

Oct 08, 2024

Transportation

**ESEA**

NCM

Rating

**Outperform**

Unchanged

Current Price

**\$44.25**

Target Price

**\$64.00**

Market Capitalization

**310.38m**

Shares Outstanding

**7.01m**

Float

**2.85m**

Institutional Holdings

**7.92%**

12-Month Low/High

**\$22.50/\$50.92**

Average 90-Day Volume

**47070**

Fiscal Year End

**12/31/2024**

## Euroseas

### Updating Estimates Due to New Time Charter Contract for the M/V Jonathan P


**New Time Charter Contract:** Euroseas Ltd. executed a time charter contract for M/V Jonathan P at a gross daily rate of \$20,000 for a minimum period of 11 to a maximum period of 13 months at the option of the charterer. The M/V Jonathan is a 1,740 TEU feeder container ship. Recall that TEU is a unit of cargo capacity that is based on the volume of a 20-foot-long intermodal container that can be transferred between different carriers. The new charter is expected to commence in mid-to-late October 2024.

**Profitable Rate and Improved Charter Coverage:** The new time charter is expected to contribute EBITDA of ~\$4.0 million during the minimum contracted period and improves 2024 and 2025 charter coverage to 96% and 52%, respectively. While the rate is lower than the previous time charter, it is above our prior 2025 rate estimate of \$15,000 per day. Moreover, the contract enhances revenue visibility by locking in a profitable rate through 2025.

**Updating Estimates:** Based on the new contract, we have increased our 2025 EBITDA and EPS estimates to \$122.3 million and \$11.65 from \$121.2 million and \$11.50, respectively. The revised estimates are inclusive of a modest increase in expected operating expenses.

**Rating is Outperform:** We have increased our price target to \$64.00 from \$63.00 per share based on our revised estimates. In our view, the company's inventory of smaller vessels and its ongoing effort to book extended profitable charter rates has Euroseas well-positioned to navigate potential market uncertainty in 2025. We think our estimates could prove conservative if the rate environment strengthens.

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#### Revenues (\$ MIL)

| Period | 2023 A    | 2024 E    | 2025 E    |
|--------|-----------|-----------|-----------|
| Q1     | \$43.5 A  | \$48.3 A  | \$55.7 E  |
| Q2     | \$49.3 A  | \$60.3 A  | \$51.6 E  |
| Q3     | \$52.3 A  | \$56.3 E  | \$53.0 E  |
| Q4     | \$50.7 A  | \$55.3 E  | \$53.0 E  |
|        | \$195.8 A | \$220.2 E | \$213.3 E |

#### EPS (\$)

| Period | 2023 A    | 2024 E    | 2025 E    |
|--------|-----------|-----------|-----------|
| Q1     | \$3.09 A  | \$2.66 A  | \$3.44 E  |
| Q2     | \$4.17 A  | \$4.92 A  | \$2.67 E  |
| Q3     | \$4.07 A  | \$3.78 E  | \$2.76 E  |
| Q4     | \$3.61 A  | \$3.63 E  | \$2.77 E  |
|        | \$14.98 A | \$14.99 E | \$11.65 E |

**Favorable Time Charter for the M/V Jonathan P**

Euroseas Ltd. is a provider of seaborne transportation for containerized cargoes. The Company has a fleet of 23 vessels, including 16 Feeder container ships and 7 Intermediate container ships. Euroseas' 23 container ships have a cargo capacity of 67,073 twenty-foot equivalent units (TEU). After the delivery of two newbuild feeder container ships in the first quarter of 2025, Euroseas' fleet will consist of 25 vessels with a total carrying capacity of 72,673 TEU. The company's fleet is summarized in the table below.

**Euroseas Ltd. Fleet Summary**

| Name   | Type         | Dwt            | TEU           | Year Built      | Employment                               | TCE Rate (\$/day)         |
|--|--------------|----------------|---------------|-----------------|--|---------------------------|
| <b>Container Carriers</b>                    |              |                |               |                 |  |                           |
| MARCOS V(*)                                  | Intermediate | 72,968         | 6,350         | 2005            | TC until Dec-24<br>TC until Aug-25       | \$42,200<br>\$15,000      |
| SYNERGY BUSAN(+)(*)                          | Intermediate | 50,726         | 4,253         | 2009            | TC until Dec-24<br>Then until Dec-27     | \$25,000<br>\$35,500(***) |
| SYNERGY ANTWERP(*)                           | Intermediate | 50,726         | 4,253         | 2008            | TC until Mar-25                          | \$26,500(**)              |
| SYNERGY OAKLAND(*)                           | Intermediate | 50,787         | 4,253         | 2009            | TC until May-26                          | \$42,000                  |
| SYNERGY KEELUNG(*)                           | Intermediate | 50,969         | 4,253         | 2009            | TC until Apr-25                          | \$23,000                  |
| EMMANUEL P(*)                                | Intermediate | 50,796         | 4,250         | 2005            | TC until Apr-25                          | \$21,000                  |
| RENA P(*)                                    | Intermediate | 50,796         | 4,250         | 2007            | TC until Apr-25                          | \$21,000                  |
| EM KEA(*)                                    | Feeder       | 42,165         | 3,100         | 2007            | TC until May-26                          | \$19,000                  |
| GREGOS(*)                                    | Feeder       | 37,237         | 2,800         | 2023            | TC until Apr-26                          | \$48,000                  |
| TERATAKI(*)                                  | Feeder       | 37,237         | 2,800         | 2023            | TC until Jul-26                          | \$48,000                  |
| TENDER SOUL(+)                               | Feeder       | 37,237         | 2,800         | 2024            | TC until Dec-24                          | \$17,000                  |
| LEONIDAS Z (*)                               | Feeder       | 37,237         | 2,800         | 2024            | TC until Mar-26                          | \$20,000                  |
| PEPI STAR(*)                                 | Feeder       | 22,262         | 1,800         | 2024            | TC until Jun-26                          | \$24,250(**)              |
| EVRIKIKI G(*)                                | Feeder       | 34,677         | 2,556         | 2001            | TC until Feb-25                          | \$40,000                  |
| EM CORFU(*)                                  | Feeder       | 34,654         | 2,556         | 2001            | TC until Feb-25                          | \$40,000                  |
| DIAMANTIS P(*)                               | Feeder       | 30,360         | 2,008         | 1998            | TC until Oct-24                          | \$27,000                  |
| MONICA(*)                                    | Feeder       | 22,262         | 1,800         | 2024            | TC until May-25                          | \$16,000                  |
| STEPHANIA K(*)                               | Feeder       | 22,262         | 1,800         | 2024            | TC until May-26                          | \$22,000(**)              |
| EM SPETSES(*)                                | Feeder       | 23,224         | 1,740         | 2007            | TC until Apr-26                          | \$18,100                  |
| JONATHAN P(*)                                | Feeder       | 23,357         | 1,740         | 2006            | TC until Sep-24                          | \$27,000(***)             |
| EM HYDRA(*)                                  | Feeder       | 23,351         | 1,740         | 2005            | TC until Feb-25                          | \$13,000(**)              |
| JOANNA(*)                                    | Feeder       | 22,301         | 1,732         | 1999            | In drydock<br>Then from Oct-24 to Aug-26 | \$16,500(****)            |
| AEGEAN EXPRESS(+)                            | Feeder       | 18,581         | 1,439         | 1997            | TC until Dec-24                          | \$8,000                   |
| <b>Total Container Carriers on the Water</b> | <b>23</b>    | <b>846,172</b> | <b>67,073</b> |                 |  |                           |
| <b>Vessels under construction</b>            |              |                |               |                 |  |                           |
|  | Type         | Dwt            | TEU           | To be delivered | Employment                               | TCE Rate (\$/day)         |
| DEAR PANEL                                   | Feeder       | 37,237         | 2,800         | Jan-2025        |  |                           |
| SYMEON P                                     | Feeder       | 37,237         | 2,800         | Jan-2025        |  |                           |
| <b>Total under construction</b>              | <b>2</b>     | <b>74,474</b>  | <b>5,600</b>  |                 |  |                           |

**Notes:**

(\*) TC denotes time charter. All dates listed are the earliest redelivery dates under each time charter unless the contract rate is lower than the current market rate in which cases the latest redelivery date is assumed; vessels with the latest redelivery date shown are marked by (+).

(\*\*) Rate is gross of commissions of 2.5% (commissions are, typically, 5-6.25%)

(\*\*\*) Rate is gross of commissions of 1.25% (commissions are, typically, 5-6.25%)

(\*\*\*\*) Rate is \$19,000 for the first 17 months, \$9,500 for the next six months and \$16,500 for redelivery range.

Euroseas Ltd. announced a time charter contract for M/V Jonathan P at a daily gross rate of \$20,000 for a minimum period of 11 to a maximum period of 13 months at the option of the charterer. The M/V Jonathan is a 1,740 TEU feeder container ship. Recall that TEU is a unit of cargo capacity that is based on the volume of a 20-foot-long intermodal container that can be transferred between different carriers. The new charter is expected to commence in mid-to-late October 2024.

While the rate is lower than the previous time charter, it is \$5,000 per day above our previous 2025 estimate. The charter is expected to contribute EBITDA of ~\$4.0 million during the minimum contracted period and increases 2024 and 2025 charter coverage to 96% and 52%, respectively.

Trade volume continues to look solid heading into the back half of 2024 and into 2025. However, a significant orderbook of large container ships is still set to deliver within the next year, bringing increased competition and lower freight rates. Additionally, the geopolitical environment remains fluid. Rates could experience downward pressure if trade routes reopen through the Red Sea. In our view, the company's inventory of smaller vessels and its ongoing effort to book extended profitable charter rates has Euroseas well-positioned to navigate potential market uncertainty in 2025.

## Company Profile

Euroseas (ESEA) became a pure play on the container ship market after spinning off its dry bulk assets into a separate company in May 2018. ESEA operates a fleet of 23 container ships (16 Feeders and 7 Intermediates). Two newbuilds will push the fleet to 25 when they are delivered in the first quarter of 2025. Euroseas' operations are managed by Eurobulk Ltd., an affiliated ship management company, and Eurobulk FE (Far East) Ltd, which are responsible for the day-to-day commercial and technical management and operation of the fleet. Euroseas employs the fleet mainly on spot and time period charters. Euroseas trades on the NASDAQ under the ticker ESEA.

## Fundamental Analysis - 4.0 / 5.0 Checks

In our assessment, we give ESEA 4.0 checks, which falls in the "Above Average" range. Given the company's positioning as a pure play container company, the fundamental opportunity within the container market is favorable due to growing container demand, above-average container TEC rates and a high order book. Consistent outperformance versus industry benchmarks and positive cash flow generation are positives. Balance sheet risk has moderated with the retirement/conversion of preferred stock, and the ability to capture attractive growth opportunities has improved with recent acquisitions. In addition, the quality of management and the Board of Directors is above average due to extensive industry experience. These positives more than offset related party transactions, the limited public float and the age of the existing container fleet. For further explanation of our fundamental analysis, refer to the disclosures at the end of this report.

## Valuation Summary

Our investment rating is a Outperform. Our price target of \$64.00 per share based on a peer group average enterprise value multiple of ~4.8x our 2025 EBITDA estimate of \$122.3 million.

## Investment Risks:

The global container market is volatile and swings in rates are often significant. Barriers to entry are fairly low and a market recovery could trigger new build orders. Overbuilding and slight declines in demand have triggered sharp downturns in the past.

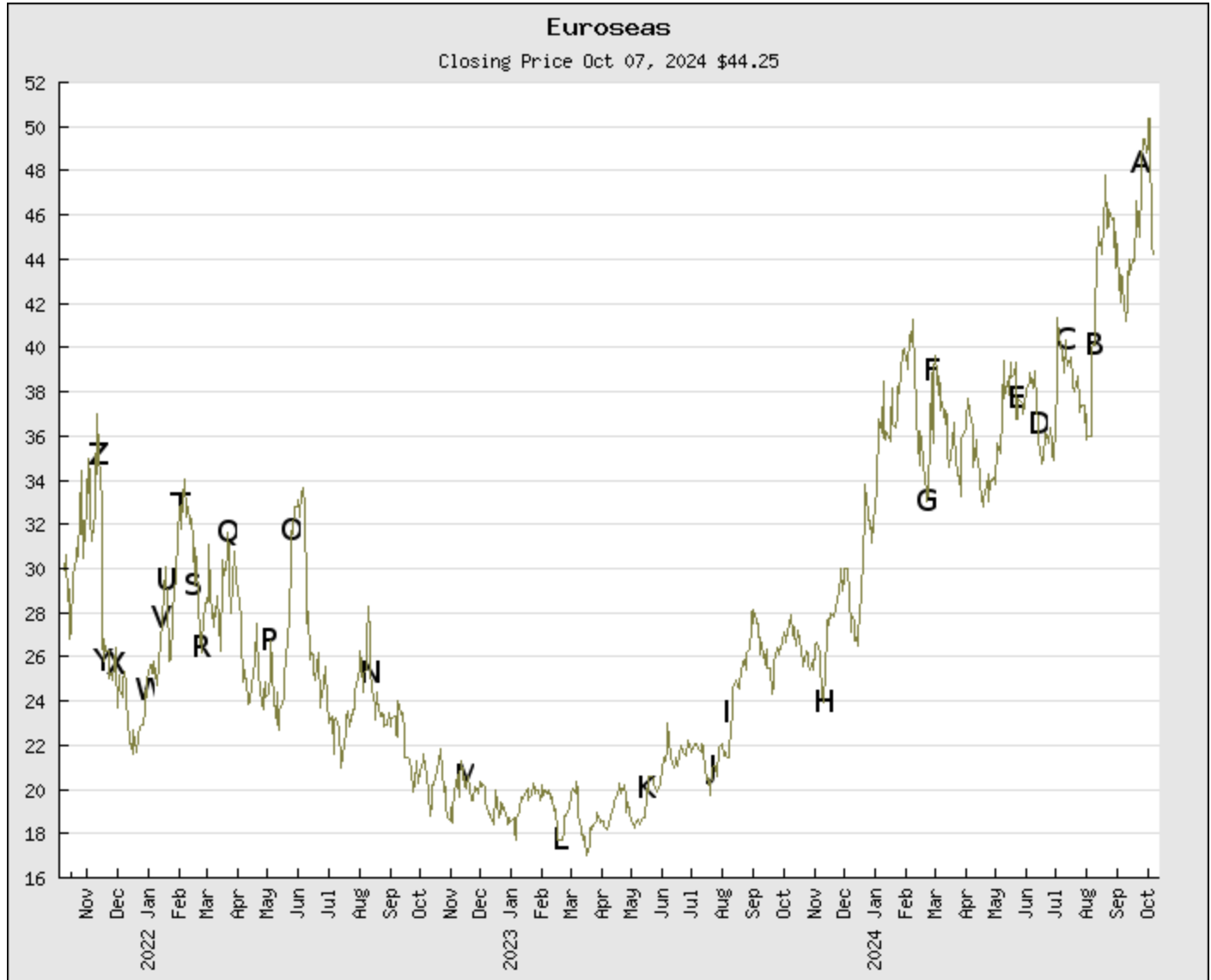
Chinese economic growth has been a significant driver of seaborne container demand. A slowdown in the Chinese economy could negatively affect results.

Global economic growth influences the container market, and trade barriers (quotas, tariffs, etc.) could have a negative impact on seaborne container trade.

ESEA is a small cap company with a public float that is below average. As a result, the investor base is narrower than larger companies and trading liquidity is also likely to be lower.



| Euroseas (ESEA)  | FY 2021       | FY 2022        | FY 2023        | Q1 2024       | Q2 2024       | Q3 2024E      | Q4 2024E      | FY 2024E       | Q1 2025E      | Q2 2025E      | Q3 2025E      | Q4 2025E      | FY 2025E       |
|--|---------------|----------------|----------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|----------------|
| <b>Revenues:</b>   |               |                |                |               |               |               |               |                |               |               |               |               |                |
| Time Charter Revenue   | 97,980        | 189,630        | 195,779        | 48,295        | 60,289        | 56,336        | 55,250        | 220,170        | 55,674        | 51,576        | 52,980        | 53,031        | 213,260        |
| Commissions  | (4,086)       | (6,936)        | (6,422)        | (1,576)       | (1,564)       | (1,641)       | (1,609)       | (6,391)        | (1,622)       | (1,502)       | (1,543)       | (1,545)       | (6,211)        |
| <b>Net (TCE) Revenue</b>   | <b>93,894</b> | <b>182,694</b> | <b>189,357</b> | <b>46,718</b> | <b>58,725</b> | <b>54,695</b> | <b>53,641</b> | <b>213,779</b> | <b>54,053</b> | <b>50,073</b> | <b>51,437</b> | <b>51,486</b> | <b>207,049</b> |
| <b>Operating Expense:</b>  |               |                |                |               |               |               |               |                |               |               |               |               |                |
| Voyage Expenses, net   | 713           | 2,477          | 1,284          | 1,038         | (255)         | 827           | 827           | 2,438          | 888           | 898           | 909           | 909           | 3,604          |
| Vessel Expenses  | 29,739        | 37,667         | 42,004         | 11,372        | 11,136        | 13,028        | 13,028        | 48,565         | 14,213        | 14,371        | 14,537        | 14,551        | 57,671         |
| Drydocking Expenses  | 4,095         | 9,507          | 3,374          | 5,643         | 1,586         | 1,586         | 1,586         | 10,402         | 1,000         | 1,000         | 1,000         | 1,000         | 4,000          |
| Vessel Depreciation  | 7,203         | 18,522         | 22,835         | 5,441         | 6,821         | 7,296         | 7,296         | 26,853         | 7,296         | 7,771         | 8,246         | 8,246         | 31,558         |
| Related Party Management Fees  | 4,295         | 4,920          | 5,721          | 1,592         | 1,664         | 1,913         | 1,913         | 7,081          | 2,054         | 2,077         | 2,101         | 2,103         | 8,335          |
| G&A Expenses   | 3,489         | 4,571          | 4,745          | 1,242         | 1,126         | 1,584         | 1,584         | 5,536          | 1,757         | 1,776         | 1,797         | 1,798         | 7,128          |
| Net (Gain) Loss on Sale of Vessel                                      | 9             | 0              | (5,158)        | 0             | (5,691)       | 0             | 0             | (5,691)        | 0             | 0             | 0             | 0             | 0              |
| Impairment Loss  | 0             | 0              | 13,833         | 0             | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             | 0              |
| Gain on Time Charter Agreements Termination                            | 0             | 0              | (15,984)       | 0             | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             | 0              |
| Other Operating Expense  | (1,296)       | (1,610)        | (2,727)        | 0             | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             | 0              |
| <b>Total Operating Exp</b>   | <b>48,248</b> | <b>76,054</b>  | <b>69,926</b>  | <b>26,328</b> | <b>16,387</b> | <b>26,235</b> | <b>26,235</b> | <b>95,185</b>  | <b>27,208</b> | <b>27,893</b> | <b>28,589</b> | <b>28,607</b> | <b>112,296</b> |
| <b>Adjusted EBITDA</b>   | <b>52,661</b> | <b>114,389</b> | <b>123,554</b> | <b>24,601</b> | <b>42,252</b> | <b>35,140</b> | <b>34,086</b> | <b>136,078</b> | <b>33,300</b> | <b>28,885</b> | <b>30,027</b> | <b>30,058</b> | <b>122,270</b> |
| Operating Income (Loss)  | 45,646        | 106,640        | 119,431        | 20,390        | 42,337        | 28,460        | 27,406        | 118,594        | 26,845        | 22,181        | 22,848        | 22,879        | 94,753         |
| <b>Other Income (Loss):</b>  |               |                |                |               |               |               |               |                |               |               |               |               |                |
| Interest and Other Financing Costs                                     | (2,780)       | (5,073)        | (6,431)        | (1,800)       | (2,054)       | (2,054)       | (2,054)       | (7,963)        | (2,804)       | (3,554)       | (3,554)       | (3,554)       | (13,467)       |
| Gain (Loss) on Debt Extinguishment                                     | 0             | 0              | 0              | 0             | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             | 0              |
| Gain on Derivatives, net   | (27)          | 4,356          | 178            | 863           | 118           | 0             | 0             | 981            | 0             | 0             | 0             | 0             | 0              |
| Foreign Exchange Gain (Loss)   | 34            | 54             | (34)           | 2             | 16            | 0             | 0             | 18             | 0             | 0             | 0             | 0             | 0              |
| Interest Income  | 4             | 267            | 1,405          | 547           | 331           | 0             | 0             | 879            | 0             | 0             | 0             | 0             | 0              |
| Other Income (Loss), net   | (2,769)       | (395)          | (4,882)        | (388)         | (1,589)       | (2,054)       | (2,054)       | (6,085)        | (2,804)       | (3,554)       | (3,554)       | (3,554)       | (13,467)       |
| <b>Net Income (Loss)</b>   | <b>42,877</b> | <b>106,245</b> | <b>114,549</b> | <b>20,002</b> | <b>40,749</b> | <b>26,406</b> | <b>25,352</b> | <b>112,509</b> | <b>24,041</b> | <b>18,627</b> | <b>19,294</b> | <b>19,325</b> | <b>81,286</b>  |
| Dividend Series B Preferred Shares                                     | (255)         | 0              | 0              | 0             | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             | 0              |
| Preferred Deemed Dividend  | (345)         | 0              | 0              | 0             | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             | 0              |
| <b>Net Income Attributable to Common Shareholders</b>                  | <b>42,277</b> | <b>106,245</b> | <b>114,555</b> | <b>20,002</b> | <b>40,749</b> | <b>26,406</b> | <b>25,352</b> | <b>112,509</b> | <b>24,041</b> | <b>18,627</b> | <b>19,294</b> | <b>19,325</b> | <b>81,286</b>  |
| Weighted Average Number of Shares, Diluted                             | 28,023        | 28,825         | 6,936          | 6,969         | 6,979         | 6,979         | 6,979         | 6,976          | 6,979         | 6,979         | 6,979         | 6,979         | 6,979          |
| <b>Gain (Loss) Per Share, Basic and Diluted</b>                        | <b>1.51</b>   | <b>3.69</b>    | <b>16.52</b>   | <b>2.87</b>   | <b>5.84</b>   | <b>3.78</b>   | <b>3.63</b>   | <b>16.13</b>   | <b>3.44</b>   | <b>2.67</b>   | <b>2.76</b>   | <b>2.77</b>   | <b>11.65</b>   |
| <b>Adjusted EBITDA:</b>  |               |                |                |               |               |               |               |                |               |               |               |               |                |
| Adjusted EBITDA  | 52,661        | 114,389        | 123,554        | 24,601        | 42,252        | 35,140        | 34,086        | 136,078        | 33,300        | 28,885        | 30,027        | 30,058        | 122,270        |
| Adjusted Net Income (Loss) Attributable to Common Shareholders         | 42,877        | 106,245        | 114,549        | 20,002        | 40,749        | 26,406        | 25,352        | 112,509        | 24,041        | 18,627        | 19,294        | 19,325        | 81,286         |
| Interest and Other Financing Costs, net (including interest income)    | 2,776         | 4,805          | 5,026          | 1,253         | 1,723         | 1,438         | 1,438         | 5,851          | 1,963         | 2,488         | 2,488         | 2,488         | 9,427          |
| Vessel Depreciation  | 7,203         | 18,522         | 22,835         | 5,441         | 6,821         | 7,296         | 7,296         | 26,853         | 7,296         | 7,771         | 8,246         | 8,246         | 31,558         |
| Amortization of Below Market Time Charters Acquired                    | (232)         | (10,828)       | (11,369)       | (1,232)       | (1,232)       | 0             | 0             | (2,464)        | 0             | 0             | 0             | 0             | 0              |
| Gain (Loss) on Interest Rate Swap Derivatives                          | 27            | (4,356)        | (178)          | (863)         | (118)         | 0             | 0             | (981)          | 0             | 0             | 0             | 0             | 0              |
| Impairment Loss  | 0             | 0              | 13,833         | 0             | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             | 0              |
| Gain on Time Charter Agreements Termination                            | 0             | 0              | (15,984)       | 0             | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             | 0              |
| Gain (Loss) on Sale of Vessel  | 9             | 0              | (5,158)        | 0             | (5,691)       | 0             | 0             | (5,691)        | 0             | 0             | 0             | 0             | 0              |
| <b>Adjusted EBITDA</b>   | <b>52,661</b> | <b>114,389</b> | <b>123,554</b> | <b>24,601</b> | <b>42,252</b> | <b>35,140</b> | <b>34,086</b> | <b>136,078</b> | <b>33,300</b> | <b>28,885</b> | <b>30,027</b> | <b>30,058</b> | <b>122,270</b> |
| <b>Adjusted Net Income (Loss) Attributable to Common Shareholders:</b> |               |                |                |               |               |               |               |                |               |               |               |               |                |
| Adjusted Net Income  | 42,601        | 95,012         | 103,911        | 18,504        | 34,303        | 26,406        | 25,352        | 104,565        | 24,041        | 18,627        | 19,294        | 19,325        | 81,286         |
| Preferred Dividends  | (255)         | 0              | 0              | 0             | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             | 0              |
| Preferred Deemed Dividend  | (345)         | 0              | 0              | 0             | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             | 0              |
| <b>Adjusted Net Income Attributable to Controlling Shareholders</b>    | <b>42,000</b> | <b>95,012</b>  | <b>103,911</b> | <b>18,504</b> | <b>34,303</b> | <b>26,406</b> | <b>25,352</b> | <b>104,565</b> | <b>24,041</b> | <b>18,627</b> | <b>19,294</b> | <b>19,325</b> | <b>81,286</b>  |
| Weighted Average Number of Shares, Diluted                             | 6,993         | 7,190          | 6,936          | 6,969         | 6,979         | 6,979         | 6,979         | 6,976          | 6,979         | 6,979         | 6,979         | 6,979         | 6,979          |
| <b>Adjusted Net Income (Loss) Per Share, Diluted</b>                   | <b>6.01</b>   | <b>13.21</b>   | <b>14.98</b>   | <b>2.66</b>   | <b>4.92</b>   | <b>3.78</b>   | <b>3.63</b>   | <b>14.99</b>   | <b>3.44</b>   | <b>2.67</b>   | <b>2.76</b>   | <b>2.77</b>   | <b>11.65</b>   |



|                |            |                |                 |                |            |                |                 |
|----------------|------------|----------------|-----------------|----------------|------------|----------------|-----------------|
| A - 09/25/2024 | Outperform | Target \$63.00 | Current \$48.37 | B - 08/08/2024 | Outperform | Target \$60.00 | Current \$40.08 |
| C - 07/10/2024 | Outperform | Target \$55.00 | Current \$40.36 | D - 06/12/2024 | Outperform | Target \$53.00 | Current \$36.50 |
| E - 05/24/2024 | Outperform | Target \$49.00 | Current \$37.73 | F - 02/29/2024 | Outperform | Target \$49.00 | Current \$38.90 |
| G - 02/22/2024 | Outperform | Target \$49.00 | Current \$32.99 | H - 11/10/2023 | Outperform | Target \$49.00 | Current \$23.92 |
| I - 08/10/2023 | Outperform | Target \$49.00 | Current \$23.43 | J - 07/26/2023 | Outperform | Target \$49.00 | Current \$21.00 |
| K - 05/17/2023 | Outperform | Target \$49.00 | Current \$20.03 | L - 02/21/2023 | Outperform | Target \$49.00 | Current \$17.71 |
| M - 11/15/2022 | Outperform | Target \$49.00 | Current \$20.61 | N - 08/12/2022 | Outperform | Target \$49.00 | Current \$25.25 |
| O - 05/25/2022 | Outperform | Target \$49.00 | Current \$31.67 | P - 05/04/2022 | Outperform | Target \$49.00 | Current \$26.74 |
| Q - 03/22/2022 | Outperform | Target \$49.00 | Current \$31.61 | R - 02/24/2022 | Outperform | Target \$49.00 | Current \$26.39 |
| S - 02/16/2022 | Outperform | Target \$49.00 | Current \$29.24 | T - 02/02/2022 | Outperform | Target \$49.00 | Current \$32.90 |
| U - 01/19/2022 | Outperform | Target \$49.00 | Current \$29.43 | V - 01/14/2022 | Outperform | Target \$45.00 | Current \$27.76 |
| W - 12/29/2021 | Outperform | Target \$45.00 | Current \$24.46 | X - 11/30/2021 | Outperform | Target \$45.00 | Current \$25.67 |
| Y - 11/17/2021 | Outperform | Target \$45.00 | Current \$25.80 | Z - 11/12/2021 | Outperform | Target \$45.00 | Current \$35.10 |

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Noble is not a market maker in the Company.

## FUNDAMENTAL ASSESSMENT

The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

| Attribute                       | Weighting |
|---------------------------------|-----------|
| Corporate Governance/Management | 20%       |
| Market Opportunity Analysis     | 20%       |
| Competitive Position            | 20%       |
| Operating Leverage              | 20%       |
| Financial Leverage              | 20%       |

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

| Rating        | Score     | Checks                |
|---------------|-----------|-----------------------|
| Superior      | 9.1 to 10 | Five Checks           |
| Superior      | 8.1 to 9  | Four & A Half Checks  |
| Above Average | 7.1 to 8  | Four Checks           |
| Above Average | 6.1 to 7  | Three & A Half Checks |
| Average       | 5.1 to 6  | Three Checks          |
| Average       | 4 to 5    | Two & A Half Checks   |
| Below Average | 3 to 3.9  | Two Checks            |
| Below Average | 2 to 2.9  | One & A Half Checks   |
| Low Quality   | 0 to 1.9  | One Check             |

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

### Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

### The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or underserved needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.



### Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

### Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

### Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclicalities, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

### ANALYST CREDENTIALS, PROFESSIONAL DESIGNATIONS, AND EXPERIENCE

Senior Equity Analyst focusing on Basic Materials & Mining. 20 years of experience in equity research. BA in Business Administration from Westminster College. MBA with a Finance concentration from the University of Missouri. MA in International Affairs from Washington University in St. Louis.

Named WSJ 'Best on the Street' Analyst and Forbes/StarMine's "Best Brokerage Analyst."

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| <b>NOBLE RATINGS DEFINITIONS</b>                                     | <b>% OF SECURITIES COVERED</b> | <b>% IB CLIENTS</b> |
|--|--------------------------------|---------------------|
| Outperform: potential return is >15% above the current price         | 90%                            | 25%                 |
| Market Perform: potential return is -15% to 15% of the current price | 10%                            | 3%                  |
| Underperform: potential return is >15% below the current price       | 0%                             | 0%                  |

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Additional information is available upon request. Any recipient of this report that wishes further information regarding the subject company or the disclosure information mentioned herein, should contact Noble Capital Markets, Inc. by mail or phone.

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