

Weeding Through The Cannabis-Based Beauty Market

We believe cannabis-based personal care products could be the "next big thing" in the beauty industry. Cannabis-infused consumer products are already well on their way to becoming ubiquitous as major companies within the food & beverage industry explore the growing segment. We expect interest in cannabis-based consumer products will accelerate as a result of the recently passed 2018 Farm Bill, which legalized industrial hemp and CBD federally.

2018 Farm Bill

President Trump signed the 2018 Farm Bill on December 20, 2018. The \$867B bill is wide in scope, with provisions ranging from the allocation of subsidies to farmers to the funding status of farmers markets. The 2018 Farm Bill, championed by Senator Mitch McConnell, passed with a 386-47 majority in the House of Representatives and with an 87-13 majority in the Senate. The bill went into effect on January 1, 2019.

Notably, the 2018 Farm Bill materially affected the legality and role of hemp farming in the United States. Key provisions include:

- i) industrial hemp is formally defined as cannabis that contains less than 0.3% THC as measured by dry weight;
- ii) industrial hemp and related products are no longer included in the Controlled Substance Act's definition of marijuana; and
- iii) hemp farmers are now eligible for the same government assistance available to farmers of other agricultural commodities.

Cannabis Industry Overview

Piper Jaffray Analyst Michael Lavery initiated on cannabis in January 2019; please refer to the initiation report in full ([here](#)) for a comprehensive overview of the cannabis industry.

We expect legalization momentum to continue across the globe, driving cannabis industry growth. Medical marijuana has already been gaining traction worldwide, especially within South America and Europe. Over 25 countries have legalized medical marijuana. Canada has taken it a step further, with recreational marijuana legalized in October 2018. The tally of states within the U.S. with legal medical or recreational marijuana stands at 33 and 10, respectively. Marijuana remains illegal at the federal level. However, the 2018 Farm Bill legalized industrial hemp (defined as cannabis with less than 0.3% THC) and CBD, both of which have applications in personal care.

CBD Could be a \$50B-\$100B Market Long-Term

CBD, or cannabidiol, is a non-psychoactive cannabinoid derived from the cannabis plant. CBD is increasingly believed to have health benefits. CBD is thought to have the potential to treat anxiety, nausea, inflammation, and epilepsy, among other conditions. As CBD is a distillate, it is also fairly easy to add to products. CBD-infused consumer products are already on the market. CBD is commonly found in food & beverages and in beauty & personal care. Following the passing of the 2018 Farm Bill, the FDA and the USDA regulate CBD rather than the DEA. FDA regulation is especially pertinent for products making health claims, including personal care products.

We estimate the total cannabis market represents a \$15B-\$50B opportunity today and a \$250B-\$500B opportunity long-term. Recreational marijuana could account for \$150B-\$220B, with medical marijuana and CBD potentially worth \$50B-\$100B each. Given popularity within the U.S. and non-psychoactive properties, we believe CBD may be the largest near-term opportunity. For further information, please refer to the aforementioned cannabis industry initiation.

We expect the beauty & personal care industry will be a major beneficiary of growth in cannabis, and we note there is already a plethora of cannabis-based beauty products already on the market. To wit, personal care accounted for 24% of the hemp-based product market in the U.S. as of 2016, per the Congressional Research Service and the Hemp Business Journal.

Two cannabis derivatives, CBD and hemp seed oil, have applications in beauty & personal care.

Exhibit 11

Cannabis Plant Uses: Breakdown by Anatomy

Fibers (Stalk)	Hurds (Stalk)
<ul style="list-style-type: none"> • Apparel, textiles, and fabrics • Yarns and spun fibers • Paper products • Construction materials 	<ul style="list-style-type: none"> • Building materials • Paper products
Leaves & Branch Tips	Hemp Seed Cake
<p>THC</p> <ul style="list-style-type: none"> • Medicinal drugs • Psychoactives <p>CBD</p> <ul style="list-style-type: none"> • Medicinal drugs • Beauty & personal care • Supplements 	<ul style="list-style-type: none"> • Protein flour • Animal feed
	Hemp Seed Oil
	<ul style="list-style-type: none"> • Technical products (i.e. coatings) • Foods • Beauty & personal care

Source: Congressional Research Service, Piper Jaffray & Co. Research

Potential Uses For CBD Beauty Products

In 2018 the FDA approved the first cannabidiol-based drug, Epidiolex (by GW Pharmaceutical, covered by Piper Jaffray Analyst Danielle Brill), for treating seizures related to two rare types of epilepsy. Epidiolex is a CBD oil administered orally. However, little available research concerns the efficacy of topical CBD. Many CBD beauty products in the market claim to have anti-inflammatory properties and applications in pain relief, as cannabidiol interacts with the pain-regulating endocannabinoid system in the body.

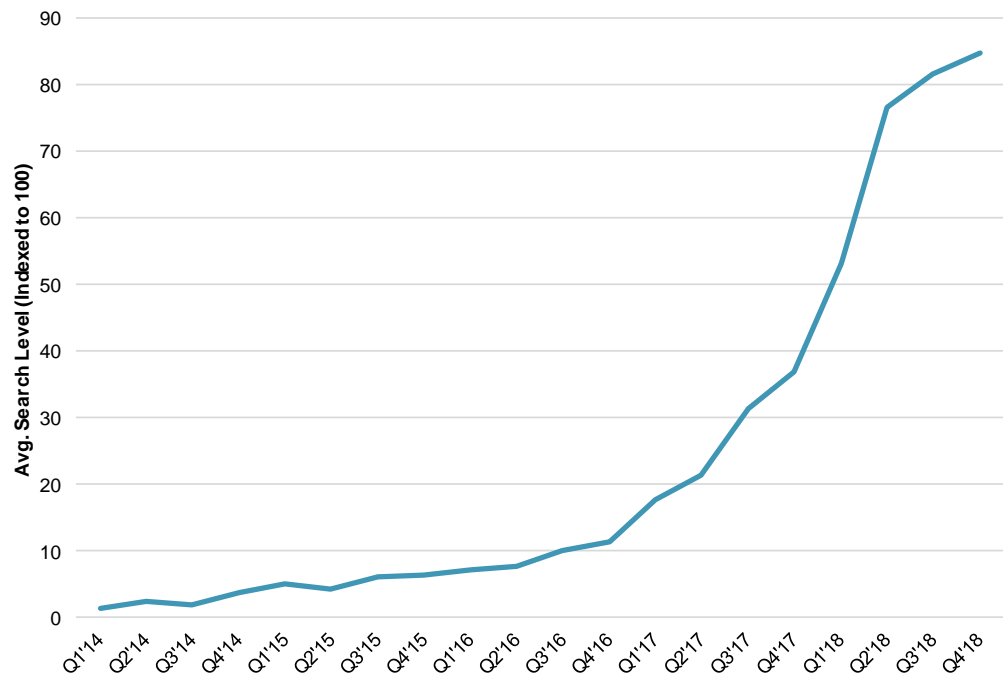
Julie Winter, founder of CBD brand CBD For Life, noted that the anti-inflammatory properties of CBD could make it an attractive treatment for skin conditions such as eczema and rosacea. Dermatologist Debra Jaliman notes that the vitamins in CBD could be useful in anti-aging products. That being said, the jury appears to be out as we await further research into the efficacy of topical CBD treatments.

CBD – What Now?

As we mentioned earlier, CBD is now legal at a federal level in the United States. The FDA and USDA are now responsible for regulating CBD and CBD products. The industry is currently awaiting further clarification as to how the FDA will regulate CBD. To underscore the importance of resolving confusion surrounding the legality and regulation of CBD, we show Google search trends for the phrase “is CBD oil legal” in the following chart. Again, CBD is legal as of 2019.

Exhibit 12

Average Search Trend Level For “Is CBD Oil Legal” In The U.S.



Source: Google Search Trends, Piper Jaffray & Co.

The Other “Green” Beauty: Cannabis-Based Products

Cannabis: The Latest Theme in Beauty

We view the burgeoning trend of cannabis-based beauty as an extension of the previously discussed natural & beauty movement. While conglomerates are positioning themselves to capitalize upon the broader natural and clean beauty trend through both M&A and brand launches, we expect the number of cannabis-based products offered by the conglomerates to increase in the future. We view legalization of medical and recreational marijuana, growing consumer acceptance, and the continued percolation of cannabis into the broader CPG space as key drivers.

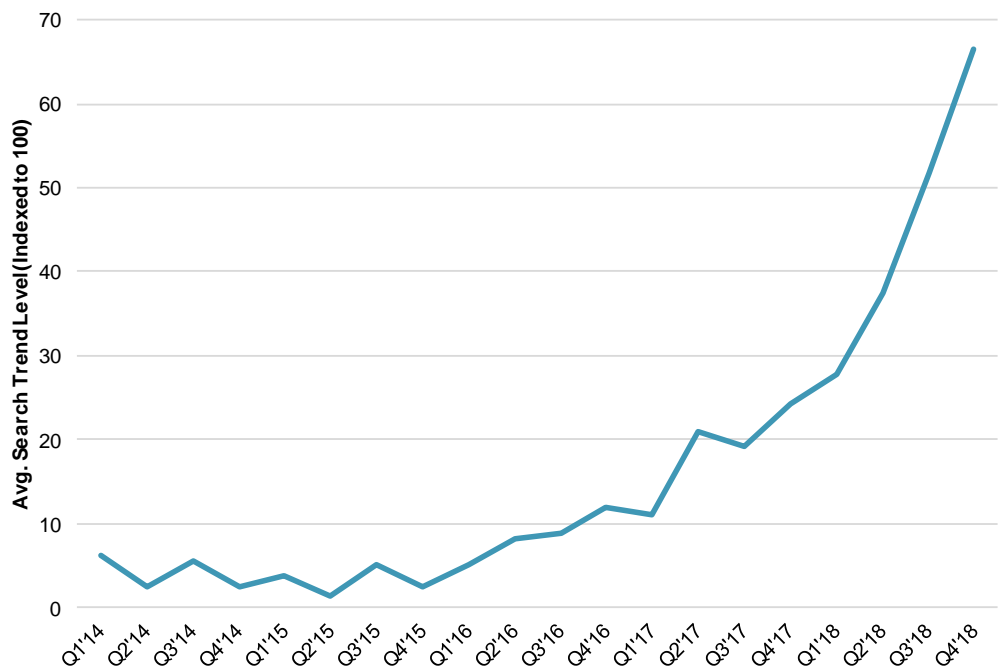
CBD Beauty Likely to Continue to Grow

We believe the beauty & personal care industry will likely be one of the beneficiaries of this explosive growth with rising consumer interest. We have seen an influx of CBD beauty brands emerging as CBD permeates the broader consumer landscape. We are also seeing support for CBD beauty from celebrity advocates, including Olivia Wilde, Jennifer Aniston, and Mandy Moore.

Below, Google search trends illustrate the growing interest in CBD beauty.

Exhibit 13

Avg. Search Trend Level for “CBD Beauty” in the U.S.

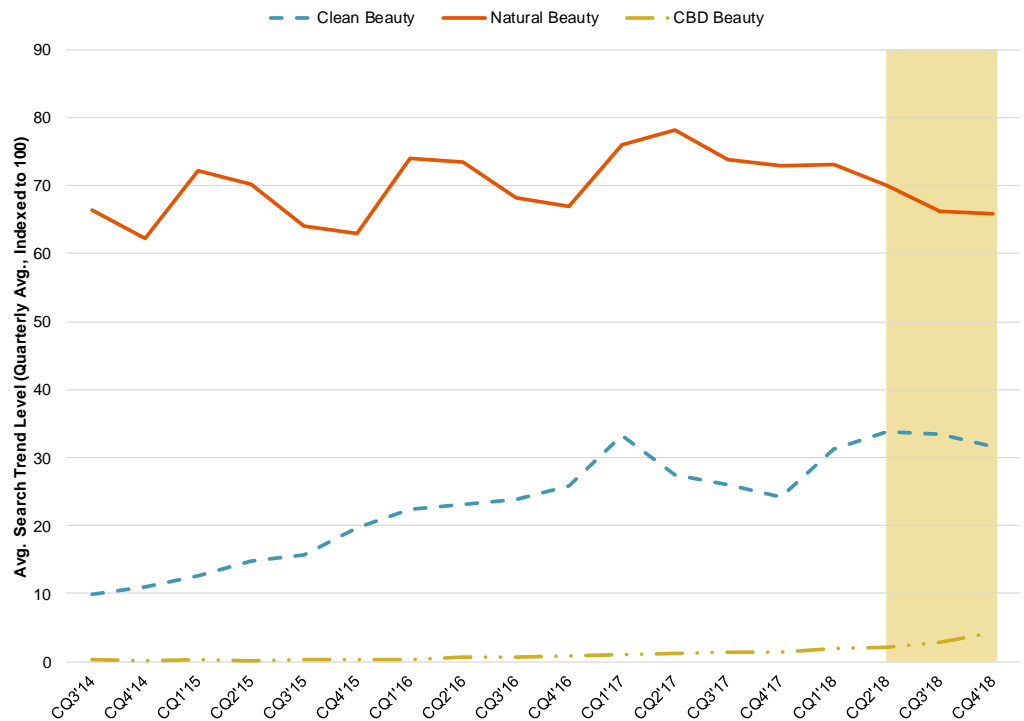


Source: Google Search Trends, Piper Jaffray & Co.

Again, we view cannabis beauty as an extension of the broader natural beauty trend given the focus of both on health and wellness. We expect CBD will likely garner attention from the natural & clean beauty consumer base. In fact, Google search trends for “natural beauty” and “clean beauty” have tapered off slightly while “CBD beauty” has gained traction. The index for “natural beauty” trends has fallen from 70 (indexed to 100) in CQ2'18 to 66 in CQ4'18. The index for “clean beauty” searches declined from 34 to 32 over the same period. “CBD beauty” search levels, while small relative to both clean & natural search levels, rose from 2 in CQ2'18 to 4 in CQ4'18.

Exhibit 14

Natural & Clean Beauty Momentum Likely Pivoting Toward CBD Beauty



Source: Google Search Trends, Piper Jaffray & Co. Research

**Hemp Seed Oil:
Nothing New, but Still
Growing**

While not as trendy as CBD, hemp seed oil is also becoming increasingly common in beauty products. We note that hemp seed oil-based products and CBD-based products have vastly different characteristics, but interest in both has increased over the past two years.

Hemp seed oil is produced by pressing hemp seeds. Though hemp seed oil is technically derived from the cannabis plant, hemp seed oil is low in both CBD and THC (the psychoactive component in marijuana). Even prior to the 2018 Hemp Bill, hemp seed oil was not considered a scheduled substance by the DEA, thus making it legal everywhere in the U.S.

Hemp seed oil has been an ingredient in beauty and personal care products for decades. With the recent legalization of CBD and the heightened focus on CBD health benefits, we expect interest in CBD-infused personal care products to outpace interest in hemp seed oil-based products.

Opportunities In Cannabis For Vendors And Retailers

Conglomerates & Hemp Seed Oil-Based Products

We believe major beauty conglomerates and retailers will likely await further clarification as to the federal agency regulation of CBD. However, hemp seed oil-based products are another part of the playbook for conglomerates to capitalize upon the burgeoning cannabis trend in the meantime. We expect additional hemp seed oil-based launches near-term, but see the potential for a proliferation of CBD-infused product launches from major beauty conglomerates longer-term.

In fact, we have seen multiple conglomerates launch products containing hemp seed oil over the past six months or so. Unilever-owned Murad launched its hemp seed oil-based Revitalixir Recovery Serum in August 2018. The product claims to reduce wrinkles, dehydration, and puffiness. Murad's Revitalixir Recovery Serum can be found at both Sephora and ULTA. More recently, Estée Lauder Companies brand Origins introduced a hemp seed oil-based facemask, "Hello, Calm", which is intended to reduce irritation and hydrate dry skin. Beyond beauty products that actually contain hemp, we have also seen conglomerates introduce cannabis-themed products. For example, L'Oreal fragrance brand Maison Margiela launched a cannabis-scented candle called "REPLICA: Music Festival".

Exhibit 15

"Hello, Calm" From Origins – EL's Foray into Cannabis-Based Beauty

Source: Origins.com, Piper Jaffray & Co. Research

Response From Specialty/Multi-Retailers

We expect specialty/multi- retailers to capitalize upon this trend. Specialty/multi- retailers have already embraced hemp seed oil-based products. ULTA carries hemp-based brands, including Dr. Bronner's and The Body Shop. In fact, we recently noticed Hempz displayed prominently in ULTA's flagship store in Manhattan. Sephora carries a wider array of products, including some CBD products. Brands available on Sephora.com include Milk Makeup, Lord Jones, High Beauty, and Herbivore.

On the following page, we show the Hempz brand in ULTA.

Exhibit 16

Hempz at ULTA Flagship in New York City



Source: Piper Jaffray & Co.

Who's Who In Cannabis-Based Beauty

Below, we highlight several growing companies in the cannabis-based personal care space.

Budding Brands

Cannuka	Michael and Kelly Bumgarner founded Cannuka in 2017. Cannuka is a clean, natural beauty brand that produces CBD-infused skincare products. Cannuka CBD is derived from hemp, and Cannuka products are THC-free. Products are also formulated with Manuka honey, which Cannuka claims acts as an antimicrobial and anti-bacterial agent. Cannuka products can be found in a select number of specialty health and wellness shops. Cannuka is headquartered in Columbus, OH.
Charlotte's Web	Charlotte's Web produces a variety of industrial hemp-derived CBD products, including a line of topical products. The Stanley brothers founded Charlotte's Web in 2013. Charlotte's Web products are sold in 3,045 retail locations. Charlotte's Web trades OTC under the ticker CWBHF. The company reported revenues of \$40M in 2017, an increase of +172% Y/Y. The company is based in Boulder, CO.
High Beauty	Former Juice Beauty formulator Melissa Jochim founded High Beauty in 2016. High Beauty is a natural, organic beauty brand that produces cannabis-infused skincare products. High Beauty products are free from CBD, focusing instead on cannabis sativa seed oil. Products are also free from a number of harmful toxins. The High Beauty skincare line can be found in Sephora stores. High Beauty is based in Santa Rosa, CA.
Lord Jones	Cindy Capobianco and Rob Rosenheck founded CBD brand Lord Jones in 2013. Lord Jones offers several CBD-infused product groups, including gel capsules, confections, tinctures, and skincare products. Lord Jones has garnered a wide base of followers that counts celebrities such as Olivia Wilde among its ranks. Products can be found at a wide variety of specialty health and wellness stores across the United States, as well as in Standard Hotels. Lord Jones is headquartered in Los Angeles, CA.
Malin + Goetz	Matthew Malin and Andrew Goetz launched their namesake brand in New York in 2004. Malin + Goetz produces a plethora of beauty & personal care products across multiple categories, including face, body, hair, and fragrance. Malin + Goetz is also known for its cannabis fragrance, which the brand incorporates in fragrance and skincare products. The NYC-based company operates ten retail locations in Los Angeles, Santa Monica, New York, and London, while products are also carried by salons, hotels and gyms, and by other specialty and department stores.
Milk Makeup	Milk Makeup, highlighted earlier in this report, is known for its hero family of KUSH products. KUSH, which encompasses lip balms, lips glazes, brow gels, and mascaras, is infused with hemp-derived cannabis oil. Sephora carries Milk's KUSH products. For further detail on Milk Makeup, refer to our prior work above (here).
Vertly	Husband & wife duo Zander and Claudia Gladish founded Vertly in 2017. Vertly is a CBD beauty brand that produces bath salts, a lotion, and a lip balm. Vertly is primarily DTC, though Vertly is also available on clean beauty retailer Credo's website.
Case Study: Cult Beauty	U.K. beauty e-tailer Cult Beauty carries an array of cannabis-based beauty products. Brands carried by Cult Beauty include Josh Rosebrook, KIKI Health, MGC Derma, and Optiat, among others. Cult Beauty carries both hemp seed oil and CBD beauty products. Cult previously highlighted cannabis beauty as an emerging beauty trend to watch in Cult's blog. Additional detail on Cult Beauty can be found in our work above (here).

Up & Coming Natural, Clean, & Cannabis-Based Beauty Companies

Below, we provide detail on category & segment exposure for selected companies in the natural, clean, & cannabis-based sub-verticals of beauty.

Exhibit 17

Up & Coming Beauty Companies: Category Positioning

Company Information			Category Positioning			
Company	Headquarters	Website	Natural	Clean	Cannabis	CBD
Alaffia	Baguida, Togo	https://alaffia.com/	x			
Amareta	Los Angeles, CA	https://amareta.com/	x	x		
Beautycounter	Santa Monica, CA	https://www.beautycounter.com/		x		
Biossance	Emeryville, CA	https://biossance.com/	x	x		
Bite Beauty	Toronto, Canada	https://www.bitebeauty.com/				
Cannabliss Organic	Aurora, CO	https://cannablissorganic.com/	x	x	x	
Cannuka	Postsdam, NY	https://cannuka.com/		x	x	x
CAP Beauty	New York, NY	https://www.capbeauty.com/	x	x	x	x
Caudalie	New York, NY	https://us.caudalie.com/	x	x		
CBD For Life	Red Bank, NJ	https://www.cbdforlife.us/	x	x	x	x
Charlotte's Web	Boulder, CO	https://www.cwhemp.com/	x		x	x
Crede	San Francisco, CA	https://credebeauty.com/		x		
Cult Beauty	London, UK	https://www.cultbeauty.co.uk/	x			
Dr Roebuck's	Bondi Beach, Australia	https://droebucks.com/	x	x		
Dr. Bronner's	Vista, CA	https://www.drbronner.com/	x		x	
Drunk Elephant	Houston, TX	https://www.drunkelephant.com/		x		
Earth Tu Face	Oakland, CA	https://www.earthtuface.com/	x	x	x	
Earth's Nectar	Houston, TX	http://earthsnectar.com/	x			
Escentric Molecules	Berlin, Germany	https://us.escentric.com/	x			
Flynn&King	Brooklyn, NY	https://www.flynnandking.com/	x		x	
Follain	Boston, MA	https://follain.com/		x		
Goop Beauty	Los Angeles, CA	https://goop.com/	x			
Graydon	Toronto, Canada	https://graydonskincare.com/	x	x		
Herb Essentials	New York, NY	https://herbessntls.com/	x	x	x	
Herbivore	Seattle, WA	https://www.herbivorebotanicals.com/	x	x	x	x
High Beauty	Santa Rosa, CA	https://highbeauty.com/	x	x	x	x
Honest Beauty	Los Angeles, CA	https://www.honestbeauty.com/		x		
Ildi Pekar	New York, NY	https://ildipekar.com/	x	x	x	x
Josh Rosebrook	Jacksonville, FL	https://joshrosebrook.com/	x			
Khus+Khus	Denver, CO	https://khus-khus.com/	x	x		
Kiki Health	London, UK	https://kiki-health.com/	x		x	x
Kopari	San Diego, CA	https://www.koparibeauty.com/	x	x		
KORA Organics	Santa Monica, CA	https://us.koraorganics.com/	x			
Korres	Metamorfoosi, Greece	https://www.korresusa.com/	x			
Kush Queen	Los Angeles, CA	https://www.kushqueencannabis.com/			x	x
Lord Jones	Los Angeles, CA	https://www.lordjones.com/	x		x	x
Malin + Goetz	New York, NY	https://www.malinandgoetz.com/				
MGC Derma	Perth, Australia	https://www.mgcderma.com/			x	x
Milk Makeup	New York, NY	https://www.milkmakeup.com/		x	x	x
Monastery Made	San Francisco, CA	http://www.monasterymade.com/	x			
Optiat	London, UK	https://optiat.com/	x			
Perricone MD	San Francisco, CA	https://www.perriconemd.com/	x			
Rituals	Amsterdam, Netherlands	https://www.rituals.com/en-us/home	x			
rms beauty	Charleston, South Carolina	https://www.rmsbeauty.com/	x	x		
Sans [ceuticals]	Auckland, New Zealand	https://www.sansceuticals.com/		x		
Summer Fridays	Los Angeles, CA	https://summerfridays.com/		x		
Supergoop!	San Antonio, Texas	https://supergoop.com/		x		
Tata Harper	Whiting, VT	https://www.tataharperskincare.com/	x			
Tatcha	San Francisco, CA	https://www.tatcha.com/	x	x		
The Body Shop	Croydon, United Kingdom	https://www.thebodyshop.com/en-us/	x		x	
The Detox Market	Los Angeles, CA	https://www.thedetoxmarket.com/	x	x		
True Botanicals	Mill Valley, CA	https://truebotanicals.com/	x	x		
TULA Probiotic	New York, NY	https://www.tula.com/	x	x		
Vertly	Sausalito, CA	https://www.vertlybalm.com/		x	x	x
Vita Liberata	Ballyclare, Northern Ireland	https://www.vitaliberata.com/	x	x		
Volition	San Francisco, CA	https://volitionbeauty.com/		x		
Votary	London, UK	https://www.votary.co.uk/	x		x	
W3LL PEOPLE	Austin, TX	https://w3llpeople.com/	x	x		
Wonder Seed	Newport Beach, CA	https://thewonderseed.com/	x		x	
Youth To The People	San Leandro, CA	https://www.youthtothepeople.com/	x	x		

Source: Company websites, Piper Jaffray & Co. Research

Exhibit 18

Up & Coming Beauty Companies: Beauty Segment Exposure

Company Information			Beauty Segment Exposure					
Company	Headquarters	Website	Cosmetics	Skincare	Fragrance	Haircare	Body/Other	Retailer (3P)
Alaffia	Baguida, Togo	https://alaffia.com/		x	x	x	x	
Amareta	Los Angeles, CA	https://amareta.com/		x				
Beautycounter	Santa Monica, CA	https://www.beautycounter.com/	x	x		x	x	x
Biossance	Emeryville, CA	https://biossance.com/		x	x		x	
Bite Beauty	Toronto, Canada	https://www.bitebeauty.com/	x	x				
Cannabliss Organic	Aurora, CO	https://cannablissorganic.com/		x			x	
Cannuka	Postdam, NY	https://cannuka.com/		x			x	
CAP Beauty	New York, NY	https://www.capbeauty.com/	x	x	x	x	x	x
Caudalie	New York, NY	https://us.caudalie.com/		x	x	x	x	
CBD For Life	Red Bank, NJ	https://www.cbdforlife.us/		x		x	x	
Charlotte's Web	Boulder, CO	https://www.cwhemp.com/		x				
Credo	San Francisco, CA	https://credobeauty.com/	x	x	x	x	x	x
Cult Beauty	London, UK	https://www.cultbeauty.co.uk/	x	x	x	x	x	x
Dr Roebuck's	Bondi Beach, Australia	https://drroebucks.com/		x			x	
Dr. Bronner's	Vista, CA	https://www.drbronner.com/		x		x	x	
Drunk Elephant	Houston, TX	https://www.drunkelephant.com/		x				
Earth Tu Face	Oakland, CA	https://www.earthtuface.com/		x			x	
Earth's Nectar	Houston, TX	http://earthsnectar.com/		x		x	x	
Escentric Molecules	Berlin, Germany	https://us.escentric.com/			x			
Flynn&King	Brooklyn, NY	https://www.flynnandking.com/		x			x	
Follain	Boston, MA	https://follain.com/	x	x		x	x	x
Goop Beauty	Los Angeles, CA	https://goop.com/	x	x	x	x	x	x
Graydon	Toronto, Canada	https://graydonskincare.com/		x	x	x	x	
Herb Essentials	New York, NY	https://herbessnts.com/		x	x		x	
Herbivore	Seattle, WA	https://www.herbivorebotanicals.com/	x	x		x	x	
High Beauty	Santa Rosa, CA	https://highbeauty.com/		x				
Honest Beauty	Los Angeles, CA	https://www.honestbeauty.com/	x	x		x		
Ildi Pekar	New York, NY	https://ildipekar.com/		x				
Josh Rosebrook	Jacksonville, FL	https://joshrosebrook.com/		x	x	x		
Khus+Khus	Denver, CO	https://khus-khus.com/		x			x	
Kiki Health	London, UK	https://kiki-health.com/				x	x	
Kopari	San Diego, CA	https://www.koparibeauty.com/		x	x		x	
KORA Organics	Santa Monica, CA	https://us.koraorganics.com/		x			x	
Korres	Metamorfofi, Greece	https://www.korresusa.com/	x	x	x		x	
Kush Queen	Los Angeles, CA	https://www.kushqueenencannabis.com/		x			x	
Lord Jones	Los Angeles, CA	https://www.lordjones.com/		x			x	
Malin + Goetz	New York, NY	https://www.malinandgoetz.com/		x	x	x	x	
MGC Derma	Perth, Australia	https://mgcderma.com/		x				
Milk Makeup	New York, NY	https://www.milkmakeup.com/	x	x			x	
Monastery Made	San Francisco, CA	http://www.monasterymade.com/		x				
Optiat	London, UK	https://optiat.com/					x	
Perricone MD	San Francisco, CA	https://www.perriconemd.com/	x	x				
Rituals	Amsterdam, Netherlands	https://www.rituals.com/en-us/home	x	x	x	x	x	
rms beauty	Charleston, South Carolina	https://www.rmsbeauty.com/	x	x				
Sans [ceuticals]	Auckland, New Zealand	https://www.sansceuticals.com/		x		x	x	
Summer Fridays	Los Angeles, CA	https://summerfridays.com/		x				
Supergoop!	San Antonio, Texas	https://supergoop.com/		x			x	
Tata Harper	Whiting, VT	https://www.tataharperskincare.com/	x	x	x		x	
Tatcha	San Francisco, CA	https://www.tatcha.com/	x	x			x	
The Body Shop	Croydon, United Kingdom	https://www.thebodyshop.com/en-us/	x	x	x	x	x	
The Detox Market	Los Angeles, CA	https://www.thedetoxmarket.com/	x	x	x	x	x	x
True Botanicals	Mill Valley, CA	https://truebotanicals.com/		x	x	x	x	
TULA Probiotic	New York, NY	https://www.tula.com/		x				
Vertly	Sausalito, CA	https://www.vertlybalm.com/		x				
Vita Liberata	Ballyclare, Northern Ireland	https://www.vitaliberata.com/		x			x	
Volition	San Francisco, CA	https://volitionbeauty.com/	x	x			x	
Votary	London, UK	https://www.votary.co.uk/		x			x	
W3LL PEOPLE	Austin, TX	https://w3llpeople.com/	x	x				
Wonder Seed	Newport Beach, CA	https://thewonderseed.com/		x		x	x	
Youth To The People	San Leandro, CA	https://www.youthtothepeople.com/		x				

Source: Company websites, Piper Jaffray & Co. Research

Covered Companies Mentioned In This Report

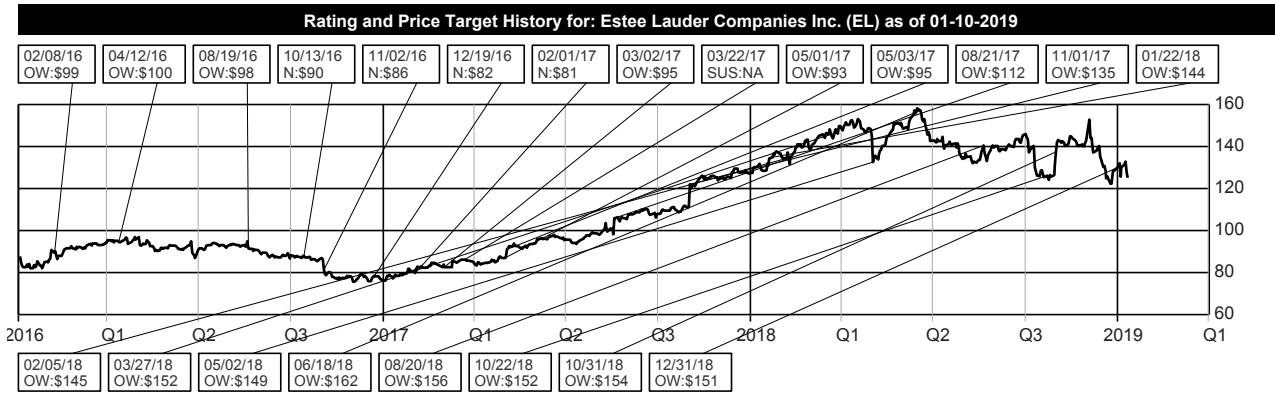
Ratings, Price Targets and Risks

EL is currently rated OW with a \$151 PT based on 28x FY20E EPS. Risks include industry consolidation, mall traffic, competition, distribution, and macro.

ULTA is currently rated OW with a \$295 PT based on 23x FY20E EPS. Risks include competition, markdown risk, vendor concentration, reliance on key management, and macro.

ELF is currently rated UW with an \$8 PT based on 8x EV/FY20E EBITDA. Risks include reliance on key management, competition, store traffic, margin defensibility, and macro.

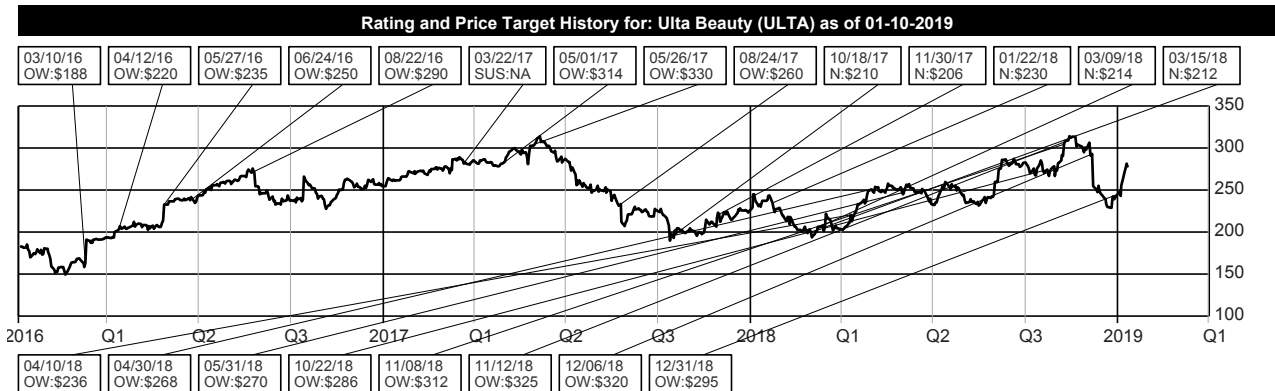
Important Research Disclosures



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- UW: Underweight
- NA: Not Available
- UR: Under Review

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Research Office Locations

MINNEAPOLIS - HEADQUARTERS

800 Nicollet Mall, Suite 1000
Minneapolis, MN 55402
+1 612 303-6000
+1 800 333-6000

BOSTON

100 Federal Street, 33rd Floor
Boston, MA 02110
+1 617 654-0723

CHICAGO

444 W. Lake Street, Suite 3300
Chicago, IL 60606
+1 312 920-3200

HOUSTON

609 Main St., Suite 3800
Houston, TX 77002
+1 713 236-9999

NEW YORK

345 Park Avenue, Suite 1200
New York, NY 10154
+1 212 284-9300

SAN FRANCISCO

50 California Street, Suite 3100
San Francisco, CA 94111
+1 415 616-1600