

Consumer Discretionary: Mid-Year Review

As we approach the half-year mark, we look back at our [Consumer Discretionary 2025 Outlook](#) and examine the current underlying EVA trends to reconcile our earlier views on the sector. We started off with an 'Underweight' stance on the Discretionary space but maintained a positive stance towards the following industries: Distributors, Household Durables, and Diversified Consumer Services.

As illustrated below in **Figure 1**, Distributors and Household Durables are some of the few industries in the sector with a positive EVA Shock, reflecting an improvement in EVA Momentum (growth) on a QoQ basis. Diversified Consumer Services demonstrates the strongest Risk-Adjusted Profitability within the sector and has the highest EVA Momentum as of the latest quarter.

We also noted in the roadmap our 'Underweight' stance on the Textiles, Apparel, & Luxury Goods industry, which has been the worst-performing industry within the sector through 2025 so far. The industry exhibits an unfavorable Quality-Value tradeoff, leading to an unattractive PRVIt Score.

Figure 1: Global Consumer Discretionary Snapshot (Sales-Weighted Averages)

Industry	EVA Margin (%)	EVA Momentum (%)	EVA Shock (1Qtr, %)	Δ PRVIt Score (since January 2025)	Returns YTD (%)
Broadline Retail	5.5%	0.8%	-0.3%	-3	4.2%
Hotels, Restaurants & Leisure	5.3%	1.1%	-0.8%	1	-2.0%
Diversified Consumer Services	4.6%	1.6%	-0.8%	3	3.9%
Textiles, Apparel & Luxury Goods	4.5%	-1.5%	-0.7%	1	-15.7%
Specialty Retail	3.2%	-0.0%	0.1%	-4	-0.3%
Leisure Products	1.7%	0.3%	0.6%	-2	-0.3%
Household Durables	1.6%	-0.3%	0.5%	2	-6.4%
Distributors	0.2%	-0.6%	0.1%	-2	1.8%
Automobile Components	-1.3%	-0.3%	-0.0%	3	3.9%
Automobiles	-2.2%	-1.9%	-0.3%	0	-6.0%
Consumer Discretionary (Sector)	1.5%	-0.6%	-0.2%	0	-2.7%

Figure 2 charts the sectoral Future Growth Reliance (FGR), which measures the percentage of Market Value that is dependent on future EVA growth. We utilize FGR to determine the level of premium or discount that a sector, industry, or company is trading at.

Within both the global ex U.S. and U.S. space, FGR saw a decline between February and April before staging a recovery in May as investor expectations for incremental value creation going forward turned more bullish. For the global ex U.S. space, FGR is trading around the highest levels in 4 years, while for the U.S., FGR is near the upper end of its 15-year range, excluding the highs of late 2020/early 2021.

Figure 2: Future Growth Reliance – Market Expectations



Key Summary

- In this report, we look back at our Consumer Discretionary 2025 Outlook and examine the current underlying EVA trends to reconcile our earlier views on the sector.
- Distributors and Household Durables are some of the few industries in the sector with a positive EVA Shock, reflecting an improvement in EVA Momentum (growth) on a QoQ basis.
- We noted in the roadmap our 'Underweight' stance on the Textiles, Apparel, & Luxury Goods industry, which has been the worst-performing industry within the sector through 2025 so far. The industry continues to exhibit an unfavorable Quality-Value tradeoff.

EVA Primer

1. EVA measures the true economic profit of a business after compensating shareholders for use of their capital and is therefore superior to standard accounting measures.
2. The value of a company is the capital invested plus the present value of future EVA generation. The math is like a DCF:
Market Value = Capital + PV(EVA).
3. Therefore, more Economic Value Added (EVA) is better.

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About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +29,000 stock universe.

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Sectoral EVA Drivers and EVA Fundamentals

In the U.S., Sales growth has decelerated by 30bps in 2025 so far, to 4% as of the end of May. Despite the weakness in top-line growth, firms have managed to further expand EBITDAR Margin by 20bps to a record high of 23.3%. Incremental EVA growth, as measured by EVA Momentum, has remained positive so far but has faced pressure as a moderating top-line growth leads to deteriorating asset efficiency. EVA Margin has moved within a small 10bps range since March 2024, currently at 3.6%, near the lowest levels since 2022. For the global ex U.S. aggregate, EVA Momentum (growth) bottomed out in December 2024 and has since improved (become less negative) on top-line growth turning positive, asset efficiency somewhat improving, and EBITDAR Margin showing some signs of stabilization after contracting through H2 2024. EVA Margin at the global (ex U.S.) level has continued to trend at a small negative since last December.

Figure 3: Global Discretionary EVA Fundamentals Snapshot (Sales-Weighted Averages)

Industry	EVA Margin (%)	EVA Momentum (%)	PRVt Score	Quality (P-R)	Profitability Score (P)	Risk Score (R)	Valuation Score (V)	Returns YTD (%)	ESG Perf Score
Diversified Consumer Services	4.6%	1.6%	68	72	75	51	59	3.9%	43.91
Distributors	0.2%	-0.6%	67	46	37	31	31	1.8%	16.03
Household Durables	1.6%	-0.3%	63	61	58	40	36	-6.4%	41.32
Automobile Components	-1.3%	-0.3%	62	56	50	36	23	3.9%	41.21
Hotels, Restaurants & Leisure	5.3%	1.1%	51	65	73	60	65	-2.0%	37.98
Leisure Products	1.7%	0.3%	51	60	58	38	45	-0.3%	33.96
Specialty Retail	3.2%	-0.0%	48	60	63	51	53	-0.3%	36.87
Broadline Retail	5.5%	0.8%	47	67	81	73	63	4.2%	40.08
Textiles, Apparel & Luxury Goods	4.5%	-1.5%	42	62	65	49	57	-15.7%	45.74
Automobiles	-2.2%	-1.9%	41	35	44	72	20	-6.0%	47.99
Consumer Discretionary (Sector)	1.5%	-0.6%	49	53	58	59	41	-2.7%	42.03

Figure 4: Global ex U.S. EVA Drivers

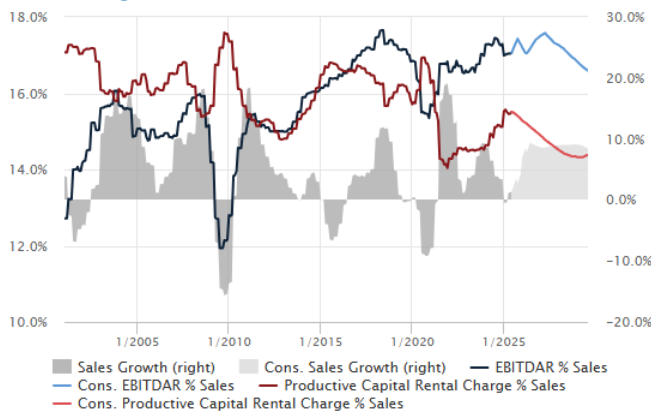


Figure 5: U.S. EVA Drivers

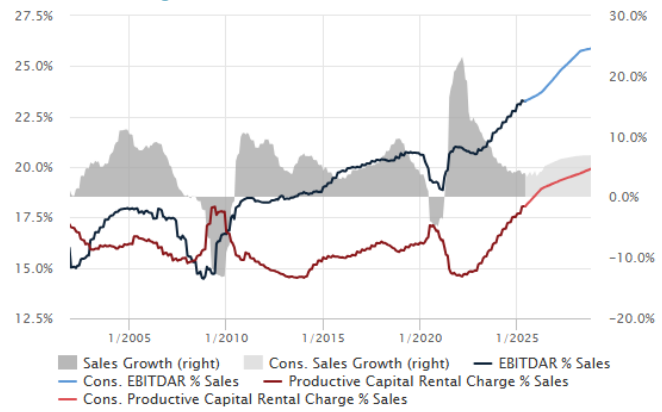


Figure 6: Global ex U.S. EVA Fundamentals

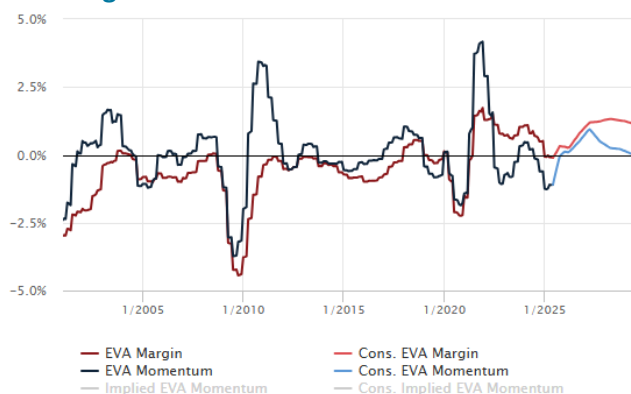
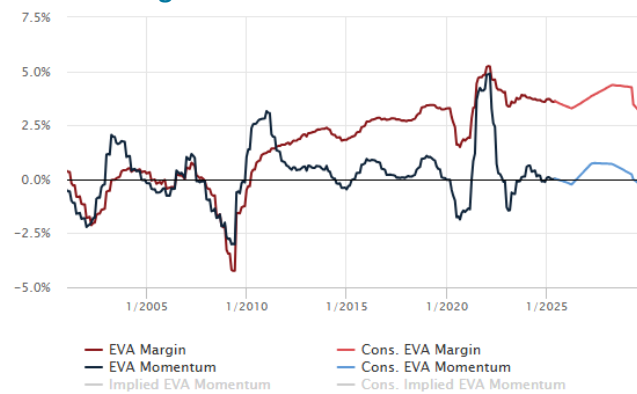


Figure 7: U.S. EVA Fundamentals



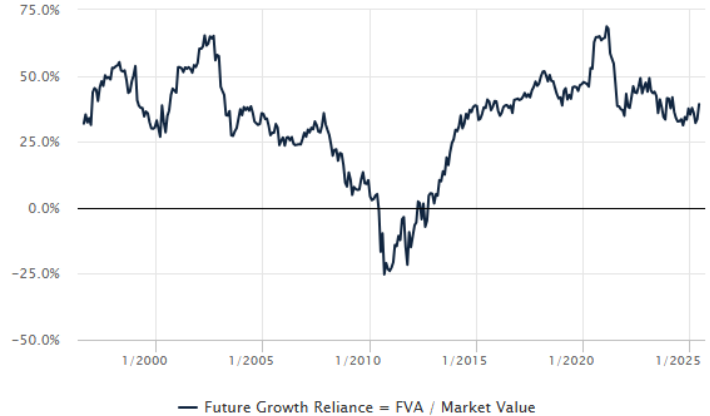
Industry Outlook

Diversified Consumer Services: Incremental value creation has remained pressured since H2 2024, but the industry has managed to maintain positive EVA Momentum (growth) at a time when sectoral EVA growth has remained scarce. This was driven by a decelerating but favorable top-line growth and a continued improvement in asset efficiency. While EVA Margin has seen a 40bps reduction in May, impacted by a contraction in EBITDAR Margin, aggregate economic profitability remains near the upper end of the 10-year range. The industry looks attractive given the strong Risk-Adjusted Profitability, while absolute valuation levels trade near the lower end of the 10-year range.

Figure 8: Aggregate EVA Fundamentals



Figure 9: Aggregate FGR



Distributors: The industry continues to look attractive within the PRVit framework as a result of relatively cheap Valuation levels (FGR is relatively high, but MVA Spread is around the 10-year average), positively offsetting moderate Risk-Adjusted Profitability. EVA Momentum (growth) bottomed out in Q4 2024 and has since seen a sustained improvement (becoming less negative) through the first five months of 2025, led by favorable top-line growth and EBITDAR Margin showing signs of bottoming. It will be important to see EVA Momentum continue to recover when market expectations are elevated compared to history.

Figure 10: Aggregate EVA Fundamentals

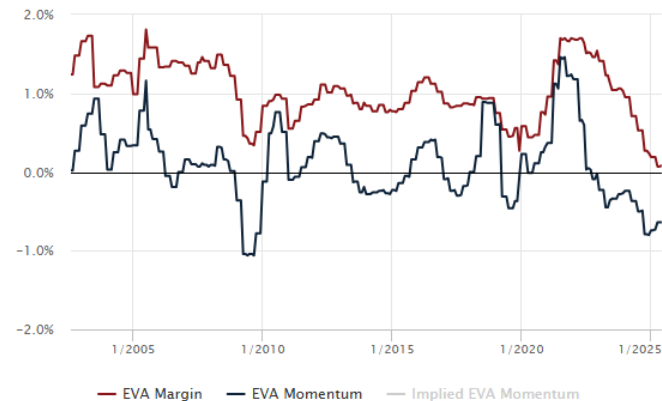


Figure 11: Aggregate FGR



Household Durables: Incremental value creation has improved (become less negative) through the last three months, led by an acceleration in top-line growth and the Productive Capital Charge (lower is favorable) plateauing through 2025 so far. EVA Margin has stabilized near 7-year lows. MVA Spread, our price-to-book equivalent, peaked out in September last year and has since continued to move lower. The industry looks attractive at this stage on a favorable Quality-Value tradeoff.

Figure 12: Aggregate EVA Fundamentals



Figure 13: Aggregate MVA Spread



Automobile Components: The industry, rated favorably within the PRVit model on moderate Quality and cheap relative Valuations, has seen one of the highest aggregate returns within the sector on a YTD basis. The beginning-of-year negative view on Auto OEM's and positive view on Auto Parts has played out well, with a close to 10% spread in performance. Incremental EVA creation has continued to face downward pressure, impacted by negative top-line growth and deteriorating asset efficiency. EBITDAR Margin has seen a 20bps expansion within the last five months, approaching the upper end of the 6-year range, currently at 15.5%. MVA Spread was trading at a premium of 17% in May, at attractive levels compared to the long-term range.

Figure 14: Aggregate EVA Fundamentals

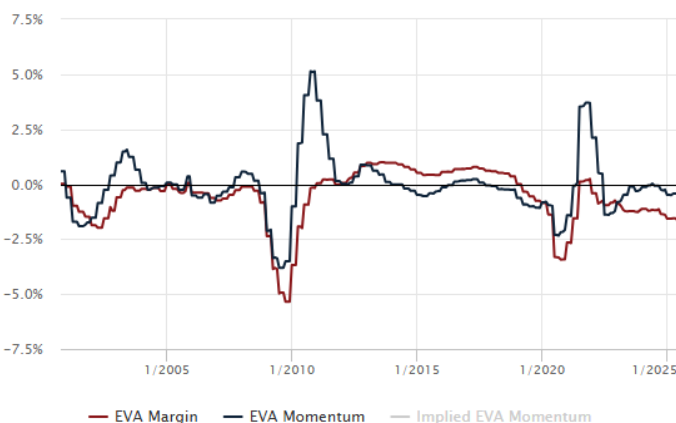
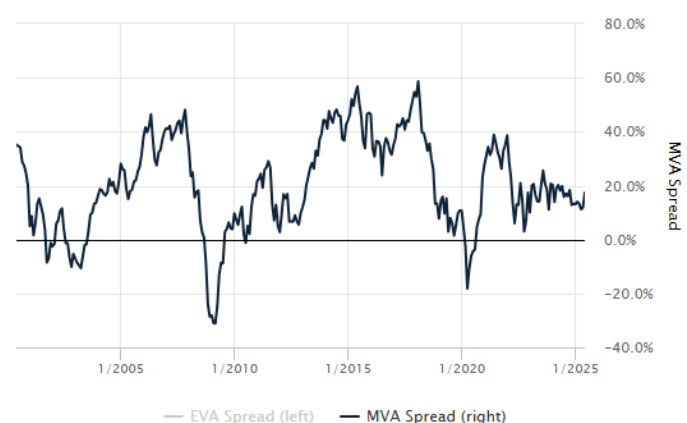


Figure 15: Aggregate MVA Spread



Hotels, Restaurants & Leisure: Aggregate economic profitability continues to trend near record highs, led by favorable asset efficiency and a relatively high EBITDAR Margin. Incremental value creation remains positive, bucking the sector trend of scarce EVA growth. However, EVA Momentum (growth) has faced downward pressure from a decelerating top-line growth and a plateauing EBITDAR Margin. Despite strong Quality (P-R), the industry's PRVit Score is dragged down due to relatively expensive Valuation levels (MVA Spread is around all-time highs).

Figure 16: Aggregate EVA Fundamentals



Figure 17: Aggregate FGR



Leisure Products: EVA Momentum (growth) has seen a strong improvement (becoming less negative) in 2025 so far, led by a recovery in top-line growth after bottoming out in Q4 last year and some improvement in asset efficiency. EVA Margin for the industry has contracted to 15-year lows. FGR has trended close to the upper end of the 10-year range as investors price in further improvement in incremental value creation going forward.

Figure 18: Aggregate EVA Fundamentals

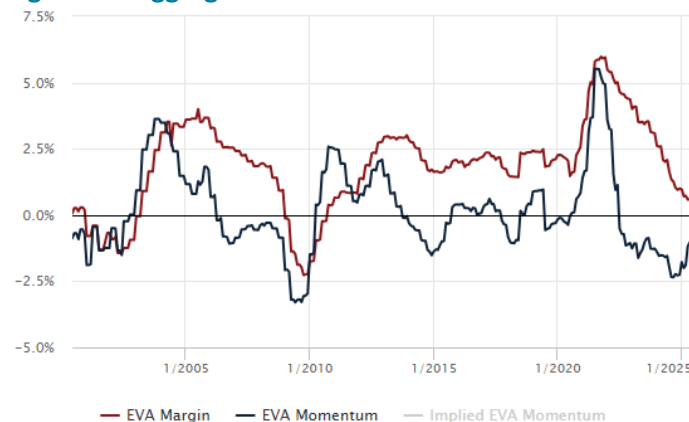


Figure 19: Aggregate FGR



Specialty Retail: EVA Margin has plateaued over the last 12 months, contracting back to pre-COVID highs of 2.7%. EVA Momentum (growth) remains negative, impacted by sustained deterioration in Capital intensity, but has seen an improvement on accelerating top-line growth. Absolute valuation levels, as measured by Future Growth Reliance (FGR), look very expensive relative to history.

Figure 20: Aggregate EVA Fundamentals

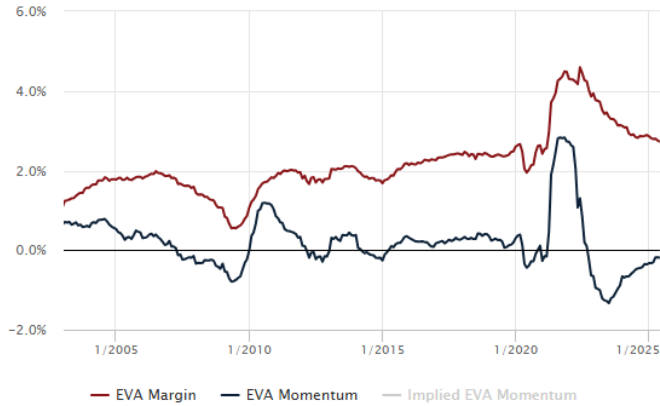
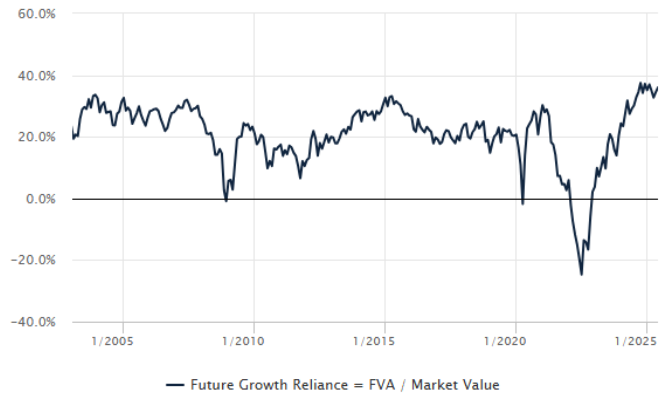


Figure 21: Aggregate FGR



Broadline Retail: EVA Margin has seen a 20bps expansion through the first five months of 2025 as a strong and sustained expansion in EBITDAR Margin has positively offset a deterioration in asset efficiency. EVA Momentum (growth) has seen some signs of bottoming out as top-line growth has stabilized at relatively favorable levels while P&L profitability has continued to improve. Within the PRVit framework, strong Risk-Adjusted Profitability has been offset by relatively high Valuations.

Figure 22: Aggregate EVA Fundamentals

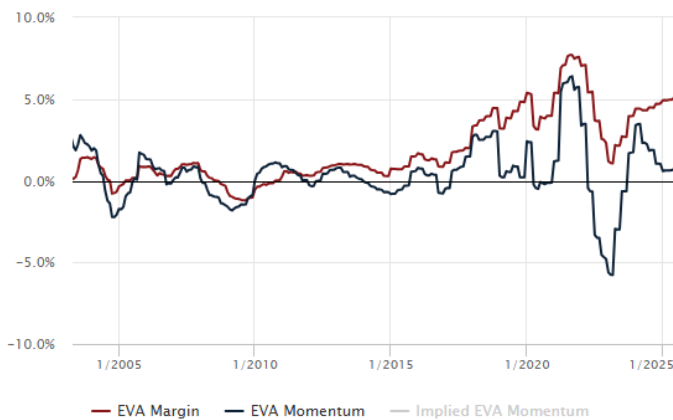
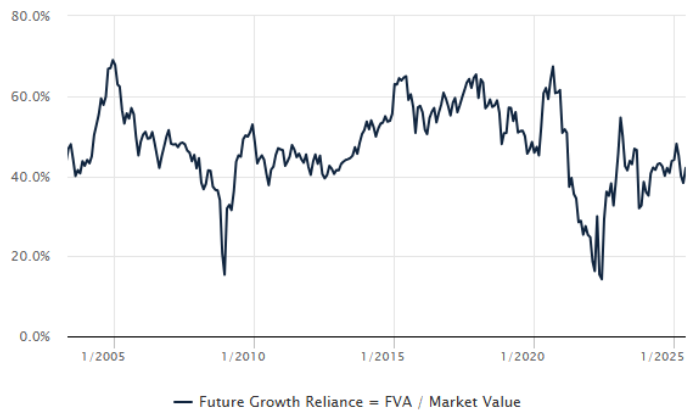


Figure 23: Aggregate FGR

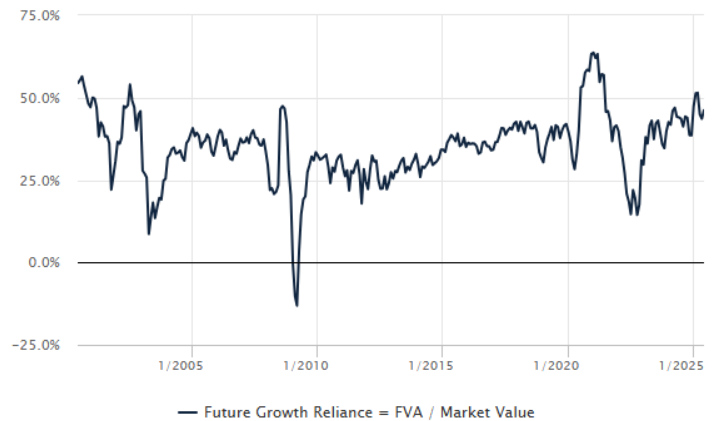


Textiles, Apparel, & Luxury Goods: The industry remains negatively rated in the PRVit framework as relative Valuations remain elevated and EVA Momentum continues to contract. Incremental value creation has remained pressured as top-line growth remains negative and EBITDAR Margin has seen a 150bps contraction within the last six months on higher adjusted COGS and SG&A expenses, relative to Sales. EVA Margin has contracted back to pre-COVID levels, down to 4.1% since peaking out in Q2 2022 at 7.8%.

Figure 24: Aggregate EVA Fundamentals



Figure 25: Aggregate FGR



Automobiles: The Automobiles industry continues to look unattractive within the PRVit framework, given the weak Risk-Adjusted Profitability at a time when the Level and Trend of Profitability continues to remain pressured. Sales growth turned to a small positive in March, at 0.4%, with the Productive Capital Charge (lower is favorable) showing signs of peaking out. However, EBITDAR Margin has seen a sustained contraction since H2 2024. Valuations have moved higher as the market starts to look for a bottom in fundamentals.

Figure 26: Aggregate EVA Fundamentals

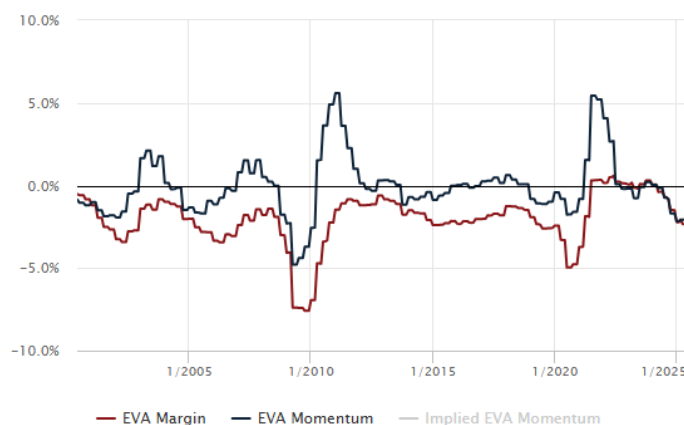


Figure 27: Aggregate MVA Spread



Performance Update for our 2025 Top Consumer Discretionary Names:

We searched for names that looked very strong within the PRVit framework, demonstrating strong Risk-Adjusted Profitability, avoiding names with a very high Risk or a very expensive Valuation profile. The firms in aggregate have outperformed the Consumer Discretionary sector.

The tables are illustrated on the next page

Figure 28: Updated EVA, PRVit, and ESG Performance of our 2025 Large-Mid Cap Picks

Name	Ticker	Industry	Country	Mkt Cap (\$mm)	EVA Margin (%)	EVA Momentum (%)	PRVit Score	Quality (P-R)	Profitability (P)	Risk (R)	Valuation (V)	Return YTD (%)	ESG Perf Score
MEITUAN	3690 HK	Hotels, Restaurants & Leisure	China	100,095	4.3%	6.0%	93	83	88	51	58	-17.5%	45.37
TAPESTRY INC	TPR	Textiles, Apparel & Luxury Goods	U.S.	17,804	11.1%	0.2%	53	82	85	49	71	30.2%	50.73
SUBARU CORP -ADR	FUJHY	Automobiles	Japan	12,613	5.4%	1.8%	93	86	90	46	6	-8.7%	43.70
TOLL BROTHERS INC	TOL	Household Durables	U.S.	10,650	5.5%	-3.0%	72	58	63	57	30	-13.6%	34.68
HAIDILAO INTL HOLDING LTD	6862 HK	Hotels, Restaurants & Leisure	China	10,310	9.4%	1.6%	88	90	96	47	76	-8.0%	13.05
AUTOLIV INC	ALV	Automobile Components	U.S.	8,442	2.8%	-0.0%	85	87	78	20	41	19.4%	49.80
GAP INC	GAP	Specialty Retail	U.S.	8,000	1.8%	1.7%	82	61	79	81	27	-8.4%	57.84
VIPSHOP HOLDINGS LTD -ADR	VIPS	Broadline Retail	China	7,766	3.7%	-1.7%	98	76	70	31	26	14.0%	30.00
EL PUERTO DE LIVERPOOL SA	LIVEPOLC MM	Broadline Retail	Mexico	7,014	3.0%	-0.7%	95	82	65	6	14	-3.9%	37.49
BOSIDENG INTERNATIONAL HLDG	3998 HK	Textiles, Apparel & Luxury Goods	China	6,883	11.9%	6.4%	97	99	96	9	63	17.4%	34.88
ADT INC	ADT	Diversified Consumer Services	U.S.	6,820	3.3%	0.8%	86	68	76	62	35	19.5%	36.82
STRIDE INC	LRN	Diversified Consumer Services	U.S.	6,349	8.6%	4.0%	66	84	93	60	75	40.4%	59.19
MATTEL INC	MAT	Leisure Products	U.S.	6,216	3.6%	0.4%	69	63	73	64	38	7.5%	39.00
URBAN OUTFITTERS INC	URBN	Specialty Retail	U.S.	6,094	4.2%	1.7%	69	63	83	83	43	23.8%	40.33
COWAY CO LTD	021240 KS	Household Durables	South Korea	5,128	6.3%	0.5%	89	83	75	24	45	46.2%	48.08
HISENSE HOME APPLIANCES GRP	921 HK	Household Durables	China	4,796	3.6%	0.6%	98	93	90	25	44	-3.9%	29.19
GENTEX CORP	GNTX	Automobile Components	U.S.	4,781	8.5%	-2.2%	81	89	71	2	49	-25.2%	26.85
ADTALEM GLOBAL EDUCATION INC	ATGE	Diversified Consumer Services	U.S.	4,597	5.3%	1.7%	89	87	81	24	54	37.7%	69.55
FRONTDOOR INC	FTDR	Diversified Consumer Services	U.S.	4,363	13.5%	1.6%	56	74	94	83	72	7.1%	41.52
VIBRA ENERGIA S.A.	VBRR3 BZ	Specialty Retail	Brazil	4,350	2.6%	1.1%	79	71	87	77	26	24.7%	41.97
JUMBO SA	BELA GA	Specialty Retail	Greece	4,307	18.7%	1.7%	84	99	93	4	65	9.3%	18.61
DORMAN PRODUCTS INC	DORM	Automobile Components	U.S.	3,770	6.0%	2.7%	83	94	84	9	56	-4.9%	29.27
KB HOME	KBH	Household Durables	U.S.	3,723	3.1%	-0.4%	61	43	59	81	23	-20.5%	50.06
ABERCROMBIE & FITCH -CL A	ANF	Specialty Retail	U.S.	3,717	8.8%	2.3%	82	67	90	90	34	-47.8%	43.93
KONTOOR BRANDS INC	KTB	Textiles, Apparel & Luxury Goods	U.S.	3,538	7.2%	1.8%	84	93	86	17	59	-24.4%	52.54
INCHCAPE PLC	INCH LN	Distributors	U.K.	3,464	0.7%	-0.2%	92	79	59	1	20	-8.0%	40.46
LAUREATE EDUCATION INC	LAUR	Diversified Consumer Services	U.S.	3,350	20.7%	5.3%	88	94	98	36	68	22.9%	62.48
TRAVEL PLUS LEISURE CO	TNL	Hotels, Restaurants & Leisure	U.S.	3,277	6.6%	-5.2%	58	52	66	76	46	-0.8%	52.13
M/I HOMES INC	MHO	Household Durables	U.S.	2,859	5.0%	-0.6%	91	69	64	35	18	-20.0%	19.05
TRI POINTE HOMES INC	TPH	Household Durables	U.S.	2,768	2.5%	1.7%	95	71	55	13	11	-15.8%	43.99
GREEN BRICK PARTNERS INC	GRBK	Household Durables	U.S.	2,691	9.3%	1.9%	94	91	86	24	37	7.5%	22.57
YETI HOLDINGS INC	YETI	Leisure Products	U.S.	2,444	8.5%	0.8%	89	88	81	25	44	-23.6%	59.47
MADDEN STEVEN LTD	SHOO	Textiles, Apparel & Luxury Goods	U.S.	1,682	4.7%	-0.5%	78	63	64	45	30	-44.7%	38.01
Average					6.7%	1.0%	82	78	79	41	43	0.8%	41.29

Figure 29: Updated EVA, PRVit, and ESG Performance of our 2025 Small Cap Picks

Name	Ticker	Industry	Country	Mkt Cap (\$mm)	EVA Margin (%)	EVA Momentum (%)	PRVit Score	Quality (P-R)	Profitability (P)	Risk (R)	Valuation (V)	Return YTD (%)	ESG Perf Score
TOYO TIRE CORP	5105 JP	Automobile Components	Japan	3,117	6.3%	-0.0%	79	75	71	35	14	20.6%	54.59
KANGWON LAND INC	035250 KS	Hotels, Restaurants & Leisure	South Korea	2,814	8.0%	3.9%	99	84	78	28	23	20.3%	42.05
BETSSON AB (PUBL)	BETSB SS	Hotels, Restaurants & Leisure	Sweden	2,764	12.2%	1.2%	95	99	94	3	61	38.1%	48.22
VISTEON CORP	VC	Automobile Components	U.S.	2,492	5.4%	1.6%	91	98	92	4	53	2.0%	45.92
FORYOU CORPORATION	002906 CH	Automobile Components	China	2,304	1.5%	0.1%	75	79	72	28	61	4.0%	
NOJIMA CORP	7419 JP	Specialty Retail	Japan	2,110	2.5%	1.3%	86	83	80	35	25	32.0%	19.66
CHINA NATIONAL GOLD GROUP	600916 CH	Textiles, Apparel & Luxury Goods	China	1,914	0.9%	0.0%	98	94	80	0	44	-1.0%	
JIANG LING MOTORS CORP LTD	000550 CH	Automobiles	China	1,878	2.4%	1.1%	93	83	88	49	41	-14.5%	
CURRYS PLC	CURY LN	Specialty Retail	U.K.	1,822	0.3%	1.2%	91	78	70	28	17	25.7%	46.52
CYRELA BRAZIL REALTY SA	CYRE3 BZ	Household Durables	Brazil	1,760	5.9%	6.8%	89	99	95	10	56	55.3%	42.08
COATS GROUP PLC	COA LN	Textiles, Apparel & Luxury Goods	U.K.	1,659	3.5%	1.5%	86	88	71	5	34	-16.6%	49.25
CAIRN HOMES PLC	CRN ID	Household Durables	Ireland	1,581	5.0%	4.3%	86	94	81	5	45	-6.4%	42.93
AFYA LIMITED	AFYA	Diversified Consumer Services	Brazil	1,558	8.2%	0.9%	86	95	84	5	56	8.5%	
STELLA INTL HLDG LTD	1836 HK	Textiles, Apparel & Luxury Goods	Hong Kong	1,484	4.9%	0.2%	96	92	79	5	29	-9.2%	29.50
GUANGDONG TCL SMART HOME APP	002668 CH	Household Durables	China	1,427	5.1%	0.9%	98	94	92	24	47	-28.0%	
FUSHENG PRECISION	6670 TT	Leisure Products	Taiwan	1,388	10.6%	5.3%	91	95	92	23	47	-6.5%	
ZHEJIANG QIANJIANG MTRCYCLE	000913 CH	Automobiles	China	1,091	4.6%	1.1%	96	91	90	31	44	-15.2%	
JNBY DESIGN LTD	3306 HK	Textiles, Apparel & Luxury Goods	China	1,086	15.8%	1.9%	99	99	96	7	50	-6.2%	
DEPO AUTO PARTS IND CO LTD	6605 TT	Automobile Components	Taiwan	1,021	6.2%	0.2%	92	90	81	16	32	-15.2%	
FCC CO LTD	7296 JP	Automobile Components	Japan	961	1.3%	-0.1%	74	65	56	25	8	-12.3%	
Average					5.5%	1.7%	90	89	82	18	39	3.8%	42.07

About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +29,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + PV of EVA

If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge

EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales

A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales

An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum

Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)

The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV

Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com ([link](#)): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework

EVA for Investors ([link](#)): A full introduction to the key EVA concepts and metrics

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