Research Report – Update

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

OMNIQ Corp.

Rating: Speculative Buy

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August 17, 2021

OMQS $9.00 — (OTC)

	2018 A	2019 A	2020 A	***2021 E***	***2022 E***
Total Revenue (in millions)	$56.2	$57.2	$55.2	***$83.6***	***$111.8***
Earnings (loss) per share*	($2.18)	($1.37)	($2.62)	***($1.49)***	***$0.65***

52-Week range	$12.00 – $4.03	Fiscal year ends:	December
Shares outstanding a/o 08/10/21	7.4 million	Revenue/shares (ttm)	$13.09
Approximate float	3.4 million	Price/Sales (ttm)	0.7X
Market Capitalization	$66.6 million	Price/Sales (2022) E	0.6X
Tangible Book value/shr	($4.81)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2022) E	13.8X

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. The company's technology and services enable clients to move people, assets and data safely and securely through airports, warehouses, schools, national borders, and numerous other applications and environments.

Key Investment Considerations:

Maintaining our Speculative Buy rating and 12-month price target of $18.00 per share.

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

In July 2021, the company acquired a 51% interest in Israeli based Dangot Computers Ltd. In 1H21, Dangot had sales of approximately $19.5 million and income $1 million. OMQS anticipates it should translate 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 2Q21, OMQS reported (on 08-12-21) a loss per share of ($0.51) on revenue of $13.1 million. We projected a loss per share of ($0.64) on revenue of $13.9 million. In 2Q20, the company had a loss per share of ($0.49) on revenue of $12.7 million.

For 2021, we project a net loss per share to common stockholders of ($1.49) on 51.4% revenue growth to $83.6 million. We previously forecasted a loss of ($1.59) per share on revenue of $83.6 million. Our revised forecast reflects the 51% interest of Dangot acquired in July 2021 and 1H21 results.

For 2022, we project EPS to common stockholders of $0.65 on 33.8% revenue growth to $111.8 million (unchanged). Our forecast reflects a full year of consolidated Dangot operations, as well as acquiring the remaining 49% interest in Dangot prior to July 2022.

Please view our Disclosures on pages 16 – 18.

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Appreciation Potential

Maintaining OMNIQ Corp., with Speculative Buy rating and 12-month price target of $18.00 per share. Our rating and price target reflects our 2022 projections of 33.8% revenue growth, a swing to an operating profit of $8.3 million (from a loss of $5.8 million in 2021), and cash earnings of nearly $11 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 July 2021 acquisition of Dangot Computers.

Our 12-month price target of $18.00 per share implies shares could double over the next twelve months. According to finviz.com (as of 8/13/21), the average price-to-sales multiple for companies with similar market capitalizations in the software application/security/communications equipment sectors is 2.5X (prior was 2.4X), 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 acquisition (of 51%) of Dagnot. Investors are likely to accord OMNIQ Corp. a multiple approaching that of the sector. We applied a price-to-sales multiple of 1.6X (unchanged) to our 2022 sales per share forecast of $14.37, discounted for execution and integration risks, to obtain a year-ahead price target of approximately $18.00 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.

Strategic Acquisition

In July 2021, OMNIQ Corp. acquired an interest (51%) in Israeli based Dangot Computers for $7.6 million ($5.6 million cash and the balance in restricted stock). There is a one-year option to acquire the remaining 49% at the same valuation. In conjunction with the acquisition, OMQS closed on a private placement of its common stock for net proceeds of approximately $13.7 million from the issuance of over 2.1 million shares of common stock.

Dangot operations will provide OMQS with their 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.

In 1H21, Dangot generated revenues of approximately $19.5 million and net income of approximately $1 million.

On a go forward basis, management believes it is creating a combined company (producing revenues in excess of $100 million) 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, fast food restaurant chains.

The closing of the acquisition and private placement should accelerate the company's path to up-listing its common stock to a national stock exchange.

Overview

OMNIQ Corp. 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' technology and services 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.

The company 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 evolution of the company continues with the development of its high margin AI based technology solutions that will expand its revenue footprint within existing and new supply chain management customers, as well as new smart city 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.

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.

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.

OMNIQ offers 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.

Mobility

OMNIQ's higher margin mobile supply chain analytics software solutions assist businesses with data collection on the frontend and AI base analytical and predictive output on the backend that should improve a customer's operations including overall sales, inventory management, scheduling, production planning, as well as providing customers increased efficiency to provide a better quality of service.

Vision

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 Q Shield AI based technology solutions platform provides real time access control and automated alerts to school staff and law enforcement when suspicious activity is detected at entrances, as well as electronic roll call management that can improve dismissal operations, and emergency communications.

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.

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.

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.

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). During the first six months of 2021, a key indicator of customer acceptance was new orders exceeding $40 million.

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 $40 million during the first six months of 2021 and the acquisition of Dagnot Computers in July 2021. In 1H21, Dagnot generated revenue of $19.5 million and net income of $1 million. 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 23.1% 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 July 2021, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 6% for 2021 and 4.9% for 2022. While the IMF’s growth projection for 2021 is unchanged from its earlier projection (April 2021), the 2022 projection is up from 4.4%. The 2022 upward revision primarily reflects additional fiscal policy support in advanced economies in 2H21 and improved health metrics across the group.

The IMF revised its economic growth estimate for the US to an increase of 7% for 2021 and 4.9% for 2022. In April 2021, the IMF projected US economic growth of 6.4% for 2021 and 3.5% for 2022.

Operations 2021
We project 51.4% total revenue growth to $83.6 million (unchanged) from $55.2 million in 2020 supported by 1H21 results and an approximate $17.3 million contribution from slightly less than six months of revenue from Dangot Computers.

We forecast gross profit increasing to $19.3 million compared to $10.9 million in 2020 due primarily to sales growth and gross margin expanding to 23.1% from 19.8% last year. We project the operating loss narrowing to $5.8 million from $9 million in 2020. The narrowing of the operating loss reflects revenue growth, gross margin expansion, and operating margin expense improving to 30.1% from 36% last year. We forecast operating expenses increasing to $25.2 million compared to $19.9 million in 2020 due to a 32.1% increase in SG&A expense to $20.9 million due primarily to support sales growth and operations of Dagnot Computers. We anticipate a $207,000 increase in R&D expense to $2 million with D&A expense flat at $2.3 million.

We project non-operating interest expense increasing to $2.8 million from $2.6 million with other income of $159,000 compared to $112,000 in the year-ago period. In the current period we estimate minority interest reduction of $480,000 as the company only owns a 51% interest in Dagnot Computers.

We project a net loss to common stockholders of $9.1 million or ($1.49) per share. We previously forecast a net loss of $9.5 million or ($1.59) per share. Our forecast reflects the company recording preferred dividends of $116,000.

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 $2.2 million and a $2.7 million decrease in working capital resulting in cash from operations of $455,000. The decrease in working capital was due primarily to an increase in payables and accruals, partly offset by increases in receivables and inventory. Cash from operations and the July 2021 common stock offering for net proceeds of approximately $13.7 million is likely to cover the cash paid to acquire a 51% interest in Dagnot. We anticipate cash increasing by $894,000 to $5.5 million at December 31, 2021.

Operations – 2022
We project 33.8% total revenue growth to $111.8 million (unchanged) from an estimated $83.6 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 nearly doubling to $38 million compared to an estimated $19.3 million in 2021 due primarily to revenue growth and gross margin expanding to 34% from an estimated 23.1% in 2021 reflecting a shift in the sales mix to higher margin offerings. We project a swing to an operating profit of $8.3 million compared to an operating loss of $5.8 million in 2021. Our forecast for an operating profit reflects revenue growth, gross margin expansion, and operating margin expense improving to 26.5% from an estimated 30.1% in 2021. We anticipate the company should be able to eliminate at least $3 million in operating expenses as the integration of Dagnot is completed by the end of 2022.

We forecast operating expenses increasing 17.9% to $29.7 million compared to an estimated $25.2 million in 2021. The increase reflects SG&A expenses of $25 million compared to an estimated $20.9 million in 2021 to support sales growth including expanding Dagnot offerings in the US. R&D expense should increase $400,000 to $2.4 million to support the continued development of the company's AI-based technology solutions. We anticipate D&A expense flat $2.3 million.

We project interest expense of flat at $2.7 million with minority interest of $500,000 compared to $480,000 in 2020. Our 2021 forecast included other income of $159,000 compared to none in the current period.

We project net income to common stockholders of $5.1 million or $0.65 per share (unchanged) compared to an estimated loss of $9.1 million or ($1.49) per share in the year-ago period. Our forecast reflects the company recording preferred dividends of $120,000 compared to $116,000 in 2020. We anticipate average shares increasing to nearly 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 $11 million and a $2.4 million increase in working capital resulting in cash from operations of $8.5 million. The increase in working capital was due primarily to increases in receivables and inventory. Cash from operations and the exercise of options/ warrants is unlikely to cover the cash paid to acquire the remaining 49% in Dagnot and repayment of debt. We estimate cash decreasing by $475,000 to $5 million at December 31, 2022.

Market Briefs

Artificial Intelligence (AI)
Growth in the company's operations and progression to profitability will be based on its 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 anticipates 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%.

In January 2021, VMR (Verified Market Research) published a report indicating that the automated border control market could reach over $2.5 billion in 2027 from $747.1 million in 2019 for annualized growth of approximately 17.7%. Driving growth should be the growing need for automation across all border crossings.

In September 2020, researchandmarkets.com published a report on the global access control market, which estimates 8.2% annual growth to $12.8 billion in 2025 from an estimated $8.6 billion in 2020.

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.

2Q21 and 1H21Results

2Q21

The company reported total net revenue increased 3.5% to $13.1 million due primarily to increased fulfillment and deliveries of the company's higher margin product offering to customers.

Gross profit increased 27.9% to $3.3 million from $2.6 million in the year-ago period. The increase reflects gross margin expansion to 25.1% from 20.3% 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 in 2Q20. Operating expenses increased to $5.1 million from $3.9 million due primarily to higher SG&A and R&D costs. SG&A expense increased to $4.1 million from $2.9 million due primarily to higher compensation costs. R&D expense increased to $468,000 from $447,000 in 2Q20 due to the development of proprietary product offerings. Depreciation and intangible amortization increased to $564,000 compared to $553,000 in the year-ago period.

Loss from operations was $1.8 million compared to $1.3 million in the year-ago period due primarily to operating margin expense increasing to 39.2% from 30.7% in 2Q20 as operating expenses increased by 32.1% compared to revenue growth of 3.5%, partly offset by gross margin expansion.

Non-operating expense was $665,000 compared to $678,000 in 2Q20. Interest expense increased to $714,000 from $418,000 in the year-ago period due primarily to higher vendor interest agreements. Other income was $49,000 compared to an expense of $260,000 in the year-ago period.

The net loss attributable to common stockholders was $2.5 million or ($0.51) per share compared $2 million or ($0.49) per share. The current period included preferred dividends of $25,000 compared to $54,000 in the year-ago period. We forecast a net loss attributable to common stockholders of $3.1 million or ($0.64) per share on revenue of $13.9 million.

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Revenues in thousands	$ 32,870	$ 26,476	24.2%
Cost of Sales	26,936	20,862	29.1%
Gross Profit	$ 5,934	$ 5,614	5.7%
Total Operating Expenses	10,641	8,964	18.7%
Operating Income (loss)	(4,707)	(3,350)	41%
Total Other Income (Expense)	(1,143)	(1,515)	NMF
Pre-Tax Income	(5,850)	(4,865)	NMF
Income Tax Expense (Benefit)	3	-	
Net income (loss)	(5,853)	(4,865)	
Preferred stock dividend	(57)	(126)	
Net income (loss) to common stockholders	$ (5,910)	$ (4,991)	
Net (loss) per share	$ (1.22)	$ (1.18)	
Avg Shares Outstanding	4,817	4,135	
Margins			
Gross margin	18.1%	21.2%	
Operating Margin	(14.3%)	(12.7%)	
Pre-Tax Margins	(17.8%)	(18.4%)	

Source: company reports

1H21

The company reported total net revenue increased 24.2% to $32.9 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.

Gross profit increased 5.7% to $5.9 million from $5.6 million in the year-ago period. The increase reflects sales growth, partly offset by gross margins contracting to 18.1% from 21.2% in the year-ago period. Gross margin contraction reflects lower-margin deals reached by the company with certain large customers primarily in 1Q21. Operating expenses increased 18.7% to $10.6 million from $9 million due primarily to higher SG&A and R&D costs. SG&A expense increased to $8.5 million from $7 million due primarily to higher compensation costs. R&D expense increased to $962,000 from $832,000 in 1H20 due to the development of proprietary product offerings. Depreciation and intangible amortization was flat at $1.1 million.

Loss from operations was $4.7 million compared to $3.4 million in the year-ago period due primarily to gross margin contraction, partly offset by revenue growth and operating margin expense improving to 32.4% from 33.9% in 1H20.

Non-operating expense was $1.1 million compared to $1.5 million in 1H20. Interest expense increased to $91,000 to $1.3 million, while other income was $160,000 compared to an expense of $300,000 in the year-ago period.

The net loss attributable to common stockholders was $5.9 million or ($1.22) per share compared $5 million or ($1.18) per share. The current period included preferred dividends of $57,000 compared to $126,000 in the year-ago period.

Finances

In 1H21, cash burn was nearly $2.8 million with a $7 million decrease in working capital resulting in cash from operations of $4.3 million. The decrease in working capital was due primarily to an increase in payables and accruals and decrease in receivables. Cash from operations, the sale of other assets, and proceeds from the exercise of common stock warrants and options covered reducing the company's debt obligations. Cash increased $843,000 to $5.4 million at June 30, 2021.

Capital Structure

At June 30, 2021 the company had total debt of $8.2 million consisting of a $5.4 million short-term note payable and $390,000 notes payable – related parties, as well as $488,000 in long-term notes payable. The company had $1.8 million outstanding on its credit facility (short-term)

The company had related party notes outstanding of $878,000 of which $195,000 and $390,000 is scheduled to be repaid in 2021 and 2022, respectively. The company has a supplier note payable of $5.4 million. 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.

In 2Q21, the company had a $1.8 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 $5 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 nearly $13.7 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.

<u>Operating Losses – Going Concern</u>
At June 30, 2021, the company's accumulated deficit was $62.6 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, it could result in the company's inability to execute its growth strategy and diminish its operations.

The company's continuation as a going concern will depend upon its ability to generate sufficient cash flow to meet its obligations. The plan to eliminate the company's going concern situation includes improving cash flow, maintaining moderate cost reductions, creation of additional sales and profits across its product lines, and obtaining sufficient financing to restructure current debt.

<u>Dilution</u>
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 million shares of common stock for net proceeds of approximately $13.7 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 1H21, OMQS had two customers account for approximately 41.3% of total revenue compared to one customer that accounted for approximately 44.4% 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 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 June 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 35.7% of the company's outstanding voting stock and additionally one shareholder owns approximately 20.4% of the company's outstanding voting stock as of December 31, 2020. 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 August 16, 2021) to 6,000. OMQS has a float of approximately 3.4 million shares and outstanding shares of 7.4 million as of August 10, 2021.

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

	FY18A	FY19A	FY20A	2Q21A	**FY21E**	**FY22E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ 378	$ 1,615	$ 4,594	$ 5,437	**$ 5,488**	**$ 5,014**
Accounts receivable, net	12,262	6,694	9,661	6,256	**13,000**	**15,530**
Inventory	1,803	1,889	1,507	2,276	**2,500**	**3,691**
Prepaid expenses	169	362	670	476	**627**	**727**
Contract assets	-	-	-	854	**854**	**854**
Other crrent assets	78	65	10	10	**12**	**12**
Total current assets	14,690	10,625	16,442	15,309	**22,481**	**25,827**
Property and equipment, net	389	463	289	210	**300**	**310**
Goodwill	13,921	13,921	14,695	14,695	**23,333**	**25,000**
Trade name, net	1,805	1,458	1,028	825	**828**	**628**
Customer relationships, net	7,514	6,012	4,479	3,758	**2,746**	**3,500**
Other intangibles, net	1,267	1,138	1,042	963	**2,616**	**2,059**
Cash, restricted	532	533	533	-	**-**	**-**
ROU asset	-	131	76	61	**69**	**69**
Other assets	30	172	74	39	**42**	**74**
Total assets	$ 40,148	$ 34,453	$ 38,658	$ 35,860	**$ 52,415**	**$ 57,467**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable and accrued liabilities	17,484	18,694	26,811	32,918	**33,910**	**34,855**
Line of credit	4,534	1,365	4,914	1,846	**-**	**-**
Accrued payroll and sales tax	2,173	1,556	1,717	1,136	**1,500**	**2,000**
Notes payable, related parties	1,891	1,025	433	390	**390**	**293**
Notes payable	8,823	6,497	6,449	5,447	**3,647**	**-**
Lease liability	-	54	31	32	**32**	**32**
Other current liabilities	265	1,599	1,412	1,160	**1,380**	**1,380**
Total current liabilities	35,170	30,790	41,767	42,929	**40,859**	**38,560**
Notes payable, related party	1,912	1,172	683	488	**293**	**-**
Accrued interest and accrued liabilities, related party	33	76	56	60	**50**	**35**
Notes payable	130	143	1	-	**-**	**-**
Lease liability	-	80	48	32	**40**	**40**
Minority interest	-	-	-	-	**590**	**1,090**
Other long term liabilities	610	384	1,146	988	**847**	**600**
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	5	**5**	**5**
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	54,117	**74,525**	**77,761**
Retained earnings (deficit)	(39,753)	(45,063)	(56,726)	(62,628)	**(65,664)**	**(60,494)**
Accumulated other comprehensive income (loss)	1	1	(166)	(132)	**(132)**	**(132)**
Total stockholders' equity	2,293	1,808	(5,043)	(8,637)	**8,736**	**17,142**
Total liabilities and stockholders' equity	$ 40,148	$ 34,453	$ 38,658	$ 35,860	**$ 51,415**	**$ 57,467**
Common Shares Outstanding	3,597	3,960	4,685	5,053	**7,450**	**7,600**
Series C outstanding	4,829	4,829	2,145	2,145	**2,145**	**2,145**

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	**$ 83,570**	**$ 111,815**
Cost of sales	43,140	43,165	44,293	**64,250**	**73,810**
Gross Profit	13,062	14,034	10,916	**19,320**	**38,005**
Operating Expenses:					
Research and development		1,063	1,805	**2,012**	**2,400**
SG&A		13,682	15,802	**20,867**	**24,965**
Depreciation		151	178	**185**	**200**
Intangible amortization		2,002	2,114	**2,092**	**2,100**
Total Operating Expenses	16,086	16,898	19,899	**25,156**	**29,665**
Operating Income (loss)	(3,024)	(2,864)	(8,983)	**(5,836)**	**8,340**
Interest expense, net	(1,570)	(2,555)	(2,628)	**(2,778)**	**(2,670)**
Other income (expense)	(1,133)	(23)	112	**159**	**-**
Minority interest (income) loss	-	-	-	**(480)**	**(500)**
Total Other Income (expense)	(2,703)	(2,578)	(2,516)	**(3,099)**	**(3,170)**
Pre-Tax Income (loss)	(5,727)	(5,442)	(11,499)	**(8,935)**	**5,170**
Income Tax Expense (benefit)	(505)	14	5	**3**	**-**
Net income (loss) - continuing operations	(5,222)	(5,456)	(11,504)	**(8,938)**	**5,170**
Preferred stock dividend	189	(146)	(191)	**(116)**	**(120)**
Net income (loss) to common stockholders	$ (5,411)	$ (5,310)	$ (11,313)	**$ (9,054)**	**$ 5,050**
EPS (Loss) per share to common stockholders	$ (2.18)	$ (1.37)	$ (2.62)	**$ (1.49)**	**$ 0.65**
Avg Shares Outstanding	2,482	3,889	4,322	**6,064**	**7,781**
Adjusted EBITDA	$ 1,158	$ 1,177	$ (3,061)	**$ 354**	**$ 12,240**
Margin Analysis					
Gross margin	23.2%	24.5%	19.8%	**23.1%**	**34.0%**
Research and development	N/A	1.9%	3.3%	**2.4%**	**2.1%**
Selling, general, and administrative	N/A	23.9%	28.6%	**25.0%**	**22.3%**
Operating margin	(5.4%)	(5.0%)	(16.3%)	**(7.0%)**	**7.5%**
Pre-tax margin	(10.2%)	(9.5%)	(20.8%)	**(10.7%)**	**4.6%**
YEAR / YEAR GROWTH					
Total Revenues		1.8%	(3.5%)	**51.4%**	**33.8%**

* 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 E	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	$ 24,950	$ 25,750	**$ 83,570**	$ 26,900	$ 26,015	$ 29,500	$ 29,400	**$ 111,815**
Cost of sales	10,763	10,099	13,024	10,407	44,293	17,115	9,820	18,625	18,690	**64,250**	18,150	17,380	19,200	19,080	**73,810**
Gross Profit	3,036	2,578	2,809	2,493	10,916	2,636	3,299	6,325	7,060	**19,320**	8,750	8,635	10,300	10,320	**38,005**
Operating Expenses:															
Research and development	386	447			1,805	494	468	525	525	**2,012**	600	600	600	600	**2,400**
SG&A	4,137	2,892			15,802	4,438	4,109	6,350	5,970	**20,867**	5,900	6,090	6,400	6,575	**24,965**
Depreciation	47	43			178	43	42	50	50	**185**	50	50	50	50	**200**
Intangible amortization	502	510			2,114	525	522	520	525	**2,092**	525	525	525	525	**2,100**
Total Operating Expenses	5,072	3,892	5,830	5,105	19,899	5,500	5,141	7,445	7,070	**25,156**	7,075	7,265	7,575	7,750	**29,665**
Operating Income (loss)	(2,036)	(1,314)	(3,021)	(2,612)	(8,983)	(2,864)	(1,842)	(1,120)	(10)	**(5,836)**	1,675	1,370	2,725	2,570	**8,340**
Interest expense, net	(795)	(418)	(744)	(671)	(2,628)	(589)	(714)	(750)	(725)	**(2,778)**	(675)	(670)	(665)	(660)	**(2,670)**
Other income (expense)	(42)	(260)	(16)	430	112	110	49	-	-	**159**	-	-	-	-	**-**
Minority interest (income) loss	-	-	-	-	-	-	-	(225)	(255)	**(480)**	(300)	(200)	-	-	**(500)**
Total Other Income (expense)	(837)	(678)	(760)	(241)	(2,516)	(479)	(665)	(975)	(980)	**(3,099)**	(975)	(870)	(665)	(660)	**(3,170)**
Pre-Tax Income (loss)	(2,873)	(1,992)	(3,781)	(2,853)	(11,499)	(3,343)	(2,507)	(2,095)	(990)	**(8,935)**	700	500	2,060	1,910	**5,170**
Income Tax Expense (benefit)	-	-	-	5	5	-	3	-	-	**3**	-	-	-	-	**-**
Net income (loss) - continuing operations	(2,873)	(1,992)	(3,781)	(2,858)	(11,504)	(3,343)	(2,510)	(2,095)	(990)	**(8,938)**	700	500	2,060	1,910	**5,170**
Preferred stock dividend	(72)	(54)	(32)	(33)	(191)	(31)	(25)	(30)	(30)	**(116)**	(30)	(30)	(30)	(30)	**(120)**
Net income (loss) to common stockholders	$ (2,945)	$ (2,046)	$ (3,813)	$ (2,891)	$ (11,313)	$ (3,374)	$ (2,535)	$ (2,125)	$ (1,020)	**$ (9,054)**	$ 670	$ 470	$ 2,030	$ 1,880	**$ 5,050**
EPS (Loss) per share to common stockholders	$ (0.74)	$ (0.49)	$ (0.83)	$ (0.63)	$ (2.62)	$ (0.72)	$ (0.51)	$ (0.30)	$ (0.14)	**$ (1.49)**	$ 0.09	$ 0.06	$ 0.26	$ 0.24	**$ 0.65**
Avg Shares Outstanding	3,984	4,141	4,589	4,600	4,322	4,701	4,930	7,200	7,425	**6,064**	7,685	7,800	7,815	7,825	**7,781**
Adjusted EBITDA	$ (833)	$ (551)	$ (890)	$ (788)	$ (3,061)	$ (1,322)	$ (289)	$ 425	$ 1,540	**$ 354**	$ 2,475	$ 2,270	$ 3,825	$ 3,670	**$ 12,240**
Margin Analysis															
Gross margin	22.0%	20.3%	17.7%	19.3%	19.8%	13.3%	25.1%	25.4%	27.4%	**23.1%**	32.5%	33.2%	34.9%	35.1%	**34.0%**
Research and development	N/A	N/A	N/A	N/A	3.3%	2.5%	3.6%	2.1%	2.0%	**2.4%**	2.2%	2.3%	2.0%	2.0%	**2.1%**
Selling, general, and administrative	N/A	N/A	N/A	N/A	28.6%	22.5%	31.3%	25.5%	23.2%	**25.0%**	21.9%	23.4%	21.7%	22.4%	**22.3%**
Operating margin	(14.8%)	(10.4%)	(19.1%)	(20.2%)	(16.3%)	(14.5%)	(14.0%)	(4.5%)	(0.0%)	**(7.0%)**	6.2%	5.3%	9.2%	8.7%	**7.5%**
Pre-tax margin	(20.8%)	(15.7%)	(23.9%)	(22.1%)	(20.8%)	(16.9%)	(19.1%)	(8.4%)	(3.8%)	**(10.7%)**	2.6%	1.9%	7.0%	6.5%	**4.6%**
YEAR / YEAR GROWTH															
Total Revenues	(25.9%)	(10.3%)	21.3%	12.0%	(3.5%)	43.1%	3.5%	57.6%	99.6%	**51.4%**	36.2%	98.3%	18.2%	14.2%	**33.8%**

* In 2020, the company restated the components of operating expenses. Total operating expense remains unchanged for the quarters of 2020. We will restate 2020 quarters as 2021 quarters are reported.

Source: Company reports and Taglich Brothers estimates

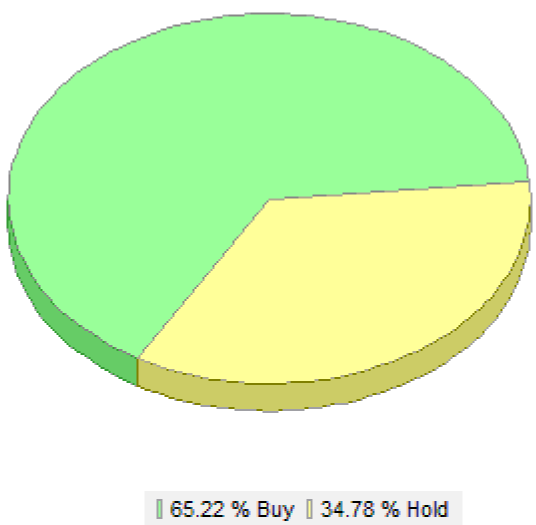
OMNIQ Corp.
Cash Flow Statement
FY2018 – FY2022E
(in thousands)

	FY2018A	FY2019A	FY2020A	6 Mos 21A	**FY2021E**	**FY2022E**
Cash Flows from Operating Activities						
Net Income (loss)	$ (5,222)	$ (5,456)	$ (11,504)	$ (5,853)	**$ (8,938)**	**$ 5,170**
Change in deferred tax allowance	(552)	-	-	-	-	-
Early extinguishment of debt	-	-	(948)	-	-	-
Minority interest	-	-	-	-	**590**	**500**
Stock-based compensation	2,387	1,267	2,012	1,963	**3,900**	**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	1,088	**2,277**	**2,300**
Amortization of ROU asset	-	93	55	15	**7**	-
Write-off of other assets	(36)	-	-	-	-	-
Other	(10)	-	-	-	-	-
Amortization of debt discount	59	-	-	-	-	-
Cash earnings (burn)	(269)	(1,942)	(6,453)	(2,787)	**(2,164)**	**10,970**
Changes In:						
Accounts receivable	(5,853)	5,568	(2,953)	3,405	**(3,339)**	**(2,530)**
Prepaid expenses	322	(271)	(313)	194	**43**	**(100)**
Inventory	(429)	(178)	381	(769)	**(993)**	**(1,191)**
Contract asset	-	-	-	(854)		
Other assets	49	(11)	84	2	**32**	**(32)**
Accounts payable and accrued liabilities	8,146	2,011	8,062	6,107	**7,099**	**945**
Accrued payroll and sales taxes payable	642	(617)	161	(581)	**(217)**	**500**
Accrued interest and accrued liabilities, related party	-	43	(20)	4	**(6)**	**(15)**
Lease liability	-	(89)	(55)	(15)	-	-
Other liabilities	88	(259)	686	(456)	-	-
(Increase)/decrease in Working Capital	2,965	6,197	6,033	7,037	**2,619**	**(2,423)**
Net cash (used) provided by operations	2,696	4,255	(420)	4,250	**455**	**8,547**
Cash Flows from Investing Activities						
Restricted cash	153	-	-	-	-	-
Purchase of property and equipment	(29)	(134)	(4)	(6)	**(20)**	**(50)**
Cash paid for acquistion net	(23)	-	-		**(5,600)**	**(5,600)**
Common stock issued to acquire Dagnot	-	-	-	-	**(2,000)**	**(2,000)**
Cash from sale of assets	42	-	-	-	-	-
Other assets	8	(117)	98	568	-	-
Cash Flows from Investing Activities	151	(251)	94	562	**(7,620)**	**(7,650)**
Cash Flows from Financing Activities						
Proceeds from ESPP stock issuance	-	1	1	5	**5**	**1**
Proceeds from issuance of restricted common stock for acquisition	-	-	-	-	**2,000**	**2,000**
Proceeds from sale of common stock, net of estimated costs	11	3,770	-	-	**13,650**	-
Proceeds from the exercise of warrants	-	-	-	280	**280**	**80**
Proceeds from the exercise of stock options	-	-	-	24	**48**	**194**
Payments on notes/loans payable	(3,819)	(3,369)	(1,023)	(1,241)	**(3,041)**	**(3,647)**
Proceeds from the issuance of notes/loans payable	487	-	898	-	-	-
Proceeds from (payments on) line of credit	866	(3,169)	3,549	(3,068)	**(4,914)**	-
Due to owner	(100)	-	-	-	-	-
Net cash provided by (used in) Financing	(2,555)	(2,767)	3,425	(4,000)	**8,028**	**(1,372)**
Foreign currency translation adjustment	61	-	(120)	31	**31**	-
Net change in Cash	353	1,237	2,979	843	**894**	**(475)**
Cash Beginning of Period	25	378	1,615	4,594	**4,594**	**5,488**
Cash End of Period	$ 378	$ 1,615	$ 4,594	$ 5,437	**$ 5,488**	**$ 5,014**

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	2	11
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.

All research issued by Taglich Brothers, Inc. is based on public information. In March 2021, the company paid Taglich Brothers a monetary fee of $4,500 (USD) representing payment for the creation and dissemination of research reports for three months. Three-months after publication of the initial report (August 2021), the company will begin paying Taglich Brothers a monthly monetary fee of $1,500 (USD) for the creation and dissemination of research reports.

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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.