Golf Equipment & Entertainment
2018 PGA Merchandise Show Report

Flash Note

COMPASS POINT
RESEARCH & TRADING, LLC
Member FINRA/SIPC

January 31, 2018
Casey Alexander
646.448.3027
calexander@compasspointllc.com

PGA
2018 MERCHANDISE SHOW

Last Week we attended the 2018 PGA Merchandise Show at the Orange County Convention Center in Orlando Florida.

Our report which begins on Page 2 contains the following highlights:

1. We engage in a discussion of macro factors that are affecting the golf equipment industry.

These factors include:

- **Carryover effects from 2017.**
- **Impact of new price decks on business attitudes.**
- **2017 Rounds Played; Weather Impact.**
- **Consumer sentiment survey results.**
- **Forex Impact.**

2. Company Specific Discussions:

- **Product Expectations -- What new products are important, and how are these products positioned in the market?**
- **Financial Considerations. How do product decisions, when coupled with the macro environment and the competitive dynamics impact each company financially?**

3. Whats the trade? -- Is there actionable intelligence?

2018 PGA Merchandise Show Recap – Drivers Driving Competition

PGA 2018 MERCHANDISE SHOW

The General State of the Industry

No one could argue that 2017 was an Epic year for Callaway (ELY – Sell, $13.50 PT; $15.04, $1.4B Mkt Cap) as the Epic Driver platform drew over a 30% market share. This was the defining characteristic of ELY's year, and it impacted the rest of the industry as well. The new $499 price deck for drivers stuck throughout the year and discounting was limited to a small subset of products for most of the year, resulting in better margins for the majority of the top end of the industry; Callaway, Titleist, TaylorMade and PING. The golf club equipment industry is definable as an oligopoly.

Industry participants have embraced the mantra that the business is 'stable', a characterization we heard over and over at the PGA Show. In a year with strong driver sales and a premium price deck 20% higher than the previous year with little discounting, we would agree that for the equipment manufacturers it probably 'feels' stable. But there are statistical elements that continue to give us pause.

While the business doesn't totally revolve around the US market, the US market is still the main driver of the business. For instance, through the first nine months of 2017 55% of Callaway's business was US-based. And as we can see from Exhibit 1 below, rounds played in the US through November are down 2.9% YTD. Obviously this is a concern. The US golf industry is still not generating sufficient rounds played. On a comparative basis, rounds played for 2016 were up 0.6%, so the rounds played decrease in 2017 wipes out 2016's gains and then some. According to Pellucid Corp., weather was only 2% worse than 2017, so a partial culprit but not fully to blame for rounds declining. Pellucid reports that while the rate of decline in US golfers has slowed, it certainly has not stopped.

Exhibit One. US Rounds Played Report

Golf Datatech National Golf Rounds Played Report

NOVEMBER 2017

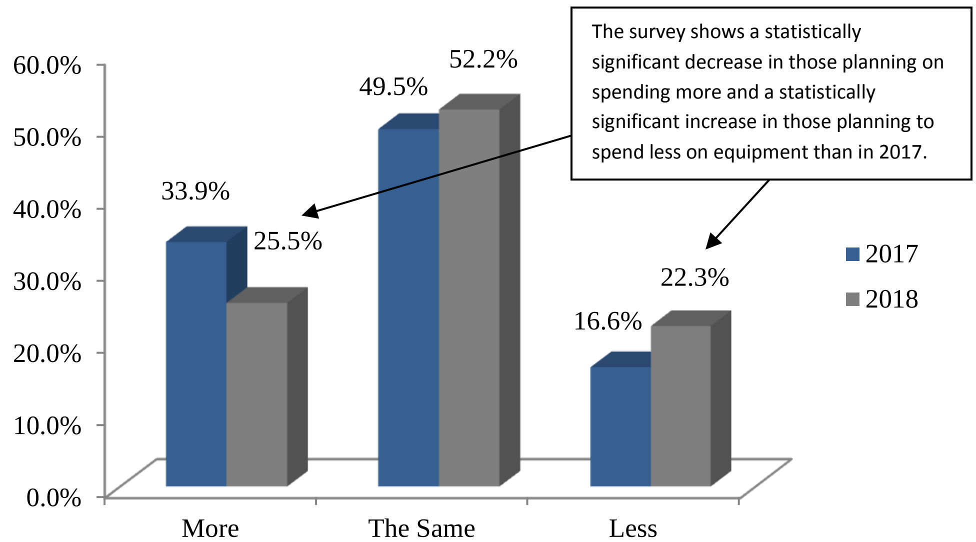
	NOV	YTD
UNITED STATES	-13.3%	-2.9%
PUBLIC ACCESS	-15.3%	-3.8%
PRIVATE	-6.3%	0.5%

Source: Golf Datatech, National Golf Foundation, Compass Point Research.

Secondly, Jon Last of the Sports & Leisure Research Group surveyed over 2,000 avid golfers the first week of January this year to gain some fresh perspective regarding spending attitudes for 2018. The surprising outcome was that a significantly lower percentage of avid golfers plan on spending more on golf equipment and a higher percentage of avid golfers plan on spending less on golf equipment in 2018 than they did in 2017, and 2018 is the first time in over three years that the percentage planning to spending less on equipment increased compared to the previous year.

Exhibit 2. Consumer Equipment Spending Sentiment Survey

Compared to the prior year, golfer's expected total golf related spending for equipment:



Source: Sports & Leisure Research Group, Compass Point Research.

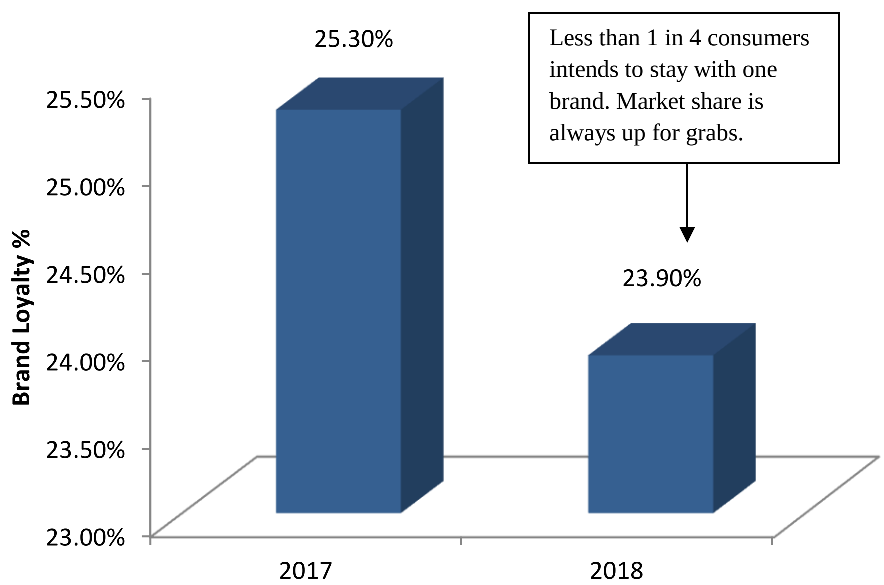
If we try to connect the dots on this, there is a certain amount of plausibility to the survey. (1) Consumers bought more drivers in 2017 than in any recent year. (2) They spent more on those drivers. Since 2011 the standard premium driver price deck has gone from $299 to $399 and for the first time in 2017 went to $499. More units times the higher price deck means significantly more $ spend on the single highest priced item in the bag. (3) 2017 Rounds played was down 2.9%. Add it all up and if the $ spend on equipment is up in 2017, and rounds played are down, then consumers may not have gotten the mileage they expected for the amount of $'s they invested. Hence, future spending plans are down.

According to Sports & Leisure Research Group, the greatest softness in expected spending is seen in drivers, woods, hybrids and golf bags. There is plausible sense to this reading as well. Given the new price deck on drivers is 20% higher than the previous year, one could expect consumer churn (club replacement) to decrease as well.

There is good news for almost all the competitors in the industry. One aspect that consistently informed our view that Callaway could engineer a turnaround from 2012-2016 was the fact that the consumer showed little in the way of long-term brand loyalty. It meant that if your product was good enough, you could unseat the market share leader, and in fact Callaway did just that by unseating TaylorMade. Brand loyalty consistently ran at ~25%. That number has eroded further, dropping 140 bps YoY.

Exhibit 3. Consumer Brand Loyalty Survey

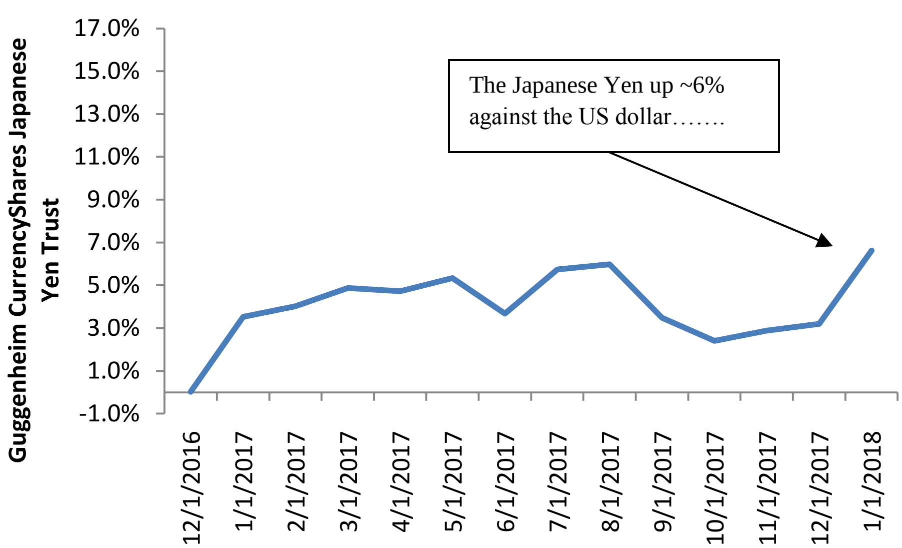
I've found a brand of golf equipment that I plan to stick with when I make my next purchase.



Source: Sports & Leisure Research Group, Compass Point Research.

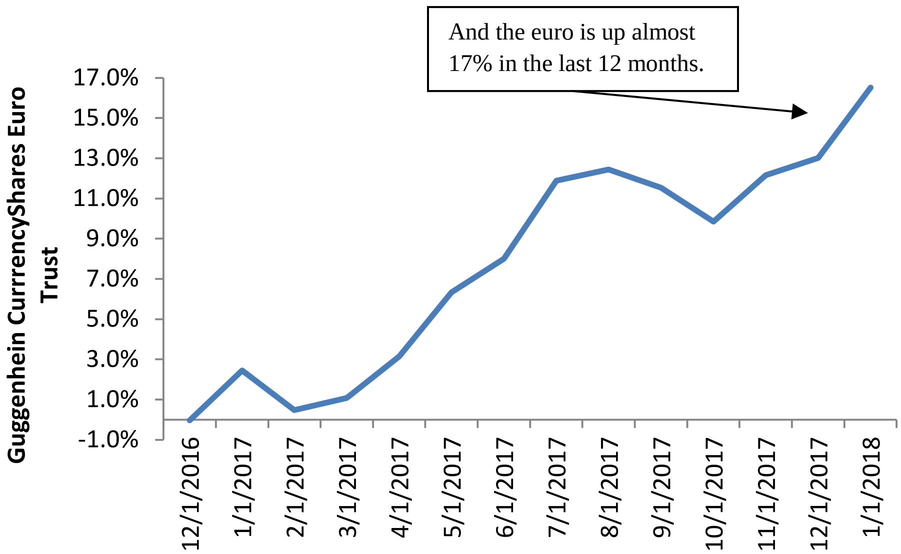
The industry does have a couple factors working it its favor. First of all, since close to 50% of this business is international, a weaker dollar and favorable exchange rates should provide positive forex conversion and improve results. And secondly, US tax reform coinciding with strong GDP should help produce strong overall consumer sentiment figures and may result in additional discretionary income that gets pointed in the golf industries direction.

Exhibit 4. Yen versus US Dollar



Source: SNL Financial, Compass Point Research.

Exhibit 5. euro versus US Dollar



Source: SNL Financial, Compass Point Research.

In summary, despite the newfound mantra of stability, the golf equipment industry still faces a host of challenges. Rounds played are down, future spending plans are down, and they are down on higher margin products. Offsetting the challenges, the global economy is strong and forex conversions are working in domestic manufacturers favor for the first time in many years. With that as a backdrop, let's move on to company-specific reviews.

The Structure of our 2018 PGA Merchandise Show Report.

We are going to look at major equipment manufacturers one at a time, with a discussion about product expectations followed by financial and market considerations. Regarding product expectations, for the most part we are going to leave wedges and putters out of the discussion. Putters are dominated by Odyssey (a divisions of Callaway Golf) and Scotty Cameron (a division of Acushnet (GOLF – Buy, $23.50 PT; $21.36, $1.6B Mkt Cap)). We saw nothing profound in this category beyond line extensions. We heard of a strategic thrust from PING to regain some of their core competency within the putter category, but that is likely a 2-3 year trajectory and unlikely to have a dramatic impact on the competitive market dynamic in 2018.

As for the wedge category, we will repeat a previous mantra. Wedges are highly subject to CAD/CAM influences, so while there are cosmetic differences, the underlying principles that determine what makes a highly playable wedge are relatively universal and understood. We have often said that a good player could trade out his wedges for another leading brand every month of the year and barely miss a beat in terms of the level of his play. We stand by that observation and therefore will not waste time subjecting investors to some artificial treatise on wedge product development driven by the over-inflated claims of equipment manufacturer's marketing engines.

Callaway Golf

Product Expectations. Without question 2017 was the best year in a decade for product sell-through performance for ELY. This was clearly led by the Epic driver platform which led ELY to dominant market share in drivers and woods. The business was also enhanced by incremental share increase in golf balls, although not at the rate of share gains taken in 2016. ELY finished 2017 running at about a 15% share in golf balls.

In 2018 ELY is chock-full of new products in an attempt to capitalize on their momentum. After adhering to a strict two-year product cycle during the turnaround, ELY is in some cases accelerating the product life cycle in 2018. The Rogue driver, fairway and hybrid platform is clearly Epic 2.0 as this is ostensibly the next generation applying Jailbreak technology to the platform. In this case, Jailbreak is being extended to the fairway and hybrid lines, but no one should kid themselves, the Rogue driver is Epic 2.0 which relegates Epic to a one-year sales cycle. Our judgement is that the Rogue woods platform as a whole is a solid product.

Exhibit 6. Callaway Rogue Driver and Sub-Zero Fairway

Source: Callaway Golf, Compass Point Research.

Secondly, ELY is introducing a new version of the Chrome Soft golf ball, now utilizing Graphene technology that allows for a larger soft core. ELY is raising the price deck to $44.99 and expanding the Truvis manufacturing capability to capitalize on the popularity of the Truvis look, and the Truvis look will make its PGA Tour debut this week at the Waste Management Championship in AZ. The question is 'Can ELY hold the 15% share while putting through a 12.5% price increase on the premium ball in their lineup? One could also question how much graphene represents technological superiority and how much is hype. While we don't have the technical skills to make the argument, we can suggest that the actual amount of graphene involved in the golf ball is extremely small or the cost would be prohibitive to manufacture.

Exhibit 7. Callaway Chrome Soft & Chrome Soft Truvis Golf Ball

Source: Callaway Golf, Compass Point Research.

We have somewhat lower expectations for the Rogue irons. Callaway Apex irons have inspired tremendous customer loyalty and customers made a significant investment in those irons and are not going to be quick to change out. Also, Rogue irons do not incorporate the Jailbreak technology which is woods-specific, so the connection is not nearly as strong. In our opinion the Rogue Pro is a better model than the standard Rogue, but may not capture the game improvement set simply because some may not try it with the implications that a 'Pro' model is for better players.

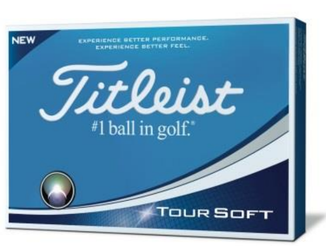
Financial Considerations. We believe that despite the consumer surveys, 1Q18 should be very strong for Callaway Golf. This is based upon expected behavior of the distribution channel in the aftermath of the very strong year for the Epic driver. Given the strength of Epic, the distribution channel will order significantly greater first run quantities of the Rogue because no retailer will want to get caught short of product if this iteration is as successful as last years. This will also be exacerbated by the fact that last year the industry was dealing with 800 retail doors that closed in 2016. This is also exacerbated by the fact that a new Chrome Soft golf ball introduction will also be filling the shelves. ELY also has a full quarter of TravisMatthew sales with no comp against it as the TravisMatthew deal closed in 3Q17. TravisMatthew is expected to generate $60M in sales in FY18. Put those factors together and we believe our above consensus estimate for 1Q18 of $0.45 versus consensus of $0.35 is closer to the mark. One would also expect to see an inventory ramp on the balance sheet when 4Q17 results are released.

Still, we are no higher than consensus for the entire year. Given the consumer surveys it is our sense that over-ordering in 1Q18 will lead to fewer re-orders in 2Q17; hence our below consensus estimate for 2Q18 for $0.31 versus consensus of $0.36. ELY is expected to offer FY18 and 1Q18 guidance when they report 4Q17 EPS on 2/7/18. Our expectation is 1Q18 is the high water mark for Callaway investor sentiment for 2018.

Acushnet/Titleist/Foot Joy

Product Expectations. For Titleist, 2018 is about massaging the golf ball platform and enhancing their superior market position. Two new products can be expected to play a big part in that act. First is the Tour Soft platform, which is replacing the NXT golf ball lines. Tour Soft simplifies the line and seeks to offer a lower spin long distance option for golfers of all levels, and brought at a $34.99 price point which is under the premium ball price points. With Chrome Soft from Callaway moving up to $44.99, Tour Soft could arguably fill the gap for the under-$40 per dozen customer that still wants a very high quality golf ball. We would be far less bullish on the Tour Soft if the new Chrome Soft was still $39.99, but Callaway may have opened the sub-$40 door.

Exhibit 8. Titleist Tour Soft Golf Ball



Source: Titleist Golf, Compass Point Research.

Then sandwiching on top in the premium ball category, Titleist will go forward with a global launch of the AVX golf ball platform; the first non-Pro V1/premium golf ball launch in over a decade for Acushnet. The launch is scheduled for a 2Q18 rollout. Whereas the Tour Soft launch is replacing NXT in the distribution channel, AVX is replacing nothing. This is an entirely new line of premium ball that will be priced at $47.99. Titleist test marketed the ball in CA, AZ and FL and determined that a) AVX did have a place in the market, and b) it was additive to premium market share with Pro V1 and Pro V1x instead of purely cannibalistic. When judged in light of the Chrome Soft price increase to $44.99, this gives Acushnet two offerings of softer core golf balls that sandwich Callaway in the marketplace. We expect the marketing battle to be intense.

On the marketing side, we expect some changes in the Acushnet marketing thrust. The Company has pulled some advertising $'s from the Golf Channel and appears to be ready to engage some alternative forms of advertising, hopefully including a better social media marketing thrust as well as product specific advertising that has a greater emphasis on product characteristics and why products perform superior to the competition. Titleist as a brand is well established in the market, especially for golf balls. But to gain greater market share in clubs Titleist has to explain why customers should choose their product over the competitions.

Financial Considerations. The implication for the product launch cadence at Acushnet is far more geared towards outperformance in 2Q18. A global launch of a premium golf ball that is an entirely new product requires a full sell in to empty shelf space. In this case inventory should show a decent sized build by the end of 1Q18. Since we have been projecting for this launch since 3Q17 results were released, our 2Q18 estimate is well ahead of consensus, although consensus is beginning to catch up now that the AVX global product launch is official. The AVX ball may also allow for a more orderly wind-down of the Pro V1 platform later this year in preparation for the refresh of the product line scheduled for 4Q18. We added $20M to our EBITDA estimate for 2Q17 to $96M versus consensus estimates of $79M and removed $5M from our EBITDA estimate for 4Q18 based upon our assessment of the dynamics of the new product launch.

TaylorMade Golf

Product Expectations. TaylorMade has two new drivers hitting the market this year; M3 and M4 (when they get to M80 we expect the product literature to describe the product as 'Explosive!'). TaylorMade has a stable of some of the top PGA Tour professionals on their staff and have been favored with three important wins on tour already by Dustin Johnson, Jon Rahm and Jason Day. These validations are extremely important early in the year as they encourage consumer product trials which inevitably lead to sales. With TaylorMade's long standing reputation as an innovative driver product platform it would not be unexpected for TaylorMade to increase driver share in 2018. Having tested the product we can confirm the products appeal, although in the aggregate we judge the driver category to be as competitive from a product standpoint as any year we can remember with solid offerings from Callaway, TaylorMade, PING, Cobra and even Wilson (which we did not expect).

On the iron front, TaylorMade also steps forward with game improvement M3 and M4 irons. For those looking for increased forgiveness we judge the M3 iron to have a solid combination of playability, forgiveness and distance. There is not much in the way of professional validation for these lines, but Tour validation has significantly greater attachment for drivers and golf balls than any other product (sometimes putters) so this isn't really a major issue.

TaylorMade continues to try to scratch out a living in golf balls, but despite the success of their Tour staff, they simply do not seem to be able to capture significant mind share. At best we see TaylorMade vying for a number 3 designation if they can unseat Bridgestone. The idea of denting Titleist (>50% share) or Callaway (~15% share) doesn't seem likely any time in the near future.

Exhibit 9. TaylorMade M3 & M4 Drivers

Source: TaylorMade Golf, Compass Point Research.

Financial Considerations. TaylorMade will spend its first full season with their new owner in 2018; KPS Capital Partners. With one of the most expensive stable of Tour professionals, the Company can be forgiven if they found the price tag of Sergio Garcia to be unaffordable at this stage of his career. Despite the fact that Sergio won The Masters in 2017, we doubt anyone believes Sergio will win more majors for the rest of his career than Jon Rahm will. Capital allocation has to be a consideration when you go from an open checkbook (Adidas) to a private equity owner. Whether TaylorMade further rationalizes or stays committed to the same level of Tour spending remains to be seen as additional contracts come up for renewal.

We also wonder if TaylorMade can continue to be as aggressive in market and R&D under a new regime. TaylorMade today remains solidly within the oligopoly of the big four brands, but will have to stay dedicated to product, and especially advertising in order to remain there. After all, golf equipment is not made to be bought, it is made to be sold.

PING Golf

Product Expectations. The PING G400 and G400 Max driver platform presents a danger to the oligopoly. According to several well informed sources, the G400 is outperforming the competition on Trackman fitting sessions on a regular basis, and given the fact that more clubs are being sold through fitting sessions with Trackman providing objective judgement regarding performance this could result in a market share move in PING’s direction, especially is PING’s marketing seizes on this fact and exploits it in the marketplace. We have little confidence that PING will actually go that route however as PING is focused on market stability and profitability more so than market share growth. The Company lets the product speak for itself. Regardless, if true, this data point will matriculate throughout the fitting community and PING will win its fair share of battles in the fitting studio as a result.

We also expect PING to increase share in Japan/Asia, if only because PING seeks to equalize price points between US and Japan rather than utilizing a premium price deck for no other reason than the Japanese customer finds some psychic benefit from paying the highest price. Eventually this dynamic should wear off in Japan and the Internet and on-line ordering capability flattens the retail world.

PING does need to get their mojo back in the putter market. Putters are an original core competency of the PING product set (After all, the Company is called PING because of the sound of the original putter) and yet they have been intermediated in the market by Odyssey (Callaway) and Scotty Cameron (Acushnet).

Exhibit 10. PING G400 Max Driver

Source: PING Golf, Compass Point Research.

Financial Considerations. PING Golf is a family-owned enterprise. This is the only equipment company that talks in terms of a five-year plan. This makes the Company far less likely to chase a hot product, and their new product introduction schedule is less geared towards market cycles and more geared towards what they believe is actual innovation leading to improved performance. Perhaps the very fact that PING is a private, family-owned company requires an increased level of product discipline in that a major product failure could have more serious implications, but we also note that PING has always been a company more geared to a custom fitting model and therefore has always has less inventory in the field in order to support product launches and sales.

But in order to regain the core competency in the putter market, PING is going to have to renew the commitment to product development, regain relevancy on Tour and support the initiative with real marketing $'s. Otherwise the drive to regain putter share will just be lip-out service.

Cobra/Puma Golf

Product Expectations. We applaud Cobra's engagement with technology. Last year we discussed the implementation of Arccos technology to make a smart-driver. The Arccos sensor screws into the top of the grip and feeds swing information to the Cobra Connect app on your smart phone, allowing for analysis and feedback designed to improve a golfers game and lower the handicap. Now Arccos and Cobra Connect are available on the Cobra KING F8 iron platform, both on variable and one-length sets. Golfers who purchase a set of KING F8 irons will receive additional Arccos screw-in sensors to connect the rest of their clubs, and a free 1-year subscription to the Arccos 360 platform. Cobra is selling a technological platform as much as a product, and almost certainly sacrificing margin in order to try to gather more meaningful share.

We 100% agree that over time the average golfer of tomorrow is going to be more willing to engage in the use of technology to improve their game, and we believe Cobra is on the right track here. Where we have some skepticism is does the first mover advantage create any barrier to entry from an equipment company with larger existing market share from co-opting similar technology? Given the various means that currently exist to create a similar platform, we tend to think this is a risk, but given Cobra's current market share it seems a risk worth taking.

Cobra also has a novel concept with the Cobra KING F8 driver with a milled face. This is a novel concept that does tell a story, although we have no basis for determining whether it offers any performance advantages or not. Again, golf equipment is made to be sold, not bought, so the story matters.

Exhibit 11. Cobra KING F8 irons w/ Cobra Connect

Source: PING Golf, Compass Point Research.

Financial Considerations. Unlike TaylorMade, Cobra continues to benefit from the association/ownership of a significantly stronger financial parent in Puma. This is what allows Cobra to pursue the higher cost technology strategy at market-friendly price points in order to try to break through into meaningful market share. If they ever hit the formula with clubs that the market deems superior in performance they could potentially break into the equipment oligopoly. It certainly isn't for the lack of trying. Cobra also benefits from a Tour staff with two of the most popular figures in the game today; Rickie Fowler and Lexi Thompson. Because a staff of Tour professionals the size of TaylorMade's is simply not practical for Cobra, Rickie Fowler and Lexi Thompson give Cobra iconic figures that resonate with younger golfers in today's market.

Undoubtedly, Rickie Fowler and Lexi Thompson are also worth their weight on the Puma apparel and footwear side of the business. Puma Golf apparel and footwear are larger in scale than the golf equipment side of the business, but they are inextricably tied together. Rickie Fowler is easily identifiable in particular with his orange Puma outfits, and at almost every junior golf tournament you can find several juniors emulating Rickie in their dress.

Wilson Golf

Wilson Golf struck us as an interesting wild card for 2018, if only because they had the largest hitting area of any company at the PGA Demonstration Day at Orange National Country Club. This was surprising because Wilson has been no better than a tertiary player in equipment the last decade (after decades as one of the leading brands). We are struggling to figure out what the play is here. Is Wilson making a new found commitment to competing in the US market? Does Wilson feel like they have a winner with their new Wilson C300 driver. Or was there simply excess space available at the PGA Demonstration Day and Wilson got a great deal absorbing some of that space?

Any or all of these thoughts could be true. But what we did discover was that the Wilson C300 driver only adds to what shapes up as one of the most competitive years for drivers in recent memory. Between Callaway, PING, TaylorMade, Cobra, Titleist and Wilson, there is a lot to choose from and a lot to like. The overall quality of the product set for drivers is very high.

What's the Trade?

For Callaway Golf it looks like there may be two trades here. One is that when Callaway reports 4Q17 on February 7th, we believe they are going to guide higher than 1Q18 consensus estimates. That could result in some upside for the shares, but we believe that could easily represent a near-term high point. Why? Because the Rogue Driver/Chrome Soft sell-in during 1Q18 could easily be the high point for the year for Callaway, especially given the strength of competing products in the market this year. Between the success of the Epic driver platform and the strength of the competition, we judge this is a tough year for comparisons for Callaway, outside of the fact that TravisMatthew apparel has a run rate with no comparisons in 1Q18 and 2Q18. Net-net, Callaway shares might get a boost on 1Q18 guidance (trade one), and then fight to hold that level the rest of the year (trade two).

Our second trade is based upon the Titleist global launch of the AVX ball platform in 2Q18. Given that Titleist hasn't done a global launch of a non-Pro V1 premium ball in over a decade, the total financial implications are not entirely clear, but our judgement is that consensus has not done this launch justice. We are at $96M for EBITDA for 2Q18 and Street consensus is at $79M, recently ticking up from $76M. So consensus is going the right way, but we sense consensus is not where it needs to be yet, and that likely provides for additional upside for Acushnet in 1H18.

Important Disclosures

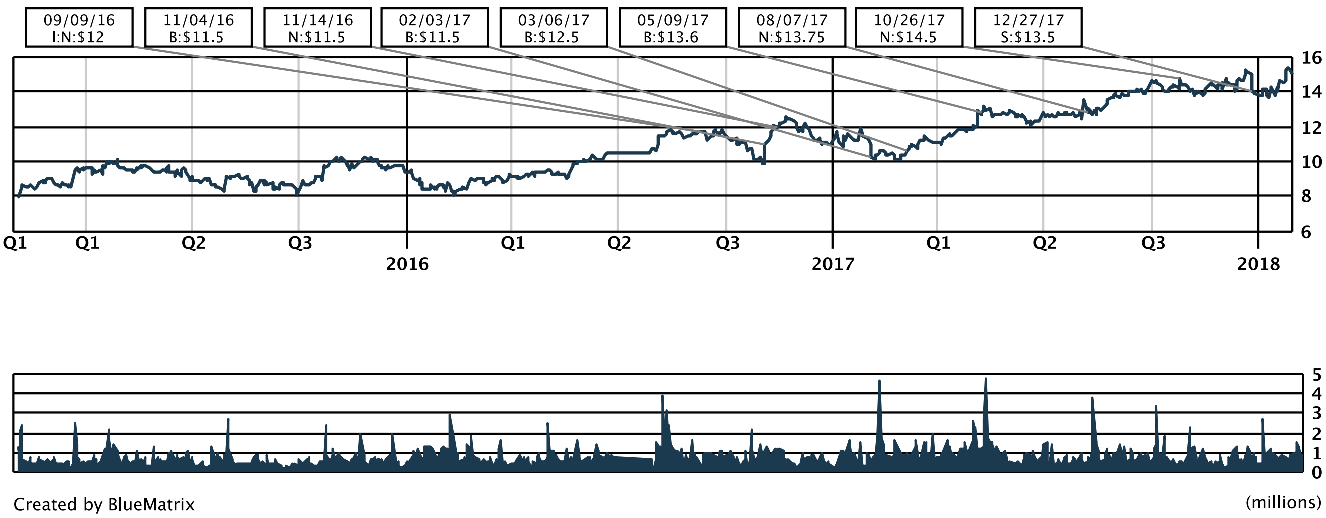
Analyst Certification

I, Casey Alexander, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issues. I further certify that I have not received direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

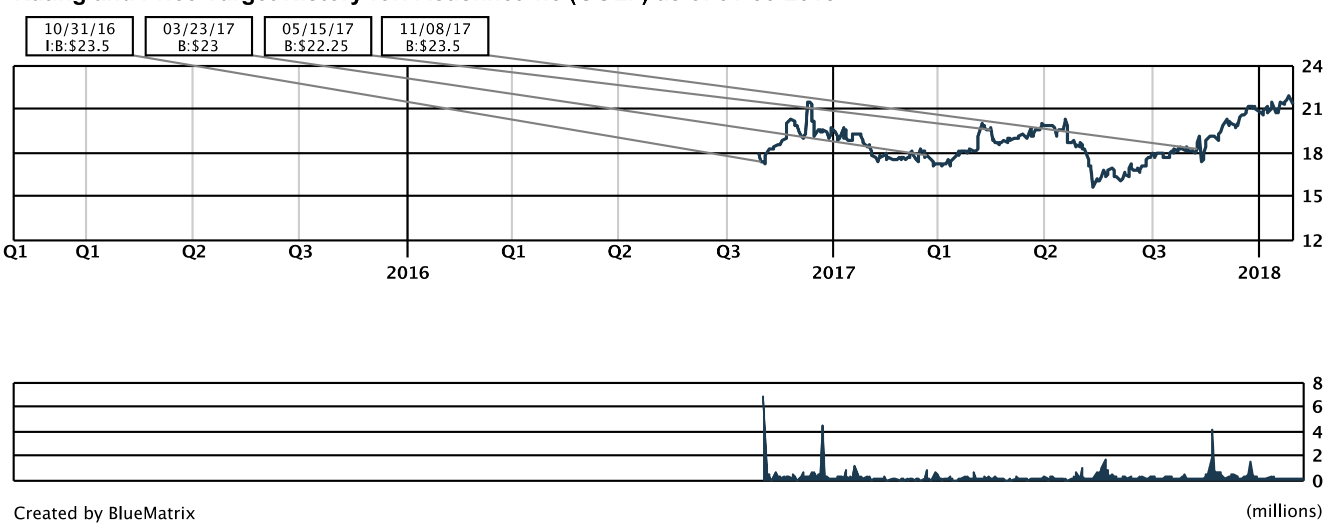
Coverage Universe			Investment Banking Relationships		
Rating	**Number**	**Percent**	**Rating**	**Number**	**Percent**
Buy	69	57	Buy	18	26
Neutral	41	34	Neutral	8	20
Sell	12	10	Sell	1	8
Total	122	100%	Total	27	100%

*Percentage of Investment Banking Clients in Coverage Universe by Rating

Rating and Price Target History for: Callaway Golf Co. (ELY) as of 01-30-2018



Rating and Price Target History for: Acushnet Inc (GOLF) as of 01-30-2018



Ownership and Material Conflicts of Interest

Ratings, Coverage Groups, and Views and Related Definitions

The information and rating included in this report represent the long-term view as described more fully below. The analyst may have different views regarding short-term trading strategies with respect to the stocks covered by the rating, options on such stocks, and/or other securities or financial instruments issued by the subject company(ies). Our brokers and analysts may make recommendations to their clients that are contrary to the recommendations contained in this research report. Such recommendations or investment decisions are based on the particular investment strategies, risk tolerances, and other investment factors of that particular client or affiliate. From time to time, Compass Point and its respective directors, officers, employees, or members of their immediate families may have a long or short position in the securities or other financial instruments mentioned in this report.

Current Stock Ratings System (**NOTE**: As of **January 11, 2016**, Compass Point has changed the definitions of Buy (B), Neutral (N) and Sell (S) in its Stock Ratings System to the definitions contained herein):

Buy (B): We expect the stock to outperform its peers on a risk adjusted basis over the next 12 months.

Neutral (N): We expect the stock to perform in line with its peers on a risk adjusted basis over the next 12 months.

Sell (S): We expect the stock to underperform its peers on a risk adjusted basis over the next 12 months.

Not Rated (NR): No rating at this time. Rating Suspended (RS): Compass Point Research has suspended the investment rating and price target for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price Compass Point has suspended coverage of this company. Not Covered (NC): Compass Point does not cover this company. Not Available or Not Applicable (NA): The information is not available for display or is not applicable. Not Meaningful (NM): The information is not meaningful and is therefore excluded.

[Prior Stock Ratings System for all Research Reports Published BEFORE January 11, 2016:

A Buy (B) represents a total rate of return potential of 15% or more on a 12-month horizon.

A Neutral (N) represents a total rate of return of -15% to +15% on a 12-month horizon. As of July 31, 2015, an analyst may assign a Neutral (N) rating even if the total rate of return is not between -15% and +15% if the analyst does not feel conviction that the stock is a Buy (B) or a Sell (S) and particular circumstances exist, such as, for example, if the stock has an extraordinarily high dividend yield or is low-priced. If an analyst assigns a Neutral (N) rating utilizing the foregoing exception, they will provide an explanation as to their reasoning.

A Sell (S) represents a total rate of return -15% or below on a 12-month horizon.

Return potential represents potential and projected dividends and the price differential between the current share price and the price target expected on a 12-month time horizon associated with the price target. Price targets are required for all covered stocks.]

Global Disclaimer

Compass Point Research & Trading, LLC expects to receive or intends to seek compensation for investment banking services from the subject company(ies) in the next 3 months.

The research analyst(s) named in the certification above receives compensation based upon various factors, including, but not limited to, the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues generated by Compass Point Research & Trading, LLC's investment banking activities.

This report is based upon public information that Compass Point Research & Trading, LLC and the research analyst named in the attestation above assume to be correct.

Assumptions, opinions, forecasts, and estimates constitute the research analyst's judgment as of the date of this material and are subject to change without notice. The research analyst's judgments may be wrong.

Neither Compass Point Research & Trading, LLC nor its affiliates, nor the research analyst, are responsible for any errors, omissions, or results obtained from the use of this information.

Past performance is not necessarily indicative of future results.

The securities and/or financial instruments mentioned in this research report, and the trading strategies related thereto, may not be suitable for all investors. You must consider your specific investment goals and objectives prior to transacting in any security or financial instrument. Consult with your financial advisor before making any transactions or investments.