

COMPANY NOTE

Estimate Change

USA | Healthcare | Biotechnology

September 11, 2014

Jefferies

Avalanche Biotechnologies (AAVL) Q2: Awaiting Topline PIIa Data for AVA-101 in Mid-'15

Key Takeaway

With in-line Q2 financials, we await topline data from the PIIa study for AVA-101 in mid-'15 for which we have a favorable outlook. A successful outcome would further validate AAVL's gene therapy platform. Also, Genzyme (a Sanofi company) will be presenting PI/II data from its gene therapy program in wAMD at Retina Society tomorrow, however, we wouldn't naturally read-thru to prospects for AVA-101 given critical differences btwn the two programs.

Awaiting Topline PIIa Trial Data for AVA-101 in Mid-'15: AAVL's lead candidate is AVA-101, a one-time subretinal injection which offers durable remission for pts with wAMD. AVA-101 induces the retinal cells to produce sFlt-1, a naturally occurring VEGF inhibitor and clinically validated target. AVA-101 has shown impressive efficacy and safety results from 8 pts from its PI study. Mean VA improvement in the +12.2 and +9.8 letters for the low- and high-dose, respectively, v. control at wk 52. Impressively, fewer pts on AVA-101 required Lucentis re-tx relative to the control (0.33 v. 3.0, respectively) ($p < 0.001$). Moreover, the effect appears durable lasting >12 mos, and potentially for many years. The PIIa trial has enrolled 32 pts, and we await topline data in mid-'15. AAVL also has potential to expand into DME and CRVO.

AVA-101 Role in Wet AMD: Anti-VEGF therapy dominates as the preferred tx of choice in wet AMD with current U.S. market size of ~\$7-8B. AVA-101 could potentially displace regular anti-VEGF injections and could be preferred tx of choice in wAMD. We estimate AVA-101 may launch in 2020 and could generate a risk-adjusted \$600M in peak U.S. sales (assuming 70% discount) in wAMD. Additional sales may also come from two add'l indications, CRVO and DME, which could generate \$725M in risk-adjusted peak U.S. sales. Ex-U.S., we estimate peak risk-adjusted royalties of \$120M, and do not include potential upfront payments/milestones from an ex-U.S. partnership.

Q2 Financials: AAVL reported Q2 revenue of \$0.1M and GAAP EPS of (\$2.27) primarily on the company's pre-IPO share count. Cash and equivs were \$52.4M as of end of Jun '14.

Valuation/Risks

Our \$40 PT is DCF-based. Risks include clinical, manufacturing, competitive, regulatory, and commercial.

| USD | Prev. | 2013A | Prev. | 2014E | Prev. | 2015E | Prev. | 2016E |
|------------|-------|--------|---------|---------|-------|--------|-------|--------|
| Rev. (MM) | -- | 0.5 | -- | 0.0 | -- | 2.0 | -- | 0.0 |
| EV/Rev | | NM | | | | NM | | |
| EPS | | | | | | | | |
| Mar | -- | -- | -- | (0.11)A | -- | -- | -- | -- |
| Jun | -- | -- | (0.08)A | (2.27)A | -- | -- | -- | -- |
| Sep | -- | -- | -- | (0.14) | -- | -- | -- | -- |
| Dec | -- | -- | -- | (0.27) | -- | -- | -- | -- |
| FY Dec | -- | (1.45) | (0.61) | (3.14) | -- | (0.72) | -- | (0.79) |
| FY P/E | | NM | | NM | | NM | | NM |

BUY

Price target \$40.00

Price \$30.74

Financial Summary

| | |
|-------------------------|-----------|
| Net Debt (MM): | (\$159.9) |
| Long-Term Debt (MM): | \$0.0 |
| Cash & ST Invest. (MM): | \$159.9 |
| Cash/Share: | \$6.01 |
| Cash (MM): | \$159.9 |

Market Data

| | |
|---------------------------|-------------------|
| 52 Week Range: | \$32.38 - \$22.00 |
| Total Entprs. Value (MM): | \$657.8 |
| Market Cap. (MM): | \$817.7 |
| Shares Out. (MM): | 26.6 |
| Float (MM): | 5.1 |
| Avg. Daily Vol.: | NA |

Biren Amin *

Equity Analyst

(212) 284-8162 bamin@jefferies.com

Hugo Ong, Ph.D. *

Equity Associate

(212) 323-3364 hong@jefferies.com

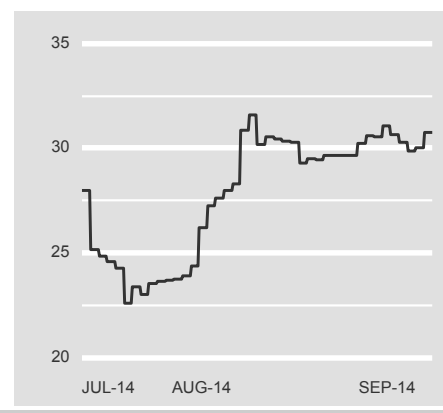
Sridhar Vempati, PhD *

Equity Associate

(212) 284-2535 svempati@jefferies.com

* Jefferies LLC

Price Performance



Valuation

We arrive at our \$40 price target based on a DCF valuation model, which assumes a WACC of 14%, terminal growth rate of 0% and outstanding shares of 26.8 million, driven by sales of AVA-101. We assume market entry for AVA-101 for wet AMD in 2020 assuming positive data from a Phase III program. We estimate peak sales of \$4.4 billion in the U.S. by 2026 for ophthalmic diseases including wet AMD, DME, and CRVO on an unadjusted-basis. If we apply a 70% risk discount to reflect the clinical risk of the AVA-101 program, we estimate \$1.3 billion in U.S. sales by 2026. Additionally, we expect \$79 million in royalty revenue for the same indications in 2026 using a 70% risk-discount.

AAVL's initial target population for AVA-101 will be wAMD. We estimate peak sales of \$2.0 billion in the U.S. by 2026 for wAMD on an unadjusted-basis. Applying a 70% risk discount to reflect the clinical risk of the AVA-101 program, we estimate \$602 million in U.S. sales by 2026. AAVL intends to expand AVA-101 into CRVO and DME, and we assume market entry for these indications in 2022. For CRVO, we estimate peak U.S. sales of \$510 million (unadjusted) and \$153 million in 2026 (70% risk-discount). For DME, we estimate peak U.S. sales of \$1.9 billion (unadjusted) and \$573 million by 2025 (70% risk-discount).

For rest-of-world (ROW), we estimate peak sales of \$783 million for wAMD by 2025 (unadjusted). We assume a 20% royalty for ROW sales and a 70% risk discount, translating to peak royalty revenue \$47 million in 2025. For CRVO, we estimate peak ROW sales of \$292 million in 2026 (unadjusted). Assuming a 20% royalty and 70% risk-discount, we estimate peak ROW sales of \$18 million in 2026. For DME, we estimate peak ROW sales of \$1.0 billion by 2025 (unadjusted). Under the same assumptions as wAMD and CRVO, we estimate peak ROW sales of \$60 million in 2025 in DME.

At this time, we do not model AVA-201 for wAMD or AVA-311 for juvenile X-linked retinoschisis (XLRS), and these products represent upside. We expect R&D expense to reach \$12 million by YE 2014, increasing to \$55 million by 2026 as AAVL ramps up clinical development of AVA-101 into DME and CRVO, AVA-201 and AVA-311. We expect SG&A expense to be \$2.9 million by YE 2014, increasing to \$43 million by 2026. We include \$25 million in launch expenses for AVA-101 in 2021, risk-adjusted by 70%.

Exhibit 1: DCF sensitivity analysis

| Equity Value | Price/Share |
|------------------|----------------|
| \$1,528.2 | \$56.95 |
| \$1,277.4 | \$47.60 |
| \$1,074.9 | \$40.06 |
| \$910.7 | \$33.94 |
| \$777.0 | \$28.96 |

Source: Jefferies estimates

Risks

Clinical Failure: As with all companies in biotechnology and pharmaceuticals developing treatments of the future, a clinical failure can lead to delays in approval or possibly discontinuation of programs.

Regulatory Failure: The FDA could determine the Biologic Licensing Application is inadequate for AVA-101 for wet AMD and could delay approval. Furthermore, to date the FDA has not approved any gene therapy products for any indication. There is therefore no

historical precedence for approval of such products, and the FDA may deem AAVL's clinical package for AVA-101 as insufficient for approval. Any delays in approval timelines could impact our earnings estimates, price target, and/or rating.

Commercial Failure: We currently estimate peak sales of \$4.4 billion in the U.S. by 2026 for ophthalmic diseases including wet AMD, DME, and CRVO on an unadjusted-basis. If we apply a 70% risk discount to reflect the clinical risk of the AVA-101 program, we estimate \$1.3 billion in U.S. sales by 2026. Additionally, we expect \$79 million in royalty revenue for the same indications in 2026 using an 80% risk-discount. Our estimates may rely on the success of the company/partners to receive drug reimbursement from private/public payors.

Manufacturing Risks: AAVL relies on its proprietary baculovirus expression system (BVES) to produce its gene therapy products, including AVA-101. AAVL believes its BVES is efficient and scalable, with production yields up to 100x greater than those obtained by conventional AAV production system, allowing it to manufacture commercial grade production for large markets as wet AMD. If AVA-101 is approved, AAVL will need a consistent and reliable process, while limiting contamination risks, for manufacturing these candidates on large-scale for the approved patient population. Any supply or manufacturing disruption could negatively impact AVA-101 supply and sales.

Competitive Risks: Other companies are rapidly developing gene therapy product candidates in various stages of clinical development for ophthalmic diseases including wet AMD that may compete with AVA-101. If any of these product candidates have an improved therapeutic profile over AVA-101 and is approved, AVA-101's growth trajectory in the marketplace, even if approved, could be adversely impacted.

Financing Risks: We expect AAVL to have adequate cash through the majority of AVA-101's clinical development, and we model an \$80 million equity raise on 2 million shares in 2019. AAVL may need additional dilutive financing to fund the potential U.S. launch of AVA-101 and its R&D programs in additional indications.

Exhibit 2: AAVL Income Statement

Avalanche Biotechnologies, Inc.

Quarterly Income Statement

(All values in \$MM except EPS and average shares)

| | 2012A | 2013E | 2014E | | | | | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|-----------------|-----------------|-----------------|
| | FY | FY | 1Q4 | 2Q4 | 3Q4 | 4Q4 | FY | FY | FY | FY | FY | FY | FY | FY | FY | FY | FY | FY |
| Revenue: | | | | | | | | | | | | | | | | | | |
| AVA 101- U.S. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 37.3 | 96.7 | 360.5 | 724.9 | 1029.3 | 1302.4 |
| AVA 101- ROW royalty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10.2 | 49.3 | 94.2 | 112.1 | 121.3 |
| License and collaboration revenues | 0.0 | 0.5 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 2.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total revenue, net | 0.0 | 0.5 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 2.0 | 0.0 | 0.0 | 0.0 | 0.0 | 37.3 | 106.9 | 409.8 | 819.0 | 1,241.4 | 1,423.7 |
| Costs and expenses: | | | | | | | | | | | | | | | | | | |
| Cost of goods sold | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.3 | 26.7 | 102.5 | 204.8 | 297.9 | 327.4 |
| Research & development | 1.3 | 2.2 | 0.9 | 3.1 | 3.1 | 6.5 | 12.0 | 18.5 | 15.5 | 40.0 | 42.0 | 44.1 | 46.3 | 48.6 | 50.1 | 51.6 | 53.1 | 54.2 |
| Selling, general & administrative | 0.5 | 1.8 | 0.7 | 1.5 | 0.7 | 0.7 | 3.7 | 2.8 | 3.0 | 3.3 | 3.5 | 3.7 | 3.9 | 34.0 | 35.7 | 37.5 | 39.4 | 41.3 |
| Total operating expenses | 1.8 | 3.9 | 1.6 | 4.6 | 3.8 | 7.2 | 15.7 | 21.3 | 21.5 | 43.3 | 45.5 | 47.8 | 59.5 | 109.4 | 188.2 | 293.8 | 390.4 | 423.0 |
| Income (loss) from operations | (1.8) | (3.5) | (1.6) | (4.5) | (3.8) | (7.2) | (15.7) | (19.3) | (21.5) | (43.3) | (45.5) | (47.8) | (22.2) | (2.4) | 221.6 | 525.2 | 851.0 | 1,000.7 |
| Other income (expense): | | | | | | | | | | | | | | | | | | |
| Miscellaneous (expense) income | (0.0) | (19) | (0.0) | (3.9) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest expense | 0.0 | 0.0 | (0.0) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit (loss) before income taxes | (1.8) | (5.3) | (1.7) | (8.3) | (3.8) | (7.2) | (15.7) | (19.3) | (21.5) | (43.3) | (45.5) | (47.8) | (22.2) | (2.4) | 221.6 | 525.2 | 851.0 | 1,000.7 |
| Income tax expense (benefit) | | | | | | | | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 22.2 | 183.8 | 297.8 | 350.2 |
| Income tax (%) | | | | | | | | | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 10.0% | 35.0% | 35.0% | 35.0% |
| Net Income (GAAP) | (1.8) | (5.3) | (1.7) | (8.3) | (3.8) | (7.2) | (15.7) | (19.3) | (21.5) | (43.3) | (45.5) | (47.8) | (22.2) | (2.4) | 15.0 | 341.4 | 553.1 | 650.5 |
| Adjusted Items (Non-GAAP) | | | | | | | | | | | | | | | | | | |
| Stock options | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.0 | 4.0 | 5.0 | 6.0 | 7.0 | 11.0 | 16.0 | 18.0 | 20.0 | 22.0 | 24.0 |
| Depreciation and amortization expense | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Income (Non-GAAP) | (1.8) | (5.3) | (1.7) | (8.3) | (3.8) | (7.2) | (15.7) | (16.3) | (17.5) | (38.3) | (39.5) | (40.8) | (8.2) | 13.6 | 33.0 | 361.4 | 575.1 | 674.5 |
| EPS, GAAP | | | | | | | | | | | | | | | | | | |
| Basic | (0.50) | (1.45) | (0.45) | (2.27) | (0.14) | (0.27) | (3.14) | (0.72) | (0.79) | (1.58) | (1.65) | (1.60) | (0.74) | (0.08) | 0.49 | 10.96 | 17.59 | 20.48 |
| Diluted | \$ (0.50) | \$ (1.45) | \$ (0.45) | \$ (2.27) | \$ (0.14) | \$ (0.27) | \$ (3.14) | \$ (0.72) | \$ (0.79) | \$ (1.58) | \$ (1.65) | \$ (1.60) | \$ (0.74) | \$ (0.08) | \$ 0.49 | \$ 10.96 | \$ 17.59 | \$ 20.48 |
| Weighted average share- Basic | 3.6 | 3.7 | 3.7 | 3.7 | 26.6 | 26.6 | 15.1 | 26.8 | 27.1 | 27.4 | 27.6 | 29.9 | 30.2 | 30.5 | 30.8 | 311 | 314 | 318 |
| Weighted average share- Diluted | 3.6 | 3.7 | 3.7 | 3.7 | 26.6 | 26.6 | 15.1 | 26.8 | 27.1 | 27.4 | 27.6 | 29.9 | 30.2 | 30.5 | 30.8 | 311 | 314 | 318 |

Source: Jefferies, company data

Exhibit 3: AAVL DCF analysis

Avalanche Biotechnologies

Discounted Cash Flow Analysis

| <i>(All values in \$MM)</i> | 2012A | 2013A | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E |
|---------------------------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|-------------|--------------|--------------|--------------|--------------|
| Sales | 0.0 | 0.5 | 0.0 | 2.0 | 0.0 | 0.0 | 0.0 | 0.0 | 37.3 | 106.9 | 409.8 | 819.0 | 1,241.4 | 1,423.7 |
| Operating Expenses | 1.8 | 3.9 | 15.7 | 21.3 | 21.5 | 43.3 | 45.5 | 47.8 | 59.5 | 109.4 | 188.2 | 293.8 | 390.4 | 423.0 |
| EBIT | (1.8) | (3.5) | (15.7) | (19.3) | (21.5) | (43.3) | (45.5) | (47.8) | (22.2) | (2.4) | 221.6 | 525.2 | 851.0 | 1,000.7 |
| (-): Taxes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 22.2 | 183.8 | 297.8 | 350.2 |
| EBIAT | (1.8) | (3.5) | (15.7) | (19.3) | (21.5) | (43.3) | (45.5) | (47.8) | (22.2) | (2.4) | 199.4 | 341.4 | 553.1 | 650.5 |
| (+): Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (+): FAS-123 Options | 0.0 | 0.0 | 0.0 | 3.0 | 4.0 | 5.0 | 6.0 | 7.0 | 14.0 | 16.0 | 18.0 | 20.0 | 22.0 | 24.0 |
| (-): Capital expenditures | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| Unlevered free cash flow | (1.8) | (3.5) | (15.7) | (16.4) | (17.6) | (38.3) | (39.6) | (40.9) | (8.3) | 13.5 | 217.3 | 361.3 | 575.1 | 674.5 |

Source: Jefferies estimates, company data

Company Description

Avalanche Biotechnologies, Inc., a clinical-stage biotechnology company, focuses on discovering and developing novel gene therapies for the treatment of ophthalmic diseases based on its Ocular BioFactory platform. Its lead product candidate includes AVA-101, which is in a Phase I/IIa trial for the treatment of wet age-related macular degeneration (AMD). The company is also developing AVA-201, an anti-vascular endothelial growth factor gene therapy product candidate for the prevention of wet AMD; and AVA-311 that is in preclinical studies for the treatment of juvenile X-linked retinoschisis, a rare genetic disease of the retina with no approved therapy. Avalanche Biotechnologies, Inc. has a collaboration agreement with Regeneron Pharmaceuticals, Inc. research, develop, and commercialize gene therapy products. The company was founded in 2006 and is headquartered in Menlo Park, California.

Analyst Certification

I, Biren Amin, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Hugo Ong, Ph.D., certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Sridhar Vempati, PhD, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

As is the case with all Jefferies employees, the analyst(s) responsible for the coverage of the financial instruments discussed in this report receives compensation based in part on the overall performance of the firm, including investment banking income. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Aside from certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgement.

Company Specific Disclosures

Jefferies Group LLC makes a market in the securities or ADRs of Avalanche Biotechnologies, Inc..

Jefferies Group LLC, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from Avalanche Biotechnologies, Inc. within the next three months.

Within the past 12 months, Jefferies Group LLC, its affiliates or subsidiaries has received compensation from investment banking services from Avalanche Biotechnologies, Inc..

Within the past twelve months, Avalanche Biotechnologies, Inc. has been a client of Jefferies LLC and investment banking services are being or have been provided.

Jefferies Group LLC, its affiliates or subsidiaries has acted as a manager or co-manager in the underwriting or placement of securities for Avalanche Biotechnologies, Inc. or one of its affiliates within the past twelve months.

Meanings of Jefferies Ratings

Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Valuation Methodology

Jefferies' methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF,

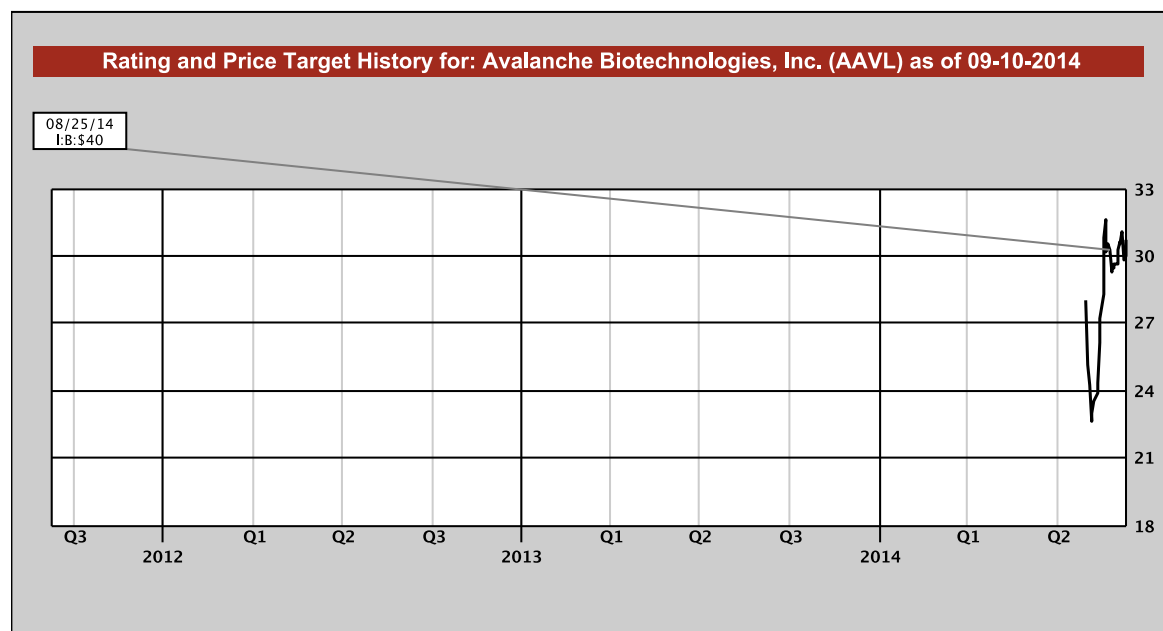
P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Jefferies Franchise Picks

Jefferies Franchise Picks include stock selections from among the best stock ideas from our equity analysts over a 12 month period. Stock selection is based on fundamental analysis and may take into account other factors such as analyst conviction, differentiated analysis, a favorable risk/reward ratio and investment themes that Jefferies analysts are recommending. Jefferies Franchise Picks will include only Buy rated stocks and the number can vary depending on analyst recommendations for inclusion. Stocks will be added as new opportunities arise and removed when the reason for inclusion changes, the stock has met its desired return, if it is no longer rated Buy and/or if it underperforms the S&P by 15% or more since inclusion. Franchise Picks are not intended to represent a recommended portfolio of stocks and is not sector based, but we may note where we believe a Pick falls within an investment style such as growth or value.

Risk which may impede the achievement of our Price Target

This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, the financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary. Past performance of the financial instruments recommended in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from, any of the financial instruments mentioned in this report can rise as well as fall and may be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the financial instrument described in this report. In addition, investors in securities such as ADRs, whose values are affected by the currency of the underlying security, effectively assume currency risk.



Distribution of Ratings

| Rating | Count | Percent | IB Serv./Past 12 Mos. | |
|--------------|-------|---------|-----------------------|---------|
| | | | Count | Percent |
| BUY | 968 | 51.30% | 252 | 26.03% |
| HOLD | 775 | 41.07% | 132 | 17.03% |
| UNDERPERFORM | 144 | 7.63% | 6 | 4.17% |

Other Important Disclosures

Jefferies Equity Research refers to research reports produced by analysts employed by one of the following Jefferies Group LLC ("Jefferies") group companies:

United States: Jefferies LLC which is an SEC registered firm and a member of FINRA.

United Kingdom: Jefferies International Limited, which is authorized and regulated by the Financial Conduct Authority; registered in England and Wales No. 1978621; registered office: Vintners Place, 68 Upper Thames Street, London EC4V 3BJ; telephone +44 (0)20 7029 8000; facsimile +44 (0)20 7029 8010.

Hong Kong: Jefferies Hong Kong Limited, which is licensed by the Securities and Futures Commission of Hong Kong with CE number AT5546; located at Suite 2201, 22nd Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Singapore: Jefferies Singapore Limited, which is licensed by the Monetary Authority of Singapore; located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950.

Japan: Jefferies (Japan) Limited, Tokyo Branch, which is a securities company registered by the Financial Services Agency of Japan and is a member of the Japan Securities Dealers Association; located at Hibiya Marine Bldg, 3F, 1-5-1 Yuraku-cho, Chiyoda-ku, Tokyo 100-0006; telephone +813 5251 6100; facsimile +813 5251 6101.

India: Jefferies India Private Limited (CIN - U74140MH2007PTC200509), which is licensed by the Securities and Exchange Board of India as a Merchant Banker (INM000011443) and a Stock Broker with Bombay Stock Exchange Limited (INB011491033) and National Stock Exchange of India Limited (INB231491037) in the Capital Market Segment; located at 42/43, 2 North Avenue, Maker Maxity, Bandra-Kurla Complex, Bandra (East) Mumbai 400 051, India; Tel +91 22 4356 6000.

This material has been prepared by Jefferies employing appropriate expertise, and in the belief that it is fair and not misleading. The information set forth herein was obtained from sources believed to be reliable, but has not been independently verified by Jefferies. Therefore, except for any obligation under applicable rules we do not guarantee its accuracy. Additional and supporting information is available upon request. Unless prohibited by the provisions of Regulation S of the U.S. Securities Act of 1933, this material is distributed in the United States ("US"), by Jefferies LLC, a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934. Transactions by or on behalf of any US person may only be effected through Jefferies LLC. In the United Kingdom and European Economic Area this report is issued and/or approved for distribution by Jefferies International Limited and is intended for use only by persons who have, or have been assessed as having, suitable professional experience and expertise, or by persons to whom it can be otherwise lawfully distributed. Jefferies International Limited has adopted a conflicts management policy in connection with the preparation and publication of research, the details of which are available upon request in writing to the Compliance Officer. Jefferies International Limited may allow its analysts to undertake private consultancy work. Jefferies International Limited's conflicts management policy sets out the arrangements Jefferies International Limited employs to manage any potential conflicts of interest that may arise as a result of such consultancy work. For Canadian investors, this material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or described herein is available to other persons or to anyone in Canada who is not a "Designated Institution" as defined by the Securities Act (Ontario). In Singapore, Jefferies Singapore Limited is regulated by the Monetary Authority of Singapore. For investors in the Republic of Singapore, this material is provided by Jefferies Singapore Limited pursuant to Regulation 32C of the Financial Advisers Regulations. The material contained in this document is intended solely for accredited, expert or institutional investors, as defined under the Securities and Futures Act (Cap. 289 of Singapore). If there are any matters arising from, or in connection with this material, please contact Jefferies Singapore Limited, located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950. In Japan this material is issued and distributed by Jefferies (Japan) Limited to institutional investors only. In Hong Kong, this report is issued and approved by Jefferies Hong Kong Limited and is intended for use only by professional investors as defined in the Hong Kong Securities and Futures Ordinance and its subsidiary legislation. In the Republic of China (Taiwan), this report should not be distributed. The research in relation to this report is conducted outside the PRC. This report does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. In India this report is made available by Jefferies India Private Limited. In Australia this information is issued solely by Jefferies International Limited and is directed solely at wholesale clients within the meaning of the Corporations Act 2001 of Australia (the "Act") in connection with their consideration of any investment or investment service that is the subject of this document. Any offer or issue that is the subject of this document does not require, and this document is not, a disclosure document or product disclosure statement within the meaning of the Act. Jefferies International Limited is authorised and regulated by the Financial Conduct Authority under the laws of the United Kingdom, which differ from Australian laws. Jefferies International Limited has obtained relief under Australian Securities and Investments Commission Class Order 03/1099, which conditionally exempts it from holding an Australian financial services licence under the Act in respect of the provision of certain financial services to wholesale clients. Recipients of this document in any other jurisdictions should inform themselves about and observe any applicable legal requirements in relation to the receipt of this document.

This report is not an offer or solicitation of an offer to buy or sell any security or derivative instrument, or to make any investment. Any opinion or estimate constitutes the preparer's best judgment as of the date of preparation, and is subject to change without notice. Jefferies assumes no obligation to maintain or update this report based on subsequent information and events. Jefferies, its associates or affiliates, and its respective officers, directors, and employees may have long or short positions in, or may buy or sell any of the securities, derivative instruments or other investments mentioned or described herein, either as agent or as principal for their own account. Upon request Jefferies may provide specialized research products or services to certain customers focusing on the prospects for individual covered stocks as compared to other covered stocks over varying time horizons or under differing market conditions. While the views expressed in these situations may not always be directionally consistent with the long-term views expressed in the analyst's published research, the analyst has a reasonable basis and any inconsistencies can be reasonably explained. This material does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to herein and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange

rates could have adverse effects on the value or price of, or income derived from, certain investments. This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of securities. None of Jefferies, any of its affiliates or its research analysts has any authority whatsoever to make any representations or warranty on behalf of the issuer(s). Jefferies policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis. Any comments or statements made herein are those of the author(s) and may differ from the views of Jefferies.

This report may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Jefferies research reports are disseminated and available primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Jefferies. Neither Jefferies nor any officer nor employee of Jefferies accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.

For Important Disclosure information, please visit our website at <https://javatar.bluematrix.com/sellside/Disclosures.action> or call 1.888.JEFFERIES

© 2014 Jefferies Group LLC