



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 16, 2013

Continental Resources (CLR)

Raise NPV to \$120 from \$110 on More Oil Growth

Symbol	CLR	Ebitda Next Twelve Months ending 6/30/14 (US\$m)	3,176
Rating	Buy	North American Natural Gas/Ebitda (%)	11
Price (\$/sh)	91.58	Natural Gas and Oil Production/Ebitda (%)	100
Pricing Date	8/15/13	Adjusted Reserves/Production NTM	11.8
Shares (mm)	185	EV/Ebitda	6.7
Market Capitalization (\$mm)	16,940	PV/Ebitda	8.4
Debt (\$mm)	4,500	Undeveloped Reserves (%)	59
Enterprise Value (EV) (\$mm)	21,430	Natural Gas and Oil Ebitda (\$/boe)	58.10
Present Value (PV) (\$mm)	26,690	Present Value Proven Reserves(\$/boe)	28.96
Net Present Value (\$/share)	120	Oil and Gas Ebitda Margin (%)	77
Debt/Present Value	0.17	Earnings Next Twelve Months (US\$/sh)	6.07
McDep Ratio - EV/PV	0.80	Price/Earnings Next Twelve Months	15
Dividend Yield (%/year)	0.0	Indicated Annual Dividend (US\$/sh)	0.00
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$90 a barrel and natural gas, \$6 a million btu.			
Chairman and Chief Executive Harold Hamm owns about 68% of the equity in Continental Resources.			
For historical analysis of CLR see www.mcdep.com/4clr.htm			

Summary and Recommendation

We raise our estimate of Net Present Value (NPV) to \$120 a share from \$110 for buy-recommended **Continental Resources (CLR)** on higher oil production, higher reserves, and new evidence of future shale bounty. Disclosed on August 8, second quarter production exceeded expectations by scoring a 43% gain over last year (see table [Operating and Financial Estimates](#) on page 2). A 17% increase in proven reserves at mid-year 2013 compared to year-end 2012 justifies a higher multiple of present value to cash flow (see table [Cash Flow and Present Value](#) on page 2). Known for its leading role in North Dakota shale oil, CLR has two experimental programs that aim to triple unbooked net resource potential to 4.5 billion barrels. In one program, the company has drilled 13 of the industry's 18 producing oil wells to delineate 3800 square miles of potentially productive area for one to three formations below existing production from the Bakken and Upper Three Forks zones (see slide [Delineation](#) on page 3). In the other program, two pilot efforts test higher density drilling. Testing at the Charlotte unit demonstrated that more wells per square mile increase production and reserves proportionately (see slide [Charlotte](#) on page 3). Testing at the Colter unit, located near the Nesson Anticline, a traditionally prominent geologic feature, demonstrated that natural fractures make more production possible with fewer wells (see slide [Colter](#) on page 4). Not to be overlooked, production is growing and the upside is under delineation on CLR's second shale oil growth platform, the South Central Oklahoma Oil Province (see slide [SCOOP](#) on page 4). Finally, valuation is attractive for Continental Resources and other oil and gas small cap producers (see [Tables ISC-1](#) through [ISC-4](#) on pages 5-8).

Kurt H. Wulff, CFA



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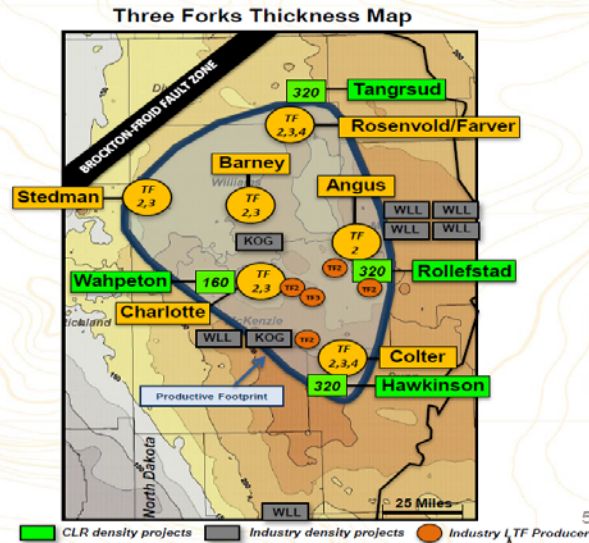
August 16, 2013

Continental Resources										
Next Twelve Months Operating and Financial Estimates										
	Q2	Year	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/12	2012	3/31/13	6/30/13	9/30/13	12/31/13	2013E	3/31/14	6/30/14	6/30/14
Volume										
Natural Gas (mmcf)	177	174	213	238	248	257	239	268	278	263
Oil (mbd)	65	68	86	96	100	104	97	108	112	106
Total (mb)	8.6	35.7	10.9	12.3	13.0	13.5	49.8	13.7	14.4	55
Total (mbd)	95	98	122	136	141	147	136	153	159	150
Price										
Henry Hub (\$/mmbtu)	2.21	2.79	3.34	4.10	3.49	3.48	3.60	3.73	3.68	3.59
Differential (\$/mmbtu)	(1.30)	(1.41)	(1.65)	(1.12)	(0.96)	(0.96)	(1.15)	(1.02)	(1.25)	(1.05)
Company (\$/mcf)	3.51	4.20	4.99	5.22	4.45	4.44	4.76	4.75	4.93	4.65
WTI Cushing (\$/bbl)	93.32	94.16	94.41	94.22	105.65	104.32	99.65	100.49	97.32	101.94
Differential	12.76	9.57	4.42	7.00	7.85	7.75	6.53	7.47	6.00	7.36
Company (\$/bbl)	80.56	84.59	89.99	87.22	97.80	96.57	93.12	93.02	91.32	94.58
Total (\$/bbl)	62.04	66.90	72.46	70.88	77.01	76.12	74.25	74.15	73.27	75.08
Revenue (\$mm)										
Natural Gas	57	268	96	113	101	105	415	114	125	446
Oil	479	2,120	697	762	898	922	3,280	904	933	3,658
Total	535	2,388	793	875	1,000	1,028	3,695	1,018	1,058	4,104
Expense										
Lease operating	44	196	62	73						
Production taxes	49	228	72	82						
General and administrative	30	122	34	36						
Total	123	546	168	191	226	232	817	230	239	928
Ebitda	412	1,842	625	684	774	795	2,878	788	819	3,176
Exploration	9	24	10	11	11	11	43	11	11	44
Deprec., Deplet., & Amort.	161	691	214	237	260	270	981	275	289	1,093
Other	22	46	21	(4)	21	20	59	12	12	66
Ebit	220	1,081	380	440	482	494	1,796	490	507	1,973
Interest	32	141	47	61	61	61	230	61	61	244
Ebt	188	940	333	379	421	433	1,566	429	446	1,729
Income Tax	66	329	117	132	147	152	548	150	156	605
Net Income (\$mm)	122	611	216	246	274	281	1,018	279	290	1,124
Per Share (\$)	0.68	3.35	1.17	1.33	1.48	1.52	5.50	1.51	1.57	6.07
Shares (millions)	180	182	185	185	185	185	185	185	185	185
Ebitda Margin	77%	77%	79%	78%	77%	77%	78%	77%	77%	77%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

Continental Resources					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$m)	R/P	Ebitda	Value	
	(US\$m)		(US\$m)	(US\$m)	
North American Natural Gas	345	12.2	12.2	4,200	16%
Oil	2,831	11.7	7.9	22,500	84%
	3,176	11.8	8.4	26,700	100%
Debt (US\$m)					4,500
Net Present Value (US\$m)					22,200
Shares (mm)					185
Net Present Value - Standard Estimate (US\$/sh)					120
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					136

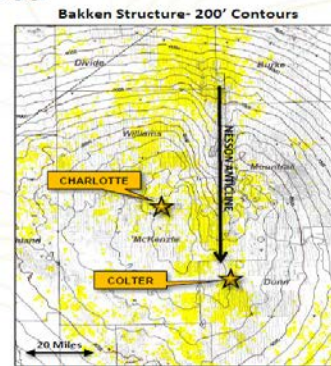
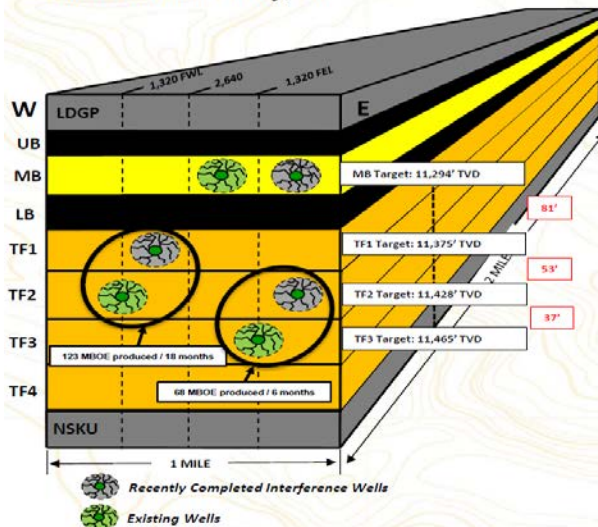
Leading the Delineation of the Three Forks

- ◆ Lower Three Forks activity delineates potential productive footprint of 3,800 square miles in the Bakken
- ◆ 18 Lower Three Forks producers
 - By operator:
 - CLR: 13 wells
 - EOG, COP, XTO, ZEN: 5 wells
 - Total wells tested:
 - TF2: 10 wells
 - TF3: 6 wells
 - TF4: 2 wells
 - Results consistent with expectations based on core work and areas tested
- ◆ Evidence suggests
 - Unique reserves in areas with little faulting or structure (5 of 6 areas tested)
 - Production interference can occur in areas with more severe faulting and natural fracturing



Charlotte Unit Testing Complete

McKenzie County, ND

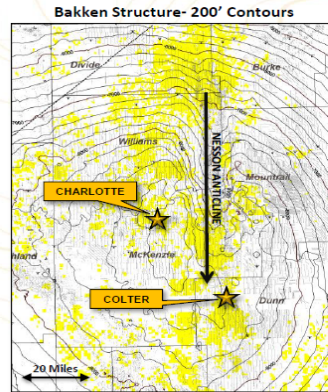
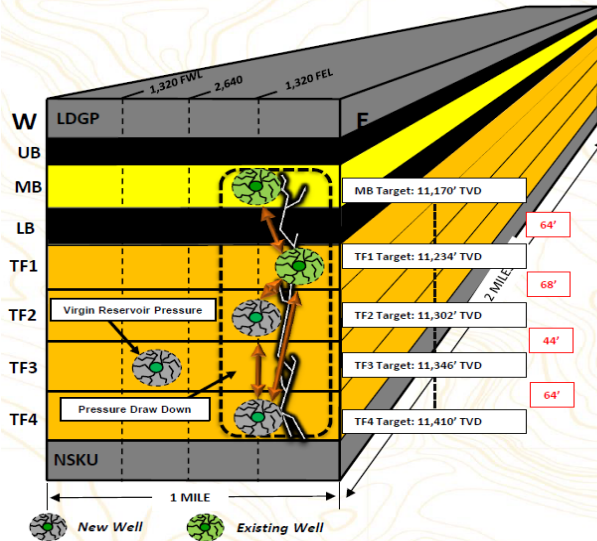


- ◆ TF2 and TF3 proven productive
- ◆ Charlotte 2-22H and 3-22H have cumulatively produced 123,000 Boe and 68,000 Boe
- ◆ No evidence of production interference between wells in the Charlotte unit

Bench	Charlotte	IP Boepd (in order of completion)
TF2	2-22H	1,396
TF3	3-22H	950
TF1	4-22H	1,365 (interference tests)
TF2	6-22H	730

Colter Unit Lower TF Testing

Dunn County, ND



Colter TF2 and TF4 tests exhibit pressure draw down

- Colter MB and TF1 have produced 530 MBoe
- Tectonic fractures (Nesson Anticline) communicating benches

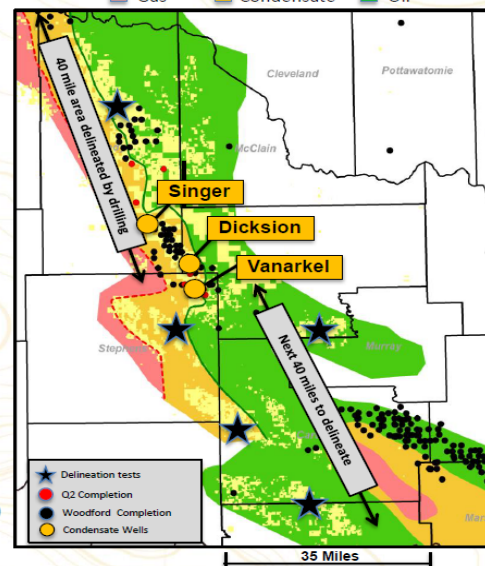
Colter TF3 producing at 1,750 Boe per day at 3,200 psi with no indication of pressure draw down

7

SCOOP: Gaining Momentum in Size and Scale

- Produced 17,550 net Boepd for 2Q13
 - 23% increase since 1Q13
 - 435% increase since 2Q12
- Leasehold increased to 276,000 net acres
- First cross-unit well completed
 - Singer 1-18-7XH (1,915 Boepd, 37% oil)
- Oil and condensate fairways being defined
 - 10 CLR operated rigs, increasing to 12 in 3Q 2013
- Participated in 50 net (93 gross) completions
- 8 net (14 gross) wells completed 2Q13
 - Condensate wells: avg IP: 1,490 Boepd (29% Oil)
 - Oil wells: avg. IP: 1,460 Boepd (55% Oil)
- Recently completed operated wells:
 - Vanarkel 1-15H (50% WI): 2,045 Boepd (44% Oil)
 - Singer 1-18-7XH (77% WI): 1,915 Boepd (37% Oil)
 - Dickson 1-21H (80% WI): 1,590 Boepd (45% Oil)

SCOOP Oil, Condensate and Gas Window Map





Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 16, 2013

Table ISC-1										
McDep Income and Small Cap Energy Portfolio										
Debt, Segments, Cash Flow, Income and McDep Ratio										
		Price								
Symbol/Rating	(US\$/sh)	EV/	Enterprise	PV(%)	EV/	Dist.	Dist.			
B = Buy	15-Aug	Market	Value	Nat	Ebitda	NTM	Yield	McDep		
CB (see below)	2013	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio	
Small Cap Independent Producers										
PDC Energy	PDCE	55.11	1.46	2,500	32	68	12.3	-	-	1.14
Range Resources	RRC B	78.08	1.28	16,060	74	26	14.5	0.16	0.2	0.89
Halcón Resources	HK	5.21	2.35	5,410	8	92	6.3	-	-	0.87
Peyto Exploration and Development Corp	PEYUF	28.01	1.19	4,950	80	20	10.3	0.81	2.9	0.85
Denbury Resources Inc.	DNR	17.37	1.53	9,850	5	95	5.8	-	-	0.82
Berry Petroleum Company	BRY	40.48	1.82	4,070	14	86	6.2	0.32	0.8	0.81
Continental Resources (32%)	CLR B	91.58	1.26	6,860	16	84	6.7	-	-	0.80
Cimarex Energy Company	XEC B	79.17	1.20	8,250	43	57	5.4	0.56	0.7	0.76
Whiting Petroleum Corporation	WLL B	49.96	1.38	8,220	8	92	4.0	-	-	0.73
Birchcliff Energy Ltd.	BIREF CB	6.90	1.43	1,640	69	31	8.8	-	-	0.66
<i>Total or Median</i>			<i>1.41</i>	<i>67,800</i>	<i>24</i>	<i>76</i>	<i>6.5</i>			<i>0.82</i>
Leveraged Cash Payers										
Vanguard Natural Resources, LLC	VNR	27.19	1.50	3,050	41	59	10.0	2.46	9.0	1.06
Legacy Reserves L.P.	LGCY	26.89	1.65	2,540	24	76	9.5	2.32	8.6	1.04
Linn Energy, LLC	LINE	24.52	2.10	12,060	47	53	9.7	2.90	11.8	0.97
Enerplus Corporation	ERF	16.94	1.49	4,900	34	66	6.3	1.05	6.2	0.96
<i>Total or Median</i>			<i>1.57</i>	<i>22,600</i>	<i>38</i>	<i>62</i>	<i>9.6</i>		<i>8.8</i>	<i>1.01</i>
RTF Cash Payers										
Freehold Royalties Ltd.	FRHLF	22.36	TL	1,570	16	84	11.2	1.63	7.3	1.06
Dorchester Minerals, L.P.	DMLP B	24.00	TL	740	54	46	10.7	1.82	7.6	0.92
Enduro Royalty Trust (40%)	NDRO	15.25	BL	200	48	52	9.0	1.51	9.9	0.90
Sabine Royalty Trust	SBR	50.91	TL	740	52	48	11.8	4.30	8.5	0.80
San Juan Basin Royalty Trust	SJT B	16.64	BL	780	100	-	12.5	0.79	4.7	0.79
Permian Basin RT	PBT	13.26	TL	620	19	81	8.0	1.02	7.7	0.74
Mesa Royalty Trust	MTR	21.59	BL	40	75	25	8.9	1.96	9.1	0.72
Cross Timbers Royalty Trust	CRT	28.35	TL	170	83	17	9.7	2.66	9.4	0.67
Hugoton Royalty Trust	HGT	8.08	BL	320	90	10	8.3	0.86	10.6	0.67
<i>Total or Median</i>				<i>5,200</i>	<i>54</i>	<i>46</i>	<i>9.7</i>		<i>8.5</i>	<i>0.79</i>
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.										
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses										
Present Value (PV) presumes long-term prices of \$90 a barrel for oil and \$6 a million btu for natural gas.										
Dist. = Income distribution. NTM = Next Twelve Months Ended June 30, 2014. Enterprise Value = Market Cap and Debt.										
TL = Top Line income sources, BL = Bottom Line income sources										



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 16, 2013

Table ISC-2								
McDep Income and Small Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		15-Aug 2013	(mm)				
Small Cap Independent Producers								
PDC Energy	PDCE		55.11	31.0	1,710	45.00	0.36	1.14
Range Resources	RRC	B	78.08	161.0	12,570	90.00	0.19	0.89
Halcón Resources	HK		5.21	441.0	2,300	7.00	0.50	0.87
Peyto Exploration and Development Corp.	PEYUF		28.01	149.0	4,170	34.00	0.13	0.85
Denbury Resources Inc.	DNR		17.37	372.0	6,460	23.00	0.28	0.82
Berry Petroleum Company	BRY		40.48	55.3	2,240	58.00	0.36	0.81
Continental Resources (32%)	CLR	B	91.58	59.2	5,420	120.00	0.17	0.80
Cimarex Energy Company	XEC	B	79.17	86.5	6,850	110.00	0.13	0.76
Whiting Petroleum Corporation	WLL	B	49.96	119.0	5,950	75.00	0.20	0.73
Birchcliff Energy Ltd.	BIREF	CB	6.90	166.0	1,150	12.00	0.20	0.66
	<i>Total or Median</i>				48,820		0.20	0.82
Leveraged Cash Payers								
Vanguard Natural Resources, LLC	VNR		27.19	75.0	2,040	25.00	0.35	1.06
Legacy Reserves L.P.	LGCY		26.89	57.3	1,540	25.00	0.41	1.04
Linn Energy, LLC	LINE		24.52	234.0	5,740	26.00	0.51	0.97
Enerplus Corporation	ERF		16.94	196.0	3,320	18.00	0.32	0.96
	<i>Total or Median</i>				12,640		0.38	1.01
RTF Cash Payers								
Freehold Royalties Ltd.	FRHLF		22.36	66.8	1,490	21.00	0.05	1.06
Dorchester Minerals, L.P.	DMLP	B	24.00	30.7	740	26.00	-	0.92
Enduro Royalty Trust (40%)	NDRO		15.25	13.2	200	17.00	-	0.90
Sabine Royalty Trust	SBR		50.91	14.6	740	64.00	-	0.80
San Juan Basin Royalty Trust	SJT	B	16.64	46.6	780	21.00	-	0.79
Permian Basin RT	PBT		13.26	46.6	620	18.00	-	0.74
Mesa Royalty Trust	MTR		21.59	1.9	40	30.00	-	0.72
Cross Timbers Royalty Trust	CRT		28.35	6.0	170	42.00	-	0.67
Hugoton Royalty Trust	HGT		8.08	40.0	320	12.00	-	0.67
	<i>Total or Median</i>				5,100			0.79
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$90 a barrel for oil and \$6 a million btu for natural gas.								
Recent NPV Changes: CLR to \$120 from \$110, VNR to \$25 from \$22, XEC to \$110 from \$100								



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August 16, 2013

Table ISC-3

McDep Income and Small Cap Energy Portfolio

Value Multiples - Rank by EV/Ebitda

			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		15-Aug 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
Small Cap Independent Producers								
Range Resources	RRC	B	78.08		-	13.6	16.3	14.5
PDC Energy	PDCE		55.11		-	16.2	10.7	12.3
Peyto Exploration and Development Corp	PEYUF		28.01		0.29	9.3	12.2	10.3
Birchcliff Energy Ltd.	BIREF	CB	6.90		-	18.6	13.3	8.8
Continental Resources (32%)	CLR	B	91.58		-	11.8	8.4	6.7
Halcón Resources	HK		5.21		-	4.8	7.2	6.3
Berry Petroleum Company	BRY		40.48		-	12.2	7.7	6.2
Denbury Resources Inc.	DNR		17.37		-	13.5	7.1	5.8
Cimarex Energy Company	XEC	B	79.17		-	7.6	7.2	5.4
Whiting Petroleum Corporation	WLL	B	49.96		-	8.7	5.4	4.0
	<i>Median</i>					12.0	8.1	6.5
Leveraged Cash Payers								
Vanguard Natural Resources, LLC	VNR		27.19		0.94	9.9	9.5	10.0
Linn Energy, LLC	LINE		24.52		1.11	13.6	9.9	9.7
Legacy Reserves L.P.	LGCY		26.89		0.84	11.1	9.1	9.5
Enerplus Corporation	ERF		16.94		0.38	6.7	6.6	6.3
	<i>Median</i>					10.5	9.3	9.6
RTF Cash Payers								
San Juan Basin Royalty Trust	SJT	B	16.64		0.59	10.2	15.8	12.5
Sabine Royalty Trust	SBR		50.91	100	1.00	9.0	14.9	11.8
Freehold Royalties Ltd.	FRHLF		22.36	86	0.82	4.8	10.6	11.2
Dorchester Minerals, L.P.	DMLP	B	24.00	75	0.82	7.3	11.6	10.7
Cross Timbers Royalty Trust	CRT		28.35	98	0.91	12.7	14.4	9.7
Enduro Royalty Trust (40%)	NDRO		15.25		0.90	5.8	10.1	9.0
Mesa Royalty Trust	MTR		21.59		0.82	5.0	12.5	8.9
Hugoton Royalty Trust	HGT		8.08		0.88	13.0	12.3	8.3
Permian Basin RT	PBT		13.26	69	0.61	12.7	10.8	8.0
	<i>Median</i>					9.0	12.3	9.7
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2014; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								



Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 16, 2013

Table ISC-4									
McDep Income and Small Cap Energy Portfolio									
Total Return and Enterprise Value Momentum									
			Price (\$/sh)	Equity Total	Enterprise Value/				
	Symbol/ Rating		15-Aug 2013	Return YTD (%)	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
Small Cap Independent Producers									
	PDC Energy	PDCE	55.11	66	0.97	1.58	1.02	1.16	1.14
	Cimarex Energy Company	XEC	B	79.17	38	0.97	1.33	1.07	1.13
	Continental Resources (32%)	CLR	B	91.58	25	0.94	1.28	1.01	1.08
	Range Resources	RRC	B	78.08	24	0.93	1.21	1.00	1.05
	Peyto Exploration and Development C	PEYUF		28.01	24	0.90	1.32	0.97	1.05
	Whiting Petroleum Corporation	WLL	B	49.96	15	0.93	1.17	1.02	1.05
	Berry Petroleum Company	BRY		40.48	21	0.90	1.16	0.98	1.00
	Denbury Resources Inc.	DNR		17.37	7	0.92	1.13	0.99	1.00
	Birchcliff Energy Ltd.	BIREF	CB	6.90	(8)	0.84	1.05	0.90	0.92
	Halcón Resources	HK		5.21	(25)	0.78	1.28	0.96	0.90
	<i>Median</i>				23	0.93	1.24	0.99	1.05
	Leveraged Cash Payers								
	Enerplus Corporation	ERF		16.94	37	0.98	1.28	1.06	1.12
	Legacy Reserves L.P.	LGCY		26.89	20	0.94	1.11	1.00	1.02
	Vanguard Natural Resources, LLC	VNR		27.19	10	0.93	1.08	0.99	0.98
	Linn Energy, LLC	LINE		24.52	(26)	0.74	1.09	0.92	0.83
	<i>Median</i>				15	0.93	1.10	1.00	1.01
	RTF Cash Payers								
	San Juan Basin Royalty Trust	SJT	B	16.64	26	0.93	1.35	1.03	1.10
	Sabine Royalty Trust	SBR		50.91	35	0.91	1.31	0.98	1.05
	Dorchester Minerals, L.P.	DMLP	B	24.00	25	0.94	1.21	0.98	1.04
	Cross Timbers Royalty Trust	CRT		28.35	10	0.71	1.20	1.03	1.01
	Permian Basin RT	PBT		13.26	12	0.68	1.11	1.00	1.01
	Freehold Royalties Ltd.	FRHLF		22.36	4	0.92	1.15	0.97	0.99
	Hugoton RoyaltyTrust	HGT		8.08	17	0.81	1.41	0.93	0.96
	Mesa RoyaltyTrust	MTR		21.59	16	0.75	1.14	0.98	0.93
	Enduro Royalty Trust (40%)	NDRO		15.25	(5)	0.77	1.04	0.98	0.93
	<i>Median</i>				16	0.81	1.20	0.98	1.01

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

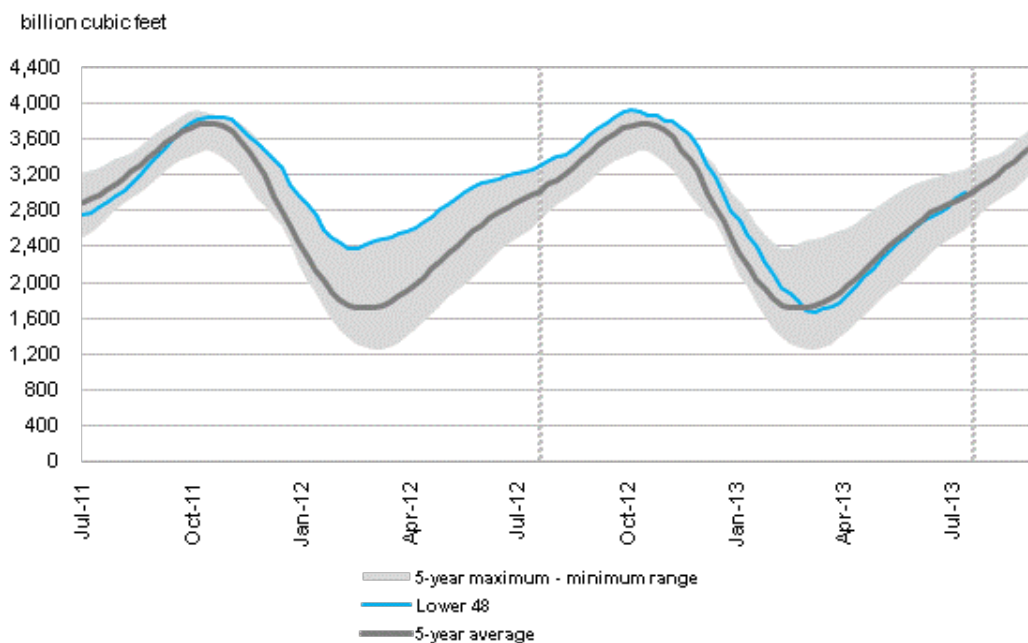


Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

August 16, 2013

Working gas in underground storage compared with the 5-year maximum and minimum



Source: U.S. Energy Information Administration

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.