Gentex Corp

S&P Capital IQ

Recommendation: BUY

S&P Capital IQ Equity Analyst: E. Levy-CFA

Price: $17.63 (as of Sep 22, 2016 4:00 PM ET)

12-Mo. Target Price: $21.00

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: S&P Capital IQ, Vickers, company reports)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>52-Wk Range</td>
<td>$18.30–12.93</td>
</tr>
<tr>
<td>Trailing 12-Month EPS</td>
<td>$1.14</td>
</tr>
<tr>
<td>Trailing 12-Month P/E</td>
<td>15.5</td>
</tr>
<tr>
<td>$10K Invested 5 Yrs Ago</td>
<td>$16,663</td>
</tr>
</tbody>
</table>

Price Performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Share Price</th>
<th>Volume Above Avg.</th>
<th>STARS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>10.64</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>12.89</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>14.14</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>15.35</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>16.66</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

Highlights

- We expect 2016 revenues to rise about 10%, on aggregate higher U.S., European and Japan and Asia Pacific mirror sales, increased dimmable airplane windows sales, and ongoing benefits from the HomeLink acquisition. 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 revenues to advance on greater penetration, even as U.S. and Japan and Korea production slow; Europe production should rise.
- We project wider operating margins for 2016, as price reductions and unfavorable currency are outweighed by cost cutting and operating leverage. We expect further improvement in 2017. Contributions to other income from realized equity gains should be reduced this year.
- We expect EPS will increase to $1.21 in 2016 and $1.32 in 2017, from 2015’s $1.08. GNTX’s strategy for growth includes adding features to interior and exterior auto mirrors.
- GNTX recently traded at a premium to the peer average based on 2016 EPS estimates, but at a discount to the S&P MidCap 400 Index. We believe 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 $21 is derived by applying a multiple of about 16X, below GNTX’s average forward P/E and toward the lower part of GNTX’s seven-year historical range, to our 2017 EPS estimate of $1.32. We see slowing GNTX near-term growth, but we see trends supportive of increased Gentex content. We expect EPS accretion from the HomeLink acquisition and increasing visibility for 2016.

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This document is not intended to provide personal investment advice and does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek independent financial advice regarding the suitability and/or appropriateness of making an investment or implementing the investment strategies discussed in this document and should understand that statements regarding future prospects may not be realized. Investors should consider the risks of investing in the securities mentioned in this report. This investment may have an impact on their personal tax position from their own tax advisor. Please note the publication date. It may contain specific information that is no longer current and should not be used to make an investment decision.

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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 91% market share in auto-dimming rearview mirrors in 2015, up from 90% in 2014 and 88% in 2013, GNTX is believed to be the dominant supplier to the automotive industry.

Automotive products provided about 98% of sales in 2015, compared to 97% in 2014 and 98% in both 2013 and 2012.

The company ships interior mirrors as well as flat, convex and aspheric sub-assemblies for exterior use. In 2015, it sold 33.0 million mirrors, up from 2014’s 29 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 37% of auto-dimming mirror shipment units in 2015. 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 2016, with production trends varying by country. U.S. new light vehicle production should increase. 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 believe 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.
Quantitative Evaluations

S&P Capital IQ 5+
Fair Value Rank

Fair Value $22.30 Analysis of the stock’s current worth, based on S&P Capital IQ’s proprietary quantitative model, suggests that GNTX is Undervalued by $4.67 or 26.5%.

Investability Quotient Percentile

Volatility TECHNICAL EVALUATION

Technical Evaluation

Insider Activity UNFAVORABLE NEUTRAL FAVORABLE

For further clarification on the terms used in this report, please visit www.spcapitaliq.com/stockreportguide

Company Financials Fiscal Year Ended Dec. 31

Tangible Book Value 3.66 3.03 2.16 3.82 3.52 3.10 2.62 2.51 2.79 2.46
Cash Flow 1.35 1.24 0.99 0.76 0.72 0.63 0.38 0.35 0.54 0.46
Earnings 1.08 0.98 0.78 0.58 0.57 0.49 0.24 0.22 0.22 0.18
S&P Capital IQ Core Earnings NA NA NA NA NA NA NA NA NA NA
Dividends 0.49 0.30 0.28 0.26 0.24 0.22 0.22 0.21 0.20 0.18
Payout Ratio 45% 31% 35% 44% 45% 45% 46% 46% 50%
Prices;High 18.80 19.06 17.08 15.70 17.67 15.18 9.18 9.73 11.30 10.50
Prices;Low 13.84 13.17 9.06 7.19 10.92 8.27 3.51 3.25 7.43 6.37
P/E Ratio;High 17 19 22 17 19 17 15 15 17 17
P/E Ratio;Low 13 13 12 12 12 12 15 15 17 17

Income Statement Analysis (Million $)
Revenue 1,544 1,376 1,172 1,100 1,024 816 545 624 654 572
Operating Income 539 476 370 290 276 230 133 144 174 154
Depreciation 80.6 77.4 62.9 50.2 42.6 38.6 38.4 35.9 32.4 27.8
Interest Expense 5.48 NA NA NA NA NA NA NA NA NA
Pretax Income 464 415 328 250 244 230 133 144 174 154
Effective Tax Rate 31.3% 30.5% 19.0% 15.3% 16.1% 16.9% 11.9% 14.0% 18.7% 19.0%
Net Income 318 289 223 169 165 138 64.6 62.1 714 703
S&P Capital IQ Core Earnings NA NA NA NA NA NA NA NA NA NA

Balance Sheet & Other Financial Data (Million $)
Cash 556 497 310 450 419 435 353 323 398 245
Current Assets 984 857 601 745 752 655 505 457 528 447
Total Assets 2,149 2,023 1,764 1,626 1,176 1,003 823 763 898 795
Current Liabilities 131 133 120 88.0 101 72.1 58.6 49.5 68.4 57.4
Long Term Debt 226 258 266 Nil Nil Nil Nil Nil Nil
Common Equity 1,723 1,571 1,328 1,121 1,027 894 738 699 870 703
Total Capital 1,956 1,837 1,601 1,401 1,027 894 738 714 830 728
Capital Expenditures 97.9 72.5 55.4 117 120 46.9 21.1 45.5 54.5 48.2
Cash Flow 239 366 286 219 207 176 103 98.0 155 137
Current Ratio 7.5 6.4 5.0 8.5 7.5 9.1 8.6 9.2 7.7 7.8
% Long Term Debt of Capitalization 11.5 14.1 16.6 Nil Nil Nil Nil Nil Nil
% Net Income of Revenue 20.6 21.0 19.0 15.3 16.1 16.9 11.9 10.0 18.7 19.0
% Return on Assets 15.3 15.2 14.3 13.8 15.1 15.1 8.2 7.5 14.5 12.7
% Return on Equity 19.3 19.9 18.2 15.7 17.2 16.9 9.0 8.3 16.2 14.1

Figures based on calendar year-end price

Key Growth Rates and Averages
Past Growth Rate (%) 1 Year 3 Years 5 Years 9 Years
Sales 12.22 12.50 12.54 12.63
Net Income 10.35 24.19 19.22 16.45

Ratio Analysis (Annual Avg.)
Net Margin (%) 20.63 20.21 18.41 16.60
% LT Debt to Capitalization 11.54 14.06 8.44 5.27
Return on Equity (%) 19.34 19.15 18.06 15.63

For further clarification on the terms used in this report, please visit www.spcapitaliq.com/stockreportguide

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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 Europe production will improve again 2017, but currency swings should hurt reported results in U.S. dollars. We believe profits should benefit from higher U.S. and international vehicle production.

We see U.S. new light vehicle sales rising fractionally to a cyclical peak of 17.4 million in 2016, before softening in 2017. In addition, we expect sales growth in most regions. Rising prosperity in emerging markets, led by China, should drive global demand growth, despite slowed regional economic growth, and still depressed but rising European demand. Russia and South America should see challenges, too. We think rising volume in the U.S. and abroad versus will help corporate profits and cash flows. Positive factors we see in the U.S. include pent-up consumer and business demand and improved access to credit for consumers. The average vehicle age is now about 11.5 years, an industry record. Cost cutting should also help margins, and lower gasoline prices is a positive in our view. Also, easing of high raw material costs would benefit profit margins, while an increase would hurt. The strong dollar should hurt those with exposure to sales in denominated in weaker currencies.

We forecast higher global vehicle production in 2016, with production trends varying by country. U.S. new light vehicle production should increase, as should Europe’s. 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 2016.

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 August 31, the S&P Auto Parts Equipment Index dropped 2.0%, compared to a 6.8% increase in the S&P 1500 Index. In 2015, the S&P Auto Parts & Equipment Index fell 8.1%, compared to a 1.0% decrease 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 Sep 24, 2016

<table>
<thead>
<tr>
<th>Stock</th>
<th>Recent Stock Price($)</th>
<th>52 Week High/Low($)</th>
<th>Beta</th>
<th>Yield (%)</th>
<th>P/E Ratio</th>
<th>Fair Value Calc($)</th>
<th>S&amp;P IQ %ile</th>
<th>Return on Revenue (%)</th>
<th>LTD to Cap (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNTX</td>
<td>17.63</td>
<td>18.30/12.93</td>
<td>1.33</td>
<td>2.0</td>
<td>15</td>
<td>22.30</td>
<td>A</td>
<td>20.6</td>
<td>11.5</td>
</tr>
<tr>
<td>SHLD</td>
<td>7.06</td>
<td>9.78/3.06</td>
<td>0.97</td>
<td>Nil</td>
<td>NM</td>
<td>NM</td>
<td>NA</td>
<td>13</td>
<td>0.8</td>
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<tr>
<td>SPAR</td>
<td>9.49</td>
<td>9.95/2.61</td>
<td>1.63</td>
<td>1.1</td>
<td>NM</td>
<td>7.80</td>
<td>B</td>
<td>70</td>
<td>3.3</td>
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<tr>
<td>STRT</td>
<td>18.88</td>
<td>19.20/10.51</td>
<td>2.86</td>
<td>Nil</td>
<td>16</td>
<td>NA</td>
<td>C</td>
<td>82</td>
<td>3.6</td>
</tr>
</tbody>
</table>

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

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.
S&P Capital IQ Analyst Research Notes and other Company News

July 22, 2015
12:47 pm ET ... S&P GLOBAL REITERATES BUY OPINION ON SHARES OF GENTEX CORP. (GNTX 18.26****): We raise our 12-month target price $1 to $20, or about 18X our 2015 EPS estimate, based on historical P/E analysis. We increase our 2015 projection $0.04 to $1.04 and initiate 2016’s at $1.15. GNTX posts Q1 EPS 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 EPS estimate of $1.26 (cut $0.03), based on historical and peer P/E analysis. GNTX posts Q1 EPS of $1.32, vs. $1.23, above the Capital IQ consensus estimate, on slightly better-than-expected revenues, despite unfavorable exchange rates. Margins improved, helped by purchasing costs reductions and better mix. We see gains in North America, Europe, Japan and Korea production helping GNTX revenue grow 8% in ’16. /E. Levy-CFA

April 22, 2015
04:30 pm ET ... S&P CAPITAL IQ MAINTAINS BUY OPINION ON SHARES OF GENTEX CORP. (GNTX 18.26****): We raise our 12-month target price $1 to $20, or about 18X our 2015 EPS estimate, based on historical P/E analysis. We increase our 2015 projection $0.04 to $1.04 and initiate 2016’s at $1.15. GNTX posts Q1 EPS of $1.32, vs. $1.23, above the Capital IQ consensus of $0.25, despite better than expected revenues, as unanticipated manufacturing costs for new technology launches and unfavorable exchange rates hurt profitability. Revenues impressively grew 10% despite lower production in key markets and 1% currency headwinds. We expect about 9% revenue growth for the current year. /E. Levy-CFA

January 29, 2016
11:56 am ET ... CORRECTION - S&P CAPITAL IQ KEEPS BUY OPINION ON SHARES OF GENTEX CORP. (GNTX 13.27****): We lower our 12-month target by $2 to $16, or 14X our ’16 EPS estimate of $1.16 (cut $0.02), based on historical P/E analysis amid falling peer valuations and slowing growth. We initiate a ’17 forecast at $1.33. GNTX posts Q4 EPS of $0.30 vs. $0.24, $0.04 above our forecast and $0.03 higher than the Capital IQ consensus, on slightly better-than-expected revenues, despite unfavorable exchange rates. Margins improved, helped by purchasing costs reductions and better mix. We see gains in North America, Europe, Japan and Korea production helping GNTX revenue grow 8% in ’16. /E. Levy-CFA

January 29, 2016
11:56 am ET ... S&P CAPITAL IQ KEEPS BUY OPINION ON SHARES OF GENTEX CORP. (GNTX 13.27****): We lower our 12-month target by $4 to $12, or 14X our ’16 EPS estimate of $1.16 (cut $0.02), based on historical P/E analysis amid falling peer valuations and slowing growth. We initiate a ’17 forecast at $1.31 (had published $1.33). GNTX posts Q4 EPS of $0.30 vs. $0.24, $0.04 above our forecast and $0.03 higher than the Capital IQ consensus, on greater-than-expected revenues, despite unfavorable exchange rates. Margins improved, helped by purchasing costs reductions and better mix. We see gains in North America, Europe, Japan and Korea production helping GNTX revenue grow some 8% in ’16. /E. Levy-CFA

October 21, 2015
01:31 pm ET ... S&P CAPITAL IQ MAINTAINS BUY OPINION ON SHARES OF GENTEX CORP. (GNTX 15.80****): We raise our ’15 EPS estimate $0.01 and ’16’s by $0.05 to $1.18, on an improved operating margin outlook. We keep our 12-month target price of $20, or 17X our ’16 EPS estimate, based on historical P/E analysis. GNTX posts Q3 EPS of $0.27, vs. $0.25, in line with the Capital IQ consensus and $0.01 above our estimate. Revenues were modestly below expectations, hurt by unfavorable exchange rates. A reduction from realized investment income to a loss weighed year over year comparisons. We see gains in North American and European production helping revenue growth about 11% in ’15. /E. Levy-CFA

July 24, 2015
05:03 pm ET ... S&P CAPITAL IQ REITERATES BUY OPINION ON SHARES OF GENTEX CORP. (GNTX 18.13****): We trim our 2015 EPS estimate a penny and lower 2016’s $0.02 to $1.13, on a weaker gross margin outlook. We keep our 12-month target price of $20, or 17.7X our 2016 EPS estimate, based on historical P/E analysis. GNTX posts Q1 EPS of $0.25, vs. $0.26, in line with our forecast and the Capital IQ consensus. Revenues were modestly above expectations, while unfavorable exchange rates hurt profitability. Also, a reduction in realized investment income hurt year over year comparisons. We expect about 11% revenue growth for 2015 led by stronger North American and European production. /E. Levy-CFA
Of the total 11 companies following GNTX, 11 analysts currently publish recommendations.

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>No. of Recommendations</th>
<th>% of Total</th>
<th>1 Mo. Prior</th>
<th>3 Mos. Prior</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>5</td>
<td>45</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Buy/Hold</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Hold</td>
<td>3</td>
<td>27</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Weak Hold</td>
<td>1</td>
<td>9</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Sell</td>
<td>1</td>
<td>9</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>No Opinion</td>
<td>1</td>
<td>9</td>
<td>1</td>
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</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>100</td>
<td>11</td>
<td>11</td>
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</tbody>
</table>

**Wall Street Consensus Estimates**

<table>
<thead>
<tr>
<th>Fiscal Years</th>
<th>Avg Est.</th>
<th>High Est.</th>
<th>Low Est.</th>
<th># of Est.</th>
<th>Est. P/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1.31</td>
<td>1.24</td>
<td>1.25</td>
<td>10</td>
<td>13.5</td>
</tr>
<tr>
<td>2016</td>
<td>1.20</td>
<td>1.21</td>
<td>1.18</td>
<td>11</td>
<td>14.7</td>
</tr>
<tr>
<td>2017 vs. 2016</td>
<td>▲ 9%</td>
<td>▲ 11%</td>
<td>▲ 6%</td>
<td>▼ -9%</td>
<td>▼ -8%</td>
</tr>
<tr>
<td>Q3'17</td>
<td>0.33</td>
<td>0.34</td>
<td>0.33</td>
<td>5</td>
<td>53.4</td>
</tr>
<tr>
<td>Q3'16</td>
<td>0.30</td>
<td>0.31</td>
<td>0.30</td>
<td>9</td>
<td>58.8</td>
</tr>
<tr>
<td>Q3'17 vs. Q3'16</td>
<td>▲ 10%</td>
<td>▲ 10%</td>
<td>▲ 10%</td>
<td>▼ -44%</td>
<td>▼ -9%</td>
</tr>
</tbody>
</table>

A company's earnings outlook plays a major part in any investment decision. S&P Capital IQ 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.
S&P Capital IQ STARS
Since January 1, 1987, 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, S&P Capital IQ Equity Research has ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), S&P Capital IQ 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 capitalize 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 |
| A- | Above Average |
| B+ | Average |
| B- | Lower |
| C | Lowest |
| D | In Reorganization |
| NR | Not Ranked |

S&P Capital IQ EPS Estimates
S&P Capital IQ 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, S&P Capital IQ EPS estimates reflect either forecasts of S&P Capital IQ equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to S&P Capital IQ Equity Research. 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 effects 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.

S&P Capital IQ Core Earnings
S&P Capital IQ 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 S&P Capital IQ 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, and M&A related expenses and realized 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.

S&P Capital IQ 12-Month Target Price
The S&P Capital IQ 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 S&P Capital IQ Fair Value.

S&P Capital IQ Equity Research

Glossary

- DDM - Dividend Discount Model
- CAGR - Compound Annual Growth Rate
- ROIC - Return on Invested Capital
- ROE - Return on Equity
- ROCE - Return on Capital Employed
- FY - Fiscal Year
- ROIC - Return on Invested Capital
- ROA - Return on Assets
- SG&A - Selling, General & Administrative Expenses
- SOP - 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).

S&P Capital IQ Qualitative Risk Assessment
Reflects an S&P Capital IQ 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 S&P Capital IQ Qualitative Risk Assessment is a relative ranking to the S&P 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-STARS (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.

Abbreviations Used in S&P Capital IQ Equity Research Reports

- CAGR - Compound Annual Growth Rate
- CAPEX - Capital Expenditures
- CV - 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
SOP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

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**STARS Stock Reports:**
S&P Capital IQ Global STARS Distribution as of June 30, 2016

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<thead>
<tr>
<th>Ranking</th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
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<tr>
<td>Buy</td>
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<td>17.5%</td>
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<tr>
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<td>57.6%</td>
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<td>49.6%</td>
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<td>25.0%</td>
<td>26.7%</td>
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<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

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