US Equity and Derivatives Strategy

More Money, More M&A?

Equity Strategy

Americas

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The Right Stuff

Five years into the post Financial Crisis equity market rally, M&A activity has returned – announced deal dollar volume in 1H2014 is +58% YoY. The rate of increase is evocative of prior boom years such as 2004-05 and 1998, times which were followed by several more years of robust M&A and further broad market gains. The elements which we identified in our April 6th note "More M&A on the Way" as catalytic for increased M&A activity – strong business confidence, low funding costs even as rates are set to rise, the availability of leverage and, most importantly, healthy corporate balance sheets, look to be ongoing tailwinds for M&A in the months ahead.

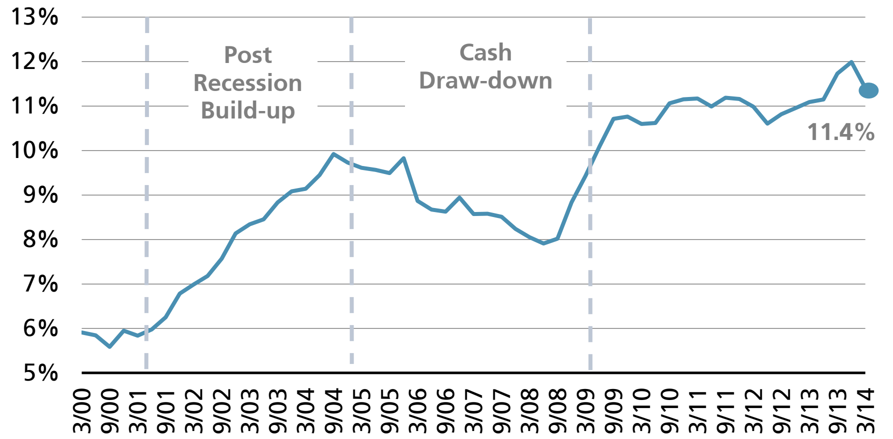
Cash is King

Led by Healthcare and Technology – sectors we continue to overweight – cash on S&P 500 company balance sheets has risen to the highest levels of the century and is beginning to be spent on M&A (Figure 1). Of particular note is the trend toward increased cross border M&A as a means of reinvesting cash held abroad, which would otherwise be subject to a higher US tax rate were the funds to be repatriated. We estimate that S&P 500 companies (ex. Financials) hold in excess of $800bn in overseas cash – close to half of the total cash held at the end of 2013.

Inversions Detailed

The combination of "trapped cash" overseas and the relatively high US corporate tax rate has reignited a trend – first observed in the late 1990's – of US companies seeking to establish foreign domicile – in the current version, through international M&A. Not only have investors and corporate managers examined the math behind and the history of inversions (pages 8-11), so too are politicians in both Washington and Europe casting a watchful eye on deals. While a legislative response is unlikely in 2014, history could repeat itself as with 2004's American Jobs Creation Act, which slowed the first wave of corporate inversions, as the 2016 elections draw near.

Figure 1: S&P 500 Cash (as % of Assets)



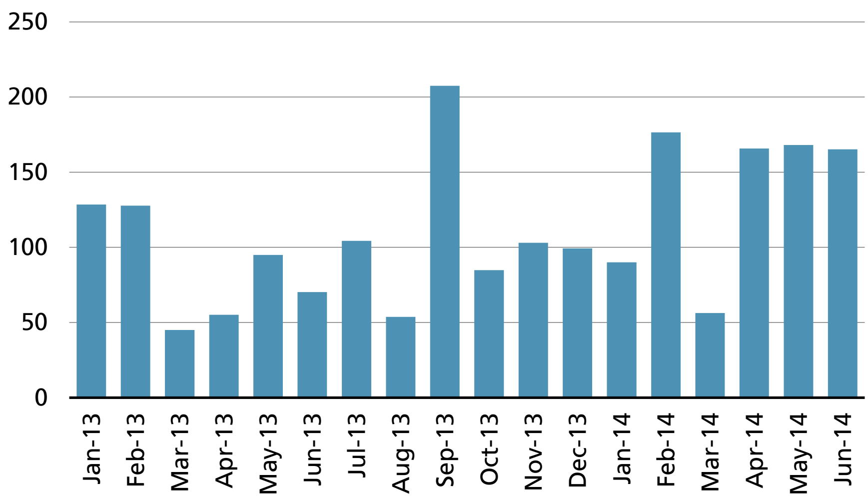
Source: FactSet and UBS

Can the Pace of M&A Continue?

Despite – or because of – the seemingly torrid pace in which M&A transactions have been announced during the second quarter, we remain constructive on overall M&A activity in the second half of the year.

In our April 6th note "More M&A on the Way" we argued that M&A activity in 2014 was likely to continue at a robust pace given the health of corporate balance sheets, rising business confidence, ample private equity dry powder, increased shareholder activism, the availability of leverage and low funding costs coupled with the expectation that rates are likely to rise. While we anticipated a continued increase in M&A volumes (our forecast was for a 17.5% increase in 2014), reality has exceeded our expectations during the first half of the year. H1 2014 M&A announced deal volume is +58% on the same period a year ago (Figure 2). At the same time, the total number of transactions is down – fewer but larger deals are getting done in the current environment.

Figure 2: Monthly US M&A Deal Volume ($bn), 2013-Present



Source: Dealogic and UBS. Note: Data represents announced US M&A deal volume ($bn) by month.

This flurry of deal activity begs the question whether we are witnessing a peak in M&A volumes characteristic of the past two bull market tops?

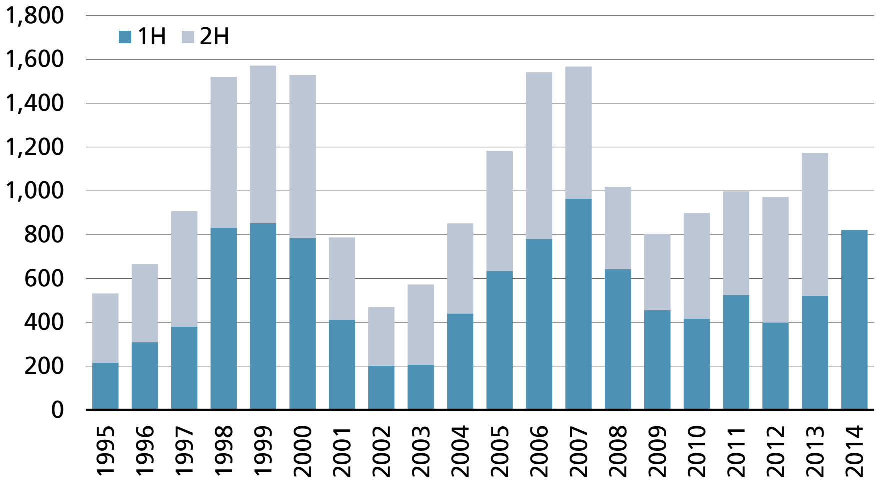
Our view is that while the overall dollar volume of M&A has spiked in the first half of the year, we expect M&A activity will continue to remain strong, albeit perhaps below the torrid year to date pace.

We do not see this volume spike as coinciding with a market top as we believe the current bull market still has "room to run" for a couple of crucial reasons. Namely, valuations are not stretched – while the current multiple of around 17x on UBS 2014 forecasted EPS of $116 is high by the standards of the past few years, the average post WWII bull market did not peak until hitting 19.7x trailing 12 month earnings. In addition, once the Fed eventually begins to hike the Fed Funds Rate, past bull markets have not typically topped out until 2 years after the initial FFR hike, and a further 33% advance in prices.

A further examination of history shows that the two comparable periods of year on year M&A dollar volume percentage increases, 2003-04 and 1997-98 (Figure

3), were followed by further robust M&A volume years and continued broad market rallies whose peaks did not occur until 2007 and 2000, respectively.

Figure 3: Historical US M&A Announced Deal Volume (annual, $bn)

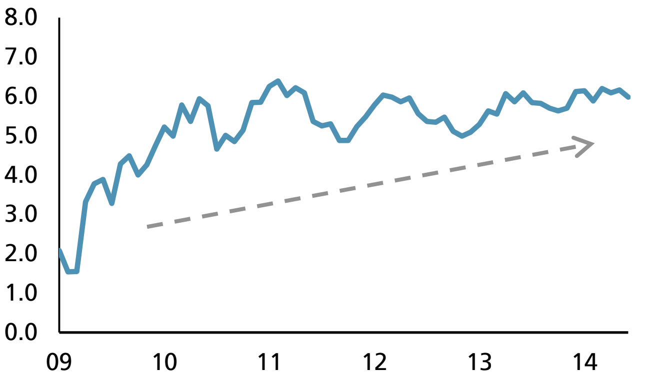


Source: Dealogic and UBS. Note: Data represents announced US M&A deal volume annually ($bn), split between the first and second half of each year.

Aside from past occurrences, what else about the current environment qualitatively would lead us to answer the question "Why isn't this another M&A peak?" with a "No"?

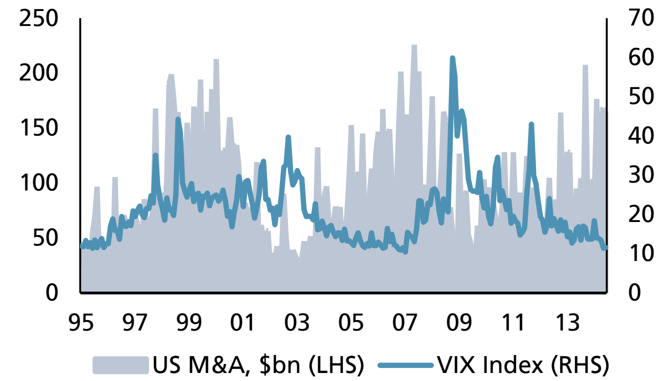
Looking into 2H2014, we believe the current drivers which have helped fuel this resurgence in M&A activity remain firmly in place. As we've argued previously, we believe management teams remain confident in the overall prospects for growth and continue to look for ways to create incremental shareholder value. While the current bull market has seen a clear trend towards capital return to shareholders – via share buybacks and dividends – management teams are likely to continue to source alternative ways of putting capital to work (i.e., M&A) as they have done this past quarter, particularly as interest rate expectations – and with it, the prospective cost of capital - creep upward. In addition, any incremental uptick in equity market volatility will likely incentivize cash-rich management teams to identify accretive growth opportunities through acquisition – capitalizing on attractive entry points. In fact, the increase in volatility during the latter stages of the previous two bull markets coincided with the greatest increase in M&A deal activity.

Figure 4: CEO Confidence Index



Source: Bloomberg and UBS

Figure 5: VIX vs. M&A Volumes



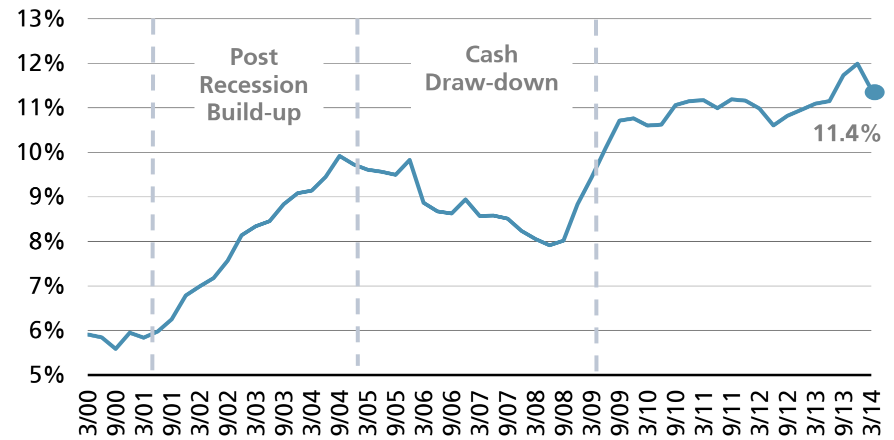
Source: Bloomberg, Dealogic and UBS. Note: M&A data is announced US M&A deal volume.

In many ways, the M&A volume explosion in the first half of 2014 represents pent-up demand from the prior four years of relatively subdued activity catalyzed by ideal market conditions (low volatility, low but rising rates, strong confidence, ample funding available) and compelling rationales for managements.

As expected, we've seen a number of deals driven by companies looking for ways to gain market share / expand their geographical presence, acquire talent, broaden the scope of product offerings and acquire higher growth companies. While 2014 has seen a number of deals in the healthcare/pharma space, as well as a steady flow of deals in the technology sector, it's difficult to argue that any one particular sector has dominated the M&A trend we've seen thus far this year. Instead, we've witnessed a broad-based rally, likely to continue. The newest and most discussed M&A "storyline" for corporate managements is the imperative to do deals which will unlock cash "trapped" overseas.

Rising CEO confidence, increased availability of leverage, low funding rates and un-invested private equity capital will continue to play a role in the overall M&A landscape. However, the crucial driver, in our view, remains the availability of cash to corporations and the general health of corporate balance sheets.

Figure 6: S&P 500 Cash (as % of Assets)



Source: FactSet and UBS

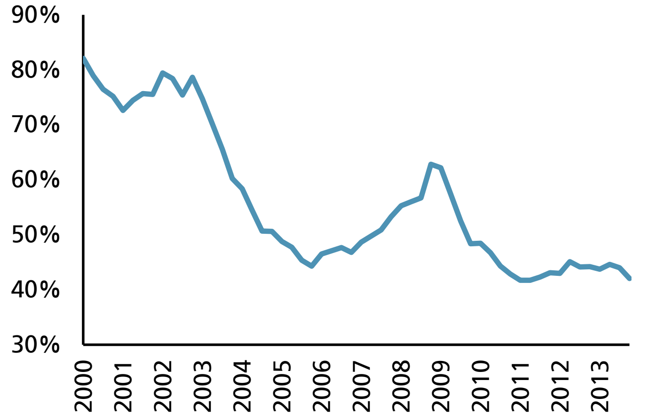
Available cash not only helps to maintain/build on corporate confidence, but also provides the necessary financial flexibility to pursue attractive growth

opportunities, particularly in times of increased volatility. Interestingly, it isn't only the sheer amount of cash available that seems to be driving M&A, but the location of the cash as well. In the case of US companies, there has been a significant amount of discussion – and dealmaking - centered on overseas cash.

Show Me the (Overseas) Money

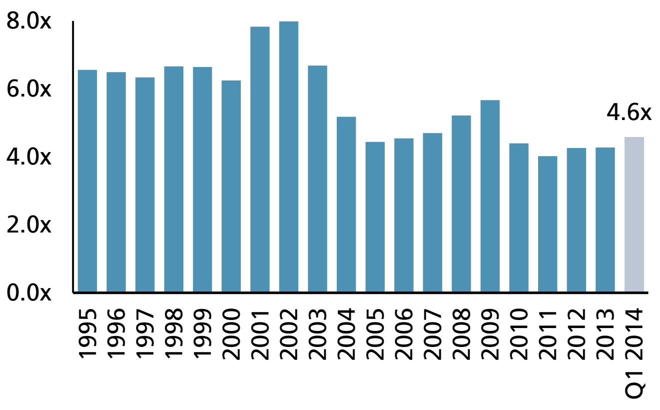
On any number of measures, corporate balance sheets are as healthy as they have been in quite some time. Not only are cash balances (as % of total assets) near all-time highs (Figures 1 and 6), but the overall degree of financial leverage remains subdued (Figures 7 and 8).

Figure 7: S&P 500 Net Debt to Equity



Source: Factset and UBS

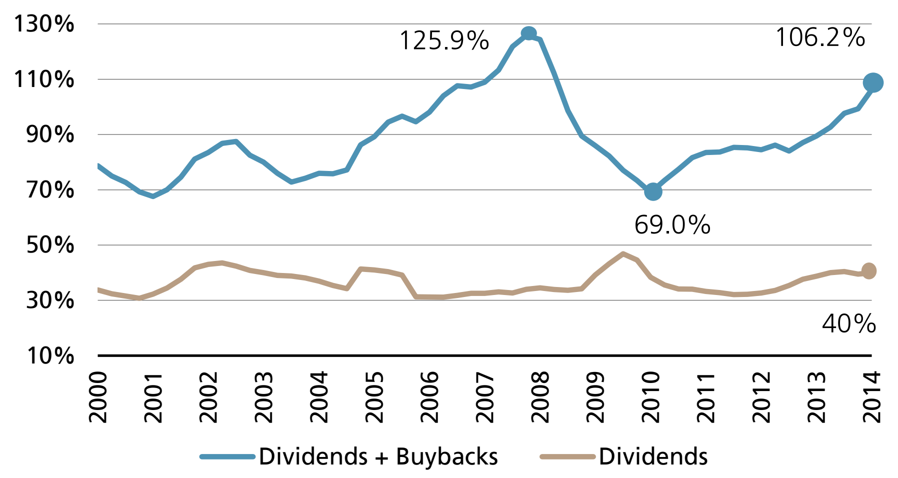
Figure 8: S&P 500 Net Debt to EBITDA



Source: FactSet and UBS

Since the current bull market began in 2009, companies have become increasingly focused on returning capital to shareholders, primarily through dividends and share repurchases. More recently, in addition to dividends and buybacks, we've seen an increased focus on M&A and we continue to expect companies to step up their overall capex spending.

Figure 9: S&P 500 Total Payout Ratio



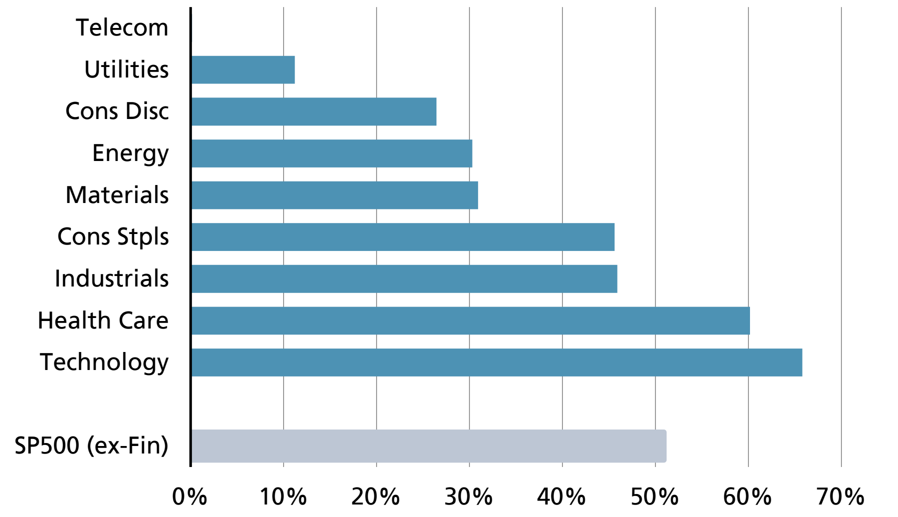
Source: FactSet and UBS

Yet despite the growing cash reserves, it's important to note that not all cash is "equal", to a certain extent.

US companies that hold cash in one or more of their foreign subsidiaries, in many cases, must consider the cash to be permanently reinvested abroad so as to avoid paying a higher US tax rate when repatriating the money. But just how much cash is abroad?

Looking at the S&P 500 constituents (excluding financials), we estimate over $800bn is likely held overseas, and is being used to fund operations and growth initiatives abroad, as well as cross-border M&A opportunities. According to company filings, the total overseas cash component likely accounts for more than 45% of all cash & cash equivalents on S&P 500 company balance sheets (ex. Financials, Figure 10). The percentage of overseas cash varies by sector with technology and healthcare holding the highest amount of cash overseas as a % of total cash held. The total amount of cash held by those two sectors represents approximately 57% of the total cash held by all S&P 500 (ex. financials) companies. Technology firms hold in excess of $400bn in overseas cash while health care firms are likely holding over $150bn abroad.

Figure 10: Overseas Cash (as % of Total Cash) by Sector – S&P 500



Source: FactSet, Individual Company Filings, and UBS. Note: Overseas cash figures collected from individual company filing footnotes. In certain cases where the company does not explicitly disclose the figure, the approximate amount has been estimated.

On a more granular level, the table below shows the companies in the S&P 500 (ex. financials) which we estimate have at least $2bn in overseas cash. Collectively, we estimate that they account for close to 80% of all overseas cash held by S&P 500 companies.

Figure 11: S&P 500 companies (ex. Financials) with Overseas Cash > $2bn

Ticker	Company	GICS Sector	Market Cap ($bn)	Total Cash on Hand (YE 2013)	Esimated Cash Held Overseas	% Held Overseas
AAPL	Apple Inc	Information Technology	578.7	146.8	111.3	76%
MSFT	Microsoft Corp	Information Technology	346.9	77.0	69.6	90%
GE	General Electric Co	Industrials	268.2	88.6	57.0	64%
CSCO	Cisco Systems Inc	Information Technology	129.2	50.6	40.4	80%
GOOGL	Google Inc	Information Technology	395.4	60.7	33.6	55%
ORCL	Oracle Corp	Information Technology	182.2	32.2	28.2	88%
PFE	Pfizer Inc	Health Care	194.2	32.4	25.9	80%
QCOM	QUALCOMM Inc	Information Technology	136.4	29.4	21.3	72%
AMGN	Amgen Inc	Health Care	91.0	22.8	20.9	92%
JNJ	Johnson & Johnson	Health Care	301.2	29.2	18.6	64%
KO	Coca-Cola Co/The	Consumer Staples	185.2	20.3	18.3	90%
MRK	Merck & Co Inc	Health Care	171.0	17.5	14.9	85%
LLY	Eli Lilly & Co	Health Care	70.1	14.6	11.6	80%
INTC	Intel Corp	Information Technology	154.5	26.3	11.3	43%
HPQ	Hewlett-Packard Co	Information Technology	63.4	12.2	11.0	90%
MDT	Medtronic Inc	Health Care	63.3	11.1	10.9	98%
EBAY	eBay Inc	Information Technology	64.3	12.8	9.7	76%
PEP	PepsiCo Inc	Consumer Staples	136.2	9.7	8.4	87%
F	Ford Motor Co	Consumer Discretionary	68.5	36.6	7.5	20%
ABT	Abbott Laboratories	Health Care	62.3	8.1	7.3	90%
IBM	International Business Machine	Information Technology	190.3	11.1	7.2	65%
BMY	Bristol-Myers Squibb Co	Health Care	79.6	8.3	6.1	73%
WMT	Wal-Mart Stores Inc	Consumer Staples	245.2	7.3	5.8	79%
AMZN	Amazon.com Inc	Consumer Discretionary	153.5	12.4	5.6	45%
PCLN	Priceline Group Inc/The	Consumer Discretionary	65.7	6.8	4.9	72%
CELG	Celgene Corp	Health Care	71.2	5.7	4.7	82%
GM	General Motors Co	Consumer Discretionary	60.0	29.0	4.6	16%
ABBV	AbbVie Inc	Health Care	91.4	9.9	4.5	45%
EMC	EMC Corp/MA	Information Technology	55.0	10.7	4.3	40%
V	Visa Inc	Information Technology	123.2	7.0	4.3	61%
DVN	Devon Energy Corp	Energy	31.9	6.1	4.3	70%
MMM	3M Co	Industrials	94.8	4.8	4.3	90%
DD	EI du Pont de Nemours & Co	Materials	60.3	9.1	3.9	43%
NTAP	NetApp Inc	Information Technology	12.0	7.0	3.6	51%
MA	MasterCard Inc	Information Technology	90.4	6.3	3.6	57%
ITW	Illinois Tool Works Inc	Industrials	37.2	3.6	3.4	95%
GLW	Corning Inc	Information Technology	29.1	5.2	3.6	69%
SLB	Schlumberger Ltd	Energy	152.7	8.4	3.5	42%
CAT	Caterpillar Inc	Industrials	68.8	6.1	3.5	57%
NKE	NIKE Inc	Consumer Discretionary	69.1	6.0	3.5	58%
HON	Honeywell International Inc	Industrials	73.9	8.1	3.4	42%
TXN	Texas Instruments Inc	Information Technology	52.8	3.8	3.4	90%
ADI	Analog Devices Inc	Information Technology	17.2	4.7	3.4	71%
SYK	Stryker Corp	Health Care	32.4	4.0	3.1	78%
NOV	National Oilwell Varco Inc	Energy	35.7	3.4	3.1	91%
ACN	Accenture PLC	Information Technology	54.4	5.6	2.9	51%
WDC	Western Digital Corp	Information Technology	22.5	4.3	2.8	65%
NVDA	NVIDIA Corp	Information Technology	10.4	4.7	2.6	56%
SYMC	Symantec Corp	Information Technology	15.8	4.7	2.6	55%
PSX	Phillips 66	Energy	45.6	5.4	2.6	48%
ADBE	Adobe Systems Inc	Information Technology	36.1	3.2	2.6	80%
A	Agilent Technologies Inc	Health Care	19.4	2.7	2.6	94%
CTSH	Cognizant Technology Solutions	Information Technology	30.7	3.7	2.5	68%
PG	Procter & Gamble Co/The	Consumer Staples	217.0	5.9	2.4	41%
AGN	Allergan Inc/United States	Health Care	49.3	3.6	2.4	67%
BRCM	Broadcom Corp	Information Technology	21.4	4.4	2.4	54%
UPS	United Parcel Service Inc	Industrials	94.9	5.2	2.3	45%
MON	Monsanto Co	Materials	65.7	3.9	2.3	59%
OMC	Omnicom Group Inc	Consumer Discretionary	18.8	2.7	2.3	85%
UTX	United Technologies Corp	Industrials	105.5	4.6	2.2	48%
DHR	Danaher Corp	Industrials	54.9	3.1	2.2	71%
MDLZ	Mondelez International Inc	Consumer Staples	64.2	2.7	2.2	80%
DOW	Dow Chemical Co/The	Materials	61.7	5.9	2.0	34%
MCD	McDonald's Corp	Consumer Discretionary	99.0	2.8	2.0	71%
LRCX	Lam Research Corp	Information Technology	11.1	2.5	2.0	80%

Source: FactSet, Individual Company Filings, and UBS. Note: Data in $bn. Overseas cash figures collected from individual company filing footnotes. In certain cases where the company does not explicitly disclose the figure, the approximate amount has been estimated.

With overseas cash balances continuing to climb, US companies find themselves increasingly challenged to put the capital to productive use without triggering the US corporate tax which would apply should the cash be repatriated. As an alternative, companies have continued to keep their capital "invested overseas" while managements look for potential organic growth projects (i.e., capex) or attractive foreign M&A opportunities.

An increasing number of US firms have explored "tax inversions" as a way to both put overseas cash to work as well as avail themselves of lower tax rates through international domicile versus those which are currently available under the existing US corporate taxation regime.

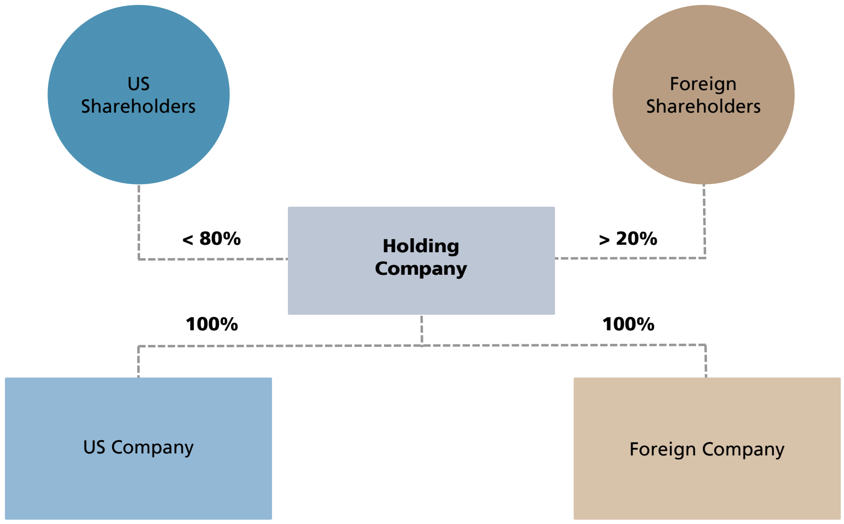
A New Wave of Inversions

With an abundance of cash sitting overseas, and a high US corporate tax rate, companies have become increasingly focused on identifying accretive ways in which they can unlock the value of their "trapped" cash abroad. Part of the recent wave of M&A activity has been driven by tax-motivated mergers – so called "inversions". These transactions have raised a number of issues, making inversions an intensely debated topic – in terms of both new M&A deal activity as well as potential future legislation.

Inversions Defined

An inversion transaction is a process whereby a U.S. registered corporation effectively moves its country of residence through the acquisition of a foreign-domiciled company using a new offshore holding company. The original corporation effectively becomes a subsidiary of the foreign parent company and consequently, the corporation is subject to a lower home country tax rate (i.e., 12.5% in Ireland or 20% in the U.K.) as compared to the 35% corporate tax rate established in the U.S. - one of the highest corporate tax rates in the developed world.

Figure 12: Illustration of an Inversion Transaction Structure



Source: UBS. Note: Figure is for illustrative purposes. It is not designed to cover all complexities or aspects of a potential transaction.

The transaction is not without its complexities. First, the combined entity must have less than 80% of its shares owned by US shareholders. Second, at least 25% of the company's operations would need to be conducted in the country of incorporation. The intended benefits are clear – 1) increased tax efficiency; 2) avoids subjecting all non-US business earnings on new products to US tax; and 3) potential flexibility to transfer non-US operations/assets to the holding company either upfront or over time. Nonetheless, given the high degree of risk and complexity, these transactions must also make strategic business sense and are typically not entirely tax-driven.

Given the nature of the business, many of the recent inversion deals have been in the healthcare sector, specifically within the pharma space. Typically, the domicile of choice has been Ireland due to favorable tax laws and flexible Irish company law (allows companies to undertake actions similar to those which a US corporation can take) with broadly similar corporate governance procedures and standards relative to the US.

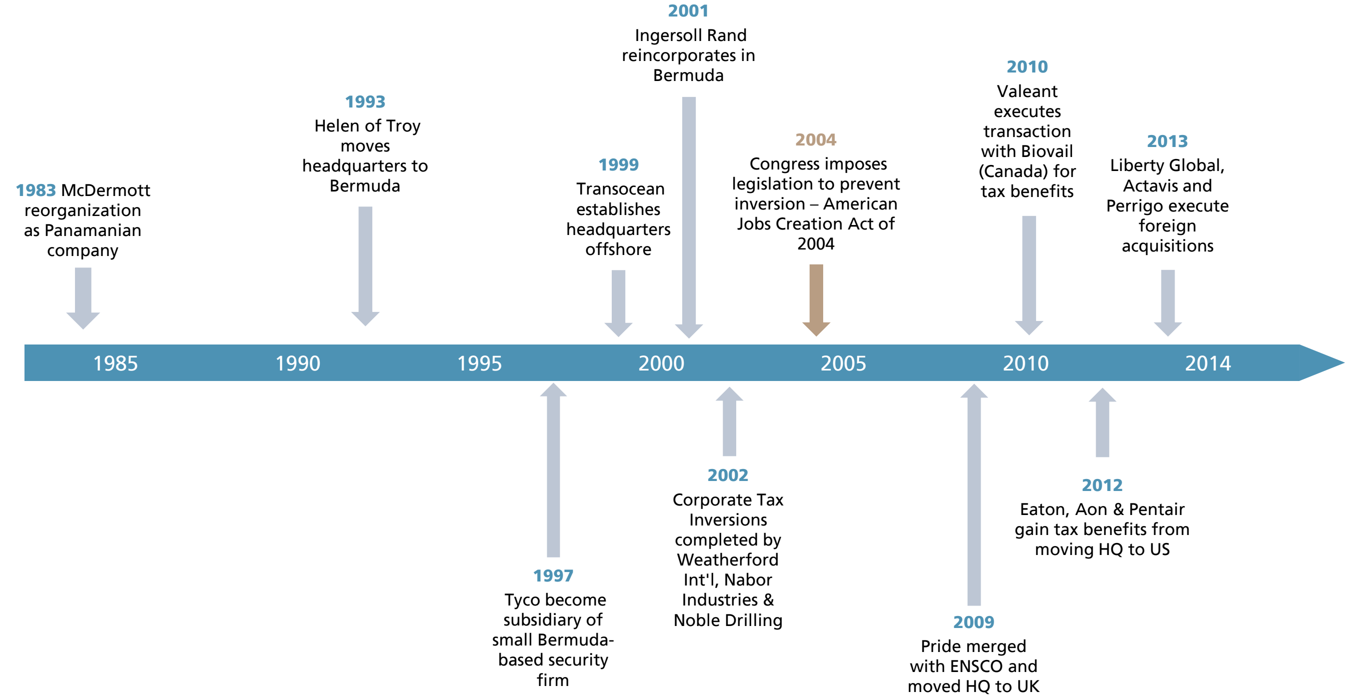
A History of Inversions

In the late 1990's and early 2000's, this idea of corporate "inversion" became popular among various corporations. During this time period, Tyco, Transocean Ltd., Ingersoll-Rand, Weatherford International, Nabors Industries, and Noble Drilling (now Noble Corp PLC) were among the companies that moved their corporate charter offshore.

In response to the trend of offshore relocations or as we now call them, corporate "inversions", Congress enacted The American Jobs Creation Act of 2004. The act denied the tax benefits of an inversion if the original U.S. stockholders owned 80% or more of the new firm and the act also ended relocations to tax havens without moving any business activity. The new legislation imposed the requirement that the company would have to operate at least 10% of its business operations in the place of incorporation - in 2012 this was amended to 25%.

For a few years after the imposition of The American Jobs Creation Act of 2004, there was a decline in the pace of corporate inversions; however, the legislation still allowed for two avenues for corporate inversion. In addition to the option of moving operations, the statute also allowed for an inversion via an M&A transaction. With the ability to still partake in corporate inversions, the "second wave" of inversions began in 2009. Companies such as Ensco, Valeant Pharmaceuticals, Eaton Corp., and Actavis have since participated in transactions which resulted in a reduction of their tax bill.

Figure 13: History of Corporate Expatriations and Inversions



Source: UBS. Note: Figure is for illustrative purposes and not designed to be all-inclusive/comprehensive.

Recent Inversions & Potential Risks

In the absence of new legislation – unlikely in calendar year 2014 - the trend of tax-motivated/offshore cash optimized M&A transactions looks set to continue. Since the most recent wave of inversions began, at least 15 companies have moved their domicile out of the US. In 2014, we've seen the Medtronic-Covidien deal announced as well as Pfizer's overtures to AstraZeneca (which have been rebuffed, at least for the time being). The table below highlights a number of recent consummated and discussed inversion transactions:

Figure 14: Recent Inversions

Year	US Company	Foreign Acquisition Target	New Tax Domicile
2014	Medtronic	Covidien	Ireland
2014	Chiquita Brands	Fyffes	Ireland
2014	Horizon Pharma	Vidara Therapeutics	Ireland
2014	Applied Materials	Tokyo Electron	Netherlands
2014	Endo International	Paladin Labs	Ireland
2013	Perrigo	Elan	Ireland
2013	Actavis	Warner Chilcott	Ireland
2013	Liberty Global	Virgin Media	UK
2013	Tower Group	Canopius Holdings Bermuda	Bermuda
2012	Eaton	Cooper Industries	Ireland
2012	Tronox	Exxaro Resources	Australia
2012	Jazz Pharmaceuticals	Azur Pharma	Ireland
2011	Alkermes	Elan Drug Technologies	Ireland
2010	Valeant	Biovail	Canada

Source: Bloomberg and UBS. Note: Deals shown above are either pending (i.e. accepted) or completed.

Despite the fact that these inversion mergers in and of themselves are, according to managements, based on strategically oriented business sense rather than solely motivated by tax savings, the current wave of inversions is likely to draw continued focus from Washington, particularly if a high profile deal like Pfizer-AstraZeneca is consummated, or if, as UBS analyst Steven Valiquette notes is possible, a "well known to Main Street USA" name such as Walgreen proceeds with moving its domicile outside of the US through Alliance Boots.

While the uncertainty is likely to dissuade certain companies, it is not likely to be enough to halt the recent trend. We also note that the EU has begun to examine the corporate taxation regimes in domiciles such as Ireland, the UK and the Netherlands in reaction to recent inversions. In some ways, closer scrutiny by both US and EU lawmakers could cause greater inversion activity in the near term as companies look to consummate deals ahead of any prospective change in regulations.

Assuming the trend of inversion transactions continue, it is probable that at some point in 2015-17 there could be some new form of US legislation/tax reform designed to curb these deals (as was the case with 2004's American Jobs Creation Act). What is less clear is whether such legislation, which would come after this November's mid-term elections, would be put forth in the US solely to stem the tide of inversions or as part of a bigger package which includes more comprehensive tax reforms.

Statement of Risk

Past performance is not indicative of future returns. Investing in equities globally poses country, industry and company-specific risks. Valuations can be impacted by changes in the macroeconomic landscape as well as financial market stability..

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UBS 12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	48%	33%
Neutral	FSR is between -6% and 6% of the MRA.	41%	30%
Sell	FSR is > 6% below the MRA.	11%	23%
UBS Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2014.
1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
3M Company[2, 4, 6a, 6c, 7, 16]	MMM.N	Not Rated	N/A	US$144.56	08 Jul 2014
Abbott Laboratories[6a, 6c, 7, 16]	ABT.N	Not Rated	N/A	US$41.05	08 Jul 2014
AbbVie[6a, 6c, 7, 16]	ABBV.N	Neutral	N/A	US$55.69	08 Jul 2014
Accenture PLC-CL A[16]	ACN.N	Neutral	N/A	US$81.11	08 Jul 2014
Actavis Inc.[16]	ACT.N	Buy	N/A	US$216.89	08 Jul 2014
Adobe Systems Inc.[6c, 7, 16]	ADBE.O	Buy	N/A	US$71.14	08 Jul 2014
Agilent Technologies Inc.[4, 6a, 6b, 7, 16]	A.N	Not Rated	N/A	US$57.15	08 Jul 2014
Allergan[16]	AGN.N	Neutral	N/A	US$166.07	08 Jul 2014
Amazon.com[16]	AMZN.O	Neutral	N/A	US$323.81	08 Jul 2014
Amgen Inc.[2, 4, 5, 6a, 6c, 7, 16]	AMGN.O	Buy	N/A	US$119.96	08 Jul 2014
Analog Devices Inc.[16]	ADI.O	Neutral	N/A	US$54.45	08 Jul 2014
Apple Inc.[6c, 7, 16, 22]	AAPL.O	Buy	N/A	US$95.35	08 Jul 2014
Applied Materials Inc.[16]	AMAT.O	Neutral	N/A	US$22.74	08 Jul 2014
AstraZeneca[13, 16]	AZN.L	Buy	N/A	4,362p	08 Jul 2014
Bristol-Myers Squibb[2, 4, 6a, 6b, 6c, 7, 16]	BMY.N	Neutral	N/A	US$47.86	08 Jul 2014
Broadcom Corporation[16]	BRCM.O	Neutral	N/A	US$37.62	08 Jul 2014
Caterpillar Inc.[6b, 7, 8, 16]	CAT.N	Neutral	N/A	US$109.46	08 Jul 2014
Celgene Corporation[6b, 6c, 7, 16]	CELG.O	Buy	N/A	US$85.72	08 Jul 2014
Chiquita Brands International[16]	CQB.N	Not Rated	N/A	US$10.42	08 Jul 2014
Cisco Systems Inc.[4, 6a, 6b, 7, 8, 16]	CSCO.O	Buy	N/A	US$25.07	08 Jul 2014
Coca-Cola[4, 6a, 6b, 6c, 7, 16]	KO.N	Neutral	N/A	US$41.94	08 Jul 2014
Cognizant Technology Solutions[4, 6a, 6b, 7, 16]	CTSH.O	Buy	N/A	US$50.41	08 Jul 2014
Corning Inc.[16]	GLW.N	Neutral	N/A	US$21.94	08 Jul 2014
Covidien Ltd.[16]	COV.N	Not Rated	N/A	US$90.85	08 Jul 2014
Danaher Corporation[16]	DHR.N	Not Rated	N/A	US$78.19	08 Jul 2014

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Devon Energy Corporation[2, 4, 6a, 16]	DVN.N	Neutral	N/A	US$78.14	08 Jul 2014
Dow Chemical[6b, 6c, 7, 8, 16]	DOW.N	Buy	N/A	US$50.99	08 Jul 2014
E I du Pont de Nemours and Co[6a, 6b, 6c, 7, 8, 16]	DD.N	Neutral	N/A	US$65.33	08 Jul 2014
Eaton Corporation[6a, 6c, 7, 16]	ETN.N	Not Rated	N/A	US$77.43	08 Jul 2014
eBay[6a, 16]	EBAY.O	Buy	N/A	US$50.18	08 Jul 2014
EMC Corporation[4, 6a, 6b, 6c, 7, 16]	EMC.N	Buy	N/A	US$26.43	08 Jul 2014
ENSCO PLC[5, 16]	ESV.N	Neutral	N/A	US$53.78	08 Jul 2014
Fii-Fyffes[13]	FFY.L	Not Rated	N/A	93p	08 Jul 2014
Ford Motor Co.[6a, 6c, 7, 16]	F.N	Buy	N/A	US$17.11	08 Jul 2014
General Electric Co.[3, 4, 5, 6a, 6b, 6c, 7, 16]	GE.N	Not Rated	N/A	US$26.37	08 Jul 2014
General Motors Company[2, 4, 6a, 6b, 6c, 7, 16]	GM.N	Buy	N/A	US$37.58	08 Jul 2014
Google Inc[2, 4, 6a, 6b, 6c, 7, 16]	GOOG.O	Buy	N/A	US$571.09	08 Jul 2014
Hewlett-Packard[4, 5, 6a, 6b, 6c, 7, 12, 16]	HPQ.N	Neutral	N/A	US$33.50	08 Jul 2014
Honeywell International Inc.[6b, 7, 16]	HON.N	Not Rated	N/A	US$94.21	08 Jul 2014
Illinois Tool Works[6a, 16, 18b]	ITW.N	Neutral	N/A	US$86.83	08 Jul 2014
Ingersoll-Rand Co.[16]	IR.N	Not Rated	N/A	US$61.38	08 Jul 2014
Intel Corp.[6b, 6c, 7, 8, 16, 18a]	INTC.O	Neutral	N/A	US$30.79	08 Jul 2014
International Business Machines Corp.[6a, 6b, 6c, 7, 12, 16]	IBM.N	Neutral	N/A	US$187.22	08 Jul 2014
Jazz Pharmaceuticals PLC[16]	JAZZ.O	Buy	N/A	US$154.89	08 Jul 2014
Johnson & Johnson[16]	JNJ.N	Not Rated	N/A	US$105.72	08 Jul 2014
LAM Research Corp.[16]	LRCX.O	Buy	N/A	US$69.67	08 Jul 2014
Liberty Global Inc[4, 6b, 7, 16]	LBTYA.O	Not Rated	N/A	US$43.82	08 Jul 2014
Lilly (Eli) & Co.[4, 5, 6a, 6b, 6c, 7, 16]	LLY.N	Neutral	N/A	US$62.46	08 Jul 2014
MasterCard Inc[4, 6a, 16]	MA.N	Not Rated	N/A	US$75.69	08 Jul 2014
McDonald's[16]	MCD.N	Buy	N/A	US$100.09	08 Jul 2014
Medtronic, Inc.[2, 4, 5, 6a, 6b, 6c, 7, 16]	MDT.N	Not Rated	N/A	US$63.62	08 Jul 2014

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Merck & Co.[4, 6a, 6b, 6c, 7, 16]	MRK.N	Buy	N/A	US$58.17	08 Jul 2014
Microsoft Corp.[4, 6a, 6b, 6c, 7, 16]	MSFT.O	Buy	N/A	US$41.78	08 Jul 2014
Mondelez International[2, 4, 6a, 16]	MDLZ.O	Not Rated	N/A	US$38.08	08 Jul 2014
Monsanto Co.[16]	MON.N	Buy	N/A	US$124.56	08 Jul 2014
Nabors Industries[4, 6a, 16, 20]	NBR.N	Neutral (CBE)	N/A	US$29.15	08 Jul 2014
National Oilwell Varco[16]	NOV.N	Not Rated	N/A	US$83.14	08 Jul 2014
NetApp Inc[16]	NTAP.O	Neutral	N/A	US$36.73	08 Jul 2014
Nike Inc.[16]	NKE.N	Buy	N/A	US$77.67	08 Jul 2014
Noble Corporation[5, 16]	NE.N	Neutral	N/A	US$32.43	08 Jul 2014
NVIDIA Corporation[16]	NVDA.O	Buy	N/A	US$18.55	08 Jul 2014
Omnicom Group Inc.[5, 16]	OMC.N	Not Rated	N/A	US$71.81	08 Jul 2014
Oracle Corporation[6b, 7, 16]	ORCL.N	Buy	N/A	US$40.56	08 Jul 2014
PepsiCo Inc[2, 4, 6a, 6b, 6c, 7, 16]	PEP.N	Neutral	N/A	US$89.73	08 Jul 2014
Perrigo[16]	PRGO.N	Buy	N/A	US$148.84	08 Jul 2014
Pfizer Inc.[6b, 7, 16]	PFE.N	Buy	N/A	US$30.15	08 Jul 2014
Phillips 66[6b, 6c, 7, 16]	PSX.N	Buy	N/A	US$79.28	08 Jul 2014
Procter & Gamble[2, 4, 6a, 6b, 6c, 7, 16]	PG.N	Neutral	N/A	US$80.56	08 Jul 2014
Qualcomm Inc.[6b, 7, 16]	QCOM.O	Buy	N/A	US$80.65	08 Jul 2014
Schlumberger Ltd.[16]	SLB.N	Buy	N/A	US$116.75	08 Jul 2014
Stryker Corporation[16]	SYK.N	Not Rated	N/A	US$83.93	08 Jul 2014
Symantec Corp.[6a, 6b, 7, 16]	SYMC.O	Neutral	N/A	US$22.42	08 Jul 2014
Texas Instruments Inc.[16]	TXN.O	Neutral	N/A	US$48.85	08 Jul 2014
The Priceline Group Inc.[16]	PCLN.O	Buy	N/A	US$1,225.23	08 Jul 2014
Tokyo Electron	8035.T	Neutral	N/A	¥7,186	09 Jul 2014
Transocean Ltd.[5, 13, 16]	RIG.N	Neutral	N/A	US$43.47	08 Jul 2014
Tronox Limited[4, 5, 6a, 16]	TROX.N	Neutral	N/A	US$25.18	08 Jul 2014

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Tyco International Ltd.[4, 5, 6a, 6b, 6c, 7, 16]	TYC.N	Not Rated	N/A	US$45.04	08 Jul 2014
United Parcel Service[4, 5, 6a, 6b, 6c, 7, 16]	UPS.N	Not Rated	N/A	US$102.90	08 Jul 2014
United Technologies Corp.[5, 8, 16]	UTX.N	Buy	N/A	US$114.07	08 Jul 2014
Valeant Pharmaceuticals International[16]	VRX.N	Buy	N/A	US$122.17	08 Jul 2014
Visa Inc[6b, 6c, 7, 16]	V.N	Not Rated	N/A	US$215.26	08 Jul 2014
Walgreen Co.[16]	WAG.N	Buy	N/A	US$71.12	08 Jul 2014
Wal-Mart Stores[4, 6a, 6b, 6c, 7, 16]	WMT.N	Buy	N/A	US$76.65	08 Jul 2014
Weatherford International Ltd.[5, 6c, 7, 16]	WFT.N	Buy	N/A	US$22.43	08 Jul 2014
Western Digital Corp[16]	WDC.O	Not Rated	N/A	US$94.36	08 Jul 2014

Source: UBS. All prices as of local market close.
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