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**Important Disclosures** can be found on Pg. 20—Appendix

Date February 15, 2018

## COMPANIES

Henry Schein, Inc. (HSIC)  
Patterson Companies (PDCO)  
Amazon.com, Inc. (AMZN)

## SECTOR

Health Care

## INDUSTRY

Dental Supplies

## LOCATION

United States

## TIMING OF RESPONSES

Early to Mid February

## RESPONDENTS (87 Total)

Solo Practice – Independent (61)

Single-site Group Practice (14)

Multi-site Group Practice (8)

Other (4)

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# Orinda Surveys

## Dental Supplies Survey

**Purpose:** Identify the key drivers behind Dentists' relationships with their primary suppliers. Identify dental supplies ordering patterns, market-share dynamics of suppliers and the outlook for suppliers; with a focus on various changing dynamics of online suppliers/retailers, particularly Amazon (opportunities and greatest impediments to share gains).

### Key takeaways

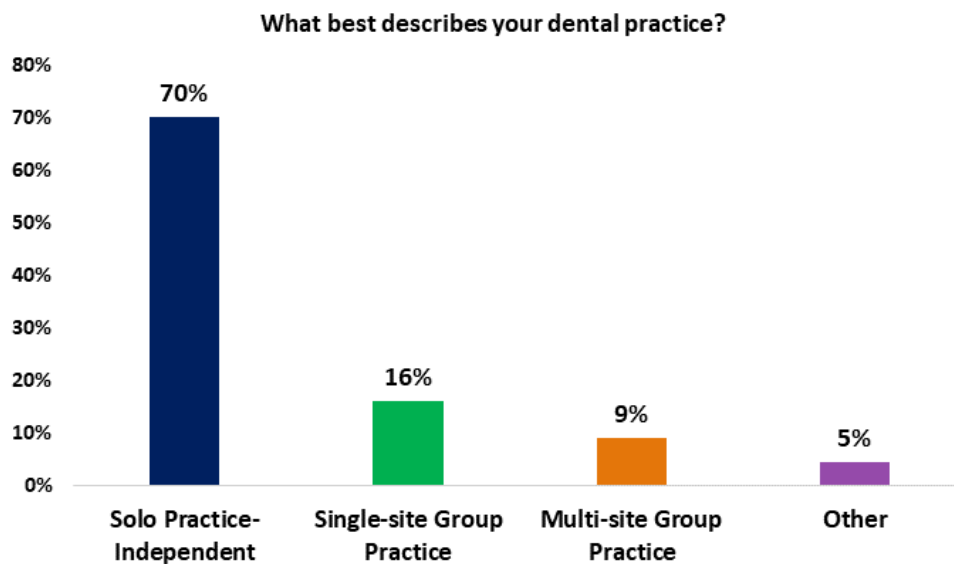
- Respondents most frequently chose Henry Schein as their primary supplier, followed by Patterson Dental. Henry Schein rated well across categories, but particularly for service, relative to other suppliers. Respondents cited pricing and service as what they value most from their primary supplier.
- Thirty-eight percent of respondents use Amazon Dental or other online retailers to order dental supplies. Amazon is the most widely used online retailer, but it makes up a smaller percentage of overall order share relative to the other online retailers (10% vs 21%).
- The biggest impediments of current online users, to shifting more of their business to online retailers, is (1) brand recognition, (2) a larger selection of supplies and (3) concerns with quality.
- Generally, non-online users would need to see a 24% price discount to get them to shift from their traditional suppliers to online retailers. Other than price, (1) greater availability/selection of supplies, (2) offering representatives with dental experience, and (3) fast delivery times or free shipping, were other important factors.
- Fifty-two percent of *online users* plan to spend more on online dental suppliers over the next 12 months (48% expect to spend the same level, 0% less).
- Online users expect to shift 20% of their dental supplies purchases away from traditional suppliers and to online retailers over the next 2 years.
- Roughly half of the non-online respondents said there are brands that Amazon and other online platforms could add that could cause them to move sales to those platforms.
- Dentists that get frequent and consistent visits are less apt to use online retailers for a portion of their dental supplies needs.

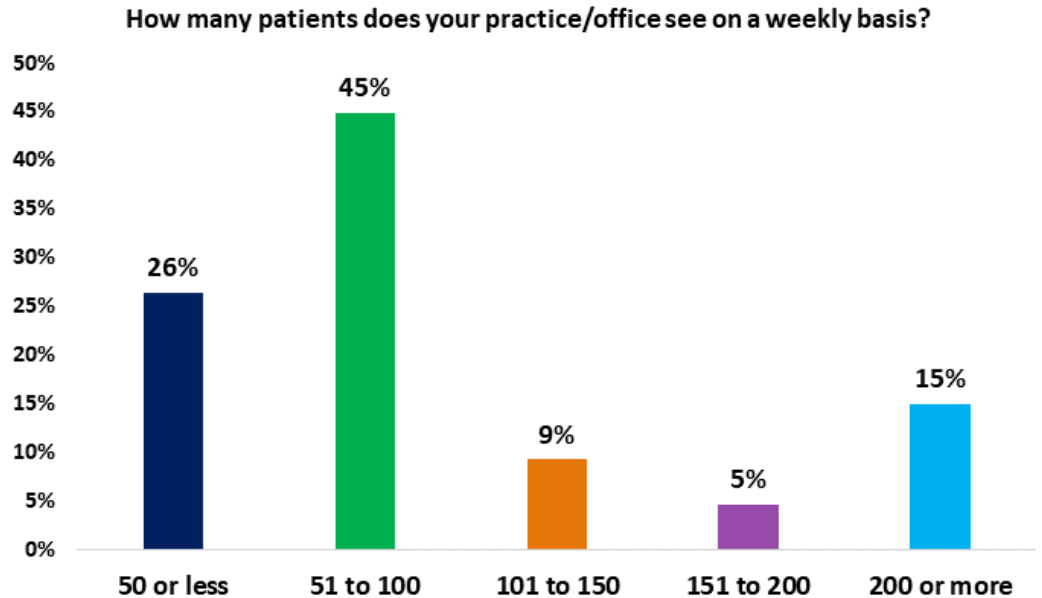
## Demographics and Patient Trends

**Demographics (Q17 and Q13 Tabs on accompanying Spreadsheet):** We surveyed 85+ dentists across the US with an average of 25.5 years of experience. Thirty-nine percent of respondents have been practicing for over 30 years and just 15% of our sample has been practicing for 10 years or less. The sample had a large percentage of respondents located in the Northeast and Midwest regions, followed by the Southeast and West Coast.

Most respondents (70%) were independent solo practices, followed by single-site group practices (16%) and multi-site group practices (9%).

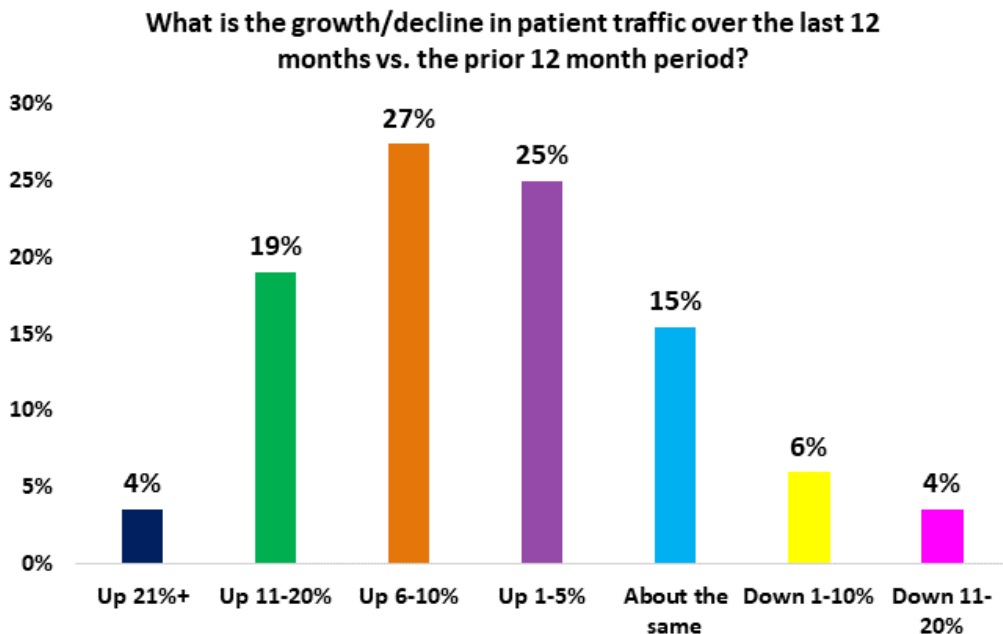
The typical office has 120 patient visits per week on average. Most of our respondents tend to see between 51-100 patients (45%) or 50 or less per week (26%).





#### Patient Traffic Trends and Outlook (Tabs Q14 and Q15)

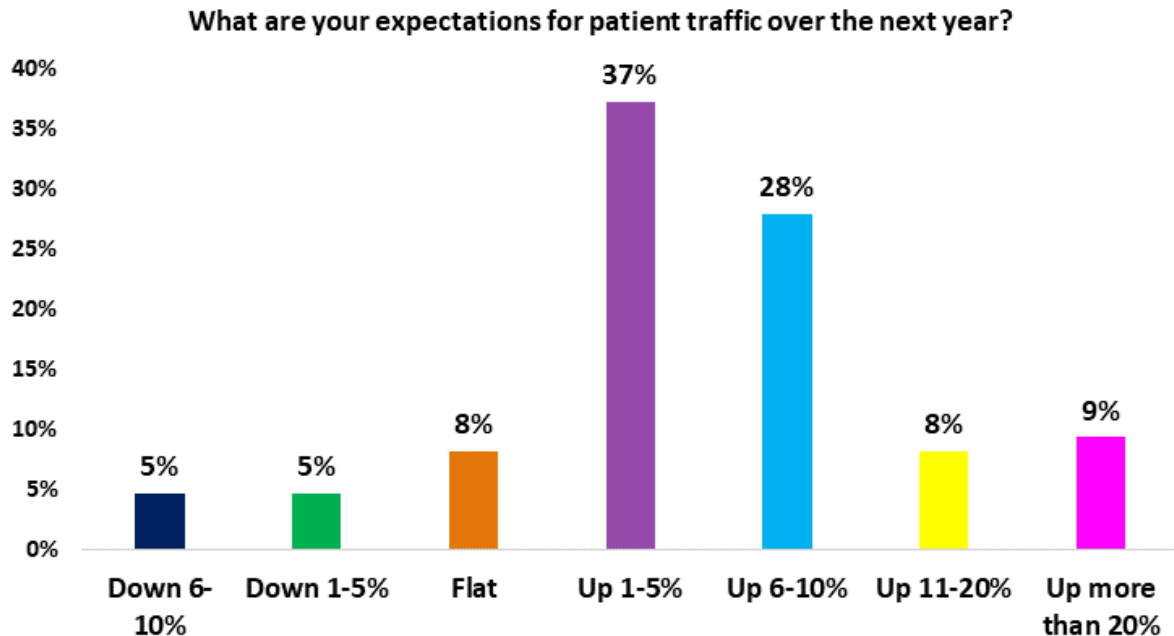
Seventy-five percent of respondents reported growth in patient traffic over the past 12-month period with the majority citing an increase in either the 1-5% (25% of respondents) or 6-10% range Y/Y (27%). Respondents reported patient traffic growth of **just over 6.5% in the past 12 months**. Fifteen percent reported flat traffic and 10% reported a decline when compared with the prior year.



We asked dentists for their expectations of patient traffic over the next 12-month period and on average they expect 8.5% growth. **Patient traffic is expected to grow by 82% of respondents, while 10% expect a decline, and eight percent expect no change.** Just under a quarter of respondents expect

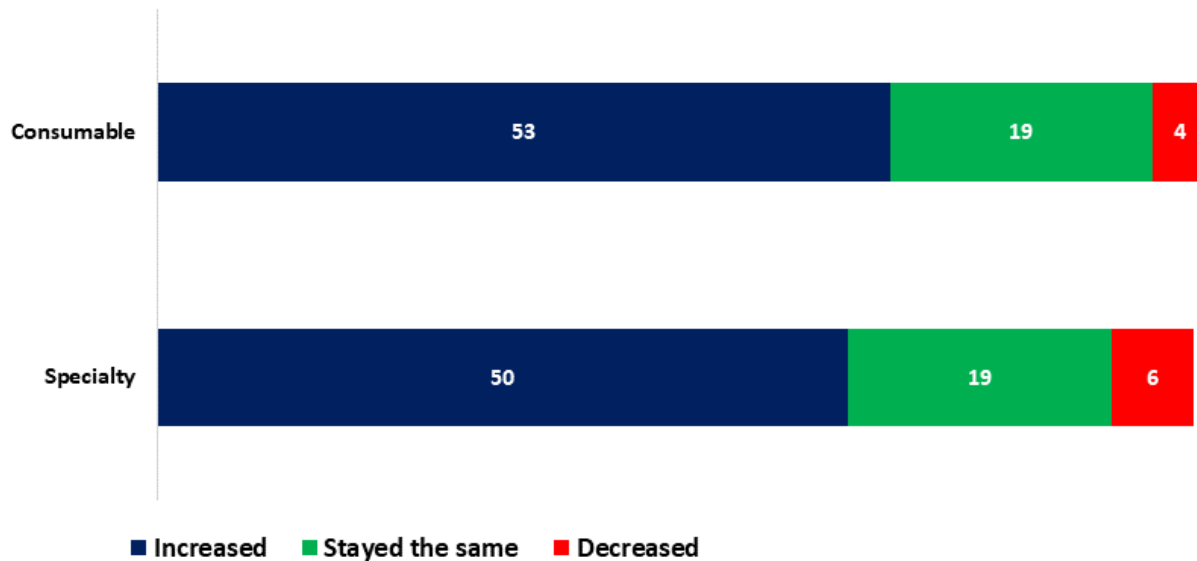
3% or lower patient growth in the next year. We asked that sample **what is the biggest factor preventing patient growth and the most cited answers were (1) an inability to handle more patients (at full capacity or happy with current level), (2) insurance coverage changes/issues, competition, (3) cost of advertising and poor local conditions.**

Please reference the detailed breakdown on Tab 15 and the chart on the next page.



**Consumable and Specialty Product Trends (Tab Q16):** Respondents indicated that demand for both consumable and specialty products spending has increased over the past 2-3 years with a slightly larger percentage citing an increase in consumable spending.

**How has demand for both consumable and specialty spend trended over the last 2-3 years; decreased, increased or stayed the same?**



## Suppliers and Ordering Factors

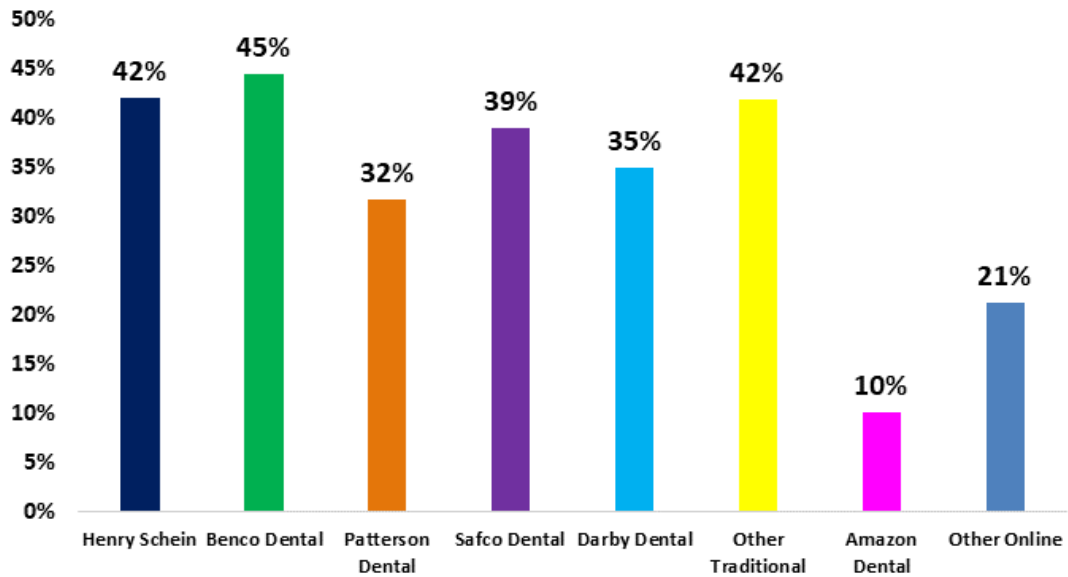
**Suppliers Mix Breakout (Tab Q1):** Respondents were asked which suppliers they use to order dental supplies and to break-out each by a percentage of orders. The typical respondent uses three different suppliers for their dental supplies. Only six respondents order all of their supplies through one provider. **Thirty-eight percent of respondents use Amazon or other online retailers to order dental supplies, while 62% do not.**

**The supplier most used by respondents is Henry Schein (80%), followed by Patterson Dental (52%).** The next tier of most cited suppliers are Darby Dental, Amazon Dental, Benco Dental and Safco Dental – all cited by 20-25% of respondents.

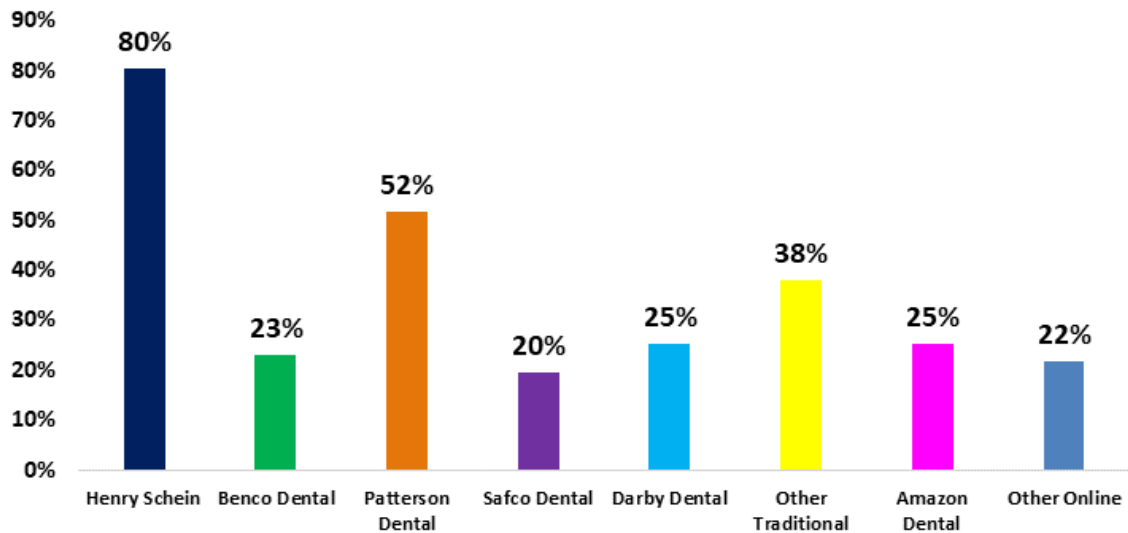
**The largest share of respondents' orders are through Benco Dental (45% share of their users' orders), Henry Schein (42%) and Safco Dental (39%).** Darby Dental (35%) and Patterson Dental (32%) also garner a healthy share of user orders. Amazon Dental (10%) and Other Online Suppliers (21%) are used for a smaller share of their users' dental supplies orders vs the traditional suppliers.

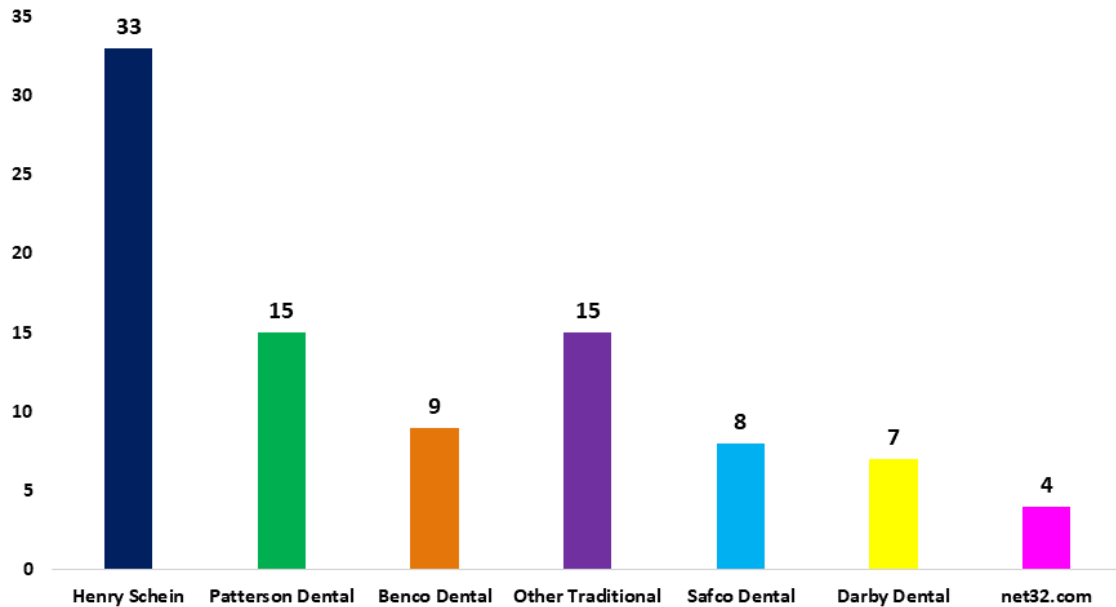
**Henry Schein is the primary supplier to the greatest number of respondents (38% cited them as their main supplier) followed by Patterson Dental (17%).** Other Traditional Suppliers, Benco Dental, Safco Dental and Darby Dental were also regularly cited while a total of 5 respondents cited an online retailer (4 cited net32.com, 1 cited Amazon) as their top supplier. We also broke out the results by type of practice on the accompanying spreadsheet.

**What percentage of your dental supplies do you order from the following traditional and online suppliers?**



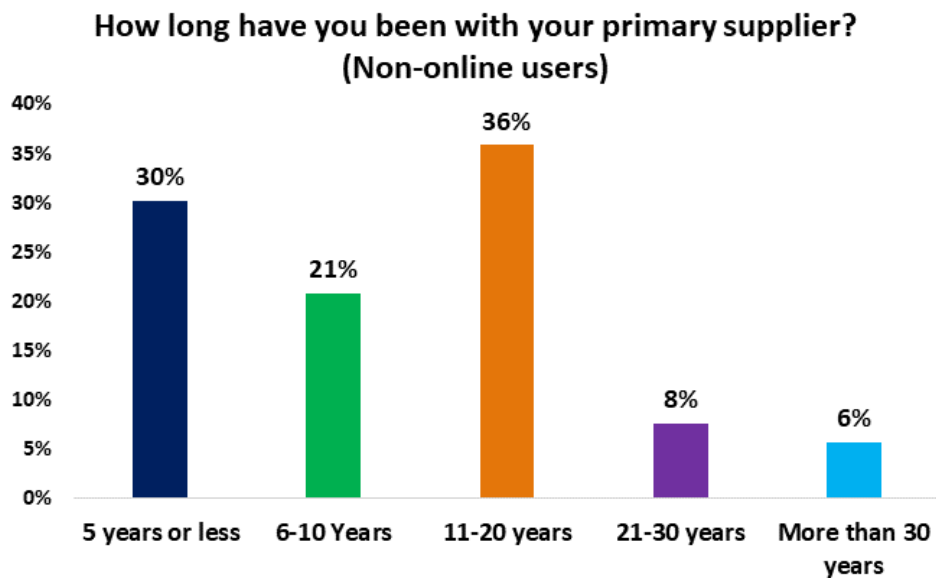
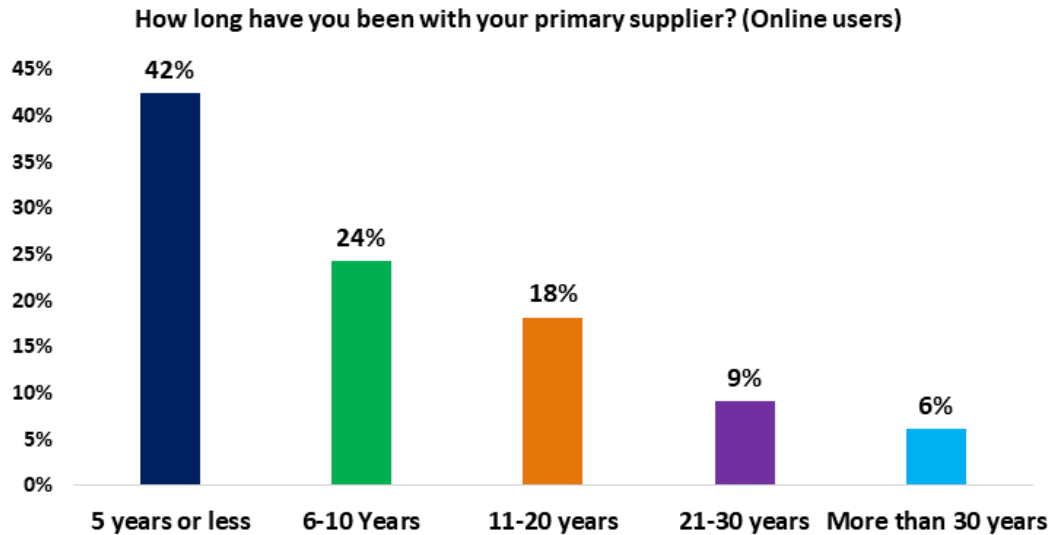
**What percentage of respondents use each supplier?**



**Who is your Primary Supplier?**

**Primary Supplier History and Frequency of Visits (Tabs Q2 and Q3):** Most respondents have worked with their primary supplier for 5 years or less (34%), between 11-20 years (29%), or between 6-10 years (22%). **The average relationship with the primary supplier is just over 12 years.** We also analyzed the survey results by looking at the sample of respondents that use online suppliers for a portion of their needs and those that do not. The results were interesting:

A larger percentage (42%) of the 33 users that use online suppliers have worked with their primary supplier for five years or less, while 30% of the 54 non-online users have worked with their primary supplier for less than five years. **Simply put, the average primary supplier relationship was shorter for those respondents that order a portion of their supplies online relative than for those that do not. The difference on average in years is 10.7 years versus 13.0 years.**

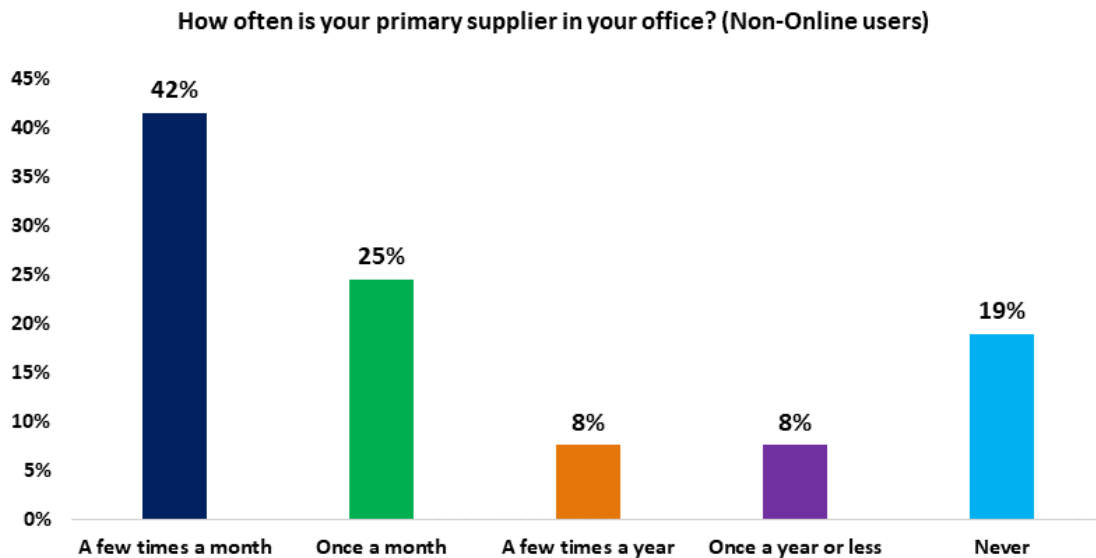
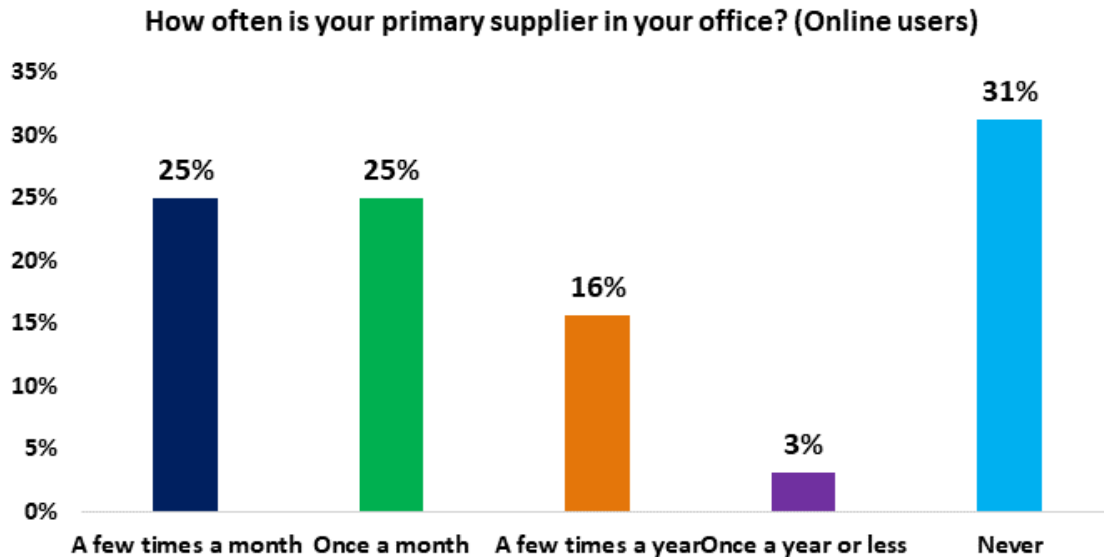


We also asked respondents how frequently their primary supplier visited the office and how that affected the overall relationship. **The largest percentage of respondents said their primary supplier visits a couple times per month or more (35%), while the next most cited results were once a month (25%) or never (24%).** We also analyzed this data by looking at the sample of respondents that use online suppliers for a portion of their orders and those that do not, **which revealed some interesting insights and divergent trends.**

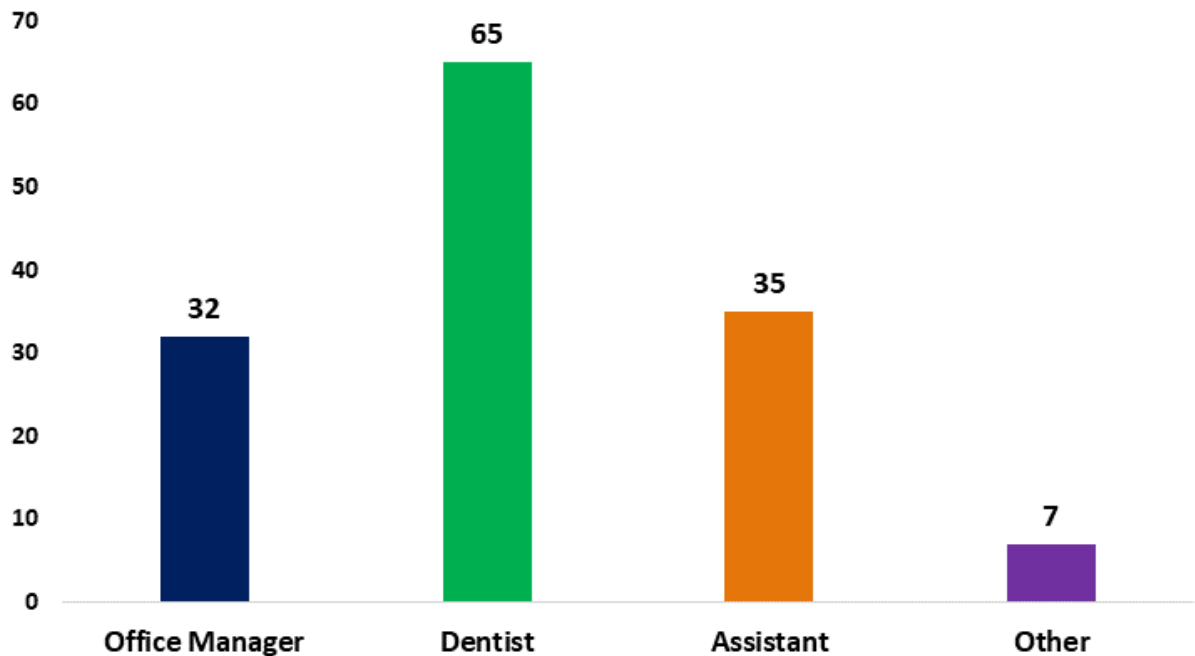
Suppliers that never visited the office was the largest percentage of responses from online users (31%), followed by a couple times per month or more (25%) and once a month (25%). Non-online users cited a couple times per month or more the most (42%), followed by once a month (25%) and never (19%). **It seems that those dentists that get frequent and consistent visits are less apt to use online**



**retailers for a portion of their dental supplies needs.** This is true even when excluding responses from the five respondents that use an online retailer as their primary supplier.



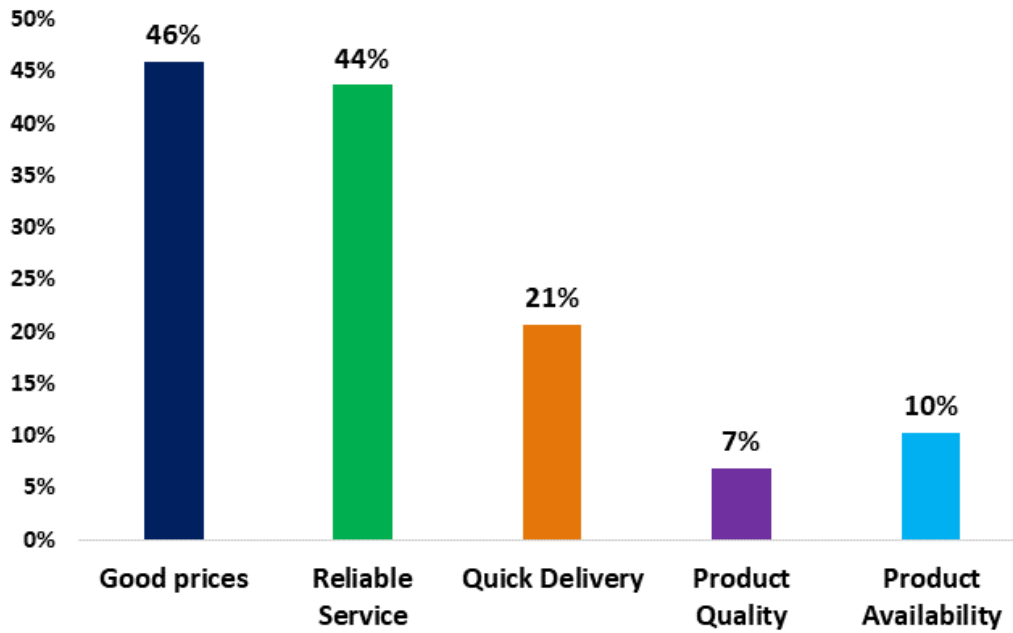
**Who Orders Supplies (Tab Q4):** We asked the sample of dentists who is responsible for ordering dental consumables for the office and the largest percentage said it's the dentists themselves (75% of respondents). A large percentage of respondents also cited the office manager (37%) and dental assistants (40%). Many times, duties are shared by multiple employees. Very rarely do primary suppliers order supplies directly (5%). Details can be found on Tab Q4 in the accompanying spreadsheet.

**Who is responsible for ordering dental consumables in your office?**

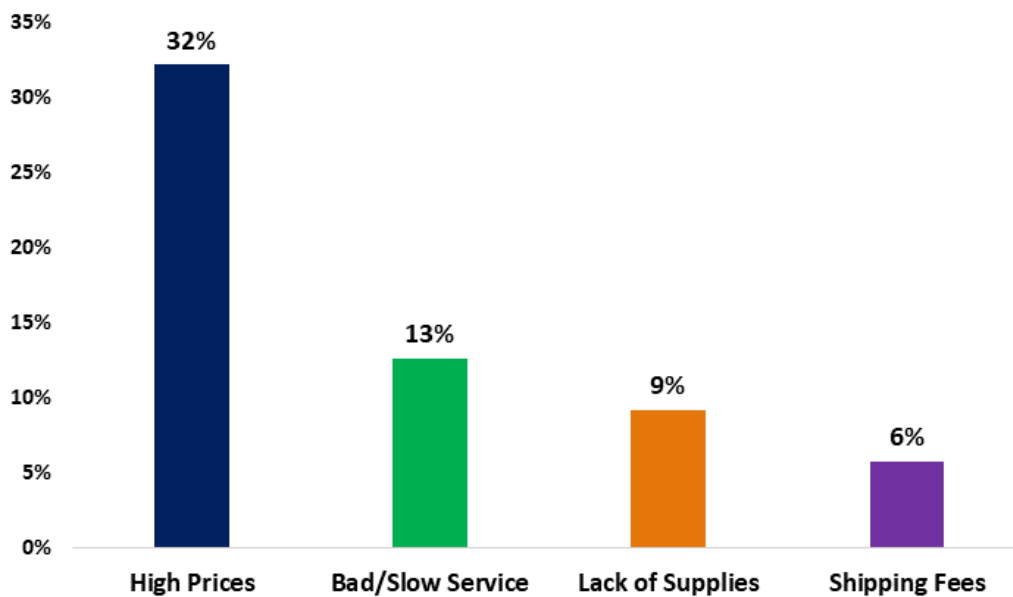
**Primary Supplier Attributes (Tab 5 and 6):** We asked respondents what they like and dislike most from their primary supplier. **Forty-six percent of respondents cited pricing (value, deals for buying in bulk) and 44% cited reliable service (honesty, trust, relationship) as what they value most.** A large portion of respondents (32%) said there is not anything they dislike about their primary supplier. **The most common complaint by a wide margin was related to high prices (32%).** The other most cited dislikes were bad/slow service (13%), lack of supply selection/availability (9%) and high shipping fees (6%). **Amazon Dental and other online retailers could focus on winning share with better pricing, offering a wide selection of supplies and free or low shipping costs.**

We also evaluated the responses of the dentists that use Henry Schein or Patterson Dental as their primary supplier. **In general, Henry Schein was above average for *reliable service* (55% cited this) and had a large percentage of respondents that were completely satisfied (52% said there is nothing they dislike).** Pricing was a drawback mentioned for Henry Schein (30%). Those that use Patterson Dental cited *reliable service* (40% of respondents) as what they value most and high prices (40% of respondents) as what they dislike most.

**What do you value most in your primary dental supplies provider?**



**What do you dislike about your primary dental supplies provider?**



## Henry Schein Specific Questions (Tab Q18)

We asked all respondents that work with Henry Schein if they plan to buy Sirona equipment (including Cerec) over the next 12 months and if the shift from Dentsply to Schein has changed their buying habits: **Only 9% of respondents plan to buy Sirona equipment through Henry Schein over the next 12 months. Only 16% of respondents said the shift from Dentsply to Schein has impacted their buying habits. Quite a few respondents indicated that the high cost of Cerec systems are the biggest purchasing impediment.**

“Yes I plan to. Because they are a popular brand with good reputation.”

- Dentist, Single-site Group Practice, New Jersey

“No plans, it's too expensive. Why would a patient want to sit in your office for 2 or more hours waiting for a crown to be fabricated? My lab does an excellent crown for \$100.”

- Dentist, Independent Solo Practice, Toledo OH

“No. Overpriced and do not plan to use Cerec system for fabrication of crowns in office.”

- Dentist, Independent Solo Practice, High Point NC

“No, we bought Cerec years ago and did not like it.”

- Dentist, Multi-site Group Practice, Detroit MI

We also asked all respondents if they had any other comments to add related to industry trends, sales force disruption or any changes in buying habits. **Many respondents shared the view that corporate chains and DSOs are changing the industry for the worse and crowding out the individual practitioners. Below are a few of the more interesting quotes. Additional detail can be found on Tab Q19 of the accompanying spreadsheet and in the Notable Quotes section on page 18.**

“The consolidation of the suppliers has thrown a lot of confusion to my supply chain. The shift of dental offices from a cottage industry to a more structured environment -DSOs, large groups, etc. will alter the purchase of supplies in ways I cannot predict.”

- Dentist, Independent Solo Practice, Chicago IL

“The biggest surprise is the growth of corporate dentistry and the lack of private practice dentists. Student debt is the primary obstacle to new starts in practice.”

- Dentist, Independent Solo Practice, High Point NC

“Penetration of corporate chains. Solo practitioners are on their way to extinction. Multi Specialist group practices are the future- one stop shop.”

- Dentist, Independent Solo Practice, San Ramon CA

“Insurance companies continue to set the reimbursement rates and they are not increasing the past few years. Therefore always trying to buy supplies at the lowest price is important.”

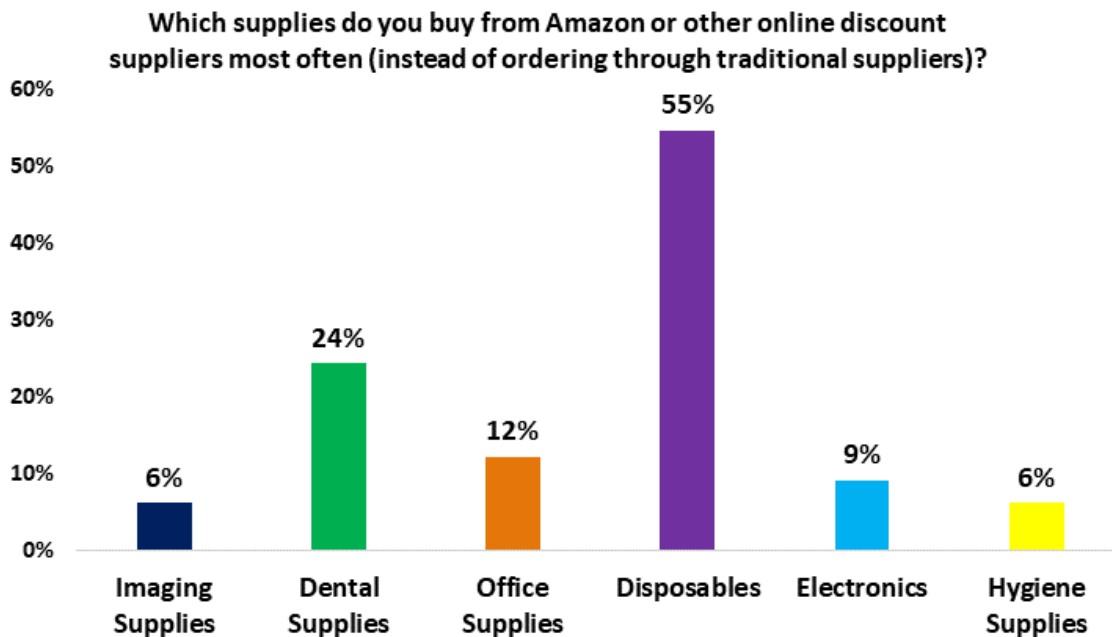
- Dentist, Single-site Group Practice, Kirkwood MO

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## Amazon/Online User Highlights

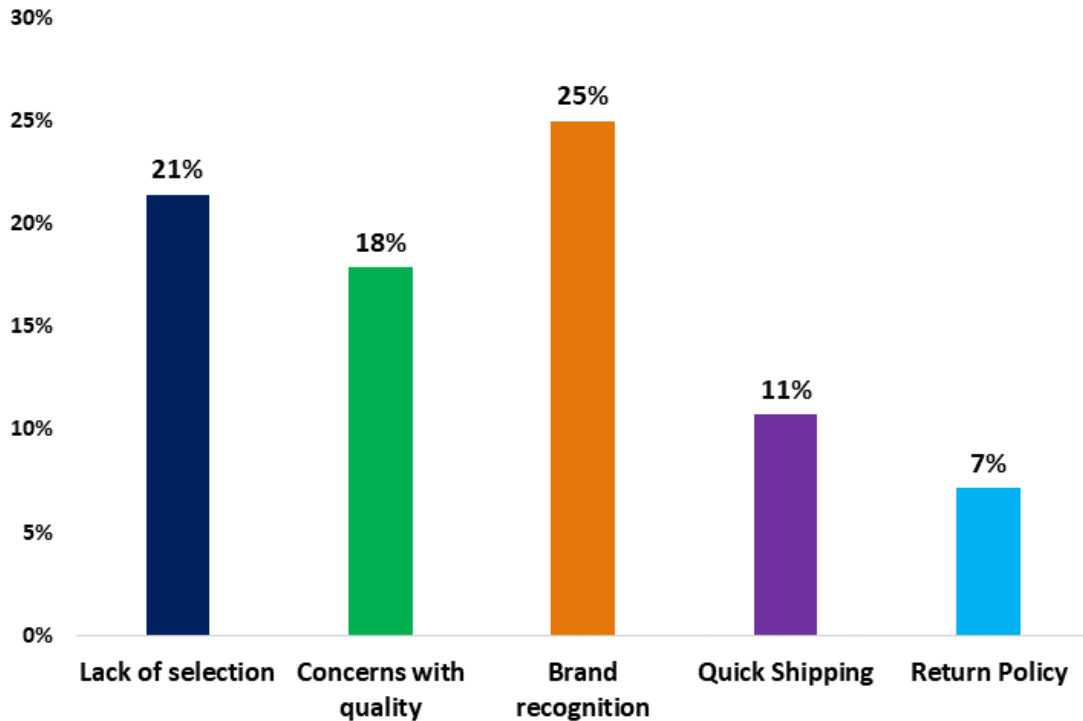
Of the 87 total respondents, there are 33 who order dental supplies from online suppliers and 22 who order from Amazon Dental. **Amazon is the most widely used online retailer, but it makes up a smaller percentage of overall order share relative to the other online retailers (10% vs 21%).** Only five respondents cited an online retailer as their primary supplier with four using net32.com and one using Amazon. **Respondents that use online retailers tend to work with an average of 3.6 suppliers** while those that **do not work with any online retailers tend to work with an average of 2.4 suppliers.** Fourteen of the 22 respondents that use Amazon use them exclusively for their online needs, while eight work with other online providers. Of the 22 that order from Amazon Dental, 14 are solo practitioners, 5 are single site group, 2 are solo multi-site practitioners and 1 operates a multi-site group.

**Supplies Bought from AMZN/Online Suppliers (Tab Q7):** The type of supplies purchased through Amazon Dental and other online retailers are typically disposables (55% of respondents) and miscellaneous dental supplies (24%). Respondents also cited office supplies, electronics, imaging/x-ray supplies, hygiene supplies and trays.



**Biggest Impediment to Share Gains (Tab 8):** The biggest impediment for current online users to shift more business to Amazon and other online retailers is related to brand recognition (25%), a larger selection of supplies (21%) and concerns with quality (18%). Respondents also cited concerns with the return policy, shipping costs, personal service and offering discount packages for frequent users. See the table on Tab 8 and chart on the following page.

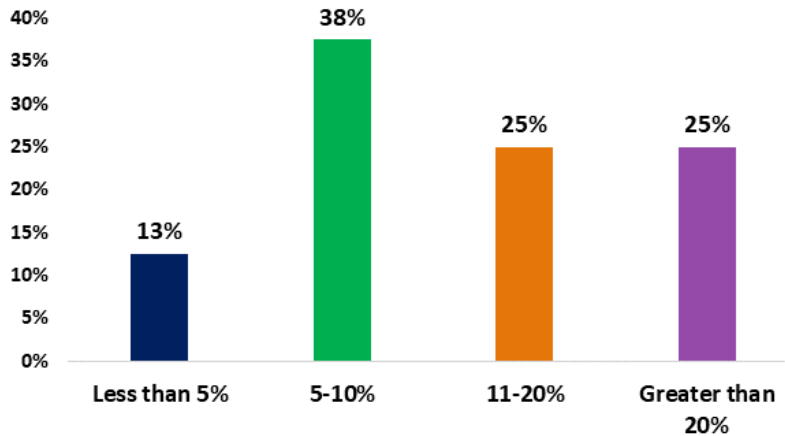
**What is the biggest impediment to shifting more of your business to Amazon or another online discount retailer? (Online Users)**



**Outlook for AMZN/Online Supplier Spend (Tabs Q9 and Q10):** We asked all current online users if they plan to spend more, less or the same amount with Amazon Dental and other online platforms over the next 12 months and what percentage of their supply purchases do they expect to shift from traditional suppliers to these online retailers over the next two years. **Fifty-two percent of online users stated they plan to spend more over the next 12 months, 48% plan to spend about the same level and none expect to spend less.** This compares favorably to results from the same question in other surveys that we have recently conducted (auto part, home improvement).

Over the next two years, 38% of online users (32 responses) plan to shift between 5-10% of their dental supplies purchases away from traditional suppliers and to Amazon or other online retailers. Another 50% of respondents stated that they would shift 11% or greater of their supply purchases to Amazon or other online providers over the next two years. On average, online users expect to shift 20% of their dental supplies purchases away from traditional suppliers and to Amazon and other discount retailers over the next two years.

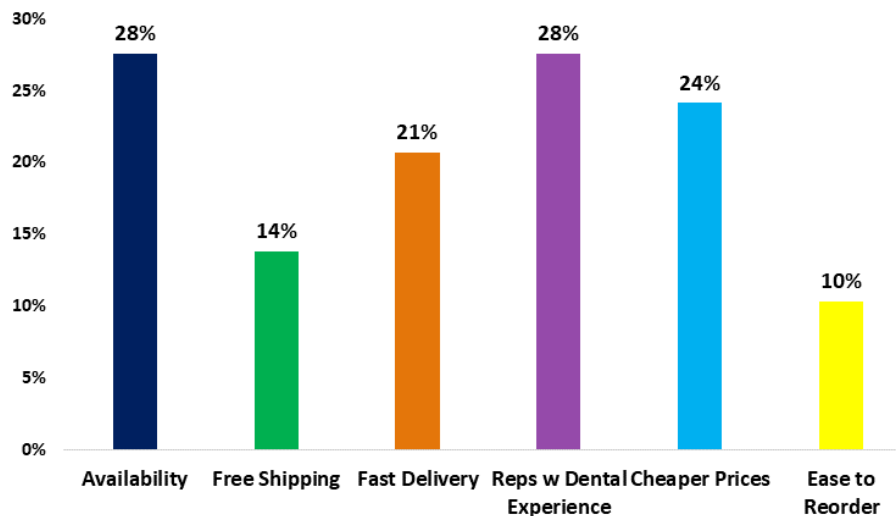
**What % of your supply purchases do you expect to shift from traditional suppliers to Amazon/other online discount retailers over the next 2 years?**



## Non-Amazon/Online Users

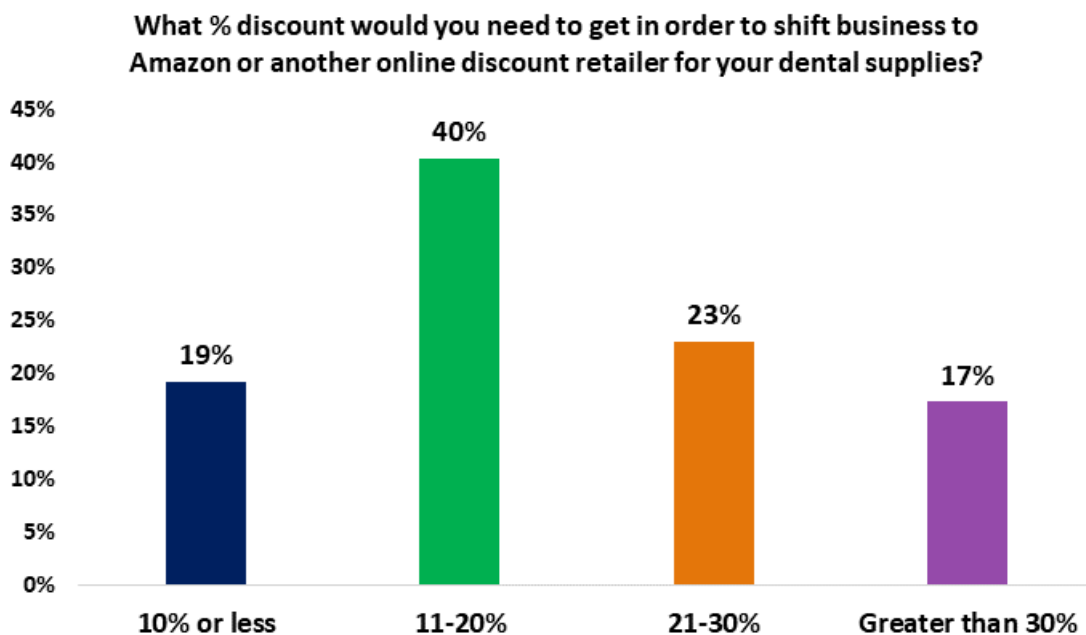
**Non-Online User Views of AMZN/Online Suppliers (Tabs Q11 and Q12):** We asked non-online users (54 respondents) for their views of Amazon as a dental supplies provider and if there is anything other than price that would get them to shift business to Amazon or other online providers. Most respondents have not seriously considered Amazon as a dental supplier. Of those that did, most felt that Amazon did not have enough direct dental experience/expertise (58% of responses) while others were concerned about the quality of the supplies (25%). Some, though, had a positive view (17%) despite not using them. Other than price, the factors that would get respondents to potentially shift business to Amazon and other online retailers were (1) **greater availability/selection of supplies (28% of responses)**, (2) **if they could offer reps with dental knowledge/experience (28% of responses)**, (3) **fast delivery times (21%)** or (4) **free shipping (14%)**.

**Is there anything other than price that would get you to shift business to Amazon or other online retailers?**



**Roughly half of the non-online respondents (51% of responses) said there are dental supply manufacturers or brands that Amazon and other online platform could add to their professional dental supplies section that could cause them to move sales to them.** Most answers were general in nature in terms of offering a wide variety of quality/reliable brands and the most cited specific brands were Denstply (5 responses), Kerr (3 responses), Parkell (2 responses) and 3M (2 responses).

We also asked all non-online users what % discount they would need to see in order to shift business to Amazon Dental or another online retailer. The largest percentage of respondents cited something in the 11-20% range (42% cited this), followed by a discount in the 21-30% range (23% of respondents). **On average respondents would need to see a 24% discount to get them to shift from their traditional suppliers to Amazon or other online retailers.**





## Notable Quotes:

### What do you value most in your primary dental supplies provider (Q5)?

“(Henry Schein) Keeping costs down and responsive to problems with any supplies ordered, i.e. returns and refunds.”

- Dentist, Independent Solo Practice, Clifton NJ

“(Henry Schein) Excellent service rep being available when needed and a great value.”

- Dentist, Independent Solo Practice, Brookline MA

“(Henry Schein) Ease of access and consistency.”

- Dentist, Single-site Group Practice, New York NY

“(Patterson Dental) Deals for bulk ordering, variety in product, and availability of product.”

- Dentist, Independent Solo Practice, Tempe FL

“(Henry Schein) Cost/price. We're part of a corporate chain now. Didn't used to be the case but in 2015 we joined a chain. So, we get cheaper prices because we're all grouped in together.”

- Dentist, Corporate Chain Office, Paducah KY

“(Henry Schein) Face to face consulting and recommendations. New products and trends discussed.”

- Dentist, Independent Solo Practice, Toledo OH

### What do you dislike about your primary dental supplies providers (Q6):

“(Patterson Dental) We have to order from the rep directly to get discount off retail.”

- Dentist, Independent Solo Practice, Monroe NJ

“(Henry Schein) The shipping charges are very expensive.”

- Dentist, Independent Solo Practice, Clifton NJ

“(Henry Schein) Prices are higher than other companies.”

- Dentist, Multi-site Group Practice, Boston MA

“(Henry Schein) Very poor equipment, repair service is slow and unresponsive.”

- Dentist, Independent Solo Practice, Hampton VA

### Which supplies do you buy from Amazon or other online discount suppliers most often (instead of ordering through traditional suppliers)? (Q7)

“Office supplies and small dental products.”

- Dentist, Multi-site Solo Practitioner, Westport CT

“Cerec supplies and root canal files.”

- Dentist, Independent Solo Practice, New York NY

“Infection control, hygiene products, and x-ray products, etc.”

- Dentist, Single Site Group Practice, New Jersey

“Generally dental disposables and some instruments which are routinely used in the dental care of different brands are preferred from various online suppliers.”

- Dentist, Single Site Group Practice, Pittsford NY

“Prophy angles and phosphor plate barriers.”

- Dentist, Multi-site Group Practice, Detroit MI

## **What is the biggest impediment to shifting more of your business to Amazon or another online discount retailer? (Q8)**

“Taking time to price match. I'm concerned about difference in quality.”

- Dentist, Single-site Group Practice, New York NY

“Black market dental supplies, expired supplies, and returns policy.”

- Dentist, Independent Solo Practice, Cincinnati OH

“They do not carry familiar brands of products I use most often.”

- Dentist, Independent Solo Practice, East Northport NY

“Sometimes online suppliers do not have the item I want to buy, so greater selection”

- Dentist, Independent Solo Practice, Fresno CA

“I prefer to buy restorative materials from a reputable dealer. I'm not quite confident enough to buy those from random Amazon sellers.”

- Dentist, Single-site Group Practice, Jasper TN

## **What are your views of Amazon as a dental supplier and is there anything other than price that would get you to shift business to Amazon or other online retailers? (Non-online users, Q11)**

“If products are authentic and/or reliable, I would consider.”

- Dentist, Independent Solo Practice, Westfield NJ

“No shipping fees & free samples.”

- Dentist, Independent Solo Practice, Reading PA

“My view is they don't have enough information or knowledge of the supplies.”

- Dentist, Independent Solo Practice, Mechanicsburg PA

“Probably not unless it was significantly cheaper as we value the personal relationship of our current primary supplier.”

- Dentist, Independent Solo Practice, Canal Winchester OH

"I've never considered them as a dental supplier and didn't know they were one, would be concerned about quality and reliability. I just order some paper/office products through Amazon, don't expect to get any dental supplies."

- Dentist, Corporate Chain Office, Paducah KY

"Price and quick delivery. I am an Amazon prime member so buying dental supplies from them would be great."

- Dentist, Single-site Group Practice, Kirkwood MO

"Large buying power, but not sure they understand the dynamics of servicing dentistry. They will need a service crew."

- Dentist, Independent Solo Practice, High Point NC

### **Are there dental supply manufacturers or brands that Amazon and online retailers could add to their professional dental supply section that would cause you to move volume to them? (Non-online users, Q11a)**

"Yes. Tulsa, Sirona, Dentsply. If the prices are right we may switch."

- Dentist, Multi-site Group Practice, Boston MA

"Yes. Ivoclar, DMG, and 3M."

- Dentist, Independent Solo Practice, Monroe NJ

"No, it's all about receiving the best price."

- Dentist, Independent Solo Practice, Salt Lake City UT

"Kerr, Dentsply, Hu-Friedy, Pelton and Crane."

- Dentist, Independent Solo Practice, High Point NC

### **Additional comments (Q19)**

"We are excited to buy CEREC supplies from Henry Schein."

- Dentist, Independent Solo Practice, New York NY

"Price is driving our choice of suppliers."

- Dentist, Independent Solo Practice, Salt Lake City UT

"Companies like Darby offer better pricing but have no local rep."

- Dentist, Independent Solo Practice, Roseville CA

"Dealing with multiple avenues to order from is time consuming."

- Dentist, Independent Solo Practice, Monroe NJ

"The only thing is that I'm a Trios/3 Shape owner and I am going to switch from Invisalign to Clear Correct due to the recent lawsuit with 3 Shape and Invisalign."

- Dentist, Independent Solo Practice, Clifton NJ

“Too many DSO's putting the small dental office out of business.”

- Dentist, Single-site Group Practice, Milwaukee WI

“Group and corporate practices will continue to expand.”

- Dentist, Multi-site Group Practice, Chicago IL

“The biggest surprise is the growth of corporate dentistry and the lack of private practice dentists. Student debt is the primary obstacle to new starts in practice.”

- Dentist, Independent Solo Practice, High Point NC

“Penetration of corporate chains. Solo practitioners are on their way to extinction. Multi Specialist group practices are the future- one stop shop.”

- Dentist, Independent Solo Practice, San Ramon CA

“Insurance companies continue to set the reimbursement rates and they are not increasing the past few years. Therefore always trying to buy supplies at the lowest price is important.”

- Dentist, Single-site Group Practice, Kirkwood MO

“The consolidation of the suppliers has thrown a lot of confusion to my supply chain. The shift of dental offices from a cottage industry to a more structured environment -DSOs, large groups, etc. will alter the purchase of supplies in ways I cannot predict.”

- Dentist, Independent Solo Practice, Chicago IL

“Trend to impersonal clinic practices, less quality. That's why I'm busy. I still do quality.”

- Dentist, Independent Solo Practice, Richmond VA

# Appendix

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## Our Approach to Research

Orinda Surveys uses a bottom-up approach to gathering market intelligence (e.g. shifts in volume, price, market share, etc.). Orinda Surveys gains this knowledge through compliance-friendly industry channel-checks using a mosaic approach. Many respondents are contacted, each with very little information and usually through tertiary distribution channels rather than the target company itself; it is only through forming a mosaic of their answers does the data become informative. To facilitate this, Orinda Surveys uses an innovative technology platform that has surveyors located throughout the world. There is a technology barrier between the respondent and Orinda Surveys (a registered and regulated broker-dealer of its own). When Orinda Surveys receives the data, the data goes through a compliance protocol to ensure the individual data (responses from respondents) is not material, then the data tested (statistically) for anomalies to ensure the integrity of the data is good. Some data is randomly spot-checked with a second surveyor, especially when anomalies are discovered. All research is then sent to research supervisor as a further precaution to ensure compliance and data integrity. Then, the client received the research after three layers of compliance and no one-on-one interaction with the respondents. Orinda Surveys ensures we are consistently improving on our mission to be the best source of market intelligence at an affordable price – available by also back testing our results.

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## Custom Reporting

Orinda Surveys Research offers two research solutions: Semi-Custom and Customized research reports. Semi-custom research reports are reports shared with a handful of clients in exchange for lower fees. Our Custom and Semi-custom research solution utilize a technology research platform allowing investment managers to get out of the channel check business and instead focus on their core competencies. It is an efficient, cost-effective and scalable solution providing analysts access to industry's participants. Clients tell us the questions to ask, or we develop them with them (or even independently), clients work with us on how many respondents to survey and their budget constraints. Orinda Surveys does the rest. Clients use the platform when they want to, with no minimum service required.

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