

# Delta Electronics (2308.TW/2308 TT)

## Lukewarm near-term sales outlook

FTSE4Good TIP Taiwan ESG Index stock

### Neutral · Maintained

Price as of January 10 (NT\$)	291.0
12M target price (NT\$)	297.0
Previous target price (NT\$)	325.0
Revised down (%)	8.6
Upside (%)	2.1

#### Key message

- 4Q23 sales missed consensus by 8%, with EV solutions a major shortfall.
- Management guides ongoing demand weakness in 1Q24.
- We trim 2024F sales growth to 8% YoY and EPS to NT\$13.10, up 2% YoY.

#### Trading data

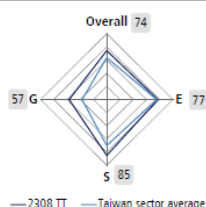
Mkt cap (NT\$/US\$m)	756 / 24,326
Outstanding shares (mn)	2,598
Foreign ownership (mn)	1,668
3M avg. daily trading (mn)	4.65
52-week trading range (NT\$)	277.0 –375.5

Performance	3M	6M	12M
Absolute (%)	-13.8	-16.5	2.6
Relative (%)	-19.5	-21.4	-15.4

#### Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	2.33A	2.94A	4.26A	3.05A
2023	2.66A	3.14A	3.60A	3.44F
2024	2.62F	3.09F	3.74F	3.64F

#### ESG score card



Source: TEJ

#### Event

Delta Electronics reported December sales of NT\$31.7bn, down 6% MoM and 8% YoY.

#### Impact

**4Q23 sales missed consensus by 8% and our estimate by 9%.** On sequential monthly sales declines since August, 4Q23 revenue arrived at NT\$100bn, down 7% QoQ and 5% YoY. Management notes weaker-than-estimated demand and order cuts across multiple segments in 4Q23. Notably, EV solutions (EVSBG) sales dropped 21% QoQ to NT\$11.0bn in 4Q23, with the sales weighting retreating from 13% in 3Q23 to 11%, reflecting inventory correction and softening automotive demand amid a high interest rate environment. 2023 revenue totaled NT\$401.2bn, up 4% YoY. Power electronics grew 9% YoY to account for 62% of 2023 revenue, driven by respective 81% and 5% YoY growth in EVSBG and power supply (PSBG), while infrastructure sales fell 3% YoY on the weakness of telecom power. The automation segment was largely flat YoY in 2023. Server power supply and EV-related sales grew a respective 16% and 65% YoY to account for 29% of 2023 revenue.

**We trim 2024F sales growth to 8% YoY on near-term demand softness.** Management holds a cautious outlook on near-term demand, citing ongoing inventory correction and lackluster order volume for many businesses, as well as seasonal weakness on fewer working days in 1Q24. Regarding the firm's 2024 outlook, management remains positive on AI server-related and passive component businesses, but is cautious on businesses, such as automation, networking, and game console power supplies. On automotive market headwinds, we expect the company to trim its previous growth guidance of 40-50% YoY for EVSBG in 2024. Overall, we trim 2024F sales by 5% to NT\$431.7bn, up 8% YoY but 5% below consensus. We project server power supply, EV-related business, and passive components will be the main growth catalysts in 2024, with revenue up 20%, 22%, and 10% YoY, respectively. We cut 1Q24F sales by 4% to NT\$96.3bn, up 4% YoY, but down 4% QoQ.

**We lower 2024F EPS to NT\$13.10 on lower operating leverage & less non-op gains.** While we lower 2024F sales, we maintain our gross margin estimate at 29.3%, but trim operating margin to 10.5% to reflect lower operating leverage. We are also cautious on non-op gains in 2024 due to NT-dollar appreciation and less one-off contributions. Post revision, we project operating profit will grow 12% YoY, while EPS will grow 2% YoY in 2024. We now forecast sales will bottom in 1Q24, with momentum to gradually recover from 2Q24.

#### Valuation & Action

We maintain Neutral, but trim our 12M target price from NT\$325 to NT\$297, based on 21x average 2024-25F EPS of NT\$14.13. We see limited share price catalysts in the near-term.

#### Risks

Macro headwinds weigh on sales recovery.

#### Key financials and valuations

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (NT\$m)	314,671	384,443	401,226	431,718	475,325
Gross profit (NT\$m)	90,209	110,773	115,914	126,357	139,691
Operating profit (NT\$m)	31,365	41,439	40,288	45,321	53,229
Net profit (NT\$m)	26,796	32,666	33,350	34,015	39,373
EPS (NT\$)	10.32	12.58	12.84	13.10	15.16
Cash DPS (NT\$)	5.50	9.84	7.00	7.00	8.00
EPS growth (%)	5.1	21.9	2.1	2.0	15.7
PE (x)	28.2	23.1	22.7	22.2	19.2
PB (x)	4.9	4.0	3.9	3.6	3.3
EV/EBITDA (x)	18.2	14.5	13.5	11.9	10.2
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	1.9	3.4	2.4	2.4	2.7
Return on average equity (%)	17.8	19.1	17.5	16.8	17.8

Source: Company data, KGI Research estimates

**Figure 1: Breakdown of 4Q23-1Q24 forecast revisions vs. consensus**

NT\$m	4Q23F							1Q24F						
	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Sales	100,020	110,330	(9.3)	(7.2)	(5.3)	108,613	(7.9)	96,348	100,396	(4.0)	(3.7)	3.8	100,740	(4.4)
Gross profit	29,106	32,547	(10.6)	(8.7)	(1.7)	32,000	(9.0)	27,748	29,316	(5.3)	(4.7)	8.5	28,768	(3.5)
Operating profit	9,702	12,467	(22.2)	(18.5)	(10.0)	12,090	(19.8)	8,671	10,441	(17.0)	(10.6)	3.1	10,201	(15.0)
Net income	8,930	9,827	(9.1)	(4.6)	12.9	9,242	(3.4)	6,800	8,293	(18.0)	(23.9)	(1.6)	7,875	(13.6)
EPS (NT\$)	3.44	3.78	(9.1)	(4.6)	12.9	3.53	(2.6)	2.62	3.19	(18.0)	(23.9)	(1.6)	3.01	(13.1)
Gross margin (%)	29.1	29.5	(0.4) ppts	(0.5) ppts	1.1 ppts	29.5	(0.4) ppts	28.8	29.2	(0.4) ppts	(0.3) ppts	1.3 ppts	28.6	0.2 ppts
Op. margin (%)	9.7	11.3	(1.6) ppts	(1.3) ppts	(0.5) ppts	11.1	(1.4) ppts	9.0	10.4	(1.4) ppts	(0.7) ppts	(0.1) ppts	10.1	(1.1) ppts
Net margin (%)	8.9	8.9	0.0 ppts	0.2 ppts	1.4 ppts	8.5	0.4 ppts	7.1	8.3	(1.2) ppts	(1.9) ppts	(0.4) ppts	7.8	(0.8) ppts

Source: Refinitiv, KGI Research

**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. (%)
Sales	401,235	411,527	(2.5)	4.4	409,746	(2.1)	431,729	452,810	(4.7)	7.6	454,139	(4.9)
Gross profit	115,917	119,229	(2.8)	4.6	117,125	(1.0)	126,360	132,937	(4.9)	9.0	131,782	(4.1)
Operating profit	40,289	43,175	(6.7)	(2.8)	42,696	(5.6)	45,322	51,128	(11.4)	12.5	51,096	(11.3)
Net income	33,350	34,368	(3.0)	2.1	33,641	(0.9)	34,017	39,904	(14.8)	2.0	39,249	(13.3)
EPS (NT\$)	12.84	13.23	(3.0)	2.1	13.11	(2.0)	13.10	15.36	(14.8)	2.0	15.39	(14.9)
Gross margin (%)	28.9	29.0	(0.1) ppts	0.1 ppts	28.6	0.3 ppts	29.3	29.4	(0.1) ppts	0.4 ppts	29.0	0.3 ppts
Op. margin (%)	10.0	10.5	(0.5) ppts	(0.7) ppts	10.4	(0.4) ppts	10.5	11.3	(0.8) ppts	0.5 ppts	11.3	(0.8) ppts
Net margin (%)	8.3	8.4	(0.0) ppts	(0.2) ppts	8.2	0.1 ppts	7.9	8.8	(0.9) ppts	(0.4) ppts	8.6	(0.8) ppts

Source: Refinitiv, KGI Research

**Figure 3: Delta Electronics' business structure**

Segment	4Q23 sales weighting (%)	Business group	2023 sales growth (%)	2024F sales growth (%)	2024F sales weighting (%)	Products
Power electronics	61	Electric vehicle solution (EVSBG)	81	23	13	On-board charger, DC/DC converter, traction motor, traction inverter
		Power supply (PSBG)	5	9	33	DT power, NB power, server power, home appliance power, game console power, offline UPS, printer power, and other, medical device power, industrial power module
		Component (CPBG)	-4	10	9	Passive component (Cyntec), optical transceiver
		Fan & thermal (FMBG)	-8	5	9	Cooling fan, thermal module
Automation	13	Industrial automation (IABG)	0	2	8	Industrial automation (Servo motor, AC motor drive, PLC, CNC control, HMI, robot arms)
		Building automation (BABG)	-1	3	5	Building automation solution, LED lighting fixture, surveillance camera, controller
Infrastructure	26	Information & communication technology (ICTBG)	-9	-3	17	Telecom power, data center solutions, networking
		Energy infrastructure system (EISBG)	16	18	7	Off-board EV-charger, renewable energy (solar inverter & wind power converter), energy storage system, display, power-conditioning system

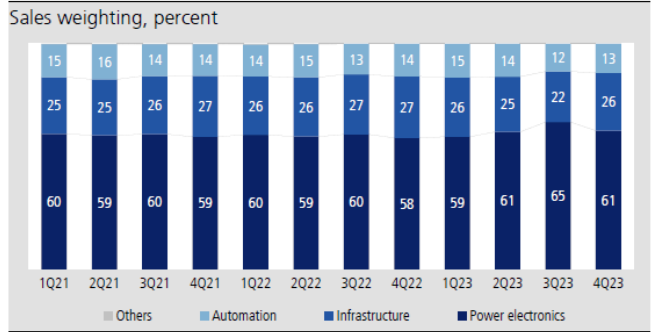
Note: Industrial and medical power supplies (2% of revenue combined) were moved from EISBG to PSBG, effective 1Q21

Source: Company data; KGI Research

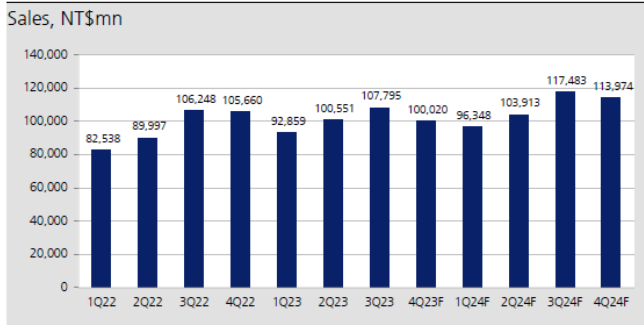
**Figure 4: Company profile**

Established in 1971, Delta Electronics is a leading global supplier of electronics components. Some of its products command significant global market share. Post the acquisition of Delta Electronics (Thailand) in April 2019, the firm now operates production facilities in China, Taiwan, Thailand, India, and Slovakia. Power electronics, automation, and infrastructure accounted for a respective 59%, 14%, and 27% of 2023 sales.

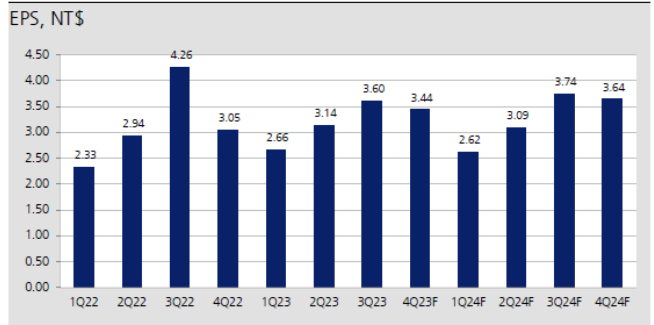
Source: KGI Research

**Figure 5: Sales mix**


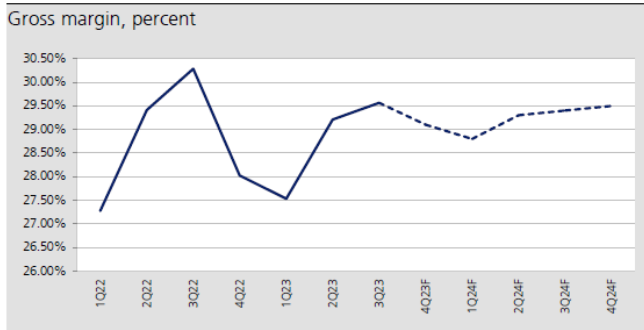
Source: KGI Research

**Figure 6: Sales**


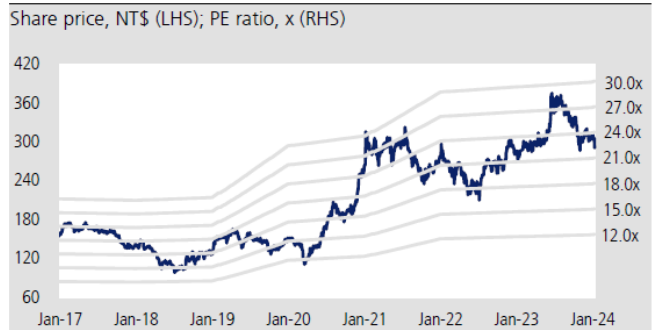
Source: KGI Research

**Figure 7: EPS**


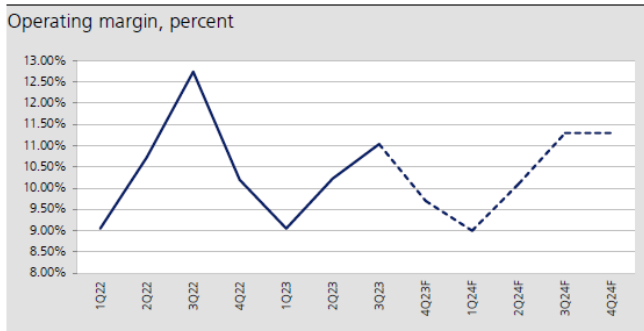
Source: KGI Research

**Figure 8: Gross Margin**


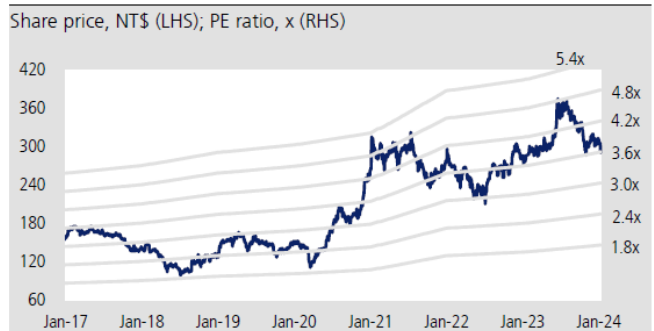
Source: KGI Research

**Figure 9: 12M forward PE band**


Source: KGI Research

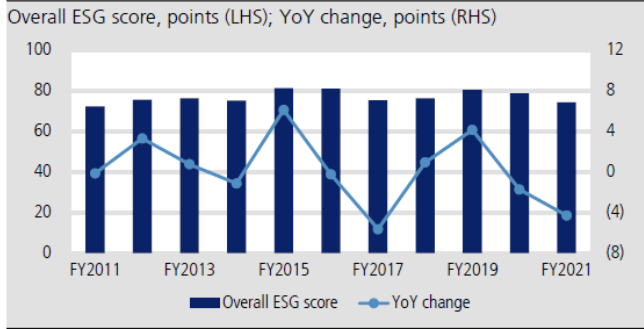
**Figure 10: Operating Margin**


Source: KGI Research

**Figure 11: 12M forward PB band**


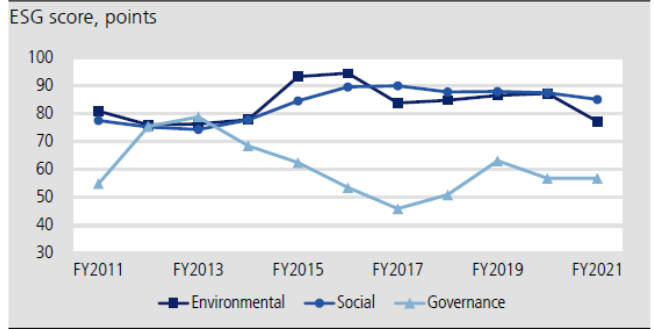
Source: KGI Research

**Figure 12: Overall ESG score**



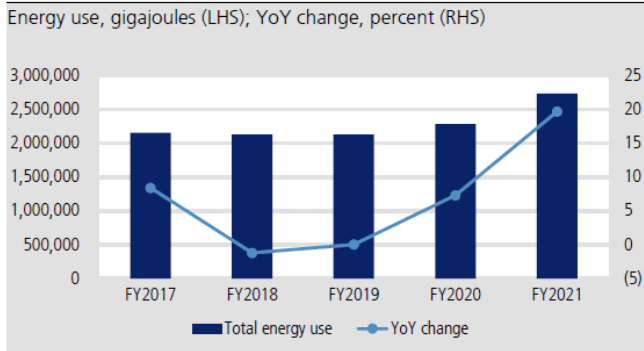
Source: Refinitiv; KGI Research; Company data

**Figure 13: ESG score by category**



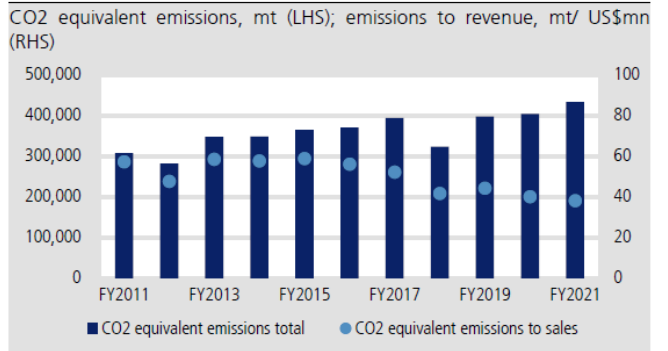
Source: Refinitiv; KGI Research; Company data

**Figure 14: Energy use**



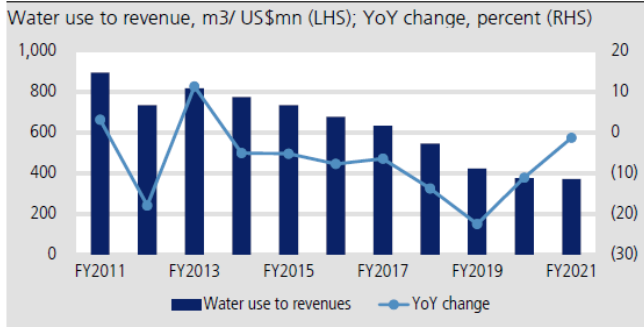
Source: Refinitiv; KGI Research; Company data

**Figure 15: CO2 equivalent emissions**



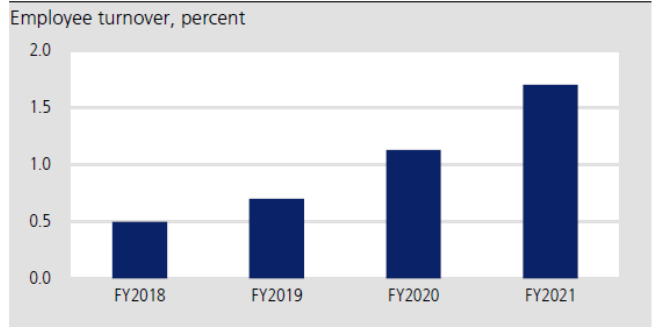
Source: Refinitiv; KGI Research; Company data

**Figure 16: Water use to revenue**



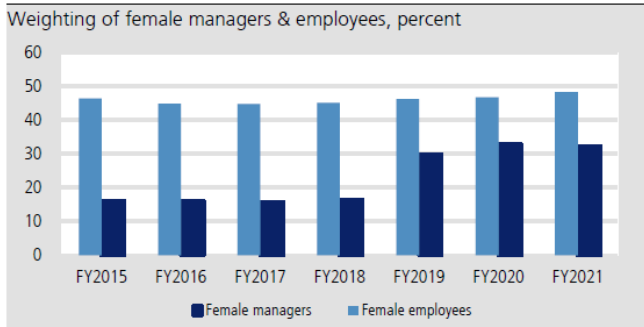
Source: Refinitiv; KGI Research; Company data

**Figure 17: Employee turnover**



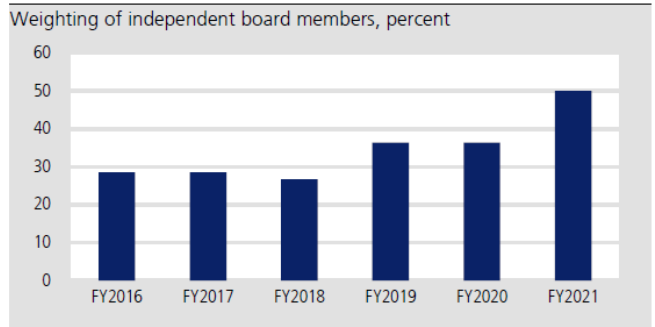
Source: Refinitiv; KGI Research; Company data

**Figure 18: Gender diversification**



Source: Refinitiv; KGI Research; Company data

**Figure 19: Independent board members**



Source: Refinitiv; KGI Research; Company data

**ESG chart definition**

Item	Definition	Remarks
Energy use	Total direct and indirect energy consumption in gigajoules. - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use'	
Renewable energy purchased	Total primary renewable energy purchased in gigajoules. - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	Direct CO2 and CO2 equivalent emissions in metric tons. - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3)	
CO2 equivalent emissions to sales	Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$m) - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3)	
Waste total	Total amount of waste produced in metric tons. - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered	
Waste recycling ratio	The waste recycling ratio as reported by the company. - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste	
Water withdrawal total	Total water withdrawal in cubic meters. - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered	
Environmental expenditures	Total amount of environmental expenditures. - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures	
Turnover of employees	Percentage of employee turnover. - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving	
Women managers	Percentage of women managers. - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100	
Women employees	Percentage of women employees. - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100	
Training hours total	Total training hours performed by all employees. - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked	
Training hours per employee	Training hours per employee per year	

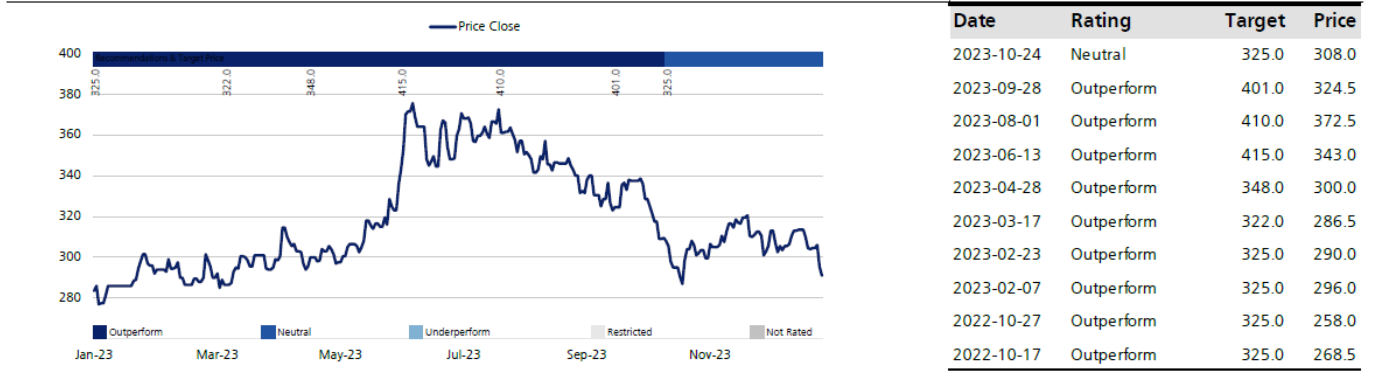
Source: Refinitiv, KGI Research

## Income statement

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23A	Dec-23F	Mar-24F	Jun-24F	Sep-24F	Dec-24F	Dec-23F	Dec-24F	Dec-25F
<b>Income statement (NT\$m)</b>											
<b>Revenue</b>	<b>92,859</b>	<b>100,551</b>	<b>107,795</b>	<b>100,020</b>	<b>96,348</b>	<b>103,913</b>	<b>117,483</b>	<b>113,974</b>	<b>401,226</b>	<b>431,718</b>	<b>475,325</b>
Cost of goods sold	(67,292)	(71,181)	(75,926)	(70,914)	(68,600)	(73,467)	(82,943)	(80,351)	(285,312)	(305,361)	(335,634)
<b>Gross profit</b>	<b>25,568</b>	<b>29,371</b>	<b>31,870</b>	<b>29,106</b>	<b>27,748</b>	<b>30,447</b>	<b>34,540</b>	<b>33,622</b>	<b>115,914</b>	<b>126,357</b>	<b>139,691</b>
Operating expenses	(17,161)	(19,088)	(19,973)	(19,404)	(19,077)	(19,951)	(21,264)	(20,743)	(75,626)	(81,036)	(86,462)
<b>Operating profit</b>	<b>8,407</b>	<b>10,283</b>	<b>11,897</b>	<b>9,702</b>	<b>8,671</b>	<b>10,495</b>	<b>13,276</b>	<b>12,879</b>	<b>40,288</b>	<b>45,321</b>	<b>53,229</b>
Depreciation of fixed assets	(4,082)	(4,290)	(4,541)	(4,654)	(4,747)	(4,842)	(4,939)	(5,038)	(17,567)	(19,567)	(21,180)
Amortisation of intangible assets	(984)	(973)	(1,002)	(980)	(980)	(980)	(980)	(980)	(3,939)	(3,920)	(3,920)
<b>EBITDA</b>	<b>13,472</b>	<b>15,546</b>	<b>17,440</b>	<b>15,336</b>	<b>14,399</b>	<b>16,318</b>	<b>19,195</b>	<b>18,897</b>	<b>61,795</b>	<b>68,808</b>	<b>78,329</b>
Interest income	372	443	543	504	560	622	529	539	1,862	2,249	2,526
Investment income	10	24	162	30	30	30	30	30	225	120	120
Other non-op income	931	929	957	2,500	850	800	700	700	5,318	3,050	3,000
<b>Non-operating income</b>	<b>1,312</b>	<b>1,396</b>	<b>1,662</b>	<b>3,034</b>	<b>1,440</b>	<b>1,452</b>	<b>1,259</b>	<b>1,269</b>	<b>7,404</b>	<b>5,419</b>	<b>5,646</b>
Interest expense	(254)	(238)	(337)	(337)	(337)	(337)	(336)	(336)	(1,166)	(1,347)	(1,345)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	494	508	549	450	300	300	200	200	2,001	1,000	800
<b>Non-operating expenses</b>	<b>241</b>	<b>270</b>	<b>211</b>	<b>113</b>	<b>(37)</b>	<b>(37)</b>	<b>(136)</b>	<b>(136)</b>	<b>835</b>	<b>(347)</b>	<b>(545)</b>
<b>Pre-tax profit</b>	<b>9,959</b>	<b>11,948</b>	<b>13,771</b>	<b>12,849</b>	<b>10,074</b>	<b>11,910</b>	<b>14,398</b>	<b>14,012</b>	<b>48,527</b>	<b>50,393</b>	<b>58,330</b>
Current taxation	(1,988)	(2,425)	(2,741)	(2,570)	(2,015)	(2,382)	(2,880)	(2,802)	(9,724)	(10,079)	(11,666)
Minorities	(1,063)	(1,374)	(1,667)	(1,349)	(1,259)	(1,489)	(1,800)	(1,751)	(5,454)	(6,299)	(7,291)
<b>Normalised net profit</b>	<b>6,908</b>	<b>8,149</b>	<b>9,363</b>	<b>8,930</b>	<b>6,800</b>	<b>8,039</b>	<b>9,719</b>	<b>9,458</b>	<b>33,350</b>	<b>34,015</b>	<b>39,373</b>
Extraordinary items	0	(0)	0	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>6,908</b>	<b>8,149</b>	<b>9,363</b>	<b>8,930</b>	<b>6,800</b>	<b>8,039</b>	<b>9,719</b>	<b>9,458</b>	<b>33,350</b>	<b>34,015</b>	<b>39,373</b>
EPS (NT\$)	2.66	3.14	3.60	3.44	2.62	3.09	3.74	3.64	12.84	13.10	15.16
<b>Margins (%)</b>											
Gross profit margin	27.5	29.2	29.6	29.1	28.8	29.3	29.4	29.5	28.9	29.3	29.4
Operating margin	9.1	10.2	11.0	9.7	9.0	10.1	11.3	11.3	10.0	10.5	11.2
EBITDA margin	14.5	15.5	16.2	15.3	14.9	15.7	16.3	16.6	15.4	15.9	16.5
Pretax profit margin	10.7	11.9	12.8	12.8	10.5	11.5	12.3	12.3	12.1	11.7	12.3
Net profit margin	7.4	8.1	8.7	8.9	7.1	7.7	8.3	8.3	8.3	7.9	8.3
<b>Sequential growth (%)</b>											
Revenue growth	(12.1)	8.3	7.2	(7.2)	(3.7)	7.9	13.1	(3.0)			
Gross profit growth	(13.7)	14.9	8.5	(8.7)	(4.7)	9.7	13.4	(2.7)			
Operating profit growth	(22.0)	22.3	15.7	(18.5)	(10.6)	21.0	26.5	(3.0)			
EBITDA growth	(14.5)	15.4	12.2	(12.1)	(6.1)	13.3	17.6	(1.6)			
Pretax profit growth	(13.6)	20.0	15.3	(6.7)	(21.6)	18.2	20.9	(2.7)			
Net profit growth	(12.7)	18.0	14.9	(4.6)	(23.9)	18.2	20.9	(2.7)			
<b>YoY growth (%)</b>											
Revenue growth	12.5	11.7	1.5	(5.3)	3.8	3.3	9.0	14.0	4.4	7.6	10.1
Gross profit growth	13.6	11.0	(1.0)	(1.7)	8.5	3.7	8.4	15.5	4.6	9.0	10.6
Operating profit growth	12.6	6.5	(12.1)	(10.0)	3.1	2.1	11.6	32.7	(2.8)	12.5	17.4
EBITDA growth	12.6	8.6	(4.9)	(2.7)	6.9	5.0	10.1	23.2	2.4	11.4	13.8
Pretax profit growth	16.6	10.3	(9.2)	11.5	1.1	(0.3)	4.6	9.0	5.3	3.8	15.7
Net profit growth	14.0	6.8	(15.4)	12.9	(1.6)	(1.4)	3.8	5.9	2.1	2.0	15.7

Source: Company data, KGI Research estimates



**Delta Electronics – Recommendation & target price history**


Source: TEJ, KGI Research

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