

VALENS RESEARCH



Investigative Investing: Legal Informational Advantages

Professor Joel Litman
June 2016

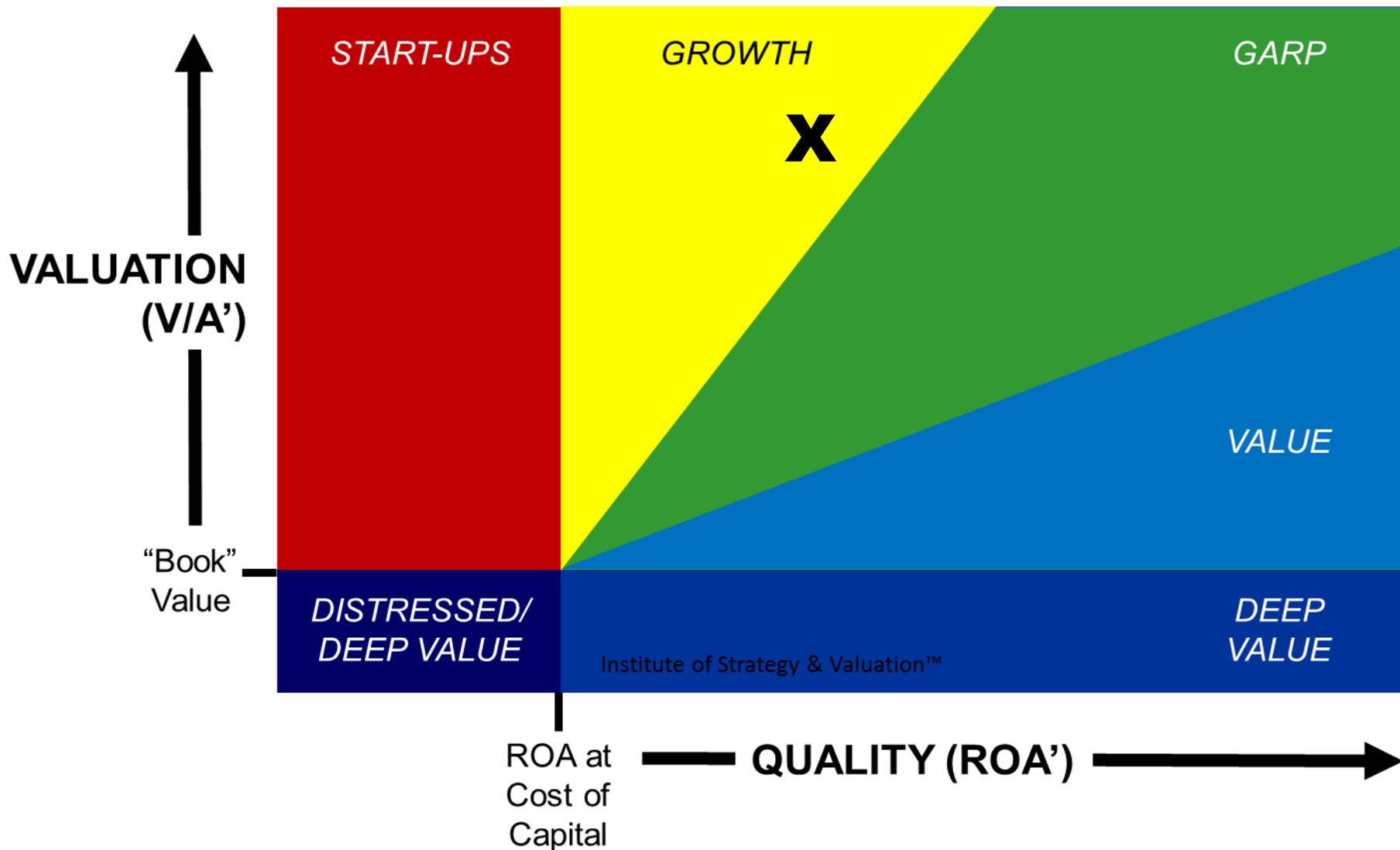
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Invisalign, 2007/2008

- GARP/GROWTH stock

INVESTMENT STYLES via QUALITY and VALUATION



Invisalign, 2007/2008

- GARP/GROWTH stock
- Growth in earnings dependent on growth in dentists



FIND A DOCTOR NEAR YOU



Our easy-to-search tool will help you find an Invisalign-trained doctor near you.

ZIP/Postal Code:

Search



3 EASY STEPS TO A GREAT SMILE



Invisalign treatment can fit your budget and your lifestyle. See how easy it is to start today.

Get Started



#INVISALIGN SMILE HUB



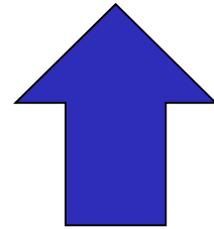
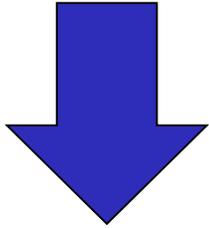
CHRISTINE
@christinefaz



Explore Invisalign clear aligner tips and results.

View the Smile Hub





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Explore Invisalign clear aligner tips and results.

View the Smile Hub



INVISALIGN VALUE ▾

PRODUCT DETAILS ▾

BECOME A PROVIDER ▾

PRAISE FROM PATIENTS ▾

SUCCESS STORIES ▾

CONTACT US

Home / Become a Provider / Live Training Schedule

** CANADA: some Fundamentals courses are taught in French. For these French courses, there will not be English translation provided.

Date	Title	GP/OR	Presenter	Location	
08/19/2016	Invisalign Fundamentals	GP	Dr. Rene Sterental	PR – San Juan 📍	Register
08/26/2016	Invisalign Fundamentals	GP	TBD	NC – Charlotte 📍	Register
08/26/2016	Invisalign Fundamentals	GP	TBD	TX – Dallas 📍	Register
08/26/2016	Invisalign Fundamentals	GP	TBD	NY – New York 📍	Register
09/09/2016	Invisalign Fundamentals	GP	TBD	AB – Calgary 📍	Register
09/09/2016	Invisalign Fundamentals	GP	TBD	AZ – Phoenix 📍	Register
09/09/2016	Invisalign Fundamentals	GP	TBD	CA – Santa Rosa 📍	Register
09/09/2016	Invisalign	GP	TBD	VA – Roanoke —	Register

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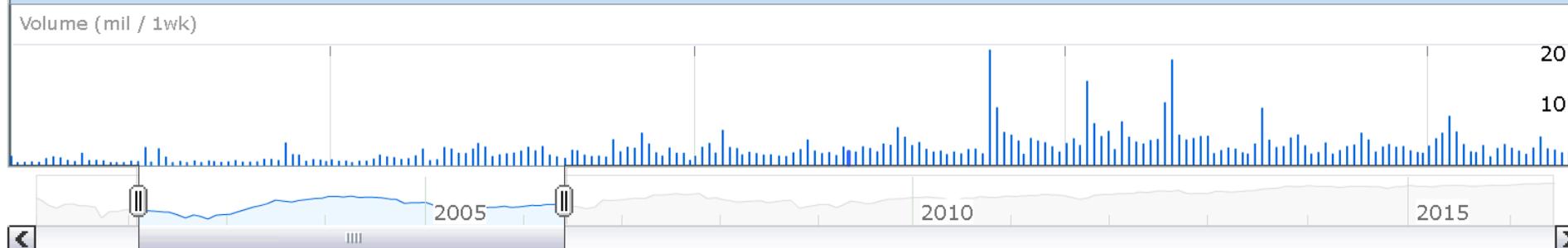
Invisalign, 2007/2008

- GARP/GROWTH stock
- Growth in earnings dependent on growth in dentists
- Every Friday, Hotel Catering Offices

Compare: Dow Jones Nasdaq XRAY MLSS SIRO BIOL SAUHY [more >>](#)

Zoom: [1d](#) [5d](#) [1m](#) [3m](#) [6m](#) [YTD](#) [1y](#) [5y](#) [10y](#) [All](#)

Jun 04, 2004 Price: 18.59 Vol: 2175.86k

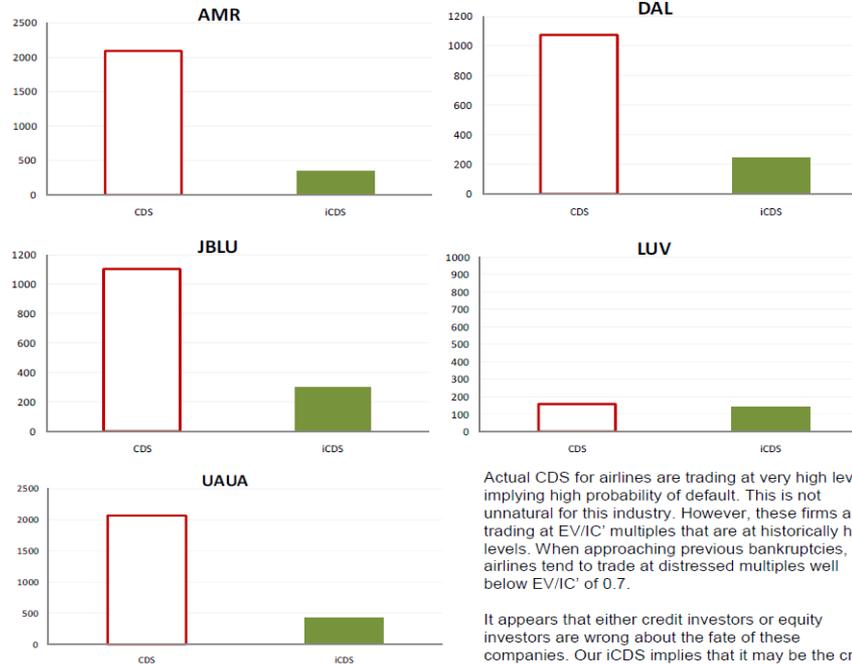


Airlines (DAL, AMR, UAA and iCDS) December 2009

Airlines – With actual CDS trading at excessively high levels, our proprietary iCDS paints a much safer picture

Name	Ticker	iCDS	CDS	EV / IC'	Years Traded Below 0.8*	Last Bankruptcy EV / IC'
AMR Corporation	AMR	337	2088	0.85	5	NA
Delta Air Lines Inc.	DAL	243	1073	1.27	1	0.70
JetBlue Airways Corporation	JBLU	296	1105	0.85	2	NA
Southwest Airlines Co.	LUV	139	160	0.99	0	NA
UAL Corporation	UAUA	427	2063	0.70	7	0.64

*The number of years in the past decade that the airline has traded below an EV / IC' of 0.8. Historically, before filing for bankruptcy, airlines trade at an EV / IC' of 0.7.



Actual CDS for airlines are trading at very high levels, implying high probability of default. This is not unnatural for this industry. However, these firms are trading at EV/IC' multiples that are at historically high levels. When approaching previous bankruptcies, airlines tend to trade at distressed multiples well below EV/IC' of 0.7.

It appears that either credit investors or equity investors are wrong about the fate of these companies. Our iCDS implies that it may be the credit investors that are overly pessimistic.

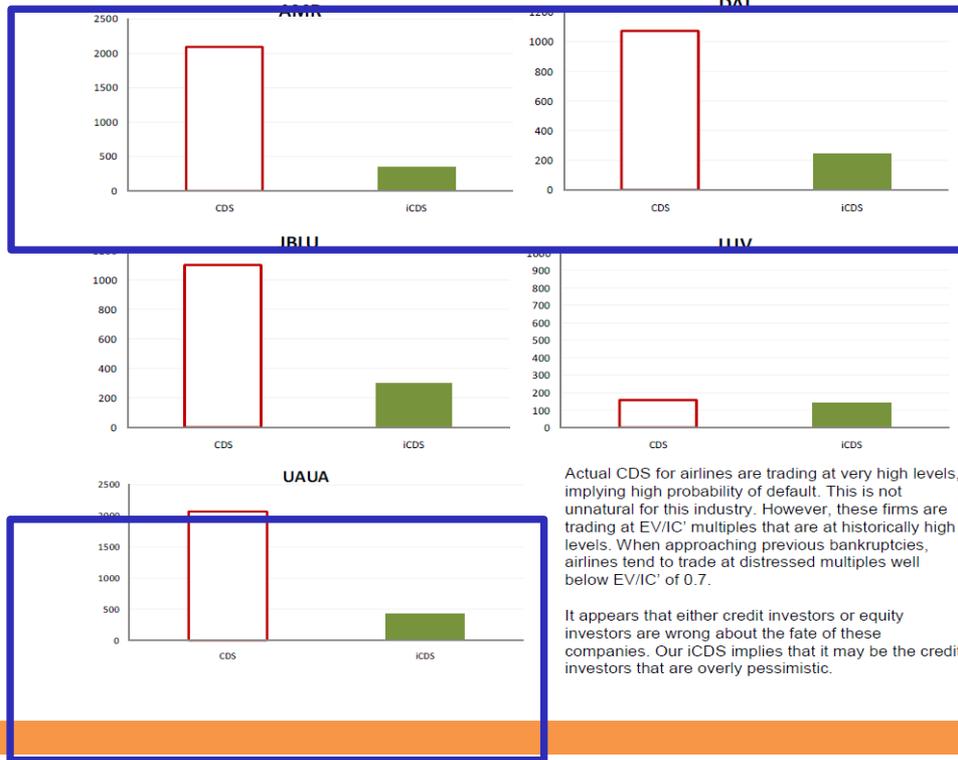
Airlines (DAL, AMR, UAA and iCDS) December 2009

- The most important customer

Airlines – With actual CDS trading at excessively high levels, our proprietary iCDS paints a much safer picture

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Airlines (DAL, AMR, UAA and iCDS) December 2009

- The most important customer
- What “the world” was saying

Airlines (DAL, AMR, UAA and iCDS) December 2009

- The most important customer
- What “the world” was saying
- What the tickets were saying

Airlines (DAL, AMR, UAA and iCDS) December 2009

- The most important customer
- What “the world” was saying
- What the tickets were saying
- What the media was saying (18 months later)

The New York Times

BUSINESS DAY

A Return to Spending and the Front Rows

By JAD MOUAWAD MAY 4, 2011

BUSINESS travelers are back, and the airlines are eager to court them again.

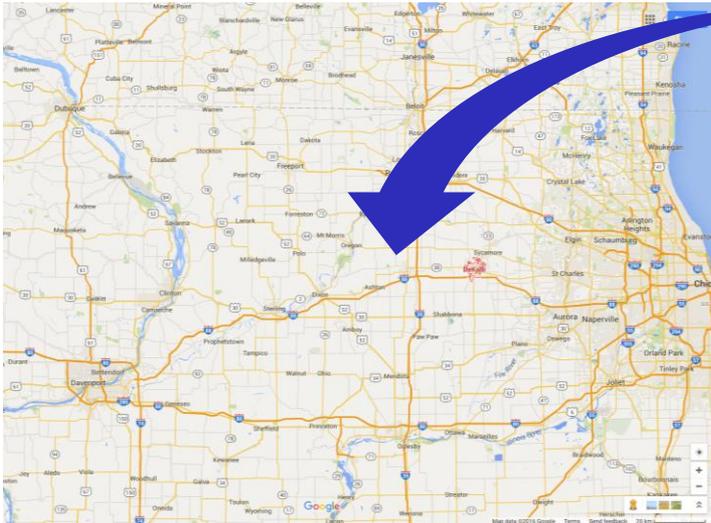
Whether they are small-business owners, sales representatives or corporate executives, [business travelers](#) these days are more often found at the front of the plane than at the back, where cuts in travel budgets confined them during the recession.

The restrictive company policies that banned business-class travel, limited lodging to three-star hotels and replaced three-day sales conferences in Las Vegas with virtual meetings via conference calls have all but disappeared. The years of chasing costs have given way to a rebound in travel as the economy picks up.

The airlines have gleefully greeted the return of their premium travelers and are fighting more fiercely than ever for their loyalty with new business-class seats, refurbished business lounges and improved service on board.

Biotech firm takeover target (Outside Detroit)

- Biotech firm in the middle of nowhere
- Parent company close to somewhere
- Chartered flights from somewhere to nowhere





Shipping companies

- Container activity
- Watch what George Lucas saw





Shipping companies

- Container activity
- Watch what George Lucas saw
- Counting cameras



Large retail stores

- People shop in stores
- People arrive by car
- Picture the parking lot



Casinos – Boyd Gaming

- People gamble



Casinos – Boyd Gaming

- People gamble
- People who gamble also eat

HOTEL



DINING



SHOWS



BOBBY FLAY STEAK

OVERVIEW

MENU

Casinos – Boyd Gaming

- People gamble
- People who gamble also eat
- Four-Square/Footfall the restaurants

Used Cars – KMX Carmax

- Cars are marketed on websites

SHOP ALL CARS

- [Buying from CarMax](#) >
- [Why CarMax?](#) >
- [Transfers](#) >
- [MaxCare Service Plans](#) >
- [Accessories](#) >

READY TO FIND YOUR CAR?

- ✔ Compare different makes and models in one place
- ✔ Apply for financing quickly and easily
- ✔ Our friendly sales consultants are ready to help
- ✔ There's never any pressure to buy

[SEND US A QUESTION](#) >[SHOP ALL CARS](#) >[SELL YOUR CAR](#) >

OR

MAKE/MODEL ▾

TYPE ▾

PRICE ▾

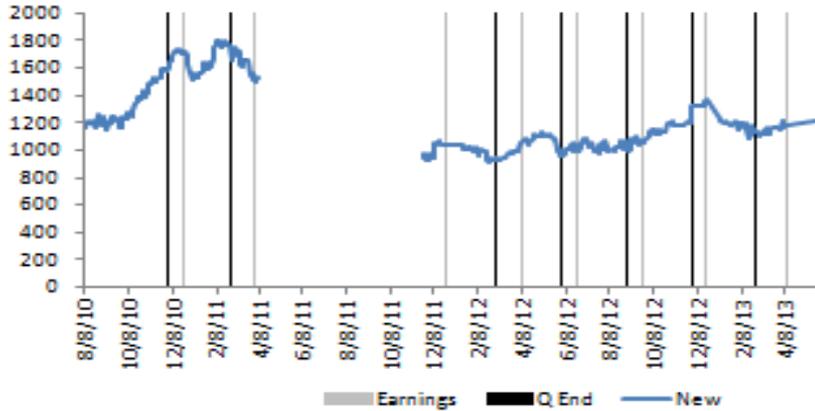
Why buy or sell with us?

Used Cars – KMX Carmax

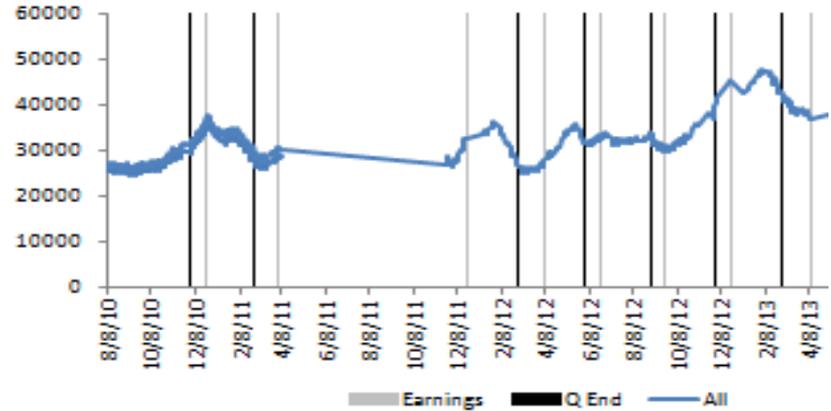
- Cars are marketed on websites
- Websites can be screen-scraped

Relationship of Inventory and Stock Price movement

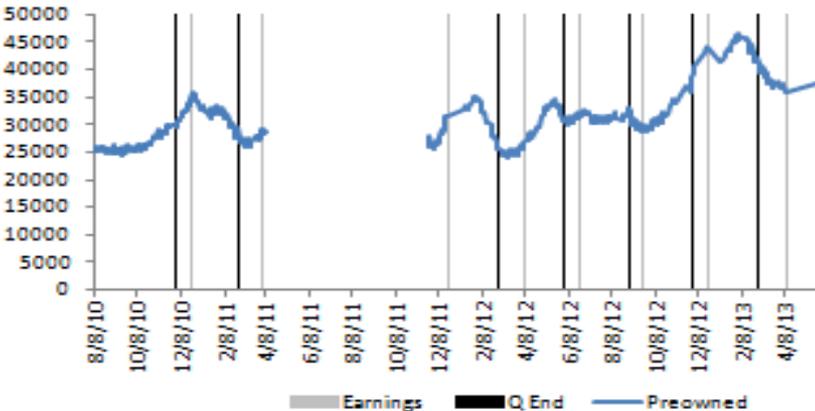
New Car Inventory



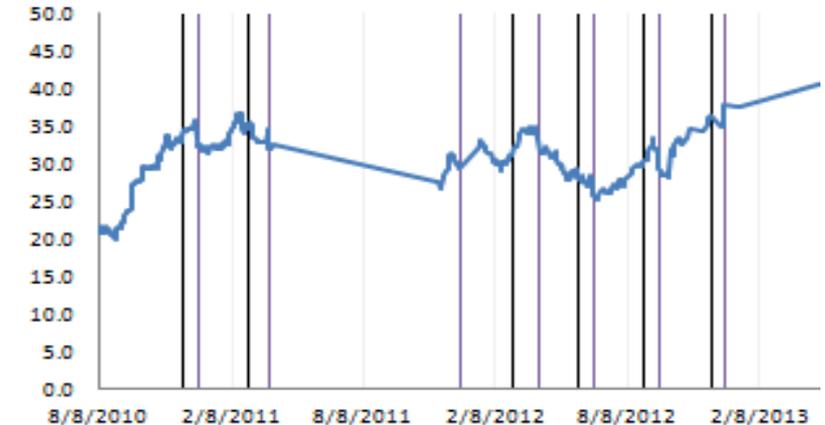
All Cars Inventory



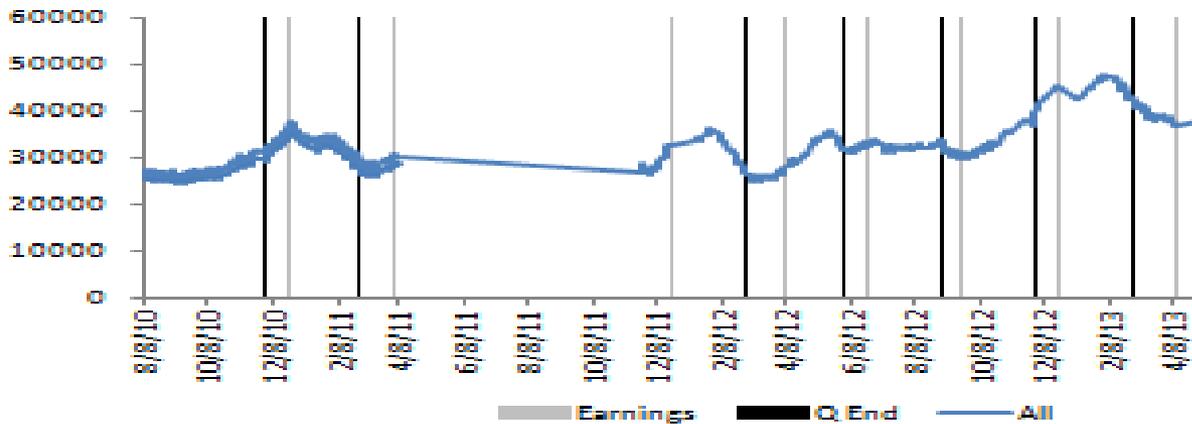
Used Car inventory



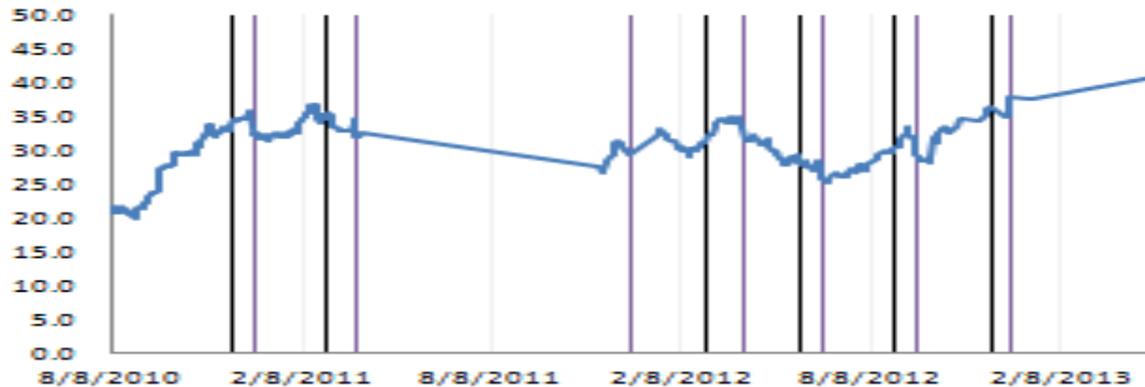
KMX Stock Price



All Cars Inventory



KMX Stock Price



KMX new car and used car inventory data can be found on the company's website, monitored regularly

There is an inverse relationship between inventory and stock price since data gathered in 2012. The rise in inventory leads to declining or weaker stock price, especially into their earnings call

Used Cars – KMX Carmax

- Cars are marketed on websites
- Websites can be screen-scraped
- Trade the patterns in inventory build and sales

OTHER:

- NIKL Asia: Inventories, collateral, eyes
- Thailand rebound: flooding and alligators
- ACE Hardware Indonesia: Store growth plans
- WD: Edge of your seat giddy: 6 weeks into the quarter

Legal versus Illegal – Depends on the prevailing laws

- (Former) Employees, Contractors (GLG, SAC, Galleon)
- Boesky and the Bankers (Transaction knowledge)
- Dumpster Diving
- Breaking other laws (Wall Street, the movie)

VALENS RESEARCH



Investigative Investing: Legal Information Advantages

CFA SOCIETY OF SINGAPORE

Professor Joel Litman
June 2016

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“In summary, **we are confident that our strategic portfolio reshaping**, unlocking value from asset sales and redeploying the proceeds into lower risk, higher-return investments will deliver improved financial performance and create long-term value for our shareholders” – John Hess during the company’s earnings conference call on Nov 2, 2012

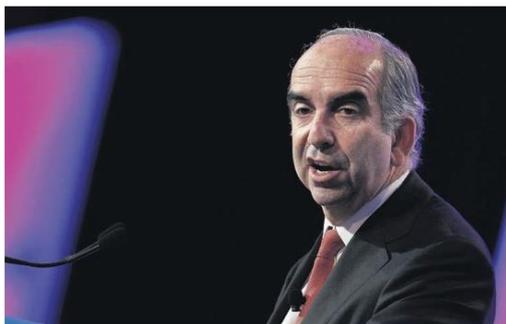
During the succeeding months...

HEDGE FUNDS | MERGERS & ACQUISITIONS | MARCH 4, 2013, 8:39 AM | 3 Comments

Hess to Sell Gas Stations as Part of a Shift in Strategy

BY MICHAEL J. DE LA MERCED - NY Times

Hess to sell assets in Indonesia, Thailand



Sale plans: Hess chief puts southeast Asian assets in shop window

Bill Lehané 04 March 2013 12:44 GMT

- Upstream

Hess Corp to Sell Russian Assets to Lukoil for \$2.05 Billion

- OILPRICE

By [Joao Peixe](#) | Tue, 02 April 2013 22:47

March 18, 2013, 6:00 PM

Hess to Sell Some Eagle Ford Assets for \$265 Million - The Wall Street Journal

Hess to offload Hetco to focus on exploration, production - Reuters



INSTITUTE OF STRATEGY & VALUATION

More Importantly the stock price... Or shareholder value



HES managed to outperform the S&P 500 by roughly about 10% from November of 2012 to July of 2013.

As of July 2, 2013, HES is up by 31.08%



INSTITUTE OF STRATEGY & VALUATION

Progenics Pharmaceuticals: looking at sales channels for signs of life



Progenics Pharmaceuticals (PGNX) receives a Complete Response Letter from the FDA for RELISTOR (the company's only commercial drug) for its use in Opioid-induced constipation, requesting additional data. PGNX drops from \$11 to \$6



Salix Pharmaceuticals (SLXP), RELISTOR's distributor, releases its first quarter results, Cognitive and Emotional Analysis from Salix picks up two excitement markers about RELISTOR implying sustainable prescription growth and confidence in the approval process.



Progenics Pharmaceuticals: looking at sales channels for signs of life

Salix Pharmaceuticals Q4 2012 Earnings Call

“RELISTOR prescriptions increased 90% year-over-year for the fourth quarter of 2012, **compared to the fourth quarter of 2011**, and 137% for the full year”

-These statements generate 1 **Excited** (EXC) marker.

Salix Pharmaceuticals Q4 2012 Earnings Call

“...Currently, there are no **FDA-approved therapies for OIC** in chronic, non-cancer pain. Before changing our RELISTOR development plans, we intend to make every effort to gain approval...”

-These statements generate 1 **Excited** (EXC) marker.



On February 28, 2013 SLXP releases its first quarter results, Cognitive and Emotional Analysis from Salix picks up *two* excitement markers about RELISTOR implying sustainable prescription growth. Most importantly, the markers signify their confidence in the review process.

June 11, 2013, the FDA Announces it will start reviewing data on RELISTOR.



Progenics Pharmaceuticals

It is important to look beyond sales figures and prescription data from distributors, licensees, and marketers of certain drugs. Salix Pharmaceuticals, the company who licensed RELISTOR, has first-hand interactions and feedback which can not and will not be found in any financial statement.

It is looking for these chinks in the armor where management is confident about an issue that investors have already discounted that presents opportunities.



Leave-out slide:

Why Relistor is interesting and has been priced to the dirt

<http://invivoblog.blogspot.com/2009/10/wyeth-quits-on-relistor-surprise.html>

Salix Pharmaceuticals buys rights to RELISTOR after Wyeth discontinues its interest in RELISTOR after paying around \$170MM in milestones and product development costs, just to get the brand off its hands.



INSTITUTE OF STRATEGY & VALUATION

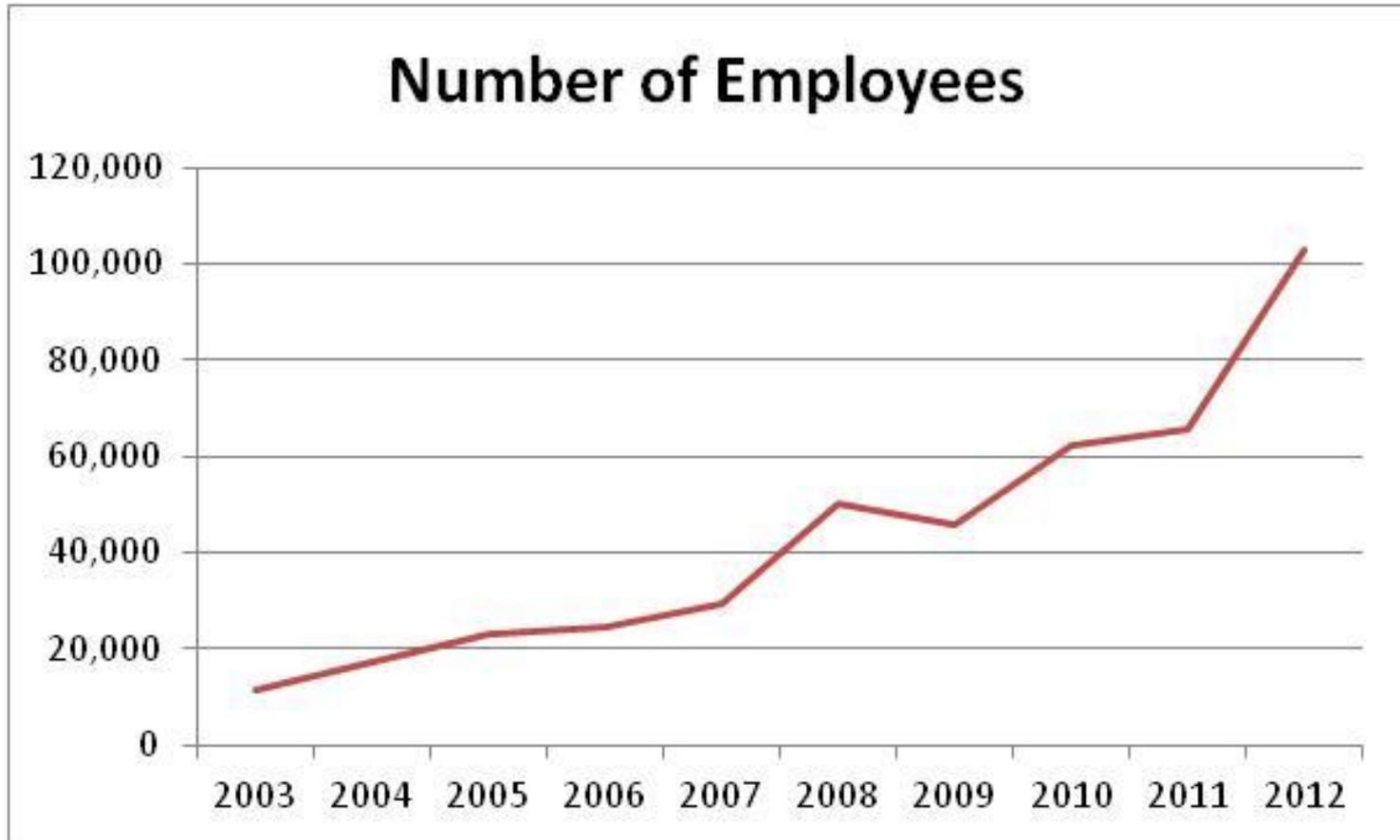
For the Company's Q3 2013. Despite weak PC sales, tablet sales continued to remain strong during the quarter, which drives growth for Western Digital's SSDs.

Western Digital's new and innovative 7 disk helium-filled drives, which are more energy efficient, have been gaining strong traction from enterprises. Furthermore, Western Digital has been expanding its portfolio of enterprise class SSDs, implying it needs to expand their employees' base to generate more product volumes

Although in the same quarter, management generated mixed markers when discussing their results. The **excitement** marker indicates that they are less concerned about the declines in pricing than they are conveying. The **highly confident** marker implies that they are positive that the cash conversion cycle model is less a function of days payable. However, the **highly questionable** markers indicate a possible overstatement of market share gains and an exaggeration of having better costs.



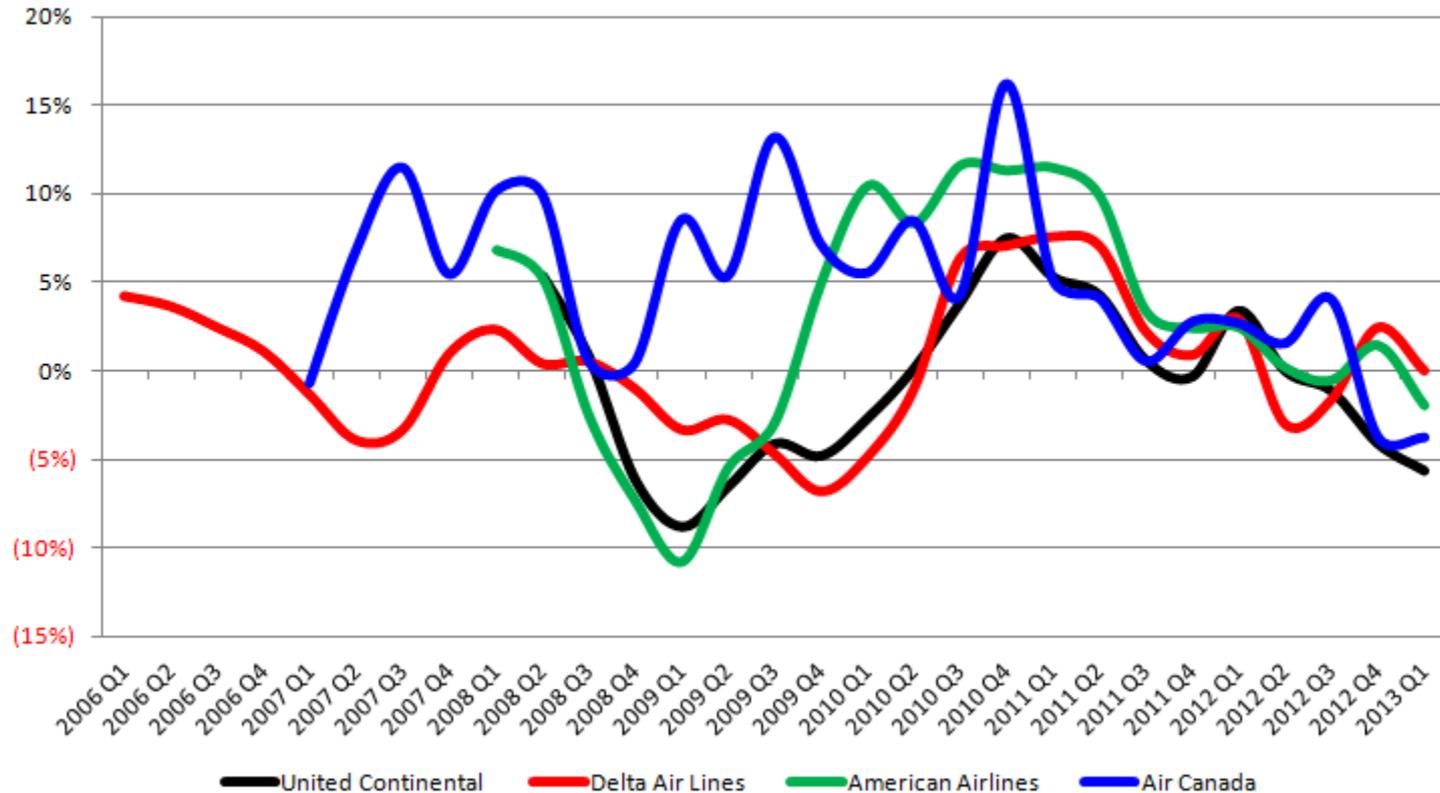
INSTITUTE OF STRATEGY & VALUATION



This graph excludes contractors and temporary employees.



International Available Seat Miles (ASM)



The graphs shows that the International ASM for American Airlines and United Continental roughly bottomed out by the end of 2008 and gradually improved early 2009, from approximately -10% all the way up to 5% -10% in 2009-2010, respectively



AIRLINE INDUSTRY

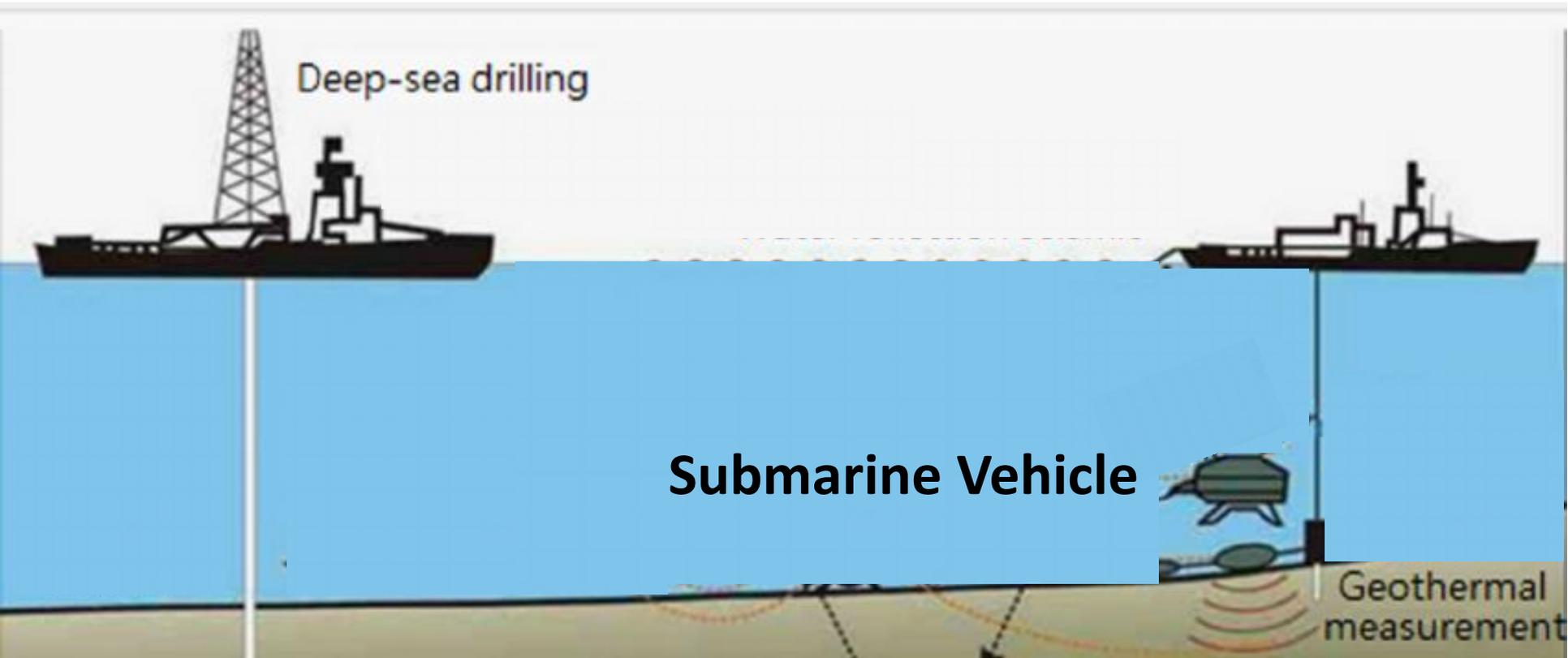
Buy-side and sell-side airline industry experts and hedge fund managers were forecasting at best 1-2% growth and many forecasted zero or negative growth in 2009 leading into 2010.

An interesting wholesale travel agency forecasted that the passenger/seat growth of international flights, particularly of the business class, will improve by 3% to 5% over the next 3 months from the end of the year 2009.



“The Sleuth Investor,” Avner Mandelman

- People produce a product for sale to other people
- There is plant and periphery around the product and people
- Identify those people and learn what others don't



Deep-sea drilling

Submarine Vehicle

Geothermal measurement

Deep sea oil and drilling companies (ION, GEO)

- Mobile deep sea submarine operators
- Recruiting firms, headhunters
- Increasing search for operators means increasing drilling