



Chipbond (6147.TWO/6147 TT)

Bumpy outlook in the near term

Neutral · Maintained

Price as of October 5 (NT\$)	68.70
12M target price (NT\$)	60.00
Previous target price (NT\$)	62.00
Revised down (%)	3.2
Downside (%)	12.7

Key message

We revise Chipbond Technology's 2H23 sales projections downward, taking into account a deteriorating pricing environment and only a modest rebound in demand.

Trading data

Mkt cap (NT\$bn/US\$m)	51.16 / 1,582
Outstanding shares (mn)	745
Foreign ownership (mn)	165.5
3M avg. daily trading (mn)	2.97
52-week trading range (NT\$)	49.45 –72.00

Performance	3M	6M	12M
Absolute (%)	8	-0.9	32.4
Relative (%)	11.5	-4.6	13.2

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	2.33A	2.42A	2.14A	1.51A
2023	0.90A	1.93A	1.30F	1.10F
2024	1.07F	1.66F	1.74F	1.57F

Share price chart



Source: TEJ

Event

We revise Chipbond Technology's 2H23 sales projections downward, taking into account a deteriorating pricing environment and only a modest rebound in demand.

Impact

We reduce our 3Q23 forecasts. Based on our supply chain checks, macroeconomic uncertainties and lukewarm end-user demand make it challenging for brands to predict extended IC order visibility. As a result, most DDIC vendors are presently keeping a 2-4 month inventory, and relying on rush orders for operations. This has slowed the sequential recovery for DDIC OSATs. We expect shipment delays for a US smartphone client's new models will affect September sales, while reduced UTR and ongoing price incentive programs are denting gross margins. We now expect 3Q23F sales and gross margin to drop by mid-single digit and low-single digit percentages, respectively.

Persistent back-end pricing challenges and tepid order volume. Ongoing DDIC back-end price incentive programs have impacted DDIC OSATs' gross margins. Given consistent high costs for inputs, we believe reduced pricing will hinder margin recovery in 2023-24F. We also anticipate DDIC back-end orders to stay tepid, resulting in flat quarterly sales in 4Q23F and a sequential drop in 1Q24F.

High-end testing demand still the long-term growth driver. We anticipate that the penetration rate of AMOLED panels in smartphones (including the iPhone) will gradually increase by a mid-to-low single-digit percentage annually from around 45% in 2023F, thereby driving the overall growth in AMOLED DDIC demand. On the other hand, foldable smartphones, which require multiple AMOLED DDICs per device (2-3 units), will also contribute to growth in AMOLED DDIC demand. Additionally, we forecast that the next wave of devices to adopt AMOLED panels will be tablets and notebooks. On the other hand, rising automotive DDIC demand in the coming years, driven by higher resolution and growing panel units per vehicle, will also couple with the AMOLED catalyst to drive high-end testing demand for DDIC OSATs.

Valuation & Action

We cut 2023-24F earnings by a respective 3.4% and 8.4% on challenging back-end pricing and a tepid order outlook in the near term. Shares are now trading at 11x 2024F EPS, and we believe most catalysts have been factored in, making the current valuation largely fair. We maintain Neutral, with a target price of NT\$60, based on 10x 2024F EPS (previously 10x 3Q23-2Q24F EPS.)

Risks

Unfavorable forex and gold prices; reduced DDIC demand.

Key financials and valuations

	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Revenue (NT\$m)	22,275	27,082	24,010	20,311	22,634
Gross profit (NT\$m)	6,280	8,752	7,833	5,257	6,373
Operating profit (NT\$m)	4,835	6,894	5,877	3,588	4,674
Net profit (NT\$m)	3,661	6,137	6,209	3,855	4,458
EPS (NT\$)	5.61	9.00	8.41	5.22	6.03
Cash DPS (NT\$)	3.80	6.00	5.50	3.42	3.95
EPS growth (%)	(10.7)	60.5	(6.6)	(37.9)	15.6
PE (x)	12.3	7.6	8.2	13.2	11.4
PB (x)	1.4	1.2	1.2	1.1	1.0
EV/EBITDA (x)	3.7	2.6	3.0	3.8	3.1
Net debt to equity (%)	1.2	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	5.5	8.7	8.0	5.0	5.7
Return on average equity (%)	11.9	16.7	15.0	9.1	10.0

Source: Company data, KGI Research estimates

Figure 1: Breakdown of 3Q-4Q23 forecast revisions vs. consensus

NT\$m	3Q23F									4Q23F						
	Revision	Previous	Chg. (%)	2Q23	QoQ (%)	3Q22	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Revenue	5,142	6,126	(16.1)	5,471	(6.0)	5,253	(2.1)	5,337	(3.6)	5,095	5,887	(13.5)	(0.9)	(5.4)	5,631	(9.5)
Gross profit	1,319	1,844	(28.4)	1,482	(11.0)	1,611	(18.1)	1,449	(9.0)	1,301	1,741	(25.3)	(1.4)	(27.2)	1,554	(16.3)
Operating profit	903	1,390	(35.1)	1,029	(12.3)	1,128	(20.0)	1,002	(9.9)	898	1,300	(30.9)	(0.5)	(34.4)	1,146	(21.6)
Net profit	957	1,194	(19.8)	1,423	(32.7)	1,581	(39.4)	1,057	(9.5)	809	1,215	(33.4)	(15.5)	(27.5)	1,077	(24.9)
EPS (NT\$)	1.30	1.62	(19.8)	1.93	(32.7)	2.14	(39.4)	1.40	(7.2)	1.10	1.65	(33.4)	(15.5)	(27.5)	1.56	(29.7)
Gross margin (%)	25.7	30.1	(4.4)ppts	27.1	(1.4)ppts	30.7	(5.0)ppts	27.2	(1.5)ppts	25.5	29.6	(4.0)ppts	(0.1)ppts	(7.7)ppts	27.6	(2.1)ppts
OP margin (%)	17.6	22.7	(5.1)ppts	18.8	(1.3)ppts	21.5	(3.9)ppts	18.8	(1.2)ppts	17.6	22.1	(4.4)ppts	0.1 ppts	(7.8)ppts	20.4	(2.7)ppts
Net margin (%)	18.6	19.5	(0.9)ppts	26.0	(7.4)ppts	30.1	(11.5)ppts	19.8	(1.2)ppts	15.9	20.6	(4.8)ppts	(2.7)ppts	(4.8)ppts	19.1	(3.2)ppts

Source: Bloomberg, KGI Research estimates

Figure 2: Breakdown of 2023-24 forecast revisions vs. consensus

NT\$m	2023F						2024F					
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)
Revenue	20,311	21,798	(6.8)	(15.4)	21,223	(4.3)	22,634	24,892	(9.1)	11.4	24,489	(7.6)
Gross profit	5,257	6,202	(15.2)	(32.9)	5,782	(9.1)	6,373	7,469	(14.7)	21.2	7,526	(15.3)
Operating profit	3,588	4,495	(20.2)	(39.0)	4,009	(10.5)	4,674	5,597	(16.5)	30.3	5,519	(15.3)
Net profit	3,855	3,990	(3.4)	(37.9)	4,108	(6.2)	4,458	4,864	(8.4)	15.6	4,933	(9.6)
EPS (NT\$)	5.22	5.40	(3.4)	(37.9)	5.62	(7.1)	6.03	6.58	(8.4)	15.6	6.81	(11.3)
Gross margin (%)	25.9	28.4	(2.6)ppts	(6.7)ppts	27.2	(1.4)ppts	28.2	30.0	(1.8)ppts	2.3 ppts	30.7	(2.6)ppts
OP margin (%)	17.7	20.6	(3.0)ppts	(6.8)ppts	18.9	(1.2)ppts	20.7	22.5	(1.8)ppts	3.0 ppts	22.5	(1.9)ppts
Net margin (%)	19.0	18.3	0.7 ppts	(6.9)ppts	19.4	(0.4)ppts	19.7	19.5	0.2 ppts	0.7 ppts	20.1	(0.4)ppts

Source: Bloomberg, KGI Research estimates

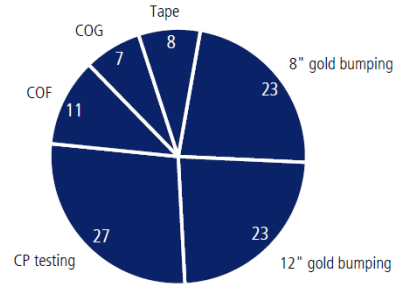
Figure 3: Company profile

Founded in July 1997, Chipbond Technology is a packaging and testing service provider in the semiconductor industry, with its headquarters located in Hsinchu Science Park. Besides specializing in the development and manufacturing of display driver IC packaging and testing processes, the company has actively broadened its services into the non-driver IC domain.

Source: Company data, KGI Research

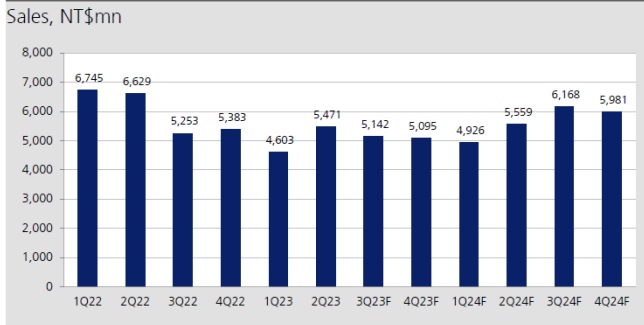
Figure 4: Revenue mix

2022 revenue by service, percent



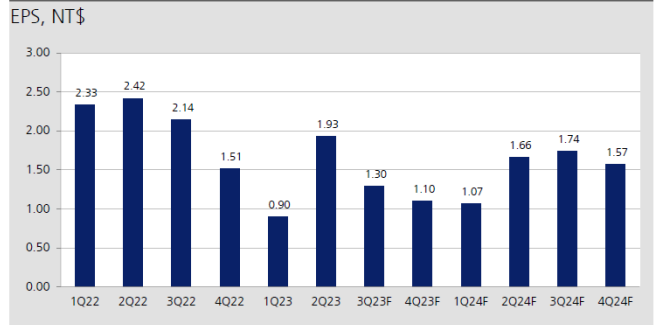
Source: KGI Research estimates

Figure 5: Sales



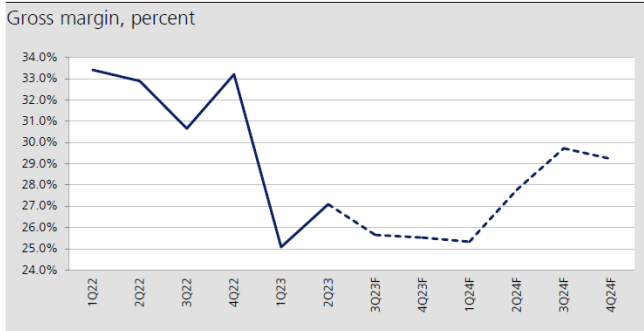
Source: KGI Research

Figure 6: EPS



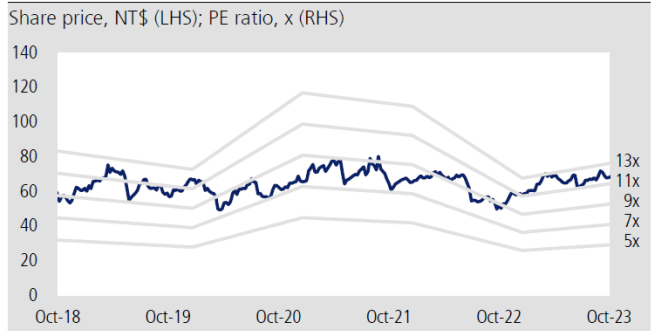
Source: KGI Research

Figure 7: Gross Margin



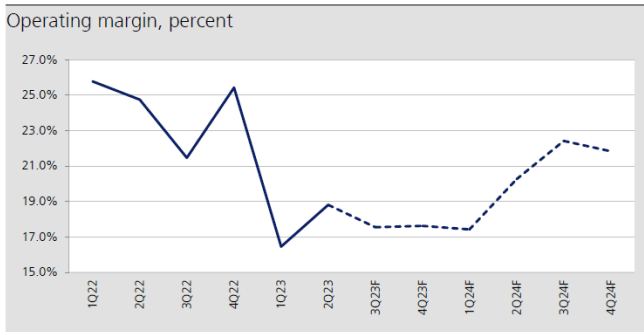
Source: KGI Research

Figure 8: 12M forward PE band



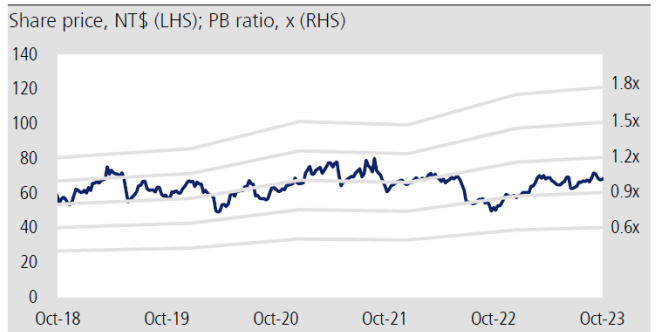
Source: TEJ, KGI Research estimates

Figure 9: Operating Margin



Source: KGI Research

Figure 10: 12M forward PB band



Source: TEJ, KGI Research estimates

Income statement

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23F	Dec-23F	Mar-24F	Jun-24F	Sep-24F	Dec-24F	Dec-22A	Dec-23F	Dec-24F
Income statement (NT\$m)											
Revenue	4,603	5,471	5,142	5,095	4,926	5,559	6,168	5,981	24,010	20,311	22,634
Cost of goods sold	(3,449)	(3,988)	(3,823)	(3,794)	(3,679)	(4,015)	(4,334)	(4,232)	(16,177)	(15,054)	(16,261)
Gross profit	1,154	1,482	1,319	1,301	1,248	1,544	1,833	1,748	7,833	5,257	6,373
Operating expenses	(397)	(453)	(417)	(402)	(389)	(417)	(450)	(443)	(1,956)	(1,669)	(1,699)
Operating profit	758	1,029	903	898	859	1,127	1,383	1,306	5,877	3,588	4,674
Depreciation of fixed assets	(944)	(966)	(986)	(1,003)	(1,099)	(1,119)	(1,142)	(840)	(3,652)	(3,899)	(4,199)
Amortisation of intangible assets	(15)	(18)	(15)	(15)	(14)	(14)	(14)	(17)	(74)	(64)	(61)
EBITDA	1,717	2,014	1,903	1,916	1,972	2,260	2,539	2,163	9,603	7,550	8,935
Interest income	11	23	27	15	18	23	25	17	40	75	84
Investment income	29	574	200	50	30	400	100	50	597	853	580
Other non-op income	0	0	-	-	(0)	-	-	-	412	0	-
Non-operating income	40	597	227	65	48	423	125	67	1,049	929	664
Interest expense	(13)	(14)	(17)	(17)	(17)	(17)	(17)	(17)	(55)	(60)	(66)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	(41)	146	-	-	-	-	-	-	788	105	-
Non-operating expenses	(54)	132	(17)	(17)	(17)	(17)	(17)	(17)	733	45	(66)
Pre-tax profit	744	1,759	1,113	946	891	1,533	1,492	1,357	7,659	4,562	5,272
Current taxation	(78)	(336)	(156)	(137)	(102)	(307)	(209)	(197)	(1,450)	(707)	(815)
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	666	1,423	957	809	788	1,227	1,283	1,160	6,209	3,855	4,458
Extraordinary items	0	0	-	-	-	-	-	-	-	-	-
Net profit	666	1,423	957	809	788	1,227	1,283	1,160	6,209	3,855	4,458
EPS (NT\$)	0.90	1.93	1.30	1.10	1.07	1.66	1.74	1.57	8.41	5.22	6.03
Margins (%)											
Gross profit margin	25.1	27.1	25.7	25.5	25.3	27.8	29.7	29.2	32.6	25.9	28.2
Operating margin	16.5	18.8	17.6	17.6	17.4	20.3	22.4	21.8	24.5	17.7	20.7
EBITDA margin	37.3	36.8	37.0	37.6	40.0	40.7	41.2	36.2	40.0	37.2	39.5
Pretax profit margin	16.2	32.1	21.6	18.6	18.1	27.6	24.2	22.7	31.9	22.5	23.3
Net profit margin	14.5	26.0	18.6	15.9	16.0	22.1	20.8	19.4	25.9	19.0	19.7
Sequential growth (%)											
Revenue growth	(14.5)	18.9	(6.0)	(0.9)	(3.3)	12.8	10.9	(3.0)			
Gross profit growth	(35.4)	28.4	(11.0)	(1.4)	(4.1)	23.7	18.8	(4.6)			
Operating profit growth	(44.7)	35.9	(12.3)	(0.5)	(4.4)	31.2	22.7	(5.6)			
EBITDA growth	(25.7)	17.3	(5.5)	0.7	2.9	14.6	12.3	(14.8)			
Pretax profit growth	(42.4)	136.4	(36.7)	(15.0)	(5.9)	72.2	(2.7)	(9.0)			
Net profit growth	(40.3)	113.7	(32.7)	(15.5)	(2.6)	55.6	4.6	(9.6)			
YoY growth (%)											
Revenue growth	(31.8)	(17.5)	(2.1)	(5.4)	7.0	1.6	19.9	17.4	(11.3)	(15.4)	11.4
Gross profit growth	(48.8)	(32.0)	(18.1)	(27.2)	8.1	4.1	39.0	34.4	(10.5)	(32.9)	21.2
Operating profit growth	(56.4)	(37.3)	(20.0)	(34.4)	13.3	9.5	53.2	45.4	(14.7)	(39.0)	30.3
EBITDA growth	(35.3)	(21.6)	(8.1)	(17.1)	14.8	12.3	33.4	12.9	(8.1)	(21.4)	18.3
Pretax profit growth	(65.2)	(27.2)	(38.7)	(26.7)	19.7	(12.8)	34.0	43.4	3.1	(40.4)	15.6
Net profit growth	(61.4)	(20.4)	(39.4)	(27.5)	18.4	(13.8)	34.0	43.4	1.2	(37.9)	15.6

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Total assets	43,267	53,801	50,957	52,141	54,172
Current assets	10,309	13,458	12,285	11,908	14,064
Cash & ST securities	4,201	5,575	5,858	4,611	5,734
Inventory	1,320	1,457	1,772	1,897	2,116
Accounts receivable	4,698	6,249	4,600	4,687	5,502
Other current assets	90	177	56	712	712
Non-current assets	32,958	40,342	38,672	40,233	40,108
LT investments	10,398	17,093	15,011	18,059	18,059
Net fixed assets	16,644	17,380	17,809	16,266	16,141
Other assets	5,916	5,869	5,851	5,909	5,909
Total liabilities	11,229	12,125	10,066	8,406	8,502
Current liabilities	6,797	7,749	6,162	5,699	5,795
Accounts payable	963	874	723	835	931
Interest bearing ST liabilities	1,330	2,250	300	1,825	1,825
Other current liabilities	4,504	4,625	5,139	3,039	3,039
Non-current liabilities	4,432	4,375	3,905	2,707	2,707
Long-term debt	3,195	3,213	2,700	1,475	1,475
Other L-T liabilities	786	735	768	1,232	1,232
Total equity	32,038	41,676	40,890	43,735	45,670
Share capital	6,715	7,387	7,387	7,387	7,387
Retained earnings reserve	15,190	20,811	26,126	26,904	28,839
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Growth					
Revenue growth	9.1%	21.6%	(11.3%)	(15.4%)	11.4%
Operating profit growth	(10.6%)	42.6%	(14.7%)	(39.0%)	30.3%
EBITDA growth	(3.3%)	27.1%	(8.1%)	(21.4%)	18.3%
Net profit growth	(10.5%)	67.6%	1.2%	(37.9%)	15.6%
EPS growth	(10.7%)	60.5%	(6.6%)	(37.9%)	15.6%
Profitability					
Gross profit margin	28.2%	32.3%	32.6%	25.9%	28.2%
Operating margin	21.7%	25.5%	24.5%	17.7%	20.7%
EBITDA margin	36.9%	38.6%	40.0%	37.2%	39.5%
Net profit margin	16.4%	22.7%	25.9%	19.0%	19.7%
Return on average assets	8.8%	12.6%	11.9%	7.5%	8.4%
Return on average equity	11.9%	16.7%	15.0%	9.1%	10.0%
Stability					
Gross debt to equity	14.1%	13.1%	7.3%	7.5%	7.2%
Net debt to equity	1.2%	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	100.9	155.1	139.4	77.0	80.9
Interest & ST debt coverage (x)	0.8	0.8	1.0	0.7	0.7
Cash flow interest coverage(x)	138.7	165.0	188.7	97.0	117.9
Cash flow/int. & ST debt (x)	4.5	3.5	29.4	3.1	4.1
Current ratio (x)	1.5	1.7	2.0	2.1	2.4
Quick ratio (x)	1.3	1.5	1.7	1.8	2.1
Net debt (NT\$m)	384	(112)	(2,856)	(1,301)	(2,424)
Per share data					
EPS (NT\$)	5.61	9.00	8.41	5.22	6.03
CFPS (NT\$)	9.45	11.66	14.14	7.89	10.53
BVPS (NT\$)	47.71	56.42	55.36	65.13	68.01
Adj BVPS (NT\$)	49.06	61.12	55.36	59.21	61.83
SPS (NT\$)	34.11	39.71	32.50	27.50	30.64
EBITDA/share (NT\$)	12.59	15.32	13.00	10.22	12.10
Cash DPS (NT\$)	3.80	6.00	5.50	3.42	3.95
Activity					
Sales / avg assets	0.53	0.56	0.46	0.39	0.43
Days receivable	77.2	84.2	69.9	84.2	89.0
Days inventory	30.2	29.0	40.0	46.0	47.6
Days payable	22.0	17.4	16.3	20.2	21.0
Cash cycle	85.4	95.8	93.6	110.0	115.6

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Revenue	22,275	27,082	24,010	20,311	22,634
Cost of goods sold	(15,995)	(18,330)	(16,177)	(15,054)	(16,261)
Gross profit	6,280	8,752	7,833	5,257	6,373
Operating expenses	(1,445)	(1,858)	(1,956)	(1,669)	(1,699)
Operating profit	4,835	6,894	5,877	3,588	4,674
Non-operating income	9	624	1,049	929	664
Interest income	8	-	40	75	84
Investment income	-	599	597	853	580
Other non-op income	0	25	412	0	-
Non-operating expenses	(393)	(89)	733	45	(66)
Interest expense	(45)	(48)	(55)	(60)	(66)
Investment loss	(47)	-	-	-	-
Other non-op expenses	(302)	(41)	788	105	-
Pre-tax profit	4,450	7,428	7,659	4,562	5,272
Current taxation	(789)	(1,291)	(1,450)	(707)	(815)
Minorities	-	-	-	-	-
Extraordinary items	-	(0)	0	-	-
Net profit	3,661	6,137	6,209	3,855	4,458
EBITDA	8,224	10,449	9,603	7,550	8,935
EPS (NT\$)	5.61	9.00	8.41	5.22	6.03

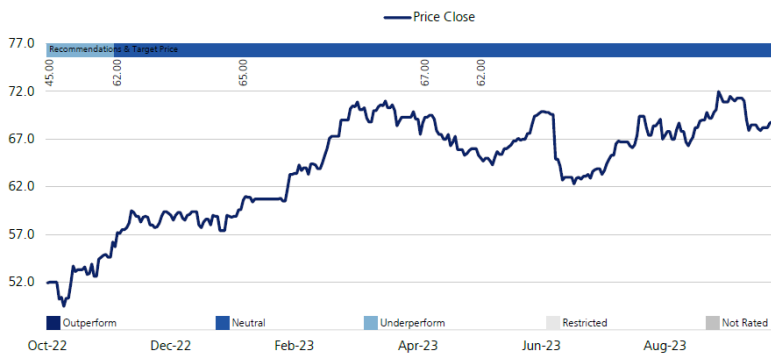
Cash flow

NT\$m	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Operations cash flow	6,174	7,954	10,443	5,825	7,780
Net profit	3,661	6,137	6,209	3,855	4,458
Depreciation & amortisation	3,390	3,555	3,726	3,963	4,260
Decrease in working capital	(656)	(1,777)	1,184	(102)	(937)
Other operating cash flow	(221)	40	(676)	(1,891)	(0)
Investing cash flow	(6,443)	(4,913)	(3,209)	(3,305)	(4,135)
Sale of ST investment	(3,084)	(55)	(100)	-	-
New investments	(1,250)	-	-	(4)	-
Capital expenditure	(2,485)	(4,827)	(3,678)	(3,237)	(4,074)
Others investing cashflow	377	(31)	569	(64)	(61)
Free cash flow	4,190	2,588	5,923	3,592	3,140
Financing cash flow	(2,729)	(1,607)	(6,954)	(3,773)	(2,523)
Increase in short term debt	(300)	1,350	(1,950)	1,200	-
Increase in long term loans	350	(375)	(550)	(900)	-
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(2,748)	(2,552)	(4,432)	(4,063)	(2,523)
Other financing cashflow	(31)	(30)	(22)	(10)	-
Forex effects	2	(1)	1	(2)	-
Total cash generated	(2,997)	1,433	281	(1,255)	1,123

ROIC

	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
1 - COGS/revenue					
- Operating exp./revenue	6.5%	6.9%	8.1%	8.2%	7.5%
= Operating margin	21.7%	25.5%	24.5%	17.7%	20.7%
1 / (Working capital/revenue					
+ Net PPE/revenue	0.0	0.1	0.0	0.2	0.2
+ Other assets/revenue)	0.7	0.6	0.7	0.8	0.7
= Capital turnover	1.3	1.4	1.3	1.0	1.1
Operating margin	21.7%	25.5%	24.5%	17.7%	20.7%
x Capital turnover	1.3	1.4	1.3	1.0	1.1
x (1 - tax rate)	82.3%	82.6%	81.1%	84.5%	84.5%
= After-tax ROIC	22.9%	28.7%	25.8%	14.8%	18.5%

Source: Company data, KGI Research estimates

Chipbond – Recommendation & target price history


Date	Rating	Target	Price
2023-05-09	Neutral	62.0	65.3
2023-04-11	Neutral	67.0	68.7
2023-01-10	Neutral	65.0	59.6
2022-11-08	Neutral	62.0	55.7
2022-10-24	Underperform	45.0	53.6
2022-08-05	Underperform	45.0	55.3
2022-07-20	Neutral	50.0	54.9
2022-06-27	Neutral	68.0	64.6
2022-05-06	Outperform	84.0	68.3
2022-03-01	Outperform	84.0	71.0

Source: TEJ, KGI Research

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