



Dishman Pharma

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,411	DISH IN
	REUTERS CODE
S&P CNX: 4,250	DISH.BO
Equity Shares (m)	81.6
52-Week Range	273/132
1,6,12 Rel. Perf. (%)	4/11/-6
M.Cap. (Rs b)	21.1
M.Cap. (US\$ b)	0.5

30 May 2007

Buy

Previous Recommendation: Buy

Rs258

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	5,779	921	11.2	93.3	22.9	5.7	35.7	16.3	4.3	21.5
03/08E	9,028	1,260	15.4	36.8	16.8	4.2	32.8	16.7	2.9	13.9
03/09E	10,527	1,513	18.5	20.0	14.0	3.3	29.9	17.0	2.4	11.4

Dishman's 4Q results were impacted due to cost adjustments/write-offs. Key highlights:

- Net sales were up 139% to Rs2b while PAT was up 630% to Rs331m. EBITDA margins declined to 10.5% (20.7% in 4QFY07) as some of the cost adjustments related to the previous quarters have been made in 4Q. This includes one-time write-offs of Rs89m related to obsolete and slow/non-moving materials and change in inventory valuations. Lower depreciation, forex gains and a tax write-back has boosted PAT for 4Q. Carbogen-AMCIS (CA) reported sales of Rs2.24b, EBITDA margin of 23% and PAT of Rs317m for FY07 (contribution for about 220 days). Consolidated revenues for Dishman have grown by about 109% to Rs5.78b for FY07.
- Management has guided 30% top-line growth for FY08 (excl. CA). CA is targeting 15-20% revenue growth. Dishman has also indicated that it is likely to maintain consolidated EBITDA margins at FY07 levels (21.4% adjusted for one-time write-offs).
- We expect Dishman to record 35% revenue and 28% earnings CAGR for FY07-09. Core revenues (excluding CA) are likely to grow at 27% CAGR while CA is expected to grow at a CAGR of about 15-18% in CY07E and CY08E. Key growth drivers will be ramp-up in India-based contracts and steady performance for CA. We believe that Dishman will be a key beneficiary of the increased pharmaceutical outsourcing. While we have upgraded our revenue estimates for FY08E and FY09E by 6% and 10% respectively, our earnings estimates remain unchanged due to our conservative stance on EBITDA margins and the impact of appreciating currency on US\$-denominated exports from India. The stock is valued at 16.8x FY08E and 14x FY09E consolidated earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(Rs Million)

Y/E MARCH	FY06				FY07				FY06	FY07
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	610	684	619	861	822	1,170	1,736	2,057	2,774	5,786
YoY Change (%)	53.4	31.2	-1.9	166.4	34.7	71.0	180.3	139.1	48.1	108.5
Total Expenditure	496	513	438	682	620	924	1,248	1,842	2,129	4,634
EBITDA	114	171	182	178	202	246	488	215	646	1,151
Margins (%)	18.7	25.0	29.3	20.7	24.6	21.0	28.1	10.5	23.3	19.9
Depreciation	24	25	27	46	34	41	156	31	122	263
Interest	17	24	1	18	9	38	72	44	59	162
Other Income	28	28	44	-60	34	42	34	123	40	233
PBT after EO Income	100	150	197	56	193	209	294	264	504	960
Tax	7	13	2	12	8	39	43	-77	33	13
Deferred Tax	-1	2	1	-1	0	2	7	9	1	19
Rate (%)	6.1	9.6	1.7	18.6	4.3	19.6	17.1	-25.5	6.8	3.3
Reported PAT	94	136	194	45	185	168	244	331	469	928
YoY Change (%)	52.6	70.6	93.3	-43.0	96.4	23.4	25.8	630.8	46.0	97.6
Margins (%)	15.4	19.9	31.3	5.3	22.5	14.3	14.1	16.1	16.9	16.0

E: MOST Estimates

CRAMS business and consolidation of Carbogen-AMCIS drives top-line growth

Net sales grew by 139% to Rs2b led by traction in CRAMS business and consolidation of Carbogen-AMCIS (CA). We believe that Dishman's core CRAMS revenues contributed about 23% of consolidated sales at Rs474m while Carbogen-AMCIS contributed Rs920m (45%) to total sales.

REVENUE BREAK-UP (RS M)

	4QFY07	4QFY06 **	FY07	FY06	YOY GR (%)
CRAMS	1,402	344	4,154	1,477	181
Dishman	474	344	1,906	1,477	29
CA	928	0	2,248	0	
MM	655	297	1,632	1,297	26
Total	2,057	641	5,786	2,774	109

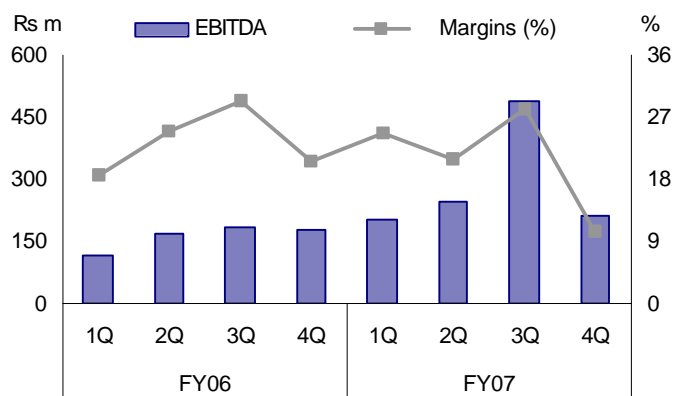
** - Stand-alone;

Source: Company/Motilal Oswal Securities

However, increased costs and one-time write-offs impact EBITDA margins

EBITDA margins declined to 10.5% compared to 20.7% in 4QFY06 and 28.1% in 3QFY07. Higher input & staff costs coupled with one-time write-offs has impacted EBITDA margins. Adjusted for the one-time impact, EBITDA margins have declined to 14.8%. Some of the cost adjustments related to the previous quarters have been made in 4Q. The company also indicated one-time write-off of Rs89m in 4Q related to obsolete and slow / non-moving materials and change in inventory valuations.

EBITDA MARGIN TREND



Source: Company/Motilal Oswal Securities

PAT grew by 631% to Rs331m (despite the decline in EBITDA margins) due to lower depreciation (related to

adjustment for Carbogen acquisition), forex gains of about Rs50m and tax write-back of Rs77m.

Guides 30% organic growth

Dishman management has guided 30% top-line growth for FY08E (excl. CA) led by ramp-up in supplies to both Solvay and other partners (like GSK, AstraZeneca, J&J, etc). Dishman's contract research business is also likely to increase significantly as the company has recently commissioned a new R&D centre to provide contract research services to partners. CA revenues are likely to grow by 15-20% for FY08.

Dishman management has indicated that FY08E EBITDA margins will be maintained at FY07 levels (21.4% adjusted for one-time write-offs). While we expect a higher sales growth of 33% for FY08E, we are forecasting a lower EBITDA margin at 20.7% due to higher RM, staff & SG&A costs. The company has indicated a capex of Rs840m in FY08E related to capacity expansions in India and at CA.

Carbogen AMCIS (CA) acquisition – Key thrust forward in the CRAMS space

Dishman acquired Carbogen-AMCIS (Switzerland) in Aug-2006 for US\$74.5m (~ 0.7x EV/Sales and 4x EV/EBITDA based on CY06 financials). The acquisition was funded by a combination of FCCB issue (US\$50m), internal accrual and debt.

CA is a pharmaceutical services provider, offering a broad portfolio of drug development and commercialization services to the pharmaceutical and biopharmaceutical industries at all stages of drug development since 1982. CA has a customer base comprising mid-sized pharmaceutical and biopharmaceutical companies as well as the large MNCs. It enjoys business relationships with 7 of 10 pharmaceutical majors with 75% of its revenues accruing from the USA.

Owing to its strong CRAMS capabilities, CA has been able to retain most of its customers despite the restructuring undertaken by its parent (Solutia). In fact, around 90% of

its 2005 revenue was generated from repeat customers. Carbogen's specialty is handling contract research projects, whereas AMCIS has a repertoire of seven APIs under long term contract manufacturing (at its USFDA and Swiss medic approved facility).

The combined entity has the capability of serving the entire drug life cycle of 15-20 years. Dishman expects to drive synergies with CA by expanding the combined product basket and renewing its focus on key accounts. Dishman will be able to improve CA's profitability by outsourcing development of intermediates to Dishman and leveraging on Dishman's marketing support for Asia Pacific etc. This acquisition has completely transformed the business mix of Dishman by giving Dishman's CRAMS offering a new dimension.

Solvay's EM supplies will get a boost going forward

Dishman is currently a key supplier of Eprosartan Mesylate API (anti-hypertensive) to Solvay, which markets it under the brand, Teveten. Solvay sources this product from two of its key suppliers – Dishman & Lonza. Dishman also supplies some intermediates of Eprosartan Mesylate to Solvay, but in negligible amounts. The Solvay contract is valid until 2008 and extendable annually thereafter. However, the patent for Eprosartan Mesylate (EM) is valid until 2013.

Solvay also commenced selling Teveten Plus some years ago. Teveten Plus is a combination of 600mg Eprosartan and 12.5mg Hydrochlorothiazide — a diuretic that contributes to a stronger blood pressure lowering activity. Teveten Plus is used to treat hard-to-control hypertension, particularly systolic hypertension.

Recent US FDA inspection of Dishman's new facility to boost EM sales: The US FDA has recently successfully completed inspection of Dishman's facility located at Bavla in Gujarat. This is a 100% EOU, set up to exclusively manufacture EM for being supplied to Solvay. By implication, this would mean that Solvay will source its EM requirement for the US markets from Dishman.

Currently Solvay sources about 50% of its EM requirement from Dishman. The latter has expanded its capacity at the Bavla facility from 60 tpa to 200 tpa in order to meet the increased offtake from Solvay. On the back of the potentially higher volume offtake ahead, we expect EM supplies to Solvay to generate about Rs1.3b in revenues (up 27% YoY) for Dishman in FY08E. Supplies are expected to stabilize at ~Rs1.5b by FY09E.

Looking beyond Solvay – Other contracts to ramp up in coming years

Currently, Solvay is Dishman's major client contributing close to 18% of Dishman's total sales and about 25% of its CRAMS revenues. To reduce its dependence on a single customer, Dishman has entered into supply arrangements with several other MNCs for both on-patent as well off-patent supplies of APIs and intermediates.

The company is currently working on various projects for MNCs such as Astra Zeneca, Merck, GlaxoSmithKline, J&J and Sepracor among others. Some of these supplies are likely to gain visibility in FY08E. The table below indicates Dishman's relationships with some of these MNCs.

DISHMAN – CRAMS RELATIONSHIPS

COMPANY	RELATIONSHIP
Solvay	Supply of EM & intermediates. Working on more products
GSK	Currently working on 3 products for which API manufacturing will be transferred to Dishman over next two years
AstraZeneca	Currently supplying Nexium intermediate. Will supply one API through a JV. Also negotiating from 3 more API contracts
Merck	Has supplied Omeprazole intermediate in the past. Currently supplying an anti-hypertensive precursor to one of Merck's suppliers
J&J	CCS supplies
Sepracor	Currently working on 5 chiral products. Ramp-up expected in FY09/FY10
Novartis	CCS supplies
Eli Lilly	CCS supplies
Genzyme	CCS supplies

Source: Company

Dependence on Solvay has reduced considerably: The signing of more supply contracts with various multinational companies as well as the CA acquisition has reduced Dishman's dependence on Solvay to a great extent. The latter accounted for about 32% of Dishman's total revenues and 100% of its CRAMS revenues in FY04. This proportion is now expected to come down to about 15% and 18% respectively for FY08E led by signing of new contracts and contribution from CA acquisition. Given the strong relationship with Solvay, we expect the latter's contribution to range between 15-20% of Dishman's total sales in forthcoming years.

Capex/investments of Rs1.1b for FY08

Dishman has plans for significant capex/investments to augment existing capacities and for investments in various initiatives (China, Saudi Arabia). The following table summarizes Dishman's proposed capex/investments:

PROPOSED ACTIVITY (RS M)

	CAPEX	FUNDING
Expansion of Dishman's facilities in India	500	Internal
Doubling of AMCIS high-potency capacity	320	accruals
Dishman's Chinese & Saudi Arabia initiatives	300	& debt
Total	1,120	

Source: Company/Motilal Oswal Securities

Revising estimates

We have revised our FY08E and FY09E estimates to take into account the following:

1. Higher than expected revenue growth
2. Lower than expected EBITDA margins
3. Lower tax rate
4. Currency appreciation

While we have upgraded our revenue estimates for FY08E and FY09E by 6% and 10% respectively, our earnings estimates remain unchanged due to our conservative stance on EBITDA margins and the impact of appreciating currency on US\$-denominated exports from India.

REVISED FORECAST (RS M)

	FY08E			FY09E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
Net Sales	9,028	8,513	6.0	10,527	9,552	10.2
Net Profit	1,260	1,273	-1.0	1,513	1,476	2.5
EPS (Rs)	15.4	15.5	-1.0	18.5	18.0	2.5

Source: Motilal Oswal Securities

Valuation and recommendation

Over the past few years Dishman has transitioned from being merely a supplier of chemicals (mainly QUATS, an ammonium compound, and intermediates) to supplying pharmaceuticals. It has also enhanced its capabilities from being just a manufacturer to one of being a Contract Research & Manufacturing Services (CRAMS) player offering the complete range of services in the CRAMS value chain. Dishman has been able to achieve this capability by signing up for a higher number of API supply contracts and via acquisition of Carbogen AMCIS (CA). This acquisition has transformed Dishman's business mix and has filled a large gap in its CRAMS offering.

We believe that Dishman will be a key beneficiary of the increased pharmaceutical outsourcing from India. Strong relationships with MNC pharmaceutical companies coupled with access to new customers through the CA acquisition should augur well for the company's CRAMS business. We understand that very few companies in India are prepared to exploit the outsourcing opportunity, as most pharmaceutical companies have very strong generic businesses which, indirectly competes with global MNCs. Dishman is one of the few players from India which has adopted a collaborative approach with global MNCs and is hence likely to benefit from the increased outsourcing from India.

We expect Dishman' core revenues (excluding CA acquisition) to grow at 27% CAGR over FY07-FY09. CA is expected to record about 15-18% growth in CY07E and CY08E. Contribution of CRAMS (including CA) is expected to improve from 53% of total revenues in FY06 to about

80% by FY09E, led by scale-up in EM supplies to Solvay, contribution from new contracts and the CA acquisition. Supplies to Solvay are expected to record 25% CAGR over FY07-FY09 while other contracts (excl. CA) are expected to grow at 50% CAGR, albeit on a low base. The Marketable Molecules (MM) division is expected to record a steady 15% CAGR in revenues for this period. We have not assumed any revenues from Dishman's initiatives in China and Saudi Arabia, as we believe that upsides from these measures are still some time away.

Dishman is currently valued at 16.8x FY08E and 14x FY09E consolidated earnings. Given Dishman's capabilities to offer the complete range of CRAMS services (from the pre-clinical stage up to commercialization), we believe that valuations are likely to expand gradually as new CRAMS assignments start contributing to revenues. CRAMS will account for about 80% of consolidated revenues FY08E onward. RoE is estimated in the 30-33% range and RoCE in the 17% range over FY07-FY09. We maintain **Buy**.

Dishman Pharma: an investment profile

Company description

Dishman has become one of the key players in the Indian CRAMS space. It has gradually moved up the value chain from being a pure chemicals supplier to a CRAMS player by virtue of both its organic and inorganic initiatives in this space. The acquisition of Carbogen-AMCIS has enabled the company to offer the complete range of services across the CRAMS value chain.

Key investment arguments

- ✍ Strong supply agreement with Solvay. The company has established relationships with other large innovator companies like GSK, AstraZeneca, Merck, J&J, etc., which should bring-in long-term benefits.
- ✍ Acquisition of Carbogen-AMCIS enables the company to offer the complete range of services in the CRAMS value-chain.
- ✍ Future growth to be led by ramp-up in supplies to Solvay and other MNCs and a gradual improvement in Carbogen-AMCIS performance.

Key investment risks

- ✍ Consolidation amongst customers remains a key risk in the CRAMS industry.
- ✍ Further equity dilution to fund potential acquisitions remains a key risk.
- ✍ Retaining the Carbogen-AMCIS management team is critical for ensuring a smooth integration.

Recent developments

- ✍ Acquired Carbogen-AMCIS in Switzerland for US\$74m in August 2006.

Valuation and view

- ✍ Revenue and EPS CAGR of 35% and 28% expected over FY07-09.
- ✍ One of the key beneficiaries of increased outsourcing by innovator pharmaceutical companies. Maintain **Buy** with price target of Rs270.

Sector view

- ✍ India is on the threshold of a significant opportunity in the global CRAMS space.
- ✍ Given the high entry barriers, very few players from India are prepared to capitalize on this opportunity resulting in a disproportionate share of revenues for existing CRAMS players.

COMPARATIVE VALUATIONS

		DISHMAN	DIVI'S	SHASUN
P/E(x)	FY08E	16.8	23.8	8.1
	FY09E	14.0	19.3	5.7
P/BV(x)	FY08E	4.2	9.0	1.9
	FY09E	3.3	6.5	1.6
EV/Sales(x)	FY08E	2.9	7.1	0.6
	FY09E	2.4	5.9	0.5
EV/EBITDA(x)	FY08E	13.9	19.0	5.5
	FY09E	11.4	15.3	4.1

SHAREHOLDING PATTERN (%)

	MAR.07	DEC.06	MAR.06
Promoter	67.8	70.9	71.3
Domestic Inst	14.0	12.3	12.3
Foreign	12.3	10.9	12.1
Others	5.9	5.9	4.3

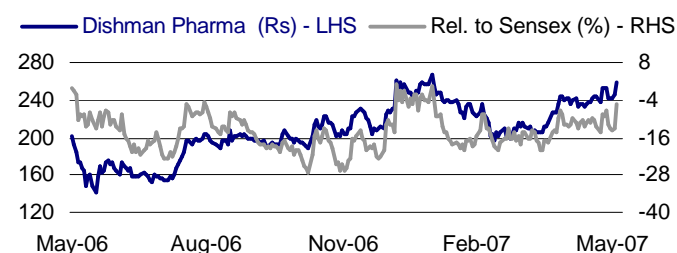
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	15.4	-	-
FY09	18.5	-	-

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
258	270	4.7	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Net Sales	1,864	2,760	5,779	9,028	10,527	
Change (%)	113	48.1	109.4	56.2	16.6	
Total Expenditure	1,360	2,128	4,634	7,157	8,293	
% of Sales	73.0	77.1	80.2	79.3	78.8	
EBITDA	504	633	1,145	1,871	2,234	
Margin (%)	27.0	22.9	19.8	20.7	21.2	
Depreciation	83	120	263	405	456	
EBIT	421	512	882	1,465	1,778	
Int. and Finance Charges	110	59	162	245	289	
Other Income - Rec.	29	54	233	120	120	
PBT before EO Expense	340	506	953	1,341	1,609	
Extra Ordinary Expense/(Inc)	0	0	0	0	0	
PBT after EO Expense	340	506	953	1,341	1,609	
Current Tax	35	33	13	67	80	
Deferred Tax	-27	-2	19	13	16	
Tax Rate (%)	2.3	6.2	3.4	6.0	6.0	
Reported PAT	332	475	921	1,260	1,513	
PAT Adj for EO Items	332	475	921	1,260	1,513	
Change (%)	60.0	43.0	94.0	36.8	20.0	
Margin (%)	17.81	17.20	15.94	13.96	14.37	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Equity Share Capital	137	137	144	144	144	
Fully Diluted Equity Capital	137	163	164	164	164	
Total Reserves	1,333	1,748	3,153	4,262	5,593	
Net Worth	1,471	1,885	3,297	4,407	5,738	
Deferred liabilities	1	0	18	32	48	
Total Loans	1,183	3,255	5,268	5,985	6,288	
Capital Employed	2,655	5,140	8,583	10,424	12,074	
Gross Block	1,550	2,190	6,080	7,662	8,062	
Less: Accum. Deprn.	321	440	3,018	3,423	3,879	
Net Fixed Assets	1,229	1,750	3,063	4,239	4,183	
Capital WIP	129	373	323	150	150	
Investments	4	75	40	40	40	
Curr. Assets	1,853	3,746	6,771	8,606	10,757	
Inventory	814	1,082	2,314	3,340	3,895	
Account Receivables	668	863	2,025	3,160	3,684	
Cash and Bank Balance	92	1,352	1,709	977	1,862	
Loans & Advances	280	449	723	1,128	1,316	
Curr. Liability & Prov.	567	816	1,624	2,622	3,067	
Account Payables	446	657	1,446	2,257	2,632	
Provisions	121	159	177	365	435	
Net Current Assets	1,286	2,930	5,147	5,984	7,690	
Appl. of Funds	2,655	5,140	8,583	10,424	12,074	

E: MOSI Estimates

RATIOS		(Rs Million)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Basic (Rs)						
EPS (fully diluted)	4.8	5.8	11.2	15.4	18.5	
Cash EPS (fully diluted)	6.0	7.3	14.5	20.3	24.0	
BV/Share	213	27.3	45.5	60.9	79.3	
DPS	0.5	0.7	1.0	2.1	2.5	
Payout (%)	11.7	11.6	7.9	12.0	12.0	
Valuation (x)						
P/E (fully diluted)		44.3	22.9	16.8	14.0	
Cash P/E (fully diluted)		35.4	17.8	12.7	10.7	
P/BV		9.5	5.7	4.2	3.3	
EV/Sales		8.3	4.3	2.9	2.4	
EV/EBITDA		36.3	21.5	13.9	11.4	
Dividend Yield (%)		0.3	0.4	0.8	1.0	
Return Ratios (%)						
RoE	31.7	28.5	35.7	32.8	29.9	
RoCE	20.5	14.5	16.3	16.7	17.0	
Working Capital Ratios						
Debtor (Days)	128	113	125	125	125	
Creditor (Days)	338	345	265	255	261	
Inventory (Days)	159	143	146	135	135	
Working Capital Turnover (T)	234	209	217	202	202	
Leverage Ratio (x)						
Current Ratio	3.3	4.6	4.2	3.3	3.5	
Debt/Equity	0.8	1.7	1.6	1.4	1.1	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Oper. Profit/(Loss) before T	504	633	1,145	1,871	2,234	
Interest/Dividends Recd.	29	54	233	120	120	
Direct Taxes Paid	-35	-33	-13	-67	-80	
(Inc)/Dec in WC	-613	-384	-1,860	-1,568	-822	
CF from Operations	-115	269	-495	356	1,452	
EO Expense / (Income)	0	0	0	0	0	
CF from Operating incl	-115	269	-495	356	1,452	
(inc)/dec in FA	-303	-890	-1,525	-1,409	-400	
(Pur)/Sale of Investments	0	-71	35	0	0	
CF from Investments	-303	-961	-1,490	-1,409	-400	
Issue of Shares	514	-6	563	0	0	
(Inc)/Dec in Debt	75	2,072	2,013	718	303	
Interest Paid	-110	-59	-162	-245	-289	
Dividend Paid	-39	-55	-72	-151	-182	
Others	0	0	0	0	0	
CF from Fin. Activity	440	1,952	2,342	322	-168	
Inc/Dec of Cash	22	1,261	357	-731	884	
Add: Beginning Balance	70	92	1,352	1,709	977	
Closing Balance	92	1,352	1,709	977	1,862	



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Dishman Pharma

- | | |
|---|-----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | Yes |

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