Valuation methodology:

Financial stability:

It is the stability of a company's business that determines our ability to predict its future earnings. If a company's revenues and costs vary widely, it is not possible to accurately predict growth. We have to take into account that if a company has a stable 10% increase in revenues but loses 20% in one year, in the next year it will need a 50% growth approximately to maintain the same revenue it would have in case the loss did not happen. So we cannot trust in growth averages as a precise value but as instead an estimation and only for stable companies. The gross margin plays here an important role too since if it is too narrow, when the economy contracts, costs rise, or revenues decrease for any reason, this company will shrink it even more having even in some cases negative gross margins. Another figure we must take into account is the level of debt. Highly leveraged firms are too dependent on the debt markets and if a debt crunch happens, which also deteriorates the economy substantially; it would not be possible for them to refinance themselves in those hard times.

Intrinsic Value (IV):

By knowing the financial parameters that a stable company has, it is possible to do a sort in NASDAQ website for example. After the sort we just have to choose the ones which present the more stable and higher returns. By developing an excel sheet that extracts data from Reuters and calculates almost automatically (it needs a few manual adjustments), the intrinsic value of each company it is easy to find which companies are undervalued at the current market price.

For the calculations of the intrinsic value, the operating income, depreciation and amortization, capital expenditures, number of shares, current price, total debt (D) and cash and short term investments (C) are needed (these values are the ones we download automatically for our excel sheet from Reuters).

The owner's earnings (OE) are found by adding the depreciation and subtracting the capital expenditures to the operating income. These earnings represent the amount of money the owner of the business has in "his pockets" at the end of each year. The growth rate (g) from these earnings must be stable so that it is possible to make a prediction of future growth rates. After applying the growth rate to the owner's earnings after several years, there is the need to discount this result to the Present Value. For the discount rate (r) we use 10%, Even though current interest rates are so low that we cannot invest our money at this rate in a risk free instrument (in the best scenario we would get 4%) we use 10% because it gives us an extra safety margin.

Our temporal choice for our investments are 10 years so in these 10 years the stock value will get the returns created by the business, so by summing the PV of these returns we have our first part of the intrinsic value.

The capitalization rate is the returns divided by the market capitalization of the company (M). This way it is possible to calculate given the future returns, what will be the market price 11 years from now. This will be the residual value of the business which is then discounted until the present.

The intrinsic value will be then the sum of the PV of the 10 year returns and the PV of the residual value in the 11th year with the Cash and Short-term investments minus the Total Debt. As recommended by Benjamin Graham, a 25% margin must be discounted from this intrinsic value.

$$IV = \left[\sum_{i=0}^{n} \frac{(OE_i \times g_{i+1})}{(1+r)^i} + \frac{\frac{OE_n \times M_i}{OE_i}}{(1+r)^n} + C - D \right] \times (1 - 25\%)$$

If we wanted to buy the whole business we would need to be worried about the shares dilution, however as we intend to have small stakes of each of these companies in our portfolio we need to take in account this variable. By analyzing the number of shares in the past 10 years of the company's activity it is possible to make a prediction, with the respective safety margin, of the future dilution rate. So when we calculate the intrinsic value per share we can already take into account this factor and thus arrive at a more precise value.

The conclusion is simple, if the current price of a stock is lower than its intrinsic value per share then we consider it as undervalued.

Fundamentals:

It is not enough for a stock to be undervalued. It is imperative that the firm has some kind of competitive advantage that its competitors do not have and cannot obtain at least on short term. This competitive advantage can be a way of reducing costs by for example having a better bargaining power with the suppliers or increasing sales by producing goods with an extraordinary quality. A firm which belongs to a competitive industry must have some factor that differentiates from the others because otherwise it would be affected by price competition and narrow margins. The management quality is another aspect to take into account, which can be evaluated by the precision of their estimates and the transparent financial results and accounting practices. Customers and suppliers are also extremely important since a company that relies in a small number of suppliers and customers is dependent on their stability.

SYNNEX Corp.

NYSE: SNX

Undervalued	
33.55$	**35.16$**
price as of 11/04/2013	**intrinsic value** as of 11/04/2013

Previous rating	Market Capitalization	Debt to Equity	Annual dividend yield	ROE
nd	1.25bn	1.09	0.00%	11.45%
Owner's earnings	**Avg. OE growth**	**Avg. Dilution rate**	**Cash-Debt per share**	**Industry**
$264,459.00	18.78%	4.59%	-$1.94	Technological

DESCRIPTION

This company provides distribution and global business services. As customers for their distribution services SNX has more than 20000 resellers, system integrators and retailers. For global business services (GBS), primarily manufactures of IT hardware and CE devices, developers of software, cloud services providers, broadcast and social media. Revenues are not dependable on the economic situation of its 150 customers, since none accounts for more than 10%.

COMPETITORS

In order to keep the pace with competition, Synnex has made some acquisitions. The technological business in which SNX is inserted is highly competitive, however its safeguarded of new entrances because the contracts with the suppliers are difficult to negotiate. Synnex largest original equipment manufacturer (OEM) supplier is HP. It also works with Lenovo, Acer, Panasonic, Seagate, Microsoft, Asus, Intel, Lexmark and Symantec. They also have big multinationals like Staples, Best Buy or Insight as their source of revenue which due to their dimension, provide to Synnex a reliable source of revenues.

RISKS

Only 25% of Synnex's revenue comes from outside the USA so it is exposed in a great way to this economy. Another risk factor is that there are no minimum quantities assured with its customers, which exposes Synnex revenues to its customers' demand. Competition could also represent a threat to Synnex profits in the future by leading its gross margins down.

SUMMARY

Despite the decreasing demand for computers, Synnex's diversification of services and its position as intermediary between big technological manufactures and customers will allow SNX to continue to grow. Adding to the fact that currently the stock is undervalued we decided that this stock should be included in our portfolio.

C.H. Robinson Worldwide Inc.

NASDAQ: CHRW

Undervalued	
57.56$	**69.94$**
price as of 11/04/2013	**intrinsic value** as of 11/04/2013

Previous rating	Market Capitalization	Debt to Equity	Annual dividend yield	ROE
nd	9.27bn	0.86	2.37%	43.14%
Owner's earnings	**Avg. OE growth**	**Avg. Dilution rate**	**Cash-Debt per share**	**Industry**
$683,622.00	16.49%	9.74%	-$0.68	Transportation

DESCRIPTION

CH Robinson provides freight transportation services and logistic solutions. It has 276 offices in North America, Europe, Asia, South America and Australia. Robinson charges clients for the shipment of goods and buys the transport from carriers gaining from the spread between the price paid to carriers and the one charged to customers. These services represent most of CHRW revenue however the company has other services such as: the Fresh sourcing which specializes in transporting fresh products from farms to retailers, restaurants and grocery stores and the T-Chek which specialization is motor carriers services such as fuel management.

COMPETITORS

The fact that it uses third party means of transport allows CH Robinson to cut costs and to reduce or increase its capacity accordingly to demand which is a very important advantage from the competitors; however it is subjected to the availability of transport from these carriers and in case prices charged by the carriers increase, the profit margins for CH Robinson can be reduced. Another disadvantage is that these carriers are also part of CH Robinson competition since they can provide the same service directly to CH Robinson customers. These customers vary from family businesses to multinational companies which do not represent more than 7% of the revenues each.

RISKS

The business relies mostly in the sales ability of CH Robinson employees so that they can gain new customers and retain the ones who already work with the company. For this reason their compensations are based on performance which leads to a high spending in salaries. Attracting and retaining employees might represent a source of risk since they have good relationships with their customers which can be broken in case the employee leaves the company.

SUMMARY

Taken into account that Robinson's investments are geographically diversified, its employees are able to retain and attract customers, the company is financially stable and its undervalued we decided that we should invest in CHRW.

John Wiley & Sons Inc.

NYSE: JW.A

Undervalued	
37.15$ **price** as of 11/04/2013	**45.63$** **intrinsic value** as of 11/04/2013

Previous rating	Market Capitalization	Debt to Equity	Annual dividend yield	ROE
nd	2.2bn	1.63	2.48%	17.41%
Owner's earnings	**Avg. OE growth**	**Avg. Dilution rate**	**Cash-Debt per share**	**Industry**
$351,133.00	9.73%	0.29%	-$3.51	Publishers

DESCRIPTION

John Wiley & Sons is a well-known publisher of print and online contents. The 3 main business segments are the STMS (Scientific, Technical, Medical and Scholarly), Professional and Higher Education. While journal subscriptions and other related publishing income represent 49% of the revenues, the books business represent the other 51%. Wiley relies in several paper suppliers in order to avoid inventory shortage and reduce the impact of an increase in paper price.

COMPETITORS

Despite the fact that JWA is a relatively small publisher (compared with McGraw-Hill for example), it is constantly acquiring and selling new journals as well as publishing rights. As also a strong presence in the Asian market which is growing at a fast pace. Its presence in the e-books business is growing helped by a partnership with Apple. Moreover JWA has another source of income from its websites CliffsNotes.com and Dummies.com which is advertising.

RISKS

The top 10 book customers account for 20% of the total consolidation revenue which can represent a risk. As it journals subscription services comprise several journals published by government entities there is the risk of the implementation of a law that demands that these content must be distributed for free.

SUMMARY

We are confident that Wiley will be capable of balancing both e-book and book sales in order to continue to grow as well as distinguish itself from the competitors by providing more reliable and trustworthy content. With its intrinsic value well above the current market price it provides us a valuable and reliable investment.

Kohls Corp.

NYSE: KSS

Undervalued	
47.65$	**58.81$**
price as of 11/04/2013	**intrinsic value** as of 11/04/2013

Previous rating	Market Capitalization	Debt to Equity	Annual dividend yield	ROE
nd	10.58bn	1.3	2.89%	15.71%
Owner's earnings	**Avg. OE growth**	**Avg. Dilution rate**	**Cash-Debt per share**	**Industry**
$2,009,000.00	19.69%	-2.65%	-$15.85	Apparel

DESCRIPTION

Kohls is a US department store chain that sells men's and women's apparel, home décor and accessories. Its market is oriented to middle class consumers with a low cost structure, only possible by having a unique store format, lean staffing levels, sophisticated management information systems and operating efficiencies. The apparel retailers business is subjected to seasonality recording the biggest revenues in the back to school period and in Christmas month. In Kohls stores Women's apparel represents 32% of sales followed by men's, 18%.

COMPETITORS

KSS main competitive advantages are the discounted prices practiced, as well as the exclusive brands present in its stores. Kohls also sells private labels which have a lower price than the branded ones but have a higher margin profit. By having off-mall stores it differentiates itself from the competition which has been highly affected by the consumers' decreasing visits to the mall.

RISKS

By being present only in US represents an increased risk when compared with multinational retailers since it is subjected to a decline in spending capacity of the American consumer. Another major threat is Kohls E-commerce which has a lower profitability than the stores and which sales are increasing relatively to store sales. If Kohls cannot avoid inflation by increasing its products prices and remain with the same sales volume, its margins will decrease.

SUMMARY

Kohls has been growing its earnings throughout the last 10 years, has several competitive advantages as the low price brands, low cost logistics and stores outside malls, and it is currently undervalued. Considering a 4% growth rate in the next 10 years we still achieve an intrinsic value of 58.81$ which its high above the current price and so we will invest highly in this company.

GameStop Corp.

NYSE: GME

Undervalued	
31.84$ **price** as of 11/04/2013	**54.34$** **intrinsic value** as of 11/04/2013

Previous rating	Market Capitalization	Debt to Equity	Annual dividend yield	ROE
nd	3.75bn	0.81	3.44%	21.4%
Owner's earnings	**Avg. OE growth**	**Avg. Dilution rate**	**Cash-Debt per share**	**Industry**
$675,200.00	43.38%	44.63%	$4.89	Video Games

DESCRIPTION

GameStop is the largest retailer of video games in the world. It has a strong presence in the US and its currently expanding its business in Europe, Canada and Australia. Besides new video games, GME has an extraordinary inventory of used videogames in which it gets the double of the profit margin. Video games industry is growing at a fast pace however is dependent on the launching of new consoles by the main companies as Sony, Microsoft and Nintendo.

COMPETITORS

GME biggest competitive advantage is its large assortment of used games which have a profit margin of 46% compared with 21% for new games. It is extremely difficult for the competitors to have the same number and diversification of used video games and with such a higher margin. GME can easily pay more for used games or even decrease their prices avoiding then new entrances and eliminating competition.

RISKS

One of main concerns about this company is relating to the expansion to new stores. If it is unable to successfully increase its sales by expanding, it will be difficult to increase sales by applying other strategy because it has already saturated their main market, USA. Other threat to the company is the fact that more and more new game consoles are being developed to be able to download games directly from their serves instead of having a physical disc. This would eliminate all the intermediaries between the consoles manufacturers, game developers, and their customers which would have a huge negative impact in the GameStop business.

SUMMARY

The data described above refers to the year of 2011. Last year the company had losses explained by a massive write-off in the goodwill. However if we do not account for this write-off the operating income would have increased. Video games are increasing its popularity even in older family members with family and sports games that have a bigger interaction between the player and the game as well as more physical movements. Female players are also increasing which nowadays still represents a low amount when compared to males, but that has a huge potential. This would be an excellent reason to invest in GME if the consoles where not developing their online game stores. Our decision is to avoid GME since it is not a business that we expect it would last for a long time.

Esterline Technologies Corp.

NYSE: ESL

Overvalued	
74.97$	**57.18$**
price as of 11/04/2013	**intrinsic value** as of 11/04/2013

Previous rating	Market Capitalization	Debt to Equity	Annual dividend yield	ROE
nd	2.32bn	0.94	0.00%	7.20%
Owner's earnings	**Avg. OE growth**	**Avg. Dilution rate**	**Cash-Debt per share**	**Industry**
$287,394.00	24.34%	4.17%	-$22.30	Aerospace tech.

DESCRIPTION

This company is a specialized manufacturer in serving aerospace and defense markets. The main segment is avionics and controls (49% of total sales) where it produces cockpit and flight deck products, in which is included the human-machine interface technology in which Esterline is an international manufacturer leader. Sensors and systems segment provides solutions for every kind of military or commercial application and it represents 24% of total sales. The other 27% of sales comes from the advanced materials segment which provides high performance custom material for aerospace and defense applications. Geographically ESL sales are majorly from the US, but the company is present also in Canada, France, United Kingdom and in some other countries.

COMPETITORS

They face a high number of competitors in the 3 market segments however they differentiate themselves through technical superiority, continual product improvement, exclusive product features, lean operational excellence including superior lead-time, on time delivering performance and quality, and customer relationships. As their products are made particularly to certain military and commercial platforms, they are only substitutable by a competitor after passing through a formal certification process.

RISKS

Defense market represents 40% of their sales, while 45% comes from commercial aerospace market and the remaining 15% from general industry market. One big customer is the US government which represents 10% of total sales, so the company is subjected to the high risk of a weaker economy in US which lead the US government to cut costs in Military expenses. Esterline strategy goes through acquisitions of companies with different services than the ones it already has in order to diversify the range of products offered to its customers. These acquisitions can represent a risk in case the companies acquired perform badly.

SUMMARY

Based on our valuation, ESL is currently overvalued. Moreover, ESL is in a highly competitive market, has most of its operations based in USA, so its dependent on the USA economy, and can decrease its sales if it is not able to continuously develop its products. For these reasons we decided to not include this company in our portfolio.

Monster Beverage Corp.

NASDAQ: MNST

Undervalued	
55.32$ **price** as of 11/04/2013	**56.71$** **intrinsic value** as of 11/04/2013

Previous rating	**Market Capitalization**	**Debt to Equity**	**Annual dividend yield**	**ROE**
nd	9.16bn	0.31	0.00%	31.96%
Owner's earnings	**Avg. OE growth**	**Avg. Dilution rate**	**Cash-Debt per share**	**Industry**
$528,201.00	77.43%	42.59%	$3.67	Beverages

DESCRIPTION

Monster is most well-known by its energy drinks, but besides that, it has a bunch of products such as ice teas, juices, coffee and even water. All these products are outsourced to external manufactures which have with MNST exclusive contracts. Monster products are sold and manufactured globally however only 22% of its customers are located outside the US. The main objectives for the company is to expand its business internationally, reduce its production costs and optimize its capital structure to finance expansions.

COMPETITORS

Beverage industry is highly competitive specially in pricing, development of new products and marketing. As the energy drinks market is not mature yet, there are new companies constantly entering in the business. The main competitors in this market are Red Bull and Rockstar which biggest bet is in marketing and sponsoring of sport events as Monster does. The other MNST products like the ice tea and coffee face competitors like Lipton and Starbucks.

RISKS

One of the biggest risk for MNST energy drinks business is the growing negative perception about the effects that these drinks have to consumers health. If the company is unable to maintain its good relationships with the manufacturers it can origin delays or interruptions in the products production. As this business is constantly innovating, if MNST is unable to come up with new flavors and products can begin to decrease its sales.

SUMMARY

We computed a 10 year growth rate of 10% and a dilution rate of 3.5% which after calculations gives us an intrinsic value above the current market price. Together with the strong brand awareness this company has, and the continually investment in expansions we are sure that this company will provide us the returns we expect, so we decided to invest.