

BRISTOW GROUP INC.

(NYSE: VTOL)

Based in Houston, Bristow Group Inc. provides aviation services for offshore energy companies and government entities, as well as commercial search and rescue (SAR) services and ad hoc helicopter and fixed-wing transportation services. The company operates a fleet of 226 aircraft and has customers in more than 15 countries. Its primary operations are in Europe and the Americas, although it also has operations in Africa and the Asia Pacific region.

COMPANY HIGHLIGHTS

- * We expect Bristow to benefit from the strong utilization of its fleet of 226 aircraft as energy companies expand offshore drilling, which we view as being in the early stages of an expansion cycle, after finally emerging from the COVID-19 pandemic.
- * We also favor the recent expansion of the Government Services line of solutions, given its long-duration contracts and high percentage of fixed-rate revenues. We expect 2023 results to benefit from a full-year of search and rescue (SAR) operations in the Falkland Islands, the Netherlands and the Dutch Caribbean, among other new regions. We expect this expansion to boost adjusted EBITDA, particularly through the second half of 2023, and believe that its favorable positioning from these long-term contracts is underappreciated by investors.
- * In 2022, the company also won new contracts with the U.K. Maritime and Coast-guard Agency (MCA) and acquired British International Helicopter Services, which provides search and rescue and support helicopter services for the UK Ministry of Defence.
- * As of March 31, 2023, Bristow had net liquidity of \$274.9 million and a trailing 12-month net debt/adjusted EBITDA ratio of 2.7X. We believe that adjusted EBITDA and free cash flow will be sufficient to meet the company's capital requirements, which include capital expenditures directed at growth, which have been accelerated to service new contracts, as well as for potential acquisitions.

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KEY STATISTICS

Key Stock Statistics

Recent price (5/15/23)	\$22.55
Fair Value Estimate	\$31.00
52 week high/low	\$32.74- \$20.08
Shares outstanding (M)	28.0
Market cap (M)	\$631.4
Dividend	Nil
Yield	Nil

Sector Overview

Sector	Energy/Air Services
Sector % of S&P 500	NA

Financials (\$M, as of 3/31/23)

Cash & Equivalents	198.4
Debt	567.0
Working Capital (\$M)	250.9
Current Ratio	1.9
Total Debt/Equity (%)	71.0%
Payout ratio	NM
Revenue (M) TTM	1247.4
Net Income (M) TTM	36.7
Net Margin	2.9%

Risk

Beta	1.31
Inst. ownership	75%

Valuation

P/E forward EPS	39.6
Price/Sales (TTM)	0.5
Price/Book (TTM)	0.8

Top Holders

South Dakota Investment Council
 BlackRock Inc.
 Solus Alternative Asset Management LP

Management

CEO/President	Mr. Christopher Bradshaw
SVP, CFO	Ms. Jennifer Whalen
COO, Offshore Energy	Mr. Stuart Stavley
COO, Government Svcs	Mr. Alan Corbett
Company website	www.bristowgroup.com

PRICE CHART



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- * Bristow shares have been volatile since the beginning of 2022, trading in a range of \$21.60-\$40.10. They are currently near the lower end of that range, despite the company's multiple new contract wins and raised EBITDA guidance in early 2023.
- * Based on our valuation analysis, we arrive at a fair value estimate for VTOL of \$31 per share, well above current levels.

INVESTMENT THESIS

Bristow Group Inc. is a global provider of innovative flight solutions. In recent years, approximately two-thirds of its business came from helicopter transport, primarily for energy companies flying employees to and from offshore production platforms and other installations. Through its Government Services unit, Bristow also provides search and rescue (SAR) services for governments around the world. Government Services has accounted for approximately 25% of revenues in recent years, but is rapidly expanding. The company also offers fixed-wing transportation and other aviation services, which have accounted for up to 10% of revenue. We note that the company relies heavily on partnerships and joint ventures that allow it to expand its operations while also reducing risks.

Bristow has an innovative safety program called Target Zero, which focuses on ensuring zero accidents and zero harm to passengers and employees. It has also invested in new helicopters equipped with the latest technology and in updated safety management systems. Its "BeSAFE" program integrates safety management, investigative management, and risk management into a centralized system. The system allows for mobile reporting and increases transparency in the management of safety issues. The company also has a Flight Operational Quality Assurance program (FOQA), which collects and analyzes flight data to improve operations. This program is the first of its kind to obtain approval from the FAA.

As of March 31, 2023, the company's fleet had 226 aircraft, including 208 helicopters. Approximately 80% of the helicopters are owned, while the balance are leased. The current fleet is comprised of more than 40% heavy helicopters, 33% medium helicopters, around 19% light twin-engine or single-engine models, and 8% fixed-wing aircraft/unmanned aerial vehicles (UAVs). The company benefits from strong fleet utilization, with a combined usage rate of more than 90% across all aircraft classes as of the end of 2022.

During the first quarter of 2023, Bristow had six aircraft idled due to a transition between contracts. However, between mid-year and year-end, Bristow expects these aircraft to be back online, as also anticipates an additional seven aircraft joining the fleet to service new commencing contracts.

As offshore oil and gas exploration and production (E&P) moves to deeper water, a greater number of heavy and medium-sized helicopters with newer technology are expected to be required. Heavy and medium helicopters can fly longer distances (450-500 miles) at faster speeds, and carry heavier payloads than lighter helicopters (that typically have a smaller 300-mile range). Heavy and medium-sized helicopters include double-engines, and usually have sophisticated avionics that allow them to operate in challenging weather conditions. These helicopters are most commonly used for crew changes on offshore energy facilities and for SAR operations.

Bristow's geographic diversity and broad customer base help to mitigate the risks associated with a single market or customer. At the end of 2022, the company operated in 17 countries out of 45 bases. Europe, including Norway and the U.K, accounted for 53% of 2022 revenue; the Americas for 33%; Africa for 8%; and the Asia Pacific region for 6%. In terms of aircraft deployment, the Americas accounted for 50%, Europe for 34%, Africa for 10%, and Asia Pacific for 6%.

We note that business activity varies by season with greater activity in the North Sea and the Gulf of Mexico during periods of increased daylight hours and more favorable weather. The company typically also sees lower activity in the Gulf of Mexico during the June-November hurricane season.

Bristow's operating revenues are derived mainly from fixed-term contracts that typically range for 1-5 years for initial Offshore Energy contracts, and up to 10 years for Government Services. Some 65% of Offshore Energy revenue and 85% of Government Services revenue come from contracts with fixed monthly charges. By contrast, the fixed-wing business generates revenue based on actual customer usage.

We favor the recent expansion of the Government Services line of service, given its long-duration contracts and high percentage of fixed-rate revenues. We expect this expansion to boost adjusted EBITDA and believe that it is underappreciated by investors. The end-market continues to benefit from the outsourcing of SAR services and other government contract work to private sector providers. Bristow currently has government contracts for SAR services in the UK, the Netherlands, the Dutch Caribbean region and the Falkland Islands.

We also expect growth in the Offshore Energy line of service. Between 2014 and the onset of the coronavirus pandemic in early 2020, declining crude oil prices led to lower offshore E&P activity and reduced demand for Bristow's services. However, Bristow has benefited from significantly increased offshore activity since 2022.

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PEER COMPARISON

Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
BRISTOW GROUP	NYSE: VTOL	22.55	32.74	20.08	631	-25	NA	NA	NA	1.31	NA
HELIX ENERGY SOLUTIONS	NYSE: HLX	6.71	9.16	2.47	1020	61	29	NA	NA	2.78	NA
KIRBY CORPORATION	NYSE: KEX	70.86	76.34	55.03	4250	11	24	NA	34.9	1.27	NA
MATSON INC	NYSE: MATX	67.39	95.52	56.51	2420	-23	11	26	2.5	1.16	1.9

We view positively Bristow's business expansion, through a range of new deals that have been marked by enhanced rates versus legacy contracts. In our view, continued tight equipment and labor markets in the industry will support its rate structure over the next few years.

In July 2022, the company was awarded a GBP 1.6 billion contract to develop a second-generation search and rescue aviation program for the U.K.'s Maritime and Coastguard Agency (MCA). This 10-year deal combines two separate contracts for fixed-wing and rotary aircraft, and includes the use of unmanned aerial systems (UAS). As part of the program, Bristow plans to spend \$155-\$165 million on new AW139 aircraft and making modifications to its existing aircraft, as well as on the development of two new seasonal bases. It will fund this spending with cash on hand and operating cash flows.

The company has also expanded its U.K. operations through the \$12.7 million acquisition of British International Helicopter (BIH) in August 2022. BIH provides SAR and support helicopter services for the U.K. Ministry of Defence ("MOD") in the Falkland Islands as well as helicopter support for Royal Navy operational training.

In January 2022, Bristow was awarded a 10-year contract to provide all-weather 24/7 helicopter search and rescue services for the Netherlands Coast Guard. This service uses dedicated, permanently available equipment and crews, and operates from two bases in the Netherlands. In October 2022, Bristow also began SAR operations in the Dutch Caribbean on behalf of the Dutch Caribbean Coast Guard.

In addition, Bristow provides fixed-wing transportation services, including scheduled and charter airline service, through its Airnorth subsidiary, which operates in Australia. The company also provides fixed wing transportation services in Nigeria. Moreover, it leases aircraft to nongovernmental helicopter operators, enabling it to enter new markets with minimal infrastructure and reduced operational risks.

We have a favorable view of Bristow's focus on environmental, social, and governance initiatives (ESG) as well, including its efforts to reduce the company's environmental footprint, promote diversity, and support underserved communities. These efforts are overseen by the ESG committee of its board of directors.

The company has obtained International Organization for Standards (ISO) 14001 certification for its UK and Brazilian operations, and continues to reduce emissions through aircraft upgrades and changes in its operational practices — such as the use of more sustainable aviation fuels and electric ground support vehicles. It is also working with manufacturers on the development of more environmentally friendly electric propulsion and hybrid aircraft.

RECENT DEVELOPMENTS

Bristow Group's common stock is listed on the NYSE under the ticker VTOL (from "vertical takeoff and landing"). In 2022, the stock fell 14%, compared to a 19% decline for the S&P 500. Year-to-date in 2023, the stock has declined 12% compared with an 8% increase for the S&P 500.

Bristow Group recently changed its fiscal year-end from March 31 to December 31. In March 2023, it reported results for the nine months ended December 31, 2022. Going forward, it will report on a calendar-year basis.

In the quarter ended March 31, 2023, revenues declined by approximately 4% from the prior year period. Adjusted EBITDA was \$28.9 million compared with \$36.3 million in the year-earlier period while the net loss per share was \$0.05, compared with a net loss of \$0.25 in the prior year period.

In May 2023, Bristow reiterated its 2023 adjusted EBITDA forecast of \$150-\$170 million, which was raised in March 2023 from \$135-\$150 million, largely reflecting more favorable exchange rates.

In February 2023, the company established dedicated management teams for its main service lines – Government Services and Offshore Energy Services.

In November 2022, Bristow launched search and rescue helicopter services for the Netherlands Coast Guard under a 10-year contract.

In October 2022, Bristow also began SAR operations in the Dutch Caribbean on behalf of the Dutch Caribbean Coast Guard.

In October 2022, the company announced that it would purchase six new AW139 medium helicopters for \$106 million. The new aircraft are expected to be delivered in 2024 and will support the second-generation SAR program (UKSAR2G) in the U.K.

In September 2022, Bristow said it would provide offshore SAR services for Norwegian energy company Equinor at two platforms in the North Sea. The services are scheduled to begin in the fall of 2023. It has also been an Equinor aviation partner for more than 25 years.

In August 2022, the company acquired British International Helicopter Services Ltd. (BIH) for \$12.7 million in cash. It has integrated BIH, (which delivers both SAR and support helicopter services for the U.K. Ministry of Defence) into its Government Services unit.

In June 2022, Bristow announced long-term airframe and engine maintenance agreements for its AW139 helicopters with Leonardo Helicopters and Pratt & Whitney.

EARNINGS & GROWTH ANALYSIS

Bristow generates revenue from fixed monthly fees, as well as from incremental charges based on hours flown for the transport of personnel to and from offshore platforms. As 65% of its Offshore Energy revenues and 85% of its Government Services revenues are derived from fixed monthly charges, we view the revenue base as less volatile than those at companies with traditional fee-for-service models. We also like the long-term nature of its contracts, particularly in Government Services, which provides greater visibility on revenue, earnings, and capital spending requirements.

Bristow management projects 2023 operating revenue of \$1.20-\$1.31 billion, with 63% from Offshore Energy, 27%-28% from Government Services, 8% from Fixed Wing, and 1% from "Other." We forecast operating revenue of \$1.26 billion this year, implying year-over-year growth of 7% to trailing 12-month totals, and \$1.32 billion in 2024, which would represent 5% growth. Including non-operating reimbursable revenues, we project total revenue of \$1.30 billion and \$1.36 billion, respectively. We expect 2023 results to be back-end loaded, as Bristow redeploys some aircraft ahead of new contracts that should begin in the second half of the year.

We project adjusted EBITDA of \$155 million in 2023 (up from \$136 million for the previous 12-month period) and \$174 million in 2024. This outlook is within management's adjusted EBITDA guidance of \$150-\$170 million, which it reiterated in May 2023. We expect the company's strong fleet utilization and long-term customer contracts to result in more stable EBITDA trends, and look for greater fixed-cost leverage as the company adds new customers.

We project EPS of \$0.56 for 2023 and \$0.84 for 2024. Our estimates assume 28 million shares outstanding in both periods.

FINANCIAL STRENGTH AND DIVIDEND

Our financial strength rating on Bristow Group is Medium. As of March 31, 2023, the company had \$198.4 million in unrestricted cash, net debt of \$369 million, and net liquidity of \$274.9 million (including \$76.5 million available under a \$79.7 million asset-based lending (ABL) facility tied to its helicopter fleet. The current ratio was 1.9, with a working capital surplus of \$250.9 million. As of December 31, 2022, approximately 40% of Bristow's total cash balance was held outside the U.S. and intended to meet the liquidity needs of its non-U.S. operations; however, it could be repatriated to the U.S. if needed.

As of March 31, 2023, the company's debt balance was \$567 million, including \$400 million of 6.875% senior notes due March 2028, and \$167 million from National Westminster Bank (NatWest). In early 2023, Bristow refinanced the latter, extending the maturity on debt previously due in the 2023/2024 timeframe to 2036. Combined with Bristow's operating cash flows, we view the company as well capitalized to fund growth-oriented capital expenditures of an estimated \$155-\$165 million to service the UKSAR2G contract.

In June 2020, Bristow merged with Era Group Inc. in an all-stock deal. Following the merger, Bristow shareholders owned 77% of the combined company and Era shareholders 23%. The company retained the Bristow name, but with Era as the parent company. Era CEO Chris Bradshaw became Bristow's chief executive officer (CEO). For the period ended June 30, 2022, the company reported \$60 million in annualized merger synergies, above initial expectations of \$50 million, and reduced gross debt by more than \$100 million since completing the merger.

As of December 31, 2022, Bristow had unfunded capital commitments of \$204.3 million, consisting primarily of agreements to purchase helicopters, including two AW189 heavy helicopters, six AW139 medium helicopters, and five AW169 light twin helicopters. We expect the majority of the fleet expansion over the near-term to be allocated to the Government Services unit rather than Offshore Energy.

During the nine months ended December 31, 2022, Bristow sold or otherwise disposed of 12 aircraft, generating proceeds of \$18 million. This compared to 10 aircraft sold and proceeds of \$14.5 million in the year-earlier period. In the first quarter of fiscal 2023, the company disposed of 3 aircraft at a net gain of \$3.3 million. We expect the fleet size to stabilize moving forward, as there were fewer unutilized legacy medium and light helicopter models.

We note that helicopters have extended economic and mechanical useful lives, with multiple end markets. Airframes can last for de-

acades and other key components are regularly changed as a result of maintenance requirements.

For the nine months ended December 31, 2022, net cash used by operations totaled \$13.3 million, compared to net cash from operations of \$118.3 million a year earlier, reflecting changes in working capital and increased payments under PBH buy-in agreements. Net cash used in investing activities was \$44.1 million, compared to \$9.5 million a year earlier, due to higher capital expenditures, aircraft payments, purchases of equipment, leasehold improvements, and cash paid for the acquisition of BIH. Net cash used for financing activities totaled \$20.7 million, down from \$59.6 million a year earlier, reflecting a reduction in stock buybacks and debt repayments. Currency translation had a negative \$24.2 million impact in the nine-month period ended December 31, 2022, compared to a negative \$2.8 million impact a year earlier.

In August 2022, Bristow's board approved a \$40 million stock repurchase program and terminated its prior \$75 million authorization, which had \$15 million remaining in it. In the nine months ended December 31, 2022, Bristow repurchased 425,938 shares of stock for \$10.0 million at an average cost of \$23.48 per share.

Bristow Group does not pay a dividend and is unlikely to do so in the near term, in our view.

MANAGEMENT

Christopher Bradshaw has served as the president and CEO of Bristow Group Inc. and its predecessor companies since 2014, and as a director since February 2015. He served as CFO from October 2012 to September 2015. Mr. Bradshaw also cofounded U.S. Capital Advisors LLC, an independent financial advisory firm, and served as its managing partner and CFO from 2009 until 2012. Earlier in his career, he worked as an investment banker at UBS Securities, Morgan Stanley, and PaineWebber. Mr. Bradshaw serves on the boards of The National Ocean Industries Association (NOIA) and HeliOffshore. He graduated cum laude from Dartmouth College with a degree in Economics and Government.

Bristow's board has eight directors, seven of whom are independent, including its chairman. We note that women account for half of the company's senior management team, a key metric in ESG ratings.

RISKS

Risks to an investment in Bristow Group include the company's dependence on offshore oil and gas exploration, development, and production activity, a market that can be volatile; the need for adequate cash flow to support working capital, interest payments, and capital expenditures; the impact of inflation, which could prevent the company from operating at capacity; the potential for aircraft production and supply chain related delays, which could delay the delivery of previously ordered aircraft. Bristow also faces risks from unfavorable currency translation. In particular, the company has significant operations in the UK and converts pounds to dollars in its consolidated results; as such, a strong U.S. dollar typically reduces reported earnings. The company also has customer concentration risk. In the nine months ended December 31, 2022, its three largest customers accounted for 34% of operating revenues and its top ten customers accounted for approximately 61%.

COMPANY DESCRIPTION

Based in Houston, Bristow Group Inc. provides aviation services for offshore energy companies and government entities, as well as commercial search and rescue (SAR) services and ad hoc helicopter and fixed-wing transportation services. The company operates a fleet of 226 aircraft and has customers in more than 15 countries. Its primary operations are in Europe and the Americas, though it also has operations in Africa and the Asia Pacific region.

VALUATION

Bristow shares have been volatile since the beginning of 2022, trading in a range of \$21.60-\$40.10. They are currently near the low end of this range, despite the company's multiple new contract wins and higher EBITDA guidance (reflecting strong fleet utilization and the appreciation of the pound against the dollar since late September 2022). In addition, we think that the company's recent

debt financing has helped it to accelerate capital expenditures related to the new UKSAR2G contract.

In our valuation analysis, we compare Bristow to its publicly traded peer group, although we exclude airline carriers given the modest revenue contribution from the fixed-wing end-market. VTOL shares currently trade at a projected 2023 adjusted EV/EBITDA multiple of 6.3, below the 3-month peer average around 8-times. We note that the peer average has declined from recent highs above 8.5-times in early 2023.

Given Bristow's strong momentum and liquidity, we think that the company should trade in line with the 3-month peer average. Thus, to value the stock, we apply a multiple of 8.0 to our 2023 adjusted EBITDA estimate of \$155 million. We then subtract net debt from the total and adjust for the share count of 28 million to arrive at a fair value estimate of \$31 per share, well above current levels.

Steve Silver,
Argus Research Analyst

INCOME STATEMENT

	(9 Months)											
Growth Analysis (\$MIL)	FY 2021	FY 2022	Q1 2023	Q2 2023E	Q3 2023E	Q4 2023E	2023E	Q1 2024E	Q2 2024E	Q3 2024E	Q4 2024E	2024E
Operating Revenue	1,139.0	897.9	292.9	310.1	328.9	332.0	1,263.9	301.0	331.0	341.0	351.0	1,324.0
Total Revenue	1,185.0	922.6	302.0	319.1	337.9	341.0	1,300.0	310.0	340.0	350.0	360.0	1,360.0
Operating Costs	872.9	690.7					973.5					1,013.0
General and Administrative	159.1	123.0					182.3					176.8
Operating Income	1.2	29.9					46.2					56.5
Adjusted EBITDA	152.4	121.8	28.9	39.7	42.0	44.4	155.0	38.3	43.4	44.7	47.4	173.8
Interest Expense	41.5	30.7					41.2					44.0
Pretax Income	-4.4	21.0					17.7					33.7
Tax Rate (%)	NM	36					12					30
Net income	-15.7	13.6					15.6					23.6
Diluted Shares	28.5	28.6					28.0					28.0
EPS	-0.55	0.47	-0.05	0.14	0.20	0.27	0.56	0.08	0.21	0.24	0.31	0.84
Dividend	NA	NA					NA					NA
Growth Rates (%)												
Operating Revenue	NM	NM					NM					5
Operating Income	NM	NM					NM					22
Net Income	NM	NM					NM					51
EPS	NM	NM					NM					50
Valuation Analysis												
Price (\$): High	40.10	38.18					NA					NA
Price (\$):Low	24.82	21.61					NA					NA
PE: High	17.3	NM					NA					NA
PE: Low	10.7	NM					NA					NA
PS: High	1.0	1.0					NA					NA
PS: Low	0.6	0.5					NA					NA
Yield: High	NA	NA					NA					NA
Yield: Low	NA	NA					NA					NA
Financial & Risk Analysis (\$MIL)												
Cash/Restricted Cash	263.8	160.0					NA					NA
Working Capital	292.1	207.5					NA					NA
Current Ratio	2.0	1.7					NA					NA
LTDebt/Equity (%)	63.0	63.5					NA					NA
Total Debt/Equity (%)	63.0	66.8					NA					NA
Ratio Analysis												
Gross Profit Margin	77%	77%					77%					77%
Operating Margin	NM	3%					4%					4%
Net Margin	NM	1%					1%					2%
Return on Assets (%)	2.2	NA					NA					NA
Return on Equity (%)	NA	NA					NA					NA
Op Inc/Int Exp	NA	NA					NA					NA
Div Payout	NA	NA					NA					NA

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