

Company: **CNH (NYSE: CNHI)**

Performance Rating: **Hold**

Current Price: **\$10.23**

Target Price: **\$9.81**

Investment Horizon: **12 – 18 Mos**

Performance Highlights

CNH' share price is down 36.3% YTD, a decline we attribute to three key factors:

1. Lowered full-year growth guidance: CNH decreased its full year growth guidance for the year from 8-11% down to 3-6%. Company stated “softening demand” as reason for restating guidance, which signaled poor future growth expectations to the market.
2. Latest earnings were below expectations: CNH's Q3 earnings were sub-par and the share price dropped ~12% following its earnings announcement.
3. High exposure to non-US markets: Markets outside the US, in particular Europe, are experiencing worse economic slowdowns than the US (e.g., higher inflation, greater exposure to Russian LNG, etc.), which could impact the demand for Agricultural Equipment outside the US and be influencing the market's expectations for CNH's future growth.

CNH Share Price – Key Figures



Market Cap: \$13.6b

Dividend Yield: 3.9%

P/E (LTM) multiple: 5.9x

Source: Factset

Investment Team: Abigail Doeksen and Zach Ogle

Report Date: November 26th, 2023

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1. Company Overview

Overview. CNH Industrial (NYSE: CNHI) is the number two global market leader in the Agriculture Equipment space. CNH is the strategic combination of two businesses, CASE/Case IH (founded in 1843 in Racine, WI) and New Holland (founded in 1895 in New Holland, PA). Today, CNH employs ~40,000 people across 170 end markets. CNH has a product portfolio of 10 global brands that sell primarily Agricultural Equipment (~76% of sales) and some Construction Equipment (~16% of sales).

Figure 1.1: CNH Product Brands



Source: CNH 2023 Investor Presentation

Financials. In 2022, CNH reported \$23.6B in revenue with \$3.2B of EBITDA (~13% margins) and has grown ca. +26% over the last three years (CAGR from FY20-22).

Global Footprint. The company's revenue is diversified globally, with ca. 37% of sales coming from N. America, ca. 37% from EMEA, ca. 16% from S. America, and ca. 10% from APAC.

Restructuring. In 2019, CNH underwent a significant restructuring, dividing its operations into two distinct businesses: on-highway and off-highway. The on-highway business, encompassing Commercial/Specialty Vehicles and Powertrain Vehicles, was spun off into a separate entity. The off-highway business, specifically the Agriculture and Construction Equipment segment, makes up CNH today. Consequently, CNH's historical financials from 2020 onwards represent CNH as it is today.

M&A History. Since the company's IPO in 2013, CNH has successfully completed 20+ acquisitions. A recent acquisition of note is Raven Industries, which CNH acquired for \$2.1B in 2021. Raven Industries added significant scale to CNH's smart-equipment operations.

Management. CNH is led by Scott Wine, who joined CNH as CEO in 2021. Prior to CNH Scott Wine was the CEO of Polaris Inc. (a large off-road vehicle manufacturer). The company's CFO, Oddone Incisa, joined CNH in 2008 and worked his way up through the Financial Services division, becoming CFO in 2020.

CNH Industrial has **three main reporting segments**, or divisions, which are described below.

- **Agriculture (~76% of sales):** This segment includes sales of large-scale farm equipment and small/mid-sized farm utility vehicles (e.g., Tractors, Lawn Mowers).
- **Construction (~16% of sales):** This segment includes sales of machines used in construction (e.g., dump trucks, asphalt pavers).
- **Financial Services (~8%):** This segment includes revenue earned from providing financing/leasing solutions to CNH's Agriculture and Construction equipment customers.

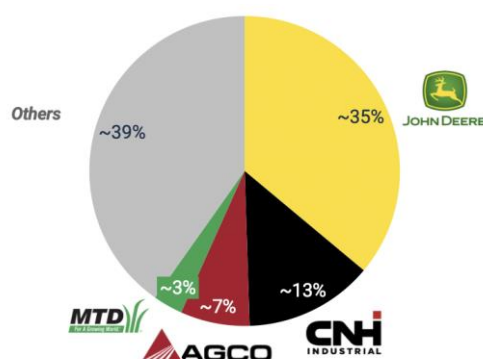
2. Competitive Landscape

Key Competitors. While there are many agriculture Equipment manufacturers globally, there is a limited set of scale players against which CNH primarily competes. CNH's key competitors are listed below.

- **Deere & Co. (\$52b rev, 80k FTEs).** The global market leader in Agriculture and Farm Equipment and considered to be CNH's main competitor.
- **AGCO (\$13b rev, 26k FTEs).** Headquartered in Georgia, USA, AGCO is a relatively new entrant in the market (established in 1990) focusing exclusively on agricultural equipment (do not sell construction equipment).
- **Mtd Products (~\$2.6b rev, 7.5k FTEs).** Based in Ohio, USA, MTD Products is CNH's principal competitor in the small agriculture and turf segment, specializing in equipment like lawnmowers, utility vehicles, and smaller tractors.
- Other Agricultural Equipment competitors of note include CLASS, Kubota, Mahindra, and Toro.

Market Shares. CNH is the number two market leader in the U.S. agricultural machinery market.

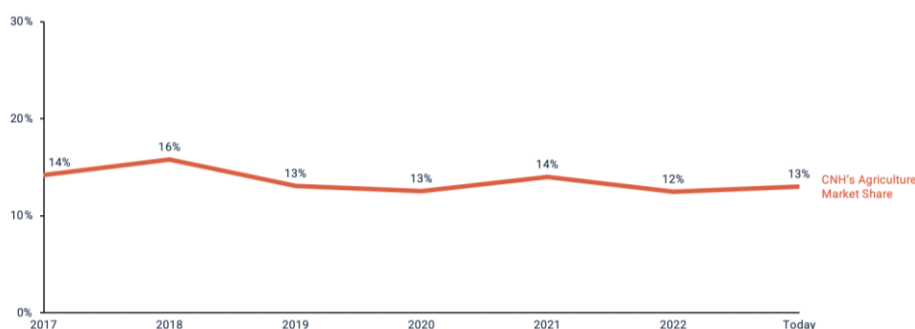
Figure 2.1: Estimated US Market Shares of Key Competitors



Source: IBIS World (Tractors & Agriculture Machinery Manufacturing in the US)

Market Share Trends. CNH's Agriculture Equipment market share in the US has been relatively stable historically at around ~12-14%, with a peak of 16% in 2018. Given CNH's market share has been stable over the last 5+ years, we expect their market share to stay in the ~12-14% range going forward.

Figure 2.2: CNH's Estimated Market Share Overtime



Source: IBIS World (Tractors & Agriculture Machinery Manufacturing in the US)

Risk of New Entrants. The agricultural equipment sector is characterized by high entry barriers. The complexity and technical specifications of the machinery, especially with the advent of smart equipment capable of sophisticated tasks such as discerning weeds from crops before picking, limit the threat of new competitors. In addition, another large barrier is the large start-up costs to start a new equipment manufacturing business, including the high capex investments required to build the manufacturing facilities and the dealer locations to sell the end products.

3. Revenue Forecast

To forecast revenue, we followed CNH’s segmentation of agricultural, construction, and ‘other’ revenue. Agricultural revenue incorporates sales of farm machinery, including two-wheel and four-wheel drive tractors, combines, and other harvesting machinery. These products are sold under the New Holland Agriculture and Case IH brands. Construction incorporates sales of excavators, dozers, and similar equipment. Construction brands include Case Construction, New Holland Construction, and Euromach. Our ‘other’ bucket includes revenue from the Financial Services and Eliminations and Other category.

Agricultural sales. Agriculture customers’ ability to purchase equipment from CNH is primarily impacted by farm cash receipts. Elevated farm cash receipts enhance farmers' purchasing power, leading to increased sales of machinery and equipment. While sales are influenced by region-specific trends, we have found their impact on revenue to be minor compared to global crop prices.

To predict growth for CNH’s agricultural segment, we selected Agricultural Price Index (API) growth as the primary indicator. API growth offers insights into farmers' potential income, influencing their equipment purchases. Forecasts for API are more readily available than forecasts for farm cash receipts, and changes in API are correlated with changes in farm cash receipts.

To determine the impact of API on CNH’s agricultural sales, we regressed the log of Revenue from agriculture sales in period t on a constant, the log of agriculture revenue in the prior period, and the log of growth in API. The regression model used was¹:

$$\text{LogAgRev}_t = \beta_0 + \beta_1 \text{LogAgRev}_{t-1} + \beta_2 \text{Log} \frac{\text{API}_t}{\text{API}_{t-1}} + \varepsilon$$

Our regression utilized CNH agricultural segment revenues and API values dating back to 2003 and generated the following coefficients with an R-squared value of .936:

β_0	.6254
β_1	.9327
β_2	.231

We then used API forecast data with the previously described regression to forecast agricultural revenues for 2024 - 2028. In the long term, farm equipment is expected to maintain a constant share of the overall economy. So, after 2028 we assumed terminal growth in line with expected inflation of 2%.

¹ Note that while macro indicators such as access to credit and GDP growth are widely thought to impact revenue growth, multiple regressions showed their impact to be statistically insignificant. To understand the impact of inflation, a separate regression including $\text{Log} \frac{\text{CPI}_t}{\text{CPI}_{t-1}}$ was examined. The effects of the change in API term were significant, while the change in CPI term was not.

To estimate 2023 sales, we extrapolated Q3 2023 performance vs Q3 2022 and assumed gains hold constant in Q4. Agricultural sales are up 4.8% compared to 2022, and we have forecast this trend to continue for the remainder of the fiscal year. This is in line with management projections of seasonal sales increases in Q4. We are comfortable with our projection, as management forecasts from Q3 to the end of the year have historically been within 1.5% of actual performance.

	2022A	2023E	2024F	2025F	2026F	2027F	2028F
API		119.7	111.99	108.1	106.75	106.96	107.45
Change in Ag Revenue		4.8%	-4.3%	-3.7%	-3.2%	-2.9%	-2.7%
Agricultural revenue (\$m)	17,969	18,826	18,021	17,355	16,795	16,312	15,879

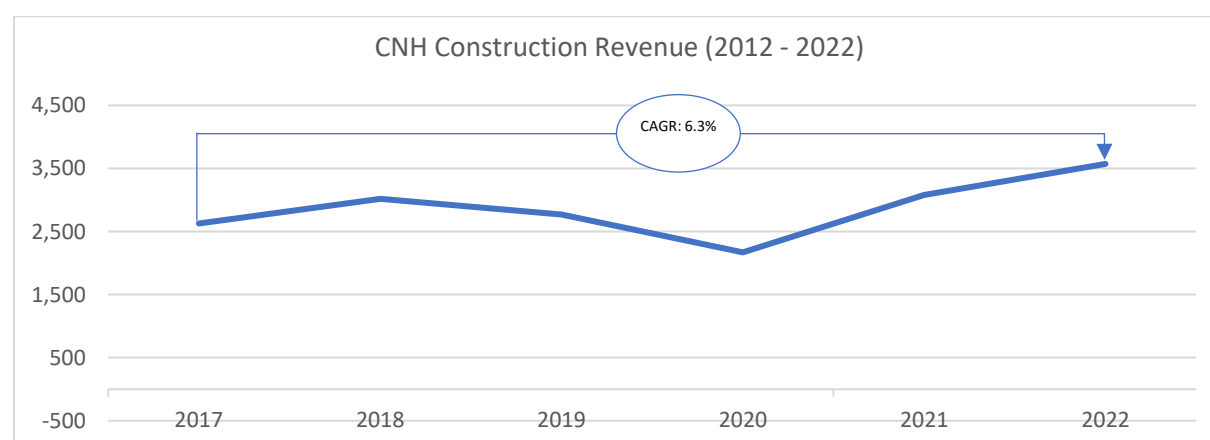
Source: IBIS World (I102: Agricultural Price Index)²

Construction sales. In contrast to the agriculture segment, revenue for the construction segment is tied to world GDP growth and input costs like oil and steel. While we explored regressions involving each of these indicators, no regression generated an r-squared value high enough to reliably predict revenue.

Instead of utilizing a regression, we examined historical construction revenue beginning in 2017. We began in 2017 because the previously described restructuring efforts and acquisitions make recent earnings representative of future operations. Since 2017, construction revenue has grown at a CAGR of 6.3%, so we forecast growth of 6.3% for 2024 – 2028. Similar to our predictions for the agriculture segment, we extrapolated YTD performance through the end of FY23. After 2028 we assumed growth at a terminal value in line with expected inflation of 2%.

	2022A	2023E	2024F	2025F	2026F	2027F	2028F
Construction revenue	3,572	3,947	4,196	4,460	4,741	5,040	5,358
% change		10.5%	6.3%	6.3%	6.3%	6.3%	6.3%

Figure 3.1: CNH's Construction revenue since 2017



Source: Factset Estimates

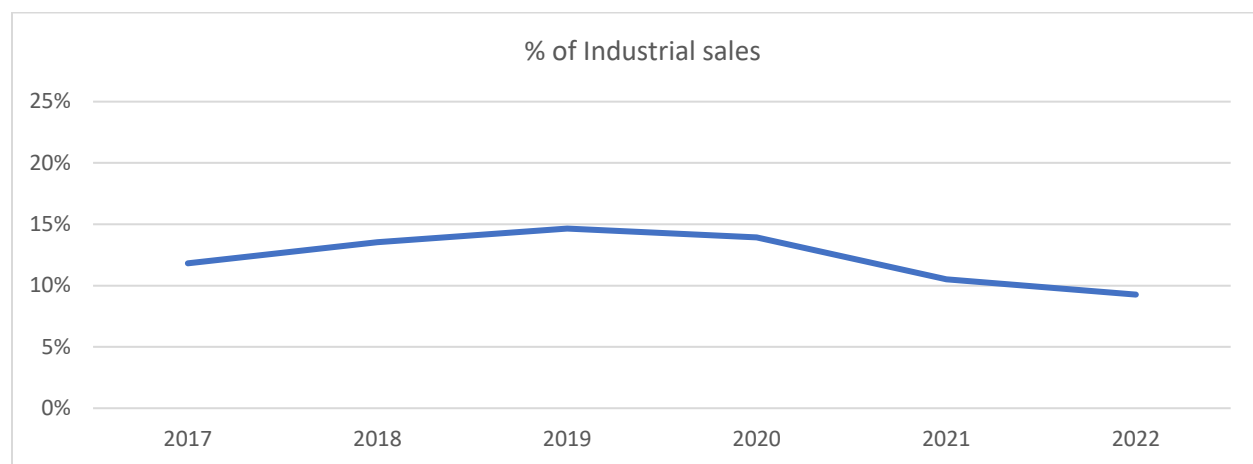
² API predictions are sourced from IBISWorld. We utilized IBISWorld forecasts because they are the best available forecast for this indicator. Limited data suggests previous forecasts have landed within 1.7% of actuals for the first three forecast periods.

Other Revenue Forecast Methodology

For CNH, Other Revenue largely consists of income from financing activities. It is inherently tied to interest rates and the sale of industrial equipment. We forecast other revenue to be 11% of industrial sales going forward. This 11% is equal to the value for YTD in FY23. We believe this is representative of steady state, as other revenue has held between 10% and 15% of industrial sales since 2017.

	2022A	2023E	2024F	2025F	2026F	2027F	2028F
Other revenue	2,010	2,505	2,444	2,400	2,369	2,349	2,336
% of industrial sales	9%	11%	11%	11%	11%	11%	11%
% change		24.6%	-2.4%	-1.8%	-1.3%	-0.9%	-0.5%

Figure 3.2: Other revenue since 2017



Source: FactSet Estimates

4. Costs & Cash Flow Forecasts

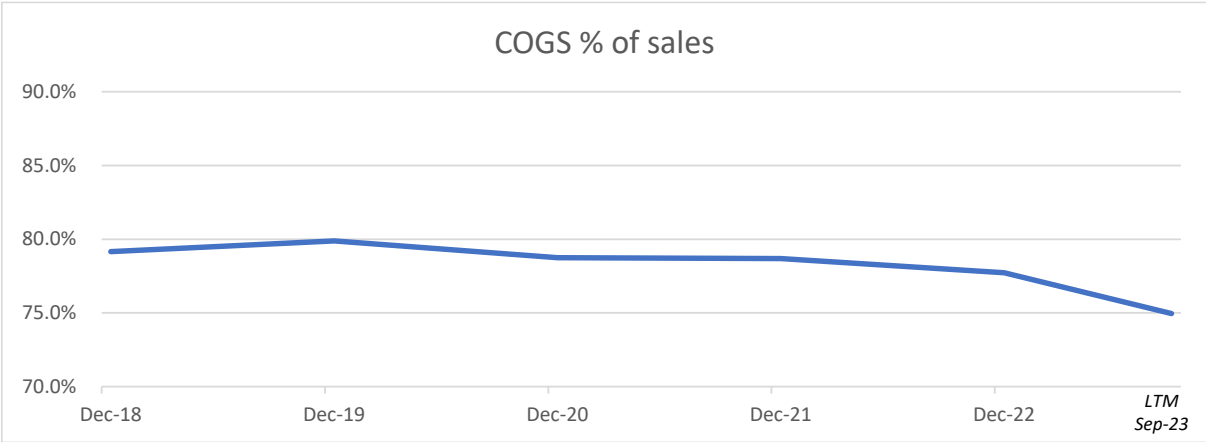
Given the restructuring CNH went through in 2019 (mentioned in section 1), CNH's historical financials from 2020 onwards represent CNH as it is today. Therefore, our cost and cash flow assumptions were primarily based on the financial results reported in FY2020 or later.

Costs Forecasts

COGS. For our forecast, we assumed COGS as a percentage of sales would be equal to 75% in 2023E, and 78.7% from 2024F-2028F. The 75% figure for 2023 is equal to the Q3-23 LTM reported COGS/Sales as we believe this best represents what CNH will achieve in the full year 2023. The 78.7% figure for the remaining forecast years is equal to the median of FY20, FY21, and FY22 COGS/Sales. Since the restructuring went into effect in 2020, COGS as a percentage of sales has been relatively stable around ~78% so, we believe this is a normalized level of COGS that CNH will likely achieve in the near term as well.

We believe the Q3-23 LTM reported COGS/Sales dipped slightly lower vs. the FY20-22 figures due to abnormal inflation/price increases realized in 2023, and 2023 will likely be an outlier year for COGS levels, so we excluded that figure from our median calculation for the forecast for 2024-2028F.

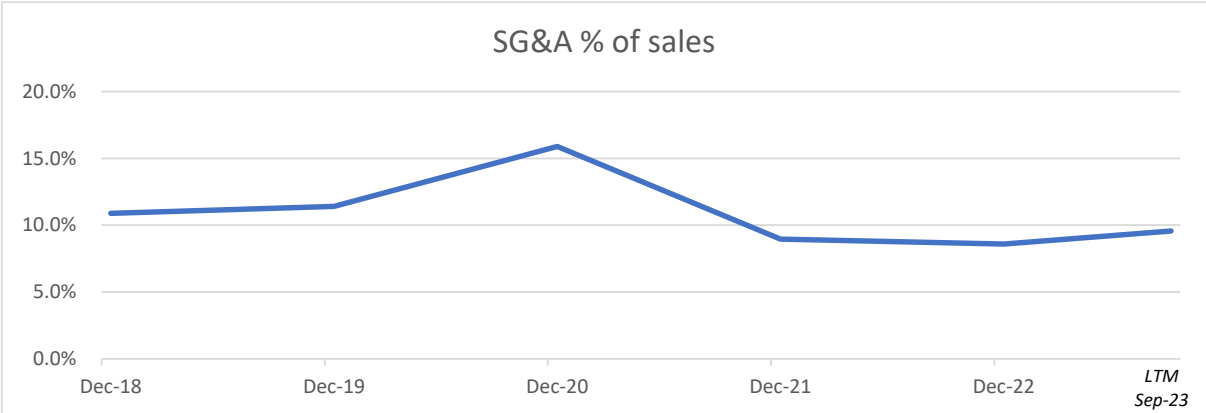
Figure 4.1: CNH’s COGS over the last five years



Source: CAPIQ estimates

SG&A. For our forecast, we assumed SG&A as a percentage of sales would be equal to 9.6% in 2023E and 9.0% from 2024F-2028F. The 9.6% figure for 2023 is equal to the Q3-23 LTM reported figure for SG&A/Sales, as we believe this best represents what CNH will achieve in the 2023 fiscal year. The 9.0% for the remaining years of the forecast is equal to the median of FY21, FY22, and Q3-23 LTM SG&A/sales. Given that SG&A expenses have hovered around approximately 9% of sales since FY21, we consider this to be a stable and normalized expense level that CNH is expected to sustain in the short to medium term.

Figure 4.2: CNH’s SG&A over the last five years



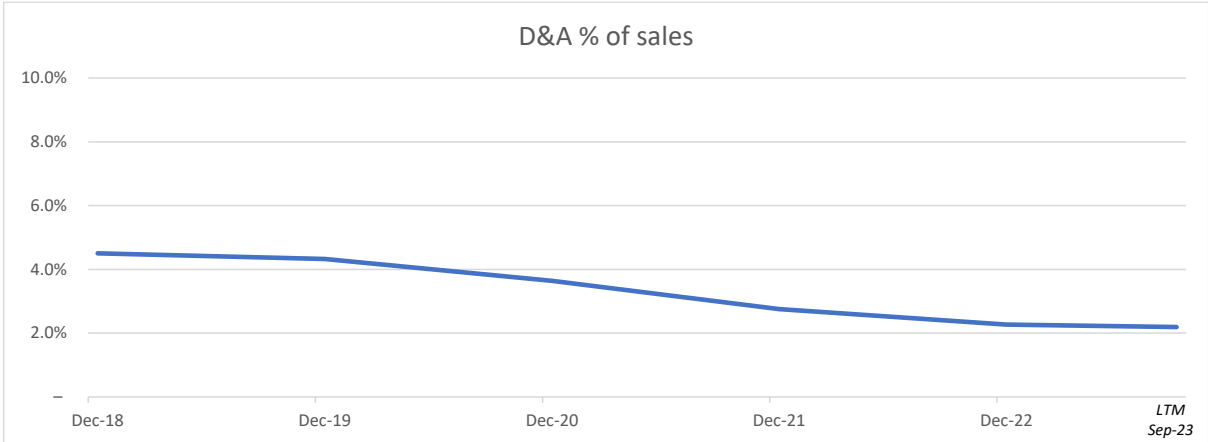
Source: CAPIQ estimates

Cash Flow Line Items Forecasts

D&A. We assumed D&A would be equal to 2.2% of sales in every year of our forecast, which is the median of FY2022 and Q3-23 LTM reported D&A/Sales. Although there has been a consistent decrease in

D&A as a percentage of sales since FY2018, recent data indicates a leveling off, with the LTM Q3-2 D&A/Sales equaling the FY2022 D&A/Sales. As a result, we assumed that the latest D&A as a percentage of Sales figures represents a normalized level of D&A and assumed it in all years of our forecast.

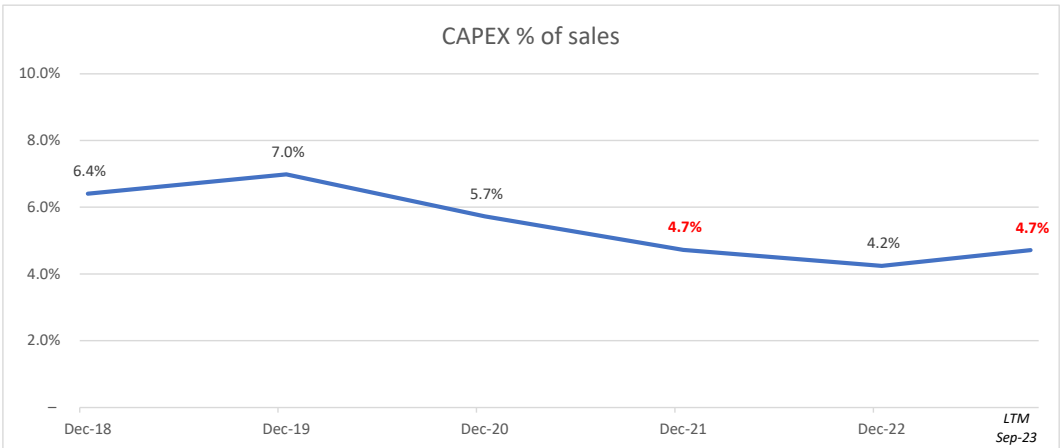
Figure 4.4: CNH’s D&A over the last five years



Source: CAPIQ estimates

CAPEX. We assumed CAPEX as a percentage of sales would be equal to 4.7% of sales in each year of our forecast, which is equal to CNH’s FY2021 and Q3-23 LTM’s reported CAPEX/Sales. CNH’s CAPEX as a percentage of sales from FY19-FY22 was steadily declining -0.9% p.a. however, the trend has started to reverse in 2023 as the latest LTM reported CAPEX as a percentage of Sales increased slightly vs. FY2022 and is equal to the FY2021 CAPEX/Sales figure. As a result, we believe FY2021 and Q3-23 LTM reported CAPEX as a percentage of sales likely represent a normalized “go-forward” level of CAPEX as a percentage of sales, and we assumed this percentage in all years of our forecast.

Figure 4.5: CNH’s CAPEX over the last five years

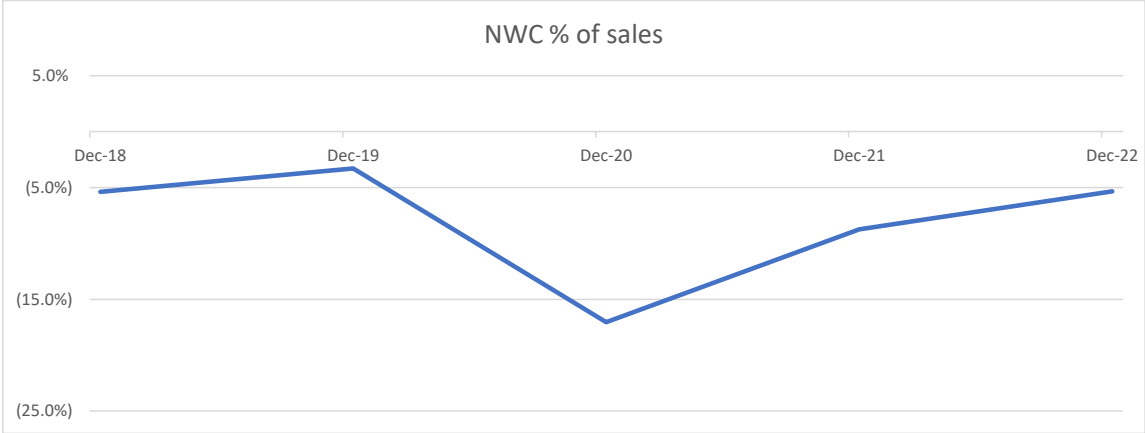


Source: CAPIQ estimates

NWC. We assumed a NWC as a percentage of sales of -5.7% p.a. in all years of our forecast. This figure was derived by looking at CNH’s historical NWC as a percentage of sales, which excluding 2020/COVID, has hovered around -5%. We arrived at -5.7% by taking the average NWC/sales over the last five years excluding the year 2020 (e.g., COVID, first year post-restructuring) as we viewed this as an outlier year.

We assumed the same -5.7% in all years of our forecast as we believe this is a normalized level given NWC returned to this level post the 'outlier year.'

Figure 4.6: CNH's NWC over the last five years



Source: CAPIQ estimates

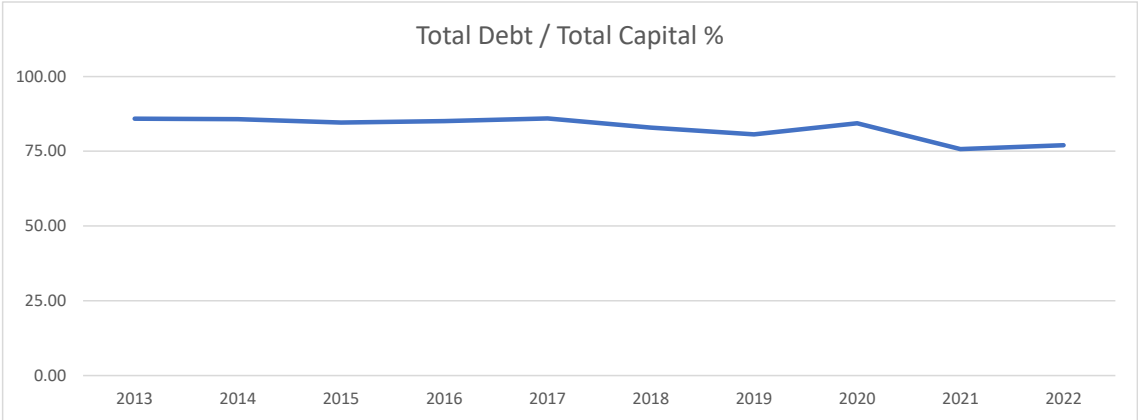
Tax Rate. We assumed a 27.9% tax rate in all years of our forecast, which is CNH's reported effective tax rate for FY2022 (see appendix). We have no reason to believe that CNH's tax rate will change in the near term, so we assumed CNH's latest full-year reported effective tax rate in all years of our forecast.

Terminal Value Growth Rate. We assumed a TV growth rate of 2%, which is the US Fed Fund's target inflation rate.

5. Valuation Methodology & WACC

Methodology. CNH's D/V ratio has been relatively constant historically at around ~0.75-0.85 over the last 10 years. As a result, for our analysis, we used the standard DCF valuation method, discounting forecasted FCFs using a WACC.

Figure 5.1: CNH's Debt / Total Capital over time



Source: Factset

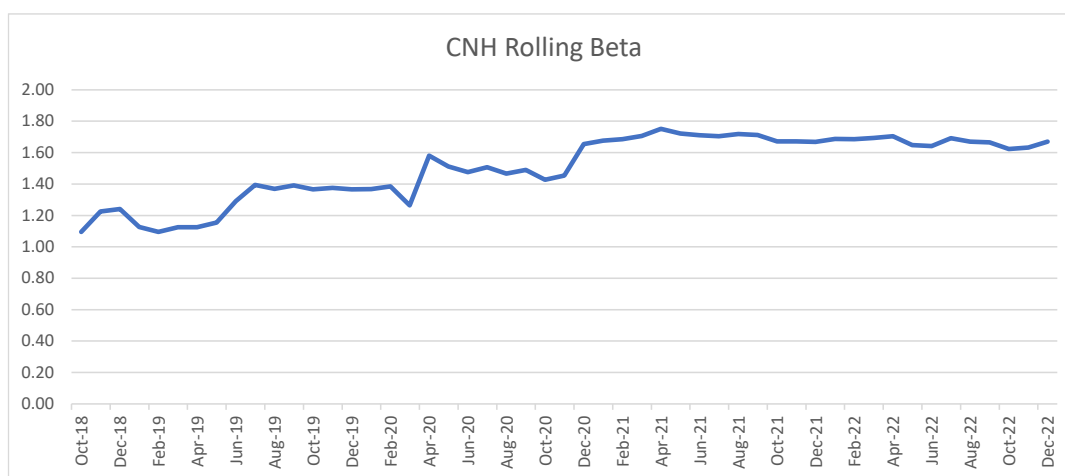
Discount Rate. Based on the assumptions listed below, we assumed a discount rate, or WACC, of **5.17%**.

WACC INPUTS	Value	Notes
% Debt	80.6%	5-year historical median from FY18-FY22 (see exhibit above)
Rd	3.50%	Weighted average interest rate on CNH's debt outstanding as FY2022 per CNH's 2022 10k
Tax Rate	27.9%	CNH's effective tax rate for FY2022 per CNH's 2022 10k
% Equity	19.4%	
Re	16.2%	Calculated using CAPM
Be	1.67	Rolling Beta has hovered around 1.65-1.70 for the last year (see exhibit below)
Rm-Rf	7.0%	LT Historical Average
Rf	4.472%	Current 10-year treasury rate (see exhibit below)

WACC 5.17%

- Equity Beta: We assumed a Beta Equity of **1.67** based on below, which shows the Rolling beta has hovered between 1.65-1.70 since early 2021 and was at 1.67 in December 2022.

Figure 5.2: CNH's Rolling Equity Beta



Notes: 4-year rolling beta (CNH went public in late 2013), US overall stock market used for market return
Source: CRSP Data (WRDS), Team Analysis

- Risk-free rate: We used the current rate on the 10-year US Treasury, **4.472%**.

Figure 5.3: 10-year Treasury Rate overtime

U.S. 10 Year Treasury

US10Y:Tradeweb

RT Quote | Exchange

Yield | 2:30 PM EST

4.472% ▲ +0.056

EXPORT WATCHLIST LIVE SHARK TANK

Source: CNBC (11/26/2023)

6. Valuation & Recommendation

PnL Forecast. We forecasted CNH's Income Statement for the next five years using the assumptions mentioned in sections 3 and 4.

Figure 6.1: Forecasted PnL

INCOME STATEMENT											
Fiscal Year	2020A	2021A	2022A	2023E	2024F	2025F	2026F	2027F	2028F	CAGRs	
YE Date	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28	'20-22	'22-28
Revenue											
Agriculture	10,923	14,721	17,969	18,826	18,021	17,355	16,795	16,312	15,879	28.3%	(2.0%)
Construction	2,170	3,081	3,572	3,947	4,196	4,460	4,741	5,040	5,358	28.3%	7.0%
Other	1,686	1,694	2,010	2,505	2,445	2,401	2,370	2,348	2,337	9.2%	2.5%
Total Revenues	14,779	19,496	23,551	25,278	24,662	24,216	23,906	23,701	23,573	26.2%	0.0%
% growth	(47.4%)	31.9%	20.8%	7.3%	(2.4%)	(1.8%)	(1.3%)	(0.9%)	(0.5%)		
(-) COGS	(11,637)	(15,340)	(18,304)	(18,948)	(19,405)	(19,054)	(18,810)	(18,648)	(18,548)	25.4%	0.2%
Gross Profit	3,142	4,156	5,247	6,330	5,257	5,162	5,096	5,052	5,025	29.2%	(0.7%)
% of sales	21.3%	21.3%	22.3%	25.0%	21.3%	21.3%	21.3%	21.3%	21.3%		
(-) SG&A	(2,350)	(1,748)	(2,023)	(2,420)	(2,211)	(2,171)	(2,143)	(2,125)	(2,114)	(7.2%)	0.7%
EBITDA	792	2,408	3,224	3,910	3,046	2,991	2,953	2,927	2,912	101.8%	(1.7%)
% of sales	5.4%	12.4%	13.7%	15.5%	12.4%	12.4%	12.4%	12.4%	12.4%		
(-) D&A	(538)	(537)	(535)	(556)	(543)	(533)	(526)	(521)	(519)	(0.3%)	(0.5%)
% of sales	3.6%	2.8%	2.3%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%		
EBIT	254	1,871	2,689	3,354	2,503	2,458	2,427	2,406	2,393	225.4%	(1.9%)
% of sales	(1.7%)	(9.6%)	(11.4%)	(13.3%)	(10.2%)	(10.2%)	(10.2%)	(10.2%)	(10.2%)		
Memo											
CAPEX	846	921	999	1,188	1,159	1,138	1,124	1,114	1,108		
NWC	(2,520)	(1,706)	(1,260)	(1,441)	(1,406)	(1,380)	(1,363)	(1,351)	(1,344)		
Delta NWC	(1,597)	814	446	(181)	35	25	18	12	7		

Source: Team Analysis, CAPIQ, Factset

FCF Forecast & Valuation. Using the above Income Statement forecast and the Cash Flow assumptions mentioned in section 4, we forecasted the FCFs from 2023E to 2028F. We then discounted the cash flows back to today (11/26/2023) using a 5.17% WACC. Given there are 35 days left in the year 2023 as of this report's date, we discounted the 2023E FCF figure back 35 days and discounted every period thereafter n years (n*365 days) plus 35 days. This resulted in a **CNH target share price of \$9.81**.

Figure 6.2: FCF Forecast & Valuation Estimate

CASH FLOW STATEMENT										
<i>Fiscal Year</i>	2020A	2021A	2022A	2023E	2024F	2025F	2026F	2027F	2028F	2029F
<i>YE Date</i>	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28	12/31/29
NOPAT				2,418	1,805	1,772	1,750	1,735	1,725	
(+) D&A				556	543	533	526	521	519	
(-) CAPEX				(1,188)	(1,159)	(1,138)	(1,124)	(1,114)	(1,108)	
(-) Delta NWC				181	(35)	(25)	(18)	(12)	(7)	
FCF				1,967	1,153	1,142	1,134	1,130	1,129	1,151
Terminal Value									36,363	
Total FCF				1,967	1,153	1,142	1,134	1,130	37,491	
WACC				5.17%	5.17%	5.17%	5.17%	5.17%	5.17%	
Discount Factor				0.995	0.946	0.900	0.856	0.814	0.774	
PV of FCFs				1,958	1,091	1,027	971	920	29,004	
Valuation Estimates										
PV of FCFs (Est. TEV)				34,970						
(-) Latest Reported Net Debt				(21,979)						
Est. Equity Value / Market Cap				12,991						
(÷) Number of shares outstanding (millions)				1,325						
Target Price per share today (11/26/23)				\$9.81						
Latest Closing Price (11/24/23)				\$10.23						
Target Price premium (discount) over latest close				(4%)						

Source: Team analysis, CAPIQ, Factset

Given our target share price is within ~4% of CNH's most recent closing price, we believe CNH's share price is fairly valued. Consequently, we are issuing a hold recommendation for CNH.

7. Appendix

Figure 7.1: Share Price & Shares Outstanding Information

Current Capitalization (Millions of USD)	
Currency	USD
Share Price	\$10.23
Shares Out.	1,324.9

Source: CAPIQ (CNH data for latest close, 11/24/2023)

Figure 7.2: CNH's Effective Tax Rate

Income Taxes

	2022		2021	
	(in millions, except percentages)			
Income before income taxes and equity in income of unconsolidated subsidiaries and affiliates	\$	2,682	\$	1,939
Income taxes expense (benefit)	\$	747	\$	229
Effective tax rate		27.9 %		11.8 %

Source: CNH 2022 10k Pg. 104

Figure 7.3: CNH's Cost of Debt

The weighted-average interest rate on consolidated debt at December 31, 2022, and 2021 was 3.5% and 2.3%, respectively.

Source: CNH 2022 10k Pg. 163

Figure 7.4: Valuation Sensitivities

		Share Price Sensitivity to TV Growth Rate & WACC						
		TV Growth Rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	4.0%	\$8.7	\$12.2	\$17.0	\$24.3	\$36.4	\$60.6	\$133.1
	5.0%	\$3.4	\$5.4	\$7.9	\$11.2	\$15.8	\$22.8	\$34.4
	5.17%	\$2.8	\$4.6	\$6.8	\$9.8	\$13.9	\$19.9	\$29.5
	6.0%	\$0.1	\$1.3	\$2.8	\$4.6	\$7.0	\$10.2	\$14.7
	7.0%	(\$2.3)	(\$1.5)	(\$0.5)	\$0.7	\$2.1	\$3.9	\$6.2

Source: Team Analysis

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