S&P CAPITAL IQ
McGRAW HILL FINANCIAL

2013 Best on the Street Equity Analysts Perspectives

Six S&P Capital IQ™ analysts, recognized by the Wall Street Journal, showcase what makes their stock-picking skills Best on the Street.

Since 2002, when S&P Capital IQ started participating in the Survey, S&P Capital IQ analysts have been recognized as among the best in their fields 93 times. In fact, S&P Capital IQ has placed in the top 10 for eight of the last eleven years and analysts have been recognized in almost every sector.

Every year, the Wall Street Journal announces the results of its Best on the Street analysts survey*, and we are very pleased to have six members of our Equity Research team mentioned. Every day, S&P Capital IQ Equity Analysts provide insightful, actionable research on thousands of companies in almost every industry. This compilation represents recent insights from each of the analysts recognized.

JOSEPH AGNESE

FOOD RETAILERS VIE FOR CALIFORNIA 2

[3/20/13] Competition in California's giant retail food market will escalate in the next few years, S&P Capital IQ believes, with low-priced and specialty competitors targeting the market for expansion.

STUART BENWAY, CFA

INVESTING INSIDE THE BOX BIZ 4

[5/1/13] Cardboard boxes might seem like mundane products, but they are part of a very large industry in North America, one for which S&P Capital IQ believes prospects are quite promising.

JIM CORRIDORE

AIRLINE STOCKS SEEN TAKING OFF 6

[5/15/13] S&P Capital IQ has a positive fundamental outlook on the U.S. airline industry. Airline executives have significantly shifted their strategies away from a market-share-at-all-costs mentality...

EFRAIM LEVY, CFA

AUTO INDUSTRY REVVING UP 8

[5/8/13] S&P Capital IQ's fundamental outlook for the automobile and parts manufacturers industry is positive.

JAMES MOORMAN, CFA

SMALL CELLS COULD MEAN BIG GROWTH 9

[4/29/13] Small cells are quickly becoming the hot topic in wireless as seamless wireless communication becomes an important part of our lives. As the deployment of 3G and 4G networks has dramatically increased over the past several years, mobile operators are finding it increasingly difficult to maintain peak capacity requirements.

EXPOSURE TO LTE NETWORK AND WIRELESS DATA GROWTH THROUGH ETFS 11

[2/25/13] Our fundamental outlook for the wireless telecommunications sub-industry for the next 12 months is neutral, as we believe major wireless service providers in developed countries will have stable cash flows despite high wireless market penetration in their territories.

CHRISTOPHER MUIR

GAS AND MULTI-UTILITIES FACE EARNINGS PRESSURE 13

[4/8/13] So far in 2013, utilities have outperformed the S&P 500. The year-to-date (through April 8) total return (dividends not reinvested) for the S&P 500 Utilities Sector Index was 15.2% versus a total return of 10.8% for the S&P 500 Index.

Survey rankings are based on the equity analysts' stock picking skills for stocks ranked in S&P Capital IQ's STock Appreciation Ranking System that trade on major U.S. exchanges. Survey rankings are not based on research articles. The analysts recognized by The Wall Street Journal were among the top three analysts with the best performance for the prior calendar year in its 2013 "Best on the Street" Analysts Survey in each of 44 industries, based only on stock-picking skill in the prior calendar year. The data were assembled by FactSet Research Systems Inc., a Norwalk, Conn. company that tracks analysts' recommendations and their earnings estimates. FactSet identified more than 2,300 analysts at about 200 firms who qualified for inclusion in the survey. Past performance is not indicative of future results and will vary from year to year. S&P Capital IQ's equity research analysts have been included in The Wall Street Journal's "Best on the Street" equity research surveys since 2002. In that time, the number of categories in which S&P Capital IQ's equity analysts have been recognized, by measurement year, is: 2012—7, 2011—6, 2010—10, 2009—5, 2008—22, 2007—9, 2006—4, 2005—8, 2004—7, 2003—1, and 2002—14. For more information about past rankings please contact S&P Capital IQ.

CONTACT US

1 877 219 1247

SPCAPITALIQBESTONTHESTREET.COM

Food Retailers Vie for California

3/20/13

Joseph Agnese is a senior industry analyst in S&P Capital IQ Equity Research. He is responsible for analytical coverage of the food distributors, food and drug retail, general merchandise stores, hypermarkets & super centers, publishing and advertising industries. He writes research reports and investment briefs for S&P Capital IQ's MarketScope Advisor. The Wall Street Journal selected him three times as a top supermarkets & drugstores analyst in its "Best on the Street" survey.

Joseph began his career at S&P Capital IQ in 2000, following the commercial and consumer services industry. In total, he has followed over 100 companies, including coverage of employment services, tax preparation services, diversified manufacturing, educational services, corporate identity services, transportation services, and select services to health care companies and the previously mentioned industries.

Joseph is a graduate of the State University of New York at Binghamton, and holds an MBA from Adelphi University. Prior to his MBA work, he was employed as a mutual fund accountant at JP Morgan Chase & Co. He is currently pursuing his Chartered Financial Analyst (CFA) designation.

Competition in California's giant retail food market will escalate in the next few years, S&P Capital IQ believes, with low-priced and specialty competitors targeting the market for expansion. As a result, existing retailers are aiming to boost customer allegiance by developing loyalty card programs and improving the in-store shopping experience. California represents a significant market not only for the two largest traditional retail food chains, Kroger (KR 32 ***) and Safeway (SWY 25 **), but also the two largest specialty chains, Whole Foods Market (WFM 86 ***) and Trader Joe's.

The nation's two largest dollar store chains, Dollar General (DG 49 ****) and Family Dollar (FDO 58 ****), are targeting California for expansion in 2013. Although dollar stores only generate about $1.5 million in average annual sales per store compared with $25 million for a traditional supermarket, multiple dollar stores can be located in an area served by a single supermarket, siphoning market share from nearby competitors. With dollar stores striving to grow traffic through the addition of items such as food and beauty aids, a significant shift in product mix has occurred over the past five years. As a result, consumables now make up more than two-thirds of Family Dollar and Dollar General sales, versus less than 50% previously.

Dollar General, in particular, is rolling out a new format it calls Dollar General Markets. At approximately 16,000 square feet, these stores are twice the size of its core Dollar General stores, which are usually about 7,500 square feet. While the company operates only about 100 of these stores (out of a 10,400 store base) and is only planning to open 20 new Dollar General Markets in 2013, we believe this new banner offers a longer-term opportunity to gain additional market share. We also see these stores primarily aimed at the California market as the company targets the state for significant expansion. In addition to typical Dollar General consumable offerings, the Dollar General Market banners we visited offered fresh produce and meat and a full wall of 40 coolers and freezers. Polished concrete flooring, wider isles, an LED display over produce, photo displays around the perimeter of the store and a green and yellow palette in the food section further support an improved shopping experience, in our view.

Key Takeaways

Despite new initiatives, we believe investors should be cautious about traditional food retail stocks.

POSITIVE IMPLICATIONS

FAMILY DOLLAR [FDO]

DOLLAR GENERAL [DG]

NEGATIVE IMPLICATIONS

KROGER [KR]

SAFEWAY [SWY]

The recommendations contained in this Takeaway box are current, and may have changed since the original story was published.

We see traditional food retailer competition in California intensifying as non-traditional competitors increasingly target both lower-income demographics and higher income demographics. While dollar store and supercenter expansions are aimed at lower and middle-income rural demographics, warehouse clubs and specialty operators are focused on higher income demographics. Whole Foods Market, the largest natural and organic food chain operator in the U.S., targets more educated customers. Its

All views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. For important regulatory information, please go to www.standardandpoors.com and click on Regulatory Affairs & Disclaimers. Copyright© 2013 Standard & Poor's Financial Services LLC, a wholly owned subsidiary of McGraw Hill Financial. All rights reserved.

largest exposure is to California with more than 20% of its 330 domestic stores located in the state. Likewise, Trader Joe's, a specialty food operator typically found in higher income areas, has more than 175 locations in California. We believe traditional food retailers in California will increasingly find themselves competing more directly against specialty food operators such as Whole Foods Market in addition to the dollar stores as they look to differentiate their offerings to improve customer loyalty.

At a recent analyst meeting, Safeway laid out a three-pronged strategy to help the company protect and gain market share. The three prongs include its digital customer loyalty program, retail gas partnerships, and a wellness initiative. The company believes these initiatives could eventually generate a comparable store sales increase of 2% each, or 6% in total. However, the initiatives are currently at different stages of development: while implementation of its digital loyalty card program and fuel partnerships are underway, the wellness initiative is planned to roll out in the second half of 2013.

To improve customer loyalty, Safeway developed a digital program called "Just for U." We believe this program will help the company improve customer loyalty by allowing the company to better identify and target more relevant products for promotions. For example, Safeway can drive both additional spending and trips to its stores by notifying customers of discounts on sought after products based on a customer's prior shopping behavior. In this way, we believe the loyalty card will help the company conceal its pricing strategy from low cost competition. However, we are skeptical of the company's ability to attract new customers or gain share of wallet from less loyal customers, who are less likely to use the program.

Safeway is also in the process of signing partnerships with retail fuel operators to offer discounts to consumers across its chain for shopping with their loyalty cards. Included in the partnerships is a cross promotional agreement where Safeway banners are displayed at gas stations. Due to consumers' sensitivity to gasoline prices, we believe the company will be successful in increasing trips and basket size in the intermediate term by promoting fuel rewards through utilizing its customer loyalty program.

However, while we view customer loyalty programs and digital partnerships favorably as defensive strategies, we believe traditional retailer margins will increasingly be pressured in California as low-priced, non-traditional competition increasingly targets California's markets for expansion.

JOSEPH AGNESE
S&P Capital IQ Equity Analyst

S&P CAPITAL IQ
McGRAW HILL FINANCIAL

FOR ILLUSTRATIVE PURPOSES ONLY. THE ANALYSTS VIEWS AND RANKINGS MAY HAVE CHANGED SINCE THIS ARTICLE WAS PUBLISHED.

CLICK TO PLAY

Stuart Benway joined the S&P Capital IQ Equity Research Department in 2005. He is a senior industry analyst and associate group head following paper, forest products, packaging, and other industrial companies. Before joining S&P Capital IQ, Stuart worked for 12 years as a sell-side analyst at Swiss American Securities, a unit of Credit Suisse, following pharmaceutical, financial, and industrial companies. He started his securities analyst career at Value Line, where he followed a diverse group of stocks.

Stuart earned a BS in Mechanical Engineering from the University of Vermont and an MBA in Finance from Golden Gate University. He has also earned the Chartered Financial Analyst designation and is a member of the CFA Institute and the New York Society of Securities Analysts.

Investing Inside the Box Biz

5/1/13

Cardboard boxes might seem like mundane products, but they are part of a very large industry in North America, one for which S&P Capital IQ believes prospects are quite promising. Consolidation in the containerboard industry is creating a favorable supply situation, by our analysis. The top four producers of containerboard now control 73% of total industry capacity, up from 57% in 2007, according to Pulp & Paper Week a trade publication. This consolidation in the industry is resulting in improved industry data, we think. For instance, containerboard inventories at mills and box plants peaked in February 2012 at 4.6 weeks of supply but have been trending down since then and hit a low in September 2012 of 3.4 weeks before rising in recent months reflecting normal seasonal patterns. Inventories in March 2013 were at 3.9 weeks of supply, down from 4.2 a year earlier. Pricing has also risen lately. From the spring of 2010 through the fall of 2012, prices for linerboard were stable at about $640 per ton. But in November of last year, prices were increased to $690 per ton and another $50 per ton increase is being implemented for April. We think these favorable conditions will persist in the industry for some time.

All of this came about because there have been two major deals over the past two years that have led to significant concentration in the industry. On June 6, 2011, International Paper (IP 46 ***) announced a hostile bid to acquire Temple-Inland after its friendly moves to take over the company were rebuffed. Initially, the management of Temple-Inland was not in favor of a combination with IP, as it believed staying independent would create the most long-term value for the company's shareholders. The company had been taking steps to improve its corrugated box plants in an effort to generate higher earnings and a higher stock price. However, on September 6, 2011, after several rounds of negotiations, IP clinched the deal to acquire Temple-Inland for total consideration of $4.3 billion. The deal was completed on February 13, 2012.

Key Takeaways

Consolidation in the containerboard industry bolsters our outlook for 2013 and beyond..

POSITIVE IMPLICATIONS		
PKGING CORP AMER.	★★★★☆	[PKG]
ROCK-TENN 'A'	★★★★☆	[RKT]

The recommendations contained in this Takeaway box are current, and may have changed since the original story was published.

An earlier major acquisition closed in late May 2011, when Rock-Tenn (RKT 97 ****) completed the purchase of Smurfit-Stone Container for more than $5 billion, including the assumption of debt and pension liabilities. Prior to its acquisition, Smurfit-Stone was the second-largest producer of linerboard in North America, but had a history of poor financial performance. Rock-Tenn was the eighth-largest linerboard producer. The new company, with a linerboard market share of about 20% in North America, will now be second to industry leader IP, which has a market share of over 35% after its acquisition of Temple-Inland.

We believe these moves are an indication of the relative health of this industry. Some grades of paper, most notably newsprint, but also uncoated free sheet (also known as office paper) and other print categories, are seeing falling demand due to the increased use of technology. New forms of communication are replacing paper in many applications, and we do not expect to

CONTACT US

1 877 219 1247

SPCAPITALIQBESTONTHESTREET.COM

All views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. For important regulatory information, please go to www.standardandpoors.com and click on Regulatory Affairs & Disclaimers. Copyright© 2013 Standard & Poor's Financial Services LLC, a wholly owned subsidiary of McGraw Hill Financial. All rights reserved.

see a reversal in this trend in those grades. In contrast, the corrugated packaging industry has not been hurt by these trends; in fact, demand for packaging has increased in some cases. For example, as more people use the Internet to buy products, most of which are shipped in corrugated containers, an increase in online shopping has helped, rather than hurt, the corrugated packaging sector. Industry shipment data show how demand patterns vary among the various grades. For example, in 2012, according to data from the American Forest & Paper Association, production of newsprint declined 3.0% to 3.17 million tons and output of printing and writing papers (about half of which is uncoated free sheet) fell 4.6% to 18.57 million tons. In contrast, production of containerboard increased 0.6% to 34.37 million tons.

Major producers of containerboard include Rock-Tenn, Packaging Corp. of America (PKG 47 ****), IP, and GeorgiaPacific (privately owned by Koch Industries).

S&P Capital IQ has a buy opinion on Rock-Tenn because we expect earnings momentum to accelerate in coming quarters due to modestly rising demand, higher prices, and further significant cost reductions.

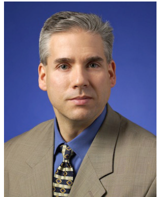
Packaging Corp. of America garners a buy opinion from S&P Capital IQ because we expect market conditions to remain favorable in coming quarters, with demand trending higher while prices remain elevated. In our view, PKG has a better cost position than most of its peers, and we think it will remain solidly profitable. Its energy costs should show more stability now that its program to become largely energy self-sufficient has been completed. We believe the shares are attractively valued.

STUART BENWAY , CFA
S&P Capital IQ Equity Analyst

Airline Stocks Seen Taking Off

CLICK TO PLAY

5/15/13



Jim Corridore is a senior associate director covering the Airline, Air Freight and Logistics industries for the S&P Capital IQ Equity Research Department. Jim is responsible for analyzing and making investment recommendations for stocks in these industries. His recommendations are disseminated through S&P Capital IQ Stock Reports, S&P Capital IQ's MarketScope Advisor, and The Outlook. In addition, Jim is responsible for an industry survey, covering the airline industry.

In 2006, 2008, 2009, 2010 and 2011, Jim was recognized in the Wall Street Journal's "Best on the Street" survey as one of the top airline industry stock pickers.

Prior to covering the transportation industry in August 2001, Jim served as a senior industry analyst covering portions of the technology industry, including computer hardware, peripherals, data processing, imaging, and electronic manufacturing services.

Jim joined S&P Capital IQ in 1988. and serves as the Associate Group Head for the industrials sector within the U.S. Equity Research Group. Jim is a graduate of the State University of New York at Albany, graduating Magna Cum Laude in 1987.

S&P Capital IQ has a positive fundamental outlook on the U.S. airline industry. Airline executives have significantly shifted their strategies away from a market-share-at-all-costs mentality, we think, and toward strategies geared toward earning a sustainable profit and a return on invested capital that more than covers the airlines' costs of capital. As a result of this strategy shift, the industry has fundamentally changed in ways that we think have somewhat reduced the high operating risk associated with the airline business.

Make no mistake, we still view the airline sector as a high-risk industry. Since 2000, there have been 60 bankruptcies in the industry. The industry remains a highly capital-intensive, cyclical one with a product that expires if it is not sold by the time the flight takes off. Airplanes are costly to buy and maintain, and customers tend to purchase the low-cost alternative even if you offer them a superior product.

However, following large scale industry consolidation that has significantly reduced industry capacity levels, and amid a change in strategy by airline industry to price the product for profitability and not to gain market share, we think the industry has become much healthier. After several years of profitability, U.S. airlines have generated a large amount of cash and are increasingly using that cash to pay down debt, buy back stock, and, in the case of Delta Air Lines (DAL 19 ****), initiate a $0.06 quarterly dividend in a move that we think sends a strong positive signal about the company and the industry's longer-term prospects.

With capacity tight and the U.S. economy recovering, we expect pent-up demand for business and leisure air travel to drive airfares higher. Also, even though customers hate ancillary fees like bag fees, ticket change fees, and fees for extra legroom, these fees have helped drive strong profits for the U.S. industry since they add revenue without much added cost. Oil prices, the industry's largest cost category, remain higher than historical levels, but have stayed below $100 a barrel. Entering the seasonally strong summer travel season with tight capacity and jet fuel prices likely to be slightly below last year, we think the industry should see good profitability this year.

Key Takeaways

Consolidation is making the airline industry more efficient, says S&P Capital IQ.

POSITIVE IMPLICATIONS

Company	Rating	Ticker
ALASKA AIR GROUP	★★★★☆	[ALK]
DELTA AIR LINES	★★★★☆	[DAL]
SOUTHWEST AIRLINES	★★★★☆	[LUV]
US AIRWAYS	★★★★☆	[LCC]

The recommendations contained in this Takeaway box are current, and may have changed since the original story was published.

We have buy recommendations on several airlines: Delta Air Lines, Southwest Airlines (LUV 14 ****), US Airways Group (LCC 19 ****), and Alaska Air Group (ALK 66 ****). Here's why we like each of them.

Delta completed the integration of its 2008 merger with Northwest Airlines and is generating a significant revenue premium to peers as a result. The airline generates strong cash from operations and paid down about $6 billion of debt in the past three years. The company recently announced a share repurchase program. While the shares trade above their peers on

CONTACT US

1 877 219 1247

All views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. For important regulatory information, please go to www.standardandpoors.com and click on Regulatory Affairs & Disclaimers. Copyright© 2013 Standard & Poor's Financial Services LLC, a wholly owned subsidiary of McGraw Hill Financial. All rights reserved.

the primary relative valuation metric we use, which is enterprise value to EBITDAR (EBITDA plus aircraft rent), we think this premium is warranted given the strong global network and unit revenue premium to peers the company has.

Southwest Airlines has been profitable for its entire operating history, a remarkable feat for a company in such a volatile industry. It has among the industry's lowest unit cost structures, which it achieves by running a very efficient network, employing better asset utilization than peers, and using a less costly point-to-point network instead of the hub and spoke model used by peers, according to S&P Capital IQ analysis. We think the company has the healthiest balance sheet among U.S. peers, with a debt to capital ratio of about 40%. Following the merger with AirTran in 2011, we think the company will be able to grow revenues faster by targeting more business travelers. The company has also made changes to its reservation system and added revenues by allowing customers to pay to board the plane early. We expect LUV to continue to increase revenue and profits over the next two years.

US Airways has long had a network disadvantage versus its larger network carrier peers. However, the company recently entered into a definitive merger agreement with the parent company of American Airlines, which is operating under Chapter 11 bankruptcy protection, which we think solves US Airways's international route network problem. The merger, which has been approved by the bankruptcy court but is still subject to regulatory approvals, would make the combined company the largest airline in the world, with a strong global route network and the opportunity for major revenue and cost synergies. We are positive on the merger, and also on the choice of US Airways Chairman Doug Parker to lead to combined entity, which will operate using the American Airlines name. While the merger integration will be complex, US Airways has already reached agreements with American's largest employee labor groups, which should help smooth the integration. We expect US Airways to be able to successfully close the merger, but like the company even on a standalone basis due to its below-peer-average unit costs.

Alaska Air Group has made great strides in reducing the seasonality of its business, in our view, and was strongly profitable in the first quarter of 2013. With its roots in Alaska, the company has historically has strong summer results and then struggled in the winter months, but over the past few years it has added flying in the Caribbean and Mexico and has reduced its seasonality markedly. It also has sharply lower debt levels than peers, and as a smaller airline than the rest, has been able to grow faster than peers. We expect ALK to continue to grow capacity faster than its peers, which should lead to above-average profit growth as well.

Risks to our recommendations include oil prices spiking sharply higher, as well as economic contraction that would reduce air travel demand among both leisure and business travelers. In addition, recent news of outbreaks of avian flu overseas could present a risk if these incidents led to travel restrictions. In the past, airlines have been exposed to geopolitical events that led to oil price spikes, as well as terrorism, and even volcanoes spewing ash - all affecting global travel. However, we think stronger U.S. airline balance sheets, sustained profitability, and a change in operating strategy have somewhat lowered the risk profile of the industry.

JIM CORRIDORE
S&P Capital IQ Equity Analyst

Auto Industry Revving Up

CLICK TO PLAY

Efraim Levy is an automotive senior industry analyst in the S&P Capital IQ Equity Research Department.

Since October 1997, Efraim has provided objective investment insight and buy/hold/sell recommendations on the stocks of about 30 consumer discretionary companies, including well known firms such as General Motors, Ford, Toyota, and Honda. In 2011, 2009 and 2008, Efraim was acknowledged by the Wall Street Journal as among "The Best on the Street" for his stock picking prowess in the Automobile Industry.

Efraim, who is a Chartered Financial Analyst (CFA), is frequently quoted by major news and media organizations, providing financial commentary and analysis. Prior to his appointment to his current position, Efraim served as a general equity analyst, primarily in the food, beverage, gaming & tobacco industries for four years.

Prior to S&P Capital IQ, he served as a Senior Mergers & Acquisitions Analyst at Investment Dealers Digest Information Services.

Efraim received a B.A. in Economics from Yeshiva University.

5/8/13

S&P Capital IQ's fundamental outlook for the automobile and parts manufacturers industry is positive. We see U.S. automotive demand trending higher, year-over-year. While we expect to see uneven geographic progress, including declines in Europe, we look for global demand to rise in 2013. Also, despite the risks we see, we predict steady improvement overall. Europe and its related risks and challenges are our biggest concerns, with General Motors (GM 32 ***) and Ford (F 14 ****) finding pressure in the troubled region. South America also looks likely to be a challenged area in 2013, including political issues in Argentina.

We estimate an increase to 15.4 million units in U.S. light vehicle sales for 2013 from about 14.4 million for 2012, as well as gains in most other regions. Positive factors we see in the U.S. include pent-up demand and widely available access to consumer credit. The average vehicle is now approximately 11 years old, an industry record. We believe range-bound gasoline prices are a positive for sales. Also many new and refreshed vehicle introductions and the desire for new in-vehicle technology should help attract consumers to dealerships, in our view.

Improved construction, housing, and contracting activity should boost truck sales in 2013, which should disproportionately help the American brands. Luxury vehicle sales, which were also restrained by economic weakness, should show gains, in our view, as wealthy consumers become more confident amid a rising stock market and economic growth.

Also, an easing of high raw material costs should benefit profit margins, although we expect prices to move higher in the longer term.

Rising prosperity in emerging markets, led by China, should drive global demand growth, partly offset by lower European demand due to difficulties in the region and expected declines in Japan.

We think higher volume in the U.S. and abroad versus 2012 will help corporate profits and cash flows. European difficulties, including competitive pressures, should be partly offsetting.

Key Takeaways

S&P Capital IQ has a positive fundamental outlook for the auto industry.

POSITIVE IMPLICATIONS

COOPER TIRE & RUBBER	★★★★☆	[CTB]
FORD MOTOR	★★★★☆	[F]
GOODYEAR TIRE & RBR	★★★★☆	[GT]
JOHNSON CONTROLS	★★★★☆	[JCI]
LEAR CORP	★★★★☆	[LEA]
MAGNA INTERNATIONAL	★★★★☆	[MGA]
TRW AUTOMOTIVE HLDG	★★★★☆	[TRW]

The recommendations contained in this Takeaway box are current, and may have changed since the original story was published.

Many auto parts suppliers are increasing their revenues generated outside the U.S. Emerging markets are becoming more attractive to parts manufacturers due to lower labor costs for manufacturing and engineering and/or growing demand in local and regional markets. Over time, we expect some domestic parts suppliers to increase penetration of import brands, which are shifting more of their production to the U.S.

We have buy opinions on Ford, Lear (LEA 60 ****), Magna International (MGA 63 ****), TRW (TRW 61 ****), Johnson Controls (JCI 36 ****), Goodyear Tire & Rubber (GT 13 ****), and Cooper Tire & Rubber (CTB 26 ****) due to the favorable environment we see for industry participants and what we view as attractive valuations.

EFRAIM LEVY, CFA
S&P Capital IQ Equity Analyst

All views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. For important regulatory information, please go to www.standardandpoors.com and click on Regulatory Affairs & Disclaimers. Copyright© 2013 Standard & Poor's Financial Services LLC, a wholly owned subsidiary of McGraw Hill Financial. All rights reserved.

Small Cells Could Mean Big Growth

4/29/2013

James G. Moorman joined the S&P Capital IQ Equity Research Department in 2007. Jim is the Group Head for the Telecommunications and Utilities sectors. As an equity analyst, he covers a variety of telecommunication related stocks in the wireless telecommunications, communications equipment and networking groups. Additionally, covered companies are located in the U.S., Canada and Latin America. Jim was named to The Wall Street Journal's "Best On The Street" for stock-picking in the wireless sector for his 2008 performance.

Previously, Jim was a hedge fund analyst following companies across all sectors within the technology segment, including hardware, software, semiconductors, semiconductor equipment, telecom and others. Before that, he was a senior analyst covering telecommunications at Prudential Equity Group, where he was ranked #2 in stock-picking by Forbes and StarMine. Prior to that, he was a Latin America and U.S. beverage analyst at Deutsche Bank Securities.

Jim received a B.S. in Business Administration from the University of Delaware and an MBA from the University of Florida. He is a Chartered Financial Analyst.

Small cells are quickly becoming the hot topic in wireless as seamless wireless communication becomes an important part of our lives. As the deployment of 3G and 4G networks has dramatically increased over the past several years, mobile operators are finding it increasingly difficult to maintain peak capacity requirements. This is further exacerbated by the rapid adoption of smartphones, tablets and mobile broadband devices, which require higher speeds to support applications such as Internet video downloads, peer-to-peer networking, streaming video and M2M communications. Macrocell sites and increased spectrum availability alone cannot always fill the void in the most densely populated areas where mobile data usage is the greatest. The solution is the implementation of small cells.

Small cells are low-power miniature versions of cellular base stations, with a range of between 10 meters (for femtocells) to two kilometers (for microcells). With small cells, service providers can offer better voice quality and higher data performance, while using spectrum more efficiently. These cells, which multiply the data capacity of the macro network at very low cost, allow operators to meet the increasing demand for mobile data. Service providers can provide premium quality mobile signals to locations such as indoor environments, and remote outdoor locations, for which macro cells are not suitable.

IDC believes that over time, the number of small cells will far outnumber macrocells, eventually exceeding the 10 small cell-to-macrocell ratio cited by vendors and operators. Deployments, however, will vary by region, with operators in the Asia/Pacific region already under way in small cell deployments, and North American and European operators now beginning to focus more closely on developing small cell strategies.

However, we do not view small cells as macrocell replacements, but as complements. Small cells are very important for congested high traffic areas where it is not feasible to put in a macro site. Some examples include university campuses, sports stadiums, theme parks and highly populated cities. Crown Castle has a DAS (distributed antenna system) network in the French Quarter in New Orleans that is disguised as lamp posts. We believe that small sites will be called on to fill in gaps more and more as data traffic begins to explode over the next several years. Below are some of the companies we cover and their involvement in the small cell arena:

Key Takeaways

We expect strong growth in small cell deployment as wireless data traffic explodes.

POSITIVE IMPLICATIONS

Company	Stars	Ticker
AT&T INC	★★★☆☆	[T]
CISCO SYSTEMS	★★★★☆	[CSCO]
CROWN CASTLE INTL	★★★★★	[CCI]
QUALCOMM INC	★★★★★	[QCOM]

The recommendations contained in this Takeaway box are current, and may have changed since the original story was published.

Crown Castle (CCI 77 *****). Crown Castle increased its exposure to the DAS and small cell market by acquiring New Path Networks in September 2010. In April 2012, the company closed the acquisition of NextG Networks for $1B. At the time of the acquisition, NextG was the largest U.S. provider of outdoor DAS with nearly 75% of NextG nodes in the 10 largest metropolitan areas in the U.S. Crown Castle now

All views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. For important regulatory information, please go to www.standardandpoors.com and click on Regulatory Affairs & Disclaimers. Copyright© 2013 Standard & Poor's Financial Services LLC, a wholly owned subsidiary of McGraw Hill Financial. All rights reserved.

has over 10,000 sites in operation, and we expect CCI to spend roughly $150 million on new site construction in 2013, with most of that amount on small cells. We believe the DAS strategy will pay dividends as data consumption increases and service providers look to expand capacity. Although DAS sites tend to have 1/3 the coverage and economics of a traditional macro cell site, they can be placed in areas where traditional cells cannot -- such as areas that receive heavy traffic. Crown Castle expects the DAS business to account for 20% - 25% of business going forward.

AT&T (T 37 ***). AT&T in November 2012 announced its Project Velocity IP, or VIP. The wireless portion of VIP includes building out 300 million LTE POPs by the end of 2014. Importantly, VIP also calls for the densification of the wireless grid through 10,000+ new macro cell sites, over 1,000 DAS sites and 40,000+ small cells over three years. Over 50% of the densification plan will use small cell technology by 2015 and will improve spectrum efficiencies and in-building coverage. The company plans to start general small cell deployment in early 2014 with 3G UMTS and HSPA+ and then upgrade to LTE and Wi-Fi in 2014. We believe that there will be a number of similar announcements by operators to keep pace with increasing capacity requirements.

Qualcomm (QCOM 62 *****). In August 2012, Qualcomm announced its acquisition of DesignArt Networks, a designer of small cell modems and systems for cellular base stations and high-speed wireless backhaul infrastructure. The Israel-based company provides system-on-chip (SoC) and software products for indoor and outdoor small cell base stations and remote radio heads. IDC believes that with this acquisition Qualcomm can position itself in the small cell backhaul market and integrated base station chip solutions in anticipation of increased small cell deployments.

Cisco Systems (CSCO 21 ****). In February 2013, at the Mobile World Congress in Barcelona, Cisco announced that it would be offering small cell solutions on a standalone basis and in combination with Cisco's portfolio of Wi-Fi access points harnessing and managing intelligence around small cells to provide a software-oriented focus. Cisco introduced three small cell products that include the 3G Small Cell module for Cisco Aironet Access points and the ASR 901S, which aids in backhaul. The small cells are Wi-Fi compatible, and we believe Cisco's high existing share in the Wi-Fi market will help with adoption. Cisco recently announced plans to purchase privately owned Ubiquisys for $310 million. Ubiquisys focuses on cloud-based network management system CloudBase, which enables operators to deliver software to thousands of small cells automatically. The deal is expected to close by the end of July 2013.

Overall, we expect small cells to be a rapidly expanding segment of the wireless industry over the next three to five years. We believe that hockey-stick like growth in wireless data will leave wireless carriers scrambling for capacity in metropolitan areas and other areas that do not have the space for a macro site. Again, we see small cells as a complement to macro sites and not a substitute.

JAMES MOORMAN, CFA
S&P Capital IQ Equity Analyst

Exposure to LTE Network and Wireless Data Growth through ETFs

2/25/2013

James G. Moorman joined the S&P Capital IQ Equity Research Department in 2007. Jim is the Group Head for the Telecommunications and Utilities sectors. As an equity analyst, he covers a variety of telecommunication related stocks in the wireless telecommunications, communications equipment and networking groups. Additionally, covered companies are located in the U.S., Canada and Latin America. Jim was named to The Wall Street Journal's "Best On The Street" for stock-picking in the wireless sector for his 2008 performance.

Previously, Jim was a hedge fund analyst following companies across all sectors within the technology segment, including hardware, software, semiconductors, semiconductor equipment, telecom and others. Before that, he was a senior analyst covering telecommunications at Prudential Equity Group, where he was ranked #2 in stock-picking by Forbes and StarMine. Prior to that, he was a Latin America and U.S. beverage analyst at Deutsche Bank Securities.

Jim received a B.S. in Business Administration from the University of Delaware and an MBA from the University of Florida. He is a Chartered Financial Analyst.

Our fundamental outlook for the wireless telecommunications sub-industry for the next 12 months is neutral, as we believe major wireless service providers in developed countries will have stable cash flows despite high wireless market penetration in their territories. We expect several mergers to close in mid-2013 that will drive increased investment in LTE networks. We believe the tower providers, with their stable earnings model, will benefit from increased LTE investment and fare best in the near term.

Year to date through February 22, the S&P Wireless Telecom Services Index rose 0.4%, versus a 6.5% increase for the S&P 1500 Composite Index. We believe the sub-industry will keep pace with the broader market in the coming months.

We believe carriers will actually increase prices for data to offset declining voice prices in the U.S. wireless market. Also, there are increasing differences among the four national wireless carriers. In the fourth quarter, Verizon Wireless, part of a larger integrated telecom carrier, outperformed AT&T (T 36 ***) in terms of postpaid net additions, as both carriers saw a resurgence in smartphone sales with the launch of the iPhone 5.

AT&T ended its plans to merge with T-Mobile USA, which would have reduced the four national carriers to three. Consolidation has heated up again, however, as T-Mobile USA has reached an agreement to merge with MetroPCS (PCS 10 ***). Also, Japanese carrier SoftBank has reached a deal to acquire roughly 70% of Sprint Nextel (S 6 ****). In our view, these new companies will spend heavily on their LTE networks once the deals close to better compete with AT&T and Verizon (VZ 46 ***). We expect Verizon and AT&T to spend on their networks as well, to maintain their lead. While the increased spending could have a slight negative impact to their balance sheets, we expect the carriers to benefit in the long-term from higher wireless data revenue. We also believe the pending deals could lead to potentially smaller deals in the future, as well as continued spectrum deals and swaps as carriers seek more spectrum to build out their networks.

Key Takeaways

We expect increased LTE network spending to drive higher wireless data growth.

POSITIVE IMPLICATIONS

Company	Rating	Ticker
AT&T INC	★★★☆☆	[T]
CROWN CASTLE INTL	★★★★★	[CCI]
SBA COMM. 'A'	★★★★☆	[SBAC]
SPRINT NEXTEL CORP	★★★☆☆	[S]
VERIZON COMM.	★★★☆☆	[VZ]
ISHARES DJ TELECOM	MARKETWEIGHT	[IYZ]
VANGUARD TELECOM	MARKETWEIGHT	[VOX]

The recommendations contained in this Takeaway box are current, and may have changed since the original story was published

While EBITDA and net earnings increased in the low single digits in 2012, compared to their historical double digit rates, we believe the focus of many carriers is on free cash flow to invest in advanced technologies, especially LTE. The counterbalance in ARPU (average revenue per user) has been the strong growth in data services.

We believe the FCC could be getting closer to auctioning off spectrum in the near future. We see most carriers focused on building out their next-generation 4G LTE networks. We expect most carriers to spend on their networks through 2013, enabling them to offer much faster

CONTACT US

1 877 219 1247

All views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. For important regulatory information, please go to www.standardandpoors.com and click on Regulatory Affairs & Disclaimers. Copyright© 2013 Standard & Poor's Financial Services LLC, a wholly owned subsidiary of McGraw Hill Financial. All rights reserved.

mobile Internet speeds when the projects are completed.

We believe that investors looking to take advantage of the spending trend and wireless data growth can do so through exchange traded funds (ETFs). On MarketScope Advisor, the iShares Dow Jones U.S. Telecommunications Sector Index Fund (IYZ 24 Marketweight) has roughly 18% of its holdings in Wireless Telecommunication stocks. In particular, the fund has significant exposure to wireless tower providers Crown Castle Corp (CCI 71 *****) and SBA Communications (SBAC 71 ****), as well as service provider Sprint Nextel; all three are top ten holdings. IYZ carries a Marketweight ETF ranking based on a combination of S&P Capital IQ Equity Research's performance, risk and cost metrics. We believe IYZ has above-average cost factors and a relatively average expense ratio of 0.47%, an above-average S&P risk assessment, and above-average standard deviation.

Another ETF with significant exposure to wireless is the Vanguard Telecommunication Services Index Fund; ETF Shares (VOX 72 Marketweight). This fund has roughly 15% exposure to Wireless Telecommunication Services, and the top ten holdings include S&P Strong Buy-ranked Crown Castle and Buy-ranked SBA Communications and Sprint Nextel. The fund has a Marketweight ETF ranking based on a combination of S&P Capital IQ's Equity Research's performance, risk and cost metrics. We believe VOX has an above-average expense ratio of 0.14%, above-average S&P risk assessment and above-average standard deviation.

JAMES MOORMAN, CFA
S&P Capital IQ Equity Analyst

Gas and Multi-Utilities Face Earnings Pressure

Christopher B. Muir joined the S&P Capital IQ Equity Research Department in 2005. He covers gas utilities,multi-utilities and independent power producers. Until October 2006, he covered regional banks for S &P Capital IQ's U.S. Equity Research. Prior to joining, Christopher was a fixed income analyst at ABN AMRO, where he analyzed investment grade debt of consumer product companies for two years, and was a sell-side Analyst at UBS Warburg/ PaineWebber, Inc. analyzing equities in the Electric Utility sector for six years.

Christopher serves on the S&P Capital IQ Senior Portfolio Committee. He also has participated in the development and improvement of S&P Capital IQ's ETF reports product.

Christopher graduated cum laude with a bachelor's degree in business administration with concentrations in both finance and accounting from the University of Vermont. He received the Malcolm F. Severance Award for excellence in the field of finance at the university.

04/08/2013

So far in 2013, utilities have outperformed the S&P 500. The year-to-date (through April 8) total return (dividends not reinvested) for the S&P 500 Utilities Sector Index was 15.2% versus a total return of 10.8% for the S&P 500 Index. Mixed economic indicators have lifted the more defensive sector index faster than the broader index through the first quarter. Meanwhile, the Capital IQ consensus 2013 earnings estimate for Utilities is indicating a slight increase of 0.6%, versus an expected rise of 7.4% for the S&P 500.

However, we believe the expected small increase in the sector's earnings is simply due to an anticipated return to more normal (cooler) summer weather, rather than a structural problem within the sector. Hot summer weather in 2012 boosted demand for electricity to power air conditioners. As a result, the comparisons for 2013 are not a negative for the Utilities sector, in our view, and rather simply reflect expectations for more normal summer temperatures. For utilities with significant amounts of uncontracted and unhedged generation, relatively low and stable electric prices are also eating into margins.

Peak power prices are typically determined by the cost of the most expensive unit to transmit power into the grid. The low natural gas prices of the past year have helped to keep power prices in check. We expect natural gas prices to remain under some pressure throughout the rest of 2013. Current working gas in storage was 1,687 billion cubic feet (Bcf) on April 5. This compares to 2,472 on April 6, 2012, 1,599 Bcf on April 8, 2011, and a ten-year average of 1,481 Bcf. The previous record amount of working gas in storage for that time of year was 1,719 Bcf, so the current amount in storage, while far below last year's record, is still well above what we believe to be a normal level for this time of year, likely meaning that gas prices will remain relatively low for the near future.

While a much smaller component of the Utilities sector, gas utilities also face some earnings pressure as a result of exposure to natural gas prices through trading & marketing, exploration & production, and natural gas storage. Earnings from natural gas marketing businesses have declined as a result of lower volatility in prices due to a glut of natural gas in the U.S. As a result of the glut, natural gas storage spreads have also declined dramatically.

Key Takeaways

We see gas and multi-utilities facing earnings pressure as a result of a return to more normal weather.

POSITIVE IMPLICATIONS

UTILITIES SELECT SECTOR SPDR FUND	MARKETWEIGHT	[XLU]

The recommendations contained in this Takeaway box are current, and may have changed since the original story was published.

Natural gas storage spreads represent the price at which gas is taken out of storage, usually from April through October for higher prices, versus when the gas is put into storage, usually from November through March for lower prices. The warm temperatures last summer resulted in end of injection season storage levels for natural gas reaching record levels. However, lower temperatures this winter, higher usage of gas by electric power producers and lower production levels have all helped to erode some of the storage inventories.

Despite these gas related headwinds, earnings from most traditional regulated utility companies

CONTACT US

1 877 219 1247

SPCAPITALIQBESTONTHESTREET.COM

All views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. For important regulatory information, please go to www.standardandpoors.com and click on Regulatory Affairs & Disclaimers. Copyright© 2013 Standard & Poor's Financial Services LLC, a wholly owned subsidiary of McGraw Hill Financial. All rights reserved.

benefit from rate increases that are driven by capital investments in plant and equipment, higher customer counts, and cost-cutting measures. Additionally, in most cases, Utilities sector earnings from the traditional utility businesses far outweigh the earnings from non-utility businesses. As a result, Utilities sector earnings growth is more stable, but lower, than most other sectors. Helped by steady earnings growth and reliable cash flows, we see utilities attracting investors with a higher-than-market-average yield.

We think investors looking to invest in a diversified group of utilities can do so through exchange-traded funds (ETFs). According to S&P Capital IQ Equity Research, the Utilities Select Sector SPDR Fund (XLU 40 Overweight) had 99.3% of its holdings in Utilities sector stocks as of February 28, 2013. The ETF's recent top-10 holdings included mostly electric utilities such as Duke Energy (DUK 73 ***), Southern Co. (SO 47 ***), NextEra Energy (NEE 80 ****), Exelon Corp (EXC 35 ***), and American Electric Power (AEP 49 ***) but also included some multi-utilities such as Dominion Resources (D 60 ***) and PG&E Corp (PCG 47 ***). Electric utilities accounted for 57% of the fund's total holdings, while multi-utilities were 37% and independent power producers and gas utilities comprised 3% each. XLU carries an Overweight ranking from S&P Capital IQ, which is driven by a positive assessment of its risk considerations and cost factors. Its gross expense ratio is 0.18%.

CHRISTOPHER MUIR
S&P Capital IQ Equity Analyst

Disclaimers

Nothing contained within any document, advertisement or presentation from S&P constitutes an offer of services in jurisdictions where S&P does not have the necessary licenses. Assumptions, opinions and estimates constitute our judg•ment as of the date of this material and are subject to change without notice. S&P Capital IQ, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness or adequacy of this material, and S&P Parties shall have no liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of the information provided by the S&P Parties. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained in this document even if advised of the possibility of such damages. Capital IQ is a business of S&P Capital IQ.

Ratings from Standard & Poor's Ratings Services are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. Standard & Poor's assumes no obligation to update its opinions following publication in any form or format. Standard & Poor's ratings should not be relied on and are not substitutes for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. Standard & Poor's rating opinions do not address the suitability of any security. Standard & Poor's does not act as a fiduciary. While Standard & Poor's has obtained information from sources it believes to be reliable, Standard & Poor's does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P Capital IQ keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P Capital IQ may have information that is not available to other S&P Capital IQ business units. S&P Capital IQ has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

Standard & Poor's Ratings Services did not participate in the development of this report. Standard & Poor's may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. Standard & Poor's reserves the right to disseminate its opinions and analyses. Standard & Poor's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via Standard & Poor's publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only current as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material is not intended for any specific investor and does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

Additional information on the subject company may be available upon request.

Each S&P Cap IQ research report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Standard & Poor's or its affiliates to any registration or licensing requirements in such jurisdiction.

Additional disclosures and disclaimers can be found at http://www.standardandpoors.com/regulatory-affairs/equity-research/en/us.