



COMPANY UPDATE / TARGET CHANGE ESTIMATE CHANGE

Key Metrics

MSFT - NASDAQ - as of	4/27/17	\$68.27
Price Target		\$70.00
52-Week Range	\$48.03 -	\$68.38
Diluted Shares Outstanding (mil)		7,813
Market Cap. (\$mil)		\$533,393.5
1-Mo. Average Daily Volume		22,659,080
Institutional Ownership		73.7%
Debt/Total Capital (net) %	FQ3'17	0%
ROE	FQ3'17	31%
Book Value / Share		\$9.22
Price / Book Value		7.4x
Indicated Dividend / Yield	\$1.56	2.3%
LTM EBITDA Margin		32.4%

EPS FY 6/30 (adjusted earnings)

	Prior	Current		Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.67	\$0.76	A	\$0.75	\$0.74
2Q	\$0.78	\$0.83	A	\$0.81	\$0.84
3Q	\$0.62	\$0.73	A	\$0.78	\$0.77
4Q	\$0.69	\$0.75	\$0.71	\$0.84	\$0.82
Year	\$2.76	\$3.08	\$3.03	\$3.18	\$3.17
P/E	24.7x		22.5x		21.5x

Revenue (\$bn)

	Prior	Current		Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$21.7	\$22.3	A	\$24.3	\$24.3
2Q	\$25.7	\$26.1	A	\$26.7	\$27.2
3Q	\$22.1	\$23.5	A	\$25.0	\$25.0
4Q	\$22.6	\$24.9	\$24.8	\$26.5	\$26.5
Year	\$92.0	\$97.2	\$96.7	\$102.5	\$103.0

*Figures may not equal due to rounding

Company Description: Redmond, Washington based Microsoft is the world's leading software developer. Microsoft was founded in 1975 and historically benefitted from the success of the Windows operating system which currently runs on >90% of all PCs. As of the most recent quarter, the company derived a significant portion of total operating income from Productivity and Business Processes which includes Office and Dynamics. Other highly valued products and services include, Xbox, Azure, Server & cloud services, Surface, Bing, and Enterprise services.

Technology - Software

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Microsoft Corp.

MSFT - NASDAQ – Neutral - 1

Microsoft Reports Strong FQ3'17 Results; Increasing PT to \$70

- Results.** Microsoft reported non GAAP EPS of \$0.73 vs. \$0.62 in the prior year period. This was a penny below our estimate but above the consensus view of \$0.70. Microsoft results include a full quarter following the acquisition of LinkedIn. Non GAAP revenue totaled \$23.55 billion (\$975 million from LinkedIn vs. our view of \$1 billion), up 6.7% y/y, however this missed our \$23.9 billion estimate. Results differed from our view largely from weakness within the More Personal Computing segment and a higher tax rate.
- Segment Highlights.** More Personal Computing revenue decreased 7% y/y to \$8.84 billion. The segment was negatively impacted by a significant decrease in device (Surface and Phone) revenue. Gaming revenue increased 4% y/y on strong Xbox Live revenue. The segment was boosted by solid Windows revenue on an improving commercial PC market, premium consumer sales, and the end of support for Windows Vista. Search revenue increased 8% y/y. Segment operating income grew a strong 23% y/y in constant currency on expense cuts at the Phone division and lower marketing spend.

Productivity & Business Processes revenue of \$7.96 billion increased 22% y/y following the acquisition of LinkedIn. Office 365 commercial revenue grew 45% y/y and reached 100 million MAUs; Dynamics revenue grew 11% y/y; and Office consumer and cloud revenue grew 15% y/y as Office 365 subscribers increased to 26.2 million vs. 24.9 million last quarter, representing its fastest growth rate in over a year. Segment operating income declined 7% (4% in constant currency) due to the acquisition of LinkedIn.

The Intelligent Cloud segment grew revenue 11% y/y to \$6.76 billion on Server and cloud service revenue growth of 15% y/y, within this Azure revenue increased 93% and server products grew 6% from recent product releases. Enterprise services revenue decreased 1%. Operating income was flat y/y as Microsoft continued to scale cloud expenses.

Note Important Disclosures on Pages 7-8
Note Analyst Certification on Page 7

ADDITIONAL DISCUSSION

Commercial bookings increased a strong 12% y/y (11% F/X neutral). Commercial unearned revenue increased 9% y/y to \$20.4 billion. Commercial cloud annualized revenue reached \$15.2 billion, up from \$9.4 billion last year. Total contracted not billed balance reached \$27.5 billion. Cash, cash equivalents, and short & long-term investments totaled \$133.4 billion. Net cash was \$49.4 billion or \$6.32 per share, compared to \$70.5 billion last year following Microsoft’s \$26.2 billion LinkedIn acquisition. Fiscal Q3 free cash flow increased 11% y/y as heavy levels of capital expenses eased in the quarter. The company repurchased \$2 billion in stock during the quarter, half the amount spent in the prior year period.

Fiscal Q4 revenue guidance was provided between \$23.8 billion to \$24.5 billion which was below our prior \$24.9 billion view. Our Q4 revenue estimate declines by \$100 million to \$24.8 billion from \$24.9 billion on weaker than expected device sales. However, this continues to place us above the high end of management’s guidance range. We currently expect slightly higher operating expenses and tax rate to reduce our Q4 outlook. We forecast FQ4’17 EPS of \$0.71 vs. our prior view of \$0.75. We remain above the Street’s consensus view of \$0.68. Looking toward FY’18, we have previously adjusted our model to reflect the upcoming 606 accounting rule change, which we anticipate will have limited impact on our forecast. Our FY’18 EPS estimate declines by a penny to \$3.17 which is below the Street’s \$3.27 view. We expect slightly lower revenue of \$103 billion vs. the Street’s view of \$104.1 billion largely on our view of continued weakness in devices sales and softer consumer based holiday sales. We also expect higher operating expenses resulting from increased investments in the cloud and sales teams to support future growth.

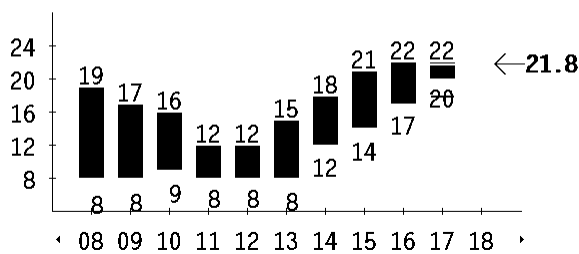
Longer term our revenue outlook increases as we expect cross-sell and up-sell opportunities from LinkedIn and premium cloud services to boost Microsoft’s customer base and revenue opportunities while also improving profitability. LinkedIn’s social selling platform is a large and powerful tool used by many small businesses, providing a gateway for Microsoft down channel to small businesses to broaden adoption of premium Microsoft services longer term. Along a similar line of thinking, we expect revenue and operating income to increase substantially within the Intelligent Cloud segment as Azure scales and offers premium services to these same businesses and larger enterprises. We maintain our positive opinion of the company’s industry leadership position and ongoing shift to a cloud services strategy. Microsoft is a well-managed organization deserving a premium valuation, in our opinion.

VALUATION & OPINION

We increase our price target by \$6 to \$70 from \$64 based on strong operating performance with continued strong revenue growth, operating expense management, and earnings growth above recent historical rates. We derive our \$70 price target by multiplying our FYE’18 EPS estimate of \$3.17 by a 22x multiple, which is below the current intraday 23x forward multiple applied to consensus estimates, but is above our prior 20x forward multiple following another quarter of impressive cloud based growth.

Forward P/E Range

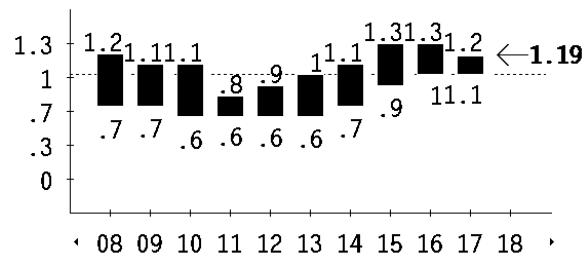
S&P 500 Forward P/E 18.3



Source: Baseline

Forward P/E Range

Relative To S&P 500



MSFT shares trade at 14 year high forward P/E multiple (displayed on page 2) that we view as slightly stretched in the context of MSFT shares specifically but fairly valued relative to the 19% premium valuation vs. the S&P 500 Index. Shares have historically traded at an 8% discount to the broader market index, however this includes a difficult period of time for Microsoft vs. now where Microsoft has reinvented itself as a cloud platform leader deserving of significantly higher valuations, in our view.

We also calculate our price target using our discounted cash flow model. We believe the Street was previously properly discounting Microsoft's future cash flows based on our DCF model. We view current expectations as aggressive and less likely to be easily achieved. We believe investors are paying a premium for Microsoft shares based on future expectations of cash flow growth. We believe based on MSFT's current share price, investors expect Microsoft to achieve annualized long-term free cash flow growth of over 4.7%, while the company's cash flows have increased only roughly 2% during the past 5 years. We note the prior 5 year period of cash flows were hindered by Microsoft's costly transition to a cloud services business model and as such we expect cash flow growth to double. However, Street price targets and expectations imply cash flow growth to triple long term, something we believe is highly difficult given numerous challenges.

We maintain our Neutral rating on shares of MSFT. We expect operating performance to remain strong yet find it difficult to grasp a valuation above current levels. We think MSFT shares could trade in a range between \$60 and \$72. We believe Microsoft is a leader in the enterprise cloud and is well positioned among industry peers for future growth. **Microsoft's fundamental outlook is strong, in our opinion, providing investors a solid core holding within the Technology sector. However, shares are fully valued, in our view, and as such we reiterate our Neutral rating on shares of MSFT.** In a scenario where global macroeconomic conditions deteriorate, we believe Microsoft has less ability to cut costs which could negatively impact profitability sending shares lower, in our view.

SUITABILITY

We assign shares of MSFT a suitability rating of 1 on our scale of 1-4 (1 = most conservative, 4 = most aggressive). A 1 rating is given based on Microsoft's long history as a public company, diverse revenue base, strong operating metrics, solid balance sheet, and significant cash flow generation. We believe a suitability rating of 1 incorporates these attributes. We believe revenue and EPS revisions as a result of restructuring charges, write-downs, acquisitions, and/or accounting changes, as we continue to experience, does not affect our 1-suitability rating as Microsoft's backlog, recurring revenue, cash flows, and cash balance provide a level of safety which we view as secure. Shares of MSFT are suitable for conservative growth oriented investors seeking long-term capital appreciation and income growth, in our view.

RISKS & CONSIDERATIONS

Risks to owning Microsoft shares include but are not limited to:

- Intense competition from other software/hardware/cloud providers. In our view, other competing operating systems on multiple device types could lead to market share losses in Microsoft's traditionally safe PC business. If competitors are successful in marginalizing Microsoft's operating system software this could have an impact on profitability.
- Lack of support, poor execution, and a highly competitive environment for Microsoft's new cloud-based computing model
- Macroeconomic issues, including a decline in business or consumer spending and changes in consumer behavior
- Consumer and business user preference of PCs to other forms of mobile computing devices
- Global piracy issues, including Microsoft's ability to protect intellectual property rights and secure its licensing revenue
- Software security threats could lead to reduced revenues

- Regulatory oversight and continued business scrutiny from the U.S. Department of Justice and the European Commission could lead to less risk taking and slower growth
- The ability of Microsoft management to hire and retain top talent
- Lack of product innovation or timely product development
- Business integration risk following several recent acquisitions and disruptions from suppliers
- Loss of strategic partnerships key to Microsoft, including sales from OEMs

Microsoft Corp. (MSFT) (\$'s in millions) FYE June

Balance Sheet	FY'05	FY'06	FY'07	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16	Q1'17	Q2'17	Q3'17
Assets															
Current assets															
Cash & cash equivalents	\$ 4,851	\$ 6,714	\$ 6,111	\$ 10,339	\$ 6,076	\$ 5,505	\$ 9,610	\$ 6,938	\$ 3,804	\$ 8,669	\$ 5,595	\$ 6,510	\$ 13,928	\$ 8,468	\$ 6,713
Short-term investments	32,900	27,447	17,300	13,323	25,371	31,283	43,162	56,102	73,218	77,040	90,931	106,730	123,004	114,313	119,305
Total cash & short-term investments	37,751	34,161	23,411	23,662	31,447	36,788	52,772	63,040	77,022	85,709	96,526	113,240	136,932	122,781	126,018
Accounts receivable, net	7,180	9,316	11,338	13,589	11,192	13,014	14,987	15,780	17,486	19,544	17,908	18,277	11,129	14,343	12,882
Inventories	491	1,478	1,127	985	717	740	1,372	1,137	1,938	2,660	2,902	2,251	3,122	1,961	1,979
Deferred income taxes	1,701	1,940	1,899	2,017	2,213	2,184	2,467	2,035	1,632	1,941	1,915	-	-	-	-
Other	1,614	2,115	2,393	2,989	3,711	2,950	3,320	3,092	3,388	4,392	5,461	5,892	6,726	5,864	5,434
Total current assets	48,737	49,010	40,168	43,242	49,280	55,676	74,918	85,084	101,466	114,246	124,712	139,660	157,909	144,949	146,313
Property & equipment, net	2,346	3,044	4,350	6,242	7,535	7,630	8,162	8,269	9,991	13,011	14,731	18,356	19,224	21,379	21,962
Equity & other investments	11,004	9,232	10,117	6,588	4,933	7,754	10,865	9,776	10,844	14,597	12,053	10,431	10,486	8,912	7,381
Goodwill	3,309	3,866	4,760	12,108	12,503	12,394	12,581	13,452	14,655	20,127	16,939	17,872	17,907	34,524	34,668
Intangible assets, net	499	539	878	1,973	1,759	1,158	744	3,170	3,083	6,981	4,835	3,733	3,522	11,001	10,547
Deferred income taxes	3,621	2,611	1,389	949	279	-	-	-	-	-	-	-	-	-	-
Other long-term assets	1,299	1,295	1,509	1,691	1,599	1,501	1,434	1,520	2,392	3,422	2,953	3,642	3,476	3,845	4,146
Total assets	70,815	69,597	63,171	72,793	77,888	86,113	108,704	121,271	142,431	172,384	176,223	193,694	212,524	224,610	225,017
Liabilities & stockholders' equity															
Current liabilities															
Accounts payable	2,086	2,909	3,247	4,034	3,324	4,025	4,197	4,175	4,828	7,432	6,591	6,898	6,296	6,580	6,217
Short-term debt	-	-	-	-	2,000	1,000	-	1,231	2,999	2,000	7,484	12,904	14,536	25,664	7,786
Accrued compensation	1,662	1,938	2,325	2,934	3,156	3,283	3,575	3,875	4,117	4,797	5,096	5,264	3,621	3,982	4,604
Income taxes	2,020	1,557	1,040	3,248	725	1,074	580	789	592	782	606	580	720	508	654
Short-term unearned revenue	7,502	9,138	10,779	13,397	13,003	13,652	15,722	18,653	20,639	23,150	23,223	27,468	26,304	26,085	26,518
Securities lending payable	-	3,117	2,741	2,614	1,684	182	1,208	814	645	558	92	294	210	1,280	201
Other	3,607	3,783	3,622	3,659	3,142	2,931	3,492	3,151	3,597	6,906	6,766	5,949	7,123	6,688	6,025
Total current liabilities	16,877	22,442	23,754	29,886	27,034	26,147	28,774	32,688	37,417	45,625	49,858	59,357	58,810	70,787	52,005
Long-term debt	-	-	-	-	3,746	4,939	11,921	10,713	12,601	20,645	27,808	40,783	60,154	59,306	76,222
Long-term unearned revenue	1,665	1,764	1,867	1,900	1,281	1,178	1,398	1,406	1,760	2,008	2,095	6,441	7,284	8,595	9,215
Deferred income taxes	-	-	-	-	-	229	1,456	1,893	1,709	2,728	2,835	696	1,564	1,133	465
Other long-term liabilities	4,158	5,287	6,453	4,721	6,269	7,445	8,072	8,208	10,000	11,594	13,544	14,420	14,340	15,980	17,381
Total liabilities	22,700	29,493	32,074	36,507	38,330	39,938	51,621	54,908	63,487	82,600	96,140	121,697	142,152	155,801	155,288
Commitments & contingencies															
Stockholders' equity															
Common stock & paid in capital	60,413	59,005	60,557	62,849	62,382	62,856	63,415	65,797	67,306	68,366	68,465	68,178	67,747	68,177	68,554
Retained earnings (deficit)	(12,298)	(18,901)	(29,460)	(26,563)	(22,824)	(16,681)	(6,332)	566	9,895	17,710	9,096	2,282	944	120	531
Accumulated other comprehensive income									1,743	3,708	2,522	1,537	1,681	512	644
Total stockholders' equity	48,115	40,104	31,097	36,286	39,558	46,175	57,083	66,363	78,944	89,784	80,083	71,997	70,372	68,809	69,729
Total liabilities & stockholders' equity	\$ 70,815	\$ 69,597	\$ 63,171	\$ 72,793	\$ 77,888	\$ 86,113	\$ 108,704	\$ 121,271	\$ 142,431	\$ 172,384	\$ 176,223	\$ 193,694	\$ 212,524	\$ 224,610	\$ 225,017

Source: Company data

Microsoft Corp. (MSFT) (\$'s in millions) FYE Jun.

Income Statement Analysis	FY'06	FY'07	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	FY'18E
Revenue (adjusted)	\$ 44,282	\$ 51,122	\$ 60,420	\$ 58,437	\$ 62,484	\$ 69,943	\$ 73,723	\$ 77,849	\$ 86,833	\$ 93,580	\$ 92,071	\$ 22,334	\$ 26,066	\$ 23,557	\$ 24,800	\$ 96,757	\$ 103,000
Cost of Revenue	7,650	10,693	11,598	12,155	12,395	\$ 15,577	17,530	20,249	\$ 26,934	\$ 33,038	\$ 32,780	7,844	9,901	8,060	8,450	\$ 34,255	\$ 36,500
Gross Profit	36,632	40,429	48,822	46,282	50,089	54,366	56,193	57,600	59,899	60,542	59,291	14,490	16,165	15,497	16,350	62,502	66,500
Operating Expenses																	
Research & Development	6,584	7,121	8,164	9,010	8,714	9,043	9,811	10,411	11,381	12,046	11,988	3,106	3,062	3,355	3,450	12,973	13,875
Sales & Marketing	9,818	11,455	13,260	12,879	13,214	13,940	13,857	15,276	15,811	15,713	14,697	3,233	4,071	3,879	4,250	15,433	16,770
General & Administrative	3,758	3,329	5,127	4,030	4,063	4,222	4,569	5,149	4,821	4,611	4,563	1,045	879	1,202	1,400	4,526	5,150
Restructuring and other charges							6,193	-	127	10,011	6,751	-	-	-	-	-	-
Total Operating Expenses	20,160	21,905	26,551	25,919	25,991	27,205	28,237	30,836	32,013	42,381	37,999	7,384	8,012	8,436	9,100	32,932	35,795
Operating Income	16,472	18,524	22,271	20,363	24,098	27,161	27,956	26,764	27,886	18,161	21,292	7,106	8,153	7,061	7,250	29,570	30,705
Other Investment Income (expense)	1,790	1,577	1,543	(542)	915	910	504	288	61	346	(431)	100	186	322	-	608	-
Income before income taxes	\$ 18,262	\$ 20,101	\$ 23,814	\$ 19,821	\$ 25,013	\$ 28,071	\$ 28,460	\$ 27,052	\$ 27,820	\$ 18,507	\$ 20,861	\$ 7,206	\$ 8,339	\$ 7,383	\$ 7,250	\$ 30,178	\$ 30,705
Provision for income taxes	5,663	6,036	6,133	5,252	6,253	4,921	5,289	5,189	5,746	6,314	(1,251)	635	1,824	1,668	1,740	5,867	6,141
Net income	\$ 12,599	\$ 14,065	\$ 17,681	\$ 14,569	\$ 18,760	\$ 23,150	\$ 23,171	\$ 21,863	\$ 22,074	\$ 12,193	\$ 22,112	\$ 6,571	\$ 6,515	\$ 5,715	\$ 5,510	\$ 24,311	\$ 24,564
Earnings per share:																	
GAAP EPS (diluted)	\$ 1.20	\$ 1.42	\$ 1.87	\$ 1.62	\$ 2.10	\$ 2.65	\$ 2.00	\$ 2.59	\$ 2.63	\$ 1.48	\$ 2.06	\$ 0.67	\$ 0.66	\$ 0.54	\$ 0.52	\$ 2.39	\$ 2.36
Earnings per share: (adjusted diluted)							\$ 2.79	\$ 2.70	\$ 2.67	\$ 2.67	\$ 2.76	\$ 0.76	\$ 0.83	\$ 0.73	\$ 0.71	\$ 3.03	\$ 3.17
Weighted average shares outstanding:																	
Basic	10,438	9,742	9,328	8,945	8,813	8,490	8,396	8,144	8,299	8,176	7,924	7,789	7,755	7,725	7,700	7,742	7,794
Diluted	10,531	9,886	9,470	8,996	8,927	8,593	8,460	8,450	8,385	8,237	8,002	7,876	7,830	7,813	7,800	7,830	7,738
Cash Dividend per share	\$ 0.34	\$ 0.39	\$ 0.43	\$ 0.52	\$ 0.52	\$ 0.64	\$ 0.80	\$ 0.92	\$ 1.12	\$ 1.24	\$ 1.44	\$ 0.39	\$ 0.39	\$ 0.39	\$ 0.39	\$ 1.56	\$ 1.68
Year/Year Growth Rates																	
Adjusted Revenue	11.3%	15.4%	18.2%	-3.3%	6.9%	11.9%	5.4%	5.6%	11.5%	7.8%	-1.6%	3.1%	1.5%	6.7%	9.5%	5.1%	6.5%
Cost of Revenue	26.8%	39.8%	8.5%	4.8%	2.0%	25.7%	12.5%	15.5%	33.0%	22.7%	-0.8%	8.8%	0.3%	4.4%	5.9%	4.5%	6.6%
Gross Profit	8.5%	10.4%	20.8%	-5.2%	8.2%	8.5%	3.4%	2.5%	4.0%	1.1%	-2.1%	0.3%	2.2%	8.0%	11.5%	5.4%	6.4%
R&D Expense	8.0%	8.2%	14.6%	10.4%	-3.3%	3.8%	8.5%	6.1%	9.3%	5.8%	-0.5%	4.9%	5.6%	12.6%	9.7%	8.2%	7.0%
Sales & Marketing	14.7%	16.7%	15.8%	-2.9%	2.6%	5.5%	-0.6%	10.2%	3.5%	-0.6%	-6.5%	-3.0%	2.8%	13.9%	6.3%	5.0%	8.7%
General & Administrative	-17.2%	-11.4%	54.0%	-21.4%	0.8%	3.9%	8.2%	12.7%	-6.4%	-4.4%	-1.0%	-3.6%	-15.3%	5.4%	7.6%	-0.8%	13.8%
Total Operating Expenses	5.0%	8.7%	21.2%	-2.4%	0.3%	4.7%	3.8%	9.2%	3.8%	32.4%	-10.3%	-14.7%	-18.2%	-7.0%	-13.1%	-13.3%	8.7%
Operating Income	13.1%	12.5%	20.2%	-8.6%	18.3%	12.7%	2.9%	-4.3%	4.2%	-34.9%	17.2%	22.7%	35.3%	33.7%	73.0%	38.9%	3.8%
Net Income	2.8%	11.6%	25.7%	-17.6%	28.8%	23.4%	0.1%	-5.6%	1.0%	-44.8%	81.3%	22.1%	3.8%	14.9%	0.5%	9.9%	1.0%
Earnings Per Share	6.5%	18.9%	31.2%	-13.3%	29.8%	25.9%	5.4%	-3.3%	-1.1%	0.1%	3.4%	13.4%	6.7%	18.0%	2.4%	9.8%	4.8%
Diluted Shares Outstanding	-3.4%	-6.1%	-4.2%	-5.0%	-0.8%	-3.7%	-1.5%	-0.1%	-0.8%	-1.8%	-2.8%	-2.4%	-2.5%	-2.2%	-1.6%	-2.2%	-1.2%
Percentage of Revenue																	
Cost of Revenue	17.3%	20.9%	19.2%	20.8%	19.8%	22.3%	23.8%	26.0%	31.0%	35.3%	35.6%	35.1%	38.0%	34.2%	34.1%	35.4%	35.4%
R&D Expense	14.9%	13.9%	13.5%	15.4%	13.9%	12.9%	13.3%	13.4%	13.1%	12.9%	13.0%	13.9%	11.7%	14.2%	13.9%	13.4%	13.5%
Sales & Marketing	22.2%	22.4%	21.9%	22.0%	21.1%	19.9%	18.8%	19.6%	18.2%	16.8%	16.0%	14.5%	15.6%	16.5%	17.1%	16.0%	16.3%
General & Administrative	8.5%	6.5%	8.5%	6.9%	6.5%	6.0%	6.2%	6.6%	5.6%	4.9%	5.0%	4.7%	3.4%	5.1%	5.6%	4.7%	5.0%
Total Operating Expenses	45.5%	42.8%	43.9%	44.4%	41.6%	38.9%	38.3%	39.6%	36.9%	45.3%	41.3%	33.1%	30.7%	35.8%	36.7%	34.0%	34.8%
Margin Analysis																	
Gross Profit	82.7%	79.1%	80.8%	79.2%	80.2%	77.7%	76.2%	74.0%	69.0%	64.7%	64.4%	64.9%	62.0%	65.8%	65.9%	64.6%	64.6%
Operating Income	37.2%	36.2%	36.9%	34.8%	38.6%	38.8%	37.9%	34.4%	32.1%	19.4%	23.1%	31.8%	31.3%	30.0%	29.2%	30.6%	29.8%
Net Income	28.5%	27.5%	29.3%	24.9%	30.0%	33.1%	31.4%	28.1%	25.4%	13.0%	24.0%	29.4%	25.0%	24.3%	22.2%	25.1%	23.8%

Source: Company data and Hilliard Lyons estimates

Additional information is available upon request.

Analyst Certification

I, Stephen Turner, 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.

Suitability Ratings

- 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 revenues, volatility, low trading volume or a narrow customer or product base

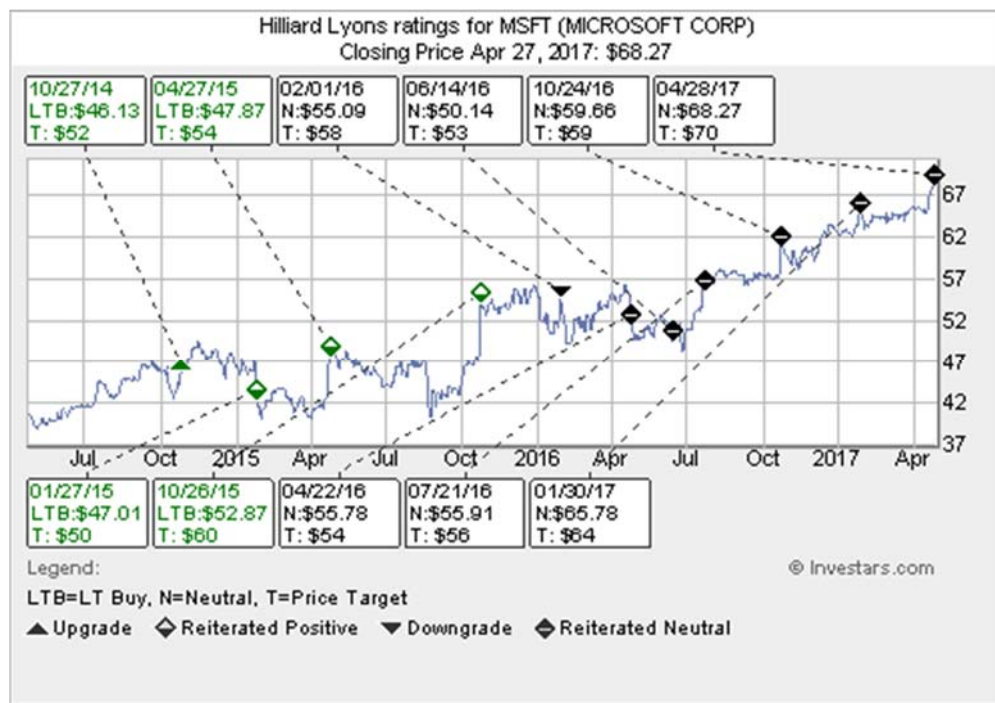
Investment Ratings

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 setback in the next 12 months.



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

Other Disclosures

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