Abbott Laboratories

S&P Laboratories: HOLD ★★ ★　Price: $35.89 (as of Aug 9, 2013)

GICS Sector: Health Care　Sub-Industry: Health Care Equipment

Summary: This diversified health care products company is now focused on nutritional, diagnostics, generic drugs, and medical devices, following the spinoff of its R&D-based prescription pharmaceuticals business at the beginning of 2013.

Key Stock Statistics (Source: S&P, Vickers, Company reports)

- **Price Performance:**
  - 52-Wk Range: $72.47–31.64
  - Trailing 12-Month EPS: $2.51
  - $10K Invested 5 Yrs Ago: NA
  - Common Shares Outstg, (M): 1,554.1

- **Valuation:**
  - P/E on S&P Oper. EPS 2013: 17.6
  - Dividend Rate/Share: $0.56

- **Operating EPS:**
  - 2013: $0.55
  - 2014: $2.04

- **DECLARATIONS AND CERTIFICATIONS:**
  - Please read the Required Disclosures and Analyst Certification on the last page of this report.

**Highlights**

- **We expect 2013 sales, inclusive of an adverse 2.5% foreign exchange impact, to grow 3.8%, to $22.25 billion.** We see sales driven by robust growth in emerging markets, which currently account for about 40% of sales, tempered by modest growth in developed countries. By segment, we expect nutritional products to grow 8.2% and diagnostics 5%, while established pharmaceuticals are expected to decline 1.3% and medical devices 1.8%. In July, the Chinese government announced an investigation of infant formula suppliers regarding anti-trust and price fixing. Subsequently, several suppliers, including ABT, announced price cuts, but we believe the impact on ABT will be nominal as we view it as well positioned within the global health care markets, we believe that many of those markets are relatively mature, with growth to be driven by new products and further expansion in emerging markets, which account for about 40% of current sales. We believe emerging markets could account for over 45% of sales by 2015, while U.S. sales decline to less than 30% of sales. We believe the shares, trading at 17X our forward 12 months EPS estimate of $2.16, slightly above peers, are fairly valued.

- **In July, ABT agreed to acquire OptiMedica, an ophthalmic device maker, for up to $400 million, and IDEV Technologies, a medical device maker, for $310 million, subject to approvals.**

- **Our forecast for 2013 operating EPS is $2.04.**

**Investment Rationale/Risk**

- **On January 1, 2013, ABT spun off its research-based pharmaceutical unit, Abbvie (ABBV 45, Buy).** ABT now consists of four segments of roughly similar sizes: Nutritional Products, Diagnostics, Established Pharmacies, and Medical Devices. While we see ABT as well positioned within the global health care markets, we believe that many of those markets are relatively mature, with growth to be driven by new products and further expansion in emerging markets, which account for about 40% of current sales. We believe emerging markets could account for over 45% of sales by 2015, while U.S. sales decline to less than 30% of sales. We believe the shares, trading at 17X our forward 12 months EPS estimate of $2.16, slightly above peers, are fairly valued.

- **Risks to our recommendation and target price include greater than expected pricing pressures and adverse foreign currency impact.**

- **Our 12-month target price of $40 applies a slight premium-to-peers P/E of 18.5X our forward 12-months EPS estimate, warranted, in our view, by ABT’s leadership position in several end-markets.**

**Price/Earnings Data**

- **Fiscal year ended Dec. 31. Next earnings report expected: Mid-October. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.**

**Dividend Data**

- Dividends have been paid since 1926. Source: Company reports.

**Required Disclosures and Analyst Certification**

Please read the Required Disclosures and Analyst Certification on the last page of this report.
Business Summary

CORPORATE OVERVIEW. Following the early January 2013 spinoff of its research-based pharmaceuticals operations in the form shares in a new company called Abbvie, Abbott’s businesses are now largely concentrated in nutritionalis, medical products and generic drugs. These diverse operations are largely a result of strategic acquisitions made over the years, as well as from internal R&D programs. Abbott commands leading market positions in immunoassay and blood screening products, coronary metallic drug-eluting stents, LASIK devices, and pediatric nutritionalis (in the U.S.). The company is the worldwide leader in adult nutritionalis.

On a pro forma basis, indicated sales of about $21.4 billion in 2012 were divided as follows: nutritionalis 30%, established pharmaceuticals 23%, diagnostics 20%, vascular products 14%, and other products 13%. The United States accounted for an indicated 30% of company sales in 2012, developed markets outside of the U.S. for 30%, and emerging markets for 40%. Abbott expects emerging markets to represent 45-50% of its total sales by 2015.

Nutritionalis fall under U.S.-based Ross Products and Abbott Nutrition International. Products include leading infant formulas sold under the Similac and Isomil names, as well as adult nutritionalis, such as Ensure and ProSure for patients with special dietary needs, including cancer and diabetes patients. ABT also markets enteral feeding (tube feeding) items. Emerging markets account for close to 45% of the company’s nutritional sales.

The company’s continuing established pharmaceuticals business comprise branded generics which are sold in emerging markets (50% of the division’s sales) and developed markets (50%). Branded generics typically command higher margins than conventional generics, especially in emerging markets, as their branded labels afford them a sense of quality and reliability over unbranded drugs. ABT’s growth strategy for this business comprises efforts to increase the breadth of product offerings by launching new and improved formulations, and registering products across multiple geographic regions.

ABT offers a wide range of tests and diagnostic systems for blood banks, hospitals, and labs. Principal products include screening tests for hepatitis, HIV, and other infectious diseases, and for cancer; clinical chemistry systems; diagnostic instruments and chemical reagents; immunoassay test kits; hematology systems and reagents; and pregnancy tests.

Abbott Vascular markets coronary and carotid stents, catheters and guide wires, and products used for surgical closure. The principal product is the new Xience drug-eluting stent (DES), which is presently the leading product in the domestic DES market. During 2013, ABT plans to expand its launch of the new Xience Xpedition stent line in the U.S., launch that line in Japan, and increase global market penetration of newer products such as the MitraClip mitral valve repair system and Absorb bioresorbable vascular scaffold.

Other products include diabetes care items such as the Precision and FreeStyle lines of hand-held glucose monitors for diabetes patients, as well as data management and point-of-care systems, insulin pumps and syringes for diabetics. Glucerna shakes and nutrition bars tailored for diabetics are also offered.

In February 2009, Abbott completed the acquisition of Advanced Medical Optics (AMO) for about $2.8 billion in cash. AMO is a leader in ophthalmic care with the No. 1 position in LASIK surgical devices, the No. 2 position in cataract surgical products, and the No. 3 slot in contact lens care products.

FINANCIAL TRENDS. In early 2013, Abbott noted that it had significant cash flow generation potential, upward of $4 billion, which should enable the company with ample resources for investments in future growth and returns to shareholders. In mid-July 2013, Abbott confirmed prior non-GAAP operating EPS guidance for 2013 in the $1.98 to $2.04 range. Pro forma 2012 sales were $21.4 billion and adjusted operating EPS was $1.74. We forecast 2013 sales growth of 3.6%, to $22.25 billion, and adjusted operating EPS growth of 17.2%, to $2.04.
### Quantitative Evaluations

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<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<td>Fair Value Calculation</td>
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Based on S&P’s proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

### Key Growth Rates and Averages

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<tr>
<th>Past Growth Rate (%)</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>9 Years</th>
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<td>2.63</td>
<td>9.17</td>
<td>9.30</td>
<td>9.16</td>
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<tr>
<td>Net Income</td>
<td>26.09</td>
<td>1.34</td>
<td>6.77</td>
<td>9.66</td>
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</table>

### Key Ratios

- **R**atio Analysis (Annual Avg.):
  - **Net Margin (%)**: 14.95, 13.43, 15.00, 14.20
  - **% LT Debt to Capitalization**: 40.01, 35.27, 34.46, 32.05
  - **Return on Equity (%)**: 23.13, NA, NA, NA

### Expanded Ratio Analysis

- **price/sales ratio**: 2012 = 2.61, 2011 = 2.27, 2010 = 2.12, 2009 = 2.73
- **Avg. Diluted Shares Outstanding (M)**: 2012 = 1,591.8, 2011 = 1,567.4, 2010 = 1,556.0, 2009 = 1,555.1

### Company Financials: Fiscal Year Ended Dec. 31

#### Income Statement Analysis (Million U.S. $)

|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|


**Interest Expense**: 2012 = 592, 2011 = 445, 2010 = 448

**Pretax Income**: 2012 = 6,263, 2011 = 5,199, 2010 = 5,713, 2009 = 7,194

**Effective Tax Rate**: 2012 = 4.79%, 2011 = 9.04%, 2010 = 19.0%

**Net Income**: 2012 = 5,963, 2011 = 4,729, 2010 = 4,626

**S&P Core Earnings**: 2012 = 6,122, 2011 = 5,985, 2010 = 4,739

#### Balance Sheet & Other Financial Data (Million U.S. $)

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<td>15,174</td>
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<td>5,451</td>
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**Total Assets**: 2012 = 67,235, 2011 = 60,277

**Current Liabilities**: 2012 = 13,280, 2011 = 15,480

**Long Term Debt**: 2012 = 18,085, 2011 = 12,040

**Common Equity**: 2012 = 6,122, 2011 = 5,985

**Total Capital**: 2012 = 45,207

**Capital Expenditures**: 2012 = 1,795

**Cash Flow**: 2012 = 8,746

**Current Ratio**: 2012 = 2.4, 2011 = 1.5

**% Long Term Debt of Capitalization**: 2012 = 40.0%

**% Net Income of Revenue**: 2012 = 15.0%

**% Return on Assets**: 2012 = 9.4

**% Return on Equity**: 2012 = 23.1

### Data as orig reptd.; 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.
Sub-Industry Outlook

Our fundamental outlook for the health care equipment sub-industry for the next 12 months is neutral. We continue to view many product categories as historically recession-resistant, and we expect they will continue to grow, albeit more slowly and more irregularly than they did prior to the recent recession. We remain concerned about continued weak demand for elective medical procedures. In addition, growth in procedure rates has slowed in areas we normally view as non-elective, such as cardiac rhythm management, interventional cardiology and orthopedics. On the other hand, some orthopedic product makers believe that procedure rates for their products may be stabilizing in certain categories.

We believe the new medical device tax required by the health care reform law and that took effect this year has prompted the sub-industry to align its cost structure to partially offset the impact of the tax. However, since the levy is income tax deductible, its after-tax effect will be lower, and we therefore view the impact of health care reform as manageable. Many equipment makers have implemented cost reduction initiatives to help offset the levy.

We expect 2013 revenues to rise in constant currency at a mid- to upper-single digit pace, aided by new products, expansion into emerging markets, and, in some cases, acquisitions. Still, we expect extended replacement cycles at U.S. hospitals in some areas, pricing pressures, European austerity measures, lower demand in certain product categories and unfavorable currency exchange to continue to affect growth. In addition, until recently, we had seen sales gains in equipment that hospitals believe can differentiate them from one another and/or offer a possible high return on investment. We now think U.S. hospitals have become more cautious regarding their capital budgets amid the shift in some procedures from inpatient to outpatient settings and pending 2014 health care reform rules.

We see positive longer-term fundamentals, including increasing global demand for quality health care, aging populations and rising R&D outlays, leading to a steady flow of new diagnostic and therapeutic products.

Year to date to July 19, the S&P Health Care Equipment Index was up 18.0%, versus a 19.0% increase in the S&P 1500 Composite Index. In 2012, the sub-industry index rose 16.8%, versus a 13.7% increase in the 1500. The gains so far in 2013 suggest to us that investors have been relatively pleased with the health care equipment makers’ performance. Still, it is the second slowest advancer in the Health Care group of indices year to date, due, we believe, to the aforementioned headwinds.

--Phillip M. Seligman

Stock Performance

GICS Sector: Health Care
Sub-Industry: Health Care Equipment

Based on S&P 1500 Indexes
Month-end Price Performance as of 7/31/13

Sub-Industry : Health Care Equipment Peer Group*: Based on market capitalizations within GICS Sub-Industry

| 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 IQ %ile | Return on Revenue (%) | LTD to Cap (%) |
|-------------------------------|--------------|------------------------|..........................|.....................|......|...........|...........|..................|...............|........................|................|
| Abbott Laboratories           | ABT          | 55,778                 | 35.89                   | 72.47/31.64         | 0.19 | 1.6       | 14        | 41.40                 | A           | 99                        | 15.0            | 40.0          |
| CareFusion Corp               | CFN          | 8,122                  | 36.95                   | 39.38/26.00         | NA   | Nil       | 22        | 43.60                 | NR          | 31                        | 10.0            | 17.6          |
| DexCom Inc                    | DXCM         | 1,857                  | 23.09                   | 27.96/13.03         | 0.89 | Nil       | 22        | 43.60                 | NR          | 31                        | 10.0            | 17.6          |
| Edwards Lifesciences          | EW           | 9,289                  | 72.87                   | 110.78/62.34        | 0.43 | Nil       | 21        | 77.20                 | B+          | 95                        | 15.4            | 11.3          |
| Globus Medical                | GMED         | 1,574                  | 17.13                   | 19.93/10.26         | NA   | Nil       | 21        | 77.20                 | B+          | 95                        | 15.4            | 11.3          |
| HeartWare International       | HTWR         | 1,217                  | 85.31                   | 99.68/74.77         | -0.29| Nil       | 21        | 77.20                 | B+          | 95                        | 15.4            | 11.3          |
| Insulet Corp                  | POOD         | 1,621                  | 34.08                   | 34.40/19.50         | 1.45 | Nil       | 21        | 77.20                 | B+          | 95                        | 15.4            | 11.3          |
| MAKO Surgical                 | MAKO         | 637                    | 15.03                   | 19.62/10.00         | 0.49 | Nil       | 21        | 77.20                 | B+          | 95                        | 15.4            | 11.3          |
| Masimo Corp                   | MASI         | 1,448                  | 24.85                   | 25.94/19.03         | 0.75 | Nil       | 23        | 21.70                 | NR          | 71                        | 12.6            | NA            |
| NxStage Medical               | NXTM         | 725                    | 13.00                   | 14.64/10.15         | 0.62 | Nil       | 21        | 77.20                 | B+          | 95                        | 15.4            | 11.3          |
| Sirona Dental Sys             | SIRI         | 3,998                  | 70.36                   | 75.81/49.65         | 1.54 | Nil       | 21        | 77.20                 | B+          | 95                        | 15.4            | 11.3          |
| Sunshine Heart                | SSH          | 16,794                 | 8.83                    | 9.80/4.85           | NA   | Nil       | 21        | 77.20                 | NR          | 71                        | 12.6            | NA            |
| Teleflex Inc                  | TFX          | 3,176                  | 77.25                   | 87.46/62.02         | 0.74 | 1.8       | 17        | 73.40                 | NR          | 80                        | NA              | NA            |
| Tornier NV                    | TRNX         | 825                    | 19.45                   | 20.49/14.53         | 1.78 | Nil       | 21        | 77.20                 | NR          | 80                        | NA              | NA            |
| Volcano Corp                  | VOLC         | 1,169                  | 22.11                   | 30.15/16.37         | 0.25 | Nil       | 21        | 77.20                 | NR          | 80                        | NA              | NA            |

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.
July 17, 2013
10:54 am ET ... S&P MAINTAINS HOLD OPINION ON SHARES OF ABBOTT LABORATORIES (ABT 36.33***): We keep our 12-month target price at $40 and our 2013 EPS estimate at $2.04. Q2 adjusted EPS of $0.46, vs. $0.43, is $0.02 above our estimate. Sales, including 1.7% adverse forex, rose 2.5% with robust 8.4% growth in Nutritional products, aided by 18.4% international growth, and 7.6% growth in Diagnostics. However, Pharmaceutical products rose only 0.2% as sales in developed markets fell 3.4%, and medical devices sales were flat, as we anticipated. We view the results as solid, amid a challenging macro environment but believe expanding emerging market sales will drive growth. /Jeffrey Loo, CPA

April 18, 2013
07:33 am ET ... S&P REITERATES BUY OPINION ON SHARES OF ABBOTT LABORATORIES (ABT 33.37***): We are reducing our target price by $4 to $38. $2.00 EPS estimate for 2013 versus our prior pre-spinoff estimate of $5.55. While we view ABT as well positioned in diversified health care products markets, we think many of those markets are relatively mature, with future EPS growth likely coming largely from margin expansion. /H. Saftlas

November 29, 2012
ABT announces that its Board has approved the separation of its research-based pharmaceuticals business, which will be known as AbbVie Inc., and declared a special dividend distribution of all the outstanding shares of AbbVie common stock. For every 1 shares of ABT held, ABT holders will get 1 share of AbbVie common stock.

November 29, 2012
11:23 am ET ... RETRANSMIT - S&P REITERATES BUY OPINION ON SHARES OF ABBOTT (ABT 64.87****): ABT’s board approves the spin-off of its research-based pharmaceutical business named AbbVie Inc. ABT shareholders will receive one share of AbbVie (NYSE symbol ABBV) for each share of ABT held. The distribution will be on Jan. 1, 2013, to stockholders of record on Dec. 12. Our $76 target for the presently combined firm remains unchanged. We see shareholder values of legacy Abbott and Abbvie enhanced by the split, with investors now able to better focus on the growth potentials of each firm. ABBV plans to pay a $1.60 annual dividend, and ABT a $0.56 annual dividend. /H. Saftlas

October 17, 2012
03:14 pm ET ... S&P REITERATES BUY OPINION ON SHARES OF ABBOTT LABORATORIES (ABT 69.11****): We are raising our target price by $2 to $76, following robust Q3 non-GAAP EPS and enhanced valuations that we see for the planned split of ABT into two separate companies, effective Jan 1, 2013. Helped by better gross margins, Q3 EPS rose 10% to $1.30, $0.02 above our forecast. Operating sales rose 4.1%, but were down slightly after negative forex. We raise our 2012 estimate $0.03 to $5.08. We like the R&D pipeline of the new Abbvie pharmaceuticals company, which also plans to pay a $1.60 annual dividend. The legacy Abbott unit is expected to pay a $0.56 annual dividend. /H. Saftlas

July 18, 2012
11:53 am ET ... S&P REITERATES BUY OPINION ON SHARES OF ABBOTT LABORATORIES (ABT 66.25****): We are raising our target price by $4 to $74, following robust Q2 operational results, and enhanced valuations that we see for the planned split-up of ABT into two separate companies. Q2 non-GAAP EPS climbed 9.8%, to $1.23 ($0.02 above our estimate), with sales gains in Humira arthritis treatment, Xience stent, and nutritional more than offsetting negative forex comparisons. Q2 sales rose 2.0%, after a 4.7% hit from a stronger dollar. The split-up is to be accomplished later this year with the spinoff of the R&D-based drug business to be called AbbVie. The dividend yields 3.0%. /H. Saftlas

January 30, 2013
TH A HOLD OPINION (ABBV 37.34***): This spin-off from Abbott Laboratories (ABT 34****) ranks among the world’s leading drugmakers. Still, we note that some 45% of sales comes from one drug - Humira, a rheumatoid arthritis treatment whose patent expires in 2016. We also see generics impacting AbbV’s lipid lowering and HIV franchises. On the plus side, we like AbbV’s robust pipeline, which we think has promising therapies for hepatitis C, Parkinson’s disease and cancer. Our target price of $40 applies a modest premium-to-peers P/E of 12.8X to our 2013 EPS estimate of $3.12. The $1.60 dividend provides a 4.3% yield. /H. Saftlas

January 23, 2013
12:03 pm ET ... S&P REITERATES HOLD OPINION ON SHARES OF ABBOTT LABORATORIES (ABT 32.88***): We maintain our target price of $36, and our 2013 operating EPS estimate of $2.00, near the midpoint of ABT’s new $1.96 - $2.04 guidance range. Q4 EPS of $1.51, vs. $1.45, was $0.06 above our forecast. While sales rose 4.4%, we attribute most of the gain to strength in drugs such as Humira that are now booked by recently spun-off Abbvie (ABBV 37, NR). For 2013, we see mid-single top line growth, helped by new products such as Absorb vascular scaffold and MitraClip valve repair system, as well as by greater penetration of emerging markets. The dividend presently yields 1.7%. /H. Saftlas

January 14, 2013
05:44 pm ET ... S&P DOWNGRADES OPINION ON SHARES OF ABBOTT LABORATORIES TO HOLD FROM BUY (ABT 33.37***): We are reducing our 12-month target price by $40, to $36, to reflect the recent spin-off of the company’s research-based pharmaceuticals business as shares of a new publicly traded firm called AbbVie, Inc. (ABBV 34, NR). Our new target price applies a premium-to-peers P/E multiple of 18X to our new $2.00 EPS estimate for 2013 (versus our prior pre-spinoff estimate of $5.55). While we view ABT as well

Source: S&P
Analysts’ Recommendations

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<th>Monthly Average Trend</th>
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<th>Buy/Hold</th>
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<th>Sell</th>
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Wall Street Average

Number of Analysts Following Stock

Stock Price ($)  

2011 2012 2013

Of the total 35 companies following ABT, 28 analysts currently publish recommendations.

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Wall Street Consensus Estimates

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<td>2014 vs. 2013</td>
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<td>▲ 24%</td>
<td>▲ 6%</td>
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<td>▲ 7%</td>
<td>▲ 8%</td>
<td>▼ -45%</td>
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A company’s earnings outlook plays a major part in any investment decision. Standard & Poor’s organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

Glossary

S&P 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 used STARS® methodology to rank Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), S&P 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 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 Fair Value.

Investment Style Classification
Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

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 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.

S&P 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, 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.

Qualitative Risk Assessment
The 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 Qualitative Risk Assessment is a relative ranking to the S&P Capital IQ 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.

Quantitative Evaluations
In contrast to our qualitative STARS recommendations, which are assigned by S&P Capital IQ analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P Capital IQ analysts assign many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

S&P Quality Ranking (also known as S&P 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  B+ Below Average  A+ Above Average  C Lowest
A+ High    D Lowest     B+ Average  NR In Reorganization
B Below Average

S&P Fair Value Rank
Using S&P Capital IQ’s exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 1, the most undervalued stocks, to Group 5, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

S&P Fair Value Calculation
The price at which a stock should trade at, according to S&P Capital IQ’s proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company’s actual return on equity, the S&P Fair Value model places a value on a stock based on placing a formula-derived price-to-book multiple on a company’s consensus earnings per share estimate.

Insider Activity
Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company’s stock during the most recent six months.

Funds From Operations FFO
FFO is Funds from Operations and equal to a REIT’s net income, excluding gains or losses from sales of property, plus real estate depreciation.

Investability Quotient (IQ)
The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P Capital IQ proprietary measures.

S&P’s IQ Rationale

<table>
<thead>
<tr>
<th>Investment Style Classification</th>
<th>Qualitative Risk Assessment</th>
<th>Quantitative Evaluations</th>
<th>S&amp;P Quality Ranking</th>
<th>S&amp;P Fair Value Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
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<tr>
<td>Value</td>
<td></td>
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<tr>
<td>Blend</td>
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</tbody>
</table>
Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P Capital IQ's universe on a rolling 13-week basis.

Global Industry Classification Standard (GICS)

S&P Issuer Credit Rating
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Exchange Type
ASE - American Stock Exchange; AU - Australia Stock Exchange; BB - Bulletin Board; NGM - Nasdaq Global Market; NNM - Nasdaq Global Select Market; NSC - Nasdaq Capital Market; NYS - New York Stock Exchange; OTN - Other OTC (Over the Counter); OTC - Over the Counter; QB - OTCQB; QX - OTCQX; TS - Toronto Stock Exchange; TXV - TSX Venture Exchange; NEX - NEX Exchange.

S&P Capital IQ Equity Research

Abbreviations Used in S&P Capital IQ 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 Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).
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### S&P Capital IQ Global STARS Distribution as of June 30, 2013

<table>
<thead>
<tr>
<th>Ranking</th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>34.6%</td>
<td>31.8%</td>
<td>36.5%</td>
<td>34.3%</td>
</tr>
<tr>
<td>Hold</td>
<td>57.6%</td>
<td>44.1%</td>
<td>59.6%</td>
<td>55.7%</td>
</tr>
<tr>
<td>Sell</td>
<td>7.8%</td>
<td>24.1%</td>
<td>3.9%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

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 is 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.

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