

THE FPDA MOTION & CONTROL NETWORK

Fluid Power Survey Results July 2014



CLEVELAND
RESEARCH COMPANY

Highlights



Background:

- The June survey had 42 respondents comprised of 30 distributors and 12 manufacturing firms.

Summary Thoughts:

- Our survey indicates sales were modestly better in June and we continue to see steadily improving underlying demand led by accelerating oil & gas activity. Sources in our survey continue to forecast 5-6% growth in 2014 implying ~7% growth in the 2H.

Highlights:

- The June FPDA Index produced a reading of 59.0 improving from May's reading of 56.7. The broader ISM was relatively unchanged at 55.3 slightly lower than 55.4 in May.
- Our fluid power survey indicates sales improved in June growing 6%, slightly better than trends in April/May as 2Q finished up 5%, accelerating from 3% growth in 1Q.
- Sources continue to forecast 5-6% growth for 2014 implying ~7% growth in the 2nd half of the calendar year.

June FPDA Index

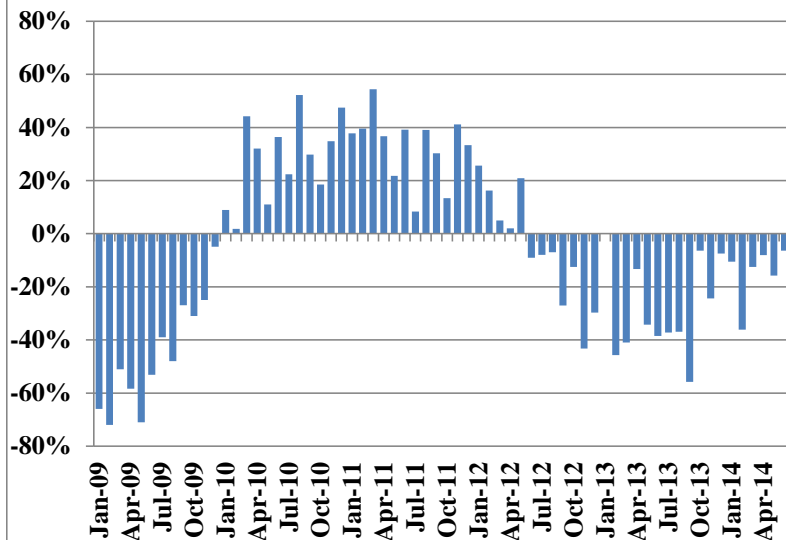
- The June FPDA Index produced a reading of 59.0 improving from May's reading of 56.7. The broader ISM was relatively unchanged at 55.3 slightly lower than 55.4 in May.
- The FPDA Index is similar in construction to the widely followed ISM Purchasing Manager's Index. These are both seasonally adjusted diffusion indexes which measure the month-to-month change in each of the categories listed below. A reading of 50 indicates no change and the further above or below 50 indicates a faster or slower rate of change.

Fluid Power Index																					
																			Rate of	Trend	
Index	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Direction	Change	(months)
Sales	83.2	38.9	68.1	66.6	43.1	35.5	55.0	60.9	38.2	77.3	33.0	59.6	70.8	56.4	57.8	63.9	48.5	59.4	Growing	Faster	1
Prices	66.5	58.6	52.6	54.9	52.4	54.6	66.1	57.2	58.2	61.6	65.9	63.9	79.8	60.4	57.6	55.7	57.3	58.4	Growing	Faster	49
Orders	74.8	32.0	47.9	71.4	37.9	34.2	57.9	56.1	44.1	71.3	37.0	55.0	77.7	50.6	59.4	56.0	54.0	56.3	Growing	Faster	7
Backlog	66.7	61.3	37.9	48.4	47.1	38.5	44.9	41.1	41.3	52.2	47.2	53.0	67.6	65.7	59.5	61.1	59.5	54.0	Growing	Slower	7
Outlook	52.9	51.6	43.3	46.7	62.1	38.5	43.8	47.7	42.7	52.2	50.0	62.9	63.5	56.6	57.5	52.8	50.0	55.0	Growing	Faster	9
Inventory	54.4	50.0	53.1	45.0	40.9	46.2	45.1	47.7	51.2	55.3	39.2	48.6	55.1	55.4	60.0	65.3	58.6	56.5	Growing	Slower	6
Supplier Deliveries	54.0	58.3	47.5	51.7	46.8	54.0	53.5	55.5	57.7	58.7	58.7	62.2	51.9	55.9	53.7	52.6	65.9	62.2	Growing	Slower	13
Employment	53.0	55.3	53.3	49.2	51.1	42.5	49.9	53.2	53.5	55.1	54.8	55.3	61.7	60.5	56.7	57.6	56.5	60.9	Growing	Faster	11
Accounts Receivable	45.6	40.3	46.7	46.6	50.0	41.0	45.0	43.0	46.5	45.5	47.2	45.6	39.7	46.1	47.5	40.5	47.2	45.2	Slowing	Faster	13
Overall FPDA Index	63.9	46.9	54.0	56.8	44.0	42.5	52.3	54.7	49.0	63.6	44.5	56.1	63.5	55.8	57.5	59.1	56.7	59.0	Growing	Slower	6
Memo: ISM PMI Index	53.1	54.2	54.2	50.7	49.0	50.9	55.4	55.7	56.2	56.4	57.3	57.0	51.3	53.2	53.7	54.9	55.4	55.3	Growing	Faster	10

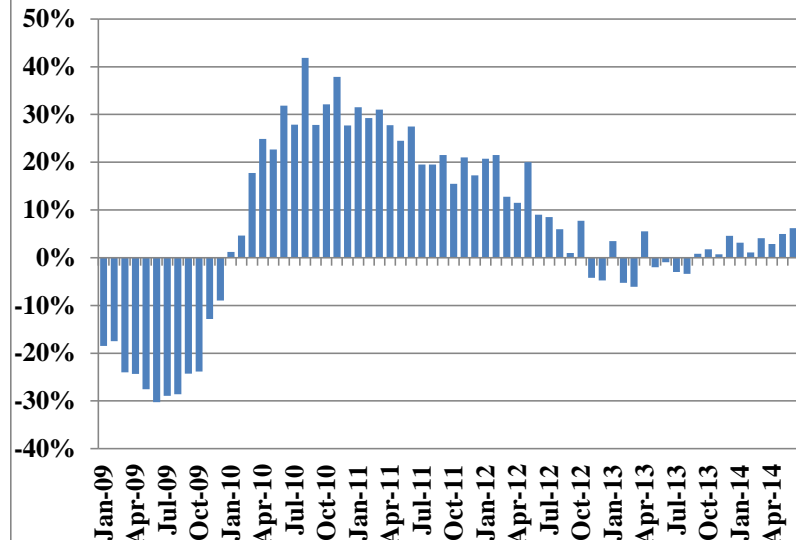
June Sales Improve Driven by Strong Oil & Gas Activity

Sales in our June fluid power survey were up 6%, slightly better than April/May trends as average sales in 2Q finished up 5%, improving from 3% growth in 1Q. June sales came closest to meeting expectations all year as net 6% of participants reported sales below expectations vs 16% in May. Sources continue to report steadily improving conditions calling out oil & gas as a major driver behind the improvement. We believe better oil & gas activity is helping to offset still sluggish trends among mobile OEM's with weakening ag equipment demand partially offsetting stronger growth for construction equipment domestically.

Fluid Power Survey - Sales vs. Expectations



Fluid Power Survey - Sales Growth (y/y % chg)



Monthly Sales Growth – June 2014

Total						
	2009	2010	2011	2012	2013	2014
January	-19%	1%	32%	21%	4%	3%
February	-18%	5%	29%	22%	-5%	1%
March	-24%	18%	31%	13%	-6%	4%
April	-24%	25%	28%	12%	6%	3%
May	-28%	23%	25%	20%	-2%	5%
June	-30%	32%	28%	9%	-1%	6%
July	-29%	28%	20%	9%	-3%	
August	-29%	42%	20%	6%	-3%	
September	-24%	28%	22%	1%	1%	
October	-24%	32%	17%	8%	2%	
November	-13%	38%	21%	-4%	1%	
December	-9%	28%	17%	-5%	5%	

Distributors						
	2009	2010	2011	2012	2013	2014
January	-16%	-6%	28%	26%	1%	3%
February	-17%	-2%	28%	24%	-6%	3%
March	-22%	12%	33%	16%	-5%	5%
April	-22%	17%	27%	10%	6%	1%
May	-27%	18%	31%	21%	-3%	4%
June	-29%	25%	27%	10%	-1%	7%
July	-29%	23%	23%	13%	-2%	
August	-28%	38%	25%	6%	-5%	
September	-24%	22%	29%	5%	1%	
October	-25%	22%	20%	13%	1%	
November	-14%	31%	28%	2%	2%	
December	-14%	21%	24%	4%	4%	

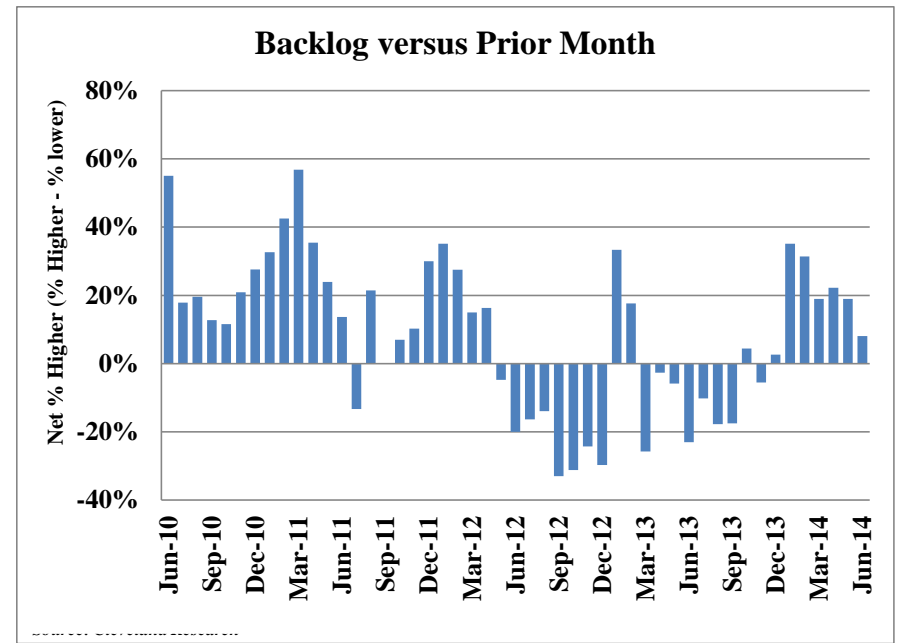
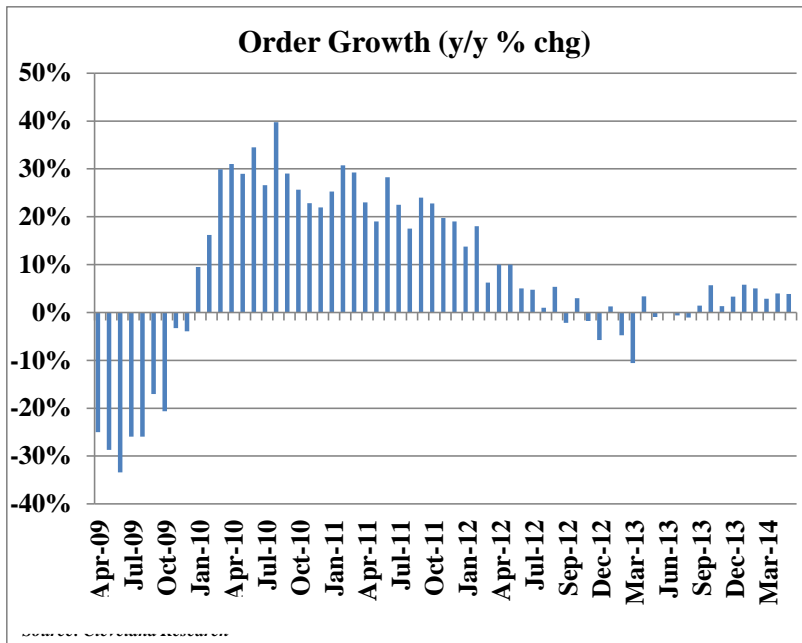
Manufacturers						
	2009	2010	2011	2012	2013	2014
January	-21%	9%	35%	17%	7%	3%
February	-18%	11%	31%	19%	-5%	-1%
March	-26%	24%	30%	10%	-7%	3%
April	-27%	32%	29%	13%	5%	4%
May	-28%	28%	18%	19%	-1%	6%
June	-32%	39%	28%	8%	0%	6%
July	-29%	33%	17%	5%	-4%	
August	-29%	46%	14%	6%	-2%	
September	-24%	34%	14%	-3%	1%	
October	-22%	42%	14%	3%	2%	
November	-12%	44%	15%	-10%	-1%	
December	-4%	28%	5%	-8%	5%	

Percent Positive / Negative Growth															
	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
Positive Sales Growth	71%	35%	42%	42%	43%	34%	47%	47%	54%	69%	59%	62%	59%	53%	67%
Flat Sales	11%	15%	11%	12%	11%	10%	19%	12%	16%	11%	14%	18%	16%	18%	14%
Negative Sales Growth	18%	50%	47%	46%	46%	56%	34%	41%	30%	20%	27%	21%	24%	29%	19%
Net % (Positive - Negative)	52%	-15%	-5%	-4%	-2%	-22%	13%	6%	24%	49%	32%	41%	35%	24%	48%

Results vs. Expectations															
	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
Better than expected	16%	11%	13%	12%	9%	12%	28%	11%	25%	18%	11%	25%	19%	21%	21%
In line with expectations	57%	45%	36%	39%	46%	21%	38%	54%	43%	53%	42%	38%	54%	42%	52%
Worse than expected	27%	45%	51%	49%	46%	67%	34%	35%	33%	29%	47%	38%	27%	37%	27%
Net % (Better - Worse)	-13%	-34%	-38%	-37%	-37%	-56%	-6%	-24%	-8%	-11%	-36%	-13%	-8%	-16%	-6%

Orders and Backlog Continue to Trend Positively

June orders were up 5%, increasing from 4% last month while backlog grew 3% inline with May trends.



Order and Backlog Growth Trends

Total						
	2009	2010	2011	2012	2013	2014
January		9%	25%	14%	1%	6%
February		16%	31%	18%	-5%	5%
March		30%	29%	6%	-11%	3%
April	-25%	31%	23%	10%	3%	4%
May	-29%	29%	19%	10%	-1%	4%
June	-33%	34%	28%	5%	0%	5%
July	-26%	27%	23%	5%	-1%	
August	-26%	40%	18%	5%	-1%	
September	-17%	29%	24%	-2%	1%	
October	-21%	26%	25%	3%	4%	
November	-3%	23%	20%	-2%	1%	
December	-4%	18%	18%	-6%	3%	

Distributors						
	2009	2010	2011	2012	2013	2014
January		1%	25%	13%	3%	6%
February		12%	31%	19%	-7%	4%
March		29%	30%	10%	-6%	4%
April	-25%	30%	29%	8%	5%	3%
May	-27%	28%	27%	5%	-2%	5%
June	-30%	28%	33%	1%	-2%	7%
July	-28%	20%	25%	8%	1%	
August	-26%	34%	29%	6%	-1%	
September	-20%	29%	30%	1%	3%	
October	-21%	25%	25%	-4%	4%	
November	-2%	28%	21%	-1%	-1%	
December	-10%	27%	21%	5%	5%	

Manufacturers						
	2009	2010	2011	2012	2013	2014
January		18%	25%	15%	-1%	5%
February		21%	31%	17%	-3%	6%
March		31%	29%	3%	-15%	2%
April	-25%	32%	18%	12%	2%	5%
May	-31%	30%	12%	15%	0%	3%
June	-37%	41%	24%	10%	2%	3%
July	-24%	34%	20%	2%	-2%	
August	-26%	46%	7%	5%	-1%	
September	-14%	29%	19%	-5%	0%	
October	-20%	26%	23%	10%	4%	
November	-4%	17%	19%	-3%	4%	
December	3%	17%	1%	-11%	1%	

Total						
	2009	2010	2011	2012	2013	2014
January			25%	22%	1%	1%
February			32%	18%	-2%	3%
March			40%	15%	-5%	2%
April			31%	16%	-6%	4%
May			25%	10%	-2%	3%
June	24%	29%	8%	-7%		3%
July	29%	25%	7%	-4%		
August	37%	17%	6%	-3%		
September	37%	24%	4%	-3%		
October	34%	22%	-1%	1%		
November	32%	26%	-3%	0%		
December	25%	19%	-3%	2%		

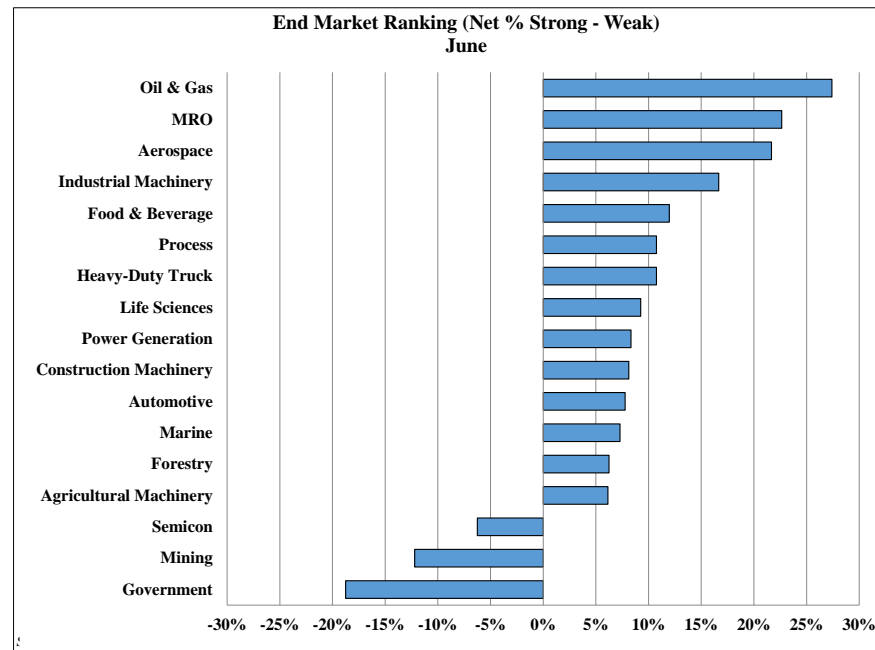
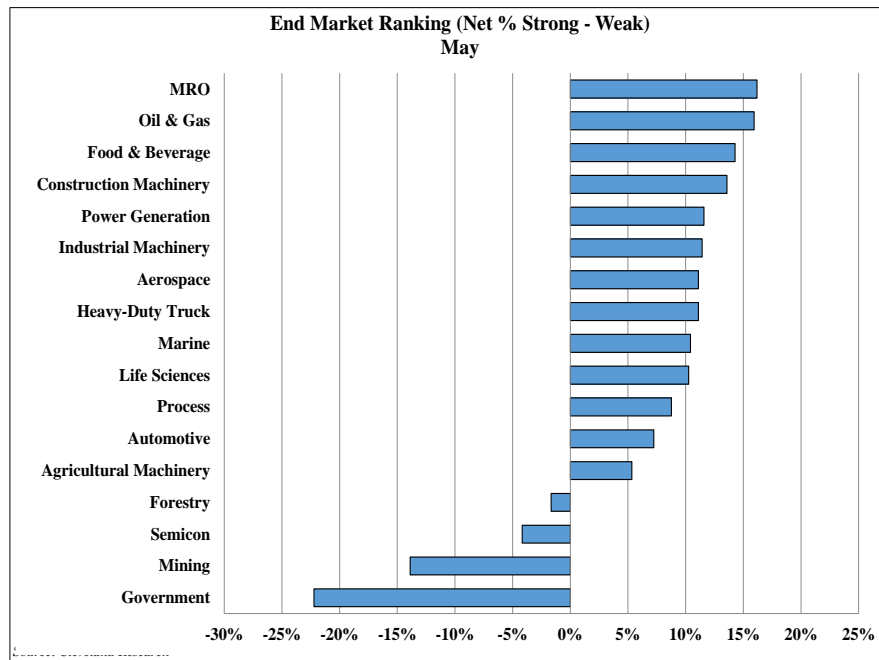
Distributors						
	2009	2010	2011	2012	2013	2014
January			22%	30%	0%	1%
February			35%	22%	-2%	2%
March			39%	24%	-2%	4%
April			36%	25%	-6%	4%
May			37%	11%	-3%	4%
June	29%	32%	11%	-6%		5%
July	24%	29%	12%	-5%		
August	29%	36%	7%	-5%		
September	37%	33%	9%	-6%		
October	24%	26%	-4%	1%		
November	23%	29%	-3%	-2%		
December	20%	27%	2%	2%		

Manufacturers						
	2009	2010	2011	2012	2013	2014
January			28%	13%	1%	1%
February			30%	13%	-1%	3%
March			41%	7%	-8%	1%
April			27%	7%	-6%	3%
May			14%	10%	0%	2%
June	20%	25%	6%	-7%		2%
July	34%	22%	3%	-3%		
August	45%	-1%	6%	-1%		
September	37%	16%	-1%	1%		
October	45%	19%	3%	0%		
November	41%	23%	-4%	1%		
December	30%	1%	-6%	1%		

Oil & Gas Activity Accelerates

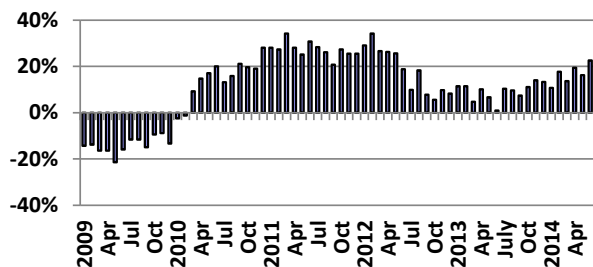
End Market Highlights – Oil & Gas Drives Market Growth

From an end market perspective, 14 out of 17 markets ranked in positive territory improving from 13 in May as oil & gas and aerospace accelerated the most sequentially while construction equipment, marine and power generation weakened the most vs last month. Oil & gas and MRO were the top ranked end markets in June while government and mining remain the weakest. Improving oil & gas activity is consistent with the reported acceleration over the last several months and sources expect it to remain strong through the remainder of 2014.

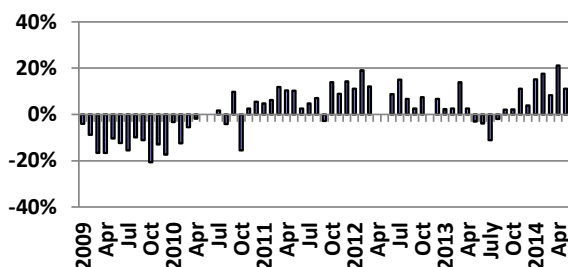


End Market Trends

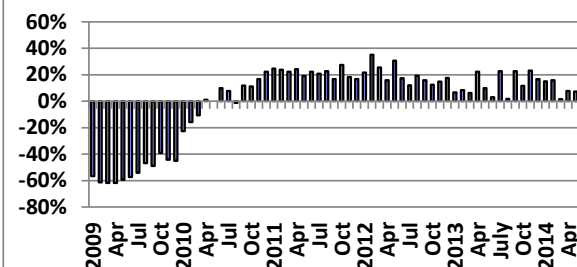
Maintenance, Repair and Operations (MRO)



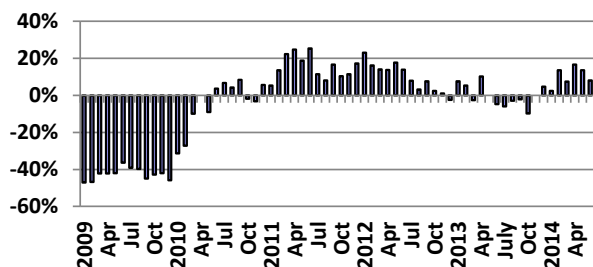
Aerospace



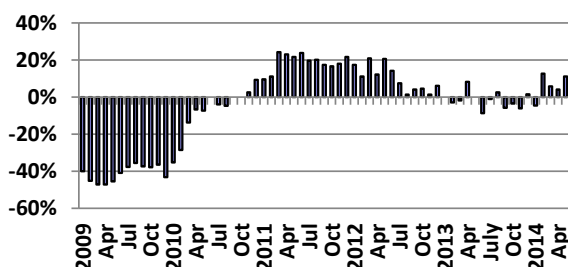
Automotive



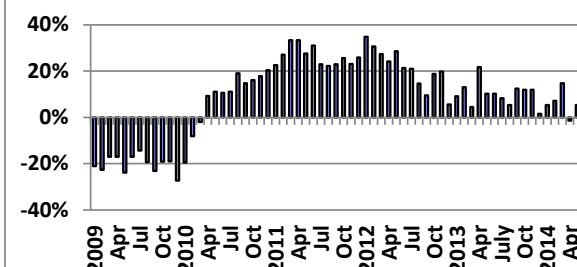
Construction Machinery



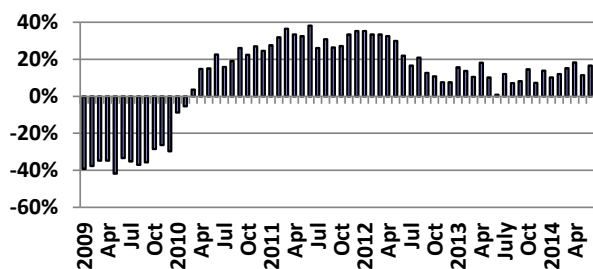
Heavy-Duty Truck



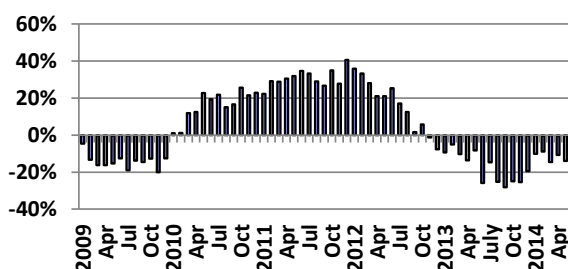
Agricultural Machinery



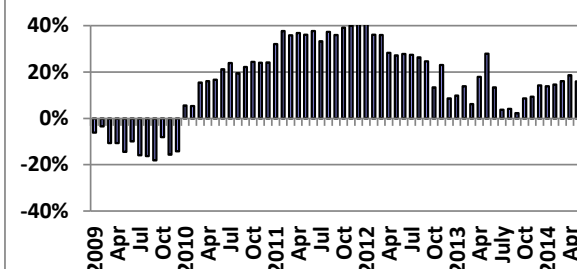
Industrial Machinery



Mining

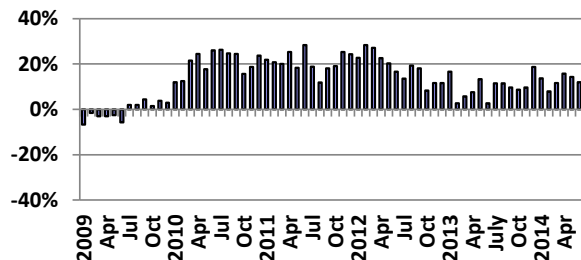


Oil & Gas

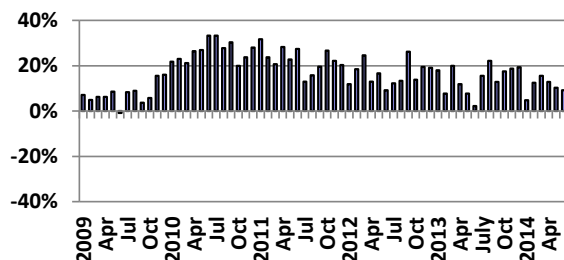


End Market Trends

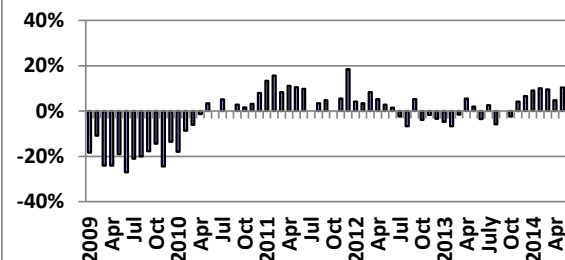
Food & Beverage



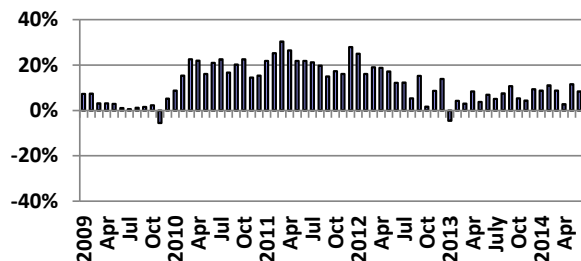
Life Sciences



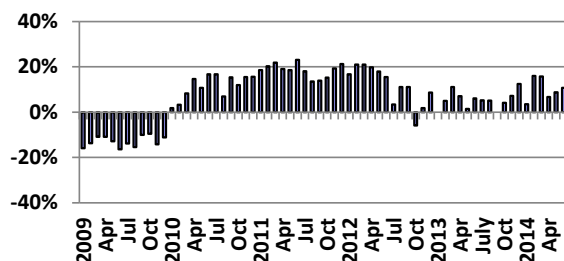
Marine



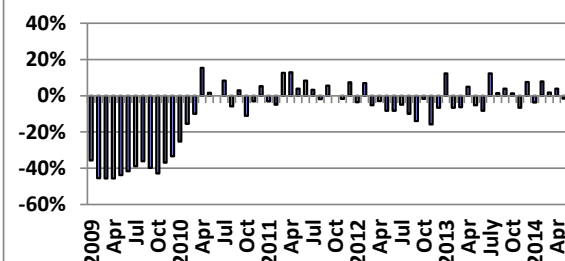
Power Generation



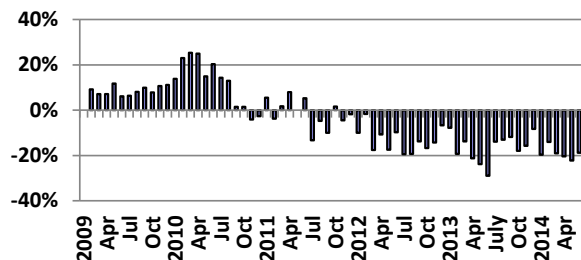
Process



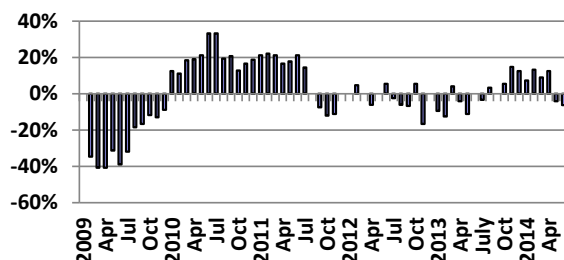
Forestry



Government



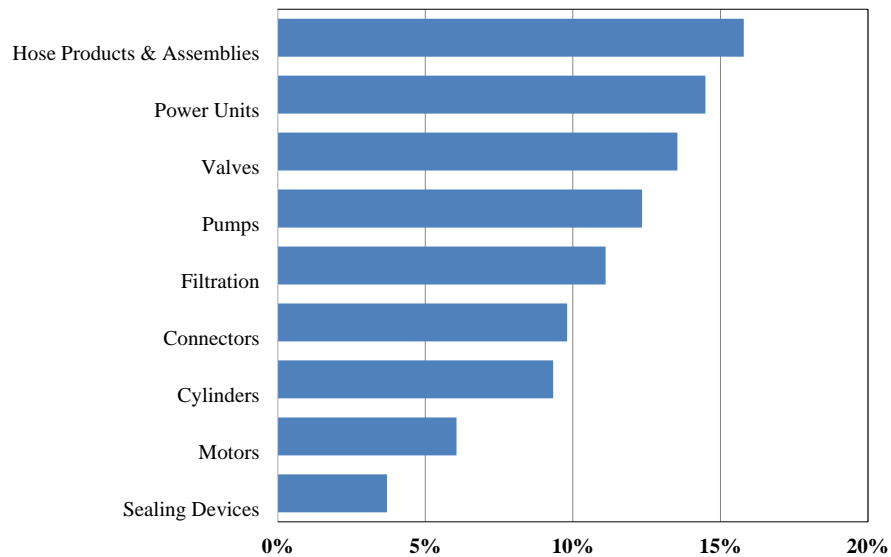
Semicon



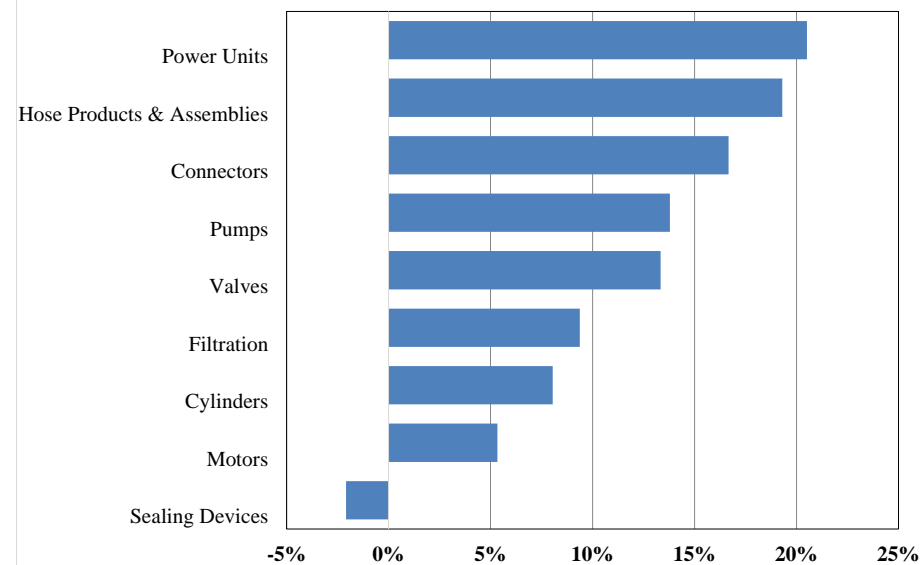
Product Category Ranking

Eight out of nine product categories were higher in June, as sealing devices were reported weaker on a sequential basis. Power units, hose products & assemblies, and connectors were the strongest product categories while motors, cylinders and connectors were reported as the relative weakest product categories.

Product Category Ranking (Net % Strong - Weak)
May 2014



Product Category Ranking (Net % Strong - Weak)
June 2014



2014 Outlook

2014 Outlook Still Projected Up 6%

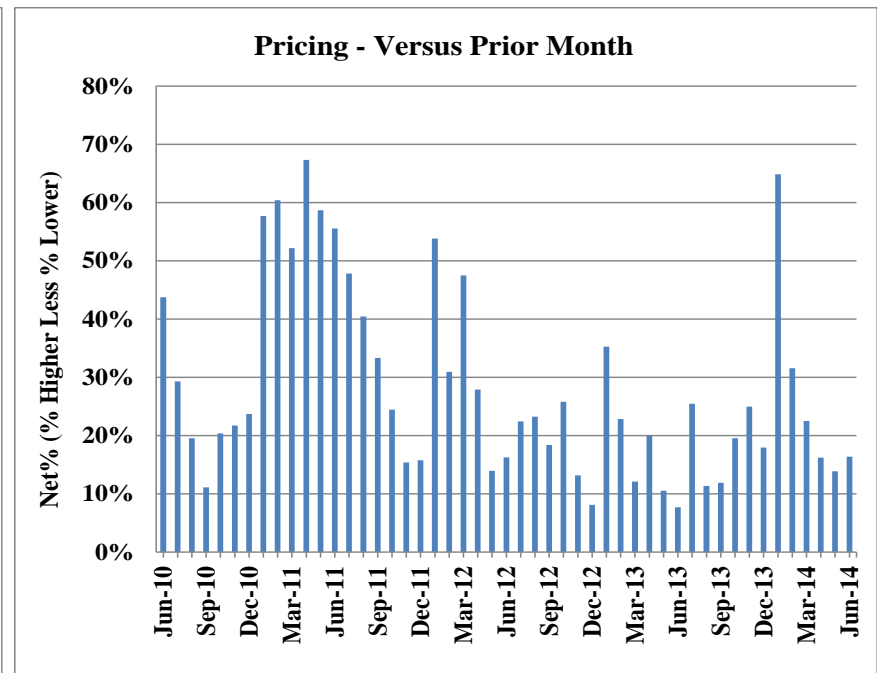
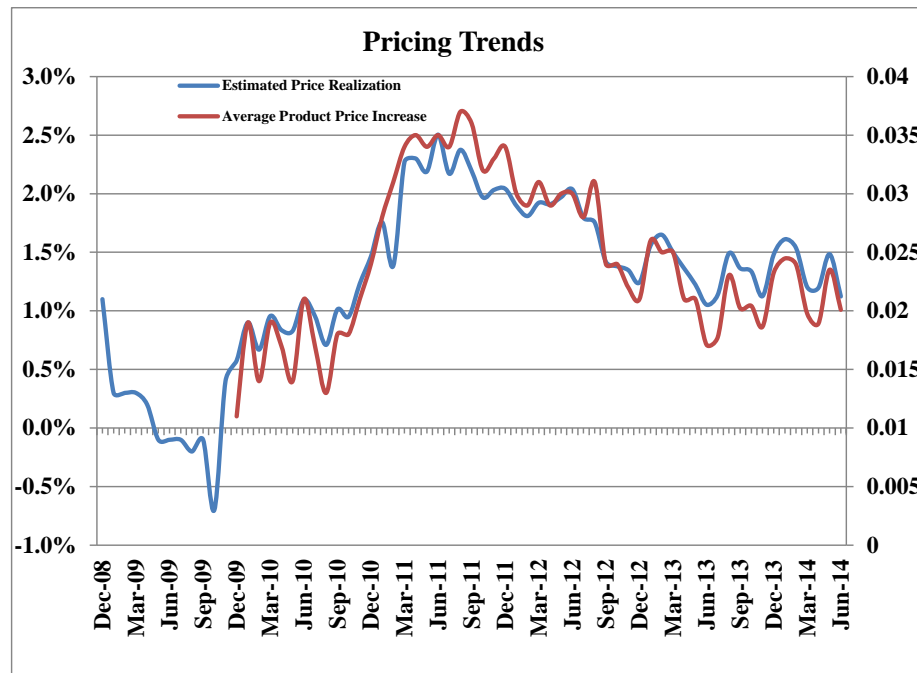
Sources maintained the 2014 outlook, still expecting 5-6% growth for the full year after ~4% growth through the first half of 2014 implying sales accelerate to ~7% for the remainder of the year. Driving this optimism for the 2H are better backlogs which have been reported higher on a sequential basis for the last 7 months. Additionally, sources remain optimistic mobile OEM activity will pick up in the 2H after a slower than expected start to the year.

Fluid Power Outlook												
	2012	2013	2014 Outlook									
<u>Sales Growth (v/v)</u>	<u>Actual Results</u>	<u>Actual Results</u>	<u>Sept-13</u>	<u>Oct-13</u>	<u>Nov-13</u>	<u>Dec-13</u>	<u>Jan-14</u>	<u>Feb-14</u>	<u>Mar-14</u>	<u>Apr-14</u>	<u>May-14</u>	<u>Jun-14</u>
Overall	8%	0%	3%	4-5%	4-5%	5-6%	5-6%	6%	6%	6%	6%	6%
<i>Distributors</i>	8%	0%	4%	5%	4-5%	6%	7%	6%	6%	6%	6%	6%
<i>Manufacturers</i>	8%	0%	3%	4%	3%	5%	4%	6%	5%	5%	5%	5%

Price Contribution Trends

Price Realization Declines in June

We are hearing that average product price increases were 2.0% in June, below the 2.4% in May as price realization also declined to 1.1%, down from 1.5% in May.

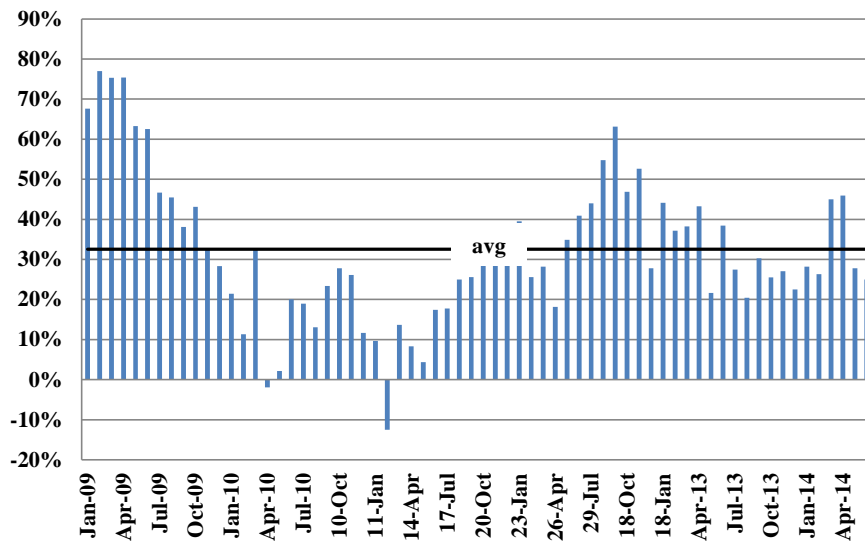


Inventory Trends

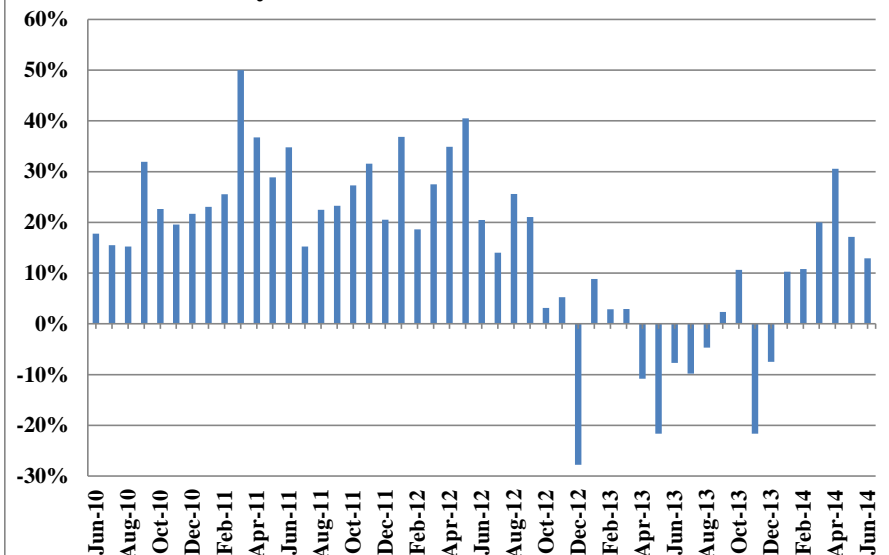
June Inventories Moderate Slightly

Inventory levels moderated slightly in June with a net 13% of sources reporting higher inventories in the month down from 17% last month. At this time distributors appear comfortable with current levels as a net 25% reported inventories were “too high” slightly lower than 28% in May, and below the long run average of 33%.

Inventory Levels - Net % "Too High"

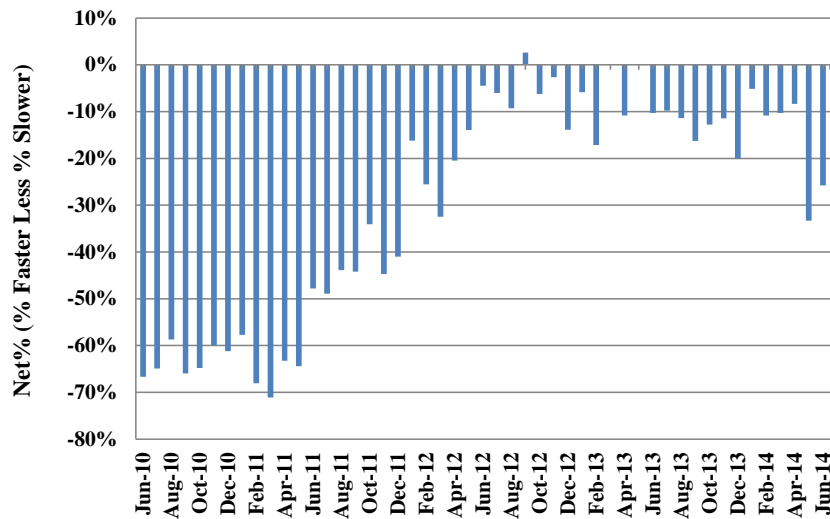


Inventory Levels - Versus Prior Month

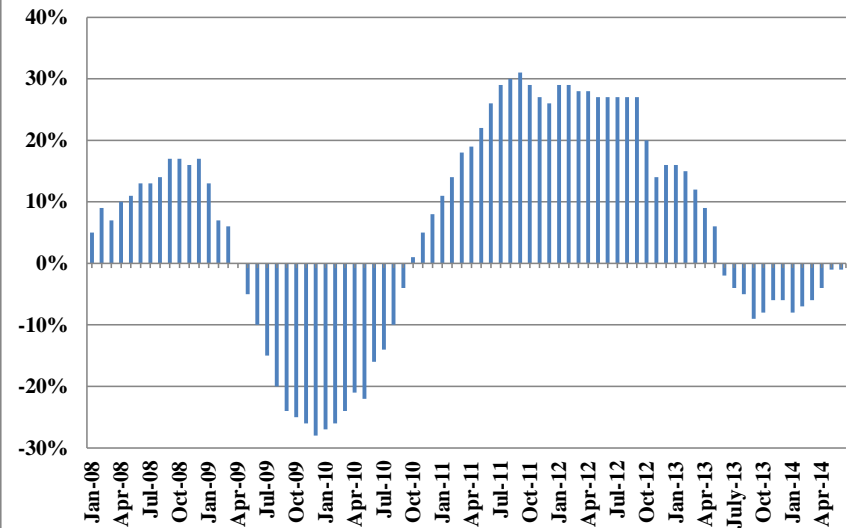


Inventory Levels

Supplier Deliveries - Versus Prior Month



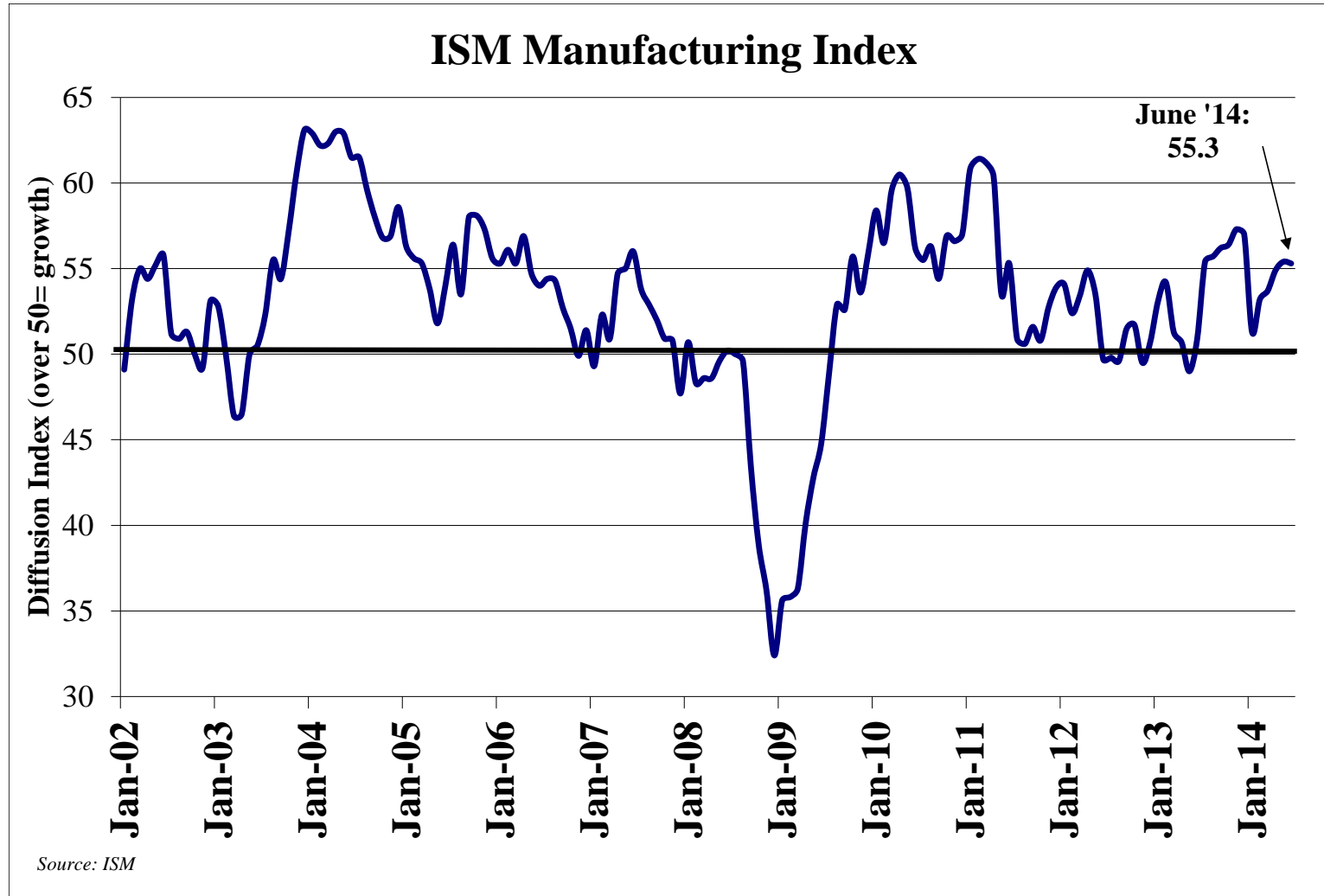
Inventory Levels - Versus Last Year



Macroeconomic Indicators

ISM, Industrial Production, Capacity Utilization, Non-Res Construction
Forecasts, Resi Construction Indicators, Commodity Prices, Heavy Truck &
Automotive Data

June ISM Ticks Down Still Above 50



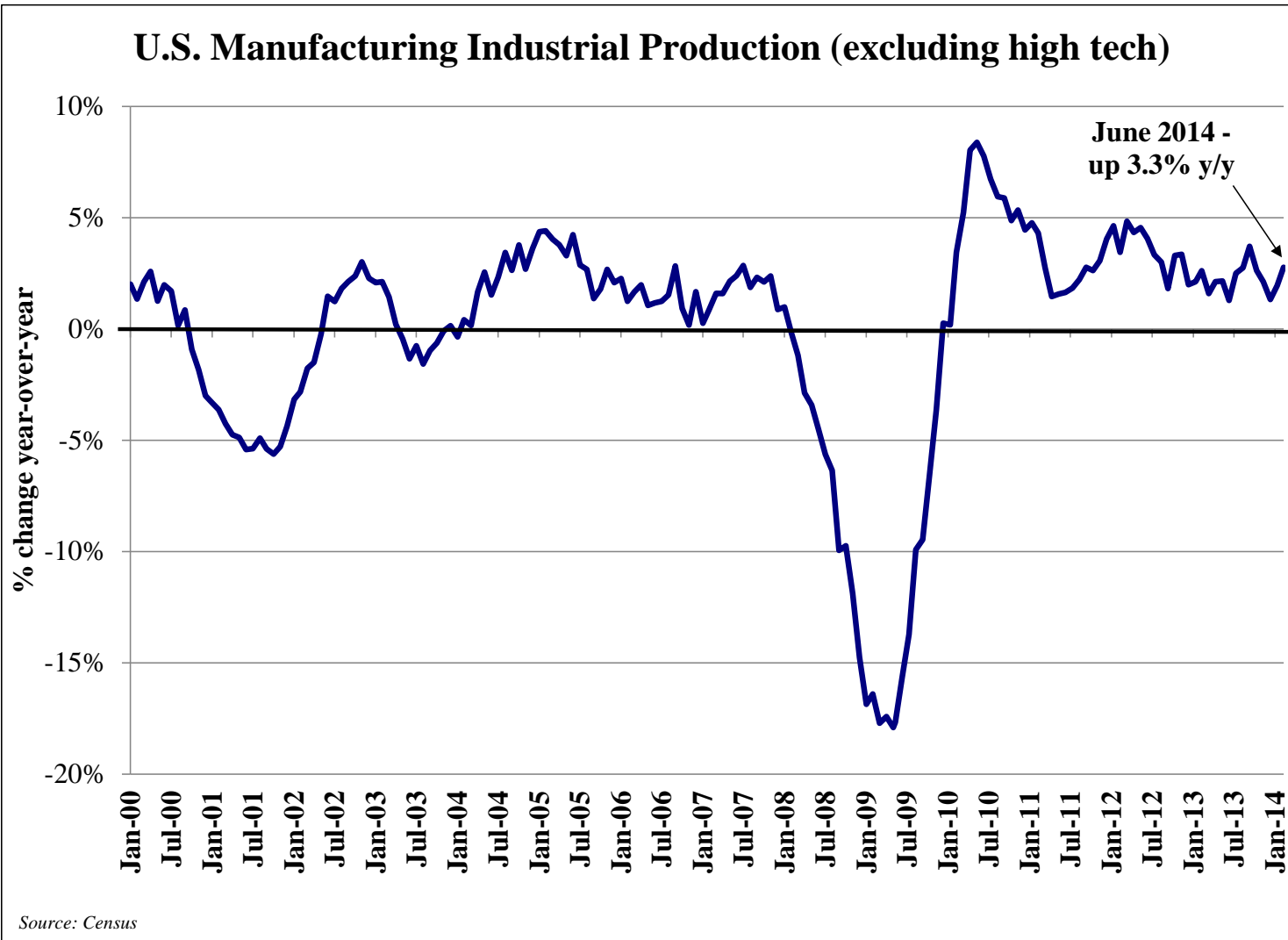
Manufacturing End Market Momentum

ISM Manufacturing End Market Momentum

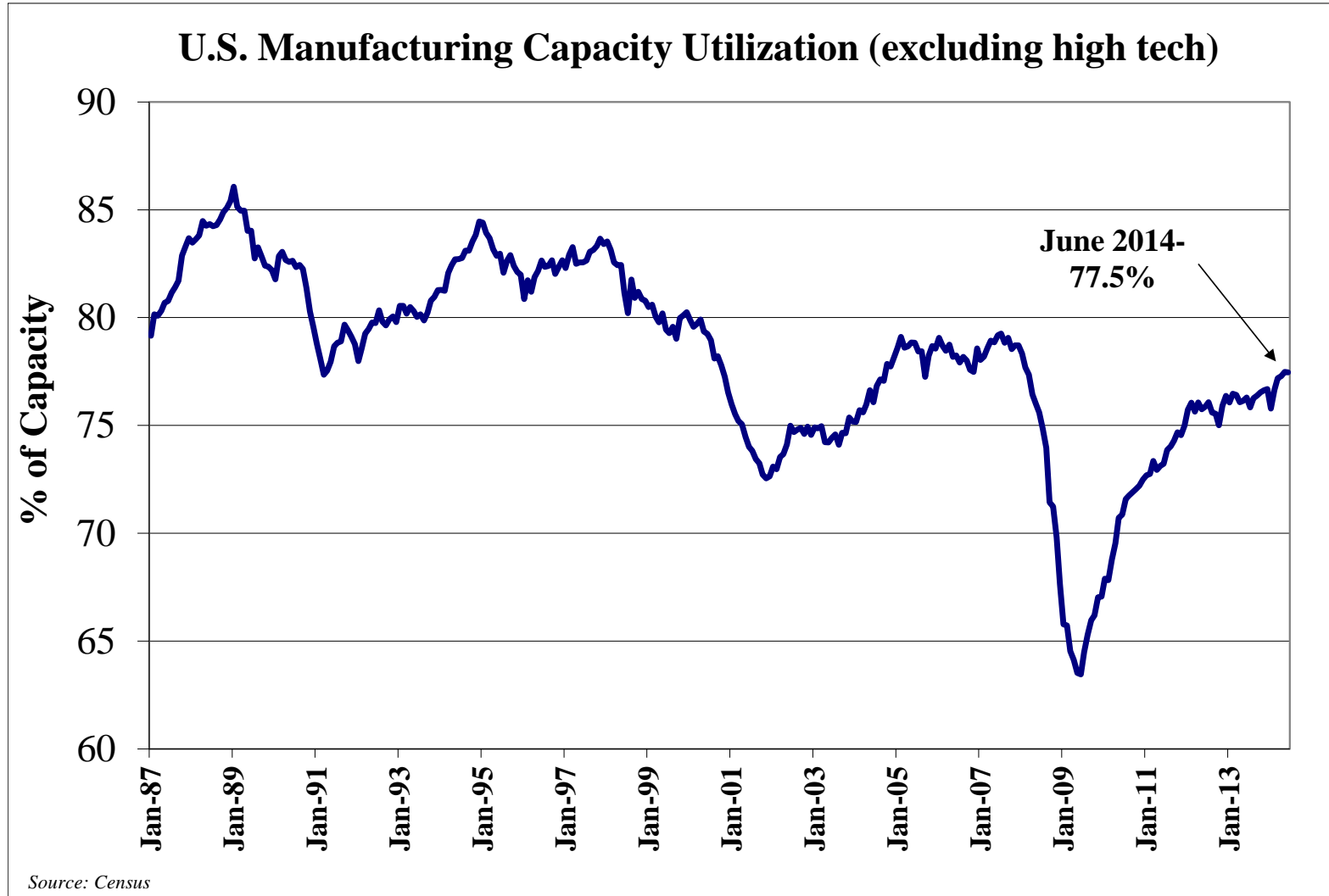
Major End Market	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
Apparel, leather and allied products	↑	↓	↔	↓	↓	↓	↑	↓	↓	↓	↑	↑	↑
Chemical products	↓	↑	↑	↓	↓	↑	↓	↓	↑	↑	↑	↑	↓
Computer and electronic products	↓	↑	↑	↑	↑	↑	↑	↓	↔	↑	↑	↑	↑
Electrical equipment, appliances, components	↑	↑	↑	↑	↑	↑	↓	↑	↑	↓	↑	↑	↑
Fabricated metal products	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Food, beverage and tobacco products	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Furniture and related products	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Machinery	↑	↓	↑	↑	↑	↓	↓	↑	↑	↑	↑	↑	↑
Miscellaneous manufacturing	↔	↓	↓	↓	↓	↑	↑	↓	↓	↓	↑	↑	↑
Nonmetallic mineral products	↑	↑	↑	↓	↑	↑	↓	↓	↑	↑	↓	↑	↑
Paper products	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑	↑	↑	↑
Petroleum and coal products	↑	↔	↔	↑	↑	↑	↔	↓	↓	↑	↑	↑	↑
Plastics and rubber products	↑	↓	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓
Primary metals	↑	↑	↑	↓	↓	↑	↑	↑	↑	↑	↑	↑	↑
Printing, related support activities	↔	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Textile mills	↓	↑	↑	↓	↑	↑	↑	↑	↑	↑	↑	↔	↓
Transportation equipment	↓	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Wood product	↑	↑	↑	↔	↑	↓	↑	↑	↑	↓	↑	↑	↑
Statistics	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
% Better	67%	72%	83%	61%	78%	83%	72%	61%	78%	78%	94%	94%	83%
Unchanged	11%	6%	11%	6%	0%	0%	6%	0%	6%	0%	0%	6%	0%
% Worse	22%	22%	6%	33%	22%	17%	22%	39%	17%	22%	6%	0%	17%
Net % of Industries Improving	44%	50%	78%	28%	56%	67%	50%	22%	61%	56%	89%	94%	67%
PMI	50.9	55.4	55.7	56.2	56.4	57.3	57.0	51.3	53.2	53.7	54.9	55.4	55.3

Source: Institute for Supply Management

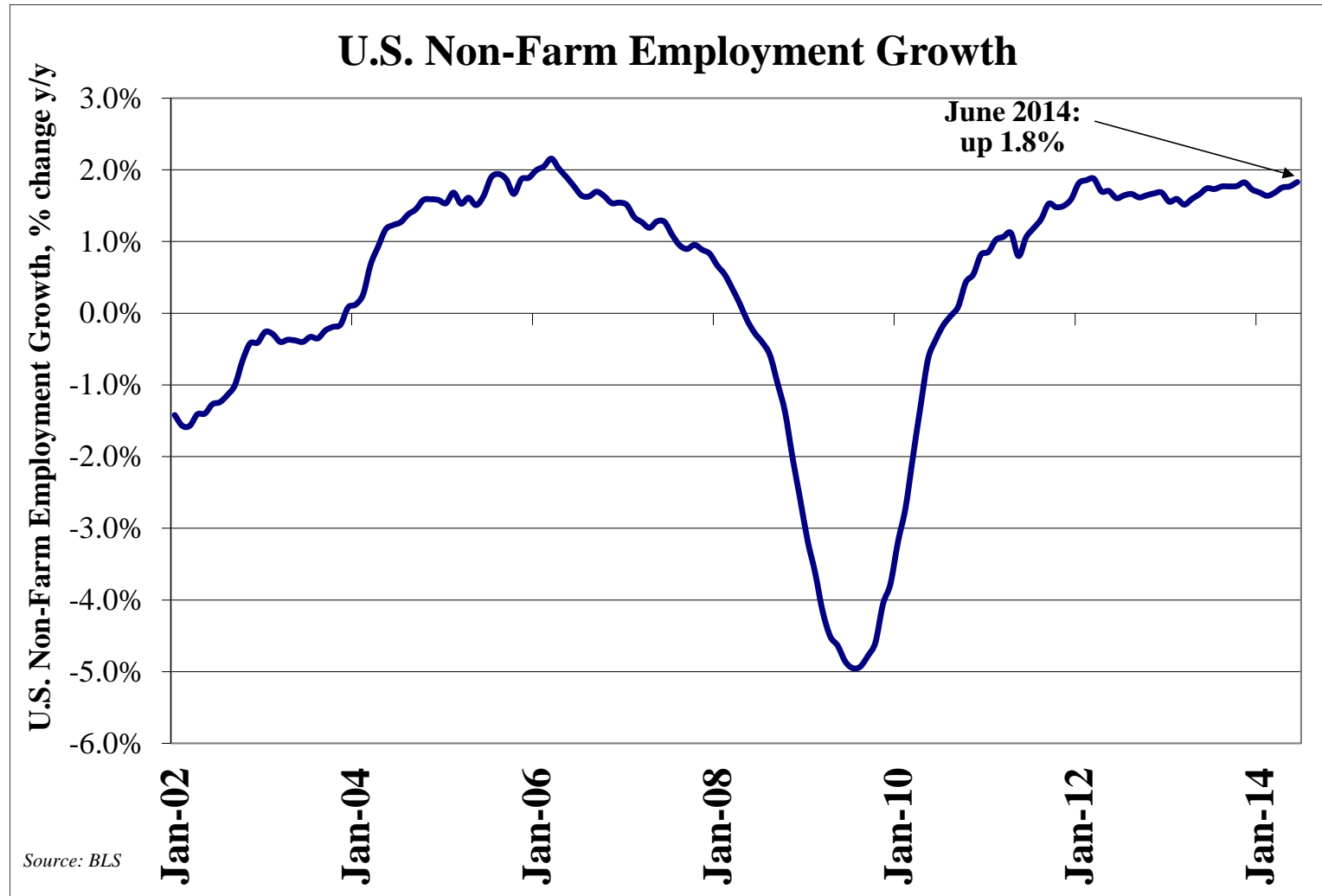
Manufacturing IP: Up 3.3% y/y in June



Capacity Utilization: Up to 77.5% in June



Non-Farm Employment: Up 1.8 % y/y in June

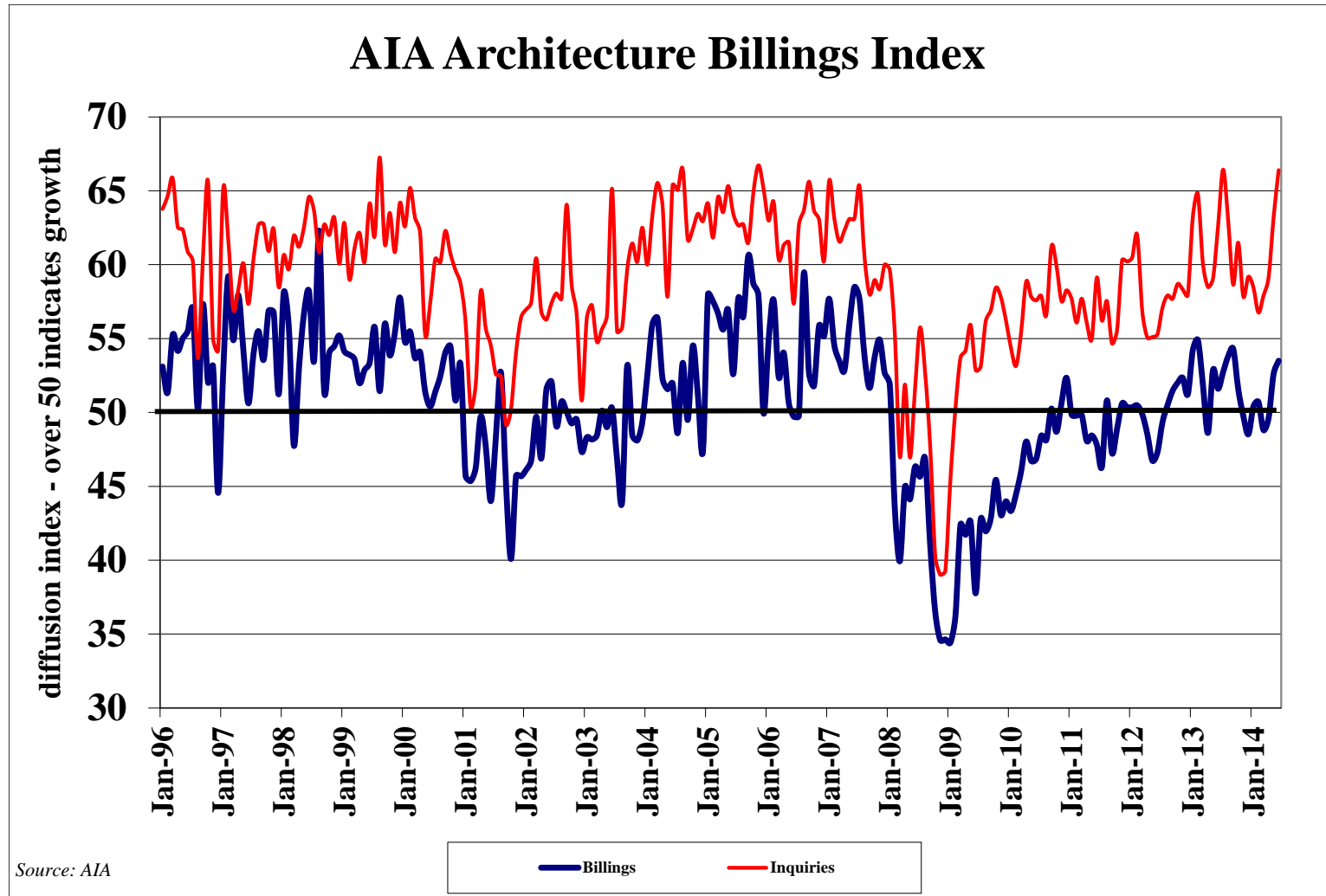


Manufacturing Employment: Up 1.1% in June



Source: BLS

AIA Billings Index – Billings Improves in June



McGraw Hill

Updates Forecast



- McGraw Hill recently increased its 2014 non-residential building starts forecast (in dollars) to up 9% y/y from 8% growth 90-days ago, and the up 12% y/y forecast for non-residential building starts in square footage is unchanged. The most positive revisions are in the religious buildings, office/bank buildings, warehouses, dorms, government buildings, and hospitals categories, while the forecast for hotels/motels and parking garages declined the most from the prior forecast. The current forecast anticipates growth in non-residential building starts will accelerate in 2015 and 2016, to 14% and 16% growth, respectively. The chart on the next page details the current forecast from McGraw Hill.

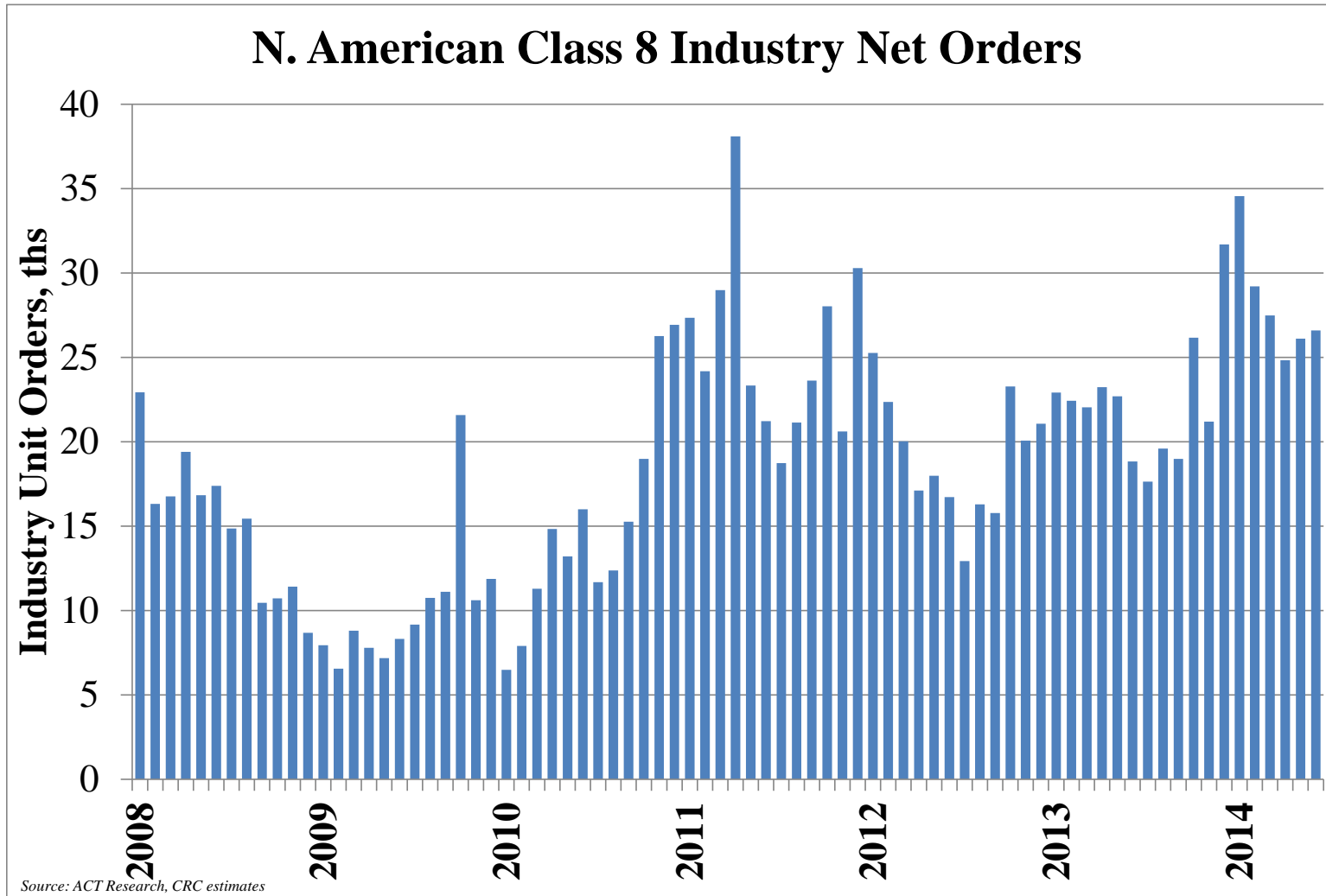
Non-Res Starts: Forecast

McGraw-Hill Construction Starts History and Forecast

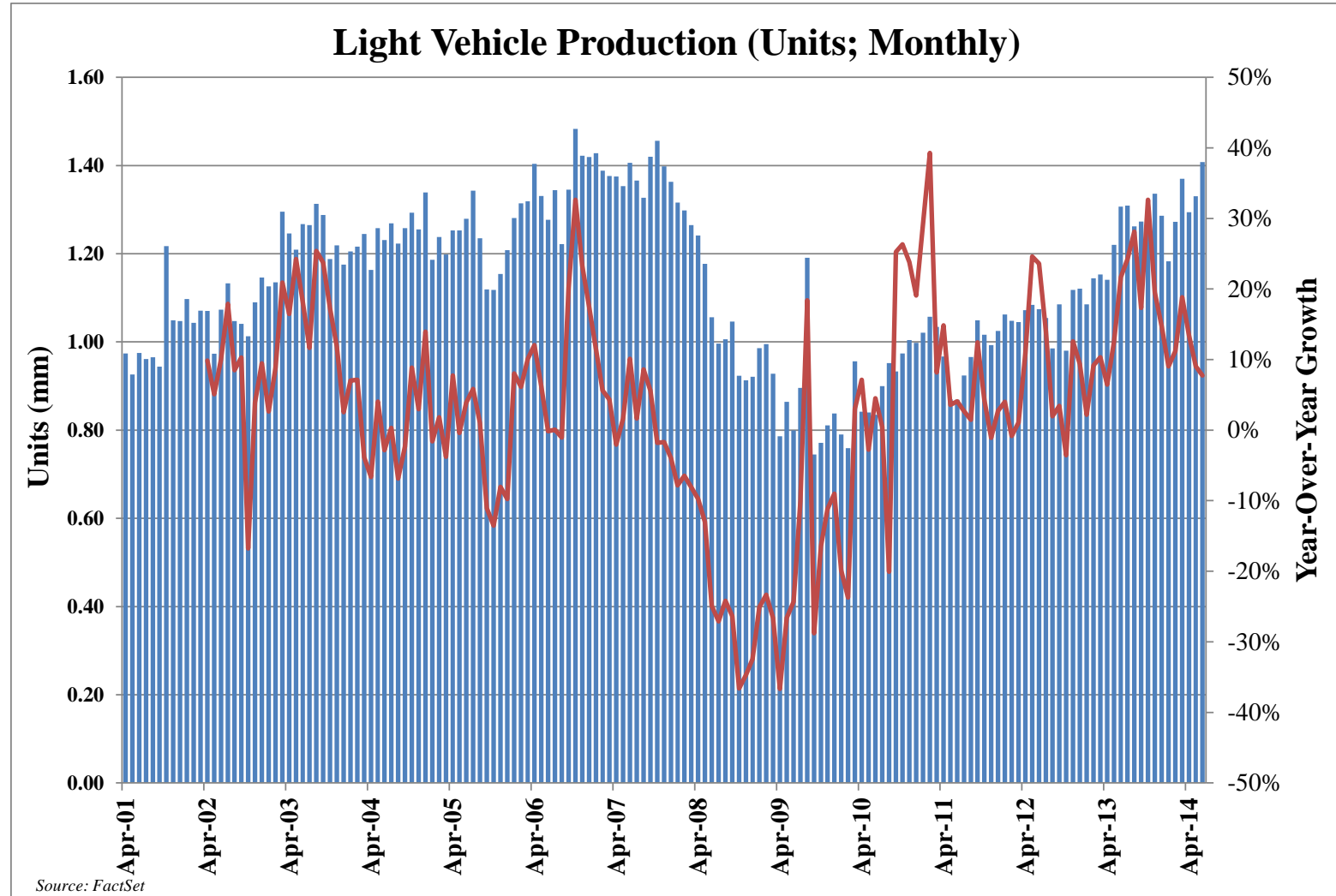
U.S. Starts Forecast (Value \$mm)	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Amusement, Social and Recreational Bldgs	0%	-14%	-4%	-12%	-17%	28%	6%	18%	24%	1%
Dormitories	16%	-5%	1%	-15%	5%	-7%	3%	8%	8%	9%
Government Service Buildings	7%	15%	-32%	-14%	-9%	-24%	-6%	13%	11%	14%
Hospitals and Other Health Treatment	23%	-33%	16%	-7%	-3%	-4%	4%	14%	17%	10%
Hotels and Motels	-9%	-64%	-28%	58%	25%	31%	11%	21%	12%	-7%
Manufacturing Plants, Warehouses, Labs	44%	10%	-5%	74%	-25%	42%	7%	8%	14%	3%
Miscellaneous Nonresidential Buildings	19%	16%	29%	-29%	-10%	1%	7%	15%	14%	5%
Office and Bank Buildings	-15%	-28%	-18%	-3%	0%	21%	18%	19%	16%	11%
Parking Garages and Automotive Services	-21%	-47%	9%	26%	22%	25%	12%	12%	8%	1%
Religious Buildings	-5%	-7%	-29%	-10%	-10%	-5%	1%	10%	12%	17%
Schools, Libraries, and Labs (nonmfg)	9%	-17%	-3%	-11%	-12%	1%	4%	11%	23%	17%
Stores and Restaurants	-27%	-40%	-5%	3%	15%	6%	15%	21%	17%	4%
Warehouses (excl. manufacturer owned)	-22%	-58%	-16%	23%	27%	33%	27%	12%	8%	-3%
Nonresidential Building Starts (\$mm)	242,186	168,877	162,640	165,654	158,222	174,082	189,473	216,522	251,990	271,614
% change y/y	1%	-30%	-4%	2%	-4%	10%	9%	14%	16%	8%
Nonresidential Building Starts (sqr ft)	1,377	773	678	703	774	845	943	1,076	1,220	1,269
% change y/y	-18%	-44%	-12%	4%	10%	9%	12%	14%	13%	4%
Single Family Housing Starts	1,203	951	978	905	1,146	1,424	1,762	2,248	2,687	2,614
% change y/y	-42%	-21%	3%	-7%	27%	24%	24%	28%	20%	-3%
Nonbuilding Starts (bridges, highways, etc, \$mm)	152,486	144,769	148,329	150,515	162,823	144,800	129,300	135,100	146,900	162,700
% change y/y	9%	-5%	2%	1%	8%	-11%	-11%	4%	9%	11%

Source: MHC (1Q14 fcst)

Heavy Truck Orders Tick Up to ~27k Units in June

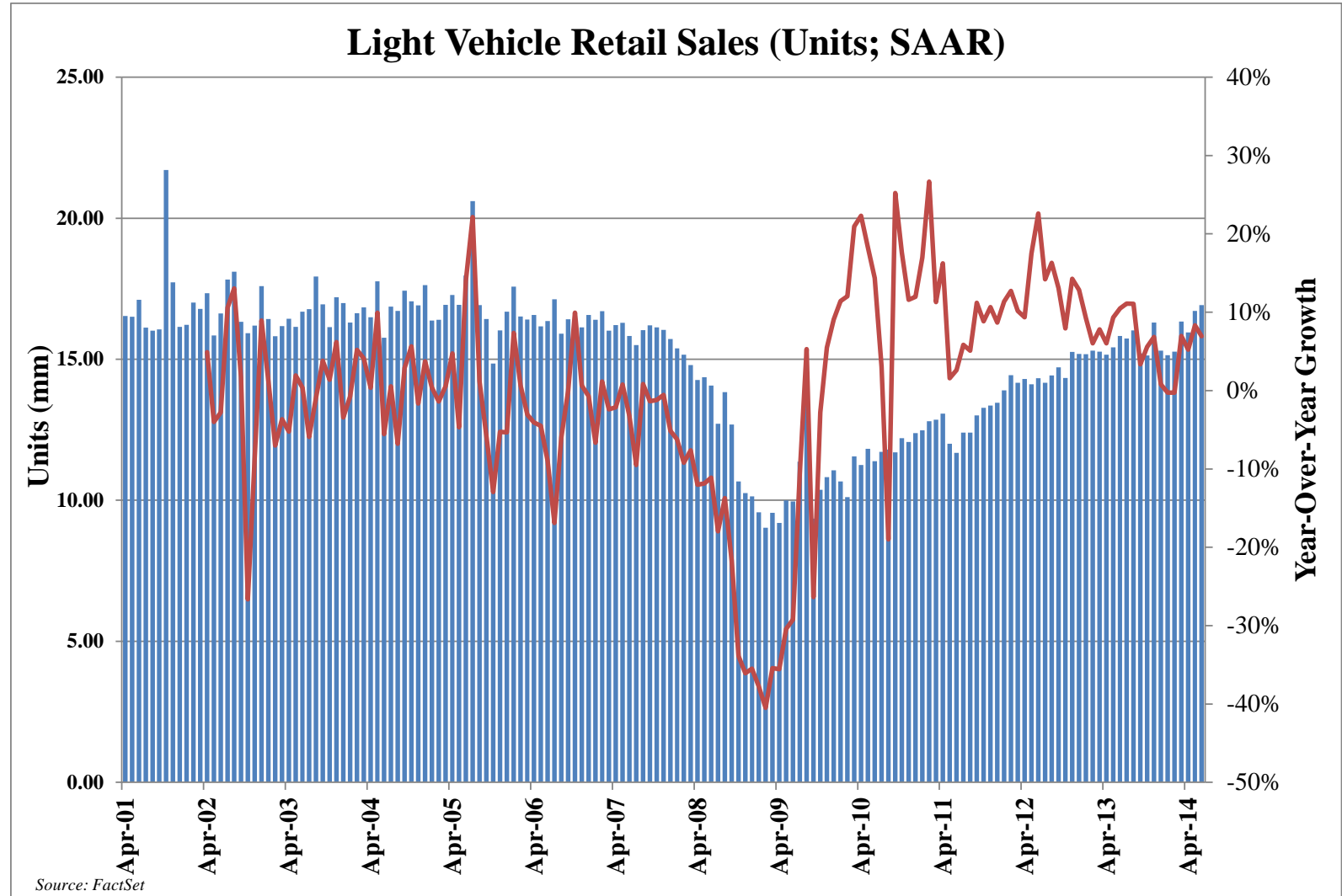


Light Vehicle Production up 8% y/y in June



Light Vehicle Retail Sales

~16.9mm SAAR in May



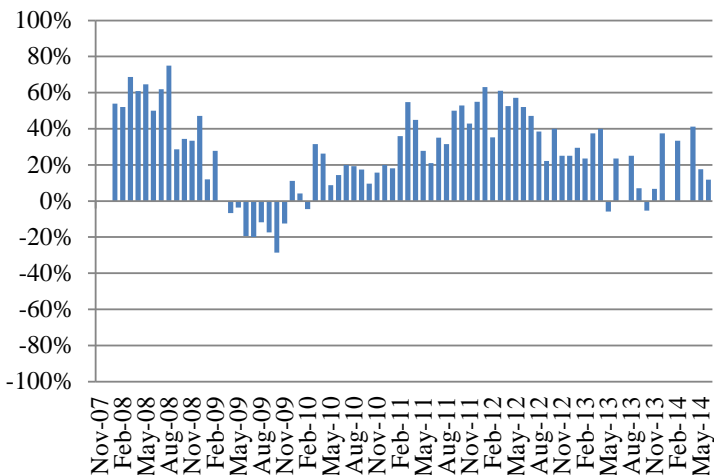
Appendix

Long term end market trends

Industrial Survey

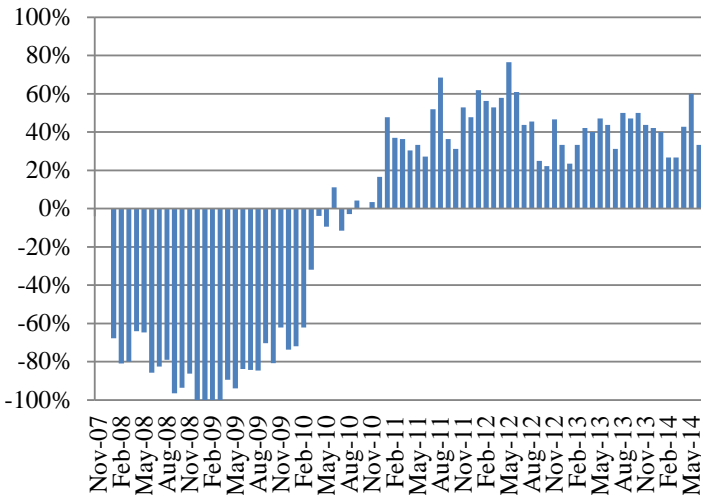
End Market Trends

Aerospace



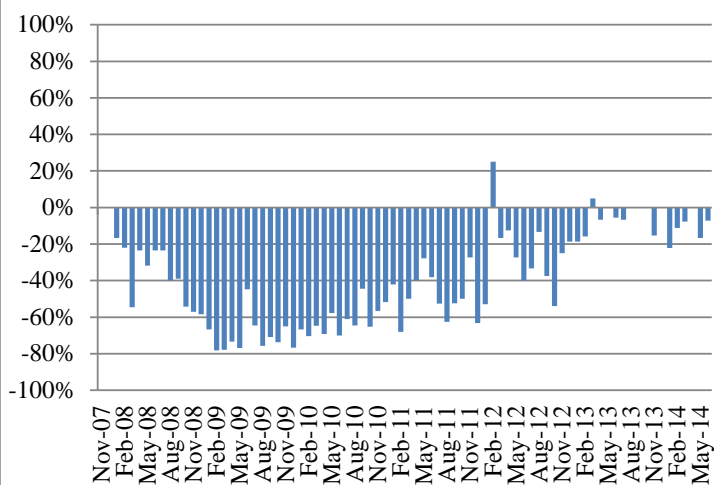
Source: CRC survey

Automotive



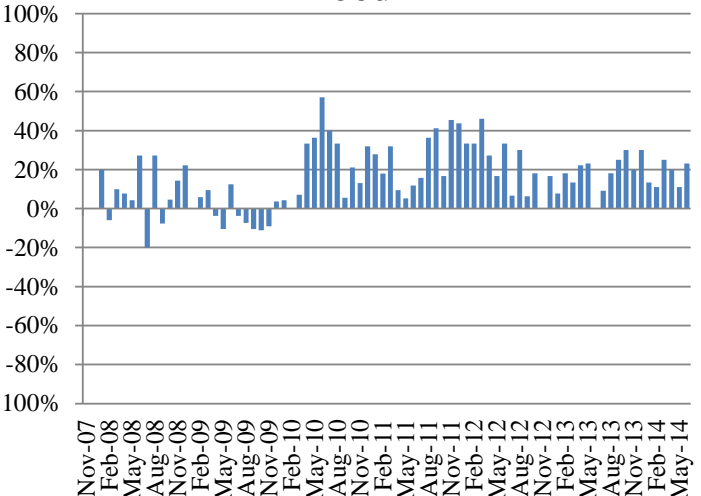
Source: CRC survey

Contractor



Source: CRC survey

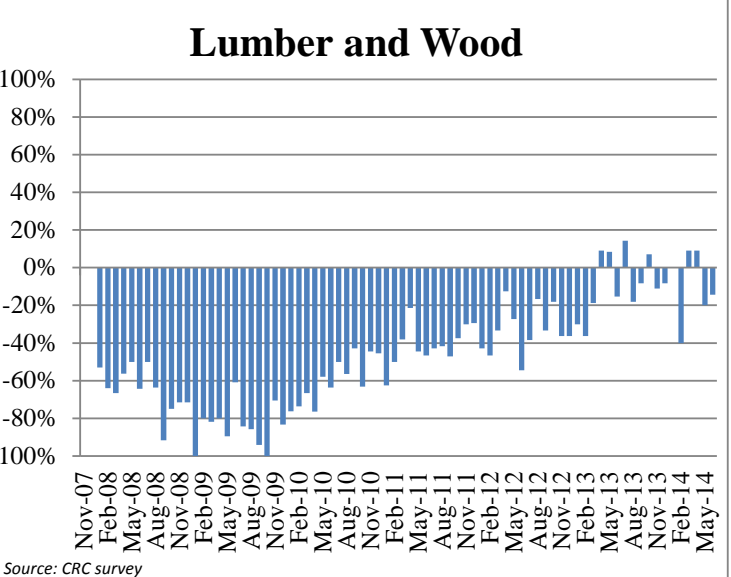
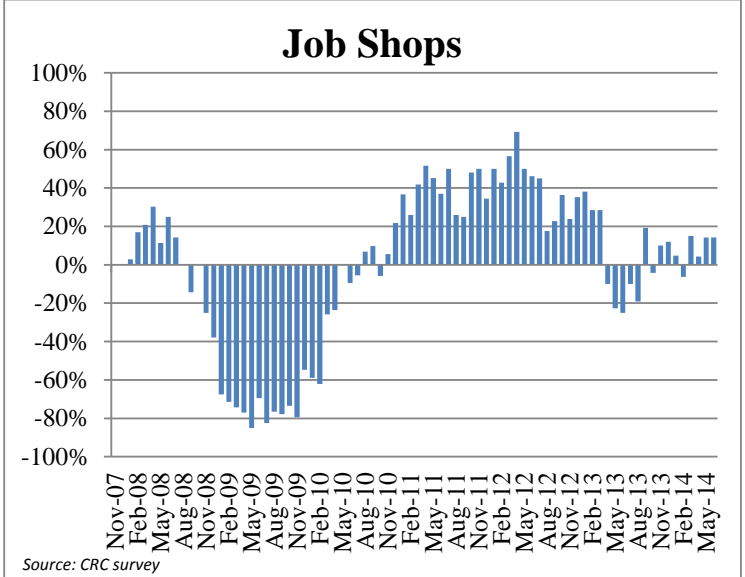
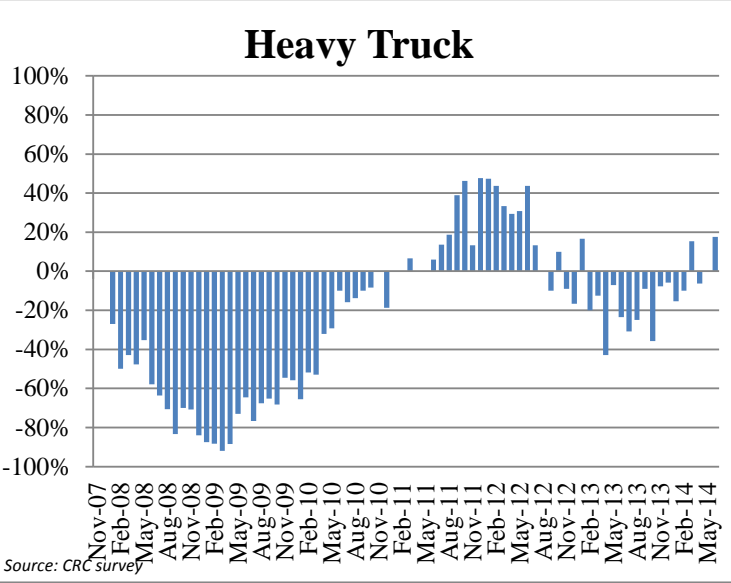
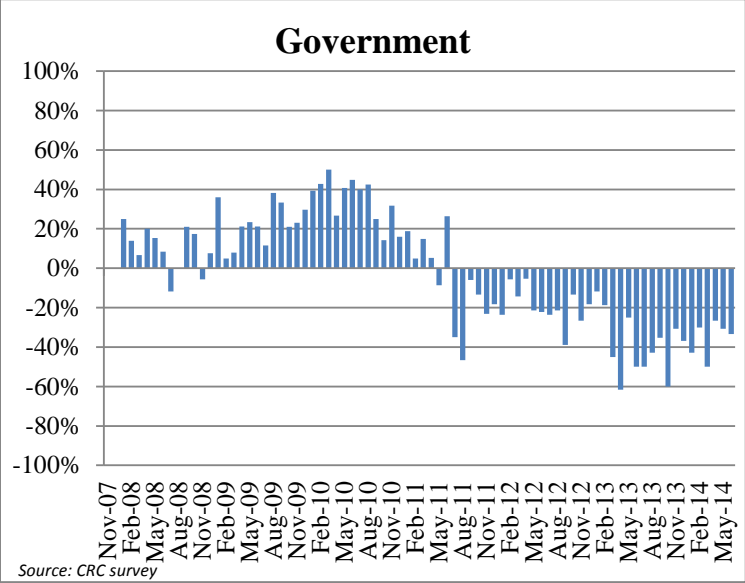
Food



Source: CRC survey

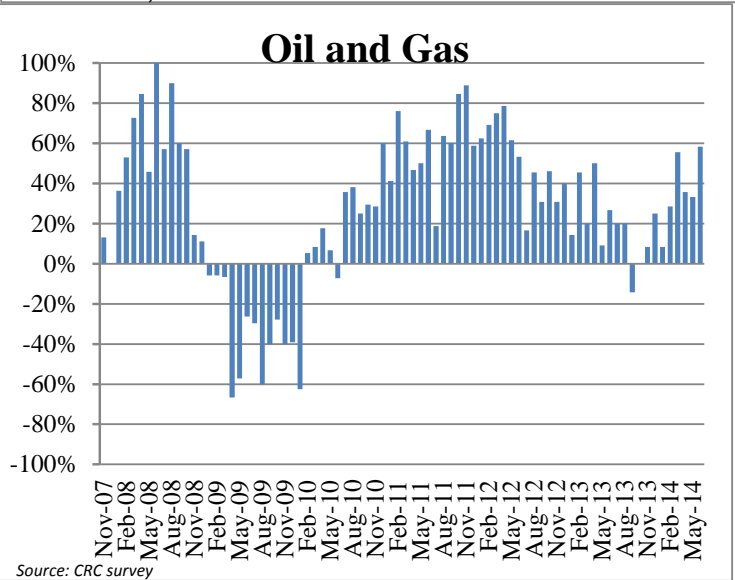
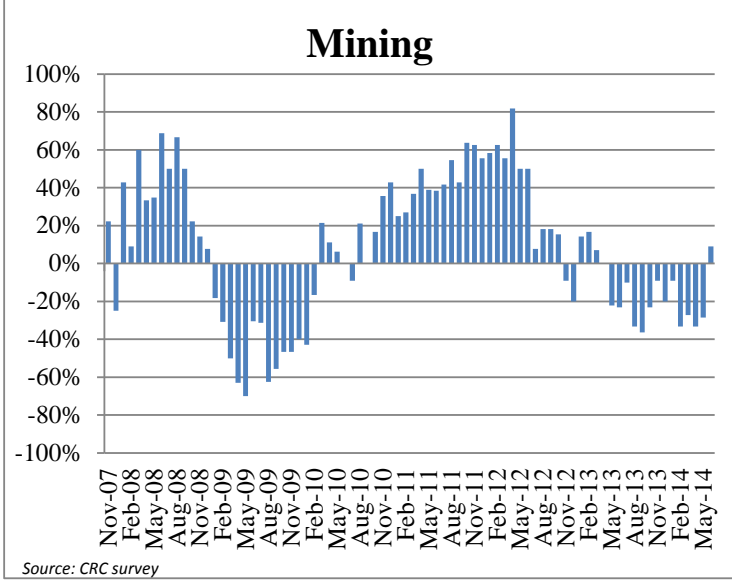
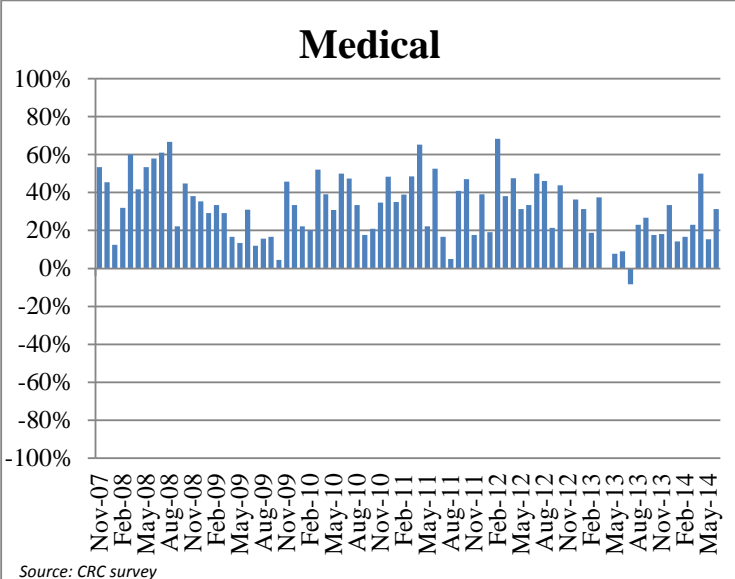
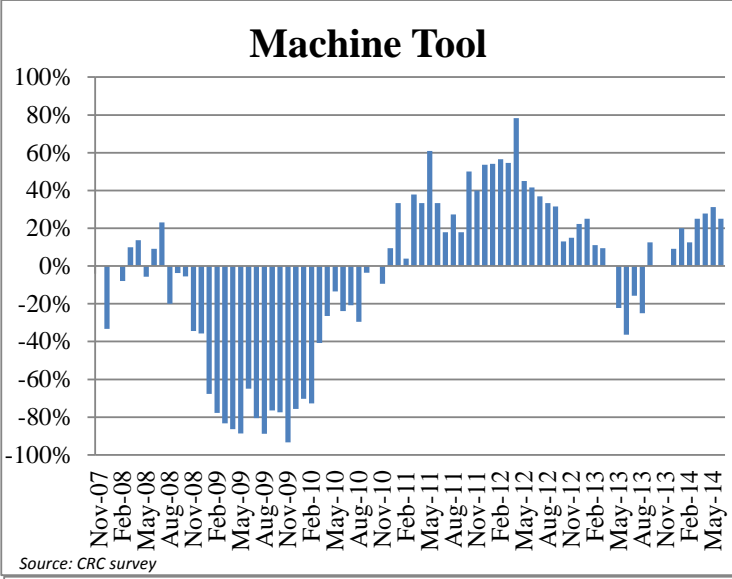
Industrial Survey

End Market Trends



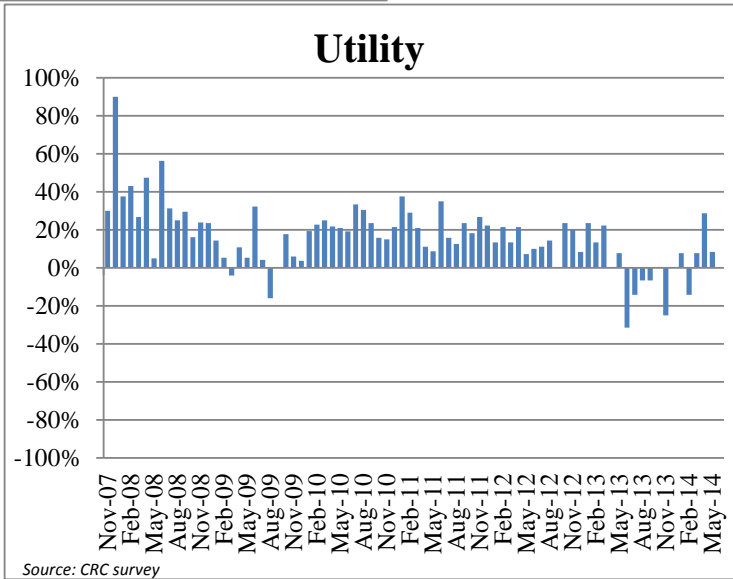
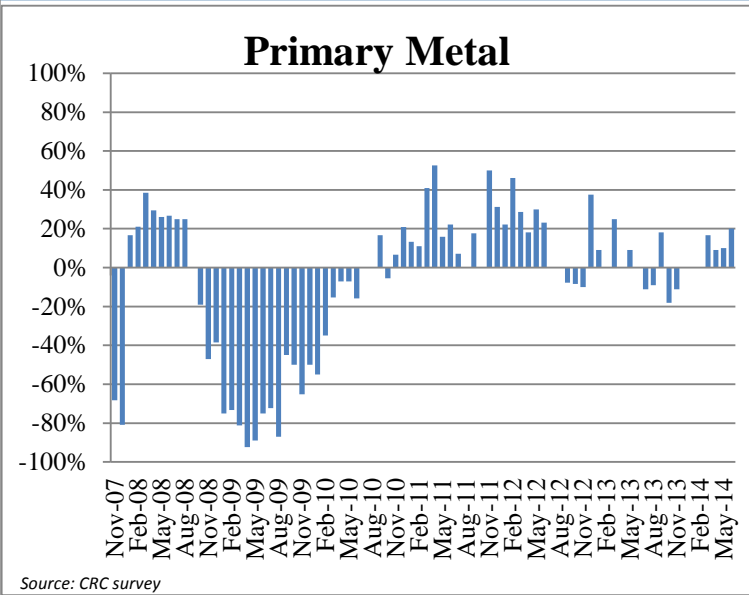
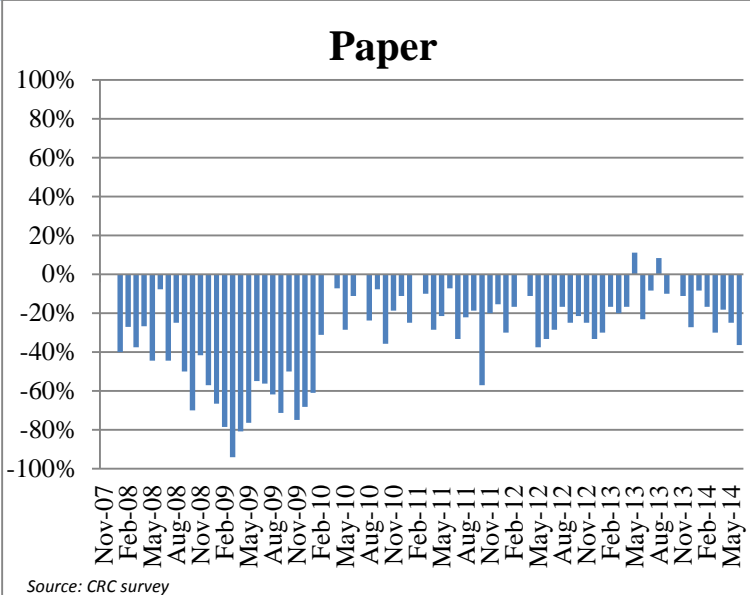
Industrial Survey

End Market Trends



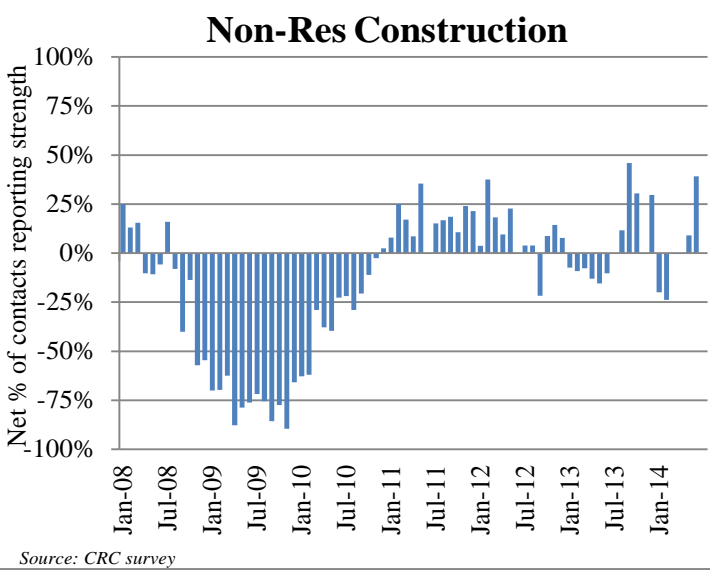
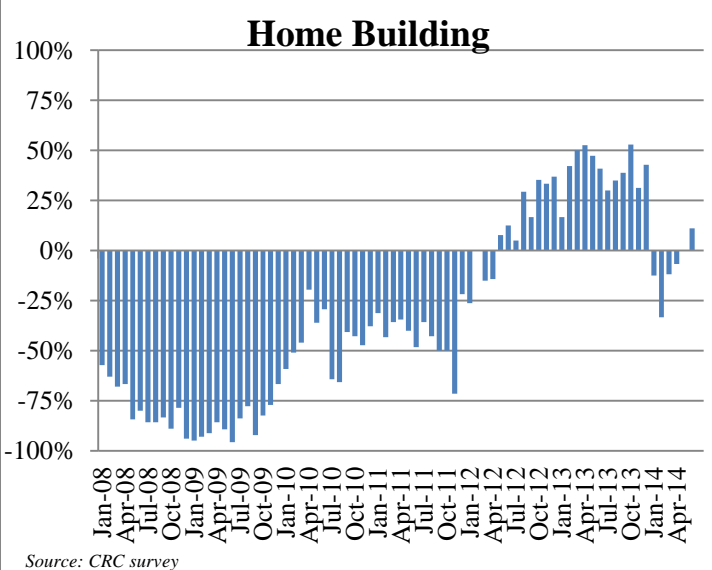
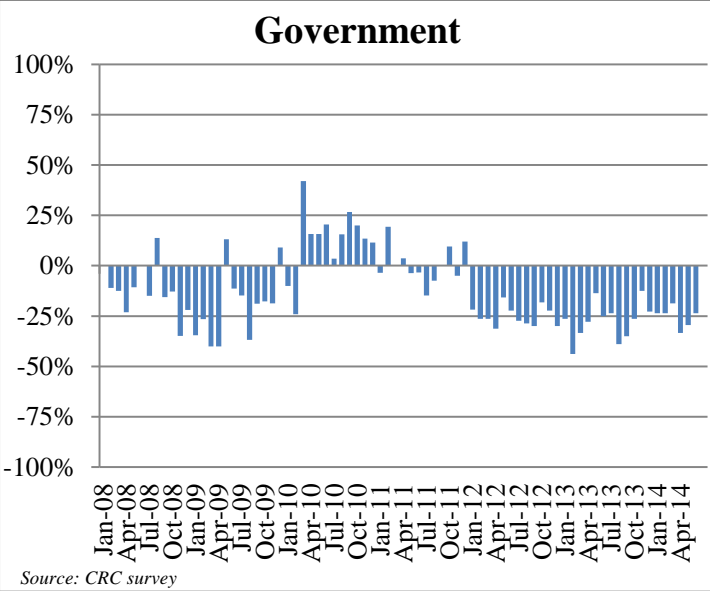
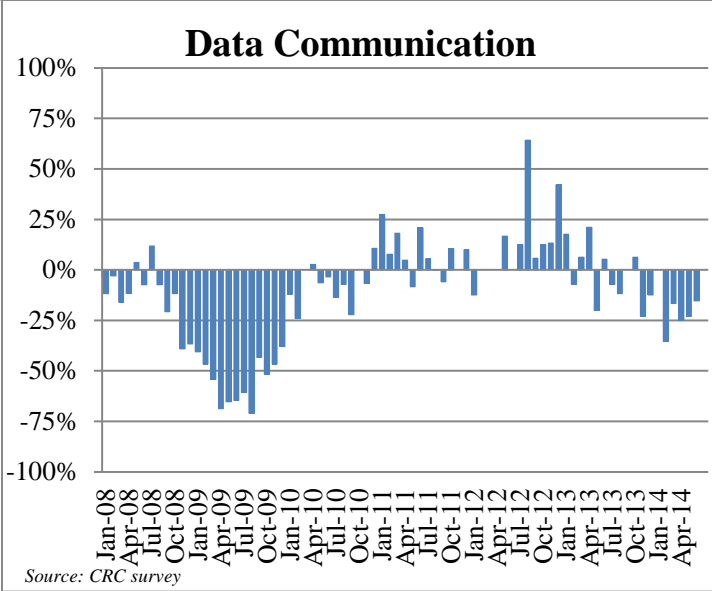
Industrial Survey

End Market Trends



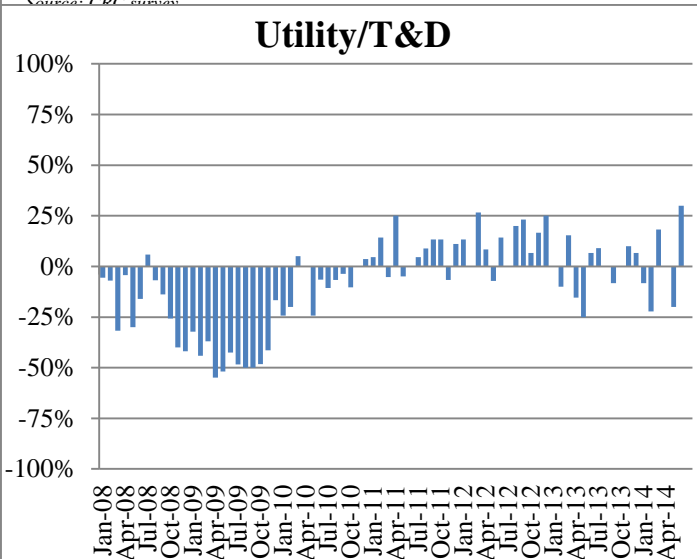
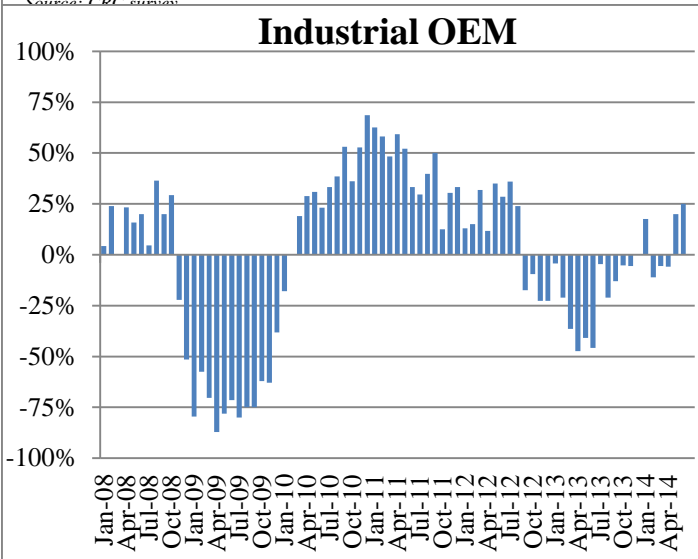
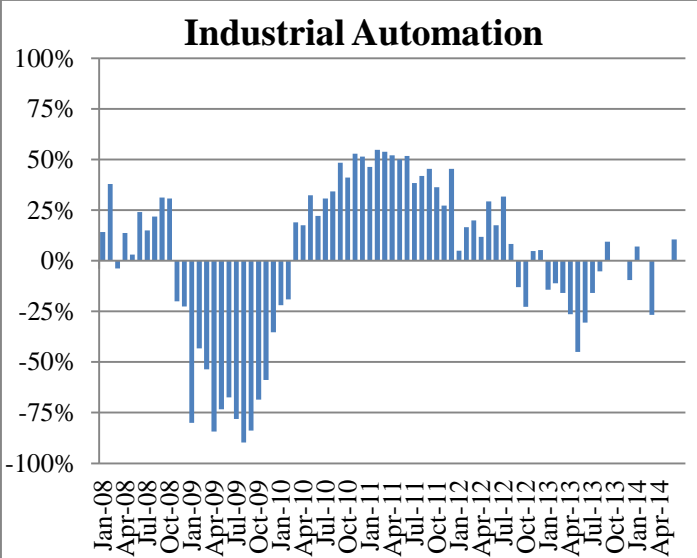
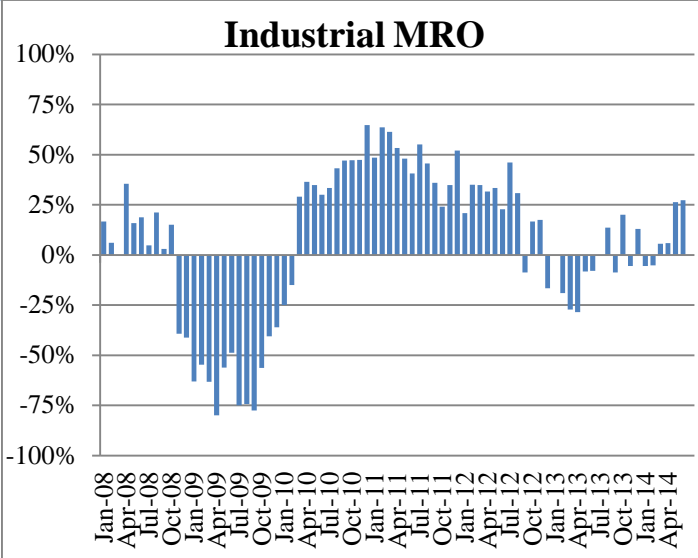
Electrical Survey

End Market Trends



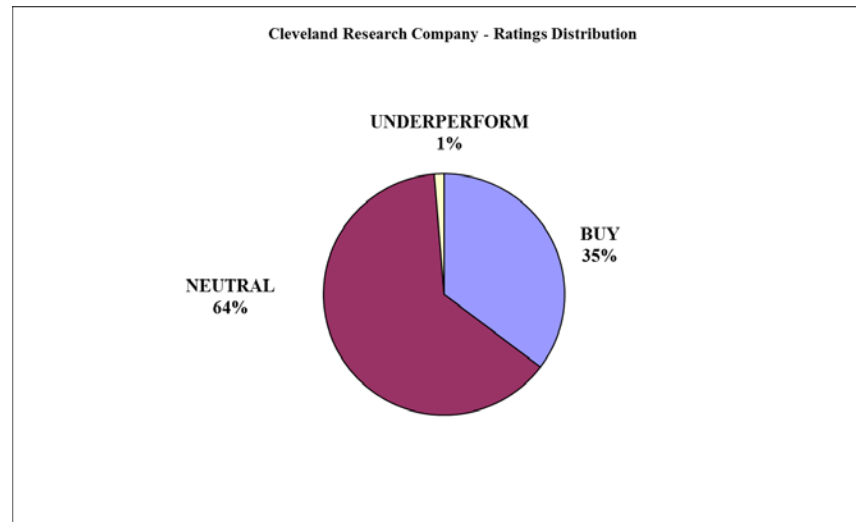
Electrical Survey

End Market Trends



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