Hotels Trends: Public Market Perspective
Meet the Money Conference 2017
Session 12

Michael J. Bellisario
Sr. Research Analyst
mbellisario@rw Baird.com
414-298-6130

Please refer to Appendix - Important Disclosures and Analyst Certification on pages 15-17

All information as of 05/09/17 unless otherwise noted.
Hotel Stock Performance Since the Election

- Hotel C-Corps and Hotel REITs have been relative outperformers

Source: Baird Research; Note: Indexed to 100 as of November 7, 2016
Stable Fundamentals Have Been Good Enough Lately

- **Waiting for growth to reaccelerate.** Investors appear to be in a wait-and-see mindset as potential fiscal policy changes should lead to improving hotel fundamentals, but recent demand trends have been relatively stable and hoteliers are not seeing any green shoots yet.
  - Stock valuations already reflect this better growth expectation though
  - Fundamentals have been stable recently, which is encouraging given the sequential slowing that the hotel industry experienced in 2015 and 2016
  - Broadly, investors appear to be relatively value-oriented
  - 1Q17 results were better than expected due to strong March results (Easter shift benefit), particularly for group-oriented hotels, which has led to improved investor sentiment

- **The expected 2H17 reacceleration is becoming a 2018 story.** Some management teams are pushing out their optimism until 2018 for stronger fundamentals; at the time of the election, the view was 2H17 would be an inflection point...that’s looking less likely today.
Stable Fundamentals Have Been Good Enough Lately

- It’s all about the second derivative – stable fundamentals have been good enough lately; decelerating RevPAR growth not a big topic of discussion recently
  - REIT-dedicated investors generally still maintain a somewhat cautious outlook
  - Consumer/generalist investors have a positive outlook for hotels, particularly the brands

- Hotel REITs – less bad than a lot of other real estate sectors today
  - Retail – bankruptcies, vacancies, tenant downsizing
  - Healthcare and triple-net – interest rate sensitive names hit hard lately
  - Storage – fundamentals still positive but slowing

- Hotel C-Corps – double-digit earnings growth, accelerating capital returns a winning combo
  - Energy – challenging with oil below $50/barrel
  - Healthcare – legislative uncertainty negatively impacting sentiment
  - Retail – thanks a lot, Amazon...
Valuation Overview

- **Hotel C-Corps**
  - Hilton and Marriott are trading at ~14x and ~15x NTM EBITDA, respectively
  - Hyatt is trading at ~11.5x NTM EBITDA
  - Investors favor the asset-light models (Hilton and Marriott) and love share repurchases

- **Hotel REITs**
  - Select-service portfolios trading at premium multiples
    - Apple and Summit trading at ~12.5x and ~14x NTM EBITDA, respectively
  - Full-service portfolios trading at 6.0% to 7.0% implied corporate cap rates
    - DiamondRock, Host, and LaSalle trading between 11.5x-12x NTM EBITDA
    - Chesapeake and Sunstone trading at ~12.5x NTM EBITDA
    - Pebblebrook is trading at ~14x NTM EBITDA
Capital Allocation Strategies Diverging (Hotel REITs)

- Diverging views of the cycle could lead to M&A within the hotel REIT sector (finally), but we’re not expecting much...
  - Differing costs of capital and diverging capital allocation strategies are driving companies’ acquisition and disposition activities.
  - ’15-’16 playbook – sell assets, reduce debt, repurchase shares – is a thing of the past.
  - Today, low-levered companies are opportunistically looking to deploy capital – some took down leverage too much over the last 18-24 months

- Selling assets to take advantage of the public-to-private valuation discrepancy:
  - LaSalle and Pebblebrook

- Looking to selectively buy assets, utilize under-levered balance sheets:
  - DiamondRock, Host, Sunstone

- Recycling capital to improve portfolio quality and growth rate:
  - Hersha, Summit, Xenia
Capital Allocation Strategies Diverging (Hotel REITs)

- **Balance sheets are generally well positioned**
  - Most management teams targeting 3.0-4.0x net leverage, but some are much lower
  - While most management teams believe their shares are trading at discounts to NAV, share repurchases are generally not being considered

- **No recent or upcoming hotel IPOs**: pace of equity issuances has slowed materially

### Hotel REITs: Common Equity Issuances (Primary Shares)

*Note: Numbers in 000s; 2017 figures are year-to-date through 5/8/2017*

*Source: Baird Research, Company Documents*
Recent Hotel REIT Transactions

- **Hotel REITs taking advantage of their well-capitalized balance sheets to invest dry powder, but cap rates are still low.**
  - *Ashford Prime (AHP)* – Hotel Yountville for $96.5 million (6.2% TTM cap rate) and Park Hyatt Beaver Creek for $145.5 million (6.0% TTM cap rate)
  - *DiamondRock (DRH)* – L'Auberge de Sedona and Orchards Inn Sedona for $97.0 million (12.6x 2017E EBITDA).
  - *Hersha (HT)* – Ritz-Carlton, Coconut Grove for $36.0 million and the Pan Pacific Hotel Seattle for $79.0 million
  - *Host (HST)* – Don Cesar Hotel and the Beach House Suites (~6.6% NTM cap rate) and W Hollywood (~6.25% NTM cap rate)

- **Disposition activity is slowing but a few REITs remain sellers.**
  - *LaSalle (LHO)* – Lansdowne Resort for $133.0 million (13.3x 2016 EBITDA) and the Alexis Hotel for $71.6 million (15.9x 2016 EBITDA).
  - *Host (HST)* – JW Marriott Desert Springs for $160 million (9.1x 2016 EBITDA); hotel in need of significant capex
  - *Sunstone (SHO)* – Fairmont Newport Beach for $125 million (5.2% 2016 cap rate)
Details on RLJ–FelCor Merger Agreement

- RLJ acquiring FelCor in an all-stock transaction
  - Implied deal value of $8.24 per FCH share at announcement (16.7% premium)
  - Premium declined to 9.4% after RLJ shares traded down the day of the announcement
  - Premium is only 0.8% based on current prices
  - The merger implied a 7.7% 2017 cap rate and 10.8x EBITDA for FCH (April 21 pricing)
    - Our analysis ascribes ~$500,000/key of value to the NYC hotels and one JV asset
  - Based on current prices, the merger implies an 8.3% 2017 cap rate and 10.1x EBITDA

- Conclusion: we have a negative view of the transaction, especially in the near term, given that RLJ’s leverage increases materially and the merger creates uncertainties regarding strategy and portfolio composition as well as disposition risks

- Key investor questions:
  - Leverage-neutral accretion – transaction appears to be per-share dilutive
  - Timing and ability to reduce pro forma leverage post-closing
  - Potential asset and revenue management upside opportunities within FCH portfolio
Hotel Technology Changes

- **Hotel brands don’t know their customers well enough**
  - Booking direct campaigns will help
  - Need to convert the non-loyalty members / OTA users

- **Consumer booking behavior is changing rapidly...faster than the brands can update their technology**
  - Re-pricing software keeping a lid on ADR growth – TripBAM, Tingo, corporate travel management software → Baird has its own propriety technology with our travel agent
  - Baird’s program, called ReSearch, led to a ~1% ADR savings in 2016
  - An app-friendly industry: Hotel Tonight, Recharge, Hotels.com

- **Inventory management is still difficult**
  - I can book 10 rooms for the same night, under the same loyalty number, and cancel 9 of these rooms with no consequence...why doesn’t the brand or hotel operator ever call and ask why I have so many reservations?
  - Everyone wants to move toward the airline model but that’s tough because the hotel industry is so fragmented
Conclusions

- RevPAR growth likely to remain in the low-single-digit range
- Urban markets will continue to underperform secondary/tertiary markets
- Stock selection: we favor the hotel brands over the hotel REITs
- Don’t expect more hotel REIT M&A activity after the RLJ/FCH merger announcement...
- ...But, expect more REIT acquisition activity over the next 12 months
- The brands need to transition from behaving like a hotel company to becoming a global consumer branding company with a powerful distribution platform – just like an OTA
• If you’d like to receive our research or a copy of this presentation, please send your full contact info to:

Michael Bellisario
Senior Research Analyst - Hotel REITs & C-Corps
Robert W. Baird & Co.
mbellisario@rwbaird.com
414-298-6130
# Baird Hotel Coverage Universe

Please refer to recent research reports for more information and important disclosures.

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Market Cap (millions)</th>
<th>Rating</th>
<th>Risk Suitability</th>
<th>Price</th>
<th>Dividend Yield</th>
<th>(Discount) to 52-week high</th>
<th>Premium to 52-week low</th>
<th>Average Volume (000s)</th>
<th>Ent. Value/EBITDA</th>
<th>Net debt + pref. / EBITDA</th>
<th>NAV</th>
<th>(Discount) / Premium to NAV</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5/9/17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apple Hospitality REIT</td>
<td>APLE</td>
<td>4,147</td>
<td>O</td>
<td>18.60</td>
<td>6.5%</td>
<td>-10%</td>
<td>7%</td>
<td>1,098</td>
<td>12.1x</td>
<td>2.9x</td>
<td>18.10</td>
<td>0%</td>
</tr>
<tr>
<td>Ashford Hospitality Trust</td>
<td>AHT</td>
<td>697</td>
<td>N</td>
<td>5.98</td>
<td>8.0%</td>
<td>-27%</td>
<td>25%</td>
<td>939</td>
<td>10.7x</td>
<td>9.1x</td>
<td>7.82</td>
<td>-31%</td>
</tr>
<tr>
<td>Ashford Hospitality Prime</td>
<td>AHP</td>
<td>379</td>
<td>N</td>
<td>10.26</td>
<td>6.2%</td>
<td>-42%</td>
<td>4%</td>
<td>432</td>
<td>11.4x</td>
<td>7.2x</td>
<td>14.69</td>
<td>-26%</td>
</tr>
<tr>
<td>Chesapeake Lodging Trust</td>
<td>CHSP</td>
<td>1,398</td>
<td>O</td>
<td>23.27</td>
<td>6.9%</td>
<td>-14%</td>
<td>12%</td>
<td>373</td>
<td>12.2x</td>
<td>4.8x</td>
<td>27.07</td>
<td>-7%</td>
</tr>
<tr>
<td>DiamondRock Hospitality</td>
<td>DRH</td>
<td>2,171</td>
<td>O</td>
<td>10.78</td>
<td>4.6%</td>
<td>-10%</td>
<td>31%</td>
<td>2,413</td>
<td>11.7x</td>
<td>3.2x</td>
<td>11.51</td>
<td>-1%</td>
</tr>
<tr>
<td>Hersha Hospitality Trust</td>
<td>HT</td>
<td>821</td>
<td>O</td>
<td>18.31</td>
<td>6.1%</td>
<td>-17%</td>
<td>19%</td>
<td>663</td>
<td>13.2x</td>
<td>7.5x</td>
<td>18.51</td>
<td>-7%</td>
</tr>
<tr>
<td>Hospitality Properties Trust</td>
<td>HPT</td>
<td>5,107</td>
<td>N</td>
<td>31.08</td>
<td>6.7%</td>
<td>-5%</td>
<td>26%</td>
<td>602</td>
<td>10.1x</td>
<td>4.5x</td>
<td>32.18</td>
<td>8%</td>
</tr>
<tr>
<td>Host Hotels &amp; Resorts</td>
<td>HST</td>
<td>13,323</td>
<td>O</td>
<td>17.83</td>
<td>4.5%</td>
<td>-12%</td>
<td>25%</td>
<td>8,073</td>
<td>11.7x</td>
<td>2.6x</td>
<td>19.14</td>
<td>-1%</td>
</tr>
<tr>
<td>LaSalle Hotel Properties</td>
<td>LHO</td>
<td>3,226</td>
<td>N</td>
<td>28.46</td>
<td>6.3%</td>
<td>-11%</td>
<td>32%</td>
<td>1,468</td>
<td>11.8x</td>
<td>2.9x</td>
<td>32.00</td>
<td>-4%</td>
</tr>
<tr>
<td>Pebblebrook Hotel Trust</td>
<td>PEB</td>
<td>2,145</td>
<td>O</td>
<td>30.80</td>
<td>4.9%</td>
<td>-4%</td>
<td>31%</td>
<td>939</td>
<td>13.8x</td>
<td>5.1x</td>
<td>29.99</td>
<td>10%</td>
</tr>
<tr>
<td>RLJ Lodging Trust</td>
<td>RLJ</td>
<td>2,546</td>
<td>N</td>
<td>20.38</td>
<td>6.5%</td>
<td>-19%</td>
<td>8%</td>
<td>1,201</td>
<td>10.3x</td>
<td>3.1x</td>
<td>25.38</td>
<td>-17%</td>
</tr>
<tr>
<td>Summit Hotel Properties</td>
<td>INN</td>
<td>1,619</td>
<td>O</td>
<td>17.17</td>
<td>4.0%</td>
<td>-2%</td>
<td>51%</td>
<td>781</td>
<td>14.3x</td>
<td>4.7x</td>
<td>14.14</td>
<td>20%</td>
</tr>
<tr>
<td>Sunstone Hotel Investors</td>
<td>SHO</td>
<td>3,416</td>
<td>N</td>
<td>15.50</td>
<td>1.3%</td>
<td>-4%</td>
<td>38%</td>
<td>2,246</td>
<td>12.5x</td>
<td>2.1x</td>
<td>15.15</td>
<td>7%</td>
</tr>
<tr>
<td><strong>REIT Median</strong></td>
<td></td>
<td>2,171</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apple Hospitality REIT</td>
<td>APLE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ashford Hospitality Trust</td>
<td>AHT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ashford Hospitality Prime</td>
<td>AHP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chesapeake Lodging Trust</td>
<td>CHSP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DiamondRock Hospitality</td>
<td>DRH</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hersha Hospitality Trust</td>
<td>HT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hospitality Properties Trust</td>
<td>HPT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Host Hotels &amp; Resorts</td>
<td>HST</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LaSalle Hotel Properties</td>
<td>LHO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pebblebrook Hotel Trust</td>
<td>PEB</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RLJ Lodging Trust</td>
<td>RLJ</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Summit Hotel Properties</td>
<td>INN</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sunstone Hotel Investors</td>
<td>SHO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>C-Corp Median</strong></td>
<td></td>
<td>13,884</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extended Stay America</td>
<td>STAY</td>
<td>3,443</td>
<td>O</td>
<td>17.74</td>
<td>4.7%</td>
<td>-5%</td>
<td>36%</td>
<td>411</td>
<td>9.6x</td>
<td>4.1x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hilton Inc.</td>
<td>HLT</td>
<td>20,493</td>
<td>O</td>
<td>62.33</td>
<td>1.0%</td>
<td>0%</td>
<td>13%</td>
<td>9,237</td>
<td>13.8x</td>
<td>3.0x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hyatt Hotels Corporation</td>
<td>H</td>
<td>7,275</td>
<td>O</td>
<td>57.99</td>
<td>0.0%</td>
<td>-2%</td>
<td>31%</td>
<td>316</td>
<td>11.3x</td>
<td>2.4x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marriott International</td>
<td>MAR</td>
<td>40,884</td>
<td>N</td>
<td>102.50</td>
<td>1.3%</td>
<td>-1%</td>
<td>68%</td>
<td>1,915</td>
<td>15.8x</td>
<td>2.5x</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ski Median</strong></td>
<td></td>
<td>83,059</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Rating: O - Outperform; N - Neutral; U - Underperform
Risk Suitability: H - Higher Risk; A - Average Risk
Source: Baird Research, SNL Financial, FactSet
Please refer to "Appendix - Important Disclosures" and Analyst Certification

**Please refer to recent research reports for more information and important disclosures**
# Baird Hotel Coverage Universe

## Baird Hotel Coverage Universe: Covered Companies

<table>
<thead>
<tr>
<th>Risks</th>
<th>Source: Baird Research</th>
</tr>
</thead>
<tbody>
<tr>
<td>AHP</td>
<td>Execution of recently announced initiatives following strategic and financial review. Potential conflicts of interest with its external manager Ashford Inc.</td>
</tr>
<tr>
<td>AHT</td>
<td>Higher-than-peer leverage and execution of potential asset sales (timing, pricing). Potential conflicts of interest with its external manager Ashford Inc.</td>
</tr>
<tr>
<td>APLE</td>
<td>Still-evolving capital allocation strategy. Retail-focused shareholder base potentially looking for liquidity.</td>
</tr>
<tr>
<td>CHSP</td>
<td>Outsized exposure to high-beta lodging markets. Outsized exposure to the more volatile corporate transient business customer.</td>
</tr>
<tr>
<td>DRH</td>
<td>Higher-than-peer concentration to Marriott-branded and -operated hotels. Execution of potential asset sales (timing, pricing).</td>
</tr>
<tr>
<td>H</td>
<td>~80% common share ownership by founding family. Sustainability of brand equity.</td>
</tr>
<tr>
<td>HLT</td>
<td>Sustainability of brand equity. Greater volatility from hotel ownership; execution of planned spin-offs.</td>
</tr>
<tr>
<td>HPT</td>
<td>Higher-than-peer leverage. Potential conflicts of interest with its external manager RMR.</td>
</tr>
<tr>
<td>HST</td>
<td>Higher-than-peer concentration to Marriott-branded and -operated hotels. Execution of potential asset sales (timing, pricing).</td>
</tr>
<tr>
<td>HT</td>
<td>Potential conflicts with HHMLP, the affiliated operator of a majority of Hersha's rooms. Geographically concentrated portfolio with significant exposure to New York City.</td>
</tr>
<tr>
<td>INN</td>
<td>Ability to obtain debt and equity financing to fund acquisition/growth strategy. Unexpected supply growth in secondary markets that could limit operating results.</td>
</tr>
<tr>
<td>LHO</td>
<td>Outsized exposure to high-beta lodging markets and independent hotels. Outsized exposure to the more volatile corporate transient business customer.</td>
</tr>
<tr>
<td>MAR</td>
<td>Sustainability of brand equity. Starwood integration- and merger-related risks, including potential asset sales.</td>
</tr>
<tr>
<td>PEB</td>
<td>Outsized exposure to high-beta lodging markets and independent hotels. Outsized exposure to the more volatile corporate transient business customer.</td>
</tr>
<tr>
<td>RLJ</td>
<td>Significant concentration of hotel management by White Lodging. Outsized exposure to weaker-performing markets like New York City and Houston.</td>
</tr>
<tr>
<td>SHO</td>
<td>Higher-than-peer concentration to Marriott-branded and -operated hotels. Ramp up of recently renovation and repositioned properties.</td>
</tr>
<tr>
<td>SKIS</td>
<td>Adverse weather conditions. Ability to obtain debt and equity financing to fund acquisition/growth strategy.</td>
</tr>
<tr>
<td>STAY</td>
<td>Greater volatility from hotel ownership; development plans increase risk profile. Competition from major global brand companies.</td>
</tr>
</tbody>
</table>

**Please refer to recent research reports for more information and important disclosures**
Appendix – Important Disclosures and Analyst Certification

Robert W. Baird & Co. Incorporated and/or its affiliates expect to receive or intend to seek investment-banking related compensation from the company or companies mentioned in this report within the next three months.

Robert W. Baird & Co. Incorporated may not be licensed to execute transactions in all foreign listed securities directly. Transactions in foreign listed securities may be prohibited for residents of the United States. Please contact a Baird representative for more information.

Investment Ratings: Outperform (O) - Expected to outperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months. Neutral (N) - Expected to perform in line with the broader U.S. equity market over the next 12 months. Underperform (U) - Expected to underperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months.

Risk Ratings: L - Lower Risk - Higher-quality companies for investors seeking capital appreciation or income with an emphasis on safety. Company characteristics may include: stable earnings, conservative balance sheets, and an established history of revenue and earnings. A - Average Risk - Growth situations for investors seeking capital appreciation with an emphasis on safety. Company characteristics may include: moderate volatility, modest balance-sheet leverage, and stable patterns of revenue and earnings. H - Higher Risk - Higher-growth situations appropriate for investors seeking capital appreciation with the acceptance of risk. Company characteristics may include: higher balance-sheet leverage, dynamic business environments, and higher levels of earnings and price volatility. S - Speculative Risk - High-growth situations appropriate only for investors willing to accept a high degree of volatility and risk. Company characteristics may include: unpredictable earnings, small capitalization, aggressive growth strategies, rapidly changing market dynamics, high leverage, extreme price volatility and unknown competitive challenges.

Valuation, Ratings and Risks. The recommendation and price target contained within this report are based on a time horizon of 12 months but there is no guarantee the objective will be achieved within the specified time horizon. Price targets are determined by a subjective review of fundamental and/or quantitative factors of the issuer, its industry, and the security type. A variety of methods may be used to determine the value of a security including, but not limited to, discounted cash flow, earnings multiples, peer group comparisons, and sum of the parts. Overall market risk, interest rate risk, and general economic risks impact all securities. Specific information regarding the price target and recommendation is provided in the text of our most recent research report.

Distribution of Investment Ratings. As of April 28, 2017, Baird U.S. Equity Research covered 708 companies, with 53% rated Outperform/Buy, 46% rated Neutral/Hold and 1% rated Underperform/Sell. Within these rating categories, 10% of Outperform/Buy-rated, 5% of Neutral/Hold-rated and 9% of Underperform/Sell rated companies have compensated Baird for investment banking services in the past 12 months and/or Baird managed or co-managed a public offering of securities for these companies in the past 12 months.

Analyst Compensation. Analyst compensation is based on: 1) the correlation between the analyst's recommendations and stock price performance; 2) ratings and direct feedback from our investing clients, our institutional and retail sales force (as applicable) and from independent rating services; 3) the analyst's productivity, including the quality of the analyst's research and the analyst's contribution to the growth and development of our overall research effort and 4) compliance with all of Robert W. Baird's internal policies and procedures. This compensation criteria and actual compensation is reviewed and approved on an annual basis by Baird's Research Oversight Committee.

Analyst compensation is derived from all revenue sources of the firm, including revenues from investment banking. Baird does not compensate research analysts based on specific investment banking transactions.

A complete listing of all companies covered by Baird U.S. Equity Research and applicable research disclosures can be accessed at http://www.rwbaird.com/research-insights/research/coverage/research-disclosure.aspx. You can also call 1-800-792-2473 or write: Robert W. Baird & Co., Equity Research, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.
**Analyst Certification**

The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

**Disclaimers**

**Baird prohibits analysts from owning stock in companies they cover.**

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

**ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST**

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available.

Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

**Copyright 2017 Robert W. Baird & Co. Incorporated**

**Other Disclosures**

The information and rating included in this report represent the Analyst's long-term (12 month) view as described above. The research analyst(s) named in this report may, at times and at the request of clients or their Baird representatives, provide particular investment perspectives or trading strategies based primarily on the analyst's understanding of the individual client's objectives. These perspectives or trading strategies generally are responsive to client inquiries and based on criteria the analyst considers relevant to the client. As such, these perspectives and strategies may differ from the analyst's views contained in this report.

Robert W. Baird & Co. Incorporated and/or its affiliates (Baird) may provide to certain clients additional or research supplemental products or services, such as outlooks, commentaries and other detailed analyses, which focus on covered stocks, companies, industries or sectors. Not all clients who receive our standard company-specific research reports are eligible to receive these additional or supplemental products or services. Baird determines in its sole discretion the clients who will receive additional or supplemental products or services, in light of various factors including the size and scope of the client relationships. These additional or supplemental products or services may feature different analytical or research techniques and information than are contained in Baird’s standard research reports. Any ratings and recommendations contained in such additional or research supplemental products are consistent with the Analyst's ratings and recommendations contained in more broadly disseminated standard research reports.

Baird Research Analysts may provide incremental data points or views regarding covered companies in the form of Research Posts and Flash Reports. All Posts and Flash Reports are available to clients via www.BairdOnline.com, but not all are sent directly to clients. Baird Associates may, at their discretion, choose whether to send these Posts and Flash Reports to Baird clients after they are posted online. Such decisions are based on, among other things, client interest, coverage, stock ownership and indicated email preferences. The incremental content and/or analysis contained in these pieces may be useful to investors as part of a broader investment thesis, but is not sufficient to warrant a change in the Research Analyst's published opinion, including rating, estimates and price targets. Access to www.BairdOnline.com is available to all Baird Clients. Contact your Baird representative if you would like access to www.BairdOnline.com.

United Kingdom (“UK”) disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited (“RWBL”) holds a MiFID passport.
The contents of this report may contain an "investment recommendation", as defined by the Market Abuse Regulation EU No 596/2014 ("MAR"). Please therefore be aware of the important disclosures outlined below. Unless otherwise stated, this report was completed and first disseminated at the date and time provided on the timestamp of the report. If you would like further information on dissemination times, please contact us. Please note, this report may provide views which differ from previous recommendations made by the same individual in respect of the same financial instrument or issuer in the last 12 months which is available at https://baird.bluematrix.com/sellsidemar.action.

This material is distributed in the UK and the European Economic Area ("EEA") by RWBL, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB and is authorized and regulated by the Financial Conduct Authority ("FCA").

For the purposes of the FCA requirements, this investment research report is classified as investment research and is objective. The views contained in this report (i) do not necessarily correspond to, and may differ from, the views of Robert W. Baird Limited or any other entity within the Baird Group, in particular Robert W. Baird & Co. Incorporated, and (ii) may differ from the views of another individual of Robert W. Baird Limited.

All substantially material sources of the information contained in this report are disclosed. All sources of information in this report are reliable, but where there is any doubt as to reliability of a particular source, this is clearly indicated.

Robert W. Baird Group and or one of its affiliates may at any time have a long or short position in the company/Companies mentioned in this report. Where the Group holds a long or short position exceeding 0.5% of the total issued share capital of the issuer, this will be disclosed separately by your RWBL representative upon request.

This material is only directed at and is only made available to persons in the EEA who would satisfy the criteria of being "professional" investors under MiFID and to persons in the UK falling within articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). Accordingly, this document is intended only for persons regarded as investment professionals (or equivalent) and is not to be distributed to or passed onto any other person (such as persons who would be classified as Retail clients under MiFID).

Robert W. Baird & Co. Incorporated and RWBL have in place organizational and administrative arrangements for the disclosure and avoidance of conflicts of interest with respect to research recommendations. Robert W. Baird Group and or one of its affiliates may be party to an agreement with the issuer that is the subject of this report relating to the provision of services of investment firms. An outline of the general approach taken by Robert W. Baird Limited in relation to conflicts of interest is available from your RWBL representative upon request. Baird’s policies and procedures are designed to identify and effectively manage conflicts of interest related to the preparation and content of research reports and to promote objective and reliable research that reflects the truly held opinions of research analysts. Analysts certify on a quarterly basis that such research reports accurately reflect their personal views.

This material is not intended for persons in jurisdictions where the distribution or publication of this research report is not permitted under the applicable laws or regulations of such jurisdiction.

Investment involves risk. The price of securities may fluctuate and past performance is not indicative of future results. Any recommendation contained in the research report does not have regard to the specific investment objectives, financial situation and the particular needs of any individuals. You are advised to exercise caution in relation to the research report. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

RWBL is exempt from the requirement to hold an Australian financial services license. RWBL is regulated by the FCA under UK laws, which may differ from Australian laws. As such, this document has not been prepared in accordance with Australian laws.

**Dividend Yield.** As used in this report, the term “dividend yield” refers, on a percentage basis, to the historical distributions made by the issuer relative to its current market price. Such distributions are not guaranteed, may be modified at the issuer’s discretion, may exceed operating cash flow, subsidized by borrowed funds or include a return of investment principal.