



## COMPANY UPDATE / ESTIMATE CHANGE

### Key Metrics

NRP - NYSE - as of	8/9/17	\$27.50
Price Target		NA
52-Week Range	\$13.97 -	\$45.60
Shares Outstanding (mm)		12.2
Market Cap. (\$mm)		\$336.4
1-Mo. Average Daily Volume		45,541
Institutional Ownership		23.7%
Net Debt/Total Capital	Q2'17	73.3%
ROE	FY'16	32.7%
Book Value / Share	Q2'17	\$ 16.35
Price / Book Value		1.7x
Distribution & Yield	\$1.80	6.5%
LTM EBITDA Margin		57.7%

### Net Inc. / Unit FY 12/31

		Prior	Current	Prior	Current
	2016A*	2017E*	2017E*	2018E	2018E
1Q	\$0.29		\$1.04	A --	--
2Q	\$3.82		\$1.78	A --	--
3Q	\$1.26	\$1.13	\$1.57	--	--
4Q	\$0.91	\$1.44	\$1.67	--	--
Year	\$6.28	\$4.63	\$6.06	\$5.36	\$7.57
P/E	4.4x		4.5x		3.6x

\* - ex: warrant adjustment, non-recurring items / basic units

### Revenue (\$mm)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$103		\$89	A --	--
2Q	\$118		\$95	A --	--
3Q	\$98	\$90	\$90	--	--
4Q	\$88	\$91	\$89	--	--
Year	\$407	\$359	\$363	\$375	\$378

**Company Description:** Houston, TX – based Natural Resource Partners L.P. is a publicly-traded partnership that sub-leases its land and mineral rights on a royalty producing basis. The company's lessors produced ~31M (million) tons of coal in 2016 (~35% of which was metallurgical) from an estimated reserve base of 1.7B tons. Limited partnerships pay the majority of available cash flow to unit holders as a cash distribution. These distributions generally receive favorable tax treatment, more fully described in an annual Schedule K-1.

## Energy

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## Natural Resource Partners L.P.

NRP – NYSE – Neutral - 4

### Q2'17 Results Mixed; Balance Sheet Improved

#### Investment Highlights

- NRP posted Q2'17 fully-diluted EPU of \$1.13 vs. \$3.72 a year ago. Our estimate was \$1.01 while consensus was \$1.74. We calculate operating EPU, excluding the non-cash warrant adjustment (and other non-recurring items) and associated “phantom” warrant dilution, was \$1.78 vs. \$3.82 a year ago.
- Adjusted EBITDA was \$63M vs. \$82M in Q2'16, and ahead of consensus of \$56M. Distributable cash flow was \$3.13/unit with the distribution coverage ratio at 7.0x, compared to \$2.07/unit and 10.6x for the prior year period.
- Coal (52% of Q2 revenues) volume of 6.5M tons was flat yr/yr but down 24% sequentially. Pricing was up by 36% yr/yr on better metallurgical and Appalachian thermal markets. Vanta-Core / aggregates (35% of revenues) saw improved volume and pricing yr/yr, but tighter margins. The Trona operation (9% of revenues) income contribution was 18% lower yr/yr on reduced production and higher maintenance.
- The company reduced debt by \$97M in Q2 while cash declined by \$72M, bringing the net debt to total capitalization ratio to 73% from 69% at Q1.
- We are increasing our operating EPU estimates for 2017 and 2018, primarily on re-normalized, post-recapitalization G&A outlays.
- We see covenant compliance and distribution coverage remaining sound, in the context, however, of an erratic operating environment and an as yet unclear level of equity dilution and concomitant limits on distribution growth. As such, we maintain our Neutral /4 rating.

**Note Important Disclosures on Pages 6-7**

**Note Analyst Certification on Page 6**

**ADDITIONAL DISCUSSION**

The “temporary equity” provisions of NRP’s recently-concluded convertible preferred units and warrants issues continue to muddy the picture of the company’s earnings results. Q2’17 results included a \$24.0M non-cash “warrant liability fair value adjustment,” representing 48% of net income for the period. Recent guidance from the Financial Accounting Standards Board (FASB), however, would allow companies to avoid this non-cash impact and to recognize dilution only upon certain triggering events, which could set the stage for NRP to avoid this confusion as early as Q3’17.

We are forecasting coal volumes run essentially flat through 2017, although given the sequential decline in Q2, that now results in ~10% lower yr/yr growth for the full year. We believe pricing will remain relatively stable through 2017, albeit at less robust growth rates than seen in H1’17. For 2018 we see coal volumes stabilizing with pricing firming by ~2%. We continue to forecast moderate improvement in aggregates volumes and pricing for 2017, with a partial offset from operating costs. Similarly, higher operating expense reduces our 2017 trona segment forecast by ~\$2M, or ~7%, vs. our prior estimate.

The biggest impact to our forecast comes from the company’s having moved nearly out of the headwinds of the refinancing expenses, combined with ongoing operating cost reductions. This shift reduces our outlook for G&A outlays for 2017 and 2018 from approximately ~\$29M per year to a run rate of ~\$12M. As a result, our operating, basic EPU forecast for 2017 increases from \$4.63 to \$6.06 and our 2018 estimate from \$5.36 to \$7.57.

**SUITABILITY RATING**

Our Suitability rating is 4 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive). This reflects our favorable view of the partnership's revenue diversification and low-cost royalty structure. However, the coal industry has been under severe pressure from the broad shift of the electrical generation sector to natural gas and has seen a number of bankruptcies, among which were NRP lessees. Further, the partnership faces approximately \$308M in debt maturities through 2018, during which time it is scheduled to have its borrowing base reduced to \$100M.

**CONSIDERATIONS AND RISKS**

**This entity is classified as a Partnership for US income tax purposes. Tax information is provided by the Partnership directly to the investor on Form 1065, Schedule K-1. Please discuss the tax implications of this investment with a qualified tax advisor.**

Annual yield is calculated by dividing the distribution amount by the current price of the security. All or a portion of the Company's distributions are paid from the Partners Capital Account at the Company's discretion. Actual classification for income tax purposes is reported on IRS Form 1065, Schedule K-1 and is provided directly to the investor by the Company. For US income tax purposes, the Company will make a determination regarding all allocable tax information after calendar year end on Form 1065, Schedule K-1. Partnership interests held in tax-exempt accounts including retirement plans and Individual Retirement accounts may be subject to Unrelated Business Income Tax (UBIT). We urge each investor to consult with his or her own tax advisor to determine the tax consequences of ownership of partnership interests, including any state, local or foreign tax considerations.

The energy production industry is capital intensive, highly competitive and subject to a range of economic and operational risks. Foremost among these risks may be volatility in the underlying commodity pricing, which is subject to supply and demand fundamentals related to factors such as economic conditions, weather patterns, and logistical constraints. The industry is also subject to a range of regulatory risks, including changes in environmental and pollution policies, permitting requirements, and employee benefits obligations.

Company-specific risks include the potential for shut-downs by its lessees, managing significant debt maturities through the intermediate term which could jeopardize the distribution, and the potential for uncertainty surrounding the company's earnings due to the accounting treatment of the preferred units and warrants, which could result in increased volatility. In the intermediate to longer term, increasing Federal regulations on CO2 emissions continue to erode demand and increase costs for coal-fired electricity generation.

*Additional information is available upon request.*

**Natural Resource Partners L.P. (NRP)**

Financial Model (\$'s in '000's) FYE Dec.

Income Statement Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
<b>Revenues</b>													
Coal	226,724	225,215	39,045	76,396	48,938	44,271	208,650	51,138	49,626	45,070	44,150	189,984	199,110
Aggregates / VantaCore	54,124	146,137	24,682	31,642	31,757	32,721	120,802	27,221	33,555	35,500	34,610	130,886	138,860
Equity Investment Inc. - Ciner	41,416	49,918	9,801	10,188	10,753	9,319	40,061	10,294	8,389	9,500	10,500	38,683	39,650
Oil & Gas	59,566	53,565	7,298	1,091			8,389						
Property Taxes	13,609	8,602											
Other	4,313	5,412	21,925	(1,071)	6,426	1,801	29,081	44	3,361			3,405	
Total Revenues	\$ 399,752	\$ 488,849	\$ 102,751	\$ 118,246	\$ 97,874	\$ 88,112	\$ 406,983	\$ 88,697	\$ 94,931	\$ 90,070	\$ 89,260	\$ 362,958	\$ 377,620
<b>Costs &amp; Expenses</b>													
Operating & Maintenance		42,391	34,650	32,199	35,304	32,774	134,927	32,183	33,239	32,760	32,280	130,462	135,060
D, D & A	79,876	100,828	14,743	11,176	12,831	11,763	50,513	10,492	8,405	8,280	8,160	35,337	37,670
G & A	36,437	28,818	4,172	4,039	5,135	7,224	20,570	7,202	2,883	2,840	2,800	15,725	12,730
Property, Franchise & Other Taxes	21,279	14,490											
Coal Expenses	5,579	4,840											
Aggregate Operations	32,309	86,314											
Oil & Gas LOEs	9,144	9,810											
Operating Profit	\$ 215,128	\$ 201,358	\$ 49,186	\$ 70,832	\$ 44,604	\$ 36,351	\$ 200,973	\$ 38,820	\$ 50,404	\$ 46,190	\$ 46,020	\$ 181,434	\$ 192,160
%	53.8%	41.2%	47.9%	59.9%	45.6%	41.3%	49.4%	43.8%	53.1%	51.3%	51.6%	50.0%	50.9%
Interest (Exp.)	(80,185)	(93,827)	(23,748)	(22,115)	(22,491)	(23,305)	(91,659)	(23,141)	(20,377)	(19,000)	(17,500)	(80,018)	(65,000)
Interest Inc.	96	18	19	7	3	10	39	17	69	5	5	96	10
Warrant Liability Fair Value Adjustment								16,569	23,960			40,529	
Other Inc. / (Exp.)	(26,209)	(681,594)	(2,030)	(91)	729	(9,245)	(10,637)	(15,294)	(4,239)	-	-	(19,533)	-
Non-controlling interest / Disc. Ops.	-	(1,693)	(545)	(1,725)	7,112	(323)	4,519	(207)	133	-	-	(74)	-
Net Income	108,830	(575,738)	22,882	46,908	29,957	3,488	98,716	16,764	49,950	27,195	28,525	122,434	127,170
Attributable to:													
Preferred Unitholders								2,500	7,538	7,500	7,500	25,038	30,000
General Partner	2,177	(12,228)	403	863	(203)	(9)	1,054	217	917	540	570	2,244	2,540
Limited Partners	106,653	(559,492)	23,024	45,627	23,048	3,820	97,662	14,047	41,495	19,155	20,455	95,152	94,630
Common Units Outstanding	11,324	12,273	12,230	12,232	12,232	12,232	12,232	12,232	12,232	12,235	12,240	12,235	12,500
Basic EPU	\$ 9.42	\$ (45.75)	\$ 1.88	\$ 3.72	\$ 1.88	\$ 0.31	\$ 7.98	\$ 1.15	\$ 3.39	\$ 1.57	\$ 1.67	\$ 7.78	\$ 7.57
Fully Diluted Units Outstanding reported EPU - FD								\$ 19,110	\$ 22,459	\$ 25,000	\$ 26,000	\$ 23,142	\$ 27,500
EPU ex-Warrant Adj. / Non-Recurring Items	\$ 11.68	\$ 8.87	\$ 0.29	\$ 3.82	\$ 1.26	\$ 0.91	\$ 6.28	\$ 1.04	\$ 1.78	\$ 0.77	\$ 0.79	\$ 4.11	\$ 3.44
<b>Rate of Change Analysis</b>													
Coal Revenues	-17.3%	-0.7%	-21.1%	25.4%	-11.0%	-26.0%	-7.4%	31.0%	-35.0%	-7.9%	-0.3%	-8.9%	4.8%
Aggregates Revenues	302.1%	170.0%	-14.7%	-26.2%	-25.0%	2.3%	-17.3%	10.3%	6.0%	11.8%	5.8%	8.3%	6.1%
Total Revenues	11.6%	22.3%	-6.3%	-14.1%	-22.0%	-24.1%	-16.7%	-13.7%	-19.7%	-8.0%	1.3%	-10.8%	4.0%
Op. Inc.	-8.2%	-6.4%	23.7%	21.4%	-9.2%	-29.5%	-0.2%	-21.1%	-28.8%	3.6%	26.6%	-9.7%	5.9%
EPU	-37.8%	-585.7%	50.0%	55.2%	-103.9%	-116.8%	-117.5%	-44.5%	-52.1%	-16.9%	435.1%	-24.1%	24.9%
EBITDA	-12.6%	2.4%	-1.9%	-7.8%	-24.2%	-31.0%	-16.8%	-22.9%	-28.3%	-5.2%	12.6%	-13.8%	6.0%
Distributable Cash Flow / Unit	-31.9%	-16.5%	12.5%	-46.3%	169.3%	-16.5%	38.3%	-68.3%	51.4%	-62.0%	-65.1%	-53.0%	-19.7%
Guide: 1/10- Rev \$305-340M EPU \$1.10-1.30; 8/7- affirm; 10/6- \$370-390M		Guide: 2/12- Rev \$490-535M & DCF \$175-200M; 8/6- Rev \$460-505M & DCF \$145-170M	1/27- announce 1:10 reverse split, @ 18 Feb; 2/16- \$48M asset sales in aggregates and O&G; 3/11- "going concern" commentary in 10-K re O&G segment, 2/2- BB - \$10M	6/14- sell remaining O&G assets for \$116M, residual interests rolled into mineral segment; Q2- \$44M revenues from lessees' settlement of minimum royalties	\$50M borrowing base reduction Dec	\$181M of asset sales (\$152M of which was oil & gas), \$248M of debt reduction, booked \$368M of asset impairments	2/23- \$250M preferred (pik / warrant) issue, \$241M debt exchange / \$105M new debt issue, credit facility extended two years but borrowing base to be reduced \$70M	\$30M borrowing base reduction scheduled for Dec	\$50M borrowing base reduction scheduled for Dec				

Source: Company reports and Hilliard Lyons estimates

## Natural Resource Partners L.P. (NRP) (\$'s '000's)

Cash Flow Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Inc. (Cont. Ops.)	108,830	(571,720)	23,427	48,633	22,845	3,811	98,716	14,264	42,412	19,695	21,025	97,396	97,170
D, D & A	79,876	100,828	14,743	11,176	12,831	11,763	50,513	10,492	8,405	8,280	8,160	35,337	37,670
Distributions from Unconsolidated Affil.	46,638	46,795	12,250	9,800	12,250	12,250	46,550	12,250	12,250	12,250	12,250	49,000	50,230
(Increase) Decrease in Wrkg. Cap.	(18,405)	5,402	69,056	(33,786)	40,165	(18,590)	56,845	98,601	(71,640)	29,040	(1,620)	54,381	10,290
Operating C.F.	216,939	(418,695)	119,476	35,823	88,091	9,234	252,624	135,607	(8,573)	69,265	39,815	236,114	195,360
(Cap Ex)	(2,454)	(10,175)	(2,221)	(1,698)	(512)	(977)	(5,408)	(2,095)	(2,903)	(3,000)	(3,100)	(11,098)	(12,600)
(Oil & Gas CapEx)	(18,062)	-	-	-	-	-	-	-	-	-	-	-	-
(Acquisition Exp.)	(514,025)	(40,679)	(2,725)	-	-	-	(2,725)	-	-	-	-	-	-
(Acquisition of Contracts - affiliate)	-	-	-	-	-	-	-	-	-	-	-	-	-
Asset Sales	1,418	18,120	42,653	1,499	13,789	7,044	64,985	(387)	2,862	-	-	2,475	-
Equity Interest Distributions Rcv'd	3,633	-	-	-	-	-	-	-	-	-	-	-	-
(Preferred Distributions Paid)	-	-	-	-	-	-	-	(1,250)	(3,750)	(3,750)	(3,750)	(12,500)	(30,000)
(Common Distributions Paid)	(163,106)	(71,758)	(5,616)	(5,616)	(5,617)	(5,616)	(22,465)	(5,615)	(5,619)	(5,620)	(5,620)	(22,474)	(22,590)
Free C.F.	(475,657)	(523,187)	151,567	30,008	95,751	9,685	287,011	126,260	(17,983)	56,895	27,345	192,517	130,170
Debt Drawn	637,375	145,730	-	20,000	-	-	20,000	103,688	-	-	20,000	123,688	-
(Debt Repaid)	(327,983)	(190,983)	(51,166)	(57,316)	2,308	(76,967)	(183,141)	(251,010)	(97,282)	-	(115,000)	(463,292)	(94,600)
Units Issued	127,202	-	-	-	-	-	-	242,100	-	-	-	242,100	-
(Units Repurchased)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net C.F.	(39,063)	(568,440)	100,401	(7,308)	98,059	(67,282)	123,870	221,038	(115,265)	56,895	(67,655)	95,013	35,570
Adjusted EBITDA	300,322	292,116	66,397	81,627	58,935	51,055	255,471	51,285	62,739	66,730	66,440	255,499	280,070
EBITDA / Unit	\$ 26.05	\$ 24.62	\$ 5.23	\$ 6.70	\$ 4.70	\$ 3.93	\$ 20.56	\$ 4.19	\$ 5.13	\$ 5.45	\$ 5.43	\$ 20.88	\$ 22.41
Distributable Cash Flow	217,710	196,981	58,412	25,320	156,212	32,714	271,415	18,547	38,330	59,365	11,415	127,657	104,760
Dist CF / Unit	\$ 19.226	\$ 16.050	\$ 4.776	\$ 2.070	\$ 12.771	\$ 2.674	\$ 22.190	\$ 1.516	\$ 3.134	\$ 4.852	\$ 0.933	\$ 10.434	\$ 8.381
Distribution / Unit:	\$ 14.000	\$ 5.750	\$ 0.450	\$ 0.450	\$ 0.450	\$ 0.450	\$ 1.800	\$ 0.450	\$ 0.450	\$ 0.450	\$ 0.450	\$ 1.800	\$ 1.800
Coverage Ratio	1.4x	2.8x	10.6x	4.6x	28.4x	5.9x	12.3x	3.4x	7.0x	10.8x	2.1x	5.8x	4.7x
Payout Ratio	74.9%	36.4%	9.6%	22.2%	3.6%	17.2%	8.3%	30.3%	14.7%	9.5%	49.2%	17.6%	21.6%
Balance Sheet Analysis													
Cash	50,076	51,773	52,097	21,391	92,391	40,371	40,371	112,945	40,783	97,680	30,030	30,030	65,600
Accounts Receivable	66,455	57,031	48,154	49,431	44,139	43,202	43,202	44,470	53,997	43,200	42,800	42,800	45,300
Other Current Assets	19,587	12,325	18,766	125,827	24,435	20,679	20,679	37,842	12,316	12,300	12,300	12,300	12,300
Total Current Assets	136,118	121,129	119,017	196,649	160,965	104,252	104,252	195,257	107,096	153,180	85,130	85,130	123,200
Land	25,243	25,022	25,022	25,020	25,020	25,252	25,252	12,591	25,272	25,270	25,270	25,270	25,270
Net PP&E	60,093	61,239	57,444	55,763	52,516	49,443	49,443	48,579	48,822	48,370	47,920	47,920	47,470
Coal/Mineral Rights	1,781,896	1,094,027	1,060,829	946,355	924,181	908,192	908,192	895,071	895,642	891,100	886,700	886,700	886,100
Intangibles	60,689	56,927	55,975	55,040	53,907	53,047	53,047	49,043	51,226	50,730	50,230	50,230	49,730
Goodwill	52,012	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	328,673	325,731	306,606	306,259	304,817	304,495	304,495	308,709	300,994	301,000	301,000	301,000	301,000
Total Assets	2,444,724	1,684,075	1,624,893	1,585,086	1,521,406	1,444,681	1,444,681	1,509,250	1,429,052	1,469,650	1,396,250	1,396,250	1,432,770
Current Maturities	80,983	80,983	154,441	157,996	158,597	138,903	138,903	263,502	173,901	173,900	173,900	173,900	80,600
Accounts Payable	32,416	9,929	8,822	6,039	6,223	6,234	6,234	6,538	5,257	7,200	7,100	7,100	7,600
Other Current Liabilities	34,532	45,735	40,004	113,784	46,480	42,880	42,880	35,009	38,253	38,300	38,300	38,300	38,300
Total Current Liabilities	147,931	136,647	203,267	277,819	211,300	188,017	188,017	305,049	217,411	219,400	219,300	219,300	126,500
Bank Debt	1,394,240	1,284,083	1,166,894	1,050,562	1,041,984	987,400	987,400	707,424	700,252	700,250	605,250	605,250	510,650
Deferred Revenue	160,260	80,812	158,618	42,608	40,050	44,931	44,931	46,008	110,885	112,500	114,200	114,200	115,913
Accrued Incentive Plan Exp.	6,554	-	-	-	-	-	-	-	-	-	-	-	-
Other LT Liabilities	14,300	109,591	5,839	82,463	75,673	76,197	76,197	292,546	200,533	200,500	200,500	200,500	200,500
Partners' Capital	720,155	72,942	90,275	131,634	152,399	148,136	148,136	158,223	199,971	237,000	257,000	257,000	479,207
Book Value	\$ 63.60	\$ 5.94	\$ 7.38	\$ 10.76	\$ 12.46	\$ 12.11	\$ 12.11	\$ 12.94	\$ 16.35	\$ 19.37	\$ 21.00	\$ 21.01	\$ 38.34
Current Ratio	0.9x	0.9x	0.6x	0.7x	0.8x	0.6x	0.6x	0.6x	0.5x	0.7x	0.4x	0.4x	1.0x
LT Debt/Cap.-Net of Cash	63.6%	90.8%	88.7%	87.1%	79.5%	83.4%	83.4%	68.7%	73.3%	64.3%	66.7%	66.7%	45.0%
ROE: DuPont	7.6%	nm	48.3%	93.6%	40.3%	1.0%	32.7%	15.6%	84.1%	19.6%	20.3%	25.6%	13.4%

Source: Company reports and Hilliard Lyons estimates

### **Analyst Certification**

I, Joel K. Havard, 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

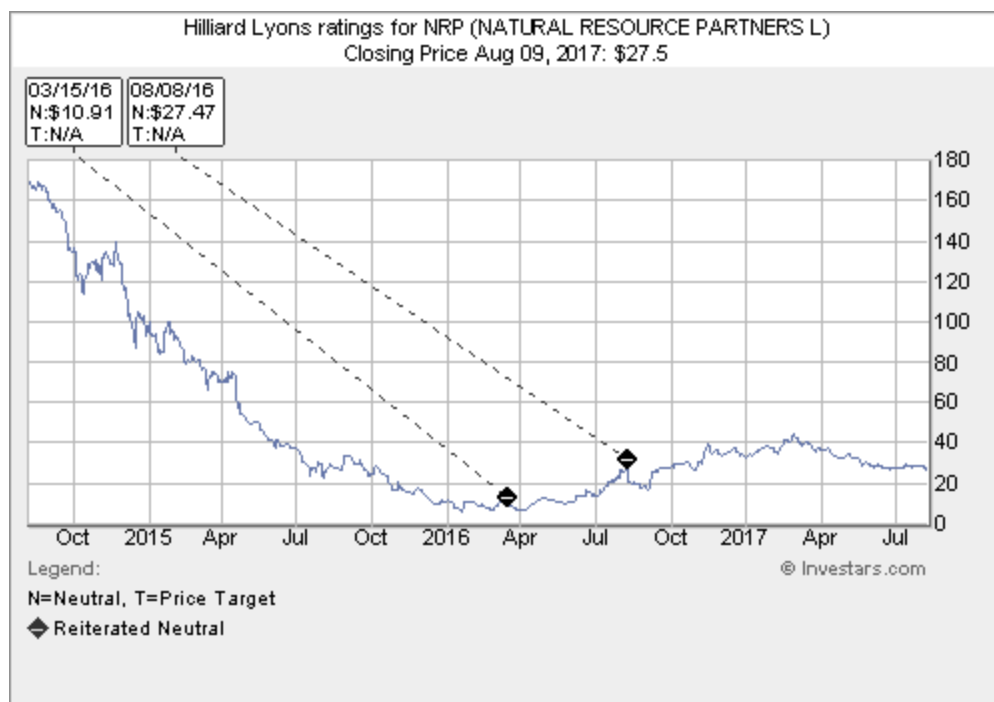
### **Investment Ratings**

**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 two to three 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.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	38	30%	11%	89%
Hold/Neutral	77	61%	8%	92%
Sell	11	9%	0%	100%

As of 9 August 2017

**Other Disclosures**

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