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Research Note

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

Perion Network Ltd.

Speculative Buy

John Nobile
January 21, 2021

PERI $13.90 — (NASDAQ)

	2018A	2019A	2020E	2021E
Revenues (millions)	$252.8	$261.5	$322.8	$353.5
Earnings (loss) per share	$0.31	$0.49	$0.24	$0.36*

52-Week range	$17.85 – $3.43	Fiscal year ends:	December
Common shares out as of 10/28/20	26.7 million	Revenue per share (TTM)	$10.43
Approximate float	18.6 million	Price/Sales (TTM)	1.4X
Market capitalization	$371 million	Price/Sales (2021)E	1.1X
Tangible book value/share	NMF	Price/Earnings (TTM)	51.5X
Price/tangible book value	NMF	Price/Earnings (2021)E	38.6X

**$0.30 assuming full dilution from the expected follow-on offering.*

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

Key investment considerations:

Reiterating Speculative Buy rating on Perion and raising our twelve-month price target to $20.50 per share from $16.50 based on our 2021 sales projection and an expanded sector valuation.

In January 2021, Perion announced it expects 4Q20 revenue of $110 million to $115 million, exceeding the previously announced guidance of $100 million to $105 million.

PERI anticipates adjusted EBITDA for 4Q20 to be $14.5 million to $15.0 million, exceeding the previously announced guidance of $13 million to $14 million. The company expects GAAP EPS for 4Q20 of $0.17 to $0.19 with non-GAAP EPS of $0.35 to $0.36.

Perion also announced the pricing of a follow-on public offering of approximately five million ordinary shares at a public offering price of $11.50 per share, for gross proceeds of $57.4 million. In connection with the offering, underwriters were granted a 30-day option to purchase up to an additional 749,000 ordinary shares to be sold on the same terms and conditions. The offering is expected to close on January 22, 2021, subject to satisfaction of customary closing conditions.

For 2020, we project a 23.5% increase in revenue to $322.8 million and net income of $6.7 million or $0.24 per share. We previously projected revenue of $310.8 million and net income of $7.3 million or $0.26 per share. Our revised estimates reflect recent guidance.

For 2021, we project a 9.5% increase in revenue to $353.5 million and net income of $10.1 million or $0.36 per share. We previously projected revenue of $342 million and net income of $9 million or $0.32 per share. Our revised estimates reflect continued organic revenue growth. Our projections are made using the current number of shares outstanding. If the aforementioned follow-on offering closes, there could be up to an additional 5.7 million shares outstanding that would be dilutive to earnings.

Please view our disclosures on pages 9 - 11.

Recommendation and Valuation

Reiterating Speculative Buy rating on Perion and raising our twelve-month price target to $20.50 per share from $16.50 based on our 2021 sales projection and an expanded sector valuation.

PERI's trailing 12-month price-to-sales multiple is 1.4X (up from 1.2X previously). We believe investors are likely to accord PERI a multiple in line with the industry (which is currently 2.2X, up from 1.5X previously) given the company's growth potential and our projected increases in cash flow and shareholder's equity. Applying a multiple of 2.2X to our 2021 sales projection of $10.41 per share (assumes full dilution from follow-on offering), discounted for execution risk, implies a year-ahead value of approximately $20.50 per share.

Perion Pre-Announces Q420 Results and Revises Follow-on Offering

In January 2021, Perion announced it expects 4Q20 revenue of $110 million to $115 million, exceeding the previously announced guidance of $100 million to $105 million.

PERI anticipates adjusted EBITDA for 4Q20 to be $14.5 million to $15.0 million, exceeding the previously announced guidance of $13 million to $14 million. The company expects GAAP EPS for 4Q20 of $0.17 to $0.19 with non-GAAP EPS of $0.35 to $0.36.

We previously projected 4Q20 revenue of $101 million, adjusted EBITDA of $13.3 million, and GAAP EPS of $0.22.

Perion also announced the pricing of a follow-on public offering of approximately five million ordinary shares at a public offering price of $11.50 per share, for gross proceeds of $57.4 million. The offering was upsized from a previously announced $50 million offering. The shares are being offered by the company pursuant to an effective shelf registration statement on file with the Securities and Exchange Commission. In connection with the offering, Perion granted the underwriters a 30-day option to purchase up to an additional 749,000 ordinary shares to be sold on the same terms and conditions. The offering is expected to close on January 22, 2021, subject to satisfaction of customary closing conditions.

Perion intends to use the proceeds from the offering as additional working capital, for funding the growth of its business, including any potential merger or acquisition opportunities that may arise with companies that have products, services and technologies that are complementary to its business, and for general corporate purposes.

Projections

Our projections are made using the current number of shares outstanding. If the aforementioned follow-on offering closes as expected, there could be up to an additional 5.7 million shares outstanding that would be dilutive to earnings.

<u>*2020 Forecast*</u> - We project a 23.5% increase in revenue to $322.8 million and net income of $6.7 million or $0.24 per share. We previously projected revenue of $310.8 million and net income of $7.3 million or $0.26 per share. Our revised estimates reflect recent guidance.

We project gross margins of 93%. Customer acquisition costs and media buy expenses are projected to increase 42.4% to $193.6 million as payments to publishers and developers increase. R&D expense should increase by 36.8% to $30.9 million as the company invests in new product development. Selling and marketing expenses should increase by 13% to $39.3 million reflecting the build out of the company's sales team to support the launch of new products while maintaining cost discipline. We project a 7.7% increase in general and administrative expenses to $16.2 million.

We project operating income of $10.5 million, down from $18 million in 2019 due primarily to higher customer acquisition costs.

In 2020, we project $17.6 million cash from operations due to $18.9 million in cash earnings and a $1.3 million increase in working capital. Cash from operations, short term deposits, and an increase in debt should more than cover cash paid for acquisitions, increasing cash by $20.4 million to $60 million at the end of 2020.

2021 Forecast – We project a 9.5% increase in revenue to $353.5 million and net income of $10.1 million or $0.36 per share. We previously projected revenue of $342 million and net income of $9 million or $0.32 per share. Our revised estimates reflect continued organic revenue growth.

We project gross margins of 93.6%. Customer acquisition costs and media buy expenses are projected to increase 11% to $214.9 million as payments to publishers and developers increase. R&D expense should increase by 10% to $34 million as the company continues to invest in new product development while monitoring costs. Selling and marketing expenses should increase 3.6% to $40.7 million from $39.3 million. We project a 1.5% increase in general and administrative expenses to $16.4 million as the company continues to control costs.

We project operating income of $14 million, up from $10.5 million in 2020. We anticipate the company paying $2.5 million in taxes for a 20% tax rate.

In 2021, we project cash earnings of $24.1 million and a $5 million increase in working capital resulting in $19.1 million cash from operations. Cash from operations should cover payments related to acquisitions, the pay down of debt, and capital expenditures, increasing cash by $5.1 million to $65.1 million at the end of 2021.

Risks

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

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

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

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

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

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

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

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

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

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

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

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

Dilution – If the January 2021 follow-on offering closes as expected, the additional shares outstanding would be dilutive to the company's earnings.

Liquidity risk - Shares of Perion have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 18.6 million shares in the float and the average daily volume is approximately 809,000 shares.

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

Consolidated Balance Sheets
(in thousands $)

	2017A	2018A	2019A	9/20A	2020E	2021E
Cash and cash equivalents	31,567	39,109	38,389	51,660	58,788	63,899
Restricted cash	-	1,694	1,216	1,221	1,221	1,221
Short-term bank deposits	5,913	4,000	23,234	8,300	8,300	8,300
Receivables	62,830	55,557	49,098	51,687	55,595	60,881
Prepaid expenses and other	13,955	3,533	3,170	3,155	3,155	3,155
Total current assets	114,265	103,893	115,107	116,023	127,058	137,456
Property and equipment	17,476	15,649	10,918	7,667	6,583	4,348
Operating lease right-of-use assets	-	-	22,429	20,065	20,065	20,065
Goodwill and intangibles	136,360	131,547	128,444	178,289	178,289	178,289
Deferred taxes	4,798	4,414	6,171	6,297	6,297	6,297
Other	1,128	943	708	574	574	574
Total assets	**274,027**	**256,446**	**283,777**	**328,915**	**338,866**	**347,029**
Accounts payable	39,180	38,208	47,681	48,031	52,355	56,750
Accrued expenses and other	17,784	17,240	18,414	17,859	19,368	21,210
Short-term operating lease liability	-	-	3,667	3,913	3,913	3,913
Short-term debt	13,989	16,059	8,333	20,833	18,833	10,833
Deferred revenues	5,271	3,794	4,188	4,149	4,149	4,149
Payment obligation related to acquisitions	5,146	1,813	1,025	17,458	17,458	13,458
Total current liabilities	81,370	77,114	83,308	112,243	116,077	110,313
Long-term debt	46,719	24,393	8,333	2,083	2,083	2,083
Payment obligation related to acquisition	-	-	-	19,206	18,067	14,067
Long-term operating lease liability	-	-	20,363	17,623	17,623	17,623
Other	7,606	6,158	6,591	6,202	6,202	6,202
Total liabilities	**135,695**	**107,665**	**118,595**	**157,357**	**160,052**	**150,288**
Total stockholders' equity	**138,332**	**148,781**	**165,182**	**171,558**	**178,815**	**196,741**
Total liabilities & stockholders' equity	**274,027**	**256,446**	**283,777**	**328,915**	**338,866**	**347,029**

Source: Company filings and Taglich Brothers' estimates

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

	2017A	2018A	2019A	2020E	2021E
Search and other	139,505	126,868	173,587	178,509	186,000
Advertising	134,481	125,977	87,863	144,298	167,500
Total revenue	273,986	252,845	261,450	322,807	353,500
Cost of revenue	24,659	23,757	25,520	22,438	22,700
Gross profit	249,327	229,088	235,930	300,369	330,800
Customer acquisition costs and media buy	130,885	128,351	135,891	193,555	214,928
Research and development	17,189	18,884	22,585	30,900	34,000
Selling and marketing	52,742	38,918	34,736	39,268	40,700
General and administrative	21,911	16,450	14,999	16,159	16,400
Depreciation and amortization	16,591	9,719	9,711	9,948	10,800
Operating income (loss)	(75,658)	14,691	18,008	10,539	13,972
Financial expenses	5,922	3,794	3,470	2,421	1,352
Income (loss) before taxes	(81,580)	10,897	14,538	8,118	12,620
Income tax (benefit)	(8,826)	2,776	1,645	1,462	2,524
Net income (loss)	(72,754)	8,121	12,893	6,656	10,096
EPS	(2.81)	0.31	0.49	0.24	0.36
Shares Outstanding	25,850	26,855	26,358	27,848	28,213
EBITDA	(59,067)	24,410	27,719	20,487	24,772
Adjusted EBITDA*	28,917	29,554	32,393	32,059	35,572
Margin Analysis					
Gross margin	91.0%	90.6%	90.2%	93.0%	93.6%
Customer acquisition costs and media buy	47.8%	50.8%	52.0%	60.0%	60.8%
Research and development	6.3%	7.5%	8.6%	9.6%	9.6%
Selling and marketing	19.2%	15.4%	13.3%	12.2%	11.5%
General and administrative	8.0%	6.5%	5.7%	5.0%	4.6%
Operating margin	(27.6)%	5.8%	6.9%	3.3%	4.0%
Tax rate	10.8%	25.5%	11.3%	18.0%	20.0%
Year / Year Growth					
Total Revenues	(12.4)%	(7.7)%	3.4%	23.5%	9.5%

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

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

	3/19A	6/19A	9/19A	12/19A	2019A	3/20A	6/20A	9/20A	12/20E	2020E	3/21E	6/21E	9/21E	12/21E	2021E
Search and other	35,265	42,267	44,225	51,830	173,587	42,320	41,667	45,522	49,000	178,509	42,500	46,500	47,000	50,000	186,000
Advertising	18,584	21,300	21,552	26,427	87,863	23,733	18,674	37,891	64,000	144,298	30,500	31,000	41,000	65,000	167,500
Total revenue	53,849	63,567	65,777	78,257	261,450	66,053	60,341	83,413	113,000	322,807	73,000	77,500	88,000	115,000	353,500
Cost of revenue	5,766	6,068	6,819	6,867	25,520	5,766	4,880	5,292	6,500	22,438	5,500	5,500	5,500	6,200	22,700
Gross profit	48,083	57,499	58,958	71,390	235,930	60,287	55,461	78,121	106,500	300,369	67,500	72,000	82,500	108,800	330,800
Customer acquisition costs and media buy	27,433	33,175	34,170	41,113	135,891	36,138	36,801	49,878	70,738	193,555	44,384	47,120	53,504	69,920	214,928
Research and development	4,862	5,610	5,976	6,137	22,585	7,207	7,122	8,071	8,500	30,900	8,500	8,500	8,500	8,500	34,000
Selling and marketing	8,325	8,667	8,649	9,095	34,736	9,701	8,219	9,448	11,900	39,268	9,500	9,700	10,500	11,000	40,700
General and administrative	3,058	3,419	3,562	4,960	14,999	3,939	3,581	4,239	4,400	16,159	3,800	4,200	4,200	4,200	16,400
Depreciation and amortization	2,390	2,286	2,628	2,407	9,711	2,302	2,251	2,695	2,700	9,948	2,700	2,700	2,700	2,700	10,800
Operating income (loss)	2,015	4,342	3,973	7,678	18,008	1,000	(2,513)	3,790	8,262	10,539	(1,384)	(220)	3,096	12,480	13,972
Financial expenses	1,325	989	419	737	3,470	(8)	741	459	1,229	2,421	362	346	330	314	1,352
Income (loss) before taxes	690	3,353	3,554	6,941	14,538	1,008	(3,254)	3,331	7,033	8,118	(1,746)	(566)	2,766	12,166	12,620
Income tax (benefit)	(542)	453	680	1,054	1,645	(326)	(1,015)	1,203	1,600	1,462	(349)	(113)	553	2,433	2,524
Net income (loss)	1,232	2,900	2,874	5,887	12,893	1,334	(2,239)	2,128	5,433	6,656	(1,397)	(453)	2,213	9,733	10,096
EPS	0.05	0.11	0.11	0.22	0.49	0.05	(0.08)	0.08	0.19	0.24	(0.05)	(0.02)	0.08	0.34	0.36
Shares Outstanding	25,885	25,897	26,895	27,288	26,358	28,213	26,630	28,337	28,213	27,848	28,213	28,213	28,213	28,213	28,213
EBITDA	4,405	6,628	6,601	10,085	27,719	3,302	(262)	6,485	10,962	20,487	1,316	2,480	5,796	15,180	24,772
Adjusted EBITDA*	5,125	7,435	7,618	12,215	32,393	6,238	2,464	8,749	14,608	32,059	4,016	5,180	8,496	17,880	35,572
Margin Analysis															
Gross margin	89.3%	90.5%	89.6%	91.2%	90.2%	91.3%	91.9%	93.7%	94.2%	93.0%	92.5%	92.9%	93.8%	94.6%	93.6%
Customer acquisition costs and media buy	50.9%	52.2%	51.9%	52.5%	52.0%	54.7%	61.0%	59.8%	62.6%	60.0%	60.8%	60.8%	60.8%	60.8%	60.8%
Research and development	9.0%	8.8%	9.1%	7.8%	8.6%	10.9%	11.8%	9.7%	7.5%	9.6%	11.6%	11.0%	9.7%	7.4%	9.6%
Selling and marketing	15.5%	13.6%	13.1%	11.6%	13.3%	14.7%	13.6%	11.3%	10.5%	12.2%	13.0%	12.5%	11.9%	9.6%	11.5%
General and administrative	5.7%	5.4%	5.4%	6.3%	5.7%	6.0%	5.9%	5.1%	3.9%	5.0%	5.2%	5.4%	4.8%	3.7%	4.6%
Operating margin	3.7%	6.8%	6.0%	9.8%	6.9%	1.5%	(4.2)%	4.5%	7.3%	3.3%	(1.9)%	(0.3)%	3.5%	10.9%	4.0%
Tax rate	(78.6)%	13.5%	19.1%	15.2%	11.3%	(32.3)%	31.2%	36.1%	20.0%	18.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Year / Year Growth															
Total Revenues	(11.6)%	1.2%	15.0%	8.7%	3.4%	22.7%	(5.1)%	26.8%	44.4%	23.5%	10.5%	28.4%	5.5%	1.8%	9.5%

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

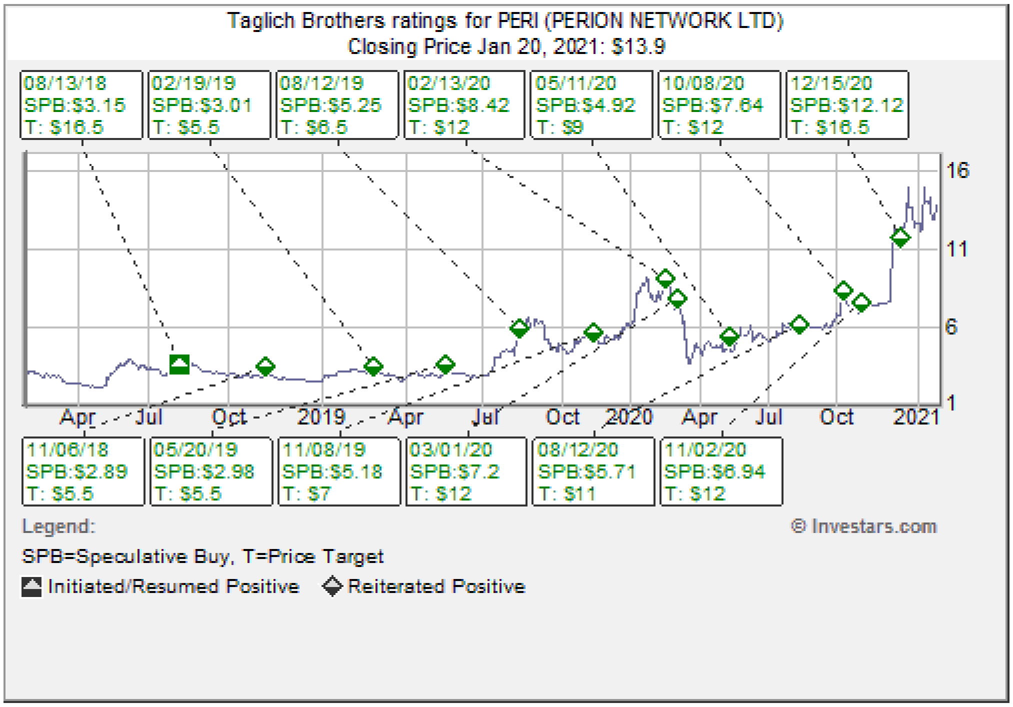
Perion Network Ltd.

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

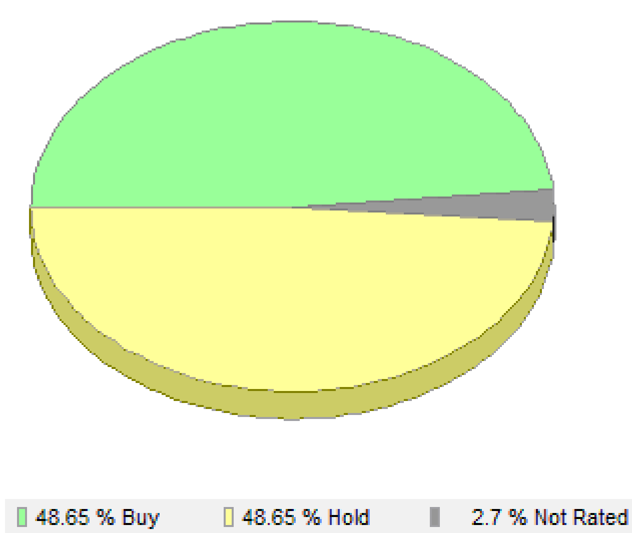
	2017A	2018A	2019A	9M20A	2020E	2021E
Net income (loss)	(72,754)	8,121	12,893	1,223	6,656	10,096
Depreciation & amortization	16,591	9,719	9,711	7,248	9,948	9,200
Impairment	85,667	-	-	-	-	-
Restructuring costs	-	462	-	-	-	-
Stock-based compensation	2,112	2,718	2,293	2,913	4,413	4,800
Foreign currency translation	83	3	(86)	(89)	(89)	-
Accretion of payment obligation related to acquisition	43	-	-	-	-	-
Accrued interest	475	1,005	(204)	13	13	-
Deferred taxes	(8,877)	335	(1,756)	(2,339)	(2,339)	-
Accrued severance pay	801	(783)	96	205	205	-
Fair value revaluation - convertible debt	3,785	(1,585)	600	-	-	-
Loss from sale of property and equipment	-	-	-	88	88	-
Cash earnings (loss)	27,926	19,995	23,547	9,262	18,895	24,096
Changes in assets and liabilities						
(Increase) decrease in working capital	8,087	12,806	21,194	(23)	(1,328)	(4,984)
Net cash provided by (used in) operations	**36,013**	**32,801**	**44,741**	**9,239**	**17,567**	**19,112**
Purchase of property and equipment	(1,606)	(2,038)	(717)	(386)	(500)	(1,000)
Proceeds from sale of property and equipment	10	59	-	-	-	-
Capitalization of development costs	(5,756)	(1,756)	-	-	-	-
Cash paid for acquisitions	-	-	(1,200)	(20,186)	(20,186)	-
Obligation in connection with acquisitions	-	-	-	1,347	1,347	-
Short-term deposits	2,501	1,913	(19,234)	14,934	14,934	-
Net cash provided by (used in) investing	**(4,851)**	**(1,822)**	**(21,151)**	**(4,291)**	**(4,405)**	**(1,000)**
Exercise of options and restricted shares	1	-	1,227	2,086	3,000	3,000
Payments made in connection with acquisition	(2,551)	(3,333)	(1,813)	-	-	(8,000)
Proceeds from debt	5,000	25,000	-	12,500	12,500	-
Repayment of debt	(26,290)	(44,676)	(24,182)	(6,249)	(8,249)	(8,000)
Net cash provided by (used in) financing	**(23,840)**	**(23,009)**	**(24,768)**	**8,337**	**7,251**	**(13,000)**
Effect of currency exchange rates	283	78	(20)	(9)	(9)	-
Net change in cash	**7,605**	**8,048**	**(1,198)**	**13,276**	**20,404**	**5,112**
Cash - beginning of period	**23,962**	**32,755**	**40,803**	**39,605**	**39,605**	**60,009**
Cash - end of period	**31,567**	**40,803**	**39,605**	**52,881**	**60,009**	**65,120**

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**3**	**14**
Hold		
Sell		
Not Rated		

Important Disclosures

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

Public companies mentioned in this report:

Meaning of Ratings

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

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

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

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

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

Some notable Risks within the Microcap Market

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

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