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## Herbalife Ltd. (HLF-US)

### Personal Products

- We are initiating research coverage on HLF with a Buy rating and believe significant upside exists in the shares from current levels.
- Nobody has ever worked so hard to discredit the company yet no company has ever stood up as well as HLF.
- HLF has consistently demonstrated a long history of profitability and committed distributor and customer base.
- Business performance should start to accelerate now that the distractions and controversies are in the past.
- HLF has a strong balance sheet and strong cash flow.
- HLF recently formed a joint venture with a leading Chinese manufacturer and distributor of herbal extracts and pharmaceutical products.
- HLF continues its global expansion with deeper penetration into the Chinese market.
- Direct selling / Multilevel marketing remains a legitimate sales and distribution channel.
- New product development will continue to drive sales growth and new business opportunities.
- HLF continues to build on its expertise in new nutrients to develop new product lines.
- A significant level of short interest remains a positive catalyst.

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**Company Note**
**Herbalife Ltd. (HLF-US)**
**Personal Products**

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**Research Action:**

Initiation of Coverage

Rating:	Buy
Prior Rating:	None
Price 04/21/2017:	\$59.98
52 Week High / Low:	\$72.22 / \$47.62

**Key Data: (TTM as of Dec-16)**

Excess Cash per Share:	\$7.45
Annual Dividend:	\$0.00
Dividend Yield:	0.00%
Ave. Volume (30 Day):	0.6M
Shares Outstanding:	93.0M
Float:	89.1M
Equity MV:	\$5,581.1M
Sales TTM:	\$4,488.4M
Beta:	1.05
EBITDAR:	\$567.6M
NOPAT:	\$296.5M
Total Invested Capital:	\$1,753.1M
Return on Capital:	18.26%
Cost of Capital:	5.82%
Economic Profit:	\$201.9M
Market Value Added:	\$5,379.1M
Current Operations Value:	\$5,091.8M
Future Growth Value:	\$2,040.5M

- We are initiating research coverage on HLF with a Buy rating and believe significant upside exists in the shares from current levels.** With the FTC issues behind it, HLF can now focus on growth driven by new product launches, new marketing initiatives and global expansion. We believe that HLF's ongoing expansion into China, its new partnership with Tasly Holding Group, along with its strong brand equity and growing membership base will start to reaccelerate positive Business Performance trends. We believe positive sales growth rates will resume and will increase return on capital along with increasing Economic Profit driving greater shareholder value creation.
- Nobody has ever worked so hard to discredit the company yet no company has ever stood up as well as HLF.** The resulting settlement with the FTC, has in our view created a better stronger company. The Pershing Square thesis of classifying HLF as a Ponzi scheme was based upon the fact that if greater than 90% of the customers of the company are distributors and not end-users, it would then be classified as a Ponzi scheme. The flaw in this analysis is the fact that most customers of HLF, as well as customers of other MLM companies, sign up as distributors just to get a discount on their own purchases without ever wanting to become resellers. In July 2016, HLF reached an agreement with the FTC that included a \$200 million payment to be distributed as restitution customers who signed on as distributors and lost money in the process of trying to create their business line. Additionally there was a \$3 million settlement to the state of Illinois specifically affecting those in Illinois. HLF agreed to several changes to its business practices as well as additional oversight and compliance. The primary change being the reclassification of those who only join to get a discount on their own purchases as discount buyers, or in the case of HLF, they are classified as *Preferred Members*. Those customers that want to sell products and recruit others to sell products are classified now as distributors or *Business Builders*.

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Herbalife Ltd. (HLF-US)

**Personal Products**

- **HLF has consistently demonstrated a long history of profitability and committed distributor and customer base.** Since the public reporting of its financial history starting in 2001, HLF has been profitable every year except for one year in 2004 when they reported a loss of \$14.3 million on sales of \$1.31 billion. Very few companies have this kind of profitable history especially consumer product companies. Over the past 16 years, HLF has grown its revenue from \$1.01 billion in 2001 to a peak of \$4.96 billion in 2014 and an average of \$4.5 billion in 2015 and 2016. Since October 2016, over 300,000 people have converted or signed on as Preferred Members. These are customers that want to buy HLF products on an ongoing basis at the first level discount for their own personal use. This negates the Ponzi scheme theory as it shows that HLF has a significant amount of end-user customers. Further, HLF has developed new tools and technologies to better analyze its customer data and buying habits. This will better enable HLF to connect with its distributors and customers and focus on more effective product development. We believe this demonstrates the strength and value of HLF's business model, brand equity, innovative ability, management experience, distributor base / customer commitment and quality product offering.
- **Business performance should start to accelerate now that the distractions and controversies are in the past.** Y/Y revenue declined from a peak of \$4.96 billion in FY 2014 to \$4.47 billion in FY 2015 and then was pretty much flat at \$4.49 billion for FY 2016. We believe that the distractions of the FTC issue are now in the past and HLF can now focus on growth. We estimate an increase in revenue to \$4.53 billion for FY 2017. We believe HLF's focus on growth and new product launches, most importantly its new skincare line, will drive revenue growth to meet or even exceed its five-year trend growth rate of 8% with annual revenue exceeding \$6 billion by 2021. Further, we estimate a return to HLF's five-year average return on capital of 32% from the current level of 18% by 2021 as well driving a significant increase in Economic Profit and shareholder value creation.

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Herbalife Ltd. (HLF-US)

**Personal Products**

- **HLF has a strong balance sheet and strong cash flow.** HLF currently has over \$600 million in excess cash, or \$7.45 per share. We estimate for FY 2017 Economic Operating Cash Flow (EBITDAR) of \$667 billion. In February 2017, HLF closed on a \$1.45 billion line of credit with less restrictive covenants than then the prior debt it replaced. We believe their current balance sheet will provide them more than enough financial resources to grow the company and to repurchase the recently announced \$1.5 billion worth of stock over the next three years. In addition, in March of this year HLF's chairman and CEO, Michael Johnson, exercised 290,000 stock appreciation rights and will hold the shares after paying costs and taxes. This equates to a financial commitment of approximately \$1.6 million
- **HLF recently formed a joint venture with a leading Chinese manufacturer and distributor of herbal extracts and pharmaceutical products.** In February 2017, HLF formed a joint venture with Tasly Holding Group, based in Tianjin, China, a leading manufacturer of Traditional Chinese Medicine (TCM) and health products. Together the two companies will develop and sell new products based on Tasly's extensive portfolio of proprietary formulations, patents, know-hows, and clinical studies leveraging HLF's scientific, regulatory and commercial development expertise to bring products to a global market through the HLF's distributor network. This partnership builds on HLF's seed to feed philosophy ensuring the quality and traceability of key ingredients from cultivation to finish products. We see this partnership combining HLF's new product development and marketing capabilities together with Tasly's broad spectrum of leading pharmaceutical, consumer products, healthcare services and distribution channels in China. Tasly, has an extensive manufacturing and development process and has set up a comprehensive, standardized and digital system which produces high-quality TCM products.

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- **HLF continues its global expansion with deeper penetration into the Chinese market.** HLF recently received approval from China's Ministry of Commerce to operate in three additional provinces with a combined population of 57 million. The Gansu, Ningxia and Inner Mongolia provinces, which include three provincial capital cities and 16 districts, have completed their service reviews permitting HLF to begin direct selling activities. China's Ministry of Commerce granted the permits after reviewing HLF's current business practices. HLF now has 300,000 service providers in China and is licenses to operate in 25 other provinces. To further support sales in the China market, last July HLF began operations at a new production facility in Nanjing, a 372,000-square-foot factory that will double Herbalife's Chinese production capacity. HLF also operates factories in Changsha and Suzhou. HLF currently employs more than 1,300 people in China, including 124 at its new facility in Nanjing. HLF is currently licensed to operate in 25 provinces: Jiangsu, Shandong, Zhejiang, Guangdong, Guizhou, Beijing, Fujian, Sichuan, Hubei, Shan'xi, Jiangxi, Liaoning, Jilin, Henan, Chongqing, Shanghai, Tianjin, Shanxi, Hebei, Heilongjiang, Hunan, Anhui, Guangxi, Hainan and Yunnan. The Chinese culture of wanting to do business with people you know is a major component for success of MLM or direct selling in that country.
- **Direct selling / Multilevel marketing remains a legitimate sales and distribution channel.** While there are many stories of both incredible successes and painful failures of people who have engaged in MLM or direct sales efforts. The simple fact is that you get out of it what you put into it. While not without controversy, the MLM concept gives people the ability to make money as a sideline and try their hand at entrepreneurship. Some of the world's most successful companies have been built based on the MLM distribution channel. Including Amway, Avon Products (AVP-US, Non-Rated), Nu Skin Enterprises (NUS-US, Strong Buy rated), Tupperware (TUP-US, Non-rated), and Mary Kay Cosmetics to list a few all have long histories of success. The one key point about HLF and these other companies while there has been much criticism about the MLM sales process, there is very little criticism about the quality of the products these companies offer. Pretty much these company's products are viewed as being high quality and have thirty to fifty yea operating histories. The MLM distribution channel has been around for over 100 years and will probably be around for many years to come. More importantly, MLM or direct selling does have very strong appeal in emerging and developing countries including China and Latin America where it is very much part of the culture to do business on a personal level with friends and people that you like.

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- **New product development will continue to drive sales growth and new business opportunities.** In 2016, HLF launched over 460 new products and product lines extensions across all markets worldwide. New products include new flavors of teas, aloe drinks and Formula 1 shakes and new products in more targeted areas of nutrition, immunity, digestion, heart health and weight loss as well as new editions to its skincare line. In October 2016, HLF announced the introduction *Herbalife SKIN® Clearify* for the treatment of acne, blemishes, blackheads and whiteheads. The active ingredient in the Clearify™ line is salicylic acid, which is an effective ingredient to treat acne, fine lines and other blemishes widely-used in many acne and skin care treatments. None of the products contain sulfates or parabens. Clearify™ promises to deliver results in four to eight weeks and contain fresh scented botanicals, such as aloe and orange oil. This line is designed to compete with products like those offered by Proactiv. This represents a very large potential market for HLF as Acne effects over 50 million Americans annually according to the American Academy of Dermatology. Clearify™ line is a dermatologist-tested treatment targeting consumers from 14 to 35 years old with acne problems. The product line includes a cleanser, a moisturizer, a mask and a spot treatment to dry pimples. The four products can be purchased separately or in a kit containing the entire treatment line for \$70.25. Skincare represents a significant opportunity for HLF well beyond nutritional shakes and supplements.
- **HLF continues to build on its expertise in new nutrients to develop new product lines.** HLF is also recently introduced Herbalife SKIN Collagen Beauty Booster, formulated with Verisol® Collagen, which tests have shown support for skin elasticity and reduction of fine wrinkles. The Herbalife SKIN line, also includes several other skincare products: Soothing Aloe Cleanser, Polishing Citrus Cleanser, Energizing Herbal Toner, Line Minimizing Serum, Firming Eye Gel, Hydrating Eye Cream, Daily Glow Moisturizer, Replenishing Night Cream, Protective Moisturizer Broad Spectrum SPF 30 Sunscreen and an Instant Reveal Berry Scrub and Purifying Mint Clay Mask. In addition to in-house development, HLF sponsors research at UCLA and the University of Mississippi's School of Pharmacy.

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**Herbalife Ltd. (HLF-US)**
**Personal Products**

- A significant level of short interest remains a positive catalyst.** As of March 31, 2017, the short position in HLF is 26.9 million shares which represents 40.4% of the outstanding float of 66.5 million shares. As we have stated throughout our report, HLF is a consistently profitable and growing company. Its business can comp positively Y/Y growing 5 to 8% per year. HLF has a manageable level of debt strong cash flow a significant amount of excess cash and is expected to buy \$1.5 billion worth of stock over the next three years. In addition to good operating results, any positive news going forward should cause significant short covering and act as an additional positive catalyst to the share price.

#### Investment Thesis

HLF is one of the world's leading and largest direct sellers of nutrition, weight management and personal care products through a membership distribution network in over 90 countries. After three years of protracted attacks by Pershing Square, HLF settled with the FTC and has emerged a stronger company that can now focus on growth and forward-looking opportunities. We believe HLF can resume its positive trend growth rate of over 8% a year to the introduction of new products and ongoing growth global expansion. We also view the incredibly large short position as an additional upside catalyst to the share price.

#### Price Chart



Source: FactSet Prices

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Company Report – Initiation of Coverage

Herbalife Ltd. (HLF-US)

Personal Products

Financial Data

Report Basis	LTM	LTM	LTM	LTM	LTM	LTM	NTM	5 Yr	3 Yr	Current
Reported Period Ending	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	Average	Average	Trend
<b>Net Sales Revenue</b>	\$3,454.5	\$4,072.3	\$4,825.3	\$4,958.6	\$4,469.0	\$4,488.4	\$4,527.6	\$4,562.7	\$4,638.7	\$4,508.0
Sales Growth	26.34%	17.88%	18.49%	2.76%	-9.87%	0.43%	0.87%	5.94%	-2.23%	0.65%
Sales Growth Trend	22.86%	21.27%	18.25%	9.05%	-4.82%	-3.69%	0.70%	8.01%	0.18%	-1.50%
<b>Operating Cash Flow (EBITDAR)</b>	\$693.6	\$796.6	\$891.6	\$714.7	\$762.8	\$567.6	\$666.0	\$746.7	\$681.7	\$616.8
EBITDAR Margin	20.08%	19.56%	18.48%	14.41%	17.07%	12.65%	14.71%	16.43%	14.71%	13.68%
EBITDAR Growth	36.53%	14.86%	11.92%	-19.83%	6.72%	-25.58%	17.33%	-2.38%	-12.90%	-4.13%
<b>Net Operating Profit Before Tax (NOPBT)</b>	\$572.5	\$669.7	\$749.4	\$561.5	\$606.8	\$415.9	\$515.7	\$600.7	\$528.1	\$465.8
NOPBT Margin	16.57%	16.45%	15.53%	11.32%	13.58%	9.27%	11.39%	13.23%	11.39%	10.33%
NOPBT Growth	44.62%	16.98%	11.89%	-25.06%	8.06%	-31.45%	23.98%	-3.92%	-16.15%	-3.74%
<b>Cash Operating Income Tax</b>	\$151.0	\$178.7	\$197.8	\$150.1	\$183.8	\$119.4	\$147.3	\$166.0	\$151.1	\$133.4
Economic Tax Effective Rate	26.38%	26.69%	26.40%	26.73%	30.28%	28.71%	28.57%	27.76%	28.57%	28.64%
<b>Net Operating Profit After Tax (NOPAT)</b>	\$421.5	\$491.0	\$551.5	\$411.5	\$423.0	\$296.5	\$368.3	\$434.7	\$377.0	\$332.4
NOPAT Margin	12.20%	12.06%	11.43%	8.30%	9.47%	6.61%	8.14%	9.57%	8.12%	7.37%
NOPAT Growth	39.30%	16.49%	12.33%	-25.40%	2.81%	-29.90%	24.22%	-4.73%	-17.50%	-2.84%
<b>Cash &amp; Equivalents</b>	\$258.8	\$333.5	\$973.0	\$660.4	\$889.8	\$844.0	\$849.9	\$740.1	\$798.1	\$846.9
Total Assets	\$1,446.2	\$1,703.9	\$2,473.7	\$2,374.9	\$2,477.9	\$2,565.4	\$2,583.3	\$2,319.2	\$2,472.7	\$2,574.3
Non - Interest Bearing Liabilities (NIBLs)	\$606.0	\$700.4	\$879.1	\$828.0	\$780.6	\$795.4	\$800.9	\$796.7	\$801.3	\$798.2
Net Assets	\$840.2	\$1,003.6	\$1,594.6	\$1,546.9	\$1,697.3	\$1,770.0	\$1,782.3	\$1,522.5	\$1,671.4	\$1,776.2
Economic Asset Adjustments	\$167.9	\$197.3	\$165.4	\$65.1	\$52.7	(\$16.9)	(\$17.0)	\$92.7	\$33.6	(\$16.9)
Net Operating Assets	\$1,008.1	\$1,200.8	\$1,760.0	\$1,612.0	\$1,750.0	\$1,753.1	\$1,765.4	\$1,615.2	\$1,705.0	\$1,759.3
<b>Debt &amp; Debt Equivalents</b>	\$353.3	\$666.1	\$1,104.1	\$1,978.4	\$1,803.7	\$1,580.0	\$1,591.1	\$1,426.5	\$1,787.4	\$1,585.6
Equity & Equivalents	\$560.2	\$420.8	\$551.4	(\$334.4)	(\$53.5)	\$196.3	\$197.7	\$156.1	(\$63.9)	\$197.0
Total Capital - Financing Sources	\$913.5	\$1,086.8	\$1,655.5	\$1,644.0	\$1,750.2	\$1,776.3	\$1,788.7	\$1,582.6	\$1,723.5	\$1,782.5
Capital Adjustments	\$18.2	\$18.8	(\$7.5)	(\$101.6)	(\$129.0)	(\$149.0)	(\$150.0)	(\$73.6)	(\$126.5)	(\$149.5)
Net Capital Financing Sources	\$931.7	\$1,105.6	\$1,648.1	\$1,542.4	\$1,621.2	\$1,627.3	\$1,638.7	\$1,508.9	\$1,597.0	\$1,633.0
<b>Net Working Capital</b>	\$214.3	\$270.8	\$184.6	\$277.6	\$235.4	\$188.0	\$189.3	\$231.3	\$233.7	\$188.7
Cost of Net Working Capital	\$12.1	\$14.6	\$9.8	\$12.1	\$14.0	\$12.3	\$12.4	\$12.6	\$12.8	\$12.4
% of Revenue	0.35%	0.36%	0.20%	0.24%	0.31%	0.27%	0.27%	0.28%	0.28%	0.27%
<b>Operational Capital</b>	\$557.7	\$692.2	\$676.3	\$811.0	\$756.3	\$698.2	\$703.0	\$726.8	\$755.1	\$700.6
Cost of Operational Capital	\$34.3	\$37.5	\$29.5	\$38.9	\$42.9	\$42.4	\$42.6	\$38.2	\$41.4	\$42.5
% of Revenue	0.99%	0.92%	0.61%	0.78%	0.96%	0.94%	0.94%	0.84%	0.90%	0.94%
<b>Productive Capital</b>	\$975.0	\$1,108.8	\$1,092.6	\$1,223.6	\$1,158.3	\$1,098.2	\$1,105.8	\$1,136.3	\$1,160.0	\$1,102.0
Cost of Productive Capital	\$62.1	\$62.6	\$47.5	\$60.6	\$65.2	\$65.7	\$66.2	\$60.3	\$63.8	\$65.9
% of Revenue	1.80%	1.54%	0.98%	1.22%	1.46%	1.46%	1.46%	1.33%	1.38%	1.46%
<b>Total Operating Capital</b>	\$922.1	\$1,070.9	\$1,028.3	\$1,199.5	\$1,083.7	\$1,133.6	\$1,141.5	\$1,103.2	\$1,138.9	\$1,137.5
Cost of Total Operating Capital	\$59.2	\$59.9	\$45.2	\$58.3	\$62.5	\$64.6	\$65.0	\$58.1	\$61.8	\$64.8
% of Revenue	1.71%	1.47%	0.94%	1.18%	1.40%	1.44%	1.44%	1.28%	1.34%	1.44%
<b>Non - Operating Capital</b>	\$86.0	\$129.9	\$731.7	\$412.5	\$666.4	\$619.6	\$623.9	\$512.0	\$566.1	\$621.7
Cost of Non - Operating Capital	\$4.7	\$6.5	\$18.6	\$29.9	\$29.5	\$37.4	\$37.7	\$24.4	\$32.3	\$37.6
% of Revenue	0.14%	0.16%	0.38%	0.60%	0.66%	0.83%	0.83%	0.53%	0.70%	0.83%
<b>Total Capital</b>	\$1,008.1	\$1,200.8	\$1,760.0	\$1,612.0	\$1,750.0	\$1,753.1	\$1,765.4	\$1,615.2	\$1,705.0	\$1,759.3
Cost of Total Capital	\$63.9	\$66.4	\$63.8	\$88.2	\$92.0	\$102.0	\$102.7	\$82.5	\$94.1	\$102.4
% of Revenue	1.85%	1.63%	1.32%	1.78%	2.06%	2.27%	2.27%	1.81%	2.04%	2.27%
<b>Cost of Capital (WACC)</b>	6.70%	6.01%	4.31%	5.23%	5.47%	5.82%	5.82%	5.37%	5.51%	5.82%
<b>Capital Structure</b>										
<b>Debt &amp; Debt Equivalents</b>	\$353.3	\$666.1	\$1,104.1	\$1,978.4	\$1,803.7	\$1,580.0	\$1,591.1	\$1,426.5	\$1,787.4	\$1,585.6
Debt & Debt Equivalents % of Market Value	5.55%	15.77%	12.20%	36.37%	26.66%	26.08%	26.08%	22.61%	29.36%	26.08%
<b>Preferred Equity</b>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Preferred Equity % of Market Value	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Market Value of Common Equity</b>	\$6,010.4	\$3,557.6	\$7,949.5	\$3,460.9	\$4,961.7	\$4,479.4	\$4,510.6	\$4,881.8	\$4,300.7	\$4,495.0
Common Equity % of Market Value	94.45%	84.23%	87.80%	63.63%	73.34%	73.92%	73.92%	77.39%	70.64%	73.92%
<b>Total Economic Market Value (MV)</b>	\$6,363.8	\$4,223.6	\$9,053.6	\$5,439.2	\$6,765.5	\$6,059.4	\$6,101.7	\$6,308.3	\$6,088.0	\$6,080.6
Total %	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<b>Excess Cash</b>	\$86.0	\$129.9	\$731.7	\$412.5	\$666.4	\$619.6	\$623.9	\$512.0	\$566.1	\$621.7
<b>Economic Enterprise Value</b>	\$6,277.7	\$4,093.7	\$8,321.9	\$5,026.8	\$6,099.1	\$5,439.8	\$5,477.8	\$5,796.3	\$5,521.9	\$5,458.8
<b>Average Capital</b>	\$880.5	\$1,018.7	\$1,376.9	\$1,595.2	\$1,581.8	\$1,624.3	\$1,633.0	\$1,439.4	\$1,600.4	\$1,628.7
Capital Δ	\$102.5	\$173.9	\$542.5	(\$105.7)	\$78.9	\$6.1	\$11.4	\$139.1	(\$6.9)	\$8.7

Source: Company Data, Financial statements and Tigress Research

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**Herbalife Ltd. (HLF-US)**
**Personal Products**

Report Basis	LTM	LTM	LTM	LTM	LTM	LTM	NTM	5 Yr	3 Yr	Current
Reported Period Ending	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	Average	Average	Trend
Return on Market Value (NOPAT / MV)	6.62%	11.62%	6.09%	7.56%	6.25%	4.89%	4.93%	7.29%	6.24%	4.91%
Return on Enterprise Value (NOPAT / EV)	6.71%	11.99%	6.63%	8.19%	6.94%	5.45%	5.49%	7.84%	6.86%	5.47%
Return on Capital (NOPAT / Average Capital)	47.87%	48.20%	40.06%	25.79%	26.74%	18.26%	18.38%	31.81%	23.60%	18.32%
Cost of Capital (WACC)	6.70%	6.01%	4.31%	5.23%	5.47%	5.82%	5.82%	5.37%	5.51%	5.82%
Economic Return Spread	41.17%	42.19%	35.75%	20.56%	21.27%	12.43%	12.52%	26.44%	18.09%	12.48%
Capital Charge	\$59.0	\$61.2	\$59.4	\$83.5	\$86.6	\$94.6	\$95.3	\$77.0	\$88.2	\$94.9
Economic Profit (EP)	\$362.5	\$429.8	\$492.2	\$328.0	\$336.5	\$201.9	\$203.3	\$357.7	\$288.8	\$202.6
Economic Profit Improvement (EPI)	\$123.6	\$67.3	\$62.4	(\$164.2)	\$8.5	(\$134.5)	\$1.4	(\$32.1)	(\$96.7)	(\$66.6)
EP Growth	51.72%	18.56%	14.51%	-33.36%	2.59%	-39.98%	0.70%	-7.54%	-23.59%	-19.64%
Economic Profit Margin on Sales	10.49%	10.55%	10.20%	6.61%	7.53%	4.50%	4.49%	7.88%	6.21%	4.50%
Economic Profit Per Share	\$3.08	\$3.83	\$4.80	\$3.80	\$4.07	\$2.43	\$2.45	\$3.79	\$3.44	\$2.44
GAAP Earnings Per Share	\$3.50	\$4.25	\$5.14	\$3.57	\$4.10	\$3.13	\$4.13	\$4.04	\$3.60	\$3.63
Excess Cash Per Share	\$0.74	\$1.21	\$7.23	\$5.02	\$8.06	\$7.45	\$7.50	\$5.79	\$6.84	\$7.47
<b>Performance Drivers</b>										
Sales Growth	26.34%	17.88%	18.49%	2.76%	-9.87%	0.43%	0.87%	5.94%	-2.23%	0.65%
Sales Growth Trend (ROC Sales Growth)	22.86%	21.27%	18.25%	9.05%	-4.82%	-3.69%	0.70%	8.01%	0.18%	-1.50%
EBITDAR Margin	20.08%	19.56%	18.48%	14.41%	17.07%	12.65%	14.71%	16.43%	14.71%	13.68%
EBITDAR Growth	36.53%	14.86%	11.92%	-19.83%	6.72%	-25.58%	17.33%	-2.38%	-12.90%	-4.13%
NOPBT Margin	16.57%	16.45%	15.53%	11.32%	13.58%	9.27%	11.39%	13.23%	11.39%	10.33%
NOPBT Growth	44.62%	16.98%	11.89%	-25.06%	8.06%	-31.45%	23.98%	-3.92%	-16.15%	-3.74%
NOPAT Margin	12.20%	12.06%	11.43%	8.30%	9.47%	6.61%	8.14%	9.57%	8.12%	7.37%
NOPAT Growth	39.30%	16.49%	12.33%	-25.40%	2.81%	-29.90%	24.22%	-4.73%	-17.50%	-2.84%
Economic Profit Margin on Sales (EP / Sales)	10.49%	10.55%	10.20%	6.61%	7.53%	4.50%	4.49%	7.88%	6.21%	4.50%
Economic Profit Growth	51.72%	18.56%	14.51%	-33.36%	2.59%	-39.98%	0.70%	-7.54%	-23.59%	-19.64%
Economic Return Spread (ROC-WACC)	41.17%	42.19%	35.75%	20.56%	21.27%	12.43%	12.56%	26.44%	18.09%	12.50%
Economic Return Ratio (ROC / WACC)	714.72%	802.23%	929.16%	492.88%	488.68%	313.48%	315.66%	605.29%	431.68%	314.57%
Economic Profit Momentum (ΔEP/Capital)	13.26%	6.08%	3.79%	-10.65%	0.52%	-8.27%	0.09%	-1.70%	-6.13%	-4.09%
Economic Profit Momentum Margin (ΔEP/Sales)	3.58%	1.65%	1.29%	-3.31%	0.19%	-3.00%	0.03%	-0.63%	-2.04%	-1.48%
Capital Growth	12.36%	18.67%	49.06%	-6.41%	5.11%	0.38%	0.70%	13.36%	-0.31%	0.54%
Capital Turns	3.71X	3.68X	2.93X	3.21X	2.76X	2.76X	2.76X	3.07X	2.91X	2.76X
EVC Acceleration Margin	4.52%	1.95%	1.53%	-3.40%	0.17%	-3.01%	0.03%	-0.71%	-2.12%	-1.43%
EVC Acceleration Spread	15.24%	7.64%	6.12%	-11.92%	0.53%	-8.50%	0.09%	-1.97%	-6.72%	-4.16%
<b>Risk Factors</b>										
Free Cash Flow (NOPAT - Δ Capital)	\$319.0	\$317.1	\$9.1	\$517.2	\$344.2	\$290.4	\$357.0	\$295.6	\$383.9	\$323.7
Free Cash Flow Rate (FCF / Capital)	34.24%	28.68%	0.55%	33.53%	21.23%	17.85%	21.78%	20.37%	24.20%	19.82%
Free Cash Flow Yield (FCF / MV)	5.01%	7.51%	0.10%	9.51%	5.09%	4.79%	5.85%	5.40%	6.46%	5.32%
Total Debt / Total Capital	37.92%	60.24%	66.99%	128.27%	111.26%	97.09%	97.09%	92.77%	112.21%	97.09%
Total Debt / EBITDAR	50.95%	83.61%	123.83%	276.79%	236.47%	278.35%	238.90%	199.81%	263.87%	258.63%
Excess Cash	\$86.0	\$129.9	\$731.7	\$412.5	\$666.4	\$619.6	\$0.0	\$512.0	\$566.1	\$309.8
Financial Leverage ((Total Debt - Excess Cash) / Pension Leverage (Net Pension Liability / MV))	4.20%	12.69%	4.11%	28.79%	16.81%	15.85%	26.08%	15.65%	20.48%	20.96%
Equity Risk Index (S&P 500 = 1.00)	1.09	1.09	1.05	1.05	1.05	1.03	1.03	1.05	1.04	1.03
Stock Price Volatility	4.42	7.70	8.46	7.22	6.45	4.72	4.72	6.91	6.13	4.72
Sales Index (NL Sales)	8.15	8.31	8.48	8.51	8.40	8.41	8.42	8.42	8.44	8.41
Market Value Index (NL Market Value)	8.76	8.35	9.11	8.60	8.82	8.71	8.72	8.72	8.71	8.71
Size Index (NL Sales: MV)	8.45	8.33	8.80	8.56	8.61	8.56	8.57	8.57	8.58	8.56
Beta	1.14	1.13	1.07	1.08	1.07	1.05	1.05	1.08	1.07	1.05
TFP Adjusted Beta	1.09	1.09	1.05	1.05	1.05	1.03	1.03	1.05	1.04	1.03
Stock Price Volatility	4.42	7.70	8.46	7.22	6.45	4.72	4.72	6.91	6.13	4.72
<b>Valuation Measures</b>										
Total Economic Market Value (MV)	\$6,363.8	\$4,223.6	\$9,053.6	\$5,439.2	\$6,765.5	\$6,059.4	\$6,101.7	\$6,308.3	\$6,088.0	\$6,080.6
Economic Enterprise Value	\$6,277.7	\$4,093.7	\$8,321.9	\$5,026.8	\$6,099.1	\$5,439.8	\$5,477.8	\$5,796.3	\$5,521.9	\$5,458.8
Equity Market Value	\$6,010.4	\$3,557.6	\$7,949.5	\$3,460.9	\$4,961.7	\$4,479.4	\$4,510.6	\$4,881.8	\$4,300.7	\$4,495.0
Total Capital	\$1,008.1	\$1,200.8	\$1,760.0	\$1,612.0	\$1,750.0	\$1,753.1	\$1,765.4	\$1,615.2	\$1,705.0	\$1,759.3
Market Value Created MVC (MV - Capital)	\$5,355.6	\$3,022.8	\$7,293.6	\$3,827.3	\$5,015.4	\$4,306.3	\$4,336.3	\$4,693.1	\$4,383.0	\$4,321.3
MVC Margin (MVC / Sales)	155.03%	74.23%	151.15%	77.18%	112.23%	95.94%	95.78%	102.86%	94.49%	95.86%
MVC Spread (MVC / Capital)	531.23%	251.72%	414.41%	237.43%	286.59%	245.63%	245.63%	290.56%	257.06%	245.63%
Current EVC Value (EP / WACC)	\$5,412.4	\$7,153.4	\$11,416.3	\$6,267.4	\$6,148.2	\$3,467.5	\$3,491.7	\$6,660.8	\$5,241.5	\$3,479.6
Current Operations Value COV	\$6,292.8	\$8,172.1	\$12,793.1	\$7,862.6	\$7,730.0	\$5,091.8	\$5,124.7	\$8,100.2	\$6,841.9	\$5,108.2
Current Operations Value Per Share	\$53.54	\$72.73	\$124.67	\$91.11	\$93.58	\$61.35	\$54.88	\$86.75	\$81.48	\$57.92
Future Growth Value (MVC - EVA Value)	\$70.9	(\$3,948.5)	(\$3,739.6)	(\$2,423.4)	(\$964.5)	\$967.6	\$977.0	(\$1,791.9)	(\$753.9)	\$972.3
Future Growth Value Reliance (FGV / MV)	1.11%	-93.49%	-41.30%	-44.55%	-14.26%	15.97%	16.01%	-28.41%	-12.38%	15.99%
Share Price	\$51.67	\$32.94	\$78.70	\$37.70	\$53.62	\$48.14	\$48.14	\$50.22	\$46.49	\$48.14
Dividend Yield	1.40%	3.64%	1.52%	0.80%	0.00%	0.00%	0.00%			
Total Shareholder Return (TTM)	52.55%	-32.61%	140.44%	-51.30%	42.23%	-10.22%	0.00%	4.32%	-7.43%	3.56%
MV to IC Ratio	6.31X	3.52X	5.14X	3.37X	3.87X	3.46X	3.46X	3.91X	3.57X	3.46X
EV / EBITDAR Multiple	9.05X	5.14X	9.33X	7.03X	8.00X	9.58X	8.22X	7.76X	8.10X	8.85X
EV / NOPBIT Multiple	10.97X	6.11X	11.11X	8.95X	10.05X	13.08X	10.62X	9.65X	10.46X	11.72X
EV / NOPAT Multiple	14.89X	8.34X	15.09X	12.22X	14.42X	18.35X	14.87X	13.33X	14.65X	16.42X
EV / EP Multiple	17.32X	9.52X	16.91X	15.33X	18.13X	26.94X	26.94X	16.21X	19.12X	26.94X
Future Growth Value (% of MV)	1.11%	-93.49%	-41.30%	-44.55%	-14.26%	15.97%	16.01%	-28.41%	-12.38%	15.99%
Current Operations Value (% of MV)	98.89%	193.49%	141.30%	144.55%	114.26%	84.03%	83.99%	128.41%	112.38%	84.01%
Market Value (COV + FGV %)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Basic Shares Outstanding	117.5	112.4	102.6	86.3	82.6	83.0	93.4	93.4	84.0	88.2

Source: Company Data, Financial statements and Tigress Research

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**Tigress Research Methodology Overview**

We employ proprietary quantitative valuation models combined with dynamic fundamental analysis based on the principles of Economic Profit to formulate timely and insightful investment ratings, analysis, strategies and recommendations.

We make key adjustments to reported financial data eliminating GAAP-based accounting distortions and measuring all companies on a cash operating basis.

Our proprietary research framework is a multi-factor model that scores and ranks companies based on their risk-adjusted ability to create Economic Profit relative to their current market value focusing on three key components:

**Business Performance:** Measuring economic profitability, growth and operating efficiency.

**Risk:** Measuring business sustainability, volatility, strength and consistency.

**Valuation:** Linking business performance to market value. Measuring value created relative to capital employed and enterprise multiples of economic profit and cash flow.

We score and rank 24 key measurements of performance, risk and value into relative market and industry investment recommendations.

*For more information on our research methodology, please review the Tigress Investment Research Guide to Company Valuation and Analysis.*

**Glossary of Key Terms and Measures**

**Excess Cash per Share:** Excess Cash per Share is the amount of excess cash divided by basic shares outstanding. Excess Cash consists of all cash and short-term securities less operating cash needed to run the business. Operating Cash is 5% of TTM net sales revenue.

**EBITDAR:** Earnings Before Interest, Taxes, Depreciation, Amortization, and Restructuring and Rent Costs. This is especially important when comparing companies that use a significant amount of leased assets like restaurants and retailers.

**NOPAT:** Net Operating Profit after Tax. Represents a company's after-tax cash operating profit excluding financing costs.

**Total Invested Capital:** Total Invested Capital the total cash investment that shareholders and debt holders have made during the life of company.

**Return on Capital:** Return on Capital equals NOPAT divided by Total Invested Capital. It is a key measure of operating efficiency. ROC quantifies how well a company generates cash flow relative to the capital invested in its business.

**Cost of Capital:** Is the proportionately weighted cost of each category of capital – common equity, preferred equity and debt.

**Economic Profit:** Economic Profit is the net operating income after tax less the opportunity cost of the total capital invested. It is the most important driver of shareholder value.

**Current Operations Value:** Current Operations Value is the portion of market value based on the discounted present value of the current earnings stream assuming it remains constant forever.

**Future Growth Value:** Future Growth Value is the portion of market value based on un-earned Economic Profit

*For more information on the key terms and measures, please review the Tigress Investment Research Guide to Company Valuation and Analysis.*

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## Company Report – Initiation of Coverage

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Rating:	Meaning:	Rating Distribution (3/21/2017)			
		Companies Under Coverage		Relationship Companies Under Coverage*	
		#	%	#	%
<b>Strong Buy:</b>	Expect significant price gains in the price of the stock relative to its industry peer group and general market over the next 12 months.	16	14%	0	0
<b>Buy:</b>	Expect out-performance for the price of the stock relative to its industry peer group and general market over the next 12 months.	52	45%	4	80%
<b>Neutral:</b>	Expect little or no outperformance opportunity over the next 12 months.	41	36%	1	20%
<b>Underperform:</b>	Expect underperformance for the price of the stock relative to its industry peer group and general market over the next 12 months.	6	5%	0	0
<b>Sell:</b>	Expect price decline or significant relative market and industry underperformance over the next 12 months.	0	0%	0	0%
<b>Not Rated</b>	No Current Research Rating	NA	NA	62	NA

\*Relationship Companies under research coverage are companies in which Tigress Financial Partners LLC or one of its affiliates has received compensation for investment banking or non-investment banking services from the company, affiliated entities and / or its employees within the past twelve months or expects to do so within the next three months.

Total 115 100% 67 100%

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Company:	Disclosure:
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