HILLIARD LYONS

COMPANY UPDATE / ESTIMATE CHANGE / PRICE TARGET CHANGE

Pharmaceuticals
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Key Metrics

LLY - NYSE (as of 10/24/17)		$85.17
2 Year Price Target		$98.00
52-Week Range		$64.25 - $89.01
Shares Outstanding (mm)		1,057
Market Cap. ($mm)		$93,771
1-Mo. Average Daily Volume (000s)		876
Institutional Ownership		77.7%
Debt / Total Capital		42.3%
ROE (TTM)		16.8%
Book Value / Share		$13.34
Price / Book Value		6.4x
Indicated Dividend / Yield	$2.08	2.4%
TTM Operating Margin		20.9%

Non-GAAP EPS FY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	$0.83		$0.98A	$1.06	$1.04
2Q	$0.86		$1.11A	$1.20	$1.18
3Q	$0.88		$1.05A	$1.18	$1.33
4Q	$0.95	$1.00	$1.00	$1.06	$0.97
Year	$3.52	$4.13	$4.15	$4.51	$4.52
P/E	24.2x		20.5x		18.9x

Figures may not add up due to rounding

Revenue ($billions)

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	$4.87		$5.23A	$5.46	$5.42
2Q	$5.40		$5.82A	$5.91	$5.86
3Q	$5.19		$5.66A	$5.84	$5.91
4Q	$5.76	$5.85	$5.84	$5.96	$5.91
Year	$21.22	$22.44	$22.55	$23.16	$23.11

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.*

Eli Lilly & Company

LLY – NYSE – Long-term Buy – 1

A Solid Quarter with an Interesting Proposal; Reiterating Long-term Buy Rating and Raising Price Target

- **3Q17 Results:** LLY reported revenues of $5.66 billion, growth of 9% year-over-year. This exceeded our estimate of $5.54 billion and the Street consensus estimate of $5.51 billion. Non-GAAP EPS were $1.05 compared to our estimate of $1.04 and the Street consensus of $1.03. Management raised 2017 revenue and non-GAAP EPS guidance, but GAAP EPS guidance was lowered due to research collaborations and streamlining initiatives. The company also discussed a strategic review of its animal health unit, Elanco (see page 4 for more discussion).
- **Positive Highlights:** The insulin franchise as well as Trulicity and Forteo led the Endocrinology portfolio to exceed our estimates. Cyramza and Olumiant also came in higher than our estimates. The gross margin (GAAP) contracted 70 basis points year-over-year to 72.3% but still managed to beat our conservative 70.8% estimate.
- **Negative Highlights:** Jardiance and Taltz, key new drugs, missed our estimates. The Animal Health segment disappointed yet again as the companion animal business fell well short of our estimates. Operating expenses, both MS&A and R&D, came in above our estimates.
- **Outlook and Estimates:** Our outlook for Lilly remains positive. We are revising upward our FY17 revenue estimate to $22.55 billion versus our prior estimate of $22.44 billion. We are also increasing our non-GAAP EPS estimate to $4.15 from $4.13. For FY18, we decreased our revenue estimate to $23.11 billion from $23.16 billion but raised our non-GAAP EPS estimate to $4.52 from $4.51.
- **Valuation and Rating:** LLY closed yesterday at 18.7X 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 increasing our two year price target to $98 from $96 and maintaining our Long-term Buy rating.

Note Important Disclosures on pages 10 and 11
Note Analyst Certification on page 10

ADDITIONAL COMMENTARY

Revenue Review			
Drug/ Category *(in millions)*	**Our Estimate**	**3Q17 Results**	**3Q17 Y/Y Growth**
Neuroscience	424	508	-28.3%
Humalog	635	696	8.6%
Humulin	329	301	-6.7%
Forteo	410	442	12.9%
Tradjenta	132	153	32.8%
Jardiance	143	127	167.8%
Trulicity	512	528	116.6%
Basaglar	112	146	651.0%
Other Endocrinology	157	169	-14.0%
Taltz	171	151	365.5%
Olumiant	10	16	N/A
Alimta	531	515	-9.8%
Cyramza	185	196	23.3%
Lartruvo	51	55	N/A
Other Oncology	194	193	-11.6%
Cialis	566	565	-4.0%
Other Cardiovascular	132	98	-47.1%
Other Pharmaceutical	45	61	27.3%
Animal Health	803	741	4.9%
Total Revenue	**5,542**	**5,658**	**9.0%**

Source: Company Reports, Hilliard Lyons Estimates

Performance Review

- Revenue growth of 9.0% exceeded our estimate and the Street consensus. Volume growth of 7% in the Pharmaceutical segment was driven mostly by new products, with 6% volume growth in the U.S. and Europe and 13% in Japan. All regions posted double-digit revenue growth in pharmaceuticals except Japan, which was held back by an 8% currency headwind. Animal Health only managed 5% revenue growth despite having closed an acquisition earlier this year.
- The **Neuroscience** portfolio continues to dwindle but beat our estimate. In fact, roughly half of the revenue beat relative to our estimate came from the Neuroscience portfolio, which we view as lowering the quality of the beat as the outlook for the portfolio is negative. 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 down 56% year-over-year. Meanwhile, Cymbalta will lose exclusivity in Japan in January.
- Within **Endocrinology**, Trulicity continues to outpace our estimates as a rapidly growing class and market share gains delivered solid outperformance. However, the outlook is not as bright due to better-than-expected data from Novo Nordisk's semaglutide; we still expect solid growth for Trulicity as the overall GLP-1 class grows, but we do expect the growth to slow significantly from our projected full

year 2017 growth of 109%. Humalog beat our estimates thanks to domestic strength (fewer rebates with a small boost in volume) while Humulin missed due primarily to buying patterns in China. Jardiance revenue fell short of our estimate but still posted strong growth and market share gains. Basaglar revenue posted yet another solid beat relative to our estimate and is showing strong uptake. Even factoring out a small rebate adjustment benefit, we are impressed with Basaglar's market share gains. Forteo delivered a strong beat but continues to lean on price increases for domestic growth. On the other hand, Forteo international growth of 13% was driven by volume.

- The **Immunology** portfolio continued to expand from its small base. While not material to the bottom line this quarter, Olumiant (baricitinib) delivered what we view as an important beat thanks to strong uptake in Europe, particularly Germany. As a reminder to investors, Olumiant has been on the European market since February and was approved in Japan at the beginning of July. Domestic prospects have brightened following the FDA reversal of a previous request for another trial. Lilly and partner Incyte expect resubmission before the end of January 2018 with a review process that should not last longer than six months. Taltz growth was solid but fell short of our estimates. Management mentioned there can be seasonality for the psoriasis indication, something we were admittedly not aware of. We remain confident in Taltz's prospects, especially as Lilly increases marketing outside of the dermatology office.
- Within the **Oncology** portfolio, Alimta fell short of our estimate as we had assumed the combination with Merck's Keytruda in non-small cell lung cancer (NSCLC) would experience more uptake and therefore stabilize revenues. Management did note their market share is starting to flatten in first-line (1L) NSCLC and they are actually starting to see an increase in 2L as immunotherapies take over 1L. Some good news from the quarter included the U.S. Patent and Trademark Office (PTO) ruling in Lilly's favor for the Alimta vitamin regimen in an inter partes review (IPR), giving protection to that revenue stream until May 2022, assuming no other patent issues. Cyramza posted a solid beat as strength in Europe surprised us. Cyramza also has an upcoming tailwind after posting strong results in 2L bladder cancer. Lartruvo outperformed our expectations modestly as heightened interest in the first new drug for soft tissue sarcoma in 40 years is leading to rapid uptake.
- **Cialis** revenue was in line with our estimate, as the U.S. market continues to shrink due to a competitor going generic. Generic entry for Cialis is expected in September 2018. Effient witnessed a substantial decline (-56% year-over-year) due to generic entry in the U.S.
- **Animal Health** was a disappointment once again, as the Companion Animal (CA) segment declined a whopping 17% after adjusting for the Vetmedica acquisition and customer buying patterns. The weakness continues to stem from competitive pressure in parasiticides. The livestock segment declined 6% as the U.S. cattle market is presenting problems from both competition and market access. We do believe the livestock segment will turn it around from both a competitive standpoint and as the market access pressures provide easier comps going forward. However, we are starting to have doubts about the strength of the CA segment.
- The GAAP gross margin decreased 70 basis points from 3Q16 to 72.3%, which actually beat our estimate of 70.8%. The decrease was driven primarily by foreign exchange rates; after adjusting for currency, the gross margin actually expanded by 70 basis points. Product mix also weighed slightly on the metric while manufacturing efficiencies provided a small boost.
- Core operating expenses came in higher than we anticipated. MS&A expenses were $1.56 billion versus our estimate of $1.51 billion, and R&D expenses were $1.32 billion versus our estimate of $1.24 billion. MS&A expenses continue to be impacted by conflicting factors of support for new products with savings from products off or nearly off patent. R&D expenses for the quarter were impacted by a milestone payment to AstraZeneca for an Alzheimer's investigational drug being developed in collaboration.
- The GAAP pretax profit of $0.59 billion fell shy of our estimate of $0.99 billion, primarily due to special charges stemming from the streamlining initiative. After adjustments and a non-GAAP effective tax rate of 18.9% (versus our estimate of 21.3%), non-GAAP EPS were $1.05 versus our estimate of $1.04 and the Street consensus estimate of $1.03.

Earnings Conference Call and Other Notes

- The company announced they have submitted a biologics license application (BLA) to the FDA for galcanezumab for the prevention of migraines. They also initiated Phase 3 trials for their ultra-rapid insulin.
- **The big news of the day and a focus of the call was Lilly's decision to undertake a strategic review of Elanco, the animal health division. The company will make a decision to sell, merge, retain, or IPO Elanco.** We noted in our 2Q17 earnings report that CEO David Ricks sounded far more open to shedding the business than his predecessor. However, this is a bit sooner than we expected given the ongoing integration of recent acquisitions and poor performance. Frankly, we would have preferred to see the business stabilize before making this announcement. Mr. Ricks emphasized that the time was now for a review as the business has grown into one of the largest in the industry and now has the global scale and diversification to stand alone. Particularly if the business stabilizes in the next six to nine months before the final decision is made, we do think an IPO unlocks value in the short-term given the public market's appetite for animal health assets. Those concerned about the loss of synergies between the businesses might reference Zoetis' IPO and subsequent business performance (as well as its contractual R&D agreement with Pfizer post-spinoff) to allay worries. Of course, replicating that level of success won't be easy and Elanco has its work cut out, in our view. In terms of a possible sale, we won't rule it out but we don't see any buyers, particularly from the current animal health playing field due to antitrust concerns. Longer-term, if Mr. Ricks and the Lilly team can maintain a robust pipeline, sustain the flow of innovation, and execute to deliver growth, we still like the idea of an IPO for Elanco. **It is still early in his term, but Mr. Ricks is definitely making his mark on Lilly with leadership changes, restructuring, pipeline culling, and the potential sale of a business. We don't have a problem with any of the moves by Mr. Ricks (as seen in our rating), but we believe investors should be aware Lilly may be taking on a different risk profile going forward, and this could induce a different shareholder base to the stock.**
- Another significant portion of the Q&A was dedicated to competition in diabetes. The most important parts of the discussion, in our opinion, centered on Sanofi's biosimilar to Humalog and a new GLP-1 drug (the same mechanism of action as Trulicity), semaglutide from Novo Nordisk. When it comes to the latter, as we noted in the *Performance Review* section, we do believe semaglutide presents a problem to the incredible growth and market share gains of Trulicity. However, we do buy management's argument that the class growth of the GLP-1 market (still less than 30% versus the basal insulin market) will enable Trulicity to continue growing. Furthermore, management noted there were minimal switches from Victoza (Novo's earlier generation GLP-1) to Trulicity. Regarding an oral formulation of semaglutide coming later down the road, we point investors to an intriguing GIP/ GLP-1 co-agonist in Lilly's pipeline that could ward off that competition. Turning to the Humalog biosimilar, management noted that market has been under much more pricing pressure than when Lilly's biosimilar to Sanofi's Lantus, Basaglar, came into play. We somewhat buy that argument but note mealtime insulins like Humalog are typically easier to switch for patients and therefore expose Humalog more than Lantus, in our opinion. Thus, we expect pressure to ramp up and forecast a modest decline for Humalog in 2018. Of course, this forecast could change as the timing of the Sanofi biosimilar entrance is uncertain, but the substance of our expectations remain regardless of entry date.
- We also note many questions were asked regarding Olumiant's safety, particularly ongoing data collection, and management sounded very confident, in our opinion.

News Review

Key news items since our last quarterly update on July 26, 2017:

- Key takeaways from the European Society for Medical Oncology (ESMO) Annual Congress can be found in our *ESMO 2017 Recap* report.
- Lilly announced a research collaboration with CureVac to investigate and develop up to five potential cancer vaccines based on CureVac's proprietary messenger RNA technology. Lilly made an upfront payment and an equity investment in CureVac.
- As previously mentioned, Lilly and Incyte will resubmit the New Drug Application for Olumiant (baricitinib) with new safety and efficacy data after additional discussions with the FDA. The Class II resubmission is expected to be completed by the end of January 2018 with an expected decision within six months after resubmission.
- Lilly announced an efficiency initiative that should result in a 3,500 headcount reduction across its global footprint with annualized savings of approximately $500 million that will begin to be realized in 2018. The $1.2 billion in charges will be fully recognized this year.
- Lilly announced positive results for lasmiditan in a second trial, SPARTAN, for the acute treatment of migraines. The company unveiled detailed results at the International Headache Society Congress.
- Lilly announced the success of a Phase 2 trial testing Olumiant for the treatment of moderate-to-severe atopic dermatitis. As we noted on the day of the news, trial results were not strong enough to suggest much commercial potential in this indication, in our opinion.
- The FDA approved Verzenio (abemaciclib) for second-line (2L) treatment of a certain type (HR+, HER2-) of breast cancer both as a monotherapy and in combination with fulvestrant. The FDA also granted Priority Review status to Verzenio for 1L therapy in the same indication. Unfortunately, Lilly announced the failure of Verzenio in KRAS-mutated non-small cell lung cancer (NSCLC) as a monotherapy, although we note Verzenio is being tested in earlier trials in NSCLC in combination with Merck's Keytruda.
- Lilly also announced several leadership changes in finance, R&D, manufacturing, and information technology.

ESTIMATES & GUIDANCE UPDATE

We are increasing our FY17 revenue estimate to $22.55 billion versus our prior estimate of $22.44 billion. We are also increasing our non-GAAP EPS estimate to $4.15 from $4.13. For FY18, we actually decreased our revenue estimate slightly to $23.11 billion from $23.16 billion but increased our operating EPS to $4.52 from $4.51. As 2017 is put in the rearview and 2018, which could be tough for Lilly from a top line perspective due to patent expirations, becomes clearer, we encourage investors to look to 2019. We decreased our FY19 revenue estimate to $24.02 billion versus $24.35 billion previously and left our operating EPS estimate at $4.97. Below are the material changes:

- We lowered our near-term Jardiance estimates by a noticeable amount, and also lowered longer-term estimates modestly, as we grow a little concerned that the GLP-1 class could inhibit growth. On the other hand, we increased Basaglar estimates in light of strong uptake. Most other changes in the Endocrinology portfolio were modest. We remind investors we had already lowered Trulicity estimates after semaglutide safety data came in better than expected.
- We increased our Olumiant estimates in the short-term but actually lowered long-term estimates. The change is a reflection of strong uptake in Europe but our growing belief that the proliferation of pipeline asset targets in immunology will result in the market being fragmented as certain targets reveal strengths and weaknesses in certain diseases (see Taltz versus older TNF drugs in psoriasis or Sanofi and Regeneron's Dupixent versus Olumiant in atopic dermatitis). We lowered Taltz estimates in the short-term but actually increased them in the long-term due to confidence in that drug class to almost

completely replace TNF's in psoriasis and potentially other related indications such as psoriatic arthritis.

- Changes to our Oncology and Cardiovascular portfolio estimates were modest.
- Once again, we lowered Animal Health estimates as we are growing weary of the companion animal segment's inability to stem losses.
- We maintained our FY18 gross margin estimate while tweaking longer-term estimates slightly higher as patent expiries anniversary and newer products compose more of the portfolio. We lowered operating expenses in light of the productivity initiative and confidence they can deliver further operating leverage.
- We have also unveiled estimates for pipeline assets galcanezumab and lasmiditan, as well as 2022 estimates.

Guidance

2017 Guidance		
USD in billions except per share data	Prior	Revised
Revenue	$22.0 - $22.5	$22.4 - $22.7
GAAP Gross Margin	72.5%	unchanged
Non-GAAP Gross Margin	76.0%	unchanged
MS&A Expenses	$6.4 - $6.6	unchanged
R&D Expenses	$5.0 - $5.2	$5.1 - $5.2
Other Income/ (Expense)	$0 - $0.1	unchanged
GAAP Tax Rate	23.5%	20.0%
Non-GAAP Tax Rate	22.0%	21.0%
GAAP EPS*	$1.71 - $1.81	$1.73 - $1.83
Non-GAAP EPS	$4.10 - $4.20	$4.15 - $4.25

Source: Company Reports

**Adjusted to include restructuring charges*

VALUATION & RATING

LLY closed yesterday trading at 18.7X 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 a combination of our estimates and market assumptions about the long-term growth of peers. For LLY, this results in a 22.5X multiple applied to 4Q18/FY19 GAAP EPS estimates for a $95 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 7.7%. 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 $101 price target. Thus, we assign shares a price target of $98, up from $96. 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 - $114.04)
Merck & Co. (MRK - $63.11)
Novo Nordisk (NVO - $50.32)
AstraZeneca (AZN - $34.21)
Sanofi (SNY - $49.01)
Regeneron (REGN - $426.51)
Pfizer (PFE - $36.27)
Zoetis (ZTS - $64.98; Buy, $76 price target)

Revenue Build												
In millions	**2015 A**	**2016 A**	**1Q17 A**	**2Q17 A**	**3Q17 A**	**4Q17 E**	**2017 E**	**2018 E**	**2019 E**	**2020 E**	**2021 E**	**2022 E**
Strattera	784	855	196	187	137	105	625	352	311	278	248	221
Other Neuroscience	2,151	1,866	383	400	371	332	1,486	1,132	934	812	701	593
Humalog	2,842	2,769	708	678	696	724	2,807	2,737	2,661	2,626	2,615	2,604
Humulin	1,307	1,366	315	358	301	358	1,331	1,369	1,382	1,386	1,390	1,394
Forteo	1,348	1,500	348	447	442	451	1,687	1,722	1,603	1,383	1,327	1,274
Tradjenta	357	437	113	142	153	134	542	574	605	636	661	681
Jardiance	60	202	74	103	127	155	460	892	1,240	1,426	1,526	1,617
Trulicity	249	926	373	480	528	554	1,935	2,347	2,599	2,797	2,981	3,053
Basaglar	11	86	46	87	146	176	454	864	987	1,053	1,084	1,117
Other Endocrinology	862	798	147	197	169	149	661	559	540	519	501	485
Taltz	0	113	97	139	151	183	570	953	1,253	1,500	1,675	1,800
Olumiant	0	0	2	5	16	24	47	188	444	755	1,019	1,209
Alimta	2,493	2,283	490	533	515	490	2,027	1,911	1,852	1,782	1,501	826
Cyramza	384	614	171	186	196	192	746	847	906	954	979	1,005
Lartruvo	0	12	42	47	55	60	204	280	344	405	454	478
Verzenio	0	0	0	0	0	5	5	150	485	820	1,140	1,410
Other Oncology	633	813	184	189	193	165	731	702	673	650	603	566
Galcanezumab							0	59	207	347	456	539
Lasmiditan							0	5	80	203	301	361
Cialis	2,311	2,472	534	627	565	617	2,343	1,709	812	547	469	404
Other Cardiovascular	757	754	164	185	98	90	537	322	293	273	249	227
Other Pharmaceutical*	228	200	74	50	61	40	225	211	354	827	1,360	1,733
Animal Health	3,181	3,158	769	785	741	832	3,126	3,220	3,455	3,662	3,834	4,014
Total	**19,959**	**21,222**	**5,228**	**5,824**	**5,658**	**5,837**	**22,548**	**23,106**	**24,020**	**25,640**	**27,076**	**27,614**
% of Total												
Neuroscience	14.7%	12.8%	11.1%	10.1%	9.0%	7.5%	9.4%	6.4%	5.2%	4.2%	3.5%	3.0%
Endocrinology	35.3%	38.1%	40.6%	42.8%	45.3%	46.3%	43.8%	47.9%	48.4%	46.1%	44.6%	44.3%
Immunology	0.0%	0.5%	1.9%	2.5%	3.0%	3.6%	2.7%	4.9%	7.1%	8.8%	9.9%	10.9%
Oncology	17.6%	17.4%	17.0%	16.4%	16.9%	15.6%	16.5%	16.8%	17.7%	18.0%	17.3%	15.5%
Pain							0.0%	0.3%	1.2%	2.1%	2.8%	3.3%
Cardiovascular	15.4%	15.2%	13.3%	13.9%	11.7%	12.1%	12.8%	8.8%	4.6%	3.2%	2.7%	2.3%
Other Pharmaceutical*	1.1%	0.9%	1.4%	0.9%	1.1%	0.7%	1.0%	0.9%	1.5%	3.2%	5.0%	6.3%
Animal Health	15.9%	14.9%	14.7%	13.5%	13.1%	14.2%	13.9%	13.9%	14.4%	14.3%	14.2%	14.5%

** 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 A	4Q17 E	2017 E	2018 E	2019 E	2020 E	2021 E	2022 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	12/31/2022
Income Statement												
Net Revenue	**19.96**	**21.22**	**5.23**	**5.82**	**5.66**	**5.84**	**22.55**	**23.11**	**24.02**	**25.64**	**27.08**	**27.61**
Gross Margin %	*74.8%*	*73.4%*	*74.6%*	*73.4%*	*72.3%*	*70.1%*	*72.5%*	*72.2%*	*73.5%*	*75.0%*	*75.6%*	*75.7%*
Core Operating Expenses	11.3	11.7	2.8	3.0	2.9	3.0	11.6	11.3	11.6	12.3	12.8	13.0
GAAP Core Operating Income	**3.6**	**3.9**	**1.1**	**1.3**	**1.2**	**1.1**	**4.7**	**5.4**	**6.0**	**6.9**	**7.7**	**7.9**
GAAP Operating Margin %	*18.0%*	*18.2%*	*21.4%*	*22.6%*	*21.5%*	*18.2%*	*20.9%*	*23.3%*	*25.0%*	*27.0%*	*28.4%*	*28.4%*
Non-Core Expenses	0.8	0.5	1.1	0.1	0.6	0.8	2.5	0.1	0.1	0.1	0.1	0.1
Non-GAAP Adjustments	1.8	1.3	1.3	0.2	0.8	1.1	3.4	0.9	0.8	0.7	0.7	0.7
Non-GAAP Pre-Tax Profit	**4.6**	**4.7**	**1.3**	**1.5**	**1.4**	**1.3**	**5.5**	**6.1**	**6.7**	**7.5**	**8.3**	**8.4**
Margin %	*23.2%*	*22.0%*	*25.2%*	*25.8%*	*24.1%*	*23.1%*	*24.5%*	*26.4%*	*27.9%*	*29.4%*	*30.5%*	*30.3%*
Non-GAAP Effective Tax Rate	*12.7%*	*20.1%*	*21.2%*	*21.7%*	*18.9%*	*21.4%*	*20.8%*	*22.3%*	*22.3%*	*22.4%*	*22.4%*	*22.4%*
Non-GAAP Net Income	**3.7**	**3.7**	**1.0**	**1.2**	**1.1**	**1.1**	**4.4**	**4.7**	**5.2**	**5.9**	**6.4**	**6.5**
Diluted Shares Outstanding	1.1	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	$0.53	$0.27	$1.64	$3.87	$4.35	$5.05	$5.63	$5.78
Non-GAAP Diluted EPS	**$3.43**	**$3.52**	**$0.98**	**$1.11**	**$1.05**	**$1.00**	**$4.15**	**$4.52**	**$4.97**	**$5.62**	**$6.18**	**$6.28**
***Balance Sheet**												
Cash and Equivalents	3.7	4.6	2.6	3.1	3.7	2.9	2.9	4.1	6.5	9.6	12.9	16.3
Other Current Assets	8.9	10.5	10.4	12.7	11.4	12.1	12.1	11.9	11.7	11.9	12.1	12.2
Total Current Assets	**12.6**	**15.1**	**13.0**	**15.7**	**15.1**	**15.0**	**15.0**	**16.0**	**18.2**	**21.5**	**25.0**	**28.5**
Net PP&E	8.1	8.3	8.4	8.6	8.7	8.9	8.9	9.1	9.5	9.9	10.5	11.1
Other Assets	14.9	15.5	16.2	16.6	16.4	16.2	16.2	15.6	14.8	14.0	13.2	12.4
Total Assets	**35.6**	**38.8**	**37.6**	**40.9**	**40.3**	**40.1**	**40.1**	**40.8**	**42.5**	**45.5**	**48.7**	**52.0**
Current Liabilities	8.2	11.0	10.4	11.3	10.9	11.2	11.2	10.9	10.9	11.3	13.0	11.6
Non-Current Liabilities	12.7	13.7	13.1	15.5	14.7	14.7	14.7	14.3	14.1	14.1	12.6	14.2
Total Liabilities	**21.0**	**24.7**	**23.5**	**26.8**	**25.6**	**25.9**	**25.9**	**25.1**	**25.0**	**25.4**	**25.6**	**25.8**
Total Shareholders' Equity	**14.6**	**14.1**	**14.1**	**14.2**	**14.7**	**14.2**	**14.2**	**15.7**	**17.5**	**20.0**	**23.1**	**26.2**
***Cash Flow Statement**												
Cash Flow from Operations	3.0	4.9	0.3	1.7	1.9	0.4	2.3	6.2	6.8	7.3	7.6	7.7
Cash Flow from Investing	0.0	(3.1)	(1.4)	(2.2)	(0.6)	(0.4)	(4.7)	(1.4)	(1.4)	(1.5)	(1.5)	(1.6)
Cash Flow from Financing	(3.1)	(0.6)	(0.9)	1.1	(0.6)	(0.8)	(1.2)	(3.5)	(3.0)	(2.7)	(2.8)	(2.8)
Free Cash Flow to Equity	**-3.8**	**4.0**	**-2.1**	**2.5**	**1.3**	**0.0**	**1.7**	**3.9**	**5.2**	**5.9**	**6.2**	**6.3**

**3Q17 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.

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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.
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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	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

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