

# Suprajit Engineering | BUY

## 4QFY18: Healthy operational performance

Suprajit Engineering (SEL) reported 4QFY18 revenues of INR 4.1bn (+13% YoY, +11% QoQ), driven by increase in aftermarket lamp business and domestic OE cable business, in line with increase in domestic 2W and 4W sales. Consol. EBITDA margin stood at 18.1% (flat YoY, +170bps QoQ), driven by higher sales of H7 lamps during 4QFY18. Capacity utilization at H7 line improved during 2HFY18 to c.40% (vs 25%, 2HFY17). Phoenix Lamps (PLD) EBITDA margin at 14% (FY18) was flat YoY, despite good aftermarket business as export subsidiaries (Luxlite and Trifa) faced headwinds in gaining back key customers and difficulty in passing-on raw material prices to OEs. After two years of no growth, management expects PLD to grow during FY19, driven by increasing share of global aftermarket through inorganic and organic growth. Suprajit USA consolidated with Wescon Controls saw robust revenue (+74% YoY, FY18). Management expects the business to continue on a steady growth trajectory, led by entry into newer areas such as agri., construction and power sports. Wescon has received its first order from John Deer, Germany. Going forward, exports would strengthen on new order wins from key OEMs such as VW, Ford and Nissan. Led by leadership consolidation in the cable business and improving subsidiaries' performance, we estimate EPS to witness a CAGR of 21% over FY18–20E. Maintain BUY with TP of INR 350. Below-expected business improvement at PLD and sharp contraction in exports are key risks.

- 4QFY18—healthy performance:** In 4QFY18, consolidated net sales stood at INR 4.1bn (+13% YoY, +11% QoQ). Consol. EBITDA at INR 734mn (+13% YoY, +22% QoQ) was 9% above our estimates. EBITDA margin at 18.1% (flat YoY, +170bps QoQ) was 90 bps above our estimate. Adj. PAT at INR 563mn (+95% YoY, +100% QoQ) was aided by INR 127.84mn tax credit arising from re-measurement of DTL of Wescon Controls on account of change in the US statutory income tax rate. Standalone PAT at INR 298mn grew +29% YoY driven by 18% revenue growth and robust operational performance.
- Outlook remains healthy:** Domestic cables business will continue to be robust, driven by expectations of higher OE sales. Management indicated capacity expansion plans from 250mn to 300mn cables per annum with a capex of INR 1bn over the next two years (including new greenfield manufacturing plant for Suprajit Automotive). In PLD, during FY18, domestic sales grew in line with industry, while exports from subsidiaries faced headwinds. However, capacity utilization for H7 lamps increased to c.40% (2HFY18 vs. 25%, 2HFY17), driven by acquisition of some customers. SEL sees growth opportunities in aftermarket for halogen lamps as demand continues to be supported by existing park. Wescon Controls is expected to grow c.10% during FY19, driven by growth in non-automotive cable business. Suprajit USA consolidated EBITDA margin during FY18 was 13.9% (vs. 16%, FY17), as Detroit office expenses shifted from Suprajit Automotive to Wescon. Management guided for 14-15% margins for Suprajit USA.
- Maintain BUY:** We estimate SEL's earnings to report a CAGR of 21% over FY18–20E, driven by a healthy revenue growth and stable margins. We maintain a BUY with TP of INR 350 (24x FY20E EPS).



Vaikam Kumar S

vaikam.kumar@jmfl.com | Tel: (91 22) 66303018

Vivek Kumar

vivek.kumar@jmfl.com | Tel: (91 22) 66303019

Jayesh Chandra Gupta

jayesh.gupta@jmfl.com | Tel: (91 22) 66303054

### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	350
Upside/(Downside)	25.6%
Previous Price Target	350
Change	0.0%

### Key Data – SEL IN

Current Market Price	INR279
Market cap (bn)	INR39.0/US\$0.6
Free Float	45%
Shares in issue (mn)	139.9
Diluted share (mn)	139.9
3-mon avg daily val (mn)	INR16.1/US\$0.2
52-week range	349/227
Sensex/Nifty	34,906/10,614
INR/US\$	67.4

### Price Performance

%	1M	6M	12M
Absolute	-0.1	-3.9	8.7
Relative*	0.7	-8.7	-2.9

\* To the BSE Sensex

### Financial Summary

Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	9,525	12,028	14,311	16,952	19,175
Sales Growth (%)	55.7	26.3	19.0	18.5	13.1
EBITDA	1,543	2,020	2,365	2,821	3,242
EBITDA Margin (%)	16.2	16.8	16.5	16.6	16.9
Adjusted Net Profit	860	1,152	1,385	1,686	2,012
Diluted EPS (INR)	6.5	8.2	9.9	12.1	14.4
Diluted EPS Growth (%)	56.3	25.8	20.2	21.8	19.3
ROIC (%)	20.9	17.3	18.0	20.2	21.3
ROE (%)	25.0	23.7	23.5	23.3	23.1
P/E (x)	42.6	33.9	28.2	23.1	19.4
P/B (x)	8.2	7.4	6.0	4.9	4.1
EV/EBITDA (x)	27.2	20.9	17.6	14.6	12.6
Dividend Yield (%)	0.4	0.4	0.5	0.6	1.0

Source: Company data, JM Financial. Note: Valuations as of 30/May/2018

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters  
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

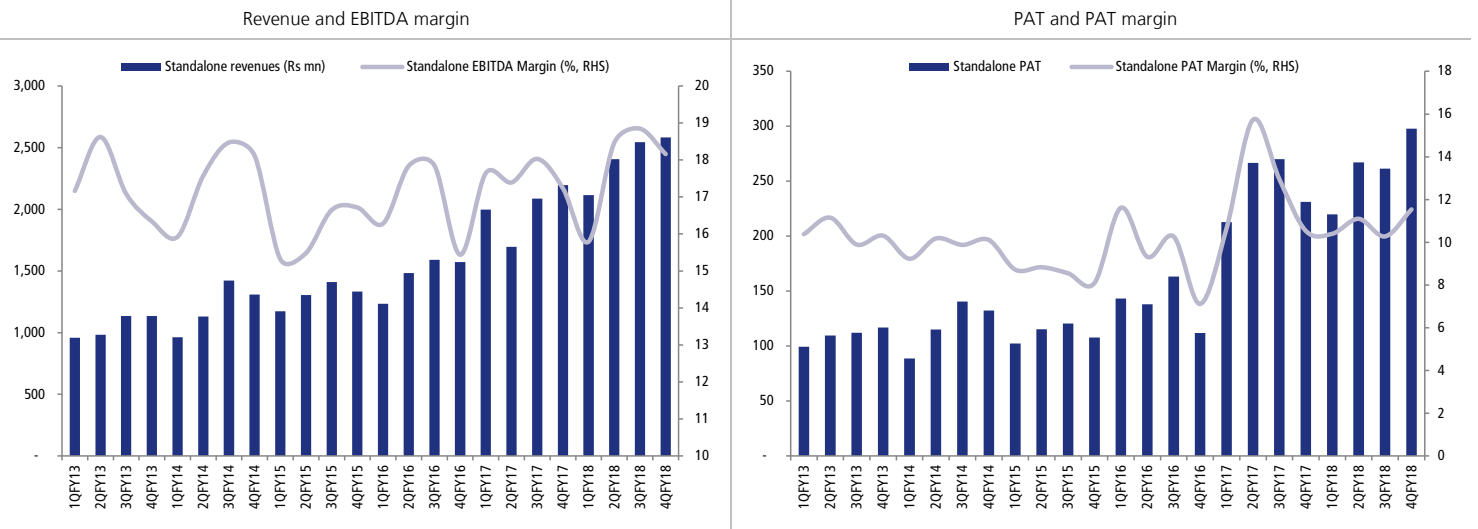
	Exhibit 1. Quarterly financial results (Standalone)			(INR mn)			
	4QFY18	4QFY17	% YoY	3QFY18	% QoQ	4QFY18E	% A/E
Sales	2,582	2,195	17.6	2,544	1.5	2,784	-7.2
Expenditure	2,113	1,817	16.3	2,064	2.4	2,251	-6.1
EBITDA	469	378	23.9	479	-2.2	532	-11.9
EBITDA Margin	18.2	17.2	92bps	18.8	-69bps	19.1	-96bps
Other Income	57	25	128.9	46	24.1	75	-23.6
Interest	42	46	-8.0	48	-11.9	49	-14.0
Depreciation	47	43	10.9	47	-0.3	48	-1.7
PBT	437	315	38.6	430	1.5	510	-14.4
Tax	139	84	65.7	169	-17.8	125	11.1
Tax rate (%)	31.8	26.6	5bps	39.3	-7bps	24.5	730bps
PAT (Adjusted)	298	231	28.8	261	14.0	385	-22.7
PAT Margin (%)	11.5	10.5	100bps	10.3	126bps	13.8	-230bps

Source: Company, JM Financial

	Exhibit 2. Quarterly financial results (Consolidated)			(INR mn)			
	4QFY18	4QFY17	% YoY	3QFY18	% QoQ	4QFY18E	% A/E
Sales	4,064	3,605	12.7	3,663	11.0	3,934	3.3
Expenditure	3,330	2,953	12.8	3,062	8.7	3,257	2.2
EBITDA	734	652	12.7	601	22.2	677	8.5
EBITDA Margin (%)	18.1	18.1	-1bps	16.4	166bps	17.2	87bps
Other Income	68	49	39.4	39	71.5	59	15.1
Interest	59	69	-14.7	72	-18.4	72	-18.4
Depreciation	95	95	-0.6	95	-0.5	95	-0.5
PBT	649	536	21.0	474	37.0	569	14.1
Tax	85	136	-37.2	191	-55.4	191	-55.4
Tax rate (%)	13.1	25.3	-1217bps	40.4	-2722bps	33.6	-2047bps
PAT (Adjusted)	563	289	95.1	282	99.5	377	49.3
PAT Margin (%)	13.9	8.0	585bps	7.7	615bps	9.6	427bps

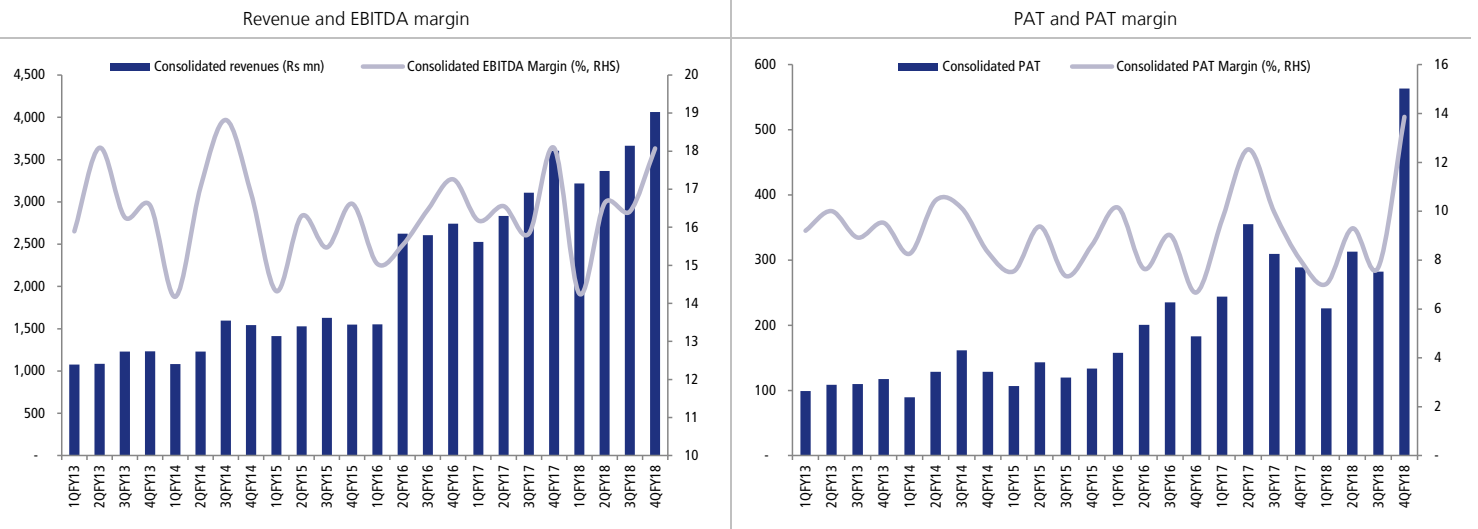
Source: Company, JM Financial

**Exhibit 3. Standalone financial trends**



Source: Company, JM Financial

**Exhibit 4. Consolidated financial trends**



Source: Company, JM Financial

## Company background

- SEL, a company promoted by K Ajith Kumar Rai in 1985, is the largest manufacturer of automotive cables in India. It is a market leader in automotive control cables in India, the world's largest mechanical cable manufacturer, and among the top-five in auto cables globally.
- With the most competitive manufacturing in India, and its technical and logistical supports worldwide, the group provides optimal product development and manufacturing solutions to its domestic and international customers.
- SEL acquired Phoenix Lamps Ltd, which is the largest automotive halogen lamp manufacturer in India and has proposed a merger with SEL. The company recently acquired Wescon Controls in North America, a leader in the off-the-road cables segment.

## Investment rationale

- SEL started as a supplier to a single company (TVS Motor), and now dominates the domestic 2W cable market with a c.55% market share. It is the largest supplier of mechanical cables to Bajaj Auto, TVS Motor and Hero Motocorp, while ramping up supplies to Honda 2W (HMSI). Given the dominant position of the company in the domestic 2W cable segment, we believe it is well placed to leverage the medium-long term growth opportunity in the domestic 2W industry.
- While SEL continues to consolidate its position in the 2W segment, it has built significant presence in other segments as well. In the non-auto segment as well, it has gained significant traction in recent years. Consequently, 2W, which once accounted for almost 100% of revenues, today accounts for c.52% of standalone revenues.
- The company has embarked on a well-timed capacity expansion, with targeted capacity of c.225mn cables by Mar'17. While a part of this capacity will be dedicated to existing clients, it will help the company leverage the expected recovery in domestic automotive demand.
- Acquisition of Phoenix Lamps has helped SEL reduce its exposure to mechanical cables. Furthermore, given Phoenix's strong traction in export markets, it would also help the company penetrate new markets and clients.
- The recent acquisition of Wescon Controls would help SEL: a) de-risk revenues sector-wise (more into non-auto), b) diversify geographically, c) add new customers and consolidate relationship/business with existing customers, and d) cross-sell products

## Key risks

- Below-expected margin improvement at PLD and sharp contraction in exports

## Financial Tables (Consolidated)

Income Statement					
	(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	9,525	12,028	14,311	16,952	19,175
Sales Growth	55.7%	26.3%	19.0%	18.5%	13.1%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>9,525</b>	<b>12,028</b>	<b>14,311</b>	<b>16,952</b>	<b>19,175</b>
Cost of Goods Sold/Op. Exp	5,635	6,899	8,007	9,772	11,123
Personnel Cost	1,253	1,983	2,568	2,830	3,124
Other Expenses	1,093	1,128	1,371	1,529	1,687
<b>EBITDA</b>	<b>1,543</b>	<b>2,020</b>	<b>2,365</b>	<b>2,821</b>	<b>3,242</b>
EBITDA Margin	16.2%	16.8%	16.5%	16.6%	16.9%
EBITDA Growth	60.7%	30.9%	17.1%	19.3%	14.9%
Depn. & Amort.	158	274	372	381	402
EBIT	1,386	1,746	1,993	2,440	2,840
Other Income	155	202	212	290	326
Finance Cost	250	291	271	250	207
PBT before Excep. & Forex	1,291	1,657	1,934	2,480	2,959
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,291	1,657	1,934	2,480	2,959
Taxes	431	504	549	794	947
Extraordinary Inc./Loss(-)	57	15	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	917	1,167	1,385	1,686	2,012
<b>Adjusted Net Profit</b>	<b>860</b>	<b>1,152</b>	<b>1,385</b>	<b>1,686</b>	<b>2,012</b>
Net Margin	9.0%	9.6%	9.7%	9.9%	10.5%
Diluted Share Cap. (mn)	131.3	139.9	139.9	139.9	139.9
<b>Diluted EPS (INR)</b>	<b>6.5</b>	<b>8.2</b>	<b>9.9</b>	<b>12.1</b>	<b>14.4</b>
Diluted EPS Growth	56.3%	25.8%	20.2%	21.8%	19.3%
Total Dividend + Tax	157	185	235	302	470
Dividend Per Share (INR)	1.0	1.1	1.4	1.8	2.8

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Shareholders' Fund	4,476	5,242	6,549	7,933	9,475
Share Capital	131	140	140	140	140
Reserves & Surplus	4,344	5,103	6,409	7,793	9,336
Preference Share Capital	0	0	0	0	0
Minority Interest	542	0	0	0	0
Total Loans	2,586	3,295	2,818	2,699	2,299
Def. Tax Liab. / Assets (-)	86	476	661	661	661
<b>Total - Equity &amp; Liab.</b>	<b>7,690</b>	<b>9,013</b>	<b>10,028</b>	<b>11,294</b>	<b>12,436</b>
Net Fixed Assets	3,481	5,589	5,473	5,401	5,400
Gross Fixed Assets	4,662	6,946	7,155	7,447	7,847
Intangible Assets	1,066	1,318	1,358	1,358	1,358
Less: Depn. & Amort.	2,425	2,700	3,072	3,453	3,855
Capital WIP	178	24	33	50	51
Investments	1,487	226	1,304	1,306	1,856
Current Assets	4,592	5,306	6,226	7,621	8,380
Inventories	1,669	2,018	2,365	2,787	3,152
Sundry Debtors	2,096	2,442	2,890	3,483	3,940
Cash & Bank Balances	189	224	324	637	504
Loans & Advances	628	552	640	705	775
Other Current Assets	10	69	8	9	9
Current Liab. & Prov.	1,870	2,107	2,975	3,034	3,199
Current Liabilities	956	1,093	1,887	1,887	1,987
Provisions & Others	914	1,013	1,089	1,146	1,212
Net Current Assets	2,722	3,199	3,251	4,587	5,180
<b>Total - Assets</b>	<b>7,690</b>	<b>9,013</b>	<b>10,028</b>	<b>11,294</b>	<b>12,436</b>

Source: Company, JM Financial

Cash Flow Statement					
	(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Profit before Tax	1,291	1,657	1,934	2,480	2,959
Depn. & Amort.	158	274	372	381	402
Net Interest Exp. / Inc. (-)	250	291	271	250	207
Inc (-) / Dec in WCap.	-1,399	-472	25	-1,021	-727
Others	599	-527	0	0	0
Taxes Paid	-431	-504	-549	-794	-947
<b>Operating Cash Flow</b>	<b>467</b>	<b>719</b>	<b>2,054</b>	<b>1,297</b>	<b>1,894</b>
Capex	-1,789	-2,382	-257	-309	-401
Free Cash Flow	-1,321	-1,663	1,797	988	1,493
Inc (-) / Dec in Investments	-370	1,261	-1,078	-2	-550
Others	-250	-291	-271	-250	-207
<b>Investing Cash Flow</b>	<b>-2,408</b>	<b>-1,411</b>	<b>-1,606</b>	<b>-561</b>	<b>-1,158</b>
Inc / Dec (-) in Capital	11	9	0	0	0
Dividend + Tax thereon	-157	-185	-235	-302	-470
Inc / Dec (-) in Loans	927	709	-477	-119	-400
Others	1,293	195	364	-1	0
<b>Financing Cash Flow</b>	<b>2,074</b>	<b>728</b>	<b>-348</b>	<b>-422</b>	<b>-870</b>
<b>Inc / Dec (-) in Cash</b>	<b>133</b>	<b>35</b>	<b>100</b>	<b>314</b>	<b>-134</b>
Opening Cash Balance	56	189	224	324	637
Closing Cash Balance	189	224	324	637	504

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Margin	9.0%	9.6%	9.7%	9.9%	10.5%
Asset Turnover (x)	1.6	1.4	1.5	1.6	1.6
Leverage Factor (x)	1.7	1.8	1.6	1.5	1.4
RoE	25.0%	23.7%	23.5%	23.3%	23.1%

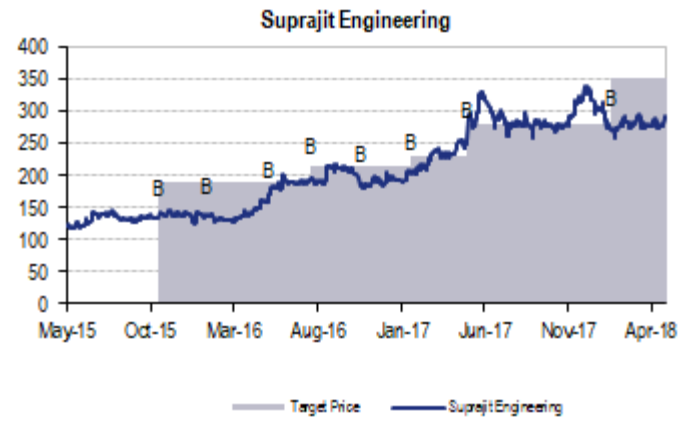
Key Ratios					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
BV/Share (INR)	34.1	37.5	46.8	56.7	67.7
ROIC	20.9%	17.3%	18.0%	20.2%	21.3%
ROE	25.0%	23.7%	23.5%	23.3%	23.1%
Net Debt/Equity (x)	0.5	0.6	0.4	0.3	0.2
P/E (x)	42.6	33.9	28.2	23.1	19.4
P/B (x)	8.2	7.4	6.0	4.9	4.1
EV/EBITDA (x)	27.2	20.9	17.6	14.6	12.6
EV/Sales (x)	4.4	3.5	2.9	2.4	2.1
Debtor days	80	74	74	75	75
Inventory days	64	61	60	60	60
Creditor days	43	38	56	47	44

Source: Company, JM Financial

## History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
13-Nov-15	Buy	190	
11-Feb-16	Buy	190	0.0
1-Jun-16	Buy	190	0.0
17-Aug-16	Buy	215	13.2
17-Nov-16	Buy	215	0.0
15-Feb-17	Buy	230	7.0
30-May-17	Buy	280	21.7
14-Feb-18	Buy	350	25.0

## Recommendation History



## APPENDIX I

### JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

**Corporate Identity Number: U67100MH2017PLC296081**

**Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.**

**SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610**

**Registered Office: 7th Floor, Energy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.**

**Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: [jmfinancial.research@jmfl.com](mailto:jmfinancial.research@jmfl.com) | [www.jmfl.com](http://www.jmfl.com)**

**Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: [sunny.shah@jmfl.com](mailto:sunny.shah@jmfl.com)**

Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

#### Research Analyst(s) Certification

The Research Analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that:

All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and

No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

#### Important Disclosures

This research report has been prepared by JM Financial Institutional Securities Limited (JM Financial Institutional Securities) to provide information about the Company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its associates solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of JM Financial Institutional Securities. This report has been prepared independent of the companies covered herein.

JM Financial Institutional Securities is registered with the Securities and Exchange Board of India (SEBI) as a Research Analyst and a Stock Broker having trading memberships of the BSE Ltd. (BSE), National Stock Exchange of India Ltd. (NSE) and Metropolitan Stock Exchange of India Ltd. (MSEI). No material disciplinary action has been taken by SEBI against JM Financial Institutional Securities in the past two financial years which may impact the investment decision making of the investor.

JM Financial Institutional Securities renders stock broking services primarily to institutional investors and provides the research services to its institutional clients/investors. JM Financial Institutional Securities and its associates are part of a multi-service, integrated investment banking, investment management, brokerage and financing group. JM Financial Institutional Securities and/or its associates might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, broking, financing or any other advisory services to the Company(ies) covered herein. JM Financial Institutional Securities and/or its associates might have received during the past twelve months or may receive compensation from the Company(ies) mentioned in this report for rendering any of the above services.

JM Financial Institutional Securities and/or its associates, their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the Company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the Company(ies) covered under this report or (c) act as an advisor or lender/borrower to, or may have any financial interest in, such Company(ies) or (d) considering the nature of business/activities that JM Financial Institutional Securities is engaged in, it may have potential conflict of interest at the time of publication of this report on the subject Company(ies).

Neither JM Financial Institutional Securities nor its associates or the Research Analyst(s) named in this report or his/her relatives individually own one per cent or more securities of the Company(ies) covered under this report, at the relevant date as specified in the SEBI (Research Analysts) Regulations, 2014.

The Research Analyst(s) principally responsible for the preparation of this research report and members of their household are prohibited from buying or selling debt or equity securities, including but not limited to any option, right, warrant, future, long or short position issued by Company(ies) covered under this report. The Research Analyst(s) principally responsible for the preparation of this research report or their relatives (as defined under SEBI (Research Analysts) Regulations, 2014); (a) do not have any financial interest in the Company(ies) covered under this report or (b) did not receive any compensation from the Company(ies) covered under this report, or from any third party, in connection with this report or (c) do not have any other material conflict of interest at the time of publication of this report. Research Analyst(s) are not serving as an officer, director or employee of the Company(ies) covered under this report.

While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and JM Financial Institutional Securities does not warrant its accuracy or completeness. JM Financial Institutional Securities may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision.

The investment discussed or views expressed or recommendations/opinions given herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and JM Financial Institutional Securities reserves the right to make modifications and alterations to this statement as they may deem fit from time to time.

This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction.

This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject JM Financial Institutional Securities and/or its affiliated Company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

Persons who receive this report from JM Financial Singapore Pte Ltd may contact Mr. Ruchir Jhunjhunwala (ruchir.jhunjhunwala@jmfl.com) on +65 6422 1888 in respect of any matters arising from, or in connection with, this report.

**Additional disclosure only for U.S. persons:** JM Financial Institutional Securities has entered into an agreement with JM Financial Securities, Inc. ("JM Financial Securities"), a U.S. registered broker-dealer and member of the Financial Industry Regulatory Authority ("FINRA") in order to conduct certain business in the United States in reliance on the exemption from U.S. broker-dealer registration provided by Rule 15a-6, promulgated under the U.S. Securities Exchange Act of 1934 (the "Exchange Act"), as amended, and as interpreted by the staff of the U.S. Securities and Exchange Commission ("SEC") (together "Rule 15a-6").

This research report is distributed in the United States by JM Financial Securities in compliance with Rule 15a-6, and as a "third party research report" for purposes of FINRA Rule 2241. In compliance with Rule 15a-6(a)(3) this research report is distributed only to "major U.S. institutional investors" as defined in Rule 15a-6 and is not intended for use by any person or entity that is not a major U.S. institutional investor. If you have received a copy of this research report and are not a major U.S. institutional investor, you are instructed not to read, rely on, or reproduce the contents hereof, and to destroy this research or return it to JM Financial Institutional Securities or to JM Financial Securities.

This research report is a product of JM Financial Institutional Securities, which is the employer of the research analyst(s) solely responsible for its content. The research analyst(s) preparing this research report is/are resident outside the United States and are not associated persons or employees of any U.S. registered broker-dealer. Therefore, the analyst(s) are not subject to supervision by a U.S. broker-dealer, or otherwise required to satisfy the regulatory licensing requirements of FINRA and may not be subject to the Rule 2241 restrictions on communications with a subject Company, public appearances and trading securities held by a research analyst account.

JM Financial Institutional Securities only accepts orders from major U.S. institutional investors. Pursuant to its agreement with JM Financial Institutional Securities, JM Financial Securities effects the transactions for major U.S. institutional investors. Major U.S. institutional investors may place orders with JM Financial Institutional Securities directly, or through JM Financial Securities, in the securities discussed in this research report.

**Additional disclosure only for U.K. persons:** Neither JM Financial Institutional Securities nor any of its affiliates is authorised in the United Kingdom (U.K.) by the Financial Conduct Authority. As a result, this report is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the matters to which this report relates may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This report is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons.

**Additional disclosure only for Canadian persons:** This report is not, and under no circumstances is to be construed as, an advertisement or a public offering of the securities described herein in Canada or any province or territory thereof. Under no circumstances is this report to be construed as an offer to sell securities or as a solicitation of an offer to buy securities in any jurisdiction of Canada. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the registration requirement in the relevant province or territory of Canada in which such offer or sale is made. This report is not, and under no circumstances is it to be construed as, a prospectus or an offering memorandum. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon these materials, the information contained herein or the merits of the securities described herein and any representation to the contrary is an offence. If you are located in Canada, this report has been made available to you based on your representation that you are an "accredited investor" as such term is defined in National Instrument 45-106 Prospectus Exemptions and a "permitted client" as such term is defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Under no circumstances is the information contained herein to be construed as investment advice in any province or territory of Canada nor should it be construed as being tailored to the needs of the recipient. Canadian recipients are advised that JM Financial Securities, Inc., JM Financial Institutional Securities Limited, their affiliates and authorized agents are not responsible for, nor do they accept, any liability whatsoever for any direct or consequential loss arising from any use of this research report or the information contained herein.