D|A|DAVIDSON

Individual Investor Group Research

The Focus List

July 2017

D|A|DAVIDSON

The Strength of Advice®

Please refer to page 24 of this report for detailed disclosure and certification information

Focus List Philosophy

High Quality Capital Appreciation Strategy of Best Ideas

The Focus List is D.A. Davidson's strategic opportunities list of best ideas. It is a managed model portfolio of investments for capital appreciation.

We seek to invest in securities where we believe price is below intrinsic value. Candidates for the portfolio will tend to be high quality companies in viable industries where value is temporarily underappreciated.

Our philosophy is rooted in the following core beliefs:

We believe that successful investing requires unconventional thinking. It is not enough to say "this is the reality of the day or the outlook"; one must also constantly ask "and who doesn't already know that?" Being willing to think differently from the mainstream (and be right!) is a key component of investment success.

We believe that fundamentals matter. Amidst the complexity of a market whose day-to-day movements may be driven by elements unrelated to fundamentals, we hold to the anchor that we own pieces of companies, which are worth an appropriately discounted stream of future cash flows. We strive to understand the key factors that influence these future cash flows as well as the current financial position of the companies we own.

We believe that a consistent sell discipline is as important as purchase price discipline. We attempt to be as vigilant in removing from the list securities we believe to be fairly to over-valued as we are in adding undervalued securities.

We acknowledge that the market is dynamic, and change is inevitable. While anchored by our core principles, we recognize the importance of investing with eyes open and a willingness to adapt to changing market conditions, when necessary. We doubt we need to convince many of the danger in the statement: "well, that's never happened before…"

We believe that a disciplined fundamentals-based approach, applied consistently, can add value.

Quarterly Portfolio Letter

Focus List Second Quarter 2017 Recap

The Focus List posted a positive total return in 2Q17 of 2.0%, compared to a gain of 3.1% for the S&P 500 index. We made no changes to our portfolio holdings during the quarter and maintained our position of twenty stocks. Year to date (YTD), the Focus List posted a positive return of 3.2%, compared to a gain of 9.3% for the S&P 500 index.

Information Technology (IT) and the Financials drove the majority of the portfolio's underperformance during the quarter, with strong performance within Consumer Discretionary and Materials providing a partial offset. Within IT, all three of our holdings underperformed the benchmark. Heading into the final days of the quarter, **Apple's (AAPL)** strong performance cooled after momentum in large cap technology stocks lost its footing over valuation concerns. For the quarter, AAPL shares ended flat (underperforming the sector's 4% rise), but YTD, it remained up over 25% on a total return basis due to optimism over its next generation iPhone launch. Both **Qualcomm (QCOM)** and **Intel (INTC)** continued to underperform during the quarter. In the near term, QCOM's shares could remain range-bound until visibility improves around the contract dispute with AAPL and royalty rate challenges with government entities, but we continue to favor the shares based upon its undemanding valuation and unique product offering that is essential to the industry. In addition, the completion of the **NXP Semiconductors (NXPI)** acquisition, which is expected to close by the end of the year, could serve as a catalyst for shares. While our two bank stocks, **Umpqua (UMPQ)** and **PNC Financial (PNC)**, performed in-line with the positive returns of the Financials sector (benefited from rising rates and less regulation), the Focus List lagged the sector overall led by a 12.7% decline in shares of **Synchrony Financial (SYF).** Shares were under pressure after it reported a surprise rise in loan loss provisions. Given the health of the consumer and the strong employment market, we believe this is more indicative of a normalization in the credit cycle rather than an outright deterioration. We remain positive on shares of SYF given its healthy underlying growth and its attractive shareholder capital return plans.

On the positive side, the Focus List's Consumer Discretionary exposure outperformed driven by strong gains in our most recent portfolio addition, **Expedia (EXPE)**. Positive trends within the travel industry and easy upcoming quarterly comparisons provided a catalyst for shares during the quarter, and longer term, a secular shift to on-line travel bookings should continue to be a tailwind for the Company, in our opinion. One notable sector underperformer during the quarter was a decline in Focus List holding **Chipotle (CMG)**. CMG shares gave back one-third of the year-to-date gain after management scaled back Q2 estimates ahead of intra-quarter investor meetings. Commentary from management suggested same-store sales (SSS) have remained healthy and continue to recover, but incremental costs could pressure EPS in the near term. CMG are undervalued, in our view, as we see long-term growth potential and a sales and EPS recovery story. The Materials sector was also a positive contributor for the Focus List during the quarter. Our lone sector holding, **Avery Dennison (AVY)**, posted a healthy 10% total return after reporting better than expected Q1 results and raising full year guidance. The top three Focus List performers in Q2 (total return) were: **Expedia (EXPE)** +18%, **Zoetis (ZTS)** +17%, and **Deere (DE)** +14%. The bottom three performers in Q2 were: **Schlumberger (SLB)** -15%, **Synchrony (SYF)** -12%, and **Chipotle (CMG)** -6%.

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Focus List Portfolio

High Quality Capital Appreciation Strategy of Best Ideas

Focus List Portfolio	6/30 Price	Total Return YTD	3 Mo.	1 Mo.	EPS Estimates FY1	FY2	P/Earnings Ratios FY1	FY2	Yield %
Focus List	—	**3.2%**	2.0%	1.2%	—	—	18.6x	15.6x	2.1%
S&P 500	2,423.41	**9.3%**	3.1%	0.6%	$131.18	$146.43	18.5x	16.6x	2.0%

Focus List Stocks	Ticker	'16 Year-End or '17 Add Price Date	Price	6/30 Price	Total Return YTD	3 Mo.	1 Mo.	EPS Estimates FY1	FY2	P/Earnings Ratios FY1	FY2	Yield %
Consumer Discretionary												
Chipotle Mexican Grill, Inc.	CMG	12/31	$377.32	**$416.10**	**10.3%**	-6.6%	-12.8%	$8.85	$12.75	47.0x	32.6x	0.0%
Dollar General Corporation	DG	12/31	$74.07	**$72.09**	**-2.3%**	3.8%	-1.8%	$4.43	$4.96	16.3x	14.5x	1.4%
Expedia, Inc.	EXPE[(A)]	3/23	$127.04	**$148.95**	**17.5%**	18.3%	3.6%	$5.26	$6.68	28.3x	22.3x	0.8%
Nordstrom, Inc.	JWN	12/31	$47.93	**$47.83**	**1.5%**	3.6%	14.4%	$3.01	$3.19	15.9x	15.0x	3.1%
Consumer Staples												
Church & Dwight Co., Inc.	CHD	2/15	$48.79	**$51.88**	**7.2%**	4.4%	0.4%	$1.91	$2.06	27.2x	25.2x	1.5%
Energy												
Schlumberger NV	SLB[(A)]	12/31	$83.95	**$65.84**	**-20.5%**	-15.1%	-5.4%	$1.55	$3.09	42.5x	21.3x	3.0%
Financials												
PNC Financial Services Group, Inc.	PNC	12/31	$116.96	**$124.87**	**7.8%**	4.3%	5.2%	$8.21	$8.88	15.2x	14.1x	2.4%
Synchrony Financial	SYF[(A)]	12/31	$36.27	**$29.82**	**-17.1%**	-12.7%	11.1%	$2.47	$3.14	12.1x	9.5x	1.7%
Umpqua Holdings Corporation	UMPQ[(A)]	12/31	$18.78	**$18.36**	**-0.5%**	4.4%	9.3%	$1.00	$1.15	18.4x	16.0x	3.5%
Health Care												
Express Scripts Holding Company	ESRX	12/31	$68.79	**$63.84**	**-7.2%**	-3.1%	6.8%	$6.94	$8.30	9.2x	7.7x	0.0%
Merck & Co., Inc.	MRK	12/31	$58.87	**$64.09**	**10.5%**	1.6%	-0.8%	$3.79	$4.01	16.9x	16.0x	2.9%
Stryker Corporation	SYK	12/31	$119.81	**$138.78**	**16.6%**	5.7%	-2.6%	$6.45	$7.06	21.5x	19.7x	1.2%
Zoetis, Inc. Class A	ZTS	12/31	$53.53	**$62.38**	**17.2%**	17.3%	0.3%	$2.35	$2.67	26.5x	23.4x	0.7%
Industrials												
Deere & Company	DE	12/31	$103.04	**$123.59**	**21.2%**	14.1%	1.4%	$6.25	$7.16	19.8x	17.3x	1.9%
General Electric Company	GE	12/31	$31.60	**$27.01**	**-13.1%**	-8.6%	-0.5%	$1.63	$1.89	16.6x	14.3x	3.6%
KBR, Inc.	KBR[(A)]	12/31	$16.69	**$15.22**	**-7.8%**	1.8%	12.3%	$1.30	$1.34	11.7x	11.4x	2.1%
Information Technology												
Apple Inc.	AAPL	12/31	$115.82	**$144.02**	**25.4%**	0.7%	-5.7%	$9.06	$10.44	15.9x	13.8x	1.7%
Intel Corporation	INTC[(A)]	12/31	$36.27	**$33.74**	**-5.6%**	-5.8%	-6.6%	$2.87	$3.05	11.8x	11.1x	3.2%
QUALCOMM Incorporated	QCOM[(A)]	12/31	$65.20	**$55.22**	**-13.7%**	-2.7%	-3.6%	$4.70	$4.92	11.7x	11.2x	4.1%
Materials												
Avery Dennison Corporation	AVY	3/2	$81.77	**$88.37**	**8.6%**	10.2%	5.4%	$4.30	$5.12	20.6x	17.3x	2.0%

Annual Performance (total returns)	2009	2010	2011	2012	2013	2014	2015	2016	2017
Focus List Model Portfolio	44.3%	21.8%	0.9%	9.4%	33.6%	5.7%	-17.3%	25.0%	3.2%
S&P 500	26.5%	15.1%	2.1%	16.0%	32.4%	13.7%	1.4%	12.0%	9.3%
Relative Performance	17.8%	6.7%	-1.2%	-6.6%	1.2%	-8.0%	-18.7%	13.0%	-6.1%

Rolling Returns (annualized) and Since Inception	1-year	3-year	5-year	Since Inception Cumulative	Annualized
Focus List Model Portfolio	20.8%	2.1%	9.8%	192.6%	13.5%
S&P 500	17.9%	9.6%	14.6%	222.0%	14.8%
Relative Performance	2.9%	-7.5%	-4.8%	-29.4%	-1.3%

Notes:

- For stocks added to the Focus List Model Portfolio in 2017, YTD total return is calculated from the date it was added through 6/30/2017. All prices and return information reflect closing prices.
- **2017 Additions:** Church & Dwight (CHD) added 2/15/17; Avery Dennison (AVY) added 3/2/17; Expedia (EXPE) added 3/23/17
- **2017 Removals:** International Paper (IP) removed 1/31/17; United Natural Foods (UNFI) removed 2/15/17; Harley Davidson (HOG) removed 3/23/17
- Portfolio additions/removals by calendar year: **2009** 8/4; **2010** 7/8; **2011** 8/5; **2012** 5/8; **2013** 6/7; **2014** 7/4; **2015** 6/5; **2016** 8/5; **2017** 3/3

[(A)] D. A. Davidson & Co. makes a market in this security.

Model Portfolio inception date for the Focus List is 12/31/2008.
The Focus List is currently prepared by James Ragan, CFA & Tim Vediz, CFA.
Sources: D.A. Davidson & Co., FactSet, Morningstar Equity Research

The Focus List Apple Inc. (AAPL)

New Products and Expanding Ecosystem Expected to Drive Growth in Mobile Market

Price (7/13/17)	$147.77
Style	Large-Cap Growth
Market Sector	Information Technology

EPS & REVENUE FORECASTS*

FY Ended Sep	**2016A**	**2017E**	**2018E**
Revenue ($bln)	$214.2	$228.2	$249.9
EPS	$8.31	$9.06	$10.44
P/E Ratio	17.8x	16.3x	14.2x

KEY STATISTICS

52-wk. Price Range	$96 - $157
Average Daily Volume (3mo.)	27,085,602
Market Value	$770.4 billion
Shares Outstanding (m)	5,214
Cash per share	$12.87
LT Debt/Capital	36.3%
Book Value per share	$25.76
Dividend & Yield	$2.52 / 1.71%

VALUATION SUMMARY

		5 Year			Rel. to
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	17.3x	18.4x	9.9x	13.7x	0.8x
P/Book	5.7x	6.3x	2.9x	4.7x	1.9x
P/Sales	3.5x	4.2x	2.2x	3.0x	1.7x
EV/EBITDA	11.6x	12.2x	5.7x	8.9x	0.9x
EV/Sales	3.6x	4.0x	2.0x	3.0x	1.5x

GROWTH SUMMARY *as of FY Ended 9/16*

	1-yr.	**3-yr.**	**5-yr.**	**10-yr.**
Sales	-7.4%	7.8%	14.6%	27.2%
EBITDA	-11.4%	7.8%	13.7%	38.4%
Net Income	-14.4%	7.2%	12.0%	36.8%
EPS (Diluted)	-9.9%	13.5%	16.0%	38.3%
Dividends	10.1%	10.2%	-	-

COMPANY DESCRIPTION

Apple Inc. is a global leader in the design, production, and sale of personal and mobile computing and communicating devices and its supplementary software. Included within its related products and services, the Company's leading business segments include iPhone (63% of FY16 revenue), Services (11%), Mac (11%), and iPad (10%), Apple also markets its Apple TV and accessories through its online and retail stores, as well as third-party distributors. Apple was founded in 1976 and is headquartered in Cupertino, CA.

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Apple (AAPL) makes the world's top-selling mobile communications devices, delivering computing products and services to consumers and enterprises. Given its robust product cycle and stickiness of the Apple ecosystem, we believe shares of AAPL remain attractive for long term investors.

AAPL offers market-leading products across several mobile-device categories including iPhone, iPad, Mac computers, and the iTunes music and App stores. In addition, Apple TV and Apple Watch are new or updated categories, offering high long-term growth potential. The Company has built an ecosystem around an integrated hardware, software, and services model that allows users to access content across multiple devices. Users of Apple products tend to be heavy consumers of digital content. We view the Apple ecosystem as a substantial competitive advantage, as switching platforms becomes difficult once customers place digital content on Apple operating systems (notably iOS). According to the research firm IDC, AAPL commands 14% of the global smartphone market, trailing Samsung in unit shipments, but leading in revenue and at the high-end of the market. IDC estimates that global smartphone units increased 1% in 2016 but that 4G smartphones, comprising 80% of the market, increased 21%.

At its current valuation, AAPL shares appear to be discounting slowing growth in future periods as the law of large numbers makes percentage growth more challenging. However, we continue to see growth potential based upon new products (iPhone 7 and & 7 Plus), higher average selling prices (ASPs) from AirPods and iPhone 7 Plus trade up, continued growth in China, and easier comparisons versus 2016 which should provide a solid bridge until the highly anticipated, late-2017 launch of its next phone. The Company's recently introduced Apple Upgrade Plan, in which the Company leases iPhones directly to customers, could accelerate the iPhone upgrade cycle and lead to higher gross margins, in our view. Other recent new products include a larger, business-focused iPad Pro, Apple Watch Series 2, and Apple TV. Each of these products, in addition to market share gains from Mac computers, is expected to contribute to growth in the coming quarters. In our view, AAPL is a leader in global consumer adoption of mobile technology, and is well-positioned as the premium brand.

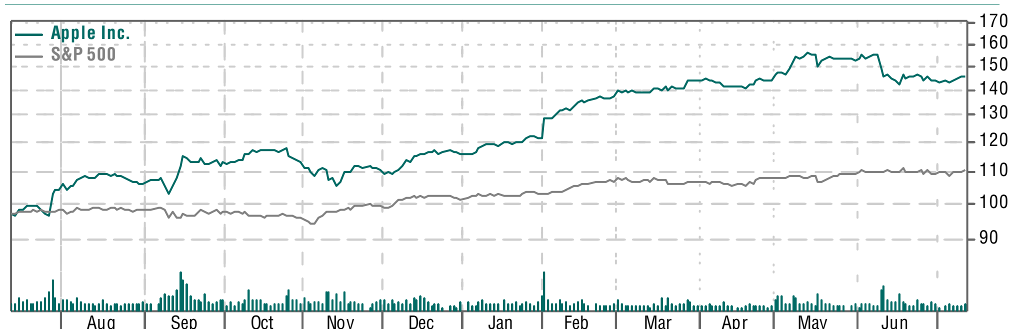
Recent Results and Valuation

AAPL's fiscal 2Q17 results on 5/2/17 exceeded revenue and EPS estimates due to higher y/y iPhone prices, growth in Services and Mac computers, and solid margins. After three quarters of decline, AAPL reported its second quarter in a row of y/y revenue growth. Sales continue to be driven by iPhones bolstered by the launch of the iPhone 7 and 7 Plus in September 2016, with the popularity of the premium-priced 7 Plus driving higher average selling prices. Anticipation remains high for the next generation iPhone (possibly named "iPhone 8"), which will celebrate the iPhone's ten-year anniversary, with an expected release in calendar 2017.

IIG Research's $172 price target is based on 16.5x its FY18 EPS estimate of $10.44. AAPL's current forward P/E of 15.6x compares to its five-year average of 14.7x, and a range of 8x-16x.

** Apple Inc. is currently covered by James Ragan, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 5/4/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500



The Focus List Avery Dennison Corporation (AVY)

Diversified Label Manufacturer with High Return on Capital and Strong Cash Generation

Price (7/13/17)	$93.08
Style	Mid-Cap Value
Market Sector	Materials

EPS & REVENUE FORECASTS*

FY Ended Dec	2016A	2017E	2018E
Revenue ($mln)	$6,087.0	$6,380.0	$6,676.0
EPS	$3.54	$4.30	$5.12
P/E Ratio	26.3x	21.6x	18.2x

KEY STATISTICS

52-wk. Price Range	$69 - $94
Average Daily Volume (3mo.)	611,901
Market Value	$8.2 billion
Shares Outstanding (m)	89
Cash per share	$3.53
LT Debt/Capital	48.1%
Book Value per share	$11.44
Dividend & Yield	$1.80 / 1.93%

VALUATION SUMMARY

		5 Year			Rel. to
	Last	High	Low	Avg.	SP500
P/E (LTM)	24.5x	24.5x	16.8x	20.6x	1.2x
P/Book	8.1x	8.1x	2.0x	4.6x	2.6x
P/Sales	1.4x	1.4x	0.6x	0.9x	0.7x
EV/EBITDA	11.8x	11.8x	6.4x	8.6x	0.9x
EV/Sales	1.5x	1.5x	0.7x	1.0x	0.6x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	3-yr.	5-yr.	10-yr.
Sales	2.0%	-0.3%	0.2%	0.9%
EBITDA	10.5%	4.4%	5.5%	0.9%
Net Income	16.9%	9.5%	15.7%	-0.9%
EPS (Diluted)	19.8%	15.2%	14.7%	0.1%
Dividends	9.6%	11.9%	9.9%	0.2%

COMPANY DESCRIPTION

Avery Dennison Corp. engages in the provision of labeling and packaging materials and solutions. Its businesses include the production of pressure-sensitive materials and a variety of tickets, tags, labels, and other converted products. It operates through the following business segments: Label & Graphics Materials (69% of 2016 sales), Retail Branding and Information Solutions (24%), and Industrial & Healthcare Materials (7%). In 2015, 74% of sales occurred outside of the U.S. The Company was founded in 1935 and is headquartered in Glendale, CA.

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Over the past three years, Avery Dennison (AVY) management has expanded margins and delivered strong and increasing returns on capital (from a 2010-2013 average of 9.0% to 17.0% in 2016) despite poor performance in its commodity label business within Retail Branding & Information Systems (RBIS) and significant currency headwinds. At its March 8th investor day, AVY updated its 2021 financial targets (4% organic revenue growth, 11% operating margins, 10% annualized earnings growth, and 17% return on capital), after it met or exceeded its prior financial targets that were set for the 2014-2018 period. We believe organic growth in AVY end markets, improvement in the margin structure of the RBIS segment, and increasing returns to shareholders provides attractive total return potential for the stock.

Mid-single digit organic growth is expected to continue in the Label & Graphics Materials segment (LGM). Products sold include labels for consumer products (personal care and food/beverage), shipping labels and bar codes, and durable graphics used in advertising. Primary competitors in this space include 3M (MMM), UPM Raflatac (UPMKY), and LINTEC (listed in Japan). MMM is the margin leader in the space, with operating margins in the low-20% range, however AVY's revenue growth (7.0% five-year CAGR) and operating margin (9.5% five-year average) consistently outperformed the others in the peer group. We believe the gap between AVY and MMM operating margins indicate that AVY's operating margin targets of 12.5-13.5% in 2021 (up 1% from current levels) have room to surprise on the upside.

There are two primary product lines within RBIS: technology-enabled labeling such as Radio-Frequency Identification (RFID), and commodity tags and labels for clothing manufacturers. RFID solutions (~40% of segment revenue) are expanding rapidly and management expects growth of 20%+ for the foreseeable future. Commodity clothing labels are both less profitable and primarily differentiated on price. The Company has recently completed a restructuring initiative to reduce costs in the commodity label business. Results are visible in the margin increase to 7.1% in 2016 from the average of 3.8% over the previous four years. At its recent investor day, management expressed confidence that it will be able to further improve margins through additional cost reductions and has targeted 10-12% operating margins by 2021. Though we still believe the commodity label business is not a strategic fit for AVY's portfolio given the Company's focus on value-add products, if the segment can achieve its margin targets we would be less concerned about its continued ownership.

Since 2013, when AVY completed the sale of its office and consumer products business and reset its long-term financial targets, the Company has grown free cash flow from $191 million (mm) to $408mm and returned over $1 billion (B) to shareholders in the form of buybacks and dividends. Looking forward, AVY's implied dividend growth through 2021 is 10% annually, and the Company still expects to have between $2.1 billion and $2.5 billion to deploy for either acquisitions or buybacks.

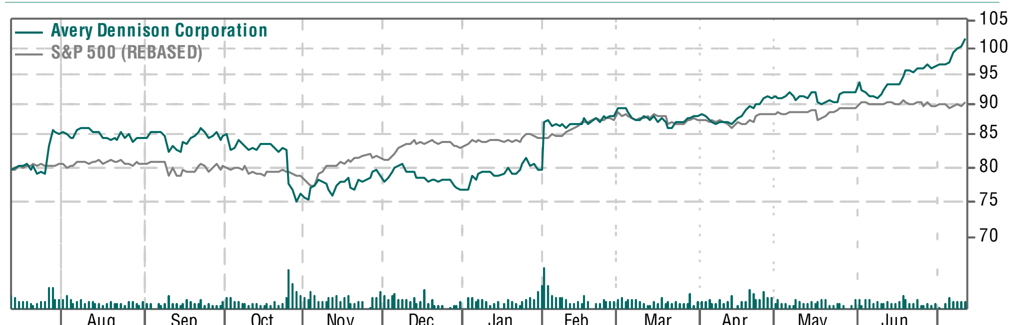
Recent Results and Valuation

AVY reported strong 1Q17 results on 4/26/17, beating both consensus revenue and EPS estimates. The Company also raised its FY17 EPS guidance from $4.30-$4.50 to $4.50-$4.65, representing a healthy 11.9% to 15.7% y/y growth rate. In addition, on 4/27/17, AVY increased its quarterly dividend by 9.8%.

The Davidson IIG Research price target of $98 is 15x its 2017 estimate of cash flow from operations (CFO) of $593mm and assumes a share count reduction of 2.5mm. Over the past five years the stock has traded in a range of 7.8x-18.3x CFO, with an average multiple of 12.3x and a current multiple of 12.2x. We believe the premium to average is warranted given the Company's high return on capital and potential for continued improvement in financial performance. The stock currently yields 1.9% and we expect the dividend to grow over the next several years.

* *Avery Dennison Corp. is currently covered by Matt Griffith, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 3/21/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500



The Focus List Chipotle Mexican Grill, Inc. (CMG)

Taking Positive Steps towards Rebuilding Customer Traffic

Price (7/13/17)	$400.04
Style	Large-Cap Growth
Market Sector	Consumer Discretionary

EPS & REVENUE FORECASTS*

FY Ended Dec	**2016A**	**2017E**	**2018E**
Revenue ($bln)	$3.9	$4.6	$5.2
EPS	$0.77	$8.85	$12.75
P/E Ratio	519.5x	45.2x	31.4x

KEY STATISTICS

52-wk. Price Range	$353 - $499
Average Daily Volume (3mo.)	922,433
Market Value	$11.5 billion
Shares Outstanding (m)	29
Cash per share	$20.13
LT Debt/Capital	0.0%
Book Value per share	$49.09
Dividend & Yield	$0.00 / 0.00%

VALUATION SUMMARY

		5 Year			**Rel. to**
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	121.6x	547.3x	29.6x	81.2x	5.8x
P/Book	8.1x	12.0x	6.1x	9.0x	2.6x
P/Sales	2.8x	5.9x	2.7x	4.1x	1.4x
EV/EBITDA	33.1x	60.6x	12.6x	25.1x	2.6x
EV/Sales	2.6x	5.6x	2.6x	3.9x	1.1x

GROWTH SUMMARY *as of FY Ended 1/17*

	1-yr.	**3-yr.**	**5-yr.**	**10-yr.**
Sales	-13.3%	6.7%	11.5%	16.8%
EBITDA	-77.5%	-31.5%	-13.9%	7.4%
Net Income	-95.2%	-58.7%	-36.1%	-5.7%
EPS (Diluted)	-94.9%	-58.1%	-35.2%	-5.0%
Dividends	-	-	-	-

COMPANY DESCRIPTION

Chipotle Mexican Grill develops and operates ~2,200 fast-casual, fresh Mexican food restaurants throughout the U.S. The Company also has ~50 restaurants in Canada, England, France and Germany, and two other unproven restaurant concepts (Pizzeria Locale and Tasty Made- burger concept opening on 10/27/16). The Company was founded by Steve Ells in 1993 and is headquartered in Denver, CO.

Leading up to its late-2015 food-borne illness outbreak, Chipotle Mexican Grill (CMG) was the envy of the restaurant industry with a superior growth and margin profile. From 2010 through 2014 margins consistently expanded (+75 bps per year) led by an average 10% increase in same store sales (SSS) and added scale through new restaurant openings (13% unit growth). Its $2.4 million in average unit volume (AUV) in 2014 was over 2x that of the average publicly traded restaurant. Coupling that with its small box footprint and it led to industry leading restaurant level operating margin (27.2% in 2014). More recently, sales and margins have been hampered by food-borne illness outbreaks, causing a sharp decline in shares. However, as consumers regain confidence in the brand, we expect its restaurant traffic to rebuild and for CMG to regain its industry leading status. We are positive on CMG's long runway for growth as we believe there is potential to more than double its U.S. store base over time.

In early February 2016, the CDC concluded its E. coli investigation at CMG's restaurants. Shortly after, CMG embarked on a significant marketing campaign to rebuild lines at its restaurants and to signal the "all clear" to customers. It increased media spending and offered free burritos, and in our opinion, this was the first step in regaining customer traffic and confidence in its brand. At the end of June, CMG launched its new rewards program, *Chiptopia*, and also added a new menu item (Chorizo) to select cities before a nationwide rollout in October. These items provide an element of newness and excitement, both positive steps to bringing back loyal customers to its restaurants, in our opinion. In April 2017, CMG embarked on its largest advertising campaign in company history. In addition, a recent board shakeup and the recently announced retirement of CMG's co-CEO likely will bring a fresh perspective and a renewed focus on the guest experience at its restaurants. We believe the risk of another food-borne illness outbreak has been highly mitigated through significant improvements surrounding food handling and safety, including changes to its preparation procedures and enhanced training programs, all of which started being communicated to customers in September 2016.

Due to the high level of incremental spending (marketing, staffing, technology initiatives, and food safety control), a rebound in margins and EPS will likely lag a sales recovery, but we believe shares of CMG will react positively to a continued improvement in sales. We believe investors will look past near term EPS pressures and focus on FY17 and beyond. Due to increased store openings and its benefits of added scale, our estimates reflect potential for margins to eventually surpass the recent peak seen in 2014.

Recent Results and Valuation

CMG reported 1Q17 results on 4/25/17 that exceeded estimates on both the top and bottom line. Q2 also got off to a strong start with April SSS up low double digits, trending slightly ahead of pre-report consensus estimates. However, on 6/20/17, and ahead of investor meetings, management talked down Q2 EPS expectations. We believe this is a near term hiccup related to higher food and SG&A costs. Management maintained its FY17 SSS guidance of high single digits. Although higher costs are presenting a near term setback, we take comfort in its continued recovery on recent sales momentum.

The IIG Research price target of $535 implies 42x its FY18 EPS estimate of $12.75. This uses a valuation metric closer to its ten-year peak given our expectation for an earnings rebound. Over the past ten years, CMG has traded at an average FY2 P/E ratio of 32.4x and in a range of 14.9-56.5x.

** Chipotle Mexican Grill, Inc. is currently covered by Tim Vediz, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 4/26/17. For a copy of this report, contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500

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The Focus List Church & Dwight Company (CHD)

Leading Brands Provide Growth and Stability

Price (7/13/17)	$52.00
Style	Large-Cap Blend
Market Sector	Consumer Staples

EPS & REVENUE FORECASTS*

FY Ended Dec	**2016A**	**2017E**	**2018E**
Revenue ($mln)	$3,493.1	$3,617.0	$3,744.0
EPS	$1.75	$1.91	$2.06
P/E Ratio	29.7x	27.2x	25.2x

KEY STATISTICS

52-wk. Price Range	$43 - $54
Average Daily Volume (3mo.)	1,478,537
Market Value	$13.0 billion
Shares Outstanding (m)	249
Cash per share	$0.56
LT Debt/Capital	21.6%
Book Value per share	$7.68
Dividend & Yield	$0.76 / 1.46%

VALUATION SUMMARY

		5 Year			Rel. to
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	28.5x	31.5x	21.9x	26.2x	1.4x
P/Book	6.8x	6.8x	3.4x	5.1x	2.2x
P/Sales	3.8x	3.9x	2.5x	3.2x	1.9x
EV/EBITDA	16.6x	17.6x	11.8x	14.8x	1.3x
EV/Sales	4.0x	4.1x	2.5x	3.3x	1.6x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	**3-yr.**	**5-yr.**	**10-yr.**
Sales	2.9%	3.0%	4.9%	6.0%
EBITDA	8.6%	5.7%	7.8%	10.2%
Net Income	11.8%	5.2%	8.2%	12.7%
EPS (Diluted)	14.0%	7.8%	10.5%	13.0%
Dividends	6.0%	8.2%	15.9%	27.0%

COMPANY DESCRIPTION

Church & Dwight Co., Inc. develops, manufactures and markets a range of household, personal care and specialty products. The Company focuses its marketing efforts on its ten power brands, which includes Arm & Hammer, Trojan Condoms, XTRA laundry detergent, OxiClean pre-wash laundry additive, Nair depilatories, First Response home pregnancy and ovulation test kits, Orajel oral analgesics, VitaFusion, L'il Critters vitamins, and SpinBrush battery-operated toothbrushes. The Company was founded in 1846 and is headquartered in Ewing, NJ.

Church & Dwight (CHD) has attractive defensive growth characteristics through its highly consumable, defensive, and diversified portfolio (60%/40% premium value mix; 48% household / 44% personal care) of leading brands with #1 or #2 market position. CHD's consistent product innovation, high brand investment (18th largest U.S. advertiser), and acquisition focus should provide a path for sustainable long term growth, in our opinion. At only 18% of sales, and given recent investments, we believe international also provides a long-term opportunity, and should grow in excess of the Company average. CHD's relentless focus on gross margin (25% of bonuses are based upon this performance metric) and operating expense control provides a path for continued margin expansion, leading to EPS growth above revenue growth. Over time, we expect low single digit organic revenue growth (enhanced through acquisitions) and high single digit EPS growth, in-line with the Company's "evergreen" model of 3% organic revenue growth and 8% EPS growth. We view shares of CHD as attractive for long term growth investors seeking stability.

CHD's roots date back to 1846 with Arm & Hammer (A&H) baking soda. Through acquisition, it has grown into a highly diversified portfolio of ten power brands with leading market share. Its ten brands represent 80% of total sales and profits and include A&H, Trojan (#1 condom), VitaFusion and L'il Critters (#1 adult & kids gummy vitamin), and OxiClean (#1 laundry additive) to name a few. To enhance growth, CHD introduces innovative new products in faster growing categories. In 2017, it has launched A&H Slide cat litter, a new technology that allows for easier litter box cleaning, an area of frustration for cat owners. Within vitamins, CHD has #1 share in adult gummy vitamins, a category that grew 19% in 2016 and continues to take share from traditional pill form; gummy has expanded from 3% share in 2012 to 11% in 2016. In 2017, CHD will expand into the gummy energy category. CHD is also expanding its dry shampoo product offering, a category that grew 28% in 2016 and is only 4% penetrated within the shampoo category. Through Batiste, CHD owns the #1 brand of dry shampoo, a category that provides an attractive alternative for women who forgo daily hair washing.

CHD is a serial acquirer. Since 2000, CHD has acquired 9 of its 10 power brands and has successfully grown market share by increasing distribution and advertising. Its strict criteria includes buying #1 or #2 brands with higher growth potential and higher than corporate average gross margin. At 1.4x debt to EBITDA, we believe CHD has acquisition power of $2.8 billion. Recent acquisitions include Anusol and Rectinol, the #1 or #2 hemorrhoid care brands, for $130 million. It also acquired Viviscal, the #1 non-drug haircare supplement brand, for $160 million. Both acquisitions are expected to be EPS accretive in FY18.

Recent Results and Valuation

CHD reported strong 1Q17 results on 5/4/17, exceeding analyst revenue and EPS estimates. Growth was again driven by better than expected results in its international segment. We expect international to continue to lead growth for CHD as its infrastructure investments pay off and its penetration gap versus larger peers narrows over time. CHD modestly raised its FY17 non-GAAP EPS guidance by $0.03 to $1.92 (+8.5% y/y, ahead of its long term target of +8%), which we view positively given the challenges other personal care companies have faced this year.

The Davidson IIG Research price target is $57, based upon a multiple of 25.1x its FY17 free cash flow (FCF) estimate of $2.27 per share. Given CHD's best in class FCF conversion we believe this is an appropriate metric to value shares. Considering leading brand status and consistent growth, we believe CHD can trade closer to the high end of its valuation range. Over the past 10 years, CHD has traded with an average forward P/FCF multiple of 20x and within a range of 13x-28x.

** Church & Dwight Co., Inc., Inc. is currently covered by Tim Vediz, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 5/9/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500

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The Focus List Deere & Company (DE)

Operational Improvements Taking Shape

Price (7/13/17)	$124.42
Style	Large Cap Value
Market Sector	Industrials

EPS & REVENUE FORECASTS*

FY Ended Oct	2016A	2017E	2018E
Revenue ($bln)	$26.5	$26.0	$27.9
EPS	$4.81	$6.25	$7.16
P/E Ratio	25.9x	19.9x	17.4x

KEY STATISTICS

52-wk. Price Range	$77 - $129
Average Daily Volume (3mo.)	2,608,546
Market Value	$39.8 billion
Shares Outstanding (m)	320
Cash per share	$15.86
LT Debt/Capital	53.9%
Book Value per share	$24.03
Dividend & Yield	$2.40 / 1.93%

VALUATION SUMMARY

		5-Year			Rel. to
	Last	High	Low	Avg.	S&P 500
P/E (LTM)	22.4x	23.7x	9.0x	13.4x	1.1x
P/Book	5.2x	5.2x	2.7x	3.9x	1.7x
P/Sales	1.5x	1.5x	0.8x	1.0x	0.7x
EV/EBITDA	14.9x	15.8x	8.1x	11.1x	1.2x
EV/Sales	2.6x	2.6x	1.6x	1.9x	1.1x

GROWTH SUMMARY *as of FY Ended 10/16*

	1-yr.	3-yr.	5-yr.	10-yr.
Sales	-7.8%	-11.1%	-3.7%	1.8%
EBITDA	1.0%	-15.4%	-6.1%	1.0%
Net Income	-21.5%	-24.5%	-11.5%	0.5%
EPS (Diluted)	-16.6%	-19.1%	-6.2%	4.4%
Dividends	0.0%	6.4%	9.6%	11.9%

COMPANY DESCRIPTION

Deere & Co. manufactures and distributes equipment involved in the agriculture, construction, forestry, and turf industries. The Company operates in four segments: Agriculture & Turf (69% of FY16 revenue), Construction & Forestry (18%), Financial Services (10%), and Other (2%). The Company was founded by John Deere in 1837 and is headquartered in Moline, IL

In the period since 2006, which includes both the current decline in farm income and the Global Financial Crisis, DE has averaged a 19% return on invested capital, and we believe the Company can sustain attractive returns going forward as the ag cycle normalizes.

DE is the largest seller of agricultural machinery globally. The Company's primary competitors are AGCO (AGCO) and CNH (CNHI), whose 2016 combined sales of agricultural equipment ($17.5B) are below DE's FY2016 sales of $18.5B from the Ag & Turf segment. Over the past five years, DE's average equipment operating margin of 12.8% is higher than both AGCO (6.1%) and CNH (10.1%). DE is also known for strong R&D. We estimate the Company has invested 4.4% of revenue in agriculture-related R&D over the past five years relative to both AGCO and CNHI at 3.4% of revenue. DE's continued investment in its product should allow this operating margin gap to persist.

Real U.S. farm incomes declined for its fourth consecutive year in 2016, just the fourth time this has occurred since 1960, and they have never declined for five consecutive years. Commodity price declines have had a large impact on farm income, and while recent USDA data is mixed (wheat and cotton stocks-to-use is elevated but corn and soybeans are within historical averages), we believe continued global population growth will support demand and prices over time. The strong dollar also has impacted commodity prices globally. For example, over the past twenty years the price of corn and the ICE US Dollar Index (DXY) have a correlation of -0.68. Since the start of 2014, DXY has appreciated by 20%. DE also has exposure to the construction industry. Reduced activity from energy/energy-related customers and a skew in housing starts from single- to multi-family have impacted DE's revenues.

Over the past ten years, farm machinery as a percentage of assets has averaged 9.0% versus the current reading of 7.7%, indicating that the decline in income has led to underinvestment in farm machinery. We believe shares are well-positioned for a rebound in agriculture and construction.

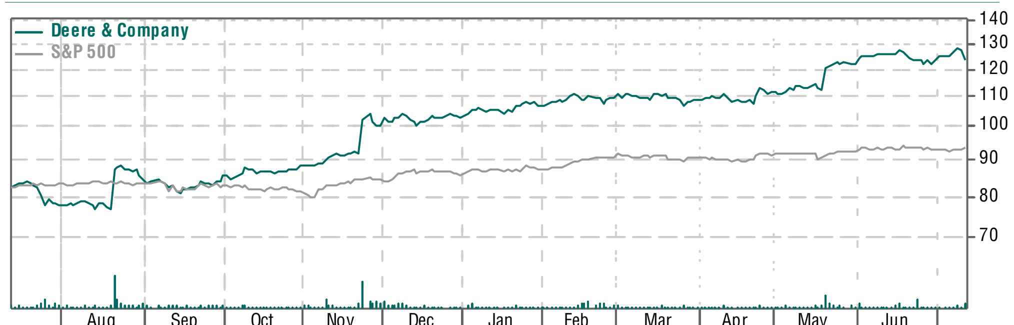
Recent Results and Valuation

DE reported fiscal 2Q17 results on 5/19/17 which included a modest revenue miss and a large EPS beat, relative to consensus analyst estimates. The EPS beat reflects the realization of last year's announced cost cutting efforts. We maintain a favorable long term view of the Company and believe it can continue exceeding earnings estimates over the next few quarters if revenue growth meets management's targets.

The IIG Research price target of $135 is calculated by applying the five-year average P/E for the S&P 500 Capital Goods industry group (15.5x) to IIG Research's estimate of DE's mid-cycle earnings potential of $8.70.

** Deere & Company is currently covered by Matthew Griffith, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 5/23/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500



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The Focus List Dollar General Corporation (DG)

Attractively Valued With Long-Term, Sustainable Growth Potential

Price (7/13/17)	$70.58
Style	Large-Cap Growth
Market Sector	Consumer Discretionary

EPS & REVENUE FORECASTS*

FY Ended Jan	2016E	2017E	2018E
Revenue ($bln)	$22.0	$23.6	$25.5
EPS	$4.43	$4.43	$4.96
P/E Ratio	15.9x	15.9x	14.2x

KEY STATISTICS

52-wk. Price Range	**$66 - $97**
Average Daily Volume (3mo.)	3,084,902
Market Value	$19.4 billion
Shares Outstanding (m)	274
Cash per share	$0.75
LT Debt/Capital	30.7%
Book Value per share	$20.16
Dividend & Yield	$1.04 / 1.47%

VALUATION SUMMARY

		5-Year			Rel. to
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	15.9x	22.7x	15.7x	18.5x	0.8x
P/Book	3.5x	5.0x	3.0x	3.7x	1.1x
P/Sales	0.9x	1.3x	0.9x	1.1x	0.4x
EV/EBITDA	9.0x	12.8x	8.6x	10.4x	0.7x
EV/Sales	1.0x	1.4x	1.0x	1.2x	0.4x

GROWTH SUMMARY *as of FY Ended 1/17*

	1-yr.	3-yr.	5-yr.	10-yr.
Sales	7.9%	7.9%	8.2%	9.1%
EBITDA	6.6%	5.7%	6.6%	18.5%
Net Income	7.4%	6.9%	10.3%	24.7%
EPS (Diluted)	12.2%	11.8%	14.8%	26.0%
Dividends	13.6%	-	-	17.5%

COMPANY DESCRIPTION

Dollar General Corp. is a discount retailer with over 12,000 stores in 47 states. It is the largest discount retailer by sales and is a close second by store count. The Company offers a selection of merchandise including consumables (76% of sales), seasonal (12% of sales), home products (6% of sales), and apparel (6% of sales) through everyday low prices in convenient (7,400 sq. feet) neighborhood locations. In addition to its high quality private brands (Smart & Simple, Rexall: 24% of sales), DG sells products from the most-trusted name brands.

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DG is the largest discount retailer in the U.S. by sales ($22.0 billion in FY16) and is a close second by store count (13,320). Given DG's convenience and value proposition, its outsized exposure to consumable sales (76% of sales) and multiyear store growth opportunity (~50% penetrated), we view DG as a defensive growth story with a proven track record of performing in a wide variety of economic conditions. This is demonstrated by an impressive track record of 27 years of same-store sales (SSS) growth—a rare achievement in the retail space. Advantages lie with its product sourcing, small market focus, efficient distribution, and strong management team.

We believe that DG's continued SSS growth is attributed to its solid value proposition and its convenient small store format. SSS drivers include expansion in Health & Beauty and increased cooler doors across its store base (17 cooler doors on average, up from 10 in 2012), allowing for additional growth in its consumable offering. Positively, DG sees a ~50% pickup in the average customer basket size when it includes a perishable item. Enterprise resource planning (ERP) initiatives to support inventory optimization were recently completed, and should provide added visibility and tools to support future SSS growth and gross margin expansion, in our opinion. Given that DG's average basket size is only ~$10, it would not take much in the way of incremental spending for DG to get a meaningful SSS lift. With new stores running at ~80% new store productivity, and with the rollout of its smaller format store we see the potential to double its current store base, supporting future sales growth. The Company intends to open 1,000 stores in FY17, equating to 7.5% growth.

Although gross margin is close to its ten-year average of 30.4%, we see long-term upside through continued improvement in shrink (theft), ongoing expansion in private label, and ERP initiatives. In the short-term, however, higher discounting from peers and higher SG&A expense will likely limit any operating margin upside, but we believe many of these factors are already reflected in the price of the stock. Mitigating the recent sales and expense headwinds is the FY16 introduction of zero based budgeting which has allowed DG to lower its SSS SG&A leverage point.

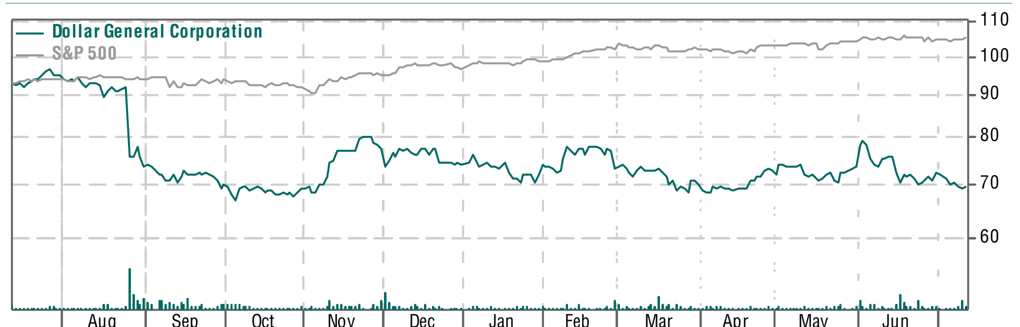
Recent Results and Valuation

DG posted better than expected 1Q17 results on 6/1/17. We view Q1 results as favorable given the challenging retail environment, and we attribute DG's success to its niche focus, strong management team, and ability to remain a low-cost operator.

The IIG Research price target is $85, based upon a multiple of 17.1x its FY18 EPS estimate of $4.96. We believe DG has room for multiple expansion as investors once again appreciate its domestic defensive growth story. Over the past five years, DG has traded at an average P/E of 15.4x and within a range of 12.7x-18.7x.

** Dollar General Corporation is currently covered by Tim Vediz, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 6/5/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500



The Focus List Expedia, Inc. (EXPE)(A)

Diversified Online Travel Giant offers Growth at a Reasonable Price

Price (7/13/17)	$152.90
Style	Large-Cap Growth
Market Sector	Consumer Discretionary

EPS & REVENUE FORECASTS*

FY Ended Dec	2016A	2017E	2018E
Revenue ($bln)	$8.8	$10.1	$12.0
EPS	$4.49	$5.26	$6.68
P/E Ratio	34.1x	29.1x	22.9x

KEY STATISTICS

52-wk. Price Range	$106 - $156
Average Daily Volume (3mo.)	1,728,244
Market Value	$21.1 billion
Shares Outstanding (m)	138
Cash per share	$24.53
LT Debt/Capital	43.7%
Book Value per share	$27.09
Dividend & Yield	$1.12 / 0.73%

VALUATION SUMMARY

		5-Year			Rel. to
	Last	High	Low	Avg.	SP500
P/E (LTM)	78.0x	115.4x	17.7x	42.8x	3.7x
P/Book	5.6x	8.2x	2.9x	4.7x	1.8x
P/Sales	2.5x	2.9x	1.5x	2.1x	1.2x
EV/EBITDA	17.4x	21.1x	7.1x	13.3x	1.4x
EV/Sales	2.7x	3.1x	1.3x	2.1x	1.1x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	3-yr.	5-yr.	10-yr.
Sales	31.5%	22.5%	20.5%	14.6%
EBITDA	42.9%	20.0%	15.9%	9.2%
Net Income	-63.1%	6.6%	-2.8%	1.4%
EPS (Diluted)	-68.1%	2.9%	-11.8%	2.7%
Dividends	19.0%	21.3%	12.3%	-

COMPANY DESCRIPTION

Expedia, Inc. (EXPE) is a leading global online travel agent (OTA). The Company generated $72 billion in gross travel bookings in 2016, operating through a variety of notable brands including Expedia, Hotels.com, Hotwire, Travelocity, Orbitz, CarRentals.com, and recently endeavored into the alternative lodging space with its purchase of HomeAway (VRBO and VacationRentals.com). Expedia also offers corporate travels services through its Egencia brand, and holds 60% ownership stake in metasearch company Trivago (TRVG-$22.75). Expedia was founded in 1996 and spun-off publically in 2005. Expedia is headquartered in Bellevue, WA.

Expedia, Inc. (EXPE) has built a leadership position in online travel, both organically and through mergers and acquisitions (M&A), and we see considerable opportunity for sustained growth in the future. Despite rapid online travel industry growth over the past two decades, just ~40% of the current $1.3 trillion annual global travel market is completed through online channels. EXPE should benefit from the online penetration rate moving higher over time, and also from consolidation of a fragmented market of online booking sites. 2017 shapes up as a transition year as EXPE moves its platform to the cloud and invests behind its alternative lodging company, HomeAway, but management guides for still-attractive adjusted EBITDA growth of +10-15%. We expect profit growth to inflect higher in 2018, and think current price offers compelling upside potential for long-term investors.

EXPE is one of the most diverse travel companies, operating through four distinct segments: Core OTA, Egencia (corporate travel), Trivago (metasearch), and HomeAway (alternative lodging). Its core OTA brands (Expedia, Hotels.com, Hotwire, 2015 acquisitions Travelocity and Orbitz, and many others) generate revenue by extracting a portion of travel booked on its websites and mobile apps. Hotel is the most meaningful travel segment, representing roughly 60% of revenue. Egencia addresses the $300-$400 billion corporate travel market, and although currently small and lower margin, there is considerable growth potential. EXPE expects Egencia to double its bookings over the next four years from $6.4 billion in 2016. Trivago is a leading hotel "metasearch" provider that allows users to search multiple OTA sites for the best price on hotels. Trivago has displayed impressive growth in various global markets, and recently went public in December (TRVG). EXPE maintains voting control of Trivago and its ~60% equity stake has a market valuation of over $4 billion. HomeAway, acquired in late 2015, lists over 1.2 million vacation rentals and alternative lodging destinations, and is the closest competitor to privately held Airbnb (2.0 million listings, recent $31B private valuation). EXPE is in the midst of improving the online platform and monetization of HomeAway, as it shifts from a primarily subscription-based model to one that charges a fee per transaction.

EXPE is a strong cash flow generator, earning $815 million in free cash flow during 2016, and the FCF profile should improve in future years as it transitions its business to the cloud (less database capex). The balance sheet is solid in our view with net debt/adjusted EBITDA of 0.8x. EXPE raised its dividend for the fifth consecutive year in February. *Potential catalysts for EXPE:* progress toward EXPE's goal of $350 million in adjusted EBITDA at HomeAway by 2018 from a base of $175 million in 2016, and after decelerating trends in booked hotel room nights during early 2016 as it focused on integrating Travelocity and Orbitz, continued improvement in the metric during 2017 would be well-received by investors.

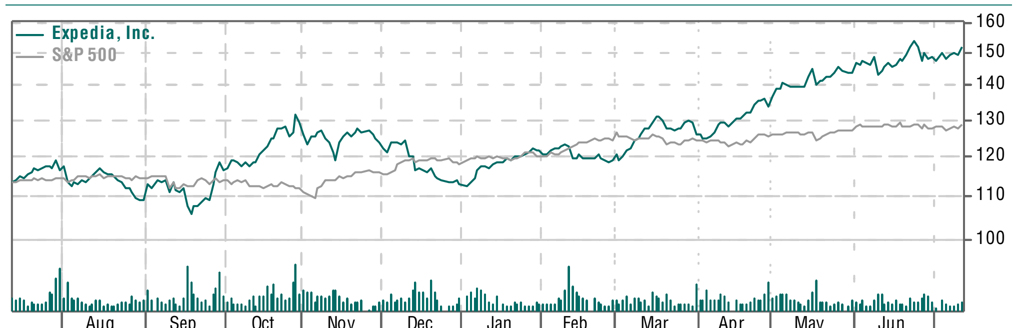
Recent Results and Valuation

EXPE reported 1Q17 results on 4/27/17 in which adjusted EBITDA exceeded consensus expectation. Core hotel and HomeAway room nights "stayed," an important measure of shopper engagement and conversion, decelerated slightly from Q4's level, but indicated improvement versus mid-2016 levels. We believe EXPE is positioned to continue to take share in the growing global travel market.

The Davidson IIG Research price target of $163 is based on a 10.4x EV/EBITDA multiple of IIG Research's adjusted 2018 EBITDA estimate of $2.05B (excluding TRVG), plus net cash of $218 million, and plus an estimated $3.5B stake in TRVG; the target also corresponds to 24.4x its adjusted 2018 EPS estimate of $6.68. We find the EXPE valuation reasonable given the Company's diverse leadership position in online travel and its considerable growth opportunities.

** Expedia, Inc. is currently covered by Brent Williams, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 5/1/17. For a copy of this report, contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500



(A) **D. A. Davidson & Co. makes a market in this security.**

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The Focus List Express Scripts Holding Company (ESRX)

An Underappreciated Player in Health Care

Price (7/13/17)	$61.72
Style	Large-Cap Growth
Market Sector	Health Care

EPS & REVENUE FORECASTS*

FY Ended Dec	**2016A**	**2017E**	**2018E**
Revenue ($bln)	$100.3	$102.5	$105.8
EPS	$5.39	$6.94	$8.30
P/E Ratio	11.5x	8.9x	7.4x

KEY STATISTICS

52-wk. Price Range	$58 - $80
Average Daily Volume (3mo.)	4,762,205
Market Value	$36.6 billion
Shares Outstanding (m)	594
Cash per share	$5.33
LT Debt/Capital	44.2%
Book Value per share	$26.83
Dividend & Yield	$0.00 / 0.00%

VALUATION SUMMARY

		5 Year			Rel. to
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	11.2x	35.7x	10.8x	26.2x	0.5x
P/Book	2.3x	3.8x	1.9x	2.7x	0.7x
P/Sales	0.4x	0.8x	0.4x	0.5x	0.2x
EV/EBITDA	6.7x	19.9x	6.6x	10.1x	0.5x
EV/Sales	0.5x	1.1x	0.5x	0.7x	0.2x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	**3-yr.**	**5-yr.**	**10-yr.**
Sales	-1.3%	-1.2%	16.8%	19.0%
EBITDA	-0.5%	2.5%	23.1%	22.8%
Net Income	37.5%	21.5%	21.7%	21.8%
EPS (Diluted)	51.4%	35.1%	16.3%	20.5%
Dividends	-	-	-	-

COMPANY DESCRIPTION

Express Scripts Holding Co. is the United States' largest pharmacy benefit manager (PBM). It also offers a full range of health care services to its clients, which include managed care organizations, health insurers, third-party administrators, employers, union-sponsored benefit plans, worker's compensation plans, and government health programs. Express Scripts was founded in 1986 and is headquartered in St. Louis, MO..

Express Scripts (ESRX) is the largest pharmacy benefit manager (PBM) in the U.S., with an estimated market share of 30%. We think ESRX provides a critical service in helping its health care customers contain rising drug costs. Secular tailwinds specifically include the generally aging U.S. population and the expansion of health coverage to the previously uninsured.

An increased focus on overall medical cost control should benefit PBMs like ESRX, as they aid in lowering drug costs through their massive bargaining power with pharmaceutical manufacturers and distributors. Drivers of these higher costs include innovative and life-savings new treatments for hepatitis C, diabetes, and cancer. Pharmaceutical usage frequency could also see an uptick going forward as a frontline method for treatment where drugs can mitigate or prevent costlier hospital stays and medical procedures.

While ESRX's growth has slowed, due to its significant size and overall industry maturation, we still believe that a combination of low-single digit revenue growth, further SG&A leverage (margin expansion) and continued share buybacks from steady cash flow can drive solid earnings per share growth. Risks to our thesis include cresting of the recent patent cliff (generic drugs are more profitable for PBMs); uncertainty around the impact of public/private health exchanges; competitive pricing pressure from CVS Health Corp (CVS-$77.92 –Not Rated) and others, and insourcing of the PBM function by major managed care organizations such as UnitedHealth (UNH), which did so in 2013.

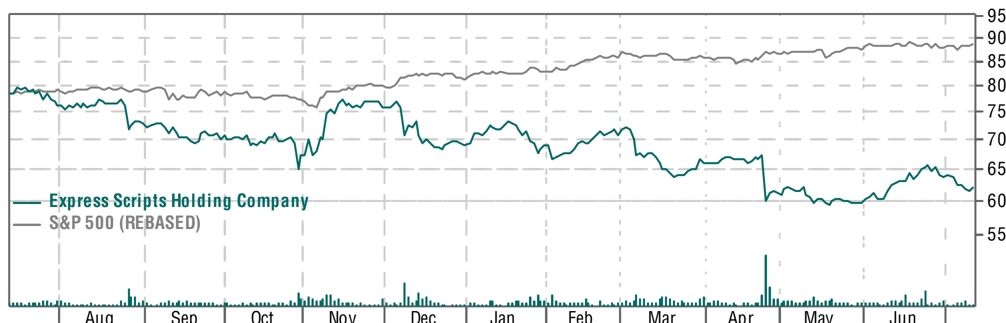
Recent Results and Valuation

ESRX reported mostly in-line 1Q17 results on 4/24/17. Overshadowing results was the Company's update on its large and contentious contract with Anthem (ANTM) where ESRX said it is unlikely the contract gets extended beyond 2019; ANTM equates to ~17% of ESRX revenue and ~31% of its adjusted EBITDA. Given the open dialogue by ANTM's CEO we believe ESRX's shares had mostly priced in this adverse outcome. Despite the likely loss of the large contract, we remain optimistic on shares of ESRX due to its undemanding valuation for a Company that has proven its ability to drive down drug costs for its customers. ESRX recently discussed its 2016 Drug Spending report, including data that ESRX clients experienced a 2.5% drug price increase per unit compared to an 11% increase for the industry, and patients paid a slightly lower percentage of treatment costs for the second consecutive year.

Shares are currently trading at 8.4x forward earnings expectations compared to a five-year average of 13.0x. Given its steady and defensive business operations, and consistent track record of earnings growth, we believe ESRX deserves a higher multiple. Consensus and Morningstar Equity Research expectations are for double-digit EPS growth over the next few years, which appears reasonable to us. The Morningstar Equity Research fair value estimate for ESRX is $89.

** Express Scripts is currently covered by Morningstar Equity Research. All estimates referenced in the Focus List were taken from the Morningstar report published on 6/22/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500



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The Focus List General Electric Company (GE)

Global Infrastructure Leader Struggling Through Transformation

Price (7/13/17)	$26.79
Style	Large-Cap Growth
Market Sector	Industrials

EPS & REVENUE FORECASTS*

FY Ended Dec	**2016A**	**2017E**	**2018E**
Revenue ($bln)	$119.9	$124.9	$132.6
EPS	$1.31	$1.63	$1.89
P/E Ratio	20.5x	16.4x	14.2x

KEY STATISTICS

52-wk. Price Range	$26 - $33
Average Daily Volume (3mo.)	38,668,552
Market Value	$233.3 billion
Shares Outstanding (m)	8,709
Cash per share	$4.77
LT Debt/Capital	49.4%
Book Value per share	$8.58
Dividend & Yield	$0.96 / 3.58%

VALUATION SUMMARY

		5 Year			Rel. to
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	24.7x	779.7x	15.6x	104.3x	1.2x
P/Book	3.1x	3.6x	1.8x	2.4x	1.0x
P/Sales	2.0x	2.7x	1.5x	1.9x	1.0x
EV/EBITDA	18.2x	27.2x	14.0x	17.8x	1.4x
EV/Sales	2.7x	4.2x	2.7x	3.6x	1.1x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	**3-yr.**	**5-yr.**	**10-yr.**
Sales	3.4%	-6.0%	-3.3%	-2.9%
EBITDA	14.4%	-17.3%	-12.4%	-9.0%
Net Income	482.2%	-13.6%	-7.0%	-7.2%
EPS (Diluted)	608.8%	-10.5%	-3.5%	-6.5%
Dividends	1.1%	5.6%	8.8%	-1.0%

COMPANY DESCRIPTION

GE is a diversified manufacturer that is organized into five industrial segments—Energy Infrastructure, Aviation, Healthcare, Transportation, Home & Business Services, and Capital Services—and GE Capital. The Company serves a wide variety of end markets with products ranging from light bulbs to jet engines to medical imaging and information technologies. GE was founded by Thomas A. Edison and is headquartered in Fairfield, CT.

General Electric (GE) is a leading manufacturer of power generation equipment (turbines), aircraft and locomotive engines, health care imaging technology, , and oil and gas drilling equipment and technology. In April 2015, GE announced an ambitious plan to exit all non-core financial businesses, creating a "new GE" that derives 90% of its income from industrial segments. GE has a leadership position in multiple industrial markets with a substantial backlog that includes strong recurring revenue from services that should support growth despite a volatile global economy.

The remaining GE Capital represents a valuable industrial finance company that supports GE's industrial segments. However, the divestiture of the financial services business was a welcome development as it represented a significant headwind to valuation in the past, in our view. While the global economic landscape remains challenging, we believe that GE's Industrial product portfolio is relatively well-positioned competitively and in strong end market segments. GE continues to see strength in the U.S. market, as well as the growing global demand for aircraft, rail equipment, power, and health care imaging and diagnostics. In aerospace, we view its aircraft engines business as well-positioned both in new production (with record commercial backlogs) and in aftermarket service. In addition, GE sees substantial potential for accretion from the Alstom transaction, which adds a substantial installed base of power customers and backlog.

On 6/30/17, GE and Baker Hughes completed their previously announced combination, merging GE's oil and gas business with Baker Hughes, creating a separate company named Baker Hughes, A GE Company (BHGE) which is 62.5% owned by GE. GE expects 2018 EPS accretion of $0.04, and ongoing cost synergies adding $0.08 by 2020. In addition to the added economies of scale, the complementary businesses should provide stability throughout the energy cycle, and gives GE the flexibility with respect to selling or exchanging its ownership. GE's board previously authorized a $50 billion share repurchase program aided by the GE Capital asset sale proceeds, designed to reduce the share count to 8.0-8.5 billion shares (down 15-20%) which we view as a significant driver of EPS growth in the coming years. Shares currently offer a 3.6% dividend yield.

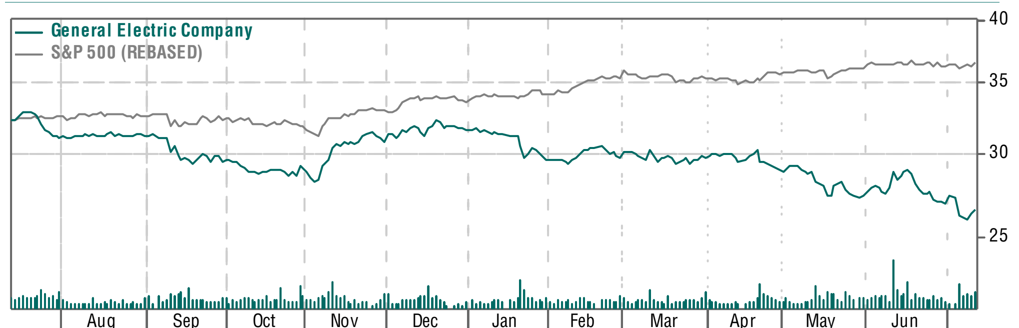
Recent Results and Valuation

General Electric's (GE) reported better than expected 1Q17 results in April, market by revenue growth, solid margins, and strong order trends. Operating cash flow however, was a negative $1.6 billion, which was $1 billion below expectations and created increased uncertainty over GE's ability to meet management's 2017 industrial operating cash flow target of $12-$14 billion. On 6/13/17, GE announced that effective 8/1/17, long time CEO Jeff Immelt will step down and be replaced by John Flannery, the current CEO of GE's Healthcare segment. Given Mr. Flannery's executive level experience at GE we see this as a natural fit. We expect Mr. Flannery to undertake a disciplined review of the Company's segments and to continue Mr. Immelt's legacy of transforming GE into a more focused company while concentrating on its leading products and enhancing its services franchise.

IIG Research's $35 price target for GE represents 21.5x the 2017 consensus EPS estimate of $1.63, and 18.5x the 2018 consensus estimate of $1.89. This is at the high end of GE's 10-year P/E range of 7x-21x (average 15x). In our view, GE can command a higher multiple as a pure industrial company, and ongoing catalysts exist as dispositions are completed and industrial growth opportunities are realized.

** General Electric Company is currently covered by James Ragan, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 4/25/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500



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The Focus List Intel Corporation (INTC)[(A)]

Enterprise Remains Growth Driver, but PC Results are Improving

Price (7/13/17)	$34.24
Style	Large-Cap Value
Market Sector	Information Technology

EPS & REVENUE FORECASTS*

FY Ended Dec	**2016A**	**2017E**	**2018E**
Revenue ($bln)	$59.4	$60.0	$62.4
EPS	$2.12	$2.87	$3.05
P/E Ratio	16.2x	11.9x	11.2x

KEY STATISTICS

52-wk. Price Range	$33 - $38
Average Daily Volume (3mo.)	21,931,260
Market Value	$161.2 billion
Shares Outstanding (m)	4,709
Cash per share	$3.67
LT Debt/Capital	22.1%
Book Value per share	$14.19
Dividend & Yield	$1.09 / 3.18%

VALUATION SUMMARY

		5 Year			Rel. to
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	14.9x	17.8x	8.5x	13.9x	0.7x
P/Book	2.4x	3.2x	2.0x	2.5x	0.8x
P/Sales	2.8x	3.4x	1.9x	2.7x	1.3x
EV/EBITDA	7.2x	8.5x	3.9x	6.3x	0.6x
EV/Sales	2.8x	3.3x	1.8x	2.6x	1.2x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	**3-yr.**	**5-yr.**	**10-yr.**
Sales	7.3%	4.1%	1.9%	5.3%
EBITDA	-4.1%	3.1%	-0.7%	7.4%
Net Income	-9.7%	2.4%	-4.4%	7.4%
EPS (Diluted)	-9.0%	3.9%	-2.4%	9.4%
Dividends	8.3%	4.9%	5.9%	10.0%

COMPANY DESCRIPTION

Intel Corporation, founded in 1968, is the largest semiconductor company in the world. The Company commands more than 80% of the worldwide unit share of microprocessors and is a leading supplier of PC chipsets, which control other vital functions of a computer's tasks and flash memory. In addition to PCs, the Company designs and manufactures platforms and components for servers and mobile devices. Through its McAfee and other acquisitions, the Company has also built a $2 billion software business.

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Intel Corporation (INTC) is the largest global semiconductor company, specializing in microprocessors, chipsets, and mobile communications, among other products. In our view, INTC shares appear undervalued as we continue to see the Company's long-term revenue and margin opportunities as attractive. We believe that long-term success can be driven by enterprise Data Center Group (DCG) growth, a stabilizing PC market, its recent entry into the automated driving market, and growth opportunities in tablets, smartphones, and the Internet of Things (IoT).

INTC's enterprise (DCG) and IoT segments have become the growth driver for INTC as growth within its Client Computing segment (CCG), which is exposed to the maturing PC industry, has been challenged. Despite recent PC weakness, notebooks have performed well, driven by INTC's latest generation processors and device innovation. In addition, INTC was late to the smartphone and tablet chip market, and the Company is working to close the gap. Our confidence is rooted in the fact that INTC remains the technology and research and development (R&D) spending leader in semiconductors with scale, cost, and IP that makes for a sizeable competitive advantage, in our view. R&D spending was $12.7 billion in 2016; comprising 21% of total revenue, and we believe INTC has strengthened its leading edge position in processors for PCs and servers, and new technologies in data centers. The Company also maintains industry-leading gross margins, above 60.0% in 2016.

In our view the Company is successfully transitioning away from its dependence on global PCs as it addresses opportunities in the data center, IoT, and memory markets. In 2016, DCG revenue increased 8% and comprised 29% of consolidated revenue. In addition, DCG operating margins were 44% in 2016, compared to 32% for the PC group, so that Data Center comprised 56% of consolidated operating profit. In late 2015, INTC closed the $13.7 billion acquisition of Altera, a leading provider of programmable logic chips, and a class of semiconductors that is being used in cloud-based data centers to power high-performance servers. We believe that Altera's product line can enhance INTC's sizeable server chip business and has the potential to increase the total available market size. On 3/13/17, INTC announced a definitive agreement to acquire Mobileye (MBLY) for $14.7 billion. In our view, this is an expensive acquisition for INTC, but MBLY will give it entry into a leadership position in advanced driver assistance systems (ADAS), and accelerate INTC's position into the market for autonomous vehicles.

Recent Results and Valuation

INTC reported 1Q17 results on 4/27/17; although revenue was in-line and EPS exceeded expectations, overall strength was offset by slower growth in DCG revenue and earnings that were helped by non-operating investment gains. INTC management raised its 2017 outlook for both revenue and EPS due to strong trends in average selling prices (ASP's). In what is viewed as a transition year, as INTC exits majority ownership of its security business and works on completing the Mobileye acquisition, both revenue and EPS are expected to increase modestly.

The IIG Research price target is $41, representing 14.3x its 2017 EPS estimate of $2.87. This compares to its 10-year average of 13.6x and a historical range of 8-29x. In February 2017, INTC increased its quarterly dividend rate by 5% to $0.2725. We believe a still healthy and likely growing 3.2% dividend yield should prove attractive for total return investors.

** Intel Corporation is currently covered by James Ragan, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 5/1/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500

[(A)] **D. A. Davidson & Co. makes a market in this security.**

The Focus List Nordstrom, Inc. (JWN)

Department Store Leader Looks to Build on Well-Defined Growth Initiatives

Price (7/13/17)	$47.33
Style	Large-Cap Growth
Market Sector	Consumer Discretionary

EPS & REVENUE FORECASTS*

FY Ended Jan	**2016A**	**2017E**	**2018E**
Revenue ($bln)	$14.8	$15.3	$15.8
EPS	$3.14	$3.01	$3.19
P/E Ratio	15.1x	15.7x	14.8x

KEY STATISTICS

52-wk. Price Range	$39 - $63
Average Daily Volume (3mo.)	3,175,162
Market Value	$7.9 billion
Shares Outstanding (m)	166
Cash per share	$3.93
LT Debt/Capital	79.9%
Book Value per share	$4.08
Dividend & Yield	$1.48 / 3.13%

VALUATION SUMMARY

		5 Year			**Rel. to**
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	22.3x	29.9x	13.7x	18.7x	1.1x
P/Book	11.6x	11.8x	5.3x	7.2x	3.7x
P/Sales	0.5x	1.2x	0.5x	0.9x	0.3x
EV/EBITDA	5.9x	10.1x	5.1x	7.6x	0.5x
EV/Sales	0.7x	1.4x	0.6x	1.0x	0.3x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	**3-yr.**	**5-yr.**	**10-yr.**
Sales	2.2%	5.6%	6.3%	5.6%
EBITDA	-5.2%	-3.1%	0.1%	3.2%
Net Income	-41.0%	-21.6%	-12.3%	-6.3%
EPS (Diluted)	-36.0%	-18.3%	-8.4%	-2.3%
Dividends	0.0%	7.2%	10.0%	13.4%

COMPANY DESCRIPTION

Nordstrom, Inc. retails apparel, shoes, cosmetics and accessories online and through roughly 350 stores in the U.S. and Canada. The Retail segment includes Nordstrom "full-line" physical and online stores, off-price channels Nordstrom Rack and HauteLook, and its personalized clothing service, Trunk Club. Nordstrom was founded by John W. Nordstrom in 1901 and is headquartered in Seattle, WA.

With over 50% of revenue now coming from off-price and on-line channels, we believe that Nordstrom (JWN) has a clear, multi-pronged growth strategy to complement its full-line store base. This has positioned JWN for success within a changing retail climate that we believe rewards effective strategies for high-end, full-price customers (Nordstrom full-line stores), quality offerings for price-conscious, off-price consumers (Nordstrom Rack stores), and online customer engagement (Nordstrom Direct, hautelook.com, and Trunk Club). In addition to its well-known and legendary customer service, JWN has one of the strongest management teams in all of retail, in our view.

Initially a slow adopter of technology, management has driven an impressive transition to become a technology leader in the industry, from point of sale and inventory systems, to online/mobile sales and engagement. Management will continue to offer a unique multi-channel retail strategy that encourages its customers to shop its full-price, off-price, and online destinations. Nordstrom Rack has been a significant growth driver, which places some pressure on margins as new stores ramp, but offers substantial long-term upside, in our view. Rack stores source high-quality, name brand merchandise directly from vendors, while also serving as an outlet for clearance items from the full-line stores. Rack stores are considerably smaller than full-line stores, averaging less than 40,000 square feet compared to the full-line store average of over 175,000 square feet. Rack stores, however, produce higher sales per square foot.

We remain confident in an investment in Nordstrom despite the hiccups that have plagued the retail industry in recent years. In our view, earnings results and the stock should return to growth as the Company laps some of the recent, broad retail headwinds and as it capitalizes on its recent string of investments.

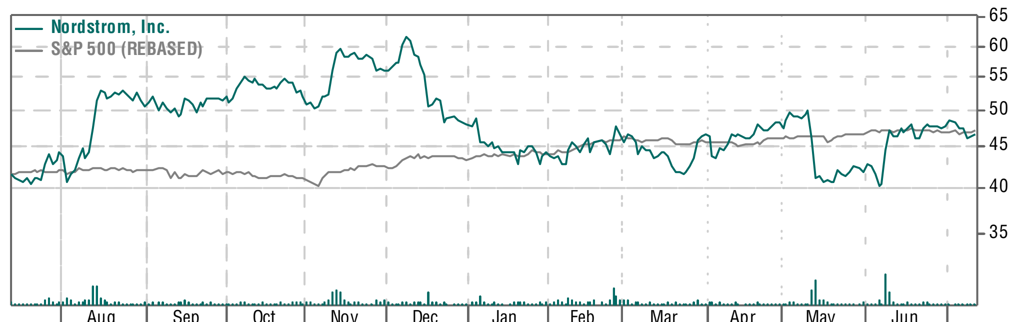
Recent Results and Valuation

JWN reported 1Q17 results on 5/11/17 that included EPS well-above and sales in-line with expectations. However, investor fears that the U.S. department store industry is in structural decline and negative same-store sales reported at JWN reveal even the top industry operator faces these macro headwinds. In our view, JWN has navigated the difficult environment better than most, and we attribute this to its investment in online sales, technology initiatives, and success at Nordstrom Rack. JWN shares surged on 6/8/17, after the Company announced its intention to explore strategic alternatives, which includes potential for the Nordstrom family to take the Company private. In our opinion, this speaks to the attractive value in shares.

The IIG Research price target for JWN is $57, reflecting 18x its FY18 adjusted EPS estimate of $3.19. JWN's dividend of $0.37 quarterly, $1.48 annually, is well-covered even in a challenging market, and represents a healthy 3.1% yield at present.

** Nordstrom, Inc. is currently covered by James Ragan, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 7/5/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500



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The Focus List KBR, Inc.(KBR)[(A)]

Successful Turnaround Efforts Underway amid Challenging Energy Environment

Price (7/13/17)	$15.24
Style	Mid-Cap Value
Market Sector	Industrials

EPS & REVENUE FORECASTS*

FY Ended Dec	**2016A**	**2017E**	**2018E**
Revenue ($mln)	$4,268.0	$4,341.0	$4,512.0
EPS	-$0.43	$1.30	$1.34
P/E Ratio	NM	11.7x	11.4x

KEY STATISTICS

52-wk. Price Range	$13 - $18
Average Daily Volume (3mo.)	2,294,937
Market Value	$2.2 billion
Shares Outstanding (m)	143
Cash per share	$2.86
LT Debt/Capital	45.8%
Book Value per share	$5.61
Dividend & Yield	$0.32 / 2.10%

VALUATION SUMMARY

		5 Year			Rel. to
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	-	63.8x	8.4x	25.9x	-
P/Book	2.7x	3.2x	1.1x	2.0x	0.9x
P/Sales	0.5x	0.7x	0.3x	0.5x	0.2x
EV/EBITDA	57.1x	156.3x	4.5x	27.6x	4.5x
EV/Sales	0.6x	0.6x	0.2x	0.4x	0.2x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	**3-yr.**	**5-yr.**	**10-yr.**
Sales	-16.2%	-16.0%	-14.1%	-7.8%
EBITDA	-88.0%	-53.3%	-45.0%	-21.6%
Net Income	-130.0%	-	-	-
EPS (Diluted)	-130.5%	-	-	-
Dividends	0.0%	0.0%	9.9%	-

COMPANY DESCRIPTION

KBR, Inc. operates as an engineering, construction, and services company that support the energy, petrochemicals, government services, and civil infrastructure sectors. KBR is headquartered in Houston, Texas.

After difficulties with poorly bid and wound-down contracts, we view KBR, Inc. (KBR) as a turnaround story under the leadership of Stuart Bradie, who has been the CEO since June 2014. Given recent acquisitions (HTSI and Wyle) that give KBR a larger foothold into its more stable government services segment (~40% of revenue, up from 10% prior), and coupled with KBR's more disciplined bidding process for large project work, we believe that KBR's operational profile has been transformed to that of a more balanced and sustainable growth company. In our opinion, KBR's recent shift into more government services work could provide a reason for its valuation multiples to re-rate higher. If oil prices stay lower for longer, KBR's oil-related projects are likely to face increased challenges, but given the Company's shift away from non-oil facing projects (88% of its business), we believe the impact will be limited and that the shares remain undervalued for long-term investors.

As a result of the 2014 strategic review, KBR has reorganized into three business units, with the largest, Engineering & Construction, comprising an estimated 45% of the Company's revenue; the other two are Technology & Consulting (~10% of revenue) and Government Services at ~45% of revenue. After exiting many low-margin segments, KBR reiterated its target to achieve more than $200 million (over $1 per share) in cost savings. The result will be a smaller company and a return to sustained profitability. While the Company's energy-sensitive divisions deal with depressed commodity prices, the valuation remains compelling and KBR is bidding on several planned LNG projects. Although energy prices remain low, recent inroads to grow its Government Services business should provide EPS stability going forward. We believe that operating cash flow should return to healthy levels in 2018 after KBR clears through fixed-price legacy projects that have run ahead of budget. Historically, KBR was a strong free cash flow generator, and we see a path returning to that status.

Recent Results and Valuation

KBR reported a modest 1Q17 sales and EPS miss on 4/28/17. Its Technology & Consulting segment saw timing-related top line issues but the Company expects to see stronger organic growth over the remainder of the year. Its Engineering & Construction segment improved over recent quarters due to better execution on projects, and with steady growth in its Government Services business, we believe investors can look forward to a more stable growth profile. However, the Serious Fraud Office (SFO), a U.K. government body, announced it has officially launched an investigation into Unaoil (private), a company that KBR has done business with in the past. The Department of Justice (DOJ) had previously announced its investigation into Unaoil and KBR disclosed it was cooperating with authorities in the matter in an SEC filing dated in April 2016. Therefore, this is not news, but until the investigation is resolved, it could act as an overhang on KBR's shares.

Davidson Institutional Research's 12-18 month price target for KBR is $20, which equates to a multiple of 14.9x its 2018 EPS estimate of $1.34. We see several potential catalysts including the announcement of new LNG projects, execution of cost reduction and restructuring actions, and additional growth in its Government Services business. KBR also pays a quarterly dividend of $0.08, which represents a 2.1% yield at current levels.

** KBR, Inc. is currently covered by D.A. Davidson Institutional Research. All estimates referenced in the Focus List were taken from the DI Research report published on 5/15/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

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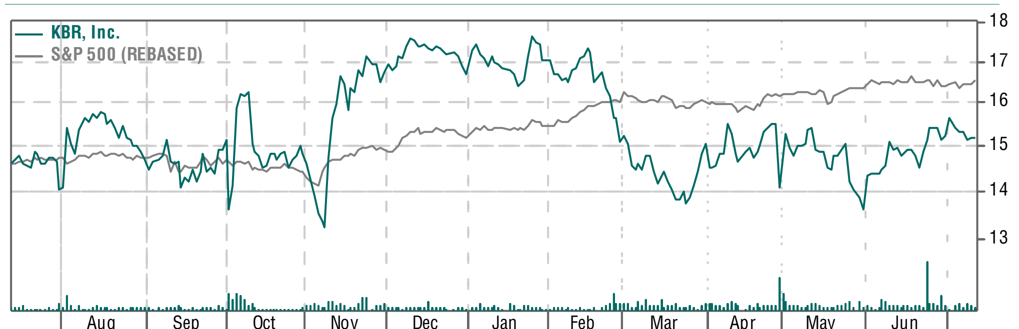
ONE-YEAR PRICE PERFORMANCE VS. S&P 500



[(A)] **D. A. Davidson & Co. makes a market in this security.**

The Focus List Merck & Co., Inc. (MRK)

High Quality Pharma Company with Exciting Pipeline

Price (7/13/17)	$62.89
Style	Large-Cap Value
Market Sector	Health Care

EPS & REVENUE FORECASTS*

FY Ended Dec	**2016A**	**2017E**	**2018E**
Revenue ($bln)	$39.8	$39.6	$40.2
EPS	$3.78	$3.79	$4.01
P/E Ratio	16.6x	16.6x	15.7x

KEY STATISTICS

52-wk. Price Range	$57 - $67
Average Daily Volume (3mo.)	9,003,904
Market Value	$172.0 billion
Shares Outstanding (m)	2,735
Cash per share	$5.58
LT Debt/Capital	34.3%
Book Value per share	$14.54
Dividend & Yield	$1.88 / 2.99%

VALUATION SUMMARY

		5 Year			Rel. to
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	40.6x	46.7x	13.2x	28.5x	1.9x
P/Book	4.3x	4.5x	2.3x	3.4x	1.4x
P/Sales	4.4x	4.6x	2.7x	3.8x	2.1x
EV/EBITDA	15.3x	16.1x	6.9x	10.6x	1.2x
EV/Sales	4.7x	4.9x	2.8x	4.0x	1.9x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	**3-yr.**	**5-yr.**	**10-yr.**
Sales	1.9%	-3.6%	-3.9%	5.7%
EBITDA	15.6%	-0.8%	-2.6%	7.7%
Net Income	-11.8%	-3.8%	-8.9%	-1.2%
EPS (Diluted)	-9.6%	-1.4%	-6.9%	-3.6%
Dividends	2.2%	2.3%	3.5%	2.0%

COMPANY DESCRIPTION

Merck & Co. is a global pharmaceutical company, developing a line of products targeted to treat various therapeutic areas that include, among others, diabetes, cancer, vaccines, antibiotics, and animal health. The Company does business as MSD outside of the U.S. and Canada to distinguish itself from Merck KGaA (aka "German Merck"). Revenue by geography in 2016: U.S. 46%, EMEA 28%, Asia Pacific 17%, Latin America 5%, and Other 4%. Merck was founded in 1891 and is headquartered in Kenilworth, NJ.

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Founded in 1891, Merck (MRK) is one of the world's oldest and largest pharmaceutical companies. We continue to find the stock buyable at current levels given a reasonable valuation and our optimistic view of its pipeline, including potential blockbusters that target cancer (Keytruda) and Hepatitis C (Zepatier). MRK's valuation sits at a modest discount compared to global major pharma peers and the dividend (3.0% yield) contributes to a strong total return story, in our view.

MRK has become a more focused pharmaceutical company after the $14 billion sale of its consumer products business to Bayer in late 2014, and $9.5 billion purchase of antibiotics leader Cubist in early 2015. MRK produces the world's leading diabetes treatment in Januvia, MRK's largest grossing drug at 15% of 2016 sales ($6.1 billion), along with a diverse portfolio of other consumer drugs, and steady animal health and vaccines businesses that combined contribute ~20% of revenue. Januvia holds patent exclusivity into 2022, but recent positive trial data from an alternative treatment developed by Eli Lilly (LLY) may diminish its future market share, especially for patients with or at risk for cardiovascular disease. In our view, even assuming scaled back future market share expectation for Januvia, the drug can sustain a large presence in the diabetes market given its strong efficacy and extensive existing user base. MRK has also faced a significant patent "cliff" over the past decade, including recent pressure on Cubicin (antibiotic), Zetia (cholesterol), and a competitive biosimilar offering of Remicade (autoimmune); however, we think new treatments from its pipeline can offset the negative impact.

MRK's broad pipeline provides potential to drive sustained growth into the future. Notably, MRK invests more than peers on research and development (R&D) at ~18% of sales, indicating a quality franchise and potential for exciting clinical development in the future. MRK's headline drug is immuno-oncology treatment Keytruda, which acts to invigorate the body's immune system in fighting various cancers. The drug is currently a leading treatment option for melanoma, and recently received approval to treat lung cancer (the largest cancer instance), head/neck, and others. Keytruda contributed revenue of $1.4 billion in 2016, but Morningstar forecasts peak sales to reach above $8 billion annually over the next decade as MRK attempts to widen its cancer scope while continuing to research combination therapies which may enhance effectiveness. Bristol-Myers Squibb (BMY) has developed its own competitive immuno-oncology drug, a first-mover for lung cancer treatment, however its recent trial data has disappointed, providing a competitive boost to MRK. Given heavy industry R&D in this area, we believe there will be multiple winners in what is a very large market opportunity. MRK is marketing a new treatment for Hepatitis C (Zepatier) which was approved by the FDA in January 2016 and is competing as a more affordable alternative to existing options. MRK has various other treatments in the pipeline that remain in clinical trials, but hold potential to contribute meaningfully to results into the next decade.

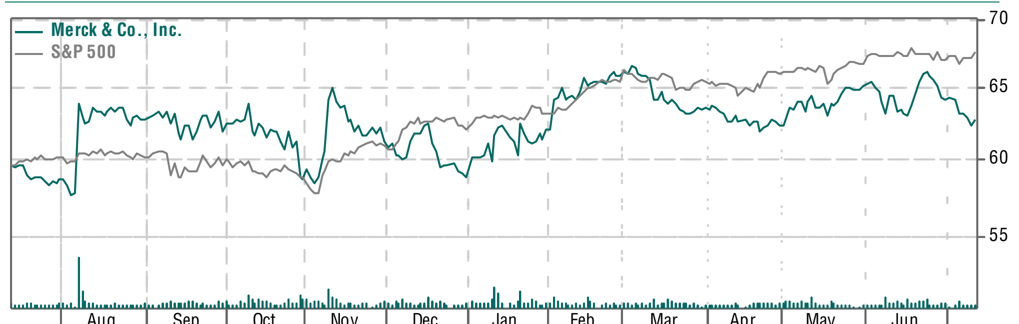
Recent Results and Valuation

MRK reported better than expected Q1 revenue and EPS results on 5/2/17 and the Company modestly raised its FY17 guidance. Q1 results continued to show the headwind of recent patent roll-offs, and MRK's largest drug by sales, Januvia (diabetes), is expected to be challenged in holding market share. However, MRK's blockbuster cancer drug, Keytruda, grew sales 134% y/y in the quarter and continues to show promising data which could give it leading edge in the large and growing immuno-oncology market.

The Morningstar fair value estimate for MRK is $65 based on its discounted cash flow analysis (DCF). Shares currently trade at 15.6x consensus forward EPS estimates, a modest discount to the World Major Pharma peer group, however we think shares can garner a premium multiple. Investors are also rewarded with a 3.0% yield and management's intention to continue raising its dividend.

** Merck & Co., Inc. is currently covered by Morningstar Equity Research. All estimates referenced in the Focus List were taken from the Morningstar Research report published on 5/3/2017. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500



The Focus List PNC Financial Services Group, Inc. (PNC)

A High-Quality, Diversified Financial Services Firm

Price (7/13/17)	$127.32
Style	Large-Cap Value
Market Sector	Financials

EPS & REVENUE FORECASTS*

FY Ended Dec	2016A	2017E	2018E
Revenue ($bln)	$15.2	$16.1	$16.9
EPS	$7.30	$8.21	$8.88
P/E Ratio	17.4x	15.5x	14.3x

KEY STATISTICS

52-wk. Price Range	$81 - $132
Average Daily Volume (3mo.)	2,162,048
Market Value	$61.6 billion
Shares Outstanding (m)	484
Cash per share	-
LT Debt/Capital	49.8%
Book Value per share	$94.34
Dividend & Yield	$3.00 / 2.36%

VALUATION SUMMARY

		5-Year			Rel. to
	Last	High	Low	Avg.	SP500
P/E (LTM)	16.8x	17.4x	10.5x	12.6x	0.8x
P/Book	1.3x	1.4x	0.8x	1.1x	0.4x
P/Sales	3.8x	3.9x	1.9x	2.8x	1.9x
EV/EBITDA	-	-	-	-	-
EV/Sales	5.1x	5.3x	4.2x	4.7x	2.1x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	3-yr.	5-yr.	10-yr.
Sales	3.9%	-0.9%	1.4%	6.2%
EBITDA	-	-	-	-
Net Income	-5.2%	-2.6%	5.0%	4.1%
EPS (Diluted)	-1.1%	-0.4%	5.3%	-1.8%
Dividends	5.5%	7.2%	13.0%	-0.1%

COMPANY DESCRIPTION

PNC is a diversified financial services company operating in the following segments: Retail Banking, Corporate & Institutional Banking, Asset Management, and Residential Mortgage Banking. PNC also owns a 22% stake in BlackRock (BLK - $437.88), a leading global asset manager. The Company was founded in 1983 and is headquartered in Pittsburgh, PA.

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In our opinion, PNC's strong franchise is underappreciated by the market and should perform well on an individual basis and participate along with the Financials sector and banking industry as interest rates and valuations normalize.

PNC has a balanced business, diversified across the following major segments: Retail Banking (48% of 2016 revenue; 31% of 2016 operating income), Corporate & Institutional Banking (35%; 57%), and Asset Management (8%; 6%). PNC also owns a 22% economic interest in the asset manager BlackRock (BLK), which it accounts for under the equity method and contributes 5% of PNC revenue and 13% of operating profit. The Company's operations are primarily located in the Midwest, Mid-Atlantic, and Southeast. Non-interest income has increased 18% from 2010 to 2016 and now accounts for 45% of revenue, which makes PNC less vulnerable than many of its regional bank peers (39%) in the event that the low-interest rate environment persists. The Company's average return on assets over the past 5 years is 1.16%, above peer-group average of 0.84%. Though historically an acquirer, we expect PNC to focus on organic growth for the next several years. Non-interest expense has declined by 3% since 2013 with cost savings reinvested in technology platform improvements and business infrastructure, which should lead to earnings growth in future years.

PNC's loan book is well diversified and conservatively managed. Over the past several years, the Company has shifted its loan book to focus more on commercial customers, now 46% of loans versus 34% in 2009. Consumer loans are mainly real estate related, with small credit card and auto portfolios, and a declining education portfolio. PNC has avoided sub-prime auto, with the average FICO score for its auto loan portfolio over 750. In the corporate portfolio, only 1.5% of total loans are energy-related (oil, gas, coal). Though net charge offs are trending up, the ratio is only 0.26% of average loans and the increase is largely attributable to the energy portfolio. Over 80% of funding sources are deposits, and debt-to-total capital is 0.39. In the 2017 Fed Stress Test, PNC's projected common equity tier 1 capital ratio under severely adverse economic conditions was 8.6%, above the regulatory minimum of 8.3%. The Fed approved the Company's capital return plan for 2017 (36% dividend increase, $2.7B share repurchase) and we expect continued increases to capital returns in future years.

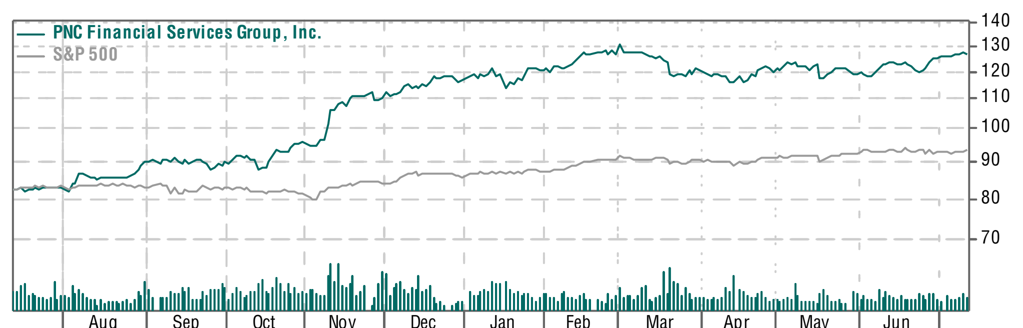
Recent Results and Valuation

PNC reported strong Q1 operating results on 4/13/17 with stronger than expected net interest income and fee income driving the EPS beat. The Company reiterated FY17 mid-single digit loan growth, and to account for the March rate increase by the Fed, it raised its revenue guidance to the upper end of its mid-single digit range. It also expects low-single digit expense growth, resulting in operating leverage. Average loans grew by 3% y/y and net interest margin increased by 8 bps to 2.77%. Credit quality remains strong with net charge-offs consisting of 0.23% of the average loan balance.

The IIG Research price target for PNC is $134 based on EPS estimates of $8.21 for 2017 and $8.88 for 2018, an assumed capital return of 80% of net income, and a P/B multiple of 1.3x on 2018 earnings (slightly above the regional peer group average but lower than WFC and USB).

** PNC is currently covered by Matthew Griffith, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 4/24/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500



The Focus List QUALCOMM, Inc. (QCOM)(A)

Remains Well-Positioned to Power the Mobile Future

Price (7/13/17)	$56.23
Style	Large-Cap Growth
Market Sector	Information Technology

EPS & REVENUE FORECASTS*

FY Ended Sep	2016A	2017E	2018E
Revenue ($bln)	$23.6	$24.3	$24.9
EPS	$3.81	$4.70	$4.92
P/E Ratio	14.8x	12.0x	11.4x

KEY STATISTICS

52-wk. Price Range	$51 - $72
Average Daily Volume (3mo.)	10,523,552
Market Value	$83.1 billion
Shares Outstanding (m)	1,477
Cash per share	$6.76
LT Debt/Capital	23.0%
Book Value per share	$21.22
Dividend & Yield	$2.28 / 4.05%

VALUATION SUMMARY

		5 Year			Rel. to
	Last	High	Low	Avg.	SP500
P/E (LTM)	18.7x	22.6x	13.2x	18.1x	0.9x
P/Book	2.6x	3.5x	2.2x	3.0x	0.9x
P/Sales	3.6x	5.9x	2.9x	4.4x	1.8x
EV/EBITDA	11.0x	14.9x	7.3x	11.3x	0.9x
EV/Sales	3.7x	5.1x	2.6x	3.9x	1.5x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	3-yr.	5-yr.	10-yr.
Sales	-6.8%	-1.8%	9.5%	12.1%
EBITDA	-4.6%	-1.3%	5.8%	10.7%
Net Income	8.2%	-5.9%	4.5%	8.7%
EPS (Diluted)	18.4%	-0.9%	8.6%	10.2%
Dividends	12.2%	18.9%	20.1%	17.0%

COMPANY DESCRIPTION

Qualcomm, Inc. develops, designs, manufactures, and markets digital telecommunications products and services. The Company operates through two major segments: Qualcomm CDMA Technologies (QCT), and Qualcomm Technology Licensing (QTL). The Company was founded in 1985 and is headquartered in San Diego, CA.

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Qualcomm (QCOM) is a global leader in next-generation wireless technologies, and we view the stock as one of the best ways to capitalize on the continued global growth in wireless connectivity of smartphones, tablets, and other internet-connected devices. QCOM was a key developer of CDMA wireless technology, leading to the wide adoption of 3G and 4G/LTE technology, and is currently pioneering the world towards next wave of 5G. We view the shares as undervalued for long-term investors.

Over the past 20 years, QCOM has led the mobile industry forward with wireless technology, enabling faster connections with greater bandwidth—key themes that remain firmly in place with increasing mobile data consumption, in our view. As the market leader for smartphone baseband processors (provides cellular connectivity) and applications processors, QCOM's business model derives substantial revenue and cash flow from wireless semiconductors and its royalty payments and license fees from a broad array of patents and intellectual property. According to *Strategy Analytics,* QCOM maintains 59% of the baseband processor market and 63% of the LTE share. QCOM has chip agreements from every significant wireless device manufacturer, including Apple (AAPL-$147.77-Buy/Add) and Samsung, and across each of the top operating systems (primarily Android and iOS).

QCOM has recently been challenged by regulatory disputes in China, South Korea, and the U.S. related to its chip licensing business (QTL), which has weighed on sentiment as QTL contributes attractive margins and makes up most of QCOM's operating income. It reached settlement with China in March 2015, and although it was initially slow to receive payments from Chinese manufacturers under new regulatory policies, recent collections have improved. An antitrust investigation in South Korea and U.S. FTC antitrust dispute remain ongoing, and AAPL has also recently filed suit against QCOM. These items could present an overhang and have clouded growth prospects in the near term, however at its analyst meeting in early 2016, QCOM outlined steps to increase QTL revenue from $7.3-$8.0B in 2016 to $10B+ by 2020, which we view as attainable and incremental progress toward this goal could represent a catalyst. We believe that QCOM's commitment to research and development (R&D) will sustain its mobile communication technology leadership and rekindle earnings growth. 2016 R&D expense of $5.2 billion represented a market-leading 22% of revenue. On 10/27/16, QCOM agreed to acquire NXP Semiconductors (NXPI) for $47 billion ($110 per share in cash). QCOM expects the acquisition to be immediately accretive to non-GAAP EPS. We believe this is a good use of QCOM's overseas held cash while further expanding its opportunity within the automotive sector.

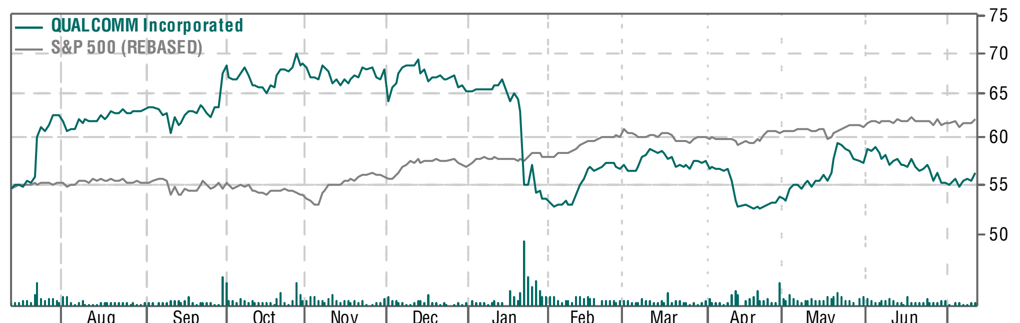
Recent Results and Valuation

Although licensing disputes continue to weigh on shares and create uncertainty for QCOM's QTL segment revenue streams, recently reported 2Q17 results on 4/19/17 exceeded estimates as both chip and sales royalties were better than anticipated. Medium term catalysts include potential for licensing dispute settlements and the completion of the NXPI acquisition, expected by year-end 2017. The stock's valuation appears compelling, and we believe QCOM maintains an essential leadership position in mobile communications technology.

The IIG Research price target of $75 implies 16.0x its FY17 EPS estimate of $4.70. We view the total return story as attractive as shares currently yield 4.1%, and as part of its new strategic plan, QCOM intends to return a minimum of 75% of FCF to investors through dividends and buybacks going forward.

** Qualcomm, Inc. is currently covered by James D. Ragan, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 4/25/17. For a copy of this report, contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500



(A) **D. A. Davidson & Co. makes a market in this security.**

The Focus List Schlumberger NV (SLB)[(A)]

Oilfield Services Giant has Upside, a Strong Balance Sheet, and Resilient Cash Flow

Price (7/13/17)	$66.49
Style	Large-Cap Value
Market Sector	Energy

EPS & REVENUE FORECASTS*

FY Ended Dec	**2016A**	**2017E**	**2018E**
Revenue ($bln)	$27.8	$30.5	$36.8
EPS	$1.14	$1.55	$3.09
P/E Ratio	58.3x	42.9x	21.5x

KEY STATISTICS

52-wk. Price Range	$64 - $88
Average Daily Volume (3mo.)	7,765,522
Market Value	$92.4 billion
Shares Outstanding (m)	1,389
Cash per share	$5.29
LT Debt/Capital	27.8%
Book Value per share	$29.22
Dividend & Yield	$2.00 / 3.01%

VALUATION SUMMARY

		5 Year			**Rel. to**
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	-	64.0x	15.6x	24.4x	-
P/Book	2.3x	3.8x	2.3x	2.8x	0.7x
P/Sales	3.3x	4.1x	2.2x	2.8x	1.6x
EV/EBITDA	16.6x	20.0x	7.4x	11.4x	1.3x
EV/Sales	3.7x	4.6x	2.3x	3.0x	1.5x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	**3-yr.**	**5-yr.**	**10-yr.**
Sales	-21.6%	-15.0%	-6.8%	3.8%
EBITDA	-32.4%	-17.9%	-7.9%	0.2%
Net Income	-181.4%	-	-	-
EPS (Diluted)	-176.1%	-	-	-
Dividends	0.0%	16.9%	14.9%	14.9%

COMPANY DESCRIPTION

Schlumberger supplies technology, project management and information solutions for the oil and gas industry. The Company operates through three segments: Reservoir Characterization, Drilling and Production. Schlumberger was founded in 1926 and is headquartered in Houston, TX

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SLB is the world's largest oilfield services company with technologies that span the entire lifecycle of the reservoir through exploration, drilling, completion, and production. SLB has attractive attributes and provides exposure to an improving supply/demand dynamic in the energy market, in our opinion. SLB's positive attributes include: #1 or #2 market position in its businesses with a proven ability to take share, an unlevered balance sheet, ability to remain profitable throughout the energy cycle, a sizeable $10 billion share buyback plan and positive free cash flow that fully covers its dividend (3.0% yield). 2016 EBIT margins were 9.1%, a sharp decline from 2014 levels of 19.7%, and below the Company's ten-year average of 18.6%. During the recent two year downturn, SLB has strengthened its leadership position through acquisitions (Cameron being the most notable) and continued research & engineering investment. Recent cost restructuring, an expected increase in industry activity, and improved industry pricing should aid a rebound in SLB's margins, in our opinion.

SLB operates in four segments: Reservoir Characterization, Drilling, Production, and Cameron. Sales in Reservoir Characterization (~22% of revenue, ~33% of operating profit-pro forma including Cameron) are generated mostly from E&P companies' exploration capital expenditure budgets. E&P budgets have declined for two successive years, but are expected to recover throughout 2017 and into 2018, led by North American land operators. Despite recent operating margin declines, this segment has the highest margins for the Company at 18.2% in 2016, in part due both to its WesternGeco business, which sells imaging of subsurface geology on both an individual and multi-client basis, and its software and consulting services business. SLB is the global leader in the geophysical market with ~27% share.

The Drilling segment (~29% of revenue, ~26% of pro forma operating profit) is comprised of the design and manufacture of drill bits, drilling fluid systems, measurement, land rigs, and integrated services, in which SLB handles all aspects of the drilling process. Margins in 2016 were 11.6% (down significantly from 2014 levels), with performance impacted by pricing pressure and a significant decrease in activity. The Production segment (~29% of revenue, 15% of pro forma operating profit) includes pressure pumping, well cementing, completion, artificial lift, and water services supporting oil and gas production over the life of a well. This is SLB's lowest margin segment at 6.1%. In April 2016, SLB completed its acquisition of Cameron International (~20% of revenue, ~26% of pro forma operating profit). Cameron expanded SLB's offering in flow control equipment and services, including blowout preventers and trees. Cameron's 2016 operating margin was 15.5%. In 2016, SLB achieved its year one target of $300 million in synergies and it expects to exceed its $600 million target for its second year. Cameron was accretive to both SLB's operating margin as well as EPS in 2016.

Recent Results and Valuation

SLB reported soft 1Q17 results on 4/21/17 and offered downbeat guidance commentary for Q2 which pushes out a recovery for its international markets. Sluggish revenue results were driven by pricing pressures and increased seasonal weakness within international (72% of revenue mix) and partially offset by strength in the North America land market. SLB expects the international markets to pick up toward the back end of 2017 and into 2018. Soft quarterly results, soft Q2 guidance, and continued commodity price pressure has led to weakness in SLB's stock. We see excellent value at current levels, and continue to believe the Company will be a prime beneficiary once international activity picks up, which typically lags a North American recovery within the upstream spending cycle.

The IIG Research price target of $90 implies 13x consensus EBITDA estimates of $9.9 billion ($7.06 per share) minus $8.12 per share in net debt plus $5.58 per share in consensus free cash flow, which is closer to the higher end of its trading range due to an expected cyclical rebound in earnings. Over the past ten years, SLB has traded with an average forward EV/EBITDA multiple of 10.3x and within a range of 4.8-16.8x.

* *Schlumberger NV is currently covered by Tim Vediz, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 4/24/2017. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500

[(A)] **D. A. Davidson & Co. makes a market in this security.**

The Focus List Stryker Corporation (SYK)

Diversified Med-Tech Leader Offers Growth at a Reasonable Price

Price (7/13/17)	$143.20
Style	Large-Cap Growth
Market Sector	Health Care

EPS & REVENUE FORECASTS*

FY Ended Dec	2016A	2017E	2018E
Revenue ($bln)	$11.3	$12.2	$12.9
EPS	$5.80	$6.45	$7.06
P/E Ratio	24.7x	22.2x	20.3x

KEY STATISTICS

52-wk. Price Range	$106 - $146
Average Daily Volume (3mo.)	1,123,793
Market Value	$53.5 billion
Shares Outstanding (m)	374
Cash per share	$8.77
LT Debt/Capital	42.5%
Book Value per share	$25.95
Dividend & Yield	$1.70 / 1.19%

VALUATION SUMMARY

		5 Year			Rel. to
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	32.1x	70.4x	14.1x	32.6x	1.5x
P/Book	5.5x	5.5x	2.4x	3.9x	1.8x
P/Sales	4.6x	4.6x	2.3x	3.5x	2.2x
EV/EBITDA	18.1x	19.8x	7.2x	13.8x	1.4x
EV/Sales	4.9x	4.9x	2.1x	3.5x	2.0x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	3-yr.	5-yr.	10-yr.
Sales	13.9%	7.9%	6.4%	7.7%
EBITDA	16.1%	9.3%	6.2%	7.9%
Net Income	14.5%	17.8%	4.1%	7.8%
EPS (Diluted)	15.1%	18.2%	4.7%	8.7%
Dividends	10.6%	12.5%	15.8%	21.7%

COMPANY DESCRIPTION

Stryker Corp. is a global leader in medical technology. The Company is the third largest orthopedic implant/equipment company in the world (39% of 2016 revenue); hip and knee implants combined account for 23% of revenue. The MedSurg (43%) segment sells an array of medical equipment and consumables including surgical drills, endoscopic tools, hospital furniture, AED and CPR equipment, and infection protection products. Neurotechnology & Spine (18%) produces leading medical devices focused on the spine, skull, and brain. Stryker was founded in 1941 and is headquartered in Kalamazoo, MI..

Stryker (SYK) is the world's second largest pure-play medical equipment and device company, and holds a strong track-record of driving consistent revenue growth, both organically and by executing over 20 "tuck-in" acquisitions since 2009. After being relatively inactive in the M&A market during 2015, SYK put its strong balance sheet to work in 2016 with two large acquisitions within its MedSurg division, broadening out SYK's market leadership and providing significant cross-selling opportunity, in our view. We are drawn to SYK's primarily domestic customer base (70% U.S.), and believe there is opportunity to expand margins. Given SYK's defensive health care characteristics and multiple avenues for revenue and earnings growth, we foresee shares moving higher from current levels.

SYK reported 2016 revenue of $11.3 billion (+13.9% y/y) with healthy organic growth in each of its operating segments, Orthopaedics (+4.8%), MedSurg (+7.2%), and Neurotechnology & Spine (N&S, +8.4%). SYK has multiple divisions within each segment and none account for more than 15% of total revenue, better mitigating product and division-specific risk versus peers. Orthopaedic implants have faced price declines for several years (averaging near 2% annually) as the evolving health care landscape has pressured reimbursement rates; however SYK has shown impressive volume and market share growth, in part due to the Company's leading product innovation (e.g. MAKO robotics and 3D printing) which we believe bodes well for future gains. We view an aging population as a secular tailwind for the Orthopaedic and N&S segments, and MedSurg, which holds top market share in areas such as surgical instruments and endoscopy, should continue to benefit from positive hospital capex trends. In February 2016, SYK announced major acquisitions of Sage Products ($2.8 billion) and Physio-Control ($1.3 billion) which both closed early in 2Q16 and should contribute to sustained growth in MedSurg. Sage is the market leader in disposable products designed to prevent hospital-incurred illness, and Physio-Control is the largest producer of defibrillator and CPR equipment. Most recently, it announced plans to acquire Novadaq (NVDQ) for roughly $700 million. We believe broadening SYK's leading product portfolio with great brands is prudent as hospitals and treatment facilities look to bundle purchasing decisions.

Because of its sprawling med-tech footprint, most of which was gained through acquisition, operational improvement and margin expansion is a priority for management, and the Company recently guided expectation for 30 to 50 basis point annual operating margin improvement. SYK has retained a leading tech consultant to coordinate HR, accounting, and other functions onto one enterprise platform, and also indicated plans to better leverage material and equipment buying power. Combined with an attractive capital appreciation outlook, we favorably view the SYK total return story. SYK raised its dividend by 12.3% in December, marking its 25th consecutive calendar year of dividend increases, and going forward, increasing the dividend is SYK's second highest priority for cash behind M&A.

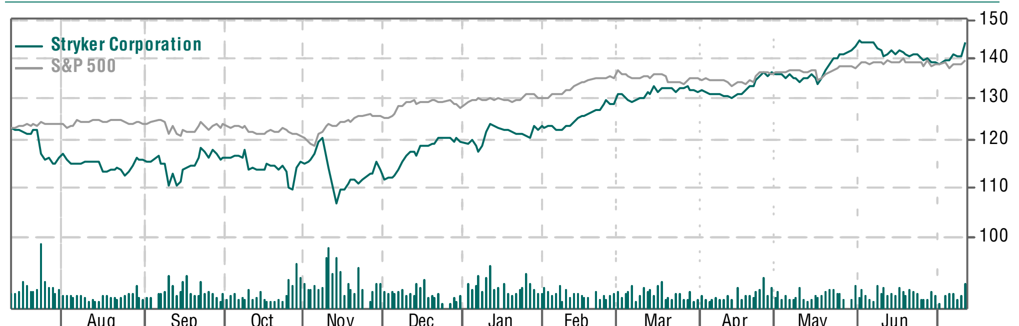
Recent Results and Valuation

SYK reported 1Q17 results on 4/25/17 that exceeded guidance and analyst estimates, highlighted by 8.2% organic revenue growth and 19% y/y adjusted EPS growth. We maintain our bullish stance on shares of SYK's given its potential to increase market share, driven by its advanced technology.

The IIG Research price target is $148, derived from a multiple of 21x its 2018 adjusted EPS estimate of $7.06. This sits above SYK's 10-year average forward multiple of 16.6x (range of 10-27x), but we think a premium multiple is warranted given its top-tier brand portfolio and a clear, steady, diversified, and above-market growth profile.

** Stryker Corporation is currently covered by Brent Williams, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 4/26/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500



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The Focus List Synchrony Financial (SYF)[A]

Largest Private Label Credit Card Issuer; Well-Positioned for Growth

Price (7/13/17)	$29.36
Style	Large-Cap Value
Market Sector	Financials

EPS & REVENUE FORECASTS*

FY Ended Dec	**2016A**	**2017E**	**2018E**
Revenue ($bln)	$11.0	$12.1	$12.9
EPS	$2.17	$2.47	$3.14
P/E Ratio	13.5x	11.9x	9.4x

KEY STATISTICS

52-wk. Price Range	$26 - $38
Average Daily Volume (3mo.)	9,577,092
Market Value	$23.8 billion
Shares Outstanding (m)	811
Cash per share	$14.05
LT Debt/Capital	49.3%
Book Value per share	$17.71
Dividend & Yield	$0.52 / 1.77%

VALUATION SUMMARY

		5 Year			Rel. to
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	11.2x	13.4x	8.2x	11.2x	0.5x
P/Book	1.7x	2.8x	1.5x	2.1x	0.5x
P/Sales	1.9x	2.5x	1.3x	2.1x	0.9x
EV/EBITDA	-	-	-	-	-
EV/Sales	2.6x	3.5x	2.4x	3.0x	1.1x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	**3-yr.**	**5-yr.**	**10-yr.**
Sales	12.3%	1.2%	4.9%	-
EBITDA	-	-	-	-
Net Income	1.7%	4.4%	3.6%	-
EPS (Diluted)	2.3%	-1.2%	-	-
Dividends	-	-	-	-

COMPANY DESCRIPTION

Synchrony Financial operates as a consumer financial services company in the United States. The Company offers private label credit cards, dual cards, and small and medium-sized business credit products. It also offers promotional consumer financing, such as installment loans, and financing to consumers for elective healthcare procedures. Synchrony was spun out of GE Capital in 2014 and is headquartered in Stamford, CT.

Synchrony (SYF) is the leading private label credit card lender in the U.S. as measured by both purchase volume and receivables. SYF was previously the retail credit card arm of General Electric (GE-$26.79-Buy/Add) until its IPO in mid-2014. In November 2015, GE spun-off its SYF ownership to shareholders and is no longer involved with the Company. SYF operates three lending platforms with $76 billion of loan receivables (+12% y/y) as of 12/31/16: Retail (store label credit cards – 66% of receivables); Payment Solutions (consumer credit for large purchases – 16% of receivables); and Care Credit (financing for health care services – 16% of receivables). SYF has generated strong organic growth, established new customers, and has signed customer relationships through 2019 representing over 90% of its receivables.

We think SYF's leading private label credit card operations are well-positioned for future growth. Since the end of the recession, private label has grown faster than general purpose cards and SYF is the market leader with more than 40% share according to *The Nielson Report.* In addition, being an in-store card, SYF captures product specific purchase data from card users on 75% of purchase volume. This allows SYF to offer more robust and tailored marketing and rewards programs to customers. Many of SYF's major customers have been partners for decades and include high profile companies Amazon, American Eagle, Gap, JCPenney, Lowe's, TJ Maxx, PayPal, Sam's Club, and Wal-Mart. Looking at the balance sheet, SYF has stable funding sources with ~2/3 from customer deposits and 1/3 from securitizations and other borrowings. We see several ways that SYF can grow revenues and/or earnings over the next several years including: ongoing expansion of private label, organic purchase volume growth from existing customers (i.e. increased retail spending), modest upside from higher rates, and earnings accretion from stock buybacks.

In addition, since its separation from GE, SYF has been substantially over-capitalized according to the Fed's common equity tier 1 ratio requirement. While not required, SYF has subjected itself to the Fed's annual "stress test" and also submits its proposed capital plans through the Fed's CCAR process. Following positive CCAR feedback in 3Q16, SYF began paying a $0.13 quarterly dividend, which it recently raised to $0.15 per quarter (1.8% yield) on 5/19/17 ahead of formal CCAR results which were reported at the end of June. Management also authorized a new $1.64B share repurchase program, which will run through the end of 2Q18. The prospective SYF forward earnings payout sits at ~100%, on par with credit card peers, and has the potential to enhance EPS growth.

Recent Results and Valuation

SYF reported disappointing 1Q17 EPS results on 4/28/17, ending its nine quarter streak of EPS beats. Although its underlying business remains strong (purchase volume grew 7% y/y, average loans receivable balances grew 12% y/y, and net interest margin rose 12 bps), a normalization in the credit cycle caused its provisions for loan losses to rise 44% y/y, leading SYF to miss Q1 EPS estimates by 16%. Despite Q1's weak results, we have a favorable view on shares of SYF given its solid growth profile and shareholder capital return plans.

SYF is currently followed by D.A. Davidson Institutional Research with a Buy rating and $41 price target, derived from a multiple of 13x its 2018 EPS estimate of $3.14. This is above SYF's average multiple of 10.5x, although history is limited, and given impressive growth and our opinion of a still-healthy consumer, we believe a premium valuation is warranted.

** Synchrony Financial is currently covered by D.A. Davidson Institutional Research. All estimates referenced in the Focus List were taken from the DI Research report published on 4/28/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

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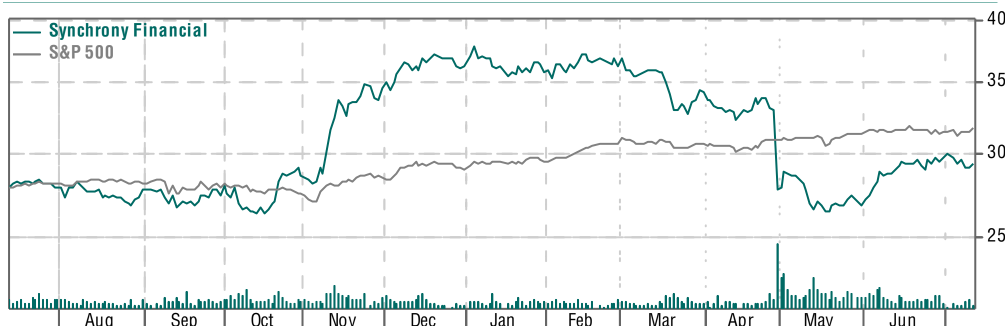
ONE-YEAR PRICE PERFORMANCE VS. S&P 500



[A] **D. A. Davidson & Co. makes a market in this security.**

The Focus List Umpqua Holdings Corporation (UMPQ)[(A)]

A Premier Community Bank in Our Own Backyard

Price (7/13/17)	$18.60
Style	Mid-Cap Growth
Market Sector	Financials

EPS & REVENUE FORECASTS*

FY Ended Dec	**2016A**	**2017E**	**2018E**
Revenue ($mln)	$1,144.5	$1,121.9	$1,183.7
EPS	$1.05	$1.00	$1.15
P/E Ratio	17.7x	18.6x	16.2x

KEY STATISTICS

52-wk. Price Range	$15 - $20
Average Daily Volume (3mo.)	1,535,592
Market Value	$4.1 billion
Shares Outstanding (m)	220
Cash per share	-
LT Debt/Capital	22.3%
Book Value per share	$17.84
Dividend & Yield	$0.64 / 3.44%

VALUATION SUMMARY

		5 Year			Rel. to
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	17.7x	26.0x	13.1x	17.9x	0.9x
P/Book	1.0x	1.2x	0.8x	1.0x	0.3x
P/Sales	3.3x	5.0x	2.2x	3.1x	1.6x
EV/EBITDA	-	-	-	-	-
EV/Sales	4.3x	6.7x	2.8x	4.1x	1.7x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	**3-yr.**	**5-yr.**	**10-yr.**
Sales	-1.2%	30.1%	16.4%	10.2%
EBITDA	-	-	-	-
Net Income	4.8%	33.6%	25.6%	10.7%
EPS (Diluted)	4.0%	6.5%	10.1%	-4.1%
Dividends	3.2%	5.2%	21.7%	0.6%

COMPANY DESCRIPTION

Umpqua Holdings Corp. is a financial services company that operates two subsidiaries, Umpqua Bank and the retail brokerage Umpqua Investments. Umpqua Bank, the primary subsidiary, with more than $22 billion in assets, offers personal and commercial banking services in Oregon, Washington, California, Idaho, and Nevada. The Company was formed in 1999 and is headquartered in Portland, OR.

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After Umpqua's (UMPQ) transformational merger with Sterling Financial closed in April 2014, UMPQ was established as a premier community bank, as well as the largest headquartered in the Pacific Northwest (PNW). The combined entity has $25 billion in assets, $18 billion in loans, $19 billion in deposits, and nearly 400 branches in five Western states (WA, OR, ID, NV, and CA).

Key benefits of the Sterling deal included: a complementary geographic footprint and product set; EPS accretion above initial targets; and general benefits of size in a regulatory environment that favors scale in community banks. UMPQ has a solid presence through the I-5 corridor from Western Washington to Northern California, as well as a sizable footprint in Eastern Washington and Oregon. Additionally, the Company has planted seeds for potential future growth in the Southern California market. Umpqua holds a top three ranking among locally-headquartered banks by deposit market share in 10 out of 11 primary markets in its footprint. The merger represented a watershed moment for UMPQ and the PNW community bank landscape in general; although admittedly, some of the expected margin and growth benefits have taken longer than expected to realize.

Key drivers and risks to the stock going forward include general economic growth in UMPQ's primarily PNW markets, expense control (lower non-interest expense and efficiency ratio), interest rates (rising rates are a positive), and future capital plans. UMPQ has turned increased attention to digital banking initiatives and efforts to take cost out of the business, evidenced by its recent branch consolidation announcements. We believe that shares of UMPQ offer an attractive investment, with long term capital appreciation potential and a healthy 3.4% dividend yield.

Recent Results and Valuation

UMPQ reported worse than expected 1Q17 EPS results on 4/20/17 with core operating EPS of $0.24 missing estimates by $0.02. Despite the EPS weakness, core trends are encouraging as margins found stable footing for the first time in years and loan growth (+7% y/y organically) was stronger than in recent quarters. Core net interest margin expanded 5 basis points to 3.70%, in-line with management's previous commentary that net interest margins had finally bottomed.

The D.A. Davidson Institutional Research price target of $21 represents 18.3x its 2018 EPS estimate of $1.15. UMPQ currently trades at 16.3x forward consensus EPS estimates and at a modest premium to community bank peers. We believe UMPQ's positioning in the strong economic markets of the PNW make shares attractive at current levels.

** Umpqua Holdings Corporation is currently covered by D.A. Davidson Institutional Research. All estimates referenced in the Focus List were taken from the DI Research report published on 4/20/17. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500

[(A)] **D. A. Davidson & Co. makes a market in this security.**

The Focus List Zoetis, Inc. Class A (ZTS)

Industry Leader in Attractive Animal Health Market

Price (7/13/17)	$63.05
Style	Large-Cap Growth
Market Sector	Health Care

EPS & REVENUE FORECASTS*

FY Ended Dec	2016A	2017E	2018E
Revenue ($mln)	$4,888.0	$5,196.0	$5,508.0
EPS	$1.65	$2.35	$2.67
P/E Ratio	38.2x	26.8x	23.6x

KEY STATISTICS

52-wk. Price Range	$47 - $64
Average Daily Volume (3mo.)	2,853,519
Market Value	$30.9 billion
Shares Outstanding (m)	491
Cash per share	$1.28
LT Debt/Capital	61.2%
Book Value per share	$3.27
Dividend & Yield	$0.42 / 0.67%

VALUATION SUMMARY

		5 Year			Rel. to
	Last	**High**	**Low**	**Avg.**	**SP500**
P/E (LTM)	36.7x	70.5x	27.8x	40.3x	1.5x
P/Book	19.3x	23.6x	4.2x	17.5x	1.8x
P/Sales	6.3x	6.3x	3.2x	4.5x	2.2x
EV/EBITDA	20.7x	24.4x	14.1x	18.1x	1.4x
EV/Sales	7.0x	7.0x	3.9x	5.2x	2.0x

GROWTH SUMMARY *as of FY Ended 12/16*

	1-yr.	3-yr.	5-yr.	10-yr.
Sales	2.6%	2.3%	2.9%	-
EBITDA	21.4%	10.8%	15.1%	-
Net Income	142.2%	17.6%	27.4%	-
EPS (Diluted)	142.6%	17.8%	-	-
Dividends	13.4%	13.4%	-	-

COMPANY DESCRIPTION

Zoetis is the largest publicly traded animal healthcare company in the world. It derives 50% of its revenue in the US and 50% OUS. It has over 300 products in its portfolio which are commercialized in over 100 markets. Its top 24 products make up 60% of its revenue and have been in the market on average for 29 years. 95% of ZTS's revenue comes from products requiring a veterinarian's prescription. Management's strategy is to grow revenue in line with or faster than the market (~ mid-single digits) and to grow adjusted net income faster than revenue.

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Zoetis (ZTS) spun out of Pfizer (PFE) in 2013, and with $4.8 billion in revenue and 20% market share, it is the largest publicly traded pure-play animal health company in the world. Its competitive advantage lies with scale, a singular focus on animal health, strong direct customer relationships, commitment to R&D, and high manufacturing quality. We view the animal health business as attractive given long term secular growth drivers in companion animal (40% of sales – benefiting from growing interest in the pet market) and livestock (60% of sales – benefiting from population growth and a growing middle class that demands more animal protein). According to American Pet Products Association, 65% of U.S. households own a pet, up from 56% in 1988. These secular growth drivers should provide the foundation for sustainable mid-single digit revenue growth. In addition, through gross margin mix improvements, attractive industry attributes vs. human health (lack of generics, and lack of third party payers), and aggressive cost cutting, we see potential for substantial operating margin expansion.

Large pharma companies with substantial animal health businesses include Boehringer Ingelheim (private) at ~$4B in sales, Merck (MRK-$62.89) at $3.3B in sales, and Bayer (BAYRY) at $1.7B in sales. Unlike ZTS, neither has a singular focus on animal health, which in our opinion, gives ZTS a competitive advantage. The smaller average market size for each product opportunity and consumer loyalty toward branded products, both attributes in the animal health market, should continue to keep generic and branded competitors at bay. In addition, ZTS sells its products directly to veterinarians and farms as distributors and third party payers (insurance companies) are not as prevalent in animal health. This should foster continued healthy gross margin (66.8% in FY16). Another differentiator between animal and human health is less patent expiration risk. This is supported by the fact that ~80% of ZTS revenue comes from unpatented or non-exclusive products.

Beyond the secular growth drivers, catalysts include new products, acquisitions, and additional cost cutting measures to further enhance margins. On average, ZTS spends 8% of sales per year on R&D, and we view ZTS' product pipeline as healthy. Newly introduced products include Simparica (fleas/ticks for dogs), Apoquel and Cytopoint (dermatitis franchise for dogs), and *SILEO* (noise aversion in dogs). ZTS sees a $400-500 million annual sales opportunity in in its dermatitis franchise, large by animal health standards as anything over $100 million is considered a blockbuster). Simparica ($100 million sales opportunity) filled a void in its portfolio by giving it access to a chewable in the large anti-parasitic category ($2.5 billion global market for dogs). Recent acquisitions include the 2015 purchase of PHARMAQ, the global leader in vaccines for the aquaculture market. With ~$80 million in sales, PHARMAQ expands ZTS' core livestock business with industry leading pharmaceuticals for farmed fish, the largest and fastest growing protein category within farmed animals. In addition to entering a new market, it also gained PHARMAQ's late-stage pipeline and anticipates bringing several new products to market over the near term.

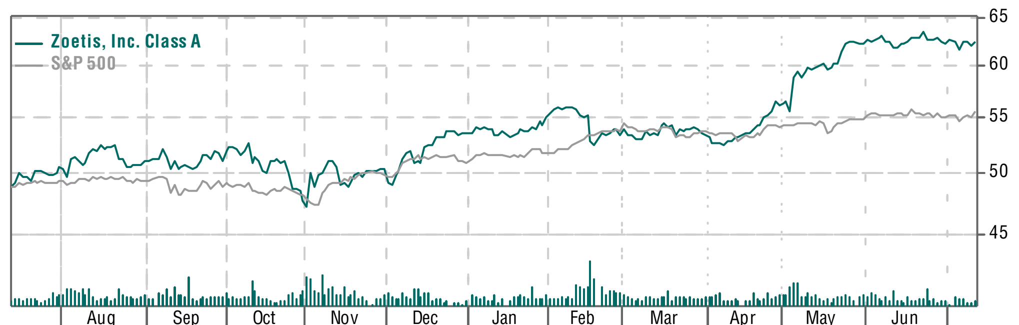
Recent Results and Valuation

ZTS reported strong 1Q17 results on 5/4/17 with revenue and EPS exceeding estimates. Revenue upside came from strong growth within its companion animal business. ZTS reiterated its FY17 revenue and EPS guidance range which implies accelerating EPS growth in the second half of the year.

The IIG Research price target is $65, based upon a multiple of 26.2x its next twelve months EPS estimate of $2.48. We believe that the valuation can move to the high-end of its historical valuation range as investors appreciate the consistent growth and margin expansion opportunities that lie ahead. Over the past three years, ZTS has traded with an average forward P/E of 24.0x and within a range of 19.2x-31.2x.

** Zoetis, Inc. is currently covered by Tim Vediz, CFA, D.A. Davidson IIG Research. All estimates referenced in the Focus List were taken from the IIG Research report published on 5/9/2017. For a copy of this report, please contact your D.A. Davidson representative or call (206) 389-8000.*

ONE-YEAR PRICE PERFORMANCE VS. S&P 500



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Tim Vediz, the analyst who prepared this report, or his immediate family owns an investment position in: CMG, DG, MRK, SLB, UMPQ, ZTS

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Of all the eligible securities from the Research Universe, as well as eligible ETFs, those ultimately selected for inclusion on the Focus List represent those believed by Mr. Ragan and Mr. Vediz to represent the current ideas considered most timely at the time it is added to the Focus List. While the time horizon for eligible securities from D.A. Davidson's Individual Investor Group and Institutional Research and that of Morningstar is typically 12-18 months, the Focus List will be a periodic publication that will select the timeliest eligible securities as of the date of its publication. If the rating on a security included on the Focus List is changed by the covering analyst from D.A. Davidson's Individual Investor Group Research, Institutional Research, or the covering analyst from Morningstar in such a way that it is no longer an eligible security, that security will automatically be removed from the Focus List. In addition to a change in the rating, other factors, including a change in market or sector conditions, company or industry fundamentals, or discontinuance of coverage by the covering analyst, may also cause a security to be removed from the Focus List. A security on the Focus List may be removed from the list even if it is still an eligible security based on Mr. Ragan and Mr. Vediz's determination that it is no longer timely. The Focus List will disclose any securities removed from the list in the first publication following the removal of the security.

For a copy of the most recent reports containing all required disclosure information for covered companies referenced in this report, please contact your D.A. Davidson & Co. representative or call 206-389-8000.

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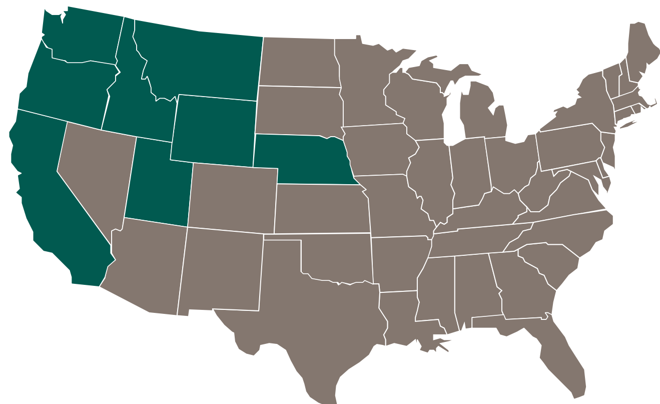

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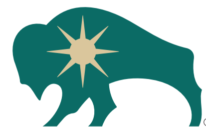

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