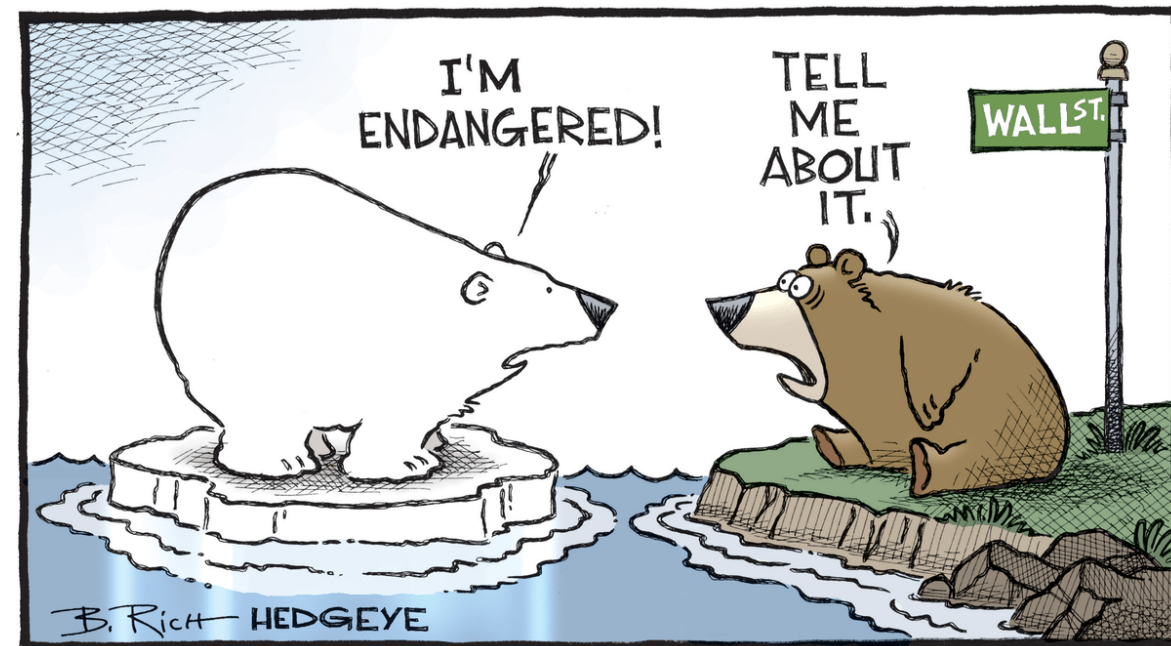




FIRM-WIDE TOP TEN EQUITY LONG/SHORT IDEAS



January 22nd, 2018

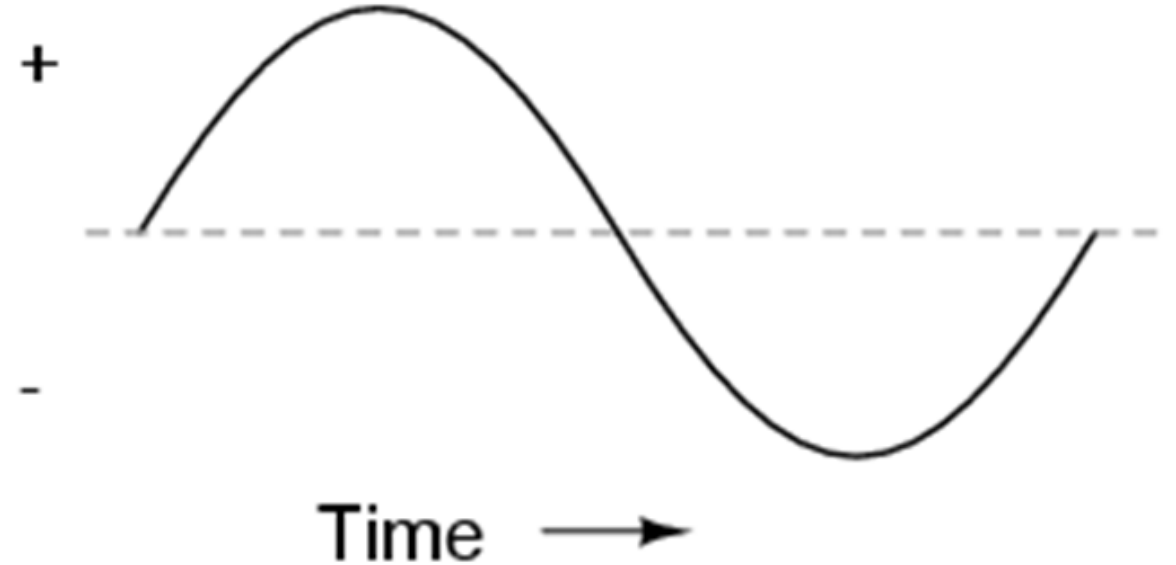
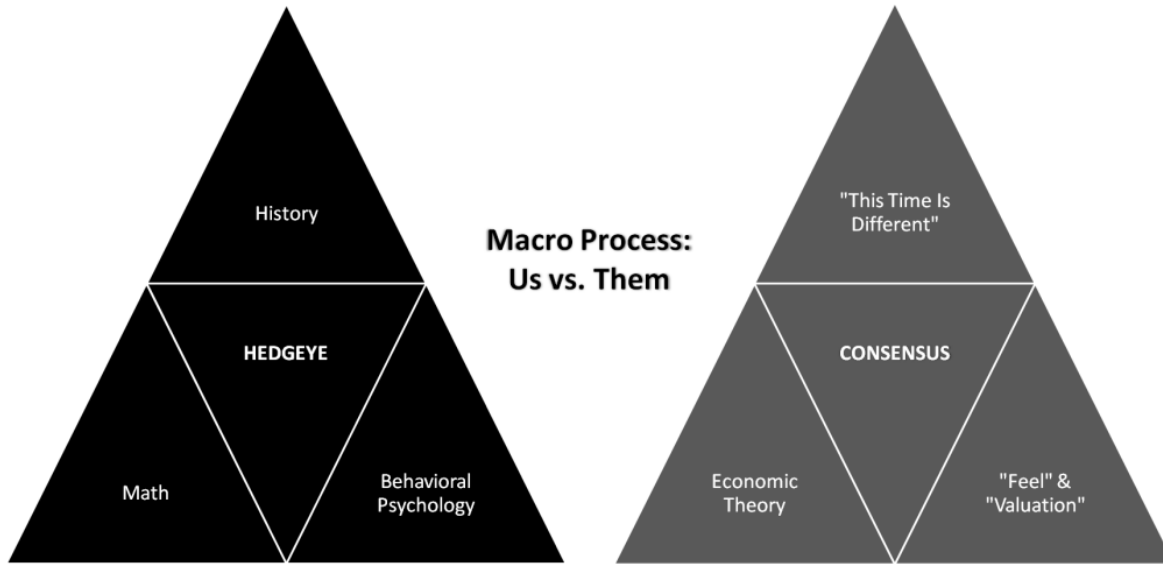
DISCLAIMER

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PROCESS: RATE OF CHANGE CENTRIC



DIFFERENTIATED FROM THE HERD

Macroeconomics and Global Macro Risk Management are two very different fields. We specialize in the latter, incorporating key lessons of behavioral finance such as Prospect Theory and Bayesian Inference into our analysis.

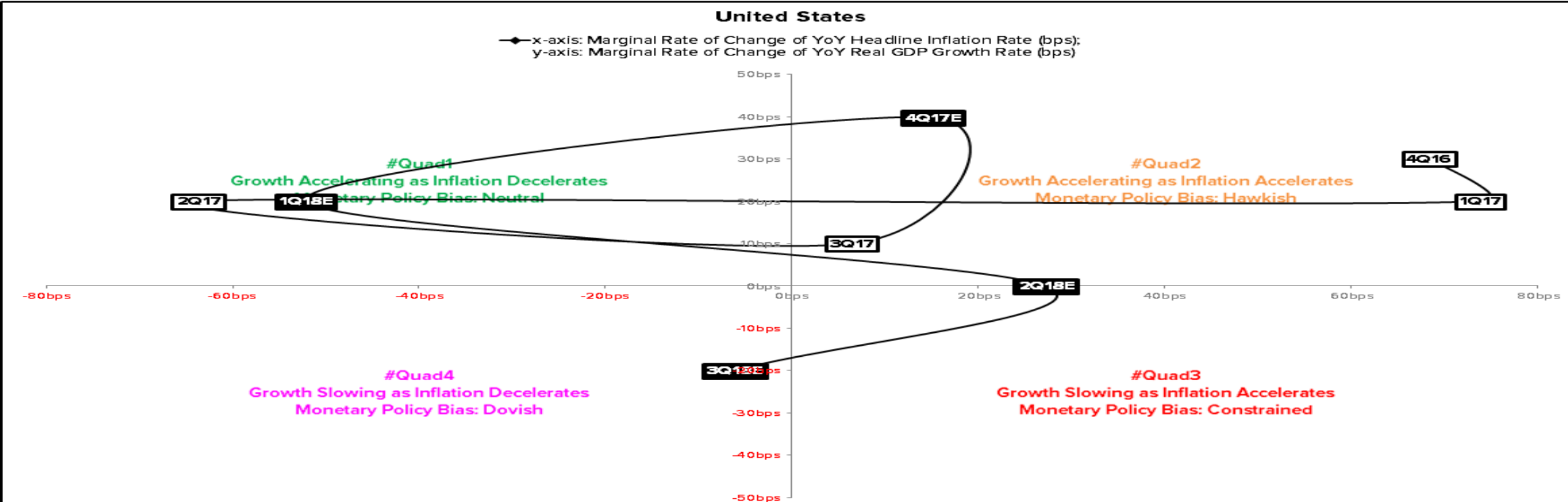
WE FOCUS ON THE SLOPES

Everything that matters in Global Macro occurs on the margin. Our key differentiator is an ever-present focus on trending rates of change, which helps us front-run changes in sentiment among investors and policymakers – both of whom tend to overweight absolute states in their analysis.

MEASURING AND MAPPING THE CYCLE

OUR FUNDAMENTAL MACRO PROCESS CENTERS ON THE FOLLOWING REGIME-BASED FRAMEWORK FOR SEQUENCING CHANGES ACROSS TWO KEY PRINCIPAL COMPONENTS OF FINANCIAL MARKET PERFORMANCE – I.E. GROWTH AND INFLATION.

United States (Reported Data as of 1/21/18)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17E	1Q18E	2Q18E	3Q18E	2017E
Real GDP QoQ SAAR % Change	0.60%	2.20%	2.80%	1.80%	1.20%	3.10%	3.20%	3.31%	2.01%	3.03%	2.34%	-
Real GDP YoY % Change	1.40%	1.20%	1.50%	1.80%	2.00%	2.20%	2.30%	-	-	-	-	-
Hedgeye Estimates	-	-	-	-	-	-	-	2.70%	2.90%	2.90%	2.70%	2.30%
Bloomberg Consensus Estimates	-	-	-	-	-	-	-	2.50%	2.80%	2.70%	2.57%	2.25%
Real GDP YoY % Change (Percentile Basis; Trailing 10Y)	33%	23%	38%	56%	62%	64%	67%	-	-	-	-	-
Headline CPI YoY % Change	1.08%	1.05%	1.12%	1.80%	2.54%	1.90%	1.97%	-	-	-	-	-
Hedgeye Estimates	-	-	-	-	-	-	-	2.12%	1.60%	1.87%	1.81%	2.13%
Bloomberg Consensus Estimates	-	-	-	-	-	-	-	2.10%	1.94%	2.30%	2.30%	2.13%
Headline CPI YoY % Change (Percentile Basis; Trailing 10Y)	18%	18%	23%	59%	77%	67%	69%	-	-	-	-	-



Data Source: Bloomberg

© Hedgeye Risk Management

WHY DOES THE 2ND DERIVATIVE MATTER?

BECAUSE FINANCIAL ASSET RETURNS HAVE HISTORICALLY ANCHORED ON MARGINAL RATES OF CHANGE OF BOTH GROWTH AND INFLATION – ESPECIALLY WHEN SUCH DELTAS ARE COUNTER TO CONSENSUS EXPECTATIONS IMPLIED BY MARKET POSITIONING

Hedgeye Macro U.S. GIP Model Backtest	Weighted Expected Value, by Quadrant				Percentile of Weighted Expected Value, by Asset Class				Percentile of Weighted Expected Value, by Quadrant				Percent Positive Ratio (color-coding by Asset Class & Quadrant)				Total Quarterly Performance Observations			
Exposure	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
S&P 500 Index	3.1%	0.8%	-0.2%	-1.1%	32%	37%	16%	47%	70%	49%	21%	37%	80%	73%	54%	63%	20	15	26	19
S&P 500 Consumer Discretionary Sector Index	4.3%	1.1%	-0.4%	-0.2%	95%	58%	11%	68%	98%	58%	19%	58%	75%	93%	46%	53%	20	15	26	19
S&P 500 Consumer Staples Sector Index	2.6%	1.0%	0.2%	0.3%	16%	42%	68%	89%	63%	51%	56%	81%	85%	60%	58%	63%	20	15	26	19
S&P 500 Energy Sector Index	2.4%	0.6%	0.3%	-1.8%	11%	26%	84%	11%	60%	44%	67%	16%	70%	73%	62%	53%	20	15	26	19
S&P 500 Financials Sector Index	3.5%	0.7%	-0.5%	-1.3%	63%	32%	5%	37%	84%	47%	14%	30%	75%	67%	54%	68%	20	15	26	19
S&P 500 Health Care Sector Index	2.4%	1.7%	0.1%	0.3%	5%	100%	58%	84%	58%	84%	49%	77%	80%	58%	54%	68%	20	15	26	19
S&P 500 Industrials Sector Index	3.5%	1.5%	0.2%	-1.3%	68%	89%	63%	42%	86%	72%	53%	33%	70%	73%	50%	42%	20	15	26	19
S&P 500 Information Technology Sector Index	3.8%	1.4%	0.0%	-1.4%	74%	74%	47%	26%	88%	65%	42%	26%	80%	80%	54%	53%	20	15	26	19
S&P 500 Materials Sector Index	4.0%	0.3%	-0.9%	-0.2%	89%	11%	0%	79%	95%	28%	5%	67%	80%	73%	54%	47%	20	15	26	19
S&P 500 REITs Index	3.4%	1.2%	0.3%	-2.2%	58%	63%	79%	5%	81%	60%	65%	12%	65%	58%	62%	85%	17	12	21	13
S&P 500 Utilities Sector Index	1.4%	-0.5%	1.9%	-0.6%	0%	0%	100%	63%	51%	12%	91%	51%	65%	33%	65%	58%	20	15	26	19
Russell 1000 Growth Index	3.2%	1.3%	-0.2%	-1.5%	37%	68%	21%	21%	72%	63%	26%	23%	80%	73%	62%	63%	20	15	26	19
Russell 1000 Value Index	3.3%	0.4%	-0.1%	-0.8%	42%	16%	26%	58%	74%	33%	28%	49%	70%	74%	54%	74%	20	15	26	19
S&P 500 Dividend Aristocrats Index	3.3%	0.5%	0.1%	0.6%	47%	21%	53%	100%	77%	42%	47%	93%	80%	60%	62%	63%	20	15	26	19
S&P 500 Low Beta Minimum Volatility Index	3.0%	0.3%	0.3%	0.6%	21%	5%	89%	95%	65%	26%	72%	91%	70%	60%	50%	79%	20	15	26	19
S&P 500 Quality Index	3.0%	1.4%	0.2%	-0.2%	26%	79%	74%	74%	67%	67%	60%	65%	90%	80%	54%	63%	20	15	26	19
S&P 500 High Beta Index	4.7%	1.4%	-0.1%	-1.8%	100%	84%	32%	16%	100%	70%	30%	19%	65%	100%	67%	58%	20	15	26	19
S&P 500 Momentum Index	3.3%	1.1%	-0.1%	-2.4%	53%	47%	37%	0%	79%	53%	33%	9%	90%	60%	46%	58%	20	15	26	19
Russell 2000 Index	3.8%	1.1%	0.0%	-0.8%	79%	53%	42%	53%	91%	56%	35%	47%	75%	91%	58%	58%	20	15	26	19
NASDAQ 100 Index	4.0%	1.6%	0.6%	-1.3%	84%	95%	95%	32%	93%	79%	79%	28%	80%	73%	62%	53%	20	15	26	19
Bloomberg Barclays US Agg Credit Yield To Worst	-1.9%	-0.3%	0.9%	-2.4%	40%	40%	60%	10%	9%	14%	40%	86%	7%	40%	40%	54%	20	15	26	19
Bloomberg Barclays US High Yield Average Yield To Worst	-3.0%	-1.6%	2.2%	0.1%	20%	30%	70%	50%	5%	7%	93%	74%	30%	40%	62%	42%	20	15	26	19
Bloomberg Barclays US Corporate Average OAS	-2.4%	-2.1%	4.9%	0.3%	30%	20%	100%	60%	7%	5%	100%	79%	30%	33%	50%	42%	20	15	26	19
Bloomberg Barclays US High Yield Average OAS	-4.0%	-2.2%	4.3%	3.1%	0%	10%	80%	90%	0%	2%	95%	98%	25%	33%	46%	53%	20	15	26	19
Bloomberg Barclays US Composite Convertible Cvt. Yield	-3.9%	-4.4%	4.4%	3.1%	10%	0%	90%	80%	2%	0%	98%	95%	44%	0%	63%	38%	16	10	19	13
US Treasury 2Y Note Yield	0.9%	2.2%	0.3%	-3.1%	100%	70%	40%	0%	44%	91%	70%	2%	55%	67%	54%	32%	20	15	26	19
US Treasury 10Y Note Yield	-0.3%	2.3%	-0.9%	-2.0%	80%	80%	10%	20%	19%	93%	2%	14%	45%	67%	50%	32%	20	15	26	19
US Treasury 30Y Bond Yield	-0.6%	1.8%	-0.7%	-1.2%	60%	60%	20%	40%	14%	88%	7%	35%	45%	73%	54%	32%	20	15	26	19
US Treasury 2Y10Y Spread	0.1%	6.5%	0.1%	53.3%	90%	100%	30%	100%	30%	100%	51%	100%	25%	60%	50%	47%	20	15	26	19
Bond Buyer US 40 Municipal Bond YTM	-1.0%	0.5%	0.6%	-1.5%	50%	50%	50%	30%	12%	40%	77%	21%	29%	53%	50%	17%	17	15	24	18
US Treasury 5Y 5Y-Forward Breakeven Rate	-0.4%	3.4%	-1.1%	0.5%	70%	90%	0%	70%	16%	95%	0%	88%	45%	73%	58%	32%	20	15	26	19
Thomson Reuters/CoreCommodity CRB Commodity Index	0.3%	1.5%	0.0%	-3.1%	25%	0%	25%	25%	33%	74%	37%	5%	55%	33%	73%	62%	20	15	26	19
Commodity Research Bureau BLS/US Spot Raw Industrials Index	1.0%	1.8%	-0.2%	-0.9%	50%	75%	0%	75%	47%	86%	23%	44%	55%	80%	42%	53%	20	15	26	19
Commodity Research Bureau BLS/US Spot Foodstuff Index	-0.2%	1.6%	0.8%	-1.0%	0%	25%	50%	50%	23%	77%	81%	40%	45%	53%	54%	47%	20	15	26	19
Front-month Brent Crude Oil	1.5%	3.7%	1.0%	-3.4%	75%	100%	100%	0%	53%	98%	88%	0%	50%	73%	50%	47%	20	15	26	19
Gold Spot	1.6%	1.7%	0.9%	0.3%	100%	50%	75%	100%	56%	81%	50%	84%	55%	73%	54%	58%	20	15	26	19
U.S. Dollar Index	-0.2%	0.4%	0.0%	0.4%	0%	86%	43%	100%	21%	35%	40%	86%	40%	40%	50%	74%	20	15	26	19
AUD/USD	1.0%	0.3%	-0.6%	0.0%	100%	71%	0%	71%	49%	30%	9%	70%	60%	73%	65%	47%	20	15	26	19
CAD/USD	0.1%	0.4%	0.0%	-0.5%	29%	100%	57%	14%	28%	37%	44%	53%	45%	60%	54%	37%	20	15	26	19
CHF/USD	0.7%	0.1%	0.4%	0.0%	86%	57%	100%	86%	42%	23%	57%	72%	65%	60%	62%	32%	20	15	26	19
EUR/USD	0.0%	-0.6%	0.2%	-0.2%	14%	0%	71%	43%	26%	9%	58%	60%	60%	53%	58%	26%	20	15	26	19
GBP/USD	0.4%	-0.2%	-0.6%	-0.5%	43%	29%	14%	29%	35%	19%	12%	56%	55%	67%	38%	37%	20	15	26	19
JPY/USD	0.4%	-0.2%	0.2%	-0.2%	71%	14%	86%	57%	40%	16%	63%	63%	35%	53%	54%	42%	20	15	26	19
JPMorgan EM FX Index	0.4%	-0.1%	-0.4%	-1.0%	57%	43%	29%	0%	37%	21%	16%	42%	59%	54%	55%	44%	17	13	22	18

Data Source: Bloomberg. Expected value calculations weighted by cumulative delta into respective quadrant. Trailing 20 years.

GIP MODEL RISK MANAGEMENT PROCESS

#QUAD1

- **Maximum gross exposure, tight net exposure. Hedge downside risk to market beta. Growth investing bias.**
- **Asset Class Overweight(s):**
Equities and Credit
- **Asset Class Underweight(s):**
Fixed Income
- **Equity Sector Overweight(s):**
Consumer Discretionary, Tech and Materials
- **Equity Sector Underweight(s):**
Utilities, Healthcare and Consumer Staples
- **Equity Style Factor Overweight(s):**
High Beta and Small Caps
- **Equity Style Factor Underweight(s):**
Quality and Low Beta/Minimum Vol.
- **Fixed Income Overweight(s):**
HY Credit, IG Credit and Convertibles
- **Fixed Income Underweight(s):**
Short Duration

#QUAD2

- **Maximum gross exposure, wide net exposure. Hedge downside risk to market beta. Inflation-hedging bias.**
- **Asset Class Overweight(s):**
Equities and Credit
- **Asset Class Underweight(s):**
Fixed Income
- **Equity Sector Overweight(s):**
Healthcare, Industrials and Tech
- **Equity Sector Underweight(s):**
Utilities, Materials and Consumer Staples
- **Equity Style Factor Overweight(s):**
Quality and High Beta
- **Equity Style Factor Underweight(s):**
Low Beta/Minimum Vol., High Dividend Yield and Value
- **Fixed Income Overweight(s):**
TIPS, HY Credit, IG Credit and Convertibles
- **Fixed Income Underweight(s):**
Long Duration and Munis

#QUAD3

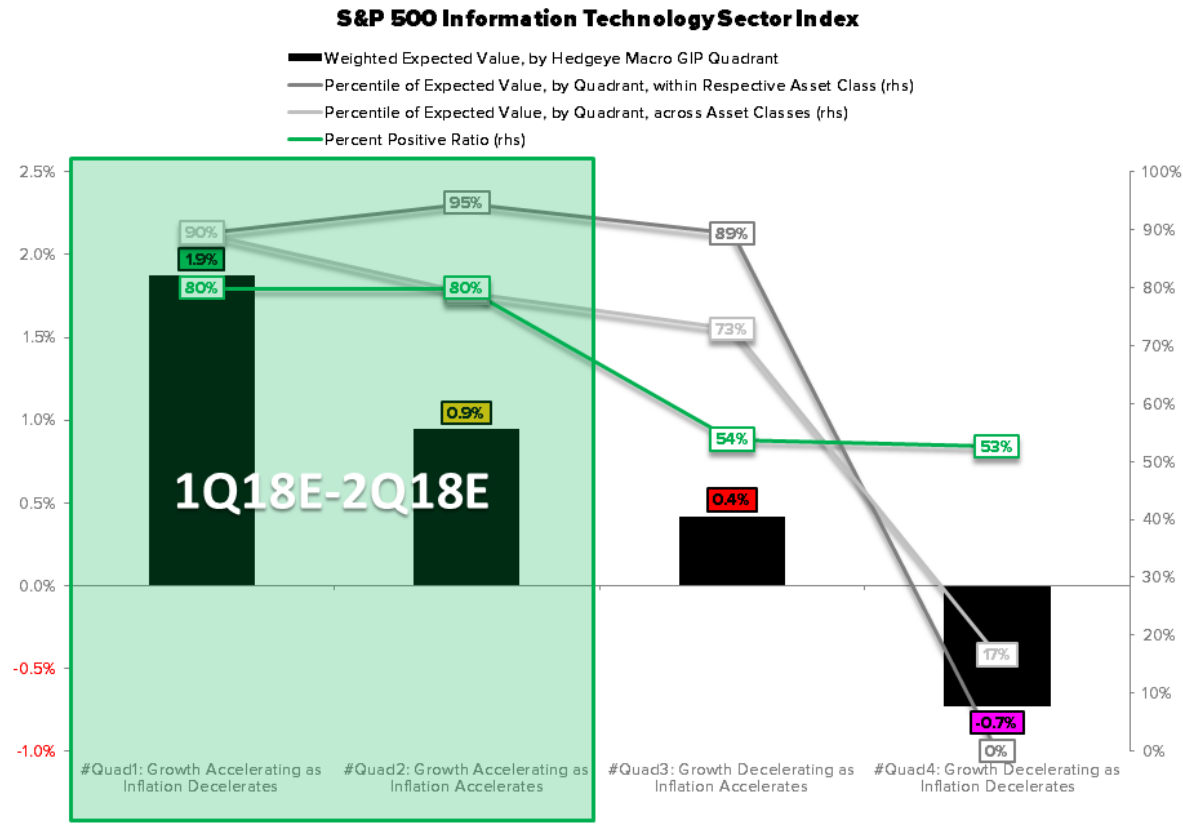
- **Low gross exposures, tight net exposure. Hedge upside risk to market beta. Defensive, yield-chasing bias.**
- **Asset Class Overweight(s):**
Fixed Income
- **Asset Class Underweight(s):**
Equities and Credit
- **Equity Sector Overweight(s):**
Utilities, REITS and Energy
- **Equity Sector Underweight(s):**
Materials, Financials and Consumer Discretionary
- **Equity Style Factor Overweight(s):**
Low Beta/Minimum Vol. and Quality
- **Equity Style Factor Underweight(s):**
Growth and High Beta
- **Fixed Income Overweight(s):**
Long Duration
- **Fixed Income Underweight(s):**
HY Credit, IG Credit and Convertibles

#QUAD4

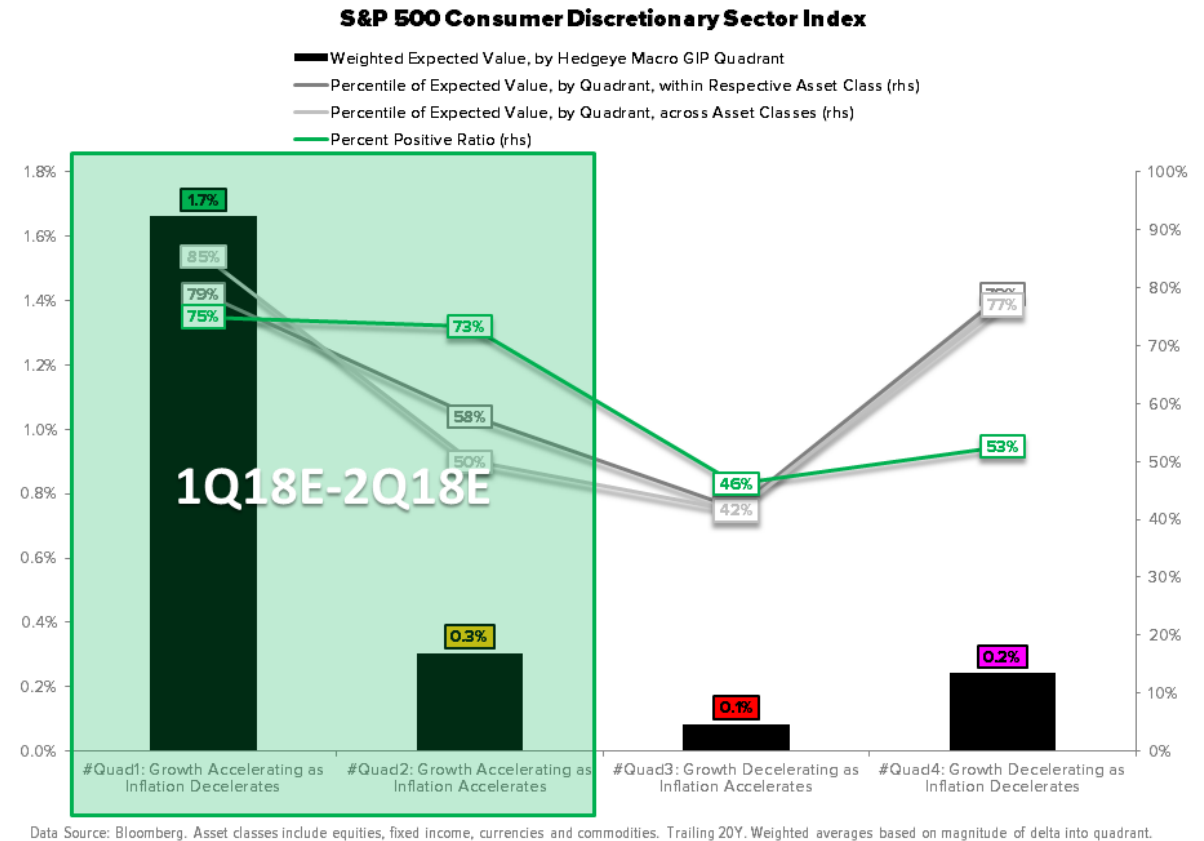
- **Minimum gross exposure, net short exposure. Hedge upside risk to market beta. Deflation-hedging bias.**
- **Asset Class Overweight(s):**
Fixed Income
- **Asset Class Underweight(s):**
Equities and Credit
- **Equity Sector Overweight(s):**
Healthcare, Consumer Staples and Consumer Discretionary
- **Equity Sector Underweight(s):**
REITS, Energy and Tech
- **Equity Style Factor Overweight(s):**
High Dividend Yield and Low Beta/Minimum Vol.
- **Equity Style Factor Underweight(s):**
Momentum and High Beta
- **Fixed Income Overweight(s):**
Long Duration and Munis
- **Fixed Income Underweight(s):**
HY Credit, IG Credit and Convertibles

OUR MACRO VIEW: #QUAD1 OR #QUAD2?

OVERWEIGHT TECHNOLOGY

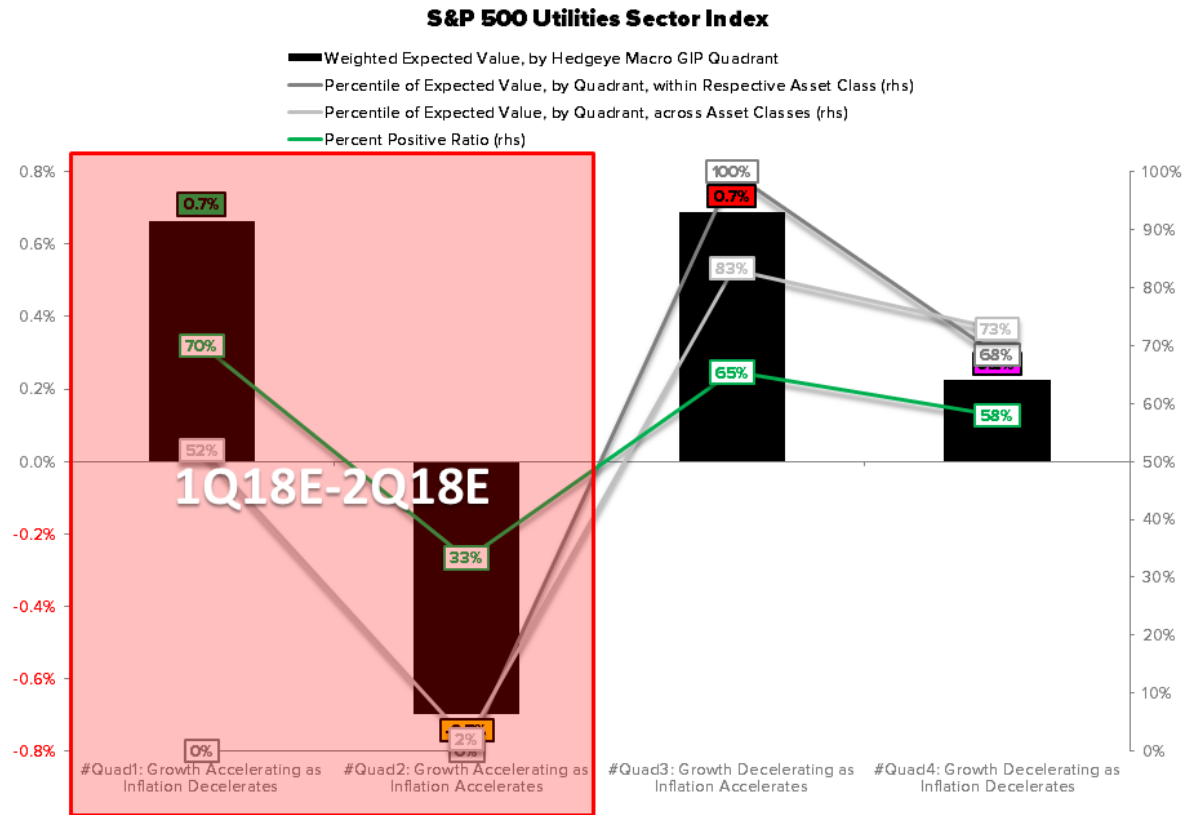


OVERWEIGHT CONSUMER DISCRETIONARY



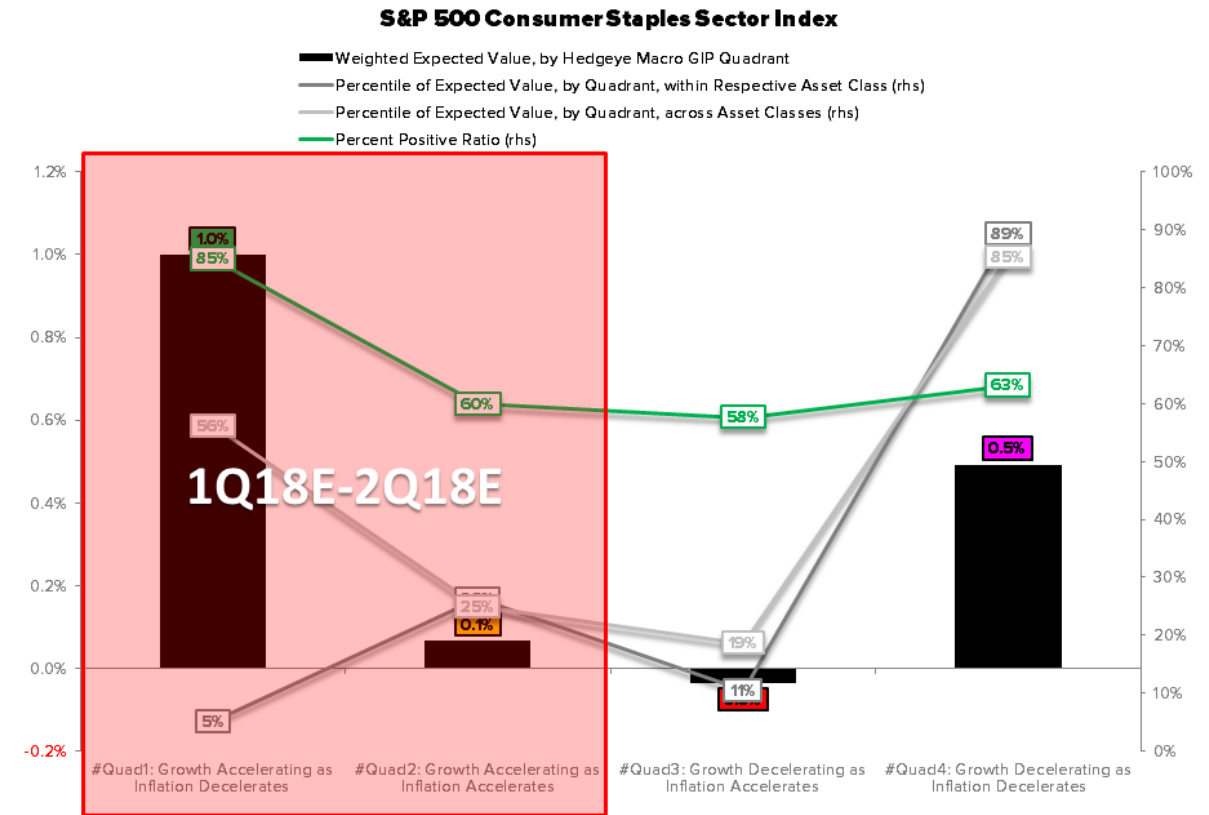
OUR MACRO VIEW: #QUAD1 OR #QUAD2?

UNDERWEIGHT UTILITIES



Data Source: Bloomberg. Asset classes include equities, fixed income, currencies and commodities. Trailing 20Y. Weighted averages based on magnitude of delta into quadrant.

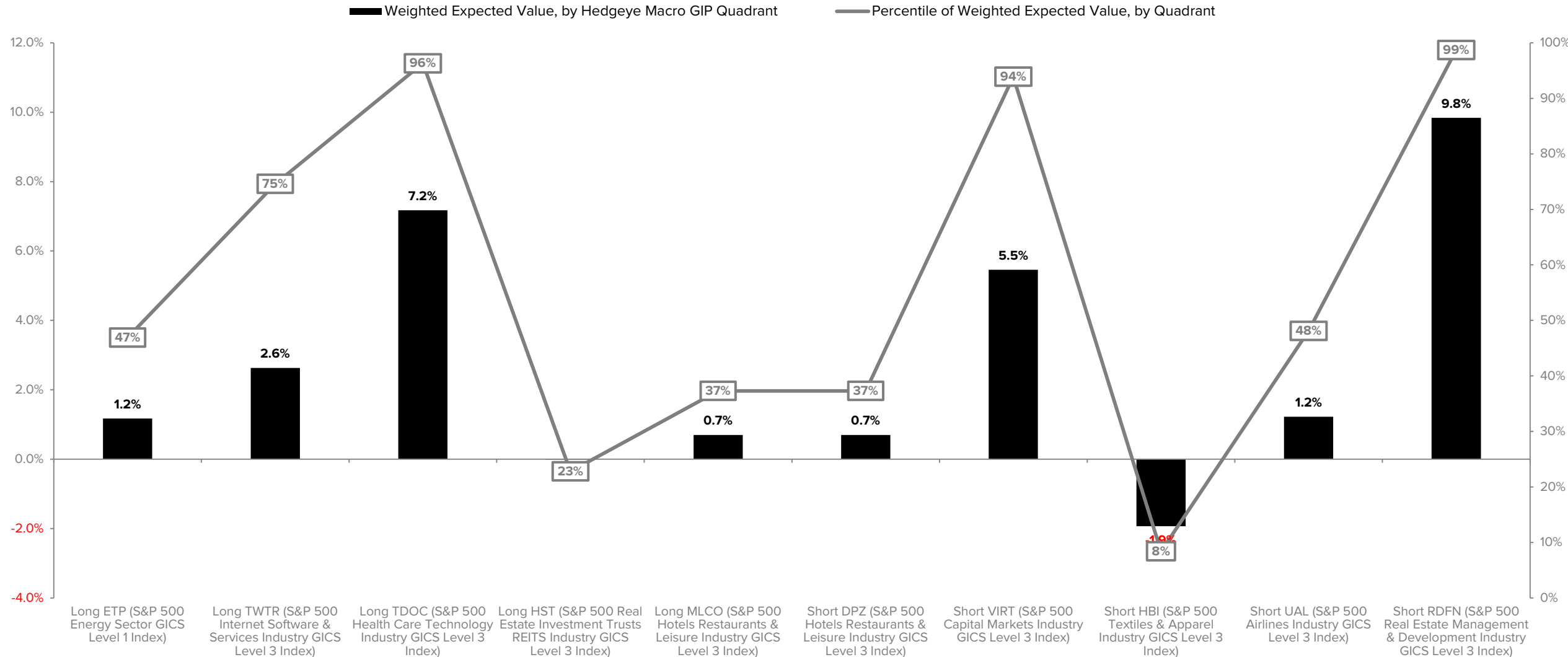
UNDERWEIGHT CONSUMER STAPLES



Data Source: Bloomberg. Asset classes include equities, fixed income, currencies and commodities. Trailing 20Y. Weighted averages based on magnitude of delta into quadrant.

UNDERSTANDING THE “WEATHER”

CERTAIN MACRO ENVIRONMENTS HAVE PROVEN BETTER FOR CERTAIN SECTORS AND INDUSTRIES THAN OTHERS. WHILE A FAVORABLE GIP MODEL SETUP ISN'T THE ONLY QUALIFICATION OF A HEDGEYE BEST IDEA, IT DOES HELP OUR STOCK PICKERS “FISH WHERE THE FISH ARE”.



TRADE/TREND/TAIL RISK MANAGEMENT PROCESS



Core to the process of selecting our firm-wide best ideas is whether or not the ticker screens well from the perspective of Keith's proprietary risk management process, which employs PRICE, VOLUME and VOLATILITY as discrete factors in the calculus of levels that backtest well as critical momentum thresholds.

Assets where last price is greater than all three (in ascending order) are said to be in a "Bullish Formation" and all dips should be bought, insomuch that assets in the converse "Bearish Formation" should be repeatedly shorted on strength.

STYLE & SENTIMENT FACTORING

MONITORING STYLE AND THEMATIC MACRO FACTOR PERFORMANCE ALLOWS US TO QUANTITATIVELY MAP THE EVOLUTION OF OUR CURRENT MACRO THEMES WHILE THE CFTC DATA PROVIDES AN IMPORTANT SENTIMENT BACKBOARD AGAINST WHICH WE CAN MEASURE AND FADE CONSENSUS.

SPX: STYLE FACTOR PERFORMANCE*

	FACTOR	3M % Chg	6M % Chg	12M % Chg
DEBT	High Debt/EV	5.1%	5.8%	13.0%
	Low Debt/EV	11.5%	17.3%	30.3%
SI	High Short Interest	9.6%	8.3%	8.7%
	Low Short Interest	8.7%	15.8%	30.3%
BETA	High Beta	12.7%	16.7%	24.7%
	Low Beta	2.6%	4.4%	11.7%
YIELD	High Yield	1.9%	2.6%	3.5%
	Low Yield	10.1%	14.2%	28.0%
MKT CAP	MCAP Bottom 25%	5.1%	6.3%	9.8%
	MCAP Top 25%	10.2%	16.4%	29.6%
Sales Growth	Top 25% Sales Growth	10.2%	15.9%	28.9%
	Bottom 25% Sales Growth	7.1%	7.0%	9.4%
EPS Growth	Top 25% EPS Growth	12.0%	17.3%	26.2%
	Bottom 25% EPS Growth	3.5%	4.0%	7.2%

GREEN = Relative Outperformance Over Given Duration

*Mean Performance of Top Quartile vs. Bottom Quartile, S&P500 Companies

SOURCE: Bloomberg, Goldman Sachs, Hedgeye Calculations

MACRO AND THEMATIC FACTOR PERFORMANCE

	FACTOR	3M % Chg	6M % Chg	12M % Chg
	Global Cyclical	6.88%	11.2%	28.7%
	Global Defensive	11.12%	18.4%	29.5%
	Domestic Cyclical	12.01%	20.0%	29.5%
	Domestic Defensive	9.73%	11.7%	20.4%
	Domestic Sales	13.55%	18.7%	25.1%
	International Sales	7.41%	13.0%	31.7%
	Western Europe Sales	5.09%	12.1%	30.3%
	Overseas Earnings	8.48%	14.8%	28.9%
	SPX Buyback Index	13.41%	18.3%	26.5%
	Capex Growth	12.51%	18.1%	31.3%
	Rate Sensitive	14.17%	20.0%	30.4%
	High Tax	13.94%	17.3%	21.8%
	Low Tax	5.72%	10.1%	25.7%
	M&A Candidates	7.59%	9.6%	19.4%

GREEN = Outperforming SPX over given duration

RED = Underperforming SPX over given duration

CFTC NON-COMMERCIAL NET LONG POSITIONING

	METRIC	Latest	W/W Chg	3Y		Z-Score	
				Max	Min	1Y	3Y
EQUITIES	SPX (Index + E-mini)	134,395	47,267	227,291	(269,239)	0.74X	1.10X
	Dow Jones (mini)	68,963	2,981	95,976	(15,451)	-0.03X	0.95X
	Nasdaq (mini)	27,015	9,475	163,838	(9,753)	-0.92X	-0.83X
	Nikkei Index	(2,415)	2,109	14,253	(4,524)	-3.29X	-2.07X
RATES	10Y UST	(86,713)	62,730	372,991	(386,239)	-0.80X	-0.53X
	2Y UST	(285,675)	(28,162)	181,971	(310,549)	-1.48X	-2.15X
	5Y UST	(503,641)	(42,804)	25,085	(503,641)	-2.06X	-2.79X
	UST Bonds	100,229	(895)	122,839	(51,125)	1.52X	2.07X
	30D Fed Funds	(9,329)	63,246	162,733	(286,025)	1.42X	1.01X
	Eurodollar	(2,258,261)	(88,067)	504,188	(2,720,417)	-0.65X	-1.41X
CURRENCIES	USD	(1,247)	(2,087)	81,210	(10,666)	-0.77X	-1.39X
	JPY	(122,088)	4,702	70,342	(140,151)	-1.21X	-1.51X
	EUR	138,348	(4,120)	142,468	(225,776)	1.52X	2.09X
	GBP	30,290	2,853	30,290	(113,271)	1.61X	2.19X
	AUD	10,863	3,723	77,969	(78,047)	-1.01X	0.12X
	CAD	18,169	(407)	78,001	(99,736)	0.18X	0.71X
	MXN	46,767	17,017	117,131	(89,524)	-0.04X	1.07X
	NZD	(7,991)	3,026	35,981	(19,654)	-0.58X	-0.65X
COMMODITIES	CHF	(20,989)	1,009	10,943	(30,445)	-0.96X	-1.44X
	CRUDE OIL	752,957	46,895	752,957	195,086	2.59X	3.14X
	GOLD	203,967	5,927	286,921	(24,263)	1.15X	1.06X
	COPPER	60,187	(1,108)	62,856	(44,710)	1.76X	1.86X
	Natural Gas	(68,189)	68,459	57,455	(263,037)	-0.37X	0.70X
	RBOB Gasoline	89,615	137	92,792	29,519	1.49X	1.87X
	ULSD Heating Oil	64,081	(3,615)	67,696	(34,705)	1.40X	1.95X
	Silver	36,427	(1,451)	107,003	664	-0.75X	-0.57X
	Platinum	37,534	6,741	56,853	5,262	1.26X	1.04X
	Aluminum	161,461	(72)	164,825	122,356	1.27X	1.67X
	Nickel	41,460	8,069	41,460	13,508	1.76X	2.09X
	Corn	(148,924)	(1,944)	373,443	(166,835)	-1.09X	-1.47X
	Soybeans	(93,493)	(11,075)	255,950	(113,144)	-1.46X	-1.61X
	Wheat	(111,120)	(13,692)	36,480	(143,292)	-1.10X	-1.18X
	Live Cattle	95,599	(6,164)	164,117	(11,972)	-1.80X	0.39X
	Lean Hogs	69,675	753	90,653	(436)	0.58X	1.10X
	Sugar	(34,321)	(57,275)	351,383	(77,495)	-0.66X	-1.15X
	Cotton	124,360	7,948	132,318	(28,816)	1.16X	1.59X
	Coffee	(43,365)	(10,541)	67,942	(49,795)	-1.27X	-1.73X
	Cocoa	(3,789)	690	70,034	(43,846)	0.94X	-0.70X
	Orange Juice	(3,430)	(296)	10,123	(5,667)	-1.23X	-1.13X

QUADS 1 & 2: STYLE FACTOR CASE STUDY

SPX: STYLE FACTOR PERFORMANCE*

		3M	6M	12M
FACTOR		% Chg	% Chg	% Chg
DEBT	High Debt/EV	5.1%	5.8%	13.0%
	Low Debt/EV	11.5%	17.3%	30.3%
SI	High Short Interest	9.6%	8.3%	8.7%
	Low Short Interest	8.7%	15.8%	30.3%
BETA	High Beta	12.7%	16.7%	24.7%
	Low Beta	2.6%	4.4%	11.7%
YIELD	High Yield	1.9%	2.6%	3.5%
	Low Yield	10.1%	14.2%	28.0%
MKT CAP	MCAP Bottom 25%	5.1%	6.3%	9.8%
	MCAP Top 25%	10.2%	16.4%	29.6%
Sales Growth	Top 25% Sales Growth	10.2%	15.9%	28.9%
	Bottom 25% Sales Growth	7.1%	7.0%	9.4%
EPS Growth	Top 25% EPS Growth	12.0%	17.3%	26.2%
	Bottom 25% EPS Growth	5.5%	4.0%	1.2%

GREEN = Relative Outperformance Over Given Duration

*Mean Performance of Top Quartile vs. Bottom Quartile, S&P500 Companies

SOURCE: Bloomberg, Goldman Sachs, Hedgeye Calculations

SECTOR RELATIVE PERFORMANCE		3M	6M	12M
Sector	Ticker	% Chg	% Chg	% Chg
Financial Select Sector	XLF	1.8%	5.5%	3.9%
Technology Select Sector	XLK	1.8%	4.3%	12.4%
Energy Select Sector	XLE	3.6%	3.6%	-21.3%
Consumer Discretionary	XLX	6.5%	2.2%	2.1%
Industrial Select Sector	XLI	0.1%	2.2%	1.9%
Materials Select Sector	XLB	-1.4%	0.9%	0.1%
Health Care Select Sector	XLV	-3.7%	-4.5%	2.9%
Consumer Staples Select Sector	XLP	-1.5%	-8.3%	-13.4%
Utilities Select Sector	XLU	-18.0%	-19.9%	-21.0%

TRENDING Performance

- Growth, Beta & Quality ↑
- Slow Growth, Low Beta Defensive ↓

#QUAD1

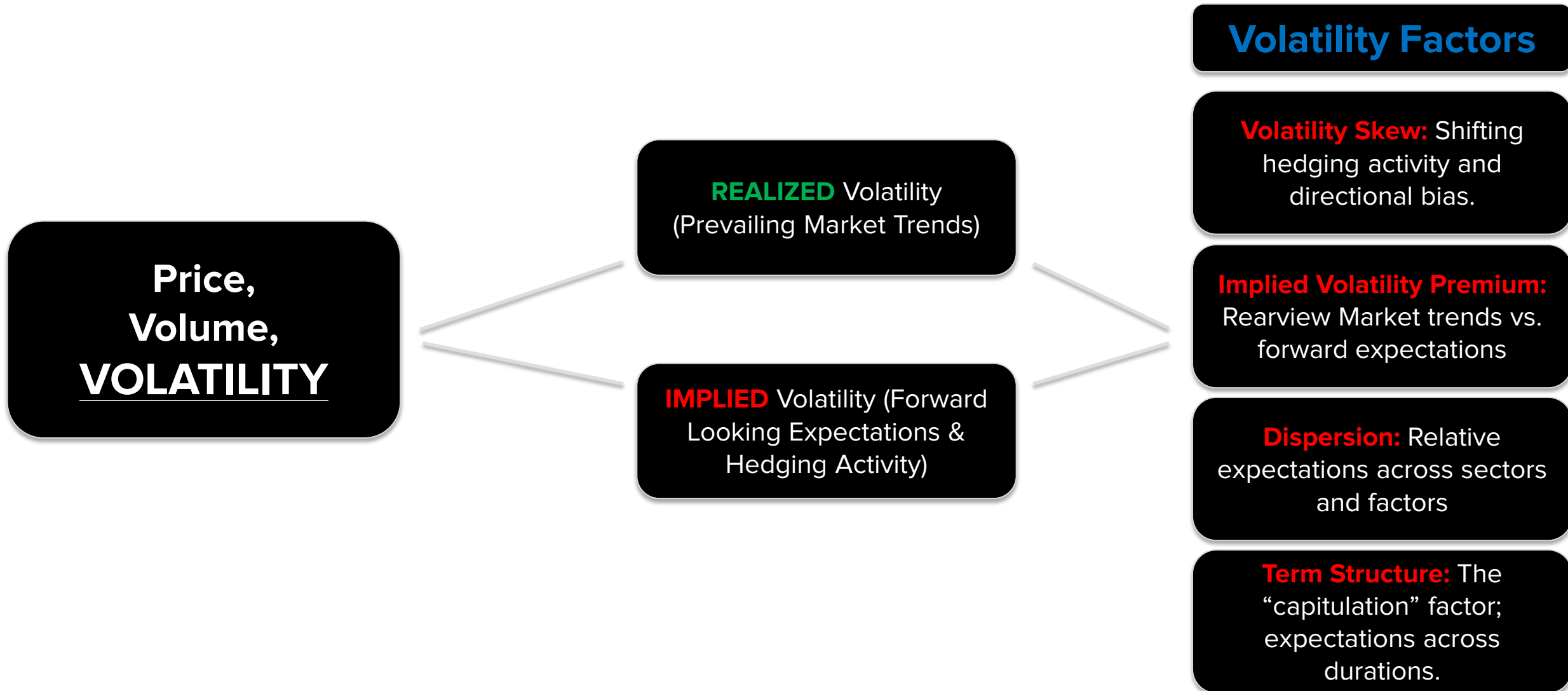
- Maximum gross exposure, tight net exposure. Hedge downside risk to market beta. Growth investing bias.
- **Asset Class Overweight(s):** Equities and Credit
- **Asset Class Underweight(s):** Fixed Income
- **Equity Sector Overweight(s):** Consumer Discretionary, Tech and Materials
- **Equity Sector Underweight(s):** Utilities, Healthcare and Consumer Staples
- **Equity Style Factor Overweight(s):** High Beta and Small Caps
- **Equity Style Factor Underweight(s):** Quality and Low Beta/Minimum Vol.
- **Fixed Income Overweight(s):** HY Credit, IG Credit and Convertibles
- **Fixed Income Underweight(s):** Short Duration

#QUAD2

- Maximum gross exposure, wide net exposure. Hedge downside risk to market beta. Inflation-hedging bias.
- **Asset Class Overweight(s):** Equities and Credit
- **Asset Class Underweight(s):** Fixed Income
- **Equity Sector Overweight(s):** Healthcare, Industrials and Tech
- **Equity Sector Underweight(s):** Utilities, Materials and Consumer Staples
- **Equity Style Factor Overweight(s):** Quality and High Beta
- **Equity Style Factor Underweight(s):** Low Beta/Minimum Vol., High Dividend Yield and Value
- **Fixed Income Overweight(s):** TIPS, HY Credit, IG Credit and Convertibles
- **Fixed Income Underweight(s):** Long Duration and Munis

RISK MANAGEMENT: THE VOLATILITY FACTOR

3-FACTOR MODEL: PRICE, VOLUME, VOLATILITY



VOLATILITY TRENDS: TOP 10 LIST

Ticker	Aggte. Realized Percentile*	Implied Volatility Percentile Reading*	30D Implied Volatility Premium %**	60D Implied Volatility Premium %	IVOL Premium (TTM Z-Score)***	IVOL Premium (3Yr Z-Score)	IVOL Spread to Market Benchmark (TTM Z-Score)****	IVOL Spread to Market Benchmark (3Yr Z-Score)
SPY	2.3%	6.2%	43.6%	52.2%	0.8	1.2	N/A	N/A
L TWTR	48.0%	63.4%	33.8%	-5.3%	-0.1	0.1	2.6	1.4
ETP	53.8%	62.5%	18.8%	12.0%	0.5	0.5	-1.0	-0.9
TDOC	37.6%	44.1%	16.9%	2.0%	0.2	N/A	0.4	N/A
HST	14.5%	21.9%	13.5%	33.5%	1.0	1.0	-1.0	-0.5
MLCO	5.7%	6.4%	32.1%	5.2%	0.4	0.8	0.0	-0.8
S DPZ	48.9%	53.6%	4.3%	21.0%	0.2	0.2	0.5	1.2
VIRT	50.5%	49.5%	62.8%	-31.0%	0.3	N/A	1.0	N/A
HBI	48.4%	67.4%	57.8%	4.8%	0.5	0.7	2.2	2.5
UAL	3.4%	5.6%	16.4%	20.8%	0.8	0.8	0.5	-0.1
RDFN	69.5%	37.7%	-6.1%	1.8%	N/A	N/A	N/A	N/A

Data Source: Bloomberg, CME, CBOE

*12yr Lookback or Max Available

**12yr Lookback or Max Available

***Average Z-score between 30D and 60D IVOL premium Z-Scores

****Front-Month IVOL Spread to SPY Benchmark Z-Score Reading

BEST IDEA LONG: ETP

1

ETP'S DISTRIBUTION NEEDS TO BE REDUCED...

- ETP is a large cap, midstream MLP.
- ETP's distribution is unsustainable as evidenced by the stock's +12% current yield, and total distribution payments that exceed earnings and free cash flow.
- Funding its distribution burden necessitates serial capital raises.

2

...WHICH WOULD SLASH IDR FEES TO ETE...

- In 2018 ETP will pay ~\$4/unit in distributions. At the current ETP price of ~\$20, ETP's cost of distribution is ~20%!
- ETP needs a sustainable distribution, ~\$1.20 - \$1.40/unit.
- Reduction in ETP's distribution would create enormous value for ETP unitholders by way of reducing the IDR fees it pays to its GP, owned by ETE.

3

...VOTE OUT ETE AS GP BEFORE IT'S TOO LATE!

- ETP LPs can successfully remove ETE as GP with a vote of 66 2/3% of ETP LPs.
- ETE and Energy Transfer insiders only own ~3% of the LP.
- **This CAN and SHOULD be done in order to prevent ETE from taking billions in value from ETP in a merger or IDR exchange transaction.**

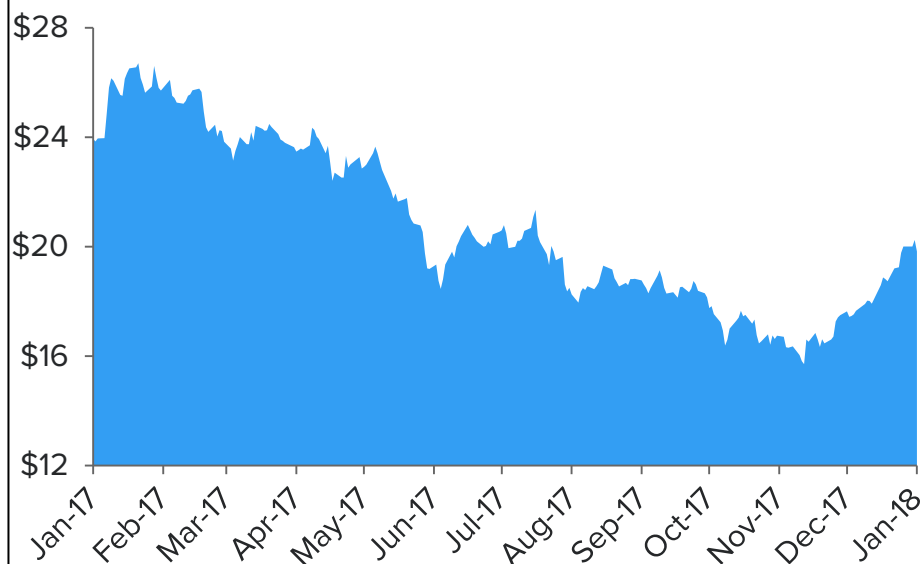
Summary Stats

Ticker	ETP
Price	\$19.83
52 Week Range	\$15.71 - \$26.71
Div Yield	10.9%
Market Cap (mm)	\$22,913
SI % of Float	0.9%
Daily Volume (mm)	8.3

Analyst Team

Kevin Kaiser kkaiser@hedgeye.com
Alec Richards arichards@hedgeye.com
Jesse Root jroot@hedgeye.com

Stock Price



ETP BY THE NUMBERS: FIXED WITH A DISTRIBUTION CUT

ETP & ETE Key Financial Metrics: ETP DISTRIBUTION CUT

	2017	2018	2019	2020	2021	2022
ETP Distribution per Unit	\$ 2.23	\$ 1.30	\$ 1.30	\$ 1.30	\$ 1.30	\$ 1.30
<i>YoY Growth</i>	13%	-42%	0%	0%	0%	0%
ETP Adj. EBITDA	\$ 6,523	\$ 7,565	\$ 8,004	\$ 8,259	\$ 8,247	\$ 8,475
ETP Operating Cash Flow	\$ 4,597	\$ 5,556	\$ 5,985	\$ 6,247	\$ 6,261	\$ 6,502
(-) Capital Expenditures	\$ (7,274)	\$ (3,488)	\$ (3,121)	\$ (2,974)	\$ (3,080)	\$ (3,190)
(-) Distributions to NCIs and Preferred Equity	\$ (449)	\$ (572)	\$ (572)	\$ (572)	\$ (572)	\$ (572)
(-) GP Distributions	\$ (1,013)	\$ (550)	\$ (578)	\$ (676)	\$ (678)	\$ (681)
ETP LP Free Cash Flow	\$ (4,139)	\$ 946	\$ 1,714	\$ 2,025	\$ 1,930	\$ 2,059
<i>ETP LP Distributions</i>	\$ (2,510)	\$ (1,506)	\$ (1,512)	\$ (1,518)	\$ (1,524)	\$ (1,531)
ETP Cash (Shortfall) Surplus	\$ (6,649)	\$ (560)	\$ 202	\$ 507	\$ 406	\$ 528
 ETP Units O/S at End (MM)	1,157	1,161	1,166	1,170	1,175	1,180
ETP LP FCF per Unit	\$ (3.75)	\$ 0.82	\$ 1.47	\$ 1.73	\$ 1.65	\$ 1.75
ETP LP FCF / LP Distribution Coverage	-1.68x	0.63x	1.13x	1.33x	1.27x	1.34x
ETP LP DCF per Unit	\$ 2.68	\$ 3.55	\$ 3.87	\$ 3.99	\$ 3.97	\$ 4.14
ETP LP DCF / LP Distribution Coverage	1.18x	2.73x	2.98x	3.07x	3.05x	3.19x
 ETP Net Debt	\$ 31,944	\$ 32,504	\$ 32,302	\$ 31,795	\$ 31,389	\$ 30,861
ETP Net Debt / Adj. EBITDA	4.9x	4.3x	4.0x	3.8x	3.8x	3.6x
ETE Distribution per Unit	\$ 1.18	\$ 0.43	\$ 0.44	\$ 0.52	\$ 0.52	\$ 0.53
<i>YoY Growth</i>	3%	-63%	2%	18%	1%	1%
 ETE Net Debt	\$ 6,675	\$ 6,309	\$ 6,282	\$ 6,251	\$ 6,219	\$ 6,186
ETE Net Debt / Unlevered FCF	5.0x	7.5x	7.3x	6.5x	6.5x	6.4x
 Combined ETE and ETP Net Debt	\$ 38,619	\$ 38,813	\$ 38,585	\$ 38,046	\$ 37,608	\$ 37,048
Combined ETE and ETP Adj. EBITDA	\$ 6,781	\$ 7,823	\$ 8,262	\$ 8,517	\$ 8,505	\$ 8,733
Combined ETE and ETP Net Debt / Adj. EBITDA	5.7x	5.0x	4.7x	4.5x	4.4x	4.2x

ETP reduces distribution to **\$1.30/unit** in 2018, a **(42)%** reduction from the current rate, and keeps it flat thereafter.

ETP generates significant FCF to LPs and **is self-funding by 2019.**

ETP actually covers its distribution with free cash flow and has excess cash to reinvest.

ETP can pay down debt, and leverage decreases to ~3.5x – 4.0x

VALUATION & STYLE FACTORS

ETP Post IDR Exchange Valuation		ETP '18 DPU = \$1.30	
	PF '18 CF	Multiple	\$MM
Value of New GP's ETP GP/IDRs	\$ 578	12.0x	\$ 6,935
Premium Paid			10%
ETP LP Equity Issued to New GP (\$MM)			\$ 7,629
ETP Units Issued to New GP (MM)			224
Existing ETP Units			1,158
Pro Forma ETP Units			1,383
2018e EBITDA (Ex. SUN and USAC)			\$ 7,236
Fair Value EBITDA Multiple		11.0x	
Base Business Value			\$ 79,591
Market Value of SUN & USAC LP Units			\$ 1,843
Lake Charles LNG Export Project (40%)			\$ 767
Asset Value			\$ 82,201
Minus: ETP Net Debt & Preferred Equity			\$ (30,930)
Minus: ETP Noncontrolling Interests			\$ (4,191)
ETP Net Asset Value			\$ 47,081
ETP NAV per Unit			\$ 34.00
Upside (Downside) vs. Current			70%

Sector & Style Factor Exposure	
POSITIVE	
Tech	
Consumer Discretionary	
Energy	✓
High Beta	✓
Low Yield	
High/Accelerating Growth	
NEGATIVE	
Utilities	
Healthcare	
Staples	
Low Beta	
High Yield	✓
Slow/Decelerating Growth	
Neutral	
Industrials	
Financials	
Real Estate	
Materials	

FIXED ETP WORTH ~\$30 – 40/UNIT

Any positive change in ETP's corporate governance should help close the valuation disconnect between ETP and ETE. In a best case scenario – ETE is removed as GP – we see ETP being worth as much as \$40/unit, a double from here.

BEST IDEA **LONG**: TWITTER INC (TWTR)

1

REVENUE | DOUBLE-DIGIT ACCELERATION

- TWTR was forced to restructure in 4Q16; it has since been right-sizing its model, which is now built for sustainable growth.
- The worst is behind TWTR as its legacy ad products will be less of a drag on its model now that it's a much smaller % of revenue.
- TWTR is poised to return to double-digit ad revenue growth as early as 1H18, potentially in the +20% range (vs. consensus of low-single digits).

2

KPI | USER GROWTH BETTER 2018 SETUP

- TWTR's Daily Active User (DAUs) should benefit from events specific to 2018 that should help drive DAU growth further.
- Monthly Active User (MAU) expectations appear reasonable with consensus expecting quarterly US net adds inline with historical trends.
- Live events + growth hacking should also help boost growth.

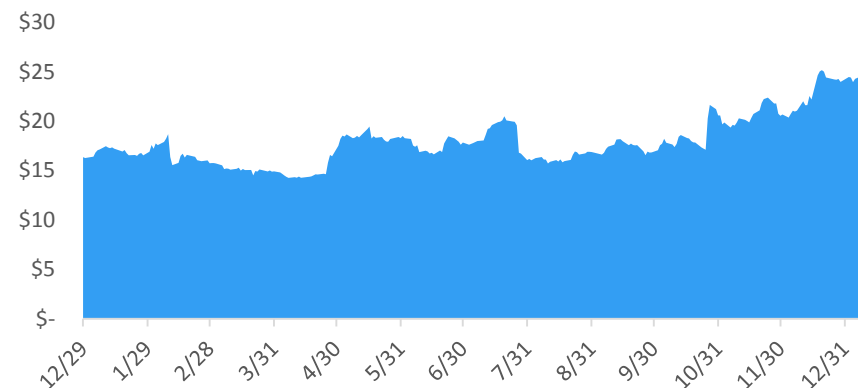
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CATALYST | SENTIMENT SHOULD TURN BY 1Q18

- There is still much doubt to the recovery story, with only 6 buy ratings out of 36 analysts, offering ample room for an upgrade cycle.
- TWTR should silence its doubters the first time it reports double-digit ad revenue growth, which should occur by the 1Q18 or 2Q18 guide.
- DAU growth should stabilize the stock in the interim; we estimate that TWTR could report double-digit growth in 4Q if it can maintain 3Q DAUs.

Summary Stats		Analyst Team
Ticker	TWTR	Hesham Shaaban hshaaban@hedgeye.com
Price	\$23.66	
52 Week Range	\$14.29 - \$25.41	
Div Yield	n/a	
Market Cap (mm)	\$17,575	
Float %	87%	
Daily Volume (mm)	17.6	Twitter: @hedgeyeinternet

Stock price



TWTR BY THE NUMBERS: DOUBLE-DIGIT REVENUE GROWTH

TWTR | O&O Ad Revenue Growth Scenario Analysis (4Q17)

Autoplay vs. Legacy Revenue Growth (y/y%)

Legacy	Autoplay				
	10%	30%	50%	70%	90%
0%	3%	10%	17%	24%	31%
-5%	0%	7%	14%	21%	28%
-10%	-3%	4%	11%	18%	25%
-15%	-6%	1%	8%	15%	21%
-20%	-10%	-3%	4%	11%	18%
-25%	-13%	-6%	1%	8%	15%
-30%	-16%	-9%	-2%	5%	12%
-35%	-19%	-12%	-5%	1%	8%
-40%	-23%	-16%	-9%	-2%	5%

TWTR | O&O Ad Revenue Growth Scenario Analysis (1Q18)

Autoplay vs. Legacy Revenue Growth (y/y%)

Legacy	Autoplay				
	10%	30%	50%	70%	90%
0%	6%	17%	28%	39%	50%
-5%	3%	14%	25%	37%	48%
-10%	1%	12%	23%	34%	45%
-15%	-1%	10%	21%	32%	43%
-20%	-3%	8%	19%	30%	41%
-25%	-6%	5%	17%	28%	39%
-30%	-8%	3%	14%	25%	37%
-35%	-10%	1%	12%	23%	34%
-40%	-12%	-1%	10%	21%	32%

TWTR | O&O Ad Revenue Growth Scenario Analysis (2Q18)

Autoplay vs. Legacy Revenue Growth (y/y%)

Legacy	Autoplay				
	10%	30%	50%	70%	90%
0%	6%	17%	28%	40%	51%
-5%	4%	15%	26%	38%	49%
-10%	1%	13%	24%	36%	47%
-15%	-1%	11%	22%	33%	45%
-20%	-3%	8%	20%	31%	43%
-25%	-5%	6%	18%	29%	40%
-30%	-7%	4%	16%	27%	38%
-35%	-9%	2%	13%	25%	36%
-40%	-12%	0%	11%	23%	34%

TWTR | O&O Ad Revenue Growth Scenario Analysis (3Q18)

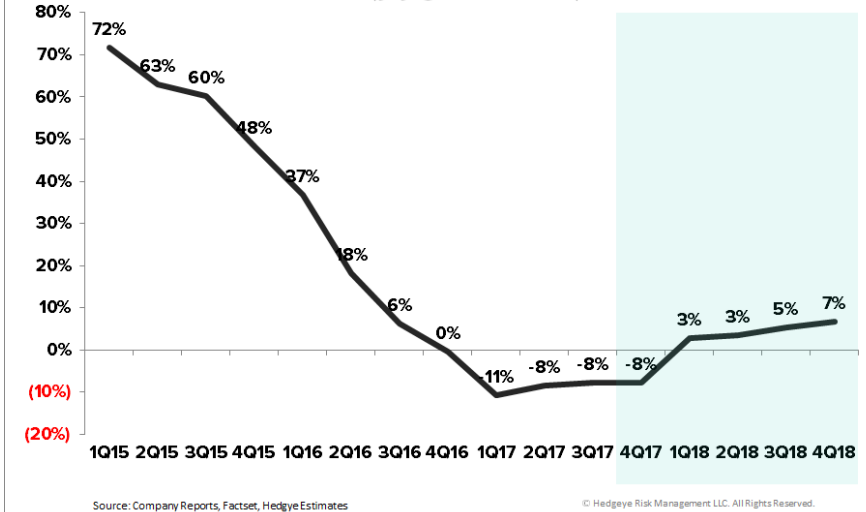
Autoplay vs. Legacy Revenue Growth (y/y%)

Legacy	Autoplay				
	10%	30%	50%	70%	90%
0%	5%	16%	26%	37%	47%
-5%	3%	13%	24%	34%	45%
-10%	0%	11%	21%	32%	42%
-15%	-2%	9%	19%	29%	40%
-20%	-4%	6%	17%	27%	37%
-25%	-7%	4%	14%	25%	35%
-30%	-9%	1%	12%	22%	33%
-35%	-11%	-1%	9%	20%	30%
-40%	-14%	-3%	7%	17%	28%

	Historical Revenue Growth (est)			
	4Q16	1Q17	2Q17	3Q17
Legacy	(30%)	(54%)	(51%)	(41%)
Autoplay	352%	253%	151%	104%

Hedgeye Expected Ranges

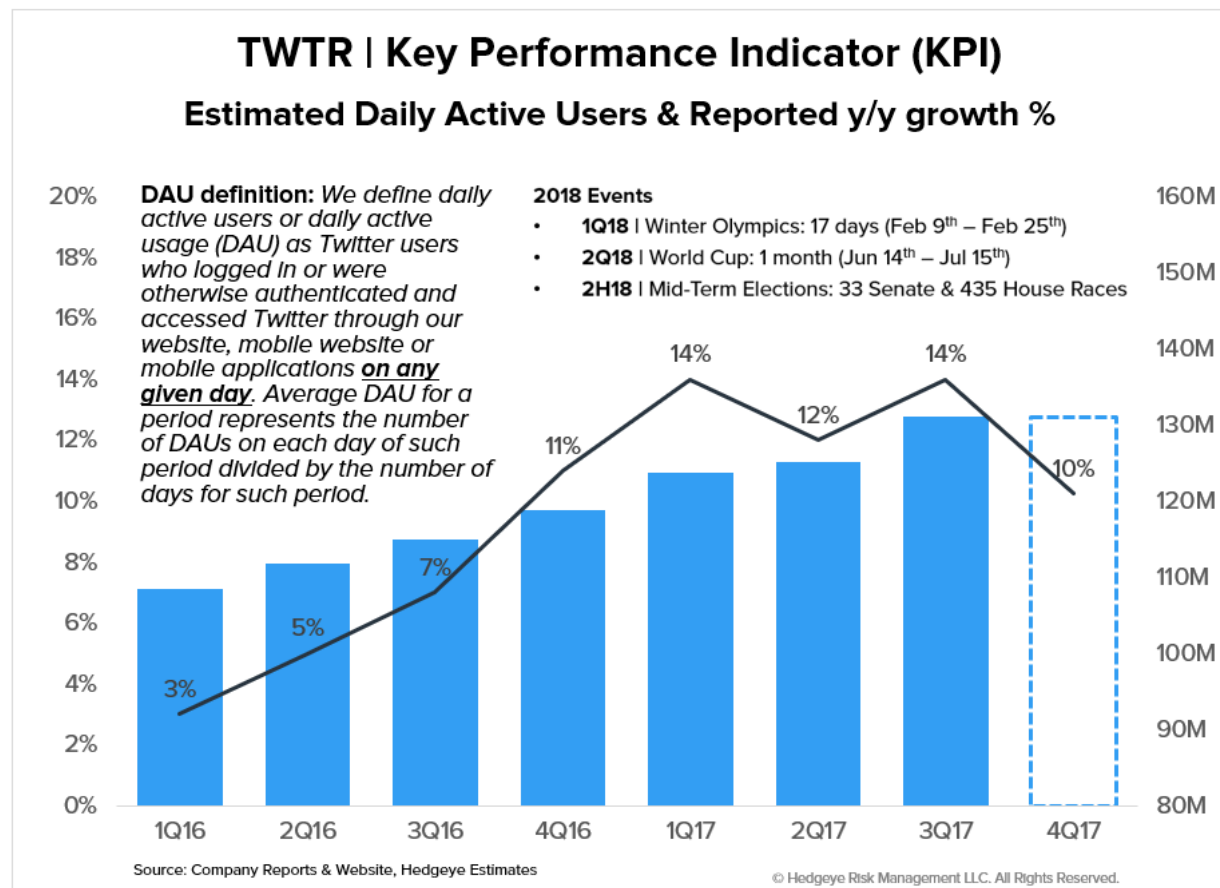
TWTR | Reported Ad Revenue & Consensus Estimates
(y/y growth rates)



SINCE LEGACY CPC WILL HAVE LESS OF A STRANGLEHOLD ON THE MODEL

We're not trying to emphasize TWTR's potential Autoplay revenue growth as much as the waning impact that Legacy CPC will have on the model now that it's a smaller portion of the pie. Note this analysis doesn't include non-O&O, which we expect to be a 1-2 point drag on revenue growth. In short, it will not take much for TWTR to return to double-digit ad revenue growth in 2018.

KPI, CATALYSTS, AND STYLE FACTORS



Sector & Style Factor Exposure	
POSITIVE	
Tech	
Consumer Discretionary	✓
Energy	
High Beta	✓
Low Yield	✓
High/Accelerating Growth	✓
NEGATIVE	
Utilities	
Healthcare	
Staples	
Low Beta	
High Yield	
Slow/Decelerating Growth	
Neutral	
Industrials	
Financials	
Real Estate	
Materials	

DAU GROWTH SHOULD BACKSTOP STOCK IN THE INTERIM

We expect TWTR to guide to double-digit revenue growth (via its EBITDA/margin guide) by 1Q18 (4Q17 release) or 2Q18. This should fuel improved sentiment in the name and initiate a sell-side upgrade cycle. If the 1Q18 guide is lackluster, we suspect double-digit DAU growth to backstop the stock. TWTR only needs to maintain its 3Q17 DAU levels to get there.

BEST IDEA **LONG**: TELADOC (TDOC)

1

UNIT PRICING AND PROFITABILITY GOING HIGHER

- Channel mix shift to direct and broker/reseller, cross-sell of BestDoctors and growth from the specialty services (behavioral, dermatology, etc.) will contribute to higher unit pricing and profitability over time.
- Renewal of Aetna contract through 2019 eliminates near-term risk with management successfully transitioning contract to shared-savings model and expanding services offered.
- Continue to aggressively scale G&A and sales expense on a per visit basis as utilization increases.

2

POLICY TAILWINDS FOR TELEMEDICINE

- MS has made use of telehealth a policy priority.
- Congress also has initiated efforts to broaden the use of telehealth in Medicare. Given the Program Integrity concerns their most likely vehicle for expansion of the benefit will be through Medicare Advantage.
- States too are making it easier for physicians and nurses to practice across state lines. However, adoption of telemedicine in Medicaid lags.

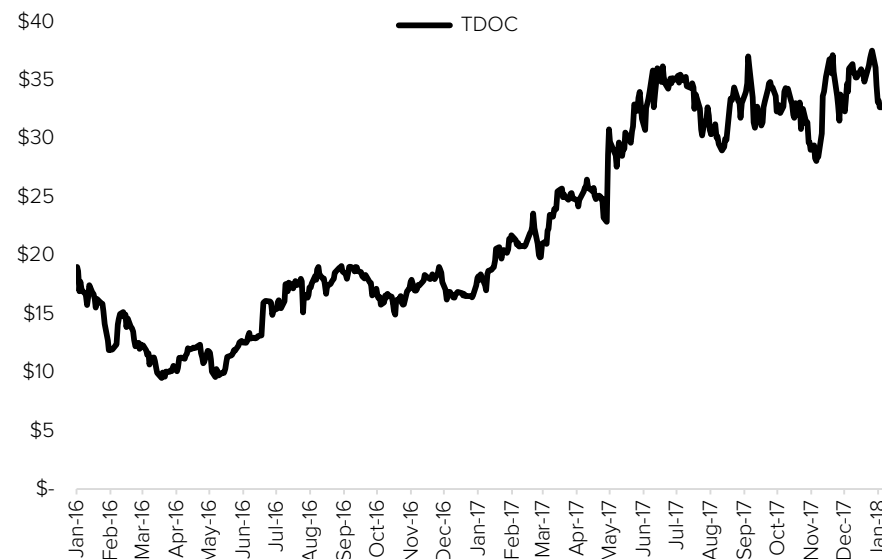
3

DIVERSIFY AND GROW THROUGH ACQUISITION

- Management appears committed to an acquisition strategy centered on expanding channel access and their product portfolio.
- While there are inherent risks with this type of strategy, we believe it is the right approach given the nascent state of the industry and opportunity.
- As the only pure-play, publicly traded telemedicine company, Teladoc's access to capital is a competitive advantage that management should use to drive scale so long as the markets are willing to provide them with it.

Summary Statistics		Analyst Team
Ticker	TDOC	Thomas Tobin
Price	\$ 31.30	ttobin@hedgeye.com
Market Cap (\$M)	1,782.9	@HedgeyeHC
52 Week Range	\$18.30- \$38.40	Andrew Freedman, CFA
Avg Daily Vol (3 mo)	1,109,855.2	afreedman@hedgeye.com
Shares Out (000)	56,961	@HedgeyeHIT
Float	80.2%	Alexander Ross
Top 10 Inst Hldrs	54.8%	aross@hedgeye.com
Short Interest	40.0%	@HedgeyeLab
Dividend Yield	-	

Stock Price



TDOC BY THE NUMBERS

Teladoc Inc \$ 33.10

Financial and Valuation Summary											
FY18 ends Dec '18	1Q17:A	2Q17:A	3Q17:A	4Q17:E	1Q18:E	2Q18:E	3Q18:E	4Q18:E	2016:A	2017:E	2018:E
Hedgeye Sales (\$MM)	42.9	44.6	68.7	77.6	85.0	86.2	88.9	96.3	123.2	233.7	356.4
Consensus (\$MM)**	42.9	44.6	68.7	76.2	85.5	87.0	90.2	97.5	123.2	232.2	356.3
Hedgeye Adj. EBITDA (\$)	(9.1)	(5.1)	(0.6)	2.1	(5.0)	3.7	1.6	7.6	(39.4)	(12.8)	8.0
Consensus (\$)**	(9.1)	(5.1)	(0.6)	1.8	(2.3)	3.4	5.4	7.4	(39.7)	(12.9)	8.5
Metrics*											
Visits (thousands)	385	309	306	448	554	454	428	576	952	1,448	2,012
Utilization (Annualized)	7.3%	5.9%	5.4%	8.0%	8.5%	6.7%	6.2%	8.5%	5.8%	6.7%	7.6%
Members (thousands)	20,100	20,500	22,600	23,000	25,770	26,285	26,592	26,978	15,900	23,000	26,978
PMPM/PEPM	\$ 0.58	\$ 0.61	\$ 0.91	\$ 0.94	\$ 0.89	\$ 0.92	\$ 0.95	\$ 0.98	\$ 0.52	\$ 0.75	\$ 0.93
Margins											
Gross Margin	71.7%	77.5%	75.6%	67.7%	63.6%	70.6%	73.1%	66.6%	74.0%	72.6%	68.5%
EBIT Margin	-24.1%	-14.7%	-9.0%	-6.4%	-14.8%	-4.7%	-7.2%	-1.1%	-33.1%	-12.0%	-6.8%
Adjusted EBITDA Margin	-21.2%	-11.5%	-0.9%	2.6%	-5.8%	4.3%	1.8%	7.9%	-32.0%	-5.5%	2.2%
Multiples											
EV/Sales NTM	9.2x	7.8x	6.8x	6.4x	6.0x	5.7x	5.4x	5.1x	9.2x	6.0x	4.8x

*Metrics do not reflect new reporting that go into effect in 1Q18

**Reflects estimates updated to reflect management's 2018 guidance

TDOC hit their 4Q17 break-even target reporting positive adjusted EBITDA. Core to the short thesis is that TDOC will never be profitable, and while they are still years from generating positive free cash flow, profitability trends are improving as the business scales.

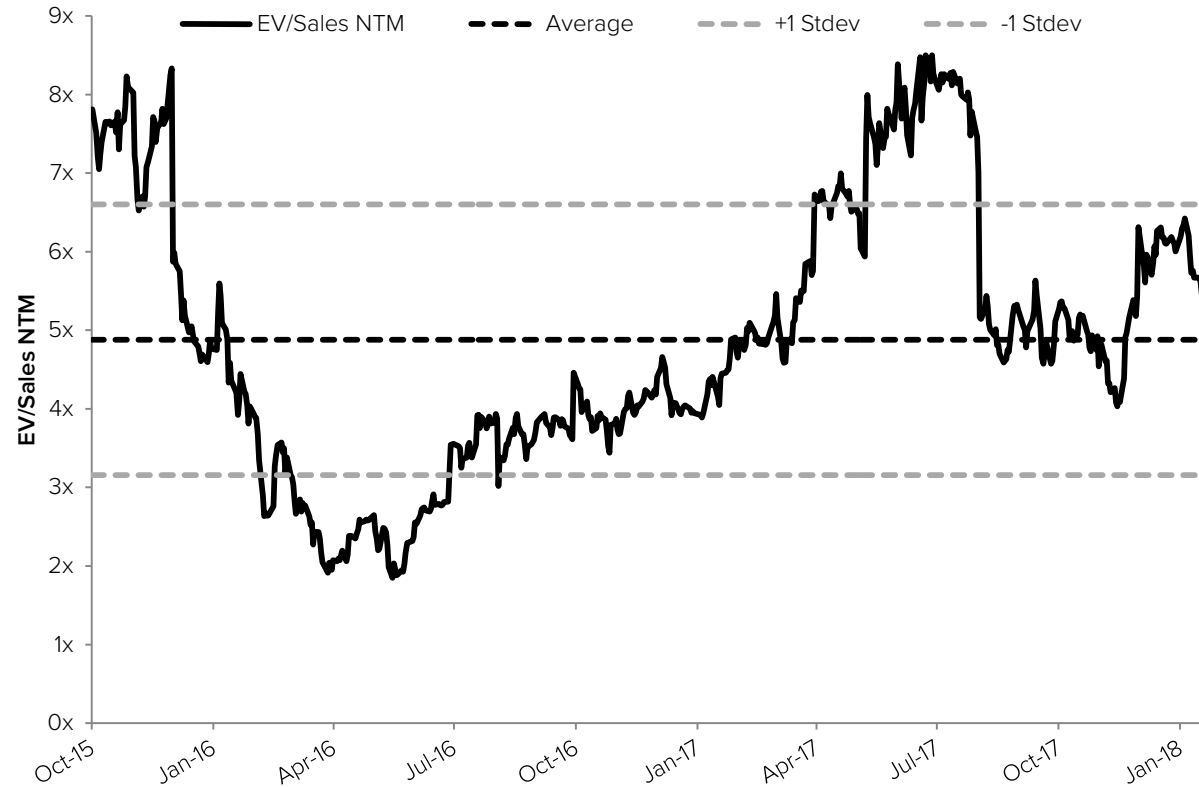
2018 top-line guidance of \$350 - \$360 million was a bit light versus consensus of \$365 million. However, implies healthy organic growth above management's 25% target. Overall, good enough to satisfy our base case amid 43% short interest.

We also believe there is an element of conservatism in management's guidance. By our estimates, organic sales have surpassed the high-end of their range for 2017.

Finally, management guided to positive full-year adjusted EBITDA of \$7-10 million. While the guidance range is below prior consensus of \$17 million (Estimate Range \$1 - \$30 million), the trend is in the right direction.

VALUATION AND STYLE FACTORS

NTM EV/SALES



Sector & Style Factor Exposure	
POSITIVE	
Tech	✓
Consumer Discretionary	
Energy	
High Beta	✓
Low Yield	✓
High/Accelerating Growth	✓
NEGATIVE	
Utilities	
Healthcare	✓
Staples	
Low Beta	
High Yield	
Slow/Decelerating Growth	
Neutral	
Industrials	
Financials	
Real Estate	
Materials	

20-30% UPSIDE OVER THE NEXT 3-6 MONTHS

We see upside into the mid-\$40s over the next 3-6 months based on 5-6x EV/Sales multiple on our 2019 sales estimate of \$444 million. We arrive at the multiple based on the historical valuation range over the last year.

BEST IDEA **LONG**: MELCO RESORTS & ENTERTAINMENT (MLCO)

1

MACAU – STREET STILL UNDERESTIMATING GROWTH, NEAR AND FAR

- Our 2 year bullish Macau call has been predicated on gaming revenue beats while the Street continues to erroneously forecast rapidly decelerating growth.
- It's the 2010-2014 cycle all over again and the Street hasn't caught on: GGR growing faster = higher EBITDA = higher stock prices. Street focused on sustainability of recent surge in the VIP segment - remember that VIP revenues are still 50% below the 2014 peak.
- Meanwhile, the China population and GDP remains vastly underpenetrated by the gaming sector. More hotel rooms and better transportation infrastructure will accommodate sizeable long term visitation growth, translating into high margin Mass revs. Mass revenue growth has accelerated recently, a favorable mix shift for margins.

2

CATALYSTS – MARGINS, MORPHEUS, MACAU STUDIO CITY (MSC)

- Margins should be significantly higher in 2018. Progress was made Q3 and we think it's sustainable with upside at City of Dreams (CoD) Macau and CoD Manila.
- The Morpheus project will open in 2018 and we expect a high ROI. With Macau RevPAR up YoY, the new hotel rooms will drive length of stay and play higher, particularly from the high margin, premium mass gaming segment.
- MSC is now firing on all cylinders in both VIP and mass, yet the property metrics leave ample room for growth. The new VIP rooms are paying huge dividends.

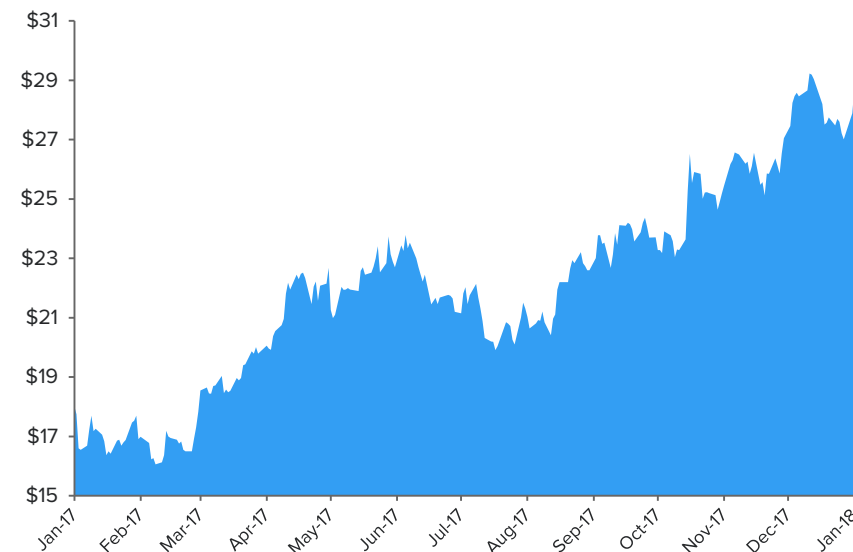
3

NO RESPECT – STREET REV/MARGIN ESTIMATES TOO LOW & VALUATION DISCOUNTED

- We're well above consensus for 2017 and 2018 EBITDA, driven by both the top line (Street way too low on Macau market growth) and margins (Street giving no credit even for margin expansion already achieved).
- MLCO trades at the lowest valuation among Macau peers.
- Clearly, MLCO is a "prove it to me" management team and stock; we think the Street is coming around. Another quarter or 2 of better top line and margin expansion should get them there. We like this set up of low expectations – more upside.

Summary Stats		Analyst Team
Ticker	MLCO	Todd Jordan
Price	\$28.76	tjordan@hedgeye.com
52 Week Range	\$16.06 - \$29.23	Felix Wang, CFA
Div Yield	1.2%	fwang@hedgeye.com
Market Cap (mm)	\$15,635	Sean Jenkins
Short Int. % of Float	1.5%	sjenkins@hedgeye.com
Daily Volume (mm)	3.1	Twitter: @hedgeyesnakeye

Stock Price - MLCO



MLCO BY THE NUMBERS

MLCO - Key Model Assumptions

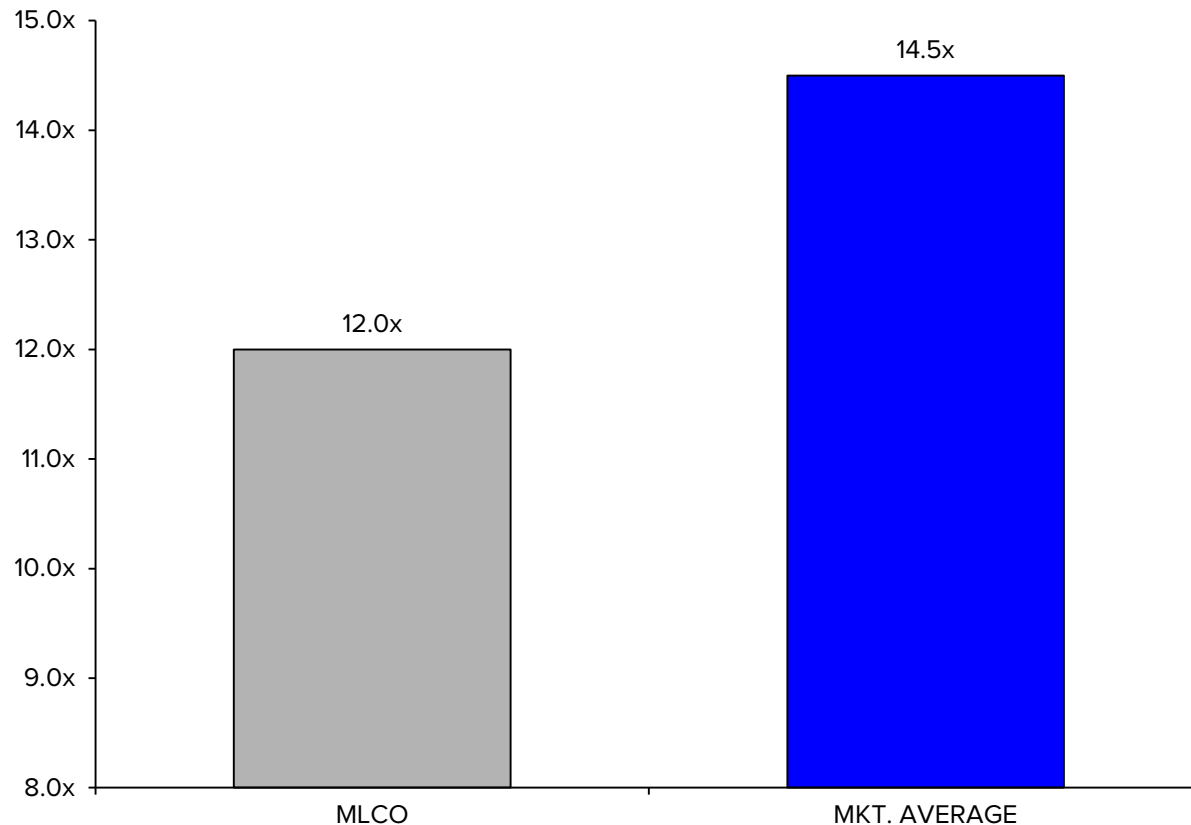
NET REVENUES	1Q 2016	2Q 2016	3Q 2016	4Q 2016	2016 FY	1Q 2017	2Q 2017	3Q 2017	4Q 2017E	2017 FYE	2018 FYE
Total Net Revenues	\$1,104	\$1,070	\$1,153	\$1,193	4,519	\$1,277	\$1,298	\$1,377	\$1,412	\$5,365	\$5,799
ADJUSTED EBITDA	1Q 2016	2Q 2016	3Q 2016	4Q 2016	2016 FY	1Q 2017	2Q 2017	3Q 2017	4Q 2017E	2017 FYE	2018 FYE
City of Dreams Macau	\$206	\$178	\$170	\$189	\$742	\$214	\$175	\$246	\$234	\$870	\$998
Macau Studio City	22	25	53	57	156	68	81	96	94	338	368
Altira	(14)	2	14	3	5	4	5	(6)	3	7	13
Mocha Slots	6	5	7	5	24	7	6	7	7	26	25
City of Dreams Manila	29	37	45	50	160	55	63	57	58	233	237
Corporate Expense	(28)	(27)	(27)	(32)	(115)	(32)	(36)	(34)	(35)	(137)	(151)
Adjusted EBITDA	\$220	\$218	\$262	\$272	\$973	\$315	\$293	\$366	\$362	\$1,336	\$1,491
CONSENSUS									\$337	\$1,312	\$1,417
HE vs. Street									7.3%	1.8%	5.2%

MLCO MODELING ASSUMPTIONS → RAISING ESTIMATES (AGAIN)

Street has raised 2018 EBITDA estimates by ~6% in the last few months – and it's still not enough. Strong topline growth, secular margin expansion, and strong ROI on Morpheus should contribute to industry leading EBITDA beats.

VALUATION AND STYLE FACTORS

2018 ECONOMIC EV / EBITDA



Sector & Style Factor Exposure	
POSITIVE	
Tech	
Consumer Discretionary	✓
Energy	
High Beta	✓
Low Yield	✓
High/Accelerating Growth	✓
NEGATIVE	
Utilities	
Healthcare	
Staples	
Low Beta	
High Yield	
Slow/Decelerating Growth	
Neutral	
Industrials	
Financials	
Real Estate	
Materials	

VALUATION GAP SHOULD NARROW AS MLCO CONTINUES TO EXECUTE

MLCO is trading at a 2.5x multiple discount to LVS/WYNN/Galaxy. Some disparity is probably warranted but the gap should narrow. One turn equals about a 10% increase in the share price.

BEST IDEA **LONG**: HOST HOTELS AND RESORTS (HST)

1

REVPAR ACCELERATION TO BE DRIVEN BY BUSINESS TRANSIENT AND GROUP – SWEET SPOT FOR HST

- Our macro model and forward ADR survey suggests RevPAR acceleration driven by better business travel, on the margin.
- Given its high group and business transient exposure, HST is well positioned to capitalize on the return of the business transient customer.
- From a rate of change perspective, supply growth should be less of a headwind for hotel owners as the 2nd derivative will likely remain negative for much of 2018.

2

MARGIN OUTLOOK REMAINS SOLID + ADR GROWTH WILL PROVIDE EXTRA JUICE

- Even if we're wrong on RevPAR accelerations, HST should still drive upside to current consensus estimates for 2017 and 2018 through margin initiatives.
- But if we're right on RevPAR, we will most likely see the majority of the gains come in the form of **rate growth** which offers very strong flow through potential.
- Highest exposure to MAR/HOT brands provides long term merger synergy opportunities; we are in the early innings.
- Continued execution via enterprise analytics should yield further margin improvement.

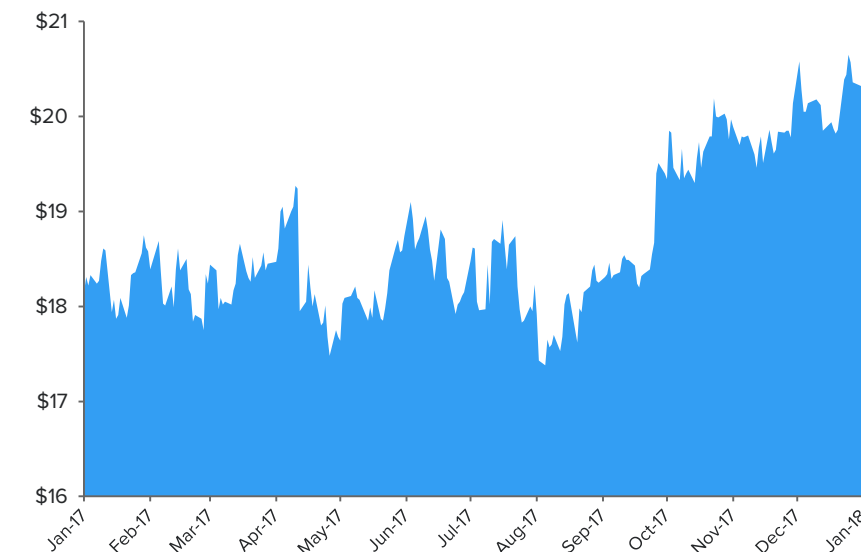
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CATALYSTS REMAIN – LOTS OF LEVERS FOR NEW MANAGEMENT TO PULL (FINANCIALLY AND OPERATIONALLY)

- New CEO this year has delivered operationally but has not satisfied investors with a well defined capital allocation policy – New CFO started in November.
- Low leverage provides opportunity for some stock buyback. Can purchase ~10% of the float and remain investment grade – a positive signal to investors.
- Disposing of non-core, lower yielding assets, and repositioning the portfolio towards more resort and high end destination hotels in high barrier to entry markets.

Summary Stats		Analyst Team
Ticker	HST	Todd Jordan tjordan@hedgeye.com
Price	\$20.93	
52 Week Range	\$17.38 - \$20.93	Felix Wang, CFA fwang@hedgeye.com
Div Yield	3.8%	
Market Cap (mm)	\$15,490	Sean Jenkins sjenkins@hedgeye.com
Short Int. % of Float	4.8%	
Daily Volume (mm)	6.2	Twitter: @hedgeyesnakeye

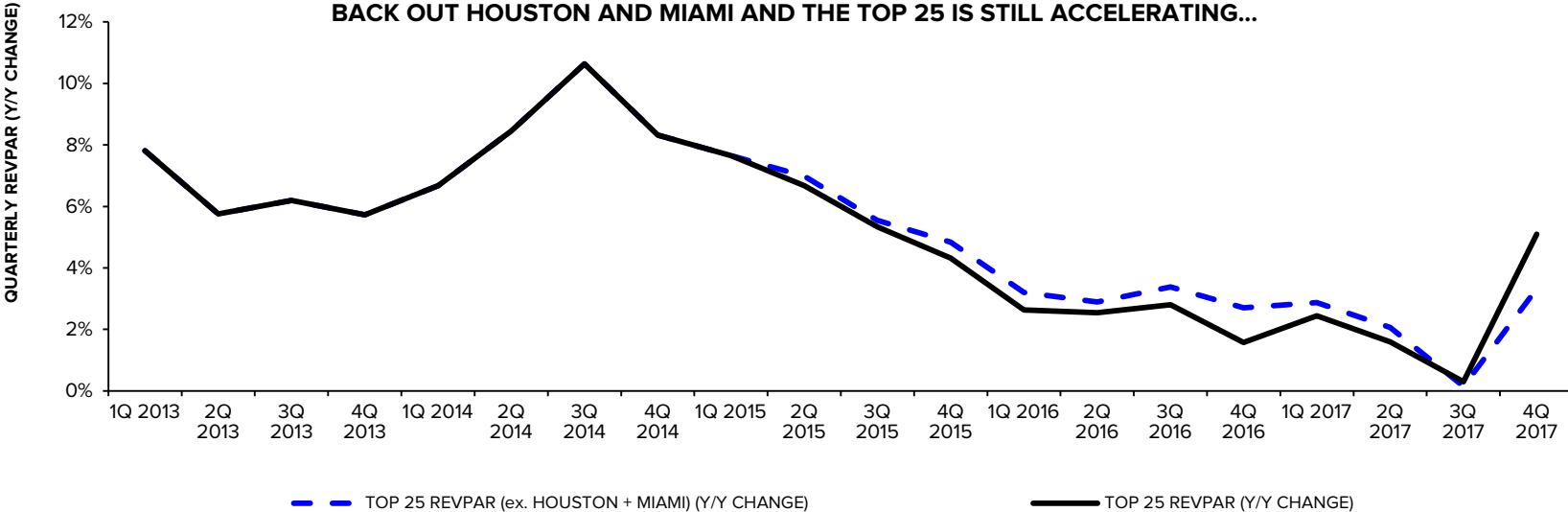
Stock Price - HST



HST BY THE NUMBERS

HST - Key Model Assumptions

REVENUES	1Q 2016	2Q 2016	3Q 2016	4Q 2016	2016 FY	1Q 2017	2Q 2017	3Q 2017	4Q 2017E	2017 FYE	2018 FYE
Rooms	\$843	\$933	\$879	\$837	\$3,492	\$843	\$940	\$860	\$845	\$3,488	\$3,519
Food and Beverage	408	439	336	416	1,599	422	416	314	424	1,576	1,598
Other	88	87	80	84	339	83	85	80	84	332	336
Total Revenues	\$1,339	\$1,459	\$1,295	\$1,337	\$5,430	\$1,348	\$1,441	\$1,254	\$1,353	\$5,396	\$5,453
Systemwide Comp RevPAR	3.6%	2.0%	3.8%	1.7%	2.7%	3.4%	1.7%	-1.8%	2.3%	1.4%	2.4%
EXPENSES	1Q 2016	2Q 2016	3Q 2016	4Q 2016	2016 FY	1Q 2017	2Q 2017	3Q 2017	4Q 2017E	2017 FYE	2018 FYE
Rooms	\$221	\$228	\$225	\$219	\$893	\$219	\$230	\$227	\$219	\$895	\$900
Food and Beverage	284	289	257	284	1,114	277	275	242	285	1,079	1,081
Other Departmental Expense	328	332	321	325	1,306	319	324	309	315	1,267	1,267
Other Property Level	93	100	96	93	382	100	97	97	98	392	399
Management Fees	57	66	54	59	236	56	69	53	58	236	239
ADJUSTED FUNDS FROM OPS	\$308	\$367	\$279	\$302	\$1,256	\$327	\$364	\$247	\$316	\$1,254	\$1,269
ADJUSTED EBITDA	\$345	\$436	\$342	\$348	\$1,471	\$367	\$444	\$317	\$366	\$1,494	\$1,517
CONSENSUS									\$349	\$1,469	\$1,457
HE vs. Street									4.9%	1.7%	4.1%



Modeling Assumptions → Raising estimates for 2018

Further RevPAR and margin improvement expected again in 2018. Our macro model is predicting significant RevPAR acceleration which we have yet to reflect in our HST estimates.

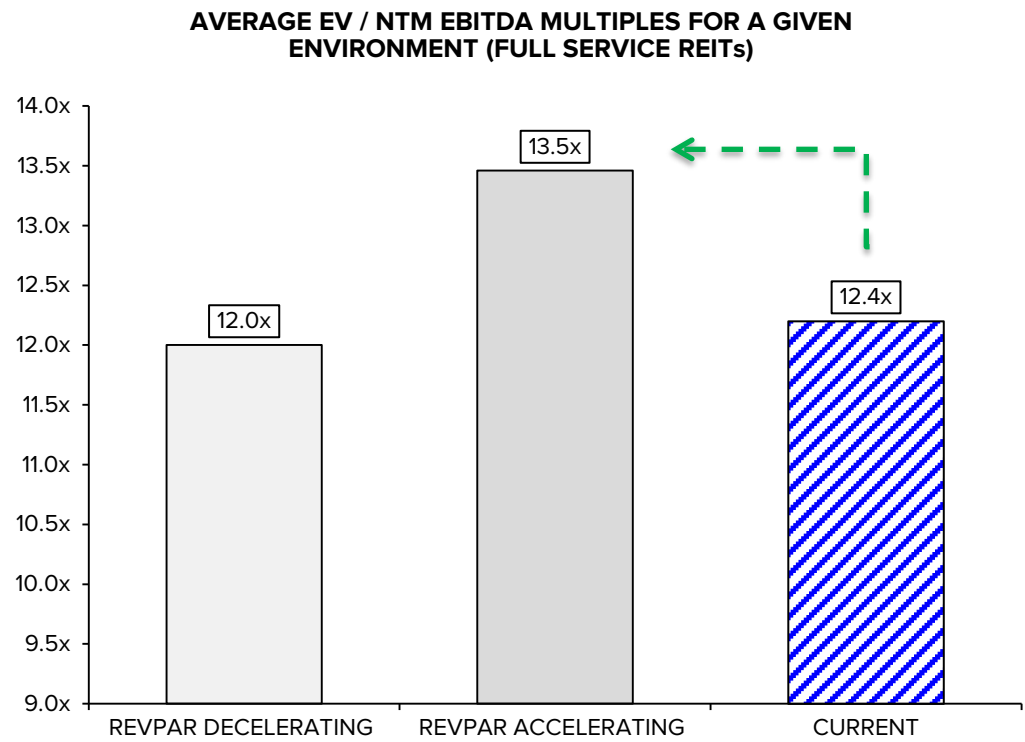
We are modeling adjusted EBITDA and RevPAR well above consensus for 2018, even without industry RevPAR acceleration.

Addressing the naysayers...

We have seen a number of articles and market head lines suggesting the only thing carrying the recent RevPAR growth has been the Hurricane markets. Frankly, it's just not true based on the data we have in front of us.

Specifically, in the Top 25, we are seeing a number of other markets put up much better growth vs that seen in the 1st half of 2017. Philly, Denver, Phoenix, Boston, Atlanta, Anaheim, and even San Francisco are some examples.

VALUATION AND STYLE FACTORS



NOTES
(1) DECELERATING REVPAR PERIOD = (1Q 2015 – PRESENT), ACCELERATING = (1Q 2013 – 1Q 2015)
(2) WE USED TOP 25 REVPAR GROWTH AS OUR PROXY
(3) MULTIPLES INDICATE NTM EV/ EBITDA FOR: DRH, HST, LHO, PEB, SHO, AND FCH

Sector & Style Factor Exposure	
POSITIVE	
Tech	
Consumer Discretionary	✓
Energy	
High Beta	✓
Low Yield	
High/Accelerating Growth	✓
NEGATIVE	
Utilities	
Healthcare	
Staples	
Low Beta	
High Yield	✓
Slow/Decelerating Growth	
Neutral	
Industrials	
Financials	
Real Estate	
Materials	

MULTIPLES STILL NOT DISCOUNTING ACCELERATING REVPAR TRENDS

BEST IDEA **SHORT**: DOMINO'S (DPZ)

1

NASCENT 3RD PARTY DELIVERY IS BAD NEWS FOR SALES

- About one-half of DPZ's sales comes from home pizza delivery. Growth of the third-party delivery spells danger for DPZ; alternative data already showing a slowdown in 4Q17.
- Food delivery in the U.S. is being transformed and now includes various restaurant players taking share in a market traditionally dominated by pizza, despite management's most recent attempt to quell these notions.
- Slowing trends in DPZ's international markets a harbinger for what competitive pressures will do DPZ's sales growth.

2

MARGINS TO BE PRESSURED

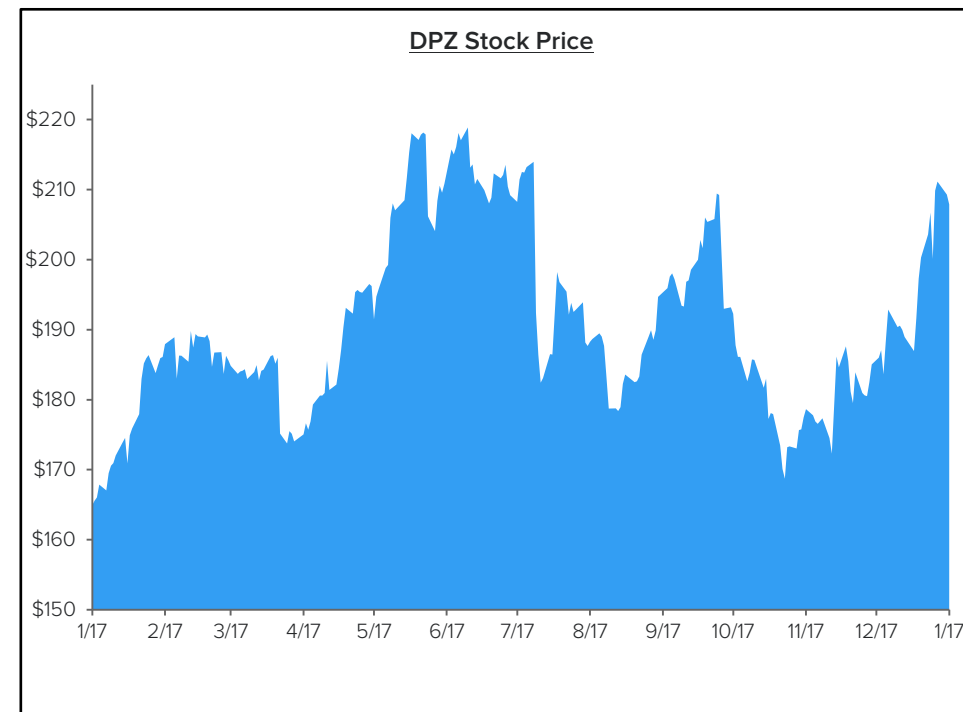
- The Company has stated that they will continue to invest in technology to try to maintain its digital lead.
- DPZ U.S. Pizza delivery percentage growth has seen a noticeable slowdown: 2014: 10.5%; 2015: 6.1%; 2016: 5.0%; 2017E: 4.1%.
- DPZ will continue to invest aggressively in technology (in order to try to fend off intrusion) and, when you couple with slowing sales, margin pressure is inevitable.

3

FINANCIAL ENGINEERING IS IN THE PAST

- Historically, Domino's has used free cash flow to repurchase shares and pay dividends:
 - **2015**: DPZ announced an \$800M repurchase program
 - **2Q17**: DPZ returned \$22M to shareholders in the form of a \$0.46 per share quarterly dividend, and closed a recapitalization transaction on July 24th, 2017
- Authorized a program to repurchase up to \$1.25B of the Company's stock. As part of this repurchase program, DPZ entered into a \$1B ASR agreement with a counterparty. The company received and retired a total of 5.2m shares at an avg price of \$191.62, or ~11% of the float.
- But with this now in the rearview, DPZ will be forced to increase shareholder value by driving top-line growth!

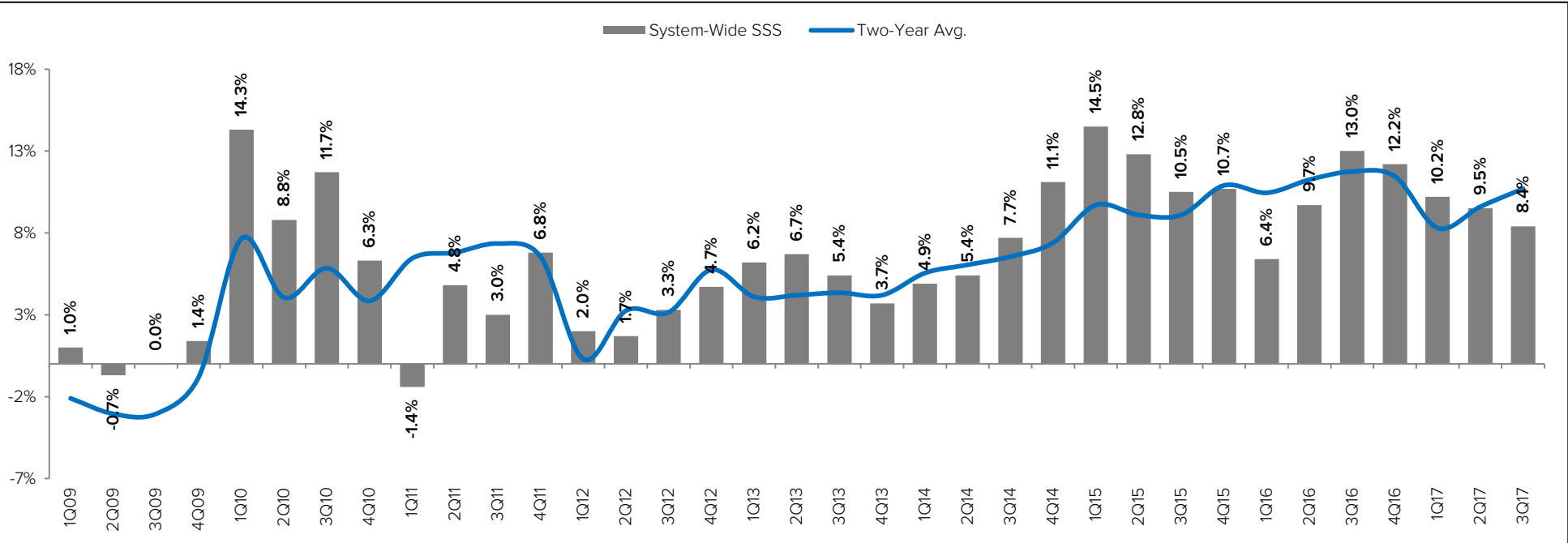
Summary Stats		Analyst Team
Ticker	DPZ	Howard Penney hpenney@hedgeye.com
Price	\$207.89	
52 Week Range	\$164.93 - \$218.88	Shayne Laidlaw slaidlaw@hedgeye.com
Div Yield	0.9%	
Market Cap (mm)	\$9,092	Twitter: @HedgeyeHWP
SI % of Float	12.1	
Daily Volume (mm)	1.0	



DPZ BY THE NUMBERS

Domino's (DPZ) \$207.89

Financial Summary															
	1Q16A	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	3Q17A	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2016A	2017E	2018E
Hedgeye Sales (\$MM)	539	547	567	819	624	629	644	901	690	696	708	974	2,473	2,797	3,068
Consensus (\$MM)	539	547	567	819	624	629	644	910	692	696	710	1,000	2,473	2,806	3,098
Difference to Consensus								-0.9%	-0.3%	0.0%	-0.3%	-2.5%		-0.3%	-1.0%
Hedgeye EBITDA (\$MM)	107	112	110	163	126	123	128	182	139	138	136	186	492	558	600
Consensus (\$MM)	107	112	110	163	126	123	128	185	143	141	144	208	492	562	637
Difference to Consensus								-1.8%	-2.5%	-2.0%	-5.5%	-10.6%		-0.6%	-5.7%
Hedgeye EPS (\$)	0.89	0.98	0.96	1.48	1.26	1.32	1.27	1.93	1.73	1.71	1.69	2.37	4.30	5.77	7.50
Consensus EPS	0.89	0.98	0.96	1.48	1.26	1.32	1.27	1.94	1.77	1.74	1.80	2.69	4.30	5.78	8.00
Difference to Consensus								-0.4%	-2.0%	-1.8%	-6.4%	-12.0%		-0.1%	-6.3%



Financials:

- With much of the business poised to see slowing sales due to increased competition in third-party delivery, we expect sales to fall a hair short of consensus expectations in FY17.
- As time passes, we see DPZ losing market share, and we mirror this in our 2018E EBITDA and EPS estimates.

Same-Store Sales:

- DPZ is up against a tough comp in 4Q17, and with added technology spending expected, margins will be pressured further.

VALUATION MATRIX

NTM EV/EBITDA Multiple												
	15.8x	16.0x	16.3x	16.5x	16.8x	17.0x	17.5x	18.0x	18.5x	19.0x	19.5x	
EBITDA	\$584	\$143.94	\$147.28	\$150.62	\$153.96	\$157.30	\$160.64	\$167.32	\$174.00	\$180.68	\$187.36	\$194.04
	\$587	\$144.99	\$148.35	\$151.70	\$155.06	\$158.42	\$161.77	\$168.49	\$175.20	\$181.91	\$188.63	\$195.34
	\$590	\$146.05	\$149.42	\$152.79	\$156.17	\$159.54	\$162.91	\$169.66	\$176.41	\$183.16	\$189.90	\$196.65
	\$593	\$147.11	\$150.50	\$153.89	\$157.28	\$160.67	\$164.06	\$170.84	\$177.62	\$184.40	\$191.18	\$197.96
	\$596	\$148.18	\$151.59	\$154.99	\$158.40	\$161.81	\$165.21	\$172.03	\$178.84	\$185.66	\$192.47	\$199.29
	\$599	\$149.25	\$152.68	\$156.10	\$159.52	\$162.95	\$166.37	\$173.22	\$180.07	\$186.92	\$193.77	\$200.62
	\$602	\$150.33	\$153.77	\$157.21	\$160.65	\$164.10	\$167.54	\$174.42	\$181.30	\$188.19	\$195.07	\$201.95
	\$605	\$151.41	\$154.87	\$158.33	\$161.79	\$165.25	\$168.71	\$175.62	\$182.54	\$189.46	\$196.38	\$203.29
\$608	\$152.50	\$155.98	\$159.46	\$162.93	\$166.41	\$169.88	\$176.83	\$183.79	\$190.74	\$197.69	\$204.64	
BEAR			BASE					BULL				
-31%			-21%					-2%				

Sector & Style Factor Exposure	
POSITIVE	
Tech	
Consumer Discretionary	✓
Energy	
High Beta	
Low Yield	
High/Accelerating Growth	
NEGATIVE	
Utilities	
Healthcare	
Staples	
Low Beta	✓
High Yield	
Slow/Decelerating Growth	✓
Neutral	
Industrials	
Financials	
Real Estate	
Materials	

WE SEE NO UPSIDE IN THE DPZ STORY!

- DPZ's core business is under tremendous pressure globally and this will become increasingly evident with 4Q17 results and as we move through FY18.
- We see ~30% downside from current levels.

BEST IDEA **SHORT**: HANESBRANDS (HBI) - THIS ENDS VIOLENTLY

1

REV CONTRACTION WRITTEN IN COSMOS

- Underinvested in core content due to misaligned incentives.
- Share went from 37% to 29% and headed to >20%.
- Retail channels shrinking by 5% on top of share loss, while one of the most 'Amazonable' names out there.

2

MARGINS TOO HIGH BY NEARLY 2X

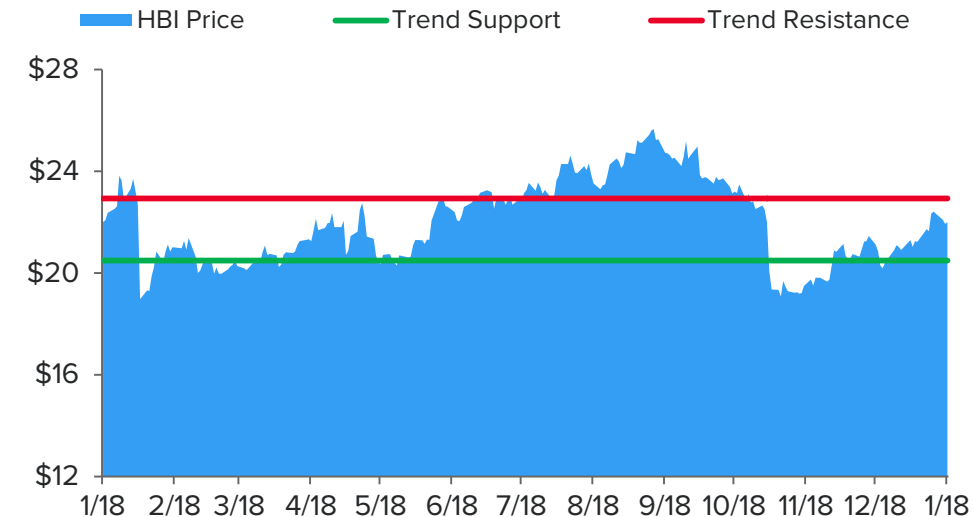
- Gildan = new fierce competitor that is margin-agnostic.
- Factory utilization unsustainable at $\approx 95\%$. That = 14% margins vs peers at 9% (headed to 5-6%).
- Over-earning its retail distro by 3x. That's not tenable.

3

CLOSE TO COVENANT BUST/DIV CUT

- Levered 4.1x vs 1.9x – compensation not penalized for capital charge in overpaying for weak assets.
- Took capex from 5% of sales to 1%. Underinvested due to CFFO incentive vs FCF.
- 4Q inventory problem.

Summary Stats		Analyst Team
Ticker	HBI	Brian McGough brian@hedgeye.com
Price	\$22.00	
52 Week Range	\$18.98 - \$25.67	Jeremy McLean jmclean@hedgeye.com
Div Yield	2.7%	
Market Cap (mm)	\$8,021	Daniel Biolsi dbiolsi@hedgeye.com
Short Int. % of Float	18%	
Daily Volume (mm)	5.4	Twitter: @hedgeyeretail



HBI BY THE NUMBERS

HEDGEYE VS CONSENSUS

		2016A	2017E	2018E	2019E
Sales	Hedgeye	\$6,028	\$6,411	\$6,217	\$5,932
	Consensus		\$6,458	\$6,613	\$6,716
	Variance		-0.7%	-6.0%	-11.7%
EBIT Margin	Hedgeye	15.2%	14.2%	11.4%	9.5%
	Consensus		14.4%	14.8%	15.1%
	Variance		-20 bps	-338 bps	-563 bps
EPS	Hedgeye	\$1.85	\$1.89	\$1.30	\$0.94
	Consensus		\$1.94	\$2.05	\$2.23
	Variance		-2.6%	-36.7%	-57.7%
CFFO	Hedgeye	\$606	\$582	\$511	\$436
	Consensus		\$683	\$860	\$882
	Variance		-14.8%	-40.6%	-50.6%

Aside from a 50-60% EPS/CFFO miss – the most notable point is that our EBIT margin assumptions are arguably still high by 200-300bps.

VALUATION AND STYLE FACTORS

	2019E	Mult/Yield	EV	Per Share
EPS	\$0.94	8.0x		\$7.53
EBITDA	\$665	7.0x	4,654	\$3.81
FCF Yield	\$0.81	8.0%		\$10.16
DIV	\$0.30	7.0%		\$4.29
BOOK	\$1,224	2.0x	2,448	\$6.62
			Average	\$6.48

Sector & Style Factor Exposure	
POSITIVE	
Tech	
Consumer Discretionary	✓
Energy	
High Beta	
Low Yield	
High/Accelerating Growth	
NEGATIVE	
Utilities	
Healthcare	
Staples	
Low Beta	✓
High Yield	
Slow/Decelerating Growth	✓
Neutral	
Industrials	
Financials	
Real Estate	
Materials	

DOWNSIDE TO MID SINGLE DIGITS

Warren Buffets buys his basic apparel brands/manufacturing assets at 3-5x EBITDA.
If HBI hits 5x EBITDA, there is NO equity value.

BEST IDEA **SHORT:** REDFIN (RDFN)

1

TOP LINE GROWTH SET TO SLOW

- Redfin's top line growth is decelerating quickly (3Q17: +31.6% vs 3Q16: +41.4%) and should slow further from here for multiple reasons, including slower-growing new markets & pricing deflation.
- Consensus, however, sees growth continuing at 30% for years.

2

OPERATING MARGINS WILL DISAPPOINT

- Redfin's model is not scalable like investors think.
- To grow brokerage transaction volumes, it requires near-linear agent growth, just like traditional RE brokerage businesses.
- Consensus margin estimates don't reflect this. Consider that gross margins actually FELL in Q3 to 36% from 38% Y/Y, the second quarter of decline in a row.

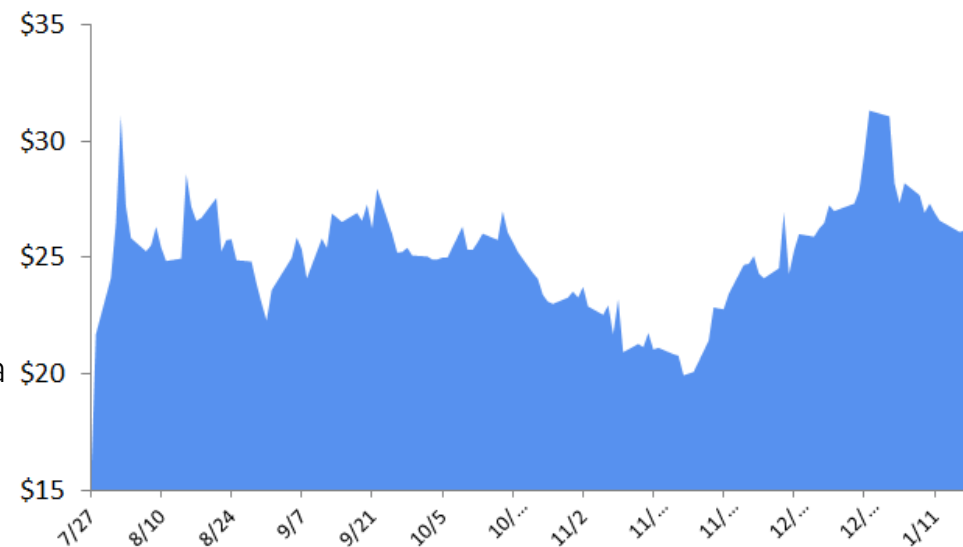
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FAR MORE RISK THAN REWARD

- Redfin is currently valued as a tech company.
- That value is predicated on top line growth continuing at 30%+/yea coupled with significant positive operating leverage, neither of which are likely in 2018-2019.
- Severe multiple compression risk to peers RLGY & RMAX.
- IPO stock lock up agreements expire Jan 23rd, allowing up to an additional 70.8 million shares to be eligible for public sale. This would represent nearly a ~7x increase in the freely traded shares.

Summary Stats		Analyst Team
Ticker	RDFN	Josh Steiner, CFA jsteiner@hedgeye.com
Price	\$26.13	
52-Week Range	\$15.82-33.49	Christian Drake cdrake@hedgeye.com
Div. Yield	N/A	
Market Cap (MM)	\$2,127	
Short Interest % Float	41.96%	
Daily Volume	400,755	

Stock Price



RDFN BY THE NUMBERS

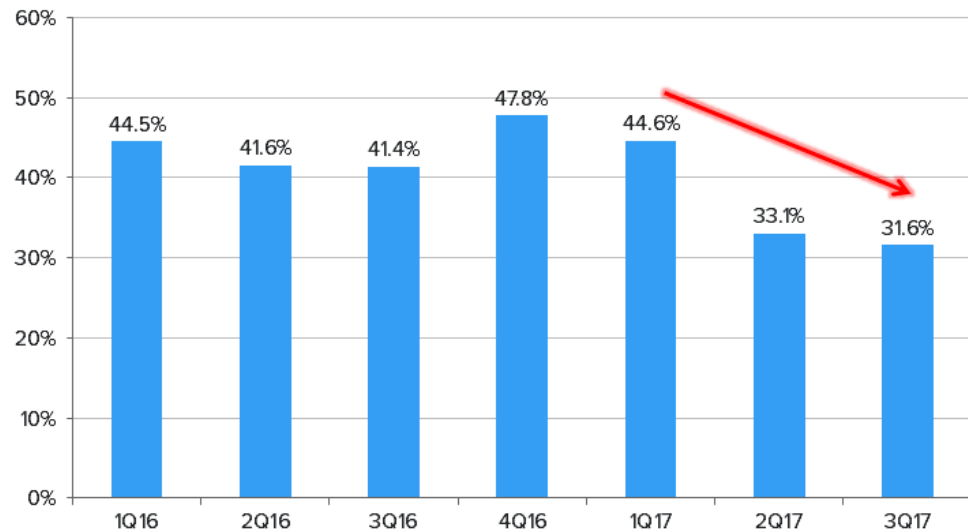
Redfin Revenue	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17E	2016	2017E	2018E	2019E
Real Estate Revenue	40,358	75,647	78,908	65,470	58,371	100,658	103,864	83,083	260,383	345,976	421,204	510,722
Total Other Revenue	907	1,735	1,812	1,438	1,278	2,067	2,156	1,312	6,813	15,354	19,436	22,441
Revenue	41,265	77,382	80,720	66,909	59,649	102,725	106,020	84,395	267,196	361,330	440,640	533,163
Growth Y/Y	44.5%	41.6%	41.4%	47.8%	44.6%	32.8%	31.3%	26.1%	42.6%	35.2%	21.9%	21.0%
Consensus Revenue										366,000	476,400	615,000
Delta										-1.3%	-7.5%	-13.3%
Redfin EBITDA Margins	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17E	2016	2017E	2018E	2019E
EBITDA Margins	-55.1%	3.8%	9.0%	-5.7%	-43.8%	5.6%	11.0%	-3.7%	-6.2%	-3.2%	-3.3%	-2.3%
Y/Y Change					11.3%	1.8%	2.0%	2.0%	7.7%	3.0%	-0.2%	1.0%
Consensus EBITDA Margins										-0.1%	2.9%	6.1%
Delta										-3.1%	-6.2%	-8.5%

Core brokerage revenue growth has slowed by ~1,000 bps in the last year.

As the company sources more of its growth from slower home price appreciation markets, its growth will slow further. This is not reflected in estimates.

Operating leverage and margins, are – and will remain – worse than investors expect. Business relies on growing transaction volume, but transactions/agent has been relatively static for the last few years. The last 2 quarters have seen no growth in this metric. In other words, this isn't the scalable platform investors are assuming and consensus margin estimates are too high as a result.

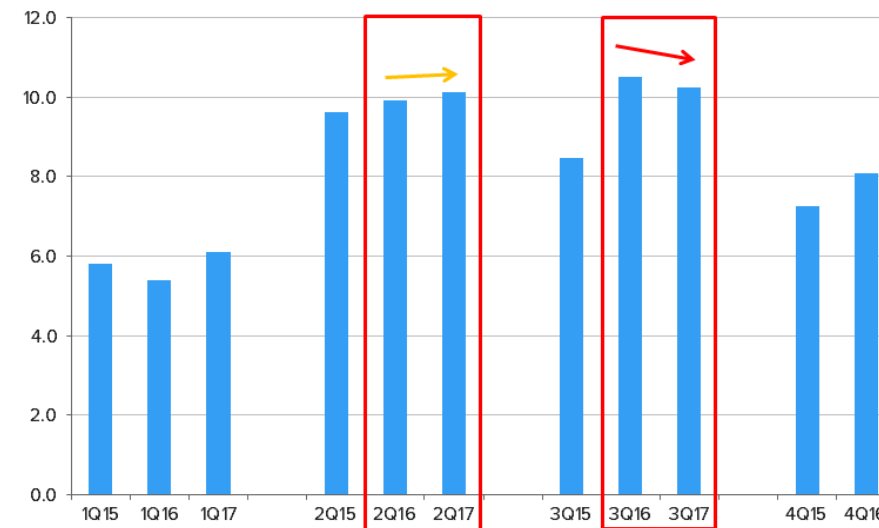
Core Business Top Line Growth is Slowing



Source: Company Documents

© Hedgeye Risk Management

Margin Challenges: Redfin Brokerage Transactions Per Lead Agent

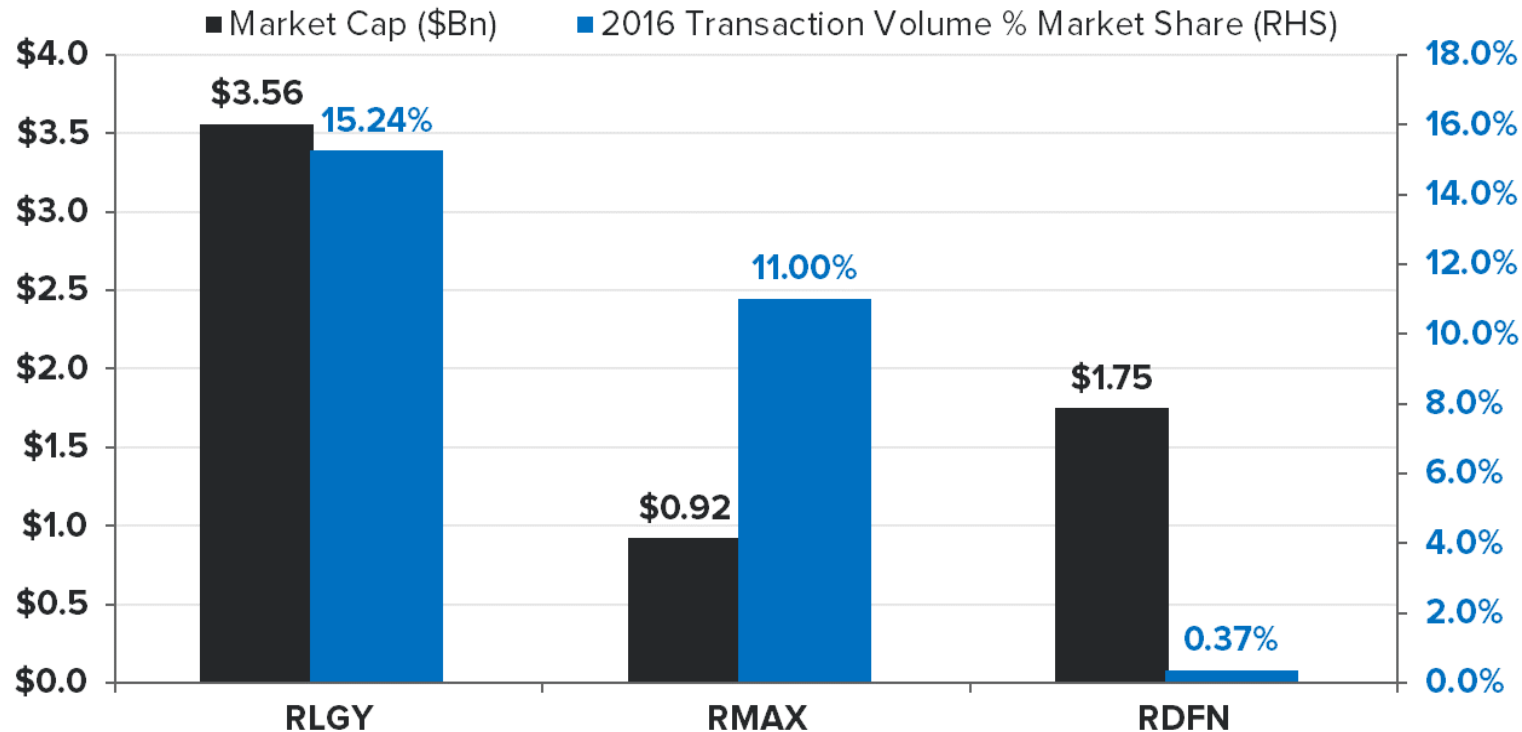


Source: Company Documents

© Hedgeye Risk Management

VALUATION AND STYLE FACTORS

Real Estate Brokerage Firm
Cap-to-Share Comparison



Sector & Style Factor Exposure	
POSITIVE	
Tech	
Consumer Discretionary	
Energy	
High Beta	
Low Yield	✓
High/Accelerating Growth	
NEGATIVE	
Utilities	
Healthcare	
Staples	
Low Beta	
High Yield	
Slow/Decelerating Growth	✓
Neutral	
Industrials	
Financials	
Real Estate	✓
Materials	

PAYING 20X MORE THAN RLGY FOR ONE UNIT OF MARKET SHARE

Redfin's current valuation is a major risk. Multiple relies on sustained 30% top line growth and margin expansion. We expect disappointment on both fronts, as recent trends have shown. Its toughest comps come this quarter (4Q17). Downside risk is severe if it were to trade in-line with direct RE Brokerage peers RLGY & RMAX, which trade at roughly 1/20th the valuation of RDFN on a market cap / market share basis.

BEST IDEA **SHORT**: UNITED CONTINENTAL HOLDINGS (UAL)

1

DOMESTIC FARES GETTING *CRUSHED*

- Our pricing data suggests pressure on domestic economy fares. UAL is increasingly shifting to a ULCC ‘fee model’, annoying customers.
- Costs are increasing, but fares aren’t. UAL appears stuck between ceding more market share with higher fares and suffering more cash burn with competitive fares.
- Weaker domestic economy pricing already extends into 2018 bookings.

2

HIGH COST, LOSES SHARE

- Despite years of integration efforts and cost plans, little has improved in the carriers relative cost position.
- Domestic fare pressure is a big problem with UAL’s costs, such as fuel prices and labor, higher year-over year.
- We expect margin compression into 1H 2018, a reality that will need to be addressed in this week’s earnings report/Investor Update.

3

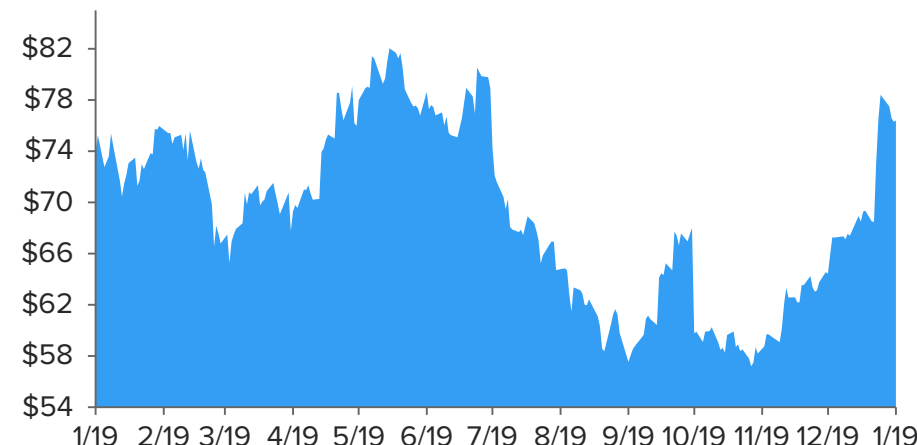
BURNS CASH ABSENT FUEL TAILWIND

- UAL is a high cost airline that struggles to generate positive free cash flow in a stable fuel price environment.
- UAL’s TTM FCF in 3Q17 is negative and at the lowest level in five years.
- Cumulative FCF over past six years equals (\$611) million vs. \$12.3 billion of (highly) “*adjusted*” net income.

Summary Stats		Analyst Team
Ticker	UAL	Jay Van Sciver
Price	\$76.58	jvansciver@hedgeye.com
52-Week Range	\$56.51 - \$83.04	David Talbott dtalbott@hedgeye.com
Market Cap (MM)	22.6	
Float	99.7%	
Short Interest %	4.1%	
Daily Volume (MM)	4.79	

Reports after close Tues., Jan. 23, Investor update to follow

Stock Price



UAL BY THE NUMBERS

"A" Scenario, not "The" Scenario: UAL

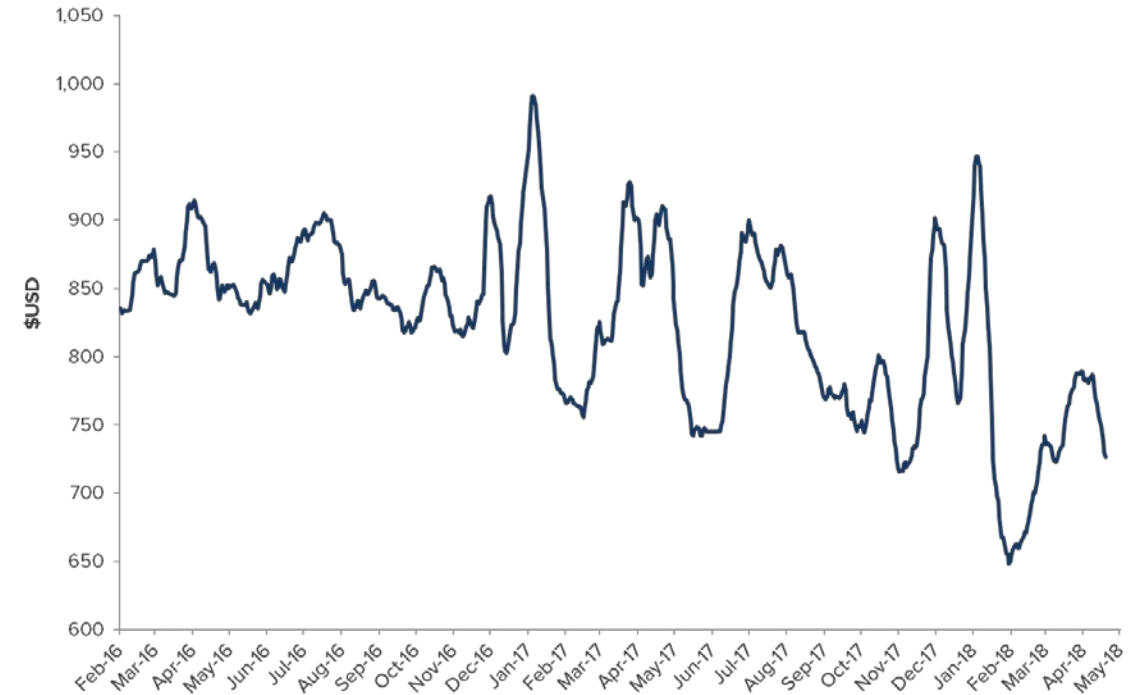
	FY 2014	FY 2015	FY 2016	FY 2017E	FY 2018E
ASM (mlns)	246,021	250,003	253,003	261,858	269,714
YoY %	0.3%	1.6%	1.2%	3.5%	3.0%
PRASM (cents per ASM)	13.72	13.11	12.43	12.27	12.15
Passenger Revenue (mlns \$)	33,762	32,785	31,457	32,127	32,759
Non-ticket (mlns \$)	5,139	5,079	5,099	5,277	5,436
Total Revenue (mlns \$)	38,901	37,864	36,556	37,404	38,195
YoY %		-2.7%	-3.5%	2.3%	2.1%
HE CASM EX	10.10	10.06	10.38	10.74	11.12
CASM (cents per ASM)	14.85	13.08	12.68	13.16	13.49
Operating Income (mlns \$)	2,373	5,166	4,483	2,942	1,816
Operating Margin, %	6.1%	13.6%	12.3%	7.9%	4.8%
Net Income (mlns \$)	1,132	7,340	2,425	1,586	790
Shares Outstanding	376	367	316	300	294
Adj Diluted EPS	\$5.06	\$11.88	\$8.65	\$5.29	\$2.69

Data Source: Company Filings, HRM Estimates

FLAT TO HIGHER '18 EPS VERY UNLIKELY: SO FAR, 1Q18 DOMESTIC ECONOMY FARES ARE TRENDING DOWN, WHILE BOTH COST PER SEAT MILE AND FUEL ARE LOOKING HIGHER. WE'D ALSO POINT OUT THAT ACCRUAL "NET INCOME" MAY NOT BE THE BEST VALUATION METRIC FOR UAL.

Consensus @ ~\$6.97

UAL AVERAGE DOMESTIC ECONOMY AIRFARE, 3-MONTHS OUT, 15 DAY MA, PAX WEIGHTED

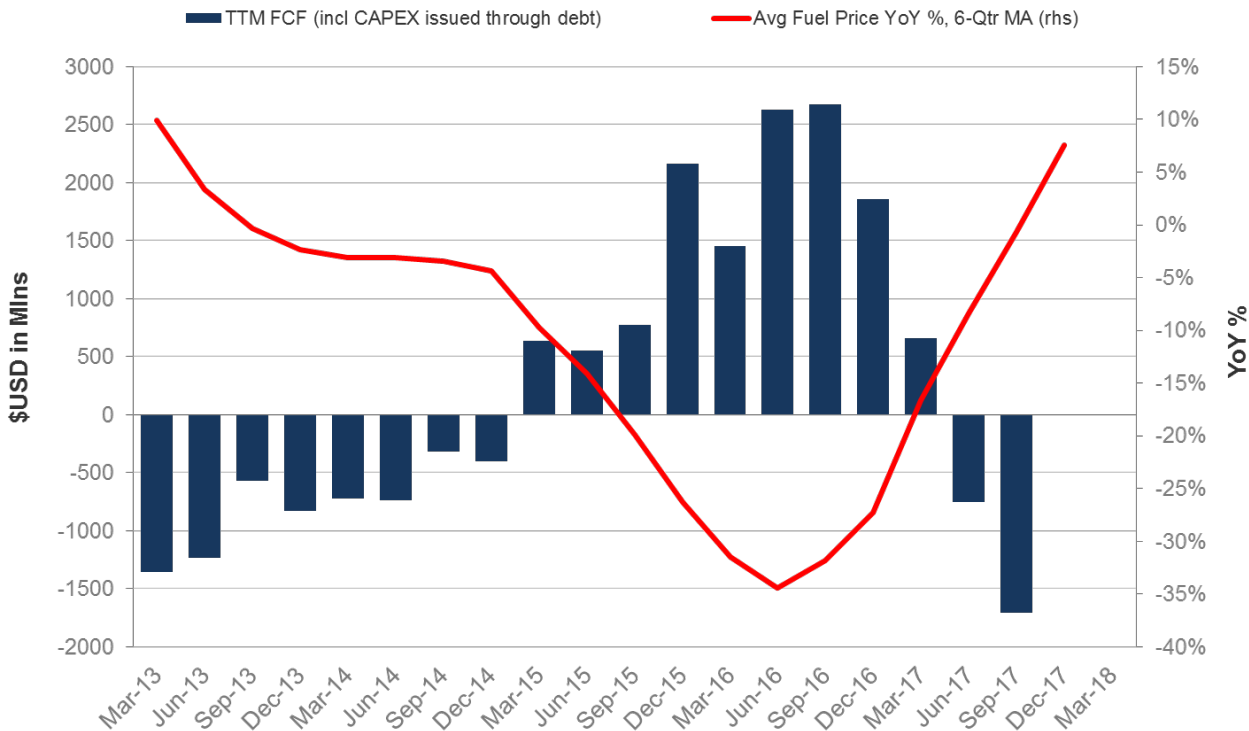


DATA SOURCE: HRM ESTIMATES

© HEDGEYE RISK MANAGEMENT

VALUATION AND STYLE FACTORS

UAL FCF TTM VS. FUEL PRICE



DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

© HEDGEYE RISK MANAGEMENT

Sector & Style Factor Exposure	
POSITIVE	
Tech	
Consumer Discretionary	
Energy	
High Beta	✓
Low Yield	
High/Accelerating Growth	
NEGATIVE	
Utilities	
Healthcare	
Staples	
Low Beta	
High Yield	
Slow/Decelerating Growth	✓
Neutral	
Industrials	✓
Financials	
Real Estate	
Materials	

WHAT'S UAL IT WORTH IF IT DOESN'T GENERATE FREE CASH FLOW?

DCF outputs a minus sign.

BEST IDEA **SHORT:** VIRTU (VIRT)

1

TYING TWO STONES TOGETHER

- Both the legacy VIRT and recently acquired KCG trading businesses are in secular decline. Overleveraged post-deal.
- Down cycle behavior in doing a deal to distract investors.
- VIRT's business has stopped responding to Volatility (Vol) which outlines the secular challenges within the trading community. Consensus doesn't understand this.

2

EARNINGS AND DIVIDEND RISK

- Our probabilistic earnings scenario is \$0.60 - \$0.90 in 2018 versus the Street at \$1.28; **Street doesn't understand changing Volatility relationship arising from fewer trading and arbitrage opportunities.**
- In the first public quarter as a NewCo (3Q 17), VIRT/KCG printed \$0.08.
- We don't think the \$0.24 quarterly dividend is sustainable and foresee a cut in 2019.

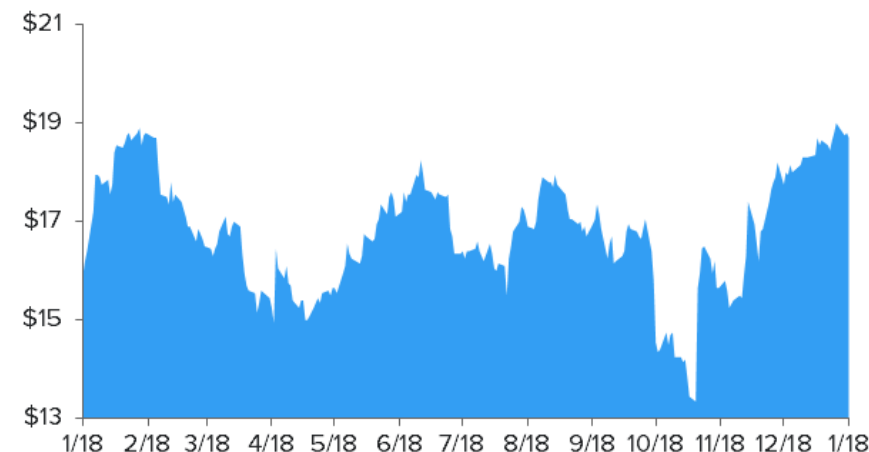
3

OVERLEVERAGED IN DECLINING MARKET

- Leverage has gone from 2.0x to 5.0x Debt/EBITDA post deal.
- Private market valuation is collapsing with private firms packing up shop and selling operations for a fraction of what VIRT paid for KCG.
- Dividend cut inevitable.

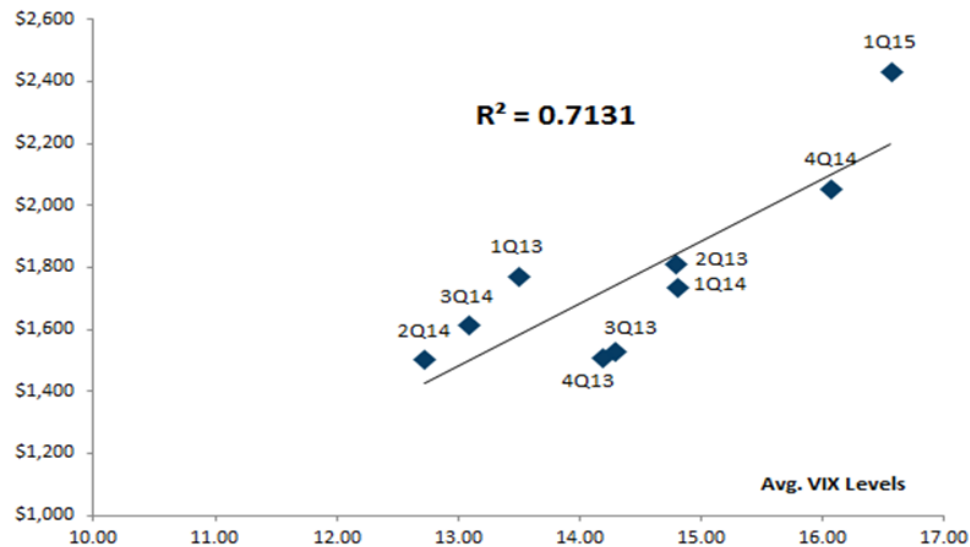
Summary Stats		Analyst Team
Ticker	VIRT	Jonathan Casteleyn jcasteyleyn@hedgeye.com Twitter: @hedgeyejc
Price	\$18.35	
52 Week Range	\$13.35 - \$18.9	
Div Yield	5.2%	
Market Cap (mn)	\$3,510	
Short Interest % Float	15.7%	
Daily Volume (mm)	0.5	

Stock Price



VIRT BY THE NUMBERS

VIRT Daily Avg. Trading Revenue \$000

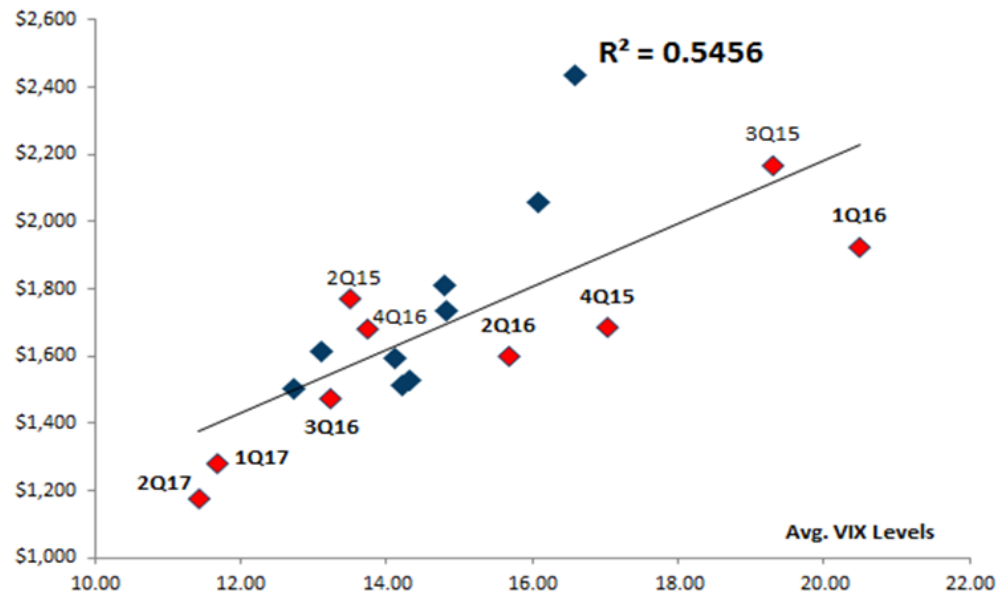


Pre-IPO, VIRT's revenues had a **strong** positive linear relationship to Vol



After the IPO, most quarterly prints (in red) are **below** the OLS line with a **flattening** relationship

VIRT Daily Avg. Trading Revenue \$000



Vol sensitivity has declined dramatically. VIRT's total revenue sensitivity per unit of Volatility as measured by the VIX is shown to the left.

VIRT no longer has the leverage to Vol it once had due to secular challenges in the trading community in our view.

Correlations have broken down as the post-IPO chart illustrates and the R-squared has cascaded lower.

If Vol picks up in 2018 and VIRT's business doesn't respond, we expect a re-rating lower.

VALUATION AND STYLE FACTORS

	Bull Regime	Base Regime	Bear Regime
VIRT Earnings Per Share	\$ 0.58	\$ 0.40	\$ 0.30
KCG Earnings Per Share	\$ 0.12	\$ 0.10	\$ 0.06
Net Synergies Per Share	\$ 0.69	\$ 0.55	\$ 0.32
Debt Balance Impact Per Share	\$ (0.02)	\$ (0.06)	\$ (0.11)
Total NewCo EPS	<u>\$ 1.37</u>	<u>\$ 0.99</u>	<u>\$ 0.58</u>
Multiple	14.0x	12.0x	10.0x
Valuation	\$ 19.16	\$ 11.83	\$ 5.77
Current stock price	\$ 18.70	\$ 18.70	\$ 18.70
Upside/Downside	2%	-37%	-69%
Estimated Dividend Per Share	\$ 0.96	\$ 0.96	\$ 0.96
Payout Ratio	70%	97%	166%

Sector & Style Factor Exposure	
POSITIVE	
Tech	
Consumer Discretionary	
Energy	
High Beta	✓
Low Yield	
High/Accelerating Growth	
NEGATIVE	
Utilities	
Healthcare	
Staples	
Low Beta	
High Yield	✓
Slow/Decelerating Growth	✓
Neutral	
Industrials	
Financials	✓
Real Estate	
Materials	

25-65% DOWNSIDE IN THE SHARES

We think shares are worth between \$5-\$11 in our Bear and Base regimes and that a dividend cut is inevitable in 2019.