

# VALENS RESEARCH

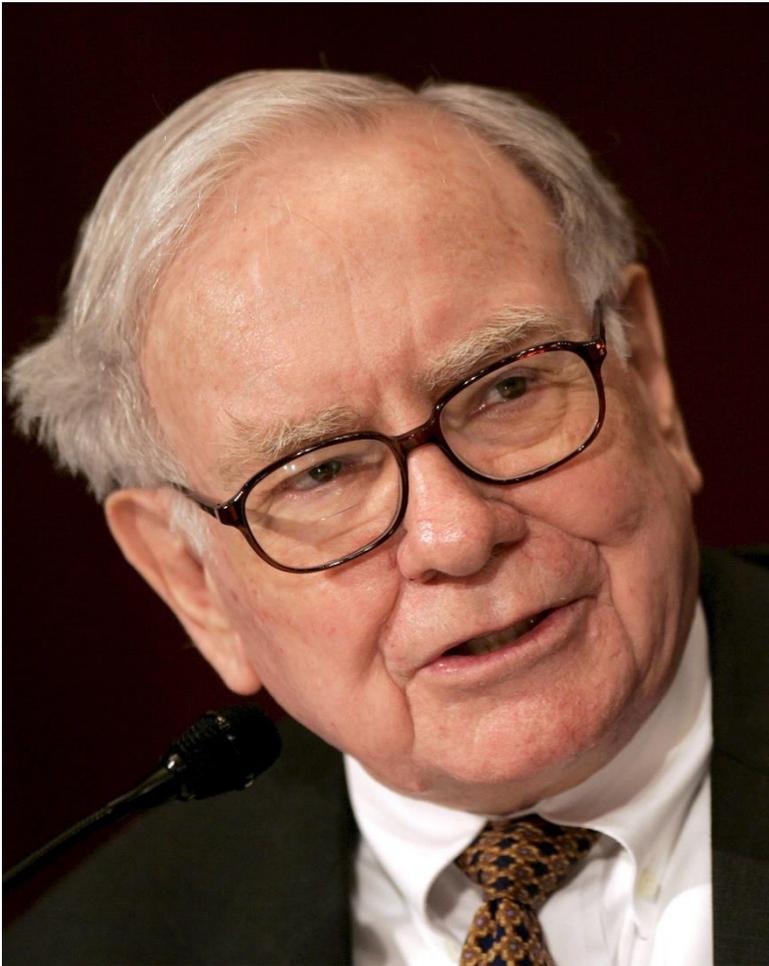


## The Dark Side of Financial Statement Analysis And the Impact of UAFRS on Equity and Credit Investing

Professor Joel Litman  
January 2017

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“To be successful,  
you should concentrate on  
the world of companies,  
not arcane accounting  
mathematics.”

- Buffett

# The Statement of Cash Flows

# The Statement of Cash Flows

**Operations**

**Investing**

**Financing**

# You have \$200 for a business

December 1, 2012

December 31, 2012

December 31, 2013

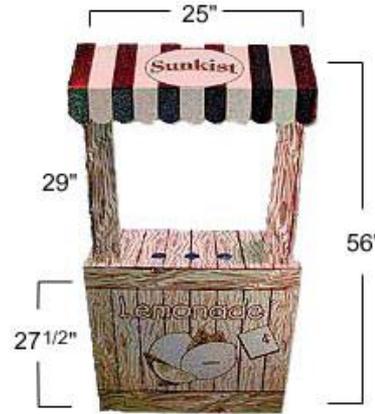


# You invest all \$200 into current assets and PP&E

December 1, 2012



December 31, 2012



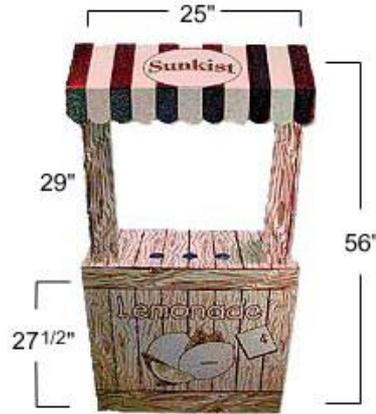
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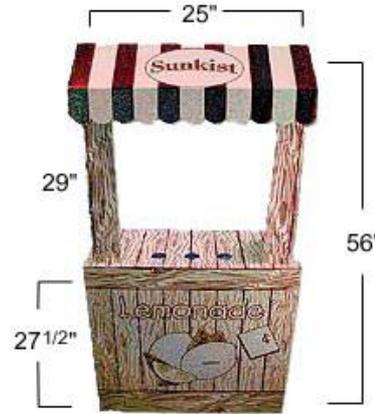
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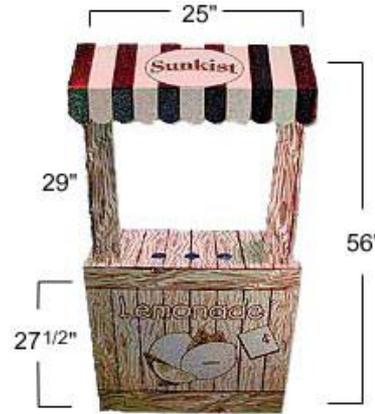
How much cash have you invested in the business?

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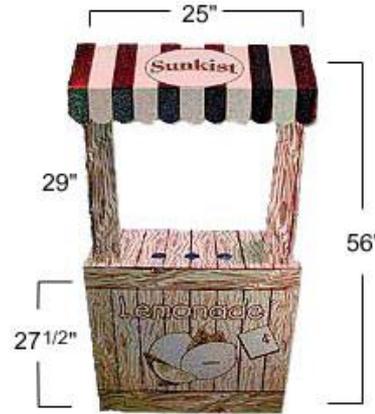
How much cash have you generated from operations?

# What do the financials represent at 12/31/12?

December 1, 2012



December 31, 2012



December 31, 2013

Statement of Cash Flows:

Cash Flows for Investing Activities

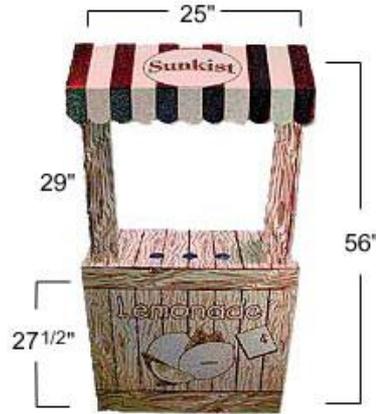
(100)

# What do the financials represent at 12/31/12?

December 1, 2012



December 31, 2012



December 31, 2013

Statement of Cash Flows:

Cash Flows for Investing Activities

(100)

Cash Flows from Operations

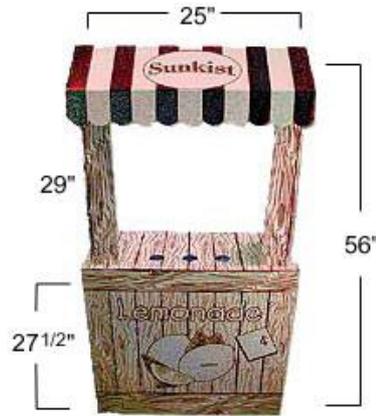
(100)

# You sell off \$100 of working capital for \$100

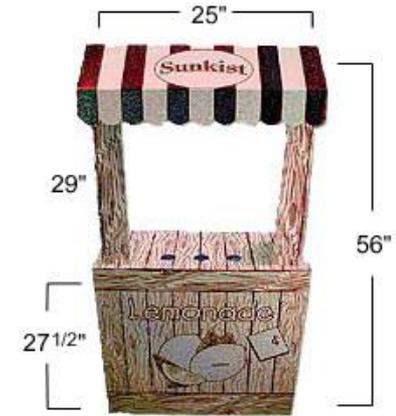
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December 31, 2012



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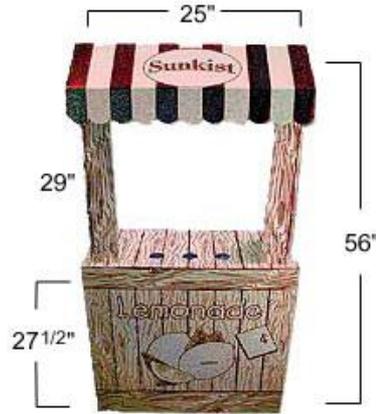


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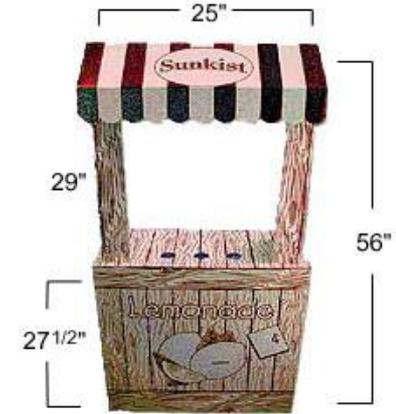
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December 31, 2012



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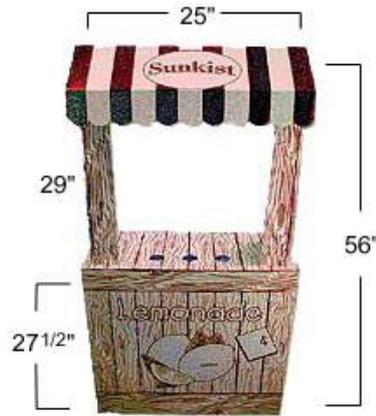


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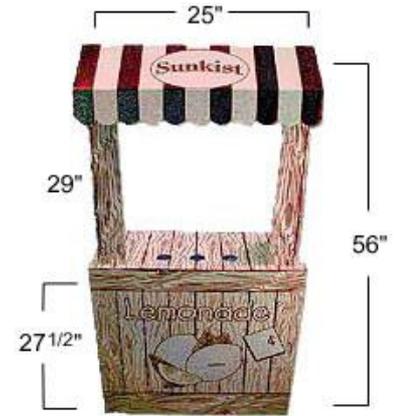
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December 31, 2012



December 31, 2013



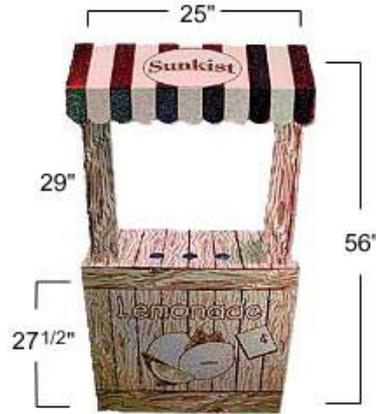
Cash generated?

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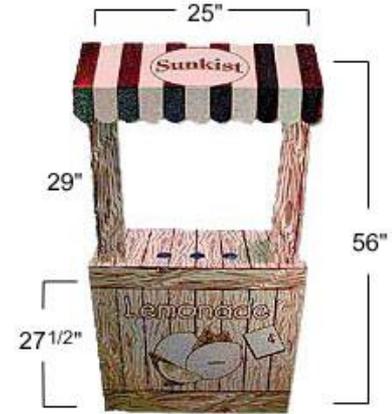
December 1, 2012



December 31, 2012



December 31, 2013



Cash generated?

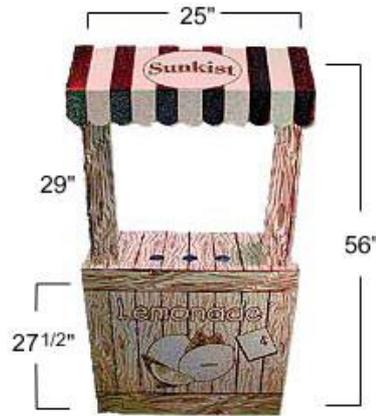
What reported?

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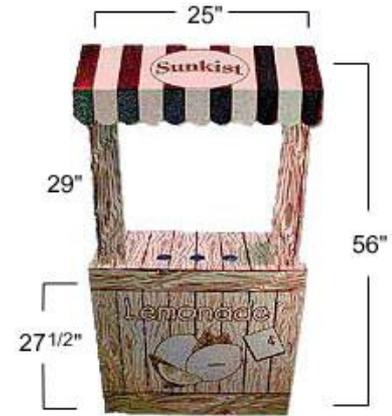
December 1, 2012



December 31, 2012



December 31, 2013



## Statement of Cash Flows:

Cash Flows for Investing Activities (100)

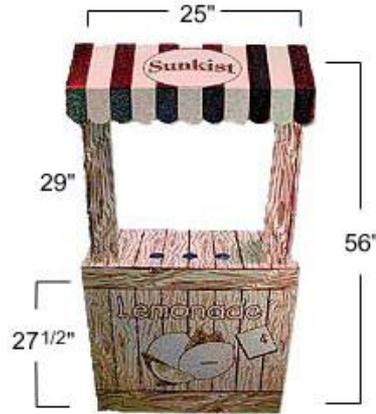
Cash Flows from Operations (100)

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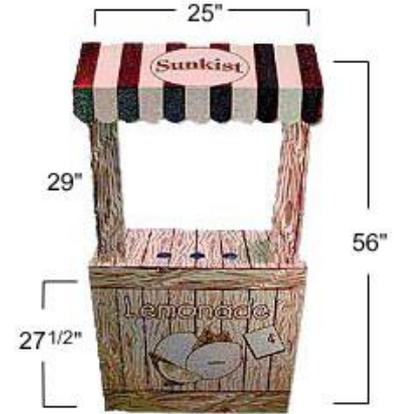
December 1, 2012



December 31, 2012



December 31, 2013



## Statement of Cash Flows:

Cash Flows for Investing Activities (100)

Cash Flows from Operations (100) + 100

# Restating the Statement of Cash Flows

- Cash Flows From/For Operations
  - Changes in working capital
  - Rental expense, R&D
  - Pension “expense”
  - Interest expense
  
- Cash Flows From/For Investing
  - All of the above
  - Others
  
- Cash Flows From/For Financing
  - Dividends
  - Off-balance sheet debt
  - Others

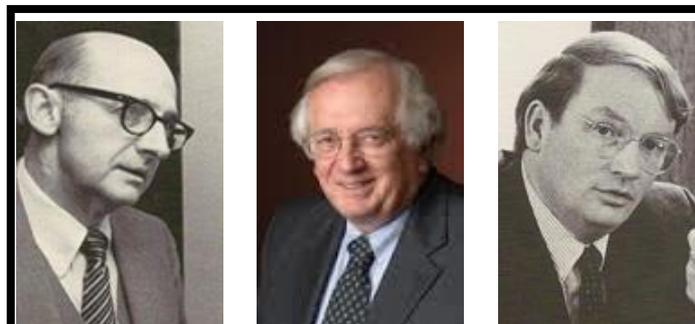
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Leisenring  
& Sweiringa**

# Restating the Statement of Cash Flows

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  - Others
  
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  - Dividends
  - Off-balance sheet debt
  - Others



- *“None...aptly named”*
- *“Inconsistencies”*
- *“Undesirable”*
- *“Misleading”*
- *“Misunderstood”*

“The misperception is  
you are investing in the  
stock market, not  
companies.”

-- Charles Brandes



# Incomparable M&A Accounting

## Far more than just goodwill

### Acquirer

### Acquired

- |                        |                           |
|------------------------|---------------------------|
| ▶ Book value assets    | ▶ “Fair value” assets     |
| ▶ R&D expensed         | ▶ R&D capitalized         |
| ▶ Full year sales      | ▶ Partial year sales      |
| ▶ Full year earnings   | ▶ Partial year earnings   |
| ▶ Full year cash flows | ▶ Partial year cash flows |

**AT&T  
Acquisition of DirecTV (Closed 7/24/2015)**

|                       | <b>End of Year<br/>Reported Value</b> | <b>Understatement Per<br/>GAAP Accounting</b> | <b>Unreported<br/>% of EoY</b> |
|-----------------------|---------------------------------------|---|--------------------------------|
| <b>Net Income</b>     | 13,345                                | 987   | 7%                             |
| <b>Revenue</b>        | 146,801                               | 19,028  | 13%                            |
| <b>Gross PP&amp;E</b> | 306,227                               | 12,857  | 4%                             |

*Source: Valens Research, CapIQ, Company Financials*

# Incomparable M&A Accounting

## Far more than just goodwill

### Acquirer

### Acquired

▶ **Book value assets**

▶ **“Fair value” assets**

▶ **R&D expensed**

▶ **R&D capitalized**

▶ **Full year sales**

▶ **Partial year sales**

▶ **Full year earnings**

▶ **Partial year earnings**

▶ **Full year cash flows**

▶ **Partial year cash flows**

## Acquisitions Occuring By Quarter 2014 & 2015

|    | % of Acquisitions |
|----|-------------------|
| Q1 | 25%               |
| Q2 | 30%               |
| Q3 | 13%               |
| Q4 | 33%               |

*Source: Valens Research, CapIQ*

“Incomparable M&A Accounting”  
stems from mid-year M&A, especially Q4

**Becton, Dickinson and Company  
Acquisition of CareFusion (Closed 3/17/2015)**

|                       | <b>End of Year<br/>Reported Value</b> | <b>Understatement Per<br/>GAAP Accounting</b> | <b>Unreported<br/>% of EoY</b> |
|-----------------------|---------------------------------------|---|--------------------------------|
| <b>Net Income</b>     | 695                                   | 226   | 33%                            |
| <b>Revenue</b>        | 10,282                                | 1,878   | 18%                            |
| <b>Gross PP&amp;E</b> | 8,277                                 | 643   | 8%                             |

*Source: Valens Research, CapIQ, Company Financials*

## Acquisitions Greater than 10% of Market Cap

|                | # Companies | % of Companies |
|----------------|-------------|----------------|
| <b>Top 300</b> | 80          | 27%            |
| <b>Top 200</b> | 51          | 26%            |
| <b>Top 150</b> | 37          | 25%            |
| <b>Top 100</b> | 19          | 19%            |
| <b>Top 50</b>  | 12          | 24%            |

*Source: Valens Research, CapIQ*

Even in a slow M&A environment,  
noticeable distortions at 1 out of 4 companies

## Acquisitions Greater than 25% of Market Cap

|                                       | # Companies | % of Companies |
|---------------------------------------|-------------|----------------|
| <b>Top 300</b>                        | 44          | 15%            |
| <b>Top 200</b>                        | 32          | 16%            |
| <b>Top 150</b>                        | 24          | 16%            |
| <b>Top 100</b>                        | 13          | 13%            |
| <b>Top 50</b>                         | 8           | 16%            |
| <i>Source: Valens Research, CapIQ</i> |             |                |

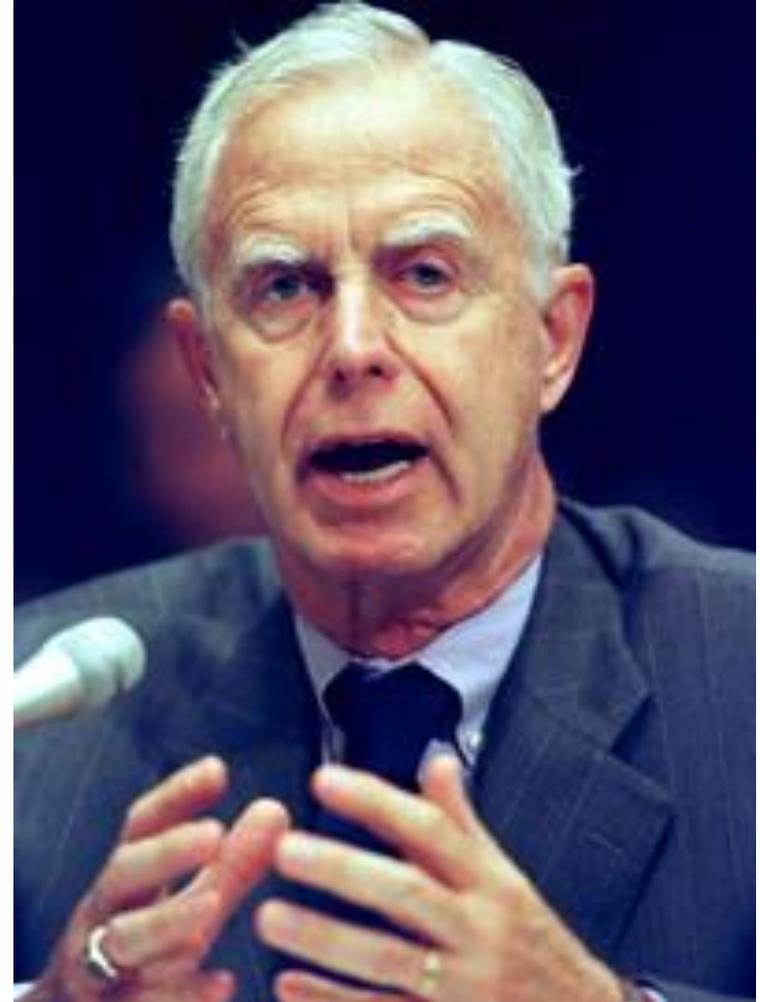
Even in a slow M&A environment,  
very material distortions at 1 out of 7 companies

“In the zeal to satisfy consensus earnings estimates...

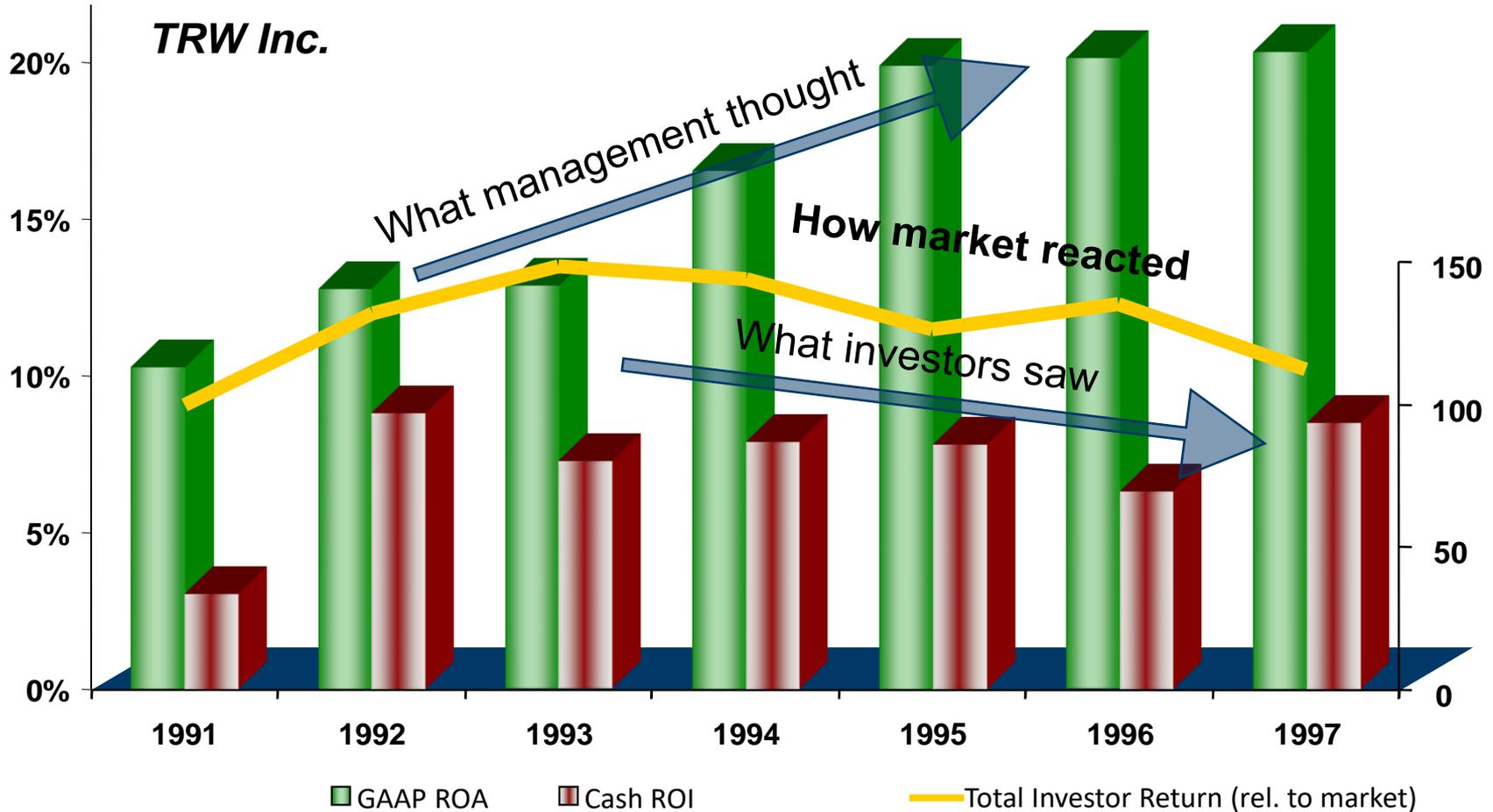
wishful thinking may be winning the day over faithful representation...

We are witnessing an erosion in the quality of earnings, and therefore, the quality of financial reporting.”

Arthur Levitt, Chairman, SEC  
September 1998



# TRW and 6 Million Shares

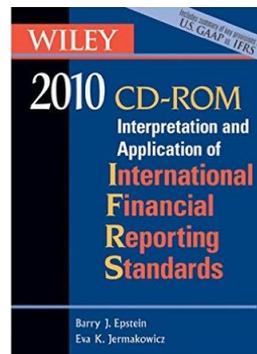
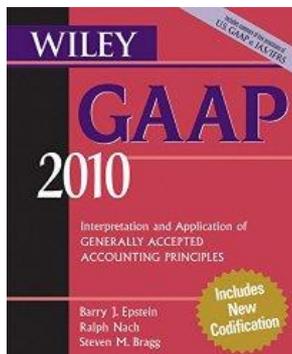




“...the FASB and the IASB have jointly made progress on converging U.S. GAAP and IFRS.

A transition of this magnitude is likely to prove to be a challenge and could, for those not prepared, easily result in misapplication...

**The fact that IFRS provides more opportunity for the application of judgment... only adds to the risk for those not fully ready for this undertaking.” -- Epstein**



# Cadbury Schweppes: 1996 – Dr. Pepper Acquisition

|  | ROA'         | EPS          | Price/<br>Earnings | Price/<br>Book | RONA          |
|--|--------------|--------------|--------------------|----------------|---------------|
| <b>Base Case<br/>(UK GAAP)</b>   | <b>5.98%</b> | <b>.35</b>   | <b>14.94</b>       | <b>3.82</b>    | <b>8.86</b>   |
| <b>Goodwill Capitalized<br/>&amp; Amortized over 40<br/>Years (US)</b> | <b>5.98%</b> | <b>.31</b>   | <b>16.87</b>       | <b>1.61</b>    | <b>8.08</b>   |
| <b>Goodwill Capitalized<br/>&amp; Amortized over 4<br/>years (DEU)</b> | <b>5.98%</b> | <b>(.05)</b> | <b>NM</b>          | <b>1.86</b>    | <b>(1.05)</b> |

“The misperception is  
you are investing in the  
stock market, not  
companies.”

-- Charles Brandes



# Fixing the financial reporting disaster of GAAP and IFRS: Uniform Adjusted Financial Reporting Standards



- Earnings
- Book Assets
- ROE, RONA, ROA
- CAPX
- Price
- Price-to-Book
- Price-to-earnings

# Fixing the financial reporting disaster of GAAP and IFRS: Uniform Adjusted Financial Reporting Standards



- Earnings  $\rightarrow E'$  = UAFRS earnings
- Book Assets  $\rightarrow A'$  = UAFRS assets
- ROE, RONA, ROA  $\rightarrow ROA'$  (UAFRS-adjusted)
- CAPX  $\rightarrow$  Asset' Growth (UAFRS-adjusted CAPX)
- Price  $\rightarrow$  Enterprise value,  $V'$  (UAFRS-adjusted)
- Price-to-Book  $\rightarrow V/A'$  (UAFRS-based P/B)
- Price-to-earnings  $\rightarrow V/E'$  (UAFRS-based P/E)

# Fixing the financial reporting disaster of GAAP and IFRS: Uniform Adjusted Financial Reporting Standards



- Earnings  $\rightarrow E' =$  UAFRS earnings

- Book Assets  $\rightarrow A' =$  UAFRS assets

- ROE, RONA, ROA  $\rightarrow$  ROA' (UAFRS-adjusted)

- CAPX  $\rightarrow$  Asset' Growth (UAFRS-adjusted)

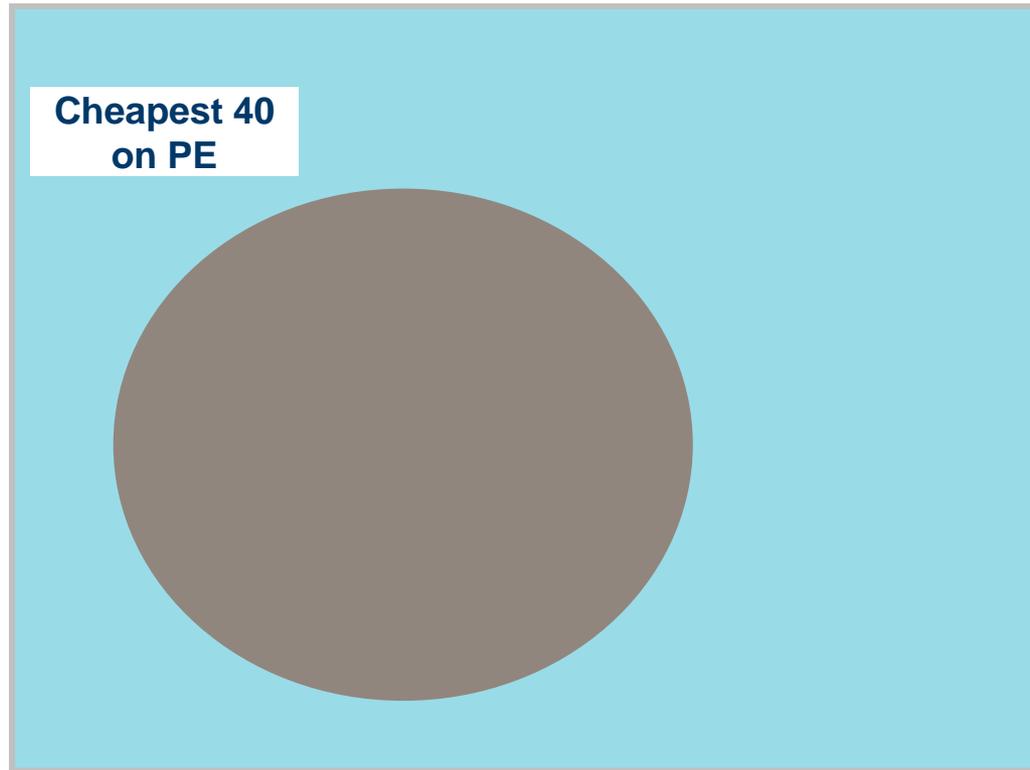
- Price  $\rightarrow$  Enterprise value,  $V'$  (UAFRS-adjusted)

- Price-to-Book  $\rightarrow V/A'$  (UAFRS-based)

- Price-to-earnings  $\rightarrow V/E'$  (UAFRS-based)

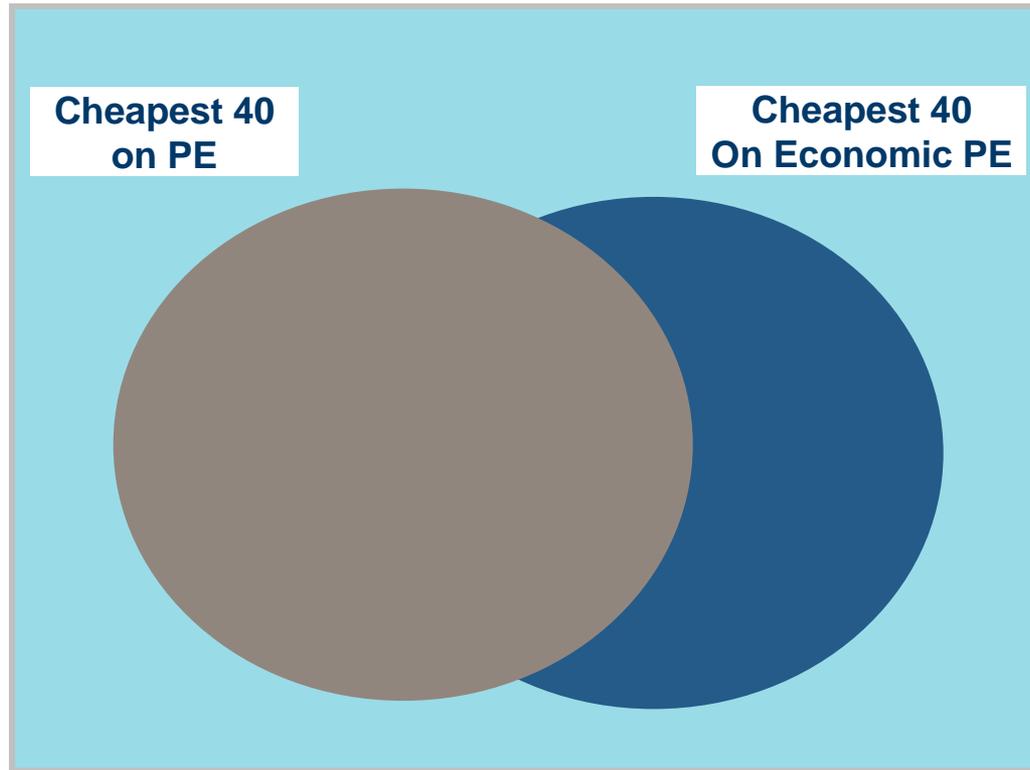
# Cheapest PE versus cheapest Adjusted PE

## 200 Companies in Mainland China



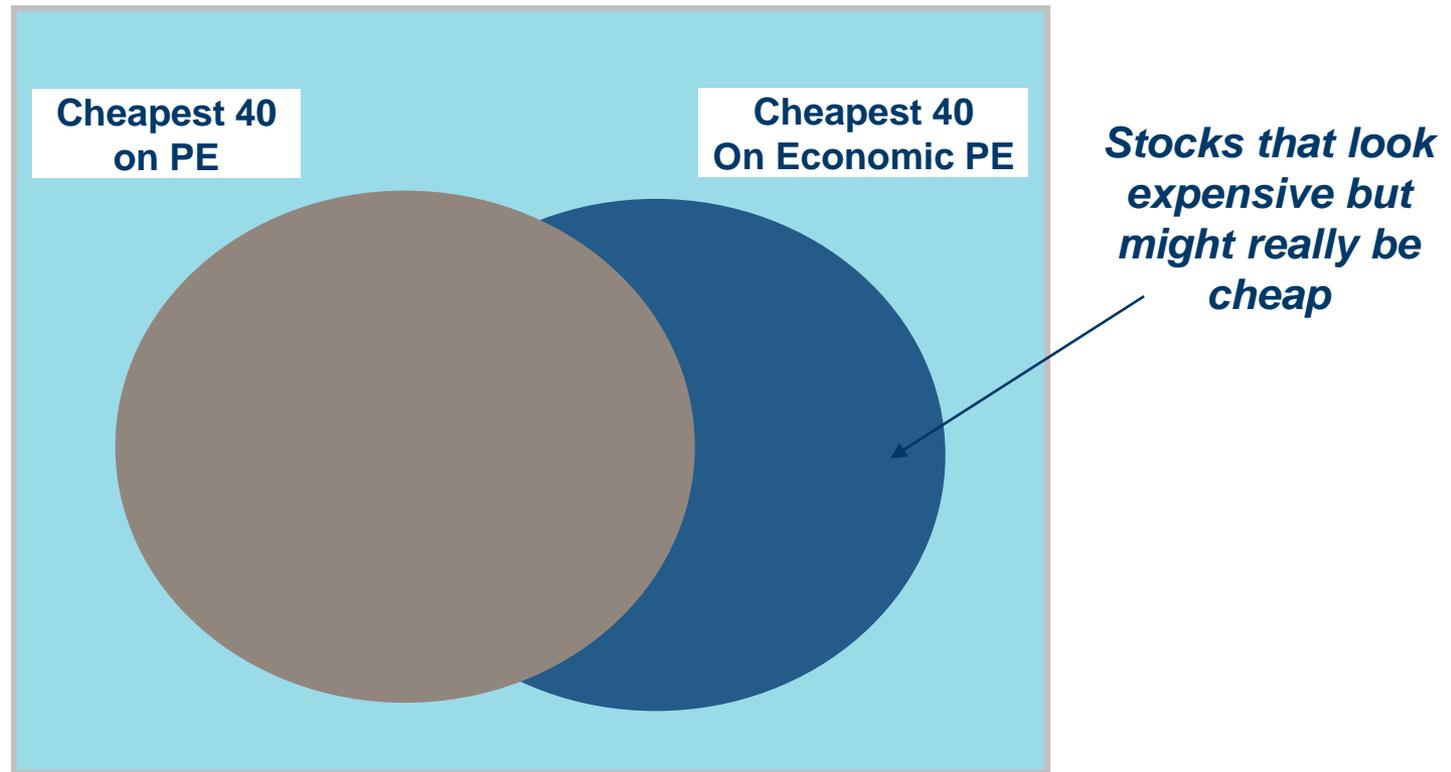
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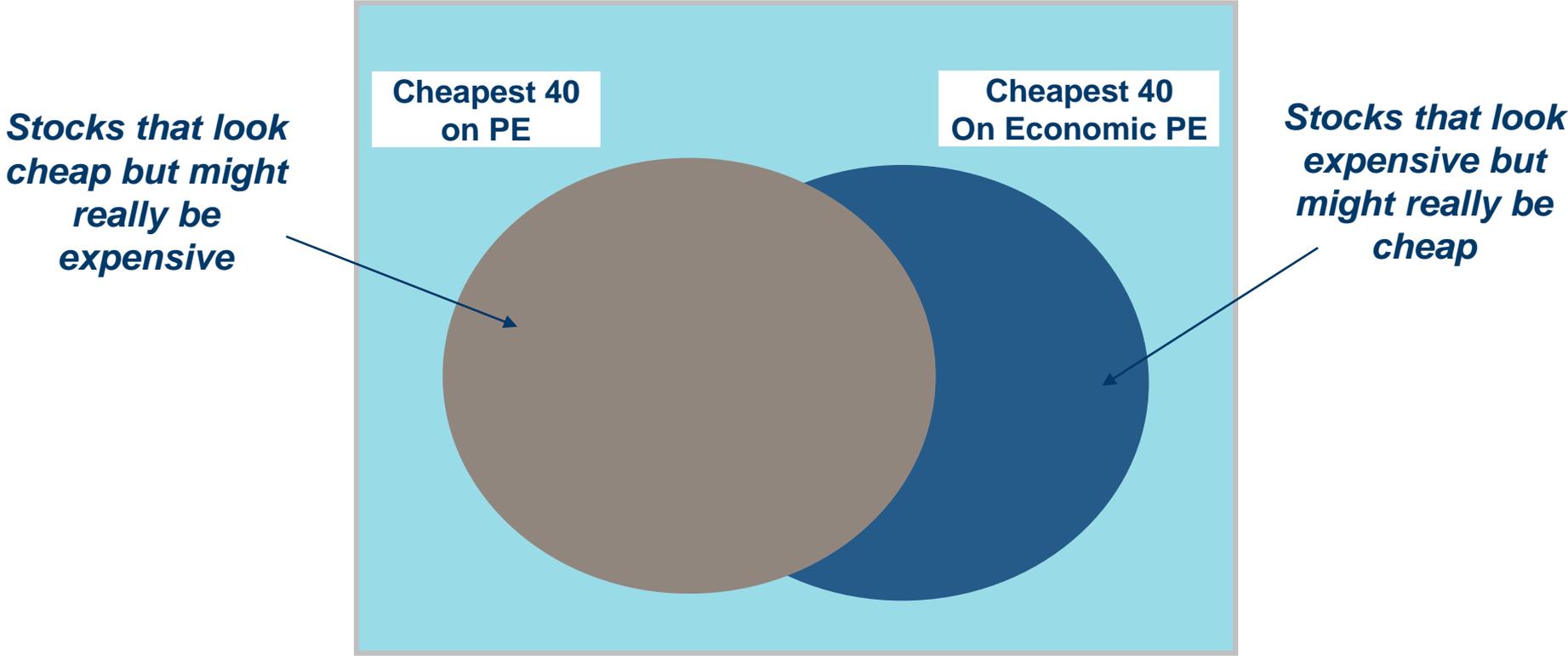
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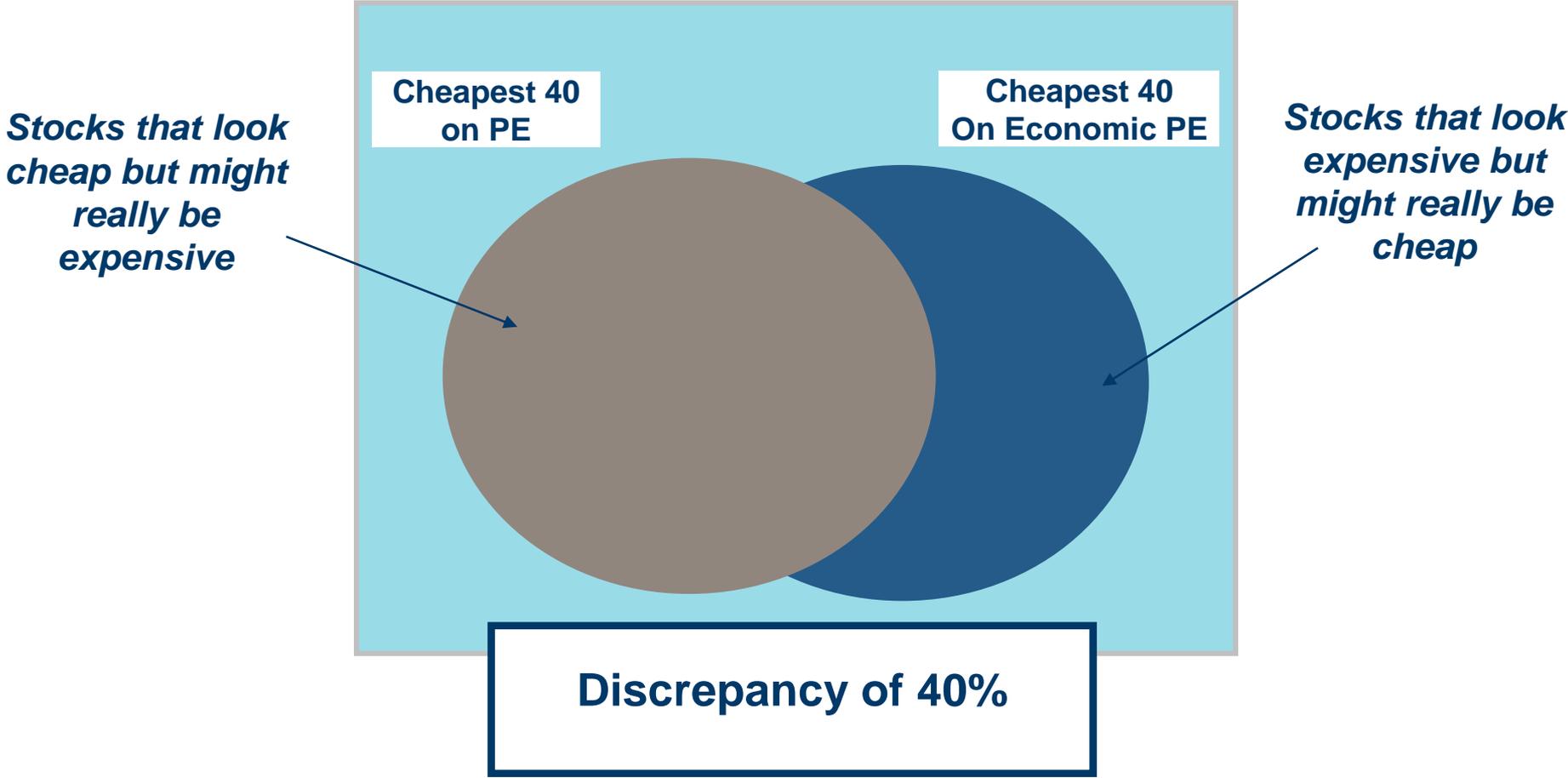
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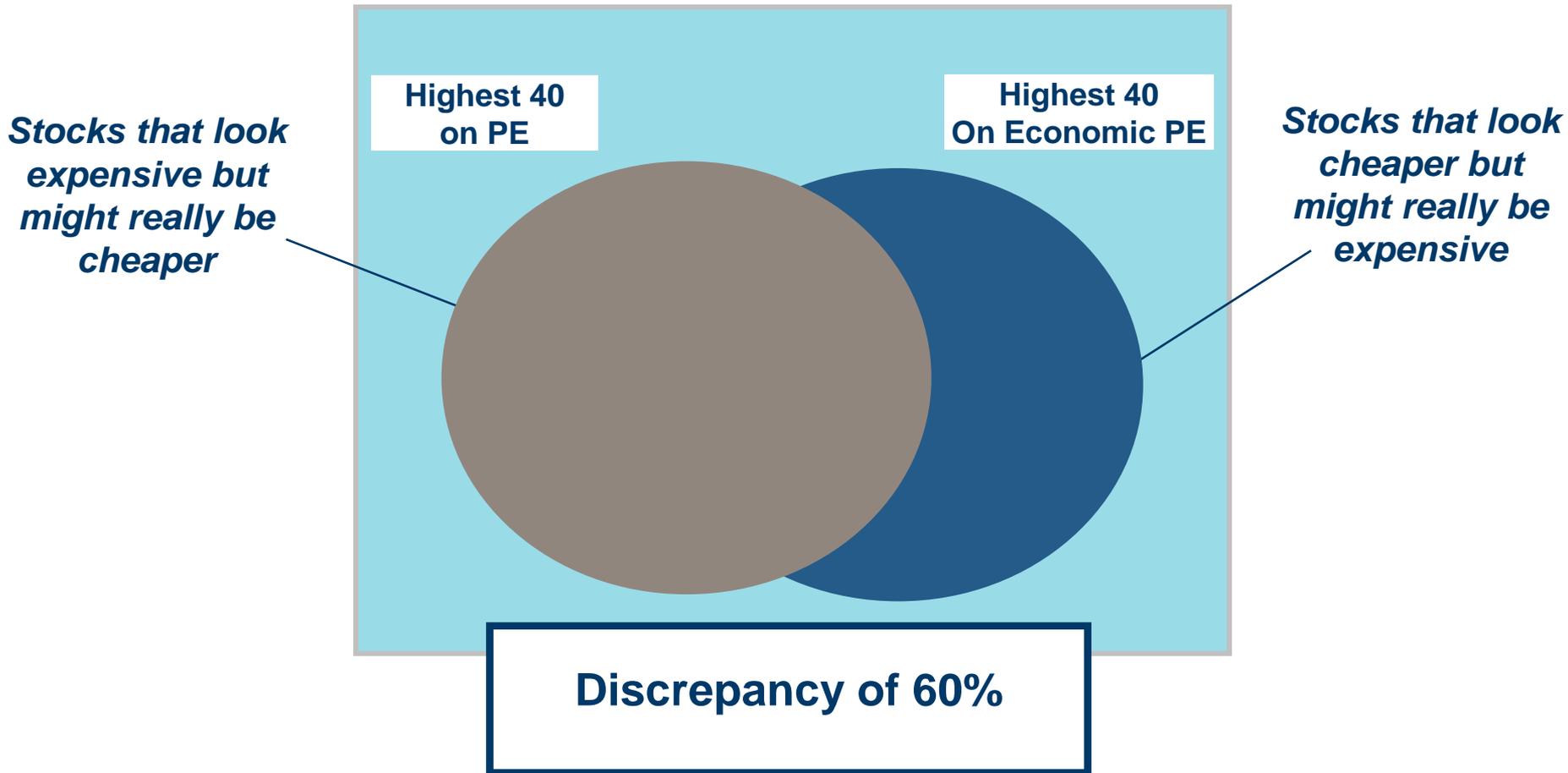
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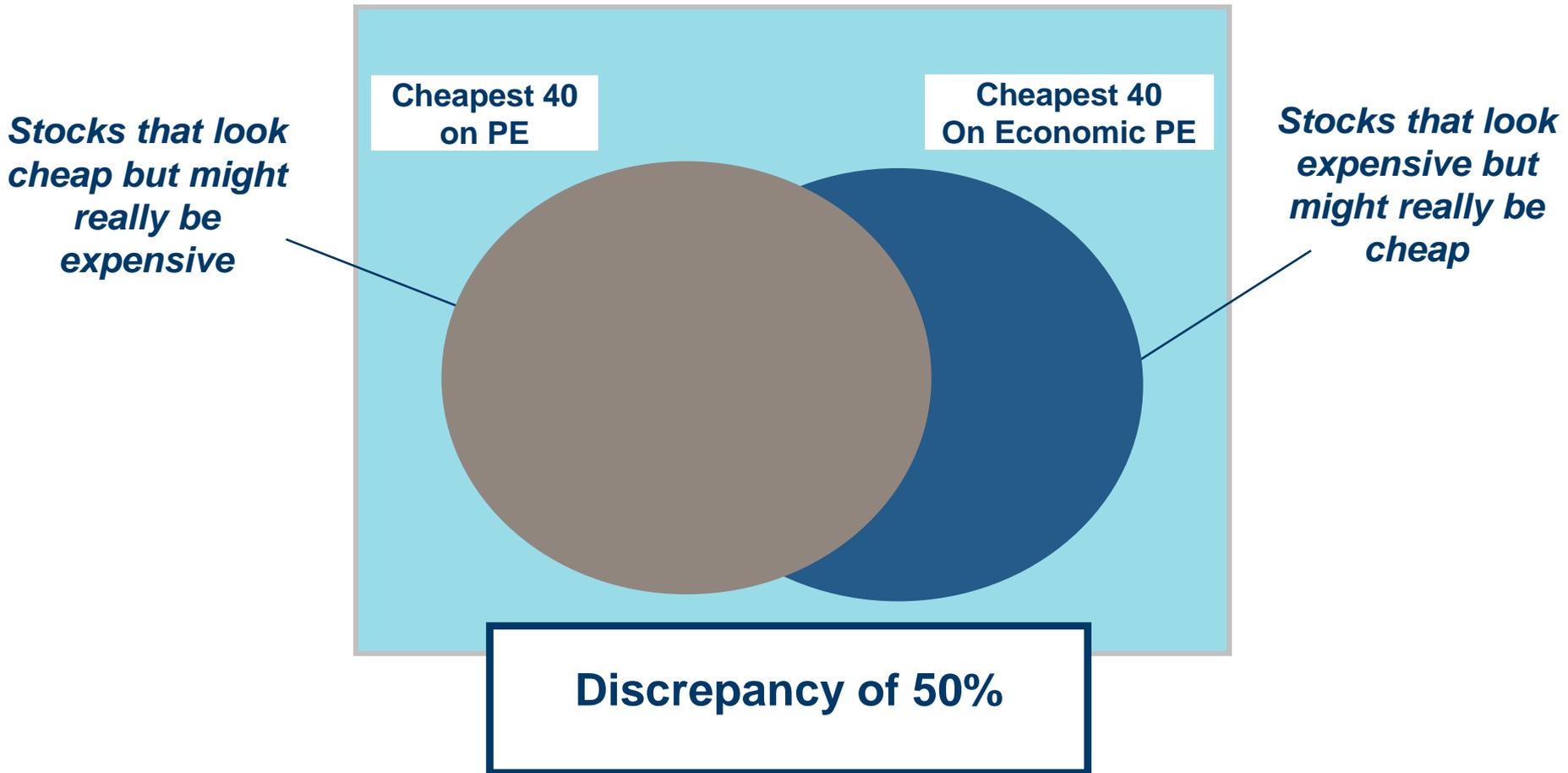
# Highest PE versus highest Adjusted PE

## 200 Companies in Mainland China



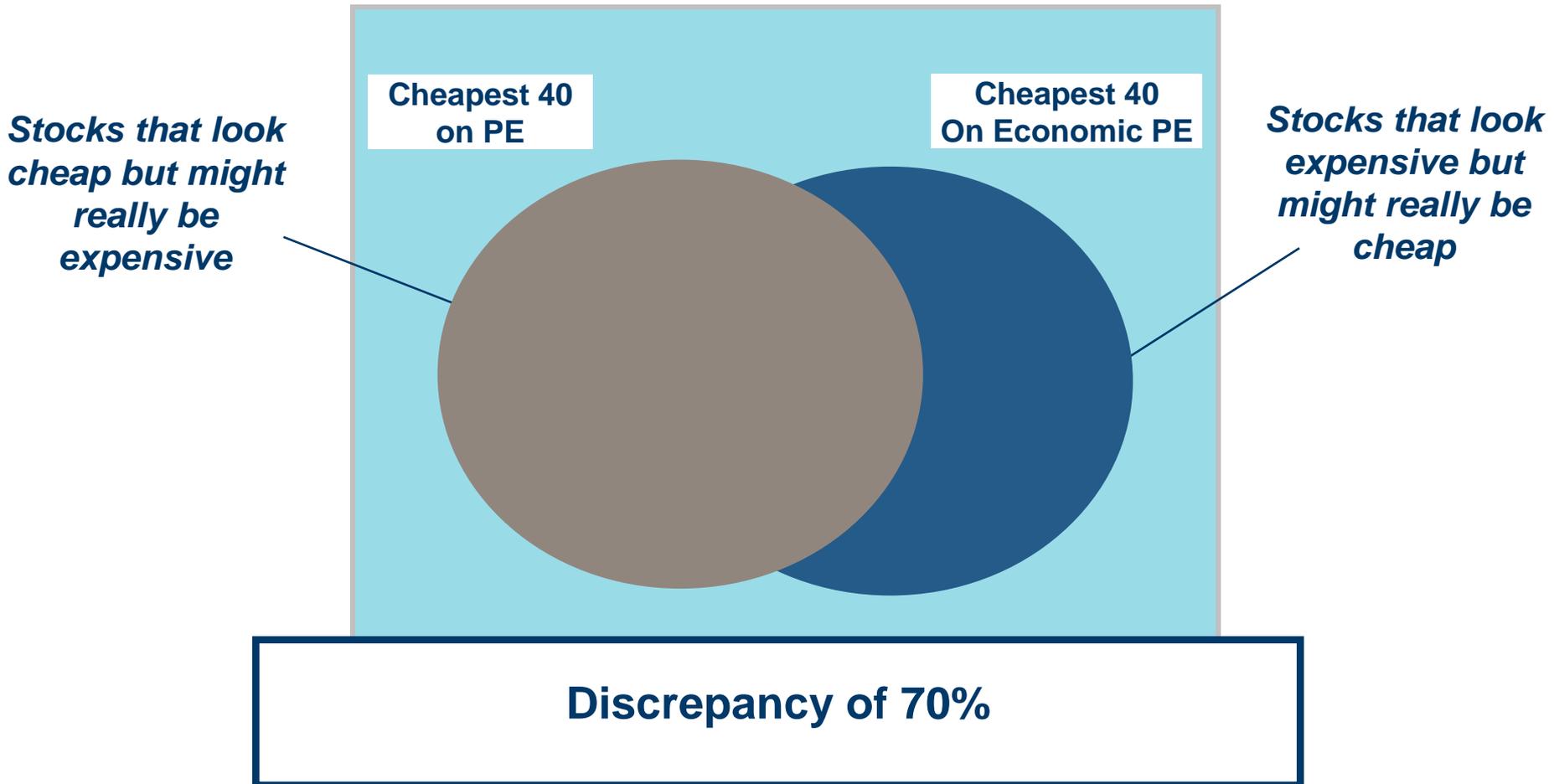
# Cheapest PE versus cheapest Adjusted PE

## 200 Companies Across Europe



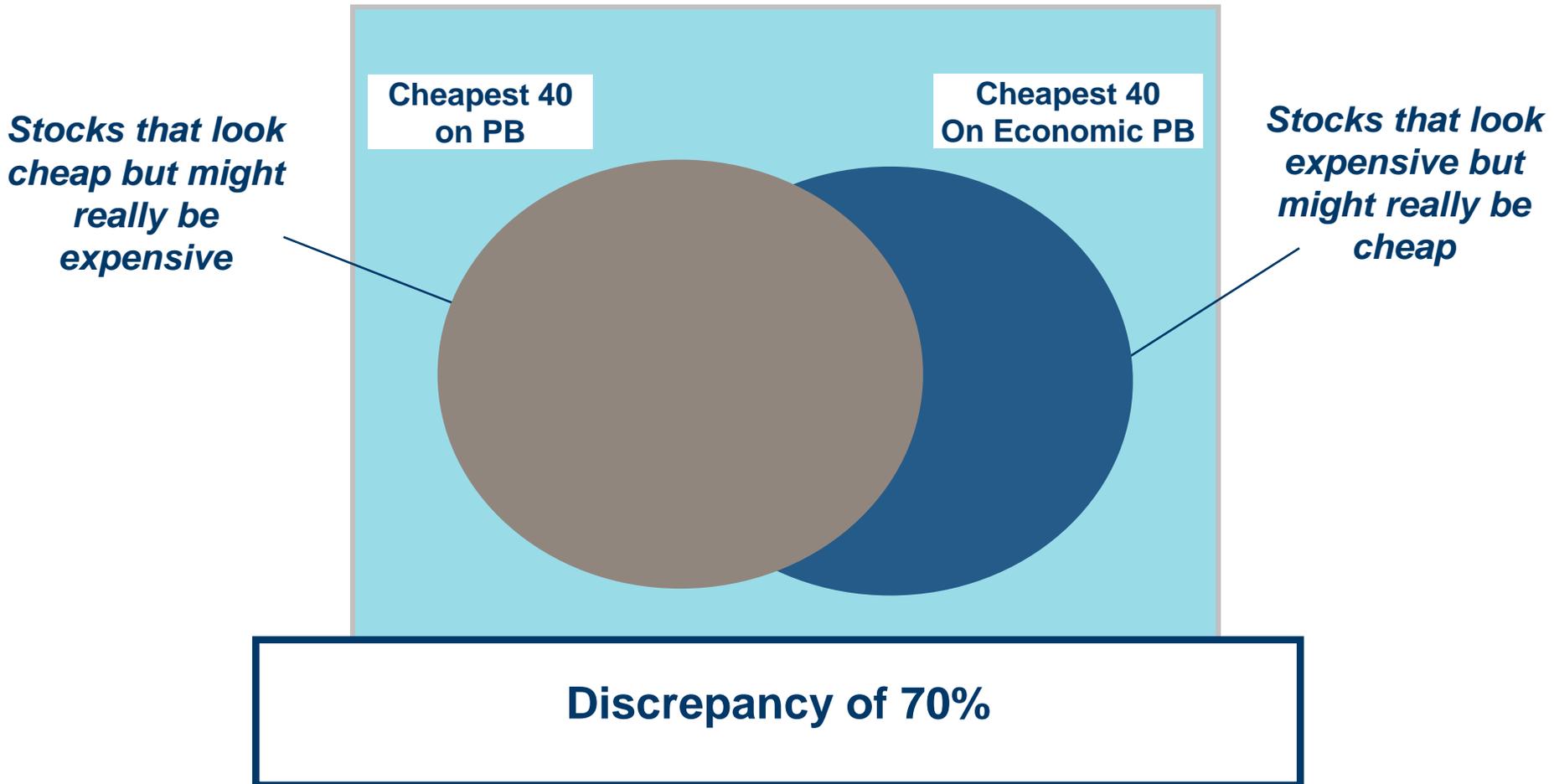
# Cheapest PE versus cheapest Adjusted PE

## 200 Large Caps Across Asia



# Cheapest PB versus cheapest Adjusted PB

## 200 Large Caps Across Asia



## Directional Differences – S&P 500 Industrials

| <b>S&amp;P500 Industrials</b>                        | <b>Forward P/E<br/>vs. V/E'</b> | <b>Price/Book<br/>vs. V/A'</b> | <b>ROE<br/>vs. ROA'</b> | <b>EPS rev's vs.<br/>ROA' Momentum</b> |
|--|---------------------------------|--------------------------------|-------------------------|--|
| <b>Discrepancies in screen for highest quintiles</b> | 50%                             | 33%                            | 37%                     | 67%                                    |
| <b>Discrepancies in screen for lowest quintiles</b>  | 30%                             | 40%                            | 50%                     | 75%                                    |

## Directional Differences – S&P 500 Industrials

| S&P500 Industrials                            | Forward P/E<br>vs. V/E' | Price/Book<br>vs. V/A' | ROE<br>vs. ROA' | EPS rev's vs.<br>ROA' Momentum |
|---|-------------------------|------------------------|-----------------|--------------------------------|
| Discrepancies in screen for highest quintiles | 50%                     | 33%                    | 37%             | 67%                            |
| Discrepancies in screen for lowest quintiles  | 30%                     | 40%                    | 50%             | 75%                            |

## Directional Differences – Equities Worldwide

| Equities worldwide<br>Mkt Cap > \$1BB      | Forward P/E<br>vs. V/E' | Price/Book<br>vs. V/A' | ROE<br>vs. ROA' | EPS rev's vs.<br>ROA' Momentum |
|--|-------------------------|------------------------|-----------------|--------------------------------|
| DISCREPANCY in screens for highest deciles | 40%                     | 40%                    | 60%             | 80%                            |
| DISCREPANCY in screens for lowest deciles  | 39%                     | 44%                    | 52%             | 76%                            |

Find a Company:

Manage Metrics Save State

| Ticker   | Company Names                 | Sector                 | Home Country  | As Reported P/E (Current) | V/E' Current | As-Reported ROA (FYO) | ROA' FYO | V/A' Current |
|----------|-------------------------------|------------------------|---------------|---------------------------|--------------|-----------------------|----------|--------------|
| AAPL     | Apple Inc.                    | Information Technology | United States | 13.5x                     | 9.5x         | 17.0%                 | 114.4%   | 8.9x         |
| GOOGL    | Alphabet Inc.                 | Information Technology | United States | 21.6x                     | 19.4x        | 8.7%                  | 26.6%    | 5x           |
| MSFT     | Microsoft Corporation         | Information Technology | United States | 19.7x                     | 21x          | 7.2%                  | 23.0%    | 4.9x         |
| AMZN     | Amazon.com, Inc.              | Consumer Discretionary | United States | 103.8x                    | 63.7x        | 2.3%                  | 12.2%    | 15.3x        |
| FB       | Facebook, Inc.                | Information Technology | United States | 28.4x                     | 21x          | 8.8%                  | 48.3%    | 11.4x        |
| XOM      | Exxon Mobil Corporation       | Energy                 | United States | 25.1x                     | 63.2x        | 2.3%                  | 2.4%     | 1.2x         |
| BRK.B    | Berkshire Hathaway Inc.       | Financials             | United States | N/A                       | N/A          | N/A                   | N/A      | N/A          |
| JNJ      | Johnson & Johnson             | Healthcare             | United States | 17.2x                     | 16.7x        | 8.7%                  | 16.6%    | 3.2x         |
| GE       | General Electric Company      | Industrials            | United States | 19.9x                     | 21.9x        | 1.1%                  | 13.8%    | 2.5x         |
| BABA     | Alibaba Group Holding Limited | Information Technology | China         | 29.4x                     | 22.7x        | 6.0%                  | 127.4%   | 28.9x        |
| SEHK:700 | Tencent Holdings              | Information            | China         | 33.8x                     | 26.1x        | 9.6%                  | 113.5%   | 39.5x        |

Feedback

Find a Company:

Manage Metrics

Save State



| Ticker    | Company Names                         | Sector                     | Home Country | As Reported P/E (Current) | V/E' Current | As-Reported ROA (FYO) | ROA' FYO | V/A' Current |
|-----------|---------------------------------------|----------------------------|--------------|---------------------------|--------------|-----------------------|----------|--------------|
| PSE:TEL   | PLDT Inc.                             | Telecommunication Services | Philippines  | 12.8x                     | 114.5x       | 5.5%                  | 1.5%     | 0.8x         |
| PSE:PCOR  | Petron Corporation                    | Energy                     | Philippines  | 14.1x                     | 89x          | 3.4%                  | -0.5%    | 1.1x         |
| PSE:DMC   | DMCI Holdings, Inc.                   | Industrials                | Philippines  | 12.7x                     | 58.7x        | 7.4%                  | 9.8%     | 1.8x         |
| PSE:CIC   | Concepcion Industrial Corporation     | Industrials                | Philippines  | 23.2x                     | 44.2x        | 13.8%                 | 18.2%    | 3.7x         |
| PSE:JFC   | Jollibee Foods Corp.                  | Consumer Discretionary     | Philippines  | 32.2x                     | 42.5x        | 5.6%                  | 6.7%     | 3.9x         |
| PSE:PIP   | Pepsi-Cola Products Philippines, Inc. | Consumer Staples           | Philippines  | 11.2x                     | 41.4x        | 3.6%                  | 0.6%     | 0.9x         |
| PSE:GTCAP | GT Capital Holdings, Inc.             | Financials                 | Philippines  | 15.2x                     | 33.5x        | 6.6%                  | 15.1%    | 1.6x         |
| PSE:MEG   | Megaworld Corporation                 | Real Estate                | Philippines  | 11.3x                     | 32.6x        | 3.9%                  | 4.8%     | 0.9x         |
| PSE:RLC   | Robinsons Land Corp.                  | Real Estate                | Philippines  | 16.2x                     | 29.6x        | 5.1%                  | 6.2%     | 1.5x         |
| PSE:MWIDE | Megawide                              | Consumer                   | Philippines  | 26.8x                     | 28.7x        | 3.3%                  | 11.3%    | 2.7x         |

Feedback

Find a Company:

| Manage Metrics | Save State                            |                            |              |                           |              |                       |          |              |  |
|----------------|---------------------------------------|----------------------------|--------------|---------------------------|--------------|-----------------------|----------|--------------|--|
| Ticker         | Company Names                         | Sector                     | Home Country | As Reported P/E (Current) | V/E' Current | As-Reported ROA (FY0) | ROA' FY0 | V/A' Current |  |
| PSE:TEL        | PLDT Inc.                             | Telecommunication Services | Philippines  | 12.8x                     | 114.5x       | 5.5%                  | 1.5%     | 0.8x         |  |
| PSE:PCOR       | Petron Corporation                    | Energy                     | Philippines  | 14.1x                     | 89x          | 3.4%                  | -0.5%    | 1.1x         |  |
| PSE:DMC        | DMCI Holdings, Inc.                   | Industrials                | Philippines  | 12.7x                     | 58.7x        | 7.4%                  | 9.8%     | 1.8x         |  |
| PSE:CIC        | Concepcion Industrial Corporation     | Industrials                | Philippines  | 23.2x                     | 44.2x        | 13.8%                 | 18.2%    | 3.7x         |  |
| PSE:JFC        | Jollibee Foods Corp.                  | Consumer Discretionary     | Philippines  | 32.2x                     | 42.5x        | 5.6%                  | 6.7%     | 3.9x         |  |
| PSE:PIP        | Pepsi-Cola Products Philippines, Inc. | Consumer Staples           | Philippines  | 11.2x                     | 41.4x        | 3.6%                  | 0.6%     | 0.9x         |  |
| PSE:GTCAP      | GT Capital Holdings, Inc.             | Financials                 | Philippines  | 15.2x                     | 33.5x        | 6.6%                  | 15.1%    | 1.6x         |  |
| PSE:MEG        | Megaworld Corporation                 | Real Estate                | Philippines  | 11.3x                     | 32.6x        | 3.9%                  | 4.8%     | 0.9x         |  |
| PSE:RLC        | Robinsons Land Corp.                  | Real Estate                | Philippines  | 16.2x                     | 29.6x        | 5.1%                  | 6.2%     | 1.5x         |  |
| PSE:MWIDE      | Megawide                              | Consumer                   | Philippines  | 26.8x                     | 28.7x        | 3.3%                  | 11.3%    | 2.7x         |  |

Feedback

Find a Company:

Manage Metrics Save State

| Ticker    | Company Names                         | Sector                     | Home Country | As Reported P/E (Current) | V/E' Current | As-Reported ROA (FY0) | ROA' FY0 | V/A' Current |
|-----------|---------------------------------------|----------------------------|--------------|---------------------------|--------------|-----------------------|----------|--------------|
| PSE:TEL   | PLDT Inc.                             | Telecommunication Services | Philippines  | 12.8x                     | 114.5x       | 5.5%                  | 1.5%     | 0.8x         |
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| PSE:DMC   | DMCI Holdings, Inc.                   | Industrials                | Philippines  | 12.7x                     | 58.7x        | 7.4%                  | 9.8%     | 1.8x         |
| PSE:CIC   | Concepcion Industrial Corporation     | Industrials                | Philippines  | 23.2x                     | 44.2x        | 13.8%                 | 18.2%    | 3.7x         |
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| PSE:DMC   | DMCI Holdings, Inc.                   | Industrials                | Philippines  | 12.7x                     | 58.7x        | 7.4%                  | 9.8%     | 1.8x         |
| PSE:CIC   | Concepcion Industrial Corporation     | Industrials                | Philippines  | 23.2x                     | 44.2x        | 13.8%                 | 18.2%    | 3.7x         |
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| PSE:MWIDE | Megawide                              | Consumer                   | Philippines  | 26.8x                     | 28.7x        | 3.3%                  | 11.3%    | 2.7x         |

Feedback



PLDT Inc

+ Watchlist

**TEL:PM** PHILIPPINES

↓ **1,645.00** PHP **-25.00**  
**-1.50%**

As of 3:28 AM EDT 10/21/2016

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1Y

5Y

Time Frame

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Save State

| Ticker    | Company Names                         | Sector                     | Home Country | As Reported P/E (Current) | V/E' Current | As-Reported ROA (FY0) | ROA' FY0 | V/A' Current |
|-----------|---------------------------------------|----------------------------|--------------|---------------------------|--------------|-----------------------|----------|--------------|
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Feedback

Find a Company:

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| PSE:MWIDE | Megawide                              | Consumer                   | Philippines  | 26.8x                     | 28.7x        | 3.3%                  | 11.3%    | 2.7x         |

Feedback

DMCI Holdings Inc

+ Watchlist

**DMC:PM** PHILIPPINES

↓ **13.34** PHP -0.22  
-1.62%

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|                                |                                    |                             |
|--------------------------------|------------------------------------|-----------------------------|
| OPEN<br><b>13.56</b>           | DAY RANGE<br><b>13.12 - 13.60</b>  | VOLUME<br><b>6,637,900</b>  |
| PREVIOUS CLOSE<br><b>13.56</b> | 52WK RANGE<br><b>10.42 - 13.83</b> | 1 YR RETURN<br><b>9.92%</b> |

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| As Reported P/E (Current) | V/E' Current | As-Reported ROA (FY0) | ROA' FY0 | V/A' Current |
|---------------------------|--------------|-----------------------|----------|--------------|
| 12.8x                     | 114.5x       | 5.5%                  | 1.5%     | 0.8x         |
| 14.1x                     | 89x          | 3.4%                  | -0.5%    | 1.1x         |
| 12.7x                     | 58.7x        | 7.4%                  | 9.8%     | 1.8x         |
| 23.2x                     | 44.2x        | 13.8%                 | 18.2%    | 3.7x         |
| 32.2x                     | 42.5x        | 5.6%                  | 6.7%     | 3.9x         |
| 11.2x                     | 41.4x        | 3.6%                  | 0.6%     | 0.9x         |
| 15.2x                     | 33.5x        | 6.6%                  | 15.1%    | 1.6x         |
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| 16.2x                     | 29.6x        | 5.1%                  | 6.2%     | 1.5x         |
| 26.8x                     | 28.7x        | 3.3%                  | 11.3%    | 2.7x         |

Feedback

Find a Company:

Manage Metrics Save State

| As Reported P/E (Current) | V/E' Current | As-Reported ROA (FY0) | ROA' FY0 | V/A' Current |
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| 16.2x                     | 29.6x        | 5.1%                  | 6.2%     | 1.5x         |
| 26.8x                     | 28.7x        | 3.3%                  | 11.3%    | 2.7x         |

Feedback



+ Watchlist

Pepsi-Cola Products Philippines Inc

**PIP:PM** PHILIPPINES

↓ **3.08** PHP

-0.02  
-0.65%

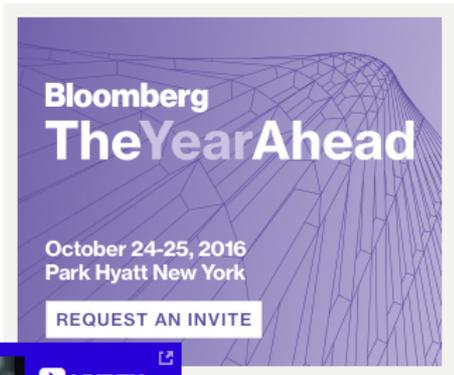
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Find a Company:

Manage Metrics Save State

| As Reported P/E (Current) | V/E' Current | As-Reported ROA (FY0) | ROA' FY0 | V/A' Current |
|---------------------------|--------------|-----------------------|----------|--------------|
| 12.8x                     | 114.5x       | 5.5%                  | 1.5%     | 0.8x         |
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Feedback

Find a Company:

Manage Metrics

Save State



| Ticker    | Company Names                                  | Sector                 | Home Country | As Reported P/E (Current) | V/E' Current | As-Reported ROA (FY0) | ROA' FY0 | V/A' Current |
|-----------|--|------------------------|--------------|---------------------------|--------------|-----------------------|----------|--------------|
| PSE:ICT   | International Container Terminal Services Inc. | Industrials            | Philippines  | 21.7x                     | 19.4x        | 5.6%                  | 19.2%    | 3.2x         |
| PSE:CIC   | Concepcion Industrial Corporation              | Industrials            | Philippines  | 23.2x                     | 44.2x        | 13.8%                 | 18.2%    | 3.7x         |
| PSE:GTCAP | GT Capital Holdings, Inc.                      | Financials             | Philippines  | 15.2x                     | 33.5x        | 6.6%                  | 15.1%    | 1.6x         |
| PSE:CNPF  | Century Pacific Food, Inc.                     | Consumer Staples       | Philippines  | 21.1x                     | 22.2x        | 11.8%                 | 13.2%    | 3.6x         |
| PSE:PGOLD | Puregold Price Club, Inc.                      | Consumer Staples       | Philippines  | 19.4x                     | 21.9x        | 7.9%                  | 12.8%    | 3x           |
| PSE:MWIDE | Megawide Construction Corporation              | Consumer Discretionary | Philippines  | 26.8x                     | 28.7x        | 3.3%                  | 11.3%    | 2.7x         |
| PSE:URC   | Universal Robina Corporation                   | Consumer Staples       | Philippines  | 25.3x                     | 28.2x        | 11.4%                 | 11.2%    | 4.3x         |
| PSE:EEI   | EEI Corp.                                      | Industrials            | Philippines  | 25x                       | 8.2x         | 4.3%                  | 10.6%    | 1x           |
| PSE:DMC   | DMCI Holdings, Inc.                            | Industrials            | Philippines  | 12.7x                     | 58.7x        | 7.4%                  | 9.8%     | 1.8x         |

Feedback

Find a Company:

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Manage Metrics

Save State

| Ticker  | Company Names  | Sector   | Home Country   | As Reported P/E (Current)   | V/E' Current   | As-Reported ROA (FYO)   | ROA' FYO   | V/A' Current   |
|--|---|--|--|--|--|---|--|--|
| PSE:ICT  | International Container Terminal Services Inc.  | Industrials  | Philippines  | 21.7x  | 19.4x  | 5.6%  | 19.2%  | 3.2x   |
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Feedback

**International Container Terminal Services Inc.** (PSE:ICT)

INDUSTRIALS - MARINE PORTS AND SERVICES

STOCK PRICE: 1.55197

MKT. CAP: 3,155.3

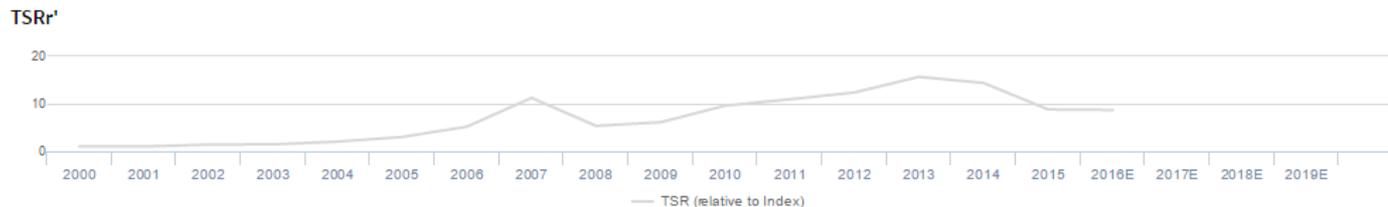
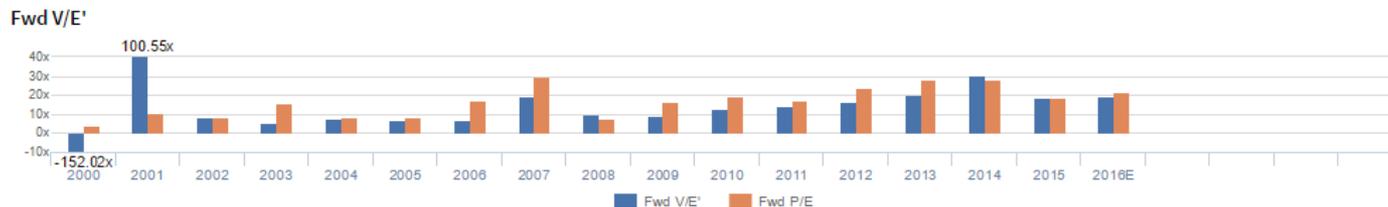
DATE OF ANALYSIS: 10/15/2016 •

COMPANY INDEX ←

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Performance & Valuation Prime

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Ticker Company Names Sector Home Country As Reported P/E (Current) V/E' Current As-Reported ROA (FY0) ROA' FY0 V/A' Current

| Ticker    | Company Names                                  | Sector                 | Home Country | As Reported P/E (Current) | V/E' Current | As-Reported ROA (FY0) | ROA' FY0 | V/A' Current |
|-----------|--|------------------------|--------------|---------------------------|--------------|-----------------------|----------|--------------|
| PSE:ICT   | International Container Terminal Services Inc. | Industrials            | Philippines  | 21.7x                     | 19.4x        | 5.6%                  | 19.2%    | 3.2x         |
| PSE:CIC   | Concepcion Industrial Corporation              | Industrials            | Philippines  | 23.2x                     | 44.2x        | 13.8%                 | 18.2%    | 3.7x         |
| PSE:GTCAP | GT Capital Holdings, Inc.                      | Financials             | Philippines  | 15.2x                     | 33.5x        | 6.6%                  | 15.1%    | 1.6x         |
| PSE:CNPF  | Century Pacific Food, Inc.                     | Consumer Staples       | Philippines  | 21.1x                     | 22.2x        | 11.8%                 | 13.2%    | 3.6x         |
| PSE:PGOLD | Puregold Price Club, Inc.                      | Consumer Staples       | Philippines  | 19.4x                     | 21.9x        | 7.9%                  | 12.8%    | 3x           |
| PSE:MWIDE | Megawide Construction Corporation              | Consumer Discretionary | Philippines  | 26.8x                     | 28.7x        | 3.3%                  | 11.3%    | 2.7x         |
| PSE:URC   | Universal Robina Corporation                   | Consumer Staples       | Philippines  | 25.3x                     | 28.2x        | 11.4%                 | 11.2%    | 4.3x         |
| PSE:EEI   | EEI Corp.                                      | Industrials            | Philippines  | 25x                       | 8.2x         | 4.3%                  | 10.6%    | 1x           |
| PSE:DMC   | DMCI Holdings, Inc.                            | Industrials            | Philippines  | 12.7x                     | 58.7x        | 7.4%                  | 9.8%     | 1.8x         |

Feedback

Find a Company:

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| Ticker    | Company Names                                  | Sector                 | Home Country | As Reported P/E (Current) | V/E' Current | As-Reported ROA (FY0) | ROA' FY0 | V/A' Current |
|-----------|--|------------------------|--------------|---------------------------|--------------|-----------------------|----------|--------------|
| PSE:ICT   | International Container Terminal Services Inc. | Industrials            | Philippines  | 21.7x                     | 19.4x        | 5.6%                  | 19.2%    | 3.2x         |
| PSE:CIC   | Concepcion Industrial Corporation              | Industrials            | Philippines  | 23.2x                     | 44.2x        | 13.8%                 | 18.2%    | 3.7x         |
| PSE:GTCAP | GT Capital Holdings, Inc.                      | Financials             | Philippines  | 15.2x                     | 33.5x        | 6.6%                  | 15.1%    | 1.6x         |
| PSE:CNPF  | Century Pacific Food, Inc.                     | Consumer Staples       | Philippines  | 21.1x                     | 22.2x        | 11.8%                 | 13.2%    | 3.6x         |
| PSE:PGOLD | Puregold Price Club, Inc.                      | Consumer Staples       | Philippines  | 19.4x                     | 21.9x        | 7.9%                  | 12.8%    | 3x           |
| PSE:MWIDE | Megawide Construction Corporation              | Consumer Discretionary | Philippines  | 26.8x                     | 28.7x        | 3.3%                  | 11.3%    | 2.7x         |
| PSE:URC   | Universal Robina Corporation                   | Consumer Staples       | Philippines  | 25.3x                     | 28.2x        | 11.4%                 | 11.2%    | 4.3x         |
| PSE:EEI   | EEI Corp.                                      | Industrials            | Philippines  | 25x                       | 8.2x         | 4.3%                  | 10.6%    | 1x           |
| PSE:DMC   | DMCI Holdings, Inc.                            | Industrials            | Philippines  | 12.7x                     | 58.7x        | 7.4%                  | 9.8%     | 1.8x         |

Feedback

EEI Corp. (PSE:EEI)

INDUSTRIALS - CONSTRUCTION AND ENGINEERING

STOCK PRICE: 7.25

MKT. CAP: 7,513.0

DATE OF ANALYSIS: 10/15/2016

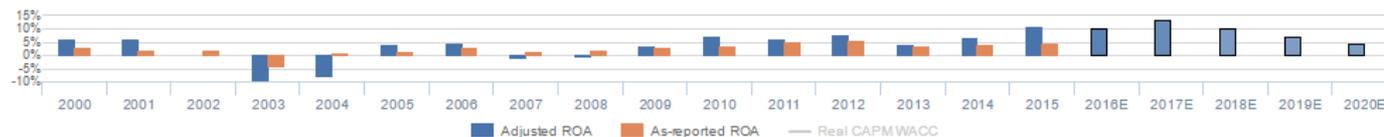
COMPANY INDEX ←

VALENS EQUITIES Performance & Valuation Prime

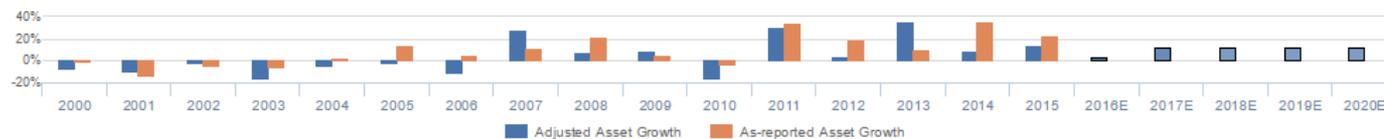
VALENS CREDIT Credit & Capital Structure

Open Embedded Expectations Window

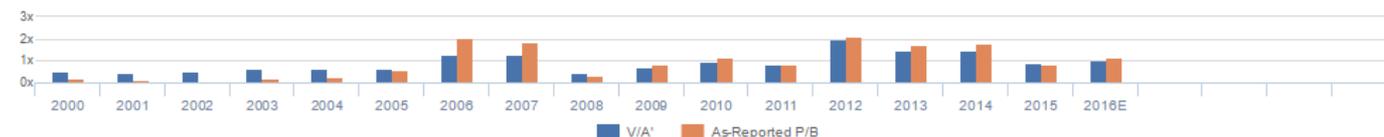
ROA'



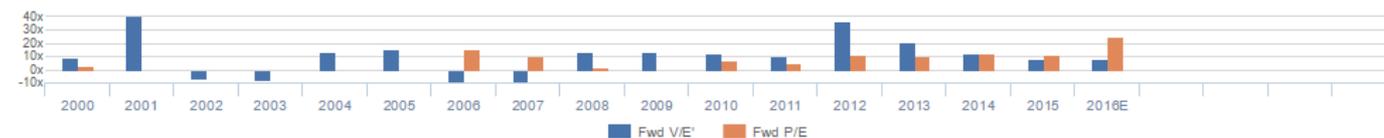
Asset' Growth



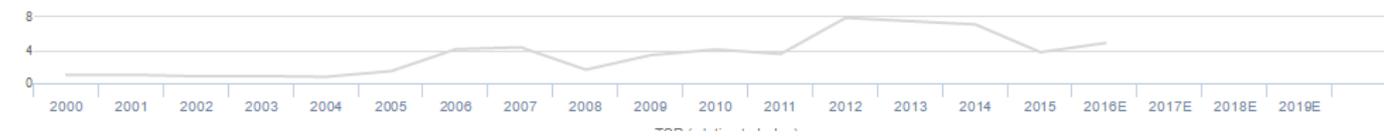
V/A'



Fwd V/E'



TSRr'



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| Ticker    | Company Names                     | Sector                     | Home Country | As Reported P/E (Current) | V/E' Current | As-Reported ROA (FY0) | ROA' FY0 | V/A' Current |
|-----------|-----------------------------------|----------------------------|--------------|---------------------------|--------------|-----------------------|----------|--------------|
| PSE:CIC   | Concepcion Industrial Corporation | Industrials                | Philippines  | 23.2x                     | 44.2x        | 13.8%                 | 18.2%    | 3.7x         |
| PSE:GMA7  | GMA Network, Inc.                 | Consumer Discretionary     | Philippines  | 10.5x                     | 11.3x        | 13.1%                 | 8.6%     | 1.3x         |
| PSE:CNPF  | Century Pacific Food, Inc.        | Consumer Staples           | Philippines  | 21.1x                     | 22.2x        | 11.8%                 | 13.2%    | 3.6x         |
| PSE:URC   | Universal Robina Corporation      | Consumer Staples           | Philippines  | 25.3x                     | 28.2x        | 11.4%                 | 11.2%    | 4.3x         |
| PSE:GLO   | Globe Telecom Inc.                | Telecommunication Services | Philippines  | 15.1x                     | 28.1x        | 8.2%                  | 3.4%     | 1.1x         |
| PSE:LBC   | LBC Express Holdings, Inc.        | Industrials                | Philippines  | 20.5x                     | 21.9x        | 8.1%                  | 7.3%     | 3x           |
| PSE:PGOLD | Puregold Price Club, Inc.         | Consumer Staples           | Philippines  | 19.4x                     | 21.9x        | 7.9%                  | 12.8%    | 3x           |
| PSE:DMC   | DMCI Holdings, Inc.               | Industrials                | Philippines  | 12.7x                     | 58.7x        | 7.4%                  | 9.8%     | 1.8x         |
| PSE:GTCAP | GT Capital Holdings, Inc.         | Financials                 | Philippines  | 15.2x                     | 33.5x        | 6.6%                  | 15.1%    | 1.6x         |
| PSE:HOUSE | 8990 Holdings, Inc.               | Real Estate                | Philippines  | 7.8x                      | 14.8x        | 6.5%                  | 9.0%     | 1.6x         |

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Find a Company:

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| Ticker    | Company Names                     | Sector                     | Home Country | As Reported P/E (Current) | V/E' Current | As-Reported ROA (FY0) | ROA' FY0 | V/A' Current |
|-----------|-----------------------------------|----------------------------|--------------|---------------------------|--------------|-----------------------|----------|--------------|
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| PSE:GLO   | Globe Telecom Inc.                | Telecommunication Services | Philippines  | 15.1x                     | 28.1x        | 8.2%                  | 3.4%     | 1.1x         |
| PSE:LBC   | LBC Express Holdings, Inc.        | Industrials                | Philippines  | 20.5x                     | 21.9x        | 8.1%                  | 7.3%     | 3x           |
| PSE:PGOLD | Puregold Price Club, Inc.         | Consumer Staples           | Philippines  | 19.4x                     | 21.9x        | 7.9%                  | 12.8%    | 3x           |
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| Ticker    | Company Names                     | Sector                     | Home Country | As Reported P/E (Current) | V/E' Current | As-Reported ROA (FY0) | ROA' FY0 | V/A' Current |
|-----------|-----------------------------------|----------------------------|--------------|---------------------------|--------------|-----------------------|----------|--------------|
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| PSE:LBC   | LBC Express Holdings, Inc.        | Industrials                | Philippines  | 20.5x                     | 21.9x        | 8.1%                  | 7.3%     | 3x           |
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Find a Company:

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| Ticker    | Company Names                     | Sector                     | Home Country | As Reported P/E (Current) | V/E' Current | As-Reported ROA (FY0) | ROA' FY0 | V/A' Current |
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Feedback

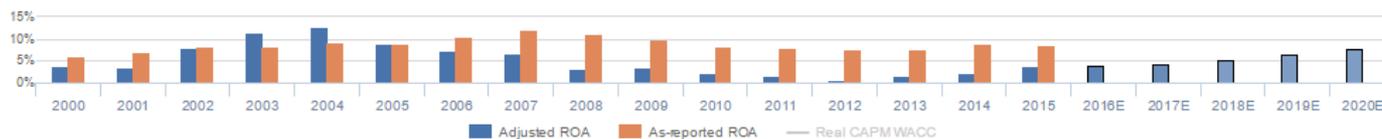
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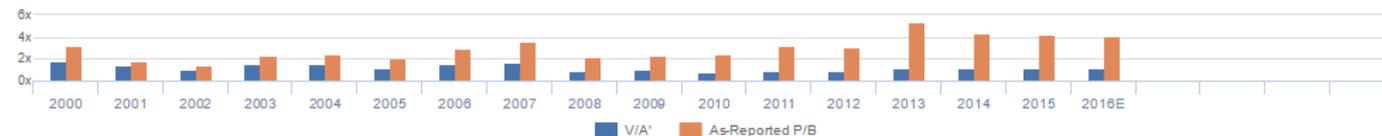
ROA'



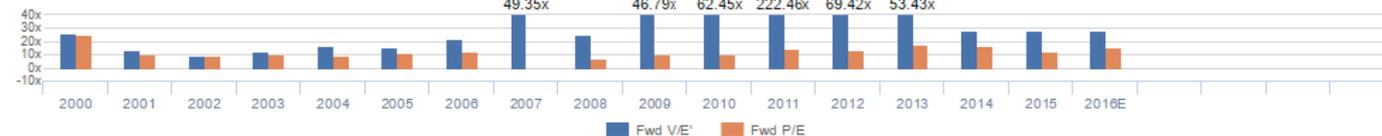
Asset' Growth



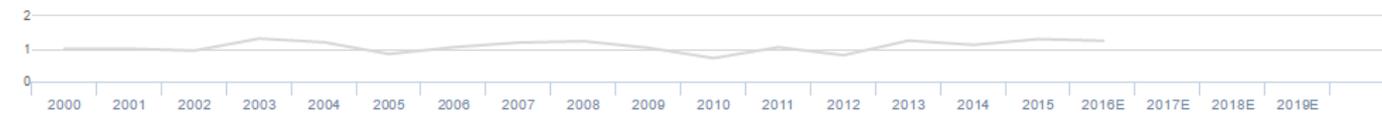
V/A'



Fwd V/E'



TSRr'



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| Ticker    | Company Names                     | Sector                     | Home Country | As Reported P/E (Current) | V/E' Current | As-Reported ROA (FYO) | ROA' FY1 | V/A' Current |
|-----------|-----------------------------------|----------------------------|--------------|---------------------------|--------------|-----------------------|----------|--------------|
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| PSE:URC   | Universal Robina Corporation      | Consumer Staples           | Philippines  | 25.3x                     | 28.2x        | 11.4%                 | 14.6%    | 4.3x         |
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Feedback

“Without the firm handle on that flexibility that credit analysis provides,

...we'd argue you can't fully understand the wealth-creation process as an equity investor.”

Mitchell Julis  
Canyon Capital





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| Ticker <span>⬇</span> | Company Names <span>⬇</span>                | Sector <span>⬇</span> <span>⬇</span> | Home Country <span>⬇</span> <span>⬇</span> | V/A' Current <span>⬇</span> <span>⬇</span> | 5 Year CDS (current) <span>⬇</span> <span>⬇</span> |
|-----------------------|---|--------------------------------------|--|--|--|
| X                     | United States Steel Corp.                   | Materials                            | United States                              | 0.5x                                       | 958.8  |
| YRCW                  | YRC Worldwide Inc.                          | Industrials                          | United States                              | 0.9x                                       | 923.6  |
| CYH                   | Community Health Systems, Inc.              | Healthcare                           | United States                              | 1.3x                                       | 862.6  |
| LSE:VED               | Vedanta Resources plc                       | Materials                            | United Kingdom                             | 0.7x                                       | 825.6  |
| CHK                   | Chesapeake Energy Corporation               | Energy                               | United States                              | 0.3x                                       | 808.4  |
| VRX                   | Valeant Pharmaceuticals International, Inc. | Healthcare                           | Canada                                     | 8.4x                                       | 775.4  |
| DYN                   | Dynegy Inc.                                 | Utilities                            | United States                              | 1.7x                                       | 656.3  |
| THC                   | Tenet Healthcare Corp.                      | Healthcare                           | United States                              | 1.8x                                       | 645.4  |
| FTR                   | Frontier Communications Corporation         | Telecommunication Services           | United States                              | 0.9x                                       | 636.3  |





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| Ticker <span>⌵</span> | Company Names <span>⌵</span>                | Sector <span>⌵</span> <span>⌴</span> | Home Country <span>⌵</span> <span>⌴</span> | V/A' Current <span>⌵</span> <span>⌴</span> | 5 Year CDS (current) <span>⌵</span> <span>⌴</span> |
|-----------------------|---|--------------------------------------|--|--|--|
| X                     | United States Steel Corp.                   | Materials                            | United States                              | 0.5x                                       | 958.8  |
| YRCW                  | YRC Worldwide Inc.                          | Industrials                          | United States                              | 0.9x                                       | 923.6  |
| CYH                   | Community Health Systems, Inc.              | Healthcare                           | United States                              | 1.3x                                       | 862.6  |
| LSE:VED               | Vedanta Resources plc                       | Materials                            | United Kingdom                             | 0.7x                                       | 825.6  |
| CHK                   | Chesapeake Energy Corporation               | Energy                               | United States                              | 0.3x                                       | 808.4  |
| VRX                   | Valeant Pharmaceuticals International, Inc. | Healthcare                           | Canada                                     | 8.4x                                       | 775.4  |
| DYN                   | Dynegy Inc.                                 | Utilities                            | United States                              | 1.7x                                       | 656.3  |
| THC                   | Tenet Healthcare Corp.                      | Healthcare                           | United States                              | 1.8x                                       | 645.4  |
| FTR                   | Frontier Communications Corporation         | Telecommunication Services           | United States                              | 0.9x                                       | 636.3  |



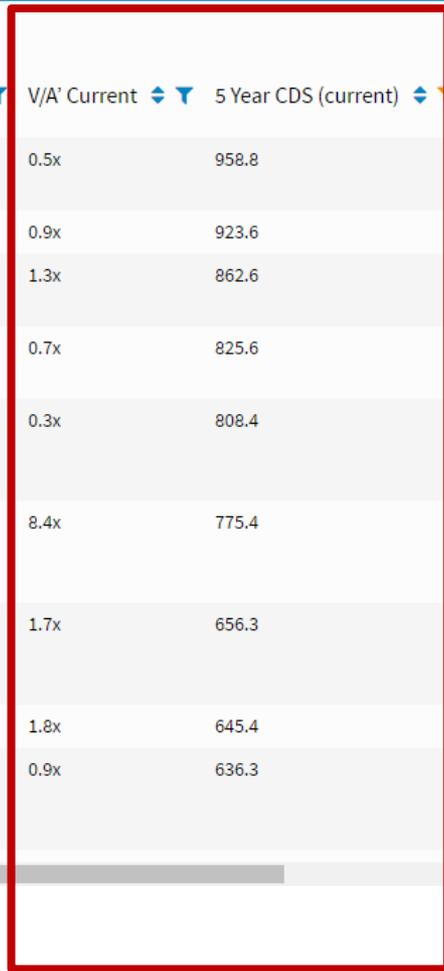


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| Ticker <span>⬇</span> | Company Names <span>⬇</span>                | Sector <span>⬇</span> <span>⬇</span> | Home Country <span>⬇</span> <span>⬇</span> | V/A' Current <span>⬇</span> <span>⬇</span> | 5 Year CDS (current) <span>⬇</span> <span>⬆</span> |
|-----------------------|---|--------------------------------------|--|--|--|
| X                     | United States Steel Corp.                   | Materials                            | United States                              | 0.5x                                       | 958.8  |
| YRCW                  | YRC Worldwide Inc.                          | Industrials                          | United States                              | 0.9x                                       | 923.6  |
| CYH                   | Community Health Systems, Inc.              | Healthcare                           | United States                              | 1.3x                                       | 862.6  |
| LSE:VED               | Vedanta Resources plc                       | Materials                            | United Kingdom                             | 0.7x                                       | 825.6  |
| CHK                   | Chesapeake Energy Corporation               | Energy                               | United States                              | 0.3x                                       | 808.4  |
| VRX                   | Valeant Pharmaceuticals International, Inc. | Healthcare                           | Canada                                     | 8.4x                                       | 775.4  |
| DYN                   | Dynegy Inc.                                 | Utilities                            | United States                              | 1.7x                                       | 656.3  |
| THC                   | Tenet Healthcare Corp.                      | Healthcare                           | United States                              | 1.8x                                       | 645.4  |
| FTR                   | Frontier Communications Corporation         | Telecommunication Services           | United States                              | 0.9x                                       | 636.3  |





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| Ticker <span>⌵</span> | Company Names <span>⌵</span>                | Sector <span>⌵</span> <span>⌴</span> | Home Country <span>⌵</span> <span>⌴</span> | V/A' Current <span>⌵</span> <span>⌴</span> | 5 Year CDS (current) <span>⌵</span> <span>⌴</span> |
|-----------------------|---|--------------------------------------|--|--|--|
| X                     | United States Steel Corp.                   | Materials                            | United States                              | 0.5x                                       | 958.8  |
| YRCW                  | YRC Worldwide Inc.                          | Industrials                          | United States                              | 0.9x                                       | 923.6  |
| CYH                   | Community Health Systems, Inc.              | Healthcare                           | United States                              | 1.3x                                       | 862.6  |
| LSE:VED               | Vedanta Resources plc                       | Materials                            | United Kingdom                             | 0.7x                                       | 825.6  |
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| VRX                   | Valeant Pharmaceuticals International, Inc. | Healthcare                           | Canada                                     | 8.4x                                       | 775.4  |
| DYN                   | Dynegy Inc.                                 | Utilities                            | United States                              | 1.7x                                       | 656.3  |
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Save State

| Ticker <span>⬇</span> | Company Names <span>⬇</span>        | Sector <span>⬇</span> <span>⬇</span> | Home Country <span>⬇</span> <span>⬇</span> | V/A' Current <span>⬇</span> <span>⬇</span> | 5 Year CDS (current) <span>⬇</span> <span>⬇</span> |
|-----------------------|-------------------------------------|--------------------------------------|--|--|--|
| FTR                   | Frontier Communications Corporation | Telecommunication Services           | United States                              | 0.9x                                       | 636.3  |
| WIN                   | Windstream Holdings, Inc.           | Telecommunication Services           | United States                              | 1x   | 634.4  |
| WFT                   | Weatherford International plc       | Energy                               | Switzerland                                | 1x   | 619.9  |
| WLL                   | Whiting Petroleum Corp.             | Energy                               | United States                              | 1.1x                                       | 616.7  |
| AVP                   | Avon Products Inc.                  | Consumer Staples                     | United States                              | 2.9x                                       | 607.9  |
| SVU                   | SUPERVALU Inc.                      | Consumer Staples                     | United States                              | 1.1x                                       | 605.4  |
| UIS                   | Unisys Corporation                  | Information Technology               | United States                              | 1.9x                                       | 595.1  |
| ESV                   | Enscoco plc                         | Energy                               | United Kingdom                             | 0.8x                                       | 585.5  |
| NAV                   | Navistar International Corporation  | Industrials                          | United States                              | 2.6x                                       | 570  |
| JCP                   | J. C. Penney Company, Inc.          | Consumer Discretionary               | United States                              | 1.1x                                       | 557  |
| AMD                   | Advanced Micro Devices, Inc.        | Information Technology               | United States                              | 1.7x                                       | 523.6  |
| NE                    | Noble Corporation plc               | Energy                               | United Kingdom                             | 0.6x                                       | 507.6  |
| BZH                   | Beazer Homes USA Inc.               | Consumer Discretionary               | United States                              | 0.7x                                       | 501.7  |
| CLR                   | Continental Resources, Inc.         | Energy                               | United States                              | 2.2x                                       | 486.7  |

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| Ticker | Company Names                       | Sector                     | Home Country   | V/A' Current | 5 Year CDS (current) |
|--------|-------------------------------------|----------------------------|----------------|--------------|----------------------|
| FTR    | Frontier Communications Corporation | Telecommunication Services | United States  | 0.9x         | 636.3                |
| WIN    | Windstream Holdings, Inc.           | Telecommunication Services | United States  | 1x           | 634.4                |
| WFT    | Weatherford International plc       | Energy                     | Switzerland    | 1x           | 619.9                |
| WLL    | Whiting Petroleum Corp.             | Energy                     | United States  | 1.1x         | 616.7                |
| AVP    | Avon Products Inc.                  | Consumer Staples           | United States  | 2.9x         | 607.9                |
| SVU    | SUPERVALU Inc.                      | Consumer Staples           | United States  | 1.1x         | 605.4                |
| UIS    | Unisys Corporation                  | Information Technology     | United States  | 1.9x         | 595.1                |
| ESV    | Enscoco plc                         | Energy                     | United Kingdom | 0.8x         | 585.5                |
| NAV    | Navistar International Corporation  | Industrials                | United States  | 2.6x         | 570                  |
| JCP    | J. C. Penney Company, Inc.          | Consumer Discretionary     | United States  | 1.1x         | 557                  |
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# VALENS RESEARCH



## The Dark Side of Financial Statement Analysis And the Impact on Equity and Credit Investing

Professor Joel Litman  
October 2016

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