

Codan Limited

CDA : ASX : A\$1.74

HOLD

Aaron Muller

+61.3.8688.9103

aaron.muller@canaccord.com.au

Target: A\$1.71 ↓

COMPANY STATISTICS:

Share Price (A\$)	1.74
1 Yr Hi-Lo (A\$)	\$1.35 - \$3.95
Market Cap (A\$m)	\$308
Enterprise Value (A\$m)	\$333
Issued Shares	273m
Cash (as at 30/06/13)	\$8.6m
Debt (as at 30/06/13)	\$33.8m

Major Shareholders

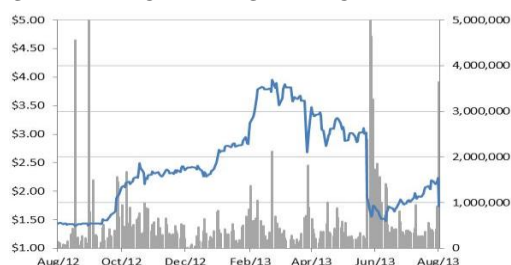
IB Wall and PM Wall	19.7%
Starform Pty Ltd	6.5%
Griffina Pty Ltd	6.0%
Otterpaw Pty Ltd	6.0%

EARNINGS SUMMARY:

Jun Yr End	2012a	2013e	2014e	2015e
Revenue (\$m)	179.4	233.8	184.6	201.0
EBIT (\$m)	51.7	77.1	49.4	60.5
NPAT (\$m)	23.1	45.4	26.5	34.6
NPAT (Adj) (\$m)	27.9	45.8	26.5	34.6
EPS (Adj) (c)	17.0	25.9	15.0	19.5
EPS growth (%)	19.3%	52.2%	-42.2%	30.5%
PER (x)	10.2	6.7	11.6	8.9
EV/EBITDA (x)	6.3	4.3	6.5	5.0
DPS (c)	9.5	13.0	9.0	11.0
Yield (%)	5.5%	7.5%	5.2%	6.3%

Source: Canaccord Genuity estimates

SHARE PRICE PERFORMANCE:



Source: IRESS

COMPANY DESCRIPTION:

CDA designs and manufactures a range of electronic products including radio communication products, metal detection products and mining technology. The company operates manufacturing and service centres in Australia, USA, UK, China and India and sells globally to governments, aid and humanitarian organisations and consumer markets

All amounts are in AUD unless otherwise noted.

Manufacturing – Communications Equipment

FY13 Result Review

Investment Perspective

A seemingly solid result from Codan ('CDA'), with EPS up 52% on the pcp, masked a sharp decline in demand for its key gold detecting product in the backend of 2H13. As a result, the company has provided cautious guidance for 1H14 for NPAT of between \$10-12m. We have revised our sales assumptions lower to reflect the current subdued levels of demand and consequently our EPS for FY14 and FY15 has fallen by 33% and 16%, respectively, to 15c and 19.5c. We have decreased our price target to A\$1.71 per share and maintain our HOLD recommendation.

Key Points

- CDA's FY13 result was more or less in line with downgraded guidance provided in June for NPAT of \$45m. **Revenue** was \$244m, up 36.2% on the pcp. The key driver was the Metal Detection division, however sales were skewed to 1H13. **Underlying EPS** of 25.9 cents, was up 52.2% on the pcp (17.0c). **Dividends** were increased similarly with a final dividend declared of 7c, taking the full year dividend to 13c.
- **Metal Detection** performed strongly during the period; however, there was a sharp decline in gold detector sales in 2H13. We estimate that up to 90% of gold detector sales were generated in the first 7 months, which demonstrates the magnitude of the decline. **Communications** continued to struggle, reporting a decline in revenue of 13.5% on the pcp reflecting continued delays in the awarding of major projects in Africa and Central Asia due to lack of funding.

Changes to forecasts – FY14 EPS down 33%, FY15 EPS down 16%

Management guided to significantly lower NPAT in 1H14 largely a reflection of the lower level of gold detector sales. We have therefore reduced our average monthly sales assumption in FY14 from 2,000 per month to 1,250 per month in 1H14, increasing to 1,500 per month in 2H14. This reduces EPS by 33% to 15.0c.

Maintaining our HOLD recommendation; TP of \$1.71/share

We are maintaining our HOLD recommendation having reduced our target price by 33% to A\$1.71 per share (A\$2.56 per share previously). We remain of the view that earnings uncertainty and lack of predictability is likely to weigh on the share price until there is (i) evidence of a sustained recovery in gold detector sales in its key African markets and (ii) further geographic diversification that improves overall predictability and minimizes volatility.

Codan Limited

Year end 30 June

Profit & Loss (\$m)	2012A	2013F	2014F	2015F	Valuation ratios	2012A	2013F	2014F	2015F
Sales Revenue	179.4	233.8	184.6	201.0	EPS (cps)	17.0	25.9	15.0	19.5
EBITDA	51.7	77.1	49.4	60.5	P/E (x)	10.2	6.7	11.6	8.9
Depreciation	-2.4	-2.5	-2.5	-2.6	PER Rel - All Ind.	-43%	-60%	-31%	-39%
EBITA	49.4	74.7	46.9	57.9	PER Rel - Small Ind.	-43%	-59%	-28%	-38%
Amortisation	-6.2	-9.2	-9.3	-9.6	Enterprise Value (\$m)	324.1	333.1	322.5	305.1
EBIT	43.2	65.5	37.6	48.3	EV / EBITDA (x)	6.3	4.3	6.5	5.0
Net Interest Expense	-3.4	-1.9	-1.1	-0.7	EV / EBIT (x)	7.5	5.1	8.6	6.3
NPBT	39.8	63.5	36.5	47.7	DPS (cps)	9.5	13.0	9.0	11.0
Tax expense	-11.9	-17.7	-10.0	-13.1	Dividend Yield (%)	5.5%	7.5%	5.2%	6.3%
NPAT - underlying	27.9	45.8	26.5	34.6	Franking (%)	100%	100%	100%	100%
Significant items	-4.8	-0.4	0.0	0.0	CFPS (cps)	24.4	20.5	20.9	26.8
Reported NPAT	23.1	45.4	26.5	34.6	P / CFPS (x)	7.1	8.5	8.3	6.5
Cash Flow (\$m)	2012A	2013F	2014F	2015F	Profitability ratios	2012A	2013F	2014F	2015F
Operating EBITDA	51.7	77.1	49.4	60.5	EBITDA Margin (%)	28.8	33.0	26.8	28.8
- Interest & Tax Paid	-12.0	-13.8	-18.9	-10.7	EBIT Margin (%)	24.1	28.0	20.4	24.1
+/- change in Work. Cap.	12.6	-35.7	18.5	-1.4	ROE (%)	35.1	36.7	25.9	28.3
- other	-12.3	8.7	-12.0	-1.0	ROA (%)	29.3	32.3	22.5	28.1
Operating Cashflow	40.1	36.3	37.0	47.4	ROIC (%)	33.1	32.5	24.4	30.3
- Capex	-22.6	-23.4	-13.0	-13.0	Balance Sheet ratios	2012A	2013F	2014F	2015F
- Acquisitions/divestments	9.9	-9.2	0.0	0.0	Net Debt (cash)	16.2	25.2	14.6	-2.8
- other	0.0	-9.7	0.0	0.0	Net Gearing (%)	20.4	20.2	14.3	-2.3
Free Cashflow	27.3	-6.0	24.0	34.4	Interest Cover (x)	12.7	33.7	34.1	71.3
- Ord Dividends	-14.8	-20.3	-18.6	-17.7	NTA per share (\$)	0.10	0.20	0.27	0.38
- Equity /other	0.0	16.7	0.0	0.0	Price / NTA (x)	17.1	8.5	6.4	4.5
Net Cashflow	12.6	-9.7	5.4	16.7	EFPOWA (m)	164.1	176.9	176.9	176.9
Cash at beginning of period	8.6	23.1	8.6	14.7	Growth ratios	2012A	2013F	2014F	2015F
+/- borrowings / other	1.9	-4.7	0.7	-14.3	Sales revenue (\$m)	5.8%	30.3%	-21.1%	8.9%
Cash at end of period	23.1	8.6	14.7	17.2	EBITDA (\$m)	17.6%	49.0%	-35.9%	22.4%
Balance Sheet	2012A	2013F	2014F	2015F	EBIT (\$m)	23.5%	51.5%	-42.5%	28.5%
Cash	23.1	8.6	14.7	17.2	NPAT (\$m)	19.3%	64.1%	-42.2%	30.5%
Inventories	12.0	43.3	20.3	22.1	EPS (cps)	19.3%	52.2%	-42.2%	30.5%
Debtors	22.8	21.1	23.4	25.5	DPS (cps)	5.6%	36.8%	-30.9%	22.9%
PPE	18.2	19.9	27.9	28.0	Interim Analysis	1H12A	2H12A	1H13A	2H13A
Intangibles	66.9	88.5	55.6	55.4	Revenues	74.1	105.3	135.9	97.9
Other assets	27.3	30.0	40.2	41.2	EBITDA	20.0	31.7	45.8	31.3
Total Assets	170.3	211.5	182.2	189.5	EBITDA margin (%)	27.0%	30.1%	33.7%	32.0%
Borrowings	39.3	33.8	29.3	14.3	EPS	6.3	10.7	15.8	10.1
Trade Creditors	35.9	29.4	27.7	30.1	DPS	4.0	5.5	6.0	7.0
Other Liabilities	15.7	23.0	23.0	23.0	Valuation	2014			
Total Liabilities	90.9	86.8	80.0	67.5	Normalised EBITDA multiple (x)				
NET ASSETS	79.4	124.7	102.2	122.0	EBITDA (\$m)	49.4			
Board of Directors / Substantial Shareholders					Target EBITDA multiple (x)	6.2			
Board of Directors	Shareholding			%	Net Debt (cash) (\$m)	25.2			
Dr David Klingner - Chairman	0.5			0.3%	Implied Valuation	283.1			
Don McGurk - Managing Director	0.1			0.1%	Per Share	1.60			
Peter Griffiths - Non-Executive Director	0.1			0.1%	Target PE Multiple				
David Klingberg - Non Executive Director	0.1			0.0%	EPS (c)	15.0			
Brian Burns - Non-Executive Director	0.0			0.0%	PE Target (x)	11.5			
Corrine Namblard - Non-Executive Director	0.0			0.0%	Per Share	1.72			
Lt Gen Peter Leahy - Non Executive Director	0.4			0.3%	Discounted Cash Flow				
David Simmonds - Non Executive Director	0.0			0.0%	Cost of equity	13.3% WACC		12.0%	
Substantial Shareholders	Shareholding			%	Cost of debt	8.2% Terminal Growth Rate		2.0%	
IB Wall and PM Wall (Founder)	34.8			19.7%	Net Debt/ Net debt + equity	16.8% Per Share		\$ 2.03	
Starform Pty Ltd	11.4			6.4%					
Griffina Pty Ltd	10.6			6.0%					
Otterpaw Pty Ltd	10.6			6.0%					
A.J Wood	10.6			6.0%					
JP Morgan Trus Co (SJ Wood)	10.6			6.0%					
Top 20 Shareholders	109.6			66.8%					

Source: Company reports & Canaccord Genuity estimates

RESULTS SUMMARY

CDA's FY13 result was more or less in line with downgraded guidance provided by the company in June for NPAT of \$45m. Although up strongly on the pcp, this was largely driven by the strong performance by the Metal Detection division in 1H13. Lower gold detector sales together with continued difficult trading conditions for the Communications and Mine Technology divisions produced a much weaker result in 2H13, which has led management to guide to significantly lower NPAT in 1H14.

Below we summarise the financial performance and also outline our earnings changes.

Figure 1: FY13 results summary

(\$M) Year ended 30 June	FY12	1H13	2H13	FY13	% Change on pcp
REVENUE					
Communications products	66.4	32.3	25.8	58.1	-12.5%
Metal detection	98.6	91.2	75.0	166.3	68.6%
Mining technology	9.3	9.4	5.1	14.5	55.7%
Other	5.1	3.0	2.6	5.5	8.2%
Total revenue	179.4	135.9	108.4	244.3	36.2%
EBITDA	51.7	45.8	31.3	77.1	49.0%
Depreciation and Amort	-8.5	-5.9	-5.7	-11.6	36.3%
EBIT	43.2	39.9	25.6	65.5	51.5%
Interest Expense	-3.4	-0.9	-1.0	-1.9	-42.9%
PBT	39.8	39.0	24.5	63.5	59.6%
Tax expense	-11.9	-11.6	-6.1	-17.7	49.2%
NPAT (Underlying)	27.9	27.4	18.4	45.8	64.1%
NPAT (Reported)	23.1	26.5	18.9	45.4	96.6%
EPS (¢) – Underlying	17.0	15.8	10.1	25.9	52.2%
DPS (¢)	9.5	6.0	7.0	13.0	36.8%
EBITDA Margin	28.8%	33.7%	28.9%	31.6%	

Source: Company reports

Key points

- **Revenue** was \$244m, up 36.2% on the pcp. The key contributor was the Metal Detection division, which represented 68% of revenue. Revenue was particularly strong in 1H13 as sales from a number of African countries increased simultaneously.
- **Underlying NPAT** of \$45.8m was in line with the revised guidance of \$45m. Reported NPAT was marginally lower, with the difference being the exclusion of costs associated with the acquisition of Daniels from the underlying result.
- **EBITDA** from continuing operations was \$77.1m, up 49% on the pcp. EBITDA margins improved to 31.6% with the expansion coming from the significant lift in Metal Detection sales. However, the decline in sales saw the margin in 2H13 fall back to the FY12 levels.
- **Underlying EPS** from was 25.9 cents, up 52.2% on the pcp (17.0c)

- **Effective tax rate** was 27.9% vs. 29.9% in pcp, which helped lift NPAT.
- **Dividends** increased in line with earnings growth with a final dividend declared of 7c, talking the full year dividend to 13c.
- **Operating cashflow** of \$36.3m was slightly down on the pcp of \$40.1m mainly due to a large increase in inventory, which was built up to support the anticipated growth in 2H13. Management indicated that it is carrying around \$10m more of stock than it would usually; however, the product will ultimately sell through over the next 12 months.
- **Gearing** remains conservative at 20% on a net debt to equity basis.

DIVISIONAL PERFORMANCE

Figure 2: Results by division

(\$M)	1H11	2H11	1H12	2H12	1H13	2H13	% Change on pcp
Revenue							
Communications	33	36.8	36.6	29.8	32.3	25.8	-13.5%
Metal Detection	46.6	45.5	35.2	63.4	91.2	75.1	18.4%
Mining Technology	n/a	n/a	n/a	9.3	9.4	5.1	-45.4%
Other	4.2	5.6	2.3	12.1	3	2.9	-76.1%
Total	83.8	87.9	74.1	105.3	135.9	108.8	3.3%
Segment Result							
Communications	4.3	6.4	8.8	3.5	4.6	4.3	22.6%
Metal Detection	17.7	18.3	12.6	28.5	45.3	33.3	17.0%
Mining Technology	n/a	n/a	n/a	0.5	-0.3	-2.3	-555.4%
Other	0	0.4	-0.1	0.12	-0.03	0.2	68.3%
Total	22	25.1	21.3	32.6	49.6	35.5	9.0%
Margins							
Communications	12.9%	17.3%	24.0%	11.7%	14.3%	16.6%	
Metal Detection	37.9%	40.3%	35.9%	44.9%	49.7%	44.4%	
Mining Technology	n/a	n/a	n/a	5.4%	-2.8%	44.8%	

Source: Company reports

Metal Detection performed very strongly during the period; however, the figures mask a sharp decline in sales in CDA's high margin gold detector product in 2H13. We estimate gold detector unit sales for FY13 were ~36,000 units; however, 90% of these sales were generated in the first 7 months, with the balance between February and June. The key driver for the drop-off in sales was civil unrest in each of CDA's major markets, including Guinea, Mali and the Sudan. These three markets combined represent 90% of CDA's gold detector sales. Gold price deflation and counterfeit product could also be having an impact.

Communications division manufactures and sells High Frequency and Land Mobile radio products into security, military and peacekeeping organisations globally. The division reported a decline in revenue of 13.5% on the pcp, reflecting delays in the awarding of major projects in Africa and Central Asia during the past 6 months. The delays have been a function of a lack of funding, which is typically supplied by the US or other western countries. Profitability however improved as the management moved to reduce cost and improve efficiencies across the group. The company continues to pursue a number of opportunities and believes it is well placed when government spending improves. The acquisition of Daniels is also expected to provide growth opportunities including distributing its products internationally through CDA's distribution network, which we understand is beginning to take place.

Mine Technology currently consists of Minetec, which was acquired by CDA in January 2012. The division generated an underlying segment result of -\$2.6m on revenue of \$14.5m, which was well below expectations of a breakeven result for the year. The take-up of the technology is taking longer than expected, no doubt impacted by the downturn in the mining sector and consequent tightening of capex budgets. The key to future performance will be for the division to win a number of installations that could lead to significantly higher demand for the technology.

CHANGES TO FORECASTS AND VALAUTION

Guidance: As a result of little momentum in the sale of gold detectors, CDA provided subdued guidance for 1H14. The company expects similar levels of profitability to 1H11 and 1H12 of between \$10-12m NPAT. Management intends to provide a further business update in October at the AGM, however, noted that there were early signs of a recovery in some of the key African markets.

As a result of the guidance, we have made significant revisions to our forecasts to reflect the lower level of profitability expected in 1H14.

Figure 3: Forecast changes

(\$M)	FY14			FY15		
	Old	New	% Change	Old	New	% Change
Revenue	228.9	184.6	-19%	237.4	201.0	-15%
EBITDA (\$m)	69.8	49.4	-29%	72.6	60.5	-17%
Underlying NPAT	39.3	26.3	-33%	40.9	34.3	-16%
EPS (¢) –normalised	22.2	14.9	-33%	23.1	19.4	-16%

Source: Canaccord estimates

- The main changes to our forecasts are around our metal detection sales. We have reduced our average monthly sales in FY14 from 2000 per month to 1,250 per month in 1H14, increasing to 1,500 per month in 2H14. This results in a decline in EPS by 33% to 14.9c.
- In FY15, we have reduced our gold detector unit sales assumptions from 2,000 units per month to 1,750 per month. This has the impact of reducing our EPS forecasts by 16%.

- We have decreased our target price by 33% to A\$1.71 per share, from A\$2.56 per share previously. We have arrived at our price target applying a 11.5x multiple (20% discount to Small Industrials average) to FY14 EPS of 14.9 cents.
 - We remain of the view that earnings uncertainty and lack of predictability will likely weigh on the share price until there is (i) evidence of a sustained recovery in gold detector sales in its key African markets and (ii) further geographic diversification that will improve overall predictability and minimizes volatility.
-

INVESTMENT RISKS

CDA is exposed to a number of risks including:

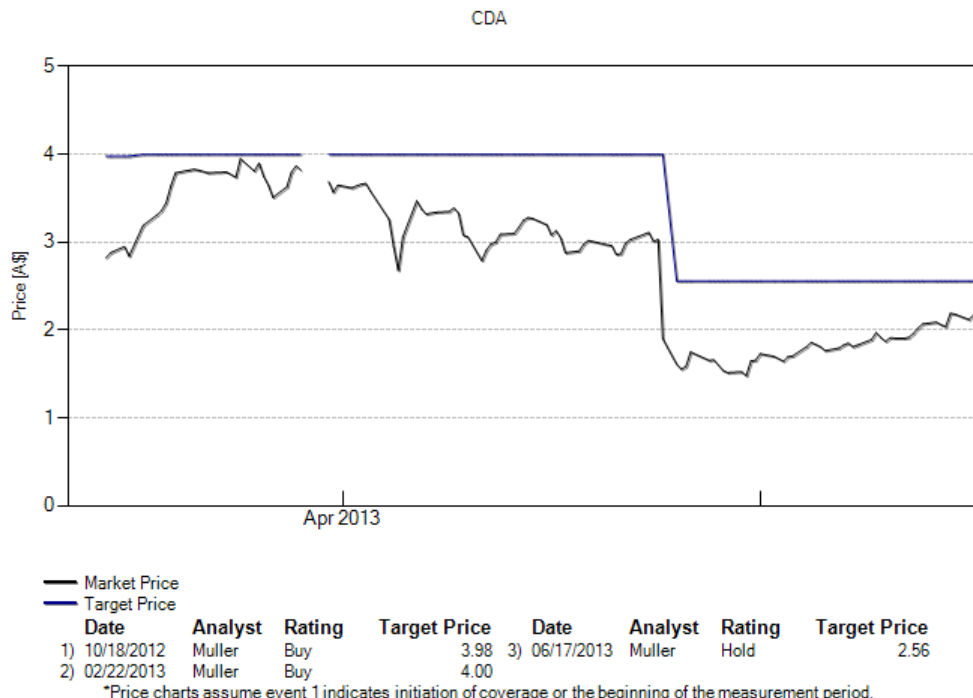
- **Counterfeit product:** CDA's metal detection products have been subject to counterfeit product. CDA has been countering this by applying a number of security initiatives unique to CDA's products. If CDA is not successful minimising counterfeit product it could impact on demand and margins.
 - **Gold price:** Increases or decreases in the gold price could impact demand for CDA's gold detection products, a key driver of group profitability. Our view is that the gold price would need to move significantly lower for demand to be impacted.
 - **Competition:** CDA's success is based around having market leading products in HF Radio Communications and Metal Detection. A superior product on the market by a competitor would have an impact on the demand for CDA's products.
 - **Acquisition risk:** CDA acquired 2 small businesses in FY12 and further acquisitions are part of the company's strategy. If acquisitions are poorly integrated or the company overpays, then this would impact on the company's earnings.
-

APPENDIX: IMPORTANT DISCLOSURES

Analyst Certification: Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research.

Site Visit: An analyst has visited Codan's operations in Australia. No payment or reimbursement was received from the issuer for the related travel costs.

Price Chart:*



**Distribution of Ratings:
Global Stock Ratings
(as of 28 June 2013)**

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	568	59.1%	36.6%	
Speculative Buy	58	6.0%	60.3%	
Hold	288	30.0%	11.1%	
Sell	47	4.9%	6.4%	
	964*	100.0%		

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.
NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Genuity Research Disclosures as of 23 August 2013

Company	Disclosure
Codan Limited	7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or one or more of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity or one or more of its affiliated companies intend to seek or expect to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this research, or any individual involved in the preparation of this research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity or its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliated companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

"Canaccord Genuity" is the business name used by certain wholly owned subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, Canaccord Genuity Corp., and Canaccord Genuity (Australia) Limited, an affiliated company that is 50%-owned by Canaccord Financial Inc.

The authoring analysts who are responsible for the preparation of this research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in New York, Boston, San Francisco and Houston, or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London (UK) and Dublin (Ireland), or Canaccord Genuity (Australia) Limited, an Australian broker-dealer with principal offices located in Sydney and Melbourne.

In the event that this is compendium research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide by reference specific disclosures of the subject companies or its policies and procedures regarding the dissemination of research. To access this material or for more information, please refer to <http://disclosures.canaccordgenuity.com/EN/Pages/default.aspx> or send a request to Canaccord Genuity Corp. Research, Attn: Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or disclosures@canaccordgenuity.com.

The authoring analysts who are responsible for the preparation of this research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the issuer that is the subject of this research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of research. This research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this research constitute Canaccord Genuity's judgement as of the date of this research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this research. Canaccord Genuity's affiliates, principal trading

desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research. This research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this research may not be eligible for sale in some jurisdictions. This research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this research.

- For Canadian Residents:** This research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this research and its dissemination in Canada. Canadian clients wishing to effect transactions in any designated investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular province or territory.
- For United States Residents:** Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this research and its dissemination in the United States. This research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any designated investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc. are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.
- For United Kingdom and European Residents:** This research is distributed in the United Kingdom and elsewhere Europe, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Conduct Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom or elsewhere in Europe to retail clients, as defined under the rules of the Financial Conduct Authority.
- For Jersey, Guernsey and Isle of Man Residents:** This research is sent to you by Canaccord Genuity Wealth (International) Limited (CGWI) for information purposes and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This research has been produced by an affiliate of CGWI for circulation to its institutional clients and also CGWI. Its contents have been approved by CGWI and we are providing it to you on the basis that we believe it to be of interest to you. This statement should be read in conjunction with your client agreement, CGWI's current terms of business and the other disclosures and disclaimers contained within this research. If you are in any doubt, you should consult your financial adviser.
- CGWI is licensed and regulated by the Guernsey Financial Services Commission, the Jersey Financial Services Commission and the Isle of Man Financial Supervision Commission. CGWI is registered in Guernsey and is a wholly owned subsidiary of Canaccord Financial Inc.
- For Australian Residents:** This research is distributed in Australia by Canaccord Genuity (Australia) Limited ABN 19 075 071 466 holder of AFS Licence No 234666. To the extent that this research contains any advice, this is limited to general advice only. Recipients should take into account their own personal circumstances before making an investment decision. Clients wishing to effect any transactions in any financial products discussed in the research should do so through a qualified representative of Canaccord Genuity (Australia) Limited. Canaccord Genuity Wealth Management is a division of Canaccord Genuity (Australia) Limited.

Additional information is available on request.

Copyright © Canaccord Genuity Corp. 2013. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2013. – Member LSE, authorized and regulated by the Financial Conduct Authority.

Copyright © Canaccord Genuity Inc. 2013. – Member FINRA/SIPC

Copyright © Canaccord Genuity (Australia) Limited 2013. – Authorized and regulated by ASIC.

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, Canaccord Genuity Inc. or Canaccord Financial Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.
