



Rating
Buy

North America
United States

Consumer
Leisure

Company
**Wyndham
Destinations**

Reuters
WYND.N

Bloomberg
WYND US

Exchange
NYS

Ticker
WYND

Date
8 August 2018

Forecast Change

Price at 8 Aug 2018 (USD)	43.62
Price target	63.00
52-week range	57.15 - 42.67

Stock Reaction Implies a Misunderstood Story

See the Forest for the Trees - Maintain Buy PT to \$63

To be clear, we are surprised by the sell-off in WYND today. Some investors are zooming in on the uptick in the loan-loss provision and (likely) extrapolating the trajectory out to future quarters. We believe that's a mistake, for several reasons. In our view, WYND's ability to achieve desired rotation into a customer mix that has superior LT profit potential is the real key to the value-creation story. Growing VPG and meaningfully reducing customer acquisition costs via the recently-enhanced strategic sourcing relationship with the hotel group should have notably more positive impact on bottom line than a modest (and likely transitory) increase in loan-loss provision; it's just math. Buy.

Key Takeaways from Quarter

VPG was up strongly in 2Q18, +4.7% y/y, which we believe is the result of favorable pricing and a mix shift to more first-time buyers (who typically buy more points at the outset). Tour flow rose 2.6% and the mix shift is further evident in the inversion of these metrics compared to 1Q, when VPG rose 8.0% but tour flow dipped 2.2%. The loan-loss provision as a percentage of Gross VOI sales (excluding fee-for-service sales) rose 160bps y/y and 100bps sequentially. Mgt. noted \$7m of the \$16m rise was attributable to higher financing volume and are taking a more-aggressive posture on the legal front in addition to robust new owner out reach. WYND bought back \$42m of stock in 2Q and still has \$1.0bn remaining on its repurchase authorization (we expect the company to remain active here in 2H). 2H FCF should be up vs. 1H as most of the inventory spending was in 1H and a securitization in July.

Summary of Estimate Changes

Post 2Q18 results we have updated our estimates with adj. EBITDA largely unchanged just flowing through the 2Q and adj. EPS higher mostly on lower taxes and share count. Our 2018 adj. EBITDA estimate is essentially unchanged at \$970m and our adj. EPS estimate is up \$0.12 to \$4.85. Our VOI tour flow estimate is up ~30 bps to 6.0% and our volume per guest estimate is up ~15 bps to 2.3%. For 2019 our adj. EBITDA estimate is also essentially unchanged at \$1.033 bn and adj. EPS is up \$0.18. Our VOI tour flow estimate is unchanged at 5.0% and VPG estimate is up ~25 bps to 2.2%.

Price Target \$63 (+\$1); Risks (detail p. 5)

Our PT is based on a SOTP EV/EBITDA approach, where we value the core Vacation Ownership segment at 8.0x and the Vacation Exchange unit (RCI) at 9.0x, less Corporate SG&A at the blended multiple of 8.3x (on a 2019E basis). Risks relate primarily to factors that may affect WYND's ability to close profitable VOI sales, including a downturn in discretionary income or unfavorable mix; rising interest rates can impact financing profitability/securitization economics.

Forecasts And Ratios

Year End Dec 31	2017A	2018E	2019E
FY EPS (USD)	-	4.85	5.51

Source: Deutsche Bank estimates, company data

¹ Includes the impact of FAS123R requiring the expensing of stock options.

Chris Woronka

Research Analyst
(+1) 212 250-9376
chris.woronka@db.com

Carlo Santarelli

Research Analyst
(+1) 212 250-5815
carlo.santarelli@db.com

Steven Pizzella, CFA

Research Associate
(+1) 212 250-9817
steven.pizzella@db.com

Key changes

TP	62.00 to 63.00	↑	1.6%
EPS (USD)	4.73 to 4.85	↑	2.6%
Revenue (USDm)	4,016.4 to 4,000.8	↓	-0.4%

Source: Deutsche Bank

Price/price relative

Performance (%)	1m	3m	12m
Absolute	-1.9	-10.3	-1.9
S&P 500 INDEX	3.6	7.0	15.5

Source: Deutsche Bank



Key Takeaways

Key Take: WYND Shows Momentum on Key Strategic Initiatives Post-Spin

Overall, we would classify WYND's 2Q results as solid. The company came in at the high end of guidance on EBITDA and beat on EPS, aided by share repurchases (a hallmark of the legacy Wyndham story). Most importantly, in our opinion, WYND showed good progress on the key strategic goal of increasing the mix of first time buyers; that metric improved by 260bps in the quarter. Recall, a key part of our thesis on WYND is that the company will benefit from a heretofore largely untapped opportunity to leverage a customer acquisition sourcing strategy with the hotel group. Ultimately, that should drive higher VPG and expand the pool of customers from which future upgrades (second/third purchases of points), financing income, and exchange revenues can be derived. It remains early in WYND's evolution as a standalone public company, but this quarter suggests things are on track. WYN reaffirmed prior full year revenue and EBITDA guidance and increased EPS guidance.

2Q18 Review

Figure 1: 2Q 2018 Versus 2Q 2017 and Our Forecasts

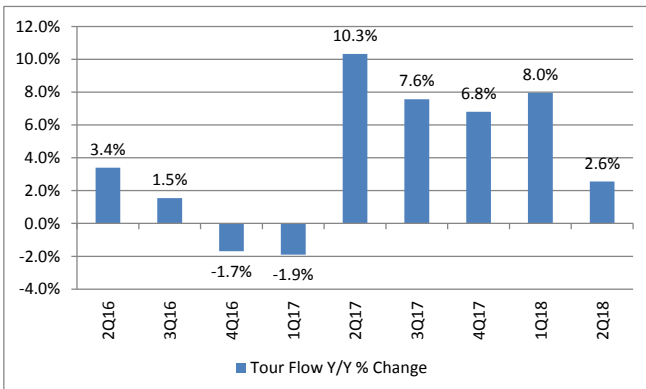
(\$MM, except per share data)	WYN Actuals		+/-	yoy % chg.	DB Estimates	
	2Q18	2Q17			2Q18E	+/-
Operating Metrics						
Exchange Membership yoy chg	1.4%	-1.7%	311		0.8%	64
Exchange Revenue per Member yoy chg	-0.6%	5.8%	(639)		2.5%	(306)
Tour Flow	2.6%	10.3%	(778)		1.5%	107
Volume per Guest	4.7%	-1.1%	585		4.5%	29
Revenues						
Exchange & Rental Revenue	\$238	\$234	\$4	1.7%	\$242	(\$4)
Vacation Ownership Interest Revenue	\$770	\$745	\$25	3.4%	\$778	(\$8)
Corporate and Other Revenue	(\$1)	\$0	(\$1)		\$0	(\$1)
Total Revenue	\$1,007	\$979	\$28	2.9%	\$1,020	(\$13)
Exchange & Rental Adjusted EBITDA	\$70	\$63	\$7	11.7%	\$66	\$4
Exchange & Rental Adjusted EBITDA Margin	29.6%	26.9%	266bps		27.2%	236bps
Vacation Ownership Adjusted EBITDA	\$188	\$182	\$6	3.5%	\$193	(\$5)
Vacation Ownership Adjusted EBITDA Margin	24.5%	24.4%	04bps		24.8%	-34bps
Corporate & Other Adjusted EBITDA	(\$10)	(\$12)	\$2	-16.7%	(\$11)	\$1
Adjusted EBITDA	\$249	\$233	\$16	6.8%	\$248	\$1
Adjusted EBITDA Margin	24.7%	23.8%	91bps		24.3%	41bps
EBITDA	\$249	\$233	\$16	6.8%	\$248	\$1
D&A	\$36	\$33	\$3	9.1%	\$31	\$5
Net Interest Expense	\$44	\$38	\$6	15.8%	\$49	(\$5)
Income Tax	\$38	(\$4)	\$42	-1050.0%	\$45	(\$7)
Net Income	(\$12)	\$14	(\$26)	-188.6%	\$123	(\$135)
Non-recurring Items	\$137	\$101	\$36		\$0	\$137
Adjusted Net Income	\$125	\$115	\$10	8.7%	\$123	\$2
GAAP EPS	(\$0.12)	\$0.13	(\$0.25)	-195.4%	\$1.21	(\$1.33)
Adjusted EPS	\$1.25	\$1.10	\$0.15	13.3%	\$1.21	\$0.04

Source: Deutsche Bank and Company Reports



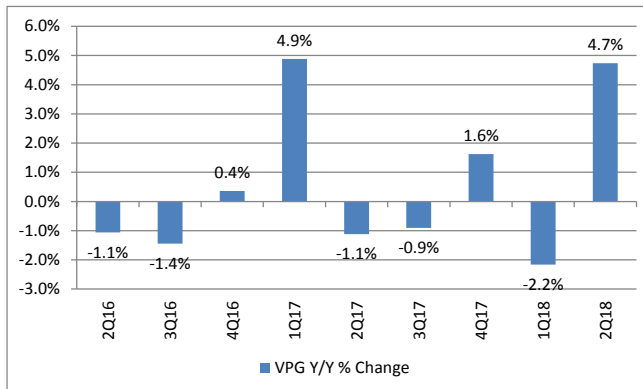
VPG was up strongly in 2Q18, +4.7% y/y, which we believe is the result of favorable pricing and a mix shift to more first time buyers (who typically buy more points at the outset). The VPG result of \$2,411 also represents a new quarterly high for the company. Tour flow rose 2.6%. The mix shift is further evident in the inversion of these metrics compared to 1Q, when VPG rose 8.0% but tour flow dipped 2.2%. The loan-loss provision as a percentage of Gross VOI sales (excluding fee-for-service sales) rose 160bps y/y and 100bps sequentially. In the exchange & rentals business, the member base rose 1.4% y/y (vs. 0.9% in 1Q) while revenue per member fell 0.6% y/y (same as 1Q).

Figure 2: Tour Flow y/y % chg.



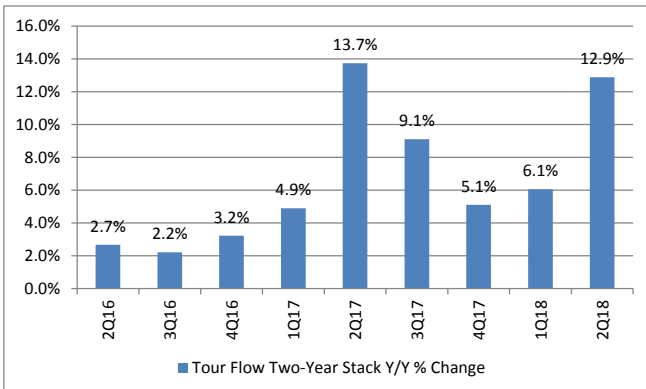
Source: Deutsche Bank and Company Reports

Figure 3: VPG y/y % chg.



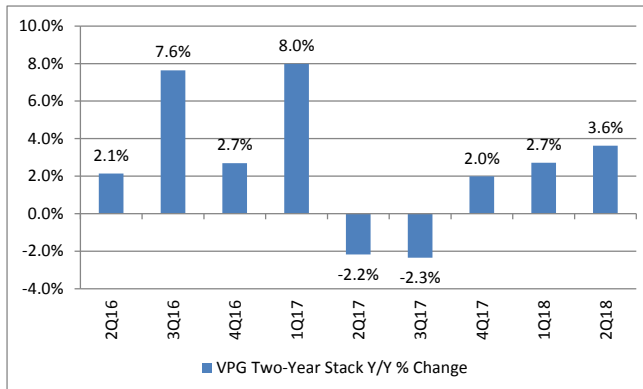
Source: Deutsche Bank and Company Reports

Figure 4: Tour Flow y/y % chg. 2-Year Stack



Source: Deutsche Bank and Company Reports

Figure 5:



Source: Deutsche Bank and Company Reports



Summary of Estimate Changes

Figure 6: Summary of Estimate Changes

\$ in MM except per share data

	3Q18E			2018E			2019E		
	Current	Prior	Delta	Current	Prior	Delta	Current	Prior	Delta
Exchange Members yoy chg	1.0%	1.0%	0	1.1%	0.9%	16	0.8%	0.8%	(6)
Revenue per Member yoy chg	3.4%	3.4%	0	0.8%	1.5%	(75)	1.3%	1.3%	(2)
VOI Tour Flow	6.5%	6.3%	19	6.0%	5.6%	34	5.0%	5.0%	0
Volume per Guest	3.8%	3.8%	0	2.3%	2.2%	13	2.2%	2.0%	26
Exchange & Rental Revenue	\$258	\$258	(\$0)	\$949	\$954	(\$4)	\$964	\$968	(\$5)
Vacation Ownership Revenue	\$835	\$837	(\$3)	\$3,052	\$3,063	(\$11)	\$3,231	\$3,251	(\$20)
Total Revenue	\$1,093	\$1,095	(\$3)	\$4,001	\$4,016	(\$16)	\$4,195	\$4,219	(\$24)
Exchange & Rental Adj. EBITDA	\$83	\$83	(\$0)	\$277	\$273	\$4	\$282	\$280	\$2
Vacation Ownership Adj. EBITDA	\$209	\$211	(\$1)	\$738	\$744	(\$6)	\$793	\$801	(\$8)
Corporate & Other Adj. EBITDA	(\$12)	(\$12)	\$0	(\$44)	(\$45)	\$1	(\$43)	(\$47)	\$5
Adjusted EBITDA	\$280	\$282	(\$2)	\$970	\$971	(\$1)	\$1,033	\$1,034	(\$1)
D&A	\$31	\$31	\$0	\$126	\$124	\$2	\$133	\$124	\$9
Adjusted Net Interest Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$196	(\$196)
Provision for Income Taxes	\$52	\$54	(\$1)	\$162	\$176	(\$14)	\$176	\$193	(\$17)
Adjusted Net Income	\$145	\$149	(\$4)	\$484	\$477	\$7	\$518	\$520	(\$2)
Diluted Shares	99.3	100.7	(1.4)	99.7	101.0	(1.2)	94.1	97.7	(3.7)
Adjusted Diluted EPS	\$1.46	\$1.48	(\$0.02)	\$4.85	\$4.73	\$0.12	\$5.51	\$5.32	\$0.18

Source: Deutsche Bank and Company Reports

Current Valuation Summary

Figure 7:

August 8, 2018

Current Multiple Data		Current Multiple Data		Current Multiple Data	
Share Price	\$43.62	Share Price	\$43.62	Share Price	\$43.62
Shares Outstanding (MRQ)	101.6				
Market Cap (\$ in MM)	\$4,434				
2017 Net Debt	\$2,959	2017 EPS	-	2017 Free Cash Flow per Share	-
2018E Net Debt	\$2,753	2018E EPS	\$4.85	2018E Free Cash Flow per Share	\$5.97
2019E Net Debt	\$2,622	2019E EPS	\$5.51	2019E Free Cash Flow per Share	\$4.77
2017 EV	\$7,393	2017 PE	-	2017 Free Cash Flow Yield	-
2018E EV	\$7,186	2018E PE	9.0x	2018E Free Cash Flow Yield	13.7%
2019E EV	\$7,056	2019E PE	7.9x	2019E Free Cash Flow Yield	10.9%
2017 EBITDA	\$914				
2018E EBITDA	\$970				
2019E EBITDA	\$1,033				
2017 EV/EBITDA	8.1x				
2018E EV/EBITDA	7.4x				
2019E EV/EBITDA	6.8x				

Source: Deutsche Bank and Company Reports



Price Target Analysis

We value the core Vacation Ownership portion of the company at 8.0x 2019E EBITDA and the Vacation Exchange unit at 9.0x (also on a 2019E basis). This implies a blended multiple of 8.3x on a weighted EBITDA basis. We subtract unallocated corporate overhead at the blended multiple. Finally, we subtract estimated year-end 2019 net debt to arrive at our equity valuation.

Figure 8: Price Target Analysis

WYND	8/8/2018
Current Price	\$43.62
Shares Outstanding (MRQ)	102
Market Cap (\$ in MM)	\$4,434

Segment	2019E EBITDA	Price Target Multiple	Firm Value
Vacation Exchange	\$282	9.0 x	\$2,534
Vacation Ownership	\$793	8.0 x	\$6,337
Subtotal	\$1,075	8.3 x	\$8,871
Corporate & Other	(\$43)	8.3 x	(\$351)
Total	\$1,033	8.3 x	\$8,520
Less Net Debt (2019E)			\$2,622
Equity Value			\$5,898
Shares Outstanding (2019E)			94
Price Target			\$63
2019E Dividend Yield			3.8%
Potential Total Upside/Downside to Target			48.2%
2019E Free Cash Flow per Share			\$5.15
Implied FCF Yield at Price Target			8.2%
2019E EPS			\$5.51
Implied PE Multiple at Price Target			11.4x

Source: Deutsche Bank and Company Reports

Figure 9: Price Target Sensitivity Analysis

		Price Target Sensitivity								
% chg. in EBITDA		-20.0%	-15.0%	-10.0%	-5.0%		5.0%	10.0%	15.0%	20.0%
2019E EBITDA (m)		\$826	\$878	\$929	\$981	\$1,033	\$1,084	\$1,136	\$1,188	\$1,239
Net Debt (m)		\$2,965	\$2,879	\$2,794	\$2,708	\$2,622	\$2,536	\$2,451	\$2,365	\$2,279
Shares Outstanding (m)		94	94	94	94	94	94	94	94	94
Price Target Multiples	4.3x	\$6	\$9	\$12	\$16	\$19	\$22	\$25	\$29	\$32
	5.3x	\$15	\$18	\$22	\$26	\$30	\$34	\$37	\$41	\$45
	6.3x	\$23	\$28	\$32	\$36	\$41	\$45	\$49	\$54	\$58
	7.3x	\$32	\$37	\$42	\$47	\$52	\$57	\$62	\$66	\$71
	8.3x	\$41	\$46	\$52	\$57	\$63	\$68	\$74	\$79	\$84
	9.3x	\$50	\$56	\$62	\$68	\$74	\$80	\$86	\$92	\$98
	10.3x	\$59	\$65	\$72	\$78	\$85	\$91	\$98	\$104	\$111
	11.3x	\$67	\$74	\$81	\$89	\$96	\$103	\$110	\$117	\$124
	12.3x	\$76	\$84	\$91	\$99	\$107	\$114	\$122	\$130	\$137

Source: Deutsche Bank and Company Reports



Model

Figure 10: Earnings Model (\$ in MM, except per share data) Pro Forma for Wyndham Destinations

	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18E	4Q18E	2018E	2019E
Revenues:												
Vacation Exchange	1,572	243	234	248	202	927	246	238	258	208	949	964
Y/Y % chg.	2.2%						1.2%	1.7%	3.9%	2.8%	2.4%	1.5%
Vacation Ownership	2,795	639	745	768	729	2,881	661	770	835	786	3,052	3,231
Y/Y % chg.	0.8%						3.4%	3.4%	8.7%	7.8%	5.9%	5.9%
Corporate & Other	(77)	2	0	3	3	8	0	(1)	0	0	(1)	0
Total Revenue	\$5,599	\$884	\$979	\$1,019	\$934	\$3,816	\$907	\$1,007	\$1,093	\$994	\$4,001	\$4,195
Y/Y % chg.	1.2%						2.6%	2.9%	7.2%	6.4%	4.8%	4.9%
Direct Expenses:												
Vacation Exchange	1,215	168	171	165	167	670	180	168	175	161	684	682
Vacation Ownership	2,101	522	698	577	596	2,393	537	576	626	575	2,314	2,438
Corporate & Other	34	15	13	16	17	61	13	20	13	14	60	60
Total Expenses	4,268	705	882	758	780	3,124	730	764	814	751	3,058	3,179
Y/Y Adjusted Expense % chg	-0.3%						3.5%	-13.4%	7.4%	-3.7%	4.4%	4.4%
EBITDA:												
Vacation Exchange	357	75	63	83	35	257	66	70	83	46	265	282
Vacation Ownership	694	117	47	191	133	488	124	194	209	211	738	793
Corporate & Other	(111)	(13)	(13)	(13)	(14)	(53)	(13)	(21)	(13)	(14)	(61)	(60)
Total EBITDA	1,331	179	97	261	154	692	177	243	279	243	942	1,016
Non Recurring Expenses (Gains)												
Vacation Exchange	27			(4)	9	5	11	0			11	
Vacation Ownership	15	5	135		67	207	5	(6)			(1)	
Corporate & Other	(10)	5	1	0	4	10	4	11	1	1	17	17
Total Adjustments	41	10	136	(4)	80	222	20	6	1	1	28	17
Adjusted EBITDA												
Vacation Exchange	384	75	63	79	44	262	77	70	83	46	277	282
Y/Y % chg.	4.3%						2.7%	11.7%	4.5%	4.4%	5.7%	1.9%
Margin	24.4%	30.9%	26.9%	32.0%	22.0%	28.2%	31.3%	29.6%	32.2%	22.3%	29.2%	29.3%
Vacation Ownership	709	122	182	191	200	695	129	188	209	211	738	793
Y/Y % chg.	3.2%						5.7%	3.5%	9.5%	5.5%	6.1%	7.6%
Margin	25.4%	19.1%	24.4%	24.9%	27.4%	24.1%	19.5%	24.5%	25.1%	26.8%	24.2%	24.5%
Wyndham Destinations Segment	1,093	197	245	270	244	957	206	259	292	257	1,014	1,075
Y/Y % chg.							4.6%	5.6%	8.0%	5.3%	6.0%	6.0%
Margin	19.5%	22.3%	25.0%	26.5%	26.2%	25.1%	22.7%	25.7%	26.7%	25.9%	25.4%	25.6%
Corporate & Other	(122)	(8)	(12)	(13)	(10)	(43)	(9)	(10)	(12)	(13)	(44)	(43)
Y/Y % chg.	-10%						13%	-17%	-8%	30%	2%	-3%
Adjusted EBITDA	\$1,372	\$189	\$233	\$257	\$234	\$914	\$197	\$249	\$280	\$244	\$970	\$1,033
Y/Y % chg.	5.9%						4.2%	6.8%	8.8%	4.2%	6.2%	6.4%
Margin	24.5%	21.4%	23.8%	25.3%	25.1%	23.9%	21.7%	24.7%	25.6%	24.6%	24.3%	24.6%
Adjusted Net Interest Expense	127											
EBITDA to Net Income Reconciliation												
EBITDA	1,331					914	197	249	280	244	970	1,033
Depreciation and amortization	(253)					(131)	(31)	(36)	(31)	(28)	(126)	(133)
Interest expense	(135)					(130)	(40)	(46)	(43)	(40)	(168)	(170)
Interest income / Other	(3)					(297)	(9)	(141)	(9)	(9)	(168)	(35)
Income Before Tax	940					356	117	26	197	168	508	694
Provision for Income Tax	(327)					235	(32)	(38)	(52)	(40)	(162)	(176)
Tax Rate	34.7%					-66.0%	27%	148%	26%	24%	32%	25%
Income before effect of accounting change	613					591	85	(12)	145	129	346	518
Minority Interest	(1)											
Net Income	612						85	(12)	145	129	346	518
Dividends per common share	\$2.00						\$0.41	\$0.41	\$0.41	\$0.41	\$1.64	\$1.64
GAAP EPS	\$5.52						\$0.84	-\$0.12	\$1.46	\$1.32	\$3.48	\$5.51
Basic	110						102	100	99	97	100	94
Diluted	111						102	100	99	98	100	94
Reconciliation of Income to Adj Net Income												
Net Income	612						85	(12)	145	129	346	518
Acquisitions costs / Other	(1)							7			7	
Restructuring & impairment costs	(32)							133			133	
Separation & stand-alone costs	0											
Legacy contingent asset/liability adjustments	12											
Interest Expense	0							2			2	
Other adjustments	(28)							3			3	
Tax effect of adjustments	25							(8)			(8)	
Total Adjustments	(25)							137			137	
Adjusted Net Income	\$637						\$85	\$125	\$145	\$129	\$484	\$518
Adjusted Diluted EPS	\$5.75						\$0.84	\$1.25	\$1.46	\$1.32	\$4.85	\$5.51
Y/Y % chg.	12.6%											14%

Source: Deutsche Bank and Company Reports



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Wyndham Destinations	WYND.N	43.92 (USD) 8 Aug 18	1,7,8,14,15

Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>. Aside from within this report, important conflict disclosures can also be found at <https://gm.db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See Important Disclosures Required by Non-US Regulators and Explanatory Notes.

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Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Chris Woronka



Historical recommendations and target price: Wyndham Destinations (WYND.N) (as of 8/8/2018)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

**Analyst is no longer at Deutsche Bank

1. 06/15/2018: Upgrade to Buy, Target Price Change USD62.00 Chris Woronka

Equity rating key

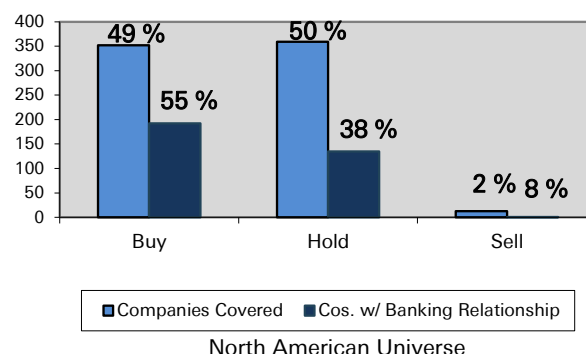
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Equity rating dispersion and banking relationships





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David Folkerts-Landau

Group Chief Economist and Global Head of Research

Pam Finelli
Global Chief Operating Officer
Research

Michael Spencer
Head of APAC Research
Global Head of Economics

Steve Pollard
Head of Americas Research
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Global Head of
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Andreas Neubauer
Head of Research - Germany

Spyros Mesomeris
Global Head of Quantitative
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International locations

Deutsche Bank AG

Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG

Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG

Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.

2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Deutsche Bank AG London

1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500
