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FOUNDATION

September 13, 2018 06:42 AM GMT

Weight Watchers International, Inc.

A Balanced Scale; Initiate Equal-weight, $76 PT

Stock Rating	Industry View	Price Target
Equal-weight	In-Line	$76.00

Our TAM work shows WTW is only 8% penetrated, and we see WTW's turnaround continuing near-term, with an improved digital offering / rebrand driving +17% 2017-20 subscriber growth. But we also see other social offerings (FB) holding back WTW's ability to further ramp its online subscriber growth.

We estimate a 50mn subscriber addressable market only ~8% penetrated, but ~20% of the addressable users have tried WTW since 2014. Our proprietary TAM analysis (using demographic and survey data to quantify WTW's target subscribers) sizes WTW's addressable market at 50mn people, implying ~8% penetration currently (Exhibit 1). We think the market values WTW's addressable market using existing top down industry estimates (totaling at least $66bn), but our bottom up build points to a smaller TAM of ~$18bn. In our view, a relatively limited TAM combined with a high subscriber churn rate speaks to the importance of WTW adding to its core value proposition and improving retention. We model WTW's subscribers to grow at a +9% '17-'25 CAGR, with high-teens growth through 2020 fading to +MSD growth in the '20s. All-in, we forecast WTW reaching 6.2mn subscribers by year-end 2025 (~12% penetration). Said another way, our forecast implies ~60% of the addressable users try WTW from 2014 through 2025.

Further improvements in digital offering / retention are key to driving upside. WTW's efforts the past two years, including a revamped digital offering and social network as well as its new Freestyle weight management program, have driven an 18% improvement in retention (~10 months vs ~8.5 months) and faster subscriber growth. Demographic expansion efforts (primarily to men and younger consumers) and cultivating its Connect social media network are the next key initiatives for WTW to successfully reposition itself as a broader lifestyle and social network. We model a long-term benefit from these efforts, expecting retention to improve another 10% (to 11 months) by 2025. Still, we hesitate to get more bullish on these initiatives as our analyses show how WTW's app engagement (2 minutes per user per day) is very low, and we see some of these initiatives competing directly with Facebook and its established organic Weight Watchers groups of hundreds of thousands of people.

We forecast a +17% '17-'20 subscriber CAGR, which drives +44% EPS growth. We see +17% subscriber growth combined with flat pricing leading to +12%

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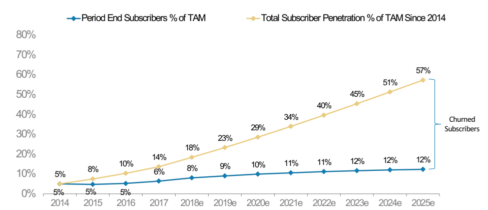
Weight Watchers International, Inc. (WTW.N, WTW US)

Food Retailers / United States of America

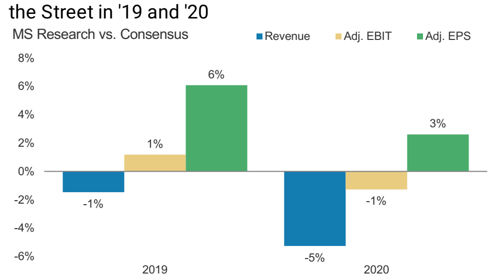
Stock Rating	**Equal-weight**
Industry View	**In-Line**
Price target	**$76.00**
Shr price, close (Sep 12, 2018)	$72.87
Mkt cap, curr (mm)	$5,022
52-Week Range	$105.60-40.94

Exhibit 1: WTW Must Be Tried by 57% of Its Global TAM to Reach Our 2025 Subscriber Forecast



Source: Company data, Morgan Stanley Research. Note: Forecasts assume 40% of future subscribers are entirely new to WTW.

Exhibit 2: Our EBIT Forecasts Are Generally In-Line with the Street in '19 and '20



Source: Morgan Stanley Research, Thomson Reuters annual revenue growth, with the 5% gap driven by mix shift to lower-revenue online subscribers. We also expect faster topline and mix shift to higher-margin online subscribers (from meetings subscribers) to drive significant operating leverage and ~300 bps of annual EBITDA margin expansion. In all, we forecast a +23% '17-'20 EBITDA CAGR and +44% EPS growth (~700 bp from tax reform).

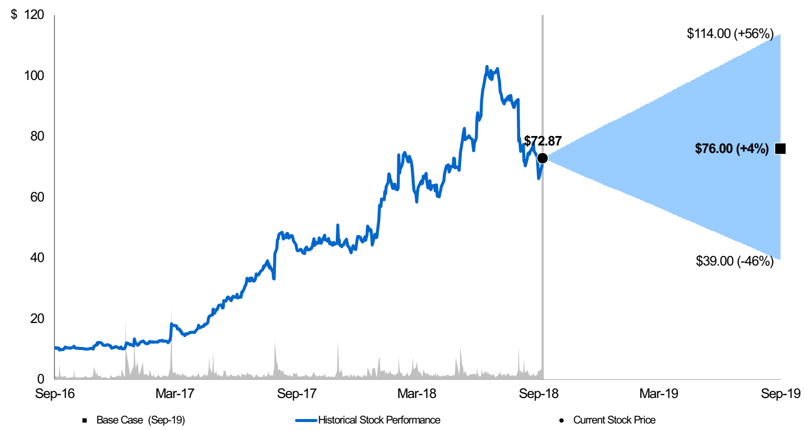
Initiate EW with a $76 DCF-based PT, implying 19x 2019e EPS (0.5x above prior 3-year average). We think a slight premium vs. WTW's 3-year average is warranted given the company's improved performance. That said, our estimates are generally in-line with '19 and '20 Street EBIT forecasts (Exhibit 2). Our broad comp set analysis (across health & wellness, HPC, and internet / subscriptions) illustrates the difficulty in establishing a clean comp group for WTW, though we note our regression analysis indicates WTW could trade as high as 14-15x '19e EBITDA relative to its 11.5x current multiple (12x in our PT). However, we believe WTW would likely only warrant this multiple if it became a more recurring daily habit / social player. Our What's in the Price analysis shows the market is likely pricing in reasonable ~3% long-term growth post-2019 at the current $72.87 share price, indicating the stock appears fairly valued today.

In our Bull Case, WTW successfully broadens its appeal and further improves retention through its digital platform. In our Bull Case, we see WTW improving retention faster, driven by additional traction through its Connect social platform. Furthermore, WTW's lifestyle rebranding successfully attracts more younger and male subscribers, materially expanding the company's TAM and driving faster subscriber and EBITDA growth. Our Bull Case assumes a +21% '17-'20 subscriber CAGR, with a +31% EBITDA CAGR and +61% EPS growth driving the stock to $114.

In our Bear Case, WTW struggles to penetrate its TAM and competition from FB pressures long-term growth. Much of WTW's TAM may be permanently unreachable due to a long-standing and possibly structural lack of uptake of weight management programs. Therefore, WTW's current 8% TAM penetration may in fact be already peaking. Competitive threats, including increasingly from Facebook, may also hold back WTW's ability to drive sustainable long-term growth through its evolving, but still less robust social / digital platform. Our Bear Case assumes a +11% '17-'20 subscriber CAGR, with a +10% EBITDA CAGR and +13% EPS growth, driving the stock down to $39. Overall, we note our wide risk / reward skew in our Bull Case and Bear Case reflects both the stock's significant trading volatility and wide range of outcomes.

Risk Reward

WTW (EW, $76) – Strong Near-Term Growth Prospects Balanced By Uncertain LT Trajectory



Source: Thomson Reuters, Morgan Stanley Research

Price Target **$76**

Price target of $76 implies 19x 2019e EPS. Our price target is based on a DCF valuation with a 9.7% WACC and a 2% terminal growth rate. Our model includes 6.8mn average subscribers in 2025 and terminal EBITDA margins of ~36% (~25% in FY17). Implied multiple is 0.5x above the 3-year average of 18.5x (range 9-43x), warranted given recent improved performance and strong near-term growth prospects, offset by longer-term execution risks.

Bull **$114**

23x Bull Case 2019e EPS of $5.05

Over-Weight. WTW successfully rebrands as a lifestyle company, differentiates its online social offering, and expands its demographic reach. 6.1mn average subscribers in 2020, with a '17-'20 revenue CAGR of +17%, EBITDA CAGR of +31%, and EPS CAGR of +61%. Bull Case multiple 4.5x above the prior 3-year average.

Base **$76**

19x Base Case 2019e EPS of $4.07

Weight and See. WTW continues to execute on its initiatives, driving strong subscriber growth through 2020 and moderate improvements to retention. 5.4mn average subscribers in 2020, including 5mn year-end subscribers, in-line with management target. WTW delivers a '17-'20 revenue CAGR of +12%, EBITDA CAGR of +23%, and EPS CAGR of +44%.

Bear **$39**

14x Bear Case 2019e EPS of $2.90

Watch Out. WTW is unable to successfully reposition its brand as FB competition intensifies and momentum from recent initiatives cools. Marketing expenses increase as incremental spend becomes necessary to drive subscriber growth. 4.7mn average subscribers in 2020, with a '17-'20 revenue CAGR of +6%, EBITDA CAGR of +10%, and EPS CAGR of +13%. Bear Case multiple 4.5x below the prior 3-year average, reflecting a more mature growth profile.

Investment Thesis

- WTW is in the early stages of a transformation from a dependence on celebrities / weight loss to a tech-first, health & wellness destination. We credit WTW for foundational progress stabilizing the business, but we stay cautious on longer-term lifestyle rebranding efforts, and valuation fairly reflects strong near-term growth prospects.
- WTW's high subscriber churn rate (even after recent improvements) means the company must penetrate a high percentage of its addressable market to sustainably grow. We think retention can continue to modestly improve, helping drive churn lower, but will remain an impediment to growth longer-term.
- We hesitate to get overly bullish WTW's digital strategy, as the company's repositioning as a lifestyle brand and social network comes with notable execution question marks amidst increasing competition, primarily from FB.

Risks to Achieving Price Target

- **Upside**
- Subscriber growth accelerates behind demographic expansion efforts and successful lifestyle rebranding
- Mix shift to online subscribers and subsequent operating leverage drives EBITDA margins and profitability higher
- Rapid deleveraging provides optionality for capital returns and strategic M&A

- **Downside**
- Competitive headwinds, including from technology / social media companies (primarily FB), detracts from WTW's evolving value proposition and prevents further retention improvements
- Demographic expansion efforts and lifestyle rebranding are unsuccessful, stalling long-term growth prospects
- Increased marketing spend to sustain growth increases subscriber acquisition costs, pressuring profitability

Executive Overview: Key Debates, Operating / Financial Summaries

Key Debate 1: Can WTW Materially Grow Its Addressable Market?

Market View: WTW's total addressable market (TAM) is likely worth much more than the ~$66bn US commercial weight loss market. Therefore, WTW has a long expansion runway ahead to grow its TAM and sustain recent above-trend subscriber and revenue growth.

Our View: We estimate a TAM of 50mn subscribers, worth ~$18bn in potential revenue opportunities - likely less than the market assumes. We stay cautious on the TAM expansion opportunity absent evidence WTW has attracted incremental demographic groups to the platform.

Where We Could Be Wrong: WTW's TAM may be much larger than we estimate, implying WTW has a longer expansion runway. On the downside, much of WTW's TAM may be permanently unreachable due to a possibly structural lack of uptake of weight management programs.

Key Debate 2: What Are Weight Watchers' Subscriber Growth and Revenue Trajectories?

Market View: WTW is likely to hit its $2bn 2020 revenue target. Futhermore, WTW can maintain elevated growth through 2020 and likely beyond, behind an improved value proposition through its digital platform / Connect social media service and a redefined brand focused on health & wellness.

Our View: We think it is still early in WTW's evolution, and see WTW's long-term subscriber growth targets as a 'show-me' story. We forecast 5mn subscribers by 2020, but longer-term we expect subscriber growth to moderate as the growth story loses steam and as WTW must increasingly compete with FB to drive growth.

Where We Could Be Wrong: We may be underestimating the magnitude / longevity of WTW's transformation. Alternatively, subscriber growth may slow materially in the next couple years as WTW's growth trajectory peaks in 2018, and as FB takes share from WTW's newer and less robust online platform.

Key Debate 3: What Is the Margin Expansion Opportunity?

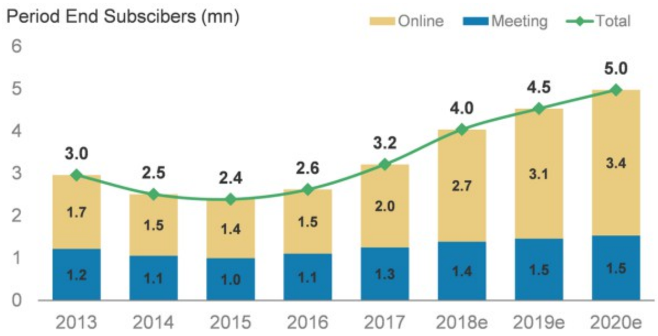
Market View: Through strong expense control and gross margin expansion, WTW can keep expenses and subscriber acquisition costs well managed. Overall, WTW can expand gross margins materially from ongoing mix shift to higher-margin online subscribers.

Our View: We generally agree with the market view, and forecast ~1000 bps of cumulative gross margin expansion from ;17-'25e (driven by mix shift to online subscribers) as well as stable subscriber acquisition costs over the next few years.

Where We Could Be Wrong: The actual magnitude of mix shift to online subscribers may result in our margin estimates being too optimistic or pessimistic. Furthermore, a slowdown in top-line / subscriber growth may necessitate more marketing spend than we forecast.

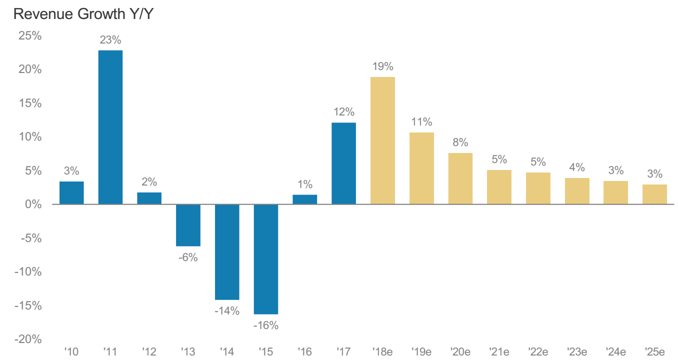
WTW Story in 6 Key Charts

Exhibit 3: We Forecast 5mn Subscribers at Year-End 2020, Driven by Online Subscriber Growth...



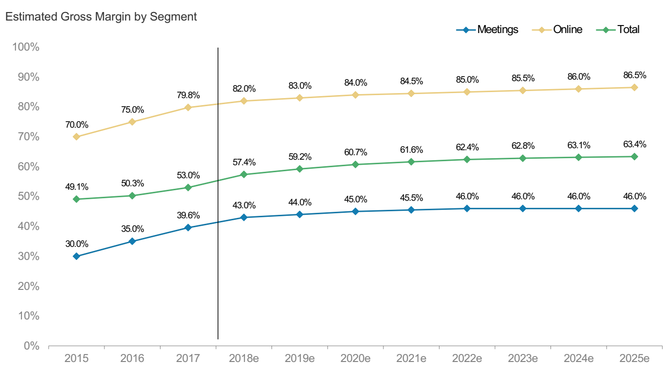
Source: Company data, Morgan Stanley Research

Exhibit 4: ...Which Drives Strong Revenue Growth Through 2020e, Before Slowing to +LSD% in '20s



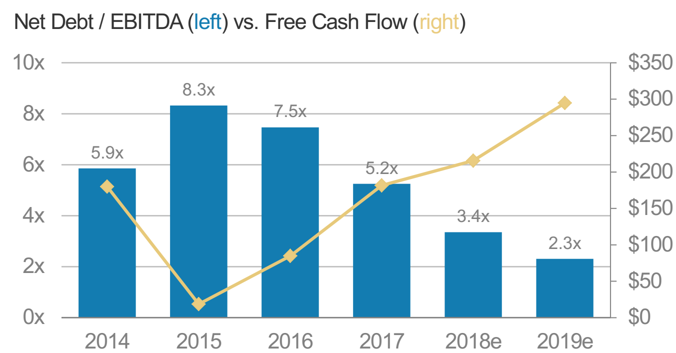
Source: Company data, Morgan Stanley Research

Exhibit 5: We Forecast >1000 bps of Cumulative GM Expansion Through 2025e, Driven by Accretive Mix Shift to Online



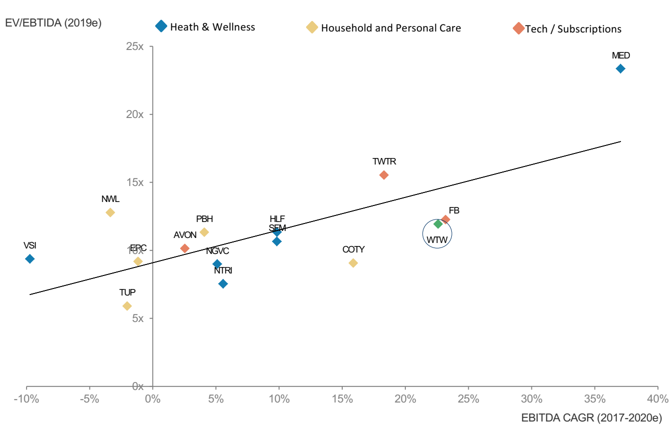
Source: Company data, Morgan Stanley Research

Exhibit 6: Strong Cash Flow Generation Likely Drives Substantial Deleverage to ~2.3x in 2019e



Source: Company data, Morgan Stanley Research

Exhibit 7: WTW Trades at ~3x EV/EBITDA Discount Relative to Peers in Multiple Adjacent Industries



Source: Thomson Reuters, Bloomberg, Morgan Stanley Research

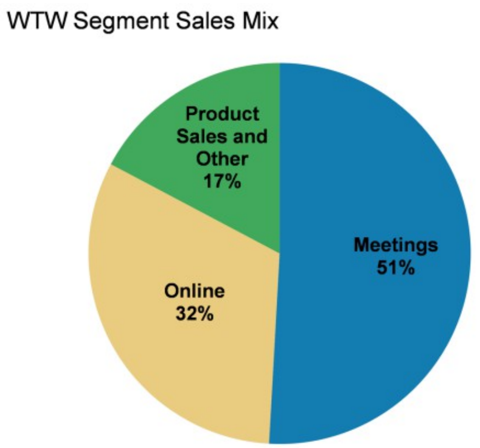
Exhibit 8: Bull / Base / Bear Analysis Points to a Slightly Positive, But Wide Risk / Reward Skew

	WTW		
	Bear	Base	Bull
'17-'20e Sales CAGR	6%	12%	17%
2020 EBITDA Margin	29%	34%	36%
'17-'20 EPS CAGR	**13%**	**44%**	**61%**
2019e EPS	$ 2.90	$ 4.07	$ 5.05
P/E	14x	19x	23x
Per Share Value	$ 39	$ 76	$ 114
% Upside / Downside	*-46%*	*4%*	*56%*

Source: Company data, Morgan Stanley Research

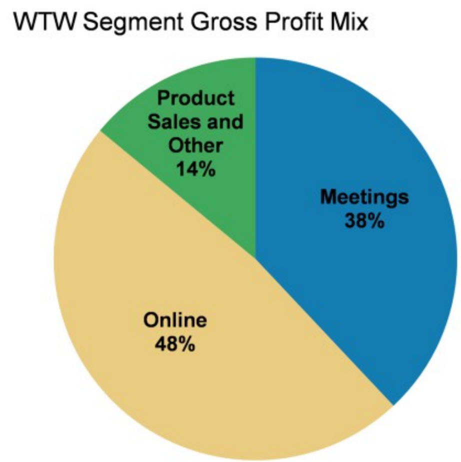
WTW Operations at a Glance

Exhibit 9: WTW Earns ~83% of Revenue from Member Subscriptions...



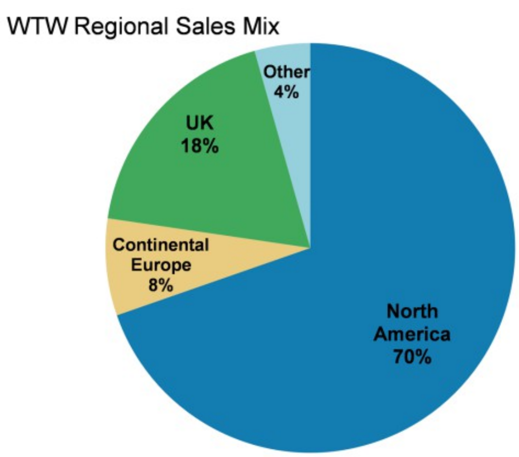
Source: Company data

Exhibit 10: ...and 86% of Gross Profit, Tilted to Higher-Margin Online Segment



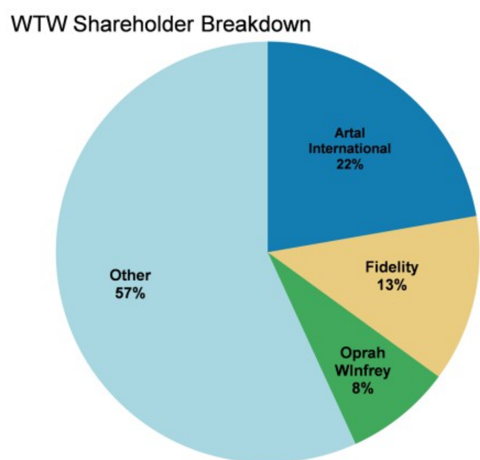
Source: Company data

Exhibit 11: 70% of Sales Are in North America, with Majority of Remaining 30% in Europe



Source: Company data

Exhibit 12: Top 3 Shareholder Now Own ~43% of Shares, Down from ~67% in May 2018



Source: Company data, Morgan Stanley Research

Exhibit 13: WTW Has No Direct Peers, but Competes with a Variety of Companies Across Multiple Industries

Industry	Select Competition
Health & Wellness (H&W)	Herbalife (HLF), Medifast (MED), Natural Grocers (NGVC), Nutrisystem (NTRI), Sprouts Farmers Market (SFM), Vitamin Shoppe (VSI)
Household & Personal Care (HPC)	Coty (COTY), Edgewell (EPC), Newell Brands (NWL), Prestige Brands (PBH), Tupperware (TUP)
Internet / Subscriptions	Blue Apron (APRN), Facebook (FB), Netflix (NFLX), Spotify (SPOT), Stitch Fix (SFIX), Twitter (TWTR)
Emerging Competition	Free online groups / communities, new health / diet trends

Source: Company data, Morgan Stanley Research

Key Debate 1: Can WTW Materially Grow Its Addressable Market?

Market View: WTW's total addressable market (TAM) is worth at least $66bn (estimated value of the US commercial weight loss market), and likely much higher after accounting for international subscribers, demographic expansion efforts, and rebranding impacts. Therefore, WTW has a long expansion runway to grow its TAM and sustain recent above-trend subscriber and revenue growth.

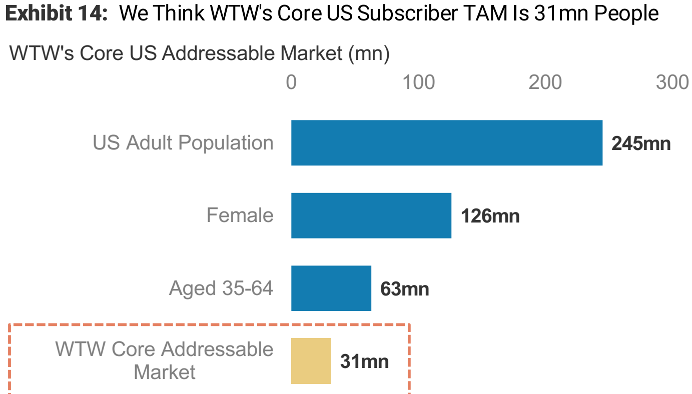
Our View: Our proprietary market sizing analysis indicates a TAM of 50mn subscribers (31mn within WTW's core demographics), worth ~$18bn in potential revenue. These totals are likely lower than the market assumes, but additional progress on lifestyle / rebranding initiatives could materially expand the TAM over time. However, we note a lack of evidence that WTW has attracted incremental demographic groups or subscribers with more diverse lifestyle interests. Thus, we stay cautious on the TAM expansion opportunity and view WTW's current TAM as a limiting factor for sustainable long-term subscriber growth.

Where We Could Be Wrong: On the upside, WTW's TAM may be much larger than we estimate, implying WTW has a longer expansion runway. Furthermore, TAM expansion efforts may prove successful faster than we think, especially in attracting new demographics to the WTW platform. On the downside, much of WTW's TAM may be permanently unreachable due to a long-standing and possibly structural lack of uptake of weight management programs.

We Estimate a 50mn Subscriber TAM, Worth ~$18bn

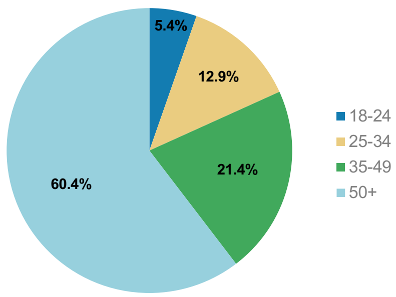
In our view, WTW's total addressable market (TAM) consists of 50mn people globally, of which 31mn are within WTW's core demographic groups. We first broadly define WTW's core subscriber base as middle-to-older aged women (35-64) in the US who are either overweight / obese or are actively trying to control their weight. We use a variety of existing studies and analyses to measure these cohorts, and estimate WTW's core addressable market consists of roughly 31mn people in the US (Exhibit 14).

Exhibit 14: We Think WTW's Core US Subscriber TAM Is 31mn People



Source: US Census Bureau, CDC, Gallup, NCBI, GfK MRI (The Survey of the American Consumer), Morgan Stanley Research

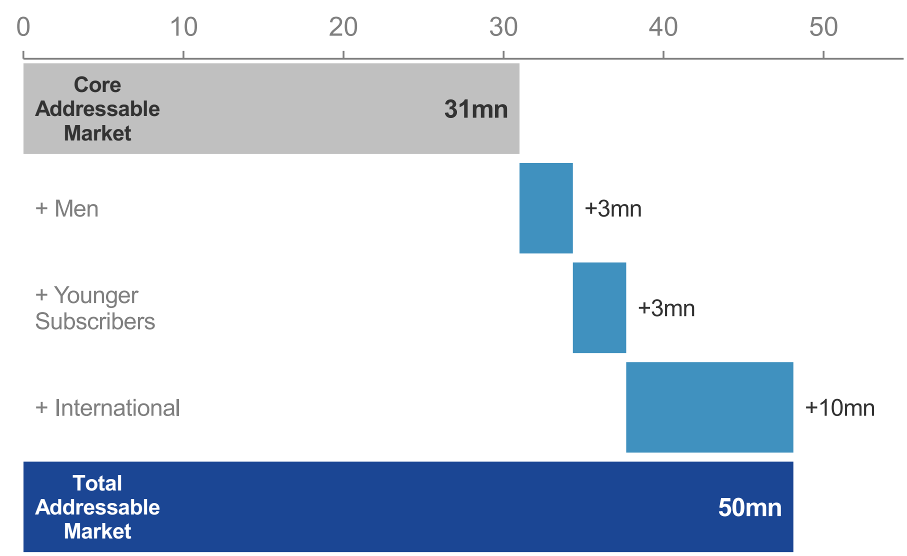
Exhibit 15: WTW Age Breakdown



Source: GfK MRI

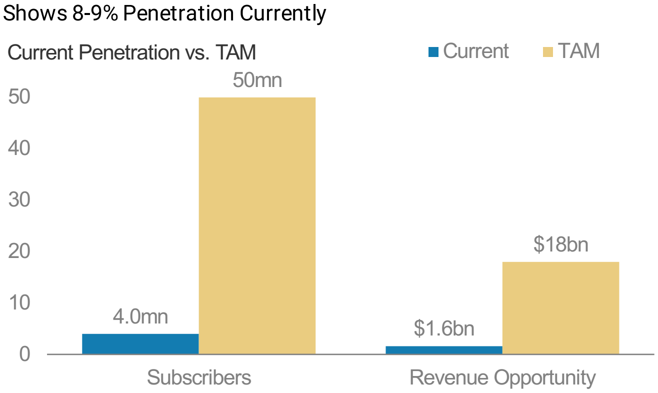
Using our core TAM estimate as a base, we think WTW's all-in global TAM is ~50mn people, implying 8-9% current penetration. Within WTW's subscriber base, ~10% are male, per management. Additionally, while the average age of a WTW subscriber is in the low 50s, a smaller tail are younger female subscribers (aged 18-34); based on survey data, we estimate these subscribers are ~17% of WTW's subscriber base (Exhibit 15). Adding these demographics boosts the core US addressable market by ~20%. Additionally, one third of WTW subscribers are international, which we view as unlikely to change near-term. Therefore, assuming a constant demographic mix as WTW grows, we think the total global addressable market is roughly 50mn subscribers (Exhibit 16). **As such, WTW's 4.5mn current subscribers implies ~9% penetration of the 50mn TAM, and expected year-end subscribers of 4mn implies ~8% penetration.**

Exhibit 16: We Estimate WTW's Total Addressable Market is 50mn People



Source: Company data, Morgan Stanley Research

Exhibit 17: WTW Current Subscriber Metrics vs. TAM Opportunity Shows 8-9% Penetration Currently

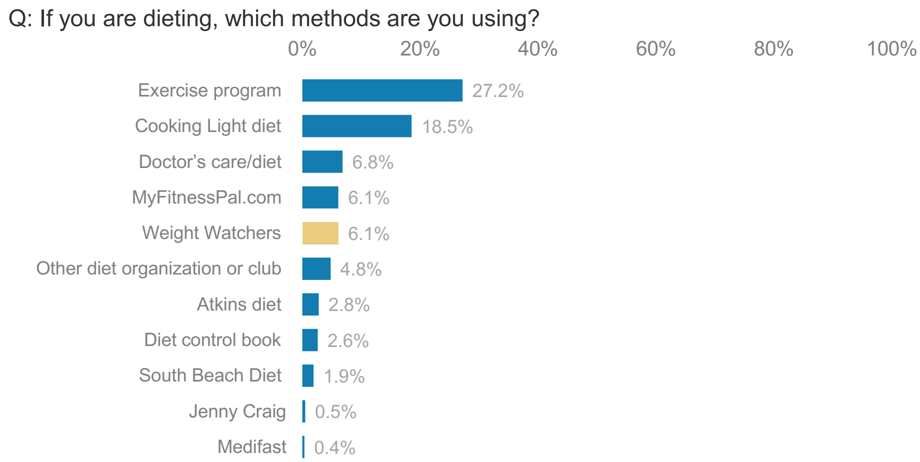


Source: Company data, Morgan Stanley Research. Note: Current metrics reflect year-end 2018e forecasts.

We think WTW's global TAM translates to a potential revenue pool of ~$18bn. Based on our long-term revenue per subscriber forecasts for meetings and online subscription (~$40/month for meetings and ~$17/month for online), we estimate WTW's blended average annual revenue per subscriber is ~$352. Therefore, we see an upper bound of ~$18bn for WTW's subscription business, which we note typically accounts for 75-80% of total revenues. With 2018e subscription revenues of $1.6bn, this implies WTW has captured roughly 9% of available dollar share (Exhibit 17).

WTW's low penetration amongst dieters could indicate a structural inability to reach its TAM potential, in our view. Despite WTW's existence since the 1960s and powerful brand association with weight loss, just 6% of dieters in the US are subscribers to WTW, implying the vast majority of dieters are choosing not to use WTW despite being within WTW's target demographic (Exhibit 18). While the reasons for this lack of broader uptake are unclear despite the program's scientifically-proven track record, we think many consumers simply believe that they can lose weight themselves, a sentiment which WTW management shares. However, we worry that if Weight Watchers has yet to determine the formula to penetrate the 94% of dieters who aren't WTW subscribers, these may be structurally unreachable customers, posing a risk to WTW's ability to meaningfully grow its TAM penetration.

Exhibit 18: Just 6% of Dieters Subscribe to Weight Watchers, Indicating Vast Majority Are Not Subscribers



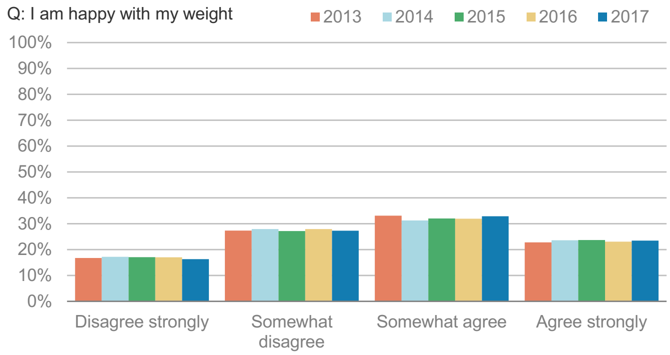
Source: GfK MRI (The Survey of the American Consumer)

Can WTW's Rebranding and Demographic Expansion Efforts Expand the TAM?

We think a key tenet of the Bull Case revolves around WTW's ability to meaningfully expand its TAM through ongoing rebranding and demographic expansion efforts. Our above analysis quantifies WTW's addressable market as it has historically been defined and using current subscriber demographic profiles. However, we note a concerted strategic effort under CEO Mindy Grossman, who assumed the role in July 2017, to expand WTW's appeal and broaden its subscriber reach.

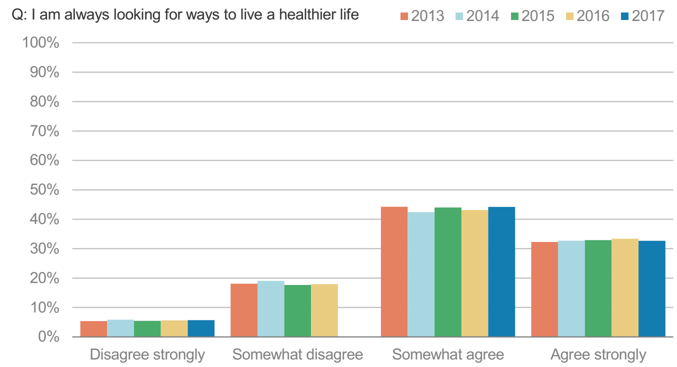
At a high level, consumer interest in dieting and health & wellness has not materially changed over the past 5 years. Despite significant publicity and media attention surrounding Americans' desire to live healthier lives, survey data indicates the share of American consumers who have changed their attitudes on weight management and healthier living over the past 5 years is virtually unchanged (Exhibit 19 and Exhibit 20). Thus, we think it is unlikely WTW's addressable market as we currently frame it will change solely due to renewed consumer interest in dieting, or even health & wellness more broadly.

Exhibit 19: The Percentage of Americans Who Are Happy with Their Weight Is Essentially Unchanged Over the Past 5 Years...



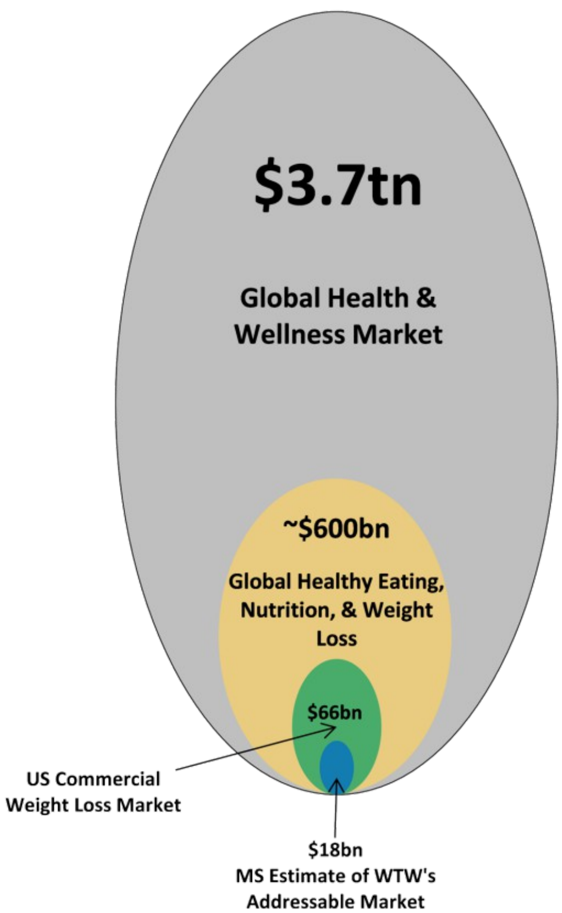
Source: GfK MRI, The Survey of the American Consumer

Exhibit 20: ...While the Percentage Who Are 'Always Looking for Ways to Live a Healthier Life' is Also Unchanged



Source: GfK MRI, The Survey of the American Consumer

Exhibit 21: Global Health & Wellness Market



Source: Company data, Global Wellness Institute, Market Data Enterprises, Morgan Stanley Research

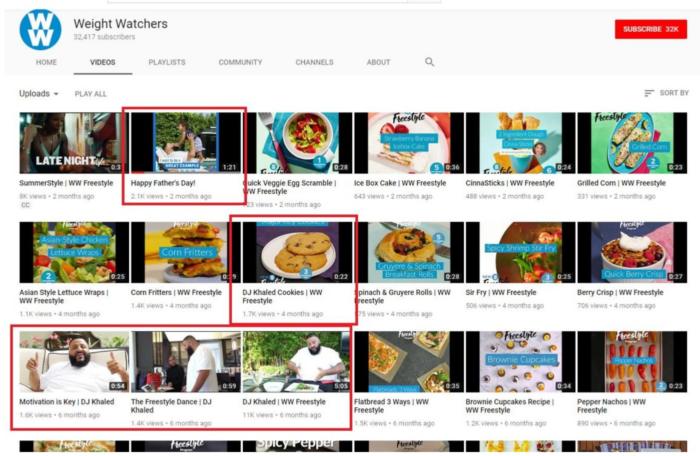
Therefore, to sustainably expand its TAM, WTW likely needs to penetrate the much larger and more wide-ranging health & wellness market, worth an estimated $3.7tr globally. Of the $3.7tr, some ~$600bn falls within the healthy eating, nutrition & weight loss market, which we view as more directly related to WTW's core offering. We also note the more narrowly defined US commercial weight loss market is worth an estimated $66bn, but we think WTW's actual TAM is much lower, at ~$18bn (Exhibit 21). That sad, if WTW can successfully rebrand itself from a pure dieting and weight loss service to an all-inclusive, health & wellness lifestyle destination, we think it is possible for WTW to materially broaden its TAM to include subscribers who are not explicitly targeting weight loss.

In our view, though, it will take considerable time for WTW to reposition its brand so dramatically and fundamentally. WTW's decades-long status as the champion of weight loss programs, and the powerful name recognition of its Weight Watchers brand name, may actually hinder WTW's brand repositioning efforts given such close association between Weight Watchers and weight loss / dieting. Brand recognition of WTW is likely already very high among consumers interested in weight loss, and it may be difficult for WTW to change such an ingrained perception. As share gain opportunities are likely limited considering WTW has no direct commercial competitors in the US, we agree with management's strategy to try to expand the category through broadening WTW's appeal to more consumers, since any category growth is likely to accrue primarily to WTW - but we nonetheless see significant execution risk.

We think more tangible near-term opportunities exist for WTW to expand its demographic scope near-term, specifically to men and younger consumers. We note renewed efforts under Grossman to reach both younger consumers and more men. In the past year, WTW has partnered with a number of male celebrities, including artist/producer DJ Khaled, filmmaker Kevin Smith, and Chef Eric Greenspan (Exhibit 22,

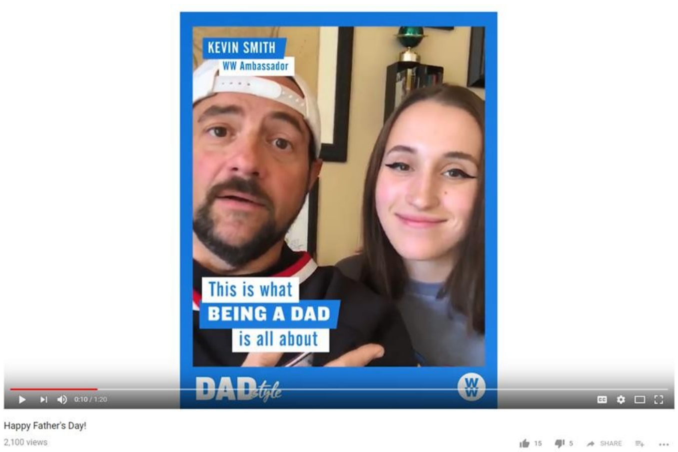
Exhibit 23 and Exhibit 24); WTW has also partnered with the New York Giants for the 2018-19 NFL season. We note that back in 2013, WTW ran a tailored ad campaign featuring NBA Hall of Famer Charles Barkley aimed at men, which temporarily boosted male penetration to the high teens from its normalized ~10% rate. We think a more long-term focused effort to attract men to Weight Watchers has the potential to grow penetration back to a similar level. Management has been clear that it does not intend to create a 'Weight Watchers for Men' subscription option, which we agree with, and we think potential exists for WTW to grow its men's business without running short-term oriented marketing campaigns, as the company has done in the past.

Exhibit 22: We Note a High % of Recent WTW Ads Aimed at Men or Featuring Male Endorsers



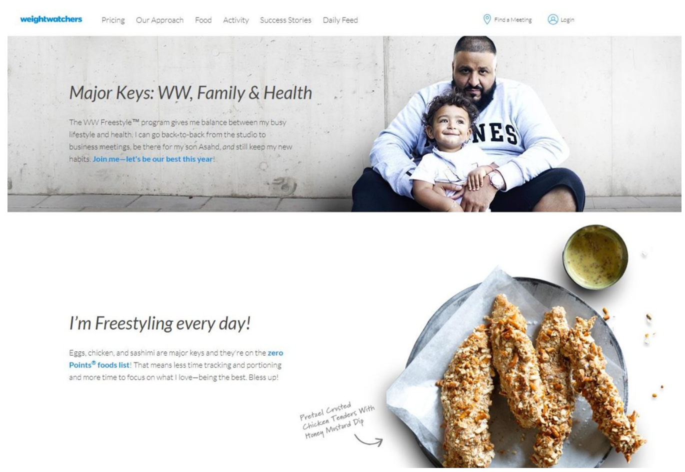
Source: Company YouTube page

Exhibit 23: Kevin Smith Featured in Father's Day TV Advertisement



Source: Company YouTube page

Exhibit 24: DJ Khaled's Dedicated Page on Weight Watchers Website



Source: Company website

In addition to men, we see scope for WTW to increase its penetration with younger consumers, primarily in the 21-34 age group. Management has stated the average online subscriber is 10 years younger than the average meetings subscriber, implying online subscriber are in their early 40s, on average. As mix shift continues to online subscribers from meetings subscribers, this should be a positive tailwind for expanding WTW's age reach.

While more realistic in the near-term, evidence of a material demographic shift is still

lacking; we need to see more proof to get more positive on the trajectory. We note that while the absolute number of male subscriber sign-ups in FY18 to date has been higher relative to past years, the overall percentage of men on the platform has remained steady at ~10%. To us, this type of proportional growth with the entire WTW subscriber base is already accounted for in our prior TAM analysis. Additionally, the demographic makeup of WTW's +33% online subscriber growth in FY17 was largely the same as prior accelerations in growth.

On a more constructive note, management has stated 40% of new subscribers in 2018 were first-time users of the Weight Watchers platform, compared to a ~33% rate historically. We view this uptick as a positive indication that WTW is reaching consumers who may not have otherwise tried it in the past, although the demographic makeup of these subscribers still appears to be in-line with WTW's stated metrics. Overall, as WTW has not sustainably attracted new demographic cohorts to its platform despite past efforts, we stay cautious until we see evidence of more tangible progress.

Key Debate 2: What Are Weight Watchers' Subscriber and Revenue Growth Trajectories?

Market View: WTW is likely to hit its $2bn 2020 revenue target ($1.3bn in 2017) behind +HSD% sales growth and 5mn subscribers at year-end 2020. Futhermore, WTW can maintain elevated growth through 2020 and likely beyond. Key drivers include an improved value proposition through WTW's digital platform and Connect social media service, as well as a redefined brand focused on health & wellness and not simply dieting / weight loss.

Our View: Despite recent improvements, we think it is still early in WTW's transformation, and we therefore view WTW's subscriber growth targets as a 'show-me' story. We forecast WTW to hit 5mn subscribers by 2020, but fall short of management's revenue target due to mix shift to lower-revenue online subscribers. Longer-term, we expect subscriber growth to moderate as the growth story loses steam and as WTW must increasingly compete with FB to drive online growth. We forecast a +16% '17-'20 subscriber CAGR and +13% revenue CAGR, with growth slowing to +MSD% / +LSD% in the '20s.

Where We Could Be Wrong: We may be underestimating the magnitude and longevity of WTW's transformation, which could drive double digit subscriber and revenue growth to persist for longer than our Base Case forecasts. Furthermore, retention may improve faster than we expect, providing a tailwind for outsized net subscriber growth. Alternatively, subscriber growth may slow in the next couple years as WTW's growth trajectory peaks in 2018, caused by WTW increasingly needing to grow off a larger subscriber base and as the positive effects of WTW's platform changes diminish over time. Competitive threats, including increasingly from Facebook, may also pressure WTW's newer and less robust digital platform.

Will WTW Achieve 2020 Targets of $2bn Revenue and 5mn Subscribers?

Our analysis of WTW's subscriber growth trajectory indicates some risk to management's $2bn revenue target by 2020. We think this target is especially relevant to investors as it is the only longer-term financial guidance provided by management, and Street estimates closely track to $2bn in revenue by 2020. As we expect WTW to trade primarily on its top line trajectory due to the company's high profit flow through, we think WTW's revenue target, driven by underlying subscriber growth, likely dictates share movement.

First, we note WTW has oscillated between periods of rapid subscriber / revenue growth and downturns, reflecting significant performance volatility over the past decade. We note WTW's stock price is highly correlated to organic growth, reflecting the importance of the top line in driving share movement (Exhibit 25). Advances can generally be attributed to innovations to the Weight Watchers program and periodic celebrity endorsements, while declines have been driven by complacency and emerging trends / competition. We detail these periods below.

Exhibit 25: WTW Share Price History Shows Significant Correlation (75%) With Organic Growth

Source: Company data, Thomson Reuters

1. **May 2010 - May 2011:** Shares advance ~220%, driven by the introduction of the revamped PointsPlus system in November 2010 and a celebrity partnership with singer/actress Jennifer Hudson, which began in mid-2010. Organic growth jumps to +23% in FY11 from +LSD% the prior year, but quickly falls to -MSD% in FY12.

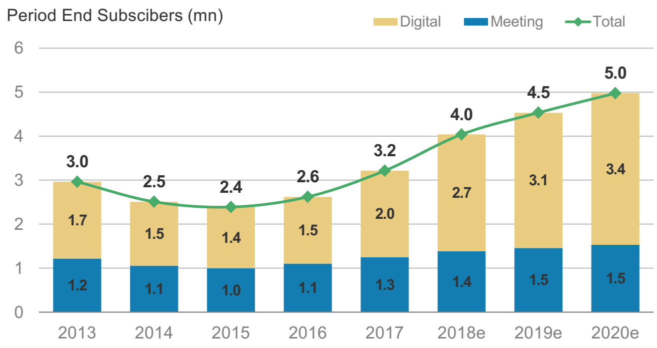
2. **Early 2012 - Late 2015:** Shares decline ~95%. Primary drivers include emerging digital competition from free apps / activity devices, WTW missing the broader consumer shift to mobile after being a first mover on the web a decade earlier, and running an insular business as the industry leader and incumbent player. Organic growth decelerates to negative low teens in FY14 and FY15, while period end subscribers fall 12% from 2013-2015.

3. **October 2015 - November 2015:** Shares advance ~290% in the first two months following the announcement of Oprah Winfrey's partnership and strategic alliance with Weight Watchers, including a 10% ownership stake.

4. **January 2017 - July 2018:** Shares advance ~750%, driven by 4 key factors: improved public perception and consumer uptake of WTW due to Oprah's involvement with the company; the appointment of retail veteran Mindy Grossman as CEO in mid-2017, which was positively received by the market; a revamped digital platform and mobile app, including the Connect social network launch in early 2016; and the introduction of WW Freestyle, a more flexible evolution of Weight Watchers' weight management program. Organic growth accelerates to +12% in FY17 and +18% in 1H18.

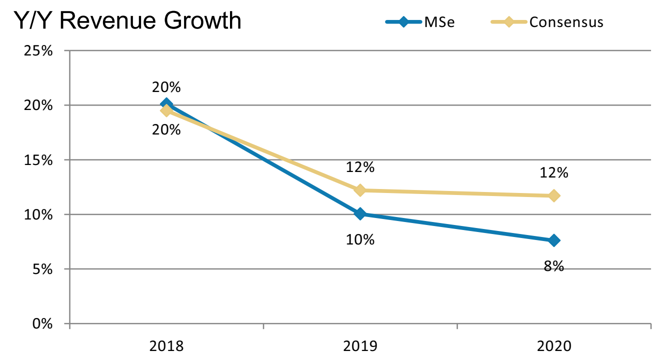
We forecast 5mn subscribers at year-end FY20 (Exhibit 26), in-line with management's target, but revenue of $1.85bn, slightly below management's $2bn target and consensus estimates. We credit WTW for proving its ability to innovate the platform and value proposition over time, which has subsequently driven periods of above-trend subscriber and revenue growth. However, we note WTW is now roughly two years into its most recent expansion phase, which may impede WTW's effort to maintain double digit growth rates for the next few years. We also note consensus estimates are expecting no revenue growth slowdown from FY19 to FY20 (Exhibit 27), which seems more reflective of a Bull Case scenario in which WTW extends its above-trend subscriber growth cycle longer than historical trends would indicate, rather than a Base Case.

Exhibit 26: We Forecast 5mn Subscribers at Year-End 2020



Source: Company data, Morgan Stanley Research

Exhibit 27: Our Revenue Forecasts Are Below Consensus in 2020

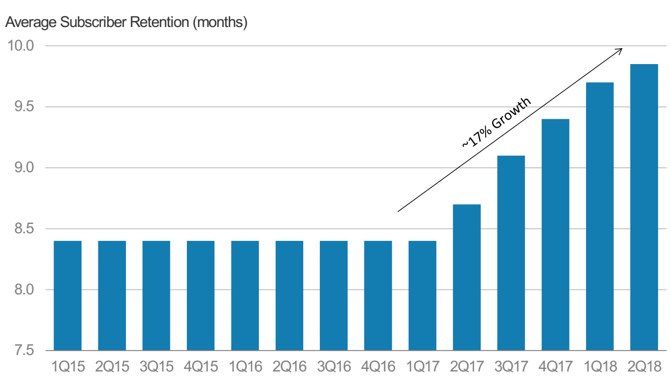


Source: Morgan Stanley Research, Thomson Reuters

Assessing the Impact of Improving Retention on Subscriber Growth

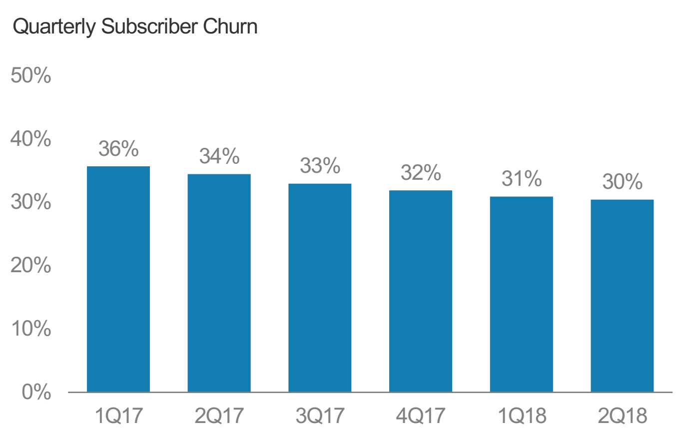
WTW's subscriber retention has historically been very sticky, but increased notably in the past year. Historically, WTW's average subscriber retention has been between 8 and 9 months, which we view as quite short compared to other subscription services on the market. However, beginning in 2Q17, retention began sharply rising, to nearly 10 months in 2Q18 (Exhibit 28). As a result, our estimate of quarterly churn (defined as the percentage of subscribers who end their subscription in each quarter) has fallen from 36% to 30% over the same time horizon, a 17% decrease (Exhibit 29).

Exhibit 28: We Estimate Subscriber Retention Has Grown ~17% From ~8.4 Months in 1Q17 to ~9.85 Months in 2Q18...



Source: Company data, Morgan Stanley Research

Exhibit 29: ...Which Has Likely Lowered Quarterly Churn From ~36% to ~30%

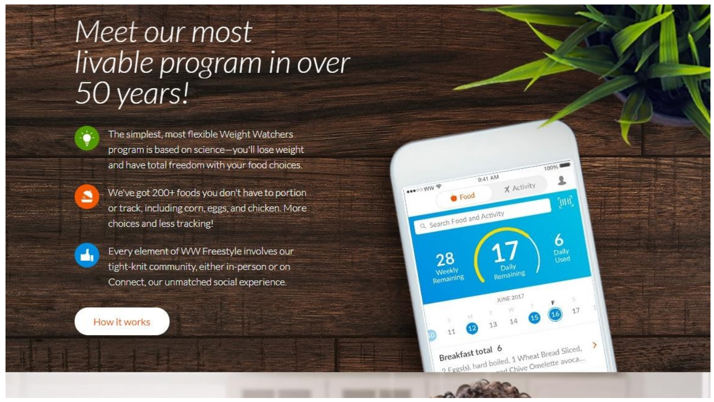


Source: Company data, Morgan Stanley Research

We identify 4 key drivers of improved retention, which we view as capable of modestly improving retention further. Retention has likely been driven by changes to the WTW offering which have materially improved the subscriber value proposition over the past 1-2 years:

- **WW Freestyle is a more flexible lifestyle program.** Weight Watchers has become synonymous with its innovative Points system, which allows subscribers to track and easily quantify the nutritional 'value' of their diet in an effort to help subscribers achieve their weight goals. In late 2017, WTW announced its newest innovation to the program, WW Freestyle, which redefines 200 common foods as 'zero point' foods. Freestyle makes it significantly easier for subscribers to adapt the Points system to everyday eating habits, making it less likely subscribers will churn due to frustrations sticking with the program or tracking their points (Exhibit 30).

Exhibit 30: WTW Marketing of Freestyle Program Focuses on 'Livability' of Program

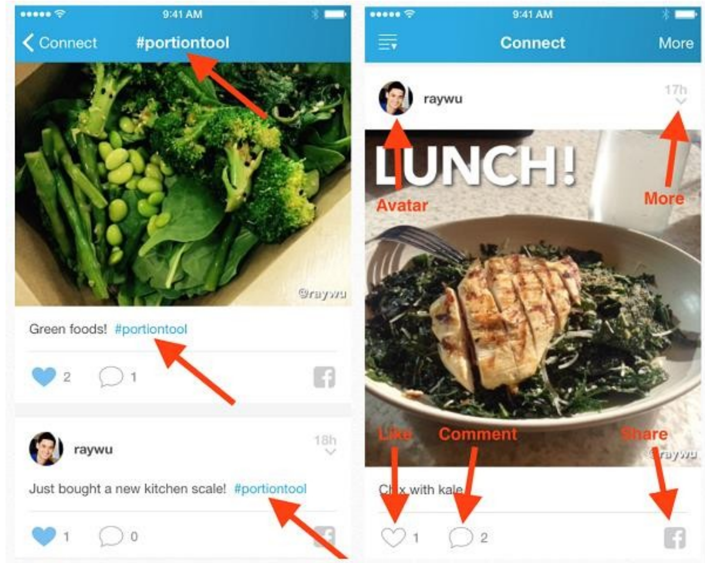


Source: Company website

- **Rebranding from a focus on achieving weight loss goals to general health & wellness.** Historically, one of the primary reasons subscribers churned on WTW was because they hit their weight loss goals, around which the WTW program was centered. However, as the company is increasingly shifting its messaging and brand positioning towards a more comprehensive health & wellness destination, the emphasis on weight loss is subsequently lessening, giving subscribers less reason to churn after hitting their weight loss goals.

- **Higher engagement through Connect.** We think WTW has successfully integrated its Connect social platform into the broader Weight Watchers ecosystem, with natural connections to the company's broader mission of subscriber engagement and interaction. While it is difficult to quantify exactly how much credit can be given to Connect for improved retention, we think the growth of the Online segment has been driven primarily by the success of Connect in attracting and retaining subscribers. As online subscribers have retention levels roughly one month higher than meetings subscribers, we think Connect has meaningfully benefited retention from a mix standpoint as well.

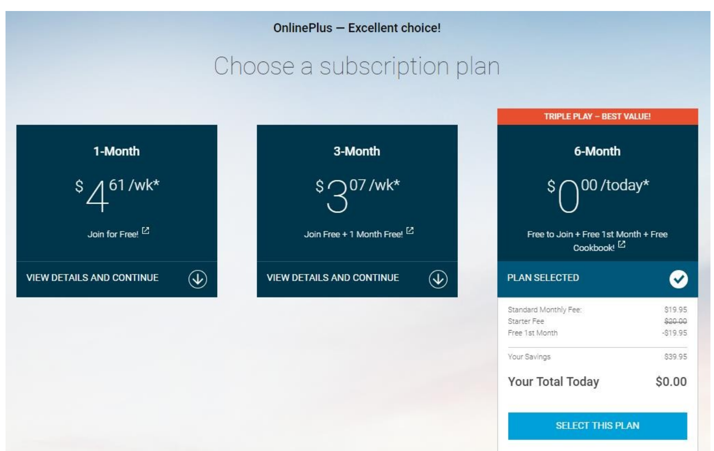
Exhibit 31: WTW Connect Social Media Platform



Source: Company data

- **Higher uptake of longer initial subscription plans.** In 1Q18, 25% of new subscribers chose the 6 month subscription plan vs. just 5% the prior year. Management attributes about a quarter of the increased retention to this greater uptake of the longer 6 month commitment, which lowers churn of subscribers who otherwise may have left after only a couple months. As WTW more effectively advertises its 6 month plan and continues to prominently feature new no-money down options (Exhibit 32), we think this higher rate of 6 month uptake is likely sustainable.

Exhibit 32: WTW Prominently Features No-Money Down 6-Month Subscription Option on Selection Page



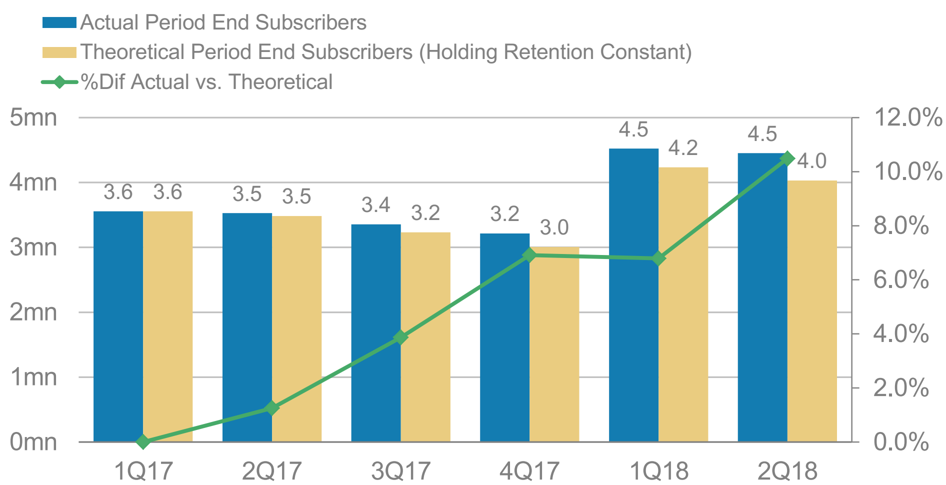
Source: Company website

Notably, we do not attribute higher retention to Oprah Winfrey's involvement in the company, nor do we consider her a key driver (or prerequisite) for future subscriber growth or retention. While WTW's initial revival in late 2015 / early 2016 is likely due in large part to Oprah's involvement with and endorsement of the brand, we think that nearly three years later her influence is less likely to drive subscriber or retention growth. As an example, the Jennifer Hudson campaign helped drive 23% organic growth in FY11, but fell dramatically the following year after initial momentum faded. While

Oprah has been a notably larger celebrity influence than any prior WTW endorser, precedent indicates that celebrity endorsements have relatively low shelf lives. We also note WTW has already reduced Oprah's presence in recent marketing campaigns, and she is not featured at all in international advertising, even as we note international subscribes grew 26% in 2Q18. We also note that retention only started increasing in 1Q17, over a year after Oprah began her partnership with the company.

How important is retention? We estimate that if WTW's retention had remained constant since 1Q17, period end 2Q18 subscribers would have been ~11% lower. By steadily increasing retention from ~8.4 months in 1Q17 to nearly 10 months in 2Q18, we estimate WTW has grown its subscriber count an incremental ~500k subscribers to 4.5mn, vs. 4mn subscribers had retention not increased ta all (Exhibit 33). Assuming average quarterly revenue per subscriber of $92 (as of FY17 financials), these incremental subscribers accounted for roughly $109mn of additional revenue, or 7% of WTW's cumulative subscription revenue from 2Q17 through 2Q18 - a meaningful amount, in our view.

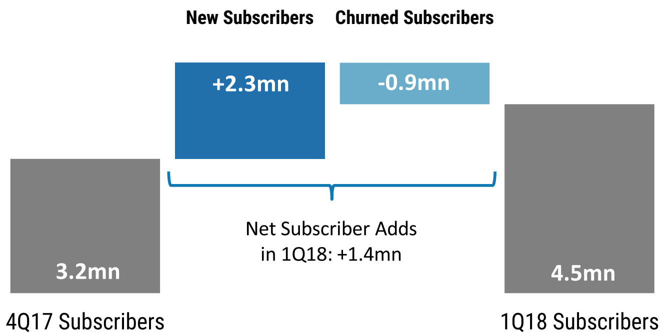
Exhibit 33: We Estimate WTW Added ~500,000 Incremental Subscribers in 2Q18 from Increased Retention



Source: Company data, Morgan Stanley Research

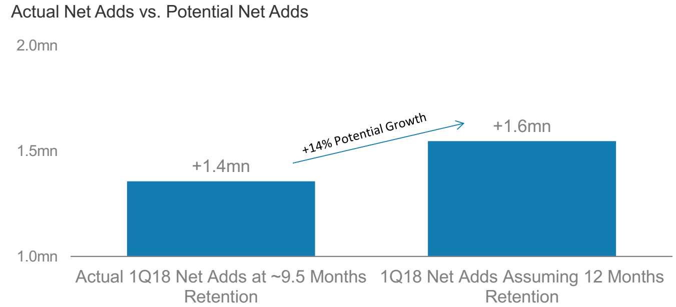
We think retention can continue to modestly improve over time, and we forecast average retention of 10.4 months by 2020 and 11 months by 2025. In our view, the aforementioned drivers of recently improved retention likely have more runway over the next decade as WTW's repositioning is more broadly understood and accepted by current and potential subscribers. As retention has grown ~1.5 months in just over a year, we think it is reasonable and perhaps slightly conservative to assume retention will grow another ~0.5 months over the next 2.5 years, ultimately improving to 11 months by 2025. Our estimates imply quarterly churn falls to 27% by 2025 (from 30% currently), with annual churn falling to 110% (from 135% in 2017). In a Bull Case scenario, we see WTW able to more quickly scale retention, possibly to 12+ months by 2020. To illustrate the impact, we estimate that in 1Q18 (WTW's most significant quarter by net subscription adds), WTW added 2.3mn new subscribers and churned 900k, resulting in 1.4mn net subscribers (Exhibit 34). If retention had been 12 months instead of the estimated ~9.7 months, WTW's net subscriber growth would have likely been 14% higher (Exhibit 35).

Exhibit 34: We Estimate WTW Added 2.3mn Subscribers and Churned 0.9mn in 1Q18, Resulting in 1.4mn Net Subscribers...



Source: Company data, Morgan Stanley Research

Exhibit 35: ...But if Retention Was 12 Months Instead of ~9.5 Months, Net Subscribers Would Have Been 1.6mn, 14% Higher

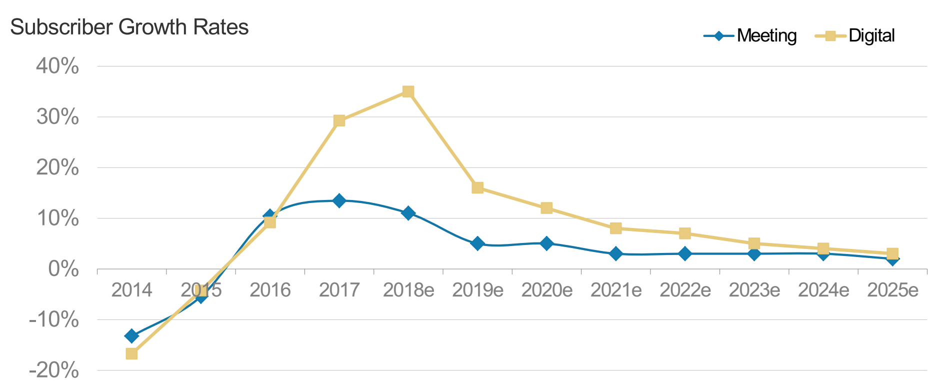


Source: Company data, Morgan Stanley Research

How Long Can Elevated Subscriber Growth Sustainably Continue?

Despite improvements to retention, WTW's elevated churn is likely to remain an impediment to long-term subscriber growth; therefore, we expect growth to moderate over the next decade (Exhibit 36). Given our view that WTW's core TAM is relatively limited, we think it will be difficult for WTW to sustainably grow subscribers in the +HSD% / +LDD% range longer-term as the company must increasingly grow from a higher base and attract (and retain) more peripheral subscribers. We still forecast online subscribers to grow at a double digit rate through 2020, reflecting greater confidence that digital initiatives can drive higher growth for longer in the Online segment.

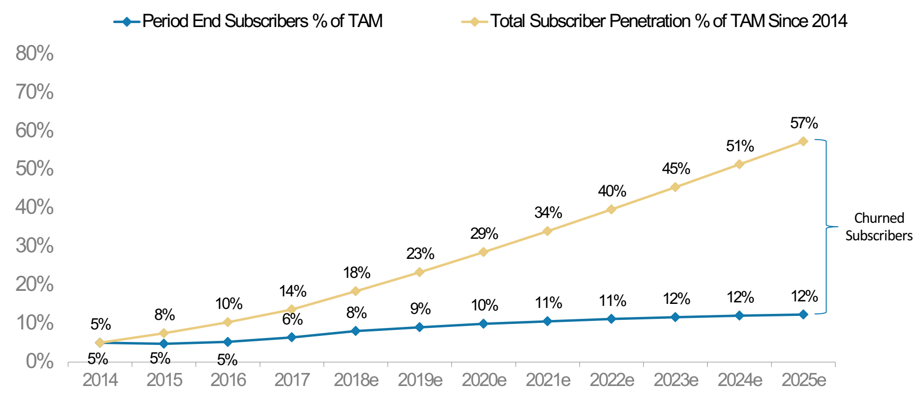
Exhibit 36: We Forecast Subscriber Growth to Moderate Over the Next Few Years Before Falling to +LSD% in the 2020s



Source: Company data, Morgan Stanley Research

Our analysis of subscriber penetration indicates WTW must be tried by nearly 60% of its addressable global TAM to reach our 2025 subscriber forecast of 6.7mn (Exhibit 37). We think this is a reasonable expectation over a prolonged 7-8 year time horizon, and as WTW makes progress appealing to a wider demographic, transforms its value proposition, and moderately improves retention. However, our analysis demonstrates how high churn, which will likely perpetually remain high, will prevent WTW from reaching its TAM. Our 6.7mn subscriber forecast implies ~12% long-term penetration vs. estimated FY18 year-end penetration of ~8%. We also note that by year-end 2018, nearly 20% of WTW's addressable market will have already tried WTW since 2014, another indication of how fast WTW churns subscribers and the necessity for WTW to penetrate its TAM to sustain growth.

Exhibit 37: WTW Must be Tried by 57% of Its Global TAM to Reach Our 2025 Subscriber Forecast



Source: Company data, Morgan Stanley Research. Note: Forecasts assume 40% of future subscribers are entirely new to WTW.

Where could we be wrong? First, we admit that this is a high level analysis with many assumptions, including a static TAM and constant % of subscribers who are entirely new to WTW. Our analysis also ignores demographic changes over time, and uses WTW's 2014 subscriber count as a base point (the first year WTW reported company-wide subscriber counts). **In our Bull Case,** WTW reaches 6.7mn average subscribers by 2021 (+16% '18-'21 CAGR), 4 years earlier than our Base Case, and implicitly assumes significant near-term progress on TAM-expanding initiatives, allowing the company to sustain mid-teens subscriber growth through the early 2020s. **In our Bear Case,** we forecast just 4.7mn average subscribers by 2021 (+3% '18-'21 CAGR), and assumes initiatives stall or are unable to transform the WTW experience, leading to minimal subscriber growth as WTW struggles to grow off a higher base.

From the Internet Perspective, We Are Hesitant to Get Overly Bullish on WTW's Social Strategy

While WTW has made impressive strides improving its retention over the past 1-2 years, in our view its repositioning as a lifestyle brand and social network to further increase retention comes with notable execution question marks. Scale and engagement matter when building a social network...and WTW's estimated ~3mn mobile app users is still very small relative to leading, more general social networks like Facebook and Instagram, which have over 1bn users...and even smaller networks like Twitter, Snap, and Tumblr (Exhibit 38).

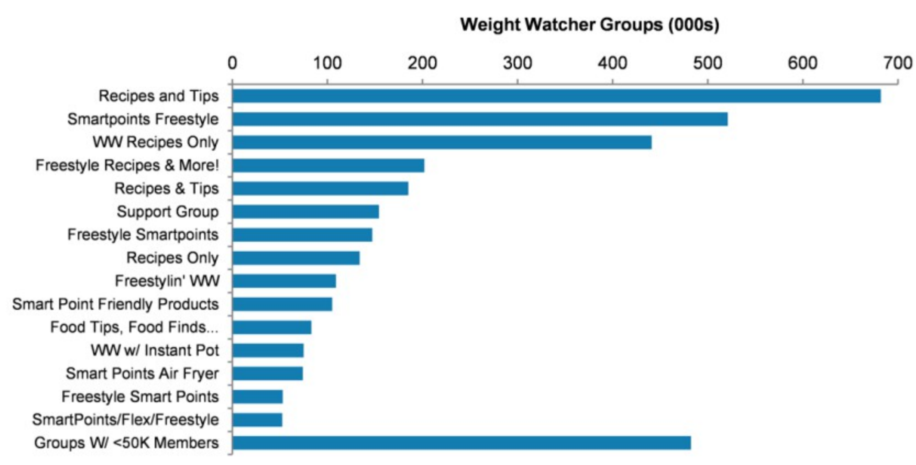
Exhibit 38: WTW Has Significantly Lower Users and Engagement Than Other Competing Social Networks

Logo	Platform	Monthly Users (mn)	Engagement
	Weight Watchers	3	2 min/user daily
Competing Social Networks			
	Facebook (Core)	2,234	~40 min/user daily
	WhatsApp	1,500	100bn messages daily
	Messenger	1,300	
	Instagram	1,000	~30 min/user daily
	Twitter	335	15+ min/ user daily
	Pinterest	200+	<2 min/ user daily
	Snapchat	188 (daily)	30+ min/ user daily
	Tumblr	80	<1 min/ user daily
	Myspace	3	<1 min/ user daily

Source: Company data, comScore, Morgan Stanley Research

WTW's engagement (estimated at 2 minutes per user per day) is also low relative to the other platforms. While we don't expect WTW's app to have as high engagement as the more general networks…**the leading social players' ability to serve multiple use cases for its users creates a larger and more scaled competitor for WTW**. Consider that even our quick search analysis shows that there are 15 WTW groups on FB with 50k+ members (Exhibit 39)…which in our view highlights **how WTW's lifestyle strategy is (in part) putting it in more direct competition with FB**. We also note that groups are a key focal area for FB management, where 200mn people are now members of meaningful groups on Facebook, and management plans to expand this number to 1bn over the next 5 years…which means the competition with WTW (even if indirect) is unlikely to fall off.

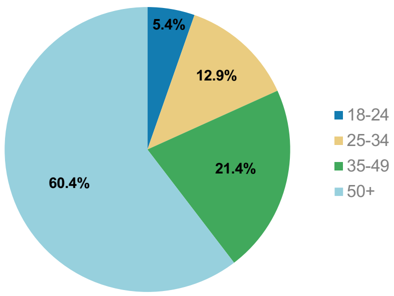
Exhibit 39: Facebook Groups Provide a Meaningful Source of Online Engagement Among Weight Watchers Subscribers



Source: Company data, Morgan Stanley Research

…And we question the brands' relevance with younger consumers. Further, we also question WTW's ability to penetrate Millennials and Gen Z, illustrated by the current

Exhibit 40: WTW Age Breakdown



Source: GfK MRI

user base, which disproportionately skews to older demographics, with 60% of subscribers 50+ years old (Exhibit 40). In our view, this is in part likely due to lack of WTW brand appreciation or awareness from the younger generation. While we expect WTW's ad campaign and marketing efforts to attempt to improve its positioning among this demographic, this is likely to be challenging…in particular given the emerging fitness and lifestyle offerings that WTW must now compete with (Exhibit 41).

Exhibit 41: There Has Been a Proliferation of Fitness and Lifestyle Brands Competing for Younger Demographics

Fitness Wearables and Hardware	Fitness Clubs	Meal Plans and Dieting
Peloton Interactive Cycling	SoulCycle	Blue Apron
Echelon Interactive Cycling	Flywheel	HelloFresh
Fitbit Watch	Crossfit	Purple Carrot
Apple Watch	Equinox	Plated
Nokia Steel Smartwatch	Barry's Bootcamp	Sun Basket
Garmin Fenix 5X Watch	Pure Barre	Terra's Kitchen
Samsung Gear Watch	SLT	PeachDish
Suunto Spartan Watch	24 Hour Fitness	Chef'd

Source: Company data, Morgan Stanley Research

Key Debate 3: What Is the Margin Expansion Opportunity?

Market View: Through a combination of measured expense control and significant gross margin expansion, WTW can keep expenses and subscriber acquisition costs well managed. Overall, WTW can achieve notable operating leverage long-term, with additional gross margin benefits from ongoing mix shift to higher-margin online subscribers.

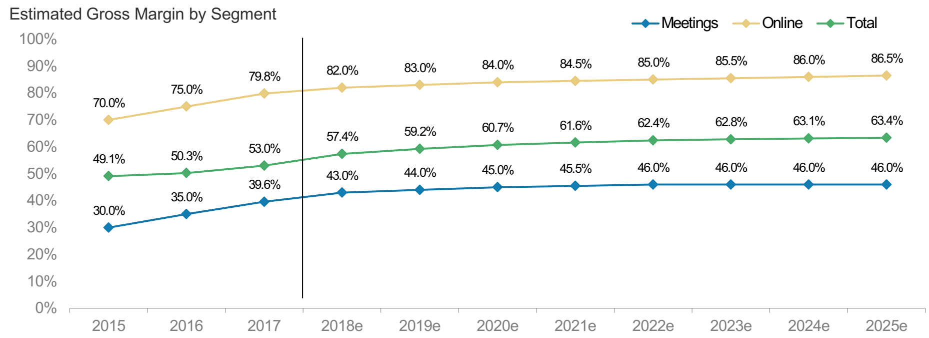
Our View: We generally agree with the consensus view, and forecast ~1000 bps of cumulative gross margin expansion from '17-'25 as well as stable subscriber acquisition costs as growth rates normalize. We expect mix shift to online subscribers to remain a significant gross margin driver as the higher-margin Online segment grows faster than the Meetings segment.

Where We Could Be Wrong: We see the greatest amount of uncertainty over the magnitude of gross margin expansion, which is WTW's key profit driver. The extent of operating leverage from incremental subscribers and magnitude of mix shift to Online may result in our margin estimates being too optimistic or pessimistic. Furthermore, a slowdown in top-line / subscriber growth may necessitate more marketing spend than we forecast, dramatically increasing the cost of growth.

We Forecast Ongoing Gross Margin Expansion

We forecast ~1000 bps of total gross margin expansion from '17-'25, driven primarily by mix shift to higher margin online subscribers. Management has stated that online subscribers currently carry an 80% gross margin vs. meetings subscribers at a 40% gross margin. Therefore, as online subscribers are likely to continue outgrowing meetings subscribers, we expect gross margin expansion to continue for the forseeable future (Exhibit 42). Importantly, we note the gross profit per subscriber is around double for meetings subscribers vs. online subscribers, meaning the total profit contribution from an incremental subscriber is the same currently. Still, online subscribers appear likely to carry a higher incremental margin than meetings subscribers due to very low incremental costs to serve online subscribers. Furthermore, higher forecast growth rates in the Online segment should result in more operating leverage than the relatively lower-growth Meetings segment.

Exhibit 42: We Forecast ~1000 bps of Cumulative Gross Margin Expansion from 2017-2025e, or ~125 bps Per Year, On Average



Source: Company data, Morgan Stanley Research

While a key profit driver, the margin growth story is not in question; however, the magnitude of expansion is more uncertain. With significant gross margin expansion already reflected in consensus estimates and market expectations, stock performance is likely to be driven by profits only if gross margins surprise even further to the upside, or fall short of expectations. To illustrate, we sensitize gross margin expansion potential under a variety of growth assumptions for the meetings and online businesses (Exhibit 43). We note this is a high level overview which assumes the same gross margin rates as in our Base Case. Our range of 2020 GM estimates vary from 58.2% at the low end to 63.7% at the high end, vs. our Base Case forecast for 60.9% GM in 2020e. We forecast 2018e GM% of 57.4%, +438 bps y/y.

Exhibit 43: We Sensitize Our 2020 GM% Forecast to Various Segment Sales Growth Rates. Green Cells Indicate Higher GM% Than Base Case, While Red Cells Indicate Lower GM% Than Base Case

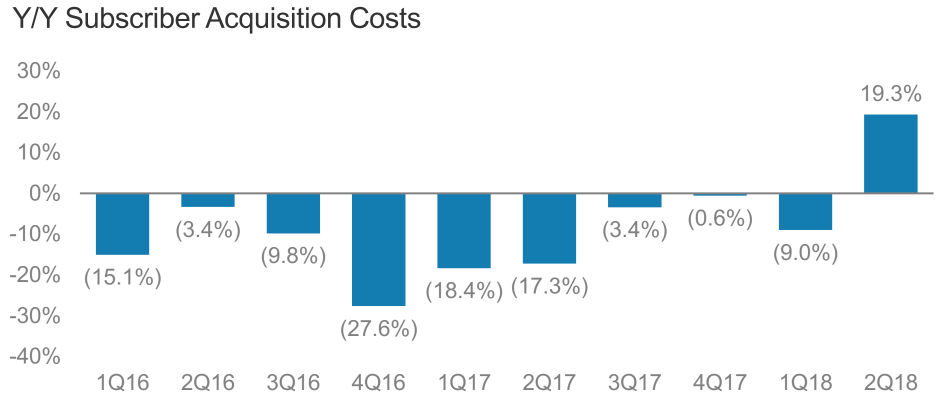
		2020 Meetings Sales				
		$694	$755	$820	$886	$957
2020 Online Sales	$646	60.4%	59.9%	59.3%	58.8%	58.2%
	$702	61.3%	60.7%	60.1%	59.5%	59.0%
	$763	62.1%	61.5%	60.9%	60.4%	59.8%
	$824	62.9%	62.3%	61.7%	61.1%	60.5%
	$890	63.7%	63.1%	62.5%	61.9%	61.3%

Source: Morgan Stanley Research. Note: Blue shaded cells represent MSe Base Case forecasts. Assumes 2020 GM% of 85% for Online, 44.5% for Meetings, and 43.1% for Other. All dollar amounts in millions.

Subscriber Acquisition Costs Set to Normalize

As WTW has returned to net subscriber growth, subscriber acquisition costs have subsequently fallen. Since the beginning of FY16, when subscriber growth turned positive after at least 10 quarters of declines, we estimate WTW's subscriber acquisition costs fell for the following 9 quarters. 2Q18 saw this trend reverse, but we view the increase as a one-quarter blip as WTW was investing ahead of its first Summer of Impact marketing campaign (Exhibit 44).

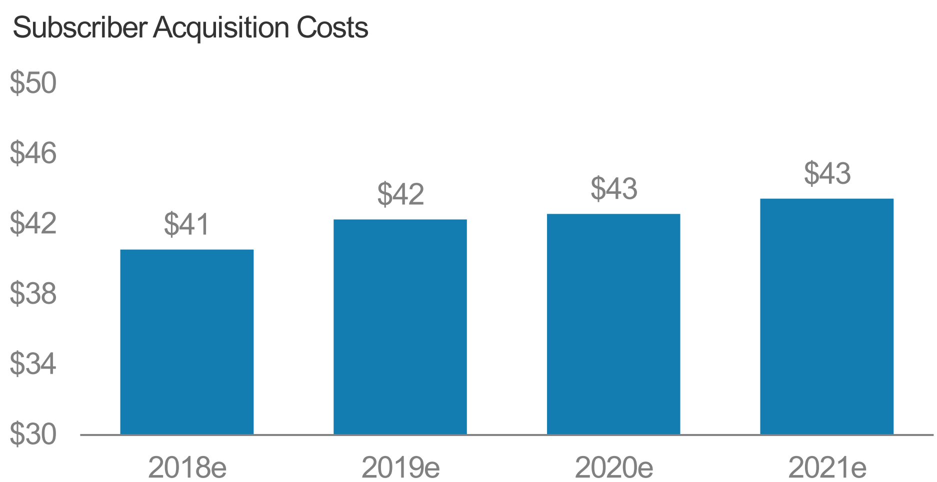
Exhibit 44: Subscriber Acquisition Costs Fell for 9 Straight Quarters Until 2Q18



Source: Company data, Morgan Stanley Research

As subscriber growth stabilizes, we think subscriber acquisition costs are likely to normalize over the next few years. We expect less marketing / advertising leverage over the next few years as the 'low-hanging fruit' of WTW's subscriber acquisition efforts is achieved and as subscriber growth normalizes. We estimate WTW will spend $41 to acquire a new subscriber in 2018, only growing to $43 by 2021 (Exhibit 45).

Exhibit 45: We Expect Stable Subscriber Acquisition Costs Going Forward



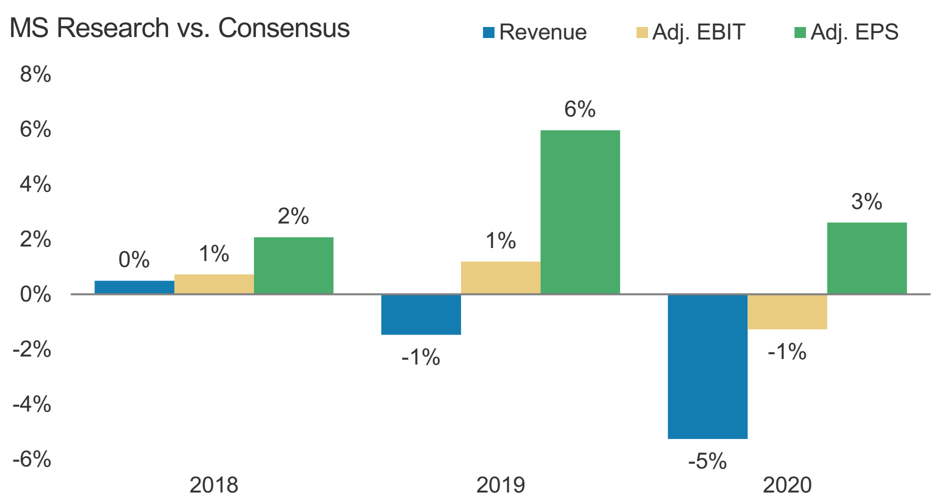
Source: Morgan Stanley Research

Financials

WTW model: +44% forecast EPS growth (+37% ex-tax reform) with low-teens revenue growth and low-20s EBITDA growth. Our WTW financial algorithm is for +12% sales growth, +16% subscriber growth, and ~300 bps of annual EBITDA margin expansion, driving our +44% '17-'20 EPS CAGR, as shown in Exhibit 48. We are bullish on WTW's near-term growth prospects, but reiterate our view that the company's transformation is still early stages, and we are not convinced yet that initiatives can drive sustainable above-trend growth.

Reflecting uncertainty over the long-term growth trajectory, our estimates are relatively in line with consensus in 2019, but fall off slightly in 2020 (Exhibit 46). We stay on the sidelines on our belief that 2020 consensus revenue forecasts may be too high, as they appear to embed more aggressive improvements in retention and subscriber growth than in our Base Case. Additionally, we think a lack of material upward revisions may limit stock performance in the near-term. We also note that below the line items (primarily interest expense and tax rate) cause our EPS estimates to be above the Street despite generally in-line profit assumptions.

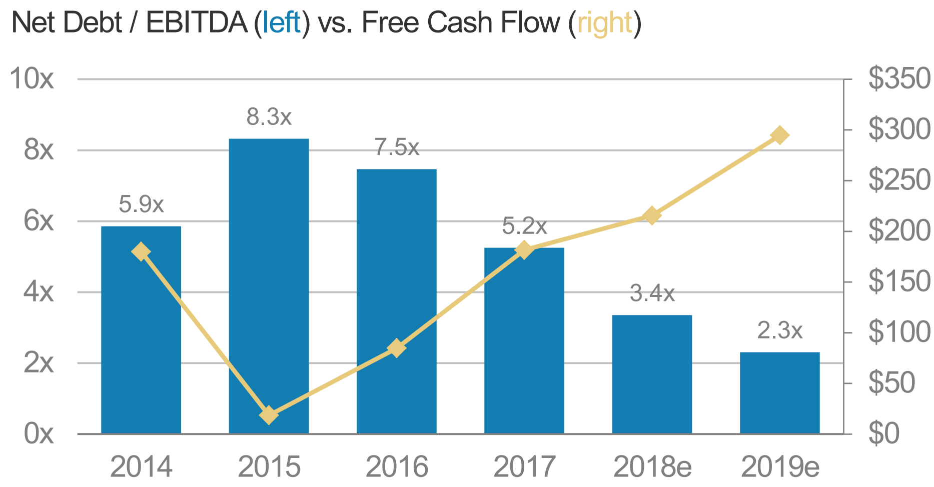
Exhibit 46: Our EBIT Forecasts Are Generally in Line with Consensus Through 2020, But Revenue is Lower in 2020



Source: Morgan Stanley Research, Thomson Reuters

We forecast substantial deleverage, driven by strong free cash flow generation. WTW's low capex, high incremental profit model should drive strong FCF growth over the next few years, which we expect to be used primarily to pay down debt. Leverage peaked at 8.3x net debt / EBITDA in 2015, but strong EBITDA growth combined with consistent debt paydown since then has resulted in meaningful deleverage of over 3 turns through 2017. With consistent operating cash flows of ~$350-400mn, we forecast ~$900mn of cumulative FCF generation between 2018 and 2020, with leverage falling to ~3.4x in 2018 (vs. guidance for 'below 3.5x' debt / EBITDAS) and ~2.3x in 2019 (Exhibit 47). Even with debt paydown, we have cash building in our model and look for further color from management on capital priorities after debt has been paid down.

Exhibit 47: Strong Cash Flow Generation Likely to Drive Substantial Deleverage to 2.3x in 2019e



Source: Company data, Morgan Stanley Research. Note: all dollars in millions.

Summary Financial Metrics

Exhibit 48: WTW Financial Summary

WTW *($ millions except per share data)*	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Total Sales	1,826.8	1,712.0	1,479.9	1,164.4	1,164.9	1,307.0	1,569.8	1,727.4	1,856.2	1,950.1
% Growth	*0.4%*	*-6.3%*	*-13.6%*	*-21.3%*	*0.0%*	*12.2%*	*20.1%*	*10.0%*	*7.5%*	*5.1%*
Gross Margin	58.5%	57.8%	54.5%	49.1%	50.3%	53.0%	57.4%	59.4%	60.9%	62.0%
EBIT Margin	27.2%	27.1%	21.0%	16.0%	17.2%	21.5%	26.4%	29.0%	30.7%	31.9%
EBITDA Margin	29.2%	29.8%	23.7%	20.6%	21.8%	25.4%	29.3%	31.7%	33.3%	34.5%
Net Income Margin	13.9%	12.9%	7.9%	3.4%	5.8%	8.5%	13.6%	16.7%	18.9%	20.6%
Net Income (continuing ops)	253	220	116	39	68	112	213	288	351	401
% Growth	*-19.1%*	*-13.0%*	*-47.2%*	*-66.1%*	*71.6%*	*64.9%*	*90.4%*	*35.3%*	*21.9%*	*14.3%*
EPS (continuing ops)	$4.16	$3.91	$2.05	$0.67	$1.04	$1.64	$3.04	$4.07	$4.90	$5.54
% Growth	*-1.4%*	*-6.0%*	*-47.4%*	*-67.4%*	*55.0%*	*57.9%*	*85.7%*	*33.8%*	*20.5%*	*13.0%*
Dividends Per Share	0.70	0.53	-	-	-	-	-	-	-	-
Free Cash Flow (CFO less Capex)	270.7	261.6	179.9	18.6	84.7	181.6	215.7	300.1	362.6	416.0
Free Cash Flow per Share	$4.44	$4.64	$3.18	$0.31	$1.30	$2.66	$3.08	$4.24	$5.06	$5.74
Cash and Short Term Investments	70.2	174.6	301.2	241.5	108.7	83.1	106.2	256.3	468.9	536.3
Net Debt	2,336.1	2,213.4	2,056.8	1,993.0	1,893.6	1,740.3	1,542.2	1,242.1	879.5	463.5
Net Debt / EBITDA	4.4x	4.3x	5.9x	8.3x	7.5x	5.2x	3.4x	2.3x	1.4x	0.7x
Inventory Growth	-12.3%	-12.6%	-20.9%	-14.0%	17.2%	-2.8%	8.9%	4.7%	3.5%	2.1%
Book Value	(1,665.5)	(1,474.6)	(1,384.3)	(1,285.7)	(1,202.9)	(1,011.5)	(784.5)	(482.4)	(117.0)	298.6
Book Value per Share	($27.34)	($26.15)	($24.44)	($21.79)	($18.42)	($14.83)	($11.22)	($6.82)	($1.63)	$4.12
ROE	-24.4%	-14.0%	-8.1%	-3.0%	-5.4%	-10.1%	-23.7%	-45.5%	-117.2%	442.2%
ROIC	31.5%	24.2%	15.8%	9.7%	15.1%	17.6%	29.1%	30.6%	29.7%	30.9%

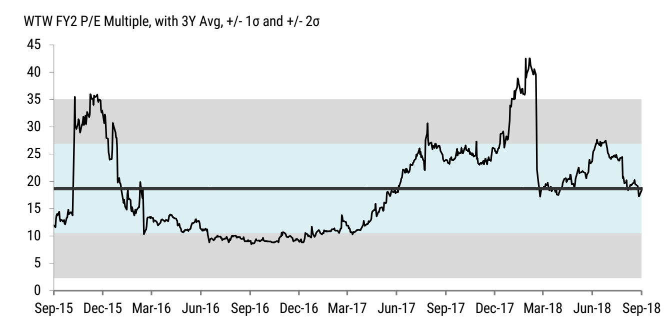
Source: Company data, Morgan Stanley Research

Valuation

Our WTW PT of $76 implies 19x 2019e EPS, a 0.5x premium to the prior 3-year average. We think a slight premium vs. WTW's 3-year average is warranted given the company's improved performance, as well as our forecasts for above-trend growth over the next few years. We note our implied 19x multiple is 5x above the 5-year and 10-year medians; as these periods include the 2014-2016 business decline (when the stock traded as low as 9x), a more substantial premium is warranted now, in our view. We note our PT also implies a 12x EV/EBITDA multiple, 0.5x above the prior 3-year average, similar to our P/E analysis. Our price target is derived using a DCF valuation, with a WACC of 9.7%, terminal growth rate of 2%, terminal EBITDA margins of ~36% (~29% in FY18e), and 6.7mn average subscribers in 2025 (4.4mn in 2018e); our full DCF model is included in Exhibit 59.

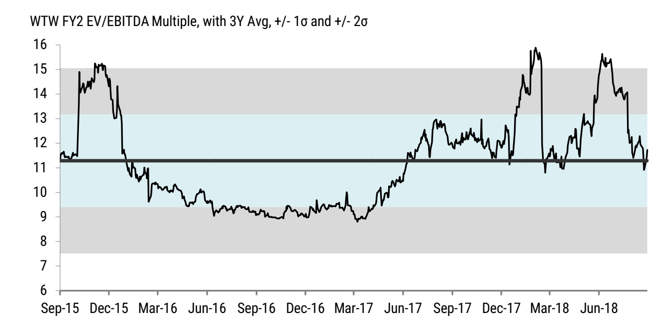
Volatility in valuation history drives wide bull-to-bear risk / reward skew, with current valuation roughly at 3-year averages. WTW is currently trading at 18x 2019e EPS, roughly in-line with the prior 3-year average, and 11.5x 2019e EV/EBITDA, also in-line (Exhibit 49 and Exhibit 50). We note the stock's volatility has resulted in a wide valuation range, with a low P/E of 9x and a high of 43x in just the past 3 years. In fact, as recently as early July 2018, WTW was trading at 27x P/E, indicating the stock's valuation has fallen a full standard deviation, or ~30%, in two months. This volatility is also reflected in our wide risk / reward skew. Our $114 Bull Case implies a 23x P/E multiple and our $39 Bear Case implies a 14x P/E multiple.

Exhibit 49: WTW Is Trading at 18x FY2 P/E, Roughly In-Line With Prior 3-Year Average



Source: Bloomberg, Company data, Morgan Stanley Research

Exhibit 50: WTW Is Trading at 11.5x FY2 EV/EBITDA, Roughly In-Line with Prior 3-Year Average

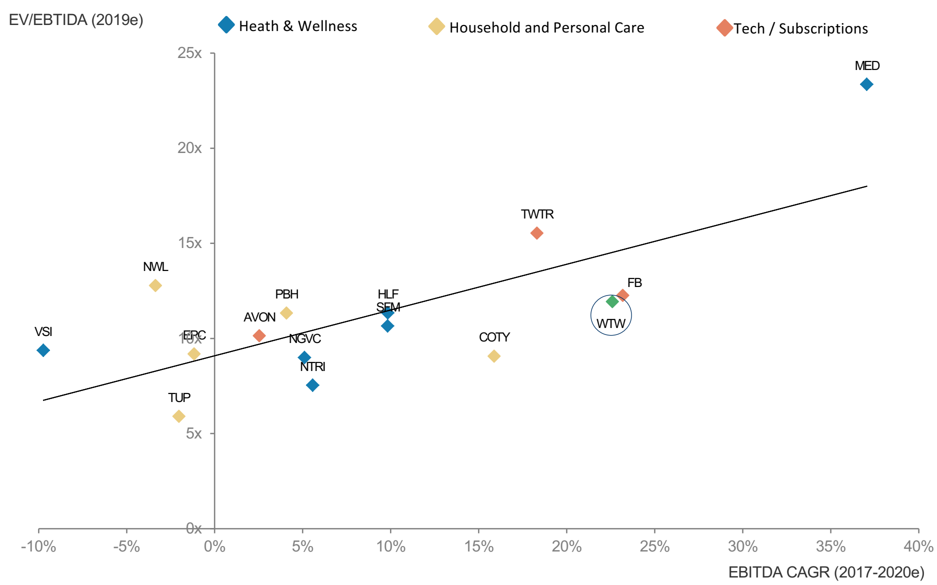


Source: Bloomberg, Company data, Morgan Stanley Research

What's in the price? Our reverse-DCF analysis indicates the market is currently pricing in reasonable 3% long-term sales growth. Holding our other DCF assumptions constant, a 3% long-term sales growth rate post-2019 is necessary to justify the current $72.87 share price. We view this LT growth rate as fair (MSe '19-'26e +4.2% sales CAGR), and note the stock's 52-week high of $105.73 implied much higher 12% long-term sales growth, justifying the stock's pullback over the past couple months, in our view. We think viewing WTW's valuation in the context of top-line growth can be informative, as the stock will likely trade more on its top-line and subscriber growth trajectory than the bottom line.

Relative to peers, we find WTW trades at a slight discount to its regression-implied multiple (Exhibit 51). We break down WTW's comp set into three groups: health & wellness, traditional HPC, and tech / subscriptions. We think WTW shares qualities of all three peer sets, but does not fit neatly into any one category; therefore, we use a sampling of peers from each category in our comparables analysis. Note that we exclude APRN, NFLX, and SPOT from our regression below; while we see operational similarities between these companies and WTW (all are subscription-based businesses to some extent), significant discrepancies in valuation and growth rates make them unrealistic financial comps, in our view. Based on WTW's '17-'20e EBITDA CAGR of +23%, our regression implies WTW should trade at 14.5x EV/EBITDA, yet the stock trades at 11.5x currently, a ~20% discount. We note our $76 PT implies 12x EV/EBITDA, in between its current and implied multiples, which indicates WTW is reasonably valued overall, in our view.

Exhibit 51: WTW Appears Slightly Undervalued vs. Peers

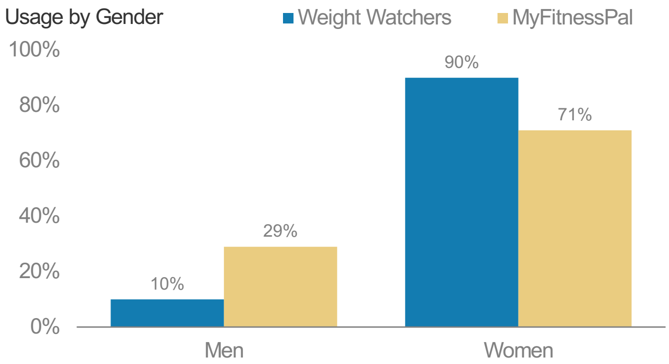


Source: Thomson Reuters, Bloomberg, Morgan Stanley Research

WTW has no truly direct peers in the US, in our view. We think a common misconception is that other commercial weight management programs (like Nutrisystem and Medifast) are direct competitors to WTW. We disagree, since these programs tend to focus primarily on meal replacement / delivery programs, whereas Weight Watchers uses a more holistic 'lifestyle' approach to help its members achieved their desired weight, famously through in-person meetings and more recently throught its online community / Connect social network.

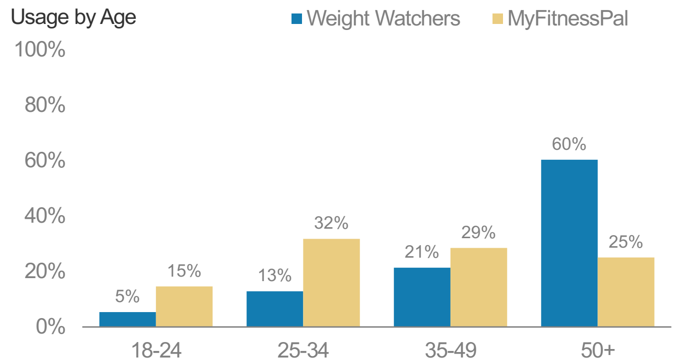
Facebook Groups and MyFitnessPal: emerging tech competitors. As discussed in Debate 2, we view Facebook as a more distinct competitive threat than even 'traditional' competitors Nutrisystem and Medifast given WTW's evolution into a social media platform, which places it more directly in FB's crosshairs. Our discussions with management indicate the company appears unworried about this threat, viewing its 'walled garden' Connect social platform as superior and more polished than free online groups / communities like those found on FB. In our view, WTW's increasing encroachment into social media territory as a key competitive risk. We also view MyFitnessPal, the diet / exercise tracking service owned by Under Armour, as another potential threat, especially as it has generated better traction with younger consumers and men (Exhibit 52 and Exhibit 53).

Exhibit 52: MyFitnessPal Has More Balanced Male / Female Gender Split...



Source: Company data, GfK MRI (The Survey of the American Consumer)

Exhibit 53: ...And Users Skew Significantly Younger Than Weight Watchers Subscribers



Source: GfK MRI (The Survey of the American Consumer)

Comparable Company Analysis

Exhibit 54: Valuation and Operating Benchmarking

Company Name	Ticker	Revenue CAGR	EBITDA Margin	EBITDA CAGR	Earnings per Share		EPS CAGR	Price to Earnings		PEG Ratio	EV/EBITDA		Net Debt / EBITDA	Dividend Yield (%)	Market Cap (MM)
		2017-2020 e	2018 e	2017-2020 e	2018 e	2019 e	2017-2020 e	2018 e	2019 e	2018 e	2018 e	2019 e	2018 e	2018 e	Current
Health & Wellness															
Herbalife*	HLF	6.9%	16.7%	9.8%	2.84	3.24	18.3%	19.2x	16.8x	1.0x	12.1x	11.5x	1.2x	-	8,572
Medifast*	MED	37.5%	16.5%	37.0%	4.48	5.93	51.2%	55.9x	42.2x	1.1x	37.1x	28.1x	NM	0.7%	2,991
Natural Grocers*	NGVC	7.6%	5.2%	5.1%	0.32	0.35	9.0%	57.4x	52.2x	6.4x	10.5x	9.8x	1.3x	-	407
Nutrisystem*	NTRI	6.0%	14.9%	5.6%	2.11	2.46	10.5%	17.2x	14.7x	1.6x	9.4x	8.1x	NM	2.3%	1,066
Sprouts Farmers Market	SFM	11.3%	6.5%	8.8%	1.26	1.39	16.8%	22.6x	20.5x	1.3x	12.3x	11.0x	1.4x	-	3,617
Vitamin Shoppe	VSI	-1.4%	5.0%	-4.4%	0.17	0.21	-10.5%	78.3x	61.7x	NM	6.7x	6.9x	2.4x	-	316
Average		11.3%	10.8%	10.3%			15.9%	41.8x	34.7x	2.3x	14.7x	12.6x	1.6x	0.5%	
Median		7.2%	10.7%	7.2%			13.6%	39.3x	31.4x	1.3x	11.3x	10.4x	1.3x	-	
Household & Personal Care															
Coty	COTY	0.6%	16.5%	8.8%	0.75	0.92	13.9%	16.0x	13.1x	1.2x	11.1x	10.0x	5.2x	4.2%	9,010
Edgewell	EPC	-0.9%	18.5%	-3.3%	3.49	3.67	-0.9%	14.3x	13.6x	NM	9.1x	9.2x	2.5x	-	2,702
Newell Brands	NWL	-14.5%	13.5%	-17.1%	2.48	2.30	-0.7%	8.7x	9.4x	NM	15.5x	13.8x	8.5x	4.3%	10,140
Prestige Brands*	PBH	-0.3%	34.3%	1.4%	2.86	3.09	11.7%	13.2x	12.3x	1.1x	11.6x	11.2x	5.8x	-	1,961
Tupperware	TUP	-3.1%	19.5%	-1.7%	4.27	4.59	-0.1%	7.5x	7.0x	NM	5.6x	5.5x	1.4x	8.5%	1,596
Average		-3.6%	20.5%	-2.4%			4.8%	12.0x	11.1x	1.1x	10.6x	10.0x	4.7x	3.4%	
Median		-0.9%	18.5%	-1.7%			-0.1%	13.2x	12.3x	1.1x	11.1x	10.0x	5.2x	4.2%	
Internet / Subscriptions															
Blue Apron	APRN	0.5%	-10.6%	NM	(0.71)	(0.51)	NM	NM	NM	NM	NM	NM	1.4x	-	409
Facebook	FB	27.7%	60.4%	22.9%	7.18	8.34	17.2%	23.1x	19.9x	1.3x	13.0x	10.9x	NM	-	479,514
Netflix	NFLX	27.2%	13.0%	61.7%	2.69	4.38	76.6%	132.3x	81.3x	1.7x	77.3x	52.4x	1.8x	-	154,992
Spotify	SPOT	27.5%	-4.1%	NM	(3.87)	(0.83)	NM	NM	NM	NM	NM	NM	2.7x	-	32,536
Stitch Fix*	SFIX	22.3%	4.2%	NM	0.21	0.19	NM	223.1x	241.9x	NM	80.9x	91.0x	NM	-	4,498
Twitter	TWTR	14.7%	36.9%	22.3%	0.70	0.79	32.7%	44.4x	39.0x	1.4x	19.0x	16.3x	NM	-	23,410
Average		20.0%	16.7%	35.6%			42.2%	105.7x	95.5x	1.5x	47.6x	42.7x	2.0x	-	
Median		24.7%	8.6%	22.9%			32.7%	88.3x	60.1x	1.4x	48.2x	34.4x	1.8x	-	
Weight Watchers	**WTW**	**12.4%**	**29.3%**	**23.0%**	**3.04**	**4.07**	**44.1%**	**23.1x**	**17.3x**	**0.5x**	**13.7x**	**11.5x**	**3.3x**	**-**	**4,687**
TOTAL AVERAGE		**10.0%**	**15.7%**	**11.2%**			**17.6%**	**48.9x**	**43.0x**	**1.8x**	**22.1x**	**19.7x**	**3.0x**		
TOTAL MEDIAN		**6.9%**	**14.9%**	**7.2%**			**12.8%**	**22.6x**	**19.9x**	**1.3x**	**12.1x**	**11.0x**	**2.1x**		

Source: Company data, Morgan Stanley Research, Thomson Reuters. Note: Metrics reflect consensus estimates for all comparable companies. * indicates company not covered by Morgan Stanley Research.

Financials

Exhibit 55: WTW Annual Income Statement

Fiscal Year Ends in December ($ millions except per-share data)	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net Sales	**1,826.8**	**1,712.0**	**1,479.9**	**1,164.4**	**1,164.9**	**1,307.0**	**1,569.8**	**1,727.4**	**1,856.2**	**1,950.1**	**2,041.5**	**2,120.4**	**2,193.3**	**2,257.0**
Cost of Sales	758.6	721.9	672.7	592.5	579.3	614.3	669.1	700.7	725.0	740.1	762.5	783.1	803.0	821.0
Gross Profit	**1,068.2**	**990.2**	**807.2**	**571.9**	**585.6**	**692.7**	**900.7**	**1,026.7**	**1,131.2**	**1,210.0**	**1,279.1**	**1,337.3**	**1,390.3**	**1,436.1**
Marketing Expense	343.5	285.4	262.2	201.1	194.4	200.8	239.7	260.3	279.7	293.8	307.6	319.5	330.5	340.1
SG&A	228.5	240.1	233.9	184.5	190.2	211.2	245.9	265.4	281.4	293.7	307.5	319.4	330.4	340.0
Total Operating Expense	571.9	525.5	496.1	385.6	384.7	412.1	485.5	525.7	561.1	587.5	615.1	638.9	660.8	680.0
Operating Profit	**496.2**	**464.6**	**311.1**	**186.3**	**200.9**	**280.6**	**415.2**	**501.1**	**570.0**	**622.5**	**664.0**	**698.5**	**729.5**	**756.0**
Depreciation & Amortization	36.6	44.9	39.9	53.2	52.6	50.9	44.7	46.3	47.6	49.9	51.8	54.4	55.4	57.3
EBITDA	**532.9**	**509.5**	**351.0**	**239.5**	**253.5**	**331.5**	**459.8**	**547.4**	**617.6**	**672.4**	**715.8**	**752.8**	**784.9**	**813.4**
Stock-Based Compensation	8.8	4.3	10.5	24.8	6.5	14.9	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2
EBITDAS	**541.7**	**513.8**	**361.6**	**264.2**	**260.1**	**346.4**	**474.0**	**561.6**	**631.8**	**686.6**	**730.0**	**767.0**	**799.1**	**827.5**
Interest Expense (Net)	84.8	103.2	123.1	121.8	115.1	112.8	144.0	131.9	119.9	107.9	80.0	64.0	48.0	32.0
Other Non-Operating Income	1.9	0.6	3.1	2.0	1.5	0.4	-	-	-	-	-	-	-	-
Income Before Income Taxes	**409.4**	**360.9**	**184.9**	**62.5**	**84.3**	**167.4**	**271.1**	**369.2**	**450.2**	**514.6**	**584.0**	**634.5**	**681.5**	**724.0**
Income Tax	156.2	140.4	68.6	23.1	16.7	55.9	58.3	81.2	99.0	113.2	128.5	139.6	149.9	159.3
Minority Interest	-	-	-	(0.1)	(0.2)	(0.2)	-	-	-	-	-	-	-	-
Preferred Stock Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Before Extraordinary Items	**253.3**	**220.5**	**116.3**	**39.5**	**67.8**	**111.7**	**212.8**	**288.0**	**351.1**	**401.4**	**455.5**	**494.9**	**531.6**	**564.8**
Loss/(Gain) from Extraordinary Charge	-	-	-	-	-	(51.9)	(17.4)	-	-	-	-	-	-	-
Reported Net Income	**253.3**	**220.5**	**116.3**	**39.5**	**67.8**	**163.6**	**230.2**	**288.0**	**351.1**	**401.4**	**455.5**	**494.9**	**531.6**	**564.8**
Diluted EPS (Continuing Ops.)	**$4.16**	**$3.91**	**$2.05**	**$0.67**	**$1.04**	**$1.64**	**$3.04**	**$4.07**	**$4.90**	**$5.54**	**$6.22**	**$6.68**	**$7.10**	**$7.46**
Diluted EPS (Reported)	**$4.16**	**$3.91**	**$2.05**	**$0.67**	**$1.04**	**$2.40**	**$3.29**	**$4.07**	**$4.90**	**$5.54**	**$6.22**	**$6.68**	**$7.10**	**$7.46**
Average Basic Shares	60.3	56.1	56.6	58.4	63.7	64.3	65.1	65.8	66.6	67.4	68.1	68.9	69.6	70.4
Average Diluted Shares	60.9	56.4	56.6	59.0	65.3	68.2	70.0	70.8	71.6	72.4	73.2	74.1	74.9	75.7
Dividends per Common Share	$0.70	$0.53	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Year over Year Growth														
Sales	0.4%	-6.3%	-13.6%	-21.3%	0.0%	12.2%	20.1%	10.0%	7.5%	5.1%	4.7%	3.9%	3.4%	2.9%
Gross Profit	2.0%	-7.3%	-18.5%	-29.2%	2.4%	18.3%	30.0%	14.0%	10.2%	7.0%	5.7%	4.6%	4.0%	3.3%
Total Operating Expense	14.2%	-8.1%	-5.6%	-22.3%	-0.2%	7.1%	17.8%	8.3%	6.7%	4.7%	4.7%	3.9%	3.4%	2.9%
EBITDA	-7.7%	-4.4%	-31.1%	-31.8%	5.9%	30.7%	38.7%	19.0%	12.8%	8.9%	6.5%	5.2%	4.3%	3.6%
EBITDAS	-7.6%	-5.2%	-29.6%	-26.9%	-1.6%	33.2%	36.8%	18.5%	12.5%	8.7%	6.3%	5.1%	4.2%	3.6%
Operating Income	-9.1%	-6.4%	-33.0%	-40.1%	7.8%	39.7%	48.0%	20.7%	13.8%	9.2%	6.7%	5.2%	4.4%	3.6%
Net Income (Continuing Ops.)	-19.1%	-13.0%	-47.2%	-66.1%	71.6%	64.9%	90.4%	35.3%	21.9%	14.3%	13.5%	8.6%	7.4%	6.2%
EPS (Continuing Ops.)	-1.4%	-6.0%	-47.4%	-67.4%	55.0%	57.9%	85.7%	33.8%	20.5%	13.0%	12.2%	7.4%	6.2%	5.1%
As a % of Sales														
Gross Margin	58.5%	57.8%	54.5%	49.1%	50.3%	53.0%	57.4%	59.4%	60.9%	62.0%	62.7%	63.1%	63.4%	63.6%
Total Operating Expense	31.3%	30.7%	33.5%	33.1%	33.0%	31.5%	30.9%	30.4%	30.2%	30.1%	30.1%	30.1%	30.1%	30.1%
EBITDA	29.2%	29.8%	23.7%	20.6%	21.8%	25.4%	29.3%	31.7%	33.3%	34.5%	35.1%	35.5%	35.8%	36.0%
EBITDAS	29.7%	30.0%	24.4%	22.7%	22.3%	26.5%	30.2%	32.5%	34.0%	35.2%	35.8%	36.2%	36.4%	36.7%
Operating Margin	27.2%	27.1%	21.0%	16.0%	17.2%	21.5%	26.4%	29.0%	30.7%	31.9%	32.5%	32.9%	33.3%	33.5%
Tax Rate (as a % of pretax income)	38.1%	38.9%	37.1%	36.9%	19.8%	33.4%	21.5%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Net Income (Continuing Ops.)	13.9%	12.9%	7.9%	3.4%	5.8%	8.5%	13.6%	16.7%	18.9%	20.6%	22.3%	23.3%	24.2%	25.0%
Year over Year Change (bps)														
Gross Margin	91	(64)	(329)	(543)	115	273	438	206	150	111	60	42	32	24
Marketing Expense	273	(213)	104	(45)	(58)	(133)	(10)	(20)	-	-	-	-	-	-
SG&A	104	152	178	4	49	(17)	(50)	(30)	(20)	(10)	-	-	-	-
Total Operating Expense	377	(61)	283	(41)	(9)	(149)	(60)	(50)	(20)	(10)	-	0	-	-
EBITDA	(256)	59	(604)	(315)	120	360	393	240	158	121	58	44	28	25
EBITDAS	(257)	36	(558)	(174)	(37)	418	369	231	153	117	55	42	26	23
Operating Margin	(286)	(2)	(612)	(502)	125	422	498	256	170	121	60	42	32	24

Source: Company data, Morgan Stanley Research

Exhibit 56: WTW Quarterly Income Statement

Fiscal Year Ends in December	2017A				2018E				2019E			
($ millions except per-share data)	1Q	2Q	3Q	4Q	1QA	2QA	3Q	4Q	1Q	2Q	3Q	4Q
Net Sales	**329.1**	**341.7**	**323.7**	**312.5**	**408.2**	**409.7**	**384.0**	**367.9**	**457.0**	**446.1**	**420.0**	**404.3**
Cost of Sales	165.0	152.7	146.6	150.0	187.2	165.0	156.6	160.3	200.9	171.2	163.3	165.3
Gross Profit	**164.1**	**189.0**	**177.1**	**162.5**	**221.0**	**244.7**	**227.4**	**207.6**	**256.1**	**274.9**	**256.7**	**239.0**
Marketing Expense	86.4	42.0	30.3	42.1	98.9	55.4	41.7	43.7	112.5	57.2	41.4	49.1
SG&A	47.4	50.8	55.4	57.6	60.0	61.7	60.0	64.2	63.5	63.6	69.8	68.5
Total Operating Expense	133.9	92.8	85.7	99.7	158.9	117.1	101.7	107.9	176.1	120.8	111.2	117.6
Operating Profit	**30.2**	**96.2**	**91.4**	**62.8**	**62.1**	**127.6**	**125.7**	**99.8**	**80.0**	**154.1**	**145.5**	**121.5**
Depreciation & Amortization	12.9	12.7	12.8	12.5	11.2	10.6	11.4	11.4	11.6	11.6	11.6	11.6
EBITDA	**43.1**	**108.9**	**104.2**	**75.3**	**73.3**	**138.2**	**137.2**	**111.2**	**91.6**	**165.7**	**157.1**	**133.0**
Stock-Based Compensation	2.3	2.5	4.6	5.6	4.4	5.3	2.3	2.3	3.5	3.5	3.5	3.5
EBITDAS	**45.4**	**111.4**	**108.7**	**80.9**	**77.6**	**143.5**	**139.4**	**113.5**	**95.2**	**169.2**	**160.6**	**136.6**
Interest Expense (Net)	28.1	27.1	27.0	30.6	35.9	35.9	36.1	36.1	33.0	33.0	33.0	33.0
Other Non-Operating Income	0.6	(0.5)	0.1	0.2	(0.2)	1.3	(0.6)	(0.6)	-	-	-	-
Income Before Income Taxes	**1.5**	**69.6**	**64.3**	**32.0**	**26.4**	**90.4**	**90.1**	**64.2**	**47.1**	**121.1**	**112.5**	**88.5**
Income Tax	2.9	25.1	21.7	6.3	4.8	19.8	19.8	13.9	10.4	26.7	24.8	19.5
Minority Interest	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.0)	-	0.1	-	-	-	-
Preferred Stock Dividends	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Before Extraordinary Items	**(1.3)**	**44.5**	**42.7**	**25.8**	**21.7**	**70.6**	**70.3**	**50.2**	**36.7**	**94.5**	**87.8**	**69.0**
Loss/(Gain) from Extraordinary Charge	(12.0)	(0.7)	(2.1)	(37.2)	(17.4)	-	-	-	-	-	-	-
Reported Net Income	**10.7**	**45.2**	**44.8**	**63.0**	**39.1**	**70.6**	**70.3**	**50.2**	**36.7**	**94.5**	**87.8**	**69.0**
Diluted EPS (Continuing Ops.)	**($0.02)**	**$0.66**	**$0.62**	**$0.37**	**$0.31**	**$1.01**	**$1.00**	**$0.71**	**$0.52**	**$1.34**	**$1.24**	**$0.97**
Diluted EPS (Reported)	**$0.16**	**$0.67**	**$0.65**	**$0.91**	**$0.56**	**$1.01**	**$1.00**	**$0.71**	**$0.52**	**$1.34**	**$1.24**	**$0.97**
Average Basic Shares	64.0	64.3	64.5	64.6	65.1	66.4	65.2	65.4	65.5	65.7	65.9	66.1
Average Diluted Shares	66.5	67.7	68.7	68.9	69.5	70.2	70.1	70.3	70.5	70.7	70.9	71.1
Dividends per Common Share	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Year over Year Growth												
Sales	7.2%	10.3%	15.3%	16.9%	24.0%	19.9%	18.6%	17.7%	11.9%	8.9%	9.4%	9.9%
Gross Profit	9.6%	17.3%	22.7%	24.5%	34.7%	29.5%	28.4%	27.8%	15.9%	12.4%	12.9%	15.1%
Total Operating Expense	-1.6%	6.3%	10.6%	19.0%	18.7%	26.2%	18.6%	8.2%	10.8%	3.2%	9.4%	9.0%
EBITDA	62.7%	25.6%	29.9%	25.2%	70.1%	26.9%	31.7%	47.6%	25.1%	19.9%	14.5%	19.6%
EBITDAS	52.9%	25.9%	36.6%	29.8%	71.0%	28.9%	28.2%	40.2%	22.6%	17.9%	15.2%	20.4%
Operating Income	122.1%	30.4%	36.8%	34.4%	105.6%	32.6%	37.5%	58.9%	28.9%	20.8%	15.7%	21.7%
Net Income (Continuing Ops.)	-88.1%	45.5%	23.2%	93.8%	-1785.7%	58.6%	64.7%	94.5%	69.3%	33.8%	24.8%	37.6%
EPS (Continuing Ops.)	-88.6%	41.7%	18.0%	85.6%	-1712.9%	53.0%	61.3%	90.6%	67.0%	32.9%	23.5%	36.1%
As a % of Sales												
Gross Margin	49.9%	55.3%	54.7%	52.0%	54.1%	59.7%	59.2%	56.4%	56.0%	61.6%	61.1%	59.1%
Total Operating Expense	40.7%	27.2%	26.5%	31.9%	38.9%	28.6%	26.5%	29.3%	38.5%	27.1%	26.5%	29.1%
EBITDA	13.1%	31.9%	32.2%	24.1%	17.9%	33.7%	35.7%	30.2%	20.0%	37.1%	37.4%	32.9%
EBITDAS	13.8%	32.6%	33.6%	25.9%	19.0%	35.0%	36.3%	30.8%	20.8%	37.9%	38.2%	33.8%
Operating Margin	9.2%	28.2%	28.2%	20.1%	15.2%	31.1%	32.7%	27.1%	17.5%	34.5%	34.6%	30.0%
Tax Rate (as a % of pretax income)	190.1%	36.0%	33.7%	19.7%	18.1%	21.9%	22.0%	21.7%	22.0%	22.0%	22.0%	22.0%
Net Income (Continuing Ops.)	-0.4%	13.0%	13.2%	8.3%	5.3%	17.2%	18.3%	13.6%	8.0%	21.2%	20.9%	17.1%
Year over Year Change (bps)												
Gross Margin	109	331	332	320	428	441	450	444	190	190	190	268
Marketing Expense	(192)	(101)	(136)	(23)	(204)	123	150	(161)	40	(70)	(100)	28
SG&A	(175)	(1)	23	80	28	19	(150)	(98)	(80)	(80)	100	(52)
Total Operating Expense	(366)	(102)	(112)	57	(176)	142	-	(258)	(40)	(150)	-	(24)
EBITDA	446	388	363	160	486	187	353	612	210	340	168	268
EBITDAS	412	405	525	258	522	243	271	494	180	291	193	294
Operating Margin	475	433	445	263	603	299	450	702	230	340	190	292

Source: Company data, Morgan Stanley Research

Exhibit 57: WTW Balance Sheet

Fiscal Year Ends in December *($ millions except per-share data)*	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Assets														
Cash & Equivalents	70.2	174.6	301.2	241.5	108.7	83.1	108.1	260.0	474.5	543.8	814.2	1,128.1	1,476.8	1,858.0
AR, Net	37.4	36.2	32.0	29.3	27.5	23.9	28.7	31.6	34.0	35.7	37.4	38.8	40.1	41.3
Sales Per Day	5.0	4.7	4.1	3.2	3.2	3.6	4.3	4.7	5.1	5.3	5.6	5.8	6.0	6.2
Days of Receivable	7.5	7.7	7.9	9.2	8.6	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Inventories, Net	46.8	40.9	32.4	27.8	32.6	31.7	34.6	36.2	37.4	38.2	39.4	40.4	41.5	42.4
COGS Per Day	2.1	2.0	1.8	1.6	1.6	1.7	1.8	1.9	2.0	2.0	2.1	2.1	2.2	2.2
Days of Inventory	22.5	20.7	17.6	17.1	20.6	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9
Other Current Assets	63.5	64.0	62.2	60.3	66.4	70.3	84.4	92.9	99.8	104.9	109.8	114.0	118.0	121.4
Total Current Assets	**218.0**	**315.7**	**427.7**	**359.0**	**235.2**	**209.0**	**255.8**	**420.7**	**645.8**	**722.6**	**1,000.7**	**1,321.4**	**1,676.4**	**2,063.1**
PPE, Net	71.8	87.1	74.7	58.2	49.6	48.0	48.6	46.4	45.5	42.8	40.8	35.1	31.3	28.8
Goodwill, Trademarks, Other intagibles	898.9	961.4	974.7	973.0	973.4	956.9	971.5	970.3	970.5	971.9	974.4	977.4	980.7	984.1
Deferred Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	30.0	44.7	38.1	31.9	12.8	32.2	32.2	32.2	32.2	32.2	32.2	32.2	32.2	32.2
Total Assets	**1,218.6**	**1,408.9**	**1,515.2**	**1,422.1**	**1,271.0**	**1,246.0**	**1,308.2**	**1,469.6**	**1,693.9**	**1,769.5**	**2,048.1**	**2,366.0**	**2,720.5**	**3,108.2**
Liabilities														
Accounts Payable	49.3	45.5	54.5	38.2	40.6	24.4	26.5	27.8	28.7	29.3	30.2	31.0	31.8	32.5
COGS Per Day	2.1	2.0	1.8	1.6	1.6	1.7	1.8	1.9	2.0	2.0	2.1	2.1	2.2	2.2
Days Payable Outstanding	23.7	23.0	29.6	23.5	25.6	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5
Current Portion LTD	114.7	30.0	24.0	213.3	21.0	82.8	82.8	82.8	82.8	82.8	82.8	82.8	82.8	82.8
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Revenue	86.2	76.3	66.2	61.6	62.9	74.3	74.3	74.3	74.3	74.3	74.3	74.3	74.3	74.3
Other Liabilities	197.7	194.0	232.4	190.0	167.9	161.6	161.6	161.6	161.6	161.6	161.6	161.6	161.6	161.6
Total Current Liabilities	**447.9**	**345.8**	**377.0**	**503.1**	**292.4**	**343.0**	**345.2**	**346.5**	**347.4**	**348.0**	**348.9**	**349.7**	**350.5**	**351.2**
Long-Term Debt	2,291.7	2,358.0	2,334.0	2,021.3	1,981.3	1,740.6	1,565.6	1,415.6	1,265.6	917.0	717.0	517.0	317.0	117.0
Deferred Income Taxes	129.4	164.1	171.5	159.5	175.1	143.6	143.6	143.6	143.6	143.6	143.6	143.6	143.6	143.6
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Redeemable Preferred Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock Subject to a Put	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Noncurrent Liabilities	15.1	15.7	16.9	23.9	25.0	30.3	38.3	46.3	54.3	62.3	70.3	78.3	86.3	94.3
Total Liabilities	**2,884.1**	**2,883.6**	**2,899.4**	**2,707.8**	**2,473.9**	**2,257.5**	**2,092.7**	**1,951.9**	**1,810.9**	**1,470.9**	**1,279.8**	**1,088.6**	**897.4**	**706.1**
Stockholders' Equity														
Common Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury Stock	(3,281.8)	(3,256.4)	(3,253.6)	(3,247.4)	(3,237.3)	(3,208.8)	(3,208.8)	(3,208.8)	(3,208.8)	(3,208.8)	(3,208.8)	(3,208.8)	(3,208.8)	(3,208.8)
Deferred Compensation, other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained Earnings	1,603.5	1,773.3	1,883.3	1,994.5	2,056.9	2,203.3	2,430.3	2,732.5	3,097.8	3,513.4	3,983.1	4,492.2	5,037.9	5,616.9
Accumulated Other Comprehensive Income (Loss)	12.9	8.5	(14.0)	(32.8)	(22.4)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Total S/E	**(1,665.5)**	**(1,474.6)**	**(1,384.3)**	**(1,285.7)**	**(1,202.9)**	**(1,011.5)**	**(784.5)**	**(482.4)**	**(117.0)**	**298.6**	**768.3**	**1,277.3**	**1,823.1**	**2,402.1**
Total Liabilities & S/E	**1,218.6**	**1,408.9**	**1,515.2**	**1,422.1**	**1,271.0**	**1,246.0**	**1,308.2**	**1,469.6**	**1,693.9**	**1,769.5**	**2,048.1**	**2,366.0**	**2,720.5**	**3,108.2**

Source: Company data, Morgan Stanley Research

Exhibit 58: WTW Cash Flow Statement

Fiscal Year Ends in December *($ millions except per-share data)*	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net Income	**253.3**	**220.5**	**116.3**	**39.5**	**67.8**	**163.3**	**212.8**	**288.0**	**351.1**	**401.4**	**455.5**	**494.9**	**531.6**	**564.8**
Adjustments:	107.4	119.2	62.2	62.5	77.6									
Depreciation and Amortization	36.6	44.9	39.9	53.2	52.6	50.9	44.7	46.3	47.6	49.9	51.8	54.4	55.4	57.3
Depreciation	18.8	17.3	10.6	18.5	16.9	14.8	15.8	16.1	15.8	16.4	16.2	16.3	14.7	13.8
Amortization of Intangible Assets	17.8	27.6	29.4	34.7	35.8	36.0	28.8	30.3	31.8	33.5	35.5	38.0	40.7	43.5
Amortization of Deferred Financing Costs & Debt Discount	7.1	7.7	9.3	6.9	6.1	6.1	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Deferred I/T	26.8	34.4	29.1	12.1	11.1	(48.2)	-	-	-	-	-	-	-	-
Stock Compensation Expense	8.8	4.3	10.5	24.8	6.5	14.9	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2
Other	28.1	28.0	(26.7)	(34.4)	1.3	30.5	-	-	-	-	-	-	-	-
Changes in A/L:	**(11.3)**	**(16.1)**	**53.1**	**(47.2)**	**(26.4)**	**4.8**	**(19.6)**	**(11.7)**	**(9.6)**	**(6.9)**	**(6.9)**	**(5.9)**	**(5.5)**	**(4.8)**
Accounts Receivable	9.8	0.9	4.3	2.7	1.8	5.4	(4.8)	(2.9)	(2.4)	(1.7)	(1.7)	(1.4)	(1.3)	(1.2)
Inventories	6.6	(0.1)	8.6	4.5	(4.8)	(4.5)	(2.8)	(1.6)	(1.3)	(0.8)	(1.2)	(1.1)	(1.0)	(0.9)
Other Current Assets	2.9	(0.4)	1.8	1.8	(6.1)	(4.4)	(14.1)	(8.5)	(6.9)	(5.0)	(4.9)	(4.2)	(3.9)	(3.4)
Accounts Payable	(11.5)	(3.5)	9.0	(16.2)	2.4	(14.5)	2.2	1.3	1.0	0.6	0.9	0.8	0.8	0.7
Accrued Liabilities and Other	(19.1)	(12.9)	29.4	(40.0)	(19.7)	22.7	-	-	-	-	-	-	-	-
Cash Flow From Operations	**349.4**	**323.5**	**231.6**	**54.8**	**119.0**	**222.3**	**260.0**	**344.8**	**411.3**	**466.5**	**522.6**	**565.5**	**603.7**	**639.5**
Cash Paid for Acquisitions	(30.4)	(83.8)	(16.7)	(3.1)	(2.9)	-	-	-	-	-	-	-	-	-
Capital Expenditures	(48.8)	(40.7)	(9.1)	(4.0)	(5.6)	(13.7)	(16.5)	(13.8)	(14.8)	(13.7)	(14.3)	(10.6)	(11.0)	(11.3)
Web Site Development Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalized Software Expenditures	(29.9)	(21.3)	(42.6)	(32.3)	(28.8)	(26.9)	(26.0)	(29.0)	(32.0)	(35.0)	(38.0)	(41.0)	(44.0)	(47.0)
Advances, Interest in, Repayments from Equity Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	(0.3)	0.4	(0.6)	(0.9)	(0.3)	(0.1)	(17.5)	-	-	-	-	-	-	-
Cash Flow From Investing	**(109.5)**	**(145.3)**	**(69.0)**	**(40.3)**	**(37.5)**	**(40.8)**	**(60.0)**	**(42.8)**	**(46.8)**	**(48.7)**	**(52.3)**	**(51.6)**	**(55.0)**	**(58.3)**
Proceeds from Issuance of Debt	1,449.4	2,400.0	-	-	-	1,865.0	-	-	-	-	-	-	-	-
Payments on STD / LTD	(124.8)	(2,418.4)	(30.0)	(158.1)	(213.3)	(2,018.8)	(175.0)	(150.0)	(150.0)	(348.6)	(200.0)	(200.0)	(200.0)	(200.0)
Redemption of Redeemable Pref. Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Exercised Stock Options	12.7	-	0.7	0.1	0.1	5.5	-	-	-	-	-	-	-	-
Proceeds from Sale of Common Stock	-	-	-	41.5	-	-	-	-	-	-	-	-	-	-
Purchase of Treasury Stock	(1,504.2)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	7.8	(26.5)	0.0	48.0	1.0	(63.2)	-	-	-	-	-	-	-	-
Dividends Paid	(52.0)	(29.6)	(0.1)	(0.0)	(0.0)	-	-	-	-	-	-	-	-	-
Cash Flow From Financing	**(211.1)**	**(74.4)**	**(29.4)**	**(68.6)**	**(212.2)**	**(211.5)**	**(175.0)**	**(150.0)**	**(150.0)**	**(348.6)**	**(200.0)**	**(200.0)**	**(200.0)**	**(200.0)**
Exchange Rate Effect on Cash	(6.1)	0.6	(6.6)	(5.6)	(2.2)	4.4	-	-	-	-	-	-	-	-
Net Increase (Decrease) in Cash and Cash Equivs	22.7	104.3	126.7	(59.7)	(132.9)	(25.6)	25.0	152.0	214.5	69.3	270.3	313.9	348.7	381.2
Cash and Cash Equivs, Beg	47.5	70.2	174.6	301.2	241.5	108.7	83.1	108.1	260.0	474.5	543.8	814.2	1,128.1	1,476.8
Ending Cash and Equivalents	**70.2**	**174.6**	**301.2**	**241.5**	**108.7**	**83.1**	**108.1**	**260.0**	**474.5**	**543.8**	**814.2**	**1,128.1**	**1,476.8**	**1,858.0**

Source: Company data, Morgan Stanley Research

Exhibit 59: WTW Discounted Cash Flow Analysis

($ millions except per-share data) Discounted Cash Flow Analysis	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Sales	1,307	1,570	1,727	1,856	1,950	2,042	2,120	2,193	2,257	2,302
YoY Growth	*12.2%*	*20.1%*	*10.0%*	*7.5%*	*5.1%*	*4.7%*	*3.9%*	*3.4%*	*2.9%*	*2.0%*
COGS	614	669	701	725	740	762	783	803	821	837
YoY Growth	*6.0%*	*8.9%*	*4.7%*	*3.5%*	*2.1%*	*3.0%*	*2.7%*	*2.5%*	*2.2%*	*2.0%*
Gross Profit	693	901	1,027	1,131	1,210	1,279	1,337	1,390	1,436	1,465
YoY Growth	*18.3%*	*30.0%*	*14.0%*	*10.2%*	*7.0%*	*5.7%*	*4.6%*	*4.0%*	*3.3%*	*2.0%*
Gross Margin (%)	*53.0%*	*57.4%*	*59.4%*	*60.9%*	*62.0%*	*62.7%*	*63.1%*	*63.4%*	*63.6%*	*63.6%*
Total Operating Expense	412	486	526	561	588	615	639	661	680	694
YoY Growth	*7.1%*	*17.8%*	*8.3%*	*6.7%*	*4.7%*	*4.7%*	*3.9%*	*3.4%*	*2.9%*	*2.0%*
% of Sales	*31.5%*	*30.9%*	*30.4%*	*30.2%*	*30.1%*	*30.1%*	*30.1%*	*30.1%*	*30.1%*	*30.1%*
EBIT	**281**	**415**	**501**	**570**	**622**	**664**	**698**	**729**	**756**	**771**
YoY Growth	*39.7%*	*48.0%*	*20.7%*	*13.8%*	*9.2%*	*6.7%*	*5.2%*	*4.4%*	*3.6%*	*2.0%*
EBIT Margin (%)	*21.5%*	*26.4%*	*29.0%*	*30.7%*	*31.9%*	*32.5%*	*32.9%*	*33.3%*	*33.5%*	*33.5%*
Less: Tax Effect	**(94)**	**(89)**	**(110)**	**(125)**	**(137)**	**(146)**	**(154)**	**(160)**	**(166)**	**(170)**
Tax Rate	*33.4%*	*21.5%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*	*22.0%*
Plus: Depreciation & Amortization	**51**	**45**	**46**	**48**	**50**	**52**	**54**	**55**	**57**	**60**
% of Sales	*3.9%*	*2.8%*	*2.7%*	*2.6%*	*2.6%*	*2.5%*	*2.6%*	*2.5%*	*2.5%*	*2.6%*
EBITDA	**331**	**460**	**547**	**618**	**672**	**716**	**753**	**785**	**813**	**831**
YoY Growth	*30.7%*	*38.7%*	*19.0%*	*12.8%*	*8.9%*	*6.5%*	*5.2%*	*4.3%*	*3.6%*	*2.2%*
EBITDA Margin (%)	*25.4%*	*29.3%*	*31.7%*	*33.3%*	*34.5%*	*35.1%*	*35.5%*	*35.8%*	*36.0%*	*36.1%*
Less: Increases in Net Working Capital	**5**	**(20)**	**(12)**	**(10)**	**(7)**	**(7)**	**(6)**	**(5)**	**(5)**	**0**
% of Sales	*0.4%*	*(1.2%)*	*(0.7%)*	*(0.5%)*	*(0.4%)*	*(0.3%)*	*(0.3%)*	*(0.3%)*	*(0.2%)*	*0.0%*
Less: Capital Expenditures	**(41)**	**(42)**	**(43)**	**(47)**	**(49)**	**(52)**	**(52)**	**(55)**	**(58)**	**(60)**
CapEx as % of Sales	*(3.1%)*	*(2.7%)*	*(2.5%)*	*(2.5%)*	*(2.5%)*	*(2.6%)*	*(2.4%)*	*(2.5%)*	*(2.6%)*	*(2.6%)*
Free Cash Flow	**202**	**308**	**383**	**436**	**480**	**511**	**542**	**564**	**584**	**601**
Growth Rate	*31.9%*	*52.8%*	*24.1%*	*13.9%*	*10.1%*	*6.4%*	*6.1%*	*4.1%*	*3.5%*	*3.0%*
PV of FCF to Firm		*308*	*365*	*380*	*381*	*370*	*358*	*340*	*321*	*301*
Total PV of FCF to Firm										*2,815*
Growing Perpetuity										*8,015*
PV of Growing Perpetuity										*4,015*

Valuation	
WACC	9.7%
FCF Growth Into Perpetuity	2.0%
Terminal EBITDA Multiple	9.6x
Present Value of Future Cash Flows	2,815
PV of Perpetuity Cash Flow	4,015
Total EV	6,831
Less: Net Debt	(1,540)
Equity Value	5,290
Share Count	70
Per Share Fair Value (T+12 Mos)	**$76**

Cost of Capital	
Equity Beta	1.5
Risk Free Rate	2.9%
Market Risk Premium	5.2%
Tax Rate	22.0%
Ke	10.7%
Kd	5.0%
Long-Term We	85%
Long-Term Wd	15%
WACC	9.7%

Source: Company data, Morgan Stanley Research

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(as of August 31, 2018)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE COUNT	COVERAGE UNIVERSE % OF TOTAL	INVESTMENT BANKING CLIENTS (IBC) COUNT	IBC % OF TOTAL IBC	IBC % OF RATING CATEGORY	OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC) COUNT	MISC % OF TOTAL OTHER MISC
Overweight/Buy	**1156**	**37%**	**296**	**40%**	**26%**	**546**	**39%**
Equal-weight/Hold	**1363**	**44%**	**348**	**48%**	**26%**	**635**	**45%**
Not-Rated/Hold	**50**	**2%**	**5**	**1%**	**10%**	**7**	**0%**
Underweight/Sell	**553**	**18%**	**82**	**11%**	**15%**	**223**	**16%**
TOTAL	**3,122**		**731**			**1411**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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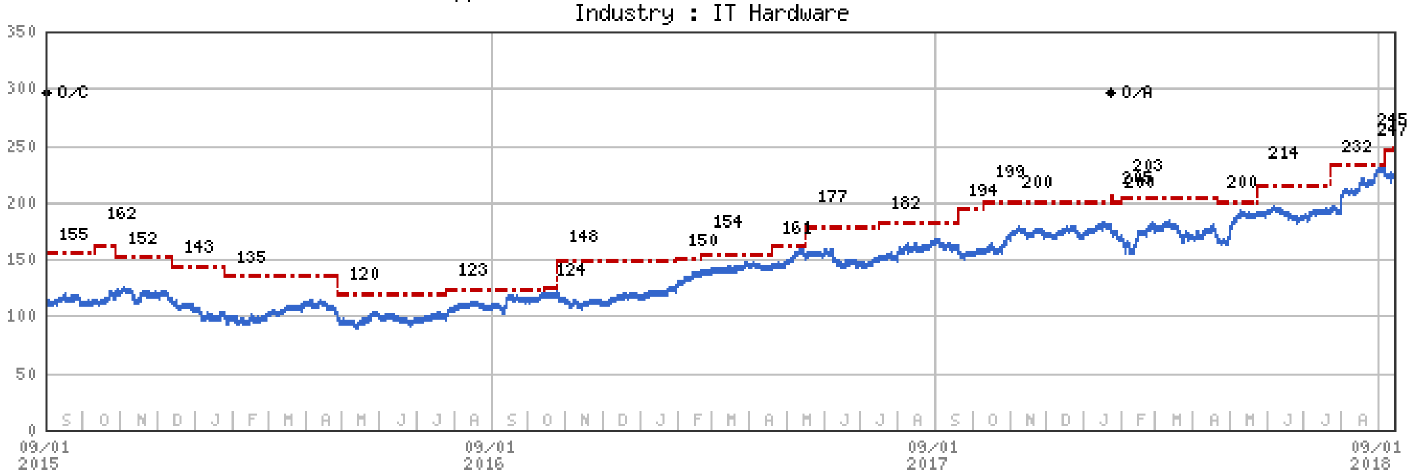
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)

Apple, Inc. (AAPL.O) - As of 9/12/18 in USD
Industry : IT Hardware



Stock Rating History: 9/1/15 : O/C; 1/23/18 : O/A

Price Target History: 7/22/15 : 155; 10/11/15 : 162; 10/28/15 : 152; 12/13/15 : 143; 1/26/16 : 135; 4/27/16 : 120; 7/26/16 : 123; 10/14/16 : 124; 10/25/16 : 148; 1/31/17 : 150; 2/21/17 : 154; 4/19/17 : 161; 5/17/17 : 177; 7/16/17 : 182; 9/19/17 : 194; 10/10/17 : 199; 11/2/17 : 200; 1/23/18 : 205; 1/25/18 : 200; 2/1/18 : 203; 4/20/18 : 200; 5/23/18 : 214; 7/23/18 : 232; 9/5/18 : 245; 9/12/18 : 247

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target -·-   No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst)   Stock Price (Covered by Current Analyst)

Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Stock Rating History: 9/1/15 : NA/I; 8/29/18 : O/I

Price Target History: 8/29/18 : 1330

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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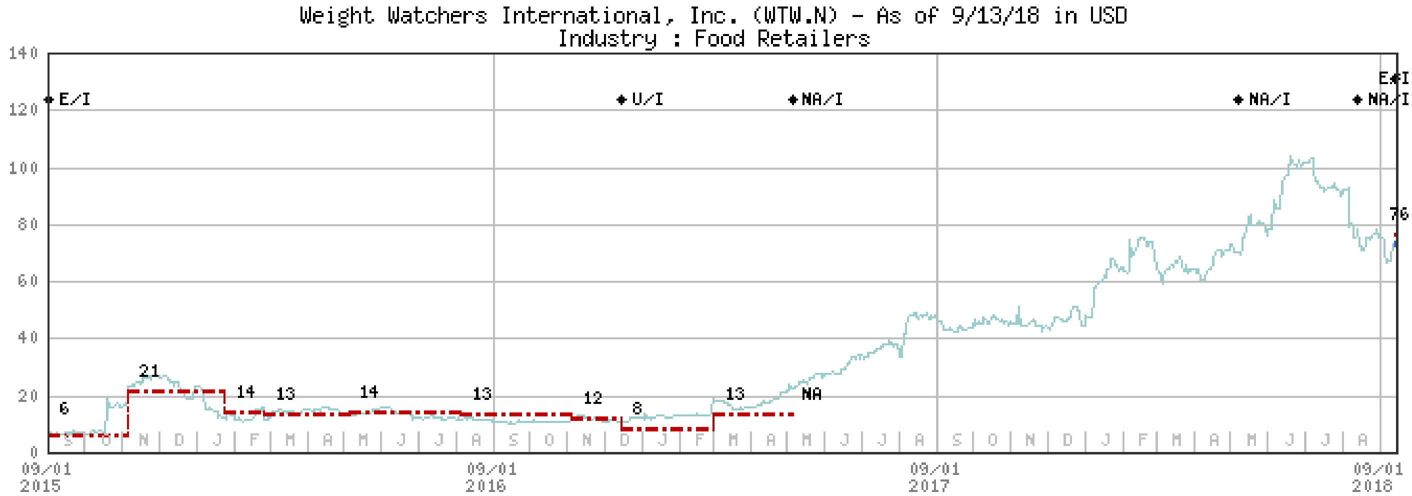

Stock Rating History: 9/1/15 : E/I; 12/16/16 : U/I; 5/5/17 : NA/I; 5/7/18 : NA/I; 8/14/18 : NA/I; 9/13/18 : E/I

Price Target History: 8/6/15 : 6; 11/6/15 : 21; 1/24/16 : 14; 2/26/16 : 13; 5/5/16 : 14; 8/5/16 : 13; 11/4/16 : 12; 12/16/16 : 8; 3/1/17 : 13; 5/5/17 : NA; 9/13/18 : 76

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: Food Retailers

COMPANY (TICKER)	RATING (AS OF)	PRICE* (09/12/2018)
Vincent J Sinisi		
Big Lots Inc (BIG.N)	O (09/25/2017)	$42.21
Dollar General Corporation (DG.N)	O (02/16/2016)	$110.70
Dollar Tree Inc (DLTR.O)	E (02/16/2016)	$84.97
Five Below Inc (FIVE.O)	E (06/24/2014)	$131.37
Kroger Co. (KR.N)	E (06/19/2017)	$31.73
Ollie's Bargain Outlet Holdings Inc (OLLI.O)	E (09/25/2017)	$90.85
Performance Food Group Co (PFGC.N)	E (10/27/2015)	$32.55
Smart & Final Stores, Inc. (SFS.N)	U (08/16/2016)	$6.85
Sprouts Farmers Market Inc (SFM.O)	E (06/15/2017)	$28.27
Supervalu Inc (SVU.N)	E (07/29/2015)	$32.22
Sysco Corp (SYY.N)	E (01/16/2018)	$74.49
United Natural Foods Inc. (UNFI.O)	U (04/11/2016)	$33.48
US Foods Holding Corp. (USFD.N)	O (05/15/2018)	$31.56
Weight Watchers International, Inc. (WTW.N)	E (09/13/2018)	$72.87

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.