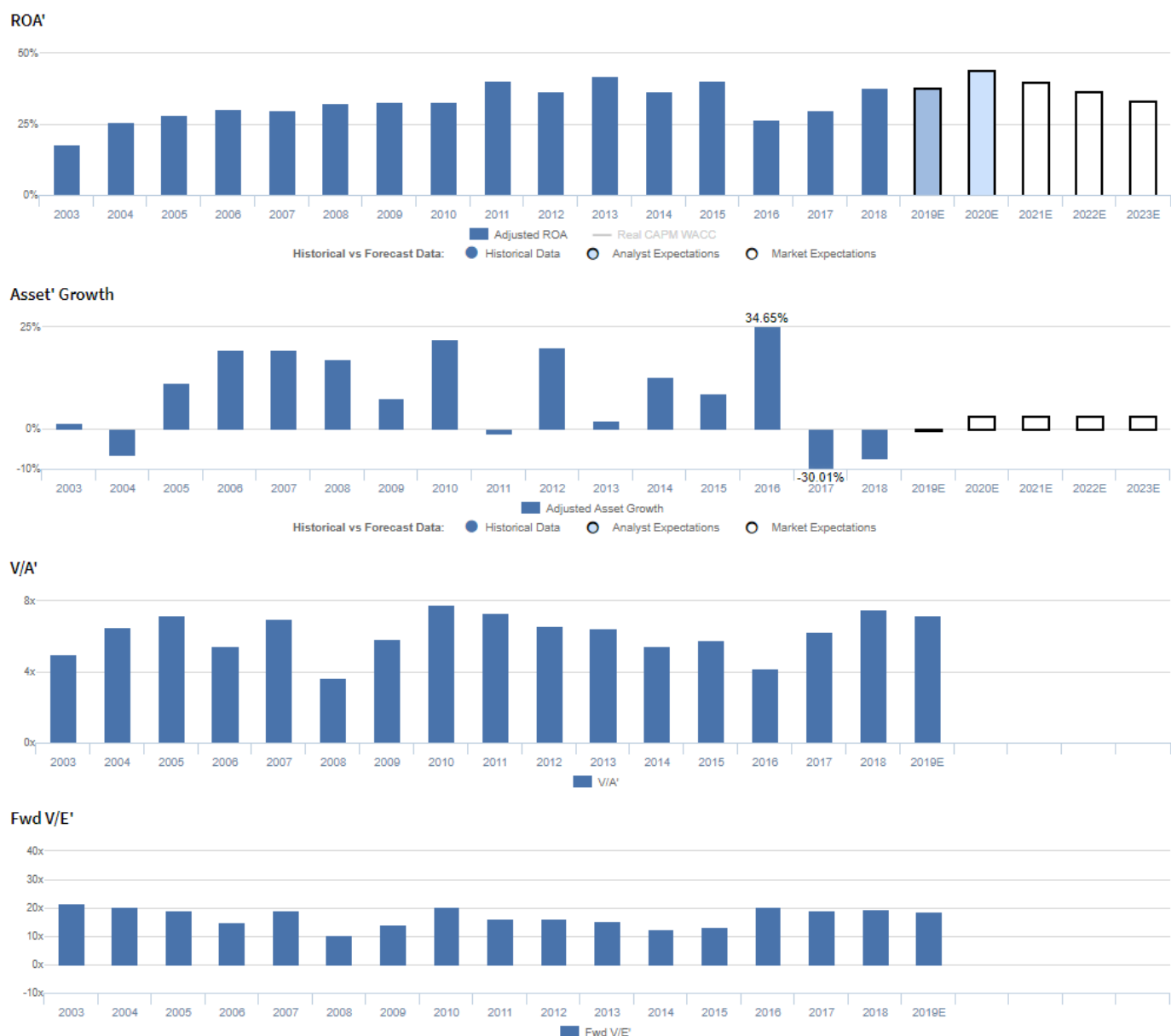
While strong management execution and alignment should lead to the company exceeding market expectations longer-term, the steady negative signals from management sentiment points to potential issues that may limit near-term upside.

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Citrix Systems, Inc. (CTXS)



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Citrix Systems, Inc. (CTXS)		GARP
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	101.56	\$75 - \$225
MCap (\$bn)	13.38	Comments:
ROA' (FY1)	38%	-
V/A'	7.2	
Fwd V/E'	18.9	

Citrix Systems, Inc. provides virtualization, mobility management, networking and SaaS solutions to individuals, professional consumers, and global enterprises. The company's solutions offer secure, mobile workspaces that provide people with access to apps, desktops, data, and communications on any device, over any network or cloud.

Valuations & Market Expectations

[CTXS](#) is trading at an 18.9x Uniform P/E (Fwd V/E'), in line with recent valuations. The market is expecting the recent recovery in Uniform ROA from 27% to 38% to reverse, with ROA' declining to around 33% levels going forward, with very weak Uniform Asset Growth of 3% relative to their historical double-digit growth.

However, unlike the markets, analysts recognize the company is likely to see continue to see returns rebound in 2019 as they progress with their new strategy that alrad started bearing fruit in 2017 and 2018. Analysts forecast ROA' to continue its recent rise, rising to 44% by 2020. With CTXS' core position around major developing areas after the sale of the GoTo business, including mobile and virtualization efforts for Enterprise, and around cloud initiatives, all areas where they have strong positions, market pessimism appears much too overstated. They are seeing much stronger tailwinds than the market is recognizing.

Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that management is aligned to drive growth and improve margins, indicating that expectations for slowing Uniform Asset Growth and Uniform ROA are too negative.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q4 call (1/23) highlights that management may have concerns about their outlook for the business in the near-term. Management may not think they can sustain the strong results that lead to significant beats on revenue and EPS in their most recent quarters, as they are concerned about sustaining trends for bookings growth, and SaaS revenue growth. Management also may be overstating the success of share buybacks, and downplaying concerns about lower margin sales growth. Management also may be exaggerating continued positive momentum around Azure, and may be downplaying concerns about headwinds for networ hardware orders and subscription bookings growth.

While management may have concerns about sustaining strong growth rates in the near-term, their lack of concern about their conversion to a subscription model or about profitability point to reasons for long-term confidence.

Conclusion

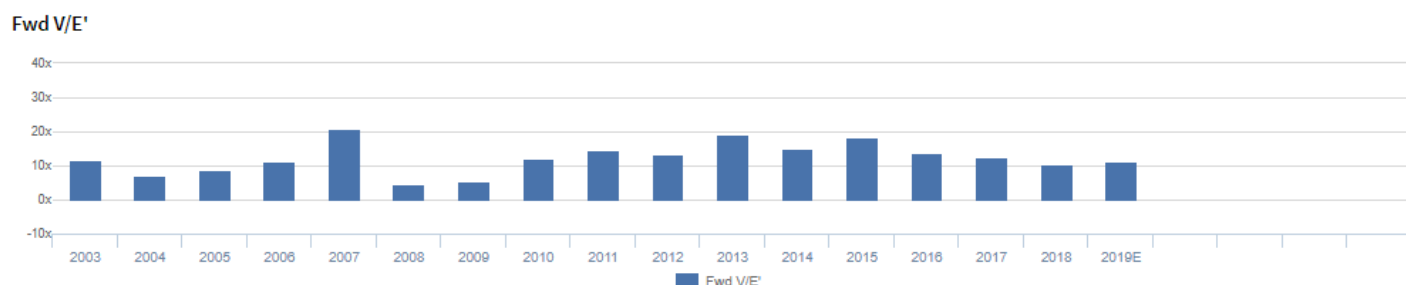
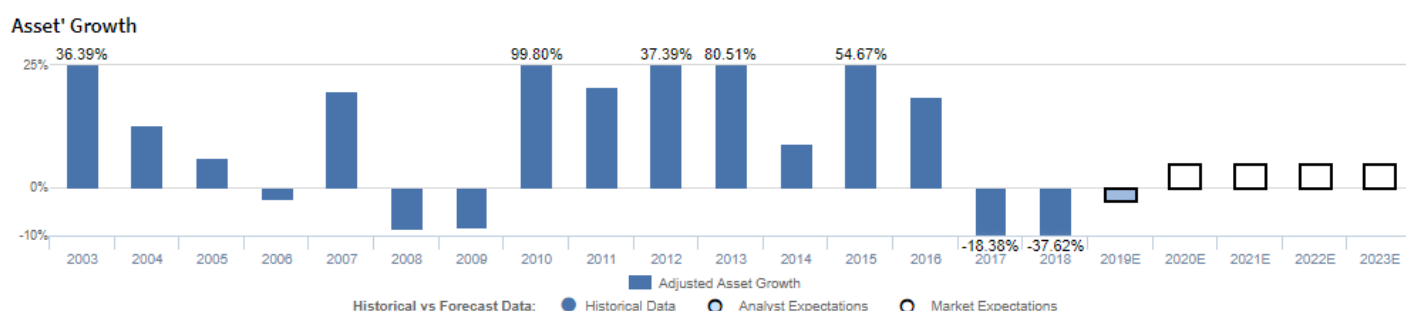
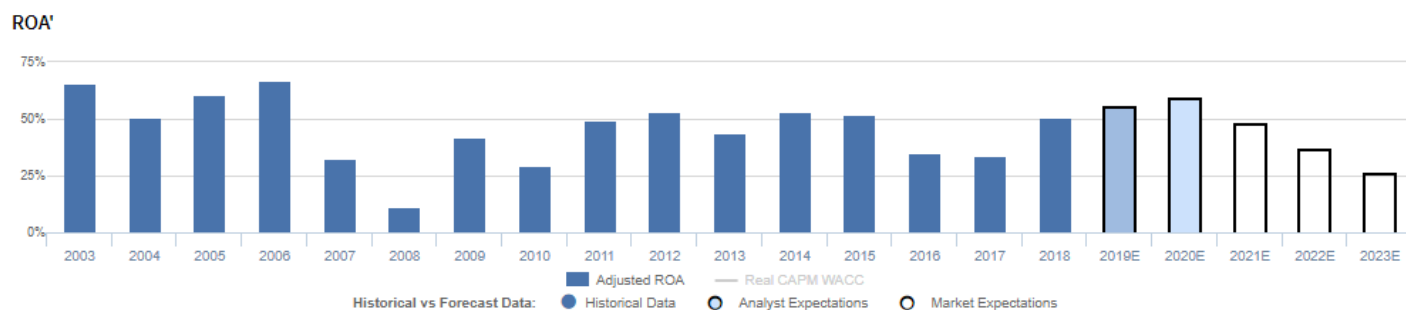
The positioning of core business opportunities, favorable management alignment, good macro positioning, smart focus and low market expectations, warrants equity upside going forward for CTXS even with near-term potential headwinds.

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Bausch Health Companies Inc (BHC)



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Bausch Health Companies Inc. (BHC)			Value
Sector	Health Care	Intrinsic Price Range:	
Price (\$)	26.12	\$10 - \$210	
MCap (\$bn)	9.17	Comments:	
ROA' (FY1)	56%	-	
V/A'	6.2		
Fwd V/E'	11.1		

Bausch Health Companies Inc. is a specialty pharmaceutical and medical device company engaged in developing, manufacturing, and marketing a range of branded, generic, and branded generic pharmaceuticals, over-the-counter products, and medical devices (contact lenses, intraocular lenses, ophthalmic surgical equipment, and aesthetics devices).

Valuations & Market Expectations

As [BHC](#) continues to recover from accusations around the company's accounting and business practices, the company has seen valuations fall to the low end of recent historical levels, with Uniform P/E (Fwd V/E') declining from 18x in 2015 to 11x and Uniform P/B (V/A') falling from 11.4x to 6.2x. At these levels, the market is pricing in expectations for Uniform ROA (ROA') to diverge from its mostly stable 45%-50% levels the past seven years, and see ROA' fall to 25%, with modest 5% Asset' growth.

BHC has historically seen strong, slightly volatile ROA' performance. Even in 2008 (their worst year), ROA' was at 10%, above the cost of capital. Since then, BHC has trumped prior performance records, achieving a 53% ROA' in 2014, their prior level, which returns have mostly stabilized around since. Uniform Asset Growth has been volatile, ranging from a high of 79% in 2013 to a low of -6% in 2009, because of the firm's acquisition-based growth strategy.

However, initially because of allegations of accounting fraud and subsequent financial restatements and related credit issues, the market has substantially discounted BHC. Driven by credit markets that are pricing BHC's debt as high-yield credit, the firm has seen previously strong valuations collapse and is now trading at multi-year lows relative to Earnings' and Assets'.

While equity and credit market see a company in crisis, sell-side consensus estimates, on the other hand, have more positive expectations. Analysts expect ROA' to continue to improve in 2019 and 2020, rising from 50% in 2018 to 56% in 2019 and 60% in 2020. Expectations are for company fundamentals the company's strong execution out of prior issues, enables sustained strong profitability moving forward.

Based on changes in the firm's governance, with industry veteran Joseph Papa taking over the CEO position, and the firm's ability to handily service debt obligations, market expectations appear too pessimistic, while analyst expectations appear more reasonable.

Credit Cash Flow Prime™

A deeper look at the credit markets further confirms this. Five-year CDS for BHC is currently at 230bps, down from 800bps+. Valens' Intrinsic CDS (iCDS) is at 280bps, highlighting the company's safer credit risk. The company has strong cash flows relative to operating obligations, and their cash flows and cash on hand will be sufficient to handle all operating and debt maturity obligations over the next five years. They have also been intelligent over the past two years about aggressively paying down and refinancing debt to reduce their credit risk profile.

While credit markets have recognized the company's safer credit profile now, equity markets are still valuing the company as though it is a default risk, as the markets perceived it in recent years. If equity market expectations adjust in line with credit markets, there is significant potential equity upside.



Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that following recent changes, BHC management's compensation framework indicates that market expectations for profitability to decline and growth to slow are likely too pessimistic. Management's short-term compensation is based on adjusted EPS and revenue growth. Meanwhile, long-term compensation is paid through performance share units (PSUs) and stock options, with the PSUs awarded based on compounded annual TSR thresholds. The EPS and revenue growth targets should drive management to expand margins while also expanding key business lines geographically and diversifying revenue sources.

These compensation metrics may normally bias management to be overly focused on growth and using debt to finance that growth, to the detriment of credit risk and asset utilization. However, considering the company's currently distressed credit environment, the management team is likely to focus on debt-driven corporate governance. This means that they are likely more focused on improving the company's credit profile than driving growth. This is a positive as it means that they are likely to improve asset utilization and rationalize the business while paying down debt, which is likely to be a positive catalyst for the equity.

Furthermore, the firm recently hired former Perrigo CEO Joseph Papa to replace Michael Pearson. Papa has a strong reputation within the community, and the price of BHC shares materially jumped on the day of the announcement, implying the market's agreement with this decision and confidence in Papa's ability to turn around the firm.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q4 2018 earnings call (2/20) highlights some concerns that have been consistent since the Q1 call. Management appear to be overstating their confidence about XIFAXAN growth, and about potential growth at Bausch + Lomb. In particular, management may not be confident about how concentrated they are in the B + L business. Management appears to also not be confident about the sustainability of generics growth.

Management also may be exaggerating their confidence about sustaining recent strong organic revenue growth and hitting their revenue growth guidance. Also, management may not be confident about revenue mix continuing to be a tailwind for gross margin, or continued tailwinds from operational improvements. Management may not be confident about sustaining current robust cash liquidity also.

While these markers highlight that management sees headwinds, these appear to be concerns about growth outlook and being able to improve operations, not about the types of profitability risks that could lead to profitability compression and ROA' falling by 2,500bps. Also, their concerns about liquidity appear to be around their ability to sustain recent rates of retiring debt, not concerns about their debt load being an issue.

Conclusion

Management's success in lowering leverage and other positives imply that market concerns for the firm are overblown. Barring bankruptcy, at current valuations, they are fairly valued at worst even if the firm continues to face severe headwinds. While management does not appear to be confident about seeing significant ROA' gains in the near-term, if the company just continues to execute, there is equity upside for the name.

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