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Research Report – Update

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

OMNIQ Corp.

Rating: Speculative Buy

Howard Halpern
November 30, 2021

OMQS $8.47 — (NASDAQ)

	2018 A	2019 A	2020 A	*2021 E*	*2022 E*
Total Revenue (in millions)	$56.2	$57.2	$55.2	***$78.5***	***$110.8***
Earnings (loss) per share*	($2.18)	($1.37)	($2.62)	***($2.14)***	***$0.61***

52-Week range	$16.00 – $4.03	Fiscal year ends:	December
Shares outstanding a/o 11/15/21	7.5 million	Revenue/shares (ttm)	$12.36
Approximate float	3.2 million	Price/Sales (ttm)	0.7X
Market Capitalization	$63.5 million	Price/Sales (2022) E	0.7X
Tangible Book value/shr	($3.00)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2022) E	13.9X

***All per share figures reflect the November 18, 2019 1 for 20 reverse stock split**

OMNIQ Corp. headquartered in Salt Lake City, Utah is a global provider of computerized and machine vision image processing solutions that use patented and proprietary AI technology to deliver data collection, real-time surveillance and monitoring for supply chain management, homeland security, public safety, traffic and parking management, as well as access control applications for schools, airports, and national borders. The operations of Dangot provides frictionless automated order processing and digital payment processing products, integrated work stations healthcare, robotics for smart warehouses, point of sales and self-check ins.

Key Investment Considerations:

Maintaining our Speculative Buy rating but lowering our 12-month price target to $17.00 per share from $18.00 due to reductions in our 2022 sales per share forecast and sector valuation.

OMQS has substantial growth potential for its artificial intelligence (AI) technology solutions offerings based on computerized and machine vision image processing algorithms to its customers. Analyst's project 42% annualized growth for the global AI market reaching $667 billion in 2027 from $39.9 billion in 2019.

In 2H21, the company acquired a 77% interest in Israeli based Dangot Computers Ltd. In 3Q21, Dangot contributed revenue of approximately $9.5 million to the company's top line. OMQS aims to have a sustained sales effort of Dangot's offerings to its US customer base. Dangot provides AI based solutions enabling frictionless automated non-touch order and digital payment processing products for retail, fast food, and parking markets, as well as providing integrated work stations for physicians, drug delivery, and blood tests, along with solutions for smart warehouses and point of sales.

In 3Q21, OMQS reported (on 11-15-21) a loss per share of ($0.73) on revenue of $20.5 million. We projected a loss per share of ($0.30) on revenue of $25 million. In 3Q20, OMQS' loss per share was ($0.83) on revenue of $15.8 million. The current period had supply chain issues that delayed delivery of the company's offerings.

For 2021, we project a net loss per share to common stockholders of ($2.14) on 42.3% revenue growth to $78.5 million. We previously forecasted a loss of ($1.49) per share on revenue of $83.6 million. Our revised forecast reflects the initial 51% interest of Dangot acquired in July 2021 and 3Q21 results.

For 2022, we project EPS to common stockholders of $0.61 on 41.1% revenue growth to $110.8 million. We previously forecasted EPS of $0.65 on revenue of $111.8 million. Our forecast reflects a full year of consolidated Dangot operations, as well as acquiring the remaining 23% interest in Dangot early in 2022.

Please view our Disclosures on pages 15 – 17.

Appreciation Potential

Maintaining OMNIQ Corp., with Speculative Buy rating but lowering our 12-month price target to $17.00 per share from $18.00 due to reductions in our 2022 sales forecast and sector valuation. Our rating and price target reflect our 2022 projections of 41.1% revenue growth, a swing to an operating profit of $7.2 million (from an estimated loss of $10 million in 2021), and cash earnings of $14 million, all of which should be driven by the company's ability to grow its higher margin recurring revenue AI based technology offerings and leveraging of its 2021 acquisition of a majority interest in Dangot Computers.

Our 12-month price target of $17.00 per share implies shares could more than double over the next twelve months. According to finviz.com (as of 11/26/21), the average price-to-sales multiple for companies with similar market capitalizations in the software application/security/communications equipment sectors is 2.3X (prior was 2.5X), compared to OMQS' trailing price-to-sales multiple of 0.7X (unchanged). We anticipate the company should see its valuation multiples expand due primarily to sales growth of higher margin AI based technology solutions that could approach 40% of total sales in 2H22 with the inclusion of the July 2021 and November acquisitions (of 51% and 26%, respectively) of Dagnot. Investors are likely to accord OMNIQ Corp. a multiple approaching that of the sector. We applied a price-to-sales multiple of 1.5X (prior was 1.6X) to our 2022 sales per share forecast of $14.24 (prior was $14.37), discounted for execution and integration risks, to obtain a year-ahead price target of approximately $17.00 per share.

We believe OMNIQ, Corp. is most suitable for risk tolerant investors seeking exposure to a microcap company providing global supply chain management offerings and AI based technology solutions.

Overview

OMNIQ, headquartered in Salt Lake City, Utah, is a global provider of computerized and machine vision image processing solutions using patented and proprietary AI technology to deliver data collection, real-time surveillance and monitoring for supply chain management, homeland security, public safety, traffic and parking management, and access control applications. OMQS' offerings enable clients to move people, assets and data safely and securely through airports, warehouses, schools, national borders, and numerous other applications and environments.

The company, with its nine patents and internally developed neural network machine learning predictive algorithms that is the foundation of its AI based technology offerings, has over 250 clients in approximately 40 countries within at least 5,000 sites globally (1,000 in the US). The relationships developed with the company's client base should provide a direct conduit for sales opportunities for its higher margin AI based technology offerings.

OMQS has evolved into a global provider of end-to-end solutions for supply chain management customers by offering hardware, software, communications, and full lifecycle management and automations services. The company continues to evolve with the development of its high margin AI based technology solutions that should expand its revenue footprint to smart city and logistics customers worldwide.

Historically, most of the company's sales were generated as a specialty systems integrator focusing on the design, delivery, deployment, and support of field service and supply chain mobility solutions to customers. The company's team of professionals is well positioned as they have developed the knowledge and expertise to simplify the integration process for its customers, as well as providing problem solving solutions to meet their needs, especially as AI based technology solutions become a growing part of OMQS' operations.

In July 2021, OMNIQ acquired a 51% interest in Israeli based Dangot Computers with a one-year option to acquire the remaining 49%. On November 24, 2021, OMQS acquired an additional 26% of Dangot for approximately $4.1 million in cash. In 3Q21, Dangot contributed revenues of approximately $9 million to the company's results.

Dangot's operations are providing OMQS with its portfolio of solutions that includes frictionless automated order processing and digital payment processing products for the retail, fast food, and parking markets, as well as integrated work stations for physicians, drug delivery, and blood tests, and robotics for smart warehouses and point of sales and self-check in/out management solutions.

On a go forward basis, management believes it is creating a combined company that will be providing automation and object identification solutions positioned to drive increased adoption of each other's offerings. Dangot's solutions are primarily sold in and outside of the Israeli market but not in the US, which should enable OMNIQ to leverage its US sales team in order to introduce Dangot's higher margin solutions to US supermarket chains, US hospitals, and fast food restaurant chains.

History

The company is a Delaware corporation that prior to 2014 operated in various business activities including oil and gas investments. In 2014, the company acquired Quest Marketing Inc. and in May 2014 changed its name to Quest Solution Inc. from Amerigo Energy, Inc. Since November 2014, the company acquired Bar Code Specialties, Inc. and ViascanQdata, Inc., the latter of which was sold in 2016 and classified as a discontinued operation.

In October 2018, the company acquired HTS Image Processing, which had proprietary patented technology - computer vision, machine learning, artificial intelligence, and pattern recognition. In 2020, EyepaxIT Consulting was acquired and in July 2021 the company acquired a 51% interest in Dagnot Computers.

In November 2019, the company changed its name to OMNIQ Corp. (from Quest Solution, Inc.) with OMQS as its trading symbol and also effected a 1-for-20 reverse common stock split.

On September 2, 2021, OMNIQ's shares began trading on the NASDAQ Capital Market.

Offerings

The company has internally developed a core set of solutions that is configurable to meet the needs of its supply chain management and smart city (includes homeland security) customers. The warehouse software offering was developed to provide customers with increased efficiency in distribution and manufacturing environments by using portable devices that extend a customer's existing software management system to the warehouse floor and dock doors. All mobility offerings can utilize the company's proof of delivery application tool, as well as its online purchasing portal software application that streamlines and simplifies ordering by providing clients with their own unique private on-line store. To maximize the online application, the company developed media and label operations that enable data collection through the use of barcode labels. Data collection and utilization of the company's patented algorithms will be a foundational element driving its AI based technology solutions offerings.

QTSaaS is a complete mobile services offering of hardware, software, services, and wireless data in a bundled recurring revenue subscription model.

These core offerings help provide the foundation for the company's high margin AI based solutions through the deployment of supply chain hardware including sensors and Internet of Things (IoT) devices, as well as barcode scanners and printers, mobile computing devices, and rugged tables. Additional device offerings include RFID solutions that enable its customers to tag items or assets with critical information that can be read or collected throughout their supply chain, process, or operation.

The company's overall process from data capture and tracking of devices to AI based machine vision technologies are powered by deep neural network algorithms. The collection and capture of data come from over 17,000 sensors and a large number of IoT devices deployed at each of the company's current worldwide customers. OMNIQ's RFID software and devices are part of the infrastructure that collects critical data and subsequently is the input for the proprietary algorithms that provide customized high margin software technology analytic solutions within a customers' organization.

The company's mobility and vision solutions are built upon its patents and algorithms and comprise foundations of AI based technology offerings. OMNIQ has designed, developed and deployed time-critical friend or foe decision-making processes through its patented algorithms that are based on a combination of cognitive science and machine learning-based artificial intelligence pattern recognitions. The process from data collection to dashboard output is arbitrated through a multilayered decision-making process which offers both speed and accuracy. The dashboard is configured to appear on desktop computers, tables, and mobile phones.

The vision solutions developed include Q Shield, which provides near real-time alerts against hot lists and using intelligence that can distribute the information to the appropriate authorities such as faculty personnel at a campus facility or a law enforcement and/or a security officer based on recognition and verification of people and vehicles coming and going from a facility, border crossing, and airport checkpoint.

The company has a significant opportunity within the smart city market with the development and deployment of its vehicle identity recognition (VIR) technology application that enhances its already established license plate recognition system. This offering provides actionable vehicle knowledge and critical insights for safe city, law enforcement, access control, and homeland security markets. The image-processing system leverages the company's patented technology driven by logic algorithms that provides customers a sophisticated vehicle profile with accuracy and speed. VIR output can automatically trigger real-time decision-making tasks (such as generating instant alerts or transmitting vehicle entry authorization) that are reported for further human evaluation.

Overall, the company can offer its customer with a full suite of AI based solutions that support cost-effective operations and employee productivity, either inside a facility or in an outdoor setting of a supply chain or smart city customer.

Growth Strategy

The company aims to capitalize on its internally developed computerized and machine vision image processing solutions. The solutions are built on the company's patented and proprietary artificial intelligence algorithms that provide customers a set of AI based offerings based on a combination of cognitive science and machine learning-based pattern recognition technologies that pass through a multi-layered decision-making process.

OMNIQ aims to leverage its established global customer base of over 250 clients in approximately 40 countries within at least 5,000 sites globally (1,000 in the US) in order to expand their capabilities and become an end-to-end AI based technology solutions provider. The company's customer base will expand as it integrates and leverages the offerings from the July 2021 acquisition of Israeli based Dagnot Computers. In 3Q21, Dagnot received an approximately $2 million order for its intelligent healthcare carts from Israel's largest health maintenance organization. Also in 3Q21, the company announced Dangot's self-ordering kiosks will be installed in approximately 120 Aroma Espresso Bar locations in Israel (Aroma is the largest coffee chain in Israel with operations in the US and Canada) by the end of 2021, with the expectation 250 will be installed by end of 2022.

OMNIQ aims to achieve growing customer acceptance for its offerings within certain target markets. The company anticipates it can grow its customer base within the supply chain automation/mobility market (sectors include warehouse and yard management) and the smart city market (sectors include parking automation, border and access control, homeland security, and safe city and schools). We estimate new orders received by the company exceed $60 million with $13 million in new orders occurring in October 2021.

Partnerships should provide the company with significant revenue opportunities. In March 2021, the company announced a partnership with Professional Logistics South Africa, a provider of operations and solutions addressing all aspects of risk control to aviation and logistics companies in South Africa and other countries in Africa. The partnership will offer customers security, access control and warehouse management solutions throughout the African continent which has a population of approximately 1.2 billion people. The initial purchase order is expected to be based on recurring revenue model.

Projections

Basis of Forecast

Supporting our forecast is the near-term organic growth the company is experiencing with new orders and purchase agreements exceeding $60 million with $13 million in new orders occurring in October 2021 and the acquisition of

Dagnot Computers in July 2021. In 3Q21, Dagnot contributed revenue of approximately $9 million and we estimate it should contribute at least an additional $9 million in 4Q21. Revenue momentum including leveraging the Dagnot acquisition is likely to continue through our forecast period since the COVID-19 pandemic environment has shown the desire of companies to maximize efficiency, automation, and touchless supply chain activities, all of which OMNIQ can offer to its existing and new customers.

In 2021, we anticipate an expansion of gross margin to 22.3% compared to 19.8% in 2020 with gross margin reaching 34% in 2022. Gross margin expansion stems from the company's shift to selling higher margin AI-based predictive software solutions to new and existing customers that should begin making a noticeable contribution starting in 2H21. We anticipate higher margin AI-based solutions that include the Dagnot offering could approach 40% of total sales in 2H22.

At December 31, 2020, OMQS had federal net operating loss carryforwards of approximately $22.1 million.

Economy

In October 2021, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 5.9% for 2021 and 4.9% for 2022. While the IMF's growth projection for 2022 is unchanged from its earlier projection (July 2021), the 2021 projection is down from 6%. The 2021 downward revision primarily reflects supply disruptions and worsening pandemic dynamics.

The IMF revised its economic growth estimate for the US to an increase of 6% for 2021 and 5.2% for 2022. In July 2021, the IMF projected US economic growth of 7% and 4.9% for 2021 and 2022, respectively.

Operations 2021

We project 42.2% total revenue growth to $78.5 million (prior was $83.6 million) from $55.2 million in 2020. Our revised reduced revenue forecast reflects lower than anticipated 3Q21 results, partly offset by an $18 million 2H21 contribution of revenue from the majority interest acquisition in July 2021 of Dangot Computers.

We forecast gross profit increasing to $17.5 million compared to $10.9 million in 2020 due primarily to revenue growth and gross margin expanding to 22.3% from 19.8% last year. We project an operating loss of $10 million from $9 million in 2020. The increase in the operating loss reflects expenses related to the acquisition of Dagnot Computers in 3Q21, partly offset by revenue growth and gross margin expansion. We forecast operating expenses increasing to $27.5 million compared to $19.9 million in 2020 due to a 33.8% increase in SG&A expense to $21.1 million and D&A expense increasing by $2.1 million to nearly $4.2 million, both increases stemming from the Dagnot acquisition. We anticipate a $107,000 increase in R&D expense to $1.9 million.

We project non-operating interest expense decreasing to $2.5 million from $2.6 million with other income of zero compared to $112,000 in the year-ago period.

We project a net loss to common stockholders of $13 million or ($2.14) per share. We previously forecast a net loss of $9.1 million or ($1.49) per share. Our forecast reflects the company recording preferred dividends of $80,000 and minority interest income (a reduction) of $291,000 as the company does not yet own 100% of Dagnot Computers. We anticipate average shares outstanding increasing to 6.1 million from 4.3 million in 2020 due to the July 2021 common stock private placement offering and exercise of warrants and stock options.

Finances – 2021

We project cash burn of $4.6 million and an $839,000 increase in working capital resulting in cash from operations of $5.4 million. The July 2021 common stock offering for net proceeds of approximately $13.3 million and borrowings are unlikely to cover cash used in operations, cash paid to acquire a 77% interest in Dagnot (two payment in July/November 2021), capital expenditures, and repayment of debt. We anticipate cash decreasing by $3.5 million to $1.6 million at December 31, 2021.

Operations – 2022
We project 41.1% revenue growth to $110.8 million (prior was $111.8) from an estimated $78.5 million in 2021 driven by existing customer acceptance of its AI-based technology solutions, engagement of new supply chain management and governmental customers that will also use its AI-based technology solutions, as well as a full year of revenue and customer growth from Dagnot Computers.

We forecast gross profit more than doubling to $37.7 million compared to an estimated $17.5 million in 2021 due primarily to revenue growth and gross margin expanding to 34% from an estimated 22.3% in 2021 reflecting a shift in the sales mix to higher margin offerings with Dagnot's higher margin revenue contributing 40% of total revenue in 2H22. We project a swing to an operating profit of $7.2 million compared to an operating loss of $10 million in 2021. Our forecast for an operating profit reflects revenue growth, gross margin expansion, and operating margin expense improving to 27.5% from an estimated 35% in 2021. We anticipate the company should be able to eliminate at least $3.5 million in operating expenses as the integration of Dagnot is completed by the end of 2022.

We forecast operating expenses increasing 10.8% to $30.5 million compared to an estimated $27.5 million in 2021. The increase reflects SG&A expenses of $22.6 million compared to an estimated $21.1 million in 2021 to support sales growth including expanding Dagnot offerings in the US. We anticipate D&A expense increasing $1.3 million to $5.5 million stemming from the inclusion of Dagnot assets into the company's operations. R&D expense should increase $89,000 to $2 million to support the continued development of the company's AI-based technology solutions.

We project interest expense of $2.3 million compared to an estimated $2.5 million.

We project net income to common stockholders of $4.7 million or $0.61 per share. We previously forecast net income to common stockholders of $5.1 million or $0.65 per share. Our forecast reflects the company recording preferred dividends of $40,000 and minority interest income (a reduction) of $100,000. We forecast average shares increasing to 7.8 million compared to 6.1 million in 2021 due to the common share offering in 2H21 and continued exercise of common stock warrants and options.

Finances – 2022
We project cash earnings of $14 million and a $919,000 increase in working capital resulting in cash from operations of $13.1 million. Cash from operations and proceeds from the exercise of options/warrants should cover cash required to acquire the remaining 23% in Dagnot and repayment of debt. We estimate cash increasing by $2.1 million to $3.7 million at December 31, 2022.

Market Briefs

Artificial Intelligence (AI)
Growth in the company's operations and progression to profitability will be based on deployments of its AI based technology solutions. AI is the utilization of computers using large sets of data that uses algorithms to learn and create neural connections that eventually turn into predictive.

In March 2021, ROBO Global Artificial Intelligence factsheet anticipated AI will be disrupting global business in industries such as healthcare, financial services, technology, transportation, manufacturing, and retail. The report forecasts global sales from AI for enterprise applications could grow 53% annually reaching $31.2 billion in 2025, up from $16.2 billion in 2018.

Supply Chain
In March 2021, Emergen Research issued a report indicating that the global supply chain analytics market could exceed $13.5 billion in 2028 from $3.4 billion in 2020 for annualized growth of 18.9%. The primary growth driver is likely to be rising volumes of business data generated by various industries and the increasing adoption of big data technologies across various industries.

Target Sectors
In February 2021, Grand View Research issued a report stating that the global warehouse management systems market was approximately $2.6 billion in 2020 and is projected to grow 15.3% annually reaching over $8.2 billion in 2028. Other consulting firms estimate this market could reach between $5.1 billion and $5.5 billion by 2025. Demand for warehouse management systems should be driven by changing supply chain models.

In September 2020, marketsandmarkets.com published a report indicating that the global smart cities market could grow 14.8% annually reaching $820.7 billion in 2025 from an estimated $410.8 billion in 2020. Global research firm OMDIA projects the global safe city (part of the smart city market) sector reaching $35.8 billion in 2024, up from $21.6 billion in 2019.

In October 2020, the business analytics and consulting firm Adroit Market Research issued a forecast for the smart traffic management sector indicating sales could reach $47 billion in 2025. In February 2021, Juniper Research issued a study indicating that investments in smart parking technology solutions could reach $1 billion by 2025 from an estimated $460 million in 2021.

In September 2020, Grand View Research issued a report stating the global automated parking systems market could reach nearly $3 billion in 2027, up from $1.2 billion in 2019 for annualized growth of 10.9%.

According to a report published by Industry ARC consultants the global self-service kiosk market is estimated to exceeds $35.8 billion in 2026. The market is estimated to grow annually by 6.4% starting in 2021.

3Q21 and 9Mos21Results

3Q21
The company reported revenue increased 29.6% to $20.5 million from $15.8 million in 3Q20. Revenue growth reflects additional sales channel’s provided by the majority interest acquisition of Dangot in July 2021. Dangot revenue contribution was approximately $9 million.

Gross profit increased 66.3% to $4.7 million from $2.8 million in the year-ago period. The increase reflects gross margin expansion to 22.8% from 17.7% in the year-ago period due primarily the lack of discounts in the current period that were granted in the year-ago period stemming from the COVID-19 pandemic. Operating expenses increased to $8.9 million from $5.8 million due primarily to higher SG&A and amortization costs. SG&A expense increased to $6.8 million from $4.8 million due primarily to additional employees and operating activities from the acquisition of Dangot, as well as an increase in professional fees related to the acquisition on Dangot. Amortization expense increased to $1.5 million from $550,000 stemming from the acquisition of additional intangible assets and the amortization of the acquired workforce from Dangot. R&D expense increased to $474,000 from $428,000 in 3Q20 due to the development of proprietary product offerings. Depreciation was $82,000 compared to $44,000 in the year-ago period.

Loss from operations increased to $4.2 million from $3 million in the year-ago period due primarily to operating margin expense increasing to 43.3% from 36.8% in 3Q20 as operating expenses increased by 52.4% compared to revenue growth of 29.6%, partly offset by gross margin expansion.

Non-operating expense was $746,000 compared to $760,000 in 3Q20. Interest expense decreased to $587,000 from $744,000 in the year-ago period due primarily to reduced vendor interest agreements. Other expense was $159,000 compared to $16,000 in the year-ago period.

The net loss attributable to common stockholders was $5.3 million or ($0.73) per share compared $3.8 million or ($0.83) per share. The current period included preferred dividends of $12,000 compared to $34,000 in the year-ago period. Also, the current period included income attributable to non-controlling interest of $166,000 related to the 49% OMQS does not own of Dagnot. We forecast a net loss attributable to common stockholders of $2.1 million or ($0.30) per share on revenue of $25 million.

9Mos21

The company reported revenue increased 26.2% to $53.4 million due to fulfillment and deliveries of the company's lower margin legacy product offering (primarily in 1Q21) to customers that were waiting for the reopening of economic conditions after COVID-19 pandemic lockdowns in 1H20, as well as a $9 million contribution from the majority interest acquisition of Dagnot.

Gross profit increased 25.9% to $10.6 million from $8.4 million in the year-ago period. The increase reflects revenue growth since gross margins were flat at 19.9%.

Operating expenses increased 32% to $19.5 million from $14.8 million due primarily to adding additional employees and supporting the operating activities related to the July 2021 majority interest acquisition of Dangot, as well as professional fees related to the acquisition.

Loss from operations increased to $8.9 million compared to $6.4 million in the year-ago period due primarily to operating margin expense increasing to 36.6% from 35% in 9Mos21.

Non-operating expense was $1.9 million compared to $2.3 million in the year-ago period. Interest expense decreased to $1.9 million to $2 million, while other income was $2,000 compared to an expense of $318,000 in the year-ago period.

The net loss attributable to common stockholders was $11.2 million or ($1.87) per share compared $8.8 million or ($2.03) per share. The current period included preferred dividends of $57,000 compared to $158,000 in the year-ago period. Also, the current period included income attributable to non-controlling interest of $166,000 related to the 49% OMQS does not own of Dagnot.

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Revenues in thousands	**$ 53,383**	**$ 42,309**	**26.2%**
Cost of Sales	42,778	33,886	**26.2%**
Gross Profit	$ 10,605	$ 8,423	**25.9%**
Total Operating Expenses	19,527	14,794	**32.0%**
Operating Income (loss)	(8,922)	(6,371)	**40.0%**
Total Other Income (Expense)	(1,888)	(2,275)	**NMF**
Pre-Tax Income	(10,810)	(8,646)	**NMF**
Income Tax Expense (Benefit)	119	-	
Net income (loss)	(10,929)	(8,646)	
Non-controling interest income (loss)	166	-	
Preferred stock dividend	(57)	(158)	
Net income (loss) to common stockholders	$ (11,152)	$ (8,804)	
Net (loss) per share	$ (1.87)	$ (2.03)	
Avg Shares Outstanding	5,971	4,340	
Margins			
Gross margin	19.9%	19.9%	
Operating Margin	(16.7%)	(15.1%)	
Pre-Tax Margins	(20.2%)	(20.4%)	

Source: company reports

Finances

In 9Mos21, cash burn was $4.7 million with a $2.9 million decrease in working capital resulting in cash used in operations of $1.8 million. Proceeds of $13.7 million from the issuance of common stock, exercise of common stock warrants and options, as well as proceeds from borrowing more than offset cash used in operation, capital expenditures, payment for 51% interest in Dagnot, and repayment of debt. Cash increased $4.9 million to $10 million at September 30, 2021.

Capital Structure

At September 30, 2021 the company had total debt of $14.6 million consisting of a $5.4 million short-term note payable and $390,000 notes payable – related parties, as well as long-term notes payable to related parties of $390,000 and a $2.3 million long-term notes payable. The company had $5.8 million outstanding on its credit facility (short-term).

The company had related party notes outstanding of $780,000 of which $390,000 is short-term and $390,000 is long-term. The company has a supplier note payable of nearly $8 million for which $5.6 million is short-term. In July 2021, OMQS entered into the eighth amendment that extended the maturity date to August 15, 2022 and reducing the interest rate from 18% to 10%. The company will continue to make monthly installments of principal and accrued interest at a minimum of $300,000 each month. The company is in negotiations with the holder to extend the maturity date and establish a new schedule of payments.

In 3Q21, the company had a $5.8 million outstanding balance on its line of credit. The company has a factoring and security agreement with Action Capital Corporation in order to obtain short-term credit line financing. The outstanding principal amount of advances will not exceed $6 million and Action Capital will reserve and withhold an amount equal to 5% of the face amount of each account purchased under the agreement. The annual interest rate will equal the prime rate (as stated by Wells Fargo Bank) plus 2%, as well as a monthly fee equal to 0.75% of such average outstanding balance.

On July 8, 2021, the company entered into a securities purchase agreement with institutional and accredited investors providing for the sale of over 2.1 million of its common stock at $7.00 per share for gross proceeds of approximately $15 million (we estimate net proceeds after expenses of $13.3 million).

Competitive Landscape

The company's operations have customers in the mobile systems integration and machine vision markets. The mobile systems integration market has a few large competitors and small niche players. Competition can occur between channel partners (Stratix, Peak Technologies, and Lowry). For specific solutions, the company competes with niche players that are often focused on a single industry. Hardware sales within the mobile systems integration market has significant pricing pressures. The industry is characterized by rapid technological change and the need for continual enhancement of existing products and development of new services in order to meet customer needs.

OMQS' new offerings include entry into the machine vision market (products and services used to automate manufacturing and distribution processes in a variety of industries where the technology is widely recognized as an important component of automated production and quality assurance). The primary public competitor in this market in Cognex Corp.

Risks

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

Operating Losses
At September 30, 2021, the company's accumulated deficit was $67.9 million, up from $39.8 million in 2018. OMNIQ Corp. has yet to turn an operating profit. In 2020 the operating loss was $9 million compared to an operating loss of $2.9 million in 2019. We anticipate operating losses should narrow during our forecast period reflecting revenue growth of higher margin offerings. If operating losses do not narrow or swing to a profit as we anticipate in 2022, it could result in the company's inability to execute its growth strategy and diminish its operations.

Dilution
We anticipate the company's share count to increase due primarily to the exercise of in-the-money common stock warrants and options. In July 2021, OMQS closed a private placement of 2.1 million shares of common stock for net proceeds of approximately $13.3 million. If the company were to raise additional capital it would likely be dilutive to existing shareholders.

COVID-19 Global Pandemic
A disruption of US economic conditions lies in the global spread of COVID-19. Any global disruptions of economic activity or could adversely impact corporate operating results.

Customer Concentration
In 9Mos21, OMQS had two customers account for approximately 26.1% of total revenue compared to one customer that accounted for approximately 39% of total revenue in the year-ago period.

Intellectual Property
The company holds nine patents and has developed numerus algorithms to protect its intellectual property rights. These protections may not be adequate to prevent competitors from reverse-engineering its algorithms. Policing

unauthorized use of the company's patents may be difficult and litigation could become necessary in the future to enforce its intellectual property rights. Any litigation could be time consuming and could result in substantial diversion of management's attention and resources that could diminish operations and finances.

Cyber Security

Security breaches could expose the company to a risk of loss of its customers' information, litigation and possible liability.

While OMNIQ has invested in the protection of data and information technology as well as training, there can be no assurance that its efforts will prevent significant breakdowns, breaches in systems, or other cyber incidents that could have a material adverse effect upon the company's reputation, business, operations or financial condition.

Legal Proceedings

The company was named as a defendant in a case involving a former employee who claims he is owed approximately $60,000 in unpaid commissions. OMQS believes that the former employees' claims has no apparent factual basis.

Third Party Suppliers

The use of outside manufacturers and suppliers could adversely affect the company's operations if they were to lose value added reseller status for supply chain management products. The company's ability to grow revenue depends on its ability to timely obtain an adequate delivery of hardware in order to supply its customers with products and service offerings.

Integration of Acquisitions

The company has acquired multiple businesses since its inception. Future acquisitions could involve substantial investment of funds or financings, as well as resulting in related expenses and also the potential to either dilute existing shareholders or result in the issuance or assumption of debt. Future acquisitions may require management's time and effort to generate revenues and operating profits that could take away from existing operations.

Internal Controls

At September 30, 2021, the company identified material weaknesses in its controls related to segregation of duties and other immaterial weaknesses in several areas of data management and documentation. In 2020, the company implemented new ERP and accounting software that should allow for a higher level of control, better audit trail, and improved segregation of duties. OMQS will still need to eventually hire additional staff in order to alleviate its internal control weaknesses.

Shareholder Control

Officers and directors collectively own approximately 23.2% of the company's outstanding voting stock and additionally one shareholder owns approximately 13.4% of the company's outstanding voting stock as of October 18, 2021. Collectively this ownership could potentially greatly influence the outcome of matters requiring stockholder approval. These decisions may or may not be in the best interests of the other shareholders.

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.

Trading Volume

In 2020, average daily volume was approximately 4,700. Average daily volume increased over the last three months (ending November 29, 2021) to 119,000. OMQS has a float of approximately 3.2 million shares and outstanding shares of 7.5 million.

OMNIQ Corp.
Consolidated Balance Sheets
FY2018 – FY2022E
(in thousands)

	FY18A	FY19A	FY20A	3Q21A	**FY21E**	**FY22E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ 378	$ 1,615	$ 4,594	$ 9,993	**$ 1,599**	**$ 3,723**
Accounts receivable, net	12,262	6,694	9,661	20,629	**19,627**	**21,544**
Inventory	1,803	1,889	1,507	6,794	**6,777**	**7,313**
Prepaid expenses	169	362	670	1,809	**1,963**	**1,994**
Other crrent assets	78	65	10	10	**10**	**10**
Total current assets	14,690	10,625	16,442	39,235	**29,975**	**34,585**
Property and equipment, net	389	463	289	888	**890**	**900**
Goodwill	13,921	13,921	14,695	16,453	**23,333**	**24,000**
Trade name, net	1,805	1,458	1,028	2,570	**2,600**	**2,600**
Customer relationships, net	7,514	6,012	4,479	6,450	**6,500**	**6,000**
Other intangibles, net	1,267	1,138	1,042	931	**930**	**900**
Cash, restricted	532	533	533	-	**-**	**-**
ROU asset	-	131	76	3,749	**5,435**	**4,435**
Other assets	30	172	74	2,322	**2,322**	**2,322**
Total assets	$ 40,148	$ 34,453	$ 38,658	$ 72,598	**$ 71,985**	**$ 75,742**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable and accrued liabilities	17,484	18,694	26,811	38,619	**39,814**	**37,581**
Line of credit	4,534	1,365	4,914	5,839	**5,839**	**2,839**
Accrued payroll and sales tax	2,173	1,556	1,717	2,061	**3,000**	**3,500**
Notes payable, related parties	1,891	1,025	433	390	**390**	**293**
Notes payable	8,823	6,497	6,449	5,641	**2,841**	**-**
Lease liability	-	54	31	1,310	**1,310**	**2,965**
Other current liabilities	265	1,599	1,412	2,796	**3,200**	**4,000**
Total current liabilities	35,170	30,790	41,767	56,656	**56,394**	**51,178**
Notes payable, related party	1,912	1,172	683	390	**293**	**-**
Accrued interest and accrued liabilities, related party	33	76	56	63	**65**	**65**
Notes payable	130	143	1	2,327	**4,402**	**4,402**
Lease liability	-	80	48	2,472	**2,472**	**4,127**
Minority interest	-	-	-	-	**590**	**-**
Other long term liabilities	610	384	1,146	2,057	**3,000**	**5,500**
Stockholders' equity:						
Series C Preferred Stock; $0.001 par value 4,828,530 shares Designated	5	5	2	1	**2**	**2**
Common stock,$0.001 par value; authorized 200,000 shares;	4	4	5	20	**20**	**20**
Common stock,$0.001 par value; 554,233 shares to be received	(2,616)	-	-	-	**-**	**-**
Common stock to be repurchased	(230)	-	-	-	**-**	**-**
Additional Paid-in capital	44,882	46,861	51,842	70,276	**72,353**	**75,589**
Retained earnings (deficit)	(39,753)	(45,063)	(56,726)	(67,883)	**(69,691)**	**(64,951)**
Accumulated other comprehensive income (loss)	1	1	(166)	(190)	**(190)**	**(190)**
Total OmniQ stockholders' equity	2,293	1,808	(5,043)	2,224	**2,494**	**10,470**
Non-controling interest	-	-	-	6,409	**2,275**	**-**
Total Equity (deficit)				8,633	**4,769**	**10,470**
Total liabilities and stockholders' equity	$ 40,148	$ 34,453	$ 38,658	$ 72,598	**$ 71,985**	**$ 75,742**
Common Shares Outstanding	3,597	3,960	4,685	7,449	**7,450**	**7,600**
Series C outstanding	4,829	4,829	2,145	745	**745**	**745**

Source: Company reports and Taglich Brothers estimates

OMNIQ Corp.
Annual Income Statement
FY2018 – FY2022E
(in thousands)

	FY18 *	FY19 A	FY20 A	**FY21 E**	**FY22 E**
Revenues	$ 56,202	$ 57,199	$ 55,209	**$ 78,508**	**$ 110,800**
Cost of sales	43,140	43,165	44,293	**60,992**	**73,130**
Gross Profit	13,062	14,034	10,916	**17,516**	**37,670**
Operating Expenses:					
Research and development		1,063	1,805	**1,911**	**2,000**
SG&A		13,682	15,802	**21,148**	**22,600**
Depreciation		151	178	**267**	**360**
Intangible amortization		2,002	2,114	**4,175**	**5,500**
Total Operating Expenses	16,086	16,898	19,899	**27,501**	**30,460**
Operating Income (loss)	(3,024)	(2,864)	(8,983)	**(9,985)**	**7,210**
Interest expense, net	(1,570)	(2,555)	(2,628)	**(2,490)**	**(2,330)**
Other income (expense)	(1,133)	(23)	112	**-**	**-**
Total Other Income (expense)	(2,703)	(2,578)	(2,516)	**(2,490)**	**(2,330)**
Pre-Tax Income (loss)	(5,727)	(5,442)	(11,499)	**(12,475)**	**4,880**
Income Tax Expense (benefit)	(505)	14	5	**119**	**-**
Net income (loss)	(5,222)	(5,456)	(11,504)	**(12,594)**	**4,880**
Minority interest (income) loss	-	-	-	**291**	**100**
Preferred stock dividend	189	(146)	(191)	**(80)**	**(40)**
Net income (loss) to common stockholders	$ (5,411)	$ (5,310)	$ (11,313)	**$ (12,965)**	**$ 4,740**
EPS (Loss) per share to common stockholders	$ (2.18)	$ (1.37)	$ (2.62)	**$ (2.14)**	**$ 0.61**
Avg Shares Outstanding	2,482	3,889	4,322	**6,070**	**7,781**
Adjusted EBITDA	$ 1,158	$ 1,177	$ (3,061)	**$ (1,705)**	**$ 14,670**
Margin Analysis					
Gross margin	23.2%	24.5%	19.8%	**22.3%**	**34.0%**
Research and development	N/A	1.9%	3.3%	**2.4%**	**1.8%**
Selling, general, and administrative	N/A	23.9%	28.6%	**26.9%**	**20.4%**
Operating margin	(5.4%)	(5.0%)	(16.3%)	**(12.7%)**	**6.5%**
Pre-tax margin	(10.2%)	(9.5%)	(20.8%)	**(15.9%)**	**4.4%**
YEAR / YEAR GROWTH					
Total Revenues		1.8%	(3.5%)	**42.2%**	**41.1%**

* In 2020, the company restated the components of operating expenses. 2018's total operating expense remains unchanged but we do not have the individual components to show for comparative purposes.

Source: Company reports and Taglich Brothers estimates

OMNIQ Corp.
Income Statement Model
Quarters FY2020 – 2022E
(in thousands)

	Q1 20 A	Q2 20 A	Q3 20 A	Q4 20 A	FY20 A	Q1 21 A	Q2 21 A	Q3 21 A	Q4 21 E	**FY21 E**	Q1 22 E	Q2 22 E	Q3 22 E	Q4 22 E	**FY22 E**
Revenues	$ 13,799	$ 12,677	$ 15,833	$ 12,900	$ 55,209	$ 19,751	$ 13,119	$ 20,513	$ 25,125	**$ 78,508**	$ 28,200	$ 25,100	$ 26,500	$ 31,000	**$ 110,800**
Cost of sales	10,763	10,099	13,024	10,407	44,293	17,115	9,820	15,842	18,215	**60,992**	19,035	17,075	17,490	19,530	**73,130**
Gross Profit	3,036	2,578	2,809	2,493	10,916	2,636	3,299	4,671	6,910	**17,516**	9,165	8,025	9,010	11,470	**37,670**
Operating Expenses:															
Research and development	386	447	428	544	1,805	494	468	474	475	**1,911**	500	500	500	500	**2,000**
SG&A	4,137	2,892	4,808	3,965	15,802	4,438	4,109	6,801	5,800	**21,148**	5,900	5,300	5,400	6,000	**22,600**
Depreciation	47	43	44	44	178	43	42	82	100	**267**	90	90	90	90	**360**
Intangible amortization	502	510	550	552	2,114	525	522	1,528	1,600	**4,175**	1,450	1,400	1,350	1,300	**5,500**
Total Operating Expenses	5,072	3,892	5,830	5,105	19,899	5,500	5,141	8,885	7,975	**27,501**	7,940	7,290	7,340	7,890	**30,460**
Operating Income (loss)	(2,036)	(1,314)	(3,021)	(2,612)	(8,983)	(2,864)	(1,842)	(4,214)	(1,065)	**(9,985)**	1,225	735	1,670	3,580	**7,210**
Interest expense, net	(795)	(418)	(744)	(671)	(2,628)	(589)	(714)	(587)	(600)	**(2,490)**	(590)	(585)	(580)	(575)	**(2,330)**
Other income (expense)	(42)	(260)	(16)	430	112	110	49	(159)	-	**-**	-	-	-	-	**-**
Total Other Income (expense)	(837)	(678)	(760)	(241)	(2,516)	(479)	(665)	(746)	(600)	**(2,490)**	(590)	(585)	(580)	(575)	**(2,330)**
Pre-Tax Income (loss)	(2,873)	(1,992)	(3,781)	(2,853)	(11,499)	(3,343)	(2,507)	(4,960)	(1,665)	**(12,475)**	635	150	1,090	3,005	**4,880**
Income Tax Expense (benefit)	-	-	-	5	5	-	3	116	-	**119**	-	-	-	-	**-**
Net income (loss)	(2,873)	(1,992)	(3,781)	(2,858)	(11,504)	(3,343)	(2,510)	(5,076)	(1,665)	**(12,594)**	635	150	1,090	3,005	**4,880**
Minority interest (income) loss	-	-	-	-	-	-	-	166	125	**291**	50	50	-	-	**100**
Preferred stock dividend	(72)	(54)	(32)	(33)	(191)	(31)	(25)	(12)	(12)	**(80)**	(10)	(10)	(10)	(10)	**(40)**
Net income (loss) to common stockholders	$ (2,945)	$ (2,046)	$ (3,813)	$ (2,891)	$ (11,313)	$ (3,374)	$ (2,535)	$ (5,254)	$ (1,802)	**$ (12,965)**	$ 575	$ 90	$ 1,080	$ 2,995	**$ 4,740**
EPS (Loss) per share to common stockholders	$ (0.74)	$ (0.49)	$ (0.83)	$ (0.63)	$ (2.62)	$ (0.72)	$ (0.51)	$ (0.73)	$ (0.24)	**$ (2.14)**	$ 0.07	$ 0.01	$ 0.14	$ 0.38	**$ 0.61**
Avg Shares Outstanding	3,984	4,141	4,589	4,600	4,322	4,701	4,930	7,225	7,425	**6,070**	7,685	7,800	7,815	7,825	**7,781**
Adjusted EBITDA	$ (833)	$ (551)	$ (890)	$ (788)	$ (3,061)	$ (1,322)	$ (289)	$ (1,704)	$ 1,610	**$ (1,705)**	$ 2,990	$ 2,550	$ 3,635	$ 5,495	**$ 14,670**
Margin Analysis															
Gross margin	22.0%	20.3%	17.7%	19.3%	19.8%	13.3%	25.1%	22.8%	27.5%	**22.3%**	32.5%	32.0%	34.0%	37.0%	**34.0%**
Research and development	N/A	N/A	N/A	N/A	3.3%	2.5%	3.6%	2.3%	1.9%	**2.4%**	1.8%	2.0%	1.9%	1.6%	**1.8%**
Selling, general, and administrative	N/A	N/A	N/A	N/A	28.6%	22.5%	31.3%	33.2%	23.1%	**26.9%**	20.9%	21.1%	20.4%	19.4%	**20.4%**
Operating margin	(14.8%)	(10.4%)	(19.1%)	(20.2%)	(16.3%)	(14.5%)	(14.0%)	(20.5%)	(4.2%)	**(12.7%)**	4.3%	2.9%	6.3%	11.5%	**6.5%**
Pre-tax margin	(20.8%)	(15.7%)	(23.9%)	(22.1%)	(20.8%)	(16.9%)	(19.1%)	(24.2%)	(6.6%)	**(15.9%)**	2.3%	0.6%	4.1%	9.7%	**4.4%**
YEAR / YEAR GROWTH															
Total Revenues	(25.9%)	(10.3%)	21.3%	12.0%	(3.5%)	43.1%	3.5%	29.6%	94.8%	**42.2%**	42.8%	91.3%	29.2%	23.4%	**41.1%**

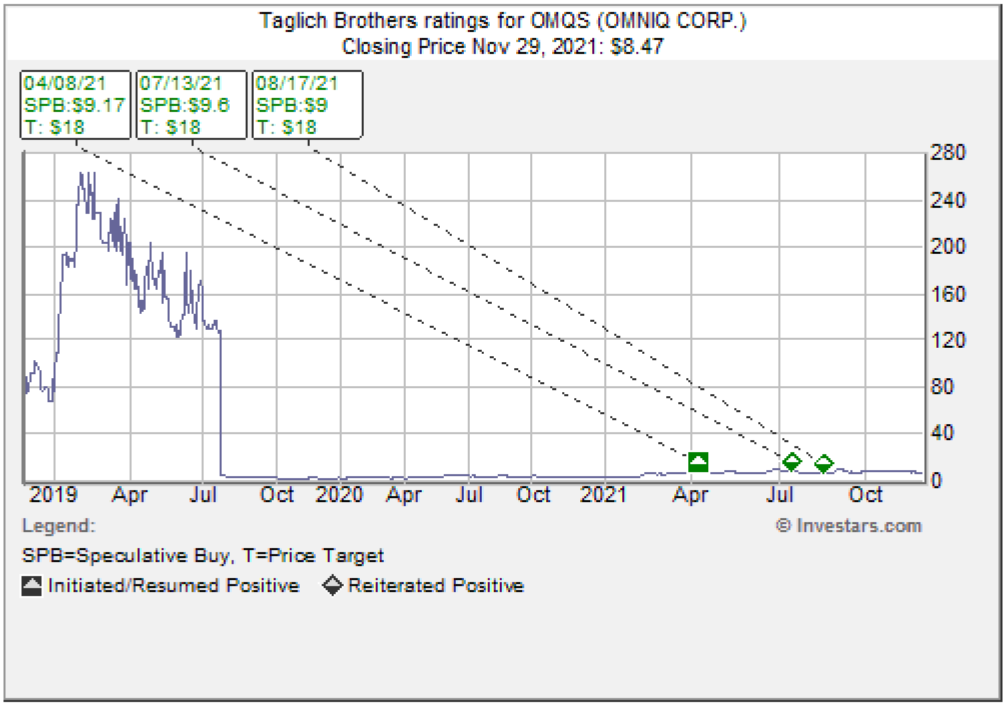
Source: Company reports and Taglich Brothers estimates

OMNIQ Corp.
Cash Flow Statement
FY2018 – FY2022E
(in thousands)

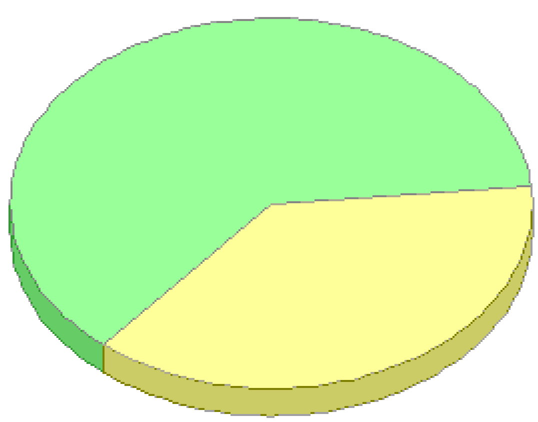
	FY2018A	FY2019A	FY2020A	9 Mos. 21A	**FY2021E**	**FY2022E**
Cash Flows from Operating Activities						
Net Income (loss)	$ (5,222)	$ (5,456)	$ (11,504)	$ (10,929)	**$ (12,965)**	**$ 4,740**
Change in deferred tax allowance	(552)	-	-	-	**-**	**-**
Early extinguishment of debt	-	-	(948)	-	**-**	**-**
Minority interest	-	-	-	-	**291**	**400**
Stock-based compensation	2,387	1,267	2,012	2,620	**3,600**	**3,000**
Stock and warrants issued for services	-	-	1,640	-	**-**	**-**
Excess fair value of common stock issued for debt conversion	1,264	-	-	-	**-**	**-**
Depreciation and amortization	1,841	2,154	2,292	3,544	**4,442**	**5,860**
Amortization of ROU asset	-	93	55	53	**53**	**-**
Write-off of other assets	(36)	-	-	-	**-**	**-**
Other	(10)	-	-	-	**-**	**-**
Amortization of debt discount	59	-	-	-	**-**	**-**
Cash earnings (burn)	(269)	(1,942)	(6,453)	(4,712)	**(4,579)**	**14,000**
Changes In:						
Accounts receivable	(5,853)	5,568	(2,953)	2,502	**(9,966)**	**(1,917)**
Prepaid expenses	322	(271)	(313)	(1,139)	**(1,293)**	**(32)**
Inventory	(429)	(178)	381	(671)	**(5,270)**	**(536)**
Contract asset	-	-	-	-		
Other assets	49	(11)	84	428	**(2,248)**	**-**
Accounts payable and accrued liabilities	8,146	2,011	8,062	(1,104)	**13,003**	**(2,234)**
Accrued payroll and sales taxes payable	642	(617)	161	345	**1,283**	**500**
Accrued interest and accrued liabilities, related party	-	43	(20)	7	**9**	**-**
Lease liability	-	(89)	(55)	920	**-**	**-**
Other liabilities	88	(259)	686	1,632	**3,642**	**3,300**
(Increase)/decrease in Working Capital	2,965	6,197	6,033	2,920	**(839)**	**(919)**
Net cash (used) provided by operations	2,696	4,255	(420)	(1,792)	**(5,418)**	**13,081**
Cash Flows from Investing Activities						
Restricted cash	153	-	-	-	**-**	**-**
Purchase of property and equipment	(29)	(134)	(4)	(976)	**(1,250)**	**(1,000)**
Cash paid for acquistion net	(23)	-	-	-	**-**	**-**
Payments for acquisition, net of cash acquired	-	-	-	(4,392)	**(8,528)**	**(4,000)**
Cash from sale of assets	42	-	-	-	**-**	**-**
Other assets	8	(117)	98	-	**-**	**-**
Cash Flows from Investing Activities	151	(251)	94	(5,368)	**(9,778)**	**(5,000)**
Cash Flows from Financing Activities						
Proceeds from ESPP stock issuance	-	1	1	14	**5**	**-**
Proceeds from sale of common stock, net	11	3,770	-	13,295	**13,650**	**-**
Proceeds from the exercise of warrants	-	-	-	279	**300**	**80**
Proceeds from the exercise of stock options	-	-	-	156	**156**	**194**
Payments on notes/loans payable	(3,819)	(3,369)	(1,023)	(4,793)	**(7,593)**	**(3,231)**
Proceeds from the issuance of notes/loans payable	487	-	898	2,172	**4,247**	**-**
Proceeds from (payments on) line of credit	866	(3,169)	3,549	926	**926**	**(3,000)**
Due to owner	(100)	-	-	-	**-**	**-**
Net cash provided by (used in) Financing	(2,555)	(2,767)	3,425	12,049	**11,691**	**(5,957)**
Foreign currency translation adjustment	61	-	(120)	(23)	**(23)**	**-**
Net change in Cash	353	1,237	2,979	4,866	**(3,528)**	**2,124**
Cash Beginning of Period, including restricted cash	25	378	1,615	5,127	**5,127**	**1,599**
Cash End of Period, including restricted cash	$ 378	$ 1,615	$ 5,127	$ 9,993	**$ 1,599**	**$ 3,723**

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	4	19
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. 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 with in the last three years.

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Analyst Certification

I, Howard Halpern, 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:

Cognex Corporation	(NASDAQ: CGNX)

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.