RAYMOND JAMES | Global Research

December 7, 2015

ANALYSTS' BEST PICKS FOR 2016

Alexion Pharmaceuticals Inc.
(ALXN: NASDAQ)

Allstate Corporation
(ALL: NYSE)

American Homes 4 Rent, Inc.
(AMH: NYSE)

AmSurg Corporation
(AMSG: NASDAQ)

Becton, Dickinson and Company
(BDX: NYSE)

Concho Resources Inc.
(CXO: NYSE)

Halliburton
(HAL: NASDAQ)

Lazard Ltd
(LAZ: NYSE)

Microsoft
(MSFT: NASDAQ)

Mohawk Industries
(MHK: NYSE)

Northern Trust Corporation
(NTRS: NASDAQ)

Regal Entertainment Group
(RGC: NYSE)

Tractor Supply Co.
(TSCO: NASDAQ)

Zayo Group Holdings, Inc.
(ZAYO: NYSE)

Contents

Company Overviews

Please read disclosure/risk information beginning on page 23 and
Analyst Certification on page 23.

Analysts' Best Picks® for 2016

December 7, 2015

Dear Investors,

We are pleased to present our 21st annual Analysts' Best Picks® (ABP16) list. This annual list is a focused and static selection of stocks with an objective to produce above-average price appreciation over the next year. The list's long-term record has been excellent, outperforming the S&P 500 in 16 of the last 20 years and producing an average annual total return of 29.4% versus 11.5% for the S&P 500 (see page 4).

Thus far, ABP15 has outperformed the S&P 500. Half the list has produced double-digit annual returns since ABP15 was first priced on December 4, 2014.

The process behind this track record was developed and executed by David Henwood, who retired at the end of 2015 as Chief Investment Officer of Raymond James' Equity Research Department. As we strive to sustain the success of Analysts' Best Picks, we have maintained David's historic process and criteria.

The selection process first screens eligible analysts based on tenure and stock rating accuracy as measured by StarMine. Analysts meeting the criteria are then invited to propose one name for the new list. As in all previous ABP selections, the analyst's judgment about company fundamentals, growth prospects, and the risks associated with the stock's anticipated appreciation are based largely on their knowledge and judgment of many critical variables that must be evaluated. Clearly, in 2016 (as in most recent years), a company management's ability to execute and deliver on investor expectations during a period of uncertain economic activity is also a critical factor. This process has resulted in reasonably balanced lists with respect to broad industry exposure and other characteristics while meeting the liquidity needs of that period.

A brief discussion of each of the 14 selections comprising the Analysts' Best Picks® for 2016 is presented on pages 9-22 of this publication. As always, all of the ABP16 selections currently carry a Strong Buy rating by the covering analyst. These selections will remain on the list until December 31, 2016, unless the company no longer trades publicly.

The process of identifying stocks likely able to outperform in 2016 proved somewhat more difficult this year given the high degree of macro uncertainty with which most investment professionals are now wrestling. As the list was being developed, geopolitical instability was rising given Russia's entry into the Syrian conflict shortly after the November 13 terrorist attacks in Paris and the following destruction of a Russian combat plane by neighboring Turkey. A broad list of commodity prices are testing multi-year lows, creating additional concerns about global economic activity. A number of recent data points and company disclosures indicate a possible recent broad slowdown in U.S. consumer spending. In addition, the Fed appears poised to raise the Fed Funds rate for the first time since the global financial crisis, which is sustaining a strong rally in the U.S. dollar, and in turn supporting a meaningful headwind for U.S. corporate earnings. Dr. Scott Brown, Raymond James' Chief Economist, has a broader discussion of the macroeconomic outlook on pages 5 & 6, including his insights on the U.S. economy, Fed policy, and some of the associated risks that need to be navigated during 2016. Comments from Eric Yates of Equity Structured Products also follow and discuss why the 2016 Analysts' Best Picks® equity-linked notes are a very efficient way to invest in the entire list.

Robert P. Anastasi, CFA	Bryan C. Elliott, CFA
Director of Equity Research	Senior Supervisory Analyst

Best Picks Performance Record

Year	Best Picks List [a]	S&P 500 [i]	Excess Return [f]	Best Picks CY Basis [c]
1996 [b]	37.2%	22.6%	14.7%	33.2%
1997	53.5	37.1	16.4	44.8
1998	38.9	30.8	8.2	32.9
1999	143.9	25.4	118.6	93.0
2000	46.9	-4.8	51.7	31.8
2001	11.6	-15.0	26.6	3.9
2002	-0.6	-22.7	22.2	-5.2
2003	37.2	24.3	12.9	36.4
2004	27.7	14.9	12.9	19.7
2005	17.2	7.1	10.1	10.4
2006	5.9	14.9	-9.0	1.9
2007	30.5	6.2	24.2	30.7
2008	-35.0	-38.6	3.5	-34.3
2009	62.5	35.4	27.1	38.2
2010	31.2	16.8	14.4	25.7
2011	0.5	5.3	-4.8	-3.5
2012	9.5	18.3	-8.9	6.5
2013	49.3	33.7	15.6	38.2
2014	13.1	17.9	-4.8	7.0
2015 [d]	7.9	1.0	6.9	5.6
5 Yr. Avg. [e]	16.0	15.2	0.8	10.8
10 Yr. Avg. [g]	17.5	11.1	6.4	11.6
20 Yr. Avg. [h]	29.4	11.5	17.9	20.8

a. On a total return basis with performances averaged as if an equal dollar allocation was made to each stock at the December pricing date and held until 12/31 of the following year.

b. This was the first year performance of the *Analysts' Best Picks®* list.

c. Total return performance for the calendar years indicated.

d. Picks 2015 and 2015's S&P 500 represent total return performance through the close of 12/03/15.

e. Years 2011, 2012, 2013, 2014, and 2015 with total returns averaged.

f. Annual average Best Picks total return performance minus the comparable S&P 500 performance. Figures may not total due to rounding.

g. Years 2006 through 2015 with total returns averaged.

h. Years 1996 through 2015 with total returns averaged.

i. S&P 500 on a total return basis for comparable ABP lists' time periods.

S&P total return with gross dividends reinvested is from Bloomberg LLC.

Since 1996 a total of 237 stocks have been recommended through the Analysts' Best Picks® list. Of this total, 159 advanced (67%) and 78 declined (33%) within the recommended holding period. The holding period for each year's list is approximately 55 weeks from the inception date to 12/31 of the following year.

Annual results are before commissions or fees. The results presented should not and cannot be viewed as an indicator of future performance. Individual results will vary and transaction costs related to investing in these stocks will affect overall performance. There is no assurance that the list will achieve the results expected and investors may incur profits or losses. The performance returns in 1999 were extraordinary and it is unlikely that these unrealistically high returns will be repeated. The S&P is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. A complete list of all Analysts' Best Picks® since 1996 is available upon request.

Economic Outlook for 2016 – Many Questions, But Optimistic

The U.S. economic expansion continued in 2015, further reducing the amount of slack that was left in the wake of the financial crisis. Believing that further slack will be taken up over the course of 2016, the Federal Reserve is set to begin normalizing monetary policy. Expectations of higher short-term interest rates in the U.S. and easier monetary policy abroad have put upward pressure on the dollar. The stronger dollar and softer global growth have pushed commodity prices lower and have eaten into corporate profits. The twin themes of domestic strength and global softness are expected to continue into early 2016, but there are a number of uncertainties. How rapidly will the Fed raise short-term interest rates? How will the financial markets react? When will the rest of the world recover, and how strong will that recovery be?

The economic expansion is six and a half years along now. From the start, given the nature of the financial crisis, it should have been clear that this was never going to be a rapid turnaround. We are still not completely recovered, but we have made a lot of progress. After adding more than three million jobs in 2014, growth in nonfarm payrolls appeared to slow somewhat in 2015 but was still beyond a long-term sustainable pace. The unemployment rate has fallen to a level once consistent with “full employment”, although there are still signs of slack (long-term unemployment remains elevated, too many people are working involuntarily part-time). Labor compensation growth has picked up slightly, but remains relatively lackluster.

Consumer price inflation was very low in 2015, reflecting the drop in gasoline prices. Core inflation figures have been mixed. Ex-food and energy, the Consumer Price Index is close to 2%, with shelter costs accounting for about half of that increase. The core PCE Price Index, which is the gauge that the Fed uses and has a smaller weighting for shelter, rose 1.3% over the 12 months ending in October – well below the Fed’s goal of 2%. However, Fed officials are reasonably confident that core inflation will move back toward the 2% goal as commodity prices bottom out and start to rise.

The Fed sets monetary policy with an eye to where the economy is expected to be 12 to 18 months ahead. Policy does not have to be in a neutral position a year from now, but it should be closer to that than it is now. The Fed will still be very accommodative even after the first couple of rate increases. Officials have emphasized that conditions are likely to warrant a gradual pace of interest rate increases beyond the first move. In the previous tightening cycle, the Fed raised rates by 25 basis points at every policy meeting. The consensus view is that the upcoming pace will be about half of that, or 25 basis points at every other policy meeting. However, policy decisions will be data-dependent. If the economy were to stumble or if inflation were to remain stubbornly low, then the Fed would likely move more slowly. If growth accelerates and inflation begins to rise more sharply, then the Fed could tighten faster.

While the central bank remains focused on the job market and inflation, it also has to pay attention to what is happening in the rest of the world. The Fed was close to raising rates in mid-September, but delayed citing concerns about the possible impact of overseas economic and financial developments. Weaker global growth restrains U.S. exports and puts downward pressure on commodity prices. Downside risks (to the U.S. economy) appear to be less worrisome than they were in the late summer.

A strong investment theme over the last decade has been to think globally. Emerging economies have outpaced developed economies, accounting for much of global growth, and that pattern was expected to continue. However, that story fell apart in 2015, as emerging economies stumbled. Much of the focus has been on China, which is going through two major transitions. For the last couple of decades, China has grown rapidly, led by export growth and infrastructure spending. China needs to transform into an economy led by domestic demand – and that is not an easy transition. In addition, China must liberalize its capital markets. The IMF's decision to include the Renminbi in its benchmark basket of reserve currencies seems premature (although it does not go into effect until October 1, 2016). The currency is not free-floating, but this will change. However, moving to market-based determination in financial markets is often fraught with difficulty. China's transitions are likely to be lengthy and bumpy.

The emerging economies can be expected to pick up, and many have shown signs of having already turned the corner. After an initial rebound, trend growth is expected to be strong, but it ought to be slower than what was anticipated a few years ago. Brazil is expected to put on a good face for the Olympic Games, but that is not going to add much to the economy which showed no signs of bottoming in late 2015.

In the U.S., the economic outlook remains optimistic. Job growth should remain relatively strong, but some slowing would be welcome as we near full employment. Low gasoline prices should continue to boost consumer purchasing power in the near term, but gasoline prices will not fall forever. Bank credit to consumers is still relatively tight, but should gradually improve even as the Fed begins to raise short-term interest rates. Housing should continue to recover. The pace of business fixed investment was dampened in 2015 due to the contraction in energy exploration and softer demand for U.S. exports, but domestic demand should be strong enough for a moderate pace of business investment in 2016.

A slowdown in productivity growth is becoming a major concern for economists. Productivity (output per worker) is perhaps the single most important concept over the long term. Faster productivity growth implies a better standard of living. While there are important measurement issues, reported estimates of productivity growth have slowed. In long-term projections, senior Fed officials generally see 2% GDP growth as the new norm – that is, labor input growing at a little under 1% per year, with productivity growing at a little over 1%. This would imply that Fed policy needs to tighten sooner (as labor slack will disappear more rapidly), but ultimately end up raising rates less than if productivity were higher. This is not simply an issue for the U.S. – a secular slowdown in global growth would have important implications for government retirement and healthcare programs worldwide.

Some may ask if the U.S. economy is "due" for a recession. However, the likelihood of a recession does not depend on the length of the expansion. The late MIT economist Rudi Dornbusch famously said that economic expansions never die of old age, asleep in their beds – the Fed assassinates them. Recessions are typically caused by the Fed raising interest rates too much. That question may come up by the end of 2016. However, the Fed is likely to tighten slowly, and probably less than most policymakers currently anticipate. For stock market investors, an election year is often treacherous – but the long slog toward November could not be any more bizarre than it already is.

Scott Brown, Ph.D.
Senior Economist

Equity-Linked Notes

Raymond James is again pleased to offer equity-linked notes designed to extend to our retail clients a vehicle to invest in the names on the Analysts' Best Picks® (ABP) report published by our Equity Research department. We offer two distinct notes, one issued in conjunction with the release of the list to the public in December and a second one approximately one month later. The notes are structured to offer clients the ability to invest in the ideas in a more efficient manner than purchasing each individual stock.* The following paragraphs review the performance of the notes through November 30, 2015, in comparison to the broader equity markets. Please note these securities were not designed to offer clients the exact performance figures published by Equity Research. These securities offer an efficient solution for investing in the ideas presented in the list over a specified time period. Performance returns of this product will differ from the returns published by Equity Research or returns obtained in other investments in the Analysts' Best Picks® list due to the time period of investment and fees.

Each client's specific return on each note will depend on how many notes were purchased originally, as the impact of the $5.95 handling charge will vary as the number of notes changes. Comparisons of this year's notes (assuming a $10,000 notional investment) versus the S&P 500 are illustrated in the following table. The notes are currently outperforming the S&P 500 Index. The final performance of this year's notes will be determined by what happens through the final valuation periods ending December 15, 2015 for the December Note and January 21, 2016 for the January Note.

When comparing returns, it is important to consider equivalent periods of investment. In the performance chart below, we have included comparable performance figures for the S&P 500 Index based on the specific investment period of each note.

	Cost	**Price** (as of Nov 30, 2015)	**Total Return** (after fees)
2015 ABP Note Maturing Dec 18, 2015**	**102.7995%**	**109.65%**	**6.67%**
S&P 500 Index (Dec 9, 2014 to Nov 30, 2015)			3.04%
2015 ABP Note Maturing Jan 26, 2016**	**102.7995%**	**115.49%**	**12.34%**
S&P 500 Index (Jan 15, 2015 to Nov 30, 2015)			6.32%

Equity Structured Products

Equity Capital Markets

Ext. 71857

*Account structures and fees will vary by account and should be taken into consideration before making an investment decision.
**Please note that the prices shown for the 2015 ABP Notes in this report are NAV and the price shown on client statements is a bid price which includes the aftermarket liquidation spread on the security. Clients who hold to maturity will receive the NAV. The NAV represents the underlying value of the securities less the counterparty fee of 25 bp which is taken at maturity or early redemption.

Analysts' Best Picks® for 2016 Statistical Overview

Company Name	Sym.	RJ&A Rank	SR*	12/03/2015 Close	12 Mo. Trail. Price Range High	12 Mo. Trail. Price Range Low	Proj. 12-Mo. Price Target	Forward Year P/E	2014A	2015E	2016E	Div. Yld.	BV/ Shr.	FY	Mkt. Cap. (Mil)
S&P 500 #	SPX	NA	NA	2049.62	2134.72	1867.01	NA	16.2	113.01	106.60	126.46	2.1%	NA	Dec	NA
Alexion Pharmaceuticals Inc. (m, ng)	ALXN	1	H/GRW	168.79	208.88	142.02	225.00	27.5	5.21	5.00	6.13	0.0%	36.52	Dec	38,144
Allstate Corporation (hn, m, ng)	ALL	1	M/GRW	62.77	72.87	54.12	78.00	10.9	5.42	5.05	5.75	1.9%	47.54	Dec	25,240
American Homes 4 Rent (hs, m, x, z)	AMH	1	M/GRW	15.98	17.55	15.09	19.00	17.8	0.43	0.68	0.90	1.3%	16.31	Dec	4,247
AmSurg Corporation (h, hn, hs, m, ng)	AMSG	1	H/GRW	79.28	87.42	48.49	100.00	17.2	2.75	3.66	4.60	0.0%	34.75	Dec	4,590
Becton, Dickinson and Company (ce, m)	BDX	1	M/GRW	149.93	154.98	128.87	172.00	17.8	6.50	7.16 A	8.41	1.8%	34.00	Sep	31,590
Concho Resources Inc. (h, m, ng)	CXO	1	H/GRW	106.20	134.13	77.22	146.00	NM	4.06	1.24	0.76	0.0%	51.37	Dec	12,775
Halliburton (hs, m, ng)	HAL	1	H/GRW	38.01	50.20	30.93	48.00	58.5	4.02	1.49	0.65	1.9%	18.07	Dec	32,499
Lazard Ltd (hn, m, ng, ra)	LAZ	1	H/GRW	45.09	59.82	41.26	60.00	11.9	3.20	3.73	3.80	3.1%	9.10	Dec	5,659
Microsoft (g, hs, m, s)	MSFT	1	M/GRW	54.20	55.96	39.72	62.00	27.2	2.63	1.48 A	1.99	2.7%	9.98	Jun	435,063
Mohawk Industries (m, ng)	MHK	1	H/GRW	184.14	212.16	143.22	240.00	15.2	8.15	10.18	12.10	0.0%	64.19	Dec	13,700
Northern Trust Corporation (hn, m, ng)	NTRS	1	M/GRW	72.77	79.25	61.10	90.00	17.3	3.40	3.80	4.20	2.0%	36.30	Dec	16,824
Regal Entertainment Group (g, hn, m)	RGC	1	M/INC	18.18	24.52	17.48	25.00	15.2	0.68	1.04	1.20	4.8%	NM	Dec	2,843
Tractor Supply Co. (g, m)	TSCO	1	M/GRW	85.66	96.28	74.52	110.00	23.7	2.66	3.10	3.61	0.9%	9.78	Dec	12,138
Zayo Group Holdings, Inc. (fc, h, hn, m)	ZAYO	1	H/GRW	23.98	32.18	21.89	34.00	35.3	1.04	0.29 A	0.68	0.0%	4.98	Jun	5,827

* Raymond James has updated its suitability rating system, effective 9/29/15. Please see the disclosures for the definition of the suitability rating.
ce - EPS is Cash EPS.
fc - EPS is Free Cash Flow/Share.
g - EPS is GAAP EPS.
h - Raymond James & Associates managed/co-managed a public/follow-on offering of these shares or has provided investment banking services within the past 12 months.
hn - Raymond James & Associates received non-securities-related compensation from the issuer within the past 12 months.
hs - Raymond James & Associates received non-investment banking securities-related compensation from the issuer within the past 12 months.
m - Raymond James & Associates makes a market in shares of the issuer.
ng - EPS is Non-GAAP EPS.
ra - Limited Partnerships may generate Unrelated Business Taxable Income (UBTI), which can create a tax liability that must be paid from a retirement account. You should receive a Schedule K-1 from the partnership annually that would include UBTI and other financial information. Please consult with your tax advisor to determine whether you must file and pay tax from your account.
s - The analyst or research associate own shares of stock in this company.
x - EPS is Funds from Operations (FFO).
z - Book value represents the depreciated value of real estate. Real Estate values increase with inflation, widening the gap between real value and book value over time. Thus, we regard stated book value as not meaningful.
- S&P 500 EPS estimates are Operating Earnings/Share.

Alexion Pharmaceuticals Inc. (ALXN:NASDAQ)

12-Month Target Price **$225.00**
Current Price (12/03/2015) **$168.79**
Suitability .... **High Risk/Growth**

FY (Dec)	2014A	2015E	2016E
Non-GAAP EPS	$5.21	$5.00	$6.13
P/E	32.4x	33.8x	27.5x
GAAP EPS	$3.26	$1.00	$3.84
Revenue (mil.)	$2,234	$2,613	$3,395

Non-GAAP EPS excludes the impact of non-recurring items.

Hist. 12-month Price Range .... $208.88 - $142.02
Dividend/Yield $0.00/0.0%
Market Capitalization (mil.) $38,147
Shares Outstanding (mil.) 226.0
Book Value (09/15) $36.52
ROE (TTM) 4%
LT Debt (mil.) $3,325/0%

Alexion Pharmaceuticals Inc. is a biopharmaceutical company based in New Haven, Connecticut and focused on the development of novel therapies for life-threatening ultra-orphan conditions. Its flagship product, Soliris, targets the complement system and is approved for the treatment of paroxysmal nocturnal hemoglobinuria (PNH) and atypical hemolytic uremic syndrome (aHUS). Soliris surpassed $2.2 billion in global sales in 2014 as Alexion explores additional follow-on indications for the drug. Alexion's focus on ultra-orphan conditions allows its products to command premium pricing and a faster regulatory path to market compared to those in more traditional diseased areas. Near term, Alexion's commercial footprint will broaden with two new product launches: Strensiq (asfotase alfa) for hypophosphatasia, and Kanuma (sebelipase alfa) for lysosomal acid lipase deficiency (LAL-D).

Well-Positioned for Growth Reacceleration

We believe Alexion, a premier rare disease company with one of the most robust rare disease pipelines in biotech, is well-positioned right here. We think shares can benefit over the next 12 months from a confluence of factors, including continued momentum – as well as a lessening competitive overhang –from lead product Soliris, increasing portfolio diversity as new products Strensiq and Kanuma launch globally, and improved sentiment on its 2015 Synageva acquisition.

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Expect continued commercial performance from Soliris: Eight years post-launch, Alexion continues to identify new-to-treatment patients for ultra-rare conditions paroxysmal nocturnal hemoglobinuria (PNH) and atypical hemolytic uremic syndrome (aHUS). We think fruitful patient identification efforts bode well for the revenue trajectory going forward and provide a positive offset to forex headwinds. Since 2010 Alexion has beaten top-line consensus estimates 18 of 20 times, and our estimates are ahead of consensus into the 2021 timeframe as we think this commercial momentum will continue.

Competitive worries may wane: We think concerns surrounding alternative complement C5 inhibitors may lessen as additional data are presented and Alexion makes progress on its next-generation Soliris efforts—Alexion expects to initiate a proof-of-concept PNH trial with next-gen molecule ALXN1210 by YE15 and have at least one Soliris next-gen product on the market by 2018.

Global Strensiq, Kanuma launches and pipeline programs diversify the story: While Soliris will remain the primary revenue driver near term, Alexion's portfolio is poised for substantial expansion as Strensiq and Kanuma begin their global launches in earnest in 2016. Other key pipeline events throughout 2016 include Phase III data from Soliris in myasthenia gravis, data from next-gen Soliris molecule ALXN1210 in PNH patients, and the progression of four preclinical programs into clinical trials—including an additional complement inhibitor and an mRNA therapy from Alexion's Moderna collaboration.

Improved Synageva deal sentiment: We think sentiment surrounding Alexion's $8.4 billion acquisition of Synageva and its lead asset Kanuma in 1H15 will improve as we learn more about the potential of Synageva's other pipeline agents.

Valuation: We derive our $225 price target on ALXN shares by applying a 28x multiple to our 2018 non-GAAP EPS estimate of $10.90, discounted back by 15% per year. Given Alexion's pending commercial launch of Strensiq and Kanuma, we believe 2018 reflects a steady-state revenue growth level and an appropriate period from which to base the valuation. We believe a premium to large-cap biotechs (currently at ~25x 2015E consensus EPS) is appropriate given Alexion's pipeline and growth potential.

— *Christopher Raymond*

Allstate Corporation (ALL:NYSE)

12-Month Target Price **$78.00**
Current Price (12/03/2015) **$62.77**
Suitability .... **Medium Risk/Growth**

FY (Dec)	2014A	2015E	2016E
Non-GAAP EPS	$5.42	$5.05	$5.75
P/E	11.6x	12.4x	10.9x
GAAP EPS	$6.29	$5.42	$5.83
Net Premiums Written (mil.)	$29,613	$30,906	$31,881

Non-GAAP EPS excludes realized investment gains/losses.

Hist. 12-month Price Range .... $72.87 - $54.12
Dividend/Yield $1.20/1.9%
Market Capitalization (mil.) $25,240
Shares Outstanding (mil.) 402.1
Book Value (09/15) $47.54
ROE (TTM) 10%
LT Debt (mil.) $5,175/20%

Allstate Corporation, based in Northbrook, Illinois, is the largest publicly held personal lines insurer in the U.S., with approximately 9,300 exclusive agencies and 1,230 exclusive financial specialists.

2016 Outlook Should Improve After Challenging 2015

We believe Allstate is best positioned among the large-cap property/casualty insurance companies to outperform in 2016, following a challenging 2015 where stock performance was affected by the deterioration in profitability of the company's auto insurance business (accounted for 66% of the company's total property-liability premiums). While the near-term results should continue to reflect profitability challenges, we believe the outlook for the stock should improve as the company begins to report an improvement in the auto insurance underwriting margin in 2H16.

Allstate began to experience an uptick in accident frequency in 4Q14 reflecting the impact on miles driven from a stable economy and lower gas prices. Consequently, management initiated a margin improvement plan beginning in 2Q15 focused on new business underwriting restrictions and rate increases across most of its book of auto business to offset increased loss frequency trends. The company has reported accelerating rate increases in the last two quarters with the current price change amounting to approximately 6.4% on an annualized basis. While the current y/y increase still lags the estimated 8.0% loss cost trend, we expect management to implement further underwriting restrictions and additional rate increases to offset the pressure from loss frequency trends. We also expect management to limit certain discretionary expenses (e.g. advertising) which should provide some lift to underwriting margins in the near term. These actions, along with others, should lead to underlying margin improvement in 2H16.

The principal risk to our expectation for a recovery in profitability is the potential for further deterioration in accident frequency and severity trends. In addition, the combination of low interest rates and market volatility could lead to a shortfall in investment income relative to current expectations.

Our EPS estimates for 2016 and 2017 are $5.75 and $6.50 which compares with consensus expectations of $5.51 and $6.25, respectively. We believe our estimates include a more optimistic outlook in 2H16 and 2017. Shares of ALL have declined 9.3% year-to-date compared with the 3.2% increase for the S&P 500 Insurance index. We expect shares of ALL to outperform as the underwriting margins stabilize and begin to improve later in 2016. Our $78 target price assumes Allstate trades at 1.5x our 2016 book value per share estimate of $53.49 and 13.6x our 2016 EPS estimate of $5.75. This compares with Allstate's personal insurer peer group average of 1.6x recent book value and 16.6x 2016 EPS.

— *C. Gregory Peters*

American Homes 4 Rent (AMH:NYSE)

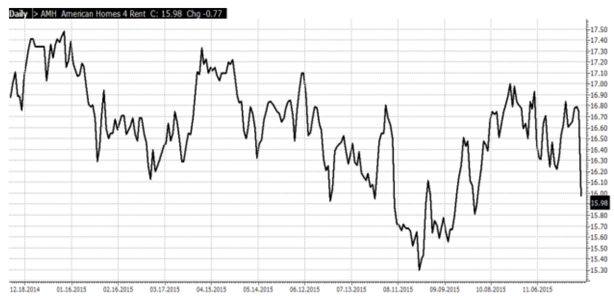
12-Month Target Price **$19.00**
Current Price (12/03/2015) **$15.98**
Suitability .... **Medium Risk/Growth**

FY (Dec)	2014A	2015E	2016E
FFO/Share	$0.43	$0.68	$0.90
P/E	37.2x	23.5x	17.8x
Revenue (mil.)	$399	$616	$748

Hist. 12-month Price Range...................................... $17.55 - $15.09
Dividend/Yield... $0.20/1.3%
Market Capitalization (mil.).. $4,247
Shares Outstanding (mil.)... 265.8
NAV $19.01
ROE (TTM) .... NM
LT Debt (mil.)... $2,587/30%

American Homes 4 Rent, Inc. is a fully-integrated and internally-managed real estate investment trust (REIT) focused on acquiring, renovating, leasing, and operating single-family homes as rental properties.

Single-Family Rental Fundamentals Keep Improving, Despite Deep NAV Discounts



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Core fundamentals for single-family rental (SFR) housing remain outstanding and we think these favorable conditions will continue in 2016. American Homes 4 Rent (AMH) recently announced its pending merger with American Residential Properties (ARPI/$17.84/Market Perform) to form the largest SFR REIT. In our view, the merger (expected close in 1H16) is a win-win for both companies and will immediately provide FFO and NAV accretion. Furthermore, we think AMH is well-positioned to benefit from surging demand for rental homes, accelerating pricing power thanks to a largely stabilized portfolio, and further margin upside as it streamlines its operating and turnover costs. Thus far, many investors have remained skeptical of the SFR business model, doubting whether disparate rental homes can ever be managed efficiently. We believe adequate scale and operational expertise can yield highly attractive margins and returns, and we think AMH is at such an inflection point. Moreover, we see home prices likely appreciating next year well ahead of CPI inflation, further bolstering the underlying value of AMH's portfolio. With AMH shares already trading at a 16% discount to our most recent NAV estimate, we believe an outstanding risk/reward scenario exists as more investors take notice of the outstanding momentum building in AMH's stabilized pool of rental homes.

Strong Core Single-Family Rental Fundamentals

Since the end of 2008, roughly 75% of renter household formation has been new single-family renter households. Existing home prices in most markets are rising at a 5-6% annual pace (+5.8% y/y in October), steadily closing the replacement cost gap. Meanwhile, apartment rents continue to soar higher and homebuilders are no longer building any material new supply of entry-level "workforce" housing. This is creating a significant supply/demand imbalance for affordable single-family homes where consumers need financial flexibility and quality schools for their family. In addition, many potential first-time buyers are still constrained by tight mortgage credit availability, declining affordability, and the inability to save for a down payment. Despite this compelling fundamental backdrop, all the public single-family REITs trade at double-digit NAV discounts (ranging 12-30%), due to skepticism about the ability of any company to efficiently manage thousands of individual single-family homes. This valuation disconnect, however, is implicitly pricing-in either potential home price erosion or significantly negative future cash flow (in our view, both are unlikely).

Healthy NOI Margins and Accelerating Pricing

Despite seasonally high 3Q property operating expenses (due to school year-related resident turnover), AMH maintained a healthy 58.6% NOI margin in 3Q15. The company also achieved an impressive 10.7% y/y increase in same-home NOI for 20,963 homes (59% of the leased portfolio), which exceeds many of the same-store growth rates recently reported by the multifamily REITs. In addition, total portfolio renewal and new lease rent rates are starting to accelerate (+3.3% y/y and +5.0% y/y, respectively) while renewal rates remained at a healthy 74.4%. With AMH's total portfolio reaching a stabilized occupancy percentage of 94.3% as of September 30, we would expect to see further pricing gains accelerate in coming quarters. The added density in the combined portfolio could also improve margins on AMH's existing owned homes. We believe American Homes 4 Rent has the scale and efficiency to produce solid y/y same-home NOI growth and close the current 16% gap versus our NAV estimate.

Valuation

Our $19.00 target price is roughly in line with our NAV estimate, which we think can be supported by 1) AMH's accelerating cash flow growth, 2) strong operating platform and sponsorship, 3) FFO accretion and synergies from the ARPI merger, and 4) visible value accretion as median existing home prices (+5.8% y/y in October) steadily close the gap versus current replacement costs. Please refer to our September 4 industry update for our NAV summary.

— Buck Horne, CFA

AmSurg Corporation (AMSG:NASDAQ)

12-Month Target Price **$100.00**
Current Price (12/03/2015) **$79.28**
Suitability .... **High Risk/Growth**

Hist. 12-month Price Range .... $87.42 - $48.49
Dividend/Yield $0.00/0.0%
Market Capitalization (mil.) $4,590
Shares Outstanding (mil.) 57.9
Book Value (09/15) $34.75
ROE (TTM) 10%
LT Debt (mil.) $2,250/49%

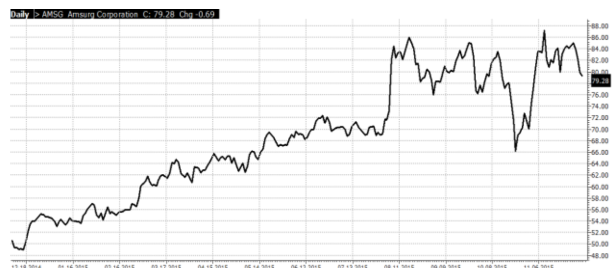
FY (Dec)	2014A	2015E	2016E
Non-GAAP EPS	$2.75	$3.66	$4.60
P/E	28.8x	21.7x	17.2x
GAAP EPS	$1.28	$2.95	$3.81
Revenue (mil.)	$1,622	$2,540	$3,147

Non-GAAP EPS exclude discontinued operations and non-recurring items and are fully taxed.

AmSurg Corporation, headquartered in Nashville, Tennessee, develops, acquires, and manages single specialty practice-based ambulatory surgery centers (ASCs) in partnership with surgical and other group physician practices. AmSurg owns and operates more than 540 consolidated centers, primarily in the areas of gastroenterology and ophthalmology.

M&A and Industry Tailwinds to Drive Differentiated Growth

Following AmSurg's transformative acquisition of Sheridan, a physician staffing platform, in July 2014, we continue to believe the revamped model positively augments the company's organic growth profile and broadens the consolidation opportunity into faster-growing and higher-value service areas. Our positive thesis entering 2016 is predicated on increased utilization in the acute outpatient setting, incremental synergy capture from the robust M&A activity in 2014 and 2015, and capital deployment upside, all of which support potential upward earnings revisions in 2016.



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Sheridan Deal Continues to Work

In the first three quarters of 2015, ambulatory surgery centers (ASC) organic revenue growth has averaged 5.1% and legacy Sheridan organic revenue growth has averaged 10.3%, representing some of the strongest organic top-line results in our entire coverage universe. This growth reflects the company's improved strategic positioning following the acquisition of Sheridan. By management's own admission, it is "well ahead of schedule" in terms of its $20-30 million cross-selling opportunity. Through three quarters, the company has nearly reached its prior 2015 pro forma EBITDA estimate for Sheridan standalone.

Capital Deployment Optionality

AmSurg has deployed over $600 million of capital in 2015 on M&A, triple management's $200 million per year target. Moreover, in December 2015, the company has announced a pipeline of $500 million worth of deals expected to close by the end of 1Q16, funded in part by a ~$500 million equity offering. We believe that management will remain acquisitive in the year ahead. The now $70 billion market that AmSurg operates in is highlighted by the company's key ASC, anesthesiology, and child service verticals that remain highly fragmented and are currently ~60%, ~90%, and 85% operated by independent and local players, respectively. Incoming deals are still accretive despite competition driving multiples above management's expectation for a ~7x effective level. Including pre-AmSurg ownership, from 2011 through 3Q15, Sheridan has lowered its underwritten purchase multiple on $513 million of physician staffing M&A from 9.0x EBITDA to roughly half that pro forma for synergies.

Valuation

AMSG shares are trading at 14.5x 2017E EPS, with ASC peer SCAI trading at 14.9x and physician staffing peers (EVHC, MD, and TMH) trading at an average 15.1x. Since the announced acquisition of Sheridan (May 2014), ASC and physician staffing peers have traded at an average one-year forward multiple of 17.4x and 20.3x, respectively. We believe shares can appreciate without additional multiple expansion and with potential earnings revisions, particularly if management continues to deploy capital. Our $100 target price implies an ~18x multiple to our 2017 EPS estimate of $5.45, consistent with the average peer group range and supported by base-business and M&A upside.

— John W. Ransom

Becton, Dickinson and Company (BDX:NYSE)

12-Month Target Price **$172.00**
Current Price (12/03/2015) **$149.93**
Suitability ....**Medium Risk/Growth**

FY (Sep)	2015A	2016E	2017E
Cash EPS	$7.16	$8.41	$9.42
P/E	20.9x	17.8x	15.9x
GAAP EPS	$3.35	$7.63	$8.88
Revenue (mil.)	$10,302	$12,616	$13,129

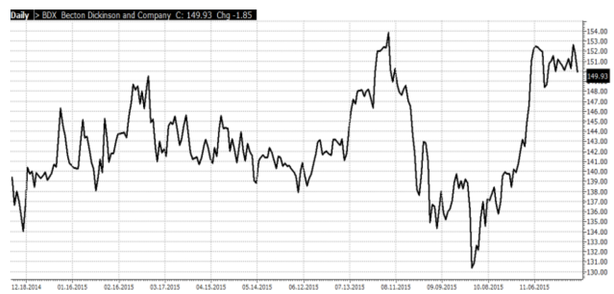
Cash EPS excludes one-time items.

Hist. 12-month Price Range .... $154.98 - $128.87
Dividend/Yield $2.64/1.8%
Market Capitalization (mil.) $31,590
Shares Outstanding (mil.) 210.7
Book Value (09/15).. $34.00
ROE (TTM) 11%
Net Debt (mil.)...$11,370/61%

Becton, Dickinson and Company (BD), based in Franklin Lakes, New Jersey, is a medical technology company engaged principally in the development, manufacture, and sale of a broad range of medical supplies, devices, laboratory equipment, and diagnostic products used by healthcare institutions, life science researchers, clinical laboratories, industry, and the general public.

Dependable Low to Mid-Teens EPS Growth

We believe that Becton Dickinson (BD) is well-positioned for dependable low to mid-teens EPS growth over the next several years driven by geographic expansion following the CareFusion acquisition, new product launches, and deal-related cost synergies. BD's breadth of product and scale in international markets is likely to increasingly become a competitive advantage relative to smaller competitors. In addition, we expect disciplined capital allocation driven by ~$1.9 billion in annual free cash flow generation. We do not anticipate any large-scale M&A in the near term, which gives us confidence in increasing dividends in line with earnings growth, as well as the resumption of share repurchases in the next 18 months. Finally, the stock trades at a 6.4% FCF yield and 17.3x our CY16 EPS estimate of $8.66. We view the valuation as attractive in the context of solid double-digit earnings increases and growth challenges in other sectors of healthcare.



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Positioned for Strong Earnings Growth, Fueled by CareFusion
BD completed the acquisition of CareFusion in March 2015, enhancing the company's medication delivery and infection prevention capabilities. Coupled with ~5% organic sales growth and the CareFusion acquisition, we believe that BD is positioned for solid low to mid-teens EPS growth. Drivers for growth include $325-350 million in cost synergies from the acquisition of CareFusion through fiscal 2018. Taken together, we forecast accelerating top-line growth (from ~4% currently) driving 13% EPS growth through fiscal 2017, inclusive of ~22% EPS accretion from CareFusion in fiscal 2016, partially offset by 150 bp of forex headwinds on the top line.

Overseas Footprint to Drive Growth
The CareFusion acquisition positions BD for continued overseas expansion and strengthening connections between the pharmacy, nursing station, and infusion pumps. Given the strategic aspects of the CareFusion acquisition, we envision strong potential for market share gains from new product launches and geographic expansion. Recall that CareFusion generated 20% of sales from overseas geographies, while BD derived 60% of revenues outside the U.S. On a combined basis, the company generates ~16% of sales from emerging markets and 5% from China, where ~10% growth should continue to outpace developed markets.

Scale Should Be an Advantage
With benefits of the Affordable Care Act now annualizing, we believe that hospitals will refocus on cost reductions in 2016. In our opinion, we believe that a more challenging environment will favor companies that have scale and breadth of products, such as BD. The company is ubiquitous across hospitals with products that are medically-necessary, yet not costly enough to attract major attention from purchasing managers. Although we are not suggesting that BD will be immune from cost pressures, we suspect that the sheer size of the company and strong overseas presence will enable it to produce earnings growth in excess of its peers.

Valuation Looks Attractive
Our $172 price target weights P/E (20x) and EV/EBITDA (12x) multiples on CY16 estimates and a 10-year DCF value ($180). Our P/E and EV/EBITDA multiples represent 22% and 30% premiums to five-year averages, justified by solid low to mid-teens EPS growth, which is driven by accelerating OUS sales for CareFusion, solid 4-5% organic growth for BD, and cost synergies of $325-350 million through fiscal 2018.

— *Lawrence Keusch*

Concho Resources Inc. (CXO:NYSE)

12-Month Target Price **$146.00**
Current Price (12/03/2015) **$106.20**
Suitability .... **High Risk/Growth**

FY (Dec)	2014A	2015E	2016E
Non-GAAP EPS	$4.06	$1.24	$0.76
P/E	26.2x	85.6x	NM
GAAP EPS	$4.93	$0.74	$0.76
Revenue (mil.)	$2,860	$2,463	$2,544

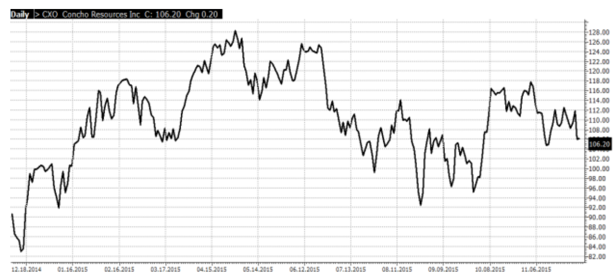
Non-GAAP EPS excludes unrealized hedging losses, property impairments, and other extraordinary items.

Hist. 12-month Price Range .... $134.13 - $77.22
Dividend/Yield $0.00/0.0%
Market Capitalization (mil.) $12,776
Shares Outstanding (mil.) 120.3
Book Value (09/15)... $51.37
LT Debt (mil.) $3,822/38%
Proved NAV/Share... $7.84

Concho Resources Inc., headquartered in Midland, Texas, is an independent oil and natural gas company engaged in the exploration, development, and acquisition of oil and natural gas properties. The company operates domestically, with its primary focus in the Permian Basin of Southeast New Mexico and West Texas. At year-end 2014, the company had 637 MMBoe of proved reserves.

Top-Tier Asset Base, Best-in-Class Operations, Solid B/S Leading into an Oil Price Recovery

Following a recent Permian tour, our outlook on the region was reinforced as operators continue to further delineate inventory and unlock resource potential. Likewise, Concho stands out as our favorite E&P name over the next year for the following reasons: 1) it is sitting on a top-tier asset base in the Permian, particularly in the Delaware Basin, where the rate of change will be the highest in our opinion; 2) the company is positioned perfectly for another beat-and-raise performance in 2016; 3) it has a solid balance sheet offering peer-leading capital flexibility; and 4) it has a proven acquisition model whereby Concho has been able to successfully acquire and exploit core acreage throughout the Permian Basin.



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Delaware acreage will deliver the highest rate of change in the Permian. Concho has a sizable core position in the Midland and Delaware Basins, but it is particularly leveraged to growth in the Delaware Basin/ New Mexico Shelf with ~535,000 net acres. Being that operators are continuing to aggressively delineate acreage in the Delaware Basin, we believe the rate of change (i.e., improving EURs and well costs) in the region will be more rapid than anywhere else in the Permian. Next year, as the company focuses on 1.5-2 mile lateral development, we anticipate a meaningful improvement in the type curve and cost efficiency gains. Moreover, we believe acreage prices are currently being understated in the less publicized Delaware ($10-15k/acre) relative to the Midland Basin ($30-35k/acre). Why? The Delaware is mainly operated by large-caps and/or private operators that have refrained from regularly updating type curves and releasing individual well results, unlike in the Midland Basin where resource potential is widely disseminated. Over the next 12 months, improving well economics and heightened M&A in the Delaware should considerably narrow the gap between Delaware and Midland acreage values.

2016 is setting up for another beat-and-raise performance. Historically, Concho has had a reputation of beating production and cost expectations time and again. We believe the company will continue to beat on expectations going into next year, highlighting its top-tier operational capabilities. Case in point, Concho is anticipated to grow ~28% in 2015 despite spending ~$1 billion less than it had initially planned to deliver that growth. Looking ahead to 2016, Concho has set preliminary guidance of flat production y/y with $1.4 billion in spending ($1.2 billion in D&C capex). Given our slightly more bullish oil price outlook and Concho's ability to scale based on pricing, we calculate capex to trend slightly higher than guided in 2H16. We also calculate ~5% production growth y/y, with potential upside to our estimate.

Stellar balance sheet and ample dry powder provide flexibility. In today's oil and gas price environment, healthy balance sheets are of utmost importance to weather weak pricing and have the flexibility to take advantage of the short window to acquire high-quality acreage at depressed prices. Concho currently boasts a solid balance sheet with year-end net debt/EBITDA of 1.7x. In addition, recall that Concho completed a $794 million equity offering, mainly to fund potential acquisitions, providing ~$500 million of dry powder (ex borrowing capacity).

Solid positioning to execute its proven "acquire and exploit" model. To date, Concho has acquired ~25,000 net bolt-on acres throughout the Delaware Basin, Midland Basin, and New Mexico Shelf with ~1,500 Boe/d of production. Management plans to continue making opportunistic acquisitions in 2016. Concho has a history of successfully executing this model as the company will look to acquire high-quality acreage with underperforming or capital-starved assets controlled by privates or other public operators and then implement best-in-class expertise to recognize additional resource upside.

Valuation: Our $146 target price is based on our total company net asset value (NAV) analysis, which assumes a long-term commodity forecast of $70/bbl for WTI and $2.75/MMbtu for Henry Hub. Please refer to our December 1 comment for our NAV analysis.

— *John Freeman, CFA*

Halliburton (HAL:NYSE)

12-Month Target Price **$48.00**
Current Price (12/03/2015) **$38.01**
Suitability .... **High Risk/Growth**

FY (Dec)	2014A	2015E	2016E
Non-GAAP EPS	$4.02	$1.49	$0.65
P/E	9.5x	25.5x	58.5x
GAAP EPS	$4.11	$(0.51)	$0.65
Revenue (mil.)	$32,870	$23,581	$19,084

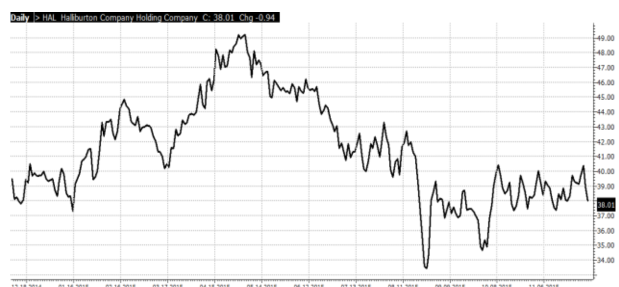
Non-GAAP EPS excludes non-recurring items.

Hist. 12-month Price Range .... $50.20 - $30.93
Dividend/Yield $0.72/1.9%
Market Capitalization (mil.) $32,499
Shares Outstanding (mil.) 855.0
Book Value (09/15) $18.07
ROE (TTM) 2%
LT Debt (mil.) $7,243/32%

Halliburton, founded in 1919 and based in Houston, Texas, is one of the world's largest providers of products and services to the energy industry. With over 50,000 employees in approximately 70 countries, the company serves the upstream oil and gas industry throughout the life cycle of the reservoir – from locating hydrocarbons and managing geological data to drilling and formation evaluation, well construction and completion, and optimizing production through the life of the field.

Leverage to Right Business Lines for Recovery Combined with Positive Merger Outlook

Halliburton is our favorite large-cap oilfield service name given 1) its leverage to an expected 2016 U.S. oilfield recovery, 2) a solid balance sheet, and 3) our positive outlook on the pending Baker Hughes (BHI/$52.62/Strong Buy) acquisition – expected to close in 1Q16. The combined company will be heavily weighted toward the U.S. onshore market, particularly in pressure pumping, which we expect to lead a U.S.-centric oilfield recovery. The pending merger should also provide ample cost reduction efficiencies as Baker Hughes' operations are integrated into Halliburton's best-in-class supply chain. Furthermore, internationally, the merger combines Baker Hughes' drilling portfolio with Halliburton's completions-focused assets to improve the company's offerings.



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Well-Positioned Business to Benefit from a North American Land Recovery
The combined Halliburton and Baker Hughes business is oriented toward the right businesses to benefit in the coming U.S. oilfield recovery. The combined company should have 56% of 2017E revenue produced from North America. In this market, Halliburton has gained substantial market share in the downturn. This is particularly true for pressure pumping, in which Halliburton already holds a leading market position and has continued to upgrade its fleet throughout the downturn. With this strong market presence, particularly for completions, Halliburton and Baker Hughes stand to benefit from our expected strong 2017 rig count recovery. In fact, we anticipate 2017 North American revenues to increase 75% y/y for the combined entity. Outside of North America, Halliburton/Baker Hughes combinations should post share gains into a modestly deteriorating oilfield environment. Halliburton has limited offshore and deepwater exposure compared with other diversified companies, providing more relative U.S. land leverage compared with more offshore-oriented peers. With this backdrop, we believe Halliburton is well-positioned to benefit from the coming U.S. land recovery.

Baker Hughes to Improve Business Performance
Baker Hughes is already well-positioned within the industry to benefit from the recovery, and we believe it will improve performance with the coming merger. At the forefront of the merger is the potential for cost reductions. Roughly 700 bp of long-term margin improvement potential exists in North America as Baker Hughes' operations are integrated into Halliburton's best-in-class supply chain. In addition, the company likely benefits from international and corporate fixed cost reductions. From these cost reductions, Halliburton believes it can generate over $2 billion in synergies. Costs are not the only benefit of the merger, as the combination unites the best of the two companies' product offerings – coupling Halliburton's leading completions segment with Baker Hughes' drilling portfolio. This will help Halliburton fight for market share within the industry, particularly for integrated projects.

Valuation Supports Strong Upside
Halliburton trades at ~8x our 2017 EBITDA estimate. Our target price of $48 is based on a 9.5x multiple to our 2017 EBITDA estimate, within the 10-year diversified peer group average range of 6-11x.

— *J. Marshall Adkins*

Lazard Ltd (LAZ:NYSE)

12-Month Target Price **$60.00**
Current Price (12/03/2015) **$45.09**
Suitability .... **High Risk/Growth**

Hist. 12-month Price Range .... $59.82 - $41.26
Dividend/Yield $1.40/3.1%
Market Capitalization (mil.) $5,659
Shares Outstanding (mil.) 125.5
Book Value (09/15) $9.10
ROE (TTM) 66%
LT Debt (mil.) $998/45%

FY (Dec)	2014A	2015E	2016E
Non-GAAP EPS	$3.20	$3.73	$3.80
P/E	14.1x	12.1x	11.9x
GAAP EPS	$3.19	$7.03	$3.80
Revenue (mil.)	$2,340	$2,407	$2,618

Non-GAAP EPS assumes full conversion of LAZ-MD membership interests and excludes non-recurring items.

Lazard Ltd, a Bermuda-based holding company, indirectly holds all outstanding Lazard Group common membership interests. Lazard Group and its subsidiaries provides advice on mergers and acquisitions, strategic matters, restructuring and capital structure, capital raising and corporate finance, as well as asset management services to corporations, partnerships, institutions, governments, and individuals. Lazard was founded in New Orleans in 1848 and has principal offices in New York City, Paris, and London.

An Enduring Capital Markets Franchise at an Attractive Valuation

With a premier financial advisory franchise and well-positioned asset management business, Lazard boasts a relatively unique business model that has been successful at winning market share and growing revenue and earnings. Despite robust growth over the last several years, we still believe there is material upside left for Lazard, which we do not see reflected in the company's valuation.

Still More Upside for Advisory Business

Robust U.S. acquisition activity, driven by low interest rates and modest organic growth prospects, has led to the strongest environment for global M&A in several years thus far in 2015. That said, Lazard historically performs very well in Europe, which has yet to see M&A activity meaningfully rebound, while financial buyers (i.e., private equity) have largely sat on the sidelines in recent years suggesting the outlook for M&A activity remains healthy. In addition, we highlight that Lazard continues to win its fair share of high-profile (and highly profitable) mandates, including Anheuser-Busch Inbev's proposed acquisition of SABMiller and Heinz's acquisition of Kraft Foods. Lazard's ability to offer unconflicted advice on a global scale should help the firm continue to gain share against bulge-bracket competitors as well as smaller boutique advisory firms.

Well-Positioned and Resilient Asset Management Business

In a world where ETFs and other passive investment vehicles continue to gain market share of U.S. equity assets, Lazard's global and emerging markets focus has allowed the business to enjoy positive net inflows for nine consecutive quarters as well as healthy and stable management fee rates (51-52 bp, on average). The downside of this mix is that with roughly a quarter of Lazard's assets under management (AUM) tied to emerging market equities, the recent relative underperformance of that asset class has generated headwinds for the business. Fortunately for Lazard, however, its largely institutional client mix has remained sticky and we expect those clients to re-allocate back into emerging markets equities in the coming quarters.

Compelling Valuation

Lazard currently trades at a discount to boutique M&A advisors and asset managers, despite growth and margins that stack up favorably compared to competitors, but we do not foresee this discount lasting indefinitely. Our $60 target price reflects a blended average of a DCF analysis and a P/E-derived fair value estimate. Our 14x target P/E multiple compares to Lazard's five-year average forward P/E multiple of 16.4x, which reflects where we are in the M&A cycle and relates to peer multiples. We see an upside of $71 in the bull case, offering 65% upside to Lazard's current share price, with a downside bear case of $36 (16% downside). Please refer to our November 24 comment for our analysis.

— *Patrick O'Shaughnessy, CFA*

Microsoft (MSFT:NASDAQ)

12-Month Target Price	**$62.00**
Current Price (12/03/2015)	**$54.20**
Suitability	**Medium Risk/Growth**

FY (Jun)	2015A	2016E	2017E
GAAP EPS	$1.48	$1.99	$2.45
P/E	36.6x	27.2x	22.1x
Non-GAAP EPS	$2.63	$2.62	$2.88
Revenue (mil.)	$93,580	$84,984	$92,306

Hist. 12-month Price Range	$55.96 - $39.72
Dividend/Yield	$1.44/2.7%
Market Capitalization (mil.)	$435,063
Shares Outstanding (mil.)	8,027.0
Book Value (09/15)	$9.98
ROE (TTM)	14%
LT Debt (mil.)	$27,808/26%

Microsoft, headquartered in Redmond, Washington, is the world's largest software company with $94 billion in FY15 revenue and known for its operating system "Windows" and its office productivity software "Office." It also serves adjacent markets including server operating systems, enterprise applications, video game consoles, and cloud computing with its Microsoft Azure and Office 365 product lines. Microsoft was founded in 1975 by Bill Gates and Paul Allen.

Long-Term Winner in IT Spending Shift to Cloud

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Where only recently Microsoft looked like the legacy PC software vendor that had "missed mobile", we now see Microsoft as one of the only "hyperscale" hybrid cloud vendors able to integrate Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS), and Software-as-a-Service (SaaS) with a vast installed base of on-premise server and client software. With Microsoft several years into the transition to cloud (17% of revenue FY16E), we forecast a 6% total revenue CAGR FY16E-FY18E, including 6% Productivity and Business Process (Office/Dynamics), 9% Intelligent Cloud (Azure/Server), and 3% More Personal Computing (Windows -5%, non-Windows +6%), all off what we think are now reasonably lowered estimates for FY16E. With operating expense controls offsetting three points of gross margin decline through FY18E on the shift to cloud, we forecast 1) flat operating margins, 2) 6% EBIT growth, and 3) long-term EPS growth boosted to at least 8% after share buybacks – about in line with the S&P.

Azure: One of the Hyperscale Elite

With Azure, Microsoft will likely emerge as one of a small group of "hyperscale" cloud vendors including Amazon Web Services and Google, and Oracle in PaaS. We forecast Intelligent Cloud revenue of $25,003 million (+6%) in FY16E and a 9% FY16E-FY18E CAGR with on-premise server up 3%, and Azure up 65% to 17% of Intelligent Cloud revenue by FY18. We believe CEO Satya Nadella's aggressively open strategy toward non-Microsoft platforms (Linux, containers) will make Azure a dominant PaaS, as well as IaaS.

Office/365: Not Going Away

Rather than yielding to Google Apps, Office has been stable and appears to be accelerating several years into the transition to cloud. We believe Office/365 is offering sufficient pricing and cross-platform value to maintain consumer loyalty. Commercial value continues to build with integrations including unified communications and analytics (Power BI). Productivity and Business Process (PBP) was flat constant currency last year and rose 4% constant currency in F1Q. We forecast PBP revenue of $26,433 million in FY17 (0% reported, 6% constant currency) and a 6% CAGR FY16E-FY18E.

Windows/PC Risk "Bracketed"

Windows remains exposed to PC weakness and to what we see as the declining monetization of the operating system long term, as value moves up the cloud technology stack away from infrastructure toward applications. That said, the most exposed portion of Windows – consumer – we estimate at just 4% of FY16E revenue and commercial at just 12%. We forecast FY16E More Personal Computing revenue of $40,246 million down 4% constant currency, but 3% FY16E-FY18E, with Windows down 5% and non-Windows (Surface, Bing, Xbox) up 6%.

$62 Target Price

Given our forecast for 10% EPS growth for MSFT in FY17 and FY18, just above the S&P's historical 8% rate, our $62 target is based on the S&P's 19x P/FCF multiple applied to our FY17E FCF of $26,234 million – an 18% total return including MSFT's 2.7% dividend yield.

— *Michael Turits, Ph.D.*

Mohawk Industries (MHK:NYSE)

12-Month Target Price	**$240.00**
Current Price (12/03/2015)	**$184.14**
Suitability	**High Risk/Growth**

FY (Dec)	2014A	2015E	2016E
Non-GAAP EPS	$8.15	$10.18	$12.10
P/E	22.6x	18.1x	15.2x
GAAP EPS	$7.25	$8.53	$12.10
Revenue (mil.)	$7,803	$8,042	$8,651

Non-GAAP EPS exclude one-time items.

Hist. 12-month Price Range	$212.16 - $143.22
Dividend/Yield	$0.00/0.0%
Market Capitalization (mil.)	$13,700
Shares Outstanding (mil.)	74.4
Book Value (10/15)	$64.19
ROE (TTM)	19%
LT Debt (mil.)	$3,191/40%

Mohawk Industries, headquartered in Calhoun, Georgia, is the second-largest producer of carpets and rugs and the world's largest flooring manufacturer. Mohawk offers a broad line of carpet under the Mohawk, Aladdin, and Karastan brands. Ceramic tile brands include Dal-Tile and Marazzi. Laminate brands include Unilin and Pergo.

A Well-Run U.S. Housing Play with an Oil "Kicker"

Mohawk Industries, the largest floor covering producer in the U.S. and Europe, is an attractive and well-run entrepreneurial business that benefits from a favorable U.S. housing backdrop as well as the opportunity to leverage recent and prospective acquisitions. In addition, given its large exposure to oil-related input costs and the industry's largely oligopolistic competitive structure, there also exists "optionality" for considerable margin expansion should volume demand improve, leading to selling price maintenance. Further, as of this writing the forward P/E is less than that of the S&P 500 for only the second time since the housing bust in early 2009.

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Mohawk's 20+% earnings growth in 2015 has been driven by a range of factors which we believe will continue into 2016.

Improving U.S. housing activity suggests stronger demand for Mohawk's products. The North American market represents about 70% of Mohawk's total sales. In 2015, double-digit growth in housing starts (especially single-family) helped to drive demand for hard surface categories. Mohawk's *Global Ceramic* segment (North America comprises 70-80% of this segment's sales) was the fastest-growing segment in 2015 on an organic basis. Single-family starts are expected to post double-digit y/y growth again in 2016. On the remodeling side, turnover of existing homes typically drives residential carpet demand. This was not the case in 2015, but rising home prices and continued strength in existing home sales suggest increasing homeowner confidence heading into 2016. Mohawk's newly acquired luxury vinyl tile (LVT) operations also provide an advantageous position in what has become one of the fastest growing flooring categories.

We expect Mohawk will also continue to benefit from lower oil prices in 2016. Most of the raw materials which go into carpet fibers and backing are oil derivatives of some kind and lag, suggesting lower costs for Mohawk. We forecast $0.65-0.70 of EPS benefits from lower input costs in 2015 in *Flooring North America* (the segment which includes carpet). Oil benefits were not fully flowing through the P&L until 3Q15, and hence we expect further benefit in 2016. Lower fuel prices also benefit all segments via lower transportation costs. To date, much of these benefits have been offset by price/mix pressures, which should abate in 2016 assuming demand trends improve as recent housing activity would indicate.

Mohawk has also executed well on recent M&A and has considerable "dry powder" for further accretive deals in 2016 and beyond. The acquisitions of Kai and IVC in 2015 appear likely to be accretive to 2015 EPS by ~$0.70 (with further integration benefits to come in the early part of 2016). In addition, Mohawk has roughly $1 billion annually in available liquidity for additional M&A over each of the next few years. Accretion from prospective deals is not included in our estimates, representing a source of potential upside.

Mohawk is trading below a forward market multiple for only the second time since the housing downturn. Our $240 target price represents 19x our forward EPS estimate one year hence of $12.65 (1.1x the market vs. a 1.2x 10-year median).

— *Sam Darkatsh*

Northern Trust Corporation (NTRS:NASDAQ)

12-Month Target Price **$90.00**
Current Price (12/03/2015) **$72.77**
Suitability .... **Medium Risk/Growth**

FY (Dec)	2014A	2015E	2016E
Non-GAAP EPS	$3.40	$3.80	$4.20
P/E	21.4x	19.2x	17.3x
GAAP EPS	$3.32	$3.89	$4.20
Revenue (mil.)	$4,365	$4,642	$4,925

Non-GAAP EPS exclude non-core and one-time items.

Hist. 12-month Price Range .... $79.25 - $61.10
Dividend/Yield $1.44/2.0%
Market Capitalization (mil.) $16,824
Shares Outstanding (mil.) 231.2
Book Value (09/15) $36.30
Tangible Book Value (09/15) $33.77
ROE (TTM) 11%

Northern Trust Corporation is a leading provider to investment management, asset and fund administration, banking solutions, and fiduciary services to institutions globally and to affluent individuals in the United States. The company is headquartered in Chicago, Illinois and has offices in 18 U.S. states and 16 international locations.

Custody Bank with Strong Growth Opportunities

Attractive model. Northern Trust operates in two highly attractive and growing businesses: global custody and wealth management. Favorable global secular trends [modernization of global pension plans, increasing cross-border investing, growth in alternative investing, rising compliance demands, and favorable demographics (aging population and wealth creation)] will drive attractive revenue growth opportunities for both businesses. Of the custody banks – including State Street (STT) and BNY Mellon (BK) – we believe Northern Trust can produce the strongest top-line growth given its smaller size, attractive competitive positioning, and personal wealth management leadership.

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Benefits from aging world population. The aging global population supports our view of new outsourcing opportunities for Northern Trust as baby boomers seek to aggressively save for retirement, thereby driving an increase in the aggregate level of savings and investments. As a result, we believe governments worldwide are becoming increasingly pressured to create pension schemes capable of providing for the greater proportion of retirees. Throughout the developed world, populations are aging at an accelerated rate due to an increase in life expectancy (driven by continued health care improvements), combined with the decline in birth/fertility rates over the past 60 years. According to the United Nations' Population Division, those 65 and older as a percentage of the aggregate population in developed countries are expected to reach roughly 27% by 2065, up from approximately 18% today.

Expense management should continue to improve. Northern Trust has recently focused on expenses-to-trust fees, with a goal of further reducing this ratio. In 3Q, expenses totaled 108% of trust fees, down from 129% in 2011. We believe it can reach 100% in 2017.

Leveraged to rising rates. While not the primary growth driver for Northern Trust, a higher rate environment will drive a wider net interest margin (NIM) due to higher asset yields (primarily securities), runoff of excess deposits (removing the tight spread earned on excess deposits at the Federal Reserve), and a higher concentration of noninterest bearing deposits. In addition, the low rate environment is causing Northern Trust to waive management fees on money market funds, which should begin to be re-captured on the first rate hike. We calculate that Northern Trust has ~19% upside to EPS when rates rise by 200 bp, with much of the benefit to be realized in the first 100 bp increase. Finally, securities lending revenue will also benefit from higher rates due to its correlation to rate spreads, particularly the three-month LIBOR to Fed Funds rate spread which tends to widen as rates rise.

Attractively priced relative to prior periods. NTRS shares trade at 17.3x our 2016 EPS estimate, a 9% premium to the S&P 500 (15.9x), compared to an average premium of 16% over the last five years. We believe NTRS shares deserve a premium given its strong growth profile, conservative balance sheet, strong profitability, and scarcity value. Our 12-month price target of $90 is based on a higher premium to the S&P 500 of 15%, or 18.5x our 2017 EPS estimate of $4.85.

— *David J. Long, CFA*

Regal Entertainment Group (RGC:NYSE)

12-Month Target Price **$25.00**
Current Price (12/03/2015) **$18.18**
Suitability .... **Medium Risk/Income**

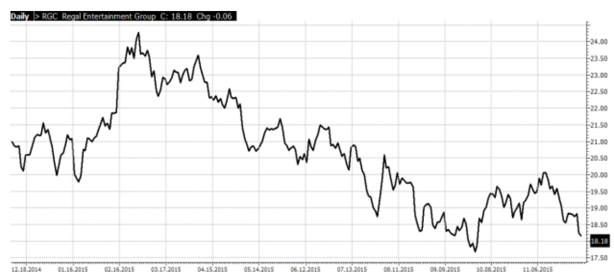
FY (Dec)	2014A	2015E	2016E
GAAP EPS	$0.68	$1.04	$1.20
P/E	26.7x	17.5x	15.2x
Revenue (mil.)	$2,990	$3,152	$3,272

Hist. 12-month Price Range .... $24.52 - $17.48
Dividend/Yield $0.88/4.8%
Market Capitalization (mil.) $2,843
Shares Outstanding (mil.) 156.4
Book Value (09/15).. NM
ROE (TTM) .... NM

Regal Entertainment Group, headquartered in Knoxville, Tennessee, is the largest motion picture exhibitor in the U.S. with 6,605 screens across 528 theaters in 38 states. The company operates its theaters under three distinct brand names: Regal Cinemas, United Artists Theatre Circuit, and Edwards Theatres.

Industry Trends Likely to Remain Healthy; Strong FCF/Consolidation Story

We believe that Regal remains well-positioned to capitalize on current trends within the theatrical industry. While the 2015 industry box office has been solid, we believe that reasonable comparisons offer the potential for 2016 to hold up well against a record box office year. Furthermore, we are attracted to the opportunity for accretive M&A, as well as Regal's ongoing focus of returning capital to shareholders.



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Box Office May Prove Resilient Against Record 2015

The 2015 box office has grown 4% YTD following healthy industry trends this past summer, as well as easy comparisons following a 5.2% decline in 2014. The 2013 box office produced record results, with total domestic proceeds of $10.9 billion. Looking out to the remainder of 2015, the industry looks poised to set another box office record, aided by the December 18 release of *Star Wars: The Force Awakens*. As we enter 2016, *Star Wars: The Force Awakens* should continue to play well during 1Q, with other titles including *Kung Fu Panda 3* and *Batman vs. Superman* offering the potential to compare favorably vs. 1H15. In addition to the potential for solid revenue trends, Regal should also benefit from continued cost controls, as well as strong operating leverage that comes with higher attendance levels. While film rent and concession costs are variable in nature, a meaningful portion of Regal's costs are fixed (e.g. theater rent expense, some theater level payroll), which should lead to solid incremental margins in times of growing attendance.

Valuation

Shares of Regal are currently trading at 7.6x our 2016 EBITDA estimate of $630 million. Our $25 target price is based on roughly 9x our 2016 EBITDA estimate and is slightly above its 10-year median multiple of 8x. We believe that recent box office optimism, as well as the potential for accretive M&A, should justify a multiple at the higher end of historic ranges.

— *Joseph D. Hovorka*

Tractor Supply Co. (TSCO:NASDAQ)

12-Month Target Price **$110.00**
Current Price (12/03/2015) **$85.66**
Suitability ....**Medium Risk/Growth**

FY (Dec)	2014A	2015E	2016E
GAAP EPS	$2.66	$3.10	$3.61
P/E	32.2x	27.6x	23.7x
Revenue (mil.)	$5,712	$6,321	$7,100

Hist. 12-month Price Range .... $96.28 - $74.52
Dividend/Yield $0.80/0.9%
Market Capitalization (mil.) $12,138
Shares Outstanding (mil.) 141.7
Book Value (09/15)... $9.78
ROE (TTM) 32%
LT Debt (mil.) $1/0%

Tractor Supply Co., based in Brentwood, Tennessee, is the largest operator of retail farm and ranch stores in the United States. The company operates retail stores under the names Tractor Supply Company and Del's Farm Supply and operates a website under the name TractorSupply.com. Stores are typically located in towns outlying major metropolitan markets and in rural communities. Tractor Supply stores typically range in size from 15,500 square feet to 18,500 square feet of inside selling space and additional outside selling space. As of March 31, 2015, the company owned and operated 1,422 locations.

Leading Growth Company in Hardline Retail

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Tractor Supply is one of the premier top-line growth stories in hardline retail, driven by 8.0% sq. ft. growth, expanding market share, and consistent comp sales growth which could lead to 10+% annual revenue gains. Further, EBIT% can increase, despite reaching lifetime highs, from the combination of the GM% expansion cycle and the potential to further leverage expenses from 3-5% comp sales gains.

Industry-leading comp sales gain. Same-store sales growth for Tractor Supply has ranged 4-8% during the past four years and we anticipate future comp sales running at 3-5%. Importantly, Tractor Supply's comp sales performance tends to be more consistent compared to most other retailers given its customer demand is primarily "needs-driven" – not discretionary. This is particularly true in the animal category, which represents ~45% of total revenues, as well as hardware/tools/truck, which accounts for 22% of sales.

Strong GM% expansion cycle. Over the past decade Tractor Supply's GM% has increased ~400 bp. The combination of robust comp sales gains and expanding GM% led to gross profit comps growing 4.7% in 3Q15 on top of a 4.7% gain in 3Q14 – the second strongest performance in hardline retail behind only O'Reilly (ORLY). This exemplifies that the quality of Tractor Supply's comp sales gains is especially strong. Drivers supporting the expansion of GM% include: 1) growth of exclusive brands (currently 30% of revenues), 2) pricing optimization, 3) improved sourcing, and 4) better execution of transitioning from season to season.

Expanding operating margin rate. Operating margin has steadily improved from 4.5% in 2008 to an estimated 10.7% rate for 2015. We estimate that EBIT% for Tractor Supply can reach 11.5% within the next few years as the company continues to deliver on initiatives to improve the gross margin rate, as well as leverage operating expenses with its robust same-store sales growth.

Improving capital efficiency. Tractor Supply's capital efficiency also ranks among the highest in hardline retail and is a key driver for the valuation of its stock price. ROIC has improved to a trailing-four-quarter rate of 16.9% in 3Q15 from 9.4% in 2008, driven by the combination of rising EBIT% and faster capital turnover.

Square footage growth ranks among the fastest in hardline retail. Tractor Supply plans to reach 1,800 stores in 2018 compared to ~1,500 by the end of 2015 today – reflecting a CAGR of 6.3%. The rapid square footage growth is achievable through means of vesting into new markets (Southwest and Northwest regions), broadening consumer appeal, and increasing attribution rates.

Returning capital to shareholders. First, Tractor Supply's dividend/share is growing 25% y/y to an annual rate of $0.80. Second, the company continues its buyback reprogram – we are projecting annual shares outstanding to decline 1.5% through 2017.

Our target price of $110 anticipates TSCO's P/E multiple to be fairly valued at 30.5x our 2016 EPS estimate of $3.61, which is a slight premium with TSCO's current valuation of ~29.5x on our 2015 EPS estimate of $3.10. We believe Tractor Supply's premium valuation is justified, given its consistent comp sales growth, 8% square footage growth, compelling ROIC and gross profit comps, and EPS growth being one of the fastest in hardline retail.

— *Dan Wewer, CFA*

Zayo Group Holdings, Inc. (ZAYO:NYSE)

12-Month Target Price **$34.00**
Current Price (12/03/2015) **$23.98**
Suitability .... **High Risk/Growth**

FY (Jun)	2015A	2016E	2017E
FCF/Share	$0.29	$0.68	$0.89
P/E	82.7x	35.3x	26.9x
GAAP EPS	$(0.68)	$(0.09)	$0.16
Revenue (mil.)	$1,347	$1,512	$1,636

Hist. 12-month Price Range....................................... $32.18 - $21.89
Dividend/Yield...$0.00/0.0%
Market Capitalization (mil.).. $5,827
Shares Outstanding (mil.).. 243.0
Book Value (09/15) $4.98
ROE (TTM) .... NM
LT Debt (mil.)..$3,681/75%

Headquartered in Boulder, Colorado, Zayo Group Holdings, Inc. is a competitive telecom carrier offering fiber-based network infrastructure to other carriers and enterprises in the U.S. and Europe. Zayo operates a U.S. and European network that has over 81,000 route miles and extends through 319 geographic markets. The company provides infrastructure that enables the efficient transport of data communications that facilitate a variety of Internet, media, telecommunications, web, and cloud-based applications.

Zapping Data Zings Up the Growth

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We believe Zayo benefits the most broadly from increased adoption and deployment of high bandwidth-intensive applications over fixed and mobile networks alike. Demand for bandwidth is strong, in our view, judging from results from data centers, systems integrators, and cloud providers, which should be positive for Zayo's overall business. With one of the largest competitive fiber networks in the U.S., we believe Zayo is well-positioned to gain share in this new high bandwidth infrastructure market. The company targets roughly 500 customers globally that have demand for significant bandwidth delivered over high-capacity fiber networks. The company's goal is to offer high-quality, high-capacity circuits to bandwidth-hungry organizations, playing off of the growing demand into and out of data centers, wireless networks, and other bandwidth-intensive applications. Thus we believe the fundamental reason to own Zayo is because it benefits from bandwidth demand from data proliferation, trends we see continuing to have secular demand and above-average growth. In addition, shares traded down into the end of 2015 following significant shareholder lock-ups expiring and shares being distributed in 4Q, despite continued fundamental outperformance. We believe this selling pressure will abate in the very short term and remaining holders will be disciplined regarding organized offerings over a longer period of time, nicely setting the stock up for improved valuation in the calendar year ahead as fundamental evaluation begins to outweigh the distribution pressure of 2H15.

Industry Consolidator

While we are not modeling for any additional M&A, we believe Zayo will remain active in looking for opportunities in the U.S. and Europe. We believe there remain several inorganic opportunities with $25+ million of EBITDA each, and even more targets with less than $25 million of EBITDA that would be attractive at the right price. We view Zayo's management team and vast existing network as competitive advantages allowing it to pay higher multiples for these targets.

Specifically on the macro demand, we believe that demand for data services will continue to increase as demand for highly bandwidth-intensive applications grows. Applications such as cloud computing, video transport, mobility, and gaming are expected to increase the need for high capacity networks as these applications traverse wireless and wireline networks. Market research including reports from Gartner, Cisco, and Sandvine discuss fixed access traffic growth of ~30% y/y in 2014, largely the result of online video. North America IP traffic is expected to continue to grow at a 20% CAGR through 2019, with mobile and video the two fastest growing pieces. In addition, the number of connected devices is expected to increase by ~90% between 2013 and 2018, or at a 13.5% CAGR in North America, which is also driving the traffic growth. All of these data points support the thesis that demand for Internet traffic remains very strong and is likely to continue to drive demand for fiber-based networks over the next several years.

Shares of ZAYO currently trade at ~10x our CY16 EBITDA estimate of $917 million, a slight discount to the group's trailing 1-2 year multiple of ~11x. We believe ZAYO should trade at a premium to this group due to its higher growth boosted by M&A plus a better margin and FCF profile. Our $34 price target is based on ~12.5x CY16 EBITDA, a premium to the CLEC group and closer to data centers and towers with a similar growth profile. This also represents ~15x our CY16E adjusted FCF/share of $2.28, a slight discount to the group at 17x.

— *Frank G. Louthan IV*

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Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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Outperform (MO2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.
Market Perform (MP3) Expected to perform in line with the underlying country index.
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Market Perform (Hold)	38%	31%	43%	40%	7%	15%	0%	0%
Underperform (Sell)	5%	1%	0%	18%	6%	50%	0%	0%

* Columns may not add to 100% due to rounding.

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