The Cut

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IRF works with 101 Independent Research Providers covering multiple geographies, asset classes, industry sectors and methodologies.

Please contact us if you are interested in seeing the underlying research reports highlighted in The Cut, or if you have any specific research requirements:

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London Value Conference

We attended this excellent Conference last week in which guest speakers included Anthony Bolton, Nick Train, Django Davidson and Stuart Roden.

See below for a selection of Guest Speakers high conviction ideas:

- Ronald Chan, Chartwell Capital, **Far East Consortium**
- Nick Train, Lindsell Train, **Unilever**
- Joe Bauernfreund, Asset Value Investors, **Wendel**, **Hudson's Bay**, **Symphony** and **Toshiba Plant**
- Rhys Summerton, Milkwood Capital, **Menzies**, **Barclays**, **Greencore** and **Sports Direct**
- Alex Wright, Fidelity, **Ladbrokes** and **Ultra Electronics**

- Ben Preston, Orbis, **Samsung SDI**, and **MercadoLibre**
- Jon Boyar, Boyar Value Group, **QVC**, **Discovery Communications**, **Hanesbrands** and **Legg Mason**
- Filip Weintraub, Skagen Funds, **Infineon** and **Taiheiyo Cement**

We would be delighted if you were able to join the Conference next year.

Researchers visiting London

- **Aliya Capital** - Calls with Senior Management in Technology Companies, organised by Ari Shrage, Founder, **YY Inc**., **Tableau Software**, **Lending Tree**, **Tencent**, **Twilio**, **Amadeus**, **Impinj Inc**., **Shopify** and **eBay**, **5-8 June**
- **Summit Redstone Partners** - US Semiconductors, Software and Hardware, Srini Nandury and Jagadish Iyer, Senior Analysts, **5-6 June**
- **Smart Insider** - Directors Deals Analytics, Michael Tindale, Founder, **8 June**
- **Schulte-Research** - Financials Specialist with EM/Frontier coverage, Paul Schulte, Founder & Senior Analyst, **14 June**
- **Mithra Forensic Research** - European Forensic Accounting Expertise and Short Ideas, Melvin Glapion, Founder & Senior Analyst, **19-23 June**
- **Gradient Analytics** - Global Shorts, Brent Miller, Head of Research, **26-28 June**
- **Andrew Hunt Economics** - Global Macro, Andrew Hunt, Founder & Chief Economist, **27-28 June**
- **Enodo Economics** - China Macro, Diana Choyleva, Founder & Chief Economist, and Seamus Keaveney, CEO, **29-30 June**
- **JL Warren Capital** - China Stocks, China-related Stocks and China Macro, Junheng Li, Founder & Senior Analyst, **10-12 July**
- **Huber Research Partners** - US Media, Internet, Information Services and Credit Rating Agencies, Craig Huber, Founder & Senior Analyst, **13-14 & 17-18 July**

Macro Research

1. **Andrew Hunt Economics** - Evidence in the near term that QE is becoming more effective even as the BoJ tapers
2. **Asianomics** - Malaysia GDP and global growth, upside surprise
3. **Commodity Intelligence** - Investors maybe unable to ignore Blockchain and Bitcoin for much longer
4. **Forest For The Trees** - The USD is now "the slowest camper"
5. **MacroMavens** - Will animal spirits get quashed before stimulus has a chance to take effect?
6. **Macro Intelligence 2 Partners** - Plenty of investment opportunities in Europe - ECB growth targets laughably conservative
7. **Simon Hunt Strategic Services** - Why copper prices will rise sharply by 2020 and then collapse

Macro Research Snippets:

- **AAS Economics** - Downgrades outlook for economic activity, bond yields and equities in the US following weakening monetary conditions

- **CrossBorder Capital** - Asia is leading the Global Liquidity cycle, Eurozone/UK liquidity still at high levels, while US liquidity remains depressed

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Company Research

1. **Badger Consultants** - **SELL Harley-Davidson Inc.** (HOG US); key metrics have been trending down for years
2. **Belkin Report** - Switches from negative to positive on the energy sector; companies to **BUY** include, **Exxon Mobil** (XOM US), **BP** (BP. LN), **Tullow Oil** (TLW LN) and **Halliburton** (HAL US)
3. **Messels** - Ftse 100 stocks & sector review - **BUY Reckitt Benckiser** (RB.) as the stock breaks new highs, while investors should close long positions in **Experian** (EXPN LN) as it is testing the uptrend and has lost relative momentum
4. **Mithra Forensic Research** - **SHORT** video game developer, **Ubisoft Entertainment** (UBI FP), as aggressive and manipulative accounting will allow Vivendi to commence hostile takeover at significantly lower price
5. **Schulte-Research** - **BUY HSBC** as definite shift in sentiment, accelerating ROC and positive changes in senior management are some of the reasons provided
6. **The Retail Tracker** - Earnings have bottomed at **L Brands** (LB US) and now offers considerable upside

Company & Sector Research Snippets:

- **Libra Investment Services** - **BUY** Swedish lock manufacturer, **Assa Abloy AB** (ASSAB SS); the shares have found support at the lower boundary of the rising FV range, while the value trends are beginning to outperform and the stock has lower volatility than its peer average
- **Smart Insider** - Strong performance so far this year has not deterred a Director from making a large purchase in water and fluid controls company, **Pentair Inc.** (PNR US), despite already holding a significant stake

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Macro Research

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1. Andrew Hunt Economics - More evidence that QE is becoming more effective even as the BoJ tapers

***IRF Note** – Andrew Hunt's weekly 'Japan Money Watch' report shows Japanese data* *releases were stronger in the latest week. Indeed, Japan's conditions may be at their most supportive since 1999 and possibly even 1989. Key points include:*

- Despite rumours or at least assumptions to the contrary, they find that on a net basis the BoJ has slowed its rate of acquisition of bonds and perhaps even ETFs over recent months.
- Indeed, it is apparent that the BoJ has already begun to taper its level of net bond buying activity, while at the same time evidently succeeding in maintaining its Price Keeping Operation objectives in the bond markets.
- However, the banking system has sharply reduced its pace of bond selling over recent months.
- The net result of this situation has been an improvement in overall monetary growth over recent weeks.
- Moreover, the domestic credit data has begun to appear a little brighter.
- While AHE does not expect the recovery in monetary conditions to continue into 2018 (when the BoJ presumably exits its QQE); in the near term they do find that Japan seems to be enjoying quite buoyant monetary conditions by its own recent standards.

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2. Asianomics - Malaysia GDP and global growth, upside surprise

IRF Note *– Following on from Japan's 1Q GDP beat, Malaysia recently followed suit, recording the fastest growth since 1Q15. Asianomics doesn't believe the theory that these are one-offs and that global growth will decelerate in H2, instead they expect this outperformance to continue, especially in Asia and emerging markets. Key points include:*

- Malaysia - net exports were a drag on economic growth in 1Q because of the strength of imports; a sign that the domestic economy is revving up. Gross Fixed Capital Formation (i.e. investment) increased 9.5% y/y. Final domestic demand data confirm the story of a domestic led picture, with growth in this component up 7.6% y/y, well in excess of the overall GDP number.
- The story was the same for nominal data - headline GDP growth rate there was 11.7% y/y. Private consumption expanded by 10.8% y/y but, again, investment spending was the star of the show, up 12% y/y.
- No global growth slowdown - interest rates have not moved in the EU and Japan, and have gone up only marginally in the US (expect a rise in June, but no more this year). China's market interest rates have risen this year and there is a selective clampdown on some parts of the shadow banking system (surely a good thing) and the property market, but the growth upswing was supported by improving profitability, wider global growth and expanding credit in China. None of those have stopped.
- It is the profit cycle which supports growth globally and it has decisively turned up, especially in emerging markets.
- Opinion would change in the event of a profit downturn or a major central bank liquidity reversal or rate cycle upswing.
- Positive on currencies which are supported by interest rate differentials and strong external surpluses. Including Malaysian ringgit, Chinese renminbi, Thai baht, Taiwan dollar, Korean won, Japanese yen and Singapore dollar.

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3. Commodity Intelligence - Investors maybe unable to ignore Blockchain and Bitcoin for much longer

IRF Note *– Commodity Intelligence are formally following the Commodities Futures Trading Commission (CFTC) and adopting Bitcoin and Blockchain into their coverage. The digital age has created its own commodity, finally. It's a race now. Bitcoin is 18% of Gold searches on Google vs 5% this time last year. Number one question: what does this do for our business models? Key points include:*

- The biggest and most successful Blockchains must spawn in the resource logistics space. That is simply a reflection on the huge logistical scale of the market and it's wafer thin margins. The scale makes for a rugged 'test', and the dramatic reduction in costs is attractive to participants.
- There's industry ferment out there on Blockchain and Bitcoin now. Bitcoin has the lead. It is established and is going to be very difficult for the financial services industry to come up with an alternative Blockchain that works, in good time that the commodity supply chains will adopt.
- Japan, in a classic court case, dismissed allegations of fraud on a Bitcoin host, but effectively legalised its use in commerce. Now Japanese institutions are racing to clue themselves up on Blockchain, and are even reported to be big buyers recently.
- There's a pattern beginning to emerge here, for every court case involving Bitcoin, some miscreant is thrown in jail for breaking existing law, and there's a quiet endorsement of Bitcoin as a concept by legal authorities. Japan and American courts appear to leading the charge.
- Although Bitcoin has encountered a problem as it grows - each cycle in its DNA increases the size of the code required to complete the next iteration. Bitcoin is having considerable internal political and developer debate on how to proceed.
- In order for Blockchain to work, the money must be encrypted, but not the contract. If money and the contract are included in the chain then the code becomes too heavy, and response time falls, and transaction expense rises.

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4. Forest For The Trees - The USD is now "the slowest camper"

IRF Note *- Not that long ago, consensus on the USD, EUR, & CNY was that they are all racing towards a cliff, with the EUR & CNY running neck-and-neck for the lead and USD way behind. However, it appears events have played out differently. Key points include:*

- The EUR, which consensus feared was at risk of rapid collapse were Le Pen to win the French election, is suddenly looking on notably more solid political ground.
- CNY no longer bleeding reserves (actually increasing modestly) - as long as China continues to make progress towards expanding the "CNY gold window" globally, they will continue gaining the ability to print CNY for oil, structurally and permanently reducing their FX reserve needs, and de-funding the US government.
- Historically when EM's have tried to gain their monetary and political independence from the USD, the US has "weaponised" the USD to bring them to heel. The USD

merely had to not be the first currency over the cliff. If any other nation went over the cliff first, it would trigger a flood into USD's for safety, and the USD's hegemony would be maintained and restored.

- But for the first time in at least 35 years, US government Treasury receipts are falling BEFORE the US has gotten the key EM's in question (China & Russia) to "break"!!
- The USD is looking the most at threat - declining Federal tax receipts, increasing consumer loan delinquencies and falling oil prices (good for the EU & China but bad for the US).
- The US will have to either cut Federal spending (which at 22% of GDP will initially make the problem worse, not better), or have the Fed re-implement massive QE and/or devalue the USD.

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5. MacroMavens - Will animal spirits get quashed before stimulus has a chance to take effect?

IRF Note *– Investors continue to ignore the bad news, saying the data is wrong; it's the weather/seasonal/Russia. They argue the consumer is strong and things will improve once Trump's fiscal stimulus takes effect. But will it be too late? Key points include:*

- The 2Q rebound thesis is taking on water fast! - Since the quarter began, the Citigroup Economic Surprise Index has gone from +48 to -20!
- Aggressive man-handling of May figures from the BLS was unable to stop the downtrend in employment that has been in place since peaking in 2015. Real activity, capex and employment all peaked in 1Q15. Nominal consumption and retail sales peaked back in 2011.
- NY Fed reported the largest drop in planned expenditure since the Consumer Expenditure Survey began in 2013 despite income/household assessments of their overall financial situations hitting a series high. The Corporate front was the same - sharp increase in cash reserves in 1Q. M&A activity has also slowed sharply since the election.
- The biggest threat is evident in the deterioration in credit quality – subprime autos are the weakest link. Swollen inventories are depressing prices. Problems are now spreading; mortgage performance has begun to deteriorate.
- Any slowdown in the rate of credit creation has sent the economy slumping in the past. Not to mention the market, which has been strongly supported by debt-funded share buybacks (Q1: -23% y/y).
- Fiscal stimulus likely to be offset by State and Local restraint (as it was with AARA in 2009) – S&L tax receipts posted effectively zero growth last year. Outlays are growing at their slowest pace since the Great Recession.
- Spending cuts have only just begun – to bring their budgets into balance S&L governments would need to reduce current expenditure by 3.3% p.a. while also dealing with the $2trn hole in their pensions!

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6. Macro Intelligence 2 Partners - Plenty of investment opportunities in Europe - ECB growth targets laughably conservative

IRF Note *– Recent road-trip reinforces MI2's belief in European growth and with the real money only just moving in (post French election) they continue see investment opportunities. Key points include:*

- Europe continues to surprise both the market and more significantly the ECB. Robust consumer confidence is feeding through into hard data in domestic demand. As stocks rise so will confidence.
- Adding to this positive picture is the external sector - after being a drag on growth since mid-2015, is set to be wholeheartedly accretive through 3Q. Together with the strong domestic picture this suggests that the ECB growth targets of 1.7% for GDP in 2017 and 1.8% in 2018 are laughably conservative.
- Given that the ECB eased into an economy already benefitting from lower oil prices, headline inflation will not simply mean-revert to its 2013/14 levels or below as Draghi is keen to suggest. Instead, it will remain sticky just below the 2% mark well into 2018.
- Even EZ core, after correcting slightly lower from its recent Easter spike looks set to steadily march higher into the start of next year.
- Preference since last December has been to play European outperformance. Hence, MI2 continues to like the long Treasuries vs 10yr Bunds. Long EUR/USD and long European stocks vs US.
- Clients who have attempted to take outright shorts in European fixed income have been exhausted and ground down by the price action. This appears to have caused a mood of resignation and capitulation with some clients now suggesting that Draghi may try to look through the whole recovery (ECB not interested in inflation mandate, only wish is to save the Euro). This in turn seemed to be driving some accounts to favour relative trades vs. the US in an attempt to mitigate some of the negative carry and roll-down disadvantages.

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7. Simon Hunt Strategic Services - Why copper prices will rise sharply by 2020 and then collapse

IRF Note *– In the last 88 years, copper prices fell for 55 of those years, or 63%. Falling prices were interrupted by seven periods of sharply rising prices, the last being in 2006 when the copper price jumped by 77%. We are on the threshold of the next spiral upward in prices to be followed by the inevitable crash. Key points include:*

- Policies will veer towards inflating the world - world IP growing by an average of 4.2% a year in 2017-2019 and global copper consumption by 4.8%.
- A falling USD – a weak dollar will encourage growth especially in commodity producing countries and domestically in the US rising exports. The dollar has now started its 7.8-year downward cycle.
- But there are other reasons why the dollar will weaken - increasingly, trade will be conducted through local currencies. Russia and China have been working towards eliminating the dollar as a medium for trade.

- Financial institutions buying of physical metal - falling USD, strong economic growth and inflation pressures will find some financial institutions purchasing copper and other metals as a hedge against their paper assets.
- World copper production will change little from the levels experienced in 2016 but global refined consumption will rise by average of 4.8% a year in 2017-2019 compared with an average of 3.2% from 2000-2015. Meaning large global copper deficits will develop, leading to sharply rising prices which should peak at ~$12,000 by end 2019 (with much volatility on the way).
- Then there will be the inevitable bust, in line with world financial markets but prices may persist at high levels for a few years beyond 2020 as investors turn to '’things’ rather than paper. Whatever, soon after 2020 prices will plummet to levels not seen in decades.

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Macro Research Snippets:

AAS Economics - In light of the recent weakening in monetary conditions (including Fed balance sheet & policy rate tightening) they have downgraded their outlook for economic activity in the US. This has also resulted in a downgrading in their outlook for Treasury bond yields (and US equities). AAS Economics' US bond model which is driven by US liquidity, economic activity and various pricing pressures, suggest that for the time being the yield on the 10-yr bond may soften in the months ahead. By December the yield on the 10-year bond is expected to settle around 2% before falling to 1.35% by December 2018. **Click here** for a short overview of this researcher

CrossBorder Capital - Pace of QE by major Central Banks clearly slowing, led by the Fed. Global Liquidity Index (GLI) rebounded to 44.4 (‘normal’ range 0-100). Main features: (1) US Liquidity remains depressed at 24.3; (2) Eurozone/UK liquidity still at high levels; (3) Asia is leading the Global Liquidity cycle thanks to Chinese Liquidity rebounding (jumped to 57.9). Three clear themes stand out: (1) a prospective still slower US economy; (2) a robust and expanding Chinese credit system, and (3) the likelihood of strong reversals of capital flows from the USD back to the Euro. **Click here** for a short overview of this researcher

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Company Research

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1. Badger Consultants - **SELL Harley-Davidson Inc.** (HOG US); key metrics have been trending down for years

IRF Note *– Badger Consultants, founded by Tom Chanos, focuses on stocks to short where the stock price is going straight up while the fundamentals are going down. Harley-Davidson fits this bill. Having hit a low of $37.49 in January 2016, today the stock is $55! The* *business has not improved by over 40%; in fact the business is shrinking. Key points from their 26-page report include:*

- Key metrics (revenue, net income, etc.) have been trending down for years. 2017 should be the fifth year in a row of declining sales.
- Touring motorcycles declined 24% y/y and cruiser motorcycles declined 7% y/y in 1Q17. These two motorcycles have higher margins than street bikes. Negative sales mix along with lower sales is not good. US registrations were down 5.9% and Europe was down 8.5%, not good for future sales.
- Struggling to protect margins – have been flat to trending down slightly and facing strong competition from Japanese competitors.
- EPS has also been trending down despite HOG aggressively buying back stock. Shrinking the number of shares outstanding is the only way that they can show any EPS growth. The business is in slow decline as aging baby boomers start dying off or get too old to ride big heavy motorcycles.
- One bullish analyst highlighted market share gains but the problem is the total market has been shrinking faster than they are gaining market share! If these gains slow or decline AND the total market keeps shrinking, they are in big trouble. This is a real possibility.
- Trades at a forward EV-To-EBITDA of 12.3x, this is almost double the ratio that competitor motorcycle maker Honda trades at, 6.5x. Forward PE ratio for HOG is 14.4x, compared to 8.8x for Honda.

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2. Belkin Report - Switches from negative to positive on the energy sector

IRF Note *– Michael Belkin's excellent track record with regards to sector rotation continues having recently advised clients to cover all shorts in the US and European energy sector and associated groups for a significant profit. Not only that, but Michael now says the time is right for investors to be buying/moving overweight these areas. Key points include:*

- Recommendations come from their time series analysis forecasting model. Put simply, it provides a probability distribution of what markets are looking for an excuse to do before it happens. It has nothing to do with supply/demand, OPEC and technical analysis.
- In 2016 they advised clients to go long the energy sector – it was the best performing S&P sector that year.
- Mid-January 2017 they recommended going against the consensus once again by shorting the energy sector and groups – it has been the worst performing sector so far this year, with the energy sector down 10% year-to-date (17% behind the S&P 500) and the S&P Service Sector down even more, by 15% year-to-date (22% negative alpha).
- Recently advised investors to close shorts and go long – this is already proving successful, having seen a bounce in crude oil energy, brent and energy product futures.
- Believes we are at or near the bottom in relative terms - Energy stocks could have a period of significant outperformance (10%+). Long crude oil was a crowded trade for hedge funds and managed money, but not anymore, and without them it should rally.

- Companies to buy include – **Exxon Mobil** (XOM US), **BP** (BP. LN), **Tullow Oil** (TLW LN) and **Halliburton** (HAL US).

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3. Messels - **BUY Reckitt Benckiser** (RB.) as the stock breaks new highs, while investors should close long positions in **Experian** (EXPN LN) as it is testing the uptrend and has lost relative momentum

IRF Note *– In their weekly 'Ftse 100 Stocks & Sector Review', Messels reports that from a bottom-up perspective, the market rally is now broadly-based and this is reflected by the 33 positions in their momentum portfolio. Banks are the only underweight area. The FTSE 100 index maintains the 15-month uptrend. First support is from the prior March/April peaks around the 7,400 level. Resistance is ~8,000 at the top of the uptrend channel. Key points include:*

- Increasing exposure to Consumer Goods – Buy Reckitt Benckiser (RB.) as the stock is breaking to new highs and renews the relative uptrend (*see attachment for chart*).
- Also investors should be watching for breaks to new highs in House Builders – Taylor Wimpey (TW. LN) is mentioned as the company tests resistance at the highs and holds the relative uptrend.
- Miners are showing selective signs of rallying from one-year support lines, but no momentum yet – Glencore is highlighted as it is finding 16-month price and relative uptrend support. A break above 300p will confirm that momentum is building.
- Further reducing exposure to Services – this week investors are advised to close long positions in Experian (EXPN LN) as it is testing the uptrend and has lost relative momentum (*see attachment for chart*).
- Resistance yet to be broken regarding Banks, investors should remain underweight - the FTSE 350 Bank index rallies but has yet to negate the recent top formation development.

To watch the latest UK Chart Review from Messels (lasts approx. 5mins) explaining the above positions as well as others, please ***click here***

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4. Mithra Forensic Research - **SHORT** video game developer, **Ubisoft Entertainment** (UBI FP), as aggressive and manipulative accounting will allow Vivendi to commence hostile takeover at significantly lower price

IRF Note *- Ubisoft faces a hostile takeover from Vivendi (VIV FP); in an attempt to keep its revenues, earnings and cash flows showing consistent growth, the company has resorted to aggressive and manipulative accounting. Despite media reports of Vivendi's intentions, Mithra believes Vivendi will defer contest for control for the time being and forecast that over the next 9-12 months, Ubisoft's share price will fall 28%; a level that would likely shake out key institutional shareholders. After its share fall, they predict that Vivendi would then commence a hostile takeover. Key points include:*

- Aggressive and manipulative accounting including - using accounts receivable to lift revenues, suspect gross/net income margin improvements, highly variable tax rates, overvalued intangible assets and significant cash flow declines.
- Ubisoft faces a structural challenge as it continues to lose market share and it is heavily reliant upon blockbusters.
- Trades at a premium to both Electronic Arts and Activision/Blizzard. Since Vivendi started accumulating Ubisoft shares in 2015, Ubisoft's share price has soared 130%. At this high valuation, it is difficult to see Vivendi paying a similarly high premium to current market levels, particularly given valuation metrics.
- Vivendi faces its own challenges and so will bide its time. Such challenges include, corporate governance concerns, limited cash on hand and current debt covenants insufficient to cover possible acquisition and slow progress of Bollore's Southern European Strategy, suggesting less appetite for possible dilution to execute the Ubisoft deal.
- Accrual accounting tricks will unwind over the next 9-12 months and will have a substantial negative impact on reported earnings and cash flows. Estimate €327-342m (€0.44-0.46 in EPS) of risk could potentially impact the Ubisoft P&L. PT of €34.63.
- At which point Vivendi will begin shoring up its war chest and making plans for an eventual tender; investors should then go long Ubisoft.

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5. Schulte-Research - **BUY HSBC**, definite shift in sentiment, accelerating ROC and positive changes in senior management are some of the reasons provided

IRF Note – *Schulte completed Quid analysis (offers a sense of sentiment, topicality and current trends on any company) regarding HSBC, utilising 1300 English language articles, and found a bank trying to break its past connections to fraud and money laundering investigations in order to get on with the business of transformation with new people and technology. Key points include:*

- Legacy issues of money laundering and fraud - the lion's share of all the articles (800). 90% of these are either negative or neutral. HSBC needs to have a zero tolerance attitude when it comes to fraud and money laundering, and must aggressively prosecute employees who engage in this activity in order for the negative articles to stop.
- The issue of earnings is the second most discussed topic and this is definitely turning for the better. 70% of the articles are either positive or neutral. European investigations and AML probes are among the top five topics.
- The hire of Mark Tucker is in the top ten topics and news of him is overwhelmingly positive or neutral. He will have a zero tolerance policy on fraud.
- HSBC is also getting much better coverage in the area of technology. This is a welcome change and Tucker will use technology anywhere it will help the bank make money regardless of whose camp is invaded or whose turf gets stepped on.
- Brexit is also being seen as overwhelmingly positive for HSBC.
- With a definite shift in sentiment, a solid capital base, accelerating ROC, high liquidity, positive changes in senior management, and trading below book, Schulte recommends HSBC as a buy (1st time in 5 years). It is in the top 15 best developed markets banks globally in their BERTA algorithm.

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6. The Retail Tracker - Earnings have bottomed at **L Brands** (LB US) and now offers considerable upside

IRF Note *– L Brands recently reported a tough 1Q but their guidance was consistent to slightly better with where the street is for both 2Q and 2017. This is important because it could signal what Retail Tracker believes is the bottom to the weak earnings results and offers considerable upside for 2H. Key points include:*

- Victoria's Secret - Bralettes and active prices should stabilise in 2H and have lots of new launches in structured bras as well (this remains the majority of the bra business, it's a good business and performing well). In spring they drove a lot of unit growth and testing with bralettes and active still selling (this is very important).
- Opened first store in China - it has proved to be extremely popular.
- Margin pressure was due to increased buying and occupancy deleverage rather than markdowns.
- Sales improved online and through the quarter and margins are improving at a rate faster than sales.
- BBW doing well and actually drove traffic. Home fragrance is the driver but 1Q was a big test period and they are seeing some good response to body and the "good for you" segment.
- Pulled back Capex for year to be prudent and merchandise margins expected to be up 2Q and 2H.
- Conclusion - stock up on the news and this is consistent with Retail Tracker believing that 1Q results should prove to be the bottom. They think the turn will happen in 2H and see considerable upside.

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Company & Sector Research Snippets:

Libra Investment Services - The Construction sector has been an area of focus for Apollo (Libra's equity valuation, risk and market timing platform) with the sector trading as one of the cheapest sectors on Apollo, whilst also showing a slight improvement in its FV trend. Libra does not currently own a stock within this space, so with **Assa Abloy AB** (ASSAB SS) having found support at the lower boundary of its rising FV range (*see attachment for chart*s), they feel that now is a good opportunity to take advantage of the rising value trends (FV is up 5% over the last month, whilst IV is up 12% over the last three months). With EBITDA and EPS the two main drivers of value, Libra anticipates this trend continuing given that both are seeing upgrades to estimates in both the short and the longer term. **Click here** for a short overview of this researcher

Smart Insider - A Director (Garden) purchased 863,000 shares in **Pentair Inc.** (PNR US) recently at $64.72, on behalf of Trian Fund, which now owns 15.2m shares. Their most recent purchase was in February 2016 at $47, and was very well timed. Garden has had access to board meetings at PNR since September 2015, and was appointed to the board in

2016. The stock has moved up from $56 at the beginning of the year and it is interesting to see Garden make this large purchase, adding to his already substantial holdings. They are ranking the stock +1 (Positive Insider Pattern – highest rating). *See attachment for chart*. **Click here** for a short overview of this researcher

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