

Valens Conviction Long List

10 December 2016



Growth and GARP stocks top our December Valens Conviction Long List, with Facebook (FB) and Citrix Systems (CTXS). Our other picks this month are: MYL, LRCX, PANW, ZG, TWTR, RF, PNC, FSLR, VRX, NOV, DHI, MNTA, CRUS, WGO, KFY, GOOGL, ATW, and JNPR

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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
- Citrix Systems, Inc. (CTXS) has moved into the second spot on the list, due to the company being fundamentally undervalued, with material growth opportunities and macro tailwinds, as well as building confidence from management about their business based on Earnings Call Forensics™
- In terms of style, seven GARP names make up the largest portion of our Conviction Long List this month, including Citrix Systems, Palo Alto Networks, Zillow Group, National Oilwell Varco, Inc., D.R. Horton, Inc., Korn/Ferry International, and Alphabet Inc.
- The sector with the most companies in the December list is Information Technology, with ten firms included. Healthcare has three, and Consumer Discretionary, Financials, and Energy each have two companies, with one Industrials company
- We removed United States Steel (X), Spirit Airlines, Inc. (SAVE) and Computer Programs and Systems, Inc (CPSI) from the list this month. X and SAVE were removed because of valuation constraints, while CPSI was removed because of size constraints
- We added Palo Alto Networks, Inc. (PANW), Lam Research Corporation (LRCX) and Atwood Oceanics, Inc. (ATW) to the idea list this month. PANW is well positioned for secular growth drivers around internet security in the market which should help drive growth for the company long-term, factors that the market is not priced in. LRCX also is benefiting from secular tailwinds the market is not pricing in for the company around growth in the end markets for their customers in the memory business. Lastly, ATW is being priced at severely distressed levels because of bankruptcy concerns that Valens iCDS analysis highlights is not justified. As the market recognizes the company's safer credit risk, material equity upside is warranted

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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	119.68	344.9	50%	10.3x	17.6x	Growth	\$100 - \$225	-
CTXS	Citrix Systems, Inc.	Info Tech	89.32	13.9	31%	5.4x	16.5x	GARP	\$65 - \$135	-
MYL	Mylan N.V.	Healthcare	36.51	19.5	21%	3.6x	13x	Value	\$25 - \$75	-
LRCX	Lam Research Corporation	Info Tech	104.09	16.9	25%	2.3x	9.2x	Value	\$60 - \$240	-
PANW	Palo Alto Networks, Inc.	Info Tech	130.07	11.9	27%	8.2x	28.6x	GARP	\$90 - \$285	-
ZG	Zillow Group, Inc.	Info Tech	37.31	6.6	31%	6.6x	18x	GARP	\$35 - \$115	-
TWTR	Twitter, Inc.	Info Tech	19.65	13.9	11%	2.4x	18.8x	Growth	\$15 - \$50	-
RF	Regions Financial Corporation	Financials	14.60	18.0	N/A	0.6x	9.5x	N/A	\$7.75 - \$16	-
PNC	The PNC Financial Services Group, Inc.	Financials	115.02	56.0	N/A	1.0x	11.2x	N/A	\$76 - \$125	-
FSLR	First Solar, Inc.	Info Tech	33.54	3.5	-5%	0.5x	-46.2x	Deep Value	\$25 - \$85	-
VRX	Valeant Pharmaceuticals International, Inc.	Healthcare	15.46	5.3	67%	7.9x	9.6x	Value	\$10 - \$110	-
NOV	National Oilwell Varco, Inc.	Energy	39.78	15.0	-7%	1.7x	205.7x	GARP	\$28 - \$75	-
DHI	DR Horton Inc.	Cons Disc	28.86	10.8	10%	1.5x	13.2x	GARP	\$21 - \$60	-
MNTA	Momenta Pharmaceuticals Inc.	Healthcare	14.90	1.1	-1%	1x	38.7x	Deep Value	\$10 - \$30	-
CRUS	Cirrus Logic Inc.	Info Tech	57.36	3.7	26%	2.6x	10.4x	Value	\$40 - \$90	-
WGO	Winnebago Industries, Inc.	Cons Disc	35.50	1.0	11%	1.7x	14.2x	Value	\$25 - \$60	-
KFY	Korn/Ferry International	Industrials	31.26	1.8	25%	3.5x	13.6x	GARP	\$24 - \$65	-
GOOGL	Alphabet Inc.	Info Tech	809.45	550.9	24%	4.7x	17.7x	GARP	\$650 - \$1,250	-
ATW	Atwood Oceanics, Inc.	Energy	13.49	0.9	-1%	0.6x	-77.3x	Deep Value	\$7 - \$38	-
JNPR	Juniper Networks, Inc.	Info Tech	28.46	10.8	12%	1.8x	13.7x	Value	\$20 - \$45	-

Metrics for the financials are based on unadjusted ROE, P/B, and P/E figures from Capital IQ

Data Date:10-December-2016



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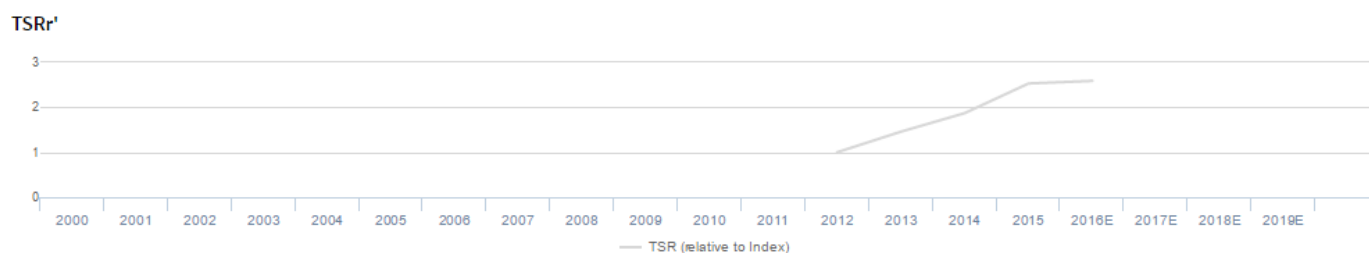
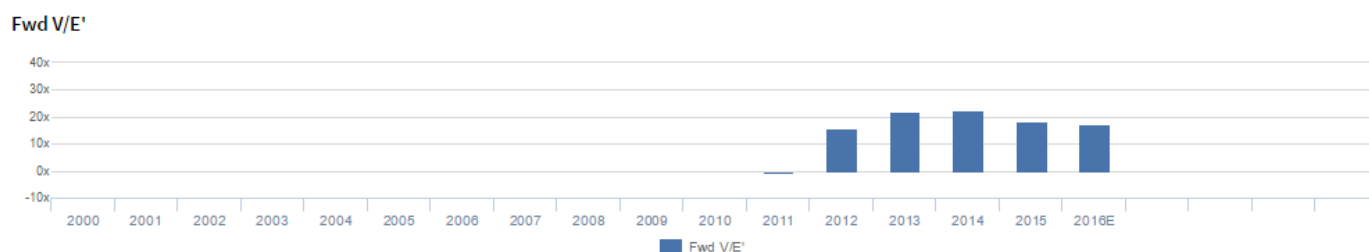
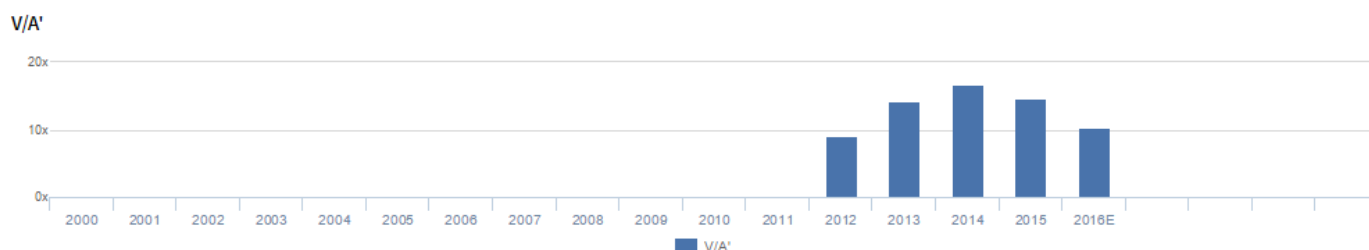
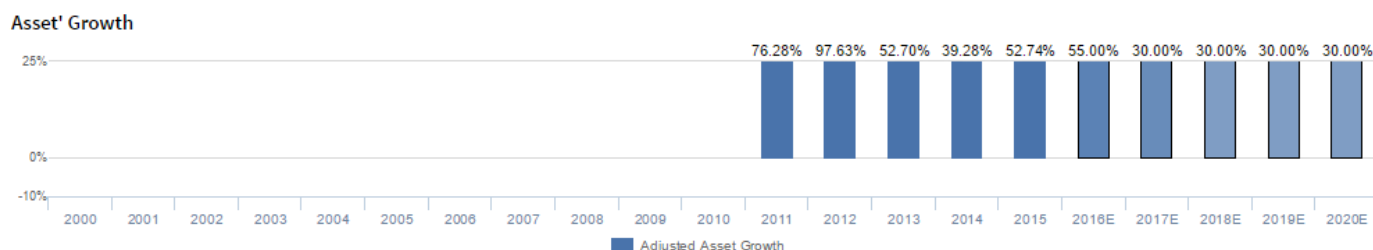
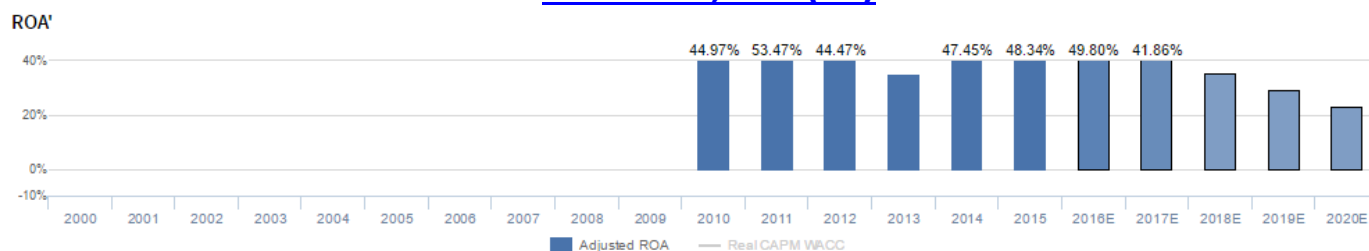
FB	<u>Facebook, Inc.</u>	<u>4</u>
CTXS	<u>Citrix Systems, Inc.</u>	<u>7</u>
MYL	<u>Mylan N.V.</u>	<u>9</u>
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PANW	<u>Palo Alto Networks, Inc.</u>	<u>15</u>
ZG	<u>Zillow Group, Inc.</u>	<u>18</u>
TWTR	<u>Twitter, Inc.</u>	<u>20</u>
RF	<u>Regions Financial Corporation</u>	<u>22</u>
PNC	<u>The PNC Financial Services Group, Inc.</u>	<u>24</u>
FSLR	<u>First Solar, Inc.</u>	<u>26</u>
VRX	<u>Valeant Pharmaceuticals International, Inc.</u>	<u>29</u>
NOV	<u>National Oilwell Varco, Inc.</u>	<u>32</u>
DHI	<u>D.R. Horton, Inc.</u>	<u>34</u>
MNTA	<u>Momenta Pharmaceuticals, Inc.</u>	<u>36</u>
CRUS	<u>Cirrus Logic, Inc.</u>	<u>38</u>
WGO	<u>Winnebago Industries, Inc.</u>	<u>40</u>
KFY	<u>Korn/Ferry International</u>	<u>43</u>
GOOGL	<u>Alphabet Inc.</u>	<u>45</u>
ATW	<u>Atwood Oceanic Inc.</u>	<u>47</u>
JNPR	<u>Juniper Networks, Inc.</u>	<u>50</u>

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Facebook, Inc. (FB)



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Facebook, Inc. (FB)		Growth
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	119.68	\$100 - \$225
MCap (\$bn)	344.94	Comments:
ROA' (LFY)	50%	-
V/A'	10.3x	
V/E'	17.6x	

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 17.6x V/E'. The market appears to expect Asset' growth for the firm to stabilize at around 30% a year going forward, with ROA' declining to 23% levels over the next several years as the firm fails to maintain the robust returns from their investments.

FB has done an excellent job at 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 navigate this transition, seeing ROA' robustly rebound from 2013 lows of 35% up to 48% in the two subsequent years, even as Asset' growth remained robust at north of 50% most years.

The company has also done an excellent job at identifying potential disruptive technology ahead of peers and ahead of the market. This includes having acquired brands like Instagram, WhatsApp, and Oculus before they matured into high growth and profitable businesses. They have then 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™

Coming out of the Q3 2016 earnings call, the market has increasingly grown concerned about the company's ability to sustain advertising growth, as management has stated that this is likely to slow. Since the earnings call, the stock has fallen from \$127 to \$117.

However, Earnings Call Forensics™ of the Q3 2016 earnings call (11/2) highlighted a continuation of management's confidence about their outlook for the business going forward. The markers seen were similar to those seen in the last four quarters, from Q3 2015 (11/4) through Q2 2016 (7/27). Management appears confident that growth in advertising revenue and mobile users is sustainable, and in their strategy of building ecosystems around their products.

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Additionally, they are confident about their progress on helping businesses and marketers use Instagram in new and effective ways, and about the potential of Messenger bots in a variety of verticals. Furthermore, they are confident about their efforts to improve the News Feed and prove the value they provide for their advertising partners with investment in measurement.

These markers highlight that management is seeing strong fundamental momentum currently. With the market already pricing in slower growth based on expecting Asset' growth being cut in half going forward, but also pricing in dramatic ROA' decline, 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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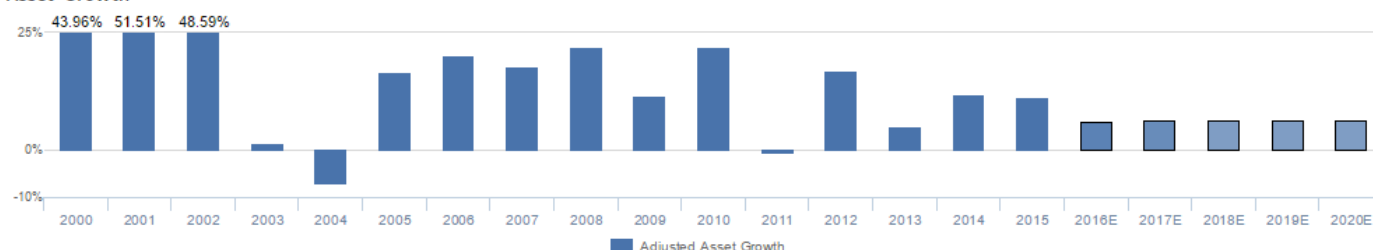
Citrix Systems, Inc. (CTXS)

Source: Bloomberg, Citrix Systems, Inc. (CTXS)

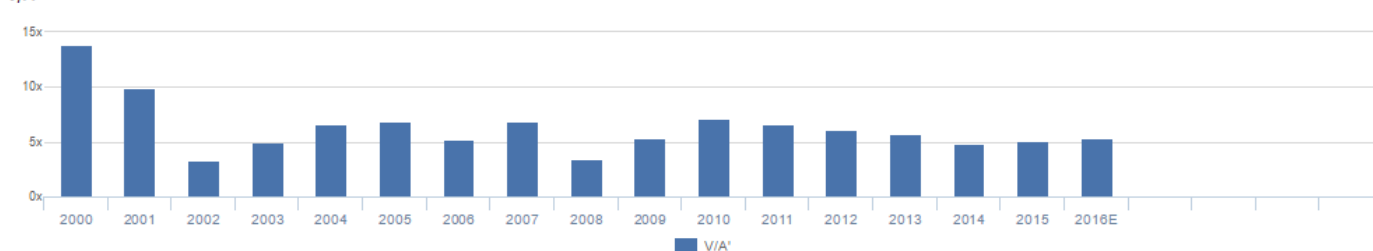
ROA'



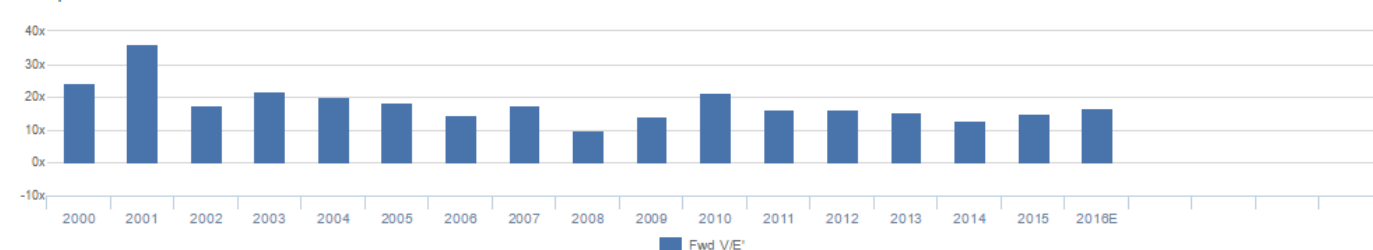
Asset' Growth



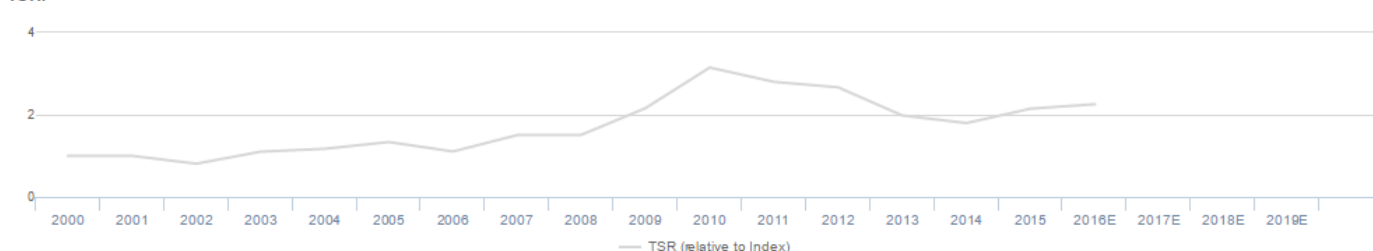
V/A'



Fwd V/E'



TSRr'



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Citrix Systems, Inc. (CTXS)		GARP
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	89.32	\$65 - \$135
MCap (\$bn)	13.93	Comments:
ROA' (LFY)	31%	-
V/A'	5.4x	
V/E'	16.5x	

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 16.5x V/E', at the higher end of historical valuations, though a 5.3x V/A' is around historical averages. The market is expecting the recent decline in ROA' from 33.5% to 31.5% to persist, with ROA' dropping to around 27%-28% levels going forward, with relatively modest Asset' growth of 6% relative to their historical double digit growth. However, with CTXS' core position around major developing areas after the sale of the Go-To business, including mobile and virtualization efforts for Enterprise, and around cloud initiatives, all areas where they have strong positions, 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 Asset' growth and ROA' are too negative.

Earnings Call Forensics™

CTXS had a very positive inflection in Q3, as Earnings Call Forensics™ of the Q3 2016 earnings call (10/19) highlighted a material positive inflection relative to the Q2 2016 earnings call. Management showed new highly confident markers when talking about their 2017 guidance and when talking about how robust the competitiveness of their technology business is, and how it is the most competitive it has been in some time. They were also highly confident when talking about the performance of their Service Provider segment and their Workspace Services segment. Management also showed confidence when talking about their partnerships and when talking about customer deployment growth for their NetScaler gateway offering.

Conclusion

With management's growing confidence about their outlook for the coming quarters, the positioning of the core business opportunities, favorable management alignment, good macro positioning, and low market expectations, there is likely to be equity upside going forward.

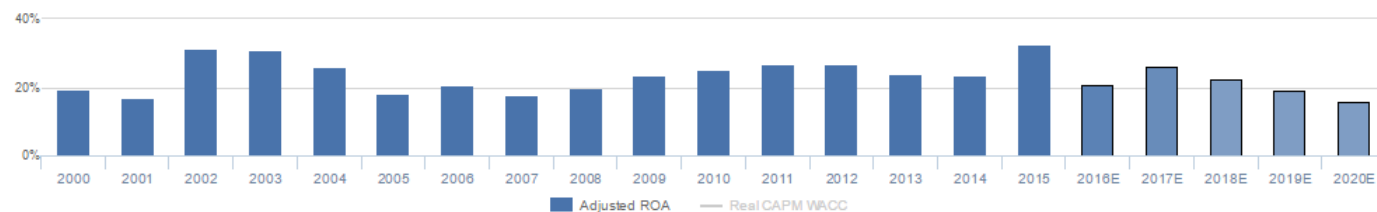
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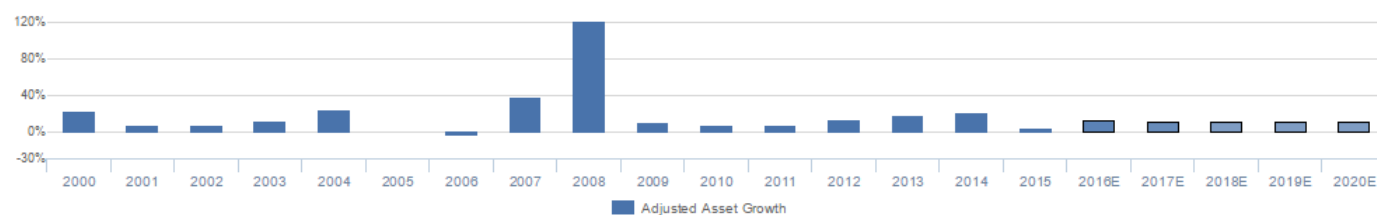
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Mylan N.V. (MYL)

ROA'



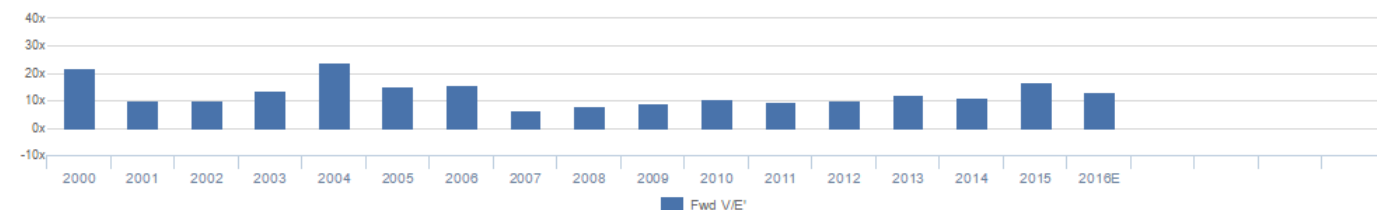
Asset' Growth



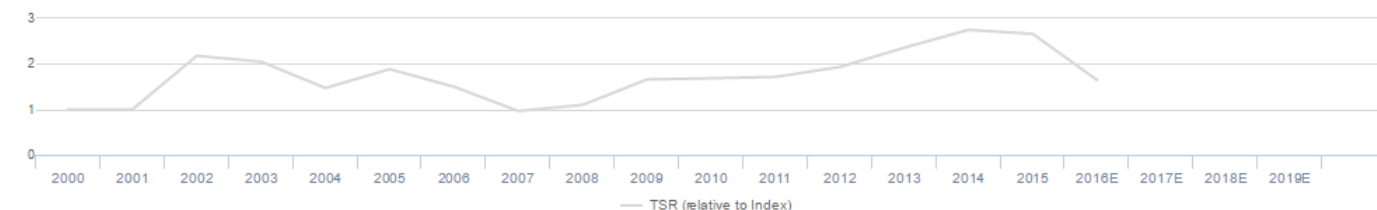
V/A'



Fwd V/E'



TSRr'



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Mylan N.V. (MYL)		Value
Sector	Healthcare	Intrinsic Price Range:
Price (\$)	36.51	\$25 - \$75
MCap (\$bn)	19.54	Comments:
ROE (LFY)	21%	-
P/B	3.6x	
P/E	13.0x	

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 13.0x V/E'. At these levels, the market is pricing in expectations for declining profitability, from 32.1% in 2015 to a historically low 15.6%, accompanied by 10% Asset' growth.

Mylan has historically been a highly profitable business, with ROA' consistently more than double the cost of capital. Even in trough years such as 2000-2001 and 2005-2007, ROA' only bottomed at 15%-20% levels. More recently, ROA' has shifted to 23%-30% levels driven by substantial improvements in Earnings' Margin, from lows near 20% in 2005-2007 to 27%+ in recent years. Meanwhile, Asset' Turns have remained mostly flat over that time period, ranging from 0.8x to 1.1x in 2011, and back to 1.0x 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 Asset' growth peaking at 20%+ levels in 2000 and 2004, and 40%+ 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 ROA' to fade to historically low 16% levels over the next several years, even as analysts are estimating that the firm will keep 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 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 2016 earnings call (11/9) highlights that management remains very confident about their outlook even in the face of recent issues. Management generated multiple highly confident markers during their recent earnings call that highlight they continue to see opportunities from their several launches that are coming in Q4, and that they believe their portfolio and pipeline is robust. They also were highly confident when discussing their success around generic conversion strategies historically and going forward, and when talking about the diversity of their set of offerings.

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These markers point to a management team that recognizes the headwinds they are facing but thinks they are severely overblown, and is likely to execute through them.

Conclusion

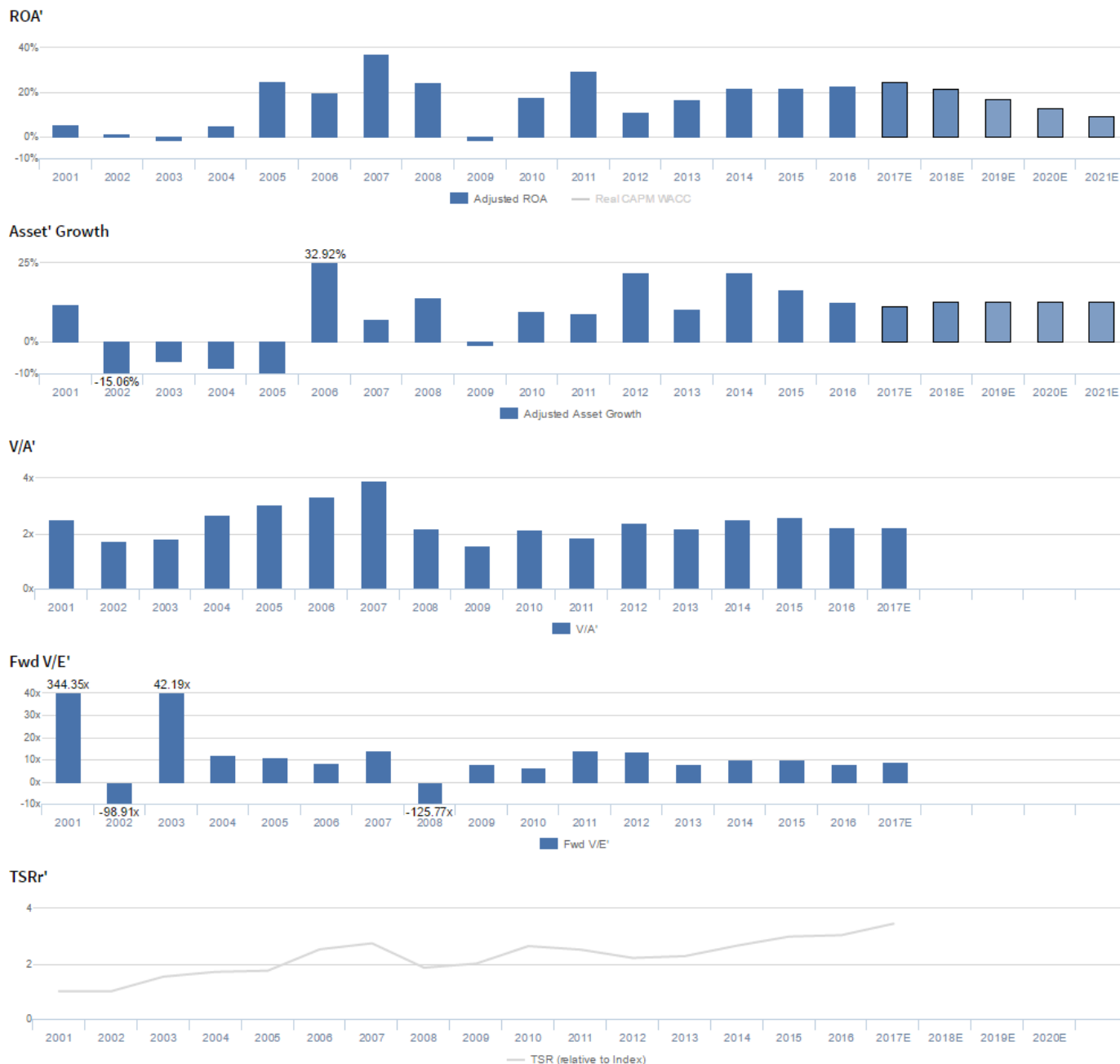
Considering low market expectations, MYL's success around both innovation and acquisition, proper management alignment, as well as management's confidence in their operating business and their acquisition strategies, there may be material equity upside for the company.

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Lam Research Corporation (LRCX)



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Lam Research Corporation (LRCX)			Value
Sector	Info Tech	Intrinsic Price Range:	
Price (\$)	104.09	\$60 - \$240	
MCap (\$bn)	16.95	Comments:	
ROA' (LFY)	25%	-	
V/A'	2.3x		
V/E'	9.2x		

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 the United States, Europe, Taiwan, Korea, Japan, China, and Southeast Asia.

Valuations & Market Expectations

LRCX currently trades at a very inexpensive 9.2x UAFRS adjusted P/E (V/E'). At these levels, the company is trading at the bottom end of the Semiconductor Equipment segment's V/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 UAFRS adjusted ROA above cost-of-capital for the past 7-8 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 23% levels in 2016 and projected 25% levels in 2017 down to 10%, with UAFRS 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 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 UAFRS adjusted margin. It also drives them to continue to take share in a strongly growing market, maintaining their historic growth rates going forward.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q1 2017 earnings call (10/19) further confirms the bullish signals for the company's underlying fundamentals. During the call, management repeatedly generated highly confident markers when talking about their outlook for the business. They were confident when talking about expanding capacity and gaining market share during the most recent foundry/logic node transition, and how they were the only company to successfully do this. They also were confident when talking about the positive trends underlying 3D NAND, and about their ability to deliver profitable growth going forward based on these and other trends.

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These markers highlight the strong fundamentals LRCX is seeing for their business going forward, and the strong execution they have to gain ground inside the industry.

Conclusion

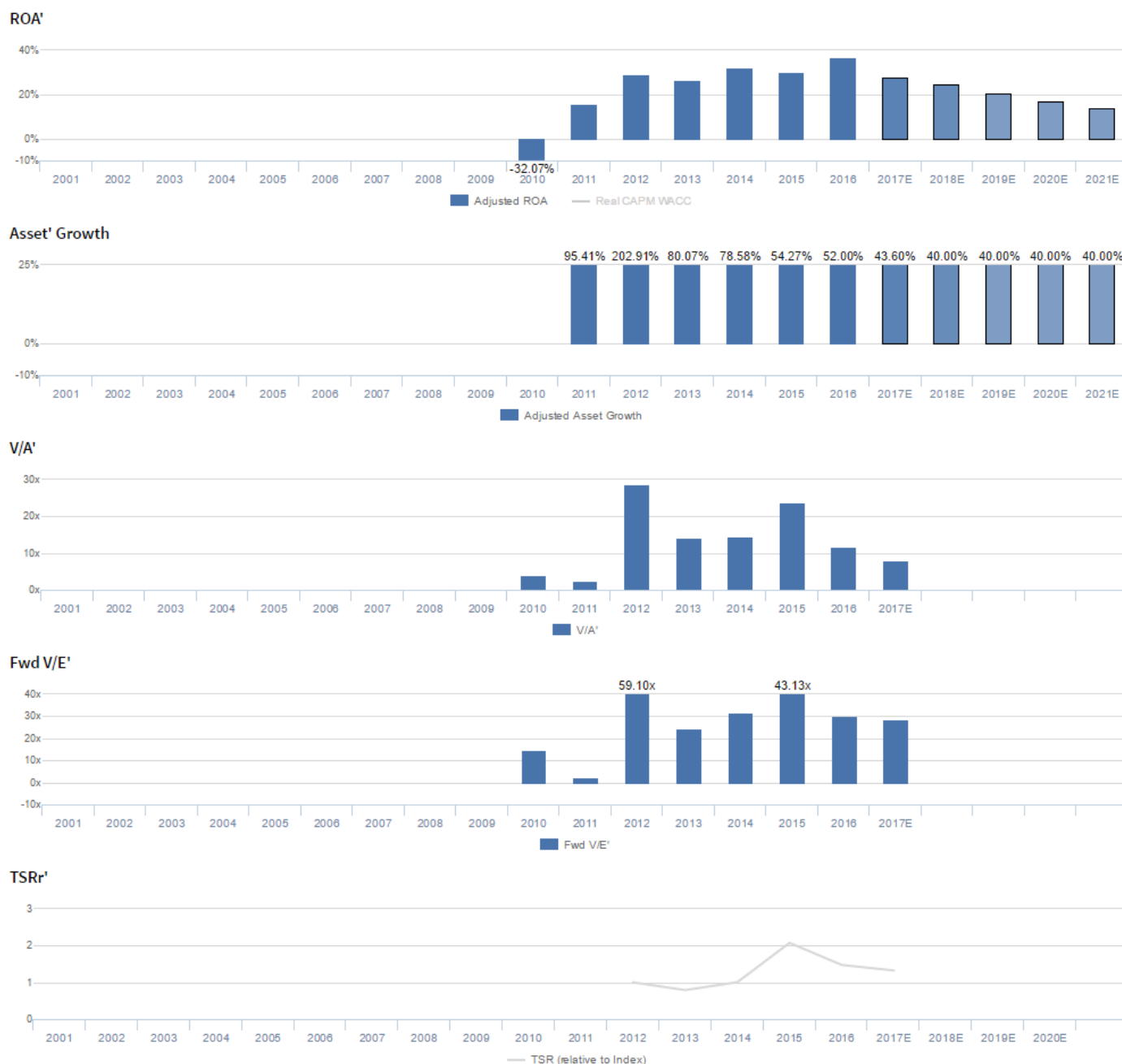
Long-term macro tailwinds for the business, strong corporate performance, favorable management alignment and growing confidence from management about their outlook for the business all spell reasons for equity upside for LRCX going forward.

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Palo Alto Networks, Inc. (PANW)



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Palo Alto Networks, Inc. (PANW)		GARP
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	130.07	\$90 - \$285
MCap (\$bn)	11.93	Comments:
ROA' (LFY)	27%	-
V/A'	8.2x	
V/E'	28.6x	

Palo Alto Networks, Inc. offers a next-generation security platform. Its platform includes Next-Generation Firewall, Advanced Endpoint Protection, and Threat Intelligence Cloud. The company primarily sells its products and services through its channel partners, as well as directly to medium to large enterprises, service providers, and government entities operating in various industries comprising education, energy, financial services, government entities, healthcare, Internet and media, manufacturing, public sector, and telecommunications.

Valuations & Market Expectations

PANW is trading in the middle of historical valuations with a 28.5x V/E'. While this initially appears to be a premium valuation, well above average valuations in the market, current market expectations are actually very low relative to the company's historic performance. The market is expecting PANW, who has seen steadily improving ROA' the last several years, to see ROA' be cut in half, with Asset' growth below historical rates.

Historically, PANW has seen increasing profitability, with ROA' rising from 15% in 2011 to 37% in 2016. While these robust ROA' levels are impressive on their own, PANW appears even stronger when considering the increasing competitive pressures within the space, which has driven ROA' compression in peers. Moreover, with cyber-attacks increasing in frequency and magnitude, demand for security solutions is likely to see a boost.

While improving its ROA', the firm has also continued to aggressively expand its operations, with Asset' growth ranging from 201% in 2012 to 52% in 2016, as the firm continues to increase its market share in a rapidly expanding addressable market. In this context ROA' expansion is even more impressive, as generally firms see compression in profitability as they ramp up scale.

Considering current market expectations for that ROA' to fall from 37% to 14%, with Asset' growth to be around 40%. These highlight the market's concerns that PANW will suffer from the same issue that their peers have the last five years, of steadily compressing ROA' as they invest into a growing market. However, considering the company's success in avoiding their competitors' issues, these expectations appear too pessimistic.

Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that management's compensation is very growth-focused. Management's short-term compensation is based on revenue growth. This compensation framework biases management to focus on growth, without much focus on margin or asset utilization. That said, considering the company's position early in the life cycle, with a massive secular growth opportunity, this compensation framework may be warranted.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q1 2017 earnings call (11/21) highlights that management is confident about their robust growth and its sustainability, including their 30%+ growth across all their regions, and about their success in driving growth across their products, and how they are cross selling. Management was also highly confident about their expense trends and their trend in booking rates. Lastly, management was confident when talking about how integral they are to the organizations they supply.

Conclusion

Market expectations for declining growth and compressing profitability appears too pessimistic. PANW still has phenomenal growth opportunities and has done an excellent job executing on improving profitability while also

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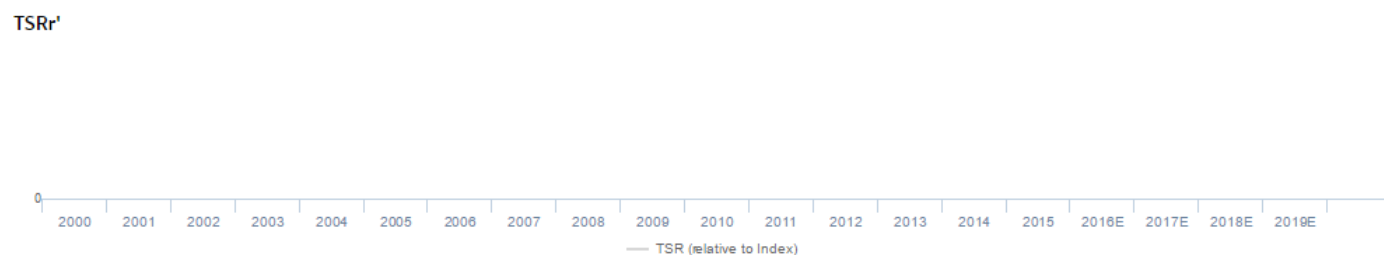
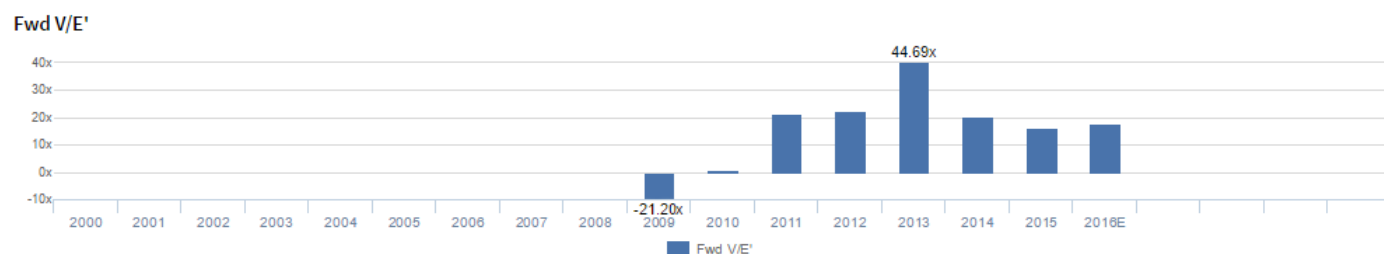
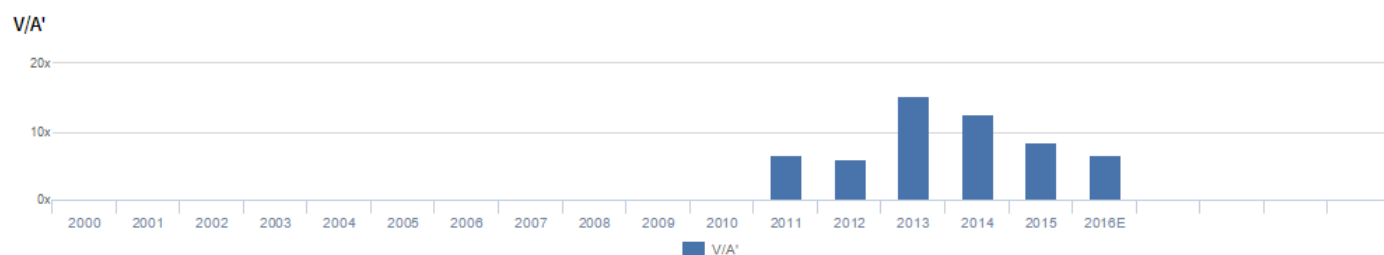
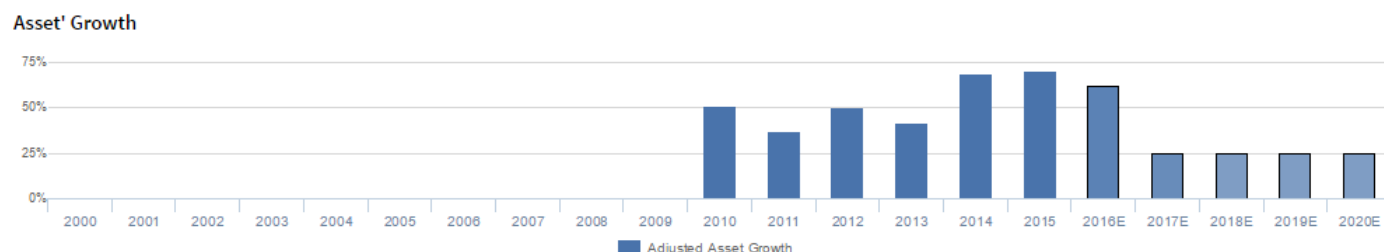
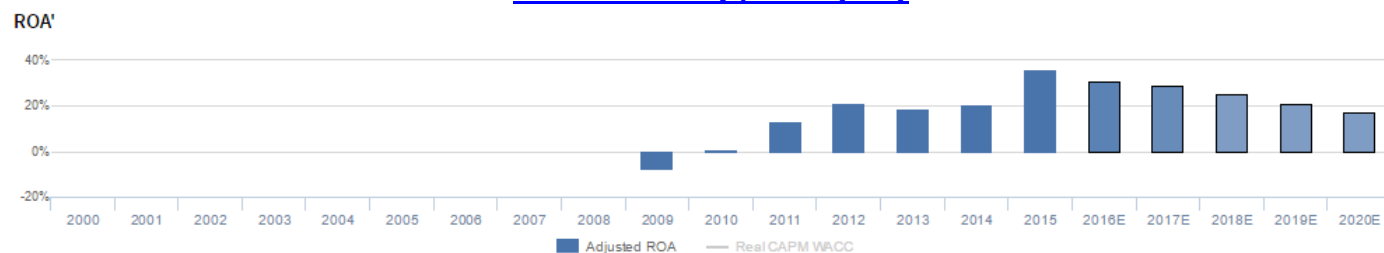
sustaining growth. Also, management's focus on growth in their compensation and their confidence about their outlook for growth and profitability in their business spell sustained positive fundamental momentum. Based on pessimistic market expectations and strong positive fundamental momentum, there appears to be material potential for equity upside at PANW.

Valens Conviction Long List

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VALENS
SECURITIES

Zillow Group, Inc. (ZG)



Valens Conviction Long List

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Zillow Group, Inc. (ZG)		GARP
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	37.31	\$35 - \$115
MCap (\$bn)	6.63	Comments:
ROA' (LFY)	31%	-
V/A'	6.6x	
V/E'	18.0x	

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 6.6x V/A' and a 18.0x V/E'. After the acquisition of Trulia, ZG has seen ROA' rise from 20% to 31%, which it is projected to maintain going forward. However, the market is expecting ROA' to fall to 17%, slightly above historical pre-acquisition profitability levels, with Asset' growth being reduced by half.

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.

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 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.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q3 2016 (11/1) highlights continued confidence from management, in line with their Q3 2015 through Q1 2016 (5/3) earnings calls that highlighted confidence from management on key drivers for the business, including Rentals, Mortgages, and StreetEasy. Management was confident when saying they are growing revenue in the mid-20s, and that revenue growth will be faster in 2016. They were also highly confident when saying that their revenue mix is shifting toward their Marketplace category, where they want it to move toward, and when talking about new sales booking growth rates from existing agents and their GAAP EPS outlook. Management was also highly confident about continuing to improve the consumer experience across their brands and about the return they will see on their investments in their people and their data, as well as how that is driving growth in the business going forward.

These confidence markers show a management team that sees strong positive fundamental momentum for the business, which is likely to drive equity upside going forward.

Conclusion

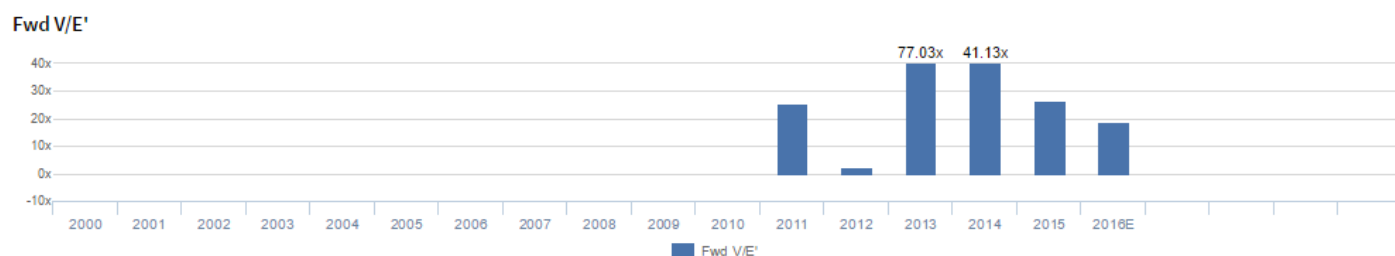
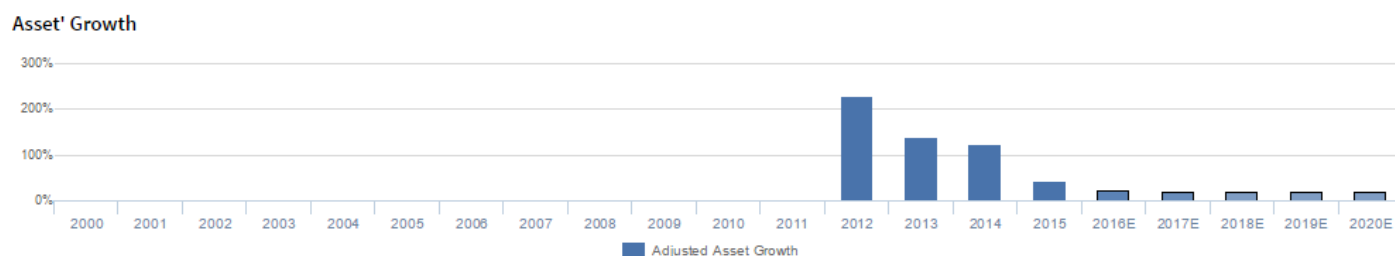
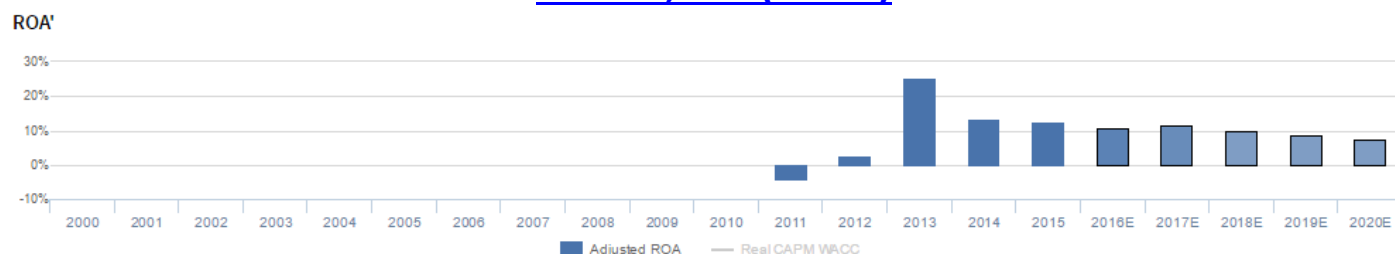
Considering the market's bearish sentiment, ZG's appropriate management compensation framework, and management's confidence in continued building fundamental momentum, further equity upside appears justified.

Valens Conviction Long List

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VALENS
SECURITIES

Twitter, Inc. (TWTR)



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VALENS
SECURITIES

Twitter, Inc. (TWTR)		Growth
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	19.65	\$15 - \$50
MCap (\$bn)	13.94	Comments:
ROA' (LFY)	11%	-
V/A'	2.4x	
V/E'	18.8x	

Twitter Inc. is a social networking company that provides online social networking and microblogging services. The company offers users the ability to follow other users' activity, read, and post tweets; offers products and services for users, advertisers, developers and platform and data partners.

Valuations & Market Expectations

TWTR is trading at a 18.8x V/E', which initially appears expensive. However, it is actually at the low end of historical valuations, as is the company's 2.3x V/A'. The market is pricing in very low expectations for TWTR relative to history, with expectations for ROA' to fall from 10.7% in 2015 (and 10% to 12% levels historically) to 6%-7% cost-of-capital levels over the next several years. The market is also expecting TWTR to see Asset' growth continue to slow, falling to 20% a year. This is not unreasonable, but is also roughly half the growth rate of the past two years.

TWTR may never reach the 20%+ ROA' of peers like GOOGL or FB, considering the different business model of each business. However, to assume that TWTR (which has been able to generate an almost 2x cost-of-capital ROA' even as they have struggled with issues like monetization and user growth) would fade to below cost-of-capital levels appears too negative, considering their renewed focus on monetizing all users, including non-logged-in users since the CEO change last year.

Earnings Call Forensics™

Earnings Call Forensics™ also highlights that over the past several calls, management has appeared to start to make progress on their initiatives to drive growth and profitability improvements. During the Q3 2015 earnings call (10/27), management generated excitement markers around their ability to monetize logged out users, and they appeared highly confident about net income growth, opportunities for marketers on Twitter, and their position in the mid-market channel. These markers continued in Q4 2015 (2/10) as management was highly confident about their advertiser penetration rates, when talking about their improved retention rates, and when talking about how product improvements, including Moments, are driving more traffic and demand.

During the Q1 2016 (4/26) earnings call, management generated further positive markers. Management appeared to be confident about the strength of their renewal rates, upfront revenue growth rates, and advertiser penetration growth rates, signaling strong momentum for the rest of the year. They were also confident about the potential of their prior acquisitions to create value in the business, and the value of their leadership position in streaming video, thanks to Periscope. They were also confident about the potential of their digital and performance-based marketing initiatives.

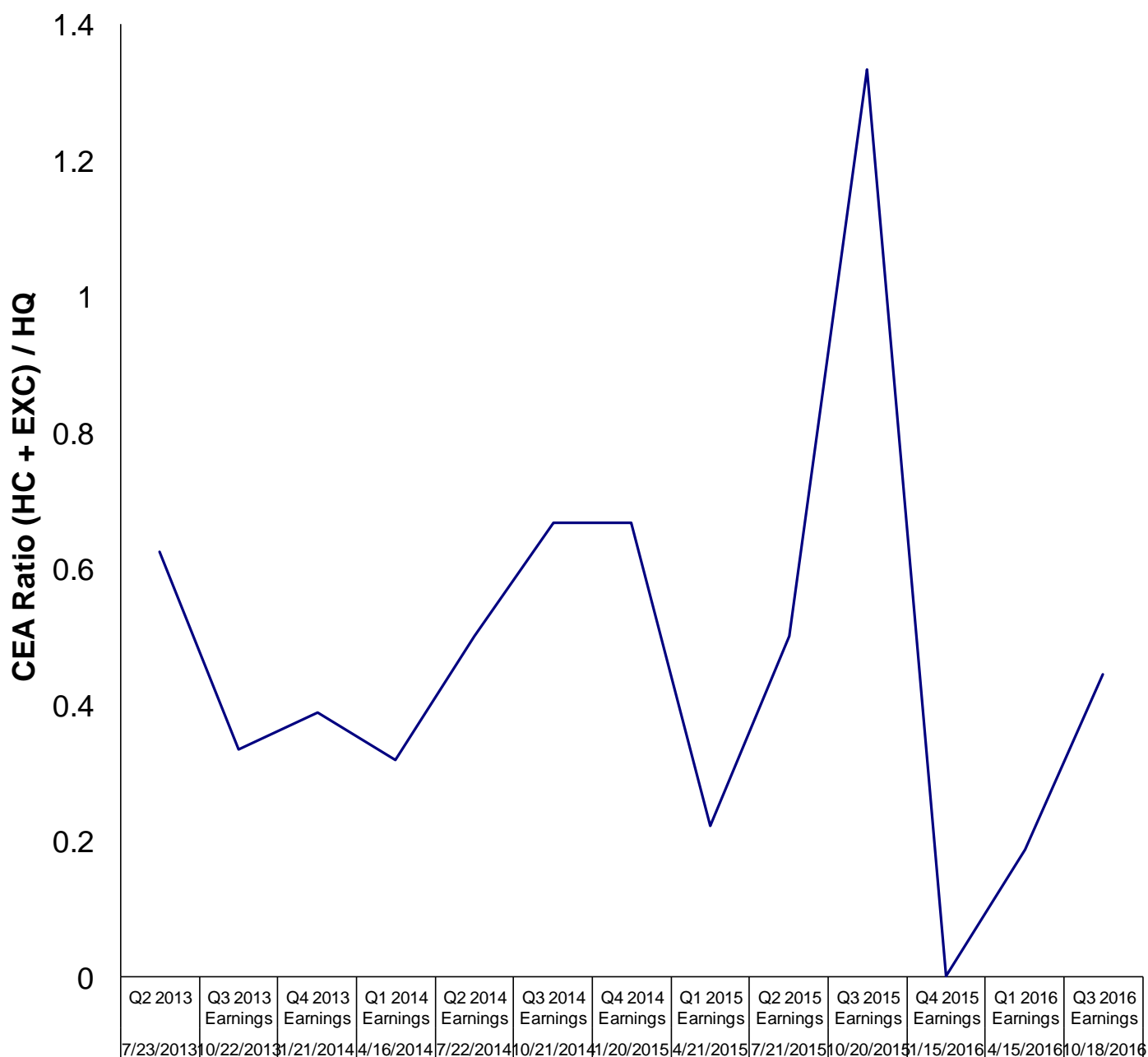
During the Q3 call (10/27) these markers continued. Management is confident in their ability to put different content deals into an economic envelope that works for their business, and about the potential for timeline personalization opportunities around live NFL games. They also were confident about the progress of their sales force changes and other restructuring efforts

These markers clearly signal, especially with the confirmation from the other recent calls, that management is seeing execution.

Conclusion

Considering current low expectations and negative sentiment around the company, as well as management's confidence about building positive momentum, there could be substantial equity upside for the business going forward.

Regions Financial Corporation (RF)



Valens Conviction Long List

10 December 2016



Regions Financial Corporation (RF)			N/A
Sector	Financials	Intrinsic Price Range:	
Price (\$)	14.60	\$7.75 - \$16	
MCap (\$bn)	17.97	Comments:	
ROE' (LFY)	6%	-	
V/A'	0.6x		
V/E'	9.5x		

Regions Financial Corporation is a financial holding company that conducts its banking operations through Regions Bank, an Alabama state-chartered commercial bank, which is a member of the Federal Reserve System. RF provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of asset management, wealth management, securities brokerage, insurance, trust services and other specialty financing.

Valuations & Market Expectations

RF is trading at a very inexpensive 0.6x P/B, implying that the market does not foresee a substantial recovery in RF's returns in the next several years due to the aggregate recovery in the U.S. market, as well as compensation that is likely to target improved loan quality and profitability, along with superior risk positioning going forward. In particular, the market may be overreacting to RF's energy exposure and to a potential deferral in the timing of the Fed raising rates.

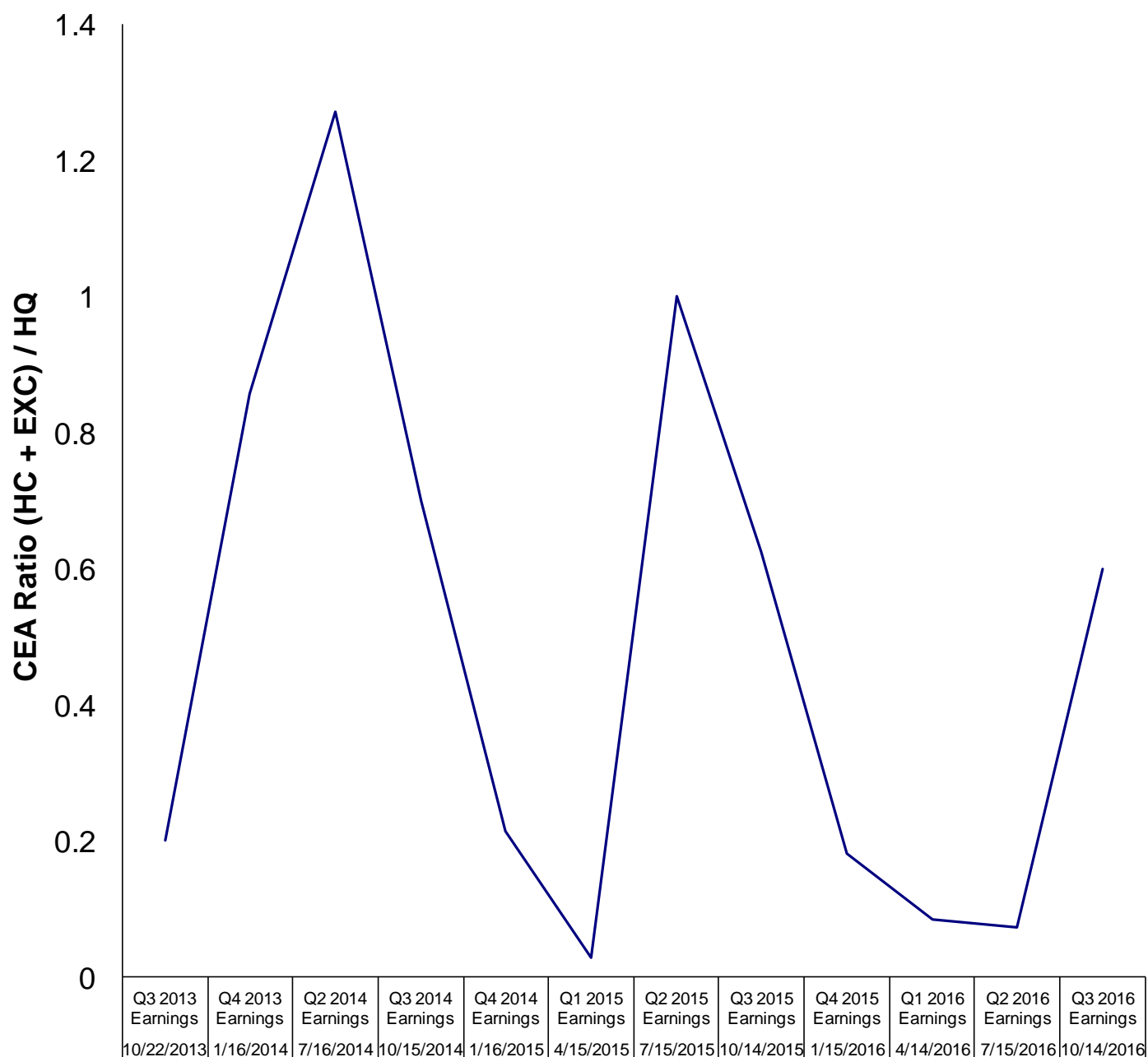
Earnings Call Forensics™

In the near term, RF appears to be seeing a positive inflection. During the Q3 2016 earnings call (10/18), management generated multiple highly confident markers about improving trends, including around funding costs, non-interest expenses, and core expense run rates. They also are confident about growing their debt capital markets business and their strategy for improving returns for their corporate banking business. Lastly, management is confident about improving credit quality for their energy portfolio, and how that will help the rest of the business.

Conclusion

These markers highlight that management is seeing macro trends start to turn more positively, and they also are seeing success in executing on their initiatives to improve the business.

The PNC Financial Services Group, Inc. (PNC)



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10 December 2016



The PNC Financial Services Group, Inc. (PNC)			N/A
Sector	Financials	Intrinsic Price Range:	
Price (\$)	115.02	\$76 - \$125	
MCap (\$bn)	55.96	Comments:	
ROE' (LFY)	9%	-	
V/A'	1.0x		
V/E'	11.2x		

The PNC Financial Services Group, Inc. is a diversified financial services company in the United States, engaged in retail banking, corporate and institutional banking, asset management and residential mortgage banking, as well as other products and services.

Valuations & Market Expectations

PNC is trading at a 1.0x P/B, as the market appears to have relatively low expectations for the company's profitability profile going forward.

Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that management alignment is favorable for value creation, with compensation based on EPS growth, efficiency ratio, ROA, ROCE and Tier 1 risk-based capital. Moreover, management is aligned to seek to grow the business, but to do so with lower costs and lower credit risk, an ideal compensation framework for a regional bank.

Earnings Call Forensics™

Management saw a positive inflection in their Q3 2016 earnings call (10/14). Earnings Call Forensics™ highlights that management is confident about executing on their growth initiatives, and they are confident about improving conditions related to their energy loans which is likely to drive positive fundamentals for the business.

Conclusion

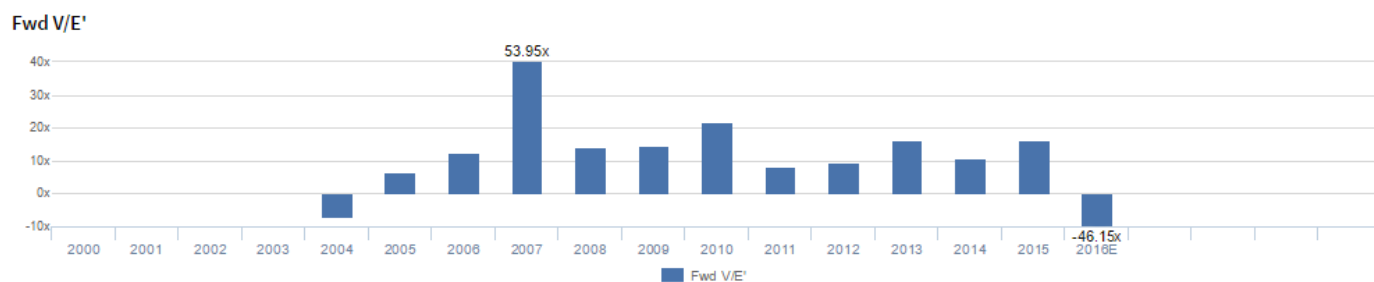
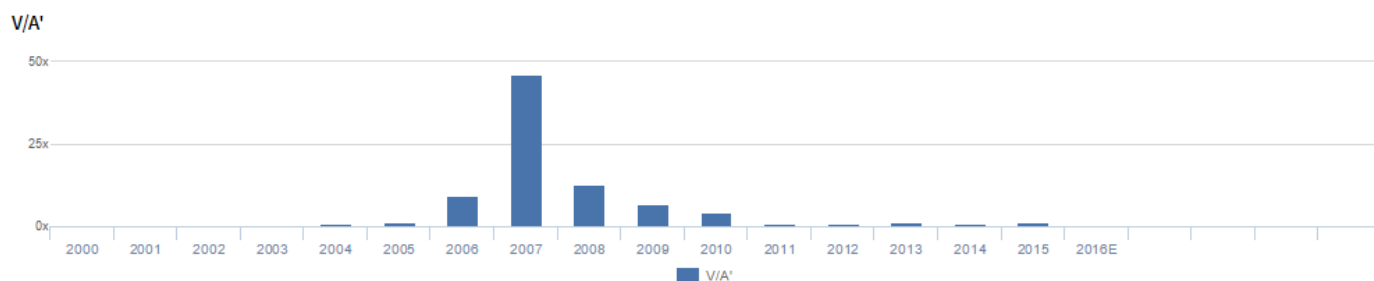
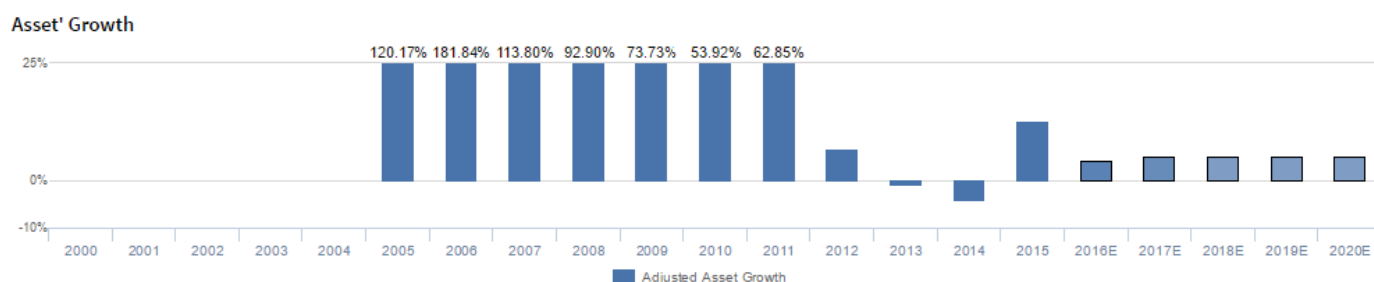
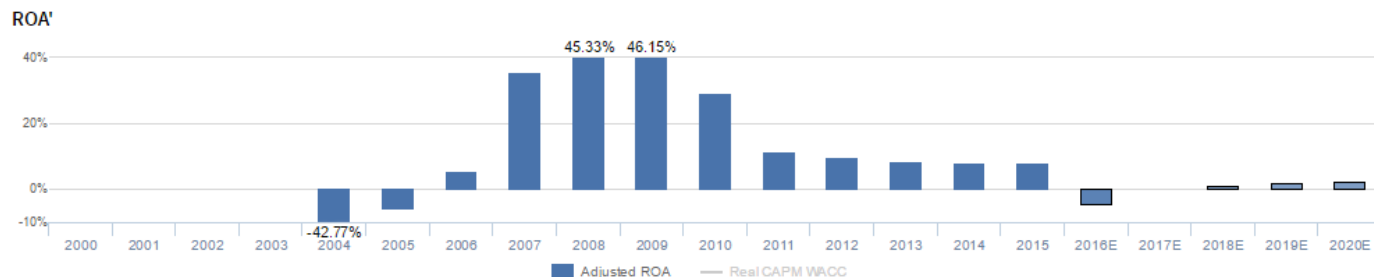
Based on this growing confidence, management may be seeing a positive inflection. Considering how low expectations still remain relative to history, this implies potential for further equity upside.

Valens Conviction Long List

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VALENS
SECURITIES

First Solar, Inc. (FSLR)



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10 December 2016



First Solar, Inc. (FSLR)		Deep Value
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	33.54	\$25 - \$85
MCap (\$bn)	3.49	Comments:
ROA' (LFY)	-5%	-
V/A'	0.5x	
V/E'	-46.2x	

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 historic valuations, at a very inexpensive 0.5x V/A'. Markets are expecting ROA', which has actually been relatively resilient and stable at 8% the last several years, to fall to well below cost-of-capital 2.4% levels going forward. With modest 5% 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 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 ROA' or even having credit issues, FSLR has done an excellent job maintaining positive ROA', with Earnings' Margin never fell below 10%, and Asset' Turns not falling as materially as others did. FSLR's infrastructure-focused business has offered more stability than peers have. This implies they deserve higher valuations than peers, not lower valuations, and certainly with their stable ROA' above cost-of-capital levels, a V/A' 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 0.5x V/A', the market however is pricing FSLR like a distressed business that is on the verge of bankruptcy. 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 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.

Earnings Call Forensics™

Earnings Call Forensics™ analysis of the Q3 2016 earnings call (11/2) highlights a positive inflection for management, even as they saw a material sell-off on earnings. Firstly, management was highly confident that they are committed to walk away from opportunities that do not make sense to them economically, and that near-term bookings were weaker

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because of this. This is a near-term negative, but it also helps confirm that they are going to seek to maintain profitability and not just chase growth.

Management was also highly confident that they are seeing growing geographical diversity at their module-only opportunities, expanding outside of the U.S. to gain more exposure to growing markets. They were also highly confident that they are well positioned to meet continued opportunities in the U.S., and when stating that concerns that U.S. utilities are going to exit solar as a solution entirely are overstated. They also appear to be confident about potential growth in their O&M portfolio, and how that is a sustainable high margin business.

It is clear that management is concerned about near-term headwinds to bookings as they are staying rationale in the pricing environment, but management sees substantial continued growth opportunities in their business that warrant higher market expectations.

Conclusion

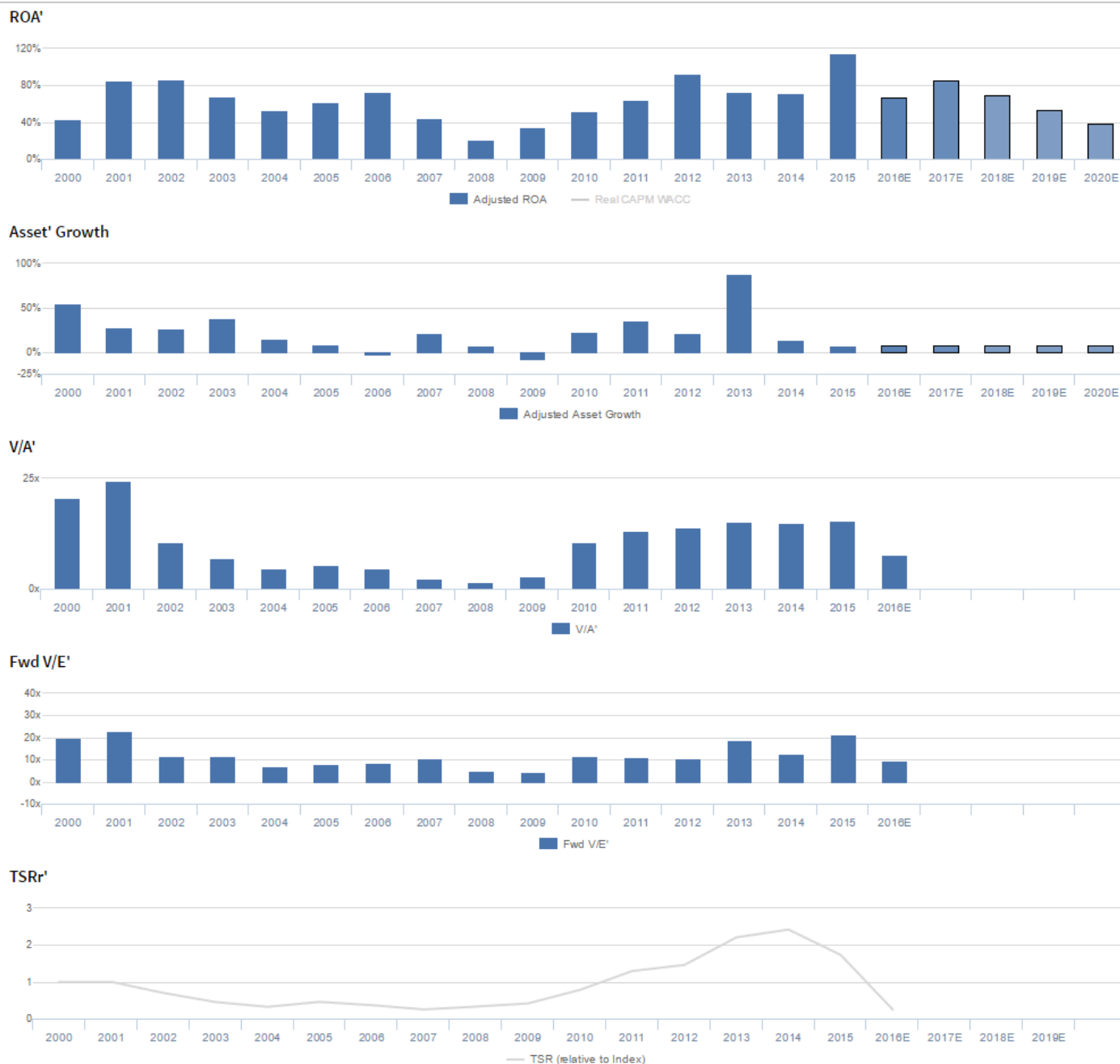
While FSLR may have some near-term operating struggles, current irrationally low valuations, management's strong execution and alignment, and their expectations for the future spell potential for substantial equity upside.

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VALENS
SECURITIES

Valeant Pharmaceuticals International, Inc. (VRX)



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Valeant Pharmaceuticals International, Inc. (VRX)			Value
Sector	Healthcare	Intrinsic Price Range:	
Price (\$)	15.46	\$10 - \$110	
MCap (\$bn)	5.27	Comments:	
ROE (LFY)	67%	-	
P/B	7.9x		
P/E	9.6x		

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

After accusations around VRX's accounting and business practices, the company has seen valuations fall to the low end of recent historical levels, with V/E' declining from 19x in 2013 to 9.5x and V/A' falling from 15.2x in 2015 to 7.9x. At these levels, the market is pricing in expectations for a collapsing ROA' from 112% in 2015 to just 39% in 2020, accompanied by very limited Asset' growth going forward.

VRX has historically seen strong, slightly volatile, ROA' performance. Even in 2008 (their worst year), ROA' was at 19%, well above the cost of capital. Since then, VRX has trumped prior performance records, achieving an 111% ROA' in 2015, above their prior peak of 84.8% in 2002. Asset' growth has also been volatile, ranging from a high of 88% in 2013 to a low of -10% in 2009, because of the firm's acquisition-based growth strategy.

However, because of recent 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'.

Markets expect ROA' to immediately decline, with ROA' collapsing by over half from +100% levels in 2015 by 2020. This is coupled with expectations for the firm to entirely halt its acquisition strategy, with Asset' growth slowing to a very limited 5% a year rate going forward. These expectations appear very pessimistic.

Analysts, on the other hand, have positive expectations relative to the market, expecting ROA' to decline to 67% in 2016 before rebounding to 85% in 2017, with Asset' growth of 7%.

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 701bps, and 2020 bonds currently yield 8.5%, pricing in substantial distress for the firm. However, Valens' Intrinsic CDS (iCDS) is at 141bps, highlighting the company's substantially 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 seven years.

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 mixed signals for credit holders. Management's short-term compensation is still based on financial and strategic initiatives, though the weight of these two areas of focus has been modified to 75% and 25%, respectively. Financial targets are based on adjusted EPS and revenue growth, while strategic initiatives are based on the discretion of the Talent and Compensation Committee using their pre-set criteria. 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 2016 earnings call (11/8) highlights management is confident in their ability to achieve an annualized \$150mn-\$250mn increase in gross profit by 2020 with disciplined supply chain rationalization. Additionally, they are confident about their upcoming Vyzulta launch and the value of their continued investments in research and development. Furthermore, they are confident about the sustainability of sales and volume growth in Asia and the upward trajectory of TRx.

Conclusion

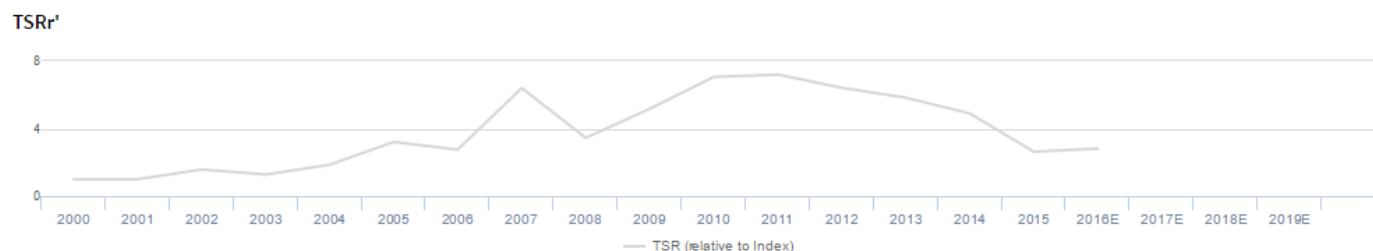
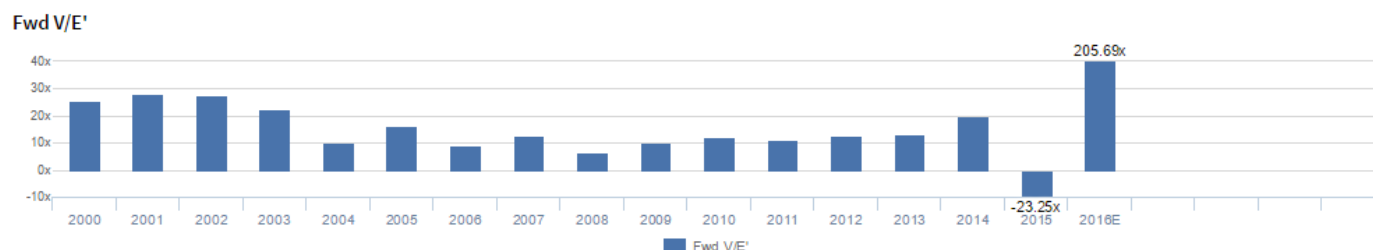
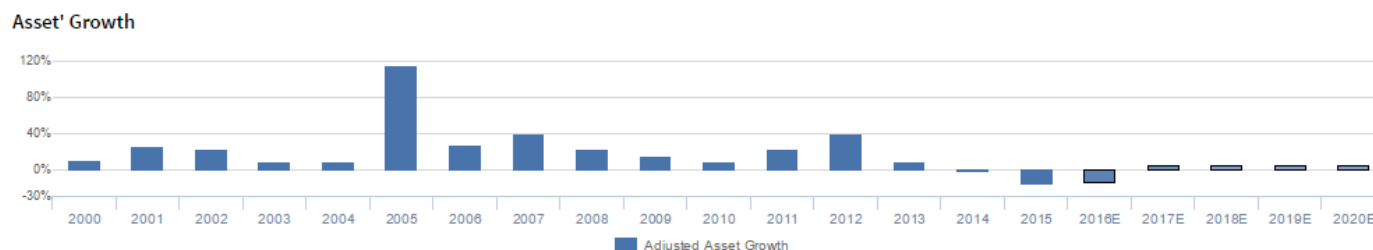
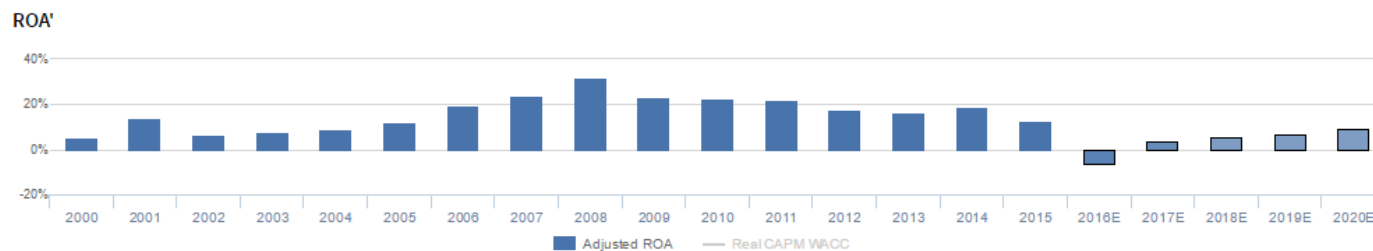
Management's confidence about their outlook, and recent confidence markers about lowering leverage and other positives imply that market concerns for the firm are overblown. Barring bankruptcy, at current valuations, they are fairly valued at worst even if the firm continues to face headwinds. Given the fact that credit markets are grossly overstating risk and the fact that management is highly confident in their plans to improve capital structure and their business positioning, equity upside is likely for the firm.

Valens Conviction Long List

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VALENS
SECURITIES

National Oilwell Varco, Inc. (NOV)



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National Oilwell Varco, Inc. (NOV)		GARP
Sector	Energy	Intrinsic Price Range:
Price (\$)	39.78	\$28 - \$75
MCap (\$bn)	15.02	Comments:
ROA' (LFY)	-7%	-
V/A'	1.7x	
V/E'	205.7x	

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 V/A' of 1.7x, well below historical valuations. The markets are now expecting ROA' to only rebound from projected 2016 9% levels to prior historical lows of 7.4% going forward. 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 2016 earnings call (10/27) highlights that management continues to see some confidence grow, confirming signals seen in Q4 2015 through Q2 2016, where management appeared highly confident about costs, their operational initiatives and how they were positioned to see margin gains and M&A opportunities. However, they do appear to have concerns about some key drivers of the business showing continued issues.

Management is confident about the sustainability of increased drilling activity in West Texas, and about the potential of ongoing tenders in Latin America and elsewhere. However, they are also confident that the severe downturn has caused revenues to decline 71% since it began in late 2014, and that North American demand remains very low. They are also confident that their depleted drill pipe backlog will offset top line growth. Moreover, they may lack confidence in their ability to continue offsetting declining revenues with cost reductions and operations optimization, and appear concerned about continued pricing pressure and margin compression in their flexible subsea pipe business. Furthermore, they appear concerned about the sustainability of revenue growth from incremental sales of coil tubing and completion-related equipment, and about continued near-term headwinds in their rig aftermarket business. Additionally, they appear concerned about the sustainability of cost reductions, and about the impact of near-term mix and volume pressures on drill pipe in Q4.

These markers highlight a management team that is positioning themselves to survive a challenging environment, while keeping multiple avenues open to benefit from any positive upswing.

Conclusion

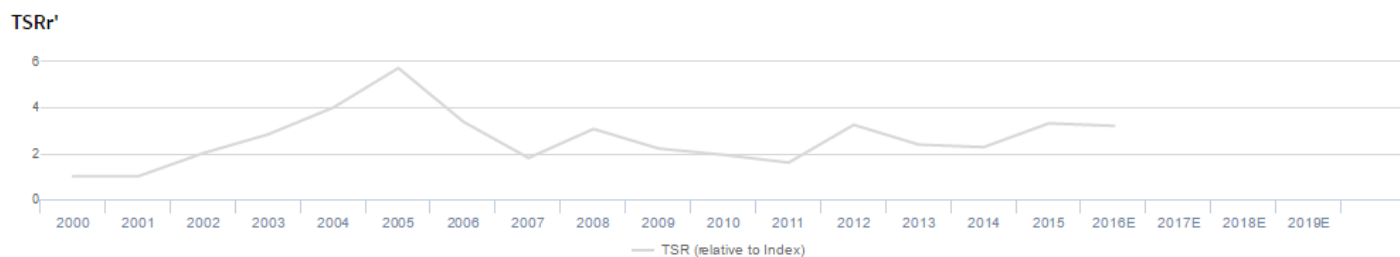
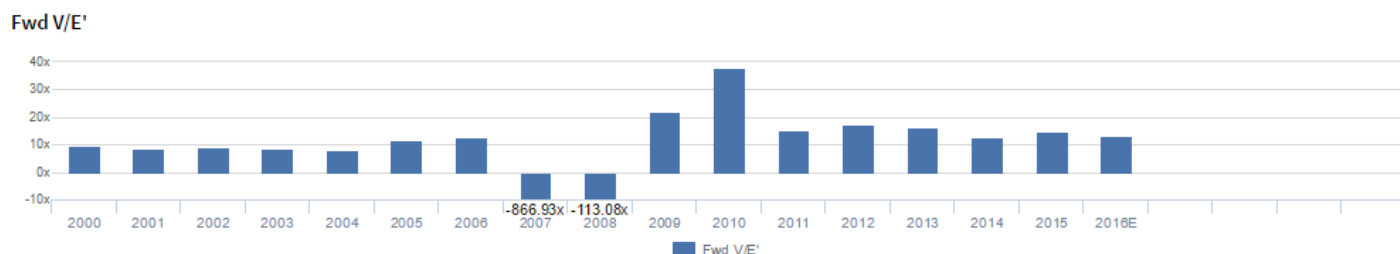
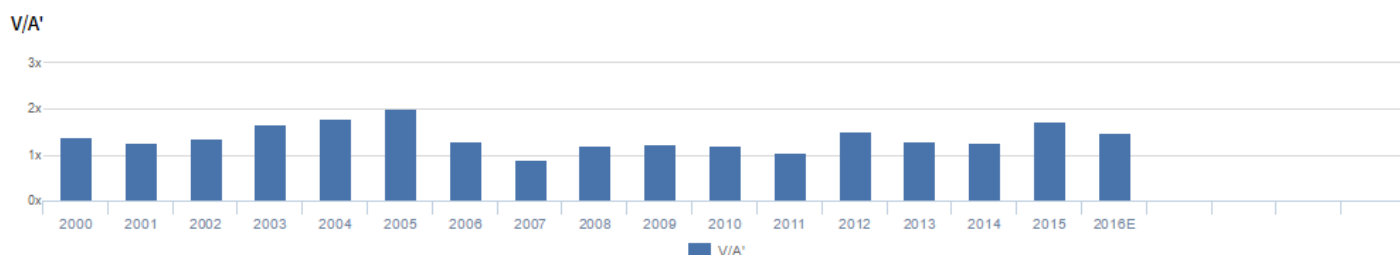
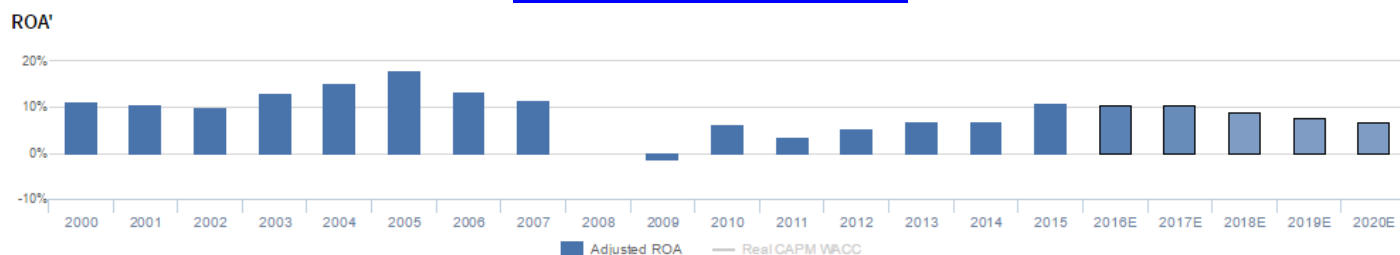
With growing confidence about a stabilization of the business, low valuations and strong management execution, equity upside could be warranted in the very near term.

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VALENS
SECURITIES

D.R. Horton, Inc. (DHI)



Valens Conviction Long List

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DR Horton Inc. (DHI)		GARP
Sector	Cons Disc	Intrinsic Price Range:
Price (\$)	28.86	\$21 - \$60
MCap (\$bn)	10.76	Comments:
ROE (LFY)	10%	-
P/B	1.5x	
P/E	13.2x	

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 1.5x V/A', in the middle of recent valuations. However, V/E' at 13.2x is at the lower end of historical valuations. The market is expecting ROA' to fall to 7% levels from current 10% levels, with slower 10% Asset' growth going forward. The company has also 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 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 Asset' Turns which have been suppressed across the Homebuilding sector since the crash, potentially boosting ROA'.

Incentives Dictate Behavior™

Management's compensation framework should focus management around 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 2016 earnings call (11/8) highlighted that management is excited about their \$74.1mn sales order backlog. However, they appear concerned about the sustainability of revenue and profit growth, and may be downplaying concerns about declining homes in inventory. Additionally, they appear concerned about the sustainability of improved Homebuilding SG&A, and may be downplaying concerns about growth in Express and Horton.

Conclusion

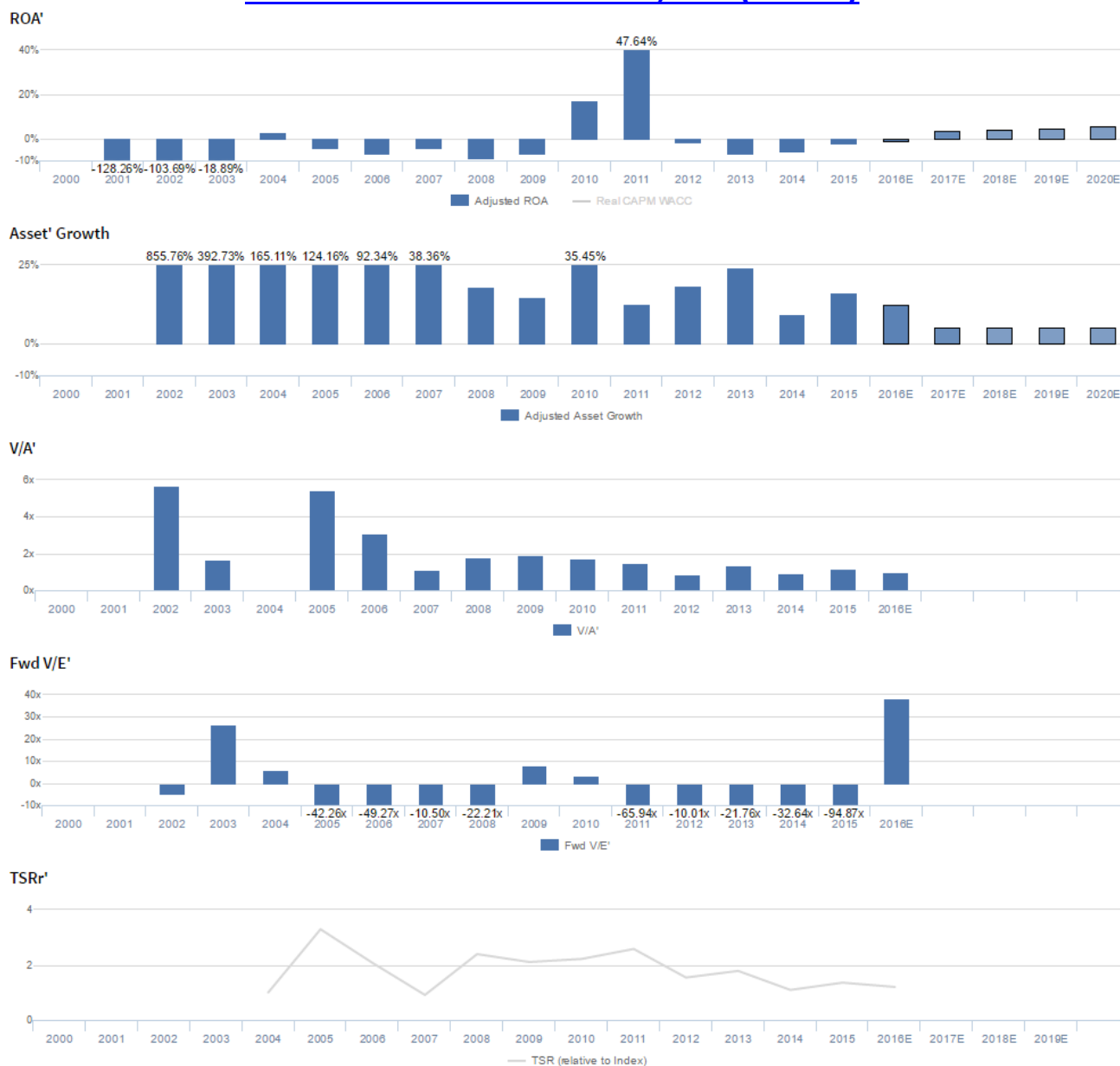
Low market expectations for ROA' and growth, combined with management's strategic shift into a growth area of their business, signal opportunity for equity upside. Also, with management confident about their backlog could be a catalyst for equity upside, even with some concerns about inventory and expense trend.

Valens Conviction Long List

10 December 2016

VALENS
SECURITIES

Momenta Pharmaceuticals, Inc. (MNTA)



Valens Conviction Long List

10 December 2016



Cirrus Logic Inc. (CRUS)		Value
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	57.36	\$40 - \$90
MCap (\$bn)	3.65	Comments:
ROA' (LFY)	26%	-
V/A'	2.6x	
V/E'	10.4x	

Momenta Pharmaceuticals, Inc. is a biotechnology company focused on developing generic versions of drugs, biosimilars, and therapeutics for oncology and autoimmune diseases. The company's product, a generic version of Lovenox (enoxaparin sodium injection), was approved by the United States Food and Drug Administration in July 2010.

Valuations & Market Expectations

MNTA is trading at a 1.0x V/A', as expectations for ROA' or innovation to come to fruition are limited. MNTA's nature as a biotech company focused on biosimilar innovation in partnership with larger companies like Baxalta and Novartis imply that it could sustain weak cash flows for a long period of time, warranting low valuations. However, with the market not paying for any potential equity upside from MNTA, and likely support coming from partners on any new developments, equity downside appears limited, with material potential equity upside. This is especially true as one of their partners, Novartis, has a sizable ownership in the company and could potentially choose to buy the rest of the company's equity.

Current market expectations are for Asset' growth and innovation investment to be weak going forward, with only 5% growth in investment in innovation going forward. The market is also expecting ROA' to not expand materially after the inflection in 2016, even with the investment that management is making in innovation.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q3 2016 (11/2) highlights a negative inflection relative to management's confidence seen in prior calls. Management is confident about the improved product profile and potential of M254. However, they may lack confidence in their expectation for marketing approval and commercial launch of M923 by 2018, and may be concerned about the potential of M281. Moreover, they may be downplaying concerns about the length of the FDA's review of COPAXONE 40, and may lack confidence in their expectation to see approval in January 2017. Furthermore, they appear concerned about the value of R&D expenses at current levels, and may be downplaying concerns about the impact of Shire's termination of MNTA's collaboration agreement with Baxalta.

Conclusion

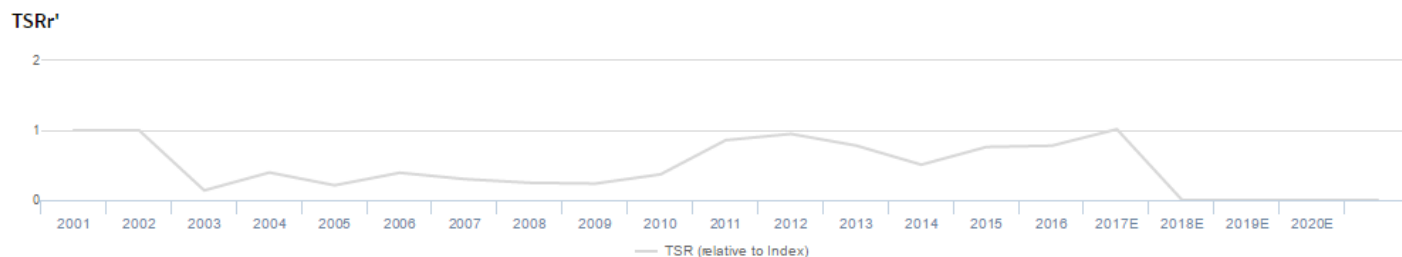
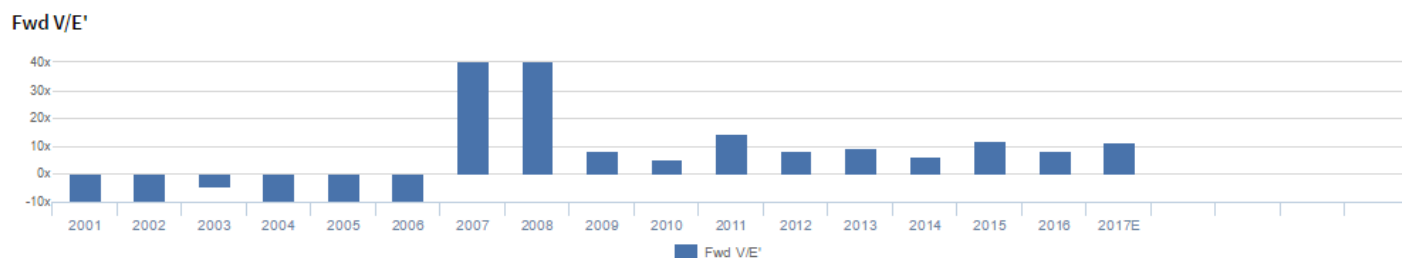
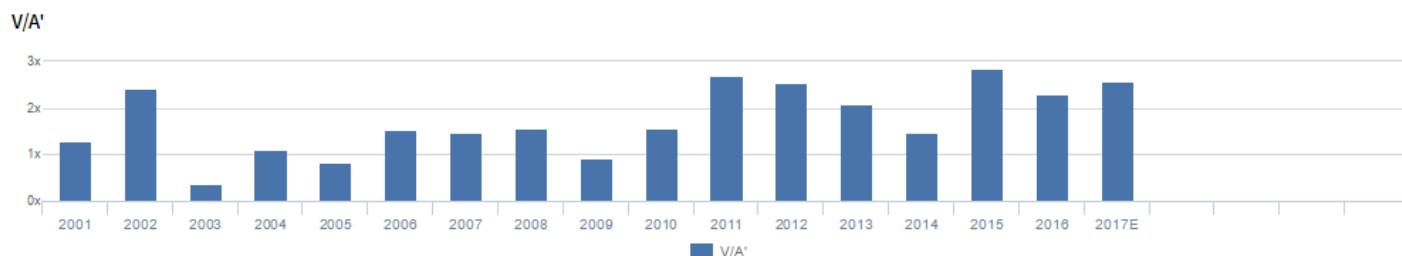
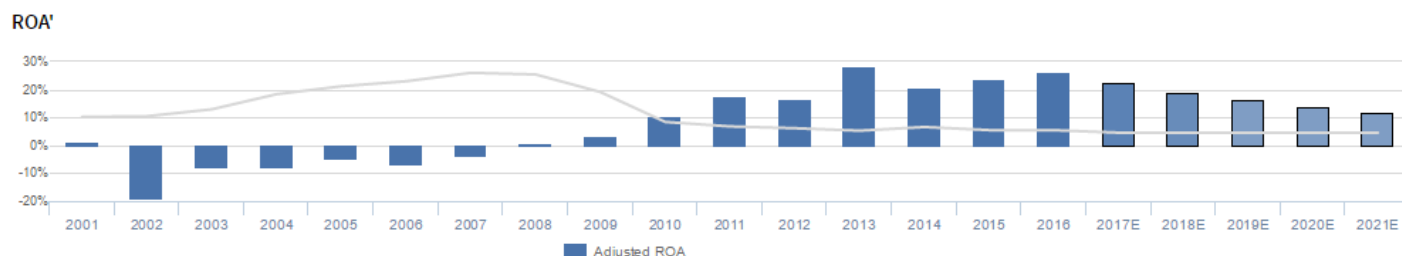
Considering MNTA's low valuations, management's modest confidence in the progress of their generics initiatives may be a positive even with other concerns, signaling equity upside may be justified.

Valens Conviction Long List

10 December 2016

VALENS
SECURITIES

Cirrus Logic, Inc. (CRUS)



Valens Conviction Long List

10 December 2016



Cirrus Logic, Inc. (CRUS)		Value
Sector	Info. Tech.	Intrinsic Price Range:
Price (\$)	48.57	\$35 - \$75
MCap (\$bn)	3.03	Comments:
ROA' (LFY)	26%	-
V/A'	2.2x	
V/E'	10.6x	

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 ROA' over the last several years, from what was below cost-of-capital levels to 18%-21% over the last six years, jumping to 26% in 2016. This was primarily due to Earnings' Margin expansion and steady Asset' Turns improvement.

ROA' is projected to stabilize at around 20%-26% levels going forward. However, at a current V/E' of 10.3x, in the middle of recent valuations, market expectations are much more pessimistic. Markets are currently pricing in Asset' growth to remain around the 10%-12% rate it has been for the past five years (aside from the Wolfson acquisition), but for ROA' to decline from current 23%-25% levels to 11% over the next five years. Considering the company's steady ROA' the last several years and steady growth, the company appears undervalued.

Incentives Dictate Behavior™

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

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

Earnings Call Forensics™

During the Q2 2017 earnings call (10/1), management generated mostly negative markers. Management was confident that competitors are still attempting to figure out how to replicate their offerings. However, highly questionable markers signal management may be downplaying concerns about margins and they may be downplaying concerns about their outlook for Q3 in particular. Management also may be downplaying concerns about sustained growth in their penetration rates, and may be exaggerating the potential of their next generation of innovation.

Conclusion

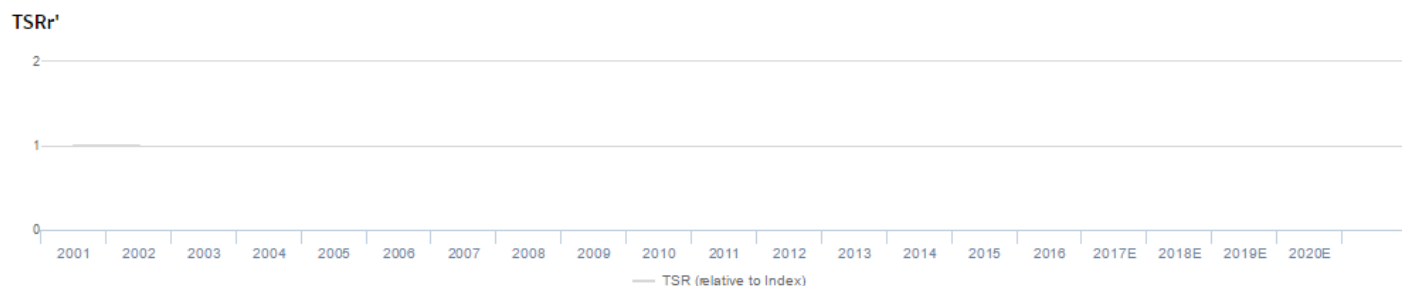
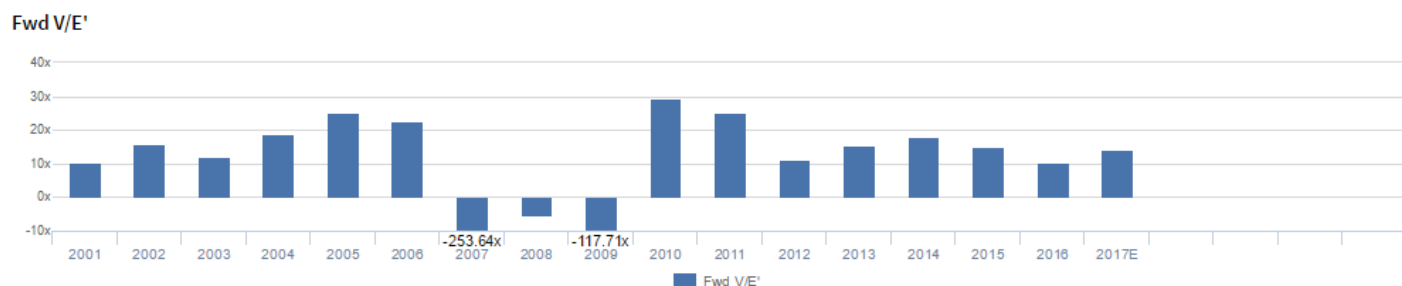
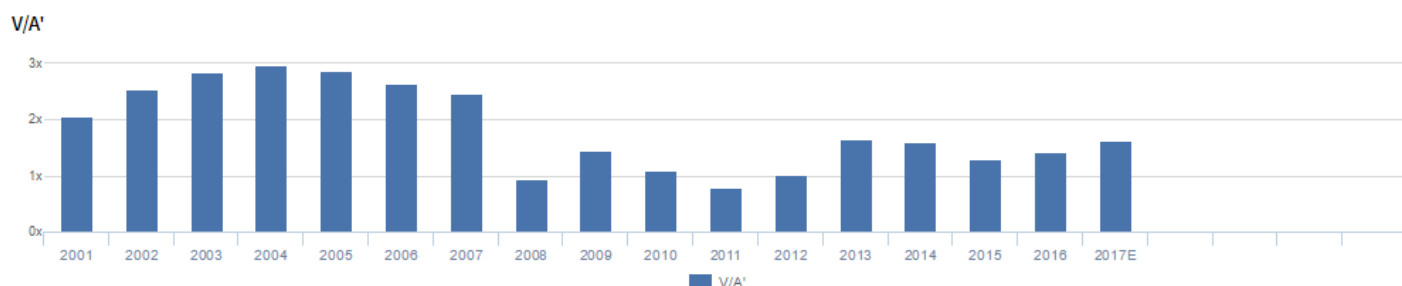
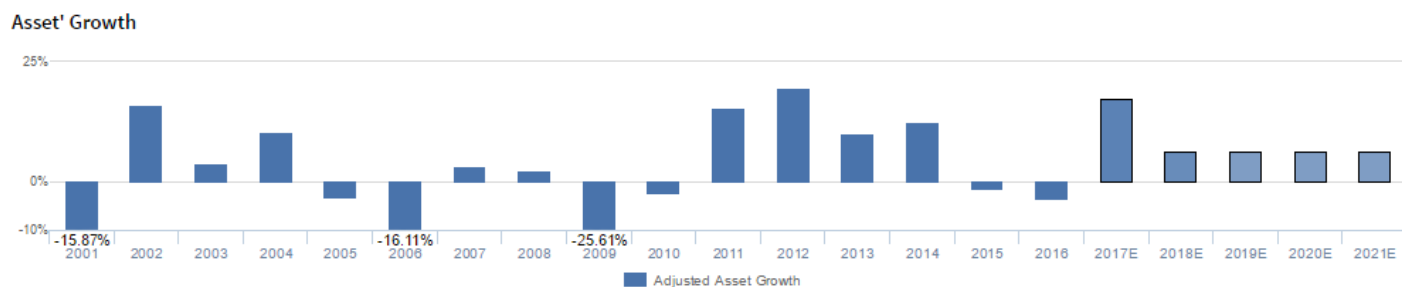
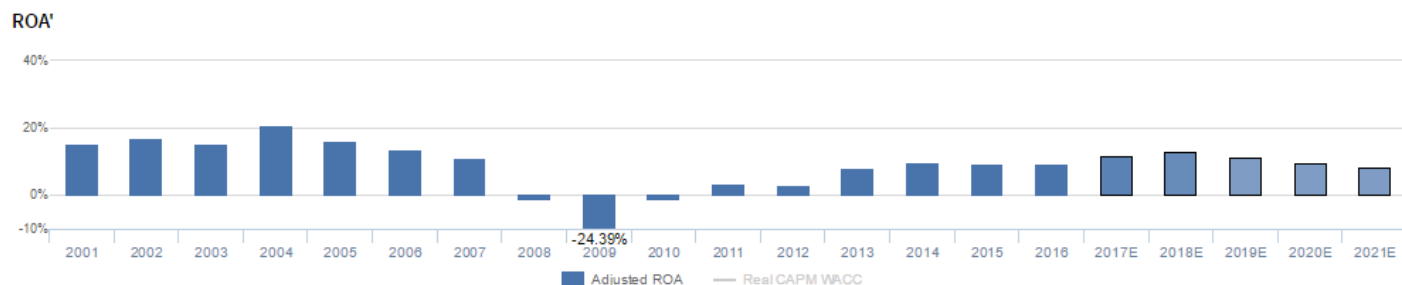
While CRUS may not have robust positive fundamental momentum in the near term, with market expectations for a collapse in ROA', management aligned to improve operations, acquisitions potentially facilitating incremental growth, and their longer-term competitive advantages, there appears to be equity upside for the business.

Valens Conviction Long List

10 December 2016

VALENS
SECURITIES

Winnebago Industries, Inc. (WGO)



Valens Conviction Long List

10 December 2016



Winnebago Industries, Inc. (WGO)			Value
Sector	Cons Disc	Intrinsic Price Range:	
Price (\$)	35.50	\$25 - \$60	
MCap (\$bn)	0.97	Comments:	
ROA' (LFY)	11%	-	
V/A'	1.7x		
V/E'	14.2x		

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 14.1x V/E', at the lower end of historical valuations. The market is expecting 6% Asset' growth going forward, toward the lower end of recent Asset' growth levels. The market also expects ROA' to decline to 8% levels over the next several years, even though analysts expect ROA' to improve to 13% the next several years.

Before the Great Recession, WGO was consistently a double digit ROA' business. WGO regularly generated a +11% 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. Firstly, the firm carries no debt and, as such, is a much safer company than many peers. They also have the ability to borrow at very favorable rates if they choose to grow. Moreover, 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 have 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.

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™

However, during the Q4 2016 earnings call (10/13), management continued to see the negative signals they'd seen in Q3. Management did generate highly confident markers when talking about their macro trends and when talking about the performance of their Towables business. They were also confident when talking about the potential that they would take some leverage on their balance sheet. However, management also appears to be downplaying concerns about inventory levels, and management they may be exaggerating the strength of their dealer network. Management also may be exaggerating their progress on their operational improvement initiatives, and the timeline of those initiatives

Valens Conviction Long List

10 December 2016



Conclusion

WGO's strong long-term macro tailwinds, which the market undervalues, justify equity upside. However, short-term fundamental headwinds may limit near-term equity upside.

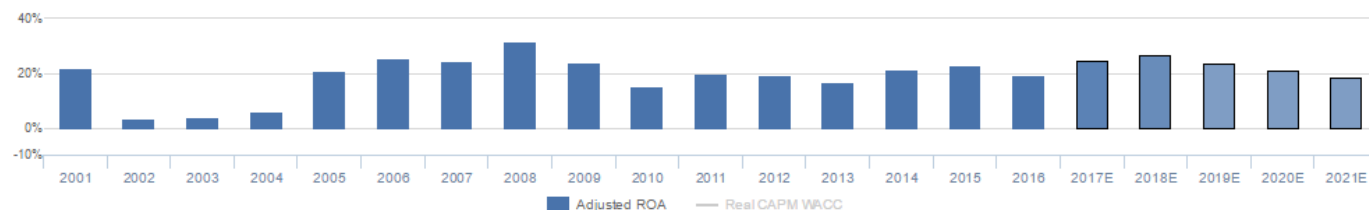
Valens Conviction Long List

10 December 2016

VALENS
SECURITIES

Korn/Ferry International (KFY)

ROA'



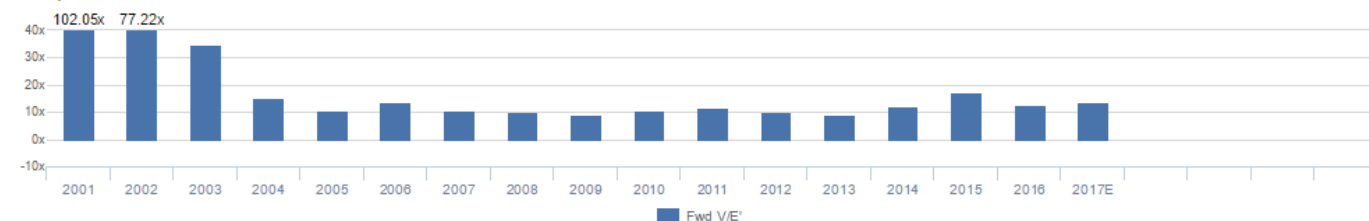
Asset' Growth



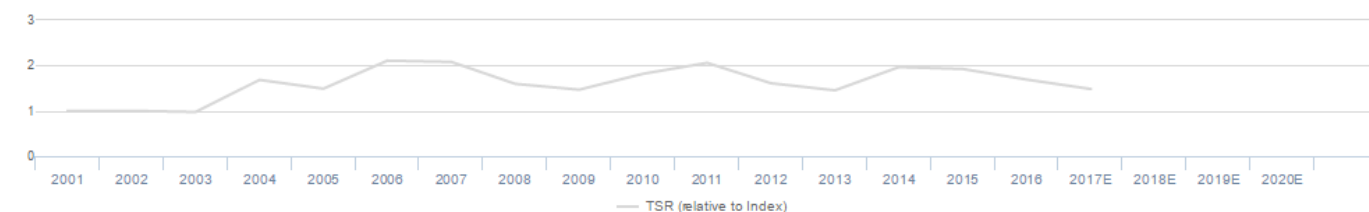
V/A'



Fwd V/E'



TSRr'



Valens Conviction Long List

10 December 2016



Korn/Ferry International (KFY)		GARP
Sector	Industrials	Intrinsic Price Range:
Price (\$)	31.26	\$24 - \$65
MCap (\$bn)	1.80	Comments:
ROA' (LFY)	25%	-
V/A'	3.5x	
V/E'	13.6x	

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 13.5x UAFRS-based P/E (or V/E'), in the middle of historical valuations. At current valuations, market expectations are still relatively muted. Markets are expecting modest 5% UAFRS adjusted Asset growth, with UAFRS adjusted ROA remaining level around 2016 recent lows of 18%. On the other hand, analysts are actually projecting adjusted ROA to ramp going forward, with adjusted ROA reaching 27%, levels not seen since 2007-2008, as the firm benefits from an improving economic environment.

The market does not fully recognizing 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.

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 align 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 2017 earnings call (9/8) highlights a negative inflection from management. Management appears concerned about their ability to hit their targets for cost savings. They also appear to be downplaying concerns about the weak growth trends in their Search operations and about the headwinds in their Executive Recruitment fee revenue and specifically their Life Sciences and Health & Technology practices. These markers highlight the company appears to be facing some challenges as they progress through their integration with Hays, but with growing economic activity coming in the near-term, these headwinds are likely short-term in nature.

Conclusion

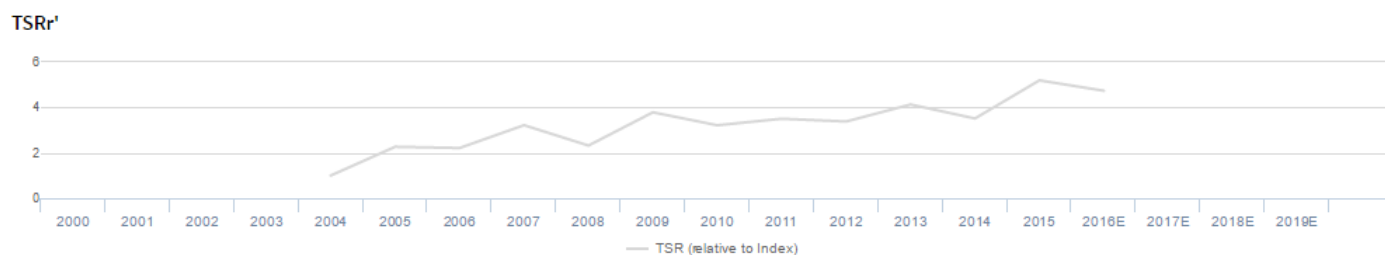
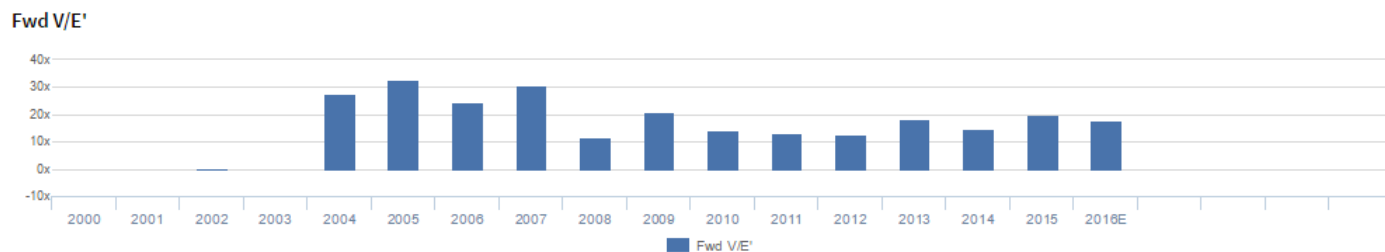
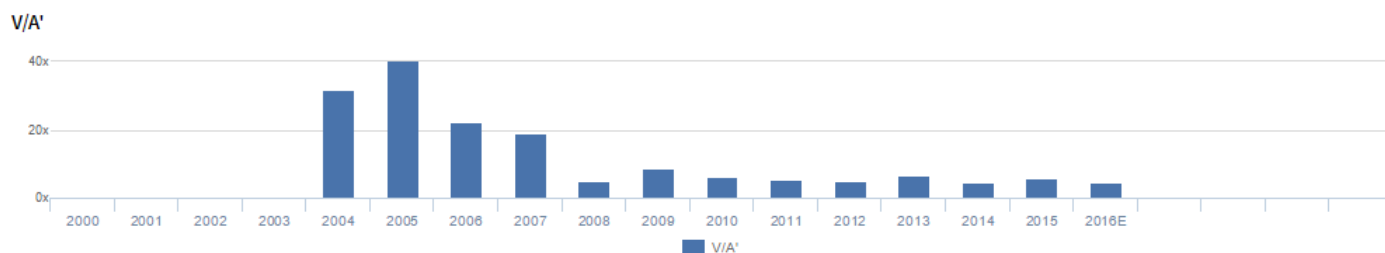
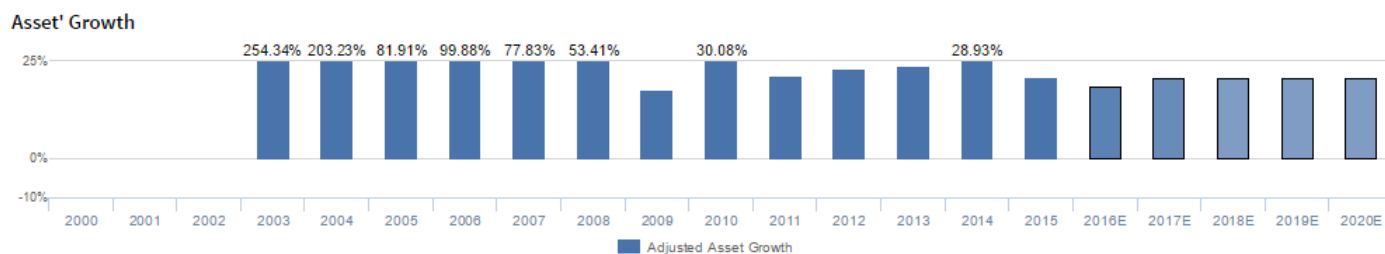
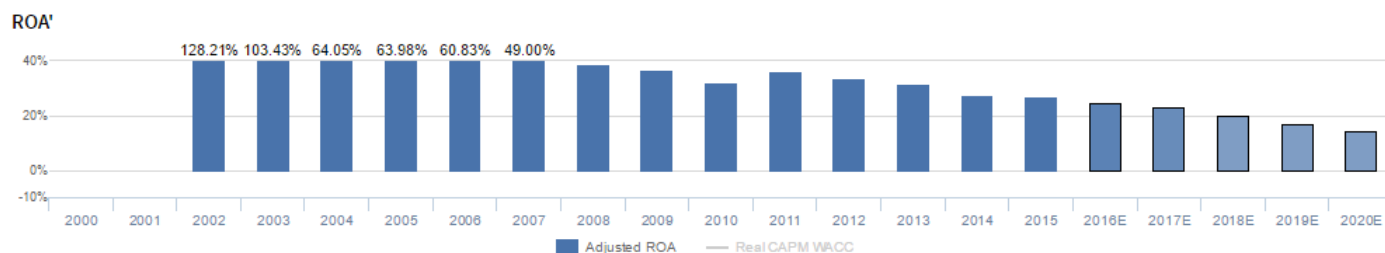
While long-term macro tailwinds persist, the firm's proper management alignment indicate that the company remains undervalued relative to the real fundamentals of their business, implying potential for material equity upside going forward, even as near-term headwinds may cause short-term volatility.

Valens Conviction Long List

10 December 2016

VALENS
SECURITIES

Alphabet Inc. (GOOGL)



Valens Conviction Long List

10 December 2016



Alphabet Inc. (GOOGL)		GARP
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	809.45	\$650 - \$1,250
MCap (\$bn)	550.95	Comments:
ROA' (LFY)	24%	-
V/A'	4.7x	
V/E'	17.7x	

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 17.6x V/E', as the market is expecting ROA' to fade from last year's 27% levels to 14% over the next several years, with 21% Asset' growth. 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 ROA'. Expectations for steady ROA' degradation are therefore too negative.

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 ROA' declines also appears warranted.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q3 2016 (10/27) earnings calls highlights continued negative markers. Management appears concerned about the sustainability of revenue growth in their Google segment, and about the potential for further declines in non-GAAP operating margins. Additionally, they may lack confidence in their ability to build new businesses to serve as sources of future revenue growth, and in their ability to reduce capex with meaningful efficiencies in planning and operations for their technical infrastructure. Furthermore, they may be downplaying concerns about their ability to effectively incorporate machine learning in Search and about their decision to halt deployment of Google Fiber.

Conclusion

New highly questionable markers on the core area of GOOGL's business and management's lack of confident about the returns on their longer-term investments spell concerns for profitability in the near-term. That said, their focus on sustaining operations implies that current low market expectations relative to history are not warranted, and that there is likely to be equity upside longer term.

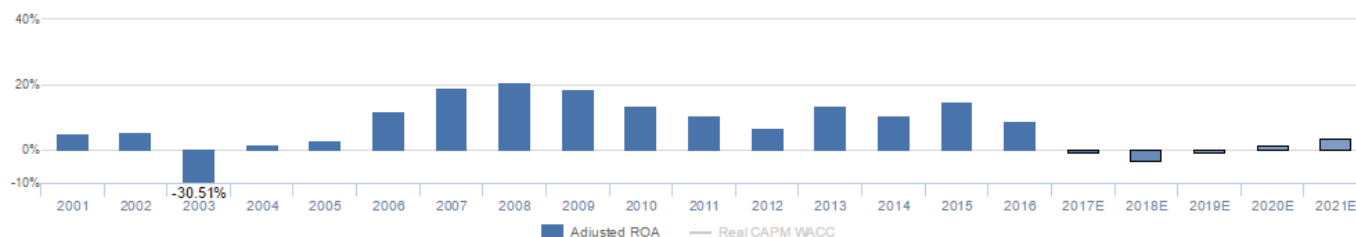
Valens Conviction Long List

10 December 2016

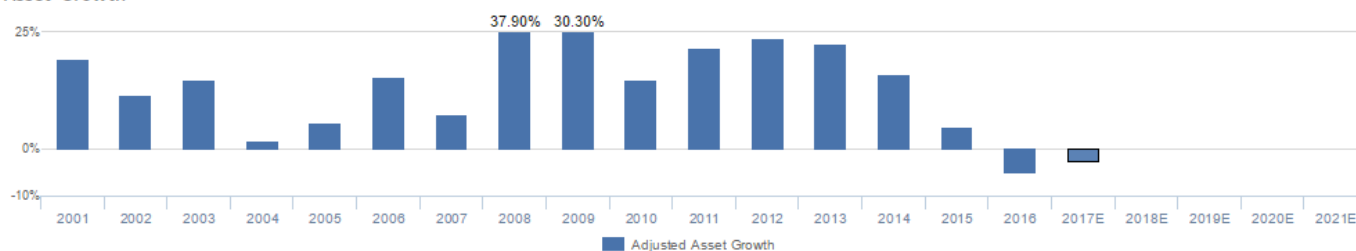
VALENS
SECURITIES

Atwood Oceanic Inc. (ATW)

ROA'



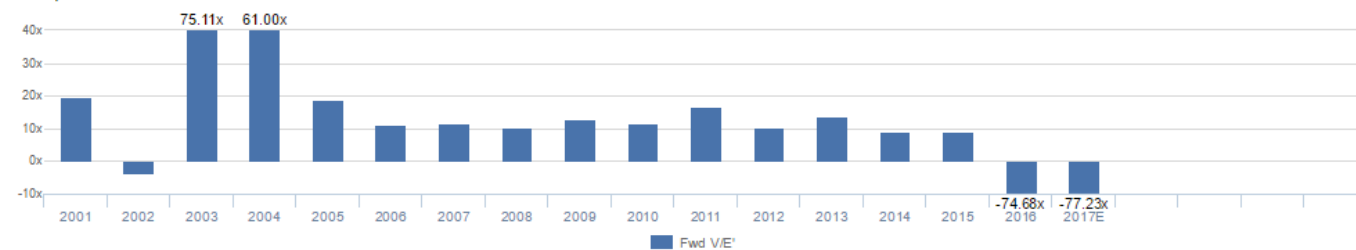
Asset' Growth



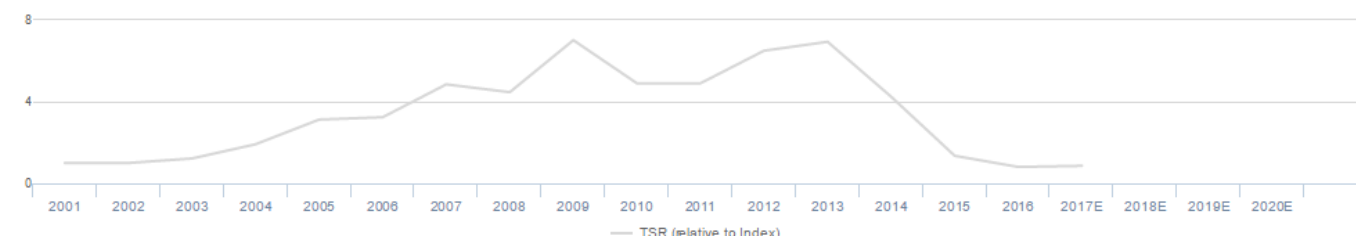
V/A'



Fwd V/E'



TSRr'



Valens Conviction Long List

10 December 2016



Atwood Oceanics, Inc.		Deep Value
Sector	Energy	Intrinsic Price Range:
Price (\$)	13.49	\$7 - \$38
MCap (\$bn)	0.87	Comments:
ROA' (LFY)	-0.72%	-
V/A'	0.6x	
V/E'	-77.3x	

Atwood Oceanics, Inc. is an offshore drilling company engaged in the drilling and completion of exploration and development wells for the global oil and gas industry. As of November 11, 2016, it owned a fleet of 10 mobile offshore drilling units. The company operates its fleet in the United States, Gulf of Mexico, the Mediterranean Sea, offshore West Africa, offshore Southeast Asia, and offshore Australia.

Valuations & Market Expectations

ATW is trading at a 0.6x V/A', a historically low valuation. Equity markets expect a material ROA' compression to 3.6% in 2020 from 15% in 2015, with 0% Asset' growth going forward. Historically, even when ATW has been at the bottom of their cycle, as they were from 2000-2005, valuations have still remained above 1x levels, highlighting just how discounted current market expectations are relative to history. At these levels, asset values begin to offer a floor to valuations, so equity downside is likely limited.

Market expectations for a perpetual ROA' at 3%-4% levels appears overly pessimistic when looked at in the context of ATW's last 15 years of ROA'. ATW operates in a highly cyclical industry, however, ROA' has mostly ranged between 2% and mid-teens levels. For markets to expect a 3%-4% ROA' going forward assumes that offshore drilling will never again be in demand, no matter where oil and natural gas prices head in the future.

Credit Cash Flow Prime

A major reason for ATW's low equity market expectations is the perception that ATW is at risk of a credit default. ATW's bonds trade with a YTW of 14%, and a STW, which is comparable to a CDS, of 1,314bps. At these levels, credit markets are expecting substantial risk of a credit event in the near future. With equity markets also concerned about this potential, this suppresses valuations.

However, Valens recognizes that ATW's credit risk is lower than markets perceive. ATW has robust cash flows that should exceed operating obligations, a multi-year runway before any material debt maturities, and a strong recovery rate, driving our Intrinsic YTW of 5.475%. As cash bond yields fall and the market recognizes that credit risk is safer, ATW equity will rally even if the company does not see operational improvement along with market perception of credit risk reduction.

Incentives Dictate Behavior™

Incentives Dictate Behavior™ analysis highlights that ATW management is compensated on EBITDA. Normally, this would be a concern for investors in an asset-intensive business, as it may align management to overspend on assets and to use leverage to help drive their growth. However, considering current distressed credit market pricing for ATW, and high perceived risk of default, ATW management is likely to manage to preserve cash flows, and has covenants in their debt requiring them to maintain minimum liquidity levels, which is likely to drive management to continue to navigate their credit risk. This is a positive for equity holders.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q4 2016 earnings call (11/14) highlights that management appears concerned about the sustainability of revenue efficiency, and may be downplaying concerns about demand for ultra-deepwater drilling in the near- to mid-term. Additionally, they appear concerned about when oil will reach \$60+ levels, which they consider necessary for sustainable offshore drilling demand, and may be concerned about costs associated with the idling of Atwood Condor in South Texas.

Valens Conviction Long List

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Clearly based on these markers, management is concerned about their operational outlook in the near term, which is why analyst expectations are for ROA' to fall from 15% to -3% over the coming year. However, if management can navigate these issues longer-term, there could be substantial equity upside.

Conclusion

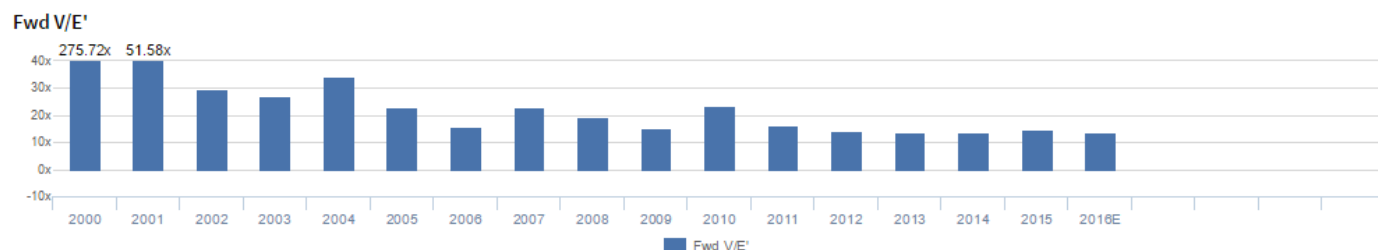
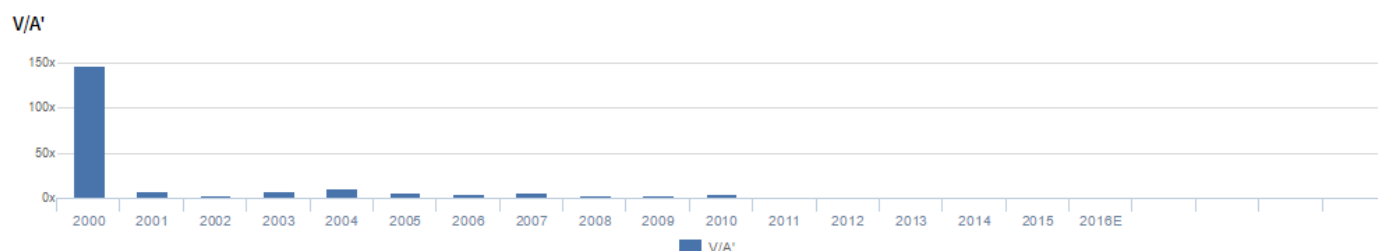
Exaggerated credit and equity market concerns imply potential for equity upside as fundamental credit risk is much safer. However, management concerns about liquidity may limit near-term equity upside. That said, market recognition of the firm's lower credit risk, a management team that is now operating the business from a debt-driven corporate governance perspective, and likely longer-term upside for ROA' has the potential to drive material equity upside in the long term.

Valens Conviction Long List

10 December 2016

VALENS
SECURITIES

Juniper Networks, Inc. (JNPR)



Valens Conviction Long List

10 December 2016



Juniper Networks, Inc.		Value
Sector	Info Tech	Intrinsic Price Range:
Price (\$)	28.46	\$20 - \$45
MCap (\$bn)	10.82	Comments:
ROA' (LFY)	12.44%	-
V/A'	1.8x	
V/E'	13.7x	

Juniper Networks, Inc. designs, develops, and sells network products and provides routing, switching, and security services for high-performance networks. Its products address network requirements for global service providers, cloud environments, enterprises, governments, and research and public sector organizations.

Valuations & Market Expectations

JNPR is trading at a 13.7x V/E' and a 1.8x V/A', both at the low end of historical valuations. The market is expecting ROA' not to be able to sustain 2016-2017 projected ROA' improvement to +13% levels, but is rather expecting an ROA' compression back to below 11% levels to 10%, with subdued 4% Asset' growth.

These are historic lows for JNPR in terms of profitability and in terms of growth, highlighting how low expectations are. Also, considering JNPR's positioning (which would likely benefit from continued growth across the telecom space), fundamental momentum is likely to be more positive than what markets are expecting.

Incentives Dictate Behavior™

JNPR's management compensation framework is focused on operating margin, revenue growth, and market share. This should focus management on growing their business while also improving margins and ROA'. In the context of management's strong alignment, current market expectations appear even more pessimistic than they would otherwise.

Earnings Call Forensics™

Earnings Call Forensics™ of the Q3 2016 earnings call (10/25) highlighted that management appears to be pessimistic about their near-term outlook. Management was highly confident when talking about their R&D and when talking about their longer-term bundling strategy in their switching, routing and security business.

However, management generated highly questionable markers that signal they are not confident about their outlook for growth rates and gross margins going forward. Management also may be downplaying concerns about market demand for their Routing product offerings, and when talking about their competitiveness in their offerings right now.

Conclusion

These markers highlight that management may be seeing weaker demand in the near term, which could limit equity upside. That said, the name appears compelling in the longer term.

Valens Conviction Long List

10 December 2016

VALENS
SECURITIES

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