

TRANSPORTATION TECHNOLOGY MARKET UPDATE

OCTOBER 2023

INTRODUCTION

IN THIS REPORT

- Transportation Sector State of the Market
- Selected Transportation Technology Trends
 - Streamlining the Car Purchasing and Ownership Journey
 - The Impending AI Revolution
- M&A and Financing Dynamics

Solomon Partners is pleased to share this Transportation Sector Technology Market Update

- In this report, we consider the trends and disruptive technologies affecting the **auto retailing and servicing ecosystems**, with particular focus around **software and data analytics tools**
- These tools are becoming mission critical to dealerships' competitiveness and profitability in an increasingly complex market
 - Supply chain disruptions and labor scarcity have put stresses on the ~18,000 U.S. franchise dealerships' abilities to meet demand for vehicles and maintain service levels
 - Consumers, attuned to online shopping for virtually everything, expect to be able to use online tools for sourcing, buying, financing and servicing their vehicles...
 - ...and OEMs and dealers want to better use data to convert those vehicle shoppers into transacting customers (whether in-dealership or online)
- Technical modernization of auto retailing and servicing remains in the early stages, but the potential for outsized growth and disruption is great
 - Many core tasks continue to be completed on paper or in rudimentary spreadsheets, taking time away from selling, and leaving valuable data unexploited
 - Less service-intensive EVs will force dealer service departments to find alternative ways to catalyze driver visits and optimize staff costs
 - AI has the potential to revolutionize car ownership for drivers, and reduce costs for OEMs and dealers, by improving efficiency, safety and the user experience
- We expect M&A and fundraising activity to recover in 2024 and 2025 thanks to:
 - Strategics that need to aggregate capabilities to enhance customer relevance, cross market product and service offerings, and generate cost synergies
 - Stabilized interest rates that allow financial sponsors to more accurately forecast returns and underwrite purchase prices
 - Recalibrated seller value expectations as the memory of 2021's market conditions fade

We hope you enjoy our report, and we look forward to connecting.



Jeff Derman
Partner
T: +1 917.648.2176
jeff.derman@solomonpartners.com



Jonathan Berger
Director
T: +1 646.378.4062
jonathan.berger@solomonpartners.com

SOLOMON PARTNERS – TECHNOLOGY GROUP

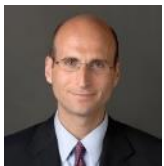
SOLOMON PARTNERS TECHNOLOGY COVERAGE



Marc Cooper
CEO



Craig Muir
Partner,
Group Head



Jeff Derman
Partner



Joe Watson
Managing Director



Jonathan Berger
Director



Max Schramm
Director



Anna Broadbent
Associate



Brendan Kirk
Associate

MAPPING THE TRANSPORTATION TECH MARKET

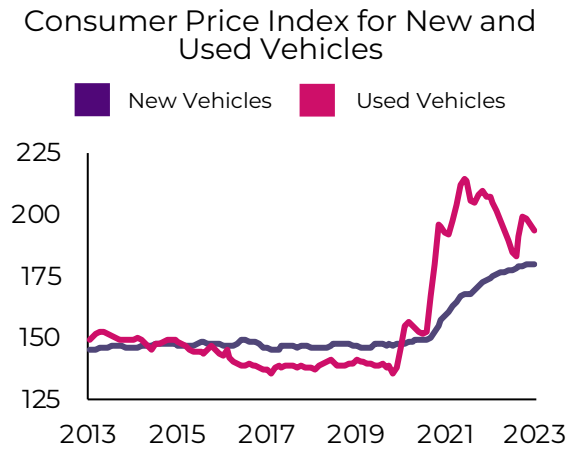
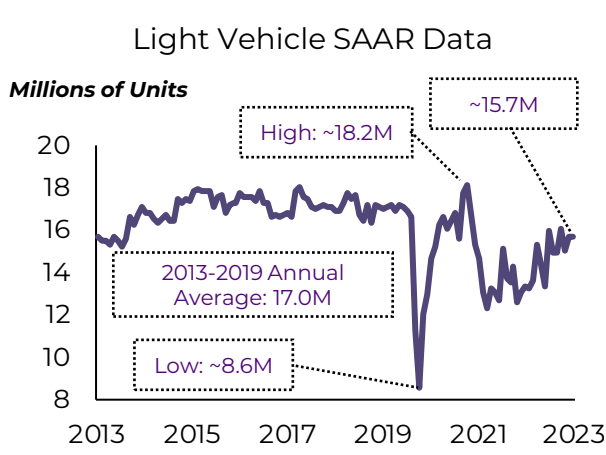


TRANSPORTATION SECTOR STATE OF THE MARKET

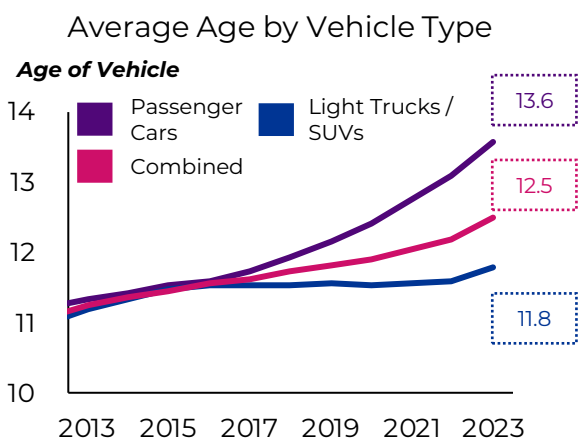
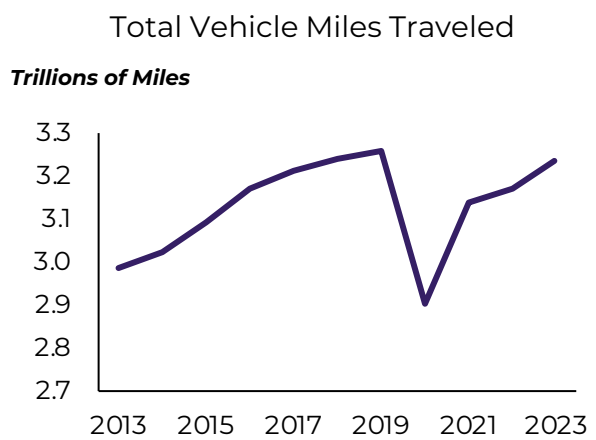
STATE OF PASSENGER VEHICLE SECTOR

- The new vehicle market was severely undersupplied in 2020, which in turn spilled into the used vehicle space
 - Undersupply drove significant upward pricing pressure in both markets
- The automotive market is now in a self-corrective phase, with lingering supply shortages slowly improving and more muted demand due to affordability challenges
 - With rising interest rates and inflation, over 50% of buyers have been priced out of the new vehicle market...
 - ...causing many credit-constrained consumers to hold onto their current vehicles for longer, thereby reducing used supply
 - With fewer recent vintage vehicles hitting the used market, demand for older vehicles remains high, as do prices on those vehicles
- Off-warranty aftermarket vehicle care continues to be a growth area, with the average light vehicle age at a record 12.5 years
 - However, increasing EV car parc penetration could present a long-term headwind, given lesser EV maintenance requirements

VEHICLE SALES TRENDS

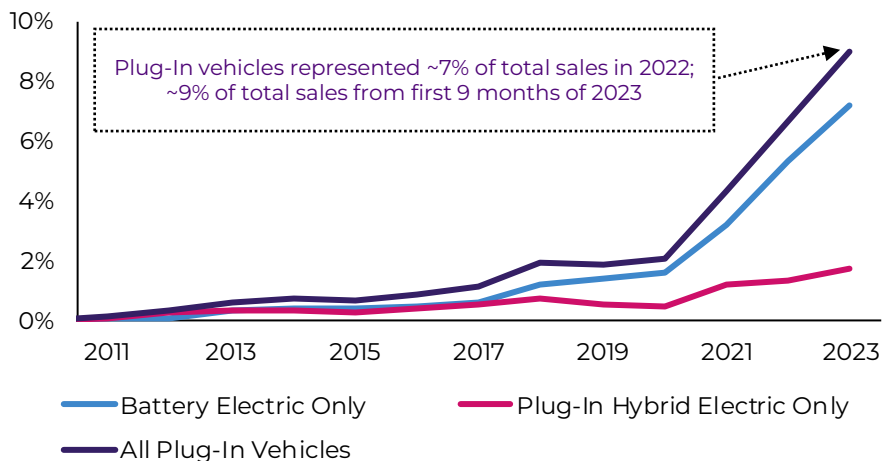


VEHICLE USE TRENDS

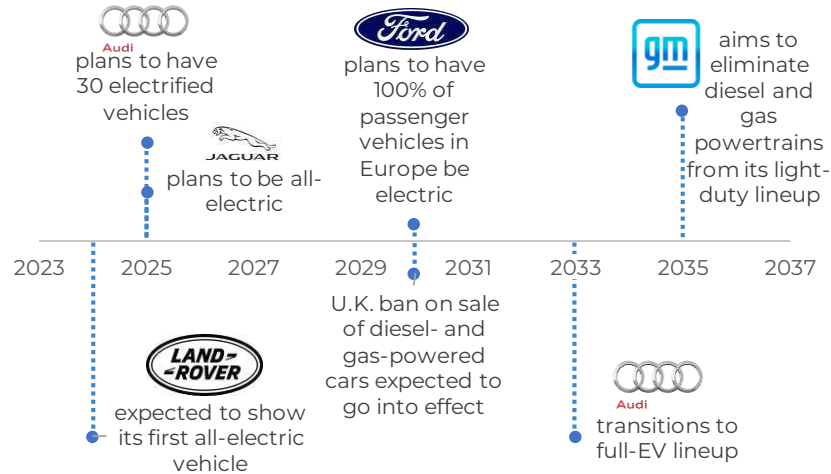


EVs ARE DRIVING CHANGE IN SALES, MANUFACTURING, INFRASTRUCTURE AND THE WORKFORCE

LIGHT DUTY EV SALES ARE ACCELERATING...



...MANY OEMS ARE GOING ALL-IN ON EV TRANSITION PLANS



KEY IMPACTS OF ELECTRIC VEHICLES ON PASSENGER DRIVING AND FLEETS



EV manufacturers such as Tesla are using a DTC model to sell; traditional OEMs are selectively following suit



EV consumer tools include real-time charger location / status and route planning to eliminate "range anxiety"



Due to EVs' lesser service needs, aftermarket and service businesses must optimize costs with predictive staffing and inventory tools as EV penetration increases



To keep enough vehicles on the road, software innovations will be critical for fleet managers to plan charging schedules that can accommodate the workload of their EVs



For effective fleet management, collecting and analyzing data on range, battery health and charging processes (charging time, location, cost, etc.) will be crucial

DESPITE INCREASING EV SALES VOLUMES, DEMAND NOT KEEPING UP WITH SUPPLY

Supply of Electric Vehicles is outpacing supply in the rest of the market...

100
Days' Supply of EVs (July)

vs.

56
Days' Supply of Traditional New Vehicles (July)

...leading to price slashing by EV makers, including Tesla, Ford and others

AUTOMOTIVE END MARKET TRENDS TO WATCH

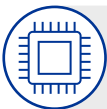
SUPPLY SIDE



UNITED AUTO WORKERS STRIKES COULD AMPLIFY SUPPLY ISSUES

Commentary: Ongoing strikes could eventually create new vehicle supply issues; however, some speculate the “Big Three” do not mind clearing some dealer inventory, and international brands not impacted

Impact on Supply: ● ● ●



SEMICONDUCTOR SHORTAGES ARE SUBSIDING

Commentary: The waiting time to acquire semiconductors has dropped by nearly 50% since its 2022 peak, approaching its typical level and alleviating a recent supply chain bottleneck

Impact on Supply: ● ● ●



EV-LED DTC MODEL IMPROVES SUPPLY VISIBILITY AND PLANNING

Commentary: The DTC model streamlines inventory management by allowing manufacturers to closely monitor demand, adjust production accordingly and reduce excess inventory

Impact on Supply: ● ● ●

DEMAND SIDE



COST OF DEBT REMAINS ELEVATED BUT HAS STABILIZED

Commentary: Interest rates are expected to remain elevated throughout 2023 and much of 2024, keeping a subset of less financially flexible buyers on the sidelines

Impact on Demand: ● ● ●



PENT-UP DEMAND EXPECTED TO PROP UP NEW VEHICLE SALES

Commentary: An increasing number of consumers – particularly those less economically sensitive – have returned to the market with older trade-ins, indicating they are again ready to engage with the new vehicle market

Impact on Demand: ● ● ●



AUTO INCENTIVES OFFERED BY MANUFACTURERS REACH 2-YEAR HIGH

Commentary: In September 2023, incentives increased to ~\$2,500, the highest in 2 years, constituting 4.9% of average transaction prices and spurring greater consumer interest in car purchases, despite elevated financing costs

Impact on Demand: ● ● ●

SELECTED TRANSPORTATION TECHNOLOGY TRENDS

STREAMLINING THE CAR PURCHASING AND OWNERSHIP JOURNEY

OEMs AND DEALERS ARE BEING DRIVEN TO A DIGITAL FUTURE

ARCHAIC RETAILING MODELS MUST EVOLVE TO MEET CHANGING CONSUMER DEMANDS TO RESEARCH, INTERACT AND TRANSACT WHEN AND WHERE THEY PREFER



Pandemic drives consumers online...

Lockdowns greatly increased percentage of consumers researching and transacting online

69%
of franchise dealers added at least one digital step due to COVID-19

>50%
rely on sources beyond salespeople for necessary info during purchasing process



...while vehicle shortages keep them online

Vehicle scarcity is driving more buyers to use online tools to locate and secure their desired vehicles

20%
new vehicles were pre-ordered in 2020, an **89%** increase year-over-year

41%
of recent car shoppers plan to pre-order their next vehicle via local dealer



EV and DTC retailers prove more consumers are ready to complete purchase process online...

Tesla and DTC used-vehicle platforms like Carvana prove many consumers are open to start-to-finish online purchases

\$75B
current global automotive e-commerce market

31%
Tesla's 5-year revenue CAGR



...and consumers are also completing steps of financing journey online

User-friendly interfaces have enabled consumers to complete financing steps online and gain better insight into the intricacies of the financing process

72%
of consumers do not feel the need to finance a car in person

53%
of buyers use online websites for researching financing options



However, complicated car shopping process still has most shoppers visiting dealers during the buying journey

Complexities include test driving, color / interior spec selection, trade-ins, decisions on ancillary products like warranties and other factors

64%
of consumers will combine online and in-person channels to finalize next car purchase

91%
of buyers reported still engaging with in-person aspects of the purchasing process



Auto dealership software tools increasingly critical for OEMs and dealers to navigate the shifting landscape

Online tools that meet the shoppers' desires for how and where to complete the shopping journey are central to sales conversion

\$7B
automotive dealership software tools market size in 2023

5%
Projected '23-'28 CAGR for automotive dealership software tools market

DIGITAL RETAILING ENHANCES THE CUSTOMER JOURNEY

THE INTEGRATION OF CERTAIN FEATURES IN THE NEXT GENERATION OF DMS AND OTHER DEALER TECH TOOLS WILL ENHANCE THE DEALER-CUSTOMER RELATIONSHIP...



Digital Retailing

- Align with changing consumer preferences and seamlessly hybridize digital and physical dealership experience
- Expand dealer's market reach and customer base
- Increase price transparency, empower customers and improve trust



Predictive Analytics

- Targeted and personalized marketing content that is data driven
- Elevate the customer experience at point-of-sale and throughout entire ownership lifecycle
- Anticipate customer's vehicle maintenance needs



Mobile Integration

- Create mobile-friendly solutions that provide readily accessible data to customers in real-time
- Simplify communication, make digital payments, offer remote support and engage customers through interactive features



Artificial Intelligence

- Automate day-to-day processes such as customer outreach
- Streamline and simplify management of documentation
- Customize customer interactions

...AND COULD AMPLIFY DEALERSHIP EFFICIENCY WITHIN "ONLINE PREFERRED" STEPS OF THE VEHICLE PURCHASING PROCESS



Research



Physical Experience



Test Drive



Vehicle Selection and Sourcing



Quotes and Pricing



Reserving



Financing



Contract



Handover

 Online Preferred Step

Vehicle Purchasing Process

KEY AUTOMOTIVE RETAILING SOFTWARE TOOL TYPES

CATEGORY	SOLUTIONS PROVIDED	REPRESENTATIVE PROVIDERS
Dealer Management System	<ul style="list-style-type: none"> ▪ Delivers data and analytics that informs dealerships about inventory, sales generation strategies and customer engagement ▪ Improve efficiency by automating administrative tasks, reducing paperwork and optimizing workflow processes both for vehicle sales and fixed operations 	   
Digital Retailing	<ul style="list-style-type: none"> ▪ Enhance customer experiences with seamless, online enablement of key parts of the buying journey to increase sales conversion ▪ Create personalized shopping experiences by tailoring offers and recommendations to individual customer preferences and financial circumstances 	   
Inventory Management and Visibility	<ul style="list-style-type: none"> ▪ Keep the right mix and quantity of vehicles on hand, reducing carrying costs and ensuring vehicles are available when demanded ▪ Improve sales insights with information on in-demand vehicle models and features to make informed inventory carrying decisions 	   
Lead Generation	<ul style="list-style-type: none"> ▪ Optimize marketing spend by directing ad spend towards specific demographics and customer profiles, while also taking into consideration Google's phasing out of third-party cookies ▪ Intelligently direct spend across traditional, online and social marketing channels 	   
Customer Relationship Management / Customer Data Platform	<ul style="list-style-type: none"> ▪ Manage sales pipelines by tracking interactions, setting reminders for follow-ups and prioritizing leads through a structured framework ▪ Enhance ability to retain and safekeep customer data and communications in accordance with increasing regulations 	   

LARGE DMS PROVIDERS CONTINUE TO CONSOLIDATE CAPABILITIES

STREAMLINING THE PURCHASING JOURNEY...

Simplifying and optimizing every step of the car buying process to make it more efficient, convenient and customer-centric



Target Description:
Provider of a DMS platform that automates sourcing, appraising and merchandising of vehicles within a unified system

Strategic Rationale:
“[The vehicle purchasing process has] lived in a different system. One more browser to have open, one more VIN to verify and keep track of [...] AutoVision becoming part of the Retail Management System changes that.”

- Chris Walsh, President of Reynolds & Reynolds

Target Description:
Provider of an e-commerce platform for online vehicle selection, pricing, financing, and seamless online-to-in-person transitions, thereby streamlining the car buying process

Strategic Rationale:
“Roadster’s consumer-focused approach and innovative technology will significantly contribute to our Modern Retailing efforts to create a seamless omnichannel vehicle-buying process that puts dealers at the heart of the relationship.”

- Brian Krzanich, former CEO at CDK Global

...AND AUGMENTING THE DEALER & DRIVER TOOLKIT

Broadening the range of services to create a more comprehensive and integrated network of tools and solutions that unify the car buying process



Target Description:
Developer of retail sales solutions displayable on any screen, enabling dealerships with hardware-agnostic digital retailing, F&I and inventory solutions

Strategic Rationale:
“Reynolds is committed to investing in and growing the Canadian market, as well as delivering a start-to-finish digital retailing process for automotive retailers.”

- Scott Santana, EVP of Product Management at Reynolds & Reynolds

Target Description:
Provider of an embedded mobile-first solution that helps consumers seamlessly secure the insurance they need for their vehicle without leaving the car-buying process

Strategic Rationale:
“Now that we’ve [digitized the sales] processes within the dealership model, we are taking the next step of bringing dealers new capabilities—like Salty’s Embedded Insurance—to help consumers manage the [car buying and owning process].”

- Brian Krzanich, former CEO at CDK Global

THE IMPENDING AI REVOLUTION

AI IS RAPIDLY EXPANDING ACROSS AUTOMOTIVE APPLICATIONS

AI USE CASES ARE DIVERSE & DEVELOPING, IMPACTING ALL POINTS OF THE VEHICLE LIFE CYCLE

1 FROM MAKING THE CAR...



Manufacturing

AI technologies can significantly improve the car production process with better quality control, assembly, automation and more, increasing efficiency and reducing costs



Quality Control

AI systems can detect small manufacturing defects at an early stage, which contributes to fewer costly recalls, improved customer satisfaction and overall higher production standards



Supply Chain Management

AI and ML are automating and contributing to complex supply chain management by improving visibility, optimizing processes and enhancing efficiency

2 ...TO BUYING THE CAR...



Vehicle Sales and Service

AI-powered CRM systems, virtual sales assistants, offer optimization, predictive maintenance analytics and remote vehicle diagnostics are enabling dealerships and service centers to provide better, more convenient experiences for customers at lower costs



Automotive Insurance

AI tools such as object detection, image datasets and claims processing can enhance pricing accuracy and risk assessment, enabling more personalized, data-driven services for both insurers and policyholders

3 ...TO USING THE CAR



Passenger Experience

AI-driven infotainment systems, personalized driver profiles, and navigation and concierge services can enhance the passenger experience by providing convenience, personalized entertainment and comfort



Driver Assistance

AI-enabled systems power Advanced Driver Assistance Systems (ADAS), analyze data to detect collision risks, monitor blind spots and detect and track objects and pedestrians



Autonomous Vehicles

With path planning, decision-making algorithms and deep learning neural networks that respond to complex visual and auditory cues, cars are inching closer to true autonomy



Driver Monitoring

Facial recognition, head and eye tracking, voice, speech and behavioral analysis and more are becoming crucial components of advanced safety features



Personal Assistant

Voice-recognition software can recall drivers' preferences, automate in-vehicle adjustments based on user history and enhance the driver experience by providing hands-free information access

INDUSTRY PARTICIPANTS LOOKING TO AI TO OPTIMIZE COSTS ACROSS A VARIETY OF APPLICATIONS

COST REDUCTION OPPORTUNITIES

Optimizing manufacturing, streamlining operations and improving vehicle maintenance decision-making via AI tools can reduce costs for the OEM, Dealer, Service Department, Fleet Operator and Driver



Inventory Management

By analyzing historical trends, sales data and demand patterns, AI can reduce overstocking and understocking and minimize carrying costs



Improved Performance

Predicting when vehicle components or systems require preventative maintenance can avoid repair costs, minimize downtime and improve vehicle reliability



Quality Control

Can quickly identify and accurately identify defects or quality issues in vehicles during manufacturing process, reducing the cost of rework or warrant claims




Lower Fuel Usage

Through efficient engine management and predictive traffic management, AI can slash fuel usage

INDUSTRY PARTICIPANTS ARE HYPING AI

"We're using the power of AI to gain efficiencies, create better consumer and customer experiences and add meaningful value."

 Q2 2023 Earnings Call


"AI particularly is only a tool that allows you to potentially increase productivity more and more and more."

 2023 Full-Year Earnings Call

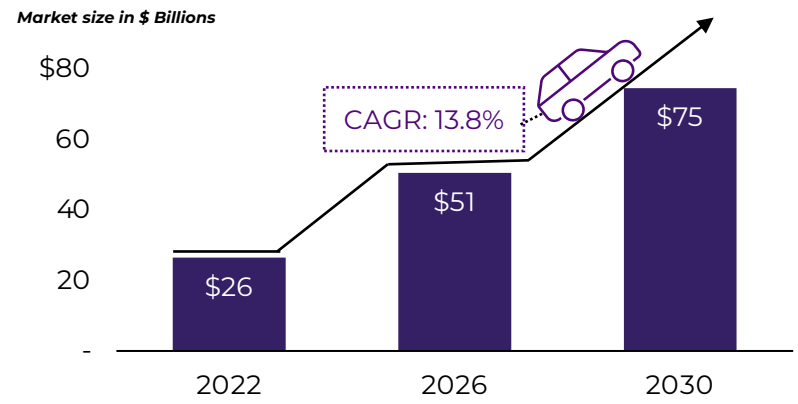
"AI continues to be a valuable asset for all of our inspections."

 June 2023 Analyst/Investor Day

"The tech that's coming to our industry is going to be amazing. AI will be a piece of it."

 May 2023 Conference

RAPID TAM EXPANSION OF AUTO AI SOFTWARE

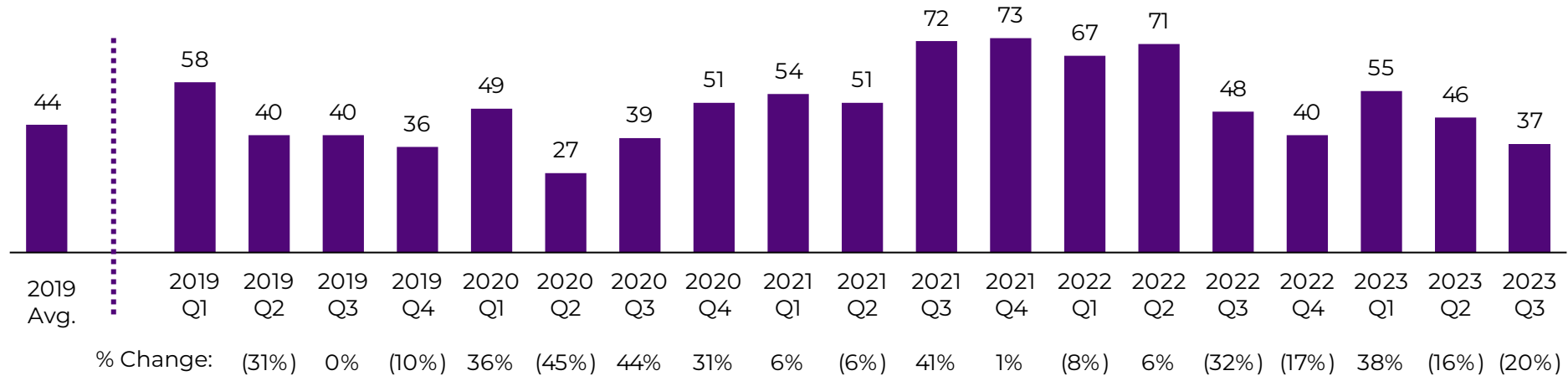


M&A AND FINANCING DYNAMICS

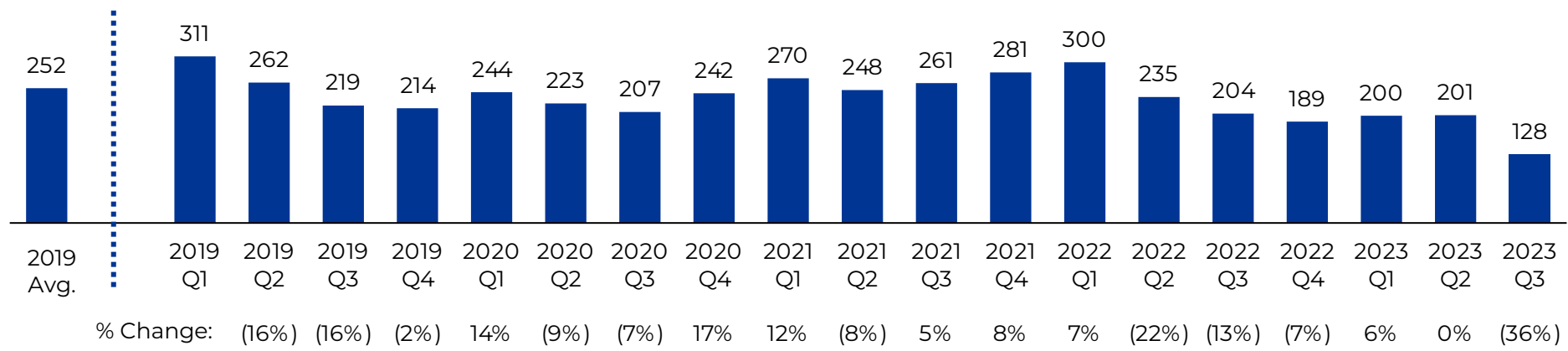
TRANSPORTATION TECH M&A AND FINANCING ACTIVITY

TRANSPORTATION TECH M&A DEAL ACTIVITY IN 2023 IS NEAR PRE-PANDEMIC LEVELS; FUNDRAISING LAGS BEHIND

M&A DEAL ACTIVITY



FUNDRAISING DEAL ACTIVITY




TRANSPORTATION TECH VALUATION AND OPERATIONAL BENCHMARKING

VALUATION METRICS

OPERATIONAL METRICS

Auto Marketplaces



2.0x
2023E Revenue

9.2x
2023E EBITDA

6.8%
2022A-2024E Revenue CAGR

27.7%
2023E EBITDA Margin

Auctions




4.3x
2023E Revenue

19.4x
2023E EBITDA

9.4%
2022A-2024E Revenue CAGR

29.4%
2023E EBITDA Margin

Transportation Infrastructure



5.1x
2023E Revenue

15.5x
2023E EBITDA

11.5%
2022A-2024E Revenue CAGR

33.5%
2023E EBITDA Margin

Fleet Solutions




3.1x
2023E Revenue

14.9x
2023E EBITDA

7.2%
2022A-2024E Revenue CAGR

21.8%
2023E EBITDA Margin

Data & Analytics



5.4x
2023E Revenue

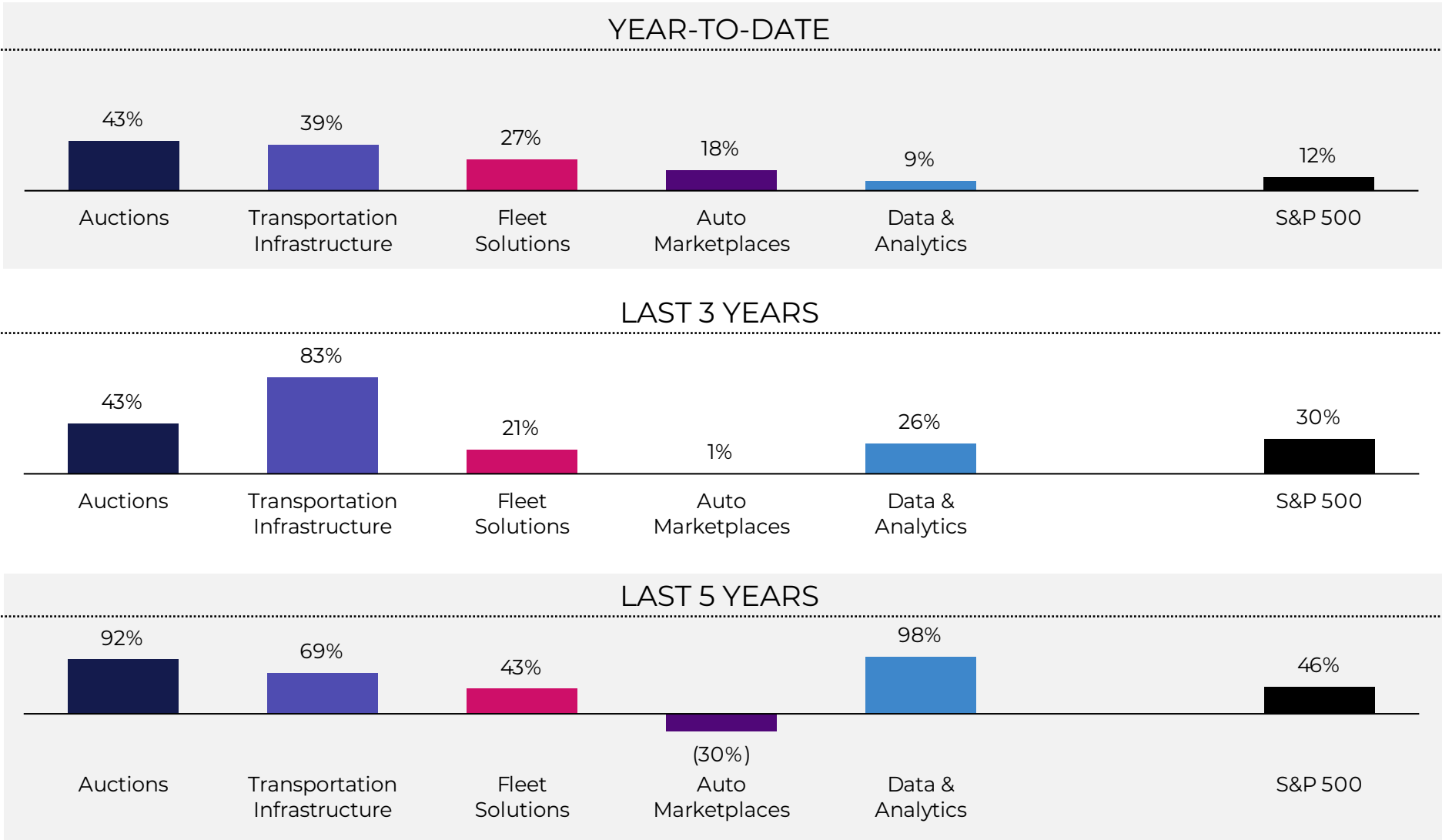
16.0x
2023E EBITDA

6.9%
2022A-2024E Revenue CAGR

39.7%
2023E EBITDA Margin

HISTORICAL SHARE PRICE PERFORMANCE

TRANSPORTATION TECH COMPANIES CONTINUE TO OUTPERFORM THE S&P 500 IN 2023




J.D. POWER ACQUIRES AUTOVISTA




TRANSACTION OVERVIEW

- On September 12, 2023, J.D. Power announced its acquisition of Autovista, a leading pan-European and Australian automotive data, analytics and industry insights provider
 - J.D Power is backed by Thoma Bravo, and Autovista was formerly backed by Hayfin Capital Management
- Autovista’s dataset and team of analysts provide clients across the automotive value chain with a 360-degree view of detailed vehicle data for use in valuations, forecasts and repair estimates
- Autovista targets customers in vehicle manufacturing, leasing & finance, insurance, dealerships and bodyshops
- Transaction value is undisclosed


AUTOVISTA’S SOLUTIONS



Vehicle Identification and Specification: Improves effectiveness of used car ads and helps a customer compare any like-for-like stock against competitors




Pricing and Valuation: Helps identify profitable stock and to track and forecast residual values




Service, Maintenance & Repair: Reduces time spent assessing repair costs and forecasts servicing schedules for optimal fleet management

RATIONALE / SYNERGIES



Complements J.D. Power’s strengths in vehicle valuation and detailed vehicle specification data and analytics



Broadens J.D. Power’s footprint into the European and Australian automotive markets, creating a global solution

DEAL COMMENTARY

“The global automobile industry is undergoing a historic transformation in which an ever-increasing array of models and fuel types, volatile swings in used car values and lingering supply chain challenges are making it more difficult than ever to project future value and understand total cost of ownership...[Via this acquisition] we are creating the truly global solution the industry needs to manage through this period of radical change.”

Lindsey Roberts
CEO, Autovista

“Precise vehicle valuations and detailed vehicle specifications are the central underpinning to every data-driven strategy in the automotive industry....and the combined assets of J.D. Power and Autovista Group will create truly comprehensive, global valuation and forecasting solutions.”

David Habinger
CEO and President, J.D Power























SELECT 2023 M&A TRANSACTIONS

(Amounts in Millions)

DATE	INVESTOR	TARGET	TARGET DESCRIPTION	EV	EV / REVENUE	EV / EBITDA
Sep-23	J.D. POWER	Autovista Group	Provider of automotive data, analytics and industry insights for use in valuations, forecasts and repair estimates	ND	ND	ND
Aug-23	TRADEPENDING	snapcell	Automotive video marketing platform that helps car dealerships build trust and improve customer engagement	ND	ND	ND
Jul-23	NEXT COAST ETA	jaama	Developer of fleet management software designed to improve fleet operating efficiencies and enhance compliance management	ND	ND	ND
Jul-23	TEKION	FIVE64	Operator of an interstate and state vehicle registration solution provider platform	ND	ND	ND
Jun-23	Reynolds & Reynolds	AUTOVISION	Provider of DMS platform that aims to automate and optimize car buying, selling and vehicle inventory management for dealerships	ND	ND	ND
May-23	DealerBuilt	Oplagic	Offers an AI-driven dealership CRM platform designed to help clients streamline their customer tracking, sales, and financing	ND	ND	ND
May-23	getaround	HyreCar	Peer-to-peer car-sharing marketplace that allows car owners to rent their idle cars to ride-sharing service drivers	\$10	0.2x	NM
May-23	DURA SOFTWARE	oxlo	Provider of automotive retail software solutions for OEMs, car dealerships, and dealer software providers	ND	ND	ND
May-23	e-Emphasys	CDK GLOBAL (Heavy Equipment)	Offers an integrated DMS designed to help heavy equipment and industrial machinery clients optimize their business operations	ND	ND	ND
Apr-23	miOVISION	OPTICOM	Offers an AI-based traffic control and sensing system, including SaaS for businesses in the traffic management industry	\$107	2.7x	ND
Apr-23	Reynolds & Reynolds	DealerCorp	Offers dealers digital retailing software solutions such as desking, F&I and inventory management	ND	ND	ND
Feb-23	COX AUTOMOTIVE	FleetNet America	Offers vehicle diagnostics, predictive maintenance scheduling and digital repair management for fleets	\$100	ND	ND

SELECT 2023 FUNDRAISING TRANSACTIONS

(Amounts in Millions)

DATE	INVESTOR	TARGET	TARGET DESCRIPTION	AMOUNT RAISED
Sep-23	 WAVECREST GROWTH PARTNERS	 cardata	Developer of vehicle reimbursement software designed to help corporate fleet managers	\$100
Sep-23	 FM CAPITAL	 norbee	Developer of marketing software designed to streamline and automate automotive dealership digital marketing	\$4
Sep-23	 BDT&MSD	 Equipment Share	Developer of a fleet management platform intended to serve contractors and OEMs	\$150
Aug-23	 Hobman ENTERPRISES	 VINCUE	Developer of a digital inventory platform intended to assist dealerships with pricing, marketing and sourcing	ND
Aug-23	 Morgan Stanley INVESTMENT MANAGEMENT	 INRIX	Provider of transportation analytics and connected car services for municipalities	\$70
Aug-23	Undisclosed	 WRENCH	Developer of an on-demand, on-site vehicle maintenance and repair service platform designed to make car repair hassle-free	\$14
Jul-23	 Canaan	 clutch	Developer of a car buying platform intended to offer a selection of cars at competitive prices	\$8
Jul-23	 IFC	 COBLI	Provider of corporate vehicle tracking technology intended to increase fleet efficiency	\$20
Jul-23	Undisclosed	 fluidtruck	Developer of a peer-to-peer truck-sharing application designed to offer mobile access to a wide array of trucks, vans and SUVs	\$18
Jun-23	 ELEPHANT	 Fleetio	Offers centralization of information and provides additional features from streamlining the process of ordering and purchasing fleet supplies to contact and fuel management	\$145
Jun-23	 INSIGHT PARTNERS	 BESTPASS	Offers a comprehensive payment platform with a focus on toll management for commercial fleets of all sizes	ND
May-23	 OPENVIEW	 PartsTech	Offers a web-based auto parts ordering platform designed to help mechanics and repair shops find and order the right parts	ND

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