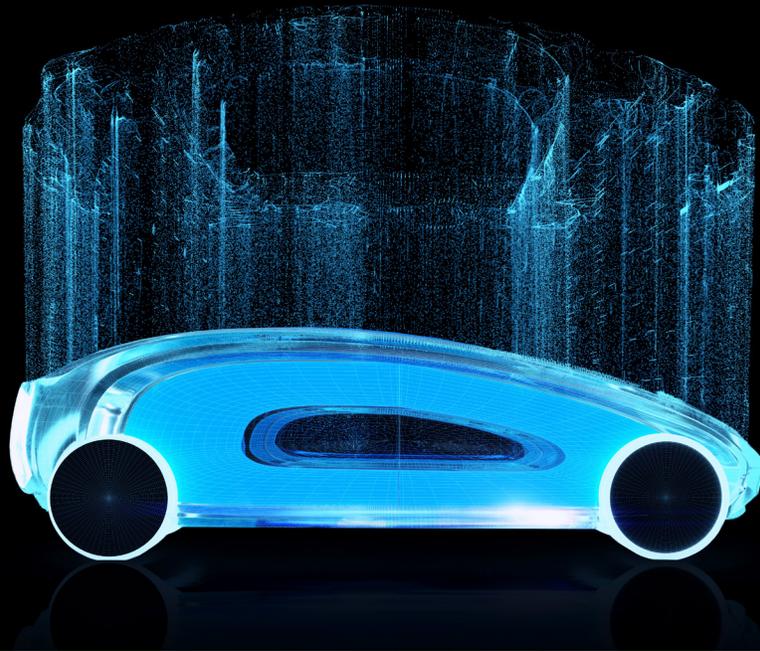


Automation in Acceleration

Four Areas for Investors in the Pandemic Environment

As the COVID-19 pandemic continues to unfold, automation is becoming more influential and moving faster than ever before. Its influence on our lives and the global economy is accelerating at a rapid pace. It's also advancing a number of trends that were already underway pre-pandemic, such as the revolution unfolding in transportation, shift to e-commerce, workflow digitisation and an increasing reliance on the Internet of Things (IoT), as well as the rise of automation across healthcare.

We believe automation is a beneficiary of the COVID-19 environment. Business leaders are responding in kind, adjusting operations, supply chains and strategies to remain competitive in an increasingly automated environment. In Baird's view, the acceleration of automation is converging with other secular trends to create powerful investment opportunities. Here are the four areas we're watching as we compose this piece in the back half of 2021.



Transportation

Active safety, autonomous driving and air mobility

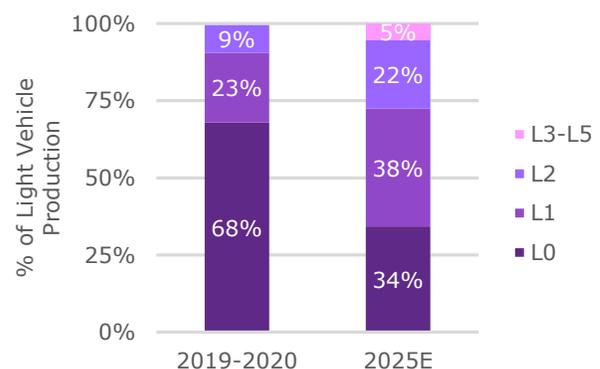
The global transportation sector is embracing automation, fueling the development of new strategies and technologies that stand to lift the sector into a new era. With the rise of new autonomous driving technologies and business models, we see compelling investment opportunities:

ACTIVE SAFETY

When it comes to vehicle decisions, consumers are shifting away from driving pleasure to technology and sustainability features. The appetite for in-car technology, connected convenience features and non-fossil fuel vehicles is strong.

Safety is a critical concern in the transportation market, and active safety features are growing in importance. The regulatory climate is helping to drive adoption, as those bodies set standards for highly sought-after five-star safety ratings. A growing number of automakers are making active safety a central part of their brand. Twenty automakers – which account for 99% of the US auto market – have voluntarily agreed to equip all new passenger vehicles with low-speed automatic emergency

“Democratization” of ADAS Looming



Source: Company reports, Baird analysis

braking that includes forward collision warning by September 2022¹. And, from May 2022, all new cars in the European Union will be required to carry advanced safety features.

According to Baird Senior Research Analyst Luke Junk, increasing regulatory requirements are a tailwind for advanced driver-assistance systems, or ADAS, which is now poised to ramp up significantly in the next five years.

“We see this as a pretty fundamental shift, which will be noticeable to consumers in just the next few years. Technologies like adaptive cruise control, lane-keep assist, and autonomous parking – these will find their way into vehicles rolling off auto lots, and in the not-so-distant future, we’ll all wonder how we ever drove cars without this type of automation. And automakers are all-in on these autonomous technologies, as safety sells.”

Junk is also quick to point out that this Active Safety opportunity also applies to the commercial vehicle market. He points to specific

applications such as content around sensors monitoring vehicle health, additional inputs for automated decision-making, steer-by-wire controls (HVOR applications), and inputs to provide a better understanding of a vehicle’s environment like blind spot detection and side-turn assist functionality.

AUTONOMOUS DRIVING

Increased technology in vehicles opens the door to increased autonomy in vehicles. Adoption of autonomous driving hinges on cost, scalability and strong use cases with a high ROI. The maturity of this technology, coupled with regulatory developments, will drive safe-use cases. So-called “Level 2+” (L2+) automation is in focus today. These vehicles can automatically change speed and lanes, though the driver must be in control. While driverless testing with L4 and L5 automation features is taking place in the U.S. and China, widespread adoption likely remains years away. In the near term, consumers are more likely to experience autonomous driving through the robotaxi market, which appears ready

for expansion. A few examples noted by the Baird team: Google’s Waymo robotaxi service is already active in the Phoenix market and recently expanded into the Northern California Bay Area. Intel’s Mobileye announced that it would be initiating a robotaxi service in Germany & Israel in 2022. Motional, the joint venture between Aptiv and Hyundai, said that they plan to launch a robotaxi service in select U.S. markets with Lyft in 2023.

AIR MOBILITY

There is an emerging ecosystem of companies focused on revolutionising air transport, taking urban density and topography along with it. Thanks to an increase in the energy density of batteries, the use of high-performance materials like carbon fiber, and powerful onboard computing systems, new modes of air mobility are poised to enter the market and change how transportation happens in the air. While commercial deployment is some years away, we believe this is a meaningful investment opportunity. Significant investment dollars are being put to work in a host

“We see this as a pretty fundamental shift, which will be noticeable to consumers in just the next few years.”

Luke Junk
Senior Research Analyst
Baird

of technologies with a goal of taking cost out and shortening the transport times for people and goods. As cost comes down and transport times decline, demand for services will materially increase. According to Peter Arment, Baird Senior Research Analyst, there are 167 different Electric Vehicle Aircraft (EVA) currently under development globally, with over \$6 billion invested in EVAs over the past five years. Arment is quick to point out the benefits of this increasing investment: "The vertical takeoff and landing (VTOL) and electric vertical takeoff and landing (eVTOL) technologies being developed offer an alternative means of transportation and propulsion technology, which would offer us meaningful ways to address climate change. We also see some players in the space looking to incorporate autonomous technologies as well. There's a lot of promise." But Arment also acknowledges the hurdles that might require more time and patience. "In order for EVAs to become a normalized part of our flying experiences, there are operational needs that need to be addressed such as a certified fleet of vehicles, an efficient air traffic

management system, integration of the air mobility services with other mobility services, and the necessary physical and digital infrastructure."

Arment concludes that all of these areas may offer significant opportunity for investment in parallel, as product development is on one track and infrastructure/operational are on another track. Certification by regulators of EVAs or other hybrid air mobility vehicles will be the biggest challenge for the industry with many targeting mid-decade for certification. Achieving this timeline will be key and the winner of capturing the most share within air mobility will need to develop a vehicle that offers the lowest cost per mile.

[CONTINUE TO HYGIENE INSIGHTS](#) ►



Hygiene

In a world reshaped by COVID-19, cleanliness no longer cuts it. Consumers are now acutely aware of the difference between cleaning (on one hand) and disinfecting and sanitizing (on the other). According to a recent Baird survey, 95% of people are more or just as likely to evaluate a product's ability to sanitize and disinfect, versus merely clean.

COVID-19 has accelerated the use of automation and technology to disinfect and sanitize. We are seeing rapid adoption of new methods of disinfection such as the use of UV lights, robotics, touch-free solutions, integration of IoT into hygiene dispensing systems, and remote cleaning training using online software solutions.

"The shift to hygiene started before the pandemic, but COVID-19 really accelerated the trend," says Nick Pavlidis, Managing Director in Baird's

Global Consumer Investment Banking group. "There is a strong, strong appetite from business for products and services that sanitize and disinfect. We believe there's additional runway for product innovators who are embracing innovations like hands-free solutions, manufacturing high-efficacy products, and infusing technology into their lineup with offerings like robotic floor cleaning machines and IoT-driven systems."

Robotic UV disinfection in particular has seen accelerated

trial and adoption since the pandemic began. Market leaders like Surfacide are not only supplying robotic disinfecting units to hospitals, but also to schools, hotels, and even to London's St. Pancras International, one of the largest train stations in the city. "We are the first train station to bring this type of technology in because we want to allow people to use a train station with confidence, use our retail units with confidence, and slowly get back to a normal way," said Jay Newton, Head of Stations Engineering and Operations for

High Speed 1 Channel Tunnel rail link². The technology is also being put to work at stateside venues, including Boston's famed Fenway Park. In announcing their partnership with Surfacide in March 2021, Red Sox VP of Facilities Management Jonathan Lister commented, "With a hospital-grade UV technology product like this, we are able to ensure our ballpark is ready to safely receive fans throughout the 2021 regular season³."

Hands-free solutions, such as touchless hand sanitizer dispensers and automatic toilet flushers, have been present for over a decade, but go into office buildings, restaurants, schools and other non-residential venues today and you will see an increasing number of touch-free faucets, soap dispensers and even hands-free door openers.

Additionally, increasingly Baird sees the integration of IoT (Internet of Things) technology into hands-free dispensing systems. An example of this according to Pavlidis is GOJO, the maker of Purell[®], which markets its Onvation[®] "Smart

Restroom Solution" as a tool to use smart data insights to make informed decisions, control waste, understand visitor flow and make "patrons feel confident that you have a high-quality building that cares about well-being." These IoT solutions integrate data about visitor flow and product usage, allowing immediate notification that dispensers need to be refilled and the optimization of cleaning schedules.

Often, upgrades to technologically-advanced hygiene solutions are being funded by government. As an example, Sloan Valve (the makers of many of the aforementioned touchless flushers and faucets) highlights the Consolidated Appropriations Act (CAA), and the American Rescue Plan Act (ARPA), both COVID-19 relief acts of 2021, as a potential source of billions of dollars that could be used by commercial venues to spend on automated solutions.

Government funding is not only fueling investment in these new technologies but also the ability of commercial businesses to promote those cutting-edge

tools that give consumers a solid confidence of cleanliness. Pavlidis emphasizes this imperative, saying, "Whether we're talking about hospitals, airlines, hotels, restaurants, sports stadiums or food processing facilities, the use of these various hygiene technologies is becoming one of the most important marketing messages to end-consumers and employees. These businesses realise that their investment in these technologies is not only about utilising better hygiene, but also about proving to end-consumers that their chosen venues are disinfected properly."

[CONTINUE TO E-COMMERCE & WEARHOUSING INSIGHTS ►](#)

"The shift to hygiene started before the pandemic, but COVID-19 really accelerated the trend."

Nick Pavlidis
Managing Director
Baird Global Consumer Investment Banking



E-commerce and Warehousing

COVID accelerated the in-progress, decades-long secular shift toward e-commerce, and we expect relevant developments to linger long after the pandemic winds down in the so-called “new normal.” Precautions around in-store shopping drove shoppers online, driving dramatic changes in consumer behavior that will likely persist for many years.

E-COMMERCE

The sharp rise in online shopping created unprecedented demand for order fulfillment, expedited shipping and mobile technologies. Moreover, categories of retail that were once assumed to have limited opportunity online, including grocery, B2B, vehicles and used/pre-owned products, are now rapidly shifting online. We see meaningful investment opportunities in these areas:

Amazon Marketplace Service Providers

A growing industry of technology and service providers is forming

around the Amazon ecosystem, with a focus on helping brands navigate the complexities of selling on the world’s foremost e-commerce platform. Hundreds of companies have emerged, many of which offer automation solutions focused on categories including product listings and pricing, inventory and order management, warehousing, shipping and advertising, both on Amazon and on other platforms.

“Amazon is the dominant player in the global e-commerce marketplace. For brands, it’s a

can’t-miss channel – but it comes with complex challenges,” said Eric Winn, Managing Director in Baird’s Global Technology & Services Investment Banking group. “There’s a growing need for solutions to alleviate the pain points associated with selling on Amazon, and we’re seeing strong growth in an emerging ecosystem of tech & services companies dedicated to helping brands optimize their presence on the Amazon platform.”

Winn points to a recent Baird transaction as a case study

“Amazon is the dominant player in the global e-commerce marketplace. For brands, it’s a can’t-miss channel – but it comes with complex challenges.”

Eric Winn

Managing Director

Baird Global Technology & Services Investment Banking

illustrative of this dynamic. The firm recently advised a company, reCommerce, in securing a growth equity investment from Topspin Consumer Partners. reCommerce combines its proprietary in-house technology platform with creative, marketing, data analytics, brand protection, and logistics services to drive the growth of leading brands on Amazon. Positioned as the leading tech-enabled selling partner of brands through Amazon, reCommerce received a lot of investor interest.

E-commerce-Enabling Technology

Omnichannel brands will seek investments in technologies that allow them to seamlessly merge their physical stores and e-commerce presences. Examples include BOPIS (buy online, pick up in store) and home delivery technologies. We continue to see news headlines reinforcing this concept, including Sephora’s recently announced long-term partnership with European lifestyle e-commerce platform Zalando and acquisition of European online beauty retailer Feelunique.

Over the course of the pandemic, multiple emerging technology leaders have sought investment to capitalize on accelerating

adoption of software and services that help retailers capitalize on their physical footprint and strong partner relationships with brands. “While e-commerce growth has been tremendous, the physical store is often cited as the best defense retailers have in competition with Amazon,” says Winn. “Their stores are closer to the customer and can meet critical customer demand for convenience and instant gratification of receiving one’s purchase today. This is a primary reason why Amazon acquired Whole Foods and continues to invest in new retail storefronts and distribution locations, to get closer to the customer. Any technology that helps retailers connect their physical stores to their e-commerce sites or mobile applications will be in high demand for the foreseeable future, to better enable unified commerce.”

AI-driven User Interfaces

Voice platforms of Amazon, Google and Apple will continue to add more transactional functionality, leveraging advanced machine learning to fulfill consumer requests for products and services. According to Baird Senior Research Analyst Colin Sebastian, this is part of the shift

toward an “ambient Internet,” which means accessible anytime, anywhere, as the number of connected devices and input mechanisms expands. Moreover, “next gen” computing platforms including AR/VR and “metaverses” will undoubtedly include e-commerce as part of core functionality. “We see this already with different technologies that allow consumers, for example, to use augmented reality to enhance the shopping experience for home décor and apparel. You can virtually try on a dress or check how a new dining table would fit in a specific room,” says Sebastian.

Convergence of Social and Visual Platforms Around E-Commerce

Online platforms including Facebook, Pinterest, TikTok and Snap continue to add more shopping/e-commerce functionalities, joining Google in the race to capture one of the most lucrative areas of online advertising. Enabling platforms such as Shopify and BigCommerce are also helping to facilitate this shift by contributing product catalogs and integrating transaction flows from merchants and brands via APIs. Likewise, commerce platforms such as Amazon, eBay and Wayfair now offer advertising services,

effectively increasing the costs for merchants and brands to access the most compelling marketplaces.

Blurring the Lines Between E-Commerce and Digital Payments/Fintech

“We expect significant innovation in bridging online commerce and digital payment services, including the integration of social networking and messaging with digital wallets,” says Sebastian. He notes that shopping platforms such as Shopify are building out more advanced payment capabilities, while digital payment companies such as PayPal and Square are blending shopping and other “super-app” capabilities within their platforms.

Video and Livestreaming Extending E-Commerce Beyond the Stores

With shopping as entertainment an increasing theme, there is also a notable ramp in the use of video platforms (such as YouTube) to drive e-commerce transactions, as well as platforms including Amazon and Alibaba using live streaming to merchandise products. Together with the increasing adoption of connected TVs (and OTT content distribution), we see many new opportunities for e-commerce to expand onto the “big screen” and engage with consumers well beyond the desktop and mobile devices.

WAREHOUSING

The acceleration in e-commerce is having a profound effect on warehousing/distribution and fulfillment infrastructure. However, changes in consumer

expectations narrowing delivery times will require more urban centres, giving added consideration to space constraints. The pandemic environment has complicated warehouse operations. Merchants are still navigating labor shortages, supply chain disruptions, and health and safety concerns for their workforces.

Warehousing has been, in many ways, a slow-to-evolve space. According to a recent analysis by consulting company LEK⁴, roughly 60% of warehouses today use “no to low levels of automation” and another 30-35% only use basic mechanical aids, e.g. conveyors. Given the demands being placed on distribution infrastructure combined with productivity limitations of traditional operating methods, Baird sees warehousing poised for an automation revolution. Automation technologies can help businesses meet the demands of the market’s growth dynamics. Specific opportunities we see include:

“These technologies will become practically essential to efficient DC functionality as the physical scale and complexity of warehouses increases.”

Rob Mason
Senior Research Analyst
Baird

Warehouse Management, Control and Execution Software (WMS)

Offering a range of sophisticated functionalities, warehouse management software (WMS) typically controls inventory in and out of the warehouse. Baird Senior Research Analyst Rob Mason describes WMS: “Consider these systems to be the nerve centre of a warehouse – vitally important.” Warehouse control systems (WCS) manage the flow of goods as they travel on various types of automated warehouse and material-handling devices as well as through pick/pack/sort stations. Finally, a warehouse execution systems (WES) is a newer type of solution and often considered a more all-inclusive solution, making it well suited for small or medium sized operations, that includes both inventory management and control capabilities. However, large operations may also still require advanced capabilities of WMS.

Machine-to-Machine Technology (M2M)

M2M enables direct communication between devices and can be applied to equipment like packing machines, pallet machines, autonomous mobile robots (AMRs) and conveyors. And since the average cost of downtime at a distributor can reach approximately \$10,000 per hour⁵, M2M is a huge opportunity when applied to traditional warehouse tasks (receiving/picking/storage), as well as predictive maintenance. Mason points out that the combination of M2M with WMS is a particularly powerful blend of automation functionality. But he also notes that there’s more potential to

be gained out of these systems. “The pace of high-speed ethernet / 5G adoption – which enables machines to communicate directly and transmit data back to cloud management systems at the pace necessary to enable automation and prevent mistakes – is a key factor for M2M. Additionally, as chip efficiency improves and software developments continue, we should see improved edge computing abilities of machines like AMRs and picking robots. And the end result of all of this is a lower cost, safer warehouse environment that provides higher throughput.”

Real-Time Tracking

Effective supply chain management and omnichannel strategies in particular are reliant on high levels of real-time inventory accuracy and visibility to execute a flawless customer experience. Moreover, historical studies of inventory accuracy, whether among retailers or otherwise, has illustrated wide discrepancies. Manual counts are labor intensive and episodic. Increasingly RFID is being deployed to allow inventory to be automatically counted and inform real-time accuracy of items on hand and available to order/promise/ship. Decreases in individual RFID costs are also enabling RFID to be more widely deployed to improve inventory visibility. Augmenting the adoption of RFID are counting robots that can scan RFID tags from as far as 25 feet away, while drones can use optional sensors

and deep learning technologies to scan hard-to-reach locations.

Additionally, we are observing businesses adopting Real Time Location Systems (RTLS), which allows warehouse operators to monitor inventory, material handling equipment and people in real-time for not only presence/absence, but to also determine location – in turn, increasing safety, efficiency and awareness of pending issues.

Robotics and Robotic Process Automation (RPA)

A myriad of robotic technologies are now playing an important role in warehouse environments. Automated guided vehicles (AGVs), which have a longer history in industrial application, are still increasing in usage but are ceding ground to AMRs. AMRs generally embed artificial intelligence and can generate their own path based on pre-loaded maps, or routes the unit teaches itself, and incorporate data from cameras and sensors to respond dynamically to the environment. Perhaps best known are Amazon’s Kiva robots that now number over 200,000 operating in its fulfillment center network.

Additionally, AMRs mainly reside in the category of collaborative robots (cobots) because they can work safely in conjunction with and in close proximity to humans. As Mason points out, warehouse cobot arms and various types of AMRs are beginning to penetrate actual item-level picking applications.

“This is a very technologically demanding application,” says Mason. “It’s possible because of advancements in cobot dexterity, gripping, machine vision, flexibility and lower material costs. We believe that cobots still have room for improvement in being able to replicate the full range of tasks performed by humans, but the technological advancements and continued demand for the technology will allow that evolution to continue.”

High density Automated Storage and Retrieval Systems (AS/RS) is another important warehouse application. AS/RS can deliver improvements in facility throughput, boost labor efficiency and improve safety. Meanwhile, robotic process automation (RPA) technologies apply artificial intelligence (AI), machine learning and analytics to manual tasks – allowing workers to focus less on mundane tasks and more on high-value work. For example, automated inventory management systems now use barcode or RFID scanners to log packages/goods entering and exiting a facility, taking over a low-value added and potentially error-prone human task. “These technologies will become practically essential to efficient DC functionality as the physical scale and complexity of warehouses increases,” says Mason.

[CONTINUE TO HEALTHCARE INSIGHTS](#) ►



Healthcare

Long encumbered by complex decision-making, dated technologies and seemingly endless paperwork, the healthcare industry is embracing automation. Not only do automated technologies have the potential to revolutionize workflows across healthcare – they stand to improve patient outcomes. We see a number of compelling, relevant opportunities across the space:

ROBOTIC PROCESS AUTOMATION (RPA)

In an industry known for a great volume of highly manual, time-consuming administrative work, robotic process automation (RPA) could automate a myriad of workflows across the healthcare industry and free up workers' time for patient care. RPA can automate appointment scheduling, streamline claims management processes and enhance clinic workflows.

Members of Baird's Healthcare Research team point to a couple of noteworthy platforms that

illustrate how RPA is impacting healthcare:

- *Nuance Communications (NUAN) offers voice-based technology to automate the clinical note-taking process, a notoriously time-consuming process for healthcare providers. Microsoft is acquiring NUAN for \$19.7 billion in a transaction that is expected to close by the end of 2021.*
- *Phreesia (PHR) provides patient intake solutions designed to improve operational efficiency for providers and care experience for patients. And as providers grapple*

with ways to update and enhance their processes amid COVID, these technologies and tools are becoming more in demand.

TELEMEDICINE AND TELEHEALTH

Automation can also be leveraged to enhance care delivery, and we are observing this trend across the telemedicine and telehealth markets. In our view, while automated solutions and technologies can complement patient care and experience, they will never fully replace human-delivered care.

In the telehealth sphere, automation can be leveraged to generate insights on patients that can inform clinical decision-making. Meanwhile, AI can be leveraged to enhance patient diagnoses and inform next steps for the practitioner. Automated software solutions can power tools such as chatbots, which can field simple questions from patients, and support remote patient monitoring for individuals who are battling illness or recovering in their home.

According to Baird Senior Research Analyst Vikram Kesavabhotla, these platforms are so compelling that it's prompting a healthy level of acquisitions. Kesavabhotla points out that there have been over 21 publicly disclosed transactions in the space in the last six years, including Teladoc's \$18.5 billion acquisition of Livongo, which provides remote patient monitoring services for diabetes and other chronic conditions.

Kesavabhotla expects the consolidation trend to continue. "There is tremendous strategic value to be realized in many of these platforms. Whether it's a target's end-customer relationships, access to physicians

and consumers, or data assets – there are many prospective buyers that stand to benefit from that technology and those assets. And those prospective buyers aren't necessarily other or larger healthcare players."

Baird expects the consolidation to continue moving forward as companies attempt to broaden portfolios and achieve scale, making themselves more relevant within this broader trend of automated care.

PATIENT ENGAGEMENT

As consumers increasingly expect and demand digital-based interactions with their merchants and service providers across industries, health systems have been expanding their investments in automated digital outreach and patient communication solutions to address this change in consumer preference, improve patient engagement and lower operating costs. "Automation is really transforming how patients interact with the healthcare system," says Jim Pavlik, Partner with Baird Capital. "Real life can get in the way of sticking to a care plan or staying on top of annual medical appointments. Emerging patient engagement technology solutions can open the door to

more proactive interactions and care, which patients need to live healthier lives."

Pavlik highlights the compelling potential of such solutions, like those offered by Baird Capital portfolio company Upfront Healthcare, to enable more personalized and automated interactions across a variety of use cases, including appointment reminders and scheduling, medication adherence, referral management and new patient enrollment and onboarding.

To discuss these themes, their implications for your business or other topics, email bairdautomation@rwbaird.com.

“Emerging patient engagement technology solutions can open the door to more proactive interactions and care, which patients need to live healthier lives.”

Jim Pavlik
Partner, Baird Capital

¹Per a commitment initially negotiated in 2015 by the U.S. National Highway Traffic Safety Administration and the Insurance Institute for Highway Safety. National Highway Traffic Safety Administration, "NHTSA-IIHS Announcement on AEB," December 21, 2017. Accessed via <https://www.nhtsa.gov/press-releases/nhtsa-iihs-announcement-aeb>

²Reuters, "Robots target coronavirus with ultraviolet light at London train station." Accessed via <https://www.reuters.com/article/uk-health-coronavirus-britain-robots/robots-target-coronavirus-with-ultraviolet-light-at-london-train-station-idUSKCN26E2NT>

³Per a March 16, 2021, press release entitled "Boston Red Sox Enlist Surfacing® UV Disinfection Robots To Help Safely Reopen Fenway Park." Accessed via <https://www.surfacing.com/news/boston-red-sox-enlist-surfacing-uv-disinfection-robots-to-help-safely-reopen-fenway-park>

⁴LEK Executive Insights, "The Evolving Warehouse Automation Market and the Implications for Investors," September 15, 2020.

⁵Honeywell Intelligated, "Unleash the Power of DC Connectivity," summer 2019. Accessed via <https://www.intelligated.com/es/node/2182>

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