

MustGrow Biologics Corp.

Gearing Up for Sales

Sep 03, 2024

*Undefined

MGROF

OTCQB

Rating

Market Perform

Unchanged

Current Price

\$0.69

Market Capitalization

34.81m

Shares Outstanding

51.6m

Float

45.07m

Institutional Holdings

0.04%

12-Month Low/High

\$0.41/\$1.28

Average 90-Day Volume

906

Fiscal Year End

12/31/2024

2Q Results. MustGrow had no revenue during the quarter. We estimated revenue of CAD\$1,000. Net loss was CAD\$960,209, or a loss of \$0.02/sh, compared to a loss of CAD\$1.2 million last year, or a loss of \$0.02/sh. We estimated a net loss of \$1.1 million, or a loss of \$0.02/sh.

But Revenue Underway. Revenue for MustGrow's TerraSante product is now coming in. We believe this initial revenue recognition to be an important milestone for the Company, with the product now in farmers' hands. Management noted that sales are performing as expected, with farmers having small-scale testing of TerraSante to understand the product.

Growing Opportunity. Now with sales underway for the Company, its pipeline is ripe with opportunity as management continues to push for more state approvals of its product. The California and Arizona approvals also provide a 'double-dip' with California farmers moving crops into Arizona during the winter season. Management is now focused on the east coast, including states such as Florida and Pennsylvania, providing more opportunity for MustGrow once approved.

Projections. Management's comments regarding the start of its revenue production is a major step for the Company, in our view, and the Company's focus on state approvals gives MustGrow more opportunities going forward. With this said, revenue will be slower to generate, and we estimate a ramp up in revenue in the second half of 2025. We estimate revenue of CAD\$15,000 for the third quarter and a net loss of \$2.0 million, or \$0.04/sh.

Maintaining Market Perform. Although the Company has started receiving revenue from its TerraSante product, we would like to see more substantial revenue, which we believe could happen sooner rather than later. We believe substantial opportunity exists for natural alternatives in the Company's targeted end markets, such as preplant soil fumigation, bioherbicides, postharvest food preservation, soil amendment, and biofertility.

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Revenues (\$ MIL)

Period	2022A	2023A	2024E
Q1	0.00A	0.00A	0.00A
Q2	0.00A	0.00A	0.00A
Q3	0.01A	0.00A	0.02E
Q4	0.00A	4.71A	0.30E
	0.01A	4.71A	0.32E

EPS (\$)

Period	2022A	2023A	2024E
Q1	(0.02)A	(0.02)A	(0.02)A
Q2	(0.03)A	(0.02)A	(0.02)A
Q3	(0.04)A	(0.04)A	(0.04)E
Q4	(0.02)A	0.07A	(0.02)E
	(0.11)A	(0.01)A	(0.09)E

Revenue is Now Underway

The labor of the Company's efforts is beginning to bear fruit, as management noted that the Company has started to generate revenue on its TerraSante product during the third quarter. While noted that the revenue will not be significant, revenue recognition is an important milestone for the Company in our view as the product is now in farmer hands. Initial revenue reflects part of the testing phase with farmers, as the farmers are using the product on a small-scale basis to understand how it works. With good results from the farmers' testing phase and a willingness to use MustGrow's product, the Company can potentially expand its revenue for full-scale production. Feedback from farmers has been positive, and sales have been performing so far as expected for management. Below is a slide regarding TerraSante, including the estimated value opportunity:

TerraSante™ –Sales to Start in 2024

WHAT:

- TerraSante™ is a biofertility product that is OMRI and OIM
- Currently registered in key U.S. states, including California, that grow high value fruits & vegetables

WHY:

- There is a need for natural, organic fertility products to replace restricted synthetic fertilizers and help build the soil microbiome
- TerraSante™ provides plant proteins & carbohydrates to feed the soil microbiome & improve overall soil health

MARKET POTENTIAL EXAMPLE:

- US has ~5.6 million acres of high value fruit & vegetable crops
- Market Penetration: ~3.3% of total acreage
- Estimated Value Opportunity at Peak: ~US\$98 million/yr (grower level)

NEXT STEPS:

- Other state biofertility registrations to come in 2024
- Sales to start 2024 and ramp-up to peak sales is estimated over several years
- Sales/Marketing Strategy:
 - Direct sales initially
 - Partnership potential for distribution or white labelling

Source: 3rd Party Ag Market Researcher, MustGrow estimates.

MustGrow Biologics Corp. 9

Fiscal year 2024 is not expected to have a significant impact on revenue, but management expects the second half of 2025 and into 2026 for revenue to ramp up. We believe this can be achievable given management's focus on state approvals.

Now that the TerraSante is being tested by the farmers themselves, the growing list of approved states highlights the pipeline of opportunities for the Company. As more states are added, the more opportunity for the Company to showcase its product to farmers. MustGrow has the west coast approved for its product and is now targeting the east coast, with the goal of achieving a geographic 'U' shape in state approvals for the U.S. Florida is next on the priority list with Pennsylvania soon to follow. We are encouraged by the list of states that have approved MustGrow's product and believe that the timespan will be shorter for state approvals as the Company builds its list.

Company Profile

MustGrow is an agricultural biotechnology company focused on the development and commercialization of natural biopesticides, biofumigants, bioherbicides, and, now, soil amendment and biofertility products derived from food-grade mustard seed. The mustard plant, which is a Brassica species plant, has natural compounds within that produce natural chemicals with pesticidal, fungicidal and herbicidal properties. Allyl-isothiocyanate ("AITC") and thiocyanate are the active ingredient compounds which are part of the plant's defense mechanism against disease, pests and weeds. MustGrow has extracted these natural compounds and molecules that form these natural compounds, from mustard seed and formulated them in a dry and liquid form with potential for use as a commercial biopesticide, biofumigant and bioherbicide. MustGrow owns issued patents and patent applications covering the extraction, formulation and use of these natural compounds. The MustGrow technology is a platform technology with multiple applications, including preplant soil treatment of disease, pests and weeds, and a biologic for postharvest food preservation.

Fundamental Analysis — 2.5/5.0 checks

We give MustGrow Biologics Corp. 2.5 checks out of 5.0, which falls within our "Average" range of 2.0 to 3.0 checks. We give the Company Average marks for its Corporate Governance and Management. The Company has eight directors, six of whom are independent. Directors are elected annually. Management and the Board of Directors owned 12.6% of the outstanding shares as of April 2024. Although MustGrow is still in the pre-revenue stage, the Total Addressable Market is large, with substantial opportunity for penetration. Key industry trends, including more restrictive regulatory moves, provide an opening for natural alternatives, such as MustGrow's. The favorable market opportunity is somewhat offset, however, by the competitive nature of the industry, with many competitors significantly larger in size than MustGrow. The Company has a solid balance sheet that should tide the Company over until revenue begins to be generated. We believe there is additional operating leverage as the Company scales revenue.

Valuation Summary

We are maintaining our Market Perform rating on MustGrow. We believe substantial opportunity exists for natural alternatives in the Company's targeted end markets, such as preplant soil fumigation, bioherbicides, postharvest food preservation, and soil amendment and biofertility. We believe the Company's partnerships with key companies in the space will prove fruitful, both in validating the technology but also in assisting MustGrow in the regulatory approval process. The Company is now out of its pre-revenue stage as well; however, MustGrow's revenue is not substantial and is dependent upon its partners to conduct the field trials. If the field trials do not confirm the more limited testing MustGrow has successfully completed, or the partners decide to move in a different direction, the Company will need to raise additional capital and/or reassess. Interest in the industry remain elevated, with Corteva in 2022 announcing an agreement to acquire Stoller Group, a leading independent biologicals company. The \$1.2 billion price tag represents 3x 2022 revenue and 12x 2022 projected EBITDA. We would look to upgrade to an Outperform based on additional favorable trial outcomes and/or movement on the regulatory front.

Risks include, but are not limited to:

MustGrow Biologics is a pre-revenue start-up. The Company is subject to all of the business risks and uncertainties associated with any early-stage enterprise, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, and lack of revenues.

MustGrow's main products have yet to reach production stage.

The ability to generate sufficient revenue to sustain the operations of the Company depends upon the ability to successfully commercialize its intellectual property or other product candidates that the Company develops or acquires in the future.

The Company will not know whether a production problem exists until its products are manufactured at scale.

Biofumigants, biopesticides, and bioherbicides are highly regulated products around the world. Changes to the approval process that could be imposed by the regulatory bodies around the world may materially impact the Company's ability to access desirable markets or to do so in a profitable manner.

The Company's success depends, in part, on its ability to obtain patent protection for its products, technologies and their uses, on its ability to maintain trade secret protection and to operate without infringing the proprietary rights of others and without third parties circumventing the rights that the Company currently owns or licenses.

The markets for biological agricultural products are intensely competitive, rapidly changing and undergoing consolidation. The high level of competition in the market for biological agricultural products may result in pricing pressure, reduced margins or the inability of the Company's products to achieve market acceptance.

Any global systemic economic and financial crisis could negatively affect MustGrow's business, results of operations, and financial condition.

MustGrow Biologics

Income Statement (Canadian \$)	FY 2022 Dec-22	Q1 2023 Mar-23	Q2 2023 Jun-23	Q3 2023 Sep-23	Q4 2023 Dec-23	FY 2023 Dec-23	Q1 2024 Mar-24	Q2 2024 Jun-24	Q3 2024E Sep-24	Q4 2024E Dec-24	FY 2024E Dec-24
Revenue	6,479	0	0	0	4,712,200	4,712,200	0	0	15,000	300,000	315,000
Cost of Products Sold	0	0	0	0	0	0	0	0	11,250	16,500	27,750
Gross Profit	6,479	0	0	0	4,712,200	4,712,200	0	0	3,750	283,500	287,250
Gross Profit Margin	100.0%				100.0%	100.0%			25.0%	94.5%	91.2%
Research & Development	475,858	342,729	230,833	97,298	186,205	857,065	307,087	122,393	150,000	150,000	729,480
% of Revenue	7344.6%				4.0%	18.2%			50.0%	50.0%	231.6%
Office & Administration	1,116,856	271,203	238,872	232,549	262,537	1,005,161	280,313	257,673	250,000	250,000	1,037,986
% of Revenue	17238.1%				5.6%	21.3%			83.3%	83.3%	329.5%
Professional Fees	771,690	100,194	103,111	118,003	178,345	499,653	37,945	171,575	100,000	100,000	409,520
% of Revenue	11910.6%				3.8%	10.6%			33.3%	33.3%	130.0%
Regulatory	100,269	8,242	92,761	124,967	89,090	315,060	90,488	110,765	90,000	90,000	381,253
Marketing and Promotion	696,820	124,200	173,642	114,508	146,252	558,602	129,235	135,458	150,000	150,000	564,693
Corporate Communication	204,836	61,990	47,254	68,486	69,549	247,279	64,397	65,148	70,000	70,000	269,545
Transfer Agent and Filing Fees	332,523	67,242	82,804	64,242	64,710	278,998	54,531	89,120	65,000	65,000	273,651
Patent Expenses	298,210	19,670	198,013	72,676	94,326	384,685	16,191	58,125	85,000	85,000	244,316
Stock-based Compensation	1,694,540	121,031	77,256	1,018,732	153,666	1,370,685	144,152	12,679	1,000,000	150,000	1,306,831
Operating Income	(5,685,123)	(1,116,501)	(1,244,546)	(1,911,461)	3,467,520	(804,988)	(1,124,339)	(1,022,936)	(1,956,250)	(826,500)	(4,930,025)
Operating Profit Margin	-87746.9%				73.6%	-17.1%			-275.5%	-275.5%	-1565.1%
Gain on Extinguishment of Debt	0	0	0	0	0	0	0	0	0	0	0
Foreign Exchange Gain	25,801	304	(6,080)	2,814	(80,588)	(83,550)	14,771	6,618	0	0	21,389
Interest Income	103,547	69,782	49,317	48,781	43,718	211,598	75,042	56,109	50,000	45,000	226,151
Finance Cost	10,066	0	0	0	0	0	0	0	0	0	0
EBIT	(5,565,841)	(1,046,415)	(1,201,309)	(1,859,866)	3,430,650	(676,940)	(1,034,526)	(960,209)	(1,906,250)	(781,500)	(4,682,485)
Income Taxes	0	0	0	0	0	0	0	0	0	0	0
Income Tax Rate	0	0	0	0	0	0	0	0	0	0	0
Net Income	(5,565,841)	(1,046,415)	(1,201,309)	(1,859,866)	3,430,650	(676,940)	(1,034,526)	(960,209)	(1,906,250)	(781,500)	(4,682,485)
Diluted Shares	49,010,264	49,677,138	49,696,615	49,881,766	49,894,640	49,787,540	51,463,575	51,640,610	51,750,000	52,000,000	51,713,546
Diluted GAAP EPS	(\$0.11)	(\$0.02)	(\$0.02)	(\$0.04)	\$0.07	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.04)	(\$0.02)	(\$0.09)

Source: Company Reports and Noble Capital Markets estimates

Adjusted EPS*	FY 2022 Dec-22	Q1 2023 Mar-23	Q2 2023 Jun-23	Q3 2023 Sep-23	Q4 2023 Dec-23	FY 2023 Dec-23	Q1 2024 Mar-24	Q2 2024 Jun-24	Q3 2024E Sep-24	Q4 2024E Dec-24	FY 2024E Dec-24
Net Income	(5,565,841)	(1,046,415)	(1,201,309)	(1,859,866)	3,430,650	(676,940)	(1,034,526)	(960,209)	(1,906,250)	(781,500)	(4,682,485)
Acquisition & Other Non-Recur	-	-	-	-	-	-	-	-	-	-	-
Adjusted Net Income	(5,565,841)	(1,046,415)	(1,201,309)	(1,859,866)	3,430,650	(676,940)	(1,034,526)	(960,209)	(1,906,250)	(781,500)	(4,682,485)
Adjusted EPS	(\$0.11)	(\$0.02)	(\$0.02)	(\$0.04)	\$0.07	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.04)	(\$0.02)	(\$0.09)

* Note Adjusted EPS calculations are Noble Capital Markets Estimates

MustGrow Biologics

Balance Sheet (Canadian \$)	FY 2021	FY 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	FY 2023	Q1 2024	Q2 2024
	Dec-21	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-23	Mar-24	Jun-24
Assets									
Cash	9,619,971	7,016,183	6,103,796	5,003,247	4,166,738	6,817,169	6,817,169	5,885,797	4,670,523
GST Receivable	64,296	87,788	83,765	108,512	98,709	94,810	94,810	124,233	180,549
Prepaid Expenses	17,683	30,411	133,533	89,385	72,098	25,884	25,884	18,007	11,528
Inventory	0	30,411	0	0	0	0	0	0	30,127
Other Current Assets	0	0	0	0	0	0	0	0	0
Total Current Assets	9,701,950	7,164,793	6,321,094	5,201,144	4,337,545	6,937,863	6,937,863	6,028,037	4,892,727
PPE	0	0	0	0	0	0	0	0	0
Other LT Assets	0	0	0	0	0	0	0	0	0
Total Assets	9,701,950	7,164,793	6,321,094	5,201,144	4,337,545	6,937,863	6,937,863	6,028,037	4,892,727
Liabilities									
Current portion of LTD	366,997	404,276	404,276	404,276	404,276	618,406	618,406	618,406	377,063
Accounts Payable and Accrued Expenses	496,085	222,302	334,368	338,502	220,267	321,753	321,753	302,301	355,864
Due to Related Parties	0	0	0	0	0	0	0	0	0
Notes Payable	0	0	0	0	0	0	0	0	0
Other Current Liabilities	-	913,700	913,700	913,700	913,700	272,500	272,500	272,500	272,500
Total Current Liabilities	863,082	1,540,278	1,652,374	1,656,478	1,538,263	1,212,659	1,212,659	1,193,207	1,005,427
LTD	382,271	355,058	355,058	355,058	355,058	140,928	140,928	140,928	140,928
Other LT Liabilities	0	0	0	0	0	0	0	0	0
Total Liabilities	1,245,353	1,895,336	2,007,432	2,011,536	1,893,321	1,353,587	1,353,587	1,334,135	1,146,355
Shareholders Equity									
Share Capital	23,031,182	24,025,182	24,075,181	24,341,176	24,498,301	25,060,377	25,060,377	25,060,377	25,333,011
Contributed Surplus	2,463,651	3,817,941	3,888,973	3,700,234	4,657,591	3,804,916	3,804,916	3,949,068	3,689,113
Accumulated Deficit	(17,038,236)	(22,604,077)	(23,850,492)	(24,851,802)	(26,711,668)	(23,281,017)	(23,281,017)	(24,315,543)	(25,275,752)
Total Shareholders Equity	8,456,597	5,239,046	4,313,662	3,189,608	2,444,224	5,584,276	5,584,276	4,693,902	3,746,372
Total Liabilities and Shareholders Equity	9,701,950	7,134,382	6,321,094	5,201,144	4,337,545	6,937,863	6,937,863	6,028,037	4,892,727

Cash Flow Statement	FY 2021	FY 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	FY 2023	Q1 2024	Q2 2024
	Dec-21	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-23	Mar-24	Jun-24
Operating Cash Flows									
Net Income	(3,063,875)	(5,565,841)	(1,046,415)	(1,201,310)	(1,859,866)	3,430,651	(676,940)	(1,034,526)	(960,209)
Depreciation and Amortization	0	0	0	0	0	0	0	0	0
Stock-based Compensation	270,810	1,694,540	121,031	77,256	1,018,732	(290,599)	926,420	144,152	12,679
Other	52,765	10,066	0	0	0	0	0	0	0
Changes in Working Capital	328,521	603,697	12,997	23,505	(91,125)	(489,621)	(544,244)	(40,998)	(26,401)
Net Operating Cash Flows	(2,411,779)	(3,257,538)	(912,387)	(1,100,549)	(932,259)	2,650,431	(294,764)	(931,372)	(973,931)
Investing Cash Flows									
Capital Expenditures	0	0	0	0	0	0	0	0	0
Cash Paid for Acquisitions	0	0	0	0	0	0	0	0	0
Other Investing Cash Flows	0	0	0	0	0	0	0	0	0
Net Investing Cash Flow	0	0	0	0	0	0	0	0	0
Financing Cash Flows									
Net Borrowing	0	0	0	0	0	0	0	0	(241,343)
Cash Flow from Equity, net	0	0	0	0	0	0	0	0	0
Other Financing Cash Flows	8,718,953	653,750	0	0	95,750	0	95,750	0	0
Net Financing Cash Flow	8,718,953	653,750	0	0	95,750	0	95,750	0	(241,343)
Cash At Beginning of Period	3,312,797	9,619,971	7,016,183	664,169	664,169	664,169	7,016,183	6,817,169	664,169
Forex	0	0	0	0	0	0	0	0	0
Net Change in Cash	6,307,174	(2,603,788)	(912,387)	(1,100,549)	(836,509)	2,650,431	(199,014)	(931,372)	(1,215,274)
Cash at End of Period	9,619,971	7,016,183	6,103,796	5,003,247	4,166,738	6,817,169	6,817,169	5,885,797	4,670,523

Free Cash Flow	FY 2021	FY 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	FY 2023	Q1 2024	Q2 2024
	Dec-21	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-23	Mar-24	Jun-24
Net Income	(3,063,875)	(5,565,841)	(1,046,415)	(1,201,310)	(1,859,866)	3,430,651	(676,940)	(1,034,526)	(960,209)
Depreciation and Amortization	0	0	0	0	0	0	0	0	0
Other Non Cash Gains and Losses	270,810	1,694,540	121,031	77,256	1,018,732	(290,599)	926,420	144,152	12,679
Changes in Assets and Liabilities	52,765	10,066	0	0	0	0	0	0	0
Net Operating Cash Flow	(2,411,779)	(3,257,538)	(912,387)	(1,100,549)	(932,259)	2,650,431	(294,764)	(931,372)	(973,931)
Capital Expenditures	0	0	0	0	0	0	0	0	0
Free Cash Flow	(2,411,779)	(3,257,538)	(912,387)	(1,100,549)	(932,259)	2,650,431	(294,764)	(931,372)	(973,931)
Free Cash Flow Per Diluted Share	(\$0.06)	(\$0.07)	(\$0.02)	(\$0.02)	(\$0.02)	\$0.05	(\$0.01)	(\$0.02)	(\$0.02)

Source: Company Reports and Noble Capital Markets estimates

MustGrow Biologics Corp.

Closing Price Aug 30, 2024 \$0.69



A - 08/23/2024 Market Perform Current \$0.66	B - 08/01/2024 Market Perform Current \$0.54
C - 05/31/2024 Market Perform Current \$0.69	D - 05/09/2024 Market Perform Current \$0.76
E - 05/03/2024 Market Perform Current \$0.75	F - 04/25/2024 Market Perform Current \$0.79
G - 02/07/2024 Market Perform Current \$0.98	H - 12/12/2023 Market Perform Current \$0.97
I - 11/16/2023 Market Perform Current \$0.87	J - 11/08/2023 Market Perform Current \$0.90
K - 11/01/2023 Market Perform Current \$1.04	L - 09/07/2023 Market Perform Current \$1.20
M - 08/31/2023 Market Perform Current \$1.12	N - 06/14/2023 Market Perform Current \$1.41
O - 06/06/2023 Market Perform Current \$1.47	P - 06/01/2023 Market Perform Current \$1.50
Q - 05/01/2023 Market Perform Current \$1.76	R - 04/28/2023 Market Perform Current \$1.75
S - 04/19/2023 Market Perform Current \$1.82	T - 02/07/2023 Market Perform Current \$2.87
U - 12/05/2022 Market Perform Current \$2.50	V - 09/16/2022 Market Perform Current \$2.22
W - 08/29/2022 Market Perform Current \$2.09	X - 08/19/2022 Market Perform Current \$2.20
Y - 07/25/2022 Market Perform Current \$2.32	Z - 07/18/2022 Market Perform Current \$2.30

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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 cyclical, 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 Generalist Equity Analyst. Chartered Financial Analyst®. Over 25 years experience as a Generalist Analyst focused in the small to mid-cap space. MBA in Finance from Pace University and a BS in Agricultural Economics from Cornell University.

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Unless otherwise noted through the dropping of coverage or change in analyst, the analyst who wrote this research report will provide continuing coverage on this company through the publishing of research available through Noble Capital Market's distribution lists, website, third party distribution partners, and through Noble's affiliated website, channelchek.com.

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NOBLE RATINGS DEFINITIONS	% OF SECURITIES COVERED	% IB CLIENTS
Outperform: potential return is >15% above the current price	91%	23%
Market Perform: potential return is -15% to 15% of the current price	9%	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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