

Valens Conviction Long List

30 November 2017



Growth stocks top our November Valens Conviction Long List, with Facebook (FB) remaining at the top of our list. Our other picks this month are: WGO, DHI, PLNT, GOOGL, ALB, LRCX, ZG, GILD, COF, FSLR, VRX, CRUS, THRM, LGIH, GRMN, CTXS, MYL, KFY, NOV, and GKOS.

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DISCLOSURES

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- Facebook, Inc. (FB) remains our top pick, with the market continuing to undervalue the company despite its strong fundamental momentum and management confidence around the key drivers of the business
- Winnebago Industries, Inc (WGO) is in the second spot on the list, due to the company's strong fundamental momentum and macro tailwinds, factors the market is still not recognizing, and factors confirmed by favorable signals in recent quarters around Earnings Call Forensics™
- In terms of style, eight GARP names make up the largest portion of our Conviction Long List this month, including Winnebago Industries, Inc., DR Horton Inc., Planet Fitness, Inc., Alphabet Inc., LGI Homes, Inc., Garmin Ltd., Citrix Systems, Inc., and Korn/Ferry International
- The sector with the most companies in the November list continues to be Information Technology, with seven firms included. Consumer Discretionary has six, Healthcare has four, and Energy, Finance, Industrials, and Materials each have one company
- We removed CVR Energy, Inc. (CVI) and Twitter, Inc. (TWTR) as both companies were approaching reasonable valuations, and had declining trends around fundamental momentum in the most recent quarter that made them less compelling ideas
- We added Albermarle Corporation (ALB), Gilead Sciences, Inc. (GILD), and Capital One Financial Corporation (COF) to the idea list this month. ALB is a Growth company with significant macro and fundamental tailwinds based on their positioning in the lithium market, where their growing capacity, low cost structure and opportunity for strong EPS' growth warrant equity upside. GILD continues to have strong returns thanks to their ability to develop unique offerings that cannot be replaced by competitors to solve large scale issues, and their recent acquisition of Kite Pharma gives confidence they will not deploy their excess capital in value destructive ways, but potentially find new growth drivers to help the market recognize their strong fundamentals. Lastly, COF is trading below peer valuations across their business units, while potentially seeing an inflection in their fundamentals and earnings power, that management is growing more confident about, pointing to reasons for market expectations to change

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TICKER	COMPANY	SECTOR	PRICE (\$)	MCAP (\$bn)	ROA' FY1	V/A'	V/E'	STYLE	INTRINSIC PRICE RANGE	COMMENTS
FB	Facebook, Inc.	Info Tech	175.10	508.8	57%	15.9	26.8	Growth	\$165 - \$375	-
WGO	Winnebago Industries, Inc.	Cons Disc	54.00	1.7	19%	2.8	14.9	GARP	\$35 - \$100	-
DHI	DR Horton Inc.	Cons Disc	50.43	18.9	11%	1.8	16.6	GARP	\$40 - \$95	-
PLNT	Planet Fitness, Inc.	Cons Disc	31.68	2.7	101%	16.7	14.8	GARP	\$25 - \$70	-
GOOGL	Alphabet Inc.	Info Tech	1,025.07	707.0	28%	6.8	20.5	GARP	\$850 - \$1,525	-
ALB	Albemarle Corporation	Materials	132.15	14.6	13%	3.9	24.4	Growth	\$85 - \$200	-
LRCX	Lam Research Corporation	Info Tech	187.81	30.4	36%	4.1	11.3	Value	\$140 - \$350	-
ZG	Zillow Group, Inc.	Info Tech	40.93	7.5	21%	7.2	29.8	Growth	\$35 - \$100	-
GILD	Gilead Sciences, Inc.	Healthcare	75.34	98.4	53%	3.5	8.0	Value	\$70 - \$400	-
COF	Capital One Financial Corporation	Finance	92.72	44.9	13%	1.4	10.6	Value	\$80 - \$170	-
FSLR	First Solar, Inc.	Info Tech	60.30	6.3	1%	1.0	-186.2	Deep Value	\$50 - \$90	-
VRX	Valeant Pharmaceuticals International, Inc.	Healthcare	17.25	6.0	33%	3.6	10.4	Value	\$10 - \$210	-
CRUS	Cirrus Logic Inc.	Info Tech	53.16	3.4	22%	2.3	10.8	Value	\$35 - \$140	-
THRM	Gentherm Incorporated	Cons Disc	35.50	1.3	12%	1.9	12.9	Value	\$25 - \$115	-
LGIH	LGI Homes, Inc.	Cons Disc	69.85	1.5	11%	1.8	14.8	GARP	\$45 - \$190	-
GRMN	Garmin Ltd.	Cons Disc	61.23	11.5	19%	2.7	15.8	GARP	\$55 - \$115	-
CTXS	Citrix Systems, Inc.	Info Tech	88.35	13.3	24%	4.8	20.1	GARP	\$70 - \$170	-
MYL	Mylan N.V.	Healthcare	38.12	20.4	28%	3.5	11.0	Value	\$25 - \$135	-
KFY	Korn/Ferry International	Industrials	42.19	2.4	19%	3.1	16.5	GARP	\$30 - \$80	-
NOV	National Oilwell Varco, Inc.	Energy	34.09	13.0	3%	1.6	27.6	Growth	\$28 - \$105	-
GKOS	Glaukos Corporation	Healthcare	26.37	0.9	17%	6.1	33.0	Growth	\$25 - \$95	-

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

Data Date:30-November-2017

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ALB	<u>Albemarle Corporation</u>	<u>18</u>
LRCX	<u>Lam Research Corporation</u>	<u>21</u>
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GILD	<u>Gilead Sciences, Inc.</u>	<u>27</u>
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Facebook, Inc. (FB)

ROA'



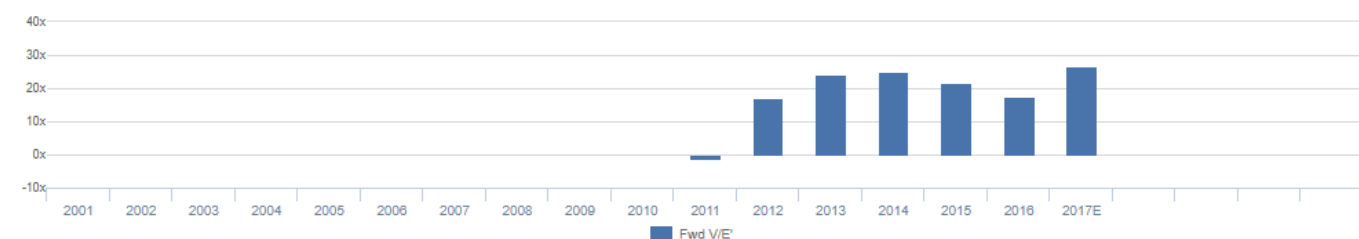
Asset' Growth



V/A'



Fwd V/E'



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Facebook, Inc. (FB)		Growth
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	175.10	\$165 - \$375
MCap (\$bn)	508.81	Comments:
ROA' (FY1)	57%	-
V/A'	15.9	
V/E'	26.8	

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 26.8x UAFRS-based (Uniform) Fwd P/E (Fwd V/E'). The market appears to expect Uniform Asset growth for the firm to stabilize at around 30% a year going forward, with ROA' declining to 28% levels over the next several years as the firm fails to maintain the robust returns from their investments.

FB has done an excellent job on 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 two subsequent years, even as Uniform Asset growth remained robust at north of 30% every year.

The company has also done an excellent job at 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.

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 to even potentially expanding ROA'. This makes current expectations appear too negative.

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 Q3 2017 earnings call (11/1) continued to mostly highlight a continuation of management's confidence about their outlook for the business going forward, signals that had been consistently highlighted across the last eight quarters worth of calls. During the call, management generated confident markers when talking about ad revenue growth, and expanding usage trends and revenue generation across both phones and computers. Also, while they were highly confident that expense growth will be an operating margin headwind in 2018, these markers also highlight that management is confident they have identified the investments and can manage them to limit their long-term damage to profitability. While management may be concerned about FX trends, and Marketplace growth, these are not key areas for their long-term growth that raise concerns.

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These markers highlight that management is currently seeing strong fundamental momentum. With the market already pricing in Asset' growth declining significantly and a dramatic ROA' decline going forward, markets appear to be grossly exaggerating current concerns.

Conclusion

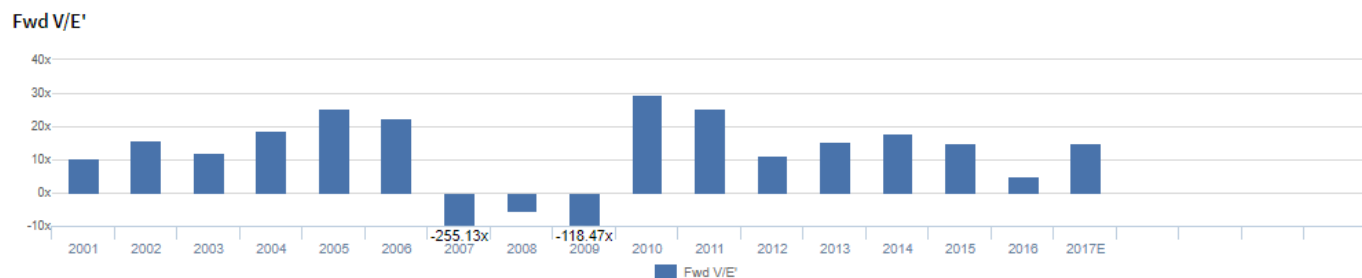
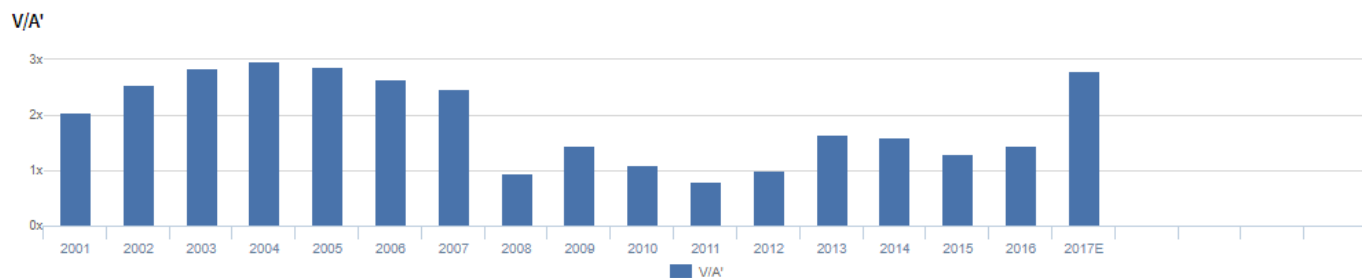
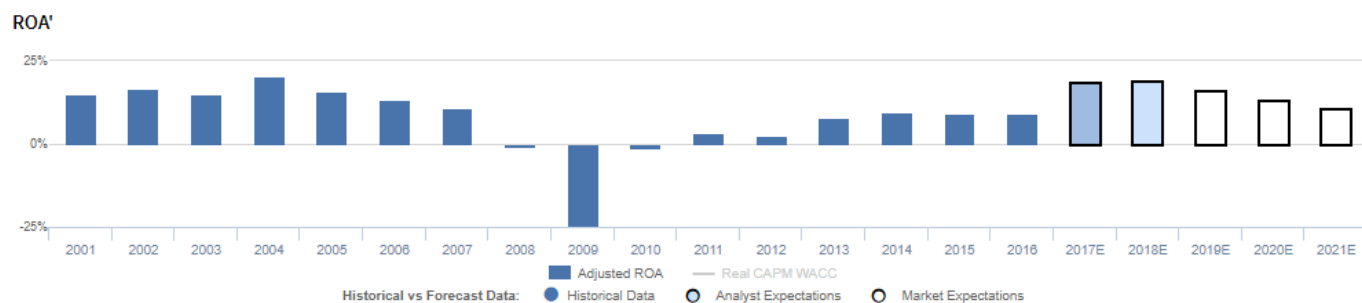
FB's strong fundamental momentum, which the market continues to undervalue, justifies equity upside.

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Winnebago Industries, Inc. (WGO)



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Winnebago Industries, Inc. (WGO)			GARP
Sector	Cons Disc	Intrinsic Price Range:	
Price (\$)	54.00	\$35 - \$100	
MCap (\$bn)	1.72	Comments:	
ROA' (FY1)	19%	-	
V/A'	2.8		
V/E'	14.9		

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 14.9x Uniform P/E (Fwd V/E'), in the middle of historical valuations. The market is expecting 8% Uniform Asset (Asset') growth going forward, toward the lower end of recent Asset' growth levels. The market also expects Uniform ROA to be at 11% levels over the next several years, even though analysts expect ROA' to improve to 19% the next several years.

Before the Great Recession, WGO was consistently a double digit ROA' business. WGO regularly generated a 13%+ ROA' with steady 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 has strategically used their limited leverage to make a smart strategic acquisition recently, acquiring SunnyBrook RV to help grow their footprint. This should help the company continue to drive growth, and their ability to improve this business as they've improved their own should create further value.

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 the potential that management would sell the company, a further possible catalyst for equity holders.

Earnings Call Forensics™

Also, during the Q4 2017 earnings call (10/19), management continued to see confidence that had been seen in prior calls, pointing to the company's strong fundamentals. Management was confident when talking about growth opportunities from macro trends like lifestyle changes driving demand for their products, and how a great deal of their sales recently has been to users new to the RV lifestyle. They were also confident when talking about several of their different segments, including their Towables, and the value of their capital investment in that business, and when talking

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about their new Reflection 150 Series offering. Management is clearly confident they are investing in the right areas, and are seeing growing demand trends.

Q4 highlighted a significant inflection in management having confidence in accelerating positive fundamental momentum going forward. This is a sign that the fundamentals for the business continue to be robust.

Conclusion

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

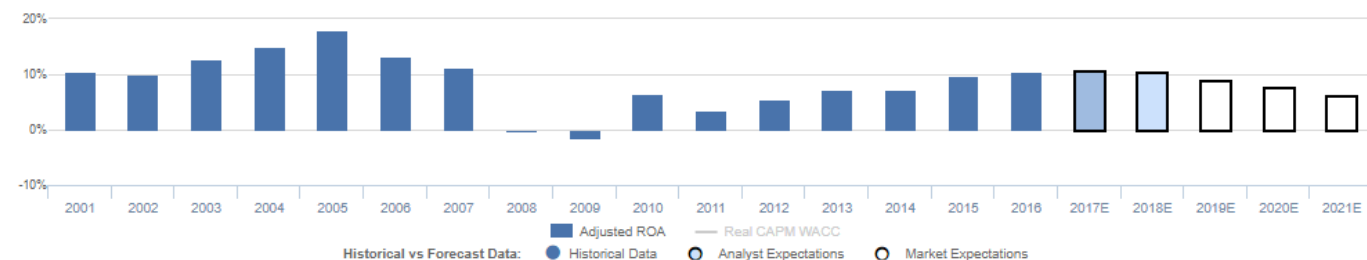
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D.R. Horton, Inc. (DHI)

ROA'



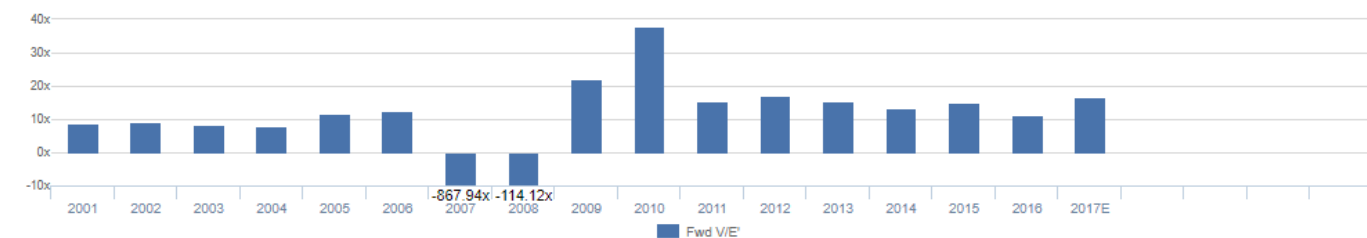
Asset' Growth



V/A'



Fwd V/E'



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DR Horton Inc. (DHI)		GAAP
Sector	Cons Disc	Intrinsic Price Range:
Price (\$)	50.43	\$40 - \$95
MCap (\$bn)	18.91	Comments:
ROA' (FY1)	11%	-
V/A'	1.8	
V/E'	16.6	

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 1.8x Uniform P/B (V/A'), in the middle of recent valuations. Uniform P/E (Fwd V/E') also trades in the middle of historical valuations at a 16.6x multiple. The market is expecting Uniform ROA to fall to 6%-7% levels from 10% levels in 2016, with slower 10% 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 management 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 Q4 2017 earnings call (11/9) highlighted that management continues to generate the bullish markers they have in recent calls. While management did show concern about continuing to drive 10%-15% unit growth and land spend in 2018, this is higher than market expectations. At the same time, management's confidence about improving margins for their financial services segment, reducing leverage, commitment to buy-back shares, and improving ROE even in the face of declining leverage point to a management team seeing continued strong execution and fundamental momentum.

Conclusion

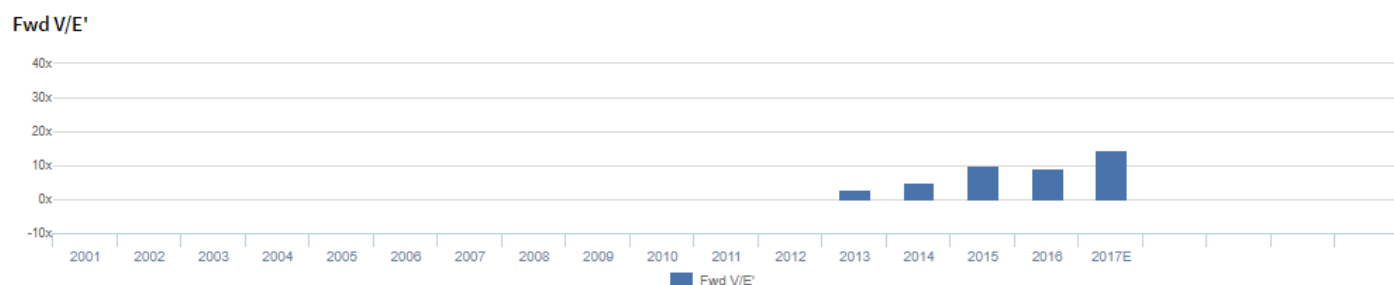
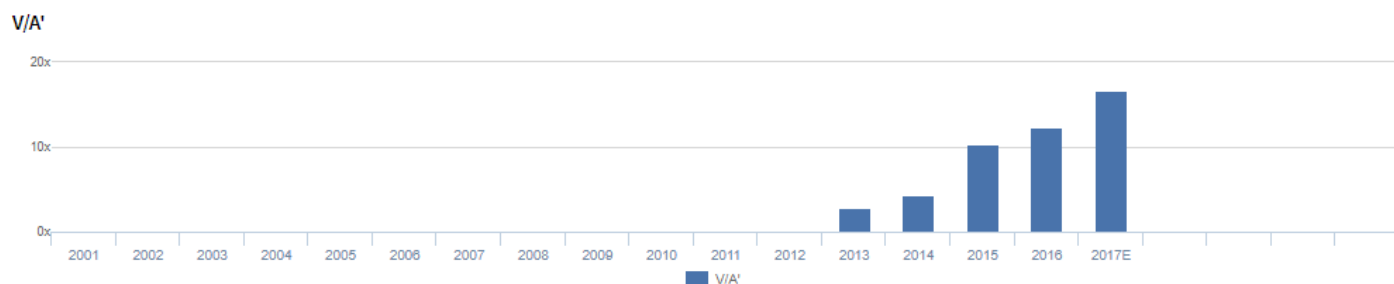
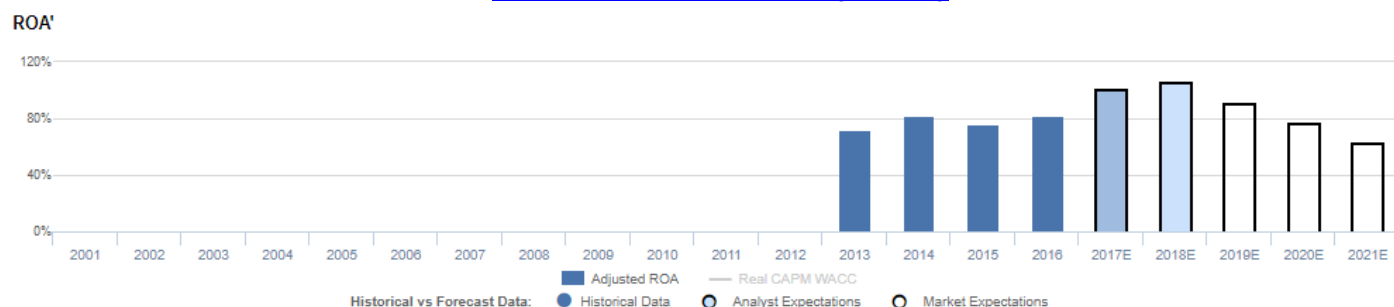
Low market expectations are for Uniform ROA and Uniform Asset Growth, combined with management's strategic shift into secular growth areas of their business, and management's continued confidence about their outlook, signal opportunity for equity upside.

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Planet Fitness, Inc. (PLNT)



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Planet Fitness, Inc. (PLNT)		GARP
Sector	Cons Disc	Intrinsic Price Range:
Price (\$)	31.68	\$25 - \$70
MCap (\$bn)	2.72	Comments:
ROA' (FY1)	101%	-
V/A'	16.7	
V/E'	14.8	

Planet Fitness, Inc., through its subsidiaries, franchises and operates fitness centers. It is involved in franchising business in the United States, Puerto Rico, Canada, and the Dominican Republic and operates corporate-owned stores in the United States and Canada. It also sells fitness equipment to franchisee-owned stores.

Valuations & Market Expectations

PLNT is trading at a 14.8x Uniform P/E (Fwd V/E'), which is at the high end of valuations for the company since it went public. However, even at these valuations, the market still does not appear to fully grasp the company's operating model and the substantial operational upside the company can generate.

PLNT currently has roughly 1,000 stores, and has plans to expand their store base by 200 stores a year for the next 5 years, roughly doubling their store count. However, the company is a franchising model, where they do not have to commit significant capital to the business for each incremental store that is opened, and they instead make money based on their franchisees buying equipment from them and take a portion of customer membership dues. Because of this, as the company grows, there is likely to be significant ROA' upside. However, the market is pricing the company to have ROA' decline over the next several years, which seems unreasonable.

At current valuations, the market is expecting ROA' to not rise from 81% to 106%, as forecasts, and the company's business plan, would project, but rather to see ROA' fall to 63%, with 8% Asset' growth at the low end of historic levels. However, it is more likely that the company will continued to see that healthy 8%+ Asset' growth, but thanks to them growing their store base by 100% over the next several years, they're likely to see ROA' actually approach 120% levels, signaling significant upside. Even if management slows their planned store count, when in fact the demand for their stores, both from locations looking for tenants and from subscriber remains robust, meaning this is not likely, they're still more likely to see ROA' expansion as opposed to contraction.

Credit Cash Flow Prime™

Part of the reason the market may not believe in PLNT's ability to execute on their growth program may be their concern about PLNT's significant debt load, which the company took on before they were IPO'd by TSG Consumer Partners. However, Credit Cash Flow Prime analysis helps highlight that the company's debt maturity schedule is not an area of concern. Thanks to PLNT's strong cash flow building capability, and the lack of maturities until their 2021 debt maturity headwall, the company could pay down its debt entirely with cash flow it generates, if it chose not to refinance.

However, thanks to the company's strong return streams and limited operating commitments and cash flow risk due to their franchising model, PLNT actually can handle significant leverage, above and beyond what they currently hold. And, once their issues around their multiple share classes are removed, there is ample opportunity for the company to return significant capital to shareholders, which could help drive investors to recognize PLNT's opportunities.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q3 2017 earnings call (11/7) highlighted positive signals from management overall. Management generated an excitement marker when saying that they are working on a plan to reopen their stores in Puerto Rico. Additionally, they are confident about the value of their offerings for Black Card members, particularly total body enhancement, and the timing of their new Black Card pricing rollout. However, they may lack confidence about the sustainability of corporate same-store sales growth. They also appear concerned about the sustainability of operating income growth.

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While management may be concerned about same-store-sales growth, thanks to their organic growth strategy for new stores, they do not need to generate significant same-store-sales growth to drive ROA' upside relative to market expectations. With management confident about their strategy for stratifying their customer base, they also are likely to continue to be able to fuel growth by delivering differentiated products to their client base.

Conclusion

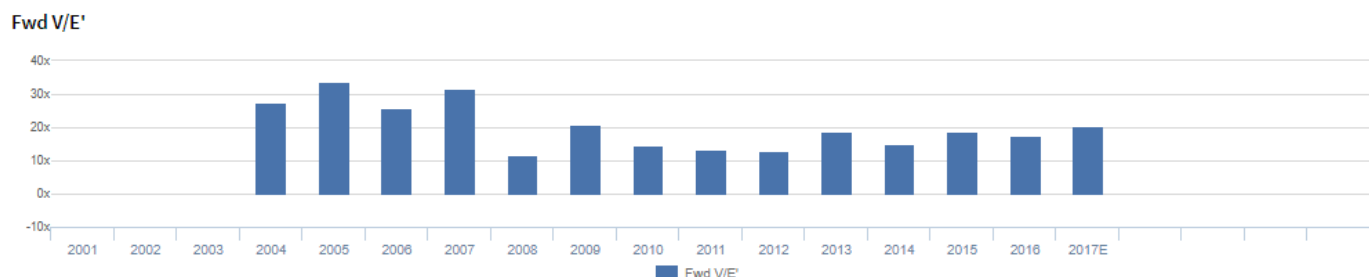
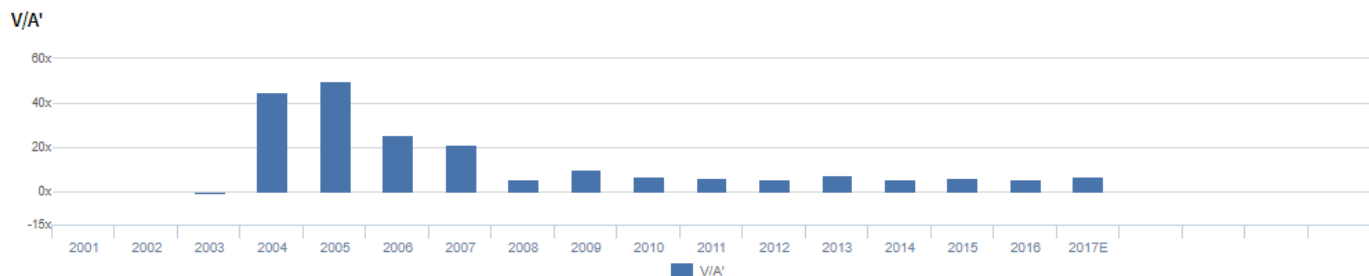
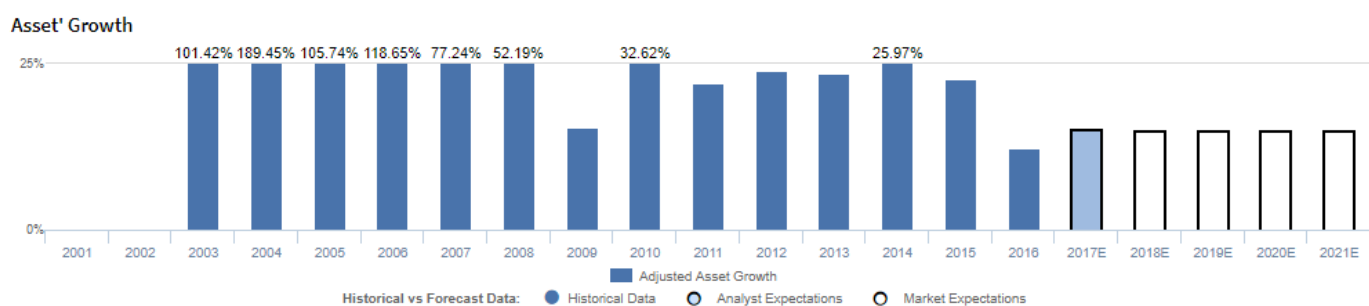
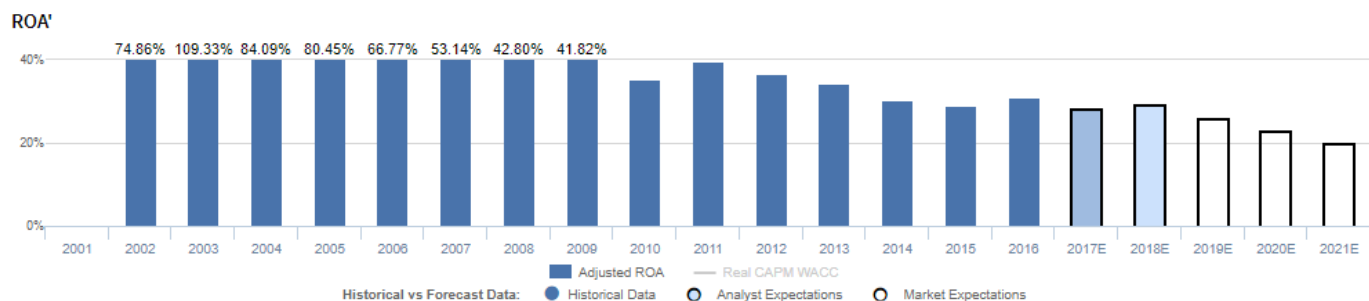
Pessimistic market expectations for PLNT, and overstated market concerns about credit risk are masking PLNT's strong operating performance, management confident about the business, significant potential ROA' and stock price upside, and material opportunities for investors to see returns of capital that could help drive further equity upside.

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Alphabet Inc. (GOOGL)



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Alphabet Inc. (GOOGL)		GARP
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	1,025.07	\$850 - \$1,525
MCap (\$bn)	707.01	Comments:
ROA' (FY1)	28%	-
V/A'	6.8	
V/E'	20.5	

Alphabet Inc. is a collection of companies that include Calico, Google's health and longevity effort; Nest, its connected home business; Fiber, its gigabit internet arm; and Google Ventures and Google Capital, its investment divisions. Alphabet also includes incubator projects, such as Google X. Google Inc. retains search, ads, Google Maps, apps, YouTube, Android, and their cloud infrastructure.

Valuations & Market Expectations

[GOOGL](#) is trading at a 20.5x Uniform P/E (Fwd V/E'), as the market is expecting Adjusted ROA to fade from last year's 31% levels to 20% over the next several years, with 15% Adjusted Asset Growth at the low end of historic levels. However, GOOGL's success in cornering the internet advertising market, combined with continued robust innovation to help drive their core business and develop non-core businesses which they are beginning to see positive benefits from in their fundamentals, imply that market expectations are too negative. On top of that, management's renewed focus on creating these opportunities, while also aggressively controlling costs, signals a renewed level of commitment to an intelligent operating model and better sustainability of the company's Adjusted ROA. Expectations for steady Adjusted ROA degradation are therefore too negative.

It is particularly significant that even with management's renewed cost focus, that has helped stabilized ROA' the past 4 years including 2017, the company actually is likely to still deliver 15%-20% Asset' growth this year, showing how market expectations for both ROA' and Asset' growth are likely too pessimistic.

Incentives Dictate Behavior™

In late 2015, GOOGL brought in a new CFO, Ruth Porat, who had previously been the CFO of Morgan Stanley. At the same time, the company also turned over the day-to-day operations of the core Google business from Alphabet CEO Page to Google CEO Pichai. One of the major goals of this move was to separate the growth engines of the business from the core, strongly profitable parts of the business. Specifically, CFO Porat spoke during her first and subsequent calls about their focus on improving their cost controls and being more rational on their decisions on which projects to fund or not to fund.

This appears to have marked a change in strategy for GOOGL, however modest. Management is no longer going to invest in all "moon shots" but only when the investment appears warranted, even if only for the long term. As such, expectations for growth to remain robust, but at the lower end of historical ranges, may be justified. Moreover, a slower, or potentially halted trend in Adjusted ROA declines also appears warranted.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q4 2015 (2/1) through Q3 2017 (10/26) earnings calls highlights confirmation around improving expense confidence that was seen in prior calls. Management did not generate any highly questionable markers about expenses, implying that they are gaining more control on expenses, which should substantially slow Adjusted ROA compression.

Also, while management remained concerned overall about growth, during the Q3 2017 call, management did show confidence about some growth areas, showing improving outlook in this area too. Management was confident about the value of the addition of thoughtfully contextual information to Google Maps and how that could drive usage growth. They were also confident about their decision to buy the Pixel team and IP from HTC and how that could benefit growth.

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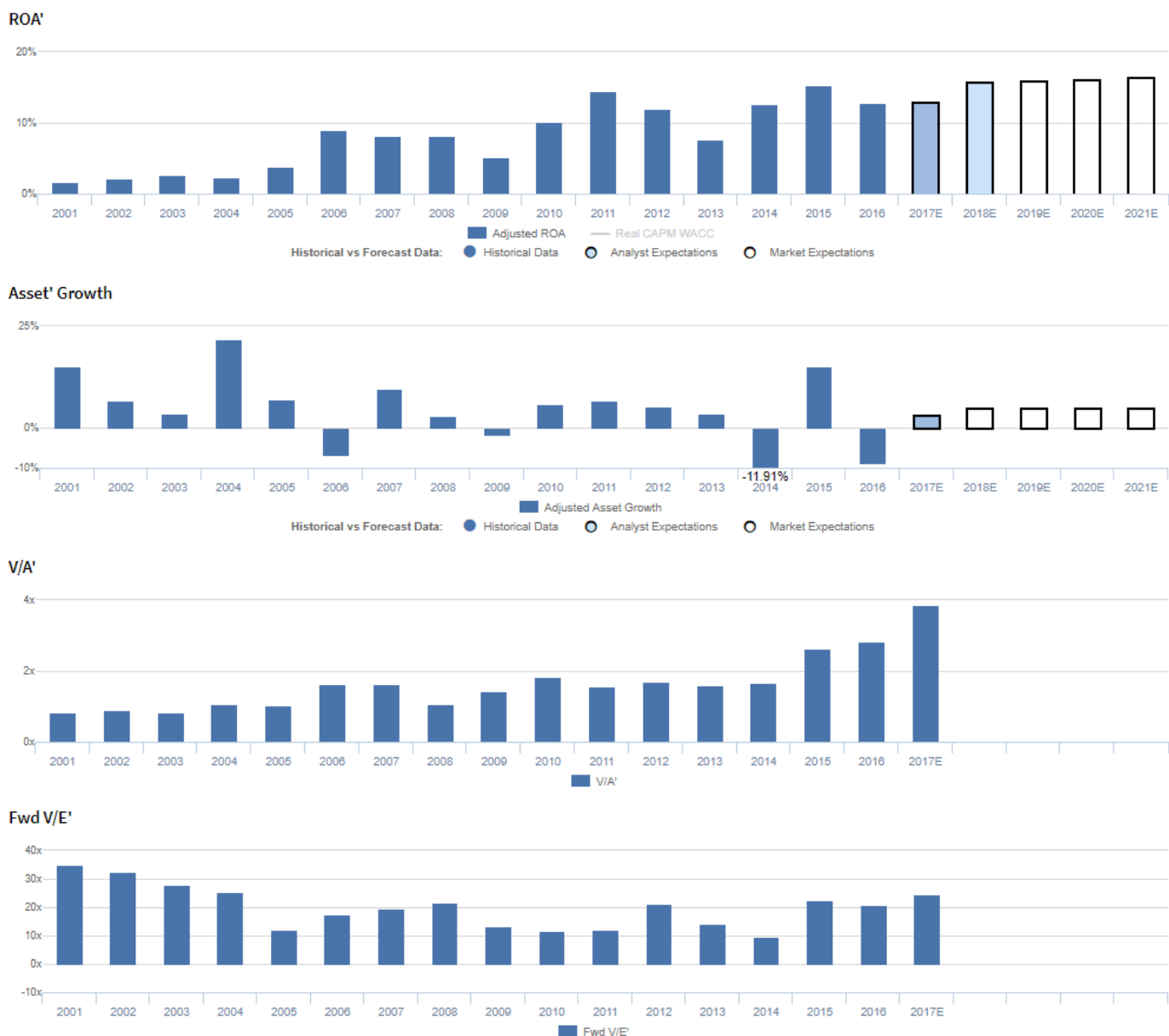


However, they may lack confidence in their ability to drive growth in new areas, and may be concerned about the sustainability of revenue growth. Moreover, they may be concerned about the potential of their ARCore partnership with Samsung, and may lack confidence in their ability to grow their Google Cloud enterprise customer base.

Conclusion

The lack of highly questionable markers on cost savings initiatives should point to these initiatives continuing to progress. Also, while management still showed some growth reservations, their improving outlook on growth on the margin, combined with the lack of material concerns about their fundamentals limits these concerns and offer reason for growing confidence. Sustained ROA' higher than market expectations and robust growth imply that current low market expectations relative to history are not warranted, and that there is likely to be equity upside going forward.

Albemarle Corporation (ALB)



Valens Conviction Long List

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Albemarle Corporation (ALB)		Growth
Sector	Materials	Intrinsic Price Range:
Price (\$)	132.15	\$85 - \$200
MCap (\$bn)	14.60	Comments:
ROA' (FY1)	13%	-
V/A'	3.9	
V/E'	24.4	

Albemarle Corporation is a global developer, manufacturer and marketer of highly-engineered specialty chemicals. The Company operates through three segments: Lithium and Advanced Materials, Bromine Specialties and Refining Solutions. The Company serves various end markets, including petroleum refining, consumer electronics, energy storage, construction, automotive, lubricants, pharmaceuticals, crop protection, food safety and custom chemistry services.

Valuations & Market Expectations

ALB is trading at the high end of historic valuations, with a 24.4x Uniform P/E (V/E'), and on an initial glance, market expectations for ALB appear elevated. The market is expecting ALB to see 5% Asset' growth going forward, not out of line with history, but to also see ROA' plateau around 15%-16% levels going forward, in line with 2015 peak ROA'. However, when put in context of what the market is expecting for ALB's Uniform EPS (EPS') growth, and in the context of the macro factors driving ALB, expectations do not appear excessive, and appear low.

ALB's EPS' growth is forecast to be 21%+ over the next several years, on the other hand, the market is only currently pricing them to see 12% EPS' growth going forward, highlighting low market expectations. ALB also has strong macro tailwinds and favorably positioning that is likely to enable them to see stronger growth and sustained high ROA', spelling sustained elevated EPS' growth.

42% of ALB's revenue comes from lithium production, and they are one of the market leaders in lithium production. ALB benefits in this business from some of the lowest production costs around lithium extraction, thanks to their long-term contracts in Chile. They also have significant agreements for production growth, with their production forecast to double in the next five years, from their Chilean assets and other assets they control, with incremental growth beyond these levels. Lastly, while ALB generally locks their production into long-term contracts, as new production comes on, and those contracts re-set, they continue to benefit from higher prices on lithium, driven by higher demand.

Of course, the macro reason why exposure to lithium is significant for ALB is because of electric vehicles and grid storage solutions for renewable power and other reasons. All these massive growth areas require battery storage, of which lithium ion batteries have been proven to be the ideal solution, so as growth here continues, ALB, as a market leader in terms of volume, production growth and cost levels, will be one of the largest beneficiaries. This will translate into equity upside even when taking into account their other businesses, like Refining and Bromine, which will not see similar trends.

Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that ALB management is favorably aligned to create value for shareholders. Short-term incentive compensation is based on EBITDA and free cash flow, while long-term incentive compensation is based on TSR relative to their peer group for their PSUs, and overall stock performance for their RSUs and stock options. This compensation framework is favorably balanced as EBITDA compensation drives management to continue to grow the business, while free cash flow compensation guarantees they do so while continuing to manage their asset base efficiently.

Earnings Call Forensics™

Earnings Call Forensics™ of the firm's Q3 2017 earnings call (11/9) highlights that management is confident in their ability to achieve their FY2017 adjusted free cash flow guidance, and that ongoing productivity and efficiency projects at their plants in China should have a meaningful long-term impact on their cash flow. Additionally, they are confident that demand in their catalyst business was stronger than initially expected.

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They are also confident that, as shipments go out in Q4 2017, working capital should come down relative to Q3 2017, and that, while some of their secured orders are lumping up at the end of the year, there is no risk of losing those orders. However, they may lack confidence in their upgraded adjusted diluted EPS guidance, and in their upgraded adjusted EBITDA growth guidance for their lithium segment. Furthermore, they appear to be downplaying concerns about the dividend growth potential of their Talison joint venture, and may lack confidence in their ability to increase lithium volumes by 10,000 metric tons annually.

These markers highlight that management sees strong fundamental momentum going forward around free cash flow, one of their core compensation metrics, and around their overall operations, and where they are trending. It will be important to monitor how they execute on growth efforts, as this appears to be an area of concern, but overall, management's strong confidence points to the positives the business is seeing.

Conclusion

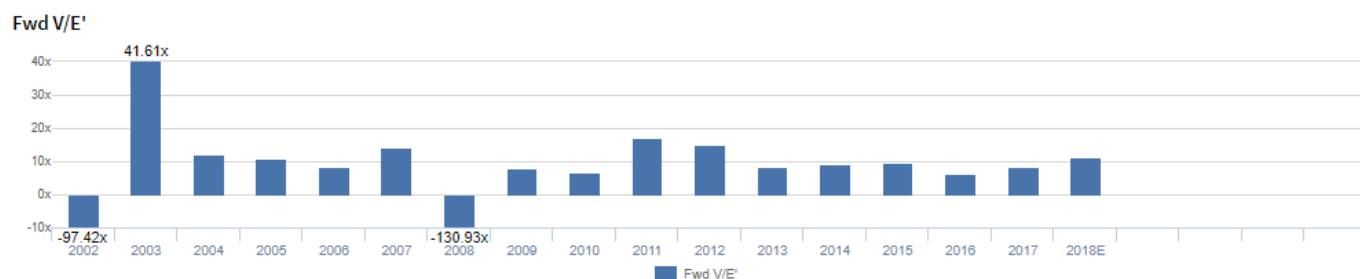
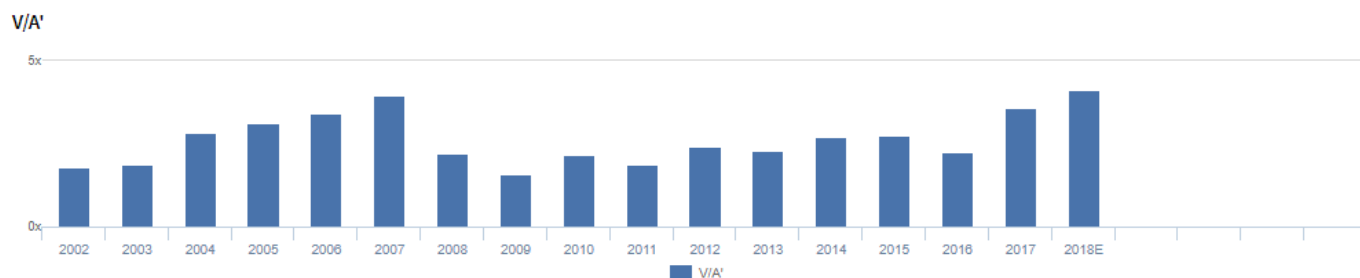
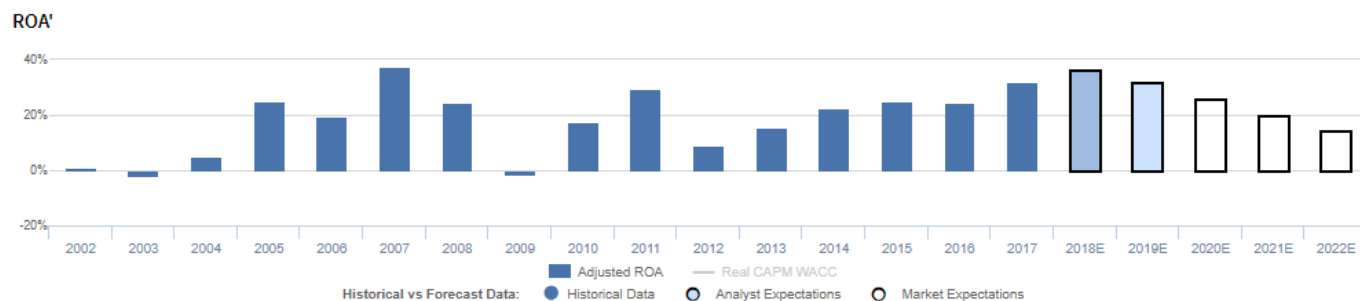
While equity markets are pricing in growth for ALB, they do not appear to recognize how strong ALB's performance is likely to be in coming years thanks to their favorable macro positioning, management's strong execution and alignment, and management's confidence in their outlook for the business. This spells potential for equity upside going forward.

Valens Conviction Long List

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Lam Research Corporation (LRCX)



Valens Conviction Long List

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Lam Research Corporation (LRCX)			Value
Sector	Info Tech	Intrinsic Price Range:	
Price (\$)	187.81	\$140 - \$350	
MCap (\$bn)	30.42	Comments:	
ROA' (FY1)	36%	-	
V/A'	4.1		
V/E'	11.3		

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 11.3x Uniform P/E (Fwd V/E'). At these levels, the company is trading at the bottom end of the Semiconductor Equipment segment's Adjusted 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 above cost-of-capital for the past seven to eight years, and sustained improvement with Adjusted 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 Adjusted 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 Adjusted ROA to fall from 32% levels in 2017 and projected 36% levels in 2018 down to 14%, with Adjusted 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. And 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. Considering the growth window for the industry, LRCX could see sustained Adjusted 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 adjusted ROA as most of the volatility on LRCX's Adjusted 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™

Earnings Call Forensics™ of the Q1 2018 earnings call (10/17) highlighted continued mixed signals for near-term fundamentals from management. Management was confident about the strategic fit of their systems business with their customer's needs. However, they appear concerned about the sustainability of accelerating industry growth, and may be downplaying concerns about weakness in China. Moreover, they appear to be downplaying concerns about their guidance, and may lack confidence in their ability to continue to improve operating leverage.

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This is not significantly different from their Q4 call, where management showed confidence about customer buy-in to their solution, but concerns about the rate of end market growth in some areas, and their ability to further boost margins.

While management doesn't appear confident that they can continue to see growth accelerate, if they're able to maintain current performance, there is significant upside for the company. Considering management's concerns appear to be about their ability to improve, and management does not appear to have any concerns about operational declines going forward, these are actually positive signals for the company.

Though management outlook appeared substantially more positive than in the prior Q3 call, management did generate highly questionable markers that signal concerns about service business growth. They also appear to not think they can expand gross margin further, though the lack of concern about margin compression is significant, since the market is already pricing in significant return declines.

Conclusion

Long-term macro tailwinds for the business, strong corporate performance, favorable management alignment, and confidence from management about their outlook for the business all spell reasons for equity upside for LRCX going forward.

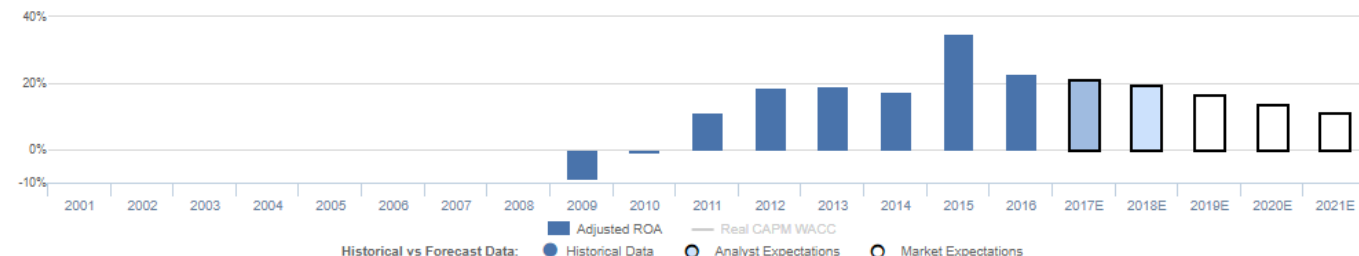
Valens Conviction Long List

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Zillow Group, Inc. (ZG)

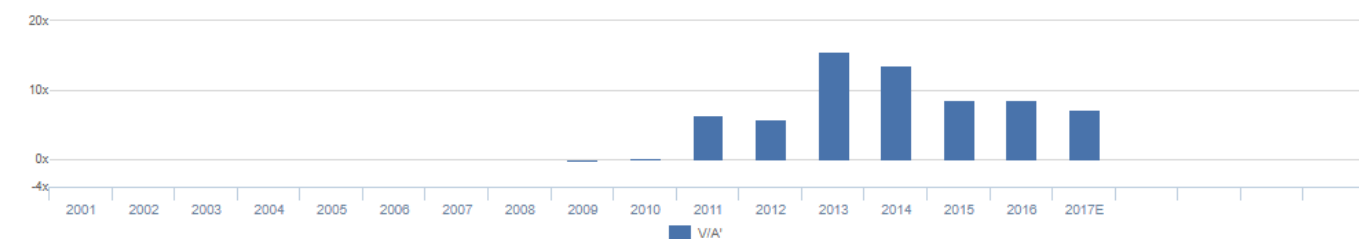
ROA'



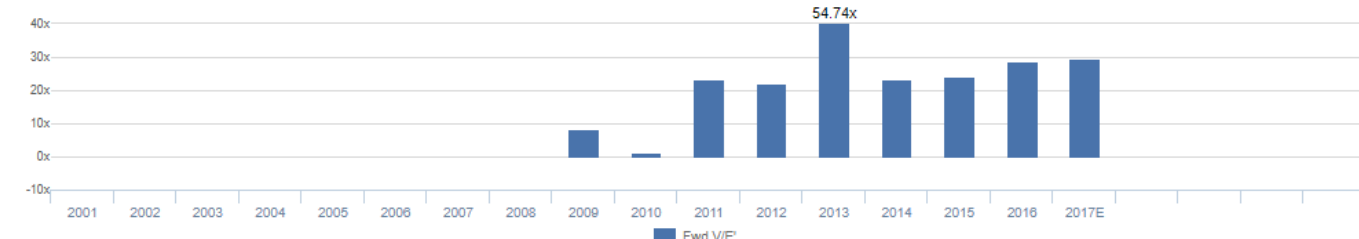
Asset' Growth



V/A'



Fwd V/E'



Valens Conviction Long List

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Zillow Group, Inc. (ZG)		Growth
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	40.93	\$35 - \$100
MCap (\$bn)	7.51	Comments:
ROA' (FY1)	21%	-
V/A'	7.2	
V/E'	29.8	

Zillow Group, Inc. offers real estate and home-related brands on the web and mobile. Their consumer brands include real estate and rental marketplaces such as Zillow, Trulia, StreetEasy, and HotPads. They also work with real estate agents, lenders, and rental professionals, and connect them to consumers through various products.

Valuations & Market Expectations

ZG is trading at the low end of historical valuations with a 7.2x Uniform P/B (V/A') though at the higher end of historical valuations with a 29.8x Uniform P/E (Fwd V/E'). After the acquisition of Trulia, ZG has seen Uniform ROA rise from 17% to 23%, which is projected to remain around 20% going forward. However, the market is expecting Adjusted ROA to fall to 11%, levels not seen since 2011, with Adjusted Asset Growth at the low end of historic growth rates.

Adjusted ROA expectations appear unreasonable, considering that the company has acquired their largest competitor and is likely to gain pricing power. Moreover, they may be able to realize synergies from the acquisition. The company also still has a very small share of the total real estate market, giving it ample opportunity for incremental growth. Current growth expectations are therefore reasonable at worst, and are likely far too low.

At this point, ZG appears to be at the same stage of penetrating their market that companies like EXPE or PCLN were in the late 1990s. Having just taken out its biggest competitor, the company appears poised to be able to benefit from all the growth in their market, as they grow the digital share of the real estate market pie. They also are likely to be able to benefit tremendously from economies of scale for their infrastructure, to likely drive Adjusted ROA higher, spelling reason for substantial optimism for ZG going forward.

Incentives Dictate Behavior™

ZG's management compensation is aligned to focus on growth, revenue growth, and new product monetization in particular. For an early stage life-cycle company, a focus on revenue growth is vital, especially when the company has the opportunity to compound the sizable Adjusted ROA they are currently generating. Also, the focus on new product monetization is a positive component of the compensation framework as it drives management to attempt to create new solutions for the client base they are already servicing (and new client bases) to increase their take from clients that already need to use their service for other solutions. It also enables management to create new ways to monetize the infrastructure they already have post-Trulia, to generate new revenue sources on already in place invested capital.

Earnings Call Forensics™

While long-term fundamentals remain robust for ZG, Earnings Call Forensics™ of the Q3 2017 (11/7) call highlights confidence from management in areas that they had some concerns about during Q2. During the Q2 call management had concerns about their outlook for revenue growth, engagement and cost pressures. However, during Q3, management showed renewed confidence in the sustainability of their sales growth going forward, in particular to existing advertisers. They also showed new confidence that they are seeing growth opportunities in New York, as they see that as an under-penetrated market.

On the other hand, management still showed some areas where they are concerned coming out of Q3. Management may not be confident about their ability to accelerate growth in their Premier Agent business, and they appear to continue to see some short-term issues around managing the auction dynamics in the New York market, and in their efforts to help homebuilders with listing their listings on Zillow.

Valens Conviction Long List

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These markers show a management team that still remains confident about their long-term business opportunities, but is seeing operational headwinds that may create near-term operational issues.

Conclusion

Considering the market's bearish sentiment, ZG's appropriate management compensation framework, and the company's strong fundamental positioning longer-term, ZG has significant equity upside, and even with management's concerns about near-term execution issues, their confidence about growth should facilitate the market recognizing how expectations are too low.

Valens Conviction Long List

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Gilead Sciences, Inc. (GILD)

ROA'



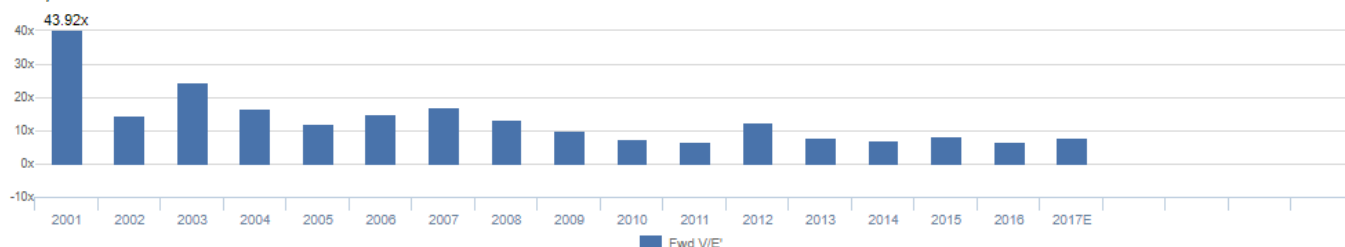
Asset' Growth



V/A'



Fwd V/E'



Valens Conviction Long List

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Gilead Sciences, Inc. (GILD)		GARP
Sector	Healthcare	Intrinsic Price Range:
Price (\$)	75.34	\$70 - \$400
MCap (\$bn)	98.41	Comments:
ROA' (FY1)	53%	-
V/A'	3.5	
V/E'	8.0	

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 3.5x Uniform P/B (V/A'), at the bottom of historical valuations. The company also is trading at incredibly inexpensive valuations relative to adjusted earnings, Uniform P/E (Fwd V/E') is at an 8x, well below peer valuations. The market is expecting Uniform ROA to fall to 10% levels from forecasted 2017 53% levels, with 15% 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, and gained 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 7.7x levels to 3.5x levels in 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 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 Q3 2017 earnings call (10/26) also highlighted continued growing confidence from management, after a positive inflection in Q2. In Q2 2017, management showed excitement about conversion from competitors' products to theirs in the HIV market, and about growth trends and reimbursement trends in the HBV market. During Q3 2017, management particularly showed excitement and confidence about the Chinese market, and developments for HCV they are seeing in that market, and about their work with the Chinese FDA. While management continues to show concerns about pricing pressure in some of their markets, their growing confidence about end market demand and market share trends highlight reasons to believe their core business will have more resilience than the market is expecting. This, combined with the acquisition of KITE to help fuel new growth will help the market recognize the company's strong fundamentals.

Valens Conviction Long List

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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 confidence in execution in their current market point to equity upside going forward.

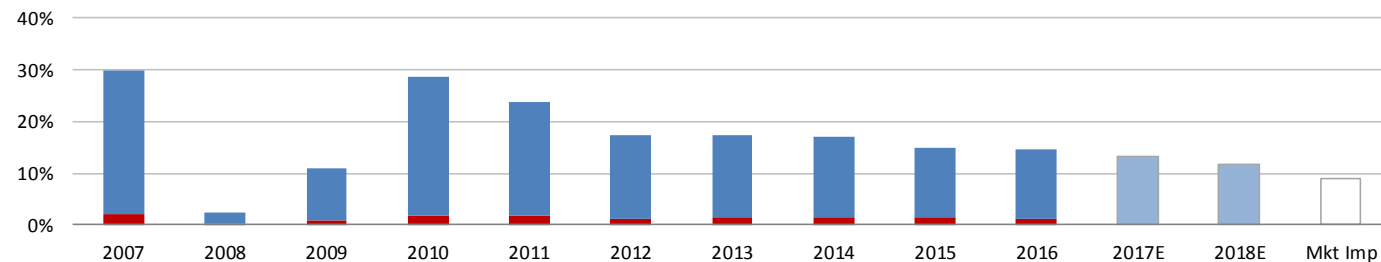
Valens Conviction Long List

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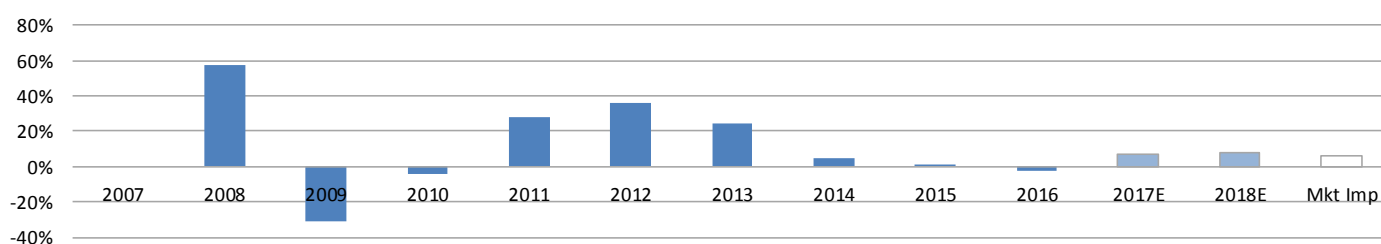


Capital One Financial Corporation (COF)

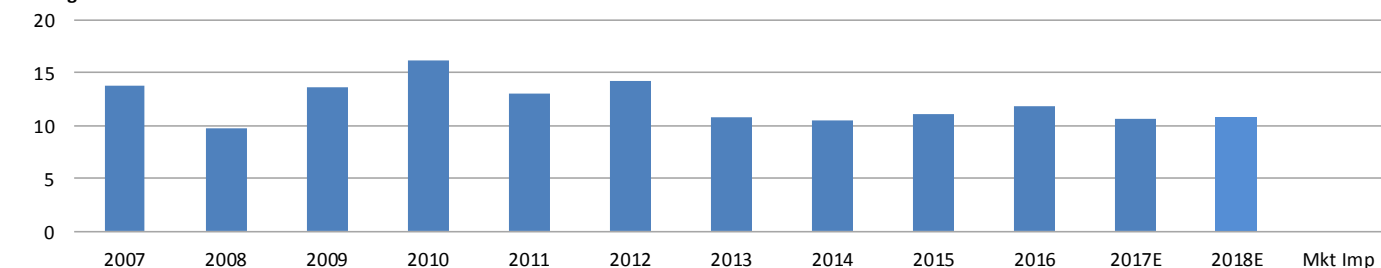
ROE/ROA



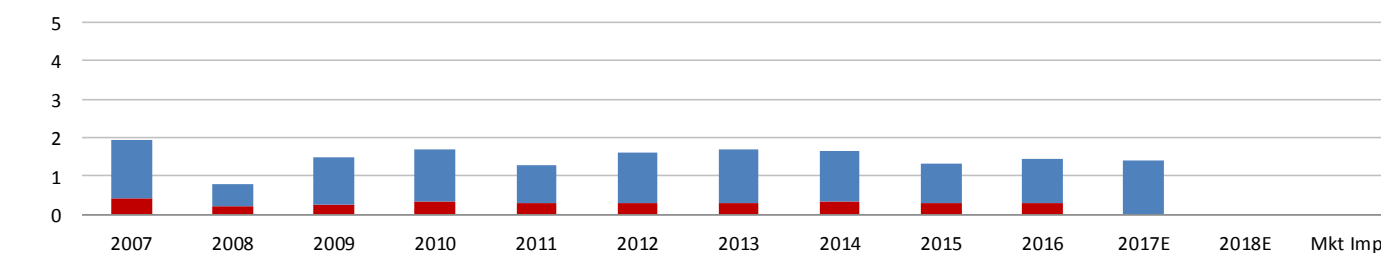
Equity Growth



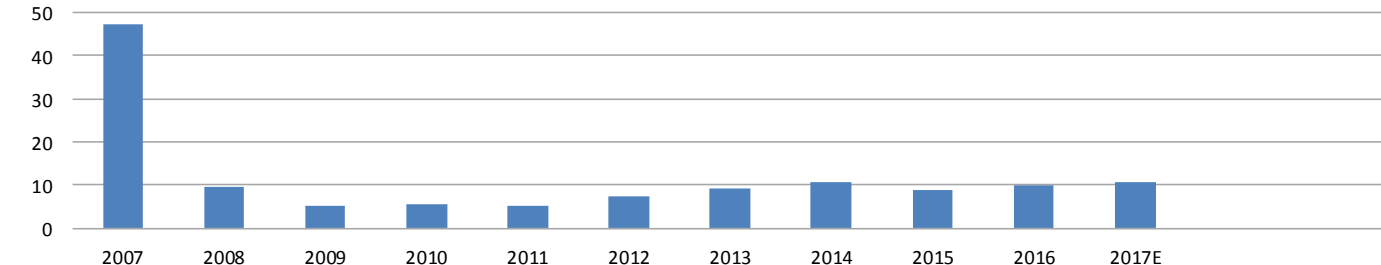
Leverage



Market Cap/Equity and EV/Assets



P/E'



Valens Conviction Long List

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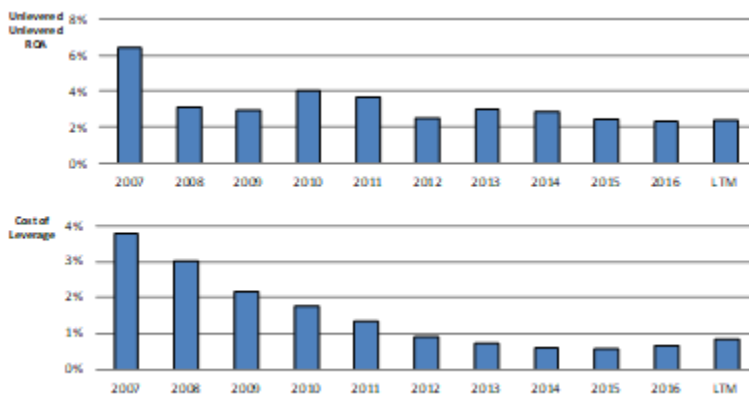


Capital One Financial Corporation (COF)		Value
Sector	Finance	Intrinsic Price Range:
Price (\$)	92.72	\$80 - \$170
MCap (\$bn)	44.95	Comments:
ROA' (FY1)	13%	-
V/A'	1.4	
V/E'	10.6	

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 has seen their Uniform P/E (Fwd V/E') rise steadily over the past several years, however COF still trades well below peer multiple levels at a 10.6x Uniform P/E. Their peers in the Consumer Finance (58% of their business) space average a 13x P/E', and in the Regional Bank (42% of their business) space average a 15x P/E', highlighting they trade at a discount. They also remain one of the few financial companies trading below book value, at a 0.95x traditional P/BV, even though their 13% ROE' is in line with 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, thanks 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. However, this has been trending down the past three years due to higher competition in their lending business, for instance in the auto business, which has driven down lending margins. They've also benefited by falling cost of their leverage thanks to the interest rate

environment, a trend that has started to reverse, and is likely to continue.

At current valuations, the market is pricing in ROE' to fall from 13%-14% levels the past two years and this year, to 9% levels going forward, the market is expecting both of these trends to continue going forward, 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, thanks to stabilizing and declining competition in their markets as alternative lenders have become less active, as can be seen slightly in the LTM period.

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, 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.

This is significant as, as mentioned before, the main reason for the declining unlevered ROA of the business the last several years has 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 could lead to ROA' stabilizing at recent 13%-14% levels, as opposed to declining, which could lead to significant equity upside.

Valens Conviction Long List

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Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that COF management is very well aligned to improve their profitability and grow going forward. Both short-term and long-term compensation is 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 seek 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. Lastly, the revenue metric will drive them to sustain growth while doing this.

Earnings Call Forensics™

Earnings Call Forensics™ of the firm's Q2 (7/20) and Q3 2017 (10/24) earnings calls highlights that management is seeing some positive fundamental trends. In the Q2 call management showed excitement about the trend in their auto business for growth, and they were confident about the reduction in competition they're seeing in their auto business. They were confident about their ability to control their credit risk profile, and were confident about net interest margin stability. They were also confident in Q3 that their allowance issues were one-time issues due to natural disasters, but trends continue to be positive.

While management was highly questionable during the Q3 call about some issues, like tailwinds from the Cabela business wind, expense benefits from their technology investment, and lending growth, all these issues are issues around driving incremental growth and upside for the business, and considering how low expectations are, this does not appear to warrant low market expectations.

Conclusion

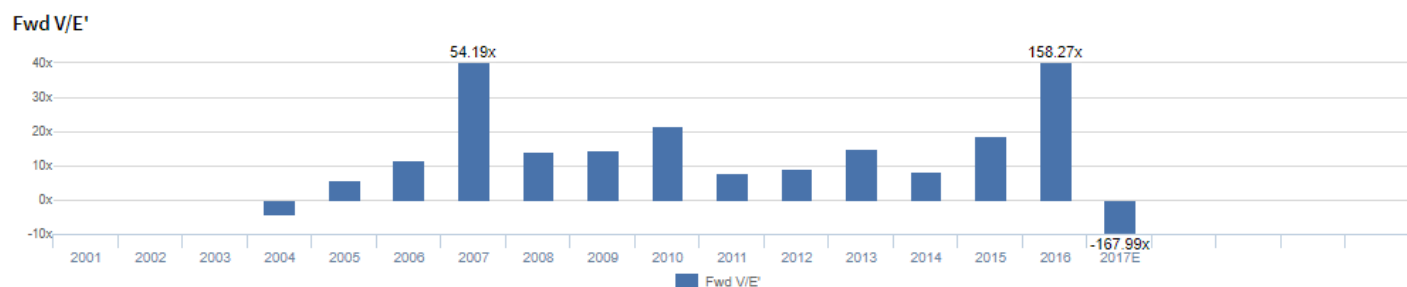
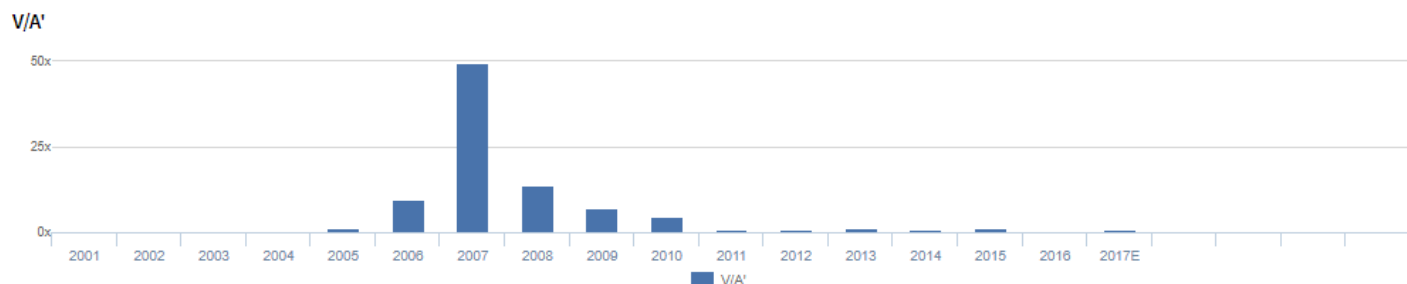
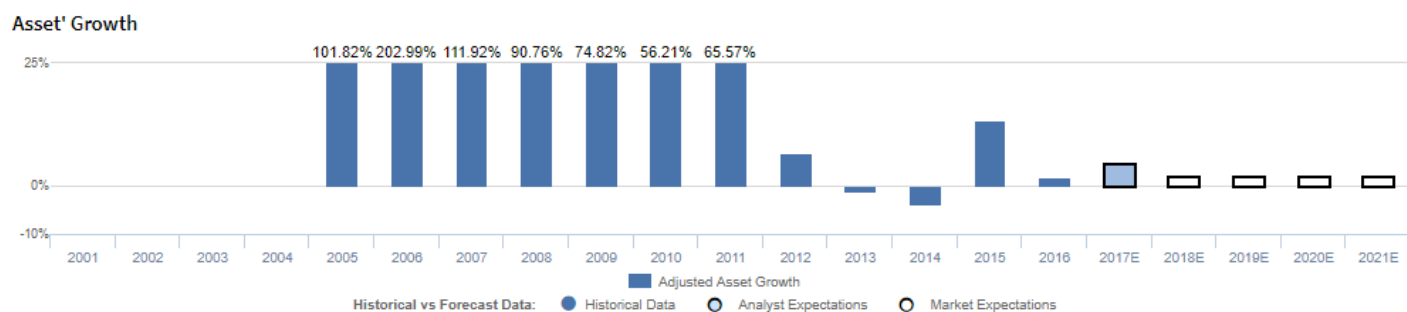
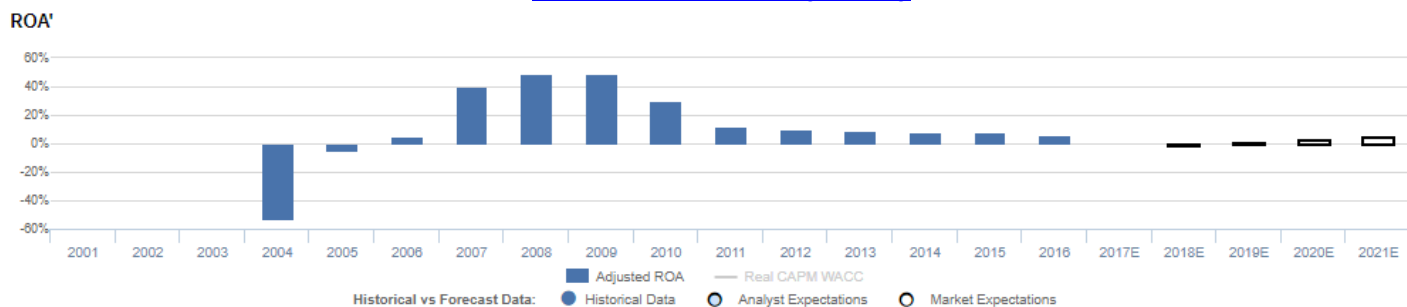
While equity markets are pricing COF much worse than their peers across their businesses, COF management is seeing reasons to think they'll continue to have strong returns, and that fundamentals are shifting, and with management confidence about fundamental momentum, and favorable alignment meaning they'll focus on the correct issues to drive operations, the markets appear too pessimistic, spelling reason for equity upside.

Valens Conviction Long List

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First Solar, Inc. (FSLR)



Valens Conviction Long List

30 November 2017



First Solar, Inc. (FSLR)		Deep Value
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	60.30	\$50 - \$90
MCap (\$bn)	6.30	Comments:
ROA' (FY1)	1%	-
V/A'	1.0	
V/E'	-186.2	

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 1x Uniform P/B (V/A'). Markets are expecting Uniform ROA, which has actually been relatively resilient and stable at 8% the last several years, to remain at well below corporate average, and FSLR's historic, levels going forward. The markets appear to be pricing the company to only see Adjusted ROA rebound back to 5% levels, with modest 2% Adjusted Asset Growth going forward. 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 Adjusted 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 approximately 10% levels the last several years.

However, as stated above, even as the market has grown more challenging, with many peers falling to dramatically negative Adjusted ROA or even having credit issues, FSLR has done an excellent job maintaining positive Adjusted ROA, with Adjusted Earnings Margin never falling below 10%, and Adjusted Asset Turns not falling as materially as others did, until 2017. FSLR's infrastructure-focused business has offered more stability than peers have. Even in 2017, 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 historic Adjusted ROA better than peer's and corporate-average levels, an Adjusted 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. At a 1x Adjusted 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 Adjusted 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. 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.

Valens Conviction Long List

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Earnings Call Forensics™

Earnings Call Forensics™ analysis of the Q3 2017 earnings call (10/26) highlights a continuation of positive signals seen in the Q1 and Q2 calls. During this call, management generated confidence markers about the value of optionality within their contracts that allows them to deliver either Series 4 or Series 6 modules. However, there was slightly more concern about some operational issues, as they appear to be concerned about the cost of US-based manufacturing, and the sustainability of bookings growth. Moreover, they may lack confidence in their ability to continue to drive growth in their C&I segment and they appear concerned about the sustainability of reduced capex levels

During the prior calls, management was confident when talking about improving operating expenses, balance sheet and cash flows, along with their confidence about progressing well with the Series 6. This inflection about operational issues may mean management does not think they can sustain their recent strong momentum in operational improvements.

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.

Valeant Pharmaceuticals International, Inc. (VRX)

ROA'



Asset' Growth



V/A'



Fwd V/E'



Valens Conviction Long List

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Valeant Pharmaceuticals International, Inc. (VRX)			Value
Sector	Healthcare	Intrinsic Price Range:	
Price (\$)	17.25	\$10 - \$210	
MCap (\$bn)	6.01	Comments:	
ROA' (FY1)	33%	-	
V/A'	3.6		
V/E'	10.4		

Valeant Pharmaceuticals International, 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 [VRX](#) 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 21x in 2015 to 10.4x and Uniform P/B (V/A') falling from 11.4x to 3.6x. At these levels, the market is pricing in expectations for Uniform ROA to follow the one-off decline from 48% in 2015 to 31% in 2016 with a continued fall to 15% levels over the next several years, with limited Asset' growth going forward.

VRX has historically seen strong, slightly volatile, Adjusted ROA performance. Even in 2008 (their worst year), Adjusted ROA was at 10%, above the cost of capital. Since then, VRX has trumped prior performance records, achieving an 53% Adjusted ROA in 2014, around their prior peak in this cycle of 56% in 2012. Adjusted Asset Growth has also 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, because of allegations of accounting fraud and the subsequent financial restatements and related credit issues, the market has substantially discounted VRX. Driven by credit markets that are pricing VRX'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 positive expectations, expecting Adjusted ROA to start to recover from the 2016 dip, as the company's underlying operations recover to a 33% Adjusted ROA in 2017 and a 36% level in 2018, with the company shrinking as they sell non-core assets.

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.

A deeper look at the credit markets further confirms this. Five-year CDS for VRX is currently at 568bps, down from 800bps+ but still elevated, and 2022 bonds currently yield 8.2%, pricing in distress for the firm. However, Valens' Intrinsic CDS (iCDS) is at 414bps, 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 2 years about aggressively paying down and refinancing debt to reduce their credit risk profile.

If credit markets were to recognize that the company's credit risk is substantially safer than it is currently priced to be, there would be substantial equity upside even without fundamental improvements in the business. Also, changes in the firm's governance, with industry veteran Joseph Papa taking over the CEO position, signal that market expectations appear too pessimistic, while analyst expectations appear more reasonable. As such, there may be further equity upside for VRX.



Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that following recent changes, VRX 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 VRX 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 Q3 2017 earnings call (8/8) highlights management is confident about their top-line growth outlook, but they are concerned about margin and some specific offerings. Management is confident about the sustainability of Bausch + Lomb/International and Salix revenue growth. However, they appear concerned about the sustainability of XIFAXAN market share growth, TRx volume growth, and Rx market share growth. Furthermore, they appear concerned about the impact of declining gross margins in their Diversified segment, and they appear concerned about the potential for continued gross margin compression, and further declines in their Dermatology business.

While these markers highlight that management sees headwinds, these appear to be concerns about minor gross margin pressures, not the type of pressures that could lead to ROA' fall by 1500bps, and management's lack of concern about growth points to market expectations for growth that may be too pessimistic.

Conclusion

Management's success 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, as they continue to struggle with gross margin trends, if the company just continues to execute, there is equity upside for the name.

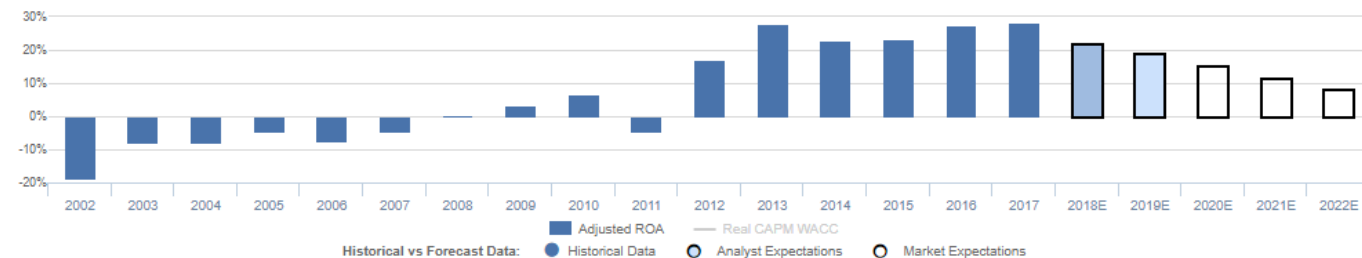
Valens Conviction Long List

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Cirrus Logic, Inc. (CRUS)

ROA'



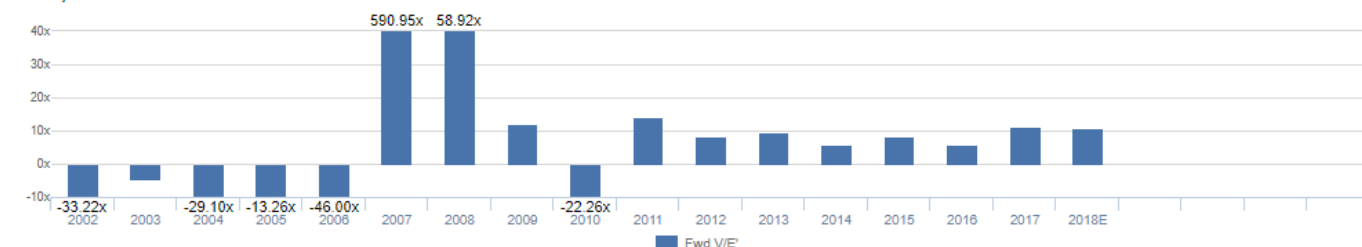
Asset' Growth



V/A'



Fwd V/E'



Valens Conviction Long List

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Cirrus Logic Inc. (CRUS)		Value
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	53.16	\$35 - \$140
MCap (\$bn)	3.38	Comments:
ROA' (FY1)	22%	-
V/A'	2.3	
V/E'	10.8	

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 23%-28% over the last five years. This was primarily due to Uniform Earnings Margin expansion and steady Adjusted 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.

Adjusted ROA is projected to stabilize at around 19%-22% levels going forward. However, at a current Uniform P/E (Fwd V/E') of 10.8x, market expectations are much more pessimistic. Markets are currently pricing in Adjusted Asset Growth to remain around the 10% rate it has been for the past five years (aside from the Wolfson acquisition), but for Adjusted ROA to decline from current 23%-28% levels to 8% over the next five years. Considering the company's steady Adjusted 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 Adjusted 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 Adjusted ROA expansion sooner than what analysts are projecting.

Earnings Call Forensics™

During the Q2 2018 earnings call (11/2), management appears to be downplaying concerns about their Q3 2018 revenue guidance, and may lack confidence in their ability to increase individual part ASPs. Additionally, they may lack confidence in their ability to increase their target ASP per handset, and may be concerned about the sustainability of growth in revenues, operating profit, and EPS. Furthermore, they appear concerned about their ability to find qualified hires to accelerate key projects, and may be downplaying concerns about non-Apple revenue growth.

Tellingly, while these concerns highlight issues with growth and profitability accelerating, none of their concerns appear to be around competitive pressure that would hurt their ability to maintain ROA'.

Conclusion

Current market expectations are for a collapse in Adjusted ROA, and management alignment to improve operations, acquisitions potentially facilitating incremental growth, their longer-term competitive advantages, and management's lack of concerns about competition signal the potential for significant equity upside going forward, even though the company may not be confident about near-term growth opportunities.

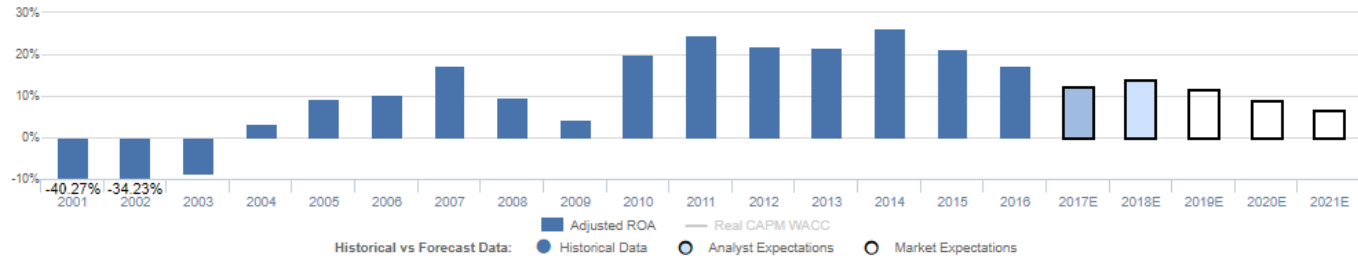
Valens Conviction Long List

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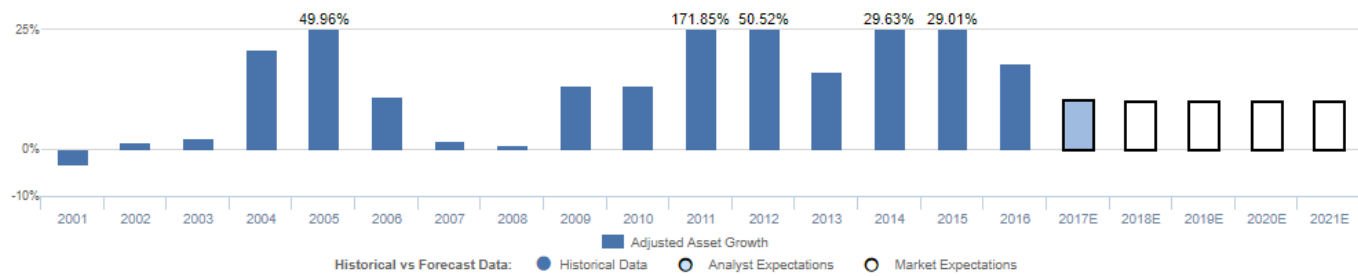


Gentherm Incorporated (THRM)

ROA'



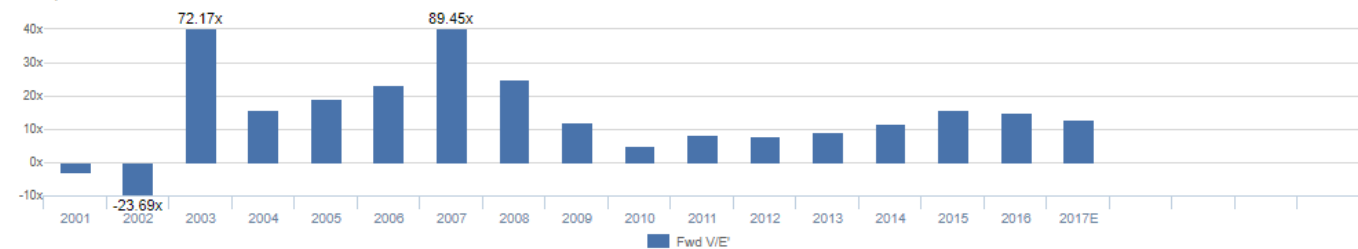
Asset' Growth



V/A'



Fwd V/E'



Valens Conviction Long List

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Gentherm Incorporated (THRM)			Value
Sector	Cons Disc	Intrinsic Price Range:	
Price (\$)	35.50	\$25 - \$115	
MCap (\$bn)	1.30	Comments:	
ROA' (FY1)	12%	-	
V/A'	1.9		
V/E'	12.9		

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 an 12.9x Uniform P/E (Fwd V/E'), in the middle of historical valuations. The market appears to expect Adjusted Asset Growth to be at the lower end of rates since 2009, at around 10% a year, with low profitability expectations too. While THRM has consistently been able to produce Uniform ROA that is more than 3x corporate averages, at around or above 18% the past seven years, the market expects Adjusted ROA to fade to 7% levels. The company has not seen Adjusted ROA at or below these levels, outside of 2009, since before 2005, when the company was still starting up.

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 Adjusted Asset Turns rise materially, which has also benefited Adjusted 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 Q3 2017 earnings call (10/26) highlights that management is confident that the Battery Thermal Management area is growing rapidly. However, they appear concerned about the sustainability of steering wheel sales growth, and the potential for continued weakness in the North American automotive market. Moreover, they appear to be downplaying concerns about weakness in their cable business, and the value of their customer rebates.

Management's confidence about Battery Thermal management, which could be a major catalyst for growth as electric vehicle usage grows, is a positive catalyst longer-term, though management appears to have concerns about their core business in the near-term.

Conclusion

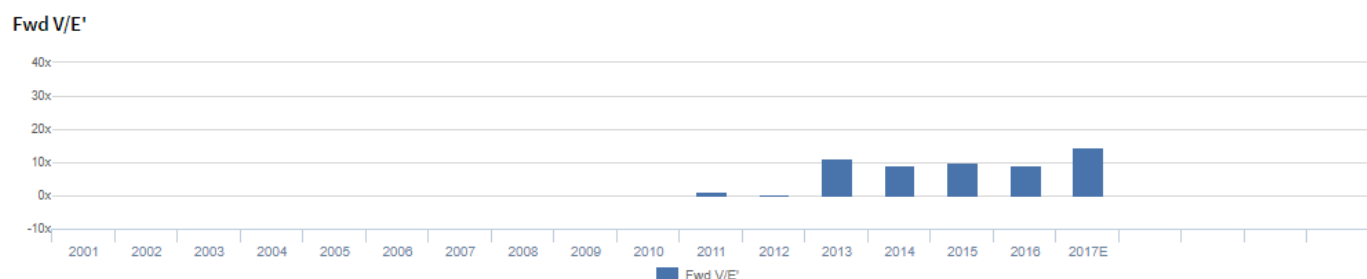
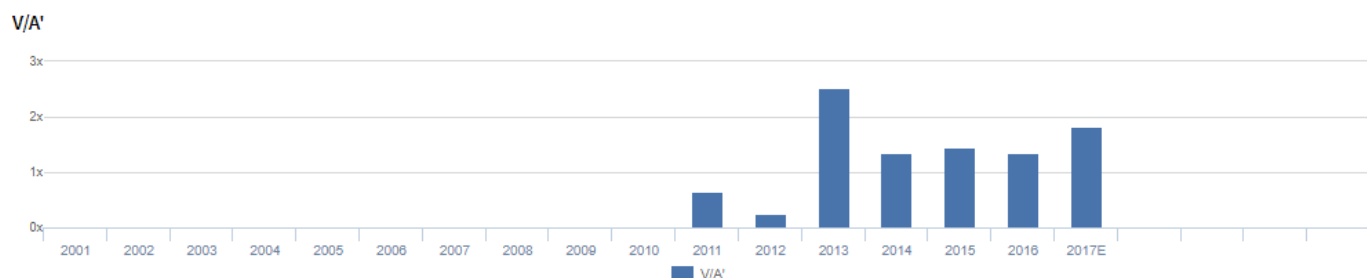
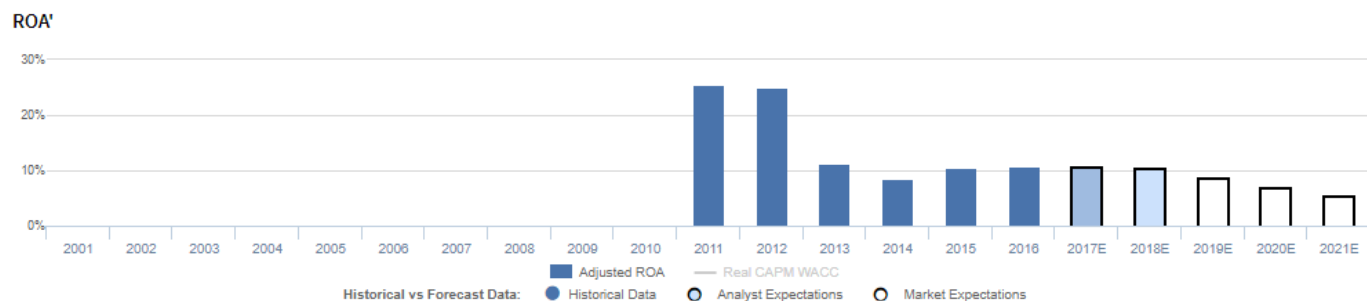
Considering the market's bearish sentiment, and THRM's secular growth stories in the cyclical auto market, equity upside appears justified longer term, even though management's concerns highlight potential near-term headwinds.

Valens Conviction Long List

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LGI Homes, Inc. (LGIH)



Valens Conviction Long List

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LGI Homes, Inc. (LGIH)		GARP
Sector	Cons Disc	Intrinsic Price Range:
Price (\$)	69.85	\$45 - \$190
MCap (\$bn)	1.52	Comments:
ROA' (FY1)	11%	-
V/A'	1.8	
V/E'	14.8	

LGI Homes, Inc. is a homebuilder and land developer that engages in the design, construction, marketing, and sale of new homes in markets in Texas, Arizona, Florida, Georgia, New Mexico, South Carolina, North Carolina, Colorado, Washington, and Tennessee. The Company operates through five segments: the Texas division, the Southwest division, the Southeast division, the Florida division and the Northwest division.

Valuations & Market Expectations

LGIH is trading at a 14.8x Uniform P/E (Fwd V/E'), at the higher end of historical valuations. However, at current valuations, the market is expecting the company to see Uniform ROA fall by half, from 11% levels to below corporate average levels, falling to 5%-6%.

The market is also expecting a company with a small footprint in the homebuilding space to see Uniform Asset Growth decline materially, from 35%+ a year historically to 15% a year going forward.

Market expectations for both returns and growth are more pessimistic than analyst expectations. Consensus estimates show the company with stable Uniform ROA at around 10%-11% the next two years and have the company still growing Uniform Asset at 30% this coming year. The market appears to not recognize the company's strong execution historically, and their substantial growth opportunities, as the company looks to expand their entry-level and move-up home segments, which offer a compelling growth opportunity as millennials start to look to buy houses as the economy continues to recover. The market also does not appear to recognize the sizable potential for footprint expansion for the company going forward, out of their various geographic segments.

When looking at market valuation relative to peers in the homebuilding space, LGIH also appears to trade at an overly pessimistic valuation, especially when their strategy of not just focusing on the premium space, but rather also on the lower end markets, is taken into consideration. Considering overly pessimistic market expectations on an absolute and relative to peer basis, equity upside appears warranted.

Incentives Dictate Behavior™

Management compensation also aligns management to focus on improving growth and margins, further highlighting why market expectations may be overly pessimistic. With a key component of short-term compensation being homes closed, management is actively aligned to continue to invest in growth, not see growth slow, as markets expect. Also, for the company to see Uniform ROA compress as markets expect, Uniform Earnings Margin, which has been very stable, would also need to decline. However, with management compensation focused on pre-tax income in the short-term and EPS in the long-term, their margin based focus means they are unlikely to allow profitability to decline to levels needed to justify low expectations.

Earnings Call Forensics™

Earnings Call Forensics™ also highlights that after several recent quarters where management had consistently shown growing confidence about the business, in Q3 (11/7) management appeared to grow less constructive. During the Q3 call, management showed confidence that the lengthier timeline associated with expanding their development community count constrains their ability to grow closings at a faster rate. Moreover, they appear concerned about the sustainability of robust housing demand, and about their timeline for completing community development in Las Vegas. Furthermore, they appear concerned about sustaining adjusted gross margins in their historical range of 26.5%-28.5%. They also appear to be downplaying concerns about their completed inventory levels.

Valens Conviction Long List

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This was an inflection from the Q1-Q3 calls, where management showed confidence about active selling community growth, leads, liquidity, and their overall growth strategy.

While management's outlook should be monitored, considering market expectations are already for dramatic slowing growth and dramatically lower profitability, issues management's communication do not appear to point to as concerns, LGIH equity appears to remain undervalued, even though execution and fundamental momentum may not remain as strong a tailwind in the near-term as they have been recently.

Conclusion

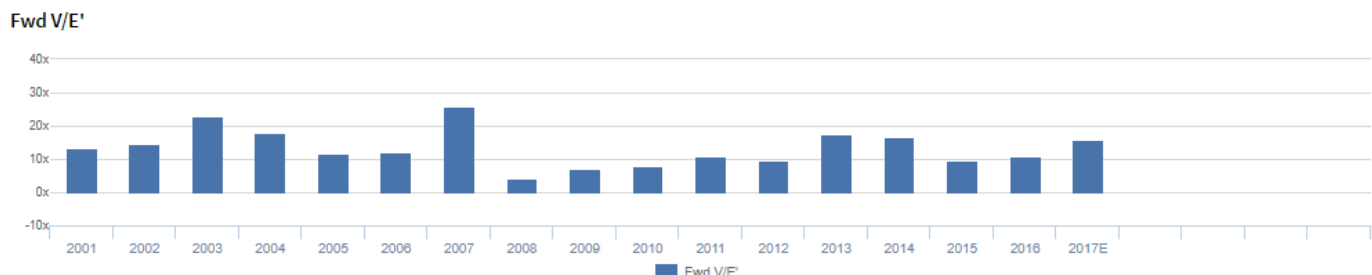
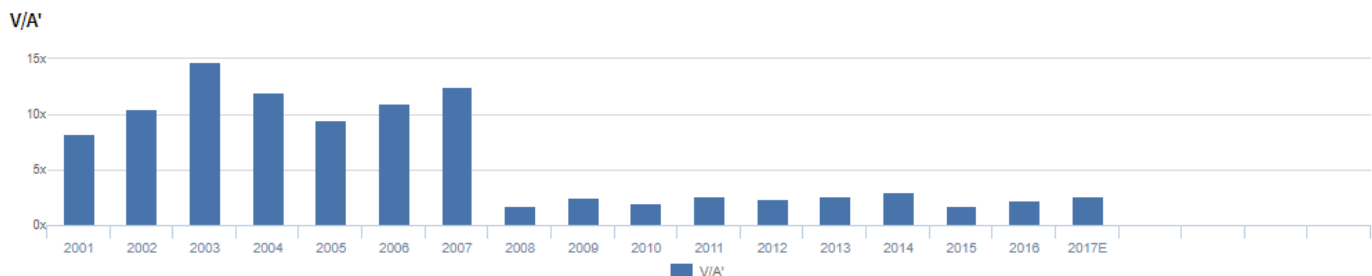
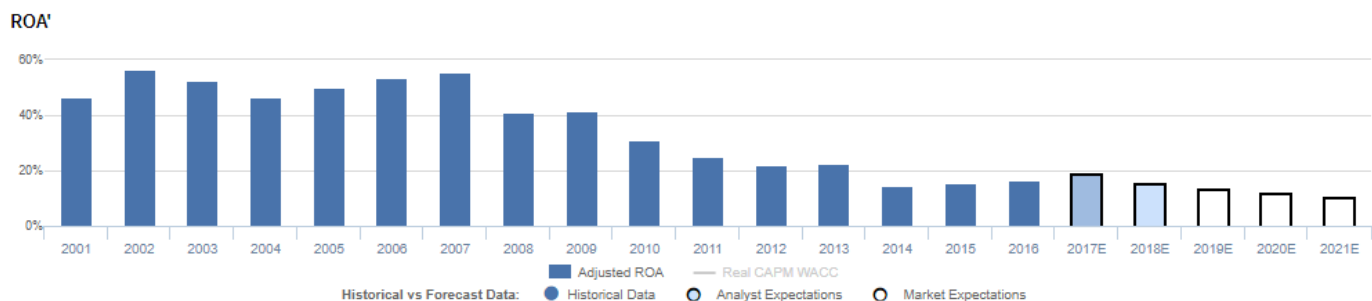
Considering the market's bearish sentiment, LGIH's appropriate management compensation framework, and the overall fundamentals driving the company and the space, further equity upside appears justified.

Valens Conviction Long List

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Garmin Ltd. (GRMN)



Valens Conviction Long List

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Garmin Ltd. (GRMN)		GARP
Sector	Cons Disc	Intrinsic Price Range:
Price (\$)	61.23	\$55 - \$115
MCap (\$bn)	11.48	Comments:
ROA' (FY1)	19%	-
V/A'	2.7	
V/E'	15.8	

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 15.8x Uniform P/E (Fwd V/E'). At these levels, the market is pricing in expectations for Uniform ROA to decline from 17% in 2016 to 11% by 2021, accompanied by 7% Adjusted Asset growth. These expectations imply 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 Adjusted ROA to actually improve slightly in 2017 to 19%, 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've actually seen improvement in Adjusted 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 Adjusted ROA from 2014 to 2016 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 Q3 2017 earnings call (11/1) highlighted a negative inflection from management. Management appears appear concerned about the sustainability of revenue growth in their outdoor and fitness segments, as well as overall free cash flow growth. Additionally, they appear concerned about the cost of capacity expansion, and may lack confidence in their ability to capture expanded addressable market opportunities.

During the Q2 2017 earnings call (8/2) and prior calls, management had been much more constructive. Management had confidence about the sustainability of their growth in the aviation aftermarket segment. They also showed confidence about their full-year growth guidance. This was in line with confidence they showed in Q4 and Q1 about incremental growth opportunities in RV, cameras, and OEM, and about market share gains.

Given management's declining confidence about their growth opportunities, fundamental momentum may be pausing in the near-term.

Valens Conviction Long List

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Conclusion

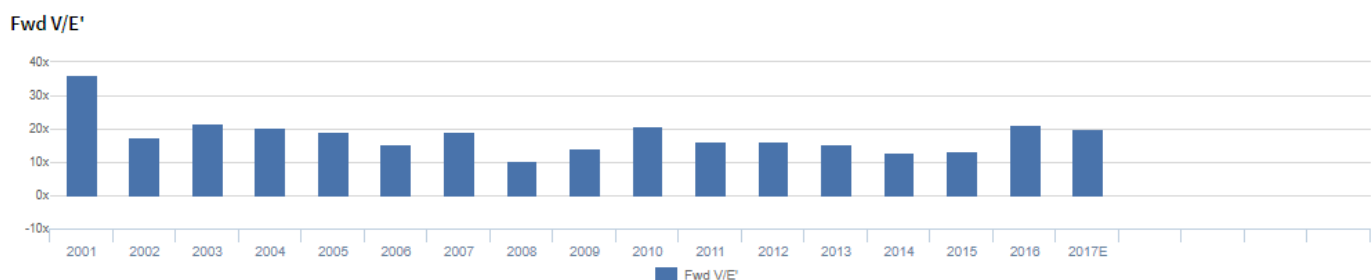
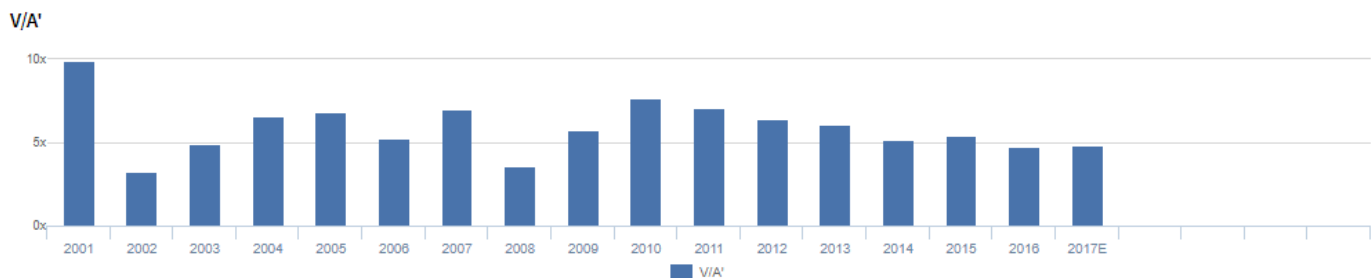
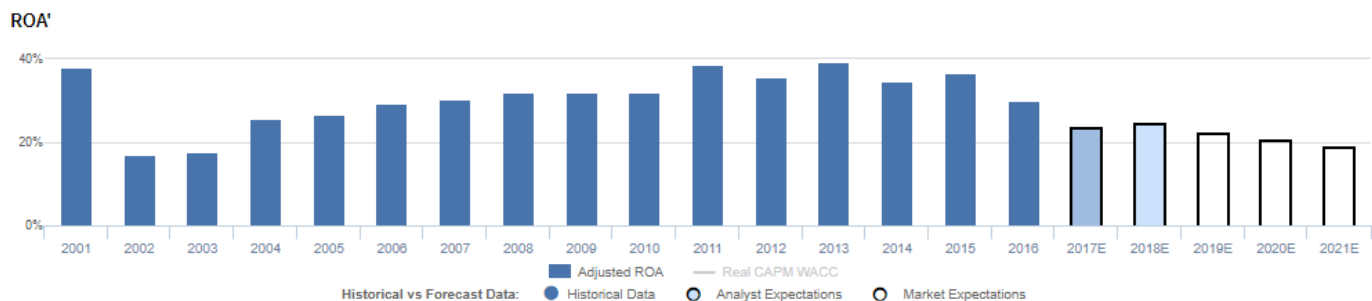
Considering low market expectations, management's success in driving their operational growth, their strong alignment, and management's long-term strategy to defend their profitability, there appears to be substantial opportunity for equity upside going forward, even with potential near-term headwinds.

Valens Conviction Long List

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Citrix Systems, Inc. (CTXS)



Valens Conviction Long List

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Citrix Systems, Inc. (CTXS)		GARP
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	88.35	\$70 - \$170
MCap (\$bn)	13.31	Comments:
ROA' (FY1)	24%	-
V/A'	4.8	
V/E'	20.1	

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 a 20.1x Uniform P/E (Fwd V/E'), at the higher end of historical valuations, though a 4.8x Uniform P/B (V/A') is around historical lows. The market is expecting the recent decline in Uniform ROA from 37% to 24% to persist, with Adjusted ROA dropping to around 19% levels going forward, with relatively modest Adjusted Asset Growth of 7% relative to their historical double-digit growth.

This is in line with analyst expectations for 2017, however unlike the markets, analysts recognize the company is likely to see returns rebound in 2018 as they progress with their new strategy. Analysts forecast Adjusted ROA to bounce back to 25% levels by 2018. 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 Adjusted Asset Growth and Adjusted ROA are too negative.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q3 call highlighted a negative inflection from prior calls for CTXS management. Management appear to be concerned about the sustainability of growth in total revenues, subscription revenues, and subscription mix going forward. Additionally, they may lack confidence in their ability to maintain spending discipline as they invest in innovation, and may be concerned about expected adjusted operating margin headwinds as revenue growth rates slow in 2018. Furthermore, they appear concerned about the impact of changes in contract billing terms on free cash flow and unbilled revenue going forward.

This was contrary to the Q1 and other recent calls, where management showed confidence in ShareFile, and that their transition to the cloud would be balanced in 2017. Additionally, they no longer were showing confidence that their partnership with Microsoft would drive growth.

Considering management concerns about growth and earnings in the near-term, in line with analyst forecasts, there may be some pause in the company's strong recovery since they sold the GoTo business.

Conclusion

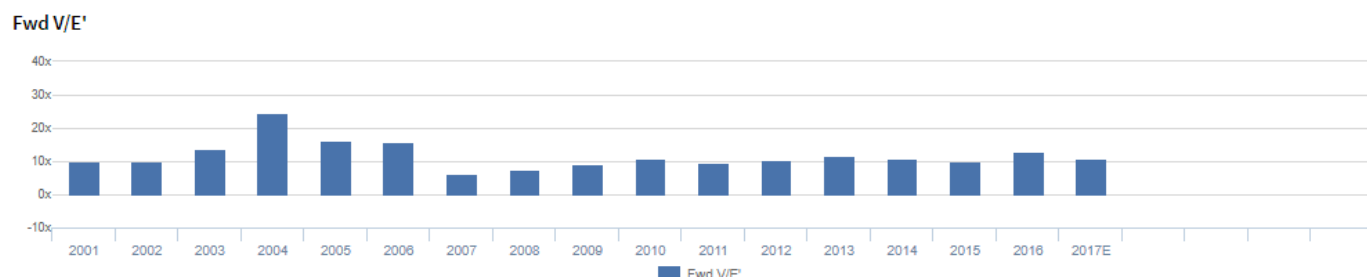
The positioning of core business opportunities, favorable management alignment, good macro positioning, smart focus and low market expectations, warrants equity upside going forward for CTXS, even though near-term headwinds may cause a pause.

Valens Conviction Long List

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Mylan N.V. (MYL)



Valens Conviction Long List

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Mylan N.V. (MYL)		Value
Sector	Healthcare	Intrinsic Price Range:
Price (\$)	38.12	\$25 - \$135
MCap (\$bn)	20.45	Comments:
ROA' (FY1)	28%	-
V/A'	3.5	
V/E'	11.0	

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 11x Uniform P/E (Fwd V/E'). At these levels, the market is pricing in expectations for declining profitability, from 37% in 2016 to a historically low 15%, accompanied by 5% Adjusted Asset Growth.

Mylan has historically been a highly profitable business, with Adjusted ROA consistently more than double the cost of capital. Even in trough years such as 2000-2001 and 2005-2007, Adjusted ROA only bottomed at 15%-20% levels. More recently, Adjusted ROA has shifted to 23%-37% levels driven by substantial improvements in Adjust Earnings Margin, from lows near 20% in 2005-2007 to 32%+ in recent years. Meanwhile, Adjust 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 pending Meda AB transaction. This has led to Adjust 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 average growth, with substantial dis-synergies related to the Meda AB acquisition and regulatory pressures around EpiPen. Markets expect Adjusted ROA to fade to historically low 16% levels over the next several years, even as analysts are estimating that the firm will keep Adjusted ROA stable.

This indicates that even if the company will be able to sustain profitability levels and growth rates as they integrate Meda, there could be equity upside. Also, if the EpiPen issue, which is related to less than 10% of Mylan's business, does not lead to the product completely vanishing, which is highly unlikely, the firm should see Adjusted ROA stabilize 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 Q3 2017 earnings call (11/6) highlights management is confident that no further clinical or device-related studies are required for their generic Advair program. However, they may be downplaying concerns about the impact of volatility in the U.S. generics market, and may be concerned about the potential for further declines in total revenues. Moreover, they appear concerned about continued expectations for high single-digit price erosion in North America, and may lack confidence in their ability to identify additional cost-saving opportunities.

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While management appears concerned about some modest headwinds for the business, none of them appear to highlight reasons for a dramatic fall in ROA', highlighting low market expectations.

Conclusion

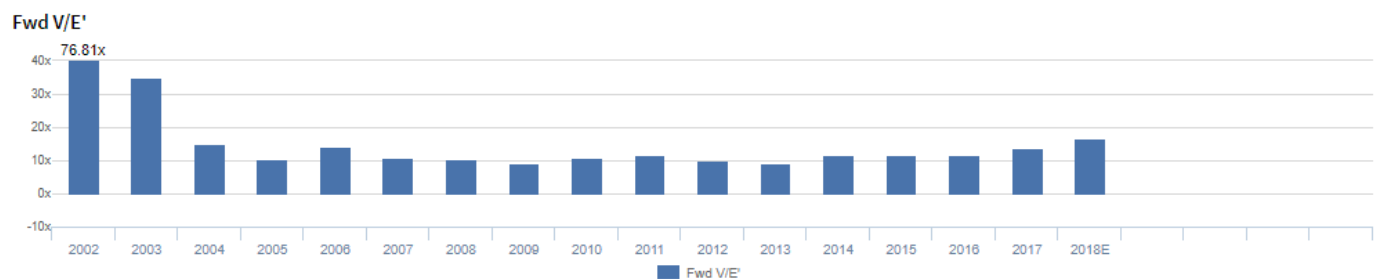
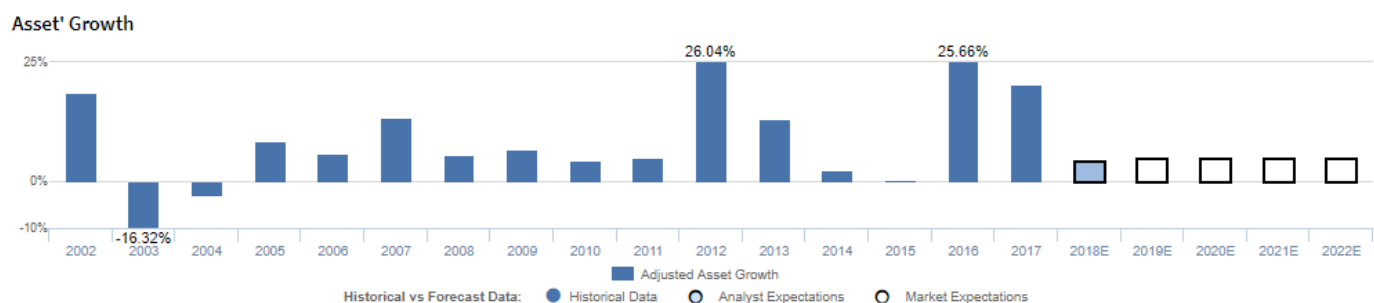
Considering low market expectations, MYL's success around both innovation and acquisition, proper management alignment, as well as management's confidence in some of their new products coming out, there may be material equity upside for the company, though operational overhangs are likely to persist to limit upside in the near-term.

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Korn/Ferry International (KFY)



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Korn/Ferry International (KFY)		GARP
Sector	Industrials	Intrinsic Price Range:
Price (\$)	42.19	\$30 - \$80
MCap (\$bn)	2.38	Comments:
ROA' (FY1)	19%	-
V/A'	3.1	
V/E'	16.5	

Korn/Ferry International offers leadership and talent consulting services, and provides executive recruitment, leadership development, enterprise learning, succession planning and recruitment process outsourcing, among others. Its clients include public and private companies, middle market and emerging growth companies, as well as government and nonprofit organizations.

Valuations & Market Expectations

KFY is trading at a 16.5x Uniform P/E (Fwd V/E'). At current valuations, market expectations are still relatively muted. Markets are expecting modest 5% Adjusted Asset Growth, with Uniform ROA declining significantly from current roughly 20% levels to 14% over the next several years. On the other hand, analysts are projecting Adjusted ROA to maintain and improve, with Adjusted ROA remaining between 19%-20%, levels, as the firm benefits from an improving economic environment.

The market does not fully recognize yet how the improving job market is likely to drive stronger profitability for the business. The company is likely to benefit from the age wave as the baby boomer generation leaves the executive suite and a smaller cohort enters in their place. That said, the competition and demand for senior executives will grow, which is positive for the company. Also, the company's solutions around maximizing employee engagement for their clients are likely to be even more important going forward as the economy becomes more services focused.

Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that management is aligned to drive stronger growth than what markets are expecting, based on fee revenue and EPS compensation, while also being focused on Adjusted ROA improvement, which the market also does not expect, based on their ROIC, EBITDA margin, and EPS compensation metrics. Additionally, with management's material ownership of the firm, they will be further aligned with investors.

Earnings Call Forensics™

While longer-term the company has tailwinds that are likely to benefit it, in the near-term Earnings Call Forensics™ of the Q1 2018 earnings call (9/6) continues to highlight operational concerns initially raised in Q3 and Q4 2017. Management appears concerned about the sustainability of new business growth in the Hay Group, and in their Executive Search segment. Moreover, they appear concerned about the sustainability of Hay Group fee revenue growth, and growth in dedicated executive recruitment consultants. They also appear concerned about the sustainability worldwide economic conditions.

Conclusion

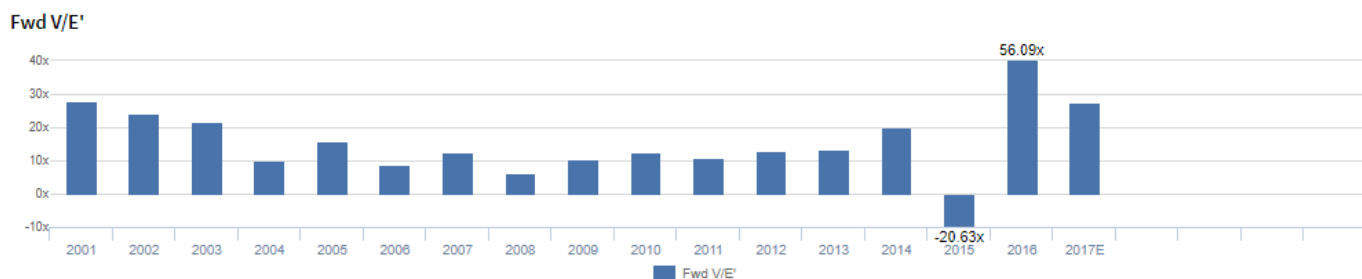
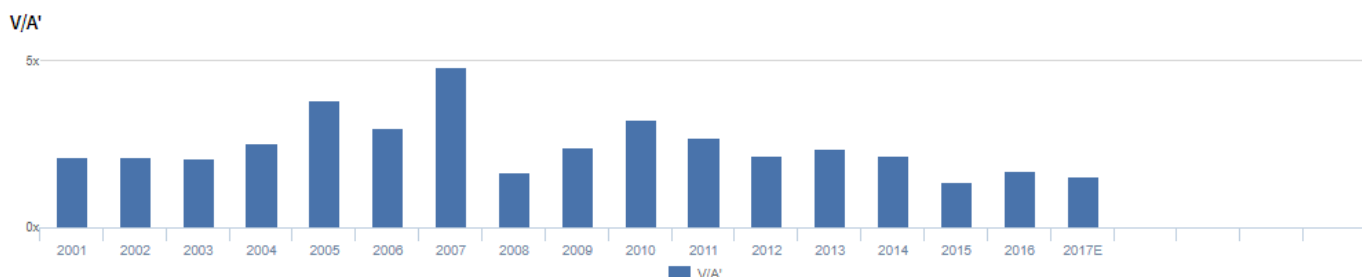
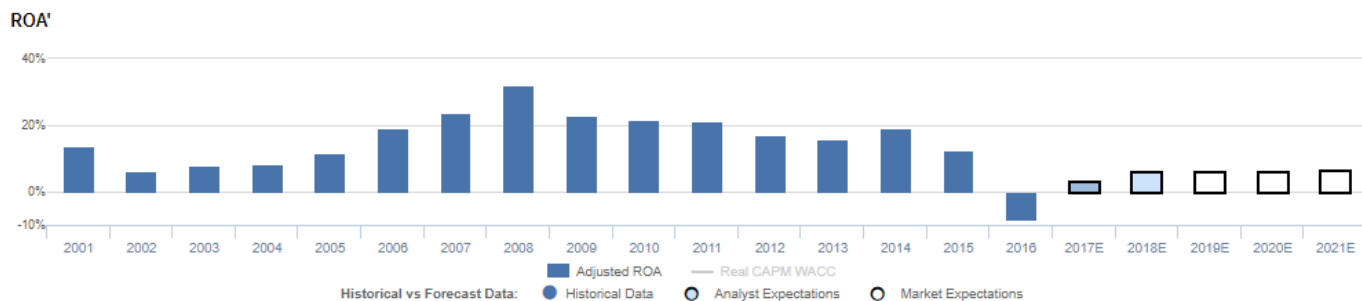
While long-term macro tailwinds persist, the firm's proper management alignment indicate that the company remains undervalued relative to the real fundamentals of their business, implying potential for material equity upside going forward, even as near-term headwinds may cause short-term volatility.

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National Oilwell Varco, Inc. (NOV)



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National Oilwell Varco, Inc.		Growth
Sector	Energy	Intrinsic Price Range:
Price (\$)	34.09	\$28 - \$105
MCap (\$bn)	12.96	Comments:
ROA' (FY1)	3.15%	-
V/A'	1.56	
V/E'	27.56	

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 1.6x, well below historical valuations. The markets are now expecting Uniform ROA to rebound from 2016 negative levels to only the low end of historical levels over the past 10 years, at 6%-7% going forward, in line with analyst forecasts for 2018. 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.

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.

Earnings Call Forensics™

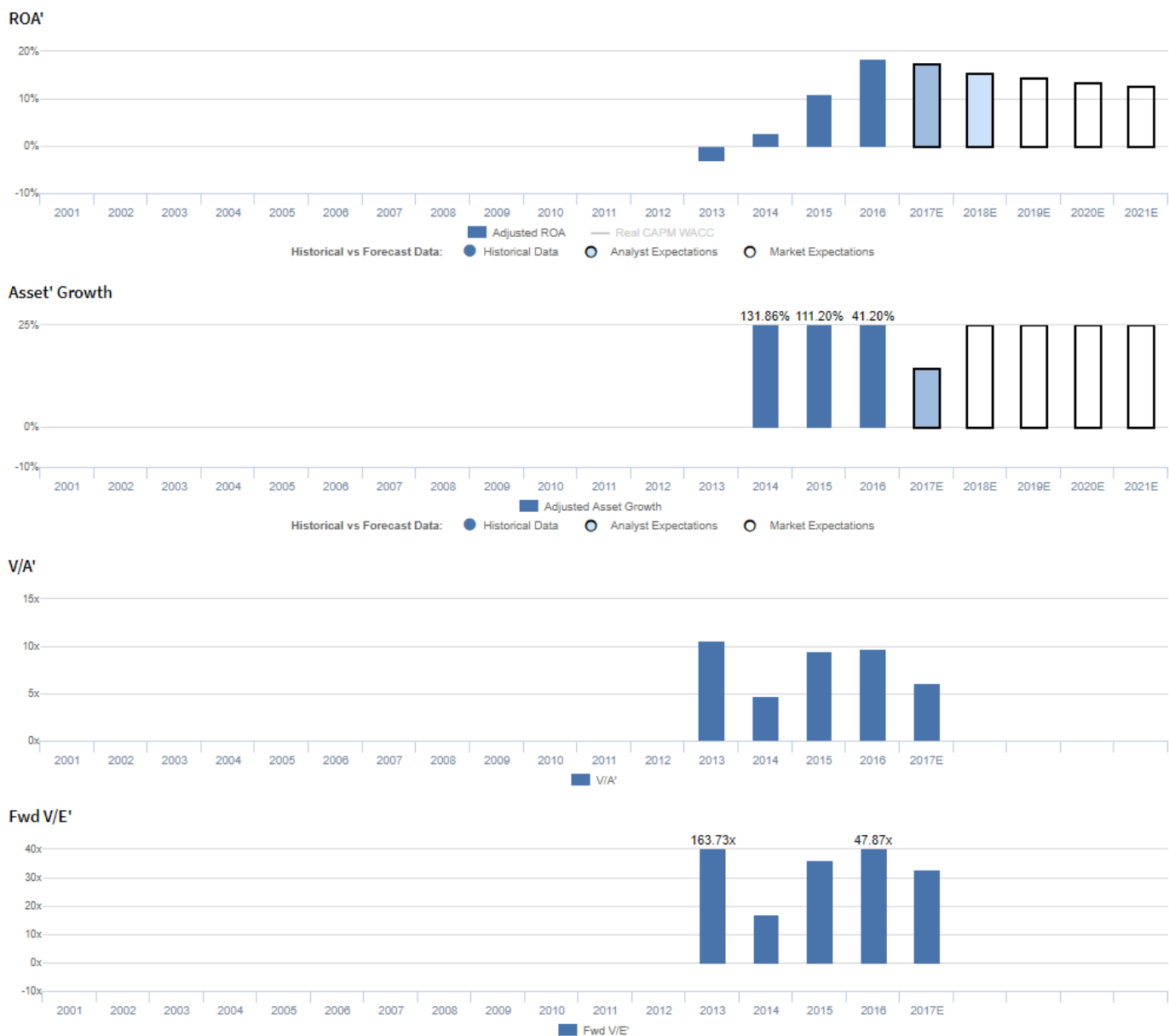
Earnings Call Forensics™ of the Q3 call (10/27) highlighted a slightly positive inflection from the Q2 call. Management generated an excitement marker when talking about their new stainless-steel Patriot fluid ends. However, they appear concerned about the sustainability of growth in their Completion and Production Solutions segment, and the potential for further revenue declines in their Rig Systems segment. Moreover, they appear concerned about the impact of backlog mix related margin headwinds in Q4 2017, and the impact of a plateauing rig count on demand in their Downhole Tools segment.

During the Q2 call, management was also concerned about their backlog and book to bill, and around the performance of several of their segments, a shift from management's growing confidence in prior calls. Management's similar markers in Q3 highlight a management team that is positioning themselves to survive a challenging environment, while keeping multiple avenues open to benefit from any positive upswing, and is seeing some more positives around demand for new offerings.

Conclusion

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

Glaukos Corporation (GKOS)



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Glaukos Corporation (GKOS)		Growth
Sector	Healthcare	Intrinsic Price Range:
Price (\$)	26.37	\$25 - \$95
MCap (\$bn)	0.91	Comments:
ROA' (FY1)	17%	-
V/A'	6.1	
V/E'	33.0	

Glaukos Corporation focuses on the development and commercialization of products and procedures designed to treat glaucoma. It offers iStent, a micro-bypass stent for insertion in conjunction with cataract surgery for the reduction of intraocular pressure in adult patients with mild-to-moderate open-angle glaucoma. It markets its products through direct sales force in the United States and internationally, as well as through distribution partners in Europe, the Asia Pacific, and internationally.

Valuations & Market Expectations

GKOS is trading at very robust valuations, with a 33x Uniform P/E (Fwd V/E') that highlights the market's very high expectations for the company. GKOS recently turned into a ROA' positive company in 2014, as they have been investing heavily in new technology which has come to market as the market leader in surgical intervention for glaucoma. While other companies have attempted to also enter the market, theirs is the only technology which has had significant uptake. And the company has only started to penetrate their market opportunity.

The market appears to recognize this opportunity on an initial view, as at current valuations, the market is pricing the company to see ROA' remain above 2x-3x corporate average 6% levels, with strong 25% Asset' growth going forward. However, the company's ROA' trajectory currently is telling, as ROA' as improved aggressively as the company has started to scale, with ROA' rising from 3% in 2014 to 18% in 2016, and forecast to rise to 22% by 2018. Also, significantly, many of the other companies that offer unique surgical solutions like Glaukos in other areas, like Intuitive Surgical, ABIOMed, and others, consistently show significantly higher ROA', thanks to their competitive advantages and their "razor-blade" like model where they sell technology and the "disposable" portions of the solution also. They generally have ROA' that settles in the 30-50% range, significantly above current levels for GKOS.

GKOS also has the benefit of considerable growth opportunities as demand for their offering is likely to grow aggressively over the coming years for two reasons. Firstly, as the population in the developed world ages, glaucoma as a public health issue will continue to grow, and rapidly, providing them with sustained growth in demand for their offering. Also, the surgical solution for glaucoma has only started to be adopted, with only a small portion of glaucoma treatment via this methodology, however the number of doctors being trained in this approach, and the number of Optometrists coming into the market currently, are both rising, meaning this treatment is likely to take further share in the market also.

Considering the comparable return streams other similar companies have generated, and the significant growth opportunity that GKOS has going forward, even at current elevated expectations, markets appear to not fully grasp the company's opportunity.

Earnings Call Forensics™

While there is strong fundamental tailwinds for the business over the coming years, Earnings Call Forensics™ of the Q3 2017 (11/7) earnings call highlights execution issues in the near-term, that until clear, will likely continue to be an overhang for the business, and should be monitored. During the call, management showed signs that they may lack confidence in their ability to commercialize their iStent infinite by 2022, and in their ability to successfully expand beyond their current pipeline with new products. They also appear concerned about the sustainability of worldwide unit volume growth.

These markers highlight that while the long-term trend is positive for this company, they may have near-term execution issues which could limit upside.

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Conclusion

GKOS is well positioned longer-term, thanks to their large market opportunity, competitive advantages and return profile opportunity and their strong execution historically, all of which warrant equity upside longer-term. However, in the near-term, potential hiccups with their rate of driving adoption may lead to volatility, especially considering the company's valuation, limiting short-term upside potential.

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