HILLIARD LYONS

COMPANY UPDATE / ESTIMATE CHANGE

Pharmaceuticals
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Eli Lilly & Company

LLY – NYSE – Long-term Buy – 1

Key Metrics

LLY - NYSE (as of 07/25/17)	$82.19
2 Year Price Target	$93.00
52-Week Range	$64.25 - $86.71
Shares Outstanding (mm)	1,057
Market Cap. ($mm)	$90,685
1-Mo. Average Daily Volume (000s)	821
Institutional Ownership	77.3%
Debt / Total Capital	42.3%
ROE (TTM)	16.8%
Book Value / Share	$13.54
Price / Book Value	6.1x
Indicated Dividend / Yield	$2.08 2.5%
TTM Operating Margin	20.3%

Non-GAAP EPS FY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	$0.83		$0.98A	$1.03	$1.06
2Q	$0.86		$1.11A	$1.03	$1.21
3Q	$0.88	$1.13	$1.04	$1.26	$1.19
4Q	$0.95	$0.93	$1.00	$1.17	$1.08
Year	$3.52	$4.11	$4.13	$4.48	$4.54
P/E	23.4x		19.9x		18.1x

Figures may not add up due to rounding

Revenue ($billions)

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	$4.87		$5.23A	$5.19	$5.46
2Q	$5.40		$5.82A	$5.48	$5.92
3Q	$5.19	$5.48	$5.54	$5.62	$5.86
4Q	$5.76	$5.61	$5.85	$5.86	$5.99
Year	$21.22	$21.89	$22.44	$22.15	$23.22

Company Description *– Eli Lilly & Company is a multinational biopharmaceutical company focused on developing and marketing innovative medicines in the areas of endocrinology, oncology, neuroscience, pain, and autoimmune diseases. The company also sells several cardiovascular medicines.*

A Solid Quarter Overshadowed by Baricitinib News

- **2Q17 Results:** LLY reported revenues of $5.82 billion, growth of 7.8% year-over-year. This exceeded our estimate of $5.57 billion and the Street consensus estimate of $5.60 billion. Non-GAAP EPS were $1.11 compared to our estimate of $1.06 and the Street consensus of $1.05. Management raised 2017 revenue and non-GAAP EPS guidance, but GAAP EPS guidance was lowered due to research collaborations.
- **Positive Highlights:** Almost every brand in the Endocrinology portfolio exceeded our estimates, including Jardiance and Trulicity. Taltz and key Oncology drugs also exceeded our estimates.
- **Negative Highlights:** The gross margin expanded 47 basis points year-over-year to 73.4% but fell short of our estimate of 74.5%. The significant downward revision in gross margin guidance and our estimates tamped down an otherwise solid quarter that boosted our revenue expectations. The Animal Health segment disappointed yet again as organic growth plummeted. The baricitinib news, discussed later, also disappointed.
- **Outlook and Estimates:** Our outlook for Lilly remains positive. We are revising upward our FY17 revenue estimate to $22.44 billion versus our prior estimate of $21.89 billion. We are also increasing our non-GAAP EPS estimate to $4.13 from $4.11. For FY18, we increased our revenue estimate to $23.22 billion from $22.15 billion and raised our non-GAAP EPS estimate to $4.54 from $4.48.
- **Valuation and Rating:** LLY closed yesterday at 19.1X our next 12 months non-GAAP EPS estimate. Given an attractive growth profile and well diversified portfolio, we believe this is a P/E set for expansion. Using both a P/E and DCF valuation methodology (see page 6), we are maintaining our two year price target of $93 and our Long-term Buy rating.

Note Important Disclosures on pages 9 and 10
Note Analyst Certification on page 9

ADDITIONAL COMMENTARY

Revenue Review			
Drug/ Category	Our Estimate	2Q17 Results	2Q17 Y/Y Growth
Neuroscience	511	587	-18.3%
Humalog	688	678	-3.3%
Humulin	326	358	7.7%
Forteo	384	447	21.5%
Tradjenta	144	142	17.3%
Jardiance	98	103	157.4%
Trulicity	399	480	138.5%
Basaglar	76	87	431.3%
Other Endocrinology	158	197	10.5%
Taltz	123	139	618.7%
Olumiant	10	5	N/A
Alimta	508	533	-12.2%
Cyramza	167	186	26.7%
Lartruvo	44	47	N/A
Other Oncology	195	189	-12.6%
Cialis	603	627	-0.5%
Other Cardiovascular	199	185	-5.9%
Other Pharmaceutical	49	50	-4.1%
Animal Health	894	785	-8.7%
Total Revenue	**5,573**	**5,824**	**7.8%**

Source: Company Reports, Hilliard Lyons Estimates

Performance Review

- Revenue growth of 7.8% exceeded our estimate and beat the Street consensus. Volume growth of 8% in the Pharmaceutical segment was driven mostly by new products, with 9% volume growth in the U.S. Lilly did sneak substantial price increases past the goalie in the U.S. due to Cialis and Forteo. Price gains of 10% in the U.S. were the first noteworthy jump since 4Q15.
- The **Neuroscience** portfolio continues to dwindle but beat our estimate. However, the outlook for the portfolio is negative as four generics for Strattera were approved at the end of May in the U.S. For the quarter, Strattera revenues in the U.S. were already down 29% year-over-year.
- Within **Endocrinology**, Trulicity continues to outpace our estimates as a rapidly growing class and market share gains delivered solid outperformance. Humulin beat our estimates thanks to domestic strength (more price increase than volume increase though) while Humalog narrowly missed. Jardiance revenue beat our estimate and the Street consensus, an important print for the drug after last quarter's miss. We had lowered near term expectations as a result of that miss but still felt confident in the long-term prospects. This is only one quarter but gives us more confidence Jardiance can meet our expectations over the next few years. Basaglar revenue posted a solid beat relative to our estimate and

is showing solid uptake. Forteo delivered a strong beat but was likely the guiltiest culprit in price increases. We remind investors the competitive landscape is looking more favorable after a potential competitor from Amgen was rejected by the FDA and another from Radius Health was issued a black box warning for osteosarcoma with its label.

- The **Immunology** portfolio continued to expand from its small base. Olumiant (baricitinib) international growth was modest. Domestic growth for the drug will be nonexistent in the near term, unfortunately, as the FDA will force Lilly and partner Incyte to carry out another clinical trial before approval (if at all) in rheumatoid arthritis (more discussion on this in the section below). On the other hand, Japan's Ministry of Health, Labor, and Welfare approved Olumiant for the treatment of rheumatoid arthritis (RA) on July 3rd, marking success in two out of three key markets for the drug. Taltz growth was impressive, and we think the Street still doesn't fully appreciate the drug's potential and Lilly's ability to come from behind in a given drug class (see Trulicity). This ability to gain ground on competitors could be a promising sign for abemaciclib, but we remain cautious in our estimates at this point in time.
- Within the **Oncology** portfolio, Alimta surprised to the upside but still declined year-over-year. The outlook is mixed domestically given the competitive pressure from immuno-oncology agents but with the tailwind of a recent accelerated approval of Alimta with Merck's Keytruda in 1L NSCLC. Management noted they already have a strong market share in the most appropriate patient population for the combo (PD-L1 low patients), so significant growth shouldn't be expected from the approval. Additional good news from the quarter included the UK Supreme Court ruling in favor of Lilly regarding Alimta vitamin regimen patents, providing additional protection in UK, France, Italy, and Spain until June of 2021. Cyramza posted a solid beat and continues to see nice uptake in Japan in gastric cancer. Lartruvo outperformed our expectations modestly and the Street consensus ($36 million) as heightened interest in the first new drug for soft tissue sarcoma in 40 years is leading to rapid uptake.
- **Cialis** revenue exceeded our estimate despite a shrinking market in the U.S. due to generic sildenafil (Viagra). Due to a patent litigation settlement, generic entry for Cialis had been expected in November of this year but will instead be pushed back to September 27, 2018. This is an important settlement for Lilly given the size of the franchise. We still expect declines in Cialis but a rapid collapse is not expected as a result of the settlement and will smooth out revenue growth from FY17 to FY19.
- **Animal Health** was a significant disappointment, as the Companion Animal (CA) segment was flat year-over-year despite the acquisition of Vetmedica. An organic decline of ~13% in CA when adjusting for buying patterns and the acquisition was the result of competition in parasiticides. A substantial decline (-23%) in the Livestock segment in the U.S. was the result of dairy market conditions as well as competitive issues in beef cattle and swine. We also note new CEO David Ricks answered no to the thought of spinning off the business but sounded more open to the idea than past management, in our opinion. We think further improvements need to be made to Elanco but investor appetite for Animal Health assets is strong enough to make this a reasonable argument to unlock value.
- The GAAP gross margin increased 47 basis points from 2Q16 to 73.4%, which fell short of our estimate of 74.5%. The increase was driven primarily by manufacturing efficiencies and higher realized prices but offset somewhat by product mix and higher expenses to support new products. The miss and downward guidance put a lid on our enthusiasm for an otherwise strong quarter.
- Core operating expenses came in slightly lower than we anticipated due to R&D expense control. MS&A expenses were $1.71 billion versus our estimate of $1.69 billion, and R&D expenses were $1.25 billion versus our estimate of $1.28 billion.
- The GAAP pretax profit of $1.26 billion exceeded our estimate of $1.13 billion, primarily due to the revenue beat. After adjustments and a non-GAAP effective tax rate of 21.7% (versus our estimate of 18.8%), non-GAAP EPS were $1.11 versus our estimate of $1.06 and the Street consensus estimate of $1.05.

Earnings Conference Call and Other Notes

- After the news broke that the FDA will require Lilly and Incyte to carry out another clinical trial in RA to further characterize cardiovascular safety, management and the analyst community spent a decent amount of time on the topic. Management stated the time frame is still unclear for how long it could be before a resubmission could occur but it is expected to be a minimum of 18 months. Based on management tone and the requirements another trial entails, we think it is quite possible it could be even longer. Management also noted that labels in the EU and Japan, where baricitinib is approved, carry precautions for patients who have deep vein thrombosis (DVT) and pulmonary embolism (PE) risk factors. Management firmly stated they remain committed to bringing this molecule to RA patients despite the increasing competition and entry of biosimilars to the field. As they pointed out, trials in atopic dermatitis and systemic lupus erythematosus (SLE) continued without FDA objection and the company stills plans to initiate a trial in psoriatic arthritis. They feel in order to have a stronger presence in those fields and the potential for operating leverage, an approval in RA is necessary. We had drastically brought down our estimates for baricitinib after the initial FDA rejection and are therefore disappointed but undeterred in our outlook for Lilly.
- Management also decided to host an Oncology R&D strategy update on the call. To summarize, the company is raising the bar on pipeline assets due to the increasing competition and therefore re-prioritizing their pipeline. As a result, the company has identified six pipeline assets that are considered top priorities for internal R&D dollars, with three more potentially joining the group depending on data generated in the near future. Another ten assets are considered lower priority and Lilly will seek partnerships or buyers for those assets. Of these ten, three are already with external partners but Lilly retains rights to bring them back in-house. Management also sounded more committed to hunting assets externally (M&A or licensing) as well. Essentially, Lilly is taking a higher risk, higher reward approach to their oncology portfolio. We don't have any fundamental problem with that, especially considering the landscape, so it simply comes down to execution. Investors will have to wait to evaluate the new approach.
- Management remained committed to the 50% bogey for operating expenses as a percent of revenue for FY18 and provided what we believe is the clearest language for further operating leverage beyond next year.

News Review

Key news items since our last report on April 26, 2017:

- Key takeaways from the American Society of Clinical Oncology (ASCO) Annual Meeting can be found in our *ASCO 2017 Recap* report.
- CFO Derica Rice announced his intention to retire at the end of 2017 after 27 years with the company. A successor has not been named.
- Lilly and KeyBioscience AG agreed to a collaboration to develop dual amylin calcitonin receptor agonists (DACRAs) for the treatment of metabolic diseases such as Type 2 Diabetes. The collaboration encompasses multiple assets, including one in Phase 2 trials.
- Lilly and Nektar Therapeutics announced a collaboration to co-develop an immunology molecule, NKTR-358, which the companies believe has the potential to treat multiple autoimmune diseases. The IL-2 targeting drug is potentially first-in-class and is already in a Phase 1 trial.
- At the Annual European Congress of Rheumatology, Lilly unveiled new long-term data from Olumiant (baricitinib) in RA patients. The data was pooled from eight different trials with two years of treatment. Baricitinib was statistically more efficacious than placebo in terms of structural joint damage and disease activity. Further, the incidence of rates of serious infections of baricitinib and the placebo were similar, with five different risk factors identified. At the same medical meeting, Lilly showed analysis

for Taltz in treating psoriatic arthritis (PsA). Patients receiving Taltz had zero or minimal progression of radiographic structural joint damage through 52 weeks of treatment.

- The FDA granted Priority Review status to abemaciclib for second-line treatment of a certain type (HR+, HER2-) of breast cancer both as a monotherapy and in combination with fulvestrant. Lilly stated expectations of a decision by or in 1Q18. Lilly also restated intentions to file in Europe this quarter and in Japan before the end of the year.

ESTIMATES & GUIDANCE UPDATE

We are increasing our FY17 revenue estimate to $22.44 billion versus our prior estimate of $21.89 billion. We are also increasing our non-GAAP EPS estimate to $4.13 from $4.11. For FY18, we increased our revenue estimate to $23.22 billion from $22.15 billion and increased our operating EPS to $4.54 from $4.48. We note the Cialis settlement greatly impacts what would have been a tough FY18 due to generic competition for multiple drugs. Cialis generic entry will now impact FY19, so we feel it is more important to pay attention to our changes to FY19 estimates. We increased our FY19 revenue estimate to $24.25 billion and our non-GAAP EPS estimate to $4.97 versus $23.75 billion and $4.94, respectively. Thus, the intermediate term outlook is improved after digesting this quarter, but not dramatically. Below are the material changes:

- Although we still expect Trulicity growth to slow down in FY18 as a result of heightened competition, we increased estimates as a result of continued impressive growth for the GLP-1 class and Trulicity's ability to take market share. We also increased Forteo estimates as a result of an improved outlook for the competitive landscape. Most other changes in the Endocrinology portfolio were modest.
- We increased our Taltz estimates as a result of uptake that has surpassed even our bullish assumptions. We lowered our Olumiant estimates, more as a result of lower expectations for international growth than the fresh FDA news, although we did push out our timeline for domestic revenues. We think investors should remain conservative and look to FY20 before forecasting any real uptake in the U.S.
- We increased Cyramza estimates as a result of this quarter's strength, as we may have admittedly over-corrected on last quarter's number. We raised our abemaciclib estimates as the unveiled efficacy data gives us greater confidence in the drug. We increasingly think abemaciclib could be a source of upside surprise but remain cautious until we have more comparable data (MONARCH-3 to be revealed at the European Society for Medical Oncology meeting in September) to current drugs on the market.
- As noted, we greatly increased our Cialis estimates. We still expect erosion from generic Viagra but we don't see that having nearly the impact of a direct generic competitor.
- The final noteworthy revenue change came from the Animal Health segment to reflect a poor quarter.
- We lowered our gross margin estimate for FY17 and beyond due to this quarter's number, guidance, and growing concern about the impact of a shrinking Neuroscience portfolio. The gross margin decrease was the main driver of holding back EPS increases in the face of greater revenue expectations. We increased operating expenses by ~$80 million for FY17 and $350 million for FY18 due to increased R&D expectations (baricitinib's fifth Phase 3 trial and additional abemaciclib studies) and to a lesser extent, MS&A.

Guidance

Revenue is now expected to be between $22.0 and $22.5 billion ($21.8 - $22.3 billion previously) with non-GAAP EPS in a range from $4.10-$4.20 ($4.05-$4.15 previously). Due to the Keybioscience and Nektar Therapeutics research collaborations, GAAP EPS is expected to be between $2.51 and $2.61 ($2.60-$2.70 previously). The GAAP and non-GAAP gross margin is expected to be 72.5% and 76.0%, respectively; both were lowered by 100 basis points. MS&A is still expected to be between $6.4 and $6.6 billion, and R&D was edged up by $100 million, now expected to be between $5.0 and $5.2 billion.

VALUATION & RATING

LLY closed yesterday trading at 19.1X our next 12 months non-GAAP EPS estimate. Based on our expectations for the company's growth profile and a risk profile that we view as low relative to the industry, we believe this is a P/E set for expansion. Our two year price target is derived through two methodologies: 50% discounted free cash flow and 50% forward P/E. Our forward P/E portion is derived through a proprietary method that assesses the biopharmaceutical industry on the basis of risk and growth. Risk is measured by product concentration while growth is determined through either our estimates or market assumptions about long-term growth. For LLY, this results in a 22.5X multiple applied to FY18/FY19 GAAP EPS estimates for a $93 price target. We note our use of GAAP estimates given weaker earnings quality, although we do project earnings quality to increase over the next few years. Our discounted free cash flow assumptions include an unchanged WACC of 7.8%. However, we note this could change as the company has not released its balance sheet or cash flow statement for the quarter yet. Our terminal growth rate estimate is 2.0%, and we added back net cash. The DCF model results in a $92 price target. Thus, we assign shares a price target of $93, unchanged from our last report. We maintain our Long-term Buy rating.

SUITABILITY

Eli Lilly & Co. is a large and well-established biopharmaceutical company with a diversified portfolio and robust pipeline. Additionally, at this time, we believe Lilly is better positioned than peers to deal with any potential pricing regulation. However, we strongly note this favorable relative position does not equate to immunity from pricing regulation or market pressures. Based on these considerations, we assign LLY shares a suitability rating of 1.

RISKS & CONSIDERATIONS

- **Competition and innovation** – The biopharmaceutical business requires complex operations with many unique and uncertain aspects. A competitor or new company could produce new therapies that could displace LLY drugs.
- **Regulatory** – The biopharmaceutical industry is subject to an intense regulatory environment throughout a product life cycle. Regulatory actions against the company or an individual product may harm financial results.
- **Legal** – Product lawsuits are extremely common in the biopharmaceutical sector. An unfavorable court decision could hamper the ability to market a product or subject the company to earlier generic competition.

Prices of other stocks mentioned:
Incyte Corporation (INCY - $133.56)
Merck & Co. (MRK - $62.36)
Amgen (AMGN - $180.89)
Nektar Therapeutics (NKTR - $23.23)
Radius Health (RDUS - $42.94)

Revenue Build											
In millions	**2015 A**	**2016 A**	**1Q17 A**	**2Q17 A**	**3Q17 E**	**4Q17 E**	**2017 E**	**2018 E**	**2019 E**	**2020 E**	**2021 E**
Strattera	784	855	196	187	107	97	587	366	323	288	257
Other Neuroscience	2,151	1,866	383	400	316	332	1,431	1,163	1,006	875	756
Humalog	2,842	2,769	708	678	635	724	2,746	2,653	2,581	2,525	2,471
Humulin	1,307	1,366	315	358	329	358	1,359	1,372	1,384	1,388	1,392
Forteo	1,348	1,500	348	447	410	437	1,641	1,693	1,578	1,356	1,301
Tradjenta	357	437	113	142	132	131	518	549	583	618	649
Jardiance	60	202	74	103	143	183	504	1,018	1,358	1,494	1,583
Trulicity	249	926	373	480	512	538	1,904	2,386	2,836	3,165	3,415
Basaglar	11	86	46	87	112	137	381	687	820	908	974
Other Endocrinology	862	798	147	197	157	155	655	557	539	519	502
Taltz	0	113	97	139	171	203	609	1,039	1,299	1,475	1,600
Olumiant	0	0	2	5	10	16	33	139	254	356	521
Alimta	2,493	2,283	490	533	531	506	2,060	1,940	1,834	1,764	1,300
Cyramza	384	614	171	186	185	184	726	812	864	922	946
Lartruvo	0	12	42	47	51	55	196	260	324	385	434
Abemaciclib	0	0	0	0	0	5	5	150	420	690	900
Other Oncology	633	813	184	189	194	166	734	707	666	634	604
Cialis	2,311	2,472	534	627	566	616	2,343	1,708	807	542	464
Other Cardiovascular	757	754	164	185	132	100	581	330	296	273	249
Other Pharmaceutical*	228	200	74	50	45	40	209	320	857	1,457	1,951
Animal Health	3,181	3,158	769	785	803	864	3,221	3,373	3,618	3,835	4,016
Total	**19,959**	**21,222**	**5,228**	**5,824**	**5,542**	**5,846**	**22,441**	**23,222**	**24,247**	**25,469**	**26,286**
% of Total											
Neuroscience	14.7%	12.8%	11.1%	10.1%	7.6%	7.3%	9.0%	6.6%	5.5%	4.6%	3.9%
Endocrinology	35.3%	38.1%	40.6%	42.8%	43.8%	45.5%	43.3%	47.0%	48.2%	47.0%	46.7%
Immunology	0.0%	0.5%	1.9%	2.5%	3.3%	3.7%	2.9%	5.1%	6.4%	7.2%	8.1%
Oncology	17.6%	17.4%	17.0%	16.4%	17.3%	15.7%	16.6%	16.7%	16.9%	17.3%	15.9%
Cardiovascular	15.4%	15.2%	13.3%	13.9%	12.6%	12.2%	13.0%	8.8%	4.5%	3.2%	2.7%
Other Pharmaceutical*	1.1%	0.9%	1.4%	0.9%	0.8%	0.7%	0.9%	1.4%	3.5%	5.7%	7.4%
Animal Health	15.9%	14.9%	14.7%	13.5%	14.5%	14.8%	14.4%	14.5%	14.9%	15.1%	15.3%

** Includes our estimate of risk-adjusted revenues from the pipeline*

Source: Company Reports and Hilliard Lyons Estimates

Eli Lilly & Co.												LLY: Long-term Buy
In billions (except share data)	2015 A	2016 A	1Q17 A	2Q17 A	3Q17 E	4Q17 E	2017 E	2018 E	2019 E	2020 E	2021 E	
Fiscal Period End	12/31/2015	12/31/2016	3/31/2017	6/30/2017	9/30/2017	12/31/2017	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	
Income Statement												
Net Revenue	**19.96**	**21.22**	**5.23**	**5.82**	**5.54**	**5.85**	**22.44**	**23.22**	**24.25**	**25.47**	**26.29**	
Gross Margin %	*74.8%*	*73.4%*	*74.6%*	*73.4%*	*70.8%*	*71.6%*	*72.5%*	*72.2%*	*73.4%*	*74.9%*	*75.6%*	
Core Operating Expenses	11.3	11.7	2.8	3.0	2.7	3.0	11.5	11.4	11.8	12.3	12.8	
GAAP Core Operating Income	**3.6**	**3.9**	**1.1**	**1.3**	**1.2**	**1.1**	**4.7**	**5.4**	**6.0**	**6.7**	**7.1**	
GAAP Operating Margin %	*18.0%*	*18.2%*	*21.4%*	*22.6%*	*21.2%*	*19.5%*	*21.1%*	*23.3%*	*24.7%*	*26.5%*	*27.1%*	
Non-Core Expenses	0.8	0.5	1.1	0.1	0.2	(0.0)	1.3	0.1	0.1	0.1	0.1	
Non-GAAP Adjustments	1.8	1.3	1.3	0.2	0.4	0.2	2.1	0.9	0.8	0.6	0.5	
Non-GAAP Pre-Tax Profit	**4.6**	**4.7**	**1.3**	**1.5**	**1.4**	**1.3**	**5.6**	**6.1**	**6.7**	**7.3**	**7.4**	
Margin %	*23.2%*	*22.0%*	*25.2%*	*25.8%*	*25.0%*	*23.0%*	*24.8%*	*26.4%*	*27.6%*	*28.5%*	*28.3%*	
Non-GAAP Effective Tax Rate	*12.7%*	*20.1%*	*21.2%*	*21.7%*	*21.3%*	*22.3%*	*21.6%*	*22.3%*	*22.3%*	*22.4%*	*22.4%*	
Non-GAAP Net Income	**3.7**	**3.7**	**1.0**	**1.2**	**1.1**	**1.0**	**4.4**	**4.8**	**5.2**	**5.6**	**5.8**	
Diluted Shares Outstanding	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0	
GAAP Diluted EPS	$2.26	$2.58	-$0.10	$0.95	$0.77	$0.90	$2.52	$3.89	$4.34	$4.92	$5.22	
Non-GAAP Diluted EPS	**$3.43**	**$3.52**	**$0.98**	**$1.11**	**$1.04**	**$1.00**	**$4.13**	**$4.54**	**$4.97**	**$5.41**	**$5.57**	
***Balance Sheet**												
Cash and Equivalents	3.7	4.6	2.6	5.4	5.5	5.6	5.6	6.6	8.9	11.7	14.5	
Other Current Assets	8.9	10.5	10.4	10.1	10.0	10.4	10.4	10.3	10.1	10.0	10.2	
Total Current Assets	**12.6**	**15.1**	**13.0**	**15.5**	**15.4**	**16.0**	**16.0**	**16.9**	**19.0**	**21.8**	**24.7**	
Net PP&E	8.1	8.3	8.4	8.4	8.3	8.3	8.3	7.9	7.6	7.4	7.3	
Other Assets	14.9	15.5	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	
Total Assets	**35.6**	**38.8**	**37.6**	**40.1**	**40.0**	**40.5**	**40.5**	**41.0**	**42.8**	**45.4**	**48.1**	
Current Liabilities	8.2	11.0	10.4	10.4	11.0	11.3	11.3	11.0	11.1	11.3	11.5	
Non-Current Liabilities	12.7	13.7	13.1	15.3	14.5	14.5	14.5	14.1	13.9	13.9	13.9	
Total Liabilities	**21.0**	**24.7**	**23.5**	**25.7**	**25.6**	**25.9**	**25.9**	**25.1**	**25.0**	**25.3**	**25.4**	
Total Shareholders' Equity	**14.6**	**14.1**	**14.1**	**14.4**	**14.4**	**14.6**	**14.6**	**15.9**	**17.8**	**20.1**	**22.7**	
***Cash Flow Statement**												
Cash Flow from Operations	3.0	4.9	0.3	1.6	1.4	1.3	2.8	6.0	6.6	7.1	7.1	
Cash Flow from Investing	0.0	(3.1)	(1.4)	(0.4)	(0.5)	(0.3)	(2.7)	(1.4)	(1.4)	(1.5)	(1.5)	
Cash Flow from Financing	(3.1)	(0.6)	(0.9)	1.5	(0.8)	(0.8)	(1.0)	(3.5)	(3.0)	(2.7)	(2.8)	
Free Cash Flow to Equity	**-3.8**	**4.0**	**-2.1**	**3.5**	**0.9**	**1.0**	**3.3**	**3.7**	**5.0**	**5.7**	**5.7**	

**2Q17 Balance Sheet and Cash Flow numbers are still estimates, as the company has not released a 10-Q yet*
Source: Company Reports and Hilliard Lyons estimates

Additional information is available upon request.

Analyst Certification

I, Kurt A. Kemper, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings:
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Definitions of Suitabilities:
1. A large cap, core holding with a solid history.
2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.
3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.
4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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