ASSET ANALYSIS FOCUS FORGOTTEN FORTY FACT SHEETS

Volume XLII, Issue XI & XII – *Winter 2016*

TABLE OF CONTENTS

Letter to Subscribers... pp. i - viii

Company	Ticker	Price	Page
The Allstate Corporation	ALL	$ 72.61	1
American Express Company	AXP	$ 74.07	2
Anthem, Inc.	ANTM	$ 144.69	3
Axalta Coating Systems Ltd.	AXTA	$ 25.89	4
Bed Bath & Beyond Inc.	BBBY	$ 46.95	5
The Boston Beer Company, Inc.	SAM	$ 169.35	6
Brinker International, Inc.	EAT	$ 52.57	7
Callaway Golf Company	ELY	$ 11.43	8
Cigna Corporation	CI	$ 133.24	9
Coach, Inc.	COH	$ 37.74	10
Cowen Group, Inc.	COWN	$ 16.15	11
Crocs, Inc.	CROX	$ 7.17	12
Devon Energy Corporation	DVN	$ 47.02	13
Discovery Communications, Inc.	DISCK	$ 27.74	14
Dover Corporation	DOV	$ 75.64	15
Eastman Kodak Company	KODK	$ 16.15	16
Energizer Holdings, Inc.	ENR	$ 44.67	17
Franklin Resources, Inc.	BEN	$ 39.31	18
Hanesbrands Inc.	HBI	$ 22.46	19
Harley-Davidson, Inc.	HOG	$ 60.00	20
HealthSouth Corporation	HLS	$ 41.19	21
Hexcel Corporation	HXL	$ 51.38	22
ILG, Inc. (formerly Interval Leisure Group)	ILG	$ 18.07	23
La Quinta Holdings Inc.	LQ	$ 13.38	24
Legg Mason, Inc.	LM	$ 31.00	25
Liberty Broadband Corporation	LBRDA	$ 72.56	26
Liberty Global plc	LBTYK	$ 29.12	27
Liberty Interactive Corporation (QVC Group)	QVCA	$ 20.59	28
Liberty Global Latin America and Caribbean Group (LiLAC)	LILAK	$ 21.48	29
Loews Corporation	L	$ 47.23	30
The Madison Square Garden Company	MSG	$ 173.90	31
Manitowoc Foodservice, Inc.	MFS	$ 17.91	32
MSG Networks Inc.	MSGN	$ 21.15	33
News Corporation	NWSA	$ 11.88	34
PayPal Holdings, Inc.	PYPL	$ 39.55	35
Realogy Holdings Corp.	RLGY	$ 25.45	36
Time Warner Inc.	TWX	$ 94.65	37
Tribune Media Company	TRCO	$ 34.00	38
The Western Union Company	WU	$ 21.54	39
W.R. Berkley Corporation	WRB	$ 65.53	40

Appendix – Share Ownership..A-1

Published by: BOYAR'S INTRINSIC VALUE RESEARCH LLC

6 East 32nd St.·• 7th Floor • New York, NY • 10016 • Tel: 212-995-8300 • Fax: 212-995-5636

www.BoyarValueGroup.com

Asset Analysis Focus is not an investment advisory bulletin, recommending the purchase or sale of any security. Rather it should be used as a guide in aiding the investment community to better understand the intrinsic worth of a corporation. The service is not intended to replace fundamental research, but should be used in conjunction with it. Additional information is available on request.

The statistical and other information contained in this document has been obtained from official reports, current manuals and other sources which we believe reliable. While we cannot guarantee its entire accuracy or completeness, we believe it may be accepted as substantially correct. Boyar's Intrinsic Value Research LLC its officers, directors and employees may at times have a position in any security mentioned herein.

Boyar's Intrinsic Value Research LLC Copyright 2016.

> "Low volatility stock funds are probably the most dangerous thing out there."
> – Jeffrey Gundlach, founder of DoubleLine, May 2016.

A Look Back at Our 2016 Predictions

- ***The Death of Bricks and Mortar Retail Has Been Greatly Exaggerated***

The financial results and stock performance of conventional retailers have begun to show signs of improvement during recent quarters. Stocks such as Kohl's and Coach (highlighted in last year's issue) have posted positive earnings surprises and double-digit stock appreciation during the past 12 months. Industry conditions are still far from robust, and significant challenges remain for firms operating in this space. However, we believe 2016 represented an inflection point for this industry. Investor sentiment regarding retail stocks reached an irrational level of pessimism in our view, not reflecting the aggressive actions by retailers to adapt to the new omni-channel marketplace. Moreover, recent measurements of consumer confidence such as the University of Michigan Consumer Sentiment Index have shown a nice post-election uptick. Early commentary about the 2016 holiday season appears to be cautiously optimistic, and any potential acceleration in U.S. economic growth could provide additional positive momentum for industry fundamentals.

- ***Attractive Opportunities in the Depressed Oil Patch***

Oil prices and oil industry stock performance reached a bottom in early 2016, and trends have been largely favorable since then. Crude oil prices have rallied significantly from February lows, as investors' concerns regarding supply excesses have gradually diminished. The bullish price activity for crude oil gained further traction at the end of November as OPEC announced an agreement to cut daily production by 1.2 million barrels per day. In last year's issue, we highlighted Devon Energy and MRC Global as particularly attractive investment opportunities within the energy sector (both stocks have gained more than 40% since then). In our view, these positive industry developments paired with improved growth prospects for the U.S. economy (helped by potential post-election fiscal policies) suggest the price recovery for crude oil and oil stocks has sustainability going forward.

- ***Higher Interest Rates and High Yield Bond Market Risk***

Last year we reiterated our annual warning of the risks posed by higher interest rates and corporate bond spreads. This has belatedly begun to play out in recent months; after plunging to levels not seen since the post-WWII era, 10-year Treasury yields have spiked ~100 bps since early October. Much of this move reflects optimism that the Trump administration will produce faster economic growth, and so it has not been accompanied by an expansion in corporate credit spreads which was our greatest concern. High yield spreads have steadily declined since spiking to ~900 bps on average in early February 2016, largely reflecting the changing conditions in the energy sector.

- ***IPO/VC Follow-Up***

Last year, we revisited our summer 2015 warnings about the deflating U.S. IPO market and suggested that "we expect the IPO market to remain challenging in the coming year" even after activity had already declined by 65% in 2015. Indeed, 2016 is set to be the quietest IPO market since 2003 with the largest deal of the year just $1.4 billion—by a Chinese firm, no less (ZTO Express).

- ***Time to Tune in to Media Stocks – Shares of Many Companies in Bargain Bin***

Last year, we stated our belief that the 2015 sell off in media shares was an over-reaction and was presenting an excellent opportunity for investors to own these high quality businesses. We singled out Time Warner as particularly attractive given its numerous levers to unlock shareholder value and underappreciated HBO business, its crown jewel asset. In October 2016, AT&T's bid for Time Warner validated our view of the Company's valuable content assets. Thanks in part to the AT&T announcement, Time Warner shares were one of the top performers, claiming the #4 spot in last year's *Forgotten Forty,* increasing by 47.3%. Despite the strong performance, we continue to believe TWX offers good upside with shares

trading at a meaningful discount to the proposed acquisition price, especially with AT&T moving toward the upper end of the deal's collar. Longer-term, we believe there could be additional upside if AT&T can successfully adopt the Comcast playbook that has capitalized on the marrying of first rate content and distribution. Although the media sector boasted two names in the top ten performers within last year's *Forgotten Forty* (Liberty Broadband was the other top performer increasing by 48.2%) and shares of Comcast (+22%) registered strong performance, eight of the other media related names underperformed the index last year.

- ***Presidential Election***

In last year's *Forgotten Forty* we wrote that according to the *Stock Trader's Almanac*, the S&P 500 has suffered an average decline in the 8th year of a presidency of 10.9%. However we stated that bulls could take solace that in the 3rd year of an election cycle, the average advance has been 16.1% and perhaps the gains that normally occur would be pushed out to 2016. It appears in this case that taking a glass half full view would have been quite profitable.

A Closer Look at the Performance of the 2016 Forgotten Forty

The 2016 *Forgotten Forty* (+16.29%) outperformed the S&P 500 (+11.44%) by nearly 500bps. The Forgotten Forty has now outperformed the S&P 500 in four of the past five years, six of the past ten years, and in ten out of the past fifteen years. Although there was broad sector representation among the top ten performers in 2016, the top two performing stocks were energy related names including MRC Global (+56.4%) and Devon Energy (+49.1%). MRC Global was a new entrant in 2016 while Devon had been included previously. These two stocks benefited from improved conditions within the oil patch. Crude oil prices have staged a strong rally since February, aided by improved supply/demand fundamentals and an agreement by OPEC to cut daily production by 1.2 million barrels. Although there were no completed acquisitions of Forgotten Forty stocks during 2016, AT&T announced an agreement to acquire Time Warner (+47.3%) in a cash and stock transaction that is expected to close in 2017. During 2016, 24 of the 40 companies outperformed the index. The two biggest detractors of performance were Crocs (-32.8%) and QVC Group (-22.9%). Both of these retail stocks are included in this year's list. In our view, CROX's strong balance sheet should enable it to withstand current industry challenges and the company is well-positioned to generate improved profitability and growth in the coming years. Meanwhile, we still believe that QVC Group operates a strong retail business model and would not be surprised if its rare earnings disappointment proved to be an aberration.

The Performance of the Forgotten Forty for the Past Ten Years

The *Forgotten Forty's* trailing 10-year performance slipped slightly (10bps) versus the S&P 500 as the 485bps of outperformance in 2016 was not enough to offset the roll-off of the Forgotten Forty's outperformance in 2006 (+18.7% vs. +13.5%). Nevertheless, the Forgotten Forty's long-term outperformance versus the S&P remains strong. Over the last 10 years, the Forgotten Forty has demonstrated a compound annual growth rate of +6.16% per year versus +4.44% for the S&P 500. In addition, the *Forgotten Forty* still boasts meaningful outperformance in all other major time frames.

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.

Results of the 2015-2016 Forgotten Forty by Company

SYMBOL	Company	Price 12/14/2015	Price 12/14/2016	% Change
	TOP 10			
MRC	MRC Global Inc.	$13.22	$20.67	56.4%
DVN	Devon Energy Corporation	$31.54	$47.02	49.1%
LBRDA	Liberty Broadband Corporation	$48.96	$72.56	48.2%
TWX	Time Warner Inc.	$64.26	$94.65	47.3%
BID	Sotheby's	$26.51	$38.68	45.9%
SMG	The Scotts Miracle-Gro Company	$65.92	$94.74	43.7%
UNF	UniFirst Corporation	$102.08	$144.30	41.4%
DFS	Discover Financial Services	$52.55	$71.23	35.5%
BAC	Bank of America Corporation	$16.80	$22.67	34.9%
HOG	Harley-Davidson, Inc.	$45.53	$60.00	31.8%
	MIDDLE 20			
L	Loews Corporation	$36.77	$47.23	28.4%
KODK	Eastman Kodak Company	$12.61	$16.15	28.1%
HLS	HealthSouth Corporation	$33.55	$41.19	22.8%
CMCSA	Comcast Corporation	$57.37	$70.02	22.0%
DOV	Dover Corporation	$62.05	$75.64	21.9%
COH	Coach, Inc.	$31.09	$37.74	21.4%
LMCK	Liberty Media Corporation[1]	$36.87	$44.71	21.3%
WRB	W.R. Berkley Corporation	$54.40	$65.53	20.5%
WU	The Western Union Company	$18.14	$21.54	18.7%
KSS	Kohl's Corporation	$46.76	$55.51	18.7%
ELY	Callaway Golf Company	$9.65	$11.43	18.4%
ALL	The Allstate Corporation	$61.39	$72.61	18.3%
ILG	Interval Leisure Group	$15.51	$18.07	16.5%
PYPL	PayPal Holdings, Inc.	$35.01	$39.55	13.0%
ISCA	International Speedway Corporation	$34.74	$38.20	10.0%
DISCK	Discovery Communications, Inc.	$25.35	$27.74	9.4%
MSG	The Madison Square Garden Company	$160.45	$173.90	8.4%
SEAS	SeaWorld Entertainment, Inc.	$18.08	$19.40	7.3%
EBAY	eBay Inc.	$28.04	$29.82	6.3%
SPLS	Staples, Inc.	$9.40	$9.93	5.6%
	BOTTOM 10			
COWN	Cowen Group, Inc.[2]	$15.40	$16.15	4.9%
MSGN	MSG Networks Inc.	$20.19	$21.15	4.8%
TRCO	Tribune Media Company	$33.88	$34.00	0.4%
BBBY	Bed Bath & Beyond Inc.	$52.20	$46.95	-10.1%
NWSA	News Corporation	$13.26	$11.88	-10.4%
LBTYK	Liberty Global[3]	$38.38	$31.80	-17.1%
OAK	Oaktree Capital Group, LLC	$46.65	$38.45	-17.6%
LM	Legg Mason, Inc.	$38.12	$31.00	-18.7%
QVCA	Liberty Interactive Corporation (QVC Group)	$26.69	$20.59	-22.9%
CROX	Crocs, Inc.	$10.67	$7.17	-32.8%

[1] LMCK's "% Change" reflects the recapitalization into three tracking stocks on April 15, 2016 whereby investors received, for each share of LMCK held, 1) 1 share of Liberty SiriusXM (LSXMK); 2) 0.1 of a share of Liberty Braves (BATRK); 3) 0.25 of a share of Liberty Media (LMCK); and 4) the May 18, 2016 distribution of the right to purchase 0.47 a share of BATRK, for each share of BATRK then held, at $12.80 a share, representing a 20% discount to the trading day volume weighted average price of BATRK for the 18 day trading period ending May 11, 2016.

[2] COWN's price on 12/14/2015 has been adjusted to reflect a one-for-four reverse split completed on December 2, 2016.

[3] LBTYK's "% Change" reflects the distribution of 1 share of LiLAC Group for every 8.01482 shares of Liberty Global held on June 17, 2016.

A Look Ahead

1) *Changes to U.S. Tax Policy to Have Multiple Beneficiaries*

The incoming Trump administration has clearly signaled its intention to lower tax rates for both individuals and corporations, while also pursuing other initiatives such as tax system simplification and reform of cash repatriation policies. For individuals (particularly lower and middle income taxpayers), tax relief could have positive implications for consumer confidence and overall income levels. Firms that operate within the retail and consumer discretionary areas (such as Coach, Harley Davidson, etc.) could be particularly well positioned to capitalize on these developments. For certain companies, the potential reductions and reforms to corporate taxes could be a favorable catalyst as well. Firms that generate significant profits from overseas operations could have the opportunity to repatriate these funds to the United States at a much lower rate (Crocs is one example). Moreover, small-cap and mid-cap companies could reap especially meaningful benefits from lower corporate tax rates. Smaller scale entities such as these are often less able to negotiate specific tax breaks or subsidies with the federal government compared to larger corporate competitors. Broad based lowering of corporate taxes should have far-reaching benefits regardless of a firms' ability to engage in lobbying, and could provide a tailwind for growth during the coming years.

2) *Several U.S. Sectors to be Aided by Reduced Regulatory Burden*

The Trump campaign frequently highlighted regulatory reform as a necessary step to reinvigorating economic growth. Now that the election has been completed, the incoming Trump administration appears determined to follow through on this issue. Although the exact form that these regulatory reforms will take has yet to be clearly defined, we believe some initial conclusions can be drawn. Several sectors could be aided by reduced regulatory burdens in our view, but the financial services and energy sectors should be among the primary beneficiaries. For example, reform of Dodd-Frank regulations could potentially lower compliance related costs, increase operational flexibility, and enhance profits for financial institutions such as commercial banks and investment banks. Within the energy sector, changes to some of the environmental policies enacted by the Obama administration could encourage greater development of natural resources within the United States. Firms that produce oil, gas, and coal could be among those most helped by such reforms, along with companies that manufacture or operate pipelines. To the extent that regulatory reforms help to stimulate broader economic growth, capital investment across multiple industries could be poised for a boost in the future.

3) *Impact of Higher Interest Rates*

The stock market has initially shrugged off the late-2016 spike in U.S. Treasury rates. The most prominent equity market impact has been the revaluation of the financial sector, which has seen its collective market value increase by ~25% over the past 3 months. Financials should continue to be a prime beneficiary of rate normalization in 2017, but much is already priced into shares and there is now greater risk that growth disappoints. The real estate market and REITs are the most negatively exposed to higher rates, and significant further increases could threaten the housing market recovery. Higher rates could also squeeze high yield credit issuers in 2017, and at a certain level it could even impact the broader stock market. However, there are a multitude of factors that suggest the more extreme scenario—a drastic further spike in Treasury rates and rotation out of stocks—is unlikely in 2017. They include a stronger dollar, disinflationary pressures in the broader global economy, a Fed that is still relatively cautious, and hurdles to implementing a major fiscal or tax stimulus in the near term.

4) *European Political Risk*

While the midsummer Brexit surprise only briefly rattled global financial markets, the risk of further unraveling of the European project should not be dismissed. Greece, Italy, and France, among others, continue to struggle with budget deficits and/or banking crises. Accommodative central bank policy has held these issues in check to date, but populism—which typically features a hearty dose of Euroskepticism—is on the rise across Europe and could see major wins in upcoming parliamentary elections. Most notably, the rise of the Five Star Movement in Italy propelled the sharp voter rejection of Italian prime minister Matteo Renzi's reform proposals in December and led to his resignation. The Five Star Movement has proposed a nonbinding referendum on Italy's membership in the euro currency. If the party comes to power after parliamentary elections in 2017 or 2018, it could ultimately prove to be a decisive step in the unraveling of the euro currency which many still believe is inevitable.

5) *Recent USD Strength Means Continued FX Headwinds for U.S. Multinationals*

We once heard Stanley Druckenmiller remark that he has never seen a major currency move last for less than two years. The USD, as measured by the DXY (which tracks the dollar against a basket of currencies, primarily the euro) began to strengthen in mid-2014 from a level of 80, and quickly rose to 100 by early-2015 (an unprecedented move). From early-2015 to November 2016, the DXY traded in a range of 94-101. Throughout 2016, we kept

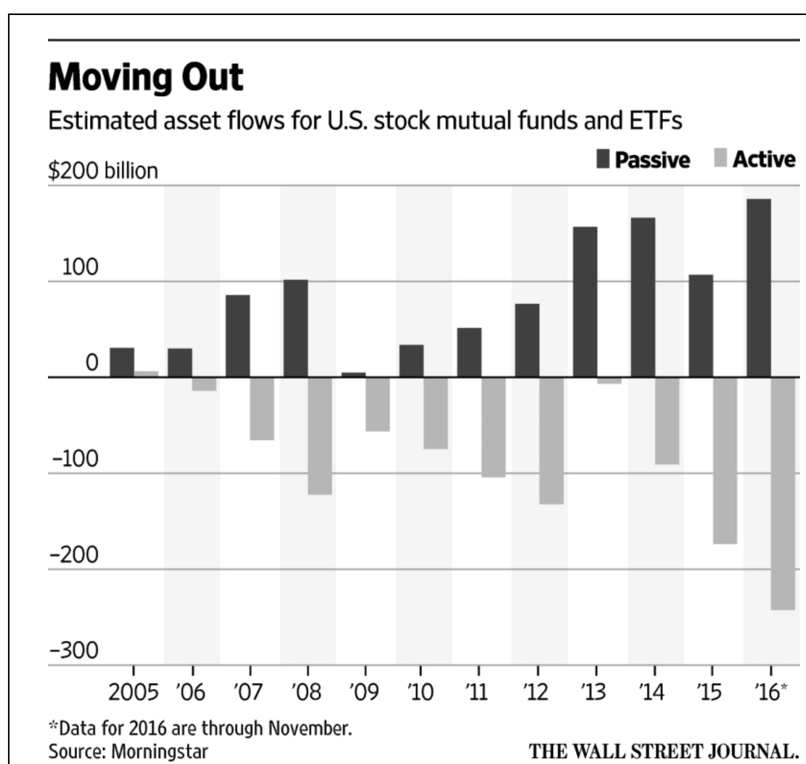
Druckenmiller's words in mind, wondering if the range-bound dollar was merely consolidating before the next leg of its up move. The election of Donald Trump and the expectation that his policies will boost the U.S. economy lit a fire under the dollar. The Fed's subsequent 25 bps rate increase and revised outlook for three additional 25 bps hikes in 2017 (according to its dot plot) added fuel to the fire. From a pre-election level of 97, the DXY broke out of its trading range on the upside and presently stands at 103, a 14-year high. U.S. multinationals had been battling with FX headwinds for over 2 years, and it appears the pressure will not let up in 2017. USD strength will likely be a recurring theme on 4Q 2016 earnings calls for multinationals, negatively affecting their 2017 outlooks. The post-election Trump rally has been led by small cap stocks which not only stand to benefit the most from the president-elect's proposed corporate tax rate cut, but also are the least impacted by the rising dollar. We believe large cap multinationals could be a good source of investment ideas in 2017 as FX headwinds will at some point reverse into tailwinds and these companies, some of which have large cash balances overseas, stand to benefit from Trump's proposed repatriation tax holiday.

6) The Trump Rally Appears to Have Been Driven by Retail Investors, But Large Amounts of Cash Still Sit on the Sidelines

The Trump rally seems to have been fueled by individual investors, an investor class that has historically been seen as "unsmart money." The American Association of Individual Investors (AAII) sentiment survey revealed that bullish sentiment among retail investors more than doubled to almost 50% (a recent record) on November 24, from ~24% on November 3 (just prior to the election). According to *Barron's*, this represented the biggest 3-week surge in bullish sentiment in more than six years, driving the S&P 500 up nearly 6% in less than a month. In the first full week following the election, $25 billion flowed into U.S. equity ETFs, among the best single weeks on record. From November 8 to December 15, U.S. equity ETFs experienced an astonishing $97.6 billion in inflows, 150% of the amount that went into the category in all of 2015. After sitting on the sidelines for much of the +7-year bull market, retail investors appear to have piled into the market, sending it to record highs. Acting as an offset to this otherwise concerning fact is Blackrock's estimate that $50 trillion is sitting on the sidelines in cash globally. Given rich equity markets and low-yielding fixed income markets, risk-averse investors increased their dry powder in 2016. Our suspicion is that if potential stock market turmoil causes retail money to exit as quickly as it entered, the selling pressure would likely be met by buying from institutional investors waiting on the sidelines for more attractive opportunities. Similar to the sell-off experienced at the beginning of 2016 (the S&P 500 declined by 10.5% from December 29, 2015 to February 11, 2016), we do not expect a potential decline in the market to do too much damage and would view it as an attractive long-term buying opportunity.

7) An Inflection Point for Active Managers?

As many of our readers are well aware, the past few years have been difficult times for active managers. The underperformance of active managers relative to passive strategies has resulted in massive redemptions and outflows. According to recent data from Morningstar, during the first 11 months of 2016, investors have withdrawn $243 billion from U.S. stock funds compared with $186 billion of inflows into index oriented mutual funds and ETFs.



During the third quarter of 2016, 58% of active managers beat their benchmarks according to data from Bank of America with large cap managers posting their best outperformance in 3 years. While one quarter does not a trend make, there are a few noteworthy items that could help sustain this momentum including a rising interest rate environment, recent resurgence of the performance of value strategies, and the pro-growth agenda of the incoming presidential administration. In a 2015 article on active managers, *Barron's* examined the performance of active funds in a rising interest rate environment and noted that, "From 1962 to 1981, when the 10-year Treasury yield more than tripled, from 3.85% to 15.8%, the median cumulative return for large-company mutual funds was more than 62 percentage points better than the S&P 500, or an average of 3.2 percentage points per year." With the prospect for markedly higher interest rates over the next 2-3 years, active managers look well positioned. Active managers also tend to do better when value strategies outperform growth investing. According to a Fourth Street Performance Partners 2016 study, during the nine periods in which value was the dominant style since 1976, active management was favorable to passive in every period. With value stocks outperforming growth stocks in 2016 following multiple years of underperformance (the Russell 1000 Value was ahead of the Russell 1000 Growth Index by 900 basis points through mid-December 2016), active managers could be in for a sustained period of outperformance. Finally, the prospect for stronger GDP growth bodes well for value investing and hence the performance of active managers, since value stocks tend to do better during periods of strong economic growth. This year's *Forgotten Forty* includes two names (Franklin Resources and Legg Mason) that would be prime beneficiaries if active management comes back into vogue.

8) *Many Media Stocks Still in the Bargain Bin*

As we noted above, the performance of media stocks featured in the *Forgotten Forty* last year was mixed. Nevertheless, we continue to believe that valuations in the media sector are very attractive and have included ten media related stocks in this year's *Forgotten Forty*. In prior *Forgotten Forty* reports we stated our belief that the recent round of distributor consolidation (AT&T/DTV, CHTR/TWC/Bright House) could portend M&A of media content companies to counter the increased heft of their customers. Our view proved somewhat prophetic with the October 2016 announcement that AT&T had reached an agreement to acquire Time Warner. In our view, the Time Warner transaction helps to reinforce the value of first rate premium content with AT&T motivated, in part, by the desire to set its distribution businesses (wireless, wireline, satellite, etc.) apart from its peers. In our view, owners of high quality content are well positioned given the number of companies interested in distributing the content (Cable, Telecom, OTT, and even technology oriented companies such as Apple) and the numerous options consumers have to consume their content (mobile, tablet, etc.). In addition to Time Warner, this year's *Forgotten Forty* includes Discovery Communications, which is a pure play content company that is well positioned to benefit regardless of the platform consumers choose to consume the content. We believe Tribune Media, through its ownership stake in the Food Network and Cooking Channel as well as its repositioned cable Network WGNA, should also be able to capitalize on these favorable industry trends.

9) *Presidential Election*

This year's presidential election was anything but ordinary. Therefore, historical outcomes relating to stock market returns and past presidential elections need to be viewed with a healthy degree of skepticism. Since 1949, the Dow Jones Industrial Average has increased by an average of 8.3%. However, under a Republican presidency that number decreases to 6.8%. It is worth noting that when Republicans controlled both houses of Congress as well as the Oval Office, the average percentage change increased to 14.1%.

Investors should take note that the first year of a presidential election cycle has produced some abysmal events/stock market performance as noted by *The Stock Trader's Almanac* (from which the facts in this section have been sourced):

> *In the past 26 post-election years, three major wars began: World War I (1917), World War II (1941), and Vietnam (1965); four drastic bear markets started, in 1929, 1937, 1969, and 1973; 9/11, recession, and continuing bear markets in 2001 and 2009; less severe bear markets occurred or were in progress in 1913, 1917, 1921, 1941, 1949, 1953, 1957, 1977, and 1981. Only in 1925, 1985, 1989, 1993, 1997, and 2013 were Americans blessed with peace and prosperity.*

Even more disturbing is that since 1953, post-election year performance has been dramatically better under a Democratic presidential administration (an average gain of 13.4%, and a cumulative gain of 93.9%). Under a Republican presidential administration, the average performance for the first year of the presidency has been a loss of 1.2%, with a cumulative loss of 10.6%. If 1985 and 1989 are eliminated (each year resulted in a gain of 27%), the results are dramatically worse.

The most worrying fact of all however is when the party in power is ousted and a Republican takes control. **<u>Since 1913, there has only been one positive year when a Republican president took control of The White House</u>** (Harding in 1921 when the DJIA increased by 12%). Under Eisenhower the Dow Jones Industrial Average declined by 3.8%, with Nixon it lost 15.2%, when Reagan took office it decreased by 9.2%, and after G.W. Bush was sworn in it fell by 7.1%.

If history is any guide, 2017 will not be a pretty year. However, we are truly in uncharted territory, so hopefully past performance is not indicative of future returns in this case.

We welcome your feedback at any time, and wish you a Happy, Healthy and Prosperous New Year.

Sincerely,

The Boyar Research Team

INVESTMENT RESEARCH SUMMARY
PRICED DECEMBER 14, 2016

The Allstate Corporation

Capitalization Summary ($MM)	
Price	**$72.61**
Diluted Shares (MM)	**375.9**
Market Cap	**$27,294**
Total Debt	**$5,110**
Cash	**($2,250)**
Enterprise Value	**$30,154**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**1.9**
52-Week Price Range	**$73.33-$56.03**
Short % of Float	**1.6%**
Major Shareholder	**Insiders <1%**

ALL
NYSE

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value Per Share	**$51.48**
Tangible Book Value	**$48.48**
Price/Tangible Book	**1.5x**
Operating EPS (ttm)	**$3.69**
P/E (ttm)	**19.7x**
Annual Dividend	**$1.32**
Dividend Yield	**1.8%**

P&L Analysis ($MM) *Fiscal Year Ending December 31,*	**2013**	**2014**	**2015**
Revenues	$34,507	$35,239	$35,653
Operating EPS	$5.68	$5.40	$5.05
Operating ROE	14.5%	12.6%	11.6%
Combined Ratio	87.3%	87.2%	88.7%
Dividend	$1.00	$1.12	$1.20

Catalysts/Highlights

- ALL's Auto Insurance Profit Improvement Plan will benefit underwriting results
- EPS will benefit from higher interest rates
- Shareholder value boosted by significant return of capital

INVESTMENT RATIONALE

The Allstate Corporation is a significant player within the insurance industry. Within the U.S. market, ALL holds the #2 share position for personal lines insurance, #2 share in homeowners insurance, and the #3 share position for private passenger auto insurance. As of the most recent fiscal year, ALL reported total revenues of over $35 billion, derived from property-liability insurance premiums (85%), net investment income (9%), and life and annuity premiums (6%).

ALL possesses a strong competitive position within the insurance industry, differentiated by its strong brand identity, well-established distribution capabilities, and solid financial footing. Importantly, ALL has established a record of profitable underwriting through various stages of the industry cycle. However, the insurance industry has been facing its share of recent challenges, including an uptick in loss trends. The focus on underwriting profitability gained added urgency by the end of 2014, as financial results began to show the negative effects of increased loss frequency among auto consumers (a challenge not limited to Allstate). This uptick in losses followed nearly two decades of gradual frequency declines, largely reflecting the beneficial impact of technological innovation on automobile safety. Increased miles driven (due to improved economic activity and lower gasoline prices) and a continued increase in distracted driving habits (e.g., cell phone use) have been cited as the primary catalysts for this recent development.

ALL's Auto Insurance Profit Improvement Plan reflects efforts by management to adjust to the market environment. The Company has implemented meaningful price increases, pulled back from some new business via stricter underwriting standards, and enacted cost reduction measures. In addition to recent loss trend challenges, ALL and its industry peers have been grappling with other significant changes within the competitive landscape during recent years. Considerations such as changes in distribution are among new issues that require innovation and adaptability. ALL's management has acknowledged the changing industry landscape and has assembled a diverse portfolio of brands and distribution capabilities to respond to the evolving marketplace. These adjustments have taken the form of both internal initiatives and a series of acquisitions and divestitures. We view ALL's strategy up to this point as solid from both operational and financial perspectives. However, managing change in this evolving industry will be an ongoing challenge.

ALL should still be well positioned for growth in profits and book value during the coming years, in our view. Assuming management continues to execute its strategy and the overall backdrop for loss frequencies shows moderation, the Company should be well positioned to realize operational and financial progress. Moreover, ongoing initiatives related to auto underwriting profitability and product innovation should provide additional catalysts for future profit growth. These considerations, combined with continued share repurchase activity, should be beneficial drivers of value. By our projections, EPS of at least $7 and tangible book value of over $60 should be attainable for ALL by the end of 2018. These projections also assume a property-casualty combined ratio in the mid-90s range during the coming years (a modest deterioration from recent levels), and low single-digit premium growth as price increases are partially mitigated by softening trends in market share (reflecting management's emphasis on underwriting standards and cost reduction over growth considerations). Growth in investment income is also assumed to be modest (low single-digits) reflecting a gradual upward trajectory for interest rates during the coming years.

Shareholder value should continue to benefit from ALL's strong balance sheet and responsible capital management. Moreover, ALL's $81 billion investment portfolio provides significant investment income and is managed in a conservative manner. During the 2011-2015 period, ALL's net investment income averaged approximately $3.7 billion per year, accounting for about 11% of its total revenue. The vast majority of ALL's portfolio is allocated to investment grade bonds, and investment income could be poised for an increase, assuming interest rates gradually rise over time. ALL's businesses consistently generate excess capital, which has been returned to investors via dividends and share repurchases. Since 2010, ALL has returned approximately $13 billion of capital to investors via buybacks and dividends, representing nearly half of the Company's current market value. We would expect dividend growth and share repurchases to be recurring themes during the coming years. ALL has also expressed a willingness to pursue bolt-on M&A opportunities that offer financial and strategic benefits. The Company recently announced its intention to acquire SquareTrade ($1.4 billion transaction financed with cash and debt). SquareTrade is a provider of consumer device protection plans (warranties), and the deal is expected to be modestly dilutive to EPS.

ALL shares have generated a total return of approximately 20% over the past 12 months, but we believe the shares continue to offer attractive upside potential. Based on our projections for 2018, ALL is currently trading at multiples of 10x EPS and 1.0x tangible book value. Assuming the stock can trade at 1.3x 2018 tangible book value (consistent with historical averages), ALL shares should have an intrinsic value of approximately $90 per share. From a P/E perspective, this implies a multiple of roughly 12x based on 2018 projections (consistent with ALL's historical trading range). Our estimate of intrinsic value suggests total return potential of over 26% from a multi-year perspective.

Boyar research

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.

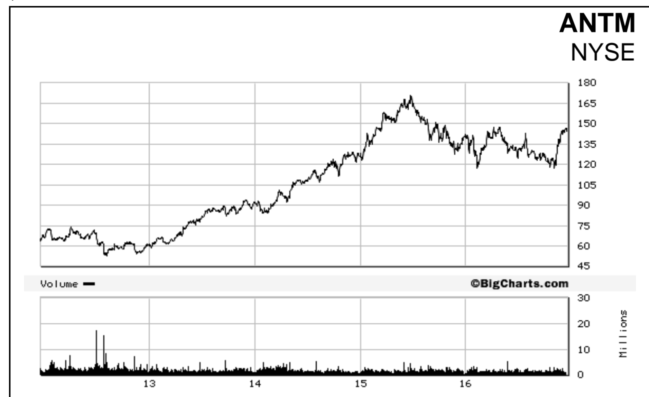
While AXP is trading well above the depressed levels it reached in early 2016 (bottoming at ~9x earnings), we believe the hidden growth story reemerging at AXP will serve as a catalyst in continuing the upward revaluation of its shares. In 3Q 2016, reported revenues were down 5% on a constant currency 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.

Boyar research

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.

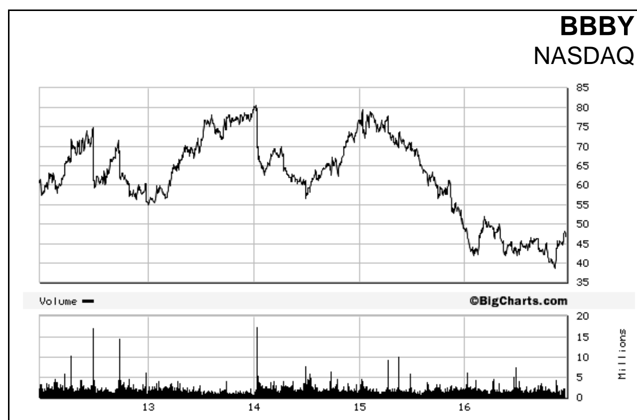
Led by CEO Charlie Shaver and a solid management team striving to make the Company the gold standard in the coatings industry, Axalta is in our view an all-weather stock. Given its various levers—consistent pricing power in Refinish, meaningful remaining cost reductions, better procurement efficiency, 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.

Bed Bath and Beyond Inc.

Capitalization Summary ($MM)	
Price	**$46.95**
Diluted Shares (MM)	**150.5**
Market Cap	**$7,066**
Total Debt	**$1,491**
Cash & Investments	**($578)**
Enterprise Value	**$7,979**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**2.2**
52-Week Price Range	**$53.69-$38.60**
Short % of Float	**10.3%**
Major Shareholders	**Insiders 5%**

BBBY
NASDAQ



Valuation and Misc. Stats ($MM) 8/30/16	
Book Value	**$2,574**
Price/Book Value	**2.7x**
EPS (ttm)	**$4.93**
Price/Earnings	**9.5x**
EBITDA (ttm)	**$1,570**
EV/EBITDA	**5.1x**
Dividend Rate/Yield	**$0.50/1.1%**

P&L Analysis ($MM)

Fiscal Year Ending February 28,	**2013**	**2014**	**2015**
Revenues	$11,504	$11,881	$12,104
Operating Income	$1,615	$1,554	$1,415
Margin	*14.0%*	*13.1%*	*11.7%*
EBITDA	$1,835	$1,793	$1,689
Margin	*16.0%*	*15.1%*	*14.0%*

Catalysts/Highlights

- FY 2017 should be an inflection point for operating leverage and margins
- Heightened internal investments should benefit future sales comparisons
- Current buyback authorization implies a 28% reduction in share count by FY 2020

INVESTMENT RATIONALE

Bed Bath & Beyond Inc. is a major operator within the retail sector. BBBY operates over 1,500 stores and generates annual revenue of approximately $12 billion. The stores are primarily located in the U.S. and consist of the following brands: Bed Bath & Beyond, Christmas Tree Shops, Harmon, buybuy BABY, and Cost Plus World Market. BBBY's product line includes a wide range of domestic merchandise and home furnishings. The BBBY customer's demographic profile tends to be female, 35-50 years old, possessing a middle to upper-middle class level of income.

The industry environment for BBBY and its competitors has been, at best, mixed during recent years. Despite a generally improved set of economic fundamentals in the U.S. market, consumer activity has been relatively muted. Moreover, industry fundamentals have been complicated by the proliferation of Amazon and other e-commerce competitors. The mixed industry backdrop combined with an increased level of competition, heightened Company investments, and a more mature Company growth profile have translated into disappointing financial results and weak stock performance at BBBY. However, we would argue that BBBY continues to hold formidable competitive and financial positions, and that sentiment for BBBY shares has reached a level of irrational pessimism.

The driving force behind the Company's strategic approach remains the same: To be customers' first choice for the products BBBY offers regardless of market or sales channel. In order to best respond to customer needs, BBBY has gradually evolved into an omni-channel operator with significant presence and capabilities across all sales channels. BBBY's initiatives to adapt have included significant investments in digital/web-based resources, IT, customer data analytics, and additional distribution centers. These investments should complement BBBY's existing competitive strengths, which include a wide assortment of merchandise and a relatively unique in-store experience. However, cost pressures from these initiatives have narrowed margins, and management does not expect this trend to reverse itself until FY 2017. Importantly, BBBY believes FY 2016 will be its peak year for capital investment, and that this metric should decline during the coming years.

Taking a 2-3 year perspective on BBBY's business, there are several potential catalysts for improved profits and growth. In addition to an abatement of e-commerce investments, we would also highlight the growth potential of BBBY's smaller concepts. Although BBBY does not break out the contributions from its sales channels or brands, increases in store count for concepts such as buybuy Baby have materially exceeded store expansion for Bed Bath & Beyond stores. Within just the past 2 years, the store count for buybuy Baby has increased 16%, compared to 1% growth for Bed Bath & Beyond stores in the same period. BBBY has also gradually incorporated cross-merchandising across its portfolio of store concepts, leveraging the product lines of acquired companies (Cost Plus, buybuy Baby etc.) into the merchandise of its Bed Bath & Beyond stores. In many cases, Bed Bath & Beyond stores have begun to establish specialty "stores within a store" that help to stimulate traffic and capture a greater share of customers' purchases. Management plans to expand specialty departments to over 200 additional Bed Bath & Beyond locations over time. Sales from digital channels should also continue to gain strength as BBBY reaps the benefits of its initiatives in that area (digital sales grew 20% in 2Q FY 2016).

Despite BBBY's period of challenges, the firm has retained a strong financial position, a point of differentiation for the Company since its founding in 1971. However, the Company did issue low cost debt in 2014 (rates under 5%) as part of its effort to accelerate share repurchases. As of the most recent quarter, BBBY had net debt of less than $1 billion (TTM EBITDA is $1.6 billion). Admittedly, the share repurchases of the past have been completed at materially higher prices, but BBBY has ample capacity to further reduce its share base at the depressed current valuation. Over the past 3 years, BBBY has reduced its share count by 30%, and its current remaining authorization of $2 billion (28% of BBBY's current market value) is expected to be fully utilized by FY 2020. BBBY also initiated a dividend earlier this year (sums to an annual payment of $0.50 per share), which should grow over time. We would not expect BBBY to pursue any transformative acquisitions, but opportunistic bolt-on deals may be considered (such as the acquisition of PersonalizationMall.com for $190 million, announced this December).

Assuming BBBY can demonstrate meaningful strategic progress and profit improvement during the coming years, greater recognition of BBBY's earnings power should lead to a gradual re-rating of the shares by investors. Near-term results and share performance are likely to remain choppy for BBBY, given the less-than-ideal market environment and the ongoing financial impact of e-commerce investments. However, BBBY's depressed valuation and investors' reduced expectations for future profits help to create a favorable risk/reward proposition, in our opinion. Assuming BBBY trades at a 7.0x EV/EBITDA multiple and a 12.0x P/E multiple, applied to our FY 2019 projections, this suggests a blended intrinsic value of approximately $75 per share. It warrants mention that recent private equity acquisitions for retailers (such as PetSmart and Petco) have been priced at approximately 9.0x-10.0x EBITDA.

Boyar research

The Boston Beer Company, Inc.

Capitalization Summary ($MM)	
Price	$169.35
Diluted Shares (MM)	12.6
Market Cap	$2,140.8
Total Debt	$0
Cash	($77.3)
Enterprise Value	$2,063.5

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	0.2
52-Week Price Range	$208.94-$145.30
Short % of Float	25.9%
Major Shareholders	Jim Koch: econ. 27%, voting 100%

SAM
NYSE

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	$450.2
Price/Book Value	4.8x
EPS (ttm)	$6.28
Price/Earnings	27.0x
EBITDA (ttm)	$178.3
EV/EBITDA	11.6x
Dividend Rate / Yield	N/A

P&L Analysis ($MM)			
Fiscal Year Ending December 31,	2013	2014	2015
Net Revenues	$739.1	$903.0	$959.9
Operating Income	$113.1	$146.6	$156.2
Margin	*15.3%*	*16.2%*	*16.3%*
EBITDA	$139.0	$181.7	$199.1
Margin	*18.8%*	*20.1%*	*20.7%*

Catalysts/Highlights

- Revamped management team with significant food/beverage experience has been brought in to restore growth including the appointment of SAM's first-ever executive dedicated to sales/marketing
- New products are being introduced in early 2017 in order to capitalize on current consumer preferences
- Share buybacks should continue to be robust reflecting strong FCF generation
- Implementation of cost reduction initiatives by new management

INVESTMENT RATIONALE

The Boston Beer Company is the second-largest craft brewer in the U.S. and was founded in 1984 by Jim Koch (current chairman), who created the Company's flagship beverage (Samuel Adams Boston Lager) utilizing a recipe developed by his great-great-grandfather. During 2015, the Company sold 4.3 million barrels of beer and generated nearly $1 billion of revenue. In addition to alcoholic beverages sold under the Boston Beer banner, SAM's beverage portfolio includes the Twisted Tea (flavored malt beverages), Angry Orchard (hard cider), Traveler (shandy) and Coney Island brands, among others.

After a multi-year period of prolific growth (between 2009 and 2014, SAM's net revenues and EPS increased at 17% and 25% CAGRs, respectively), SAM's growth trajectory slowed markedly in 2015; net revenues were up just 6.3% (net revenues turned negative in 4Q 2015), and have declined nearly 8% during the first nine months of 2016. At current levels, SAM's shares are trading almost 50% below peak 2015 levels. SAM's recent results have been pressured as strong craft beer industry fundamentals (15% CAGR in industry volume between 2010 and 2015) attracted significant competition; the number of craft brewers increased from 1,596 in 2009 to 4,269 at year-end 2015. While SAM enjoyed impressive growth between 2010 and 2014, much of its growth came from Angry Orchard (hard cider), which currently holds a dominant share (~60%) of the ~$1 billion hard cider category (at retail); but the category has begun to slow significantly (11% category growth in 2015 vs. 83% average annual category growth between 2012 and 2014), adversely impacting SAM's results. While Angry Orchard's recent results are discouraging, management believes the hard cider category (~1% of U.S. beer consumption) has further room for growth, as the category represents 5%-10% of the beer market in a number of other developed markets.

Boston Beer has embarked on multiple initiatives to restore growth and generate improved profitability. New packaging is being rolled out on key brands and, in early 2017, SAM will introduce two new seasonal beers (Hopscape and Fresh as Helles), classified as West Coast IPAs and designed to capitalize on current consumer preferences for more flavorful beers, a trend SAM was slow to embrace. SAM's craft beer incubator, A&S Brewing (formed in 2011), recently garnered national distribution for its Traveler and Coney Island brands and could also be a source of future growth. SAM has brought in a number of new top executives with significant food/beverage experience to help lead its next growth phase, including SAM's first-ever executive dedicated to sales/marketing. In addition to revitalizing SAM's key brands, new management is expected to address current inefficiencies (within the breweries and corporate HQ) that the Company overlooked during its growth years and SAM is targeting a 1% annual increase in its gross margin over the next three years.

In the face of slowing growth, SAM's free cash flow has accelerated as capex has declined to just 5.4% of net revenues, compared with peak 2014 levels of 17%. During 2015, SAM generated $95 million in free cash flow, followed by another $71 million of FCF generation during the first nine months of 2016. SAM has stepped up the pace of its share repurchases over the past two years, deploying $277 million toward buybacks (1.4 million shares; average cost: $194.63 per share). While the timing of the recent buybacks could have been better (recent buybacks occurred ~15% above the current share price), we are encouraged that SAM recently (October 2016) increased its repurchase authorization by $180 million, and a 10b5-1 filing in November 2016 revealed SAM may deploy up to $45 million by March 2017. While the Company's current cash balance has declined to $77 million (as of September 2016), we note SAM continues to have significant capacity for further buybacks, thanks to its strong balance sheet (no L-T debt) and $150 million of capacity on its currently undrawn credit facility.

At current levels, SAM trades at ~12x trailing EBITDA, representing a discount to recent precedent industry transactions (~13x). In our view, SAM shares would likely command a significant premium in a transaction, given the potential attainment of outsized revenue and cost synergies from an acquirer's perspective. Applying a 14x multiple (a slight premium to recent transactions) to our 2018E EBITDA, we derive an intrinsic value of $236 a share, nearly 40% above current levels. While founder Koch has shown little interest in entertaining a sale, he recently stated that he would likely be the "last American owner of the Boston Beer Company." SAM would be an attractive acquisition target and we note that the craft beer industry has recently garnered strong interest from both strategic and financial acquirers. Absent a transaction, CEO Martin Roper has a strong incentive to unlock shareholder value with 876k long-term variable price options (~7% of outstanding shares).

Boyar research

Brinker International, Inc.

Capitalization Summary ($MM)	
Price	**$52.57**
Diluted Shares (MM)	**50.8**
Market Cap	**$2,671**
Total Debt	**$1,446**
Cash	**($34)**
Enterprise Value	**$4,082**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**1.3**
52-Week Price Range	**$55.84-$43.30**
Short % of Float	**15.8%**
Major Shareholder	**Insiders 1.7%**

EAT
NYSE

Valuation and Misc. Stats ($MM) 9/28/16	
Book Value per Share	**$(10.85)**
Price/Book Value	N/A
EPS (ttm)	**$3.48**
Price/Earnings	**15.1x**
EBITDA (ttm)	**$491**
EV/EBITDA	**8.3x**
Dividend Rate/Yield	**$1.36/2.6%**

P&L Analysis ($MM)

Fiscal Year Ending June 29,	**2014**	**2015**	**2016**
Revenues	$2,909	$3,002	$3,257
EBITDA	$427	$461	$491
Margin	*14.7%*	*15.4%*	*15.1%*
FCF	$199	$228	$282
Margin	*7%*	*8%*	*9%*

Catalysts/Highlights

- SSS are about to turn positive after a 1.4% decline in 1Q FY 2017 and a 2.4% decline in FY 2016
- A leveraged recap is currently being implemented and will result in an ~18% share shrink in FY 2017
- EAT's various revenue growth initiatives, including increased alcohol sales, a new digital ordering app and participation in the Plenti coalition, will begin bearing fruit in FY 2017

INVESTMENT RATIONALE

Brinker International owns or franchises 1,660 restaurants under the Chili's Grill & Bar and Maggiano's Little Italy banners. In FY 2016, Brinker generated $3.2 billion in revenues from three sources: Chili's Company-owned restaurants (84.5% of FY 2016 revenues), Maggiano's Company-owned restaurants (12.7%), and franchise and other fees (2.8%). We estimate high-margin franchise and other fees accounted for 29% of operating income during FY 2016.

The Company is currently in the middle of a 10-year growth and margin improvement plan. In the first 5 years (FY 2011-2015)—the "blue collar phase"—management invested heavily in capex to reimage its Company-owned Chili's restaurants and upgrade kitchen equipment. These investments allowed EAT to operate more efficiently and introduce higher-margin menu items, resulting in margin expansion. In June 2015, EAT purchased 103 underperforming Chili's restaurants from a franchisee and began upgrading those locations as well. There is significant upside if management can improve the performance of the acquired restaurants (~$2.6 million in revenues per door), bringing them closer to the Chili's average of $3.1 million. From FY 2011-2015, revenues grew at a low single digit rate; however, a 230 bp improvement in EAT's restaurant operating margin, to 17.1% in FY 2015 from 14.8% in FY 2011, combined with a ~40% share shrink, drove a doubling of EPS to $3.09 in FY 2015 from $1.52 in FY 2011. Over the 6-year period from FY 2011-2016, EAT returned $2.3 billion to shareholders in the form of share buybacks ($1.9 billion) and dividends ($403 million). Over that timeframe, the Company reduced its share count by 45% as its net debt/EBITDA ratio increased to 2.4x from 0.6x.

The past year was challenging for EAT as the Company encountered a perfect storm of challenges. The sharp decline in the price of crude oil disproportionately affected EAT as ~17% of its system-wide restaurants are in oil-exposed markets (Texas, Louisiana and Oklahoma). In addition, record discounting at quick service restaurants combined with a tepid consumer spending environment pulled some traffic away from casual dining. As a result, same store sales (SSS) declined by 2.4% in FY 2016 compared to a gain of 1.7% in FY 2015. Adjusted net income growth slowed to 4.8%, aided by a 53rd week and a decline in incentive compensation as management missed targets. FY 2016 EPS increased by 14.9% to $3.55, driven by continued aggressive share repurchases. While reported results for 1Q FY 2017 (September 2016) suggested that the Company continues to struggle—Chili's SSS declined by 1.4%—a look beneath the surface reveals a brighter picture. Due to comparing against a 53-week year in FY 2016, EAT's reported weeks were not aligned around the back-to-school period. On an apples-to-apples calendar basis, Chili's SSS were down by just 0.7%. In addition, the vast majority of the weakness was isolated to a sharp slowdown in the second half of August that impacted the entire industry. September showed improvement, and management stated that in the first month of 2Q (October), SSS at Chili's were positive. Management guided to positive overall SSS in 2Q and maintained FY 2017 guidance of (positive) 0.5%- 2% SSS while expressing comfort with the low end of the range.

Just as EAT's SSS are about to turn positive, management is ramping up the "white collar phase" of its growth plan. Beginning in FY 2016, EAT invested in a new digital order and pay app (Olo) to boost takeout orders (~10% of Chili's sales and the fastest growing part of the business) and began piloting delivery services in select markets, which could add substantial revenues down the road. Management also made increasing high-margin alcohol sales (where EAT is underpenetrated vs. peers) a priority through such initiatives as doubling the number of beer taps at Chili's to add craft beers, popular with millennials. Finally, in 2H FY 2017, the Company will transition its loyalty program, which currently includes 5 million My Chili's Rewards members, to American Express's Plenti coalition, giving it access to +40 million consumers.

Given its strong FCF outlook (discussed below), EAT will increase its leverage ratio by another 0.5 turn to ~3.0x in FY 2017, and in 1Q FY 2017 the Company repurchased 1.0 million shares on the open market and completed an accelerated share repurchase of 4.6 million shares a few days before the end of the quarter, resulting in a ~10% buyback in one quarter. The Company will repurchase another ~8% of its shares in the remainder of FY 2017, amounting to an ~18% share shrink in this fiscal year.

As EAT's reimaging program winds down, declining capex ($113 million in FY 2016 vs. $161 million in FY 2014) is bolstering FCF (guidance is for $230-$240 million in FY 2017, an 8.8% FCF yield). On EAT's current FD share count of 50.8 million (subsequent to the accelerated share repurchase), midpoint FCF per share is $4.63. EAT's FCF greatly exceeds EPS (FY 2017 EPS guidance is for $3.40-$3.50) due to capex being far less than D&A after the Company completed the bulk of its reimaging program.

If EAT achieves positive SSS for the remaining three quarters of FY 2017, in line with management's guidance, we believe its current 11.4x FCF multiple is unsustainably cheap, especially given that its "white collar" growth initiatives are about to start bearing fruit. The aggressive buyback (~18%) expected to be completed this fiscal year, underscores the Board's confidence in EAT's future. Management's long-term EPS growth outlook is 10%-15% (with 6%-8% coming from share repurchases). Conservatively assuming that current FCF per share of $4.63 will grow by 10% annually, in 3 years EAT will generate $6.16 in FCF per share (the stock trades at just 8.5x). Valuing EAT at a more appropriate 14x FY 2020 FCF, or $86 per share, the shares offer 64% upside with a 2.6% dividend yield.

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%**

ELY
NASDAQ

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.

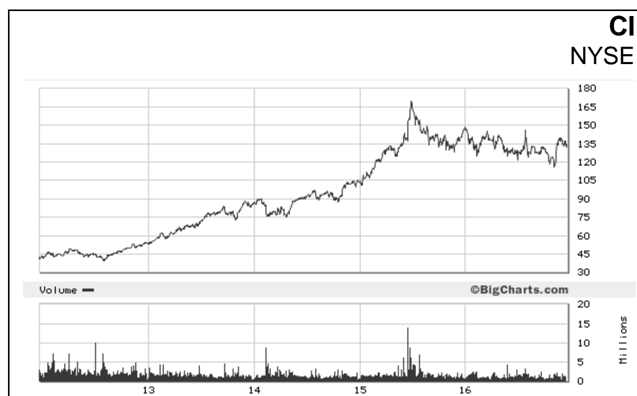
Callaway's balance sheet has been bolstered ($125 million of cash and no L-T debt) by its improved performance and TopGolf proceeds. ELY's strong financial position has enabled it to turn its attention to a few growth initiatives during 2016, including a recent apparel JV with TSI Groove & Sports and 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.

Cigna Corporation

Capitalization Summary ($MM)	
Price	**$133.24**
Diluted Shares (MM)	**259.8**
Market Cap	**$34,610**
Current Cash at Parent	**$2,500**
Percent of Market Cap	**7%**
Share Repurchase Potential	**$7,000**
Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**1.3**
52-Week Price Range	**$148.99-$115.03**
Short % of Float	**0.8%**
Major Shareholder	**Insiders 3%**

CI
NYSE



Valuation and Misc. Stats ($MM) 9/30/16	
Book Value Per Share	**$53.62**
Price/Book Value	**2.5x**
Operating EPS (ttm)	**$8.11**
P/E (ttm)	**16.4x**
Annual Dividend	**$0.04**
Dividend Yield	**0.03%**

P&L Analysis ($MM)

Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Op. Revenue	$32,167	$34,914	$37,876
Op. Income	$1,932	$2,115	$2,256
Op. Margin	6.0%	6.1%	6.0%
EPS	$7.29	$7.87	$8.66
EPS growth	12.3%	8.0%	10.0%

Catalysts/Highlights

- If the acquisition of Cigna by Anthem, Inc. gains regulatory approval, CI shareholders stand to make a 33.6% return by the end of April, or a ~100% annualized IRR
- If the merger is blocked, CI will receive a $1.85 billion breakup fee and will have $7 billion in deployable capital by the end of 2017 (20% of its market cap) for share repurchases
- CI's temporarily-challenged Group Disability and Life segment should quickly recover, providing an 11% boost to 2016 overall operating income by 2018

INVESTMENT RATIONALE

Cigna is the fourth-largest health insurance provider in the U.S., covering ~15 million medical lives. The Company breaks out its results into three segments. Global Health Care (76% of 2015 operating income) encompasses CI's commercial and government (Medicare and Medicaid) health & specialty insurance businesses. The Company offers a differentiated set of medical, dental, behavioral health, vision, and prescription drug plans globally. CI is a leader in the administrative services only (ASO) market where, on +85% of its U.S. medical lives, it generates fee revenues for providing such non-risk services as claims processing and plan design for self-funded employers. CI is a pioneer with respect to wellness programs and physician partnership arrangements, and as such, benefits from the lowest medical cost inflation rate in the industry (5% vs. 6.75% for potential acquirer Anthem, Inc. in 2015.). The Global Health Care segment has historically grown earnings at a mid-to-high single-digit rate.

Global Supplemental Benefits (11% of 2015 operating income) offers supplemental health, life, and accident insurance in the U.S. and select international markets, and has historically generated high single-digit operating income growth. Group Disability and Life (13% of 2015 operating income) is the Company's "cash cow," with historic earnings growth in the low single-digits. CI boasts the largest overseas presence of any U.S. health insurer. CI's annual EPS growth was 13% over the last 6 years, coming in at the high-end of management's 10%-13% long-term target and outperforming its peers (10% in aggregate for ANTM, AET, UNH and HUM).

2015 was a landmark year for health insurance consolidation, with three large transactions announced including the proposed acquisition of Cigna by Anthem, Inc. (the other two deals were Aetna/Humana [pending] and Centene/Health Net [closed]). In July 2016, the DOJ announced it would sue to block the ANTM/CI and AET/HUM deals, and both Anthem and Aetna vowed to fight the DOJ in court. The ANTM/CI trial started on November 21, 2016; a ruling is expected by the end of January 2017.

CI shocked the market when it reported 2Q 2016 results, slashing midpoint 2016 EPS guidance by 13% to $7.93 after slightly raising guidance to $9.15 when it reported 1Q 2016 results. The weakness is limited to the Group Disability and Life segment, where operating earnings are projected to be down 70% in 2016 vs. 2015. CI made modifications to the disability claims process in 1Q, resulting in longer cycle times and therefore higher disability durations and claims inventory. In addition, life insurance claims spiked, which happens from time to time, virtually always reverting to the mean. Management strengthened operational processes in Disability, took pricing actions in Life, and expects the segment to show significant improvement throughout 2017, with a full recovery by the end of the year.

If the ANTM/CI deal is approved, CI shareholders will receive $103.40 per share in cash, and 0.5152 ANTM shares for each CI share, or another $74.54 per share in value, for total consideration of $177.94. The deal must close by April 30th or ANTM must pay CI a $1.85 billion breakup fee. CI shares have 33.6% upside to deal value, and given that the transaction must close in ~4 months, the annualized IRR is ~100%. Moreover, ANTM shares will likely rally if the deal goes through, as the transaction is ~21% accretive to ANTM's 2019 EPS (see our Anthem, Inc. *Forgotten Forty* report in this issue), yielding even more upside for CI shareholders.

In the event the deal is blocked, we see limited downside risk due to two factors. First, CI management stated that it would implement a large share buyback in the event the deal does not go through. CI currently has $2.5 billion in free cash at the parent. With the breakup fee (~$1.1 billion after-tax) and another year of FCF, the Company will have +$5 billion in cash at the parent at the end of 2017. In addition, the Company will increase its 27% debt-to-capital ratio by another 10 percentage points via share repurchases (and 15 percentage points in the event M&A opportunities arise). Management pointed to $7 billion - $14 billion in deployable capital by the end of 2017, with the low-end applying to share repurchases and the high-end applying to acquisitions. Second, the Group Disability and Life segment, projected to earn $95 million in 2016, should fully recover back to 2015 levels ($324 million) by 2018, providing an 11% boost to 2016 overall operating income. Meanwhile CI's other two segments should continue their historic mid-to-high single-digit rates of growth.

We have conservatively modeled 5% operating income growth for Global Health Care and 6% for Global Supplemental Benefits out to 2018. Assuming CI completes a $7 billion share repurchase at the current share price by the end of 2017 (20% of its market cap) we arrive at 2018 EPS at $12.13 per share. Trading at just 11.0x 2018 earnings and offering 10%-13% long-term EPS growth potential, we believe CI shares are undervalued. Applying a 14x multiple (in line with CI's long-term median P/E) to 2018 EPS yields an intrinsic value of $170 per share at the end of 2018, for upside of 28%. Potential forced divestitures from the pending AET/HUM transaction could present CI with M&A opportunities. With up to $14 billion in buying power for acquisitions, CI could create greater shareholder value if it completes a sizable and accretive deal.

Boyar research

Coach, Inc.

Capitalization Summary ($MM)	
Price	$37.74
Diluted Shares (MM)	281.9
Market Cap	$10,639
Total Debt	$591
Cash	($1,533)
Enterprise Value	$9,697

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	3.3
52-Week Price Range	$43.71-$30.06
Short % of Float	4.6%
Major Shareholder	Insiders <1%

COH
NYSE

Valuation and Misc. Stats ($MM) 10/1/16	
Book Value per Share	$9.68
Price/Book Value	3.9x
EPS (ttm)	$2.02
Price/Earnings	18.7x
EBITDA (ttm)	$1,010
EV/EBITDA	9.6x
Dividend Rate/Yield	$1.35/3.6%

P&L Analysis ($MM)			
Fiscal Year Ending July 2,	2014	2015	2016
Revenues	$4,806	$4,192	$4,492
EBITDA	$1,309	$810	$987
Margin	*27.2%*	*19.3%*	*22.0%*
FCF	$766	$738	$362
Margin	*16%*	*18%*	*8%*

Catalysts/Highlights

- COH has stabilized its business and should sustain low-to-mid single-digit revenue and double-digit EPS growth going forward
- With 9% of its market cap in net cash, growing to 15% at the end of FY 2019, we believe COH will resume annual dividend increases
- Accretive M&A, like the recent Stuart Weitzman acquisition, should boost EPS

INVESTMENT RATIONALE

Founded in 1941 in New York City, Coach, Inc., was a pioneer of women's leather handbags in the U.S. Today, COH is a $4.5 billion-in-revenue global provider of accessories such as women's and men's bags, wallets, business cases, travel bags and other lifestyle products. In 2015, the Company acquired Stuart Weitzman, a leading designer of women's luxury footwear. COH successfully diversified away from its original product, with women's handbags representing just 53% of FY 2016 revenues, followed by men's (16%), women's accessories (16%), Stuart Weitzman (8%) and all other products (7%).

The Company breaks out its revenues into four segments. North America (53% of FY 2016 sales) comprises the Coach brand's 228 North American retail stores, 204 outlet stores, internet sales and wholesale (or department store) channel. International (38% of FY 2016 sales) encompasses the Coach brand's 522 directly operated stores and wholesale revenues in 55 foreign countries, with China and Europe representing the vast majority of sales. Stuart Weitzman (8% of FY 2016 sales) includes that brand's 75 retail stores and wholesale channel. Other (1%) captures high-margin revenues from licensing the Coach brand to footwear, eyewear, watch and fragrance manufacturers.

Until a few years ago, COH had the middle tier of the women's handbag market virtually to itself. The upper end of the market, consisting of European luxury brands such as Gucci, Louis Vuitton, Hermes and Chanel, offered status but at price points that were unaffordable for the majority of women. The lower end offered lower prices accompanied by low-quality products. COH created and dominated the "affordable luxury" segment, offering women the best of both worlds: well-made products employing high-quality leathers and other materials at relatively affordable prices.

Two things went wrong, though. The lack of competition led COH to grow complacent, keeping the Company from innovating as it cranked out essentially the same products, with small changes, year after year. In addition, COH's high margins (73% gross margin in FY 2012) attracted competition (gross margin fell to 68% in FY 2016). Brands such as Michael Kors, Kate Spade and Tory Burch quickly gained share as they offered women more fashionable options compared to the traditional handbags COH manufactured (particularly in North America). COH's revenues, which peaked at $5.1 billion in FY 2013, fell to $4.2 billion in FY 2015 before rebounding to $4.5 billion in FY 2016 (excluding the Stuart Weitzman acquisition, FY 2016 revenues were flat). As the competitive onslaught shaved nearly $1 billion off COH's top-line, management remained confident in the brand, reminding shareholders that COH had prevailed through similar competitive threats throughout its history.

In January 2014, COH's long-time CEO Lew Frankfort retired and was replaced by Victor Luis, who previously served as its Chief Commercial Officer. The turnaround relied heavily on new Creative Director Stuart Vevers, who joined in June 2013. Previously, Vevers served as Creative Director at Loewe, the nearly two-century-old Spanish leather house, where he transformed the traditional accessories brand, revitalizing both its women's and menswear businesses. In addition to implementing new designs from Vevers, COH closed 104 underperforming North American stores, began reimaging its remaining stores and elevated the brand's positioning by reducing promotional events. The efforts worked as North American retail SSS increased by 2% in 1Q FY 2017 (ending Oct. 1, 2016), overall revenues improved by 1% and EPS jumped 20%. By contrast, when COH was in freefall in FY 2015, North American retail SSS fell 22%, overall revenues declined 13%, and EPS was down 38%. Management recently guided to FY 2017 low-to-mid single-digit revenue growth, and double-digit EPS growth. Once again, COH appears to have overcome competitive threats to its brand.

Going forward, the main catalysts for COH shares relate to continued sales growth and capital allocation. Management terminated share buybacks and dividend increases in FY 2013 to focus on the turnaround. In 1Q FY 2017, COH executed a sale-leaseback of its NYC headquarters, leaving the Company with a net cash position of $942 million, or $3.34 per share (~9% of the market cap, although 63% if its cash is held overseas). In addition, capex peaked in FY 2016 at $396 million and will decline to $325 million in FY 2017 and then ~$200 million going forward as COH winds down its international store expansion and North American store reimaging plans.

We have assumed 6% EBITDA growth going forward, which, combined with rapidly falling capex, leads to accelerating FCF growth ($1.70 per share in FY 2017, $2.31 in FY 2018, $2.50 in FY 2019). Without any M&A or dividend increases, at the end of FY 2019, COH's net cash will approximate 15% of its current market cap. With the Company back on its feet, we would expect COH to resume annual dividend increases in line with net income growth. In addition, management would like to continue diversifying the business via M&A (in October 2016, rumors surfaced that COH was in talks to acquire Burberry Group PLC). COH is a disciplined buyer and putting its large cash balance (yielding little interest income) to use in a transaction could quickly result in EPS accretion. COH would also benefit from Donald Trump's proposed plan to facilitate the repatriation of foreign cash held by U.S. companies.

COH trades at just 7.6x our FY 2019 EBITDA estimate. Using a more appropriate 10x multiple (in line with its current LTM multiple), we estimate COH's intrinsic value to be $47.50 per share at the end of FY 2019. The shares offer 26% upside potential plus an attractive 3.6% current dividend yield, which we believe will rise over time.

Cowen Group, Inc.

Capitalization Summary ($MM)	
Price	**$16.15**
Diluted Shares (MM)	**26.8**
Market Cap	**$433**
Total Debt	**$224**
Total Equity	**$771**
Total Capitalization	**$995**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**0.2**
52-Week Price Range	**$16.48-$9.86**
Short % of Float	**16.9%**
Major Shareholder:	**Management 5%**

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	**$771**
Price/Book Value	**0.6x**
Operating EPS (ttm)	**$0.24**
Price/Earnings	NM
EBITDA (ttm)	NA
EV/EBITDA	NA
Dividend Rate / Yield	NA

P&L Analysis ($MM)			
Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Revenues	$344	$498	$530
Economic Income	$7	$44	$35
BV/Share	$17.64	$24.28	$26.08
Tangible BV/Share	$15.16	$22.72	$22.92
Operating Margin	6%	12%	11%

Catalysts/Highlights

- Potential industry tailwinds from U.S. election
- Investment portfolio and return of capital provide downside support
- Company could be a future take-out candidate

INVESTMENT RATIONALE

Cowen Group, Inc. is a financial institution with a meaningful presence in investment banking, brokerage, and alternative asset management (Ramius). Although the firm is modest in size, it has established attractive niches in several market segments. The investment banking segment focuses on certain growth industries such as technology and healthcare, and supports clients that include small-cap, mid-cap, and private companies that are often underserved by larger investment banks. Through a series of sound transactions, COWN has continued to grow and evolve its businesses, positioning the firm for long-term success. COWN generated $530 million in revenue in the most recent year, nearly double the figure reported in 2011. Importantly, COWN has maintained a strong focus on profitability and cost discipline while building its businesses. COWN has achieved an average operating margin of 9% since 2013, following several years of losses. Its enhanced position, paired with potentially favorable industry developments, should set the stage for significant value creation during the coming years.

COWN has transformed itself during its recent history. Important developments have included its 2009 merger with Ramius and an overhaul of its management team. More recently, COWN has pursued other initiatives to bolster its competitive position within the industry and diversify its business mix. COWN has been opportunistically adding staff across its franchise (when other firms have been downsizing) and pursuing bolt-on acquisitions. Bolt-on deals have included CRT Capital (credit research & trading), Concept Capital Markets (prime brokerage), and Dahlman Rose (investment banking). In addition, Ramius has been steadily building out its investment platform by adding new investment teams. Given COWN's scale (over $10B in AUM) and the trend toward consolidation within the hedge fund industry, Ramius should continue to attract top talent. Excluding the impact of divestitures, AUM has grown by 40% since 2011, aided by several consecutive years of positive net inflows. Overall, we believe less than ideal capital market fundamentals have overshadowed the progress achieved by COWN across its businesses.

Management also views a strong capital position as an important strategic priority, illustrated by a total debt/capital of 21%, and by its $683 million investment portfolio (equates to $23.56 per COWN share) which has the majority of its assets allocated to liquid trading strategies within Ramius. COWN's proprietary capital is allocated to 3 investment categories: Liquid trading strategies (68%), merchant banking (24%), and real estate (8%). This portfolio has generated a gross compounded annual return of 14.4% since 1999, compared to a return of 5.2% for the S&P 500 during the same period. The Company has also viewed share repurchase as an attractive option for its excess capital, given the discounted valuation of the stock during recent years (often trading at or below tangible book value). COWN has repurchased $150 million of its shares since 2011 (average price $15.64 per share). COWN's remaining repurchase authorization stands at $23 million. To bolster its capital position and support future growth, COWN issued $105 million in convertible preferred stock at an opportunistic valuation in 2015 ($26.28 per share conversion price).

COWN should be well positioned to have positive momentum during the coming years. The firm has enhanced its competitive position via its small bolt-on transactions while maintaining a strong capital footing. Moreover, the recent U.S. election could provide positive catalysts in the form of financial sector deregulation and long-term visibility for healthcare industry fundamentals (64% of COWN's investment banking revenue is from the healthcare sector). Although near-term financial comparisons may not be robust, the Company should be poised for meaningful increases in its book value and profits during the next 2-3 years. By 2018, our projections suggest that EPS and tangible book value could approach $2.00 and $26.00, respectively.

Based on our Company projections for 2018, the stock is currently trading at a P/TBV (tangible book value) multiple of 0.60x and a P/E multiple of 9.0x. We have employed a blended approach to estimate the stock's intrinsic value. This estimate relies on three methodologies: P/TBV, P/E, and a sum-of-the-parts computation. Our overall blended estimate of intrinsic value for COWN is approximately $24 per share, implying upside potential of approximately 50% using a 2-3 year time horizon. We believe COWN offers a compelling risk/reward proposition as a stand-alone entity. However, given some of the traits of COWN (modest size, strong financial position, well established market niches), it is conceivable that the Company could be a potential acquisition target at some stage. In past transactions, comparable firms have been acquired for multiples in the range of 1.20x-1.50x tangible book value (at least $30 per share).

Crocs, Inc.

Capitalization Summary ($MM)	
Price	**$7.17**
Diluted Shares (MM)	**73.7**
Market Cap	**$521**
Total Debt	**$4**
Cash	**($150)**
Enterprise Value	**$375**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**0.8**
52-Week Price Range	**$12.54-$6.79**
Short % of Float	**9.0%**
Major Shareholder	**Blackstone $200 M Convertible Preferred**

CROX
NASDAQ

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	**$274**
Price/Book Value	**1.9x**
EPS (ttm)	**($0.86)**
Price/Earnings	NM
EBITDA (ttm)	**$23**
EV/EBITDA	NM
Dividend Rate/Yield	NA

P&L Analysis ($MM)

Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Revenues	$1,193	$1,198	$1,091
Operating Income	$63	($5)	($83)
Margin	*5.3%*	*NM*	*NM*
EBITDA	$105	$33	($48)
Margin	*8.9%*	*2.8%*	*NM*

Catalysts/Highlights

- New management team continues to execute turnaround strategy
- Sales & profit comparisons should show improvement during the coming year
- Significant net cash balance provides downside support

INVESTMENT RATIONALE

Crocs is a global provider of casual footwear. During the past year, the Company generated approximately $1 billion in revenue derived from the Americas (44% of sales), Asia (39%), and Europe (17%). Its products are distributed through the wholesale channel (54% of sales), retail locations (35%), and e-commerce (11%). Since its founding in 2002, CROX has sold more than 300 million shoes in over 65 countries across the world. The firm has been undergoing many changes during recent years. Once a growth darling, CROX has shifted its focus to restructuring its operations, improving profitability, and positioning itself for more sustainable long-term growth. Blackstone's 2013 investment in CROX (via a $200 million convertible preferred issue) has been among the primary catalysts for change at the Company. In addition to a strategic overhaul, the management team at CROX has largely been replaced since Blackstone's investment. CROX is led by CEO Greg Ribatt, who joined the management team in 2015. He had been nominated to the board by Blackstone in 2014, and was previously CEO at Spanx Inc. and Collective Brands.

CROX has pursued a sound strategy in our view, but financial progress has been slower than anticipated. The majority of its restructuring initiatives are now complete, including product line rationalization, cost reduction, exits from non-core markets, and a revamped marketing approach. CROX is targeting a 10%-12% operating margin over the long term. The Company is making inroads with margins (gross margin up 200 bps in 3Q, expected by management to be up 1000 bps in 4Q), helped by restructuring initiatives and a substantial reduction in promotional activity. However, disappointing growth dynamics within the industry have hindered the Company from achieving its long-term operating margin goals (we expect this metric to be in the low single-digits for 2016). CROX's results during recent quarters have generally fallen short of expectations, and near-term guidance and expectations have been ratcheted down. Overall sales have declined 10% through the first three quarters of 2016; negative comparisons reflect both challenging footwear industry fundamentals and the Company reducing its sales exposure to less desirable channels (such as discount channels and other non-core distributors). In our view, management has been delivering on addressing internal issues within its control, but the recent pattern of earnings shortfalls and stock declines has caused the shares to remain out of favor with investors (CROX shares have declined about 30% over the past year).

It is our belief that recent results are not reflective of the Company's long-term potential. Assuming industry conditions eventually recover, CROX should be well-positioned to exceed investors' increasingly modest expectations for the Company. Growth should also benefit from the new products launched: About 60% of the product line consists of recently launched items, double the figure from 12 months ago. As growth trends gradually regain traction, CROX's improving operating leverage should translate to additional margin expansion and meaningful increases in profits and cash flow. By 2019, we believe a 9% operating margin and EBITDA of $140 million could be achievable (assumes 4%-5% annual sales growth starting in 2017).

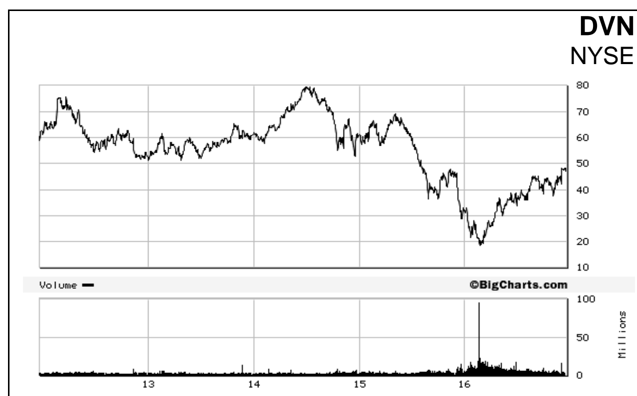
Although recent results have been disappointing, CROX has consistently maintained a strong financial position. As of the most recent quarter, the Company held a net cash position of $146 million (equivalent to over 25% of CROX's current market value). CROX has shown an ability to generate significant free cash flow in the past, and we believe the firm can exhibit this capacity again during the coming years. We believe that, in a more normalized environment (with additional margin expansion), CROX is capable of generating approximately $100 million in annual free cash flow by 2019, equating to a free cash flow yield of 19%. CROX has also been gradually buying back its own shares in recent years. In conjunction with the Blackstone investment in 2013, CROX initiated a $350 million share repurchase program. Since the end of 2013, CROX has reduced its shares outstanding by approximately 17%.

We believe CROX remains well-positioned for margin expansion and a return to growth during the coming years. Profits should begin to show marked improvement and results could materially exceed expectations if the industry backdrop returns to more normalized conditions. Based on our projections for 2019, the stock is trading at less than 4.0x on an EV/EBITDA basis and a P/E multiple of approximately 8.0x. It is also worth repeating that CROX retains a significant net cash balance (over 25% of its market cap), which should provide downside support for the valuation. Several Company insiders have made open market purchases of the shares during the past year, including CROX's CEO and CFO (average purchase price ~$9 per share). In estimating CROX's intrinsic value, we have assumed multiples of 7.0x EV/EBITDA and 15.0x EPS (consistent with CROX's historical range) applied to 2019 projections. Our estimate of intrinsic value for CROX is approximately $14 per share using a 2-3 year time horizon, suggesting return potential of over 90% from the stock's current price. In the event CROX's turnaround fully achieves objectives set by management, this estimate could prove to be conservative from a long-term perspective.

Devon Energy Corporation

Capitalization Summary ($MM)	
Price	**$47.02**
Diluted Shares (MM)	**527.0**
Market Cap	**$24,780**
Total Debt	**$11,540**
Cash	**($2,390)**
Enterprise Value	**$33,930**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM):	**5.8**
52-Week Price Range:	**$50.69-$18.07**
Short % of Float	**1.7%**
Major Shareholders	**Insiders ~6%**



Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	**$10,061**
Price/Book Value	**2.5x**
EPS (ttm)	NM
Price/Earnings	NM
EBITDA (ttm)	**$2,370**
EV/EBITDA	**14.5x**
Dividend Rate/Yield	**$0.24/ 0.5%**

P&L Analysis ($MM)			
Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Revenues	$10,397	$19,566	$13,145
Operating Income	$2,597	$5,625	$171
Margin	*25.0%*	*28.8%*	*1.3%*
EBITDA	$5,377	$8,944	$3,300
Margin	*51.7%*	*45.7%*	*25.1%*

Catalysts/Highlights

- DVN's management continues to execute on strategic transformation
- Recent initiatives bolster financial footing and funding of growth opportunities
- Firm's future profits and production poised for meaningful recovery

INVESTMENT RATIONALE

Devon Energy Corporation is a significant player in the Exploration & Production (E&P) sector. Its upstream portfolio (production operations) now consists of approximately 2.2 billion barrels of proved reserves located in North America. Over 60% of its daily production now comes from crude oil and natural gas liquids (NGLs), with the balance derived from natural gas. The Company also has meaningful exposure to midstream operations via its ownership interest in EnLink Midstream (stake valued at roughly $3.5 billion, yielding DVN $270 million in annual distributions). EnLink's business primarily focuses on gathering, transmission, processing, and marketing of various energy commodities.

After several years of poor performance, DVN shares have posted an impressive recovery over the past year. During the past 12 months, the stock has advanced by nearly 50%. Clearly, the improved energy price backdrop has been the primary catalyst for this appreciation. Crude oil prices have significantly advanced from February lows as investors' concerns regarding supply excesses have gradually diminished. The bullish price activity for crude oil gained further traction at the end of November as OPEC announced an agreement to cut production by 1.2 million barrels per day. This positive development, when coupled with improved growth prospects for the U.S. economy (helped by potential post-election fiscal policies), leads us to believe that this price recovery has sustainability going forward. From a long-term point of view, we continue to employ normalized commodity price assumptions ($80 crude oil, $4 natural gas) for DVN and other energy firms when assessing earnings power and valuation from a multi-year perspective.

DVN has executed a strategic transformation during recent years, and this should yield significant benefits for shareholders over the long-term. It has completed a series of acquisitions and divestitures to improve its upstream portfolio (shifting its output emphasis from natural gas to higher margin crude oil and NGLs), positioning the firm for growth in production and profits for years to come. Its sole production focus is on core, onshore regions in North America (Southwestern U.S., U.S. Rockies, and Western Canada). Future production growth should come largely from domestic crude oil projects such as the STACK play (Oklahoma) and the Delaware Basin (Texas/New Mexico). In 2017, management expects U.S. crude oil output to be up double-digits relative to current levels. Management expects total cash flow from DVN's upstream operations to more than double in 2017, reflecting higher output and more favorable commodity prices (based on a $55 per barrel oil price assumption). For every $1 per BOE (barrel of oil equivalent) increase in prices, DVN generates $200 million in additional cash flow. DVN's higher cash flows will enable the firm to support increased drilling activity, while also ensuring the Company can maintain a strong balance sheet. DVN typically hedges a meaningful portion of its production to enhance cash flow visibility (DVN plans to hedge about half of 2017 output).

A consistent part of DVN's long-term strategy has been maintaining a strong financial position. Management views an investment grade rating as a key priority, and the firm has retained an investment grade rating throughout all of the recent industry challenges. However, the substantial declines in oil prices during 2014-2016 put stress on firms across the E&P industry, and DVN was no exception. Management took several significant steps to shore up its balance sheet and reduce costs in order to avoid potential distress. In early 2016, DVN announced several initiatives to address this, including $500 million in cost reduction (aided by a 20% cut in headcount), a 75% decrease in upstream capital spending, a 75% reduction in the dividend, and a capital raise via equity issuance (net proceeds ~$1.5 billion). DVN also rose over $2 billion in 2016 via sale of non-core upstream assets and its stake in a Canadian pipeline. Given the severity of the commodity price declines and the uncertain outlook at the time, these actions were prudent, in our view, though dilution of current shareholders is never a welcome development. With the capital raised, DVN's management has reduced net debt by 45% since the beginning of 2016. Assuming sector fundamentals continue to recover during the coming years, we would expect DVN to be well positioned to ramp-up capital investments, consider opportunistic bolt-on M&A opportunities, and eventually consider growing the dividend.

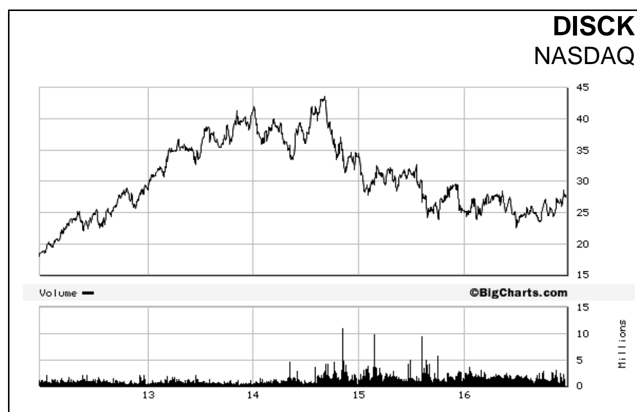
DVN shares are up significantly over the past year, reflecting improving fundamentals for the energy market and the Company's operational and financial progress. Assuming energy markets continue to recover and the firm remains on track to execute its strategy, the stock should continue to offer investors attractive upside potential. Utilizing our normalized EBITDA projections (including contributions from the midstream business) and a 5.0x EV/EBITDA multiple (toward the low end of the stock's historical range) produces an estimated intrinsic value of $70 per share, suggesting total return potential of over 45%. Even if crude oil prices only recovered to the mid-$60s level, upside potential for DVN shares would likely exceed 20%.

Discovery Communications, Inc.

Capitalization Summary ($MM)	
Price	**$27.74**
Diluted Shares (MM)	**602.0**
Market Cap	**$16,669.5**
Total Debt	**$7,996.0**
Cash	**($224.0)**
Enterprise Value	**$24,471.5**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**1.7**
52-Week Price Range	**$28.91-$22.43**
Short % of Float	**3.5%**
Major Shareholders	**John Malone: econ. 3.3%, voting 29%**
	Advance/Newhouse: econ. 35%, voting 25%

DISCK
NASDAQ



Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	**$5,204**
Price/Book Value	**3.2x**
Adjusted EPS (ttm)	**$1.95**
Price/Earnings	**14.2x**
Adj. EBITDA (ttm)	**$2,419**
EV/EBITDA	**10.3x**
Dividend Rate/Yield	NA

P&L Analysis ($MM)

Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Revenues	$5,535	$6,265	$6,394
Operating Income	$1,975	$2,061	$1,985
Margin	*35.7%*	*32.9%*	*31.0%*
EBITDA	$2,402	$2,491	$2,398
Margin	*43.4%*	*39.8%*	*37.5%*

Catalysts/Highlights

- Approximately 50% of revenues secured pursuant to multi-year contracts providing good revenue/cash flow visibility
- Share buybacks should continue to be robust with Discovery's shares trading at depressed levels
- Agreement with MLB Advanced Media should bolster Eurosport's direct-to-consumer ambitions
- AT&T's pending acquisition of TWX could portend future content industry acquisitions and DISCK is an appealing target

INVESTMENT RATIONALE

Discovery Communications is a global media company that boasts a strong portfolio of cable network and digital entertainment properties with an average of 10-12 cable network channels in each of the more than 220 countries it serves. Key properties include the flagship Discovery Channel, Animal Planet, TLC, Investigation Discovery, the Oprah Winfrey Network (OWN), and Eurosport. DISCK also holds a 39% stake in Group Nine Media (properties include Seeker, SourceFed, Thrillist Media Group, Now This Media, and The Dodo) which is the largest provider of video on Facebook with nearly 4 billion one minute streams per month on the platform.

Discovery continues to offer significant revenue and cash flow visibility with approximately 50% of its revenues secured pursuant to multi-year contracts. Although DISCK has been experiencing a low single-digit % decline in subscribers at its U.S. networks on average (51% of total revenues), rate increases recently garnered in renewal agreements with all of it major distributors (CMCSA, ATT, etc.) should more than offset adverse subscriber trends. Outside of the U.S., constant currency distribution revenue has improved (up 10% and 8% during 2Q and 3Q 2016, respectively on a YoY basis), and management expects international distribution revenues to increase at a double-digit rate for "many years to come," reflecting, in part, favorable renewals signed recently with key distributors including Liberty Global. The revenue visibility coupled with recent initiatives to improve its cost structure and reduce its tax rate, prompted DISCK in August 2016 to increase its three-year (2015-2018) outlook for both constant currency adjusted EPS and FCF growth to a low teens % or higher CAGR (previously low double-digits).

Ratings softness at DISCK's two largest networks (Discovery and TLC) have impacted its U.S. advertising revenues, which fell 3% during 3Q 2016 and were initially expected to be flat in 4Q (management subsequently stated that ad revenues for 4Q 2016 would come in better than expected). While ratings challenges at the Discovery channel are worth monitoring, management notes that global viewership of the network is up significantly versus last year reflecting its strategy to forgo programming that would boost domestic ratings at the expense of global viewership and the Discovery brand (~90% of programming on the U.S. channel is utilized globally). TLC, which is programmed for a "middle America" audience has also been under pressure recently, especially during the recent presidential election. DISCK has been focused on turning the network around and management recently noted that the network has "come out like a rocket" subsequent to the election. While some investors have focused on ratings challenges at DISCK's top networks, there are multiple networks performing very well including Investigation Discovery (now the #2 women's cable network in the U.S. with the longest length of view), OWN (#1 cable network serving African American women) and Discovery Kids (#1 cable network in Brazil over the past 6 years).

Discovery owns the vast majority of its content and is well-positioned to monetize its content on multiple distribution platforms. As a testament to the strength of its content portfolio, DISCK is able to preserve ~85% of its network economics in a skinny bundle environment. Early results of the Company's Discovery Go app (TV everywhere app enabling access to nine networks) offered to consumers of DISCK's U.S. distributors (~75% of U.S. MVPDs have access to the product), are very encouraging from a viewership perspective. Notably, 40% of the Discovery GO users are under age of 25 (vs. 13% for its linear networks) while the average length of view is an amazing 1 hour (vs. 12 minutes for the average cable network). These results bode well for future advertising revenue as management notes the CPM on Discovery GO is ~60% higher than its linear networks (consumers are also unable to skip commercials).

Investor reception for Discovery's expansion into the sports genre via the Eurosport acquisition has been lukewarm. Eurosport currently generates a low-teens EBITDA margin, well below the level of its U.S. (~60%) or International (~35%-40% ex Eurosport) Networks. However, DISCK believes that there are multiple items that should bolster Eurosport's margins including management's ambition to create a "Netflix for Sports" direct to consumer (DTC) product utilizing its valuable sports IP (tennis, winter sports, select soccer rights, etc.) with a potential market of 700 million residents. In November 2016, Discovery announced an agreement with MLB Advanced Media subsidiary BAMTech to accelerate its DTC ambitions (Eurosport currently has ~200k subscribers to its DTC offering). BAMTech's state-of-the-art back-end video platform will be incorporated into Eurosport's digital products (Eurosport.com and Eurosport Player) and Eurosport will be able to utilize select MLBAM content. DISCK will also have a stake (~33%) in BAMTech Europe, which will offer its first-rate digital media capabilities to content companies across the continent.

Discovery's strong free cash flow generating abilities have enabled it to be an aggressive acquirer of its shares. Since the Company began its buyback program in 2010 it has deployed $7.8 billion toward buybacks (47% of its current market cap), reducing diluted shares outstanding by ~30% including $1.5 billion deployed over the past year to acquire ~56 million shares (average cost: ~$27 a share). We would expect share buybacks to be a recurring theme, especially at today's depressed share price (shares currently trade over 35% below their recent 2014 high).

Applying discounted (relative to precedent industry transactions) multiples of 11.0x and 9.0x to our 2018E EBITDA for the U.S. and International Networks segments, respectively, we derive an estimate of intrinsic value of $44 a share, representing 59% upside from current levels. We would not rule out the possibility that DISCK becomes a takeover candidate. AT&T's proposed acquisition of TWX (~12x EV/EBITDA; announced October 2016), following a flurry of distributor mergers (AT&T/DTV, CHTR/TWC) could spur further content industry consolidation and we believe Discovery would make an appealing target.

Dover Corporation

Capitalization Summary ($MM)	
Price	**$75.64**
Diluted Shares (MM)	**156.8**
Market Cap	**$11,860**
Total Debt	**$3,130**
Cash	**($515)**
Enterprise Value	**$14,475**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**1.5**
52-Week Price Range	**$78.27-$50.91**
Short % of Float	**2.0%**
Major Shareholders	**Insiders ~1%**

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	**$3,645**
Price/Book Value	**3.2x**
EPS (ttm)	**$3.12**
Price/Earnings	**24.2x**
EBITDA (ttm)	**$1,150**
EV/EBITDA	**12.6x**
Dividend Rate/Yield	**$1.76 / 2.3%**

P&L Analysis ($MM)

Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Revenues	$7,155	$7,753	$6,956
Operating Income	$1,162	$1,215	$921
Margin	*16.2%*	*15.7%*	*13.2%*
EBITDA	$1,440	$1,522	$1,248
Margin	*20.2%*	*19.6%*	*17.9%*

Catalysts/Highlights

- DOV should continue to create value via opportunistic acquisitions
- Potential recovery in energy market to provide multi-year tailwind
- Company should be poised for positive earnings surprises

INVESTMENT RATIONALE

Dover Corporation is a well-established industrial conglomerate with a long history and strong track record (formed in 1955). DOV consists of four divisions: Engineered Systems (35% of sales), Refrigeration & Equipment (25%), Energy (21%), and Fluids (20%). The firm has maintained a consistent approach to its operations and allocation of capital. Although its business mix has evolved over time, the Company's decentralized management structure has remained a core aspect of DOV's strategy, allowing significant operational autonomy for its divisions. DOV has built its competitive position via a combination of internal investments and M&A.

DOV has faced several operating challenges in recent years. The firm's challenges have included a meaningful downturn in the energy industry and weakness within the refrigeration and equipment business. These headwinds are quite apparent upon reviewing DOV's recent financial results. Through the first 9 months of 2016, the Company's revenue and operating income have declined 28% and 20%, respectively. On several occasions, DOV has reported weaker than expected earnings, and management has lowered future guidance. The Company has also pursued cost-reduction opportunities to mitigate the downturn across its businesses (at least $40-$50 million of savings per year from supply chain optimization alone). However, we believe the recent challenges reflect a combination of cyclical forces and general weakness in the economic backdrop, rather than a permanent impairment to DOV's competitive position or future earnings power. Moreover, DOV should be approaching an inflection point for its financial comparisons during the coming quarters. The firm's recent results do not reflect DOV's long-term earnings power, from our perspective.

The energy segment has reported particularly weak comparisons during recent quarters (operating profit down over 80% through the first 9 months of 2016). We view this weakness as a cyclical correction, and future results should be positioned for significant improvement during the coming years. Importantly, management indicated that some of its upstream businesses were already beginning to show some early signs of recovery during the most recent quarter. Although results may remain relatively depressed in the near term, we believe a recovery in DOV's energy business could be among the primary drivers of profit growth over the next 2-3 years. In our view, oil prices should be positioned for a continued recovery as supply and demand levels gradually approach greater balance. In addition, DOV has exposure to several other industrial markets that management expects to have CAGRs of at least low-mid single-digits over the course of the 2016-2018 period, such as digital printing, refuse collection, and after-market auto equipment.

Assuming energy sector fundamentals gradually recover and overall economic fundamentals are relatively favorable, we believe DOV is capable of achieving sales of $8 billion and EBITDA of $1.7 billion by 2019. These projections imply EPS of roughly $5.00. To provide some perspective, we project sales and EBITDA for the current year to be roughly $6.7 billion and $1.2 billion, respectively (about $3.00 in EPS). Over the long term, DOV's financial objectives include organic sales growth of 3%-5%, steady margin expansion, and annual free cash flow generation equivalent to at least 11% of sales. Despite its recent challenges, DOV has remained committed to maintaining a strong balance sheet. As of the most recent quarter, DOV possessed net debt of approximately $2.6 billion (TTM EBITDA ~$1.2 billion). DOV's solid financial position has allowed it to invest in future growth opportunities, while also returning capital to shareholders: DOV has increased its dividend for 61 consecutive years, and its current annual dividend of $1.76 per share offers investors a 2.3% dividend yield.

Prudent M&A has been a significant aspect of the Dover culture for several decades, and this should continue to complement the Company's organic growth opportunities in the future. Historically, DOV's M&A activity has placed emphasis on bolt-on acquisitions that enhance or complement existing businesses. Although DOV's culture emphasizes autonomy for its respective business lines, the Company does seek to gain efficiencies via scale in its supply chain and by sharing best practices across the organization. During 2016, announced acquisitions have included Wayne Fueling Systems (a retail fueling business) for $780 million in cash and Ravaglioli S.P.A. Group for $274 million in cash (an Italian provider of auto equipment). The Company also will occasionally divest businesses that management no longer views as core to DOV; a recent example of this is the firm's announced sale of Tipper Tie (a food processing and packaging business) to JBT Corporation for $160 million.

Despite challenging financial comparisons during recent quarters, DOV shares have managed to achieve impressive performance over the past year (total return ~25%). Clearly, investors have looked past the near-term fundamental challenges and have shifted focus to DOV's longer-term business outlook and growth prospects. Assuming the Company can achieve our projected recovery in sales and margins during the coming years, we believe an intrinsic value of approximately $90 per share should be attainable within the next 2-3 years (implying total return potential of ~25%). This estimate assumes an EV/EBITDA multiple of 10.0x and a P/E multiple of 18x applied to our 2019 projections, which is consistent with DOV's historical trading range.

Eastman Kodak Company

Capitalization Summary ($MM)	
Price	**$16.15**
Diluted Shares (MM)	**42.8**
Market Cap	**$691**
Total Debt	**$672**
Cash	**($483)**
Enterprise Value	**$874**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**0.08**
52-Week Price Range	**$17.30-$7.56**
Short % of Float	**4.1%**
Major Shareholder	**Blackstone: ~21%**

KODK
NYSE

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	NA
Price/Book Value	NA
EPS (ttm)	NA
Price/Earnings	NA
Op. EBITDA (ttm)	**$108**
EV/EBITDA	**8.1x**
Dividend Rate/Yield	NA

P&L Analysis ($MM)

Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Revenues	$2,349	$2,102	$1,798
Operational EBITDA	$150	$154	$122
Op. EBITDA Margin	6.4%	7.3%	*6.8%*

Catalysts/Highlights

- Recent investment (convertible preferred security) from prominent investor provides validation of Company's improved performance and enables KODK to pay off some high cost debt that will result in $17 million of annual savings
- Divestiture of Prosper is progressing and sale proceeds will likely be deployed to reduce additional high cost debt
- Improving earnings quality with growth businesses and cost savings more than offsetting decline of secularly challenged businesses
- KODK is on the cusp of generating FCF, and dividends and/or share buybacks could be forthcoming

INVESTMENT RATIONALE

This is not your father's Eastman Kodak. Today's Kodak emerged from bankruptcy in 2013 and is primarily focused on commercial imaging businesses that operate a "razor and blade" business model (~80% of KODK's revenues are characterized as annuities). 2016 will likely mark an inflection point for Eastman Kodak with the Company on the cusp of significant free cash flow generation. In the last four quarters, Kodak burned just $10 million of cash, compared with $219 million cash consumption in the prior four quarters (both periods exclude debt payments). KODK's quality of earnings has also improved as the portion of revenues derived from its growth businesses (discussed below) coupled with productivity/cost initiatives (~30% headcount reduction since 2014 driving a 50% reduction in operating expenses) is more than offsetting revenue pressure associated with its declining businesses.

Kodak's improved financial position recently enabled it to raise capital on attractive terms from a prominent institutional investor, significantly bolstering its capital structure. In November 2016, KODK issued a $200 million convertible preferred (5-year maturity, 5.5% dividend) to Southeastern Asset Management. KODK expects to use the proceeds, along with cash on hand, to redeem its costly 10.75% second lien term notes resulting in annual cash savings of approximately $17 million. In addition to the ongoing financial benefits from the redemption, the move also puts KODK in a position of strength as it negotiates the sale of one of its business lines (Prosper) as part of the Company's ongoing initiatives to streamline its portfolio and unlock shareholder value. Prosper is an attractive annuity business with good growth prospects that should command a favorable valuation (proceeds could be north of $200 million, representing ~30% of KODK's current market cap). Prosper generated nearly $100 million in revenues (~5% of total) over the last twelve months (through September 2016), up $20 million (26% on a constant currency basis). However, management has determined that the business is better suited as part of a larger entity given the significant capital (financing capabilities, working capital, capex, R&D, etc.) and infrastructure, including personnel that the business requires to compete on a global basis. The sale of Prosper should go a long way toward further improving the Company's financial position as proceeds will likely be utilized to pay off KODK's first lien term notes (~$400 million outstanding; ~7.5% coupon). Should this occur, KODK's improved financial position and strong balance sheet ($489 million of cash; $183 million of net debt) would likely be able to support a meaningful dividend and/or robust share buyback.

Following the Prosper sale, Kodak's future growth rate is expected to slow from 2015 levels. We would also note that Kodak still has a number of growth businesses in its portfolio including Sonara (7% of revenues), Flexcel (5%), Software and Solutions (6%) and Micro 3D Printing (no current revenue). Of particular note is Flexcel NX, the Company's packaging business, which we believe is the Company's crown jewel. The business boasts an attractive competitive position that is supported by a patent protected technology and generates an attractive annuity stream given the product's closed loop characteristics (only Kodak plates work on the Flexcel hardware). The profitability of Flexcel is currently being masked by investments associated with touch screen sensors (both businesses belong to the same segment). During 2015, Flexcel generated ~$30 million of operational EBITDA (before corporate SG&A – compared with total segment operational EBITDA before corporate costs of just $16 million) up from $22 million in 2014. Management expects the business to generate between $35 and $40 million of operational EBITDA in 2016.

While Kodak sold about 1,000 patents in 2012 prior to emerging from bankruptcy, the Company still maintains a valuable portfolio of ~5,000 patents that the Company is looking to monetize via licensing opportunities or through outright sales. In 2014, Kodak generated $70 million in non-recurring revenues from its IP licensing business. While the Company generated just $1 million in IP licensing revenues in 2015 (no revenues YTD 2016), there have been some meaningful opportunities that have recently emerged. In 2016, Kodak established a partnership with e-commerce powerhouse Alibaba that will leverage Kodak's assets and expertise in material science and imaging technology to provide technologies tailored for retail and e-commerce, including a sophisticated tagging system that offers a unique way to identify and track products through the supply chain (ostensibly targeted to address counterfeit goods). Additional potential IP opportunities include a proprietary material for light blocking curtains, antimicrobial protectors for a variety of products (phone, tablets, trays, t-shirts), and 3D printing (recently established joint development agreement with Carbon).

The bulk of the revenues associated with the Consumer and Film Division (~15% of total revenues) are in a long term secular decline (ink cartridges associated with printers no longer being manufactured), though the recent re-launch of the Super 8 camera could help offset some of the decline. In 2016, Kodak launched its first Super 8 camera product in more than 30 years. KODK expects to begin selling the Super 8 camera in the first half of 2017 and believes that the product will generate a "solid return" for the full year.

Our estimate of Kodak's intrinsic value is $22 a share, representing 36% upside from current levels. Additional upside could come from a number of sources including a potential earnount payment from Carestream, monetization of excess real estate (Rochester and Brazil) and utilization of NOLs ($1.6 billion). Kodak's current underfunded pension plan could pivot from a potential liability to a valuable asset in a rising interest rate environment. We note that insiders are highly motivated to unlock shareholder value including Blackstone (21% stake) and CEO Clarke (who has meaningful equity incentives and commutes to Rochester from Northern California).

Energizer Holdings, Inc.

Capitalization Summary ($MM)	
Price	**$44.67**
Diluted Shares (MM)	**62.8**
Market Cap	**$2,805.3**
Total Debt	**$1,043.1**
Cash	**($287.3)**
Enterprise Value	**$3,561.1**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**0.3**
52-Week Price Range	**$53.41-$28.85**
Short % of Float	**9.43%**
Major Shareholder	**Insiders: ~1.7%**

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	N/M
Price/Book Value	N/M
Adjusted EPS (ttm)	**$2.31**
Price/Earnings	**19.3x**
EBITDA (ttm)	**$313.9**
EV/EBITDA	**11.3x**
Dividend Rate/Yield	**$1.10 / 2.5%**

P&L Analysis ($MM)		
Fiscal Year Ending September 30,	**2015**	**2016**
Revenues	$1,631.6	$1,634.2
Segment Profit	$391.5	$388.2
Margin	*24.0%*	*23.8%*
EBITDA	$345.5	$313.9
Margin	*21.2%*	*19.2%*

Catalysts/Highlights

- Improving battery industry fundamentals reflecting favorable device trends associated with the "Internet of Things"
- Potential for a more rational battery promotional environment due to Berkshire involvement and competitor commentary
- Management is heavily incentivized to unlock value and the two-year spin-off milestone could portend an acquisition

INVESTMENT RATIONALE

On July 1, 2015, Energizer Holdings was spun off from the company now known as Edgewell Personal Care. ENR consists of the household products businesses of its former parent, including batteries and portable lighting primarily sold under the Energizer and Eveready brand names. ENR boasts a strong portfolio of brands, many of which command the number one or number two market share in key categories and geographies.

Although household batteries are a fairly mature category globally, a number of encouraging trends are worth highlighting. ENR management recently increased its outlook for the household battery industry to a flat-to-low single-digit % decline compared to a prior outlook of low single-digit % decline and management continues to believe that ENR will grow faster than the overall industry. The improved industry outlook reflects the so-called "Internet of Things" evolution (increased prevalence of connected devices utilizing batteries) and the miniaturization of devices, requiring smaller, specialty (read: premium-priced) batteries. Notably, the premium segment of the market (~70% of industry sales) is experiencing good growth and these products command higher margins than the lower value/priced zinc batteries. Favorable demographic trends in emerging markets (~25% of ENR's sales), including the increase in families with young children (more devices requiring batteries), should provide a nice tailwind. It should be noted that ENR's market share in emerging markets (~45%) is much higher than its share in North America (~33%). Finally, Berkshire Hathaway's recent acquisition of Duracell and comments from competitor Rayovac give reason to be hopeful for a reduced promotional environment going forward.

Despite operating in a low growth industry, ENR generates strong cash flows. During FY 2016, ENR generated $167 million of FCF (compared to its initial outlook of $150 million) and current expectations call for over $180 million of FCF (~6% FCF yield) in FY 2017. While a large portion of the anticipated FCF growth is attributed to the recent Handstands acquisition (discussed below), ENR's FCF is also being supported by the realization of ongoing operating efficiencies. While the Company has made good progress with various initiatives in recent years that have bolstered its FCF, further opportunities remain, including optimizing its trade investment, improving days in inventory (currently at ~95 days), and rightsizing its organization, among other measures. It should be noted that FCF is a key management compensation component (both from a near-term and long-term perspective), which provides ENR management with a strong incentive to realize further efficiencies.

ENR's July 2016 acquisition of Handstands (automotive fragrance and appearance products) for $340 million (~10x EBITDA; ~8.7x post cost synergies) could potentially add a nice growth component for ENR. The transaction, which efficiently utilized a large amount of ENR's overseas cash, is expected to be accretive to ENR's adjusted EPS by about $0.15 to $0.20 during the first fiscal year post closing. Handstands is primarily a domestic business (83% of its $120 million of revenues in 2015 were derived from the U.S.) that boasts strong EBITDA margins (2015: ~27%) and generates strong FCF (over $20 million in incremental FCF in the first full fiscal year), thanks to its asset-light business model characterized by outsourced manufacturing. The automotive fragrance market (~80% of Handstands revenues; 25% market share) has experienced good growth recently and future prospects look bright, with the total number and average age of vehicles on the road expected to increase going forward. Approximately 75% of Handstands' U.S. sales overlap with ENR's existing customers and management believes there is an opportunity to expand distribution with existing customers (multiple placements within a store—similar to batteries) and into new distribution channels and geographies (ENR generates over 50% of its sales outside the U.S. vs. 17% for Handstands).

Management's key priorities for excess capital are (in order) reinvestment in its business to drive long-term value, providing a meaningful/competitive dividend (recently increased by 10% to $1.10/share; 2.5% yield), opportunistic share repurchases, and disciplined M&A. While acquisitions are not without their risks, we note that ENR's board is led by chairman Patrick Mulcahy (a Bill Stiritz disciple), who has a proven and successful capital allocation track record. It is noteworthy that Mulcahy opted for the less glamorous battery operations in conjunction with the spin-off. Furthermore, management is heavily incentivized to unlock value through improving operations (FCF generation is a key criteria) and/or a sale of the business. Notably, CEO Hoskins received a one-time equity grant ($7 million) and stands to realize over $17 million from a "change in control." ENR's two-year spin off milestone is approaching (July 2017) and this could provide an impetus for a transaction.

Applying a 10x multiple to our 2019E EBITDA for ENR, we derive an intrinsic value of $55 a share, implying total return potential of over 30%. We believe a number of factors could drive upside to our intrinsic value estimate, including a more favorable FX environment (segment operating income would be ~$182 million higher today based on 2012 FX rates), improved industry pricing environment, repatriation tax holiday ($287 million of balance sheet cash; 96% held outside the U.S.), outsized share repurchases, additional accretive M&A, and further operational/working capital improvements.

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.

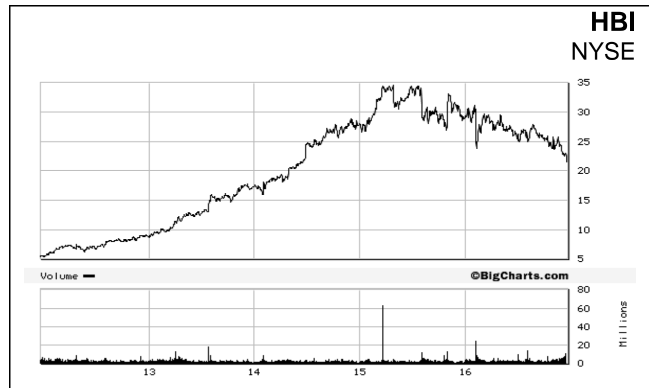
Assigning a discounted (relative to precedent transactions) 2.5% multiple to our projected 2018E AUM, we derive a value of $56 a share, representing 43% upside from current levels. If BEN's shares continue to languish, we would not be surprised if it finds itself as an acquisition target. Potential suitors 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.

Hanesbrands Inc.

Capitalization Summary ($MM)	
Price	**$22.46**
Diluted Shares (MM)	**382.6**
Market Cap	**$8,593**
Total Debt	**$3,884**
Cash	**($450)**
Enterprise Value	**$12,028**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**5.6**
52-Week Price Range	**$31.36-$21.49**
Short % of Float	**12.2%**
Major Shareholder	**Insiders ~1%**

HBI
NYSE



Valuation and Misc. Stats ($MM) 10/1/16	
Book Value per Share	**$3.10**
Price/Book Value	**7.2x**
Adj. EPS (ttm)	**$1.76**
Price/Earnings	**12.8x**
Adj. EBITDA (ttm)	**$925**
EV/EBITDA	**13.0x**
Dividend Rate/Yield	**$0.44/2.0%**

P&L Analysis ($MM)

Fiscal Year Ending January 2,	**2014**	**2015**	**2016**
Revenues	$4,628	$5,325	$5,732
Adj. EBITDA	$669	$856	$962
Margin	*14.5%*	*16.1%*	*16.8%*
FCF	$547	$443	$128
Margin	*11.8%*	*8.3%*	*2.2%*

Catalysts/Highlights

- Organic revenue growth is on the verge of accelerating given the launch of Fresh IQ, HBI's biggest innovation in ten years
- FCF, which has been depressed by one-time issues, is poised for significant improvement
- Acquisition-related charges, which have sparked investor concern over earnings quality, will decline substantially in 2017

INVESTMENT RATIONALE

AAF has not profiled Hanesbrands Inc. since our 2014 *Forgotten Forty*, when the stock traded at a split-adjusted price of $16.80. HBI subsequently peaked at ~$34.50 in mid-2015, followed by a steady decline to current levels due to weakening organic growth and concerns over earnings quality, as the Company has taken numerous acquisition-related charges.

HBI is a leading manufacturer of everyday basic apparel such as men's underwear, children's underwear, socks, T-shirts, bras, panties, hosiery and activewear. The Company's brands—which include Hanes, Champion, Maidenform, L'eggs and Wonderbra—hold the #1 or #2 market position in the U.S. (80% of 2015 revenues) in most product categories. Hanes, the Company's largest brand, is found in eight out of ten U.S. households and benefits from ~100% name recognition.

After being spun off from Sara Lee Corporation in 2006 with debt/EBITDA of 5.2x, the Company spent its first few years deleveraging. Beginning in 2010, HBI embarked on an acquisition-driven growth strategy, closing on six transactions to date for ~$2.5 billion in total consideration (~30% of its current market cap). Two of these acquisitions, including the Company's largest (Pacific Brands for $800 million) closed in 2016. Part of HBI's synergy-capture strategy is to move manufacturing to low-cost/low-tax geographies (which may be complicated by future U.S. trade policy under the new administration). The Company's recent results have been muddied by acquisition-related charges. With management referring to "adjusted" EPS and EBITDA in recent quarters, coupled with FCF declining by 71% in 2015 ($128 million in 2015 vs. $443 million in 2014, driven by higher inventory levels and an elevated $100 million pension contribution) and remaining negative in 1H 2016, as occurs seasonally (a FCF outflow of $172 million in 1H 2016 vs. an outflow of $289 million in 1H 2015), some investors began seeing HBI as a high-risk roll-up with aggressive accounting.

In our view, the bear case on HBI is misguided as it is out of sync with the Company's history. HBI's products are largely replenishables. Under Sara Lee, Hanesbrands was run as a cash cow. The Company's robust FCF generation allowed it to lever up to 5.2x and pay Sara Lee a $2 billion dividend. As an independent company, HBI was able to invest in growth (HBI currently spends 1% of revenues on R&D, more than any other competitor, and 3%-4% of revenues on advertising) and pursue acquisitions. We believe the misperception that HBI morphed into a high-risk company is due to 2016 being the first year in which 2 acquisitions were completed, coupled with poor FCF (for separate, one-time reasons).

HBI's 3Q 2016 earnings report was an important event for management's credibility. The Company generated strong FCF of $314 million. Moreover, management provided guidance for midpoint FCF of $685 million in 2016, or $1.79 per share. Finally, acquisition-related charges are projected to decline substantially in 2017 to well under $100 million, from $180 million in 2016 and $266 million in 2015. In our view, the decline and ultimate elimination of such charges should bolster HBI's earnings quality and valuation.

Just as HBI's earnings quality is poised to improve, the Company's top-line growth is on the verge of accelerating. Late in 3Q 2016, HBI introduced its Fresh IQ advanced odor protection technology onto the market, to be followed by a big launch campaign (including TV and digital advertising) in 4Q. Fresh IQ is HBI's most significant innovation in 10 years, and initial consumer response has been quite favorable. HBI has used off-shelf displays that offer trial and bonus packs to entice consumers to try the products. Historically, when HBI has sold trial packs, it has often seen repeat purchases. The Company launched Fresh IQ in one of the highest retail traffic periods of the year. Fresh IQ is being rolled out with a modest price premium, but there is the potential to further raise prices longer term if the innovation is successful. Innerwear (39% of total revenues) organic revenues increased by 2% in the first 9 months of 2016, and Fresh IQ should drive this number higher over the medium term. While Fresh IQ is initially being launched in men's underwear, socks and certain Champion products, the technology has the potential to be implemented across a greater percentage of HBI's product portfolio over time.

Activewear sales (29% of total revenues) declined by 2% in 3Q 2016, negatively impacted by the bankruptcies of certain sporting goods retailers (the largest of which being Sports Authority, which shut 460 stores). Excluding this one-time impact, Activewear sales were up 1%. This segment's growth will become apparent in 1Q 2017 when HBI laps the bankruptcy effect. In addition, as liquidations wane, Activewear margins should rebound in 2017 as higher-margin products garner a much greater percent of sales. HBI's smallest segment, Direct to Consumer (5% of total revenues), saw revenues decline by 11% in 3Q 2016 due to the shut-down of HBI's legacy catalog business which had been in decline for some time. Going forward, the double-digit growth of HBI's online businesses will become apparent.

As acquisition-related charges decline, FCF improves and organic top-line growth accelerates, we believe HBI will shed its perception as a high-risk roll-up, leading to an improved valuation. With low single-digit organic revenue growth and continued efficiency capture from recent acquisitions, we believe HBI can sustain ~10% FCF growth over the medium term. HBI trades at just 10.4x our 2018 FCF estimate of $2.17 per share. Using a more appropriate 15x FCF multiple, we estimate HBI's intrinsic value to be $32.50 at the end of 2018, offering upside of 45%. Finally, after selling shares in late-2015, former CEO Richard Noll (now executive chairman) recently purchased 20k shares of HBI on the open market. Noll had not made an open market purchase in HBI since February 2009 during the depths of the financial crisis, when the stock traded at ~$1.75 per share (split adjusted).

Harley-Davidson, Inc.

Capitalization Summary ($MM)	
Price	**$60.00**
Diluted Shares (MM)	**179.3**
Market Cap	**$10,759**
Total Debt	**$6,925**
Cash	**($795)**
Enterprise Value	**$16,889**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**2.3**
52-Week Price Range	**$62.35-$36.36**
Short % of Float	**14.2%**
Major Shareholders	**Insiders ~1%**

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value per Share	**$11.11**
Price/Book Value	**5.4x**
EPS (ttm)	**$3.77**
Price/Earnings	**15.9x**
EBITDA (ttm)	**$1,257**
EV/EBITDA	**13.4x**
Dividend Rate/Yield	**$1.40 / 2.3%**

P&L Analysis ($MM)

Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Revenues	$5,890	$6,228	$5,995
Operating Income	$1,154	$1,281	$1,156
Margin	*19.6%*	*20.6%*	*19.3%*
EBITDA	$1,321	$1,460	$1,354
Margin	*22.4%*	*23.4%*	*22.6%*

Catalysts/Highlights

- HOG's model year 2017 motorcycles featuring its new Milwaukee-Eight engine should drive continued market share gains
- OPEC's recent production cut should underpin oil prices and bolster depressed motorcycle sales in oil-exposed regions
- Recent acquisition rumors could prove valid and a buyout by a financial buyer may be consummated

INVESTMENT RATIONALE

Harley-Davidson Inc. was one of the most successful members of last year's *Forgotten Forty*, gaining 32%. A year ago, we specifically highlighted the potential for interest by financial buyers in HOG as a catalyst for its shares in 2016, writing: "In the event HOG shares remain depressed for an extended period, it could also be increasingly likely that the firm becomes the target of private equity investors given its many attractive traits." Our view proved prescient; on July 1, 2016, HOG shares surged 19.8% due to rumors that it may be acquired by KKR & Co. L.P. In 2010, rumors of a possible takeover by KKR surfaced as well. While no deal was announced, HOG shares continued rising into the end of 2016 as the Company provided an improved revenue outlook going into 2017.

Founded in 1903, Milwaukee, WI-based Harley-Davidson is the world's leading designer and manufacturer of heavyweight motorcycles and related products and merchandise. In the first 9 months of 2016, the Company's retail sales of motorcycle units were split as follows: North America (68%), Europe, Middle East, and Africa (18%), Asia Pacific (11%) and Latin America (3%). HOG's moat consists of its 113-year operating history, strong brand, distinctive products and very loyal customer base. In 3Q 2016, the Company had 52.3% share of the 601cc-plus segment of the motorcycle market in the U.S. HOG holds the #1 share of this segment in the U.S., Canada, Australia, India and Japan.

In 2015 and early 2016, HOG shares were weak due to intensified price competition in the U.S. motorcycle industry. Foreign competitors were particularly aggressive on price due to a strong USD and more tepid conditions in other developed markets. Consistent with its history, HOG refrained from discounting and saw its sales come under pressure. In last year's *Forgotten Forty*, we viewed HOG's challenges as temporary and highlighted two prior instances when it faced price competition but recaptured its lost market share in relatively short amounts of time (HOG's share declined by 300 basis points in 2000, but the Company regained this share within 2 years. HOG also lost a similar amount of market share in 2008 but gained 850 basis points of share by the end of 2009).

In response to more aggressive competition, HOG restructured some of its operations and directed the cost savings toward marketing and product development. By 3Q 2016, HOG's efforts began to bear fruit. In September, the Company introduced its model year 2017 motorcycles featuring its new Milwaukee-Eight engine. This motor was the Company's first new engine design for its touring motorcycles in 18 years, providing improvements in terms of power, acceleration, suspension, heat management and vibration. Driven by its new products, HOG's U.S. market share jumped by 3.2 percentage points in September. In addition, the Company increased pricing by 2.25% on its 2017 model year motorcycles (net pricing increased by 1.25% after adjusting for the cost of new content). HOG's initiatives to reach new demographic groups (women, minorities, etc.) are showing positive results.

2017 model year motorcycles were available only in the U.S. and EMEA in September and the Company expects a lift from these new products in Asia Pacific and Latin America in 4Q. Management will reduce U.S. production in 4Q to end the year with flat retail inventory compared to last year; however, this will be largely offset by increased production to fill inventory at 16 new dealerships (the most that have opened in one quarter). The momentum should carry into 2017 and beyond as one of management's key focus areas is to accelerate the cadence and impact of new product launches. In 3Q, HOG's sales in oil-dependent regions were down 15%; however, the recent decision by OPEC to cut crude oil production should support oil prices and, over time, bolster sales in oil-exposed markets.

In the last 5 years, HOG has tripled its dividend to $1.40 per share (2.3% current yield) and has allocated approximately $3.2 billion toward share repurchases (almost 30% of the current market cap). In 2015, HOG took on additional leverage in order to accelerate its share repurchase activity, buying back $1.5 billion in shares, or ~13% of its then outstanding shares at ~$55 per share. During the past 3 years, HOG's annual free cash flow has averaged $841 million, implying a free cash flow yield of 7.8%.

Driven by new products that are gaining share, HOG appears to be on the road to recovery. Assuming normalized motorcycle shipments of 300,000 units (up 13% compared to 264,627 units shipped in 2015), with margins comparable to recent levels, we project HOG will generate EBITDA of ~$1.5 billion in 2-3 years, a 19% improvement over TTM EBITDA. Our projections imply EPS of approximately $5.00 per share, 33% above TTM EPS. HOG currently trades at 9.5x normalized EBITDA and 12x normalized EPS.

Using more appropriate multiples of 12x EV/EBITDA and 16x EPS for a dominant franchise with +50% market share, we derive an intrinsic value estimate of $80 per share in 2-3 years, implying 33% upside plus a 2.3% dividend yield that should continue to rise annually. It is also possible that HOG reaches a deal with a financial buyer and is taken private in 2017.

HealthSouth Corporation

Capitalization Summary ($MM)	
Price	**$41.19**
Diluted Shares (MM)	**99.4**
Market Cap	**$4,094**
Total Debt	**$3,011**
Cash	**($76)**
Enterprise Value	**$7,029**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**1.4**
52-Week Price Range	**$43.05-$30.91**
Short % of Float	**13.6%**
Major Shareholders	**Insiders 4.6%**

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	**$726**
Price/Book Value	**5.6x**
EPS (ttm)	**$2.40**
Price/Earnings	**17.2x**
EBITDA (ttm)	**$786**
EV/EBITDA	**8.9x**
Dividend Rate/Yield	**$0.96/2.3%**

P&L Analysis ($MM)

Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Revenues	$2,247	$2,347	$3,116
Operating Income	$482	$467	$547
Margin	*21.5%*	*19.7%*	*17.6%*
EBITDA	$552	$578	$682
Margin	*24.3%*	*24.0%*	*21.9%*

Catalysts/Highlights

- Health care reform could be a net positive for HLS
- Strong FCF and debt repayment create opportunities for heavy share repurchases and/or M&A in 2017
- HLS is an attractive acquisition candidate as the U.S. Medicare health care system slowly evolves toward a coordinated care model

INVESTMENT RATIONALE

HealthSouth is the largest owner and operator of freestanding inpatient rehabilitation facilities (IRFs) in the U.S. HLS shares outperformed since last year's *Forgotten Forty*, rising 23% versus 11% for the S&P 500. Even more noteworthy is HLS's stock performance versus the broader health care sector. The S&P 500 Health Care Index declined slightly over the past year, driven in large part by heightened scrutiny over prescription drug prices and concerns over increased regulation. HLS has largely avoided these headwinds. This is not to say HLS has not faced its own regulatory issues. With ~80% of its patients covered by Medicare or Medicare Advantage, HLS is subject to the Center for Medicare and Medicaid Services (CMS) fee-for-service program conditions. Since 2015, HLS's FCF has been impacted by higher bad debt expense (1.8% of IRF revenue in 3Q16) and accounts receivable growth due to increased payment disputes and a drastic slowdown in the resolution process. The Company has also been investing to prepare for CMS's new long-term efforts to transition from the current fee-for-service model to a coordinated care or bundled payment system that reduces the use of a "siloed" facility-based payments system that separately governs hospitals, IRFs, skilled nursing facilities, and home health care.

Despite these headwinds, HLS has largely returned to its historical track record of quarterly "beat and raise" results in 2016. After completing two major acquisitions—home health operator Encompass for $675 million at the close of 2014 and IRF competitor Reliant in October 2015—HLS management shifted its strategic focus in 2016 from M&A to integrating the acquisitions and demonstrating HLS's expanded underlying earnings power. HLS generated $682.5 million in adjusted EBITDA in 2015 and initially forecasted $765-$785 million in adjusted EBITDA in 2016. HLS raised its 2016 adjusted EBITDA guidance for the third time this year to $785-$795 million in conjunction with its 3Q16 earnings announcement in October. HLS has benefited from a rebound in same-hospital patient discharge volume growth from ~1% to ~2% and accelerated new hospital/bed additions.

The election of Donald Trump as president on November 8 rattled the health care sector, specifically, hospital operators, which have benefited from higher admissions and lower bad debt expense following ACA implementation. HLS was not immune to this knee-jerk reaction, with shares closing down 6.6% on Nov. 9 after falling as much as 9% intraday. While the ultimate changes to the health care laws under the Trump administration are impossible to predict at this stage, the negative investor reaction appears mostly unfounded in the case of HLS given its niche in the Medicare sector and limited ACA patient exposure. At an investor conference on November 10, HLS CFO Doug Colthrap described the initial stock reaction as "guilt by association" with the larger hospital industry, while in reality, ACA has had very little impact on HLS's hospital patient volume as most IRF treatment is non-discretionary. He also suggested that "on the margin, any repeal [of ACA] will be positive" if it means the efforts to move to a coordinated care/bundled payment Medicare model are shelved/slowed or remodeled after more input from the care providers. HLS management backed up their words with their wallets: On November 9, COO Mark Tarr purchased 6,371 shares at $39.14/share and CFO Colthrap purchased 6,450 shares at $39.14/share. It is also worth noting that ACA-related employee health care costs have actually been a meaningful margin headwind for HLS over the past couple years, and any cost relief would provide earnings upside.

Unfortunately for opportunistic investors, the post-election overreaction proved short-lived, and HLS now trades above pre-election levels. Nonetheless, we would note that HLS shares are up only 21% since our initial profile in April 2014, despite expected adjusted EBITDA growth of >40% and adjusted FCF (maintenance capex basis) growth of >30% between 2013 and 2016. At the current share price, HLS trades at just 9x 2016E EV/EBITDA and 9x 2016E adjusted FCF (maintenance capex basis). In our view, this is far too cheap for a Company with top-flight management, leading scale and IT, and compelling cost advantages in an industry niche that offers relatively stable revenue streams across the business cycle. HLS's IRF business provides essential treatment to high acuity patients, with favorable long-term demographic tailwinds and continued opportunities to grow via both new facility construction and accretive acquisitions. The home health industry presents another attractive long-term growth opportunity, as the industry is still highly fragmented, and HLS has only ~2%-3% market share.

From a balance sheet standpoint, HLS has put $161 million of its free cash toward debt reduction YTD 3Q16, reducing its leverage ratio to 3.8x, which is below management's target for 4x leverage by YE16. This sets up a potential catalyst in increased capital deployment in 2017. HLS offers a meaningful 2.3% dividend yield but has only spent $57 million on share repurchases since the start of 2015. This could change given the growing balance sheet capacity and management's demonstrated view of HLS shares as attractive around the current price. The expiration of HLS's 8.2 million warrants (struck at $41.49/share) in early 2017 could be another catalyst. We suspect the potentially large dilutive effect of these warrants (which we believe will be net share settled if in the money) has disincentivized HLS management from providing more optimistic forecasts and more aggressively repurchasing shares. In any case, it should remove an investor/analyst overhang on HLS's valuation. Conservatively projecting no valuation multiple expansion and valuing HLS at 9x 2018E EV/EBITDA, we estimate its intrinsic value could approach $57/share, implying ~18% two-year IRR upside (including dividends).

Hexcel Corporation

Capitalization Summary ($MM)	
Price	**$51.38**
Diluted Shares (MM)	**94.1**
Market Cap	**$4,321**
Total Debt	**$675**
Cash	**($46)**
Enterprise Value	**$4,950**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**0.8**
52-Week Price Range	**$55.11-$37.54**
Short % of Float	**4.3%**
Major Shareholders	**Insiders ~2%**

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	**$1,259**
Price/Book Value	**3.4x**
EPS (ttm)	**$2.57**
Price/Earnings	**20.0x**
EBITDA (ttm)	**$444**
EV/EBITDA	**12.2x**
Dividend Rate/Yield	**$0.44 / 0.8%**

P&L Analysis ($MM)

Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Revenues	$1,678	$1,856	$1,861
Operating Income	$271	$306	$332
Margin	*16.2%*	*16.5%*	*17.8%*
EBITDA	$332	$379	$410
Margin	*19.8%*	*20.4%*	*22.0%*

Catalysts/Highlights

- Capital investments position HXL for strong growth
- Free cash flow to accelerate fueling M&A and return of capital
- Attractive potential target for strategic or financial buyer

INVESTMENT RATIONALE

Hexcel Corporation is a leading manufacturer and provider of advanced composites and related materials. HXL serves three primary end markets: commercial aerospace (69% of sales), space and defense (18% of sales), and industrial (15% of sales). Its product line includes carbon fibers, structural adhesives, honeycombs, and other materials and components, such as fabrics, multiaxials, prepregs, and resins. The firm generated over $1.8 billion in revenue in 2015, with nearly half of its sales derived from outside of the United States. HXL has established an impressive record of growth and profitability, supported by innovative technology and strong customer relationships. During the 2011-2015 period, HXL achieved steady increases in operating margins while increasing its EPS by over 80%. HXL has been in operation for over 60 years and is headquartered in Stamford, Connecticut.

Advanced composites have become an increasingly important business over time, supplanting commonly used materials of the past, such as steel and aluminum, in the production of aircraft. The commercial aerospace industry has been experiencing a period of extended expansion for several years. Demand for new aircraft has been steadily growing over time, driven by key factors that include increasing usage of airliners for travel, a growing trend toward larger aircraft with greater distance capabilities, and continued replacement of the existing aircraft fleet. HXL has a high degree of customer concentration (over 60% of HXL's revenue is derived from Boeing, Airbus, and related contractors). However, these relationships are protected by several barriers to entry, including long-term contracts and a high degree of operational integration. HXL's contracts with its customers tend to be long term in nature (often spanning 10-15 years), and its relationships tend to be sticky. HXL's relationships with Boeing and Airbus span over 30 years. Importantly, there is also a high degree of operational cooperation between HXL and its key customers, making replacement of HXL within the supply chain a prohibitive proposition from a logistical perspective. HXL's formidable manufacturing and R&D capabilities (1,300 patents across the world) further solidify its competitive position.

HXL's strong competitive position, paired with the favorable long-term outlooks for the industries it serves, suggests there are meaningful opportunities for growth during the coming years. Moreover, future financial comparisons should further benefit as HXL reaps the rewards of its heightened capital investments over the course of recent years. Capital expenditures totaled $300 million in 2015, and a similar level of spending is planned for 2016. Capital spending levels are expected to reach more normalized levels by the 2019-2020 period (maintenance-level capital spending is about $60 million per year), as expansion projects are completed. It is important to note that the firm uses a 15% ROIC (after tax) hurdle rate for new capital projects, and capital growth projects are only pursued when supported by a customer contract. HXL has set ambitious financial goals for itself, but we view these objectives as achievable. HXL is targeting $3 billion in sales and $4.50 in EPS by 2020, and it expects to generate total free cash flow of $1 billion during the 2016-2020 period (over 20% of HXL's current market value).

Despite its substantial increase in capital investment in recent years, HXL continues to retain a solid balance sheet and financial position. As of the most recent quarter, HXL possessed a relatively modest $629 million in net debt on its balance sheet (representing 1.5x 2015 EBITDA). Management is committed to maintaining its investment grade credit ratings and a Debt/EBITDA ratio of under 2.5x. HXL has also been returning capital to shareholders via dividends and share repurchases, and we expect this trend to accelerate as free cash flow ramps up. The board recently authorized an increase to HXL's share repurchase program, and HXL's buyback authorization totaled $119 million as of the most recent quarter. In addition, management has expressed a willingness to pursue bolt-on acquisitions that provide the Company access to attractive new products or technologies.

Our 2019 projections for HXL are for $2.6 billion in sales, $600 million in EBITDA, $3.50 of EPS, and $350 million in free cash flow. These projections imply significant growth from 2015 levels, and suggest that HXL will remain on track to meet its 2020 performance benchmarks. Assuming HXL can trade at multiples of 11.0x EV/EBITDA and 17.0x EPS (applied to 2019 projections), this produces a blended estimate of intrinsic value of approximately $62 per share. In our view, this estimate could prove to be conservative over the long term, given the firm's 2020 objectives. If the Company can achieve its 2020 financial goals, we believe the Company's intrinsic value could exceed $70 per share. We believe HXL's risk/reward, as a stand-alone entity, is sufficiently compelling to warrant the immediate attention of long-term investors. However, the Company's valuation and its strong competitive and financial positions could also make HXL a potentially attractive target for either a strategic or a financial buyer. M&A has been relatively active within aerospace; recent examples include Berkshire Hathaway's purchase of Precision Castparts and the acquisition of B/E Aerospace by Rockwell Collins (both deals valued at ~13x EBITDA).

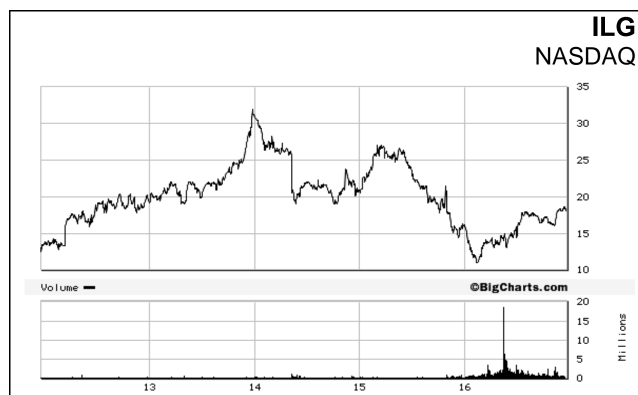
Boyar research

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%**

ILG
NASDAQ



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.

La Quinta Holdings Inc.

Capitalization Summary ($MM)	
Price	$13.38
Diluted Shares (MM)	116.5
Market Cap	$1,559
Total Debt	$1,703
Cash	($148)
Enterprise Value	$3,113

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	0.6
52-Week Price Range	$14.55-$9.61
Short % of Float	5.1%
Major Shareholders	Blackstone 30%

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	$650.3
Price/Book Value	2.4x
EPS (ttm)	$0.06
Price/Earnings	NM
Adj. EBITDA (ttm)	$368.4
EV/EBITDA	8.4x
Dividend Rate/Yield	N/A

P&L Analysis ($MM) *Fiscal Year Ending December 31,*	2013	2014	2015
Revenues	$874	$977	$1,030
Operating Income	$156	$137	$128
Margin	*19.5%*	*21.5%*	*19.7%*
Adj. EBITDA	$327	$367	$394
Margin	*17.9%*	*14.0%*	*12.4%*

Catalysts/Highlights

- Divestiture or renovation of owned hotel portfolio to improve competitiveness and balance sheet
- LQ should be in position to resume substantial share repurchases in 2017
- More extensive strategic alternatives including separation of real estate may be pursued

INVESTMENT RATIONALE

Founded in 1968 and taken private by Blackstone in 2006, La Quinta is a leading hotel owner/operator (326 hotels) and franchisor (567) within the midscale segment of the U.S. lodging industry. Although LQ shares are up 21% since *AAF* initially profiled the Company in the Summer 2016 issue, LQ has disappointed investors since the Company re-IPO'd in April 2014, with shares currently 21% below the IPO price ($17) and 46% below mid-2015 highs ($24.89). The weakness is attributable to LQ's overexposure to oil and gas regions; ~24% of rooms are located in Texas and ~11% are located directly within oil and gas drilling regions. RevPAR has declined by as much as ~20%-30% in these areas since oil prices plunged, forcing LQ to cut guidance several times. Adj. EBITDA is now forecasted to decline from $394 million in 2015 to $354-$360 million in 2016.

However, there is cause for optimism. LQ's quarterly comps will ease going forward as they lap the worst of oil production declines. Strategically, LQ is in the early stages of a promising plan to reshape its owned hotel portfolio. LQ is implementing a two-pronged strategy around (1) opportunistically divesting underperforming hotels or (2) accelerating renovations at hotels with more attractive prospective IRRs. LQ sold 44 hotel properties in 2013-2014 and completed the sale of another 24 in 2016. The Company recently identified 50 additional properties for divestiture, several of which have already been sold or are under contract. We expect substantially all of these hotels will leave the La Quinta system, which will reduce the Company's high margin franchise royalty stream. However, some of these older hotels were detracting from the brand image and LQ hopes to replace many of them with newly constructed franchise hotels in the same vicinity.

We believe La Quinta is capitalizing on the opportunity to monetize these underperforming hotels at fairly attractive rates, both in absolute terms and relative to the Company's current share price. We estimate LQ sold the last batch of 24 hotels at ~7x EV/EBITDA, assuming no franchise revenue is retained. While this figure is below LQ's current EV/EBITDA multiple of ~8.5x (2016E), these properties represented some of its oldest and worst performing hotels in the owned portfolio. Furthermore, the value of LQ's owned portfolio as implied by the LQ stock price would be significantly lower after adjusting for the higher-multiple franchise business (lodging franchises average EV/EBITDA multiples in the low double-digits). Initial sale prices/restated book values for the next set of hotels on the block are also coming in at noticeably higher prices. LQ anticipates realizing closer to 8x-9x EV/EBITDA multiples on these sales.

For the remaining hotels, LQ has identified an initial set of 55 to be renovated over the next several quarters. A second wave of renovations will begin in late 2017. While this will reduce FCF in 2016-2017, LQ expects to generate "strong double-digit" IRRs on the projects. But LQ's more promising growth prospects revolve around the lower-cost, higher ROIC franchise model. Unlike its major competitors, LQ is still underpenetrated in much of the U.S. including zero presence in ~1/3 of markets. LQ also has virtually no international exposure but is making strong early inroads in Latin America. La Quinta's franchise pipeline of 21,800 rooms represents 47% growth over the existing franchise base, by far the largest growth prospects relative to the existing franchise base among its peers.

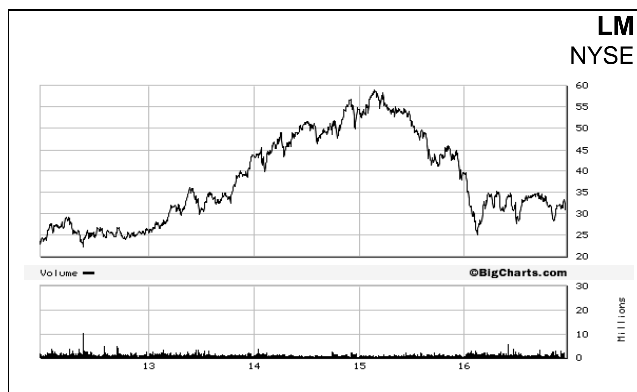
Despite these opportunities, LQ trades at the lowest valuation among its major lodging industry peers at ~8.5x EV/EBITDA and ~13x FCF (2016E). In deriving a sum-of-the-parts estimate of intrinsic value for LQ, we conservatively project hotel operating performance does not return to a low single-digit growth rate until 2018. Backing out LQ's 50 additional underperforming owned hotels held for sale and valuing the remaining portfolio at 8.5x 2019E EV/EBITDA, we estimate the owned hotel business could be worth $2.2 billion (or $2.5 billion including pending/planned divestitures). With a current enterprise value of $3.1 billion, these estimates imply investors can purchase LQ's real estate at close to market value and receive the higher quality, low capital intensity, faster growing brand/franchise business at next to zero cost. We value the franchise segment at $1.5 billion or 12.5x 2019E EBITDA and corporate expense at 10x EBITDA to derive a sum-of-the-parts intrinsic value of ~$19/share in 2-3 years.

LQ is currently levered at 4.2x net debt to adj. EBITDA (TTM) and return of capital is on hold until 2017. But LQ has a highly leverageable balance sheet with low cost of debt and strong underlying free cash flow, further aided by hotel divestitures. We estimate LQ's net leverage ratio could fall to 3x by 2019. At the current share price, this implies LQ could repurchase ~30% of its shares over the next three years if it maintained leverage at 4.5x. Also noteworthy, private equity backer Blackstone still maintains a 30% stake and 3 of 10 board seats at La Quinta. While the large stake may be perceived by some investors as an overhang, Blackstone's presence could be a positive catalyst to explore even more substantial strategic alternatives. Blackstone has extensive experience in the real estate industry, and we expect they will explore a more comprehensive evaluation of alternatives before exiting the LQ investment. This could include the tax efficient divestiture of additional hotels, which would provide incremental upside to our intrinsic value estimate. LQ de-converted from a REIT structure prior to the IPO—barring the Company from re-electing to use the REIT structure for 5 years—and subsequent legislation effectively eliminated REIT spinoffs. But workarounds do exist, such as a stock exchange with an external REIT. Though a wild card, the incoming Trump administration presents the greatest hope for more favorable legislative/tax treatment for real estate. Finally, there is the possibility that LQ pursues an outright sale/merger. The industry remains highly fragmented, though the pace of consolidation has picked up, and the growing presence of OTAs and AirBnB make strong booking, rewards, and marketing programs essential—supporting the case for consolidation.

Legg Mason, Inc.

Capitalization Summary ($MM)	
Price	**$31.00**
Diluted Shares (MM)	**102.1**
Market Cap	**$3,165**
Total Debt	**$2,222**
Cash & Investments	**($1,106)**
Enterprise Value	**$4,281**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**1.5**
52-Week Price Range	**$40.40-$24.93**
Short % of Float	**6.5%**
Major Shareholder	**Insiders ~1%**



Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	**$4,060**
Price/Book Value	**0.8x**
EPS (ttm)	NM
Price/Earnings	NM
EBITDA (ttm)	**$456**
EV/EBITDA	**9.6x**
Dividend Rate/Yield	**$0.88 / 2.8%**

P&L Analysis ($MM)			
Fiscal Year Ending March 31,	**2014**	**2015**	**2016**
Revenues	$2,742	$2,819	$2,661
Operating Income	$431	$498	$422
Margin	*15.7%*	*17.7%*	*15.9%*
EBITDA	$494	$553	$482
Margin	*18.0%*	*19.6%*	*18.1%*

Catalysts/Highlights

- LM's significant restructuring should enhance its future profitability
- Internal investments and M&A bolster LM's product platform and provide growth catalysts
- Value creation via return of capital to investors

INVESTMENT RATIONALE

Legg Mason, Inc. is a well-established firm in the asset management industry. The Company has significant scale and offers a wide range of investment products. LM has $716 billion in AUM (assets under management) spread across a variety of equity (23%), fixed-income (55%), alternative (10%), and money market (12%) strategies. Through its affiliates, LM caters to both institutional and retail investors (client mix of AUM is 77% institutional and 23% retail). LM has initiated significant changes during recent years, for example, restructuring, bolt-on M&A, and a new management team. LM operates an affiliate-based model, with key contributors including Western Asset Management, ClearBridge Investments, Brandywine Global, and Royce & Associates.

LM and its competitors have been grappling with several industry headwinds. Despite significant equity market appreciation, equity fund inflows have largely benefitted passive investment products such as index funds and ETFs. This trend has been fueled by the underperformance of active managers relative to passive products. Although this performance disparity has shown signs of closing during recent quarters, the environment for active managers remains challenging. Moreover, new industry regulations from the U.S. Department of Labor (related to fiduciary standards for financial advisors) are scheduled to be implemented by early 2018 and could further complicate sector fundamentals. The incoming Trump administration appears inclined to reduce some aspects of the regulatory burden faced by financial services firms, but specific changes remain undefined at this time. LM shares are up ~10% from their early November lows, but the stock has still been a weak performer over the past year (down ~20% during the past 12 months). In our view, the poor stock performance of LM and its industry peers represents an attractive entry point for long-term investors. It is important to keep the current challenges within the proper context and to recognize the important progress LM has made during recent years.

We believe that investors have not given LM much credit for the progress achieved by CEO Joseph Sullivan and the rest of the executive team. The Company has executed several internal initiatives to help position itself for revitalized growth and profitability. Crucially, fund performance has improved materially during recent years and should position LM well for future inflows. Approximately 70% of its strategies (based on AUM) are outperforming benchmarks from 1-year and 3-year perspectives, and this figure approximates 80% for the 5-year and 10-year periods. The firm has also consolidated several smaller affiliates to sharpen its operational focus, pursued cost reduction opportunities, and invested in the launch of several new products (including entrance into ETFs). These organic opportunities have been complemented by several bolt-on transactions designed to enhance LM's product line. During the past year, LM purchased majority stakes in EnTrust Capital and Clarion Partners. EnTrust is an alternative investments advisor with ~$12 billion in AUM (merged with LM's Permal affiliate). Clarion is a $43 billion AUM investment firm that specializes in real estate. In addition to bolstering LM's product offerings for clients, exposure to these areas should help diversify and grow LM's long-term business mix.

Despite the industry challenges and heightened Company investments, LM has managed to maintain its solid financial footing. As of the most recent quarter, net debt stood at ~$1.1 billion (annual EBITDA exceeds $400 million). Annual free cash flow generation has averaged approximately $440 million over the past 3 years (implying a 14% free cash flow yield). As a matter of Company policy, LM returns a majority of its cash generated from operations to its shareholders via repurchases and dividends. LM's annual dividend of $0.88 per share has doubled just since 2013. However, the greatest share of cash flow has been allocated to LM's ongoing share repurchase program: The Company has reduced its share count by 38% since 2010. We would expect buybacks and dividend growth to be recurring themes going forward. Although M&A activity has picked up over the past 1-2 years, management appears focused on deal integration and other internal initiatives; we would not expect LM to entertain any large acquisitions for the foreseeable future.

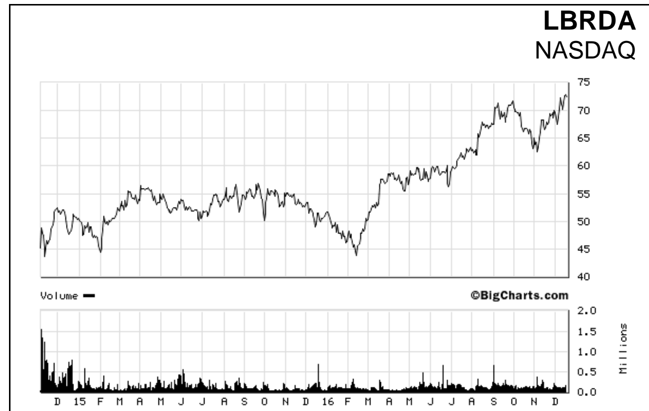
LM's current market capitalization values the firm at less than 0.50% of AUM. To provide some perspective, most of the recent M&A within this space has been priced at or above 2% of AUM. In estimating intrinsic value for LM, we utilize a price/AUM approach (adjusted for asset class mix). We have assumed a blended price/AUM multiple of ~1% (utilizing a 2% multiple for the equities and alternatives businesses, a 1% multiple for the fixed-income business, and no value for LM's money market business). This 1% blended multiple implies an intrinsic value of ~$60 per share for LM, implying upside potential of over 90% during the next 2-3 years. This estimate also implies a 20x P/E multiple relative to our projection of FY 2018 EPS (but long-term EPS power could materially exceed $3.00, well above the ~$2.25 consensus projection for the current fiscal year). Importantly, this estimate of intrinsic value assumes no growth in AUM beyond current levels and no additional share repurchases. In the event LM's valuation remains at current levels, the Company could be an attractive target for a strategic or financial buyer.

Liberty Broadband Corporation

Capitalization Summary ($MM)	
Price (Class A)	**$72.56**
Diluted Shares (MM)	**182.6**
Market Cap	**$13,252**
Total Debt	**$372**
Cash	**($643)**
Enterprise Value	**$12,911**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**0.2**
52-Week Price Range	**$72.56-$43.91**
Short % of Float	**3.0%**
Major Shareholders	**Malone 9%, 47% voting; Liberty Ventures 23%**

LBRDA
NASDAQ



Valuation and Misc. Stats ($MM) 9/30/16	
Net Asset Value (est.)	**$15,244**
Price/Book Value	**0.9x**
EPS (ttm)	NM
Price/Earnings	NM
EBITDA (ttm)	NM
EV/EBITDA	NM
Dividend Rate / Yield	NM

Net Asset Value Analysis:	$MM
Skyhook (TruePosition)	Nil
CHTR shares	54.1
Current Price	$174.81
Charter Investment Value	$10,453
Net Debt and Other Assets	($341)
Diluted Shares	182.6
Net Asset Value per Share	$83.50

Catalysts/Highlights

- Integration of TWC in 2017 should accelerate growth and produce outsized synergies
- CHTR initiated share repurchases in 3Q16 and will have increased capacity in 2017
- Potential LBRD share repurchases by LBRD or Charter and eventual Reverse Morris Trust tax-free combination should eliminate LBRDA's 13% discount to NAV

INVESTMENT RATIONALE

Spun off from Liberty Media as an independent company in November 2014, Liberty Broadband (LBRD) is "cable cowboy" legend John Malone's latest vehicle for investing in the U.S. cable industry. Liberty Broadband is essentially an indirect investment in Charter Communications (CHTR) at a discount to net asset value (NAV). LBRD holds a 17% equity stake and 25% voting power in CHTR, which is now the #2 cable operator in the U.S. following the transformative acquisitions of Time Warner Cable (TWC) for $79 billion and Bright House for $10 billion, completed simultaneously in May 2016.

Liberty Broadband shares have been a top performer over the past year, with regular voting class A LBRDA shares gaining 48% since last year's Forgotten Forty on the back of a 49% increase in CHTR shares (adjusted for the 0.9042-for-1 post-merger split). We still see plenty of room for incremental operational improvement, and share price appreciation, for Charter. The TWC/Bright House acquisitions nearly quadrupled Charter's scale, and Charter is only in the first inning of its long-term plan for integrating the new businesses. Charter is executing the same strategy on the legacy TWC footprint that it has so successfully implemented over the past 3 years at legacy Charter. This involved rebranding, upgrading the network, simplifying pricing plans, offering more attractive entry-level pricing, in-sourcing customer service, and deploying new equipment and technology. The initial implementation should be substantially rolled out in 1H17. This will initially cause a revenue reset and higher operating and capital costs, but should have major long-term benefits. At legacy Charter, these moves have helped drive industry-leading, high single-digit to low double-digit annual revenue growth. Charter should also generate substantial cost synergies from the integration over time. The Company has already acknowledged its $800 million synergy projection is low. This target represents only ~1% of TWC revenues, and programming cost synergies alone could approach these levels. By comparison, Altice projected synergies totaling ~9% of revenues when it acquired Cablevision.

Looking beyond the integration benefits, Charter still has many long term opportunities. Overall, Charter's current residential and small business customer penetration rate (unique customers receiving any service) is still only 53% of homes and businesses passed by its network. Broadband Internet penetration is only 46%. By comparison, Charter CEO Tom Rutledge (perhaps the best operator in the business) was able to drive penetration well above 60% at his previous company, Cablevision. Charter holds major competitive advantages in the broadband business, with limited fiber overbuild in its network and most competition coming from telcos' structurally disadvantaged DSL services. The Company has a roadmap to roll out 1GB speeds in many markets in the coming years, which will further separate it from the competition. Mobility/quadruple play offerings are another long-term opportunity. CHTR holds perpetual MVNO rights with Verizon and plans to invoke them in the near future. The recent presidential election results could also portend a much more favorable regulatory environment for Charter. Rate regulation is off the table under a Republican administration, and net neutrality rules could ease or even be eliminated. Charter also has the ability to renegotiate the conditions imposed on the TWC acquisition after 5 years, which could open the door for usage-based pricing among other potential benefits.

In estimating Charter's intrinsic value, we conservatively project only mid single-digit annual revenue growth and ~150 bps in annual pro forma EBITDA margin expansion going forward. At 9x 2019E EV/EBITDA, we estimate Charter's intrinsic value could approach $400/share. Importantly, LBRDA shares currently trade at an estimated 13% discount to NAV based on Charter's current share price. Valuing LBRDA at 2019E NAV, we estimate NAV could reach $113/share implying an ~16% IRR over the next 3 years. There are multiple catalysts for LBRD's discount to NAV to close over time. A tax-free Reverse Morris Trust combination of LBRD into Charter is almost certainly the end-game, and should eliminate the discount to NAV (or even garner a premium). This may be preceded by a combination of Liberty Broadband with Liberty Ventures, a Liberty Interactive tracking stock that acquired a 23% stake in LBRD to help LBRD fund CHTR's acquisitions. Approximately 75% of Liberty Ventures' value is LBRD or CHTR shares, and Ventures expects to clean up its remaining minority investments over time. Ventures also holds some unique, long-term deferred tax assets (and liabilities) that could be useful for CHTR at some point. However, separating Liberty Ventures from Liberty Interactive parent is a complex task that could take time. Potential tax reform under the next administration creates additional uncertainty as to the timing of any combination.

In the interim, Charter is already beginning to produce material free cash flow ($1.5 billion YTD 3Q16) and this should accelerate rapidly in the coming years as it completes TWC network upgrades. Leverage is already moving toward the low end of CHTR's 4.0x-4.5x target range at 4.2x as of 3Q16, leading CHTR to initiate a $750 million share repurchase program and repurchase $280 million of stock in 3Q16. Charter or even Liberty (using margin loans) could potentially repurchase LBRD shares to exploit the discount if it persists. Finally, we would not be surprised to see Verizon ultimately attempt to acquire Charter further down the road. Verizon's divestiture of fiber assets to Frontier earlier in 2016 could make this feasible from a regulatory perspective, and Verizon CEO Lowell McAdam recently stated, "[a Charter acquisition makes] industrial sense." We would agree, given the eventual convergence of fixed and mobile networks. Cable companies should be in the driver's seat in any merger talks given their superior networks. If any more comfort is needed, John Malone has a history of opportunistically selling cable companies to telecom behemoths (most notably selling TCI to AT&T for 12x EBITDA in 1998) and we would only expect him to do so under the most advantageous terms.

Liberty Global plc

Capitalization Summary ($MM)	
Price (Class C)	**$29.12**
Diluted Shares (MM)	**930**
Market Cap	**$27,356**
Total Debt (LGI tracker)	**$38,248**
Cash	**($506)**
Enterprise Value	**$65,099**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**3.0**
52-Week Price Range	**$40.99-$25.86**
Short % of Float	**1.9%**
Major Shareholders	**John Malone 3%, 25% voting**

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	NA
Price/Book Value	NA
EPS (ttm)	NM
Price/Earnings	NM
EBITDA (ttm)	**$8,194**
EV/EBITDA	**7.9x**
Dividend Rate/Yield	NM

P&L Analysis ($MM) *Fiscal Year Ending December 31,*	2013	2014	2015
Revenues	$13,187	$17,044	$17,063
Operating Income	$8,373	$10,734	$10,837
Margin	*63.5%*	*63.0%*	*63.5%*
Adj. EBITDA	$6,282	$8,046	$8,176
Margin	*48.7%*	*48.6%*	*47.3%*

Catalysts/Highlights

- Improving economic backdrop and continued high-speed Internet buildout should provide earnings tailwind
- FCF growth and cash from Netherlands JV should enable large-scale repurchases at attractive prices
- Liberty Global could revisit a combination/swap with Vodafone or pursue additional M&A in Europe

INVESTMENT RATIONALE

Liberty Global (LGI) is the leading cable systems operator in Europe, with 54.1 million subscription services (RGUs) including 22.5 million video, 17.3 million broadband, and 14.4 million telephony (wired plus wireless). LGI shares have markedly underperformed of late, declining 24% since last year's *Forgotten Forty* (17% after factoring in LiLAC share distributions) and ~40% from a peak above $54/share (LBTYK class C shares) as recently as August 2015. A stronger USD and, more recently, Brexit and the related drastic weakening of the GBP (37% of LGI's revenue) have been major headwinds for LBTYK shares (LGI has minimal USD revenue/cost exposure but is only listed in the U.S., and the USD is its financial reporting currency.). LBTYK has likely faced additional selling pressure from hedge funds (LGI's ownership is over-indexed to hedge funds) and as a result of the negative optics of the CWC acquisition (completed in mid-2016), including its high price tag, the large payday for LGI Chairman John Malone (13% stake in CWC) and CWC management, and the heavy mix of LBTYK shares in funding the deal despite the assets being attributed to LGI's separate tracking stock for its Latin American assets, LiLAC (class C ticker: LILAK). Operationally, LGI now expects 2016 OCF growth (rebased to constant currencies) to come in at the low end of its 4%-5% target. Competitive pressures have been strong, particularly in Switzerland and the Netherlands, and footprint expansion in the UK was behind initial schedules in 1H16.

Looking forward, LGI still has a tremendous long-term runway for growth. LGI continues to target OCF growth of 7%-9% annually through 2018. The Company expects ~50% of OCF growth to come from revenue growth and ~50% from cost efficiencies. Revenue growth will be driven by increased investment to expand its broadband network, which is competitively advantaged with superior speeds versus incumbent telecom competitors. LGI plans to add ~6 million homes passed across its networks over the four years from 2015 through 2018. Virgin Media in the UK is the centerpoint of growth, with plans to reach 17 million homes passed in the UK over the long term, taking coverage from ~50% to ~70%. LGI has laid out attractive IRR prospects (~30% unlevered) and incremental revenue (£1B) and contribution margins (~60%) for the build-out. Germany and Central and Eastern Europe are the other major growth markets. Business-to-business is another long-term growth driver, as LGI currently has only ~10% market share of a $19 billion addressable market. LGI's leveraged return on equity philosophy (5x leverage) combined with declining borrowing costs and accretive share repurchases should translate to double-digit equity FCF growth rates if LGI can achieve its 7%-9% underlying OCF targets.

Mobile represents another attractive long-term opportunity for LGI to increase ARPU and reduce churn across its footprint. LGI's mobile strategy has involved partnerships, acquisitions, or MVNO agreements depending on the region and could evolve over time. Quadruple pay penetration is only ~15% of its broadband subscribers across its European footprint. The Company also took a step toward a closer relationship with leading European mobile operator Vodafone, forming a 50/50 JV in the Netherlands, which should close around year-end 2016. LGI will receive up to $2.5 billion in cash at closing from a combination of incremental debt issuance and payment from Vodafone to compensate LGI for contributing more valuable assets to the JV. The deal valued LGI's Netherlands assets at anywhere from ~9.5x-11.5x depending on the assumed value of Vodafone's contributed assets—a compelling multiple even at the low end, especially considering the territory has been among LGI's most competitive. The companies also project up to a massive €3.5B in synergies from the JV. While the companies are not currently contemplating further combinations, if successful, the Netherlands JV could be a model for future collaboration.

At the current price, LBTYK shares have de-rated to ~8.5x 2017E EV/EBITDA versus a recent historical average closer to 10x EV/EBITDA. In our view, this is a bargain for a world-class operator with a growing free cash flow stream and cyclically resilient financial model. Shielded by over $5 billion in NOL assets (undiscounted) and aided by an expected decline in capital intensity, FCF could approach ~$3/share by 2019. At 9.5x 2019E EV/EBITDA, we derive a forward-looking intrinsic value estimate of ~$47/share, or 60% above the current Class C share price. In the interim, LGI is aggressively capitalizing on the current discount via share repurchases. LGI spent $1.6 billion on share repurchases YTD 3Q16 and plans to spend a cumulative $4B by the end of 2017. LGI insiders have also directly expressed their opinion on LGI stock through open-market purchases, including 30K shares purchased by CEO Fries at $30.47/share in November 2016. Longer term, LGI could reopen full-scale merger discussions with Vodafone or even seek a global partner.

Boyar research

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%

QVCA
NASDAQ

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.

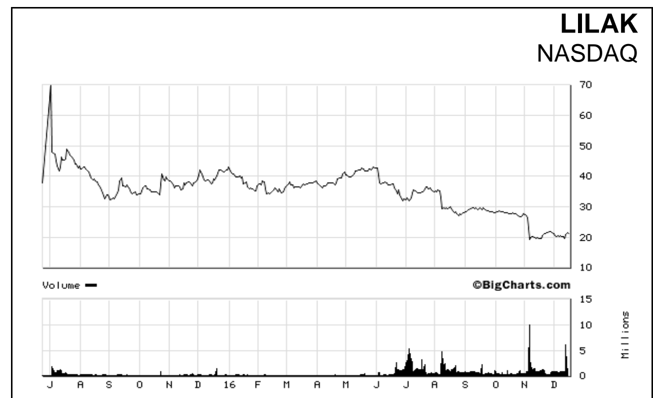
In our view, QVC continues to be overlooked and misperceived by investors. Although the QVC Group tracking stock now represents a pure play on home shopping, there are still complexities associated with the structure. However, we would not be surprised if a hard spin of QVC Group is in the offing as 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.

Liberty Global Latin America and Caribbean Group (LiLAC)

Capitalization Summary ($MM)	
Price (Class C)	**$21.48**
Diluted Shares (MM)	**177**
Market Cap	**$3,841**
Total Debt (LiLAC tracker)	**$5,963**
Cash	**($471)**
Enterprise Value	**$9,334**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**1.0**
52-Week Price Range	**$44.95-$19.33**
Short % of Float	**8.1%**
Major Shareholders	**John Malone 3%, 25% voting**



Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	NA
Price/Book Value	NA
EPS (ttm)	NM
Price/Earnings	NM
EBITDA (ttm)	**$842**
EV/EBITDA	**11.1x**
Dividend Rate/Yield	NM

P&L Analysis ($MM)

Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Revenues	$1,289	$1,205	$1,217
Operating Income	$679	$677	$683
Margin	*52.7%*	*56.2%*	*56.1%*
Adj. EBITDA	$461	$477	$491
Margin	*35.8%*	*39.8%*	*40.7%*

Catalysts/Highlights

- Integration of Columbus and CWC offers combined $275 million in synergies
- Full separation of LiLAC from Liberty Global in 2H 2017 should eliminate tracking stock discount
- LiLAC authorized a $300 million share repurchase program in November 2016

INVESTMENT RATIONALE

Liberty Global Latin America and Caribbean Group (LiLAC) is a tracking stock created by Liberty Global plc (LGI) in July 2015 to track the value of Liberty Global's Latin American cable and telecom assets. These assets initially consisted of leading Chilean broadband Internet and fixed and wireless telephony provider VTR GlobalCom and a 60% stake in Liberty Cablevision Puerto Rico, a leading broadband Internet and fixed telephony provider in Puerto Rico. The LiLAC tracker was created in part to provide a currency for future acquisitions in Latin America, a region which LGI management identified as under-developed and unconsolidated with compelling long-term growth prospects. Sure enough, on November 16, 2015, Liberty announced the all-stock acquisition of leading Caribbean and Panama cable/telecom operator Cable & Wireless Communications plc (CWC) for approximately £3.6 billion (~86p/share in LBTYA/LBTYK stock and a 3p dividend) or £5.4 billion including debt. This followed CWC's acquisition of competitor Columbus International for $3.3 billion in March 2015. The CWC purchase price translated to a blended multiple of 10.7x TTM 3Q15 EV/EBITDA including $125 million in previously projected cost synergies from the CWC/Columbus merger. The deal massively increased LiLAC's scale from 3.5mm wired RGUs to 5.4 mm RGUs and provided entry into the wireless business with 3.5 million subscribers. The acquired assets were attributed to LiLAC, but Liberty Global received an ~67% inter-group interest in LiLAC in exchange for issuing stock.

LiLAC shares have drastically underperformed since creation, with class C (non-voting) LILAK shares declining 55% from their debut price. There are numerous reasons for the underperformance. LiLAC likely faced typical "orphaned spinoff" selling pressure the first few months, as small cap or emerging markets-averse LGI investors had little interest analyzing the small stake in LiLAC received via the initial 1-for-20 distribution from LGI. The decision to distribute LGI's inter-group interest in LiLAC in June 2016 caused another even larger bout of forced selling. The distribution of 117 million LiLAK shares represented >2x the existing float. LILAK shares declined 12% in just two days following the announcement and are now 50% below the pre-announcement price. Currency movement has been another headwind for LiLAC's U.S. dollar results and stock price.

Investor enthusiasm for the CWC deal has been lukewarm, as the elevated headline transaction multiple and large payday for Malone/CWC management did not present the best optics. But in our view, John Malone has a relatively commendable track record of handling transactions between his investments. In this case, Mr. Malone (13% CWC shareholder) accepted a discounted 79p/share offer and former Columbus executives John Risley and Brendan Paddick (23% shareholders in CWC) received just 69p/share. As part of the deal, all 3 received a significantly higher portion of their payment in LiLAC shares—which we view as a strong vote of confidence in the Company's future (tax advantages likely factored into the decision as well).

Financial/operational shortfalls have also contributed to LILAK shares' underperformance in 2016. Puerto Rican operations have obviously faced extremely challenging macroeconomic headwinds. LiLAC's initial guidance post-CWC deal close—reaffirmation of 5%-7% rebased OCF growth in 2016—disappointed the market. Then LILAK shares plunged 27% following the 3Q16 earnings release in early November. Initial CWC performance has been particularly disappointing, with rebased revenue contracting by 4% in 3Q16 as gains in Jamaica were more than offset by weakness in the Bahamas, Barbados, Trinidad & Tobago, and more recently, heavy competition in the Panamanian wireless market. LiLAK also revised CWC's historical financials in accordance with U.S. GAAP accounting, which had the effect of reducing recent quarters' reported OCF by ~5% on average.

Looking forward, LiLAC is now targeting 7%-9% average annual OCF growth over the next few years, which should be achievable barring any major macroeconomic disruptions. On the revenue side, broadband and to a lesser extent video adoption are still in the early innings across LiLAC's footprint. Meaningful ARPU gains within the existing subscriber base should also be achievable as triple play penetration is just 29% and double play penetration is 27%. LiLAC recently released a compelling initial CWC synergy target of $150 million by year-end 2020, which is incremental to the $125 million target from the CWC/Columbus merger. The business is well positioned to lead further consolidation in the region over time.

After the recent declines, LiLAC shares trade below 6x 2016E EV/EBITDA after consolidating CWC and backing out the Puerto Rico minority stake–a very compelling multiple for a high quality business positioned to ride long-term emerging market growth tailwinds. Assuming LiLAC can grow OCF at the lower end of its target range over the next 3 years, we estimate intrinsic value could exceed $35/share at 7x 2019E EV/EBITDA. A hard spin of LiLAC is expected as soon as 2H17, which should be a catalyst for removing any tracking stock discount. LGI also authorized a $300 million LiLAC share repurchase program in November 2016 (the authorization expires at year-end 2019). LiLAC does not yet produce meaningful free cash flow, but net leverage of 3.9x is well within Liberty's comfort range and FCF should accelerate after 2016 as synergies flow through. Finally, we would note that several insiders recently purchased LiLAC shares, including CEO Mike Fries who spent over $1 million to buy 51,100 shares in November at ~$20/share.

Loews Corporation

Capitalization Summary ($MM)	
Price	**$47.23**
Diluted Shares (MM)	**337.6**
Market Cap	**$15,945**
Total Debt	**$1,800**
Cash & Investments	**($4,959)**
Enterprise Value	**$12,786**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM):	**1.1**
52-Week Price Range	**$47.86-$33.84**
Short % of Float	**1.1%**
Major Shareholders	**Insiders 16%**

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	**$18,300**
Price/Book Value	**0.9x**
EPS (ttm)	NM
Price/Earnings	NM
EBITDA (ttm)	**$2,620**
EV/EBITDA	**7.9x**
Dividend Rate/Yield	**$0.25 / 0.5%**

P&L Analysis ($MM) *Fiscal Year Ending December 31,*	**2013**	**2014**	**2015**
Revenues	$14,613	$14,325	$13,415
Operating Income	$2,277	$1,810	$244
Margin	*15.6%*	*12.6%*	*1.8%*
EBITDA	3,124	2,712	1,216
Margin	*21.4%*	*18.9%*	*9.1%*

Catalysts/Highlights

- Positive implications for Loews' investments via higher interest rates and energy market rebound
- Cash balance offers multiple options for value creation
- Discounted valuation and strong balance sheet offer downside protection

INVESTMENT RATIONALE

Loews Corporation is a holding company with interests in several different sectors, including insurance and energy. The firm is distinguished by its value-oriented investment philosophy, investment track record, and solid balance sheet. Moreover, the meaningful degree of insider ownership encourages a shareholder focus centered on creation of long-term value. Over the past 5 decades (as of year-end 2015), Loews' shares have had a CAGR of 17% (nearly double the market rate). Management continues to be led by several members of the founding Tisch family. The stock has advanced by more than 25% during the past year, but we believe L shares continue to offer attractive upside potential.

The three primary drivers of value for L are 1) investment in the insurance sector (via publicly traded CNA Financial, ticker: CNA), 2) investments in the energy sector via Diamond Offshore (ticker: DO) and Boardwalk Pipeline Partners (ticker: BWP), and 3) over $3 billion balance in net cash and other investments. The firm owns a 90% stake in CNA Financial, representing 57% of L's overall current NAV. CNA is a publicly traded provider of specialty insurance (management and professional liability), as well as other types of commercial coverage. CNA has a long operating history in the United States, and is the country's 8th largest commercial insurer and 14th largest property casualty provider. During recent years, CNA's management has successfully restored profitability and balance sheet strength via restructuring, disciplined underwriting, and improved risk management. Through the first 9 months of 2016, CNA's combined ratio was 97.8%. Although CNA has achieved solid results, the stock continues to trade at a depressed valuation. At CNA's current price, the stock is priced at a 10% discount to book value. In addition to its $0.25 per share quarterly dividend, CNA periodically returns capital to shareholders via special dividends; the company has paid a $2.25 per share special dividend for 2 consecutive years. On a TTM basis, CNA's effective dividend yield is ~8%. Loews' stake in CNA has yielded L over $2.2 billion in dividends since 2012. CNA's solid underwriting results and excess capital position should make additional special dividends a feasible scenario going forward. Also, the prospect of higher interest rates represents another potential tailwind for CNA's results, due to the heavy fixed income component within its investment portfolio. We believe total return potential for CNA shares could exceed 25% during the next 2-3 years.

Loews' stakes in Boardwalk Pipeline Partners and Diamond Offshore Drilling provide the firm with meaningful exposure to the energy sector. Loews holds a 50% stake in BWP and a 53% stake in DO. Combined, these 2 equity stakes account for approximately 21% of Loews' current NAV. After several years of difficult fundamentals, the outlook for the energy market is showing signs of a potential recovery. Crude oil prices have significantly advanced from February lows, as investors' concerns regarding supply excesses have gradually diminished. The bullish price activity for crude oil gained further traction at the end of November, as OPEC announced an agreement to cut daily production by 1.2 million barrels per day. In our view, this positive development, paired with improved growth prospects for the U.S. economy (helped by potential post-election fiscal policies), suggest this price recovery has sustainability going forward. From a long-term point of view, we continue to employ normalized commodity price assumptions ($80 crude oil, $4 natural gas) for energy firms when assessing earnings power and valuation from a multi-year perspective. In our view, shares of both DO and BWP could offer over 50% upside potential within a more normalized energy industry environment.

Maintaining a solid financial position remains a core element of the Loews approach. As of the most recent quarter, Loews (at the parent company level) held net cash and other investments of $3.2 billion (representing ~20% of the firm's current market capitalization). Loews' management has not actively participated in M&A for several years, as the appreciation in equity valuations has been an obstacle to completing transactions at an attractive price. If such a transaction were to occur, management seems inclined to pursue opportunities outside of the insurance and energy industries. Businesses that offer relatively stable and predictable profit streams over the long term would be the most likely to be targeted. The firm does pay a modest dividend (0.5% yield) and has a well-established record of opportunistically repurchasing its own shares. Loews has reduced its share base by approximately 20% since 2009. However, share repurchase activity has been modest during recent quarters.

Loews trades at a 9% discount to current NAV and a 10% discount to current book value. It warrants mention that CNA's similarly depressed valuation (10% discount to its book value) allows investors to acquire CNA at a "double discount" via purchase of Loews stock. The discounted valuation of Loews' shares, combined with its strong balance sheet and the favorable outlooks for CNA, DO, and BWP, offer an attractive long-term risk/reward profile, in our view. Our estimate of intrinsic value (including a 10% "holding company discount") for Loews is approximately $57 per share, implying potential total return potential of over 20% relative to the current price.

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.

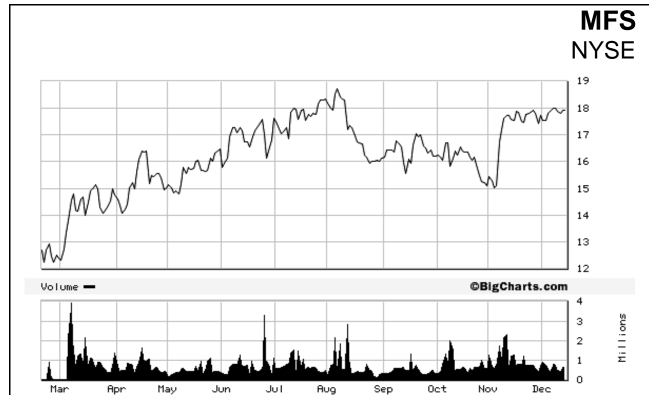
Utilizing a sum-of-the-parts valuation approach, our estimate of MSG's intrinsic value is $246 a share, representing 42% upside from current levels. The Dolan Family is flush with proceeds following the sale of Cablevision to Altice (closed June 2016), and the upcoming two-year spinoff milestone (October 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.

Manitowoc Foodservice Inc.

Capitalization Summary ($MM)	
Price	**$17.91**
Diluted Shares (MM)	**139.5**
Market Cap	**$2,498**
Total Debt	**$1,350**
Cash	**($70)**
Enterprise Value	**$3,778**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**0.7**
52-Week Price Range	**$18.94-$15.00**
Short % of Float	**6.0%**
Major Shareholders	**Insiders ~1%**

MFS
NYSE



Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	NM
Price/Book Value	NM
EPS (ttm)	**$0.89**
Price/Earnings	**20.1x**
EBITDA (ttm)	**$259**
EV/EBITDA	**14.5x**
Dividend Rate/Yield	NA

P&L Analysis ($MM)

Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Revenues	$1,542	$1,581	$1,570
Operating Income	$190	$177	$179
Margin	*12.3%*	*11.2%*	*11.4%*
EBITDA	$244	$228	$230
Margin	*15.8%*	*14.4%*	*14.7%*

Catalysts/Highlights

- MFS is aggressively reducing debt following its spinoff
- An improved balance sheet will clear the way for M&A and return of cash to shareholders
- Significant opportunities for restructuring & margin expansion as an independent entity

INVESTMENT RATIONALE

The newly independent Manitowoc Foodservice Incorporated (MFS) is a leading player in the foodservice equipment industry. MFS was spun off from Manitowoc Company (ticker: MTW) on March 4, 2016 following a shareholder campaign waged by activist investors. MFS designs, manufactures, and services a full range of equipment for both hot and cold categories. Its product line includes refrigerators & freezers, ice machines, ovens, fryers, beverage dispensers, and other types of food preparation equipment. MFS generated $1.57 billion in sales in 2015, derived as follows: 50% from cold category products, 35% from hot category products, and 15% from aftermarket parts and services. The Company's sales profile is relatively diverse in terms of geographic exposure, with 32% of sales generated outside of the United States. MFS clients include full-service restaurants, quick-service restaurants, hotels, convenience stores & supermarkets, and hospitals. The firm relies on a combination of direct sales and more than 3,000 third parties in over 100 countries (dealers, distributors, etc.) to bring its products to the marketplace.

The foodservice equipment industry has a record of steady expansion through a wide range of economic environments. MFS management estimates the global foodservice equipment market to be $27 billion. It is a highly competitive but relatively fragmented industry, with smaller independent firms representing a majority of the industry. The overall demand CAGR for foodservice equipment is expected to be in the 2%-3% range during the 2015-2020 period. Global growth is expected to be generated from a full range of end markets for foodservice equipment and is generally driven by factors such as income levels, population growth, travel and tourism, and regulatory requirements. These considerations, combined with continued expansion of new and existing restaurant concepts across the world, provide meaningful growth visibility for foodservice equipment demand for the foreseeable future.

The Company's new stand-alone status, combined with several new senior executives from the outside, should infuse a new sense of purpose at Manitowoc Foodservice. In conjunction with its spinoff, MFS management outlined a detailed strategy for the newly independent organization. Key future objectives include increasing market share with existing customers, growing internationally, cutting costs via restructuring, reducing debt, and eventually pursuing M&A opportunities. MFS is planning to pay down over $100 million in debt during the current fiscal year (leverage inherited from the spin-off), and it expects to achieve $100 million in annual cost savings by the end of 2017. Management is also incorporating an 80/20 philosophy into its operations to better reap scale advantages with the most important products and customers. MFS expects to gradually expand margins during the coming years, and it views a 20% EBITDA margin as attainable during the coming years (in line with peer averages), an increase of approximately 500 basis points relative to pre-spinoff levels. By 2019, our projections assume MFS can generate approximately $345 million in EBITDA and revenue of over $1.7 billion (implying an EBITDA margin of ~20% and EPS of ~$1.15). Importantly, our forecast does not reflect any potential synergies from future M&A.

It is important to note that MFS had already established a formidable competitive position within the industry prior to the spin-off. Its product portfolio includes 23 different brands, and 12 of these brands hold the #1 or #2 market share position within their respective businesses. Moreover, it enjoys well established client relationships that exhibit a high level of retention over time. Among its top 5 end market customers, the average relationship with MFS exceeds 40 years. The customer base is also relatively diversified: The Company's largest customer accounts for ~10% of total sales. This customer base yields a relatively stable and predictable profit stream for MFS, with a significant exposure to recurring revenue. Approximately 75% of MFS' total revenue is considered recurring in nature (60% of sales from equipment replacement, 15% of sales from services).

MFS has net debt of approximately $1.3 billion, reflecting the high degree of leverage it inherited from the spin-off (former parent MTW is a cyclical industrial less capable of servicing significant debt). MFS' steady cash flow and minimal capital requirements have allowed the firm to focus on debt reduction in the near term (at least $100 million this year), but management has not set a formal objective for future debt levels. Over the last 3 years, MFS' capital spending and free cash flow have averaged $24 million and $158 million, respectively. As financial leverage approaches more manageable levels, we would expect dividends and share repurchases to become increasingly likely. Management also sees potential consolidation opportunities within this fragmented sector, but deals will likely be bolt-on in nature.

In estimating intrinsic value for MFS from a multi-year perspective, we have attempted to utilize relatively conservative assumptions. In addition, our estimate of intrinsic value assumes $100 million in annual debt reduction during the 2016-2018 period given the firm's solid cash flow and modest capital requirements. Our estimate of intrinsic value for MFS is $23 per share, which assumes MFS trades at a multiple of 12x from a 2019 EV/EBITDA perspective. We view Middleby Corporation as the most relevant publicly traded peer for MFS (MIDD currently trades at a multiple of 17.7x TTM EV/EBITDA). In addition, given MFS' solid free cash flow profile, strong market position, and the fragmented nature of the foodservice equipment industry, MFS could attract the attention of financial or strategic buyers.

MSG Networks Inc.

Capitalization Summary ($MM)	
Price	**$21.15**
Diluted Shares (MM)	**75.4**
Market Cap	**$1,595.0**
Total Debt	**$1,467.2**
Cash	**($155.5)**
Enterprise Value	**$2,906.6**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**0.6**
52-Week Price Range	**$22.85-$14.73**
Short % of Float	**10.7%**
Major Shareholder	**Dolan Family Group 20%, 70% voting**

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	NA
Price/Book Value	NA
EPS (ttm)	**$2.17**
Price/Earnings	**9.7x**
EBITDA (ttm)	**$325.1**
EV/EBITDA	**8.9x**
Dividend Rate/Yield	NA

P&L Analysis ($MM) *Fiscal Year Ending June 30,*	**2015**	**2016**
Revenues	$633.8	$658.2
Operating Income	$258.9	$273.6
Margin	*40.8%*	*41.6%*
EBITDA	$280.7	$297.4
Margin	*44.3%*	*45.2%*

Catalysts/Highlights

- An agreement with NHL (streaming content) could spur MSG Go adoption driving higher distribution and ad revenues
- The Dolans could look to sell MSGN after CVC sale to focus on MSG's sports/entertainment businesses
- The potential implementation of a dividend or share buyback program as deleveraging accelerates

INVESTMENT RATIONALE

MSG Networks operates two highly profitable Regional Sports Networks (RSNs): MSG and MSG+. The RSNs each serve approximately 7.2 million subscribers (vast majority in the NYC Metro area) and are the local broadcast home of ten professional sports teams, including the NY Knicks and NY Rangers. Over the past nine years, the flagship MSG Network has won 126 Emmys, more than any other single station or network in the region over that time frame.

Despite experiencing a low single-digit % decline in subscribers in recent years, MSGN continues to post solid operating results (revenues up ~4% in FY 2016), thanks to annual affiliate fee escalators and provisions in its contracts with its distributors that provide downside revenue protection. Although MSGN incurred significant incremental programming expenses during FY 2016 (~$49 million), the business remains very profitable (~45% EBITDA Margins) and throws off an enormous amount of FCF (capex/revenue past three-year average: <1%). MSGN's strong results enabled it to reduce its leverage (net debt/EBITDA) to 4.1x as of 1Q FY 2017 from ~4.6x at the time of its 2015 separation from MSG, despite significant one-time tax payments (~$150 million) in FY 2016. We expect deleveraging to accelerate going forward and would not be surprised to see dividends/share buybacks implemented as MSGN's financial profile continues to improve. We estimate MSGN will generate $179 million of FCF in FY 2017 (FCF yield: 11%), more than enough to cover $67.5 million in required FY 2017 debt payments.

While MSGN's declining subscriber trends are worth monitoring, there have been some encouraging developments, including the moderation in the rate of decline in each of the past two quarters. Management attributed the improvement to inclusion of its networks on a legacy package at FiOS (a large MSGN distributor) and improving video subscriber trends experienced by a few of its key distributors. MSGN's subscriber trends are expected to be favorably impacted, albeit modestly, by the addition of 30k subscribers during the 2Q FY 2017, reflecting new distribution garnered in Pennsylvania and Connecticut. In addition to these subscriber gains, we believe that MSGN's future subscriber levels could be favorably impacted if it were to reach an agreement (currently in discussions) with a non-traditional distributor (e.g., Sony, Amazon, Apple, Hulu, etc.).

Although advertising revenues are underpenetrated at MSGN, we believe a number of factors could drive strong advertising growth in the coming years as MSGN capitalizes on its differentiated and DVR-proof content (99%+ of game programming viewed live). The increased adoption of MSG GO (streaming product) will likely favorably impact advertising revenues (in addition to affiliate fees), with the product providing additional inventory for advertisers and enhanced targeting capabilities. While there are currently only two distributors (covering ~55% of MSGN subs) offering its subscribers MSG GO, the addition of NHL content could provide a catalyst for further adoption. MSGN continues to have discussions with the NHL about adding the content, and we note that Fox recently reached a streaming deal for its RSNs with the league, providing reason for optimism. MSGN is developing short-form content delivered over its networks, online properties, and social media that offers its sponsors (such as Anheuser-Busch) enhanced sponsor integration opportunities. MSGN recently redesigned its website (Oct. 2016) to capitalize on this opportunity. Finally, the revamped Knicks roster could also provide a boost to ad revenues, to the extent that the new personnel translate to improved on-court performance. Early season results are encouraging.

Following a recent renewal with the Buffalo Sabres, MSGN has all of its major sports programming content secured via long-term agreements. While there have been concerns in recent years about the escalating values of sports media rights, we believe that MSGN has secured its programming rights on favorable terms, including its recent 20-year agreement, signed in 2015, for Knicks and Rangers content. We note the agreement was overseen by the controlling Dolan family, which has a financial interest in both MSGN and MSG (holds Knicks/Rangers rights). Accordingly, the fact that MSGN did not secure the rights via auction along with the Dolans' stake in both entities, suggests that the agreement was not entirely one-sided.

At current levels, MSGN trades at just 8.9x TTM EBITDA. In our view, this valuation is inconsistent with MSGN's attractive business model, with 85%+ of revenues secured via long-term/multi-year contracts and significant cost visibility. Our estimate of MSGN's intrinsic value is $37 a share, representing 75% upside from current levels. Our valuation utilizes discounted multiples (relative to precedent transactions) to our 2018 projections for subscribers ($238 per/sub) and EBITDA (12x). In September 2016, Jim Dolan paid ~$36 million to buy out his brother's stake in MSGN (@ $17 per/share), in a move that effectively gives him the ability to block a sale of the Company. While some may view this development unfavorably, we believe that various initiatives to date by the Dolan family (CVC sale, MSG spin-offs, etc.) suggest the Dolan family, including Jim, is focused on unlocking shareholder value. Investors should also take comfort in the fact that Gregg Seibert, who has currently overseen a tremendous amount of value creation at Dolan-related companies in recent years, remains MSGN's vice chairman.

Boyar research

News Corporation

Capitalization Summary ($MM)	
Price (Class A)	$11.88
Diluted Shares (MM)	383(A)/200(B)
Market Cap	$6,990
Total Debt	$14
Cash	($1,406)
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 FCF 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.

Realogy 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
- RLGY'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

Realogy'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. Realogy'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, Realogy 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, RLGY 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, Realogy'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, Realogy'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. Realogy 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. Realogy 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 Realogy's tax assets. By comparison, RLGY has traded at a post-IPO average of ~12x EV/EBITDA. In estimating Realogy'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 RLGY shares.

In the interim, Realogy 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. RLGY expects to generate $425-$450 million in FCF (~$3/share) in 2016, and we project FCF could reach ~$540 million by 2019. RLGY 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. RLGY initiated a modest dividend (1.4% yield) in August 2016 and authorized an initial $275 million share repurchase program in February 2016. RLGY 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 RLGY 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 Realogy again becomes a private equity target, considering the highly attractive economics implied by our projections. Alternatively, Realogy 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.

Boyar research

Time Warner Inc.

Capitalization Summary ($MM)	
Price	**$94.65**
Diluted Shares (MM)	**788**
Market Cap	**$74,537**
Total Debt	**$24,471**
Cash	**($2,309)**
Enterprise Value	**$96,700**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**6.8**
52-Week Price Range	**$95.68-$55.53**
Short % of Float	**1.1%**
Major Shareholders	**Insiders <1%**

TWX
NYSE

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value	**$24,278**
Price/Book Value	**3.1x**
EPS (ttm)	**$5.62**
Price/Earnings	**16.8x**
EBITDA (ttm)	**$7,929**
EV/EBITDA	**12.2x**
Dividend Rate/Yield	**$1.40 / 1.5%**

P&L Analysis ($MM)

Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Revenues	$26,461	$27,359	$28,118
Operating Income	$6,268	$5,975	$6,865
Margin	*23.7%*	*21.8%*	*24.4%*
EBITDA	$7,027	$6,708	$7,604
Margin	*26.6%*	*24.5%*	*27.0%*

Catalysts/Highlights

- 18% total return upside to ATT deal price, with regulatory outlook likely to improve in coming months
- ATT shares have rallied toward top of deal collar, presenting incremental upside to deal price
- Limited downside with 2017E standalone intrinsic value of $99 per share

INVESTMENT RATIONALE

In last year's *Forgotten Forty*, we noted that TWX shares were trading at a 25% discount to the price offered by Fox in 2014. We suggested that TWX, facing growing investor unrest, "could again be a takeover candidate" in 2016 or else pursue a further split-up. We also noted several potential future competing bidders were distracted in 2014 by ongoing acquisitions (ATT, Verizon, etc.) or were still warming up to the industry (large tech companies) but could emerge at a later date, justifying CEO/Chairman Jeff Bewkes' decision not to negotiate with Fox. On October 22, 2016, TWX announced an agreement to be acquired by AT&T for $109 billion (EV) or $107.50 per share, payable in 50% cash and 50% AT&T stock with a collar that eliminates TWX shareholders' pre-close exposure to ATT share price movements between $37.411-$41.349. Note: ATT shares currently trade just below the high end of the collar.

So why is TWX still on this year's list? While shares are up 47% from a year ago and the deal spread has closed by >10% in the run-up to publication of this report over the past month, they still trade at a wide 13% deal spread (i.e., discount; 15% upside to current deal price) after accounting for TWX's dividend (1.5% yield), which TWX will continue to pay (we assume for four more quarters). There is additional upside if ATT rallies above the collar price. TWX shares traded at ~$79 before rumors of AT&T's interest first surfaced in October 2016. This implies just ~15% downside in the event the deal falls apart. There may be even less downside risk for long-term investors. Our standalone YE 2017E intrinsic value for TWX is ~$99 per share, based on a sum-of-the-parts that ascribes higher 2017E EV/EBITDA multiples to HBO (13x) and Warner (11x) than Turner (10x). Of course, there is risk that TWX will trade below pre-deal prices, at least temporarily, if the sale falls apart. However, TWX is firing on all cylinders, and we see multiple catalysts for TWX to continue to produce outsized growth in the coming years, with or without ATT. Warner Bros. has disclosed an extremely attractive blockbuster film slate through 2020, led by DC Comics properties and the new series from Harry Potter creator J.K. Rowling, *Fantastic Beasts*—the first installment (of 5) which successfully debuted in November 2016. At HBO, the upcoming renegotiation of major distribution agreements should accelerate subscription revenue growth. We believe HBO is under-priced and under-marketed by some major MVPDs, and the HBO NOW app should only strengthen its negotiating position. Turner recently locked up top sports programming rights into the next decade and concluded most of its key distribution agreements, providing strong visibility for mid-teens annual domestic subscription revenue growth for the segment over 2016-2017 (up 15% in 3Q16).

That said, deal-approval risk remains the key factor for TWX shares over the coming year. Wall Street remains skeptical; the roughly equivalent upside to the deal price vs. downside to pre-announcement levels implies only ~50% chance of approval—far too pessimistic a view, in our opinion. Admittedly, the FCC has been unfriendly to the telecom/cable industry under the leadership of outgoing chairman Tom Wheeler. The FCC quashed the proposed Comcast/Time Warner Cable merger and forced fairly severe restrictions on Charter before approving its TWC deal. ATT CEO Randall Stephenson and the rest of their executive team have stressed the major difference between the aforementioned deals and the ATT/TWX proposal: The former were horizontal mergers within a consolidated (cable) industry, while the latter is a vertical merger, akin to Comcast's acquisition of NBCUniversal, approved in 2011. However, the FCC chairman has since expressed reticence with this merger, particularly concerning the use of concessions as part of the approval process and Comcast's purported subsequent flaunting of some of those conditions. Net neutrality rules are another potential hurdle. ATT's new DirecTV Now OTT video service is "zero-rated" for ATT mobile subscribers, meaning the service does not count toward data caps. Presumably, TWX content will also be zero-rated, whether part of DirecTV Now or on a standalone basis. The FCC, which has made net neutrality a focal point under Mr. Wheeler's leadership with the Open Internet Order, is studying the issue of usage-based pricing and recently raised concerns with ATT over whether its DirecTV Now policy effectively eliminates competition.

The net neutrality issue remains an uncertainty for the telecom industry. But regulation of mobile data pricing would likely require new rulemaking, which appears highly unlikely under the next FCC leadership and would face legal challenges. In any case, we find it almost impossible to believe that Bewkes/TWX's board would approve this transaction if it had no assurances from ATT that ATT's continued pursuit of the merger was not contingent on gaining the regulatory all-clear to utilize usage-based data pricing policies or zero-rate TWX content. Likewise, ATT management commentary suggests the deal was principally driven by diversification considerations and compelling financial projections. TWX CEO Jeff Bewkes (one of the best in the business) has described the modest $500 million reverse breakup fee as reflective of its confidence that the deal can garner approval.

Importantly, ATT/TWX also believe they can side-step the FCC review entirely if need be by not transferring wireless licenses (which are not core to TWX) to ATT. While the FCC could find a legal maneuver around this issue, Donald Trump's election could make it a moot point. Mr. Trump initially voiced his disapproval of the transaction while campaigning. However, ascribing meaning to this statement is a mistake, and members of his team, including the heads of his telecom and antitrust transition teams, have vocally criticized net neutrality. The FCC is virtually assured of a Republican majority under the new administration. What about the FTC and the DOJ? As ATT and TWX have no competitive overlap, it is difficult to see them mounting a legal case against the merger. Nor does the deal appear anti-consumer; there is little rationale for ATT withholding TWX content from other platforms, and zero-rating TWX content is a positive for consumers. ATT management also has voiced its willingness and expectation to accept conditions to gain regulatory approval such as guaranteeing third-party access to TWX content or zero-rating bundles on reasonable terms.

Boyar research

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%

TRCO
NYSE

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 December 31,	2014	2015
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 cuts 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 continuing 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.

W. R. Berkley Corporation

Capitalization Summary ($MM)	
Price	**$65.53**
Diluted Shares (MM)	**128.6**
Market Cap	**$8,427**
Cash	**($873)**
Long-term Debt	**$1,762**
Investment Assets	**$17,727**
Loss Reserves	**$11,098**

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	**0.4**
52-Week Price Range	**$66.45-$47.54**
Short % of Float	**5.0%**
Major Shareholders	**W. Berkley (Chairman) 20.4%**

Valuation and Misc. Stats ($MM) 9/30/16	
Book Value per Share	**$40.19**
Price/Book Value	**1.6x**
Operating EPS (ttm)	**$3.49**
Price/Earnings	**18.8x**
Dividend Rate/Yield	**$0.52/ 0.8%**

P&L Analysis

Fiscal Year Ending December 31,	**2013**	**2014**	**2015**
Revenues	$6,409	$7,129	$7,206
Net Income	$500	$649	$504
Op. EPS	$3.06	$3.62	$3.41
Combined Ratio	95.1%	93.8%	93.7%
ROE	11.6%	15.0%	11.0%

Catalysts/Highlights

- WRB's short-duration investment portfolio was positioned for the recent rise in interest rates and the Company's interest income will benefit
- WRB's overweighting in alternative investments should continue yielding outsized returns
- New business opportunities ensure WRB will continue to intelligently outgrow the P&C industry

INVESTMENT RATIONALE

W.R. Berkley enjoyed yet another successful year as a member of last year's *Forgotten Forty*, with a return of 20.5% vs. 11.4% for the S&P 500. Founded in 1967, WRB is one of the premiere commercial lines property & casualty (P&C) insurers. The Company focuses on niche markets requiring specialized knowledge of a product or territory. The Company's competitive advantage is rooted in its decentralized structure, allowing local management to identify opportunities and respond to market conditions and customer needs. WRB's business model creates financial accountability and incentives for local management, enabling the Company to attract and retain the highest caliber professionals. Throughout its history, WRB has successfully seeded new businesses when it identified opportunities and, most importantly, when it found the right talent to lead the businesses. Of WRB's 51 operating units, 44 were developed internally and 7 were acquired.

WRB has high insider ownership of 22.5%, including 20.4% by its founder and former CEO, William R. Berkley. In October 2015, Mr. Berkley became executive chairman and passed the CEO role to his son, W. Robert Berkley, Jr., who has been with the Company for 19 years. We believe William Berkley's ongoing involvement and outsized ownership will perpetuate the Company's culture of operating more opportunistically than many of its larger P&C competitors.

WRB's operating philosophy is to outperform over a full insurance cycle, requiring discipline throughout the cycle. WRB is willing to forgo top-line growth in soft markets to maintain profitability and seeks to write as much good business as possible in hard markets. From 1974-2015, WRB's book value per share experienced an average annual gain of 17.3%, compared to 10.8% for the S&P 500 (both including dividends). Over the last 10 years, WRB's ROE averaged 14% (the Company's annual goal is 15%). In 2015, WRB's revenues/pre-tax income were split as follows: Insurance-Domestic: 77%/83%, Insurance-International: 13%/6%, and Global Reinsurance: 10%/11%. In 1Q 2016, the Company collapsed the domestic and international insurance segments into one segment (Insurance).

With interest rates at historically low levels, the Company substantially increased its investment portfolio allocation to alternative investments to improve returns. At 3Q 2016, private equity, limited partnerships and real estate accounted for 13% of the investment portfolio and 47% of book value. While gains from alternative investments are lumpy, returns have substantially exceeded the 3-4% yield on the fixed income portfolio without sacrificing quality or increasing risk.

In the first nine months of 2016, WRB maintained its historic underwriting profitability with a combined ratio of 94.1%. The Company's 19.2% ROE in 3Q 2016 (13.0% in the first nine months) was boosted by strong realized gains from its alternative investments. After the close of 3Q, WRB sold 2.2 million shares of its investment in HealthEquity, Inc. (HQY) and will report its remaining stake at fair value going forward, boosting 3Q book value per share by ~$2.00 (+5%), all else equal.

The recent sharp rise in U.S. interest rates is a mixed blessing for WRB, as its book value will initially be hurt by mark-to-market losses on fixed income securities, offsetting some of the gain on HQY. However, Berkley was positioned for an increase in rates, with a short average maturity (3.3-year duration) on its bond holdings, and is now poised to benefit from the reinvestment of proceeds at higher rates. Each 25 bps increase in the overall yield on its $13.6 billion fixed income portfolio adds $0.18 to EPS annually. Rising interest income, coupled with continued strong gains on alternative investments, could serve as a catalyst.

In addition, while WRB's top-line growth recently slowed as industry conditions became more challenging (Insurance NPW growth of 2.7% in 3Q 2016 vs. 4.1% YTD, Reinsurance NPW decline of 1% in 3Q 2016 vs. 11.4% growth YTD), the Company is positioned to once again outgrow the industry due to its opportunistic and nimble business model. CEO Berkley stated on the 3Q call: "I don't think that we as an organization are of the view that that our growth rate for the foreseeable future will remain at this level ... we have some things that we have been working on that we have not announced, which I think, over time, will make a considerable contribution ... while there are parts of the market, the reinsurance market probably being the best example, that are particularly challenging, there are still lots of opportunities."

We value Berkley utilizing a Price/Book Value multiple. Due to the Company's excellent underwriting track record, superior ROE and strong management team, we view WRB's current P/BV multiple of 1.6x as fair. Assuming a 14% ROE going forward (in line with the last 10 years) and valuing WRB at 1.6x P/BV (within the lower half of its 20-year range: 0.7x-3.0x), we derive an intrinsic value of $83.50 per share at the end of 2018, offering 27% upside from current levels.

Appendix – Share Ownership

Company	Symbol	# of Shares Owned by Clients of Boyar Asset Management, Inc.*	Analysts Own Shares
The Allstate Corporation	ALL	635	
American Express Company	AXP	6,920	
Anthem, Inc.	ANTM	60	✓
Axalta Coating Systems Ltd.	AXTA	2,210	
Bed Bath & Beyond Inc.	BBBY	32,642	✓
The Boston Beer Company, Inc.	SAM	–	✓
Brinker International, Inc.	EAT	38,174	✓
Callaway Golf Company	ELY	39,644	✓
Cigna Corporation	CI	–	
Coach, Inc.	COH	53,583	✓
Cowen Group, Inc.	COWN	–	✓
Crocs, Inc.	CROX	10,396	✓
Devon Energy Corporation	DVN	2,140	✓
Discovery Communications, Inc.	DISCK	78,927	✓
Dover Corporation	DOV	–	✓
Eastman Kodak Company	KODK	650	✓
Energizer Holdings, Inc.	ENR	24,011	
Franklin Resources, Inc.	BEN	–	
Hanesbrands Inc.	HBI	108,860	✓
Harley-Davidson, Inc.	HOG	4,171	
HealthSouth Corporation	HLS	2,294	✓
Hexcel Corporation	HXL	–	
ILG, Inc. (formerly Interval Leisure Group)	ILG	128,151	✓
La Quinta Holdings Inc.	LQ	–	
Legg Mason, Inc.	LM	3,209	
Liberty Broadband Corporation	LBRDA	–	✓
Liberty Global plc	LBTYK	–	✓
Liberty Interactive Corporation (QVC Group)	QVCA	13,342	✓
Liberty Global Latin America and Caribbean Group (LiLAC)	LILAK	–	
Loews Corporation	L	–	✓
The Madison Square Garden Company	MSG	22,380	✓
Manitowoc Foodservice, Inc.	MFS	–	
MSG Networks Inc.	MSGN	149,061	✓
News Corporation	NWSA	5,385	✓
PayPal Holdings, Inc.	PYPL	5,980	✓
Realogy Holdings Corp.	RLGY	–	✓
Time Warner Inc.	TWX	30,400	✓
Tribune Media Company	TRCO	48,150	✓
The Western Union Company	WU	31,738	✓
W.R. Berkley Corporation	WRB	275	✓

** Share ownership as of 12/14/2016*

Risks:
Risks that the companies profiled may not achieve our estimate of their intrinsic value include but are not limited to difficulties impacting the global economy and financial markets, slowing in capital market activity, significant declines in market values, and the risks associated with the uncertainty involved in the operations of each individual company profiled.

Analyst Certification:
Asset Analysis Focus certifies that the views expressed in this report accurately reflect the personal views of our analysts about the subject securities and issuers mentioned. We also certify that no part of our analysts' compensation was, is, or will be, directly or indirectly, related to the specific views expressed in this report.