



The Forgotten Forty
2017 Issue

Forgotten Forty Performance

Date Published	Forgotten Forty ^{1, 2}	S&P 500
2016	16.29%	11.44%
2015	2.07%	2.49%
2014	11.66%	11.11%
2013	34.84%	24.13%
2012	28.87%	15.31%
2011	-6.37%	-2.31%
2010	20.71%	11.84%
2009	43.65%	25.29%
2008	-48.19%	-39.16%
2007	-6.12%	2.06%
2006	18.68%	13.45%
2005	-1.04%	3.55%
2004	19.70%	12.90%
2003	33.07%	18.09%
2002	-11.80%	-20.34%
3 year CAGR	9.85%	8.27%
5 Year CAGR	18.16%	12.68%
10 Year CAGR	6.16%	4.44%
15 Year CAGR	7.60%	4.47%

¹ Equal weighted portfolio exclusive of dividends. S&P 500 also exclusive of dividends.

² The 2002 through 2016 returns were prepared in-house. Returns exclude dividends and represent the approximate performance of the hypothetical *Forgotten Forty* from the periods: December 18, 2001 through December 16, 2002, December 16, 2002 through December 16, 2003, December 16, 2003 through December 29, 2004, December 29, 2004 through December 27, 2005, December 27, 2005 through December 19, 2006; December 19, 2006 through December 18, 2007; December 18, 2007 through December 18, 2008; December 18, 2008 through December 16, 2009; December 16, 2009 through December 13, 2010; December 13, 2010 through December 14, 2011; December 14, 2011 through December 17, 2012.; December 17, 2012 through December 12, 2013; December 12, 2013 through Dec. 16, 2014; December 16, 2014 through December 14, 2015, December 14, 2015 through December 14, 2016.

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American Express Company

Capitalization Summary (\$MM)

Price	\$74.07
Diluted Shares (MM)	923.0
Market Cap	\$69,033
Cash	\$2,524
Investment Securities Total	\$4,736
Debt	\$44,755
Card Member Loans	\$59,504

Share Ownership and Trading Data

Average Daily Trading Volume (MM)	4.8
52-Week Price Range	\$75.73-\$50.27
Short % of Float	2.4%
Major Shareholders	Berkshire Hathaway 15%



Valuation and Misc. Stats (\$MM) 9/30/16

Book Value per Share	\$22.55
Price/Book Value	3.3x
Operating EPS (ttm)	\$5.50
Price/Earnings	13.5x
Dividend Rate	\$1.28
Dividend Yield	1.7%

P&L Analysis

Fiscal Year Ending December 31,	2013	2014	2015
Revenues	\$32,870	\$34,188	\$32,818
Loss Provision	\$1,832	\$2,044	\$1,988
Op. Income	\$5,359	\$5,885	\$5,163
Op. EPS	\$4.88	\$5.56	\$5.05
ROE	27.8%	29.1%	24.0%

Catalysts/Highlights

- AXP's recent regulatory victory regarding card discrimination at the point of sale removed an overhang from its shares
- Aggressive expense cuts are being reinvested into revenue-driving initiatives, positioning AXP to deliver on its "high growth" scenario of 6% revenue growth and 10%-12% EPS growth
- High-quality, revenue-driven growth should warrant multiple expansion

INVESTMENT RATIONALE

Shares of American Express have taken investors on an uncharacteristically wild ride in the last couple of years, peaking at over \$95 in mid-2014 and falling to a low of almost \$50 in February 2016 before recovering to current levels. Even more uncharacteristic of AXP is the fact that from 2014 to 2017, the Company will have delivered virtually no EPS growth (EPS of \$5.56 in 2014 vs. management guidance of at least \$5.60 in 2017). AXP recently faced a series of well-publicized challenges, the biggest of which was the loss of its co-brand credit card relationship with Costco, which accounted for 8% of overall revenues. FX headwinds, regulatory pressures, and an increasingly competitive environment only added to the Company's challenges, culminating in management finally throwing in the towel on its long-held 12%-15% long-term EPS growth target at its Investor Day in March 2016. At the same meeting, AXP spelled out two potential future paths: a "low growth" scenario, with 4% revenue growth translating into 5%-7% EPS growth, and a "high growth" scenario, with 6% revenue growth translating into 10%-12% EPS growth. As a result of shareholder pressure, AXP also unveiled a \$1 billion cost savings initiative, to be achieved by the end of 2017, aimed at addressing its industry-worst efficiency ratio (operating expenses as a percent of revenue net of interest expense). A substantial portion of the savings will be reinvested in growth-driving initiatives.

AXP utilizes a "spend-centric" business model that primarily relies on card spending to generate revenues, with a secondary emphasis on finance charges and fees. After losing the Costco account (~10% of cards-in-force), the Company has almost 109 million cards-in-force (43% in the U.S., 57% outside the U.S.), with American Express cardholders purchasing ~\$1 trillion annually. AXP is unique (alongside Discover) among credit card issuers in that it maintains a "closed loop" payment system, settling transactions through its proprietary network rather than through Visa or MasterCard. For the most part, AXP serves as the credit-issuing bank and the merchant acquirer. This provides AXP with several competitive advantages. Its payment network provides an attractive fee-based revenue stream. The Company's high-spending customer base—with an average purchase of \$144 on the AmEx network vs. \$84 for Visa and \$90 for MasterCard, according to The Nilson Report—has enabled AXP to charge merchants a significantly higher discount rate than the competition. However, AXP's merchant discount rate (MDR) has declined from 2.55% in 2010 to 2.46% in 2015 due to a combination of competitive and legislative/regulatory pressures, and it will remain a modest headwind going forward. AXP projects 2-3 bps in MDR declines per year over the medium term. Finally, the closed loop lets AXP exploit its proprietary transaction level data to reduce fraud and credit risk, and target ideal customers with new products.

In September 2016, AXP reported a major regulatory victory when a court of appeals ruled unanimously in the Company's favor in a U.S. Department of Justice (DOJ) antitrust lawsuit. The ruling reversed an earlier court's judgment against the Company and protects AXP (with its premium discount rates) from discrimination at the point of sale. Under the terms of AXP's contracts, merchants who sign on with American Express must agree to provide welcome acceptance (i.e., cannot say they don't accept AmEx in order to save on the discount rate by having the customer use another card) when customers present their AmEx card to make a purchase. While the DOJ may appeal the decision, for now, AXP's win has lifted an overhang from its stock.

While AXP is trading well above the depressed levels it reached in early 2016 (bottoming at ~9x earnings), we believe the hidden growth story reemerging at AXP will serve as a catalyst in continuing the upward revaluation of its shares. In 3Q 2016, reported revenues were down 5% on a constant currency basis, driven by the loss of Costco. But when adjusting for Costco, revenues increased by 5% (excluding FX), an acceleration from 4% growth in 2Q. In 2Q, AXP benefited from a \$0.72 per share gain from the sale of the Costco co-brand card portfolio, which (along with other one-time charges) we've backed out of operating EPS (ttm), as shown above, to present normalized earnings. More importantly, management made faster than expected progress toward the \$1 billion in expense reductions. As such, AXP was able to accelerate reinvestment into its businesses, boosting marketing and promotion spend by 10% yr/yr in 3Q. This led to AXP's acquisition of 1.7 million new cards in the U.S. and 2.5 million new cards worldwide in the quarter, above its historic average. The positive feedback loop in 3Q gave management the confidence to invest more aggressively in 4Q in the Platinum Card franchise, Small Business Saturdays, brand advertising, and increased card acquisition in the U.S. and key international markets. In addition, through the first 9 months of 2016, AXP returned 92% of the capital it generated to shareholders, resulting in a 7% yr/yr reduction in its shares outstanding as of the 3Q.

In our view, the encouraging recent results suggest that AXP's "high growth" scenario of 6% revenue growth and 10%-12% EPS growth is a real possibility for 2018 and beyond (after fully lapping the loss of Costco in 2017), barring an economic downturn. Moreover, high-quality, revenue-driven growth should allow for a higher valuation (as opposed to cost cut-driven growth). Assuming 2018 EPS advances by 11% off of management's guidance for \$5.60 in 2017 (which we view as conservative) and applying a market multiple of 16x, we arrive at an intrinsic value of \$100 for AXP at the end of 2018, offering upside of 35%.

Anthem, Inc.

Capitalization Summary (\$MM)

Price	\$144.69
Diluted Shares (MM)	268.1
Market Cap	\$38,791
Total Debt	\$15,610
Cash	(\$2,546)
Enterprise Value	\$51,855

Share Ownership and Trading Data

Average Daily Trading Volume (MM)	1.7
52-Week Price Range	\$114.85-\$148.00
Short % of Float	2.8%
Major Shareholder	Insiders <1%



Valuation and Misc. Stats (\$MM) 9/30/16

Book Value per Share	\$92.29
Price/Book Value	1.6x
EPS (ttm)	\$10.38
Price/Earnings	13.9x
Annual Dividend	\$2.60
Dividend Yield	1.80%

P&L Analysis (\$MM)

Fiscal Year Ending December 31,	2013	2014	2015
Premiums	\$66,119	\$68,390	\$73,385
ASO Fees	\$4,032	\$4,591	\$4,977
Adj. EPS	\$8.52	\$9.35	\$10.16
Operating Margin	5.4%	5.9%	5.9%
FCF	\$2,445	\$2,743	\$3,513

Catalysts/Highlights

- If the ANTM/CI merger is approved, our \$14.00 2019 EPS estimate jumps to \$17.00 with the merger synergies
- The Company has paused its historically aggressive share repurchases due to the pending Cigna merger. If the merger is blocked, share buybacks will resume. If the merger goes through, ANTM will use its FCF to de-lever
- If the Company's PBM contract with Express Scripts is repriced, ANTM stands to gain \$1.24 per share in annual savings

INVESTMENT RATIONALE

Anthem, Inc. is the second largest health insurance provider in the U.S., insuring ~40 million Americans. The Company holds the exclusive license to the Blue Cross Blue Shield brand—the most valuable brand in health insurance—in 14 U.S. states (VA, IN, ME, NH, CT, KY, CA, NY, OH, GA, MO, CO, NV, WI). ANTM commands the #1 or #2 market share in these states, with an aggregate share of 28%. Anthem also offers health and specialty insurance products (dental, vision, and life & disability) nationwide under different brands and is a significant player in the administrative services only (ASO), Medicare, and Medicaid markets.

In our view, health insurance is a great business due to the industry's ability to raise prices in line with medical cost inflation and essentially grow revenues without any enrollment growth. In the last 10 years, ANTM grew fully-insured lives at a 0.2% CAGR, while premiums grew at a 6.1% CAGR. The difference, representing a 5.8% CAGR in premiums, is largely attributable to price increases to cover underlying medical cost inflation (which at a constant medical loss ratio results in gross profit growth in line with price increases). With an aging population and medical innovation continuing to drive mid-to-high single-digit medical cost inflation in the U.S., ANTM's revenues should continue to grow regardless of whether the Company grows its membership.

An exemplar of shareholder capital stewardship, the Company returned 90% of its current market capitalization to shareholders over the last ten years in the form of share buybacks (\$32.6 billion) and dividends (\$2.3 billion). The Company reduced its shares outstanding by 57% during this period, repurchasing shares at an average share price of \$68.92, 48% below its current share price.

From 2007-2012, under a previous CEO, ANTM underperformed relative to its peers; however, current CEO Joe Swedish, who joined in 2013, reinvigorated the Company. In July 2015, Anthem announced it would acquire Cigna, creating the U.S.'s #1 health insurer with over 53 million covered lives. While the Department of Justice (DOJ) has sued to block the deal, Anthem is presently fighting the government in court. The case is expected to be resolved by the end of January 2017. Anthem conservatively projects \$3.00 per share in accretion from the deal, taking our base-case 2019 EPS estimate of \$14.00 to \$17.00 if the merger goes through. In March 2016, Anthem sued Express Scripts (ESRX), claiming ESRX is overcharging the Company by \$3 billion annually on its pharmacy benefits management (PBM) contract. If ANTM wins the case, it will retain 20% of the savings for itself and pass the rest through to customers, resulting in an annual EPS boost of \$1.24. On the 3Q 2016 earnings call, CEO Joe Swedish stated that he is hopeful a settlement could be reached with ESRX by the end of 2017.

We view ANTM as a large cap. special situation where the two lawsuits involving the Company are causing uncertainty, which is acting as an overhang on the shares. Interestingly, both lawsuits result in either meaningful accretion to ANTM or no large detriment to the Company (if the Cigna merger is blocked, ANTM will pay CI a \$1.85 billion break-up fee amounting to ~half of annual FCF for ANTM). Given the various potential outcomes, we believe a scenario analysis is the best way to evaluate ANTM and have analyzed six possible scenarios:

1) In a worst-case scenario, we assume the Cigna merger does not go through, the PBM contract is not repriced, and ANTM grows earnings by only 6% annually (substantially below management's 10%-14% long-term EPS growth target), generating 2019 EPS of \$12.86, and falling well short of management's \$14.00 target. Applying a 10x forward P/E multiple, we derive a worst-case fair value of \$129 at the end of 2018 (11% downside risk). 2) In the event the Cigna merger does not go through, the PBM contract is not repriced, but ANTM achieves its \$14.00 EPS target in 2019, a 12x multiple results in a fair value of \$168 (16% upside). 3) If the Cigna merger is blocked but the PBM contract is repriced, ANTM will realize \$1.24 per share in savings, taking 2019 EPS up to \$15.24. Applying a 12x multiple yields a fair value of \$183 (26% upside). 4) If the Cigna merger is completed but the PBM contract is not repriced, ANTM will generate 2019 EPS of \$17.00 (\$14.00 + \$3.00 of merger accretion). Applying a 12x multiple yields a fair value of \$204 (41% upside). 5) If the Cigna merger is completed and the PBM contract is repriced, ANTM will earn a projected \$17.87 per share in 2019 (there is less accretion from the PBM repricing due to a higher share count post-merger). Using a 12x multiple, fair value stands at \$214 (48% upside). 6) Finally, there is a very real probability that ANTM has understated the expense synergies on the Cigna deal and that Cigna's superior wellness programs can give ANTM a competitive advantage in the market, accelerating the combined Company's long-term growth rate. The EPS impact is difficult to quantify but we believe the accurate way to capture this best-case scenario is to apply a 16x multiple to the \$17.87 in 2019 EPS projected in scenario 5, yielding a fair value of \$286 (98% upside) at the end of 2018. Since the future is hard to predict, we believe applying an equal weight to all six scenarios is most appropriate. As such, we arrive at an expected fair value of \$197 for ANTM at the end of 2018, offering 36% upside.

Axalta Coating Systems Ltd.

Capitalization Summary (\$MM)

Price	\$25.89
Diluted Shares (MM)	238.5
Market Cap	\$6,175
Total Debt	\$3,482
Cash	(\$528)
Enterprise Value	\$9,129

Share Ownership and Trading Data

Average Daily Trading Volume (MM)	2.2
52-Week Price Range	\$30.45-\$20.67
Short % of Float	2.4%
Major Shareholder	Berkshire Hathaway 10%



Valuation and Misc. Stats (\$MM) 9/30/16

Book Value per Share	\$5.58
Price/Book Value	4.6x
EPS (ttm)	\$1.07
Price/Earnings	24.2x
EBITDA (ttm)	\$893
EV/EBITDA	10.2x
Dividend Rate/Yield	N/A

P&L Analysis (\$MM)

Fiscal Year Ending December 31,	2013	2014	2015
Revenues	\$3,951	\$4,362	\$4,087
EBITDA	\$738	\$841	\$867
Margin	18.7%	19.3%	21.2%
FCF	\$270	\$63	\$262
Margin	6.8%	1.4%	6.4%

Catalysts/Highlights

- Carlyle Group completely exited its stake in AXTA in July, eliminating an overhang
- AXTA has various levers to continue delivering mid-single digit EBITDA growth despite macro headwinds
- In 1H 2017, AXTA will likely achieve its targeted leverage ratio of 2.5x-3.0x and its FCF will become available for share buybacks and/or dividends

INVESTMENT RATIONALE

With origins dating back to 1802, Axalta is the world's fifth-largest industrial coatings company. AXTA was a division of DuPont until February 2013, when Carlyle Group LP bought 100% of the Company in an LBO for \$4.9 billion. Since AXTA's November 2014 IPO at \$19.50 per share, Carlyle aggressively sold down its stake through five secondary offerings—including a private placement to Berkshire Hathaway, which presently owns ~10%—and Carlyle completely exited its stake in July 2016. Carlyle reportedly made 4x on its investment in 3½ years. After Carlyle's final secondary offering of 41.5 million shares at \$28.25 (a nearly 18% stake, worth \$1.2 billion), on the 3Q 2016 earnings call, management highlighted new macro headwinds and guided to the low end of its \$900 - \$940 million EBITDA range for 2016. AXTA shares fell to ~\$24.50 in early November before modestly rising in the recent Trump rally. Despite a more challenging macro backdrop, we believe the risk/reward in AXTA is slightly more attractive today than when we profiled the Company in June 2016 (at a share price of \$25.38) due to the lifting of the Carlyle overhang.

Axalta derives 90% of its revenues from end markets where it is the #1 or #2 global supplier. In Refinish Coatings (50% of EBITDA), the Company is #1, with a 25% global market share. This business, comprised of the paint applied to a car after it has been repaired after an accident, is AXTA's crown jewel and highest margin business (~25% EBITDA margin). AXTA has consistently raised prices in this business, and in 3Q 2016 posted 4.9% constant currency revenue growth, driven by solid pricing and positive mix effects. In addition, AXTA has the #1 share among multi-site operators in the U.S. (body shops with +\$5 million in revenues), which are rapidly gaining share by acquiring smaller operators. Refinish should continue to be a steady grower and gain share as a percent of AXTA's overall EBITDA.

The remainder of AXTA's businesses are cyclical, but the Company is well diversified among geographic and industry-specific end markets. In Light Vehicle Coatings (27% of EBITDA), Axalta is the world's #2 supplier of paint to new cars and light trucks, with 19% share. This business recently slowed from low single-digit growth to flattish as the U.S. and European auto cycles appear to be topping out at healthy levels. Auto cycles have historically flat-lined at peak levels for several years before turning down, so we expect this business to transition to a cash cow. Industrial Coatings (17% of EBITDA), where AXTA is the #1 global provider of environmentally friendly powder coating, is also experiencing macro headwinds as global GDP growth slowed modestly, but AXTA is a small competitor and has opportunities to continue gaining share in a large end market. Finally, Commercial Vehicle Coatings (9% of EBITDA), where AXTA holds the #1 global position in heavy duty truck (HDT) and bus coatings (31% market share) is the Company's weakest and—fortunately—smallest segment. The North American HDT cycle has clearly turned down; however, AXTA begins facing easier yr/yr comparisons in 2017.

Despite the macro headwinds in 2017, including a recently stronger USD, AXTA has numerous cost and efficiency levers it can pull to sustain mid single-digit EBITDA growth. CFO Robert Bryant stated on the Q3 2016 earnings call, "if things were to get tighter next year or if something were to happen macroeconomically, we would simply accelerate a number of those programs and go even more aggressively at our cost structure." AXTA has a highly variable cost structure that it can quickly adjust to changing conditions. Moreover, management continues to invest in new products (which almost always have higher margins than existing products) and accretive M&A (\$100 million in revenues purchased in the first 9 months of 2016 at an attractive ~1x revenues) to bolster revenues.

Over the last 3 years, AXTA focused on deleveraging, and its net debt/LTM EBITDA ratio declined to 3.3x presently from 5.0x. In early 2017, AXTA will likely achieve its targeted leverage ratio of 2.5x - 3.0x. In addition, the Company stands to benefit longer term from meaningful working capital improvements. What this means is AXTA's growing FCF stream will soon become available for share buybacks and/or dividends for the first time since the Company's IPO.

Led by CEO Charlie Shaver and a solid management team striving to make the Company the gold standard in the coatings industry, Axalta is in our view an all-weather stock. Given its various levers—consistent pricing power in Refinish, meaningful remaining cost reductions, better procurement efficiency, market share gains, new product introductions and M&A, just to name a few—we believe AXTA should be able to deliver mid single-digit EBITDA growth despite a more challenging macro environment. Assuming 5% EBITDA growth going forward and the commencement of share buybacks in 2017, AXTA trades at just 8.1x our 2018 EBITDA estimate. Using a blended 10.5x multiple (comprising of 13x for Refinish, 9x for Industrial Coatings, and 7.5x for both Light Vehicle and Commercial Vehicle Coatings), we derive an intrinsic value estimate of \$38 per share at the end of 2018, representing 47% upside from current levels.

Callaway Golf Company

Capitalization Summary (\$MM)

Price	\$11.43
Diluted Shares (MM)	94.1
Market Cap	\$1,075.3
Total Debt	\$0.0
Cash	(\$124.6)
Enterprise Value	\$950.7

Share Ownership and Trading Data

Average Daily Trading Volume (MM)	0.9
52-Week Price Range	\$12.56-\$8.00
Short % of Float	2.7%
Major Shareholders	Insiders: <1%



Valuation and Misc. Stats (\$MM) 9/30/16

Book Value	\$483.3
Price/Book Value	2.2x
EPS (ttm)	\$0.16
Price/Earnings	N/M
EBITDA (ttm)	\$42.5
EV/EBITDA	22.5x
Dividend Rate/Yield	\$0.04 / 0.3%

P&L Analysis (\$MM)

Fiscal Year Ending December 31,	2013	2014	2015
Revenues	\$842.8	\$886.9	\$843.8
Operating Income	(\$10.8)	\$30.7	\$26.9
Margin	N/A	3.5%	3.2%
EBITDA	\$20.8	\$51.9	\$45.8
Margin	2.5%	5.9%	5.4%

Catalysts/Highlights

- New product introductions and a strong new product pipeline bode well for continued market share gains
- ELY's golf ball business continues to gain market share, and the consumable nature of its product has several favorable implications
- Private equity investment in TopGolf bodes well for future monetization of ELY's stake in that business
- Strong and improved balance sheet (\$125 million of cash; no L-T debt) should portend shareholder-friendly initiatives

INVESTMENT RATIONALE

What a difference a few years (and new management) makes! At the beginning of the current decade, the Callaway brand was struggling with relevance and losing market share. Today, Callaway, and its brand, are thriving under new management, with the Company's hard goods (clubs and balls) market share currently (September 2016) at 22.7%, up 140 basis points from the prior year and up ~900 basis points from when Chip Brewer was appointed CEO of the Company in 2012.

Callaway had another strong year in 2016 from both a share price and operational perspective. Shares have increased by 18% since last year's *Forgotten Forty* with the Company yet again experiencing improvement in a number of key operating metrics, including a 2.5% increase in net sales (9-mos. 2016: \$707 million vs. \$690 million) in a difficult operating environment, continued gross margin expansion (45.5% – up 110bps with 200 basis points of expansion expected for the full year), and strong pre-tax income (\$71 million vs. \$50 million). ELY's ongoing operational improvement has been due, in part, to the introduction of new products that incorporate innovative new technologies in all of its major product lines (clubs, balls, and putters) that deliver favorable performance attributes. As a testament to its product innovation, ELY garnered 17 Gold Medals in *Golf Digest's* annual equipment review in 2016, more than any other manufacturer. The 3Q 2016 launch of ELY's steelhead irons (where feedback and market performance have been "outstanding," helping to generate an impressive 32% U.S. iron share for September), coupled with an expected strong new product lineup in 2017, should enable Callaway to sustain its momentum.

During 2012, ELY's golf ball segment generated a \$14.5 million loss but reported a profit of nearly \$18 million in 2015, with the segment reporting over \$23 million of profit through the first nine months of 2016. As of September 2016, Callaway's U.S. golf ball market share stood at 13.7%, up from 7.9% in 2013. The turnaround of Callaway's golf ball business favorably impacts profitability due to its outsized margins (high teens vs. low teens for clubs) and should enable it to command a higher valuation due to the consumable nature of the product (recurring revenues). ELY's golf balls are underpenetrated in the green grass (golf course/club pro shops) distribution channel (11.3% share vs. 18% off-course), which could present good opportunities for market share gains (ELY's overall green grass distribution is growing at a double-digit rate, faster than its overall business). In 2016, Callaway hired noted golf ball industry veteran Rock Ishii from Nike when it exited the golf manufacturing business, which should go a long way toward helping ELY become a formidable competitor in an attractive category.

Golfsmith's September 2016 bankruptcy and Nike's recent exit from the golf manufacturing business suggest that the industry still faces some challenges. While the ongoing closing of golf/sporting goods retailers presents near-term headwinds (Sports Authority also closed in 2016), we believe that rationalization both from a retailer and manufacturer perspective should have favorable long-term implications, including a more rational pricing environment. Macro industry factors within the golf industry have been mixed. The number of U.S. golfers fell to 24.1 million in 2015 after stabilizing at 24.7 million in 2014. Encouragingly, rounds played increased 0.4% through the first 9 months of 2016 following a nearly 2% increase in 2015, while the number of beginning golfers in 2015 (2.2 million) was up 47% from 2011 levels. The longer-term outlook from a demographic perspective is still very favorable given that there are a significant number of baby boomers who have yet to retire. On average, golfers in the 18-34 age range play 15 rounds per year, while those aged 50 to 64 and 65 and above play 29 and 51 rounds per year, respectively.

During 2016, Providence Equity Partners acquired a minority stake in TopGolf, enabling ELY to realize \$23 million in proceeds by selling a portion (10%) of its stake. The implied valuation of Callaway's remaining 15% stake in TopGolf (based on the Providence transaction) is ~\$212 million (~20% of ELY's current market cap) compared with ELY's current balance sheet carrying value of \$49.1 million. We believe that Providence's investment provides strong validation of TopGolf's business model and could provide the impetus for an IPO and further monetization. A successful TopGolf will not only have a direct favorable financial impact on ELY, but also could bode well for the golf industry's long-term health. TopGolf currently has 30 venues that serve over 12 million guests annually, and roughly 25% of TopGolf visitors report taking up the game following their TopGolf experience.

Callaway's balance sheet has been bolstered (\$125 million of cash and no L-T debt) by its improved performance and TopGolf proceeds. ELY's strong financial position has enabled it to turn its attention to a few growth initiatives during 2016, including a recent apparel JV with TSI Groove & Sports and the acquisition of Toulon Design, whose founder, Sean Toulon, will be charged with leading Callaway's global putter business going forward. We believe ELY is now also well positioned to pursue share buybacks, having recently repurchased ~\$8 million worth of shares under its existing \$50 million share repurchase authorization.

Our estimate of ELY's intrinsic value is \$15 a share, representing over 30% upside from current levels. Our valuation reflects a value of ~\$10 a share for ELY's core business, with additional value attributed to the Company's hidden assets, including the TopGolf stake, California real estate, and NOLs.

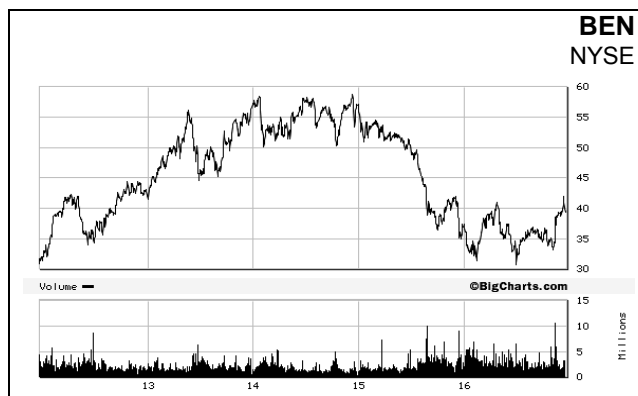
Franklin Resources, Inc.

Capitalization Summary (\$MM)

Price	\$39.31
Diluted Shares (MM)	571.6
Market Cap	\$22,469.6
Total Debt	\$1,401.2
Cash/Investments	(\$11,101.2)
Enterprise Value	\$12,769.6

Share Ownership and Trading Data

Average Daily Trading Volume (MM)	3.2
52-Week Price Range	\$42.18-\$30.56
Short % of Float	2.6%
Major Shareholder	Johnson Family: ~40%



Valuation and Misc. Stats (\$MM) 9/30/16

Book Value	\$11,935.8
Price/Book Value	1.9x
Diluted EPS (ttm)	\$2.94
Price/Earnings	13.4x
EBITDA (ttm)	\$2,452.8
EV/EBITDA	5.2x
Dividend Rate/Yield	\$0.72 / 1.8%

P&L Analysis (\$MM)

Fiscal Year Ending September 30,	2014	2015	2016
Revenues	\$8,491.4	\$7,948.7	\$6,618.0
Operating Income	3,221.2	\$3,027.6	\$2,365.7
Margin	37.9%	38.1%	35.7%
EBITDA	\$3,315.8	\$3,125.0	\$2,452.8
Margin	39.0%	39.3%	37.1%

Catalysts/Highlights

- Improved investment performance in key funds should help attract fund flows
- Continued robust share repurchases reflecting attractive valuation, strong balance sheet, and strong FCF
- BEN could attract M&A interest from a large financial institution or founding Johnson family (~40% stake)

INVESTMENT RATIONALE

Franklin Resources provides global and domestic investment management to retail, institutional, and sovereign wealth clients in over 180 countries. The Company offers its investment services under a number of brands, including Franklin, Templeton, Mutual Series, Bissett, Fiduciary Trust, Darby, Balanced Equity Management, and K2. As of November 2016, Franklin had \$714 billion in assets under management that were invested in the following asset classes: equities (40%), fixed income (37%), hybrid (18%—includes balanced products and alternative strategies), and cash management (1%). Approximately 50% of BEN's AUM is invested in global/international equity and fixed income strategies, while over 30% of assets are held by clients outside of the U.S.

Franklin's shares have been pressured in recent years (down 30% from peak 2014 levels) due to adverse fund flows reflecting a number of items, including poor investment performance, a recent regulatory change, and ongoing migration of assets from active to passive managers. As of November 2016, BEN's AUM had declined by over 20% from peak 2014 levels (\$921 billion) to \$714 billion. Among the items that impacted BEN's investment performance was the underperformance of economically sensitive stocks (BEN has outsized exposure to the energy and materials sectors within its equity and fixed-income portfolios), pressure on emerging market equities, and adverse foreign currency exchange rate movements (Templeton has historically not hedged much of its funds' FX exposure). While these items were a drag in FY 2015, they began pivoting toward tailwinds during FY 2016, driving strong YTD performance that has boosted the 3-year and 5-year performance stats for key funds. Notably, the Company's largest fund, the Franklin Income Fund (~\$80 Billion in AUM), now ranks in the top 2 percentile during the 2016 calendar year (through November). In addition, recent Morningstar ratings enhancements, including the removal of the load adjustment that took effect in October 2016, improved the star ratings of two of the Company's top funds (Rising Dividends and Global Bond) by one star. In our view, the improved performance and Morningstar adjustment bode well for the trajectory of future fund flows. The resurgence of value strategies thus far in 2016 (R 1000 Value outpacing the R 1000 Growth index by over 900 bps through mid-December 2016) and active managers' improved performance (58% of active managers outperformed in 3Q 2016) could also help sustain the strong recent performance and improve fund flows.

The recent Department of Labor (DOL) Fiduciary Ruling has created an overhang on both BEN's share price and fund flows. However, we believe that uncertainty over the new ruling (April 2017 implementation) that aims to address conflicts of interest between advisors/brokers and clients is more than discounted in the current share price. BEN is less exposed to the ruling than many of its peers due to its heavy concentration in retail assets offshore, its municipal bond exposure, and its limited/minimal 401k assets. We would also note that fewer than 9% of BEN's funds are currently being sold with a commission. Finally, there is also the potential that the ruling could be appealed by the new administration entering the White House.

Franklin's robust profitability (35%-40% operating margins) coupled with its minimal capital intensity (capex/revenues: ~1%) enables it to generate an enormous amount of free cash flow. Over the past ~7 years, BEN has generated \$11.4 billion of free cash flow, which represents 53% of its current market cap and 94% of the Company's enterprise value. This strong cash generation has enabled the Company to return over \$13 billion to shareholders via share repurchases and dividends over the past 10 years, or 64% of its current market cap (120% of its enterprise value). With net cash/investments of \$9.6 billion representing 46% of BEN's current market cap, we believe that BEN should be able to unlock value with its excess capital by continuing its aggressive repurchases at currently depressed share price levels. BEN has a history of opportunistic share repurchases and shareholder-friendly initiatives, and we note that Franklin has stepped up its pace of repurchases over the past ~2 years (\$2.1 billion of repurchases at an average price of \$40.79 a share). In addition, Franklin's strong balance sheet should enable it to capitalize on dislocations outside of the United States with international M&A due to the fact that ~\$5.9 billion of its cash is held overseas. Furthermore, the strong dollar could present BEN with attractive international M&A opportunities.

Assigning a discounted (relative to precedent transactions) 2.5% multiple to our projected 2018E AUM, we derive a value of \$56 a share, representing 43% upside from current levels. If BEN's shares continue to languish, we would not be surprised if it finds itself as an acquisition target. Potential suitors could include large banks or financial services firms seeking to bolster their fee income. In addition, we would not rule out the possibility that the Johnson family looks to take the business private and note their large stake (~40%) coupled with BEN's substantial excess cash balance could make such a transaction a reality. Although BEN's contrarian investment strategy is currently out of favor, we believe that it will likely come back in vogue at some point, and fund flows traditionally follow performance. Meanwhile, we believe Franklin's strong balance sheet provides a good margin of safety, and investors are currently compensated with a 2% dividend while they wait for the value cycle to turn.

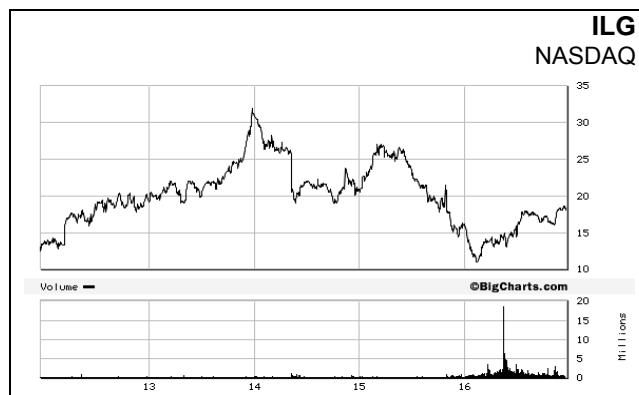
ILG, Inc.

Capitalization Summary (\$MM)

Price	\$18.07
Diluted Shares (MM)	125.8
Market Cap	\$2,273
Total Debt	\$415
Cash	(\$158)
Enterprise Value	\$2,530

Share Ownership and Trading Data

Average Daily Trading Volume (MM)	1.1
52-Week Price Range	\$18.81-\$10.61
Short % of Float	4.6%
Major Shareholder	Liberty Interactive (Ventures) 13%



Valuation and Misc. Stats (\$MM) 9/30/16

Book Value per Share	\$12.39
Price/Book Value	1.5x
EPS (ttm)	\$1.69
Price/Earnings	10.7x
EBITDA (ttm)	\$196
EV/EBITDA	10.6x
Dividend Rate/Yield	\$0.48/ 2.6%

P&L Analysis (\$MM)

Fiscal Year Ending December 31,	2013	2014	2015
Revenues	\$501	\$614	\$697
EBITDA	\$166	\$175	\$185
Margin	33.2%	28.5%	26.5%
FCF	95	92	122
Margin	19.0%	15.0%	17.5%

Catalysts/Highlights

- Strong 2017 guidance, including a full year of Vistana, could lead to re-rating of shares
- ILG remains under-levered, and FCF will expand in 2017
- ILG could participate in incremental industry consolidation

INVESTMENT RATIONALE

ILG (formerly named Interval Leisure Group) is a leading timeshare (“vacation ownership”) company with businesses encompassing a timeshare exchange network, vacation rental, property management, and the development and sale of vacation ownership interests (VOIs). ILG shares were featured for the first time in 4 years in the 2016 *Forgotten Forty* after they had declined 25% in less than two months since announcing the transformative, \$1.5 billion acquisition of Starwood’s Vistana vacation ownership business in October 2015. The predominantly share-based transaction was extremely dilutive for existing ILG shareholders, with ILG paying 11.3x 2015E EV/EBITDA for Vistana vs. ILG shares trading at 8.6x EBITDA pre-announcement and Starwood shareholders gaining a 55% equity stake in ILG. The transaction was also a change of strategy for ILG. The Company had taken a small first step into the vacation ownership business with the acquisition of Hyatt’s vacation ownership unit for \$190 million in 2014, but management had otherwise long voiced its preference to remain an independent vacation exchange operator—a high margin duopoly business—rather than participate in the capital intensive, lower margin timeshare development business.

ILG shares continued to underperform in early 2016 as investors digested the acquisition, with stock declines further exacerbated by arbitrage selling (Starwood announced it would merge with Marriott after distributing Vistana/ILG shares to its shareholders) and macroeconomic concerns. ILG shares bottomed at \$11 in February 2016. As detailed in AAF’s February 2016 update on ILG (at \$12.95/share), the market reaction appeared extremely overdone, and there are compelling financial and strategic rationales for the deal. After accounting for the decline in ILG shares from \$21 prior to announcing the acquisition to the current \$18 price (there was no collar placed on ILG’s stock price in the deal terms) and factoring in the securitization proceeds ILG anticipated receiving from the \$415 million in VOI receivables on Vistana’s books at the time of the announcement, ILG’s effective purchase price was a much more compelling \$1.1 billion or ~7.5x EBITDA. Importantly, Interval obtained a rich asset base from Starwood, including timeshare development projects and 5 hotel conversions that could add close to 50% capacity to the timeshare portfolio in the coming years. Combined with the initial VOI securitization proceeds (ILG ultimately completed a \$375 million securitization in Sep. 2016), this drastically improved the free cash flow profile of the acquired business. In the deal proxy, ILG projected Vistana’s unlevered free cash flow at approximately \$122 million in 2017, expanding to \$260 million by 2020.

From a strategic perspective, the move into vacation ownership development provides a new growth engine and expands Interval’s addressable market from <\$2 billion (vacation exchange) to another ~\$8 billion (annual U.S. VOI sales). Growth in the vacation exchange business had stalled in recent years, driven by a shift toward large corporate customers (which negotiate lower fees from ILG) due to industry consolidation. The acquisition also secures the exchange business a large long-term partner with high quality inventory. ILG expects to generate another \$26 million in EBITDA synergies from combining Vistana with the Hyatt business by leveraging a shared sales infrastructure and extracting G&A savings.

Initial results since the Vistana acquisition closed in May 2016 have been encouraging. Despite an 11-day delay in closing the Vistana acquisition, ILG has reaffirmed its initial 2016 EBITDA guidance of \$282-\$302 million and raised its 2016 FCF guidance to \$175-\$200 million. The Company has also opportunistically deployed \$100 million YTD 3Q16 into share repurchases at an attractive \$15.53/share, reducing ILG’s share count by 5%. While ILG shares have rebounded sharply since early 2016, they still trade at only ~7.5x 2017E EBITDA. ILG’s EBITDA and FCF growth prospects should improve in 2017 and beyond as additional inventory is brought into the sales pipeline and synergies begin to flow through. Projecting consolidated EBITDA of \$391 million in 2019, we estimate ILG’s intrinsic value could reach ~\$25.50, assuming no multiple expansion from 7.5x EV/EBITDA. With net leverage of only ~1x EBITDA and a growing FCF profile, capital deployment could offer additional upside in the interim. While ILG is restricted from repurchasing >10% of shares within 2 years of the Vistana transaction, we expect the Company to utilize all of its repurchase capacity and potentially increase its dividend, which already offers an attractive 2.6% yield. The VOI development industry remains relatively fragmented, and incremental M&A could also offer compelling return prospects for ILG. Of particular note, a merger with Marriott Vacations could be highly synergistic, especially in light of the Marriott/Starwood merger.

Liberty Interactive Corporation (QVC Group)

Capitalization Summary (\$MM)

Price	\$20.59
Diluted Shares (MM)	478
Market Cap	\$9,842
Total Debt	\$6,398
Cash	(\$394)
Enterprise Value	\$15,846

Share Ownership and Trading Data

Average Daily Trading Volume (MM)	3.5
52-Week Price Range	\$27.58-\$17.88
Short % of Float	1.1%
Major Shareholder	John Malone: econ. 6%, voting: 36%



Valuation and Misc. Stats (\$MM) 9/30/16

Book Value	\$4,956
Price/Book Value	2.0x
EPS (ttm)	\$1.82
Price/Earnings	11.3x
EBITDA (ttm)	\$1,946
EV/EBITDA	8.1x
Dividend Rate/Yield	Nil/ NA

P&L Analysis (\$MM)

Fiscal Year Ending December 31,	2014	2015
Revenues	\$10,028	\$9,169
Operating Income	\$1,206	\$1,170
Margin	12.0%	12.8%
EBITDA	\$1,939	\$1,887
Margin	19.3%	20.6%

Catalysts/Highlights

- Management has implemented multiple initiatives to return QVC U.S. to growth and improve profitability
- The 2015 acquisition of zulily is pacing well and offers enormous revenue and cost synergies
- QVC Group's depressed share price presents an opportunity for Liberty Interactive to accelerate share buybacks
- Ongoing streamlining at Liberty Ventures could portend legal separation of QVC Group, which would likely favorably impact its valuation

INVESTMENT RATIONALE

QVC Group's U.S. business (~60% of QVC Group's total revenues) has traditionally been a model of consistency, especially among its peer retailers. For the seven-year period from 2Q 2009 to 2Q 2016, QVC U.S. did not post a single down quarter (in terms of revenue growth), an impressive feat given the number of headwinds that many retailers have recently faced. However, in August 2016, QVC stated that it expected softness in its U.S. business for 3Q 2016. The news rattled investors and sent shares down by over 30% in the wake of the disappointing outlook. While the poor outlook created uncertainty that the business model was facing structural issues, management addressed the Amazon concern, noting that it continues to be a perception issue rather than a reality, with recent data suggesting that QVC's core customer base is actually shopping less at that online juggernaut.

QVC attributed the rare weakness in its U.S. business to a number of different factors, including an overly promotional retail environment, the Summer Olympics (impact on viewers), moderated Easy-Pay (deferred payment option) usage as management tightened lending standards, softness in the fashion category (previously a rapidly growing category for the Company), a significant drop in sales from one of the Company's largest brands (WEN Hair Care), and geopolitical distractions. QVC's U.S. revenues declined by 6% during the third quarter, with adjusted OIBDA declining by 10%, including a 100bps contraction in its adjusted OIBDA margin. While QVC's U.S. results were disappointing, there are a number of items that should help restore growth and improve profitability, including capitalizing on new product trends (# of new brands offered have accelerated), increased traditional (BeautyIQ recently launched as a separate channel) and digital (e.g., Facebook Live, Roku) distribution, and cost reduction initiatives (\$25 million-\$30 million of annual savings targeted). The recent establishment of a global business services center in Poland and a West Coast distribution center in the United States (opened August 2016) should also help improve the Company's longer term cost structure.

Notwithstanding recent headwinds, we continue to believe that QVC operates a superior retail business model. The legacy QVC business (~85% of total revenues; excluding zulily) generates strong levels of profitability, including EBITDA margins of ~22%, has minimal capital requirements (capex as a % of revenues: ~2%), and produces strong and consistent levels of annual free cash flow (~\$800-\$900 million; FCF Yield: 9%). Thanks to this attractive profile, QVC has been able to return a significant amount of value to its shareholders. Since the creation of the QVC tracking stock in May 2006, QVC has repurchased \$6.7 billion (68% of QVC's current market cap) of its shares, representing 44% of its shares that were initially outstanding (between August 1st and October 31st 2016, QVCA repurchased 9.2mm shares for \$188 million; average price: \$20.50 a share). Although leverage (net debt/EBITDA) levels are at the higher end of Liberty Interactive's targeted range (2.8x vs. 2.5x), we would not be surprised to see an acceleration of buybacks with shares currently under pressure.

The recent acquisition of zulily is pacing ahead of schedule, with the business posting strong revenue (+11%), adjusted OIBDA (+105%), and Adjusted OIBDA margin expansion (310 basis points) on an LTM basis as of 3Q 2016. Ironically, the zulily business was arguably the biggest uncertainty over the past 12 months, but now the biggest wild card is QVC's U.S. business, which is the Company's largest and most profitable business. The zulily transaction could be a game changer for the Company, as it offers meaningful revenue and cost synergies. The combination of QVC and zulily brings together two highly complementary businesses that cater to women who love to shop. The transaction offers a number of benefits for QVC, including providing an attractive pool of potential new customers (a QVC customer is significantly more profitable than a zulily shopper), and reducing the Company's dependency on middle-aged women, as zulily caters to millennial moms. Notably, at the time of the acquisition, there was just a 6% overlap between the companies' customer bases. While QVC paid a hefty 30x 2015 EBITDA for the business, we note that this multiple declines to approximately 7x based on an extremely conservative assumption of the realization of potential revenue/cost synergies. In our view, this would represent a very attractive multiple for a business that has solid growth prospects and generates strong levels of cash flow.

In our view, QVC continues to be overlooked and misperceived by investors. Although the QVC Group tracking stock now represents a pure play on home shopping, there are still complexities associated with the structure. However, we would not be surprised if a hard spin of QVC Group is in the offing as Liberty Interactive (the legal entity to which QVC Group currently belongs) continues to streamline its operations. Liberty Ventures, on the other side of the Liberty Interactive house, recently completed the separation of two businesses/investments in 2016, including Commercehub and its 16% stake in Expedia (along with wholly owned Bodybuilding.com). We ultimately expect that Ventures' investment in Liberty Broadband/Charter will merge into Charter along with Liberty Interactive's exchangeable debt, creating a simplified ownership structure for QVC Group.

Applying a 9x multiple to our 2018E of QVC and zulily's combined EBITDA, we derive an estimate of intrinsic value of \$34 a share, representing 65% upside from current levels. A number of factors could provide additional upside to our intrinsic value estimate, including meaningful traction with new markets or expansion into additional international locations, greater than anticipated synergies associated with the zulily transaction, a combination with peer HSN (~38% owned) that would present meaningful synergies, and the potential for outsized share buybacks.

The Madison Square Garden Company

Capitalization Summary (\$MM)

Price	\$173.90
Diluted Shares (MM)	24.1
Market Cap	\$4,183.0
Total Debt	\$0
Cash	(\$1,294.1)
Enterprise Value	\$2,888.9

Share Ownership and Trading Data

Average Daily Trading Volume (MM)	0.1
52-Week Price Range	\$188.80-\$139.10
Short % of Float	3.7%
Major Shareholder	Dolan Family Group 21%, 71% voting



Valuation and Misc. Stats (\$MM) 9/30/16

Book Value	\$2,490.9
Price/Book Value	1.7x
EPS (ttm)	NM
Price/Earnings	NM
EBITDA (ttm)	\$46.1
EV/EBITDA	NM
Dividend Rate/Yield	NM

P&L Analysis (\$MM)

Fiscal Year Ending June 30,	2014	2015	2016
Revenues	\$913.6	\$1,071.6	\$1,115.3
AOCF	-\$8.6	\$118.7	\$68.3
Margin	NM	11.1%	6.1%

Catalysts/Highlights

- MSG's Sports segment should be favorably impacted by the NBA's new national media contract
- Redevelopment of Penn Station has gained momentum, which bodes well for the monetization of MSG's air rights in the neighborhood
- The Dolans could look to take MSG private after receiving proceeds from the sale of Cablevision in 2016

INVESTMENT RATIONALE

The Madison Square Garden Company is a premier sports and entertainment company that owns two first-rate professional sports franchises: the New York Knicks and New York Rangers. The Company also owns/operates a portfolio of iconic venues, including the Garden, Radio City Music Hall, LA Forum, and the Beacon Theatre among others.

MSG's Sports segment posted strong results in FY 2016 with revenues up 6% and AOCF increasing by 34%. Results were aided by a new long-term (20-year) local media rights deal with Dolan-affiliated MSG Networks that resulted in a significant step up (\$49 million) in broadcast rights revenues. There are a number of items that should help the Sports segment sustain its momentum, including a new national NBA media agreement that is expected to provide a "meaningful" revenue increase beginning with the 2016/2017 season, a season ticket policy change designed to maximize ticket revenues (provides ability to sell more partial season and individual tickets) utilizing dynamic pricing capabilities, and an improved Knicks roster following a number of offseason moves. Finally, the Sports segment stands to be the beneficiary of a new revenue stream beginning with the 2017/2018 season when the Knicks will be permitted to sell advertising space on team jerseys.

Notwithstanding challenges associated with MSG's quest to develop a second Rockettes franchise (\$42 million write-down in FY 2016), there have been a number of favorable developments within MSG's Entertainment segment. During FY 2016, MSG experienced a record number of concerts at several of its venues and the momentum has continued into the first quarter of FY 2017. Growth has been led by the two largest venues (the Garden and the Forum), reflecting execution of MSG's multi-market (20% increase in concerts that played at more than one MSG venue in FY 2016) and multi-night (15% increase in multi-night shows) engagement strategy. There is still plenty of opportunity to increase the utilization of its venues, especially the Forum, which has posted impressive results for MSG since the Company acquired the venue in 2012. A new NFL stadium is currently being constructed in very close proximity to the Forum, which should go a long way toward boosting the venue's appeal (and valuation), with improved transit access and development/revitalization planned for the area. The MSG Entertainment segment looks poised to build on the strong sponsorship revenues realized in the wake of the Garden's transformation and has recently renewed (and expanded) an agreement with signature partner Anheuser-Busch, providing strong support for the Garden's live events advertising proposition in today's fragmented media landscape.

MSG has an extremely strong balance sheet with cash of \$1.3 billion (no L-T debt), which should enable it to pursue a number of growth initiatives (\$935 million was earmarked for acquisitions/investments at the time of the spin-off). In 2016, MSG announced that it is building an arena (17,500 seats) dedicated to music/entertainment in the underserved (in terms of concerts) Las Vegas market in partnership with Las Vegas Sands. During 2016, MSG acquired Boston Calling Events (operator of New England's premier music festival) and took a 12% stake in Townsquare Media (conducts ~550 events per year that attract 18 million attendees) to participate in the growing popularity of music festivals. MSG also expects to further expand its exposure to the growing eSports category outside of just hosting events at its marquee arenas.

We continue to believe that MSG's air rights, which reside over the nation's busiest transportation hub, are an underappreciated component of the MSG investment thesis. The state of New York recently completed an RFP process (April 2016) for the potential redesign and upgrade of Penn Station and MSG has publicly stated its support for the project, which could involve the demolition of the Theater at Madison Square Garden. In our view, the redevelopment of Penn Station and the surrounding area would likely provide an opportunity for MSG to unlock the value of its development rights.

Since its September 2015 spin-off, MSG has repurchased 1.1 million shares for \$178 million (avg. price: \$164 a share), reducing its diluted shares outstanding by ~4%. Despite the strong rate of repurchases over the past year, share repurchases will likely continue to be robust with ~\$347 million of remaining capacity under its current authorization (\$525 million earmarked for buybacks at the time of the spin-off). With noted activist investor Nelson Peltz serving on MSG's board, we believe that the Company will likely continue to balance its growth initiatives with outsized share buyback activity.

Utilizing a sum-of-the-parts valuation approach, our estimate of MSG's intrinsic value is \$246 a share, representing 42% upside from current levels. The Dolan Family is flush with proceeds following the sale of Cablevision to Altice (closed June 2016), and the upcoming two-year spinoff milestone (October 2017) could provide the impetus for a transaction by the Dolans. Chairman Jim Dolan has shown a strong interest in MSG's sports and entertainment properties and we note that he recently deployed \$119 million of personal funds to acquire a sibling's stake in MSG at ~\$183 a share.

News Corporation

Capitalization Summary (\$MM)	
Price (Class A)	\$11.88
Diluted Shares (MM)	<u>383(A)/200(B)</u>
Market Cap	\$6,990
Total Debt	\$14
Cash	<u>(\$1,406)</u>
Enterprise Value	\$5,599
Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	3.0
52-Week Price Range	\$14.68-\$10.21
Short % of Float	2.9%
Major Shareholders	Murdoch 14% econ., 39% voting



Valuation and Misc. Stats (\$MM) 9/30/16	
Book Value	\$11,530
Price/Book Value	0.6x
EPS (ttm)	NM
Price/Earnings	NM
EBITDA (ttm)	\$959
EV/EBITDA	5.8x
Dividend Rate/Yield	\$0.20 / 1.7%

P&L Analysis (\$MM)				
Fiscal Year Ending June 30,	2014	2015	2016	
Revenues	\$8,574	\$8,524	\$8,292	
Operating Income	\$192	\$552	\$181	
Margin	2.2%	6.5%	2.2%	
Adj. EBITDA	\$839	\$1,019	\$977	
Margin	9.8%	12.0%	11.8%	

Catalysts/Highlights

- Growing digital businesses' contribution to overall earnings could lead to rerating of shares
- Deployment of \$1.4 billion in cash/resumption of share repurchases would be highly accretive
- Long-term strategic options include sale or spinoff of newspapers, spinoff of Australian or digital assets, and recombination of stakes in REA and/or Foxtel.

INVESTMENT RATIONALE

News Corporation is a global diversified media and information services company spun off from Fox in June 2013. News Corp's assets include Dow Jones (publisher of *The Wall Street Journal*); a global newspaper portfolio; a book publishing business that includes HarperCollins; a 50% stake in Foxtel, Australia's near-monopoly pay TV provider; Fox Sports Australia (FSA), the dominant sports pay TV network programmer in Australia; a 62% stake in REA Group, Australia's leading digital real estate listing service; and Move, Inc., which operates realtor.com, the #3 real estate listings website in the United States.

News Corp shares underperformed over the past year, declining by 10% in a continuation of a pattern that has seen the shares fall 24% since the separation from Fox. This underperformance is largely attributable to the traditional print media business, which continues to face secular declines in print advertising and subscribership. Exacerbated by foreign currency declines, News & Information Services segment revenue declined 10% and adj. EBITDA declined 10% in FY16 (ending June 30). These challenges continued in 1Q17—advertising revenue declined 10% and overall segment revenue fell 5%—and are far from over, but digital revenue now represents 24% of segment revenue. The flagship *Wall Street Journal* has seen particular success managing the digital transition, with digital subscribership approaching 1 million despite price increases implemented over the past year.

News Corp's Publishing segment has also faced stalled e-book sales and tough comps recently, with revenue declining 1% and adj. EBITDA down 19% in FY16 even with an extra week. Recent results at Foxtel and FSA have been flattish, with modest subscriber growth offset by higher churn and programming expenses. News Corp's standout business is REA Group. REA continues to grow revenue in Australia at rates in the mid-to-high teens while expanding EBITDA margins despite flat to declining property listing volume. REA spent \$482 million in February 2016 to gain an 87% stake in iProperty Group, which controls several leading digital real estate websites in Southeast Asia. These markets present another extremely attractive long-term growth runway for REA with digital penetration of real estate advertising still in its infancy in Southeast Asia.

Murdoch family control and capital allocation concerns have also been significant overhangs for NWSA shares. Although Rupert Murdoch has successfully built a media empire over the decades, News Corp's capital allocation track record is mixed at best. REA was obviously a home run, but the transaction was made ~15 years ago. Management has begun touting Move, Inc., as another great success, but the business has yet to produce meaningful cash flow. The \$5 billion price tag for Dow Jones in 2007 was clearly excessive. Publishing and Australian TV acquisitions have been at least reasonably successful, but News Corp also burned hundreds of millions of dollars on its failed digital education foray, Amplify. Most recently, the September 2016 acquisition of UK/Ireland sports/talk radio business Wireless Group for \$308 million, or ~17x 2015 EBIT was somewhat of a head-scratcher.

News Corp's mixed M&A track record is particularly important considering its \$1.4 billion cash hoard. Although the Company initiated a \$0.10/share semiannual dividend (1.7% yield) in 2015 and began repurchasing shares under a \$500 million authorization in May 2015, it has spent only \$71 million of the authorization, with no repurchase activity since February 2016 despite the compelling share price. News Corp CEO Robert Thomson has described the cash hoard as presenting valuable "optionality" for the Company. Although we do not approve of this philosophy, some room for optimism remains. News Corp has reportedly been in discussions with its Foxtel partner, Telstra, for well over a year, as Telstra is reportedly interested in reducing its stake. As the only likely bidder, we believe News Corp could extract a very favorable price. An acquisition of part (or all) of Telstra's 50% stake, potentially in conjunction with a combination of Fox Sports Australia into Foxtel, would also allow News Corp to consolidate Foxtel's financial results and end the managerial conflicts/complexities that have hindered Foxtel from developing a compelling bundled broadband product offering.

The Company's capital allocation policies have been extremely frustrating, but at the current valuation, we believe the Company's cash hoard actually does represent optionality for investors, as the market appears to be ascribing less than zero value to it. The public market value of News Corp's REA Group stake alone is \$3.2 billion, based on the current REA share price in Australia and conservatively ascribing no control premium. Combined with the net cash position, this represents 66% of News Corp's market cap. In our sum-of-the-parts estimate of News Corp's intrinsic value, we add to this the News & Information and Publishing segments at conservative 5x EBITDA and 7x EBITDA multiples, respectively. Ascribing higher EBITDA multiples to the TV businesses (8.5x for Foxtel and 9x for FSA) and backing out corporate expenses at 7x, we derive a 2018E intrinsic value of nearly \$19 per share for NWSA. As we see little to no room for further discounting in NWSA shares, any improvement in capital allocation policy (share repurchases, consolidation of Australian businesses, etc.) could be a major catalyst for NWSA shares. Nor would we dismiss the possibility of shareholder activism if NWSA management continues failing to unlock intrinsic value. Although the Murdochs' controlling interest is an impediment, we would note that activist ValueAct has been engaging sister company Fox, leading to ValueAct CEO Jeff Ubben joining Fox's board. Longer-term, though a breakup of News Corp is unlikely under Rupert Murdoch's control, he is 85, and the next generation has not shown the same soft spot for the publishing business. Notably, the recent sale of the *Financial Times* to Nikkei at a \$1.3 billion valuation implies that if sold, WSJ alone could fetch more than our \$1.7B intrinsic value estimate for the whole news segment.

PayPal Holdings, Inc.

Capitalization Summary (\$MM)

Price	\$39.55
Diluted Shares (MM)	1,214
Market Cap	\$48,014
Total Debt	Nil
Cash & Investments	(\$6,427)
Enterprise Value	\$41,587

Share Ownership and Trading Data

Average Daily Trading Volume (MM)	8.4
52-Week Price Range	\$44.51-\$30.52
Short % of Float	1.8%
Major Shareholders	Pierre Omidyar 6.8%



Valuation and Misc. Stats (\$MM) 9/30/16

Book Value	\$14,192
Price/Book Value	3.4x
EPS (ttm)	\$1.13
Price/Earnings	35x
EBITDA (ttm)	\$2,235
EV/EBITDA	18.6x
Dividend Rate/Yield	NA

P&L Analysis (\$MM)

Fiscal Year Ending December 31,	2013	2014	2015
Revenues	\$5,636	\$6,757	\$9,248
Operating Income	\$1,091	\$1,268	\$1,461
Margin	16.2%	15.8%	15.8%
EBITDA	\$1,544	\$1,784	\$2,117
Margin	23.0%	22.3%	22.9%

Catalysts/Highlights

- Recent Visa, MasterCard agreements should accelerate revenue growth
- Triple-digit growth at Braintree/Venmo plus retail and credit penetration provide upside to revenue forecasts
- \$6.4B of cash and investments, repatriation tax holiday could lead to outsized capital deployment in 2017

INVESTMENT RATIONALE

Spun off from eBay in July 2015, PayPal (PYPL) is the leading end-to-end digital payments service provider, processing over \$300 billion in annual total payment volume (TPV). PYPL shares have modestly outperformed since last year's *Forgotten Forty*, increasing by 13%. But shares are 11% off recent highs, and 2016 has been a volatile, event-filled year for PYPL shareholders.

Most prominently, PYPL's efforts to renegotiate the terms of its relationships with card payment networks became heated. In May 2016, Visa's CEO threatened to compete with PYPL "in ways that people have never seen before" if the two companies could not find a way to work more cooperatively. PYPL ultimately reached a transformative partnership agreement with Visa. Announced in conjunction with PYPL's 2Q16 earnings release in July 2016, the new Visa agreement supports greater consumer payment method choice and ends "steering" practices that encouraged users toward low-cost (for PYPL) ACH funding sources over debit and credit cards. In exchange, PYPL will receive "greater long-term certainty on fees paid to Visa," including volume-based incentives (fee discounts) from Visa and access to its retail tokenization services, which enable contactless in-store payment. PYPL should benefit from incremental transaction volume growth, as consumers are no longer deterred from using their preferred payment method. PYPL did not reaffirm its medium-term guidance for ~15% annual revenue growth at the time of the announcement, and management was guarded about the implications of the deal, which spooked investors and sent shares down 7%.

It appears at least some of management's reticence was due to then-ongoing negotiations with MasterCard (MA), and subsequent announcements/management commentary have helped increase our confidence that these agreements will be net positives for PYPL over the medium and long terms. In September 2016, PYPL announced an agreement with MasterCard featuring non-steering and volume incentive terms similar to the Visa partnership. Additional benefits for PYPL from the deals include elimination of mobile wallet fees and enablement of instant transfer of PYPL balances to V/MA debit cards. On October 20, 2016, PYPL released 3Q16 results that were largely in line with expectations but provided rosy 2017 and medium-term outlooks, which helped cool investor concerns over the recent agreements. PYPL expects revenue to grow 16%-17% in 2017, with roughly flat operating margins, while PYPL upgraded its 3-year revenue growth rate outlook to 16%-17% and, importantly, confirmed its expectations for stable to growing adjusted operating margins over that time frame. PYPL shares rebounded by 10% to above \$44 upon the announcement. In subsequent investor conferences, PYPL provided additional clarity on the new payment network relationships. Based on testing, PYPL is confident that the incremental volume gained by increased user engagement will outweigh higher funding costs. Much of the shift from ACH will be to debit, which is still a relatively low-cost funding option. PayPal CFO John Rainey also noted in November 2016 that while it is still very early in the transition, the transaction margin headwind had been slightly less than PYPL modeled.

More recently, PYPL shares have declined 5% in the wake of Donald Trump's election victory and are now 11% below the post-3Q16 announcement levels. Some of the recent decline may reflect broader technology sector underperformance post-election and renewed headwinds from the strengthening U.S. dollar, but PYPL has also been subject to unique concerns over the potential repeal of the Dodd Frank Act's Durbin Amendment under the next administration. The Durbin Amendment limits interchange fees charged on debit card transactions. We believe the market has overreacted to this risk as it has to many prior perceived PYPL risks (e.g., V/MA relationships, Apple Pay, Google Pay, credit risk, etc.). For one, there is no guarantee that the Trump administration will target the Durbin Amendment. This action would require congressional support, and although House Financial Services Committee Chairman Jeb Hensarling has supported such legislation, the Durbin Amendment is forcefully backed by the retail industry lobby and is generally perceived as pro-consumer. In any case, it is highly likely that PYPL already locked in favorable debit interchange rates as part of its V/MA agreements, and it should remain in a strong position in future negotiations.

After the recent declines, PYPL shares trade at ~16x 2017E EV/EBITDA or 20x 2017E adjusted EPS after backing out the Company's \$6.4B cash hoard (at 80% to factor in potential repatriation taxes and capital needs). We believe this represents a bargain valuation considering PYPL's unique position to capitalize on secularly-growing global digital transaction volume. PYPL's impressive revenue growth rate is combined with its business model's inherent operating leverage. By comparison, Visa trades at ~24x 2017E P/E despite underlying earnings growth rates slightly lower than those of PYPL. In our base case valuation, we conservatively project EBITDA margins to decline ~100 bps and PYPL's EBITDA multiple contracts to 15x by 2019. This implies a 3-year forward-looking intrinsic value estimate of approximately \$55 per share, which translates to only ~13x 2019E free cash flow net of cash on the balance sheet. Looking to potential catalysts in 2017, another year of strong financial results should ease concerns over PYPL's competitive position, the V/MA deals, and Durbin risks. A repatriation tax holiday could be another catalyst for PYPL shares, as \$5.1 billion (~11% of the market cap) of its cash hoard is overseas. PYPL spent \$945 million to repurchase 24 million shares YTD 3Q16 and has plenty of spare capacity between the cash and annual CFF approaching ~\$2.5 billion in 2017. Longer term, we view Venmo's monetization as essentially a free call option. Venmo is extremely popular with millennials, generating \$4.9 billion in TPV in 3Q16 alone on 132% Y/Y growth. The Company is currently testing initial in-store payment and other monetization schemes for Venmo.

Realty Holdings Corp.

Capitalization Summary (\$MM)

Price	\$25.45
Diluted Shares (MM)	145.1
Market Cap	\$3,693
Total Debt	\$3,725
Cash	(\$224)
Enterprise Value	\$7,194

Share Ownership and Trading Data

Average Daily Trading Volume (MM)	1.6
52-Week Price Range	\$37.85-\$22.22
Short % of Float	2.5%
Major Shareholders	Insiders 1.4%



Valuation and Misc. Stats (\$MM) 9/30/16

Book Value	\$2,464
Price/Book Value	1.5x
EPS (ttm)	\$1.14
Price/Earnings	22.3x
Adj. EBITDA (ttm)	\$771
EV/EBITDA	9.3x
Dividend Rate/Yield	\$0.36/1.4%

P&L Analysis (\$MM)

Fiscal Year Ending December 31,	2013	2014	2015
Revenues	\$5,289	\$5,328	\$5,706
Operating Income	\$525	\$537	\$558
Margin	10.3%	10.5%	10.3%
Adj. EBITDA	\$796	\$779	\$845
Margin	13.6%	13.6%	13.5%

Catalysts/Highlights

- Any stabilization of transaction volume trends or competitive activity at NRT should dramatically improve investor sentiment
- RLG's high FCF yield (10.5%) should enable accelerated share repurchases
- More drastic action such as a sale or split-up of the Company is within the realm of possibilities

INVESTMENT RATIONALE

Realty's Company-owned brokerage services (NRT) and franchise services (RFG; includes brands such as Century 21 and Coldwell Banker) make it the leading residential real estate broker in the U.S. Realty's relocation and title and insurance services offer another captive revenue stream; additionally, its relocation services business is a useful lead generator. Brought public in 2012 at \$27/share by Apollo, following a 2006 LBO, Realty shares have declined 50% from mid-2015 highs of ~\$50 and now trade below the IPO price. The recent declines reflect stalled earnings growth after a sharp post-recession rebound; following another cut to guidance in conjunction with the announcement of 3Q16 results, RLG management now forecasts just \$750-\$770 million in operating EBITDA in 2016 versus \$723 million in 2013. The challenges have been most pronounced at NRT, which contributes ~57% of segment EBITDA (FY15) after backing out inter-company royalty payments to RFG. NRT's homesale transaction volume, the principal driver of its results, has markedly underperformed national trends since late 2014. NRT's average homesale prices have been roughly flat since 2015 and the number of closed transactions declined 4% Y/Y in 3Q16. This principally reflects market-level challenges in NRT's markets, which are concentrated in the high end of prime coastal metro/luxury markets. At the same time, NRT has experienced heightened competition for top broker/agent talent, leading to some loss of market share and operating margin erosion.

Without a doubt, Realty's business model has proven to have less operating leverage than investors anticipated. However, we remain comfortable with the Company's competitive position. While market conditions are unlikely to improve in the near term for NRT, this appears to be a temporary slowdown in a larger post-recession recovery which still has plenty of room to run. Broker/agent competition appears to be driven more by the current macro environment and new entrants in key markets rather than any radical disruption of the business model, and this headwind should moderate somewhat over time. Meanwhile, Realty's franchise business sports attractive ~65% EBITDA margins and has not faced the magnitude of headwinds that NRT has. Looking longer term, the brokerage business is driven by favorable underlying factors, with housing transaction volume growing at a 7% CAGR over many decades. The U.S. housing market has yet to fully recover from the crisis and affordability levels remain elevated, suggesting there could be a return to historical average transaction volume growth rates in the not-too-distant future. Realty also recently expanded its cost savings initiative and now expects to generate \$60 million in run-rate annual cost savings by mid-2017.

At the current share price, investors appear to be improperly ascribing permanence to—or even a worsening of—current real estate market conditions. Realty shares trade at just 8.6x EV/Adj. EBITDA (2016E) and offer a remarkable 11% 2016E FCF yield on a fully taxed basis, adjusted for the estimated present value of Realty's tax assets. By comparison, RLG has traded at a post-IPO average of ~12x EV/EBITDA. In estimating Realty's intrinsic value, we conservatively project the Company does not return to ~5% EBITDA growth rates until 2019. Valuing the Company at 13x forward FCF (fully taxed) or 9.5x EV/EBITDA (TTM), we derive a 2019E intrinsic value of approximately \$41 per share—implying 18% IRR potential. If real estate market conditions improve sooner than we project, investors may not have to wait this long to see a marked recovery in RLG shares.

In the interim, Realty offers a compelling de-levering/FCF story, aided by its extensive tax assets (~\$500 million NPV of NOLs) which should shield cash taxes into 2020. RLG expects to generate \$425-\$450 million in FCF (~\$3/share) in 2016, and we project FCF could reach ~\$540 million by 2019. RLG has rapidly de-levered in recent years to 3.8x covenant-adjusted EBITDA as of 3Q16, opening the door for return of capital to shareholders. RLG initiated a modest dividend (1.4% yield) in August 2016 and authorized an initial \$275 million share repurchase program in February 2016. RLG repurchased \$134 million of shares (~3%) at ~\$30/share YTD 3Q16 and the pace of repurchases is likely to accelerate given the recent share price declines. We project RLG could spend an incremental ~\$1.2B on repurchases beyond the current authorization over the next three years while maintaining its current leverage ratio—translating to incremental repurchase capacity of another ~35% of the current market cap. Finally, should shares continue to flounder, we would not dismiss the possibility that Realty again becomes a private equity target, considering the highly attractive economics implied by our projections. Alternatively, Realty could pursue a separation of the franchise business into a standalone company in order to highlight its more stable, higher-margin revenue stream, which would likely garner a premium valuation.

Tribune Media Company

Capitalization Summary (\$MM)

Price	\$34.00
Diluted Shares (MM)	90.5
Market Cap	\$3,075.4
Total Debt	\$3,415.8
Cash	(\$643.7)
Enterprise Value	\$5,847.5

Share Ownership and Trading Data

Average Daily Trading Volume (MM)	0.7
52-Week Price Range	\$40.72-\$26.10
Short % of Float	5.6%
Major Shareholder	Oaktree Capital: 15.7%



Valuation and Misc. Stats (\$MM) 9/30/16

Book Value	\$3,625.3
Price/Book Value	0.8x
EPS (ttm)	\$2.38
Price/Earnings	14.3x
EBITDA (ttm)	\$638.1
EV/EBITDA	9.2x
Dividend Rate/Yield	\$1.00 / 2.9%

P&L Analysis (\$MM)

Fiscal Year Ending	2014	2015
December 31,		
Revenues	\$1,949.4	2010.5
Operating Income	\$301.2	\$122.3
Margin	15.5%	6.1%
EBITDA	\$607.8	\$491.4
Margin	31.2%	24.4%

Catalysts/Highlights

- In February 2016, Tribune Media announced a decision to pursue strategic alternatives to unlock shareholder value
- Potential for outsized dividends/buybacks due to TRCO's strong cash position (\$644 million) and robust FCF generation
- The Food Network is in the midst of an affiliate fee renewal cycle that bodes well for TRCO's 31% stake in TV FN
- The potential sale of CareerBuilder could further bolster TRCO's balance sheet

INVESTMENT RATIONALE

We believe that several factors bode well for TRCO's currently depressed share price. In February 2016, TRCO announced that it would be pursuing strategic alternatives to unlock shareholder value with all options ostensibly under consideration. While there have been no major developments to date in TRCO's strategic review (other than real estate sales), we note that senior management has a strong incentive to boost TRCO's share price, having recently been granted a meaningful amount of performance stock units to "motivate maximum shareholder value creation over the next two years." As part of the recent grants, management will be rewarded, in part, if it can drive TRCO's share price over \$44 a share.

TRCO's broadcast business (42 owned/operated local TV stations reaching 44% of U.S. households) generates high levels of profitability (~30% EBITDA margins) and throws off a significant amount of FCF (capex as a % of revenue <2%). While disappointing political advertising revenue (primarily due to Trump utilizing his celebrity status to reach voters via free social media) recently prompted TRCO to cut its 2016 outlook, we believe the fundamentals of the underlying broadcast business remain healthy. High margin retransmission fees (~18% of segment total) continue to bolster the broadcast business, which has historically solely relied on ad revenues. While retrans fee growth slipped during 3Q 2016 (to 13%), management expects these fees to return to the ~20% growth rate experienced in recent quarters thanks to a recent renewal with DISH and the fact that 96% of its retrans fees are now locked up in 2017 pursuant to agreements containing "material" rate increases. The broadcast spectrum auction currently being conducted has disappointed (bids received by broadcasters to date have fallen well short of asking prices). Nevertheless, we believe the Company's spectrum is extremely valuable, and ATSC 3.0 (next generation standards) could be another way for TRCO to benefit from this asset.

WGNA continues to make good progress in its evolution from a superstation into a cable network. WGNA now has three hit programs in its portfolio, including *Salem*, *Outsiders*, and *Underground*, which bodes well for future affiliate and advertising revenues. Management recently noted that CPMs were up 20% for primetime programming (30% for its originals in the upfronts), with strong scatter pricing realized in 2016 (+60%). WGNA's success will also provide TRCO additional leverage when negotiating retrans fees since the local stations and WGNA are sold together. Finally, since TRCO owns stakes in both the *Outsider* and *Underground* series, it can participate in ancillary revenue sources (OTT distribution, etc.).

In our view, TRCO's 31% stake in TV Food Network (TV FN), a partnership that controls the Food Network and Cooking Channel cable networks, continues to be underappreciated. These cable networks combine to generate strong levels of profitability (~50% EBITDA Margins), and future profitability should be favorably impacted by an outsized affiliate fee renewal cycle over the next 2-3 years at Food Network (~87% of partnership revenues). Over the past 3 years, TRCO has received an average of \$169 million in annual cash distributions (\$144 million 9 mos. 2016) from TV FN, and the Food Network's favorable outlook should enable continued robust distributions. While there continues to be uncertainty over mature cable networks, it is worth noting that TV FN's programming can be leveraged over online/digital platforms, and the Food Network's 10 million Facebook fans bode well for future monetization. We would not rule out the potential for a tax efficient monetization in the future.

Over the past few years, TRCO has established, via organic growth and acquisitions, a subscription-based meta data business that operates in a number of different verticals, including video, music, and sports. The business has a blue-chip list of clients, including Apple's iTunes, which has utilized Gracenote data to enable consumers to search for albums and music tracks for the past 10 years. After a string of acquisitions, Gracenote reported good organic revenue growth (+5.4%) during 3Q 2016, and its future prospects are bright. In February 2016, TRCO announced that Comcast had selected Gracenote to power its TV listings and data information for its Xfinity X1 platform (~22 million subscribers), and that Gracenote has entered an expanded agreement with Apple to also be the engine behind Apple TV. Gracenote is also pursuing connected car opportunities (customized music service, etc.).

TRCO has made significant progress monetizing its excess real estate. YTD real estate sales have resulted in \$505 million in net pre-tax proceeds, and management estimates that its remaining real estate portfolio to be worth at least \$500 million (gross pretax). As a result of recent sales, TRCO's cash balance has ballooned to \$643 million, up from \$263 million at year end 2015. The recent decision by Tegna to put CareerBuilder (TRCO owns 32% stake) up for sale could add additional fire power to TRCO's already robust balance sheet (implied value, based on McClatchy's carrying value, of TRCO's stake is over \$500 million). TRCO has been an aggressive acquirer of its shares over the past 2 years, deploying \$625 million toward buybacks, resulting in an ~7% reduction in the Company's diluted share outstanding. The buyback included the repurchase of ~6 million share for \$225 million (avg. price: ~\$38 a share) during the first ~10 months of 2016. Given TRCO's strong balance sheet, and strong cash-generating abilities coupled with the potential for future growth, we would expect Tribune to continue its aggressive capital returns to shareholders.

Applying a discounted (vs. precedent transactions) 8x multiple to TRCO's broadcast business and assigning conservative values for TRCO's various other assets, we derive an intrinsic value of \$65/share, representing over 90% upside from current levels. We believe recent forced selling associated with one of TRCO's top shareholders presents an opportune time to tune into TRCO's shares.

Editor's Note: As we were going to press with this report, TRCO announced that it had entered into an agreement to sell its digital and data business (Gracenote) to Nielsen for \$560 million in cash (\$500 million in after-tax proceeds). TRCO will use proceeds to pay down debt and will also pay a \$500 mm special dividend during 1Q 2017 from its existing cash balance. Share repurchases (\$168 mm remaining authorization) are expected to continue.

The Western Union Company

Capitalization Summary (\$MM)	
Price	\$21.54
Diluted Shares (MM)	490.3
Market Cap	\$10,561
Total Debt	\$3,225
Cash	(\$1,281)
Enterprise Value	\$12,505
Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	4.0
52-Week Price Range	\$22.26-\$16.02
Short % of Float	13.4%
Major Shareholders	Insiders <1%



Valuation and Misc. Stats (\$MM) 9/30/16	
Book Value per Share	\$2.83
Price/Book Value	7.6x
EPS (ttm)	\$1.65
Price/Earnings	13.1x
EBITDA (ttm)	\$1,346
EV/EBITDA	9.3x
Dividend Rate / Yield	\$0.64 / 3.0%

P&L Analysis (\$MM)			
Fiscal Year Ending December 31,	2013	2014	2015
Revenues	\$5,542	\$5,607	\$5,484
Operating Income	\$1,107	\$1,141	\$1,109
Margin	19.9%	20.3%	20.2%
EBITDA	\$1,370	\$1,412	\$1,415
Margin	24.7%	25.2%	25.8%

Catalysts/Highlights

- OPEC's first production cut in 8 years should reverse weak revenue trends in OPEC countries (10%-15% of revenues)
- Further optimization of WU's underlevered balance sheet is possible
- The potential exists for an LBO of WU, or for the Company to acquire #2 competitor MoneyGram

INVESTMENT RATIONALE

Western Union delivered yet another year of outperformance as a member of last year's *Forgotten Forty* (+18.7% vs. +11.4% for the S&P 500). Nonetheless, its shares remain undervalued, in our view, owing to shifting concerns which the Company's geographically diversified business model (WU operates in 200 countries and territories) has historically managed through.

In last year's *Forgotten Forty*, we noted that many investors incorrectly assumed that increasing adoption of mobile payments would disintermediate money transfer operators such as WU. Today, we believe it is better understood that the ~\$600 billion (annual principal payments) global remittance market is split into two distinct categories: Retail (30%-40%), which is WU's main end market, and Digital/Account-to-Account (60%-70%). WU's Consumer-to-Consumer (C2C) segment, which is 92% Retail, accounts for 79% of the Company's revenues and 94% of its operating income. PayPal and other Fintech "disruptors" compete in the Digital bucket, which entails very different transactions than Retail remittances, which are dominated by immigrants sending money back home.

Western Union, however, is successfully penetrating the larger Digital channel through its investments in mobile money transfer technology. Over 80% of the Company's digital customers are new to Western Union, and they typically send much larger amounts, and for different reasons, than its core Retail customers. Today, WU offers digital money transfer services in 37 countries and has plans to go global. Its strong brand, which allows it to command premium pricing in Retail of ~15%-20% on average, gives it a leg up in the digital arena. In 3Q 2016, WU's digital revenues (8% of C2C revenues) grew by 28% in constant currency. In December 2016, WU announced a strategic investment in Walletron, Inc., a pioneer in mobile wallet bill presentment and payment, further advancing its mobile payment capabilities.

Today's macro concerns relate to heightened anti-immigration sentiment around the world and the relatively low price of oil, which is negatively impacting WU in some markets. Brexit, the election of Donald Trump, and the "no" vote in Italy's recent referendum have all embodied some element of anti-immigration sentiment. While this phenomenon is new as far as global headline news, WU has faced anti-immigration sentiment many times in the past in different parts of the world. However, its global business model has been far too diversified to be significantly affected. Regarding Donald Trump's claims to secure the southern border and to deport illegal immigrants (first those with a criminal background—then "we'll see" about the rest) we would note a few things. First, politicians historically deliver on only a fraction of their campaign promises. Second, a U.S. president is unlikely to act unilaterally with regard to immigration policy. Third, the U.S.-Mexico corridor, though an important one, accounts for just 5% of WU's revenues. Finally, far from taking the jobs of locals, immigrants who use WU often do work that citizens of wealthier nations do not prefer. Like last year's concerns that digital payment competitors would disrupt WU, we believe that a year from now, investors will likely not be as concerned with anti-immigration sentiment.

The low price of oil is a more tangible concern. WU's Middle East and Africa revenues (19% of C2C revenues) were down 8%, and Asia Pacific revenues (14% of C2C revenues) were down 3%, both in constant currency terms. This weakness relates to lower infrastructure spending in Saudi Arabia and UAE and its effect on a largely Indian migrant workforce. The phenomenon cut WU's overall revenue growth rate to 2% in 3Q 2016, in constant currency terms, from 3% in 1H 2016. However, management maintained full-year 2016 guidance of 3% constant currency revenue growth, signaling that it expects a strong 4Q (of ~4%). In late-November 2016, OPEC agreed to its first production cut in 8 years. If the "OPEC put" sets a floor under the price of oil, petroleum-related infrastructure spend could see a turnaround. While we expect WU to see a lagged benefit, a renewed inflow of migrant workers into OPEC countries (10%-15% of WU's revenues) would bolster WU's revenue growth. In the near-term though, WU will have to manage through another contained headwind in the form of India's currency crisis where the government demonetized 85% of banknotes in an attempt to curb corruption and black market transactions.

In recent years, WU has shrunk its shares outstanding as follows: 3.5% in 9-months 2016, 3.5% in 2015, 5.0% in 2014, 5.9% in 2013, and 5.0% in 2012. In the last 5 years, WU has more than doubled its dividend per share to \$0.64 (3.0% current yield) from \$0.31 in 2011. With just 1.4x net debt/EBITDA, WU has the balance sheet to execute a substantial leveraged recapitalization or acquisition. In addition, we would not be surprised to see private equity interest in WU, as its strong brand, premium pricing, steady growth/robust FCF business model, and underlevered balance sheet would be appealing to a financial buyer.

In constant currency terms, we believe WU can sustain 5% EBITDA growth (3% constant currency revenue growth plus operating leverage). In addition, the Company has generated an average of ~\$840 million in annual FCF over the past three years (FCF yield: 8%). WU trades at just 7.3x our 2018 EBITDA estimate. Applying a 10x multiple to 2018 EBITDA, we estimate WU's intrinsic value to be \$30 per share at the end of 2018, offering 39% upside plus a 3.0% dividend yield. Finally, WU shares surged in the first half of 2015 amid rumors that it was in talks to acquire MoneyGram (MGI). WU denied these rumors, but MGI remained silent. MGI shares have recently been abnormally strong, having almost doubled since late-October. A potential acquisition by WU (15% global market share) of MGI (5%) would likely result in significant revenue and cost synergies, with seemingly minimal antitrust concerns.