Research Note

Investors should consider this report as only a single factor in making their investment decision.

Perion Network Ltd.

Speculative Buy

John Nobile
October 8, 2020

PERI $7.64 — (NASDAQ)

	2018A	2019A	2020E	2021E
Revenues (millions)	$252.8	$261.5	$291.4	$320.0
Earnings (loss) per share	$0.31	$0.49	$0.23	$0.31

52-Week range	$9.70 – $3.43	Fiscal year ends:	December
Common shares out as of 8/5/20	26.6 million	Revenue per share (TTM)	$9.92
Approximate float	16.5 million	Price/Sales (TTM)	0.8X
Market capitalization	$203 million	Price/Sales (2021)E	0.7X
Tangible book value/share	$0.07	Price/Earnings (TTM)	25.5X
Price/tangible book value	NMF	Price/Earnings (2021)E	24.6X

Perion Network Ltd., headquartered in Holon, Israel, is a global technology company that provides agencies, brands and publishers with digital advertising solutions. The company provides its data-driven Synchronized Digital Branding platform and high-impact ad formats in the display domain, a social media platform, and a branded search network.

Key investment considerations:

Reiterating Speculative Buy rating on Perion and raising our twelve-month price target to $12.00 per share from $11.00 based on our increased sales forecasts through 2021.

On October 7, 2020, Perion increased its revenue and adjusted EBITDA guidance for the second half of 2020. At the mid-point of guidance, 2H20 revenue for the year is expected to be 9% higher than previously expected and adjusted EBITDA is anticipated to be approximately 42% higher.

The revised guidance calls for 2H20 revenue of $164-$174 million and adjusted EBITDA of $16-$18 million. Prior guidance was for 2H20 revenue of $150-$160 million and adjusted EBITDA of $11-$13 million.

The increased guidance is driven by a faster recovery of the company's advertising business than previously anticipated.

Our forecast through 2021 anticipates significant cash earnings, continued pay down of debt, and growth in shareholder's equity.

For 2020, we project an 11.5% increase in revenue to $291.4 million and net income of $6.3 million or $0.23 per share. We previously projected revenue of $282.4 million and net income of $89,000 or break-even per share. Our revised estimates reflect 2H20 guidance.

For 2021, we project a 9.8% increase in revenue to $320 million and net income of $8.6 million or $0.31 per share. We previously projected revenue of $311 million and net income of $3.3 million or $0.12 per share. Our revised estimates reflect a stronger than anticipated recovery in ad spending.

****Please view our disclosures on pages 9 - 11.***

Recommendation and Valuation

Reiterating Speculative Buy rating on Perion and raising our twelve-month price target to $12.00 per share from $11.00 based on our increased sales forecasts through 2021.

PERI's trailing 12-month price-to-sales multiple of 0.8X is up from 0.6X in our previous report, which we believe reflects the company's robust increase in revenue and adjusted EBITDA guidance. We believe investors are likely to accord PERI a multiple approaching the industry (which is currently 1.3X) given the company should have significant increases in cash flow and shareholder's equity. Applying a multiple of 1.2X (unchanged) to our 2021 sales projection of $11.34 per share, discounted for execution risk, implies a year-ahead value of approximately $12.00 per share.

Increased 2H20 Guidance

On October 7, 2020, Perion increased its revenue and adjusted EBITDA guidance for the second half of 2020. At the mid-point of guidance, 2H20 revenue for the year is expected to be 9% higher than previously expected and adjusted EBITDA is anticipated to be approximately 42% higher.

The revised guidance calls for 2H20 revenue of $164-$174 million and adjusted EBITDA of $16-$18 million. Prior guidance was for 2H20 revenue of $150-$160 million and adjusted EBITDA of $11-$13 million.

The increased guidance is driven by a faster than anticipated recovery of the company's advertising business.

Projections

<u>*2020 Forecast*</u> - We project an 11.5% increase in revenue to $291.4 million and net income of $6.3 million or $0.23 per share. We previously projected revenue of $282.4 million and net income of $89,000 or break-even per share. Our revised estimates reflect 2H20 guidance.

We project gross margins of 93%. Customer acquisition costs and media buy expenses are projected to increase 27.1% to $172.7 million as payments to publishers and developers increase. R&D expense should increase by 29.9% to $29.3 million as the company invests in new product development. Selling and marketing expenses should increase by 6.3% to $36.9 million reflecting the build out of the company's sales team to support the launch of new products while maintaining cost discipline. We project a 3.9% decrease in general and administrative expenses to $14.4 million.

We project operating income of $8 million, down from $18 million in 2019 due primarily to higher customer acquisition costs.

In 2020, we project $9.2 million cash from operations due to $18.3 million in cash earnings and a $9 million increase in working capital. Cash from operations and short term deposits should be more than offset by cash paid for acquisitions and the pay down of debt, decreasing cash by $7.5 million to $32.1 million at the end of 2020.

<u>*2021 Forecast*</u> – We project a 9.8% increase in revenue to $320 million and net income of $8.6 million or $0.31 per share. We previously projected revenue of $311 million and net income of $3.3 million or $0.12 per share. Our revised estimates reflect a stronger than anticipated recovery in ad spending.

We project gross margins of 93.8%. Customer acquisition costs and media buy expenses are projected to increase 13% to $195.2 million as payments to publishers and developers increase. R&D expense should increase by 9.1% to $32 million as the company continues to invest in new product development while monitoring costs. Selling and marketing expenses should increase 2.9% to $38 million from $36.9 million. We project a 5.7% decrease in general and administrative expenses to $13.6 million as the company continues to control costs.

We project operating income of $11.2 million, up from $8 million in 2020. We anticipate the company paying $2.2 million in taxes for a 20% tax rate.

In 2021, we project cash earnings of $22.9 million and a $7.8 million increase in working capital resulting in $15.1 million cash from operations. Cash from operations should cover payments related to acquisitions and the pay down of debt, increasing cash by $1.8 million to $33.9 million at the end of 2021.

Risks

In our view, these are the principal risks underlying the stock.

Pandemic concerns – The outbreak of the coronavirus presents concerns that may dramatically affect the company's ability to conduct business effectively. The trajectory of the coronavirus remains uncertain and it is becoming increasingly plausible that Perion's business may be directly affected. In the event that the economic effect of the outbreak deepens and has a long term effect on the global economy, the company's business and operations may be adversely effected.

Lack of long-term contracts – Perion generally does not enter into long-term contracts with its advertising customers, and such customers do business on a non-exclusive basis with no minimum spending guarantees. Perion's advertising customers may reduce or terminate their business relationship with the company at any time which could have a material adverse effect on Perion's business, results of operations, and financial condition.

Technological obsolescence – Google, as an advertising publisher, accounts for most US online search-generated revenues while Microsoft and Yahoo account for substantially all of the rest. A small number of social network companies, such as Facebook, account for a large portion of digital advertising budgets.

These companies, along with other large and established Internet and technology companies, may also leverage their power to make changes to their Web browsers, operating systems, platforms, networks or other products or services in a way that impacts the entire digital advertising marketplace. If Perion is unable to adjust to those changes, the company's revenues and performance could be adversely impacted.

Demand for digital advertising – A substantial portion of the company's revenues is derived from the sale of digital advertising solutions. If the demand for digital advertising does not continue to grow or customers do not chose Perion's solutions, it could restrain the company's operations.

Competition - The advertising industry is highly competitive. There are a large number of digital media companies and advertising technology companies that offer services similar to Perion's that compete for finite advertising budgets and for limited inventory from publishers. Some of the company's competitors are better established have significantly more financial, technical, sales and marketing resources than Perion. Given that the barriers to entering the digital advertising market are relatively low, the number of competitors may increase. If Perion cannot compete effectively in this market, its revenues are likely to decline.

Desktop computer search services - The market related to desktop computers has accounted for a substantial part of Perion's search revenues. Recently, the number of individuals who access the Internet through devices other than desktop computers, such as mobile phones, tablets, etc., has increased dramatically. If this trend towards using the Internet on non-desktop devices accelerates, some of Perion's services will become less relevant and may fail to attract advertisers and Web traffic.

Exchange rates - A significant portion of Perion's costs are incurred in new Israeli shekels (NIS). Exchange rate fluctuations may have an adverse effect on the company's earnings and asset base if it not able to effectively hedge against currency exchange risks.

Regulatory changes – Perion's business is conducted through the Internet and is subject to the laws and regulations that apply to e-commerce and online businesses around the world. These laws and regulations are becoming more prevalent in the US, Europe, Israel, Canada, and elsewhere and may impede the growth of the Internet and consequently the company's services.

Reliance on North American market – Perion's revenues have been concentrated within the North American market, accounting for approximately 75% of revenues. A significant reduction in the revenues generated in North America could have a material adverse effect on the company's results of operations.

Political, economic and military risks – A potential disruption of US economic conditions lies in the global spread of COVID-19 that is likely to cause supply chain and demand issues which could adversely impact corporate operating results. Prion's principal executive offices are located in Israel. Accordingly, political, economic and military conditions in the Middle East may directly affect the company's business.

Liquidity risk - Shares of Perion have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 16.5 million shares in the float and the average daily volume is approximately 215,000 shares.

Miscellaneous risk **-** The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Perion Network Ltd.

Consolidated Balance Sheets
(in thousands $)

	2017A	2018A	2019A	6/20A	2020E	2021E
Cash and cash equivalents	31,567	39,109	38,389	30,986	30,863	32,652
Restricted cash	-	1,694	1,216	1,221	1,221	1,221
Short-term bank deposits	5,913	4,000	23,234	16,872	16,872	16,872
Receivables	62,830	55,557	49,098	35,862	49,375	54,222
Prepaid expenses and other	13,955	3,533	3,170	3,369	3,369	3,369
Total current assets	114,265	103,893	115,107	88,310	101,700	108,336
Property and equipment	17,476	15,649	10,918	8,611	8,666	5,426
Operating lease right-of-use assets	-	-	22,429	20,725	20,725	20,725
Goodwill and intangibles	136,360	131,547	128,444	166,369	181,369	181,369
Deferred taxes	4,798	4,414	6,171	5,872	5,872	5,872
Other	1,128	943	708	582	582	582
Total assets	**274,027**	**256,446**	**283,777**	**290,469**	**318,914**	**322,310**
Accounts payable	39,180	38,208	47,681	36,601	41,176	40,833
Accrued expenses and other	17,784	17,240	18,414	14,873	21,855	24,000
Short-term operating lease liability	-	-	3,667	3,806	3,806	3,806
Short-term debt	13,989	16,059	8,333	8,333	8,333	-
Deferred revenues	5,271	3,794	4,188	3,938	3,938	3,938
Payment obligation related to acquisitions	5,146	1,813	1,025	13,946	18,699	14,699
Total current liabilities	81,370	77,114	83,308	81,497	97,807	87,276
Long-term debt	46,719	24,393	8,333	4,167	-	-
Payment obligation related to acquisition	-	-	-	12,067	18,067	14,067
Long-term operating lease liability	-	-	20,363	18,386	18,386	18,386
Other	7,606	6,158	6,591	6,025	6,025	6,025
Total liabilities	**135,695**	**107,665**	**118,595**	**122,142**	**140,285**	**125,754**
Total stockholders' equity	**138,332**	**148,781**	**165,182**	**168,327**	**178,630**	**196,556**
Total liabilities & stockholders' equity	**274,027**	**256,446**	**283,777**	**290,469**	**318,914**	**322,310**

Source: Company filings and Taglich Brothers' estimates

Income Statements for the Fiscal Years Ended
(in thousands $)

	2017A	2018A	2019A	2020E	2021E
Search and other	139,505	126,868	173,587	174,987	191,000
Advertising	134,481	125,977	87,863	116,407	129,000
Total revenue	273,986	252,845	261,450	291,394	320,000
Cost of revenue	24,659	23,757	25,520	20,446	20,000
Gross profit	249,327	229,088	235,930	270,948	300,000
Customer acquisition costs and media buy	130,885	128,351	135,891	172,739	195,200
Research and development	17,189	18,884	22,585	29,329	32,000
Selling and marketing	52,742	38,918	34,736	36,920	38,000
General and administrative	21,911	16,450	14,999	14,420	13,600
Depreciation and amortization	16,591	9,719	9,711	9,553	10,000
Operating income (loss)	(75,658)	14,691	18,008	7,987	11,200
Financial expenses	5,922	3,794	3,470	1,250	417
Income (loss) before taxes	(81,580)	10,897	14,538	6,737	10,783
Income tax (benefit)	(8,826)	2,776	1,645	456	2,157
Net income (loss)	(72,754)	8,121	12,893	6,281	8,626
EPS	(2.81)	0.31	0.49	0.23	0.31
Shares Outstanding	25,850	26,855	26,358	27,817	28,213
EBITDA	(59,067)	24,410	27,719	17,540	21,200
Adjusted EBITDA*	28,917	29,554	32,393	25,602	27,000
Margin Analysis					
Gross margin	91.0%	90.6%	90.2%	93.0%	93.8%
Customer acquisition costs and media buy	47.8%	50.8%	52.0%	59.3%	61.0%
Research and development	6.3%	7.5%	8.6%	10.1%	10.0%
Selling and marketing	19.2%	15.4%	13.3%	12.7%	11.9%
General and administrative	8.0%	6.5%	5.7%	4.9%	4.3%
Operating margin	(27.6)%	5.8%	6.9%	2.7%	3.5%
Tax rate	10.8%	25.5%	11.3%	6.8%	20.0%
Year / Year Growth					
Total Revenues	(12.4)%	(7.7)%	3.4%	11.5%	9.8%

*Includes stock compensation, restructuring and other costs
Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2019A - 2021E
(in thousands $)

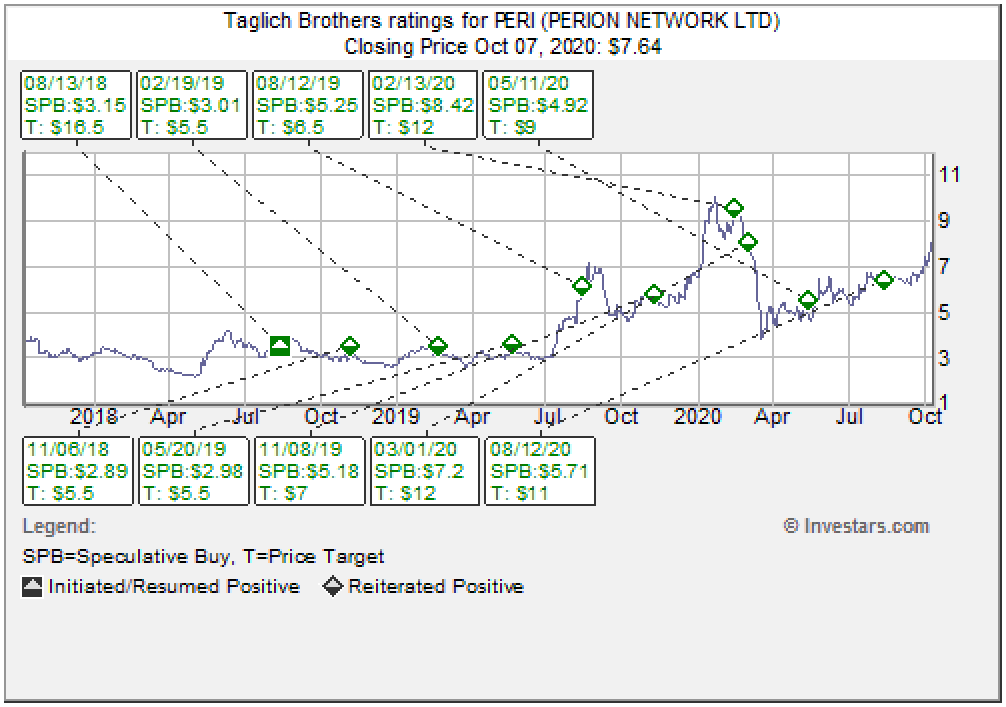
	3/19A	6/19A	9/19A	12/19A	2019A	3/20A	6/20A	9/20E	12/20E	2020E	3/21E	6/21E	9/21E	12/21E	2021E
Search and other	35,265	42,267	44,225	51,830	173,587	42,320	41,667	45,000	46,000	174,987	46,050	47,150	48,350	49,450	191,000
Advertising	18,584	21,300	21,552	26,427	87,863	23,733	18,674	35,000	39,000	116,407	22,000	29,000	34,250	43,750	129,000
Total revenue	53,849	63,567	65,777	78,257	261,450	66,053	60,341	80,000	85,000	291,394	68,050	76,150	82,600	93,200	320,000
Cost of revenue	5,766	6,068	6,819	6,867	25,520	5,766	4,880	4,900	4,900	20,446	5,000	5,000	5,000	5,000	20,000
Gross profit	48,083	57,499	58,958	71,390	235,930	60,287	55,461	75,100	80,100	270,948	63,050	71,150	77,600	88,200	300,000
Customer acquisition costs and media buy	27,433	33,175	34,170	41,113	135,891	36,138	36,801	48,800	51,000	172,739	41,511	46,452	50,386	56,852	195,200
Research and development	4,862	5,610	5,976	6,137	22,585	7,207	7,122	7,500	7,500	29,329	8,000	8,000	8,000	8,000	32,000
Selling and marketing	8,325	8,667	8,649	9,095	34,736	9,701	8,219	9,500	9,500	36,920	8,750	9,250	9,750	10,250	38,000
General and administrative	3,058	3,419	3,562	4,960	14,999	3,939	3,581	3,500	3,400	14,420	3,400	3,400	3,400	3,400	13,600
Depreciation and amortization	2,390	2,286	2,628	2,407	9,711	2,302	2,251	2,500	2,500	9,553	2,500	2,500	2,500	2,500	10,000
Operating income (loss)	2,015	4,342	3,973	7,678	18,008	1,000	(2,513)	3,300	6,200	7,987	(1,111)	1,549	3,564	7,198	11,200
Financial expenses	1,325	989	419	737	3,470	(8)	741	317	200	1,250	175	130	80	32	417
Income (loss) before taxes	690	3,353	3,554	6,941	14,538	1,008	(3,254)	2,983	6,000	6,737	(1,286)	1,419	3,484	7,166	10,783
Income tax (benefit)	(542)	453	680	1,054	1,645	(326)	(1,015)	597	1,200	456	(257)	284	697	1,433	2,157
Net income (loss)	1,232	2,900	2,874	5,887	12,893	1,334	(2,239)	2,386	4,800	6,281	(1,028)	1,135	2,787	5,733	8,626
EPS	0.05	0.11	0.11	0.22	0.49	0.05	(0.08)	0.08	0.17	0.23	(0.04)	0.04	0.10	0.20	0.31
Shares Outstanding	25,885	25,897	26,895	27,288	26,358	28,213	26,630	28,213	28,213	27,817	28,213	28,213	28,213	28,213	28,213
EBITDA	4,405	6,628	6,601	10,085	27,719	3,302	(262)	5,800	8,700	17,540	1,390	4,049	6,064	9,698	21,200
Adjusted EBITDA*	5,125	7,435	7,618	12,215	32,393	6,238	2,464	7,000	9,900	25,602	2,840	5,499	7,514	11,148	27,000
Margin Analysis															
Gross margin	89.3%	90.5%	89.6%	91.2%	90.2%	91.3%	91.9%	93.9%	94.2%	93.0%	92.7%	93.4%	93.9%	94.6%	93.8%
Customer acquisition costs and media buy	50.9%	52.2%	51.9%	52.5%	52.0%	54.7%	61.0%	61.0%	60.0%	59.3%	61.0%	61.0%	61.0%	61.0%	61.0%
Research and development	9.0%	8.8%	9.1%	7.8%	8.6%	10.9%	11.8%	9.4%	8.8%	10.1%	11.8%	10.5%	9.7%	8.6%	10.0%
Selling and marketing	15.5%	13.6%	13.1%	11.6%	13.3%	14.7%	13.6%	11.9%	11.2%	12.7%	12.9%	12.1%	11.8%	11.0%	11.9%
General and administrative	5.7%	5.4%	5.4%	6.3%	5.7%	6.0%	5.9%	4.4%	4.0%	4.9%	5.0%	4.5%	4.1%	3.6%	4.3%
Operating margin	3.7%	6.8%	6.0%	9.8%	6.9%	1.5%	(4.2)%	4.1%	7.3%	2.7%	(1.6)%	2.0%	4.3%	7.7%	3.5%
Tax rate	(78.6)%	13.5%	19.1%	15.2%	11.3%	(32.3)%	31.2%	20.0%	20.0%	6.8%	20.0%	20.0%	20.0%	20.0%	20.0%
Year / Year Growth															
Total Revenues	(11.6)%	1.2%	15.0%	8.7%	3.4%	22.7%	(5.1)%	21.6%	8.6%	11.5%	3.0%	26.2%	3.3%	9.6%	9.8%

Statement of Cash Flows for the Periods Ended
(in thousands $)

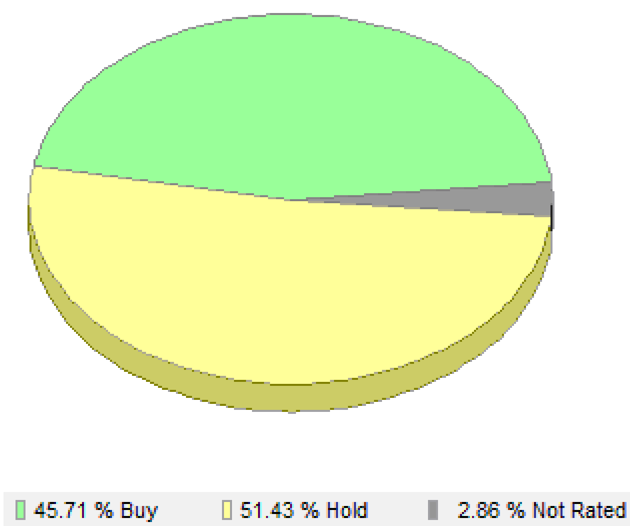
	2017A	2018A	2019A	6M20A	2020E	2021E
Net income (loss)	(72,754)	8,121	12,893	(905)	6,281	8,626
Depreciation & amortization	16,591	9,719	9,711	4,553	9,553	8,517
Impairment	85,667	-	-	-	-	-
Restructuring costs	-	462	-	-	-	-
Stock-based compensation	2,112	2,718	2,293	1,941	4,341	5,800
Foreign currency translation	83	3	(86)	(47)	(47)	-
Accretion of payment obligation related to acquisition	43	-	-	-	-	-
Accrued interest	475	1,005	(204)	-	-	-
Deferred taxes	(8,877)	335	(1,756)	(1,952)	(1,952)	-
Accrued severance pay	801	(783)	96	33	33	-
Fair value revaluation - convertible debt	3,785	(1,585)	600	-	-	-
Loss from sale of property and equipment	-	-	-	84	84	-
Cash earnings (loss)	27,926	19,995	23,547	3,707	18,293	22,943
Changes in assets and liabilities						
(Increase) decrease in working capital	8,087	12,806	21,194	(1,060)	(9,047)	(7,822)
Net cash provided by (used in) operations	**36,013**	**32,801**	**44,741**	**2,647**	**9,246**	**15,122**
Purchase of property and equipment	(1,606)	(2,038)	(717)	(113)	(500)	(500)
Proceeds from sale of property and equipment	10	59	-	-	-	-
Capitalization of development costs	(5,756)	(1,756)	-	-	-	-
Cash paid for acquisitions	-	-	(1,200)	(16,145)	(20,145)	-
Obligation in connection with acquisitions	-	-	-	2,349	2,349	-
Short-term deposits	2,501	1,913	(19,234)	6,362	6,362	-
Net cash provided by (used in) investing	**(4,851)**	**(1,822)**	**(21,151)**	**(7,547)**	**(11,934)**	**(500)**
Exercise of options and restricted shares	1	-	1,227	1,741	3,500	3,500
Payments made in connection with acquisition	(2,551)	(3,333)	(1,813)	-	-	(8,000)
Proceeds from debt	5,000	25,000	-	-	-	-
Repayment of debt	(26,290)	(44,676)	(24,182)	(4,166)	(8,333)	(8,333)
Net cash provided by (used in) financing	**(23,840)**	**(23,009)**	**(24,768)**	**(2,425)**	**(4,833)**	**(12,833)**
Effect of currency exchange rates	283	78	(20)	(73)	-	-
Net change in cash	**7,605**	**8,048**	**(1,198)**	**(7,398)**	**(7,521)**	**1,789**
Cash - beginning of period	**23,962**	**32,755**	**40,803**	**39,605**	**39,605**	**32,084**
Cash - end of period	**31,567**	**40,803**	**39,605**	**32,207**	**32,084**	**33,873**

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**3**	**15**
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, an employee at Taglich Brothers, Inc. owns or has a controlling interest in 1,000 shares of PERI common stock. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary fee of $6,000 (USD) in July 2018 for the creation and dissemination of research reports for the first three months. After the first three months from initial publication, the company pays a monthly monetary fee of $2,000 (USD) to Taglich Brothers, Inc., for a minimum of six months for the creation and dissemination of research reports.

General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.