

# Pearl Abyss (263750.KQ)

## Earnings to gradually recover

Company Comment | May 13, 2019

Pearl Abyss's successful launch of a console version of Black Desert in the EU and NA markets is adding to the strong performance of Black Desert M in the Japanese market. The verification of Black Desert's IP is to boost expectations for Black Desert M's global launch slated for 4Q19.

### Enters recovery phase from 2Q19

We maintain a Buy rating on Pearl Abyss with a TP of W220,000. In addition to helping earnings recover from 2Q19, the successes of Black Desert M in the Japanese market and the Black Desert console version should help to bolster expectations for Black Desert M's global launch.

We forecast that in 2Q19, OP will rise to W55.5bn, a figure representing 269.3% q-q growth. In particular, as only 16% of console-related sales were recognized in 1Q19 due to accounting lag, significant growth is expected in 2Q19. In addition, with Black Desert M having re-entered the top-10 in Japanese app store rankings (6th on the App Store and 8th on Google Play on May 10), we expect the game to positively impact the firm's 2Q19 earnings.

Although Black Desert M's 4Q19 global launch creates some room for a gap in momentum, considering: 1) expectations towards the global release; 2) the anticipated launch of Project K and Project V in 2020; 3) and a likely 2Q19 earnings recovery, Pearl Abyss's share price should slowly rise going forward.

### Reports sluggish 1Q19 results

Pearl Abyss logged sluggish 1Q19 sales of W130.8bn (+73.2% y-y, +31.3% q-q) and OP of W15bn (-55.1% y-y, -22.5% q-q), with OP arriving in line with our forecast of W15.5bn but short of the market projection of W25.7bn. In line with a company announcement made in March, employee incentives (W9bn) and increased marketing costs (W30.3bn, +218.5% q-q) following the launch of Black Desert M in Japan dragged down earnings.

## Buy (maintain)

|                             |                            |
|-----------------------------|----------------------------|
| <b>TP</b>                   | <b>W220,000 (maintain)</b> |
| <b>CP ('19/05/10)</b>       | <b>W169,700</b>            |
| <b>Sector</b>               | <b>Game</b>                |
| Kospi/Kosdaq                | 2,108.04 / 722.62          |
| Market cap (common)         | US\$1,870.54mn             |
| Outstanding shares (common) | 13.0mn                     |
| 52W high ('18/08/29)        | W257,000                   |
| low ('19/03/25)             | W157,800                   |
| Average trading value (60D) | US\$21.59mn                |
| Dividend yield (2019E)      | 0.00%                      |
| Foreign ownership           | 7.8%                       |
| <b>Major shareholders</b>   |                            |
| DI Kim and 12 others        | 50.1%                      |

| Share perf    | 3M    | 6M    | 12M   |
|---------------|-------|-------|-------|
| Absolute (%)  | -14.4 | -18.2 | -32.5 |
| Relative (%p) | -13.7 | -22.2 | -20.1 |

|                    | 2018   | 2019E  | 2020F  | 2021F  |
|--------------------|--------|--------|--------|--------|
| <b>Sales</b>       | 404.8  | 594.3  | 654.4  | 812.1  |
| <b>Chg</b>         | 672.5  | 46.8   | 10.1   | 24.1   |
| <b>OP</b>          | 168.1  | 168.5  | 245.8  | 346.2  |
| <b>Chg</b>         | 674.7  | 0.2    | 45.9   | 40.8   |
| <b>OPM</b>         | 41.5   | 28.4   | 37.6   | 42.6   |
| <b>NP</b>          | 146.4  | 133.1  | 193.3  | 272.3  |
| <b>EPS</b>         | 11,591 | 10,231 | 14,849 | 20,915 |
| <b>Chg</b>         | 796.4  | -11.7  | 45.1   | 40.9   |
| <b>P/E</b>         | 17.9   | 16.6   | 11.4   | 8.1    |
| <b>P/B</b>         | 6.6    | 4.1    | 3.0    | 2.2    |
| <b>EV/EBITDA</b>   | 14.8   | 10.4   | 6.5    | 3.9    |
| <b>ROE</b>         | 42.9   | 28.0   | 30.3   | 31.3   |
| <b>Debt/equity</b> | 74.6   | 69.9   | 57.3   | 45.8   |
| <b>Net debt</b>    | -126.2 | -292.6 | -494.9 | -770.3 |

Unit: Wbn, %, won, x

Note 1: NP excludes minority interests

Note 2: EPS, P/E, P/B, and ROE based on NP (excl minority interests)

Source: NH I&S Research Center estimates

### 1Q19 preview (K-IFRS consolidated)

(Unit: Wbn, %)

|                              | 1Q18 | 2Q18  | 3Q18  | 4Q18 | 1Q19P  |       |       |          |        | 2Q19E |
|------------------------------|------|-------|-------|------|--------|-------|-------|----------|--------|-------|
|                              |      |       |       |      | Actual | y-y   | q-q   | Estimate | Consen |       |
| Sales                        | 75.5 | 112.7 | 117.0 | 99.6 | 130.8  | 73.2  | 31.3  | 133.9    | 130.6  | 168.3 |
| OP                           | 33.5 | 54.8  | 60.3  | 19.4 | 15.0   | -55.1 | -22.5 | 15.5     | 25.7   | 55.5  |
| OPM                          | 44.3 | 48.7  | 51.6  | 19.5 | 11.5   | -     | -     | 11.6     | 19.7   | 33.0  |
| Pre-tax profit               | 34.3 | 60.9  | 58.7  | 21.4 | 17.0   | -50.4 | -20.5 | 18.6     | 26.6   | 56.7  |
| NP (excl minority interests) | 27.8 | 52.2  | 51.7  | 14.7 | 12.5   | -54.9 | -14.9 | 14.4     | 20.2   | 43.7  |

Source: WISEfn, NH I&S Research Center estimates



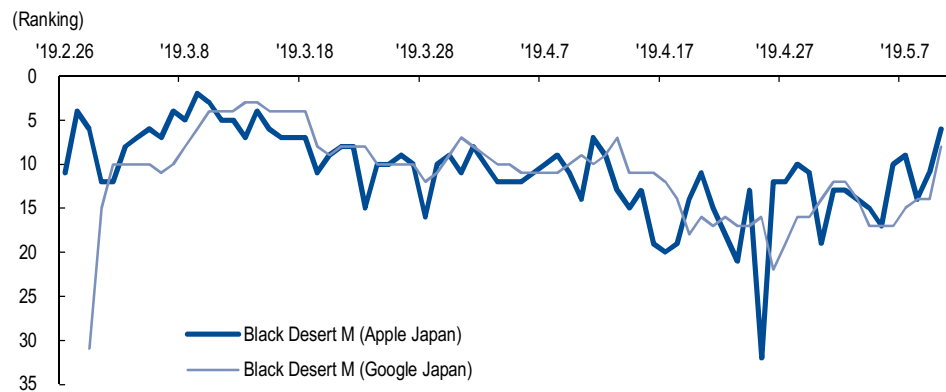
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**Game lineup**

| Title  | Genre           | Developer   | Launch date  |
|--|-----------------|-------------|--------------|
| Black Desert Online (Thailand/South East Asia) | PC MMORPG       | Pearl Abyss | Jan 17, 2018 |
| Black Desert M (Korea)                         | MMORPG          | Pearl Abyss | Feb 28, 2018 |
| Black Desert M (Taiwan/Hong Kong/Macau)        | MMORPG          | Pearl Abyss | Aug 29, 2018 |
| Black Desert M (Japan)                         | MMORPG          | Pearl Abyss | Feb 26, 2019 |
| Black Desert Console (North America/Europe)    | Console MMORPG  | Pearl Abyss | Mar 4, 2019  |
| Black Desert M (North America/Europe)          | MMORPG          | Pearl Abyss | 4Q19         |
| Project K (PC/console)                         | MMO + FPS + AOS | Pearl Abyss | 2020         |
| Project V (mobile)                             | Casual MMORPG   | Pearl Abyss | 2020         |
| EVE Echoes (mobile)                            | Sci-fi MMORPG   | CCP Games   | 2020         |
| EVE War of Ascension (mobile)                  | Sci-fi Strategy | CCP Games   | 2020         |
| Eve Universe (PC)                              | FPS             | CCP Games   | 2020         |
| Project Omega (PC)                             | MMORPG          | Pearl Abyss | 2020         |

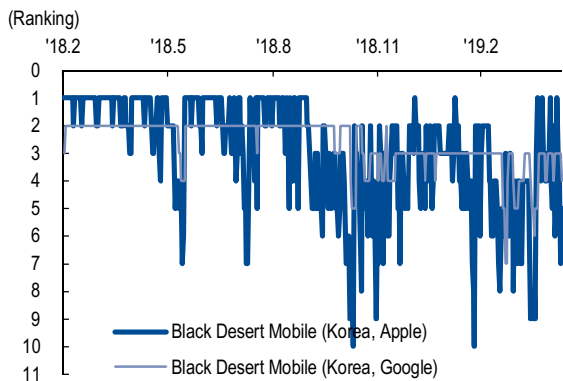
Note: MMORPG = massively multiplayer online role-playing game; MMO = massively multiplayer online game;  
 FPS = first person shooter; AOS refers to a multiplayer online battle arena  
 Source: Pearl Abyss, media reports, NH I&S Research Center

**Black Desert M sales ranking on Japanese app stores**



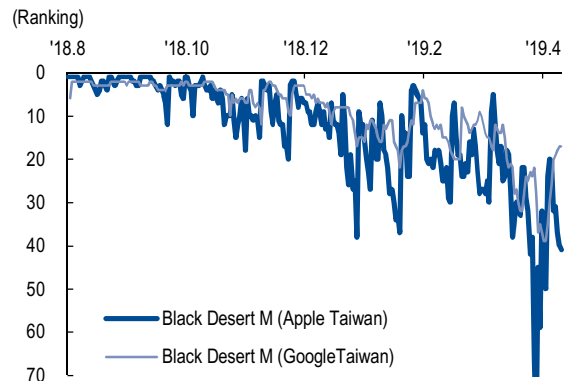
Source: AppAnnie, NH I&S Research Center

**Black Desert M sales ranking on Korean app stores**



Source: AppAnnie, NH I&S Research Center

**Black Desert M sales ranking on Taiwanese app stores**



Source: AppAnnie, NH I&S Research Center

**Earnings forecasts (IFRS consolidated)**

(Unit: Wbn, won, x, %)

|                              |            | 2018   | 2019E  | 2020F  | 2021F  |
|------------------------------|------------|--------|--------|--------|--------|
| Sales                        | - Revised  | 404.8  | 594.3  | 654.4  | 812.1  |
|                              | - Previous | -      | 564.6  | 627.3  | 799.0  |
|                              | - Change   | -      | 5.3    | 4.3    | 1.6    |
| OP                           | - Revised  | 168.1  | 168.5  | 245.8  | 346.2  |
|                              | - Previous | -      | 166.7  | 265.7  | 386.3  |
|                              | - Change   | -      | 1.1    | -7.5   | -10.4  |
| <i>OPM</i>                   | - Revised  | 41.5   | 28.4   | 37.6   | 42.6   |
| EBITDA                       |            | 172.9  | 183.8  | 262.8  | 365.0  |
| NP (excl minority interests) |            | 146.4  | 133.1  | 193.3  | 272.3  |
| EPS                          | - Revised  | 11,591 | 10,231 | 14,849 | 20,915 |
|                              | - Previous | -      | 10,531 | 16,420 | 23,825 |
|                              | - Change   | -      | -2.8   | -9.6   | -12.2  |
| P/E                          |            | 17.9   | 16.6   | 11.4   | 8.1    |
| P/B                          |            | 6.6    | 4.1    | 3.0    | 2.2    |
| EV/EBITDA                    |            | 14.8   | 10.4   | 6.5    | 3.9    |
| ROE                          |            | 42.9   | 28.0   | 30.3   | 31.3   |

Note: EPS, P/E, P/B, and ROE based on NP (excluding minority interests)  
Source: NH I&S Research Center estimates

**Quarterly earnings forecasts**

(Unit: Wbn, %)

|                           | 1Q18        | 2Q18         | 3Q18         | 4Q18        | 1Q19P        | 2Q19E        | 3Q19F        | 4Q19F        | 2018         | 2019E        | 2020F        |
|---------------------------|-------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Sales</b>              | <b>75.5</b> | <b>112.7</b> | <b>117.0</b> | <b>99.6</b> | <b>130.8</b> | <b>168.3</b> | <b>151.4</b> | <b>143.9</b> | <b>404.8</b> | <b>594.3</b> | <b>654.4</b> |
| Korea                     | 47.6        | 86.7         | 81.6         | 44.8        | 45.8         | 43.4         | 40.1         | 36.1         | 260.7        | 165.3        | 210.0        |
| North America/Europe      | 13.3        | 10.9         | 9.0          | 23.9        | 28.8         | 38.3         | 33.3         | 37.6         | 57.1         | 138.1        | 169.9        |
| Asia                      | 14.6        | 15.1         | 26.4         | 30.9        | 56.2         | 86.6         | 77.9         | 70.2         | 87.0         | 290.9        | 265.9        |
| <b>Mobile</b>             | <b>41.6</b> | <b>82.8</b>  | <b>89.7</b>  | <b>59.1</b> | <b>84.5</b>  | <b>112.1</b> | <b>100.9</b> | <b>98.8</b>  | <b>273.2</b> | <b>396.3</b> | <b>495.7</b> |
| Black Desert M (Korea)    | 41.6        | 82.8         | 77.8         | 41.3        | 42.1         | 37.9         | 34.1         | 30.7         | 243.5        | 144.7        | 94.9         |
| Black Desert M (overseas) |             |              | 11.9         | 17.8        | 42.5         | 74.2         | 66.8         | 68.1         | 29.7         | 251.6        | 235.6        |
| <b>Operating expenses</b> | <b>42.0</b> | <b>57.9</b>  | <b>56.7</b>  | <b>80.9</b> | <b>115.7</b> | <b>112.8</b> | <b>103.2</b> | <b>94.0</b>  | <b>237.5</b> | <b>425.8</b> | <b>408.6</b> |
| Labor costs               | 10.1        | 15.0         | 11.9         | 21.5        | 34.0         | 29.9         | 28.6         | 28.0         | 58.5         | 120.4        | 117.2        |
| Marketing expenses        | 10.5        | 9.2          | 10.0         | 9.5         | 30.3         | 24.3         | 21.3         | 23.2         | 39.2         | 99.1         | 91.1         |
| <b>OP</b>                 | <b>33.5</b> | <b>54.8</b>  | <b>60.3</b>  | <b>19.5</b> | <b>15.0</b>  | <b>55.5</b>  | <b>48.2</b>  | <b>49.9</b>  | <b>168.1</b> | <b>168.5</b> | <b>245.8</b> |
| <i>OPM</i>                | 44.3        | 48.7         | 51.6         | 19.6        | 11.5         | 33.0         | 31.8         | 34.7         | 41.5         | 28.4         | 37.6         |
| Pre-tax profit            | 34.3        | 61.0         | 58.7         | 21.4        | 17.0         | 56.7         | 48.6         | 51.2         | 175.4        | 173.5        | 251.9        |
| <b>NP</b>                 | <b>27.8</b> | <b>52.2</b>  | <b>51.7</b>  | <b>14.7</b> | <b>12.5</b>  | <b>43.7</b>  | <b>37.4</b>  | <b>39.4</b>  | <b>146.4</b> | <b>133.1</b> | <b>193.3</b> |

Source: Pearl Abyss, NH I&S Research Center estimates

| <b>STATEMENT OF COMPREHENSIVE INCOME</b>          |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| (Wbn)   | 2018/12A     | 2019/12E     | 2020/12F     | 2021/12F     |
| <b>Sales</b>                                      | <b>404.8</b> | <b>594.3</b> | <b>654.4</b> | <b>812.1</b> |
| <i>Growth (%)</i>                                 | 245.3        | 46.8         | 10.1         | 24.1         |
| <b>COGS</b>                                       | <b>0.0</b>   | <b>170.7</b> | <b>190.1</b> | <b>235.2</b> |
| <b>Gross Profit</b>                               | <b>404.8</b> | <b>423.6</b> | <b>464.3</b> | <b>576.9</b> |
| <i>Gross margin (%)</i>                           | 100.0        | 71.3         | 71.0         | 71.0         |
| SG&A  | 236.7        | 255.1        | 218.5        | 230.7        |
| <b>Operating Income</b>                           | <b>168.1</b> | <b>168.5</b> | <b>245.8</b> | <b>346.2</b> |
| <i>Growth (%)</i>                                 | 676.2        | 0.2          | 45.9         | 40.8         |
| <i>Operating margin (%)</i>                       | 41.5         | 28.4         | 37.6         | 42.6         |
| <b>EBITDA</b>                                     | <b>172.9</b> | <b>183.8</b> | <b>262.8</b> | <b>365.0</b> |
| <b>Non-Operating Profit</b>                       | <b>7.2</b>   | <b>4.9</b>   | <b>6.0</b>   | <b>8.4</b>   |
| Financial Income(Costs)                           | 7.5          | 4.7          | 6.0          | 8.4          |
| Other Non-Operating Profit                        | -0.4         | 0.2          | 0.0          | 0.0          |
| Gains(Losses) in Associates, Subsidiaries and JVs | 0.1          | 0.0          | 0.0          | 0.0          |
| <b>Pre-tax Profit from Cont. Op.</b>              | <b>175.4</b> | <b>173.5</b> | <b>251.9</b> | <b>354.6</b> |
| <b>Income Taxes</b>                               | <b>28.9</b>  | <b>40.4</b>  | <b>58.6</b>  | <b>82.3</b>  |
| Profit from Continuing Op.                        | 146.4        | 133.1        | 193.3        | 272.3        |
| <b>Net Profit</b>                                 | <b>146.4</b> | <b>133.1</b> | <b>193.3</b> | <b>272.3</b> |
| <i>Growth (%)</i>                                 | 0.0          | -9.1         | 45.2         | 40.9         |
| <i>Net margin (%)</i>                             | 36.2         | 22.4         | 29.5         | 33.5         |
| Net Profit of Parent                              | 146.4        | 133.1        | 193.3        | 272.3        |
| Net Profit to Non-Controlling                     | 0.0          | 0.0          | 0.0          | 0.0          |
| Other Comprehensive Income                        | -2.6         | 0.0          | 0.0          | 0.0          |
| <b>(Wbn)</b>                                      | <b>143.9</b> | <b>133.1</b> | <b>193.3</b> | <b>272.3</b> |

| <b>Valuation / Profitability / Stability</b> |          |          |          |          |
|--|----------|----------|----------|----------|
|  | 2018/12A | 2019/12E | 2020/12F | 2021/12F |
| Price/ Earnings (X)                          | 17.9     | 16.6     | 11.4     | 8.1      |
| Price/ Book Value (X)                        | 6.6      | 4.1      | 3.0      | 2.2      |
| Price/ Gross Cash Flow (X)                   | 14.0     | 11.4     | 8.1      | 5.9      |
| Price/ Sales (X)                             | 6.5      | 3.7      | 3.4      | 2.7      |
| EV/ EBITDA (X)                               | 14.8     | 10.4     | 6.5      | 3.9      |
| EV/ EBIT (X)                                 | 15.3     | 11.4     | 7.0      | 4.2      |
| Fully diluted EPS (W)                        | 11,591   | 10,231   | 14,849   | 20,915   |
| BVPS (W)                                     | 31,525   | 41,562   | 56,411   | 77,326   |
| Sales PS (W)                                 | 32,037   | 45,698   | 50,264   | 62,381   |
| ROE (%)                                      | 42.9     | 28.0     | 30.3     | 31.3     |
| ROA (%)                                      | 29.0     | 16.3     | 18.6     | 20.8     |
| ROIC (%)                                     | 91.9     | 40.4     | 60.8     | 85.3     |
| Dividend Yield (%)                           | 0.0      | 0.0      | 0.0      | 0.0      |
| Payout Ratio (%)                             | 0.0      | 0.0      | 0.0      | 0.0      |
| Total Cash Dividend (Wbn)                    | 0.0      | 0.0      | 0.0      | 0.0      |
| Cash DPS (W)                                 | 0        | 0        | 0        | 0        |
| Net debt(cash)/ equity (%)                   | -30.9    | -54.1    | -67.4    | -76.5    |
| Debt/ equity (%)                             | 74.6     | 69.9     | 57.3     | 45.8     |
| Interest-Bearing Debts (Wbn)                 | 155.9    | 175.0    | 175.0    | 175.0    |
| Current Ratio (%)                            | 308.0    | 340.2    | 403.7    | 473.0    |
| Total shares (mn)                            | 13       | 13       | 13       | 13       |
| Par value (W)                                | 500      | 500      | 500      | 500      |
| Share price (W)                              | 207,900  | 169,700  | 169,700  | 169,700  |
| Market Cap (Wbn)                             | 2,691    | 2,209    | 2,209    | 2,209    |

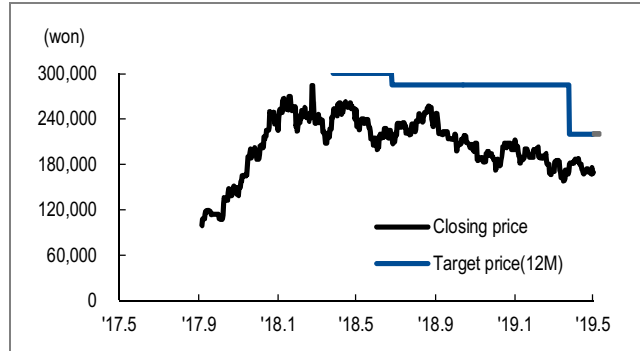
| <b>STATEMENT OF FINANCIAL POSITION</b> |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| (Wbn)                                  | 2018/12A     | 2019/12E     | 2020/12F     | 2021/12F     |
| Cash and Cash Equivalents              | 229.0        | 401.4        | 587.6        | 843.7        |
| Accounts Receivables                   | 41.0         | 51.1         | 63.6         | 78.5         |
| <b>Total Current Assets</b>            | <b>354.5</b> | <b>557.7</b> | <b>782.2</b> | <b>1,084</b> |
| Tangible Assets                        | 35.6         | 48.6         | 61.5         | 74.4         |
| Investment Assets                      | 9.4          | 5.3          | 8.4          | 9.8          |
| <b>Non-Current Assets</b>              | <b>358.0</b> | <b>361.7</b> | <b>373.1</b> | <b>383.4</b> |
| <b>Assets</b>                          | <b>712.5</b> | <b>919.4</b> | <b>1,155</b> | <b>1,467</b> |
| Short-Term Debt                        | 40.0         | 42.9         | 43.0         | 43.0         |
| Account Payables                       | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Current Liabilities</b>             | <b>115.1</b> | <b>164.0</b> | <b>193.8</b> | <b>229.1</b> |
| Long-Term Debt                         | 136.3        | 152.6        | 152.6        | 152.6        |
| Long-Term Allowance                    | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Non-Current Liabilities</b>         | <b>189.4</b> | <b>214.4</b> | <b>227.1</b> | <b>231.5</b> |
| <b>Liabilities</b>                     | <b>304.5</b> | <b>378.3</b> | <b>420.9</b> | <b>460.6</b> |
| Capital Stock                          | 6.5          | 6.5          | 6.5          | 6.5          |
| Capital Surplus                        | 192.1        | 192.1        | 192.1        | 192.1        |
| Retained Earnings                      | 231.6        | 364.6        | 558.0        | 830.2        |
| Non-Controlling Interests Equity       | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Shareholders' Equity</b>            | <b>408.0</b> | <b>541.1</b> | <b>734.4</b> | <b>1,007</b> |

| <b>CASH FLOW STATEMENT</b>        |               |              |              |              |
|-----------------------------------|---------------|--------------|--------------|--------------|
| (Wbn)                             | 2018/12A      | 2019/12E     | 2020/12F     | 2021/12F     |
| <b>Operating Cash Flow</b>        | <b>159.3</b>  | <b>194.3</b> | <b>239.5</b> | <b>313.7</b> |
| Net Profit                        | 146.4         | 133.1        | 193.3        | 272.3        |
| Depreciation&Amortization         | 4.8           | 15.3         | 17.0         | 18.9         |
| + Loss(Gains) from Subs           | -0.1          | 0.0          | 0.0          | 0.0          |
| + FC translation loss(profit)     | 1.2           | 2.5          | 1.8          | 2.1          |
| Gross Cash Flow                   | 187.7         | 194.1        | 272.0        | 374.5        |
| - Incr. (Decr.) in WC             | -22.9         | 36.9         | 20.3         | 13.4         |
| <b>Investing Cash Flow</b>        | <b>-305.0</b> | <b>-34.4</b> | <b>-46.5</b> | <b>-50.7</b> |
| + Decr. In Tangible Assets        | 0.2           | 0.0          | 0.0          | 0.0          |
| - Incr. In Tangible Assets(CAPEX) | -10.7         | -20.0        | -22.0        | -24.2        |
| + Disp.(Acq.) of Inv. Assets      | -6.1          | 4.1          | -3.1         | -1.4         |
| Free Cash Flow                    | 148.5         | 174.3        | 217.5        | 289.5        |
| Net Cash Flow                     | -145.7        | 160.0        | 193.0        | 263.0        |
| <b>Financing Cash Flow</b>        | <b>138.6</b>  | <b>12.5</b>  | <b>-6.9</b>  | <b>-6.9</b>  |
| Equity Financing                  | 11.1          | 0.0          | 0.0          | 0.0          |
| Debt Financing                    | 127.5         | 12.5         | -6.9         | -6.9         |
| Incr.(Decr.) in Cash              | -11.5         | 172.5        | 186.1        | 256.1        |
| Ending Cash and Cash Equivalents  | 229.0         | 401.4        | 587.6        | 843.7        |
| Net Debt (Cash)                   | -126.2        | -292.6       | -494.9       | -770.3       |

Rating and TP update

| Date       | Rating | TP           | Disparity ratio (%) |         |
|------------|--------|--------------|---------------------|---------|
|            |        |              | Avg                 | Max/Min |
| 2019.04.03 | Buy    | 220,000(12M) | -                   | -       |
| 2018.07.04 | Buy    | 285,000(12M) | -28.1%              | -9.8%   |
| 2018.04.04 | Buy    | 300,000(12M) | -21.6%              | -12.5%  |

Pearl Abyss (263750.KQ)



NH Investment & Securities stock ratings

1. Rating based on a stock's forecasted absolute return over a period of 12 months from the date of publication.

- Buy: Greater than +15%
- Hold: -15% to +15%
- Sell: Less than -15%

2. Regarding listed companies under NH I&S' coverage, our stock ratings break down as follows (as of May 10, 2019).

● NH I&S' stock rating distribution

| Buy   | Hold  | Sell |
|-------|-------|------|
| 78.2% | 21.8% | 0.0% |

- The stock rating on an individual company can change at irregular intervals. Our stock rating distribution is calculated on a weekly basis.

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