

Zacks Small-Cap Research

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The Pulse Network, Inc. (TPNI-OTCBB)

TPNI: Content Marketing Key to Engagement and Generating Leads. Initiating Coverage with a Hold rating.

Current Recommendation	HOLD
Prior Recommendation	N/A
Date of Last Change	10/2/2013
Current Price (10/2/13)	\$0.47
Target Price	\$0.54

OUTLOOK

The Pulse Network operates in the rapidly growing digital market space. It is a cloud based platform focused on content marketing and event solutions designed to improve clients' engagement with customers and generate leads for new opportunities. Secular trends are likely to be a positive tailwind for Pulse's growth, in our view. As the internet transforms the way buyers gather information and engage with vendors, relevant content is expected to become an increasingly more important marketing tool. Forrester Research projects spending on email, mobile and social media marketing will reach \$15.7 billion in 2016, up from \$4.8 billion in 2011.

SUMMARY DATA

52-Week High	\$0.60	Risk Level	Above Average
52-Week Low	\$0.10	Type of Stock	Small-Growth
One-Year Return (%)	N/A	Industry	Business Svcs
Beta	N/A	Zacks Rank in Industry	N/A
Average Daily Volume (sh)	17,144		
Shares Outstanding (mil)	90.4		
Market Capitalization (\$mil)	\$42.5		
Short Interest Ratio (days)	N/A		
Institutional Ownership (%)	N/A		
Insider Ownership (%)	91%		
Annual Cash Dividend	\$0.00		
Dividend Yield (%)	0.00		
5-Yr. Historical Growth Rates			
Sales (%)	N/A		
Earnings Per Share (%)	N/A		
Dividend (%)	N/A		
P/E using TTM EPS	N/A		
P/E using 2013 Estimate	N/A		
P/E using 2014 Estimate	N/A		
Zacks Rank	N/A		

ZACKS ESTIMATES					
Revenue (in millions of \$)					
	Q1 (Jun)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2011					N/A
2012	1.0A	1.1E	1.1E	0.6E	3.8A
2013	0.9A	1.0E	1.0E	1.0E	3.9E
2014					4.1E

FY ends March 31.

Earnings per Share					
(EPS is operating earnings before non recurring items)					
	Q1 (Jun)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2011					N/A
2012	-\$0.00A	-\$0.00E	-\$0.00E	-\$0.01E	-\$0.01A
2013	-\$0.00A	-\$0.00E	-\$0.00E	-\$0.01E	-\$0.01E
2014					-\$0.02E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

* Quarters may not = annual due to shr count chgs /rounding

KEY POINTS

- Founded by brothers Stephen, Nicholas and John Saber, The Pulse Network helps companies develop digital automated marketing programs to improve engagement with potential customers and generate leads for new opportunities.
- **Secular trends are likely to fuel the growth of Pulse's addressable market**, in our view. As the internet transforms the way buyers gather information and when they engage with companies, relevant content – particularly socially enabled video content – is expected to increasingly drive discussions and help create online community that clients can leverage to optimize their marketing efforts.
- In fact, Forrester Research estimates that spending on email, mobile and social media marketing will grow from \$4.8 billion in 2011 to \$15.7 billion in 2016, which equates to a CAGR of 27%.
- The company also hosts several annual conferences to solidify its position among small-to-mid-sized businesses and create networking opportunities. With over 2,000 attendees, the IMS (Inbound Marketing Summit) is the company's flagship event. It is scheduled to take place later this month.
- The Saber brothers, hold approximately 91% of the shares on a fully diluted basis.
- Total revenues for year ended March 31, 2012 decreased by 19.6% to \$4,157,757 from \$5,173,206 for the year ended March 31, 2011.
- We believe that given Pulse's brief history as a public company, TPNI shares are likely to trade within a range of \$0.47 to \$0.60 until there is greater visibility into the company's revenue trends and cash generation and needs. We initiate coverage with a Neutral rating and \$0.54 price target.
- Risks include that the company is highly dependent on founder and CEO Stephen Saber, is under-capitalized, revenue may be lumpy in the near-term, competition could increase, and if preferred shares are converted to common shares, it could be highly dilutive to shareholders of the common stock, among other risks.

OVERVIEW

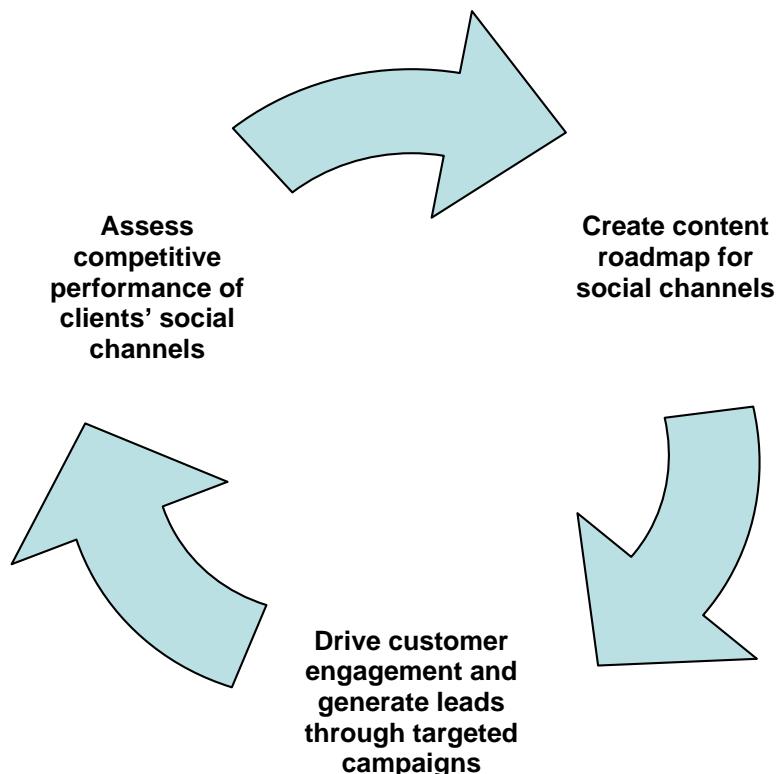
Founded by brothers Stephen, Nicholas and John Saber, The Pulse Network operates in the rapidly growing digital market space. It is a cloud based platform focused on content marketing and event solutions to improve clients' engagement with existing and prospective customers and generate leads for new opportunities. CEO Stephen Saber has more than 20 years of experience in this space. He has led predecessor companies that have provided similar services since 1992. His experience is critical to the company's prospects, in our view. We believe it implies a solid understanding of digital and content marketing. In addition, we believe it also implies that he has developed a network of industry experts and potential clients. Pulse was incorporated in March of 2011 and came public through a reverse acquisition in March, 2013. It develops integrated programs that help clients leverage social media to improve their marketing efforts, build community and generate leads. **To accomplish this, Pulse helps clients develop relevant content that their targeted audiences want to consume.**

Content Marketing is Key Pulse's strategy, like others in the digital marketing sector, is to use content to improve clients' engagement with their customers. Using relevant content in order to attract and retain customers and impact buying decisions is not a new concept. In fact, marketing experts point to John Deere's 1895 launch of the magazine *Furrow*, Michelin's 1900 *Michelin Guide* and the 1904 *Jell-O Cookbook* as early examples of companies using relevant content to engage existing and potential customers. What is new, however, is the ease with which consumers and business decision makers can research products and services online, as well as the bombardment of communications that they receive from prospective vendors while conducting their research.

Pulse's goal is to help companies cut through that clutter to reach their targeted audience more effectively. For example, one topic for discussion at Pulse's upcoming IMS is titled, *Be Heard in a Crowd: How the Right Content and Social Strategy Will Drive Sales*.

Studies indicate that a consumer's buying experience begins way before the consumer reaches the actual sales decision. In fact, according to Sirius Decisions, some 70% of the buying experience occurs before a salesperson even gets involved, as the consumer researches a product or service online and through social media. Pulse helps clients reach the consumer at an early stage in the process by creating relevant digital content and delivering it to targeted sites where prospective buyers are conducting their research. By creating content that is delivered across digital, social media and offline venues, The Pulse Network works to help marketers improve their engagement with clients, employees, customers and others and, in turn, to drive leads.

The Pulse Network helps companies achieve an integrated content platform that reaches targeted audiences across online, mobile, digital and offline venues. In turn, this content drives engagement with consumers or business decision makers as they research products or services. According to a Roper study, 80% of business decision makers prefer to get information through a series of articles instead of an ad. In addition, 70% of business decision makers indicate that content marketing creates a bond with the sponsoring company, while 60% say that company content helps them make better product decisions.¹



To create relevant content, Pulse begins by assessing a client's business objectives. It determines who the target audience is and what audience members discuss. The company then creates a content map and schedule designed to drive engagement. Management believes that relevant content, particularly **socially enabled video content**, drives discussions and helps create online community that Pulse's business clients can leverage. Content is an important driver whether clients are developing their own communities on social media sites such as Facebook or destination, members-only sites, according to management.

¹ The Roper Public Affairs.

Statistics support this concept, as well. For example, according to a MarketingProfs study, roughly 84% of people attending virtual events take some action, including visiting a vendor's site. The Pulse Network helps businesses create and integrate content to form a community and marketplace through social media and multichannel delivery.

The Pulse Network's team manages all aspects of producing, syndicating and analyzing the video community content, and integrating blogs, forums, and feeds to optimize content productivity and delivery. According to management, Pulse works with a range of companies, from Fortune 500 firms down to mid-sized ones. Recent examples of platforms that Pulse has created for B2B and consumer brands include those for The National Fire Protection Agency and SAP (Customeredge.tv).

Enterprise Social TV

The Pulse Network operates a full web broadcast studio at its Canton, Massachusetts headquarters. The company offers several video content solutions for its clients under the direction of Butch Stearns, Pulse's Chief Customer Officer. He has 20 years of broadcast experience, including with Fox 25 TV in Boston, Comcast Sportsnet New England, the local NBC affiliate in Chicago, KFAN Minneapolis, and the Sporting News Radio Network, among other positions.

Pulse Networking Events and Conferences

Pulse also hosts several annual conferences to provide educational and networking opportunities for existing and prospective clients. Management believes that Pulse is a leader in producing events and conferences around three areas: business technology for mid-sized enterprises, executive-level summits in high-growth industries and for marketers and media professionals. The company's flagship event, the Inbound Marketing Summit (IMS), attracted more than 1,000 attendees to Boston in 2012. The 2013 IMS is scheduled to be held later this month on October 16-17.

These events and conferences give Pulse high visibility among marketing decision makers, many of whom use the company to create an integrated content / marketing platform. Pulse also recently partnered with the Aberdeen Group to launch the CMO Pulse Symposium in Boston in October for senior marketing leaders. We believe these events create networking opportunities for both attendees, as well as for Pulse. To defray the cost of hosting the events, the company helps finance them through sponsors.

Advisors

The company also leverages the services of several advisors who are known in the marketing space. For example, one advisor is Chris Brogan, whose blog indicates that he speaks often on social media marketing topics. He has also authored or co-authored several books relevant to digital marketing. They include *The Impact Equation*, *Trust Agents* and *Social Media 101*, among others. He co-launched the company's flagship IMS event.

Another advisor, Jason Chudnofsky, was president of CrossTech Media, a predecessor company of Pulse that Stephen Saber headed. Pulse's former CMO Allen Bonde is a partner at Digital Clarity Group and according to Digital Clarity's website, he has more than 20 years of experience as a an enterprise software CMO, entrepreneur and consultant. He was also the CEO of Softbank Comdex, which ran one of the largest trade shows for the computer industry.

Initiating Coverage

We believe the company operates in a sector for which there is growing demand from potential clients. In addition, interest from larger companies who want to participate in this sector, possibly through M&A, appears to be rising. Reflecting management's background, we believe Pulse's prospects are strong. However, the company's brief history as a publically traded company constrains the visibility into revenue growth, as well as into the company's cash generation and needs, in our view.

We believe the shares are likely to trade within a range of \$0.47 (the current price) to \$0.60 until there is greater clarity about those metrics. We therefore initiate coverage with a Neutral rating and price target of \$0.54, which is the midpoint of the above noted expected range.

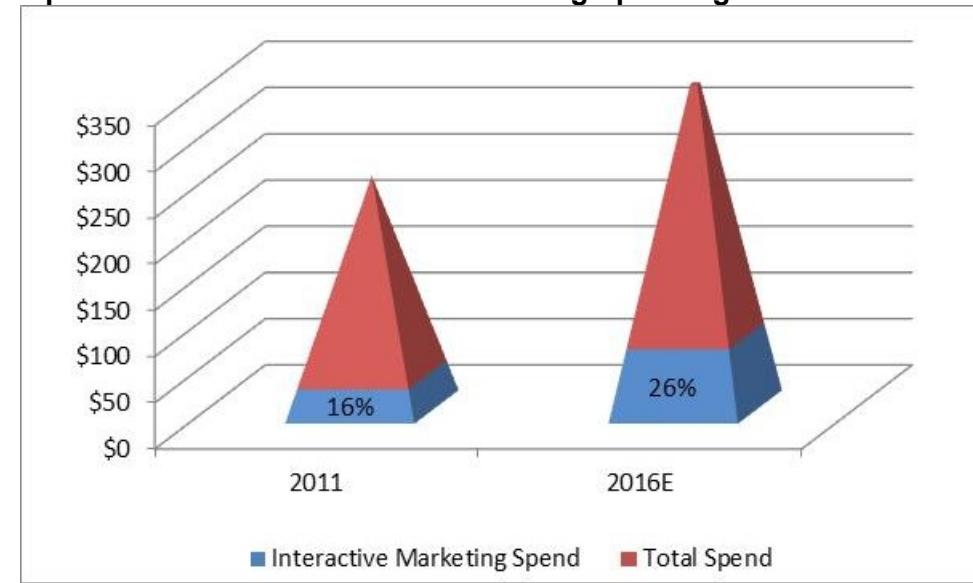
INDUSTRY OUTLOOK

We believe Pulse has substantial growth opportunities, as a number of secular trends drive overall demand for content marketing. The outlook for digital marketing in general is robust, in our view. The Internet has changed the way consumers and business decision makers educate themselves in order to make decisions about which products and services to purchase. At the same time, we believe the economic recession has changed the way that companies approach lead generation and measurement.

As a result, marketers' spending has shifted from traditional media such as broadcast and print to interactive channels, including online, email, mobile and social media sites. Forrester Research predicts that domestic spending on interactive marketing will reach \$76.6 billion in 2016. This equates to an estimated 26% of total U.S. marketing spend and represents a 122% increase from \$34.5 billion spent in 2011.² Forrester estimates that spending on email, mobile and social media marketing will grow from \$4.8 billion in 2011 to \$15.7 billion in 2016, which equates to a CAGR of 27%.

At the same time, enterprise spending on automating, analyzing and optimizing marketing and sales is also projected to grow. IDC predicts that the marketing automation market will grow from \$3.7 billion in 2011 to \$5.5 billion in 2016. IDC also predicts that the CRM analytics market, which includes marketing and sales analytics, will grow from \$2.2 billion in 2010 to \$3.4 billion in 2015.

Expected Growth of Interactive Marketing Spending



Source: Forrester Research

We believe these metrics would suggest that the addressable market for Pulse's platform is large and growing rapidly. The company's growth strategy includes acquiring new customers either organically or through integration with other players by increasing awareness and understanding of content marketing. This is where the Pulse's annual conferences play a strategic role, we believe. We believe the

² That metric represented 16% of total spend.

background and experience of top management and the company's advisors likely will play a crucial role in this growth strategy, as well. In addition to the CEO's experience, Bruce Karten is the company's Chief Revenue Officer. He has more than 20 years leading sales teams, according to management, including prior experience at Thomson Reuters, where he led several sales teams.

COMPETITION AND CONSOLIDATION

There has been significant consolidation in the digital content marketing sector as in recent months, many of the leading players have been acquired by larger firms. Eloqua was one of the pioneers. It was founded in 1999 to leverage social media in order to improve lead generation and provide demand management services. It is now a subsidiary of Oracle (ORCL-not rated).

Specifically, within the past 18 months, in addition to Oracle's purchase of Eloqua at an estimated 8x TTM revenue, Silverpop acquired CoreMotives, Manticore Technology merged with Sales Engine International, Aprimo acquired eCircle, LoopFuse merged with Nearstream, ExactTarget acquired Pardot and was subsequently acquired by Salesforce.com (CRM-not rated) and Adobe (ADBE-not rated) announced in June that it will acquire privately held Neolane for approximately \$600 million.

We believe this consolidation has positive implications for the remaining independent companies. In our view, it indicates that interest from larger companies who want to participate in this sector, possibly through M&A, appears to be rising. Moreover, there are not many public companies remaining in the sector. The few that are still independent include Pulse, Marketo (MKTO-not rated) and Responsys (MKTG-not rated).

Recent Consolidation Among Digital Marketing Enablers

Acquiror	Acquisition	Date	Price Paid (\$M)
	Target		
Salesforce.com	Radian6	Mar-11	\$340
Silverpop	CoreMotives	Apr-12	NA
Teradata/ Aprimo	eArde	May-12	NA
Manticore Technology*	Sales Engine Inter'l	Jun-12	NM
ExactTarget	Pardot	Oct-12	\$95.5
Oracle	Eloqua	Dec-12	\$871
LoopFuse*	Nearstream	Jan-13	NM
Salesforce.com	ExactTarget	Jun-13	\$2,500
Adobe	Neolane	Jul-13	\$600

* Merger

Source: Company reports, WSJ, TechCrunch

VALUATION

Because the company has not yet attained positive net income and because the sales-to-revenue appears to be a metric widely used in the recent acquisitions in the sector, our valuation methodology is based on market capitalization-to-revenue. However, determining Pulse's revenue growth level is somewhat challenging at this early stage of the company's development, as: 1) Pulse has not have a long history as a public company and 2) Pulse has also transitioned its business model to software based online video development and related corporate marketing.,.

Pulse recorded total revenue of \$3.8 million in fiscal 2013.³ This represented a decline of 9.6%, primarily because of cancelled programs. As the company's transition continues, we believe revenue will begin to grow. We forecast revenue of \$4.1 million for fiscal 2015. The company's growth strategy includes acquiring new customers either organically or through integration with other players. If management can execute this strategy successfully, it implies – we believe – that the medium-term outlook for revenue growth could be more robust.

It appears that many of the transactions in the sector were done at over 8X revenue. We believe Pulse shares are likely to trade within a range of \$0.47 to \$0.60 until there is greater visibility into the company's revenue trends. On a market capitalization-to-revenue basis, that range translates into 10X to 13X. However, calculated assuming that all of the preferred shares were converted to common, the company's market cap would be significantly higher, on a fully diluted basis. That would put the above-noted expected trading range at a much higher multiple range of 19X to 24X.

MANAGEMENT

The company's management has extensive experience in digital marketing and IT.

CEO With a Harvard undergraduate degree and MBA, Stephen Saber has been the company's CEO and Chairman since March 29, 2013 when Pulse completed the reverse merger. From June 1994 until June 2011, he was the president of CrossTech Partners and CEO of New Marketing Labs, two predecessor firms that merged with The Pulse Network in June 2011. Prior to that, he was a managing director of Cambridge Technology Partners. According to management, he has advised on several M&A transactions in digital media and IT, ranging from the \$30 million to \$450 million level, and has also been a guest lecturer in the entrepreneurship program at Babson College.

President Nicholas Saber has been Pulse's president and a director since the reverse merger. From June 1994 until June 2011, he occupied a similar role at CrossTech Media, where he managed more than 30 events in the technology space, as well as four acquisitions. He began his career as a management consultant at Coopers and Lybrand.

CIO John Saber has been the company's Chief Information Officer and a director since March 29, 2013. He served in a similar capacity at predecessor companies that he and his brothers formed, including CrossTech Partners, where he was responsible for the design and development of the SaaS platform. Prior to CrossTech, he was a management consultant for Coopers & Lybrand and the Director of Systems for McBer & Company, which is a subsidiary of the Hay Group.

³ Pulse's fiscal year ends on March 31.

INSIDER OWNERSHIP

The Saber brothers hold a combined roughly 90.9% of TPNI shares, on a fully diluted basis. CEO Stephen Saber owns just over 31 million common shares. He also holds 414 shares of Series A preferred stock, which are convertible into 414 shares of common stock, and 6.2 million Series B preferred shares. The Series B preferred shares are convertible at a 5-for-1 ratio into 31.0 million common shares. In total, on a fully diluted basis, he controls just over 62.0 million shares, which equates to 37.5% of total shares outstanding.

Nicholas and John Saber each own 21.998 million common shares, 293 shares of Series A preferred stock, which are convertible into 293 common shares and 4.3995 million Series B preferred shares. As noted, the Series B preferred shares are convertible at a 5-for-1 ratio so that each brother's Series B shares are convertible into 21.9975 million common shares. They each control just under 44 million shares, which equates to 26.6%, of the total shares outstanding, on a fully diluted basis.

FINANCIAL HISTORY

Recent Results, 1Q13 Summary

The company derives revenue primarily from three business segments: 1) Usage of the Pulse Network Platform for management and support of client events or conferences; 2) Sponsors and attendees for conferences that Pulse hosts itself, and 3) Ongoing development and support for client content and digital marketing programs. Total revenues for the quarter ended June 30, 2013 decreased by 10.7% to \$934,222, primarily reflecting the loss of one client and Pulse rescheduling one of its own hosted events to the following quarter. Despite the decline in total revenue, revenue attributable to digital marketing programs advanced 33.5% year-over-year.

The company was able to more than offset the lower revenue with its own cost containment efforts and improved efficiency, particularly in running its own events. Total cost of revenues for the quarter ended June 30, 2013 declined by 58.3% year-over-year to \$228,982, primarily because the company incurred lower costs to manage its own hosted conferences. At the same time, Pulse was also able to cut Selling and marketing expenses by 10.2% to \$121,186, although G&A expenses grew 18.5% to \$698,101. G&A expense for the quarter ended June 30, 2013 included several non-recurring items related to the company's reverse merger including higher legal and accounting fees. Reflecting the company's cost containment initiatives, Pulse registered a net loss (\$133,335), which is 42.2% lower than the net loss reported in the comparable quarter of fiscal 2013.

RECENT NEWS

Earlier this week, the company announced that presenters from Cisco (CSCO-not rated), EMC (EMC-not rated) and Razorfish, among other companies, would speak at its upcoming IMS event to discuss digital marketing. In addition, Lee Daniels, director of the recently released *Lee Daniels' The Butler*, will be the keynote speaker at the event.

Last month, Pulse announced the launch of a new event, the Digital Pulse Summit, which will be held in tandem with the company's IMS conference in Boston later this month. Open Text (OTEX-not rated) will be one of the sponsors of the Digital Pulse Summit, according to management.

On June 5, 2013 Company issued 400,000 shares of its common stock in a private placement in exchange for cash proceeds of \$80,000.

In August, Pulse announced that it had added two new executives. Robert Collins will lead the company's digital, content and social service practice. Katherine Hee will lead the enterprise production and partnership team. Importantly, like most other executives at the company, each has significant industry experience. Robert Collins has over 18 years of marketing experience and Katherine Hee has over 25 years of industry experience.

RISKS

- The company is highly dependent on founder and CEO Stephen Saber.
- The Pulse Network is under-capitalized and may require additional funding during this early growth stage. In fact, management has indicated its plans to seek additional capital through private placements and public offerings of its common stock.
- Competition could increase. Although expertise and experience within the digital marketing sector are likely drivers of success, in our view, we believe barriers to entry are low.
- The shares are illiquid and controlled largely by insiders.
- Insiders own series B preferred shares that are each convertible into five common shares. If holders of the B preferred shares convert them to common, it could be highly dilutive to public shareholders of the common stock, in our view.

PROJECTED INCOME STATEMENT & BALANCE SHEET

The Pulse Network Income Statement and Projections (\$)

Fiscal year ends March 3'	Jun-12 1Q13A	Sep-12 2Q13E	Dec-12 3Q13E	Mar-13 4Q13E	FY2013A	Jun-13 1Q14A	Sep-13 2Q14E	Dec-13 3Q14E	Mar-14 4Q14E	FY2014E	FY2015E
Revenue	\$1,045,694	\$1,060,541	\$1,056,141	\$595,096	\$3,757,471	\$934,222	\$973,708	\$1,033,708	\$1,003,708	\$3,945,345	\$4,142,612
Cost of sales	549,483	343,024	346,624	157,290	1,396,421	228,982	372,420	452,420	412,420	1,466,242	1,532,223
Gross profit	496,211	717,517	709,517	437,806	2,361,050	705,240	601,288	581,288	591,288	2,479,103	2,610,389
Gross profit margin	47.5%	67.7%	67.2%	73.6%	62.8%	75.5%	61.8%	56.2%	58.9%	62.8%	63.0%
Selling expenses	134,941	94,773	99,173	127,229	456,115	121,186	115,945	122,545	119,245	478,921	495,204
G&A	589,235	661,992	666,392	1,210,032	3,127,651	698,101	858,678	865,278	861,978	3,284,034	3,448,235
Operating loss	(227,965)	(39,248)	(56,048)	(899,455)	(1,222,716)	(114,047)	(373,335)	(406,535)	(389,935)	(1,283,852)	(1,333,050)
Interest expense	2,591	1,814	1,270	52,032	57,706	19,288	13,768	13,768	13,768	60,591	61,803
Net loss	(230,556)	(41,062)	(57,318)	(951,487)	(1,280,422)	(133,335)	(387,103)	(420,303)	(403,703)	(1,344,443)	(1,394,854)
LPS	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.01)	(\$0.02)
Weighted avg shares out	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,114,286	90,400,000	90,400,000	90,400,000	90,400,000	90,400,000

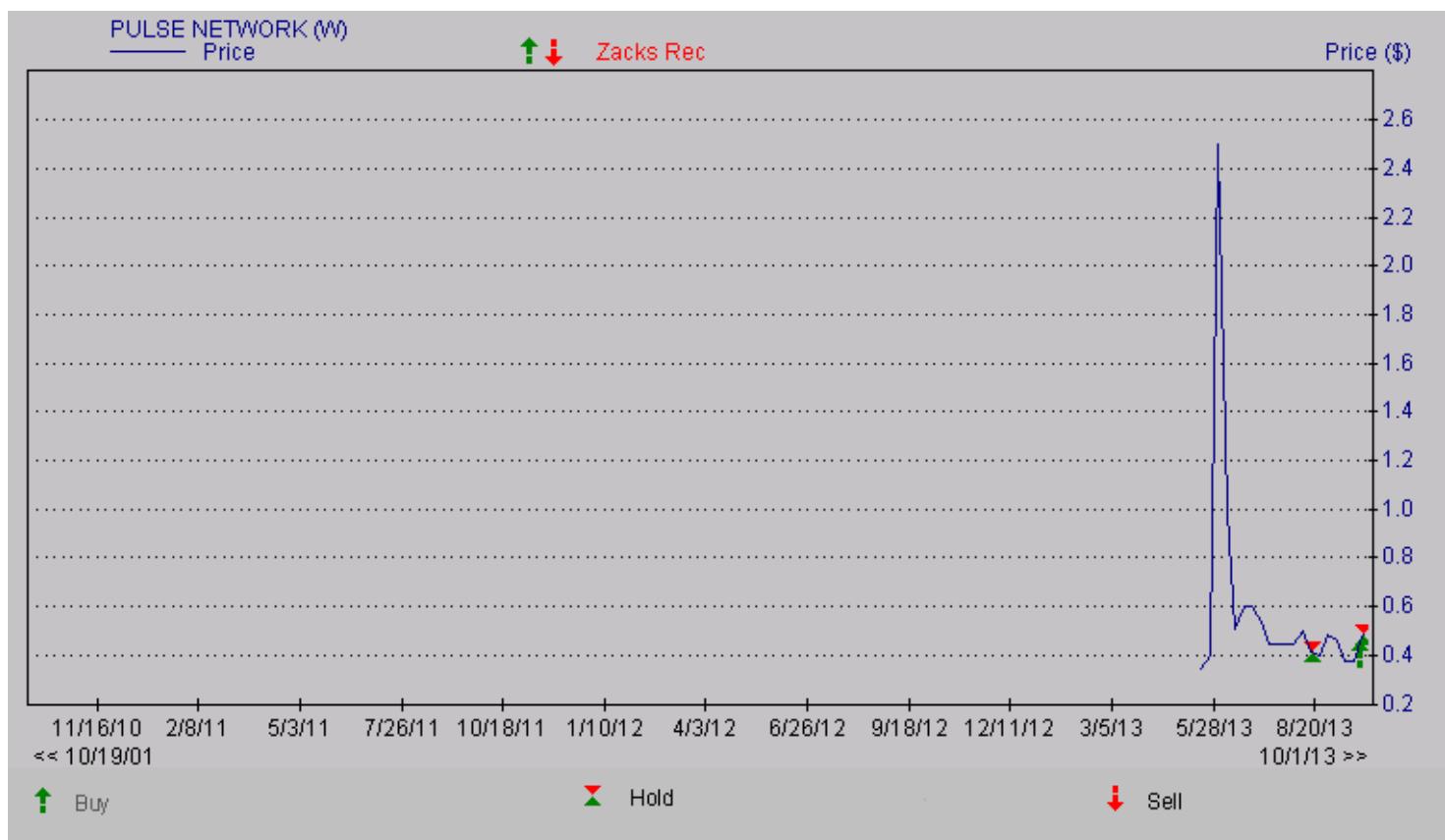
Source: Company reports, Zacks SC Research estimates

The Pulse Network Balance Sheet (\$)

	March 2012	March 2013	June 2013
Fiscal year ends March 31			
Cash	\$10,727	\$31,670	\$14,232
Accounts receivable	253,362	298,840	258,187
Prepaid expenses and deposits	<u>70,230</u>	<u>26,038</u>	<u>21,038</u>
Total current assets	334,319	356,548	293,457
Property & equipment	231,307	179,525	158,694
Due from stockholder	47,808		
Due from affiliates	84,531		
Other assets	<u>29,273</u>	<u>27,823</u>	<u>27,521</u>
Total assets	\$727,238	\$563,896	\$479,672
Note payable - bank	-	130,000	150,000
Accounts payable	418,702	247,756	426,675
Accrued compensation		239,087	446,641
Accrued expenses	-	62,269	32,371
Current portion of long-term debt	-	116,667	116,667
Current portion of capital lease obligations	10,614	18,337	18,772
Current portion of note payable related party	-	24,808	24,997
Deferred revenue	826,006	823,277	454,397
Advances from stockholders	10,044	426,883	409,850
Due to affiliates	10,131	91,497	121,500
Deferred compensation	<u>54,183</u>	<u>56,958</u>	<u>57,674</u>
Total current liabilities	1,329,680	2,237,539	2,259,544
Deferred compensation	913,169	865,354	852,986
Long term debt	-	223,611	194,444
Capital lease obligations	22,759	37,077	32,040
Note payable related party	-	19,107	12,786
Total liabilities	\$2,265,608	\$3,382,688	\$3,351,800
Total stockholders' deficit	(1,538,370)	(2,818,792)	(2,872,128)
Liabilities & Shareholder's deficit	\$727,238	\$563,896	\$479,672

Source: Company reports

HISTORICAL ZACKS RECOMMENDATIONS



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