

Gentex Corp

Recommendation



Equity Analyst **E. Levy-CFA**

Price

\$17.30 (as of Aug 11, 2017 4:00 PM ET)

12-Mo. Target Price

\$20.00

Report Currency

USD

Investment Style

Mid-Cap Growth

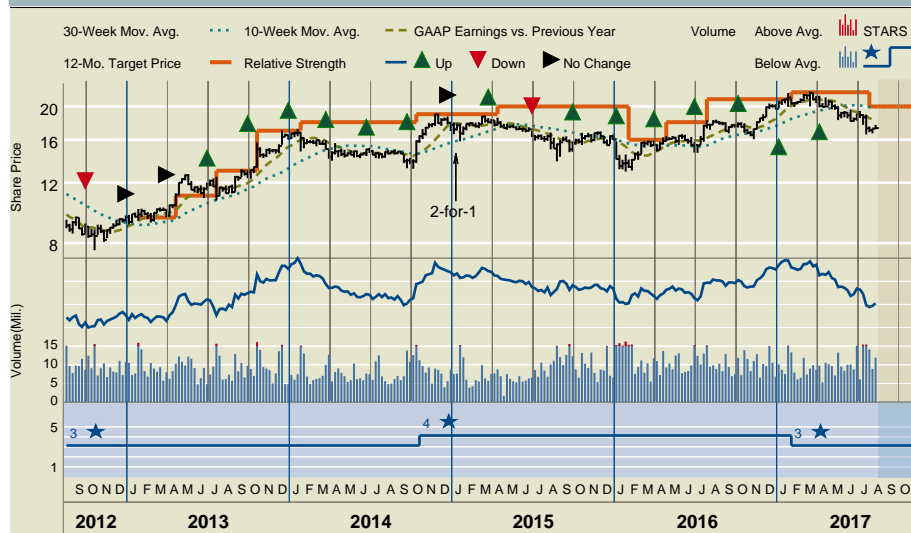
GICS Sector Consumer Discretionary
Sub-Industry Auto Parts & Equipment

Summary This company manufactures automatic-dimming rearview mirrors for the automotive industry and fire protection products for commercial applications.

Key Stock Statistics (Source CFRA, S&P Global Market Intelligence, Vickers, company reports)

52-Wk Range	\$22.12– 16.06	Oper. EPS 2017E	1.26	Market Capitalization(B)	\$4,940	Beta	1.33
Trailing 12-Month EPS	\$1.26	Oper. EPS 2018E	1.37	Yield (%)	2.31	3-Yr. Proj. EPS CAGR(%)	12
Trailing 12-Month P/E	13.7	P/E on Oper. EPS 2017E	13.7	Dividend Rate/Share	\$0.40	S&P Quality Ranking	A+
\$10K Invested 5 Yrs Ago	\$21,666	Common Shares Outstg. (M)	285.5	Institutional Ownership (%)	81		

Price Performance



Past performance is not an indication of future performance and should not be relied upon as such.

Analysis prepared by Equity Analyst **E. Levy-CFA** on Jul 21, 2017 03:18 PM, when the stock traded at **\$17.64**.

Highlights

- We expect 2017 revenues to rise about 8.0% on aggregate higher U.S., European, Japanese, and Korean mirror sales, increased dimmable airplane windows sales, and ongoing benefits from the HomeLink acquisition. We expect revenues to advance on greater penetration, even as U.S. production declines; Europe, Japan, and Korea production should rise. The company revenues are likely to outpace global industry production volume, helped by increased content per vehicle. Fire protection revenues likely will not change meaningfully. We expect growth in dimmable airplane windows, albeit from a tiny but expanding base, as production of the Boeing 787 Dreamliner increases. We expect 7% revenue growth in 2018.
- We project narrower operating margins for 2017, as price reductions and unfavorable currency outweigh cost cutting and operating leverage. Contributions to other income from realized equity gains should rise this year.
- We see GNTX as a beneficiary of possible federal tax rate policy changes. We expect EPS will increase to \$1.26 in 2017 and \$1.37 in 2018. GNTX's strategy for growth includes adding features to interior and exterior auto mirrors.

Investment Rationale/Risk

- GNTX recently traded at a premium to the peer average based on 2017 EPS estimates, but at a discount to the S&P MidCap 400 Index. We think a premium to peers is warranted by GNTX's historical ability to generate more consistent growth than peers, and also given new U.S. Department of Transportation rules regarding expanding the required field of view to detect objects directly behind vehicles.
- Risks to our recommendation and target price include lower production or demand for vehicles, especially those with relatively high GNTX product content, lower average selling prices and a weaker-than-expected mix or penetration of new products. Another risk is a move by customers away from mirror-based displays to alternate in-vehicle display locations.
- Our 12-month target price of \$20 is derived by applying a multiple of 14.6X our 2018 estimate, below GNTX's three-year average forward P/E and toward the lower part of GNTX's seven-year historical range. We see slowing near-term growth, but we see trends supportive of increased Gentex content. We expect EPS accretion from the HomeLink acquisition.

Analyst's Risk Assessment

LOW **MEDIUM** **HIGH**

Our risk assessment reflects the cyclical nature of GNTX's markets and its dependence on certain customers, offset by the absence of long-term debt on its balance sheet.

Revenue/Earnings Data

Revenue (Million \$)	1Q	2Q	3Q	4Q	Year
2017	453.5	443.1	--	--	--
2016	405.6	423.8	429.6	419.9	1,679
2015	368.9	379.3	389.8	405.6	1,544
2014	335.7	338.4	350.9	350.4	1,376
2013	269.5	287.0	288.6	326.8	1,172
2012	290.7	280.3	268.3	260.4	1,100

Earnings Per Share (\$)

2017	0.33	E0.32	E0.30	E0.32	E1.26
2016	0.28	0.30	0.32	0.31	1.19
2015	0.26	0.25	0.27	0.30	1.08
2014	0.24	0.26	0.25	0.24	0.98
2013	0.16	0.18	0.19	0.24	0.78
2012	0.16	0.14	0.15	0.14	0.58

Fiscal year ended Dec. 31. Next earnings report expected: Late October. EPS Estimates based on CFRA Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

Amount (\$)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.090	Aug 31	Oct 5	Oct 7	Oct 19 '16
0.090	Nov 30	Jan 4	Jan 6	Jan 18 '17
0.090	Mar 6	Apr 5	Apr 7	Apr 19 '17
0.100	May 18	Jul 3	Jul 6	Jul 19 '17

Dividends have been paid since 2003. Source: Company reports.

Past performance is not an indication of future performance and should not be relied upon as such.



Gentex Corp

Business Summary July 21, 2017

CORPORATE OVERVIEW. Gentex Corp. develops, manufactures and markets proprietary electro-optic products, including electrochromic, automatic-dimming automotive rearview mirrors, and a line of fire protection products primarily for the commercial building industry. With an approximately 92% market share in auto-dimming rearview mirrors in 2016, up from 91% in 2015, 90% in 2014 and 88% in 2013, GNTX is viewed to be the dominant supplier to the automotive industry.

The company ships interior mirrors as well as flat, convex and aspheric sub-assemblies for exterior use. In 2016, it sold 36.1 million mirrors, up from 2015's 33.0 million.

GNTX's line of fire protection products consists of approximately 55 different models of smoke alarms and smoke detectors, and more than 100 different models of signaling appliances.

The company and PPG Aerospace work together to provide variably dimmable windows for the passenger compartment of Boeing's 787 Dreamliner aircraft.

Regionally, North America accounted for 43% of auto-dimming mirror shipment units in 2016. Europe (mostly Germany) and Asia-Pacific accounted for the balance.

CORPORATE STRATEGY. The company seeks to expand revenues via new models, greater penetration of existing markets and adding exterior mirrors. It seeks to be first to market new technologies and improve its manufacturing capabilities.

We expect the company to expand in Europe and Asia and to add features for mirrors. We also see the company continuing to focus on research and development for new technologies.

In September 2013, Gentex acquired HomeLink from Johnson Controls (JCI) for \$700 million. Gentex funded the transaction from cash on hand and by issuing debt.

MARKET PROFILE. We forecast higher global vehicle production in 2017, with production trends varying by country. U.S. new light vehicle production should decrease. We project higher production in Asia, and expect improved U.S. automotive replacement parts market demand.

POTENTIAL CATALYSTS. The Kids Transportation Safety Act of 2007 was signed into law in February 2008. The law revises federal standards to expand the field of view so that drivers can detect objects directly behind vehicles. We think the company, with its rear camera display (RCD) mirror, is a potential beneficiary of the Act, as it could require additional vehicle mirrors, sensors or cameras. However, we think any significant related revenues are likely years away (2018). In December 2010, the U.S. Department of Transportation proposed rules regarding the required field of view to detect objects directly behind vehicles. Further updates to the Act have been repeatedly delayed, but a final rule was announced March 31, 2014. We think sales of Gentex's rear camera display mirrors would increase if new rules are enforced.

Proposed new legislation should help increase demand for rear camera display mirrors, but could also shift customers to competitors' display options.

With relatively little long-term debt, in our view, Gentex could use its free cash flow to repurchase common shares and/or increase its cash dividend.

Corporate Information

Investor Contact

C. Hamblin (616-772-1800)

Office

600 North Centennial Street, Zeeland, MI 49464.

Telephone

616-772-1800.

Fax

616-772-7348.

Email

ir@gentex.com

Website

<http://www.gentex.com>

Officers

Chrmn & CEO

F.T. Bauer

Chief Acctg Officer

K.C. Nash

COO

P.V. Flynn

Secy

S. Ryan

SVP & CFO

S.R. Downing

Board Members

F. T. Bauer

L. Brown

G. F. Goode

P. Hoekstra

J. A. Hollars

J. Mulder

R. O. Schaum

F. A. Sotok

J. Wallace

Domicile

Michigan

Auditor

ERNST & YOUNG

Founded

1974

Employees

5,315

Stockholders

2,286

Gentex Corp

Quantitative Evaluations

Fair Value Rank	5	1	2	3	4	5
		LOWEST				HIGHEST

Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

Fair Value Calculation	\$22.90	Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that GNTX is Undervalued by \$5.60 or 32.4%.
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Investability Quotient Percentile	98	LOWEST = 1 HIGHEST = 100
		GNTX scored higher than 98% of all companies for which a Report is available.

Volatility	LOW	AVERAGE	HIGH
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Technical Evaluation	BEARISH	Since April, 2017, the technical indicators for GNTX have been BEARISH.
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Insider Activity	UNFAVORABLE	NEUTRAL	FAVORABLE
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Expanded Ratio Analysis

	2016	2015	2014	2013
Price/Sales	3.41	3.07	3.87	4.06
Price/EBITDA	9.55	8.79	11.16	12.86
Price/Pretax Income	11.23	10.23	12.80	14.50
P/E Ratio	16.49	14.89	18.42	21.34
Avg. Diluted Shares Outstg (M)	291.1	296.2	294.3	288.5

Figures based on calendar year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	8.77	12.68	11.00	13.31
Net Income	9.14	15.38	18.37	19.80

Ratio Analysis (Annual Avg.)

Net Margin (%)	20.70	20.77	19.33	16.83
% LT Debt to Capitalization	8.50	11.36	10.14	6.33
Return on Equity (%)	19.14	19.46	18.46	15.96

Company Financials Fiscal Year Ended Dec. 31

Per Share Data (\$)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Tangible Book Value	4.42	3.66	3.03	2.16	3.82	3.52	3.10	2.62	2.51	2.79
Cash Flow	1.50	1.35	1.24	0.99	0.76	0.72	0.63	0.38	0.35	0.54
Earnings	1.19	1.08	0.98	0.78	0.58	0.57	0.49	0.24	0.22	0.43
Core Earnings	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	0.35	0.49	0.30	0.28	0.26	0.24	0.22	0.22	0.21	0.20
Payout Ratio	29%	45%	31%	35%	44%	41%	45%	94%	95%	46%
Prices:High	20.39	18.80	19.06	17.08	15.70	17.67	15.18	9.18	9.73	11.30
Prices:Low	12.93	13.84	13.17	9.06	7.19	10.92	8.27	3.51	3.25	7.43
P/E Ratio:High	17	17	19	22	27	31	31	39	44	27
P/E Ratio:Low	11	13	13	12	12	19	17	15	15	17

Income Statement Analysis (Million \$)

Revenue	1,679	1,544	1,376	1,172	1,100	1,024	816	545	624	654
Operating Income	600	539	476	370	290	276	230	133	144	174
Depreciation	88.6	80.6	77.4	62.9	50.2	42.6	38.6	38.4	35.9	32.4
Interest Expense	5.64	5.48	NA	NA	Nil	Nil	Nil	NA	Nil	Nil
Pretax Income	511	464	415	328	250	244	203	96.4	92.2	180
Effective Tax Rate	31.9%	31.3%	30.5%	32.1%	32.5%	32.6%	32.3%	32.9%	32.7%	32.1%
Net Income	348	318	289	223	169	165	138	64.6	62.1	122
Core Earnings	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Balance Sheet & Other Financial Data (Million \$)

Cash	724	556	497	310	450	419	435	353	323	398
Current Assets	1,155	984	857	601	745	752	655	505	457	528
Total Assets	2,310	2,149	2,023	1,764	1,266	1,176	1,003	823	763	898
Current Liabilities	150	131	133	120	88.0	101	72.1	58.6	49.5	68.4
Long Term Debt	178	226	258	266	Nil	Nil	Nil	NA	Nil	Nil
Common Equity	1,910	1,723	1,571	1,328	1,121	1,027	894	736	699	807
Total Capital	2,096	1,956	1,837	1,601	1,121	1,027	894	736	714	830
Capital Expenditures	121	97.9	72.5	55.4	117	120	46.9	21.1	45.5	54.5
Cash Flow	436	399	366	286	219	207	176	103	98.0	155
Current Ratio	7.7	7.5	6.4	5.0	8.5	7.5	9.1	8.6	9.2	7.7
% Long Term Debt of Capitalization	8.5	11.5	14.1	16.6	Nil	Nil	Nil	Nil	Nil	Nil
% Net Income of Revenue	20.7	20.6	21.0	19.0	15.3	16.1	16.9	11.9	10.0	18.7
% Return on Assets	15.6	15.3	15.2	14.7	13.8	15.1	15.1	8.2	7.5	14.5
% Return on Equity	19.1	19.3	19.9	18.2	15.7	17.2	16.9	9.0	8.3	16.2

Data as originally reported in Company reports.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Gentex Corp

Sub-Industry Outlook

Our fundamental outlook for the auto parts and equipment sub-industry for the next 12 months is positive, reflecting our expectations for plateauing demand but a favorable mix in the U.S. and rising demand abroad, including China. We think European production will improve again in 2017, but currency swings should hurt reported results in U.S. dollars. We think profits should benefit from higher U.S. and international vehicle production.

We estimate 2017 U.S. light vehicle sales will soften about 1.75% to 17.16 million units, down from 2016's record volume. For 2017, we expect gains in most other regions too. Rising prosperity in emerging markets, led by China, should drive global demand growth and European demand should rise, partly offset by declines in some emerging markets. We think higher global volume will help corporate profits and cash flows. Currency swings will impact companies' profitability. Positive factors we see in the U.S. include widely available access to consumer credit, high consumer confidence and employment, a strong stock market, and relatively low and stable gas prices. The average vehicle is now about 11.5 years old, an industry record. A rebound in commodity prices could be a headwind for margins. The strong dollar should hurt those with exposure to sales denominated in weaker currencies.

We forecast higher global vehicle production in 2017, with production trends varying by country. U.S. new light vehicle production should decrease, but Europe's should rise. We project higher production in Asia, led by China, and we expect improved U.S. automotive replacement parts market demand. We expect global volume to rise in 2017.

Many auto parts suppliers are increasing their revenues generated outside the U.S. Emerging

markets are becoming more attractive to parts manufacturers due to lower labor costs for manufacturing and engineering and/or due to growing demand in local and regional markets. Over time, we expect some domestic parts suppliers to increase penetration of import brands, which are shifting more of their production to the U.S.

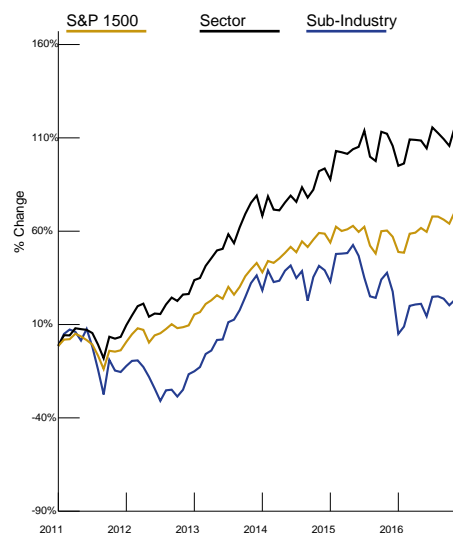
Year to date through June 16, the S&P Auto Parts Equipment Index rose 10.1%, compared to an 8.2% increase in the S&P 1500 Index. In 2016, the S&P Auto Parts & Equipment Index rose 3.5%, compared to a 10.6% increase for the S&P 1500 Index.

--Efraim Levy, CFA

Industry Performance

GICS Sector: Consumer Discretionary
Sub-Industry: Auto Parts & Equipment

Based on S&P 1500 Indexes
Five-Year market price performance through Aug 12, 2017



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

Past performance is not an indication of future performance and should not be relied upon as such.

Sub-Industry : Auto Parts & Equipment Peer Group*: Automobile Original Equipment - Smaller Cos.

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	S&P Quality Ranking	IQ %ile	Return on Revenue (%)	LTD to Cap (%)
Gentex Corp	GNTX	4,940	17.30	22.12/16.06	1.33	2.3	14	22.90	A+	98	20.7	8.5
Shiloh Industries	SHLO	140	7.87	16.69/6.50	0.97	Nil	21	NA	B-	18	0.3	66.0
Stoneridge Inc	SRI	455	16.29	20.82/13.42	2.86	Nil	6	NA	B-	86	11.1	27.7
Strattec Security	STRT	118	32.80	48.86/23.00	1.08	1.7	20	NA	B	73	2.3	11.5

NA-Not Available NM-Not Meaningful NR-Not Rated. *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

Gentex Corp

Analyst Research Notes and other Company News

July 21, 2017

11:09 am ET ... CFRA MAINTAINS HOLD OPINION ON SHARES OF GENTEX CORP. (GNTX 17.12***): We reduce our 12-month target by \$2 to \$20, or 14.6X our '18 EPS estimate of \$1.37 (down \$0.08), on historical and peer P/E analysis. We lower our '17 EPS forecast from \$1.31 to \$1.26. We see favorable vehicle content trends aiding GNTX's growth rate in international markets, even as U.S. industry volume declines. GNTX posts Q2 EPS of \$0.31 vs. \$0.30, \$0.01 less than our estimate, hurt by slightly softer-than expected revenue growth and a weaker mix. Operating margins were hurt by price cuts and a lack of operating leverage. GNTX saw equity gains versus year-ago losses. /E. Levy-CFA

April 21, 2017

11:50 am ET ... CFRA MAINTAINS HOLD OPINION ON SHARES OF GENTEX CORP. (GNTX 20.74***): Our 12-month target of \$22 is 16.8X our '17 EPS estimate of \$1.31 (down \$0.01), on historical and peer P/E analysis. We expect favorable vehicle content trends to aid GNTX's growth rate in international markets, even amid a slowing U.S. market. Q1 EPS of \$0.33 vs. \$0.28, is \$0.01 higher than our estimate, and \$0.02 above the consensus, helped by discrete tax items of \$0.02. Revenues were 1.7% better than consensus. Operating margins eased as price cuts outweighed a combination of favorable mix and operating leverage, and realized equity gains versus year-ago losses. /E. Levy-CFA

October 20, 2016

03:18 pm ET ... CFRA KEEPS BUY OPINION ON SHARES OF GENTEX CORP. (GNTX 17.17****): Our 12-month target of \$21 is 16X our '17 EPS estimate of \$1.32, based on historical and peer P/E analysis. We see potential favorable content trends helping GNTX's growth rate exceed its regional markets, even as U.S. industry growth slows. Q3 EPS of \$0.32 vs. \$0.27, is in line with our estimate, but \$0.02 above the Capital IQ consensus on slightly better-than-expected revenues. Favorable mix and operating leverage outweighed price reductions, and realized equity gains versus year-ago losses, helped operating margins. We see the company's ongoing share repurchases helping EPS. /E. Levy-CFA

July 22, 2016

12:47 pm ET ... S&P GLOBAL REITERATES BUY OPINION ON SHARES OF GENTEX CORP. (GNTX 17.09****): We raise our 12-month target by \$3 to \$21, or 16X our '17 EPS estimate of \$1.32 (up \$0.03), based on historical and peer P/E analysis. We see potential favorable content trends helping GNTX grow at a faster pace than its regional markets, even as U.S. industry growth slows. We increase '16's forecast by \$0.03 to \$1.21. GNTX posts Q2 EPS of \$0.30 vs. \$0.25, \$0.01 above the Capital IQ consensus estimate, on better-than-expected revenues. Favorable mix and operating leverage outweighed price reductions and realized equity losses versus year-ago gains, helping operating margins. /E. Levy-CFA

April 22, 2016

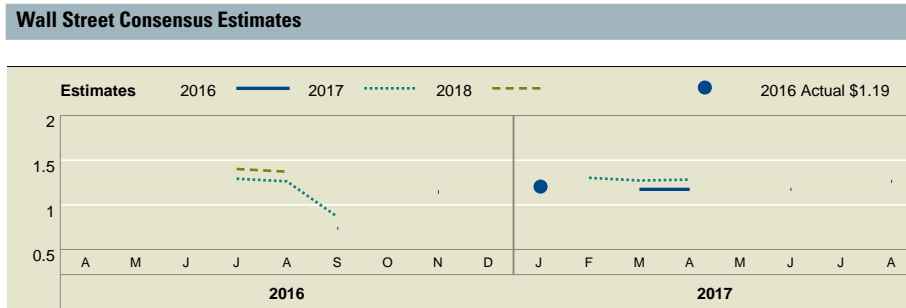
01:04 pm ET ... S&P CAPITAL IQ REITERATES BUY OPINION ON SHARES OF GENTEX CORP. (GNTX 15.86****): We raise our 12-month target by \$2 to \$18, or 14X our '17 EPS estimate of \$1.29 (cut \$0.02), based on historical and peer P/E analysis, amid slowing US industry growth. We increase '16's forecast by \$0.02 to \$1.18. GNTX posts Q1 EPS of \$0.28 vs. \$0.26, in line with the Capital IQ consensus estimate, on slightly better-than-expected revenues. Operating margins were helped by favorable operating leverage outweighing annual price reductions, but realized equity gains decreased. We see gains in North America, Europe, Japan and Korea production helping GNTX revenue grow 9% in '16. /E. Levy-CFA

Gentex Corp



Of the total 13 companies following GNTX, 13 analysts currently publish recommendations.

	No. of Recommendations	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	4	31	4	0
Buy/Hold	2	15	2	0
Hold	4	31	4	0
Weak Hold	1	8	1	0
Sell	1	8	1	0
No Opinion	1	8	1	0
Total	13	100	13	0



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2018	1.38	1.46	1.29	13	12.5
2017	1.27	1.32	1.23	12	13.6
2018 vs. 2017	▲9%	▲11%	▲5%	▲8%	▼-8%
Q3'18	0.35	0.34	0.34	5	49.4
Q3'17	0.31	0.33	0.28	11	55.8
Q3'18 vs. Q3'17	▲13%	▲3%	▲21%	▼-55%	▼-11%

A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Wall Street Consensus Opinion

BUY/HOLD

Companies Offering Coverage

- BMO Capital Markets Equity Research
- BofA Merrill Lynch
- Buckingham Research Group Inc.
- Craig-Hallum Capital Group LLC
- FBR Capital Markets & Co.
- Great Lakes Review
- JP Morgan
- KGI Securities Co. Ltd.
- KeyBanc Capital Markets Inc.
- Morningstar Inc.
- Robert W. Baird & Co.
- Susquehanna Financial Group, LLLP
- Wells Fargo Securities, LLC

Wall Street Consensus vs. Performance

For fiscal year 2017, analysts estimate that GNTX will earn US\$ 1.27. For the 2nd quarter of fiscal year 2017, GNTX announced earnings per share of US\$ 0.31, representing 24% of the total annual estimate. For fiscal year 2018, analysts estimate that GNTX's earnings per share will grow by 9% to US\$ 1.38.

Glossary

STARS

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (STock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Capital IQ Quality Ranking

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Capital IQ's earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization
NR Not Ranked	

EPS Estimates

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

Core Earnings

Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

CFRA Equity Research

CFRA Equity Research is produced and distributed by Accounting Research & Analytics, LLC d/b/a CFRA ("CFRA US"). Certain research is distributed by CFRA UK Limited (together with CFRA US, "CFRA"). Certain research is produced by Standard & Poor's Malaysia Sdn. Bhd ("S&P Malaysia") under contract to CFRA US.

Abbreviations Used in Equity Research Reports

CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
CY - Calendar Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model
EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization
EPS - Earnings Per Share
EV - Enterprise Value

FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value
PEG Ratio - P/E-to-Growth Ratio
PV - Present Value
R&D - Research & Development
ROCE - Return on Capital Employed
ROE - Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
SG&A - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ 5-STARs (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ 4-STARs (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ 3-STARs (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ 2-STARs (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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Qualitative STARS recommendations are determined and assigned by equity analysts. For reports containing STARS recommendations refer to the Glossary section of the report for detailed methodology and the definition of STARS rankings.

Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of June 30, 2017

Ranking	North America	Europe	Asia	Global
Buy	37.4%	25.9%	36.6%	35.4%
Hold	55.1%	56.1%	39.4%	53.5%
Sell	7.5%	18.0%	24.0%	11.1%
Total	100%	100%	100%	100%

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