SEPTEMBER 24, 2024

BIRK - $49.17 OUTPERFORM

Price Target (Current)	$70.00
Price Target (Previous)	SAME

Market Statistics	09/23/2024
Market Capitalization ($MM):	$9,294.2
Enterprise Value (MM):	$10,174.8
Shares Outstanding (MM):	189.0
Avg. Daily Trading Volume (Shrs, 000s):	997.8
Short Interest/Float:	8.3%
Insider Ownership (% of Total Shrs Out):	69.0%
Dividend Yield:	0.0%
Stock Exchange:	NYSE

Price Performance	09/23/2024
52-Week Range:	$35.83-$64.78
YTD % Change:	22.3%
YTD % Change Relative to Index:	22.1%
Implied Return to Price Target:	42.4%

Valuation Metrics(FYE September)	2023	2024E	2025E
EV/Sales	6.1x	5.1x	4.4x
P/E Ratio	39.2x	35.9x	25.2x
EV/EBITDA	18.9x	16.8x	14.0x
FCF Yield (using EV)	1.6%	1.9%	4.1%
EPS (Operating)	€1.13	€1.23	€1.75

Total Sales Growth			Adjusted EBITDA		
Period	Current	*Previous*	Period	Current	*Previous*
1Q23	23.4%	-	1Q23	€72	-
2Q23	16.0%	-	2Q23	€152	-
3Q23	25.0%	-	3Q23	€163	-
4Q23	16.5%	-	4Q23	€96	-
2023	20.0%	-	2023	€483	-
1Q24	21.9%	-	1Q24	€81	-
2Q24	21.6%	-	2Q24	€162	-
3Q24	19.3%	-	3Q24	€186	-
4Q24E	15.5%	-	4Q24E	€115	-
2024E	19.4%	-	2024E	€545	-
1Q25E	18.3%	-	1Q25E	€99	-
2Q25E	15.6%	-	2Q25E	€194	-
3Q25E	17.6%	-	3Q25E	€226	-
4Q25E	18.4%	-	4Q25E	€135	-
2025E	17.3%	-	2025E	€654	-

Source: FactSet, company reports, and TAG estimates.

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BIRKENSTOCK HOLDING PLC

Highlights from Meetings with BIRK Senior Management

Yesterday, we hosted investor meetings with BIRK CEO Oliver Reichert, Chief Product Officer Markus Baum, President of Americas David Kahan, VP of Finance Alexander Hoff, Head of Financial Planning Marius Erpenbeck, and Director of IR Megan Kulick. The discussion focused on brand momentum, topline opportunities, competitive advantages, channel dynamics, as well as marketing and supply chain. Despite operating for 250 years to-date, there is still significant runway for the BIRK brand going forward, in our view. We review the highlights below:

Topline growth to be fueled by APMA, category expansion, and DTC. Management bucketed its major revenue opportunities into three buckets: Asia Pacific, Middle East and Africa (the APMA region), category expansion, and Direct-to-Consumer growth. Currently, APMA only accounts for approximately 11% of BIRK's total revenue (~€205MM in FY24E). Historically, Birkenstock did not have the production capacity to support the APMA market, and so it focused on Europe and North America. However, with additional capacity across its Pasewalk and Görlitz facilities, it is growing that market significantly now (albeit still as a pull market). Management anticipates roughly 40% growth from Asia Pacific, through both DTC and wholesale gains. Japan and Australia are strong markets already, and BIRK anticipates nice growth from South Korea and India. China is currently less than 15% of APMA revenue. Category expansion is BIRK's second major growth lever, which helps the brand grow across use occasions, channels, and segments. Still built upon Birkenstock's trusted footbed, the brand is able to expand into professional, orthopedic, luxury, outdoor, EVA, and closed toe footwear categories. Importantly, many of these products help drive BIRK's ASP and margin. Lastly, growing BIRK's DTC channel, both digital and retail, is its third growth opportunity. With only 64 owned stores globally, there is significant white space across geographies for additional owned stores to complement existing brick-and-mortal wholesale partners. Management believes a DTC to wholesale mix around 60-40 or 70-30 feels like the right blend, as compared to around 40-60 currently. Importantly, the company is growing across every channel and geography and sees sustainable growth in the high-teens going forward.

Brand able to retain its proprietary moat, despite knock-off products. Celebrating its 250th anniversary this year, the Birkenstock brand is, in our view, a global icon, particularly its classic two strap Arizona silhouette. Its top five silhouettes generate approximately 75% of total revenue. Impressively, the Birkenstock brand essentially owns its entire category. While there have been cheap copycat two-strap sandals coming out of China (which BIRK is able to shut down because of copyright infringement), there have not been footwear brands developing a cork-based sandal or product in a meaningful way. On the other end of the spectrum, some luxury designs will pay homage to Birkenstock, but they are certainly not competing with Birkenstock given the market positioning. In terms of pricing, while Birkenstock products are priced at a premium (and might be the most expensive pair of shoes in a person's closet), they are still accessible to a broad reach (BIRK's defines its TAM as essentially every human being). As a result, it does not make much financial sense for competitors to attempt to produce a similar product. Additionally, the 250-year old footbed is the driving force behind the company, which cannot be replicated given the nature of BIRK's sourcing and manufacturing. This has created a competitive moat for Birkenstock.

Sample

Engineered distribution model built on a balance of wholesale and DTC. Both the wholesale and DTC channels are important to BIRK as the channels give the company multiple touchpoints to interact with consumers. The ideal channel mix for BIRK would be 60-40 or 70-30 DTC to wholesale. Currently, the company is at 60% wholesale (as of FY23) across over 6,000 different wholesale touchpoints and 64 retail stores (as of 3QF24). Management prioritizes partnerships with retailers that customers are already going to, to ensure traffic and eyes on the product, as well as retailers that treat the brand well, facilitating a connection to consumers as opposed to simply a point of sale. BIRK does not sell to Amazon and does not authorize third-party selling to protect its brand. Wholesale partners pay up front for the product as well, which insulates management from possible loss and disruption in the department store and other retail sectors. BIRK never compromises its owned DTC product by moving product between the DTC channel and its wholesale retailers, enabling the company to maintain its scarcity model and brand equity. The brand prioritizes products in owned stores over wholesalers when it comes to stocking and restocking product. While BIRK looks across the whole system at the moment and is somewhat agnostic about where customers are buying their Birkenstocks, over time, management plans to migrate to its own business, ramping up global membership (members tend to spend 25% more on average than non-members) and driving more DTC sales.

Word-of-mouth remains the greatest marketing tool. Currently, approximately 60% of BIRK's customers get introduced to the brand by word of mouth, with more and more people talking about comfort and functionality of the shoes with their friends and family. The strong word-of-mouth creates a unique flywheel of people coming to the brand and bringing their friends and family with them. The strength of the marketing model enables BIRK to spend only 2% of sales on marketing, much lower than industry norms. The company is strategic with how it conducts its marketing, as opposed to a "shotgun" strategy that pushes a campaign out broadly across consumers and demographics. Instead, BIRK prefers to prioritize getting the new product in front of consumers with whom the product will resonate. Only having launched in 2016, BIRK's data analytics and nascent membership program (7MM members) are still in their infancy, making it challenging to develop a segmented marketing strategy. However, developing these capabilities is an opportunity of which management will take advantage over time.

Vertically integrated supply chain maintains consistency of footbed-led product, with increased capacity coming online. To ensure each product meets the company's strict quality standards, BIRK operates a vertically integrated manufacturing base, producing all its footbeds in Germany. In addition, the company assembles the majority of its products in Germany, with the remainder produced elsewhere within in the EU. The company maintains strict control over its entire supply chain, and responsibly sources materials primarily from Europe. Over the past four years, BIRK's capital expenditures have primarily gone to increase capacity in its production facilities to support future growth plans. The company acquired a component manufacturing facility in Arouca, Portugal, built a new factory in Pasewalk, Germany and expanded its factory in Görlitz, Germany. The 30,000 square meter Pasewalk facility opened in September 2023 and is expected to ramp up to full cost absorption by 2026. This facility will be dedicated to the high-growth EVA / PU products, freeing up space across other facilities. With its investments, the company is positioning itself for its next phase of growth, supporting further expansion across the globe, while maintaining its high standards with suppliers and internal production teams. That said, despite the increase in capacity, the company plans to continue its scarcity model in the marketplace, targeting 90%-plus full price selling.

Cash focused on reinvesting in the business and paying down debt. The BIRK operating model generates a significant amount of cash flow, which affords management the flexibility to both reinvest in the business when needed and continue to refine the balance sheet through debt paydown. During our discussion, management noted that debt paydown is a key priority as they don't like to have debt on the books, though acknowledged that continued retail expansion requires flexibility and often debt usage. Recall that at 3QF24 end (ended June),

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BIRK's net leverage ratio was 2.1x with the company recently refinancing its term loans and replacing its revolver (included ~€50MM early repayment that was completed on August 2 and intentions to repay an additional US$100MM on September 3). The company can continue to use cash to pay down debt, while reinvesting given the predictable nature of its business with a consistent, stable supply chain, and long-term relationships with wholesalers that pay for product upfront. Management reiterated its target of achieving a net leverage ratio of 2x by fiscal year end and will continue to use free cash flow to reduce debt for the foreseeable future.

Maintain Outperform rating and $70 price target. When we last heard from BIRK at the end of August, the company reported a solid quarter, in our view, with an adjusted EBITDA beat driven primarily by expense leverage. While there was some disappointment that sales did not beat, gross margin was a bit weaker than expected, and the annual outlook was not increased, we see the company as continuing to execute on its plan with strong, broad-based, double-digit growth across all regions and channels through a challenging global macro consumer environment. As consumers remain more intentional with their purchases, we see BIRK as a brand that can continue to win in the marketplace through its high-end lifestyle positioning offering comfort and a frictionless walking experience that is a competitive advantage that is not easily replicated, in our view. With a loyal customer base and opportunities for channel and category growth, we continue to believe BIRK can grow the addressable market and drive ASPs. As such, we maintain our Outperform rating and our $70 price target, which assumes a 17.3x multiple on our two-year forward adjusted EBITDA estimate, in line with BIRK's one-year average NTM multiple.

Sample

BIRK FINANCIAL MODEL SUMMARY

€MM, except per share and unit data. FYE September.

	2020	2021	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24	2Q24	3Q24	4Q24E	2024E	2025E
	TOTAL	TOTAL	DEC	MAR	JUN	SEP	TOTAL	DEC	MAR	JUN	SEP	TOTAL	DEC	MAR	JUN	SEP	TOTAL	TOTAL
INCOME STATEMENT HIGHLIGHTS																		
Net sales	**€ 727.9**	**€ 962.0**	**€ 201.4**	**€ 341.2**	**€ 378.7**	**€ 321.6**	**€ 1,242.8**	**€ 248.5**	**€ 395.7**	**€ 473.2**	**€ 374.5**	**€ 1,491.9**	**€ 302.9**	**€ 481.2**	**€ 564.8**	**€ 432.7**	**€ 1,781.6**	**€ 2,090.7**
Gross profit	399.6	548.0	125.5	205.1	237.8	205.8	774.2	153.3	235.5	292.1	245.0	925.8	184.9	271.2	335.9	270.0	1,062.0	1,252.1
Selling and distribution expenses	187.6	235.5	61.4	63.5	112.9	109.6	347.4	86.1	86.7	136.7	99.0	408.5	103.5	113.2	149.2	112.7	478.5	562.2
General administrative expenses	66.9	78.2	22.2	19.5	11.2	23.8	76.7	15.2	20.8	12.5	67.6	116.1	23.5	19.8	25.5	72.2	141.1	159.7
Foreign exchange (gain) loss	16.0	(19.1)	(5.8)	(8.4)	(17.5)	(13.9)	(45.5)	30.8	16.9	3.6	(15.3)	36.1	11.7	5.5	4.2	0.0	21.3	0.0
Other (income) and expenses	(3.6)	(3.1)	(1.6)	(1.4)	3.9	(4.4)	(3.5)	0.0	(3.9)	1.5	4.3	1.8	(0.2)	0.0	(0.3)	0.0	(0.5)	0.0
Total operating expenses	250.9	310.6	82.0	81.5	128.1	129.0	420.6	101.3	103.6	150.7	170.9	526.5	126.8	133.0	174.4	184.9	619.1	721.8
Profit from operations	**€ 148.7**	**€ 237.4**	**€ 43.5**	**€ 123.5**	**€ 109.8**	**€ 76.8**	**€ 353.6**	**€ 52.0**	**€ 131.8**	**€ 141.4**	**€ 74.1**	**€ 399.3**	**€ 58.1**	**€ 138.2**	**€ 161.5**	**€ 85.1**	**€ 442.9**	**€ 530.3**
Finance cost	4.0	30.7	20.2	29.9	39.8	22.6	112.5	25.1	29.6	26.7	25.7	107.0	25.5	27.4	28.3	21.0	102.2	79.0
Profit before tax	144.8	206.7	23.2	93.7	69.9	54.3	241.1	26.9	102.3	114.7	48.4	292.3	32.6	110.8	133.3	64.1	340.7	451.3
Income tax expense	27.3	50.2	17.4	19.1	26.1	3.8	66.4	0.4	27.2	34.3	23.3	85.1	15.9	33.8	41.4	19.2	110.2	122.2
Adjusted net profit	117.5	156.5	5.9	74.6	43.8	50.4	174.7	26.5	75.1	80.4	25.1	207.2	16.7	77.0	91.9	44.9	230.5	329.1
Depreciation and amortization	46.1	54.9	17.8	19.2	19.0	25.2	81.3	20.4	20.2	21.2	21.6	83.4	23.2	24.1	24.8	29.9	102.1	123.9
Finance cost	4.0	30.7	20.2	29.9	39.8	22.6	112.5	25.1	29.6	26.7	25.7	107.0	25.5	27.4	28.3	21.0	102.2	79.0
Income tax expense	27.3	50.2	17.4	19.1	26.1	3.5	66.1	0.4	27.2	34.3	23.3	85.1	15.9	33.8	41.4	19.2	110.2	122.2
Adjusted EBITDA	**€ 194.8**	**€ 292.3**	**€ 61.3**	**€ 142.7**	**€ 128.7**	**€ 101.7**	**€ 434.6**	**€ 72.4**	**€ 152.0**	**€ 162.6**	**€ 95.7**	**€ 482.7**	**€ 81.4**	**€ 162.3**	**€ 186.3**	**€ 115.0**	**€ 545.0**	**€ 654.2**
Adjusted EPS	**€ 0.63**	**€ 0.83**	**€ 0.03**	**€ 0.40**	**€ 0.23**	**€ 0.27**	**€ 0.93**	**€ 0.15**	**€ 0.41**	**€ 0.44**	**€ 0.13**	**€ 1.13**	**€ 0.09**	**€ 0.41**	**€ 0.49**	**€ 0.24**	**€ 1.23**	**€ 1.75**
Diluted share count	187.8	187.8	187.8	187.8	187.8	187.8	187.8	182.7	182.7	182.7	187.8	184.0	186.9	187.8	187.8	187.8	187.6	187.8
SELECT GROWTH RATES AND MARGINS																		
Total Sales YoY % Growth		**32.2%**					**29.2%**	**23.4%**	**16.0%**	**25.0%**	**16.5%**	**20.0%**	**21.9%**	**21.6%**	**19.3%**	**15.5%**	**19.4%**	**17.3%**
% of sales																		
Gross profit	**54.9%**	**57.0%**	**62.3%**	**60.1%**	**62.8%**	**64.0%**	**62.3%**	**61.7%**	**59.5%**	**61.7%**	**65.4%**	**62.1%**	**61.0%**	**56.3%**	**59.5%**	**62.4%**	**59.6%**	**59.9%**
YoY bps change		**210**					**530**	**(60)**	**(60)**	**(110)**	**140**	**(20)**	**(70)**	**(320)**	**(220)**	**(300)**	**(240)**	**30**
Selling and distribution expenses	25.8%	24.5%	30.5%	18.6%	29.8%	34.1%	27.9%	34.7%	21.9%	28.9%	26.4%	27.4%	34.2%	23.5%	26.4%	26.0%	26.9%	26.9%
YoY bps change		(130)					350	420	330	(90)	(760)	(60)	(50)	160	(250)	(40)	(50)	0
General administrative expenses	9.2%	8.1%	11.0%	5.7%	3.0%	7.4%	6.2%	6.1%	5.3%	2.6%	18.0%	7.8%	7.8%	4.1%	4.5%	16.7%	7.9%	7.6%
YoY bps change		(110)					(200)	(490)	(40)	(30)	1,060	160	160	(110)	190	(135)	10	(30)
Total operating expenses	34.5%	32.3%	40.7%	23.9%	33.8%	40.1%	33.8%	40.8%	26.2%	31.8%	45.6%	35.3%	41.8%	27.6%	30.9%	42.7%	34.7%	34.5%
YoY bps change		(220)					160	10	230	(200)	550	150	110	140	(100)	(290)	(50)	(20)
Profit before tax	19.9%	21.5%	11.5%	27.5%	18.5%	16.9%	19.4%	10.8%	25.8%	24.2%	12.9%	19.6%	10.8%	23.0%	23.6%	14.8%	19.1%	21.6%
YoY bps change		160					(210)	(70)	(160)	580	(400)	20	(10)	(280)	(60)	190	(50)	250
Adjusted EBITDA	**26.8%**	**30.4%**	**30.4%**	**41.8%**	**34.0%**	**31.6%**	**35.0%**	**29.1%**	**38.4%**	**34.4%**	**25.5%**	**32.4%**	**26.9%**	**33.7%**	**33.0%**	**26.6%**	**30.6%**	**31.3%**
YoY bps change		360					460	(130)	(340)	40	(610)	(260)	(230)	(470)	(140)	100	(180)	70
Tax rate	18.8%	24.3%	74.8%	20.3%	37.4%	7.0%	27.5%	1.4%	26.6%	29.9%	48.1%	29.1%	48.7%	30.5%	31.1%	30.0%	32.4%	27.1%
REVENUE BY GEOGRAPHY																		
Americas - Net sales			129.5	192.8	200.9	144.2	667.4	159.8	213.6	244.1	187.2	804.7	188.7	254.0	282.9	213.5	939.0	1,085.6
% YoY Change								23.4%	10.8%	21.5%	29.8%	20.6%	18.1%	19.0%	15.9%	14.0%	16.7%	15.6%
Europe - Net sales			49.3	120.9	142.2	136.8	449.1	60.5	144.3	181.3	143.5	529.5	75.7	175.5	217.4	166.5	635.2	739.5
% YoY Change								22.7%	19.3%	27.5%	4.9%	17.9%	25.1%	21.7%	19.9%	16.1%	20.0%	16.4%
APMA - Net sales			20.8	27.4	35.1	39.7	123.0	26.9	36.4	46.7	42.4	152.4	36.7	50.7	63.7	52.7	203.7	250.9
% YoY Change								29.6%	32.9%	33.0%	6.6%	23.9%	36.2%	39.3%	36.3%	24.3%	33.7%	23.1%
BALANCE SHEET HIGHLIGHTS																		
Cash	96.2	235.3	253.3	271.2	289.1	307.1	307.1	304.1	301.2	298.2	344.4	344.4	169.4	175.7	404.3	299.4	299.4	687.3
Total debt	150.6	1,864.6	1,892.7	1,920.8	1,949.0	1,977.1	1,977.1	1,941.9	1,906.8	1,871.6	1,860.1	1,860.1	1,317.1	1,332.4	1,348.9	1,196.8	1,196.8	1,196.8
Net debt	54.5	1,629.2	1,639.4	1,649.6	1,659.8	1,670.0	1,670.0	1,637.8	1,605.6	1,573.4	1,515.7	1,515.7	1,147.7	1,156.7	944.6	897.4	897.4	509.5
Total debt / EBITDA	0.8x	6.4x				4.5x	4.5x	4.4x	4.2x	3.8x	3.9x	3.9x	2.7x	2.7x	2.6x	2.2x	2.2x	1.8x
Net debt / EBITDA	0.3x	5.6x				3.8x	3.8x	3.7x	3.5x	3.2x	3.1x	3.1x	2.3x	2.3x	1.8x	1.6x	1.6x	0.8x
Inventories	211.7	359.2	403.3	447.4	491.5	535.6	535.6	547.4	559.3	571.1	595.1	595.1	644.4	651.0	619.1	686.6	686.6	800.0
Inventory growth YoY %		69.7%				49.1%	49.1%	35.7%	25.0%	16.2%	11.1%	11.1%	17.7%	16.4%	8.4%	15.4%	15.4%	16.5%
Inventory turnover ratio						1.0x	1.0x	1.0x	1.0x	1.0x	1.0x	1.0x	1.0x	1.1x	1.1x	1.0x	1.0x	1.0x
ROA	14.6%	3.7%				3.6%	3.6%	4.1%	4.1%	4.9%	4.3%	4.3%	4.2%	4.1%	4.2%	4.7%	4.7%	6.1%
ROE	28.8%	7.6%				7.4%	7.4%	8.3%	8.3%	9.8%	8.6%	8.6%	8.0%	7.8%	8.0%	8.6%	8.6%	11.0%
FREE CASH FLOW																		
Adjusted net income	117.5	156.5	5.9	74.6	43.8	50.4	174.7	26.5	75.1	80.4	25.1	207.2	16.7	77.0	91.9	44.9	230.5	329.1
Net income adjustments	(16.2)	(74.7)	3.1	3.1	3.1	3.1	12.4	(35.7)	(33.0)	(33.0)	(33.0)	(134.8)	(23.9)	(5.4)	(17.2)	0.0	(46.5)	0.0
Depreciation and amortization	46.1	54.9	17.8	19.2	19.0	25.2	81.3	20.4	20.2	21.2	21.6	83.4	23.2	24.1	24.8	29.9	102.1	123.9
Other changes in non-cash operating items	11.5	(14.8)	3.7	(1.6)	(3.0)	(0.8)	(1.7)	26.9	37.7	44.8	64.4	173.7	5.5	32.5	41.0	(30.5)	48.5	100.8
Change in working capital	30.8	24.2	5.5	(61.9)	(46.8)	(41.8)	(145.0)	(116.4)	(48.9)	(57.2)	142.1	(80.5)	(103.1)	(105.6)	96.5	53.7	(58.5)	(100.4)
Purchases of property, plant & equipment	(19.3)	(14.3)	(17.2)	(17.2)	(17.2)	(17.2)	(68.8)	(25.7)	(31.5)	(31.5)	(13.4)	(102.2)	(18.1)	(16.8)	(14.6)	(50.5)	(100.0)	(80.0)
Free Cash Flow	**€ 170.3**	**€ 131.8**	**€ 18.8**	**€ 16.2**	**(€ 1.1)**	**€ 18.9**	**€ 52.8**	**(€ 104.0)**	**€ 19.4**	**€ 24.6**	**€ 206.8**	**€ 146.9**	**(€ 99.6)**	**€ 5.8**	**€ 222.3**	**€ 47.5**	**€ 176.1**	**€ 373.4**

Source: Company reports and TAG estimates.

Sample

ADDENDUM
Important Disclosures:

Valuation Method for Target Price: Price-to-Earnings, enterprise-value-to-EBITDA, P/E to growth, price to free cash flow, and discounted cash flow analysis.

Investment Risks: Telsey Advisory Group's (TAG's) equity research department covers consumer-focused sectors including apparel manufacturers, cannabis, children's and teen retailers, consumer electronics retailers, cosmetics, department stores, discounters, footwear, home furnishings retailers, home improvement retailers, internet, luxury goods, office supply retailers, off-price retailers, restaurants, specialty apparel retailers, sporting goods retailers, and supermarkets. Risks across or specific to one or more of these sectors include volatility of commodity costs, consumer spending, currency, rising interest rates, weaker consumer confidence and unemployment rates. Additionally, access to capital, supply chain disruptions, commodity costs, private label distribution, currency, geopolitical uncertainty, unfavorable government regulations, lack of appropriate real estate sites, and the use of the World Wide Web to sell merchandise represent unique industry risks.

Analyst Certification
The Research Analysts, Dana Telsey, Joshua Herrity, Robert Rosenhaus and Alexis Cooper, CFA, who prepared the research report hereby certify that the views expressed in this report accurately reflect the Analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

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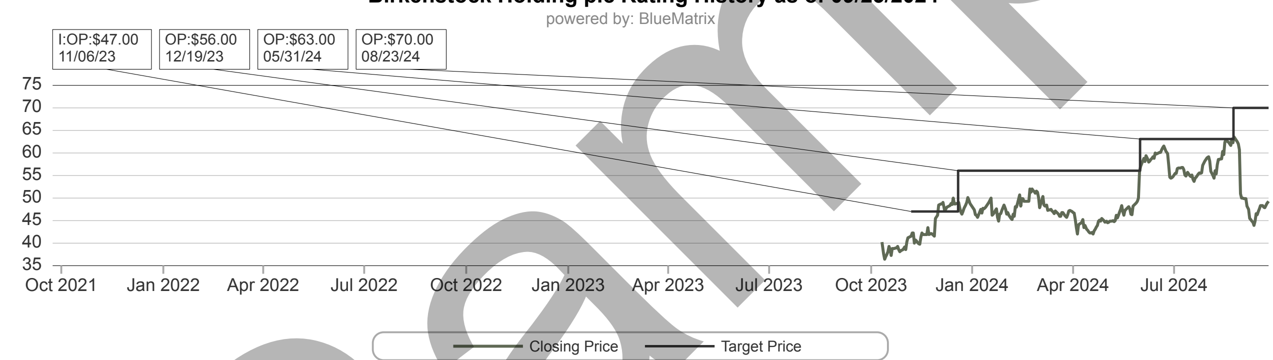
TAG has acted as a manager or co-manager of a public offering of securities by Birkenstock Holding plc in the last 12 months.

TAG received compensation from Birkenstock Holding plc for investment banking services in the last 12 months.

Birkenstock Holding plc Rating History as of 09/23/2024



* Telsey with ratings are effective as of 09/11/14

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution	Count	*Investment Banking
OUTPERFORM	42	49.41%	2	4.76%
MARKET PERFORM	43	50.59%	2	4.65%
UNDERPERFORM	0	0.00%	0	0.00%

On 09-11-2014 TAG launched a three-tiered rating system of Outperform, Market Perform, and Underperform to evaluate its stocks under coverage. Price targets continue to be used in conjunction with the new rating system.

Ratings Definition and Distribution

Our recommendation system is based on a stock's expected total return relative to the industry universe over the next 12 months.

We divide stocks under coverage into three categories, each defined by a prospective rate of return:

Outperform – the stock is expected to outperform the average total return of the industry universe over the next 12 months.

Market Perform – the stock is expected to perform in line with the average total return of the industry universe over the next 12 months.

Underperform – the stock is expected to underperform the average total return of the industry universe over the next 12 months.

Sample

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; market making and/or specialist role.

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