March 16, 2020

Zacks Small-Cap Research

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MTBC, Inc. (MTBC-NASDAQ)

Addition of CareCloud Should Dwarf 2019's Record Revenue, EBITDA in 2020

Based on the average of implied EV/EBITDA and P/S multiples from analysts' estimates of publicly traded EHR / RCM companies and providers of related technology and services, we calculate fair value of MTBC at approximately $11/0share

Current Price (03/16/20)	$4.19
Valuation	**$11.7**

OUTLOOK

CareCloud acquisition, which closed on Jan 8th, is expected to add $30M or more in annualized revenue to MTBC's topline. While integration costs will be a short-term headwind to profitability, MTBC's demonstrated ability to quickly absorb operations of acquired companies into their existing infrastructure (including moving a significant portion of activities from the U.S. to much lower-cost countries), eliminate redundancies and other superfluous positions and activities and minimize customer defection should bode well for CareCloud becoming accretive to MTBC's income and adjusted EBITDA before current year-end. While CareCloud marks their largest acquisition ever, it could prove a relatively simple integration process for MTBC, which has demonstrated a particular adeptness with quick and (largely) error-free corporate combinations. Commensurate with the CareCloud acquisition announcement management issued initial full-year 2020 financial guidance of revenue and adjusted EBITDA of $100M - $102M and $12M - $13M, respectively. Importantly that guidance was reiterated with release of their Q4 2019 financial results. We currently model 2020 revenue and adjusted EBITDA of $101M and $12.0M, largely inline with our prior $101M and $12.2M estimates.

SUMMARY DATA

52-Week High	**$7.75**
52-Week Low	**$3.25**
One-Year Return (%)	**2.77**
Beta	**1.41**
Average Daily Volume (sh)	**153,447**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$52**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**14**
Insider Ownership (%)	**46**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**28.4**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2020 Estimate	**N/A**
P/E using 2021 Estimate	**8.7**
Zacks Rank	**N/A**

Risk Level	**Average,**
Type of Stock	**Small-Value**
Industry	**Med Info Sys**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	**Q2** (Jun)	**Q3** (Sep)	**Q4** (Dec)	**Year** (Dec)
2018	8.3 A	8.7 A	17.0 A	16.5 A	50.6 A
2019	15.1 A	16.8 A	16.9 A	15.8 A	64.4 A
2020	23.1 E	24.1 E	27.1 E	26.6 E	100.9 E
2021					104.3 E

EPS (GAAP)

	Q1 (Mar)	**Q2** (Jun)	**Q3** (Sep)	**Q4** (Dec)	**Year** (Dec)
2018	-$0.06 A	-$0.09 A	-$0.25 A	-$0.20 A	-$0.59 A
2019	-$0.15 A	-$0.19 A	-$0.14 A	-$0.12 A	-$0.60 A
2020	-$0.41 E	-$0.31 E	-$0.17 E	-$0.27 E	-$0.28 E
2021					$0.48 E

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

Q4 2019 Results, Operational Update…
MTBC reported financial results for their fourth quarter 2019 and provided a business update. Importantly, management reiterated their full-year 2020 financial guidance which implies revenue and adjusted EBITDA growth of at least 55% and 48%, respectively. This follows their largest acquisition which happened in early January when MTBC closed on the purchase of CareCloud Corporation (see our Refresher at end of this report). CareCloud brings a proprietary, relatively very well-known (revenue-based) EHR platform and a customer base of more than 7,000 providers.

The transaction, which closed on January 8th, is expected to add $30M or more in annualized revenue to MTBC's topline. And while integration costs will be a short-term headwind to profitability, MTBC's demonstrated ability to quickly absorb operations of acquired companies into their existing infrastructure (including moving a significant portion of activities from the U.S. to much lower-cost countries), eliminate redundancies and other superfluous positions and activities and minimize customer defection should bode well for CareCloud becoming accretive to MTBC's income and adjusted EBITDA before current year-end.

As we noted in our update in January, while CareCloud marks their largest acquisition ever, it could prove a relatively simple integration process for MTBC, which has demonstrated a particular adeptness with quick and (largely) error-free corporate combinations. Commensurate with the CareCloud acquisition announcement management issued initial full-year 2020 financial guidance of revenue and adjusted EBITDA of $100M - $102M and $12M - $13M, respectively. Importantly that guidance was reiterated with release of their Q4 2019 financial results. We currently model 2020 revenue and adjusted EBITDA of $101M and $12.0M, largely inline with our prior $101M and $12.2M estimates.

Q4, FY 2019 Results….
Q4 revenue and adjusted EBITDA of $15.8M and $8.1M were mostly inline, although about 1% lower than our $15.9M and $8.2M estimates. As compared to our disaggregated revenue estimates, (what we refer to as) MTBC's legacy business was about 4% lower ($7.5M A vs $7.8M E) and Orion's contribution was ~5% less ($6.8M A vs $7.2M E). These were almost, although not completely, full offset by a relatively big beat (percentage-wise) by contribution from Etransmedia (ETM) – which generated ~$1.5M in revenue in Q4, or 69% more than our $860k estimate. This is the second consecutive quarter of a relatively massive beat by ETM, which contributed ~$1.7M of sales in Q3'19, which was twice our $850k estimate. ETM has already proven to be a wildly successful (relative to expectations) acquisition, which closed in April 2019. While, at the time of the purchase, management noted that they were expecting ETM to contribute around $3.5M annually to the topline, it generated more than $5.1M through just the first three quarters following the acquisition. Management has indicated that a lower rate of customer attrition has been key to ETM's outperformance – which we think speaks to MTBC's efforts focused on the same and could prove to similarly effective in maximizing the potential of CareCloud.

Full-year revenue of $64.4M was up 28% from $50.6M in 2018 and a new annual record. Orion, acquired July 1, 2018, accounted for $11.2M, or 69%, of the topline growth while Etransmedia contributed $5.1M, or 31%. That was partially offset by a $2.5M contraction in revenue from MTBC legacy.

Adjusted EBITDA was $2.8M in Q4 and $8.1M for the full-year 2019, both record highs and representing 98% (vs 1.4M in Q4'18) and 69% growth (vs $4.8M in FY 2018), respectively. The significant increase in adjusted EBITDA is attributable to a combination of bolt-on revenue from Orion and ETM as well as MTBC's deftness in quickly integrating these acquisitions and shedding expenses. Total operating expenses increased by just 21% from 2018 to 2019, well below the 69% topline growth over the same period.

Management reiterated their previously issued FY2020 revenue and adjusted EBITDA guidance of $100M-$102M and $12M-$13M, respectively. This guidance assumes organic growth from existing and new clients and potential for additional tuck-in deals. It, however, does not assume contribution from any additional major acquisitions - although, given the company's highly-acquisitive nature, we think its reasonable that another could happen before year-end.

We think MTBC remains very much on the hunt for **additional acquisitions**. But while additional bolt-on and tuck-in acquisitions likely continues to represent the most opportune way to significantly steepen the near-term growth curves (on both the top and bottom lines), the company has recently begun to **layer on additional organic growth initiatives**. As we have repeated in the past, MTBC has shown an adeptness at finding, quickly integrating and profitably leveraging synergies of attractive acquisition targets – this strategy has been responsible for virtually all of their recent growth and improved financial performance (and financial position).

As part of this organic growth initiative, the company recently added marketing personnel, began rolling out new offerings and, to further incentivize sales productivity, tweaked customer-facing personnel compensation (i.e. bonus) structures. MTBC's new partnership offering is one of their most significant recent strategic initiatives aimed at growth via leverage of their existing capabilities.

We could also see some incremental contribution from **MTBC's new partnership offering**, which launched in 2H 2019 and provides an additional revenue opportunity via (what amounts to) outsourcing the company's technology and / or human capital to smaller (i.e. too small to be attractive acquisition candidates) RCM companies. Management noted that they signed their first 'partnership' (RCM) customer in October and that they are in discussions with others. We will be eager to hear updates regarding customer interest in this offering as well as the relative financial contribution from these arrangements. **Telemedicine** functionality is the most recent major enhancement to MTBC's technology platform. We expect we will here status updates as the launch gets underway.

Valuation

As integration and other front-loaded expenses (eg efficiency and synergy objectives) related to CareCloud should largely be completed by mid-year, we think GAAP profitability and adjusted EBITDA growth could steepen even further into 2021. Updated comparable multiples and the addition of 2021 as our new out-year moves our calculated fair value, based on P/S and EV/EBITDA industry multiples from $11.7 to $11.0/share.

	P/S		EV/EBITDA	EV/EBITDA	
	2020	2021	2020	2021	
Comparable Multiples	1.7x	1.5x	17.4x	14.1x	Average
MTBC Per Share Value	$11.6	$10.5	$11.7	$9.8	$10.9

CareCloud Acquisition Refresher (from our Jan 23rd Investor Note)…

MTBC started 2020 with a bang, announcing and closing on their largest acquisition to-date less than two weeks into the new year. CareCloud Corporation brings a proprietary, relatively very well-known (revenue-based) EHR platform and a customer base of more than 7,000 providers. The acquisition closed on January 8, 2020.

The rationale for the deal and price paid appear sound and more than reasonable, in our opinion. We also came away encouraged from our post-deal announcement call with management including their plans for integrating CareCloud into their existing infrastructure. While CareCloud marks their largest acquisition ever, it could prove a relatively simple integration process for MTBC, which has demonstrated a particular adeptness with quick and (largely) error-free corporate combinations.

For context, Orion, which MTBC acquired in 2018 was relatively complicated given its size (it had been their largest acquisition to-date at that time), two new operating segments (practice management and group purchasing organization, along with a significant RCM business) and challenges associated with buying a company in bankruptcy. This new acquisition should be more of a bolt-on for MTBC from a combination standpoint but, as CloudCource brings a highly-rated revenue-generating enterprise cloud platform, has the potential to significantly expand the company's core commercial market. As such, CareCloud has the makings of a best-of-both-worlds target – relatively straightforward integration and significant growth potential.

Terms of the deal…
Call for MTBC to pay $17M cash and 760k of the (current) Series A 11% preferred stock ($25/share par) – which implies a purchase price of $36M. Any pre-close outstanding debt or payables were to be satisfied, or netted against, a portion of the $17M cash at closing. As an additional safeguard to MTBC, 260k of the preferred shares are escrowed for 18 to 24 months, which can be used to satisfy any unforeseen obligations or liabilities associated with CareCloud in the context of the transaction. CareCloud shareholders also received warrants underlying 2M common shares ($7.50 strike price on 1M two-year warrants, $10.0 strike price on 1M three-year warrants) and are entitled to earn-outs of up to $3M if CareCloud's 2020 revenue exceeds $36M.

Our comments: as CareCloud was privately held and pro formas have yet to be filed, our comments today are based on what MTBC has publicly communicated. Assuming the $36M 2020 revenue earn-out trigger is reasonably close to what CareCloud generated in 2019 sales, MTBC is paying 1x sales. While this is roughly inline with recent industry take-out multiples, considering that development of CareCloud's award-winning technology consumed ~$150M+ of capital, the ~$36M price tag looks like a potential steal.

MTBC has demonstrated a knack for identifying attractive distressed acquisition targets and quickly integrating and generating accretive returns. Prior to CareCloud, Orion and MediGain had been their largest deals to-date(s). Assuming MTBC can apply a similar blueprint to CareCloud as they did with those other acquisitions, this latest transaction should be another major win for the company. While MTBC paid only ~0.4x revenue (based on our estimates) for Orion, 1x sales is similar to what they paid for MediGain (September 2016), based on trailing revenue (on a forward basis, MTBC paid ~0.5x sales).

MediGain has proven to be a wildly successful acquisition and is credited for driving the vast majority of revenue and adjusted EBITDA growth in 2017 and through the first half of 2018. Over those periods, MTBC's sales increased 30% (2016 – 2017) and 6% (1H'17 – 1H'18) and adjusted EBITDA went from ($605)k to $2.3M (2016 – 2017) and $155k to $2.5M (1H'17 – 1H'18).

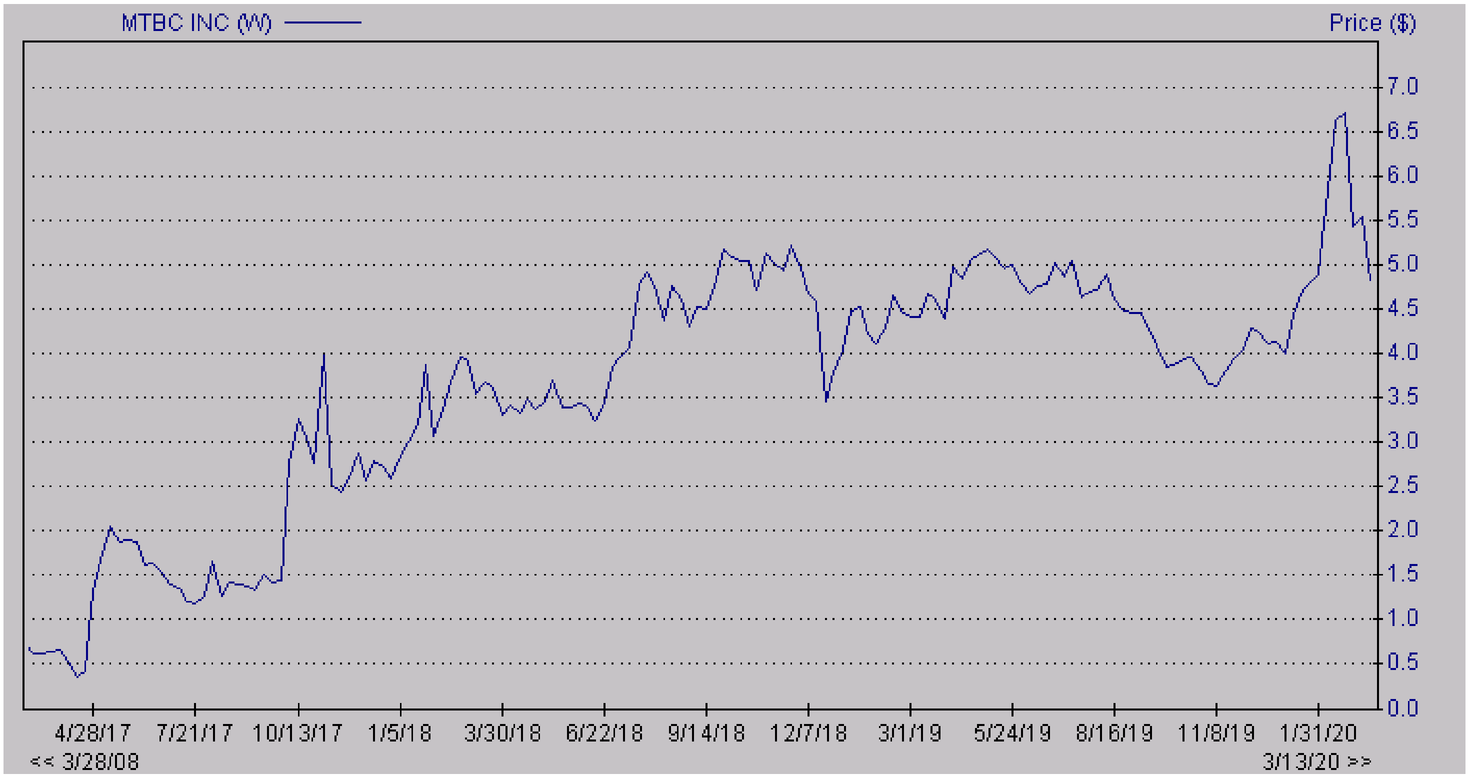
Orion closed on July 1, 2018 and became almost immediately accretable. It nearly doubled MTBC's revenue in the second half of 2018 as compared to the first six months of that year and was the major growth engine in 2019. MTBC's full-year 2019 revenue of $64.4M was up 28% from $50.6M in 2018 and a new annual record. Orion accounted for $11.2M, or 69%, of the topline growth while Etransmedia contributed $5.1M, or 31%. That was partially offset by a $2.5M contraction in revenue from MTBC legacy.

MTBC Financial Model

MTBC	Q1A	Q2A	Q3A	Q4A	2019 A	Q1E	Q2E	Q3E	Q4E	2020 E	2021 E
RCM Total	**$11,919.7**	**$13,255.5**	**$12,642.2**	**$12,334.1**	**$50,151.48**	**$11,907.5**	**$12,323.1**	**$13,825.1**	**$13,482.8**	**$51,538.6**	**$52,008.5**
% of total revenue	*79.0%*	*79.1%*	*75.0%*	*78.3%*	*77.8%*	*51.5%*	*51.1%*	*51.0%*	*50.8%*	*51.1%*	*49.8%*
yoy growth	*43.5%*	*52.7%*	*-4.6%*	*-6.2%*	*15.6%*	*-72.6%*	*3.4%*	*4.3%*	*6.6%*	*2.8%*	*336.8%*
Practice mgmt Total	**$2,960.5**	**$3,288.9**	**$3,913.3**	**$3,104.4**	**$13,267.1**	**$2,975.0**	**$3,460.0**	**$4,171.0**	**$3,470.0**	**$14,076.0**	**$14,000.0**
% of total revenue	*19.6%*	*19.6%*	*23.2%*	*19.7%*	*20.6%*	*12.9%*	*14.3%*	*15.4%*	*13.1%*	*14.0%*	*13.4%*
yoy growth	-	-	*18.1%*	*-2.6%*	*104.1%*	*-54.2%*	*16.9%*	*26.8%*	*-11.3%*	*6.1%*	*370.6%*
GPO Total	**$200.0**	**$205.1**	**$295.9**	**$319.0**	**$1,020.0**	**$225.0**	**$238.0**	**$310.0**	**$344.0**	**$1,117.0**	**$1,444.1**
% of total revenue	*1.3%*	*1.2%*	*1.8%*	*2.0%*	*1.6%*	*1.0%*	*1.0%*	*1.1%*	*1.3%*	*1.1%*	*1.4%*
yoy growth	-	-	*-38.0%*	*79.6%*	*55.8%*	*-65.6%*	*19.0%*	*51.2%*	*16.3%*	*9.5%*	*541.8%*
MTBC Total Revenue	**$7,419.7**	**$7,605.5**	**$7,751.2**	**$7,512.8**	**$30,289.2**	**$7,215.0**	**$7,487.0**	**$7,965.0**	**$7,549.0**	**$30,216.0**	**$30,164.9**
% of total revenue	*49.2%*	*45.4%*	*46.0%*	*47.7%*	*47.0%*	*31.2%*	*31.0%*	*29.4%*	*28.4%*	*29.9%*	*28.9%*
yoy growth	*-10.7%*	*-12.4%*	*1.4%*	*-7.4%*	*-7.5%*	-	-	-	-	*-0.2%*	*-0.2%*
Etransmedia Total Revenue	**$2,067.3**	**$1,999.4**	**$1,700.0**	**$1,450.0**	**$5,149.4**	**$1,026.2**	**$1,050.9**	**$1,614.3**	**$1,804.2**	**$5,495.6**	**$5,970.9**
% of total revenue	-	*11.9%*	*10.1%*	*9.2%*	*8.0%*	*4.4%*	*4.4%*	*6.0%*	*6.8%*	*5.4%*	*5.7%*
yoy growth	-	-	-	-	-	-	-	-	-	*6.7%*	*8.6%*
Orion Total Revenue	**$7,660.5**	**$7,144.6**	**$7,400.1**	**$6,794.7**	**$29,000.0**	**$6,866.3**	**$7,483.2**	**$8,726.8**	**$7,943.7**	**$31,020.0**	**$31,316.7**
% of total revenue	*50.8%*	*42.7%*	*43.9%*	*43.1%*	*45.0%*	*29.7%*	*31.0%*	*32.2%*	*29.9%*	*30.7%*	*30.0%*
yoy growth	-	-	*-21.3%*	*-19.1%*	*62.9%*	-	-	-	-	*7.0%*	*1.0%*
TTL Revenue ex-CareCloud	**$15,080.2**	**$16,749.5**	**$16,851.3**	**$15,757.5**	**$64,438.5**	**$15,107.5**	**$16,021.1**	**$18,306.1**	**$17,296.8**	**$66,731.6**	**$69,467.6**
% of total revenue	*754.0%*	*837.5%*	*842.6%*	*787.9%*	*3221.9%*	*65.4%*	*66.4%*	*67.6%*	*65.1%*	*66.1%*	*66.6%*
yoy growth	-	-	-	-	-	-	-	-	-	-	*4.1%*
CareCloud Revenue	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$8,000.0**	**$8,115.0**	**$8,788.0**	**$9,256.0**	**$34,159.0**	**$34,876.3**
% of total revenue	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*34.6%*	*33.6%*	*32.4%*	*34.9%*	*33.9%*	*33.4%*
yoy growth	-	-	*#DIV/0!*	-	-	-	-	-	-	-	*2.1%*
Total Revenue	$15,080.2	$16,749.5	$16,851.3	$15,757.6	$64,438.6	$23,107.5	$24,136.1	$27,094.1	$26,552.8	$100,890.6	$104,343.9
YOY Growth	*81.5%*	*92.9%*	*-1.1%*	*-4.6%*	*27.5%*	*-54.3%*	*60.1%*	*61.8%*	*57.6%*	*56.6%*	*3.4%*
Direct operating costs	$9,847.5	$11,396.4	$10,535.6	$9,406.5	$41,186.0	$16,799.2	$16,412.6	$13,113.6	$11,577.0	$57,902.3	$50,085.1
% direct op costs	*65.3%*	*68.0%*	*62.5%*	*59.7%*	*63.9%*	*72.7%*	*68.0%*	*48.4%*	*43.6%*	*57.4%*	*48.0%*
Selling & mktg	$361.4	$382.6	$347.6	$430.3	$1,521.8	$623.9	$579.3	$677.4	$796.6	$2,677.1	$2,712.9
% S&M	*2.4%*	*2.3%*	*2.1%*	*2.7%*	*2.4%*	*2.7%*	*2.4%*	*2.5%*	*3.0%*	*2.7%*	*2.6%*
General & admin	$4,162.1	$5,143.8	$4,452.0	$4,154.0	$17,911.8	$7,579.3	$7,723.6	$7,694.7	$7,169.3	$30,166.8	$29,216.3
% G&A	*27.6%*	*30.7%*	*26.4%*	*26.4%*	*27.8%*	*32.8%*	*32.0%*	*28.4%*	*27.0%*	*29.9%*	*28.0%*
R&D	$254.6	$218.4	$175.8	$222.0	$870.8	$323.5	$337.9	$379.3	$371.7	$1,412.5	$1,565.2
%R&D	*1.7%*	*1.3%*	*1.0%*	*1.4%*	*1.4%*	*1.4%*	*1.4%*	*1.4%*	*1.4%*	*1.4%*	*1.5%*
Change in contingent consideration	($64.2)	$0.0	($279.6)	$0.0	($343.8)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Depreciation & amort	$756.7	$836.2	$814.2	$598.5	$3,005.6	$906.0	$845.0	$781.0	$776.0	$3,308.0	$3,100.0
Restructuring charges	$0.0	$0.0	$136.3	$82.7	$219.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL OpEx	**$15,318.2**	**$17,977.3**	**$16,181.9**	**$14,893.9**	**$64,371.3**	**$26,231.8**	**$25,898.3**	**$22,646.0**	**$20,690.6**	**$95,466.7**	**$86,679.5**
% Total OpEx	*101.6%*	*107.3%*	*96.0%*	*94.5%*	*99.9%*	*113.5%*	*107.3%*	*83.6%*	*77.9%*	*94.6%*	*83.1%*
Operating Income	($238.0)	($1,227.8)	$669.4	$863.7	$67.3	($3,124.3)	($1,762.2)	$4,448.2	$5,862.2	$5,423.9	$17,664.4
Operating Margin	*-1.6%*	*-7.3%*	*4.0%*	*5.5%*	*0.1%*	*-13.5%*	*-7.3%*	*16.4%*	*22.1%*	*5.4%*	*16.9%*
Total Other Income (Expense)	($98.2)	$512.2	($720.0)	($440.3)	($746.3)	$0.0	$0.0	$0.0	$0.0	$0.0	$50.0
Pre-Tax Income	($336.2)	($715.6)	($50.6)	$423.4	($679.0)	($3,124.3)	($1,762.2)	$4,448.2	$5,862.2	$5,423.9	$17,714.4
Tax expense (benefit)	($40.5)	$55.4	$87.0	$91.0	$192.8	$0.0	$0.0	$0.0	$0.0	$0.0	$3,100.0
Tax Rate	*12.1%*	*-7.7%*	*-172.0%*	*12.1%*	*-28.4%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*17.5%*
Preferred dividends	$1,492.7	$1,486.7	$1,602.8	$1,803.9	$6,386.2	$1,910.0	$2,104.0	$2,335.0	$2,541.0	$8,890.0	$6,440.0
Net Income (to common SH)	($1,788.4)	($2,257.7)	($1,740.4)	($1,471.5)	($7,257.9)	($5,034.3)	($3,866.2)	$2,113.2	$3,321.2	($3,466.1)	$8,174.4
YOY Growth	*155.4%*	*114.3%*	*-39.8%*	*-36.6%*	*4.2%*	*-27.7%*	*116.2%*	*-193.6%*	*-290.8%*	*-52.2%*	*-335.8%*
Net Margin	*-11.9%*	*-13.5%*	*-10.3%*	*-9.3%*	*-11.3%*	*-21.8%*	*-16.0%*	*7.8%*	*12.5%*	*-3.4%*	*7.8%*
EPS (GAAP)	($0.15)	($0.19)	($0.14)	($0.12)	($0.60)	($0.41)	($0.31)	$0.17	$0.27	($0.28)	$0.48
YOY Growth	*148.3%*	*108.0%*	*-41.6%*	*-38.7%*	*1.1%*	*-31.3%*	*108.3%*	*-190.4%*	*-285.4%*	*-53.5%*	*-272.3%*
Shares O/S	11,946	12,022	12,146	12,239	12,088	12,340	12,400	12,450	12,500	12,423	17,000

Brian Marckx, CFA

HISTORICAL STOCK PRICE



Zacks Investment Research

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