Zacks Small-Cap Research

August 14, 2015
Grant Zeng, CFA
312-265-9466
gzeng@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Arrowhead Research (ARWR-NASDAQ)

ARWR: Full Phase IIa data will be announced in 3Q, three Phase IIb studies initiated--- maintaining Buy

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	06/11/2013
Current Price (08/13/15)	$5.77
Twelve- Month Target Price	**$15.00**

OUTLOOK

ARWR is a clinical stage biotech company focused on RNAi targeted therapy using DPC platform technology. We are optimistic about the Company's lead program ARC-520 for HBV.

ARC-520 is in three Phase IIb trials and the company plans to announce full Phase IIa data in 3Q15. The Company just initiated Phase I trial of its second clinical candidate ARC-AAT for liver disease. The acquisition of Novartis' RNAi assets expands and complements its current RNAi estate.

We maintain our Buy rating on its shares.

SUMMARY DATA

52-Week High	**$16.96**
52-Week Low	**$5.00**
One-Year Return (%)	**-60.04**
Beta	**2.17**
Average Daily Volume (sh)	**1,035,365**
Shares Outstanding (mil)	**60**
Market Capitalization ($mil)	**$343**
Short Interest Ratio (days)	**14.27**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2013 Estimate	**N/A**
P/E using 2014 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Growth**
Industry	**Biotechnology**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2014	0.04 A	0.04 A	0.04 A	0.04 A	0.18 A
2015	0.17 A	0.04 A	0.12 A	0.04 E	0.38 E
2016					0.30 E
2017					0.50 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2014	-$0.19 A	-$0.25 A	-$0.24 A	-$0.43 E	-$1.15 A
2015	-$0.37 A	-$0.50 A	-$0.27 A	-$0.31 E	-$1.43 E
2016					-$1.50 E
2017					-$1.51 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

© Copyright 2015, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW

Update on Fiscal Third Quarter Financials

There was no meaningful revenue for the fiscal third quarter ended June 30, 2015.

R&D expenses were $7.5 million for the fiscal 3Q15, compared to $6.4 million for fiscal 3Q14. The increase in R&D costs in the quarter was mainly driven by clinical trial expenses primarily related to ARC-520.

Salary and G&A expenses were $5.4 million for fiscal 3Q15, compared to $4.0 million for fiscal 3Q14. The increase was mainly driven by higher headcount. Total full-time headcount at June 30, 2015, was 97 as compared to headcount of 75 at June 30, 2014.

Total operating expenses for the three months ended June 30, 2015, were $16.1 million compared to $12.7 million for the three months ended June 30, 2014. The increase of $3.4 million was primarily due to higher research and development expenses of $1.1 million and higher salaries and payroll-related expenses, which also increased $1.1 million.

Net loss for the three months ended June 30 2015 was $15.9 million ($0.27 per share), compared to a net loss of $11.6 million ($0.22 per share) for fiscal 3Q14 ended June 30, 2014.

Net cash used in operating activities during the third fiscal quarter was $13.1 million compared with $9.8 million in the prior-year period.

Turning to the company's balance sheet, as of June 30, 2015, cash and investments balance was $111.6 million. Our cash and investments at September 30, 2014, was $177.3 million. During the quarter, the Company made the final payment of $3 million to Novartis related to the asset acquisition that closed in March of this year. Current cash balance can last into the end of 2016 according to our financial model.

Update on Phase IIb of ARC-520 for HBV

The Heparc-2004 Study

In April, the FDA cleared the multiple-dose **Phase IIb** clinical study of ARC-520 for the treatment of chronic hepatitis B infection.

The clinical study, titled **Heparc-2004**, is a multicenter, randomized, double-blind, placebo-controlled, multi-dose study of ARC-520 administered intravenously to patients with chronic immune active HBV infection maintained on entecavir or tenofovir therapy. The study is planned to enroll up to 12 patients who will be randomized at a ratio of 2:1 with 8 patients receiving **1 mg/kg** of ARC-520 and 4 patients receiving placebo. Each patient will receive 3 total doses, once every 4 weeks. Patients will be followed through Day 147.

The **primary objective** of Heparc-2004 is to evaluate the depth of hepatitis B surface antigen (HBsAg) decline in response to multiple doses of ARC-520 compared to placebo in patients with chronic, immune active HBV infection as a measure of drug activity. **Secondary objectives** are to measure safety and tolerability and pharmacokinetics of ARC-520, and to evaluate the effect of ARC-520 on entecavir or tenofovir pharmacokinetics, in addition to other exploratory safety and pharmacodynamic objectives.

Originally, Arrowhead proposed a **parallel design** multiple-dose Phase IIb study testing doses of 2 mg/kg and 4 mg/kg simultaneously. However, in January 2015, the FDA placed a partial clinical hold on

the program. In order to proceed with the proposed parallel design study, the FDA requested that the Company provide additional information including data from the single-dose Phase IIa study in patients who receive 1-4 mg/kg ARC-520, data from an ongoing multiple-dose non-clinical study, and data from Heparc-2004 which is now cleared to begin.

The Heparc-2002 and Heparc-2003 Study

During the summer, ARC-520 was approved in **Germany and Hong Kong** for two additional **Phase IIb** multiple-dose studies, which will be conducted **in parallel**.

The two studies (**Heparc-2002** and **Heparc-2003**) will enroll patients with chronic HBV infection that are e-antigen (HBeAg) negative and HBeAg positive, respectively. Each study is a multicenter, randomized, double-blind, placebo-controlled, multi-dose study intended to evaluate two dose levels in parallel of ARC-520 in combination with entecavir or tenofovir in patients with immune active chronic HBV infection. The 2002 trial will enroll up to 60 and the 2003 will enroll 90 patients. In each study, patients will be randomized to receive four doses, once every 4 weeks, of either 1 mg/kg ARC-520, 2 mg/kg ARC-520, or placebo at a ratio of 1:1:1.

Per protocol, for each patient, the duration of the study is approximately 33 weeks, from screening to the Day 169 follow-up visit. For each study, a planning interim analysis will be performed when 54 patients have completed their Day 71 visit. This analysis will be used to plan future studies only and will not impact the enrollment or conduct of Heparc-2002 and -2003. Based on the interim results, the company will decide whether higher multiple-doses would be likely to lead to increased activity, in which case higher doses may be evaluated in one or more additional studies.

The **primary objective** of the 2002 and 2003 studies is to evaluate the depth of hepatitis B surface antigen (HBsAg) decline in response to multiple doses of ARC-520 compared to placebo as a measure of drug activity. **Secondary objectives** include the assessment of safety and tolerability and multi-dose pharmacokinetics of ARC-520 when co-administered with entecavir or tenofovir, in addition to other exploratory objectives.

In addition, the company is engaged with regulatory authorities from South Korea to open additional sites for these studies.

Other Planned Studies

During the third fiscal quarter conference call, management also revealed some planned new clinical studies for ARC-520, which include Heparc-2008, Heparc-2006 and Heparc-2007.

Heparc-2008 will be known as the [Monarc] study. This study is intended to be a study of various dosing regimens and combinations. It will have a flexible iterative design, which means that the company can ask specific questions about ARC-520 in small open-label cohorts and quickly initiate additional cohorts based on the answers that it gets or the availability of new agents to be tested in combination. The company plans to begin **Monarc** as soon as possible. We expect it will be initiated in the fourth quarter.

Arrowhead also plans to conduct clinical trial Heparc-2006 and Heparc-2007 of ARC-520, which are multi-dose studies that are in the late planning stages.

The company will hold an Analyst and Investor Day on September 24, 2015, to discuss ARC-520 in detail and provide data from the clinical program and from a non-clinical study in chronically infected chimpanzees.

Based on the current situation, we estimate top line data from the Phase IIb trial will be available in **mid-2006**. We expect Arrowhead will be able to initiate **pivotal Phase III** trial of ARC-520 in late 2016, and

data should be available in mid-2017. NDA could be filed in late 2017, and the FDA approval is in late 2018.

We think ARC-520 is the primary value driver in near- and mid-term for Arrowhead. The successful development of ARC-520 is critical to Arrowhead because the HBV market offers opportunities for substantial revenues, and because validation of the Company's RNAi delivery technology opens broad opportunities both for other therapeutic programs and licensing opportunities.

In this regard, the ongoing Phase IIa study and the initiation of the Phase IIb of ARC-520 represent an important milestone for Arrowhead in achieving its long term growth goal. One of the attractive features of RNAi and of DPCs specifically is once the safety profile in man for the delivery system has been established; additional targets and candidates can be studied rapidly. Therefore the Phase II trials of ARC-520 will provide the company with the data needed to accelerate the development of its pipeline and bring additional candidates into the clinic.

Update on the Phase IIa of ARC-520 for HBV Infection

On November 10, Arrowhead presented interim data on ARC-520 in a late-breaking poster titled "***Phase II, dose ranging study of ARC-520, a siRNA-based therapeutic, in patients with chronic hepatitis B virus infection***" at the 2014 American Association for the Study of Liver Diseases (AASLD) Liver Meeting being held on November 7-11, 2014, in Boston.

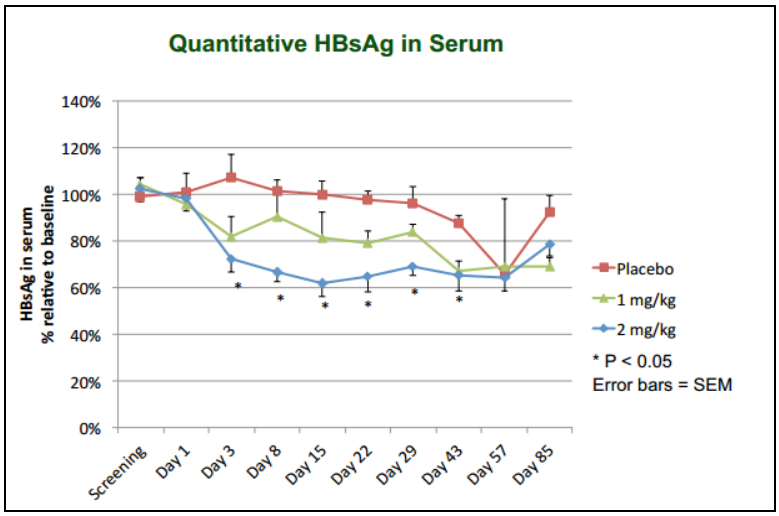
The ongoing Phase IIa is a randomized, double blind, placebo controlled study, which will enroll up to 24 chronic HBV patients in **three dose cohorts** with patients receiving either ARC-520 or placebo **in combination with entecavir**. Patients are randomized to placebo or ARC-520 at a ratio of 1:3 and continue daily entecavir. **Primary endpoints** will be safety and tolerability as well as depth and duration of surface antigen knock down. Patients will be followed until surface antigen levels return to baseline.

The Phase IIa trial began doing patients on March 24, 2014 in Hong Kong. The Phase IIa study has enrolled three dose cohorts including 24 patients, 18 receiving drug and 6 receiving placebo. Unblinded data are available for the first two cohorts. Cohort 3 data collection is ongoing and this cohort remains blinded. Full results for the first two dose cohorts at **1.0 mg/kg** and **2.0 mg/kg** and partial (blinded) safety results from the **3.0 mg/kg** dose cohort were included in the poster.

Per the poster, ARC-520 was **safe and well tolerated** in all three cohorts. There were no SAEs, no signs of hypersensitivity, no dose limiting toxicities and no discontinuations due to AEs. There were no treatment emergent changes in vital signs, physical exams or ECGs rated clinically significant by the investigator. There have been few abnormal laboratory values, with no clinically significant, treatment emergent, changes in ALT, AST, GGT, LDH, bilirubin, BUN or creatinine or apparent trends. All AEs reported to date (n=6) have been mild or moderate and rated as unrelated to study drug by the investigator.

Adverse Event	Placebo n=4	Cohort 1 n=6	Cohort 2 n=6	Cohort 3 n=8 (blinded)
All	0	1	4	1
Flu like symptoms		1 mild		
CK elevation			1 mild	
Injection extravasation			1 mild	
Near syncope			1 mod	
Malaise			1 mod	
Leg pain				1 mild

Efficacy of ARC-520 was measured as HBsAg decline from baseline. In the 1 mg/kg cohort, mean nadir HBsAg was -39% (range -22 to -57) with a mean change on day 85 of -31% (range -14 to -39). In the 2 mg/kg cohort, mean nadir HBsAg was – **51%** (range -46 to -59) with a mean change on day 85 of -22% (range -7 to -40). For 2 mg/kg cohort, the HBsAg reduction was statistically significant vs placebo for Days 3 through 43 post dose. For cohort 2, the mean day of HBsAg nadir was day 33 with a range of day 8 to day 57.



The company has completed dosing, both 3 and 4 mg/kg cohorts and is still following the 4 mg/kg cohort.

Arrowhead also initiated dosing in **three new cohorts**. The company also plans to discuss all of seven cohorts at the Analyst Day.

Arrowhead Began Dosing Patients in Part B of ARC-AAT Phase I Trial

In late February, Arrowhead initiated dosing in a **Phase I** clinical trial of ARC-AAT for the treatment of liver disease associated with Alpha-1 Antitrypsin Deficiency (AATD) in **Australia**.

The Phase I trial is a multi-center, randomized, placebo-controlled, double-blind, single dose-escalation study to evaluate the safety, tolerability, pharmacokinetics of ARC-AAT and the effect on circulating alpha-1 antitrypsin (AAT) levels. The study plans to enroll in dose cohorts of six participants each, with participants randomized at a ratio of 2:1 (active:placebo) to receive a single intravenous injection of either ARC-AAT or placebo (normal saline). The study will consist of **two parts**, with **Part A** planned to be conducted in healthy volunteers and **Part B** planned to be conducted in patients with PiZZ genotype AATD. In Part A, dose escalation will proceed until the achievement of certain target knockdown parameters. That target is at least 30% reduction of serum AAT levels in 3 subjects or greater than 60% reduction in a single subject. When these AAT knockdown parameters are achieved, dose escalation in healthy volunteers (Part A) is planned to stop and dosing in patients with AATD (Part B) is planned to begin at the highest dose level used in Part A and then dose escalation will proceed. Participants will be evaluated for 28 days following dosing with additional follow-up every 2 weeks until AAT levels return to baseline.

In early May, the company completed dosing healthy volunteers and will begin dosing patients.

In early July, Arrowhead began dosing the first patient in Part B of the Phase I clinical trial of ARC-AAT in Australia. Arrowhead also received regulatory permission in the United Kingdom and New Zealand to proceed with Part B of the Phase I study of ARC-AAT and is currently awaiting regulatory approval in Germany and the Netherlands.

ARC-AAT is comprised of novel unlocked nucleobase analog containing RNAi trigger molecules (UNA) that are co-administered with Dynamic Polyconjugates (DPCs) to enable the escape of the UNA from endosomes. The ratio of UNA to DPC is 2:1 by weight. In Part A of the study, three cohorts of six participants each received ARC-AAT at doses of 0.38 mg/kg, 1.0 mg/kg, and 2.0 mg/kg of UNA, and 0.19 mg/kg, 0.5 mg/kg, and 1.0 mg/kg of DPC, respectively.

The knockdown target was met during the third cohort. All three dose levels tested appear to be generally well tolerated and the data safety committee has cleared the study to move into patients with AATD. Dosing in patients may now begin at the highest dose level used in Part A and then continued dose escalation may proceed under the protocol.

The company expects to complete enrollment of the Phase I study by **the end of 2015**. Initial data from this study is expected **in late 2016**.

Arrowhead has signed an agreement with the Alpha-1 Project (TAP), a subsidiary of the **Alpha-1 Foundation**. Under the terms of the agreement, TAP will partially fund the development of ARC-AAT. In addition to the funding, TAP will make its scientific advisors available to Arrowhead, assist with patient recruitment for clinical trials thanks to the Alpha-1 Foundation Patient Research Registry, and engage in other collaborative efforts that support the development of ARC-AAT.

ARC-AAT is Arrowhead's second clinical candidate, which further de-risks its pipeline. In the absence of specific therapy other than liver transplant for AATD associated liver disease, we believe RNAi holds great potential.

With the experience of two candidates ARC-520 and ARC-AAT, the DPC platform, the recently acquired RNAi assets from Novartis, as well as a strong balance sheet, we believe Arrowhead is well positioned to further diversify its pipeline down the road.

We Remain Bullish on Arrowhead's Shares

We maintain our Buy rating on Arrowhead shares and reiterate our 12-month price target of $15.

Arrowhead has been busy in the first half of 2015 to move forward its clinical programs. The company's lead HBV program ARC-520 is in three Phase IIb trials now and the company plans to report full data from its Phase IIa trial of ARC-520 for HBV infection in 3Q15.

The acquisition of Novartis' RNAi development portfolio significantly expands and complements the company's current RNAi assets and will provide the opportunity to rapidly expand its clinical pipeline in the coming years.

Arrowhead has a strong balance sheet. As of June 30, 2015, the company held $112 million in cash, which can fund its operations into the end of 2016 according to our financial model.

We think current market price of Arrowhead shares does not reflect the intrinsic value of the company. We believe there is still enough room for further price appreciation at current market price.

Based on the current development plan, we expect Arrowhead will be able to initiate **pivotal Phase III** trial of ARC-520 in late 2016, and data should be available in mid-2017. NDA could be filed in late 2017, and the FDA approval is in late 2018.

We estimate Arrowhead will become profitable in fiscal 2019 with an EPS of $1.09 based on revenue of $250 million. We think a P/E ratio of 34x is appropriate for Arrowhead considering its growth in the next few years. Based on this P/E multiple, we think Arrowhead should be valued at $15.00 per share using 25% discount for 4 years. Our price target values Arrowhead at $893 million in market cap, which we think is appropriate and fare compared to its peers.

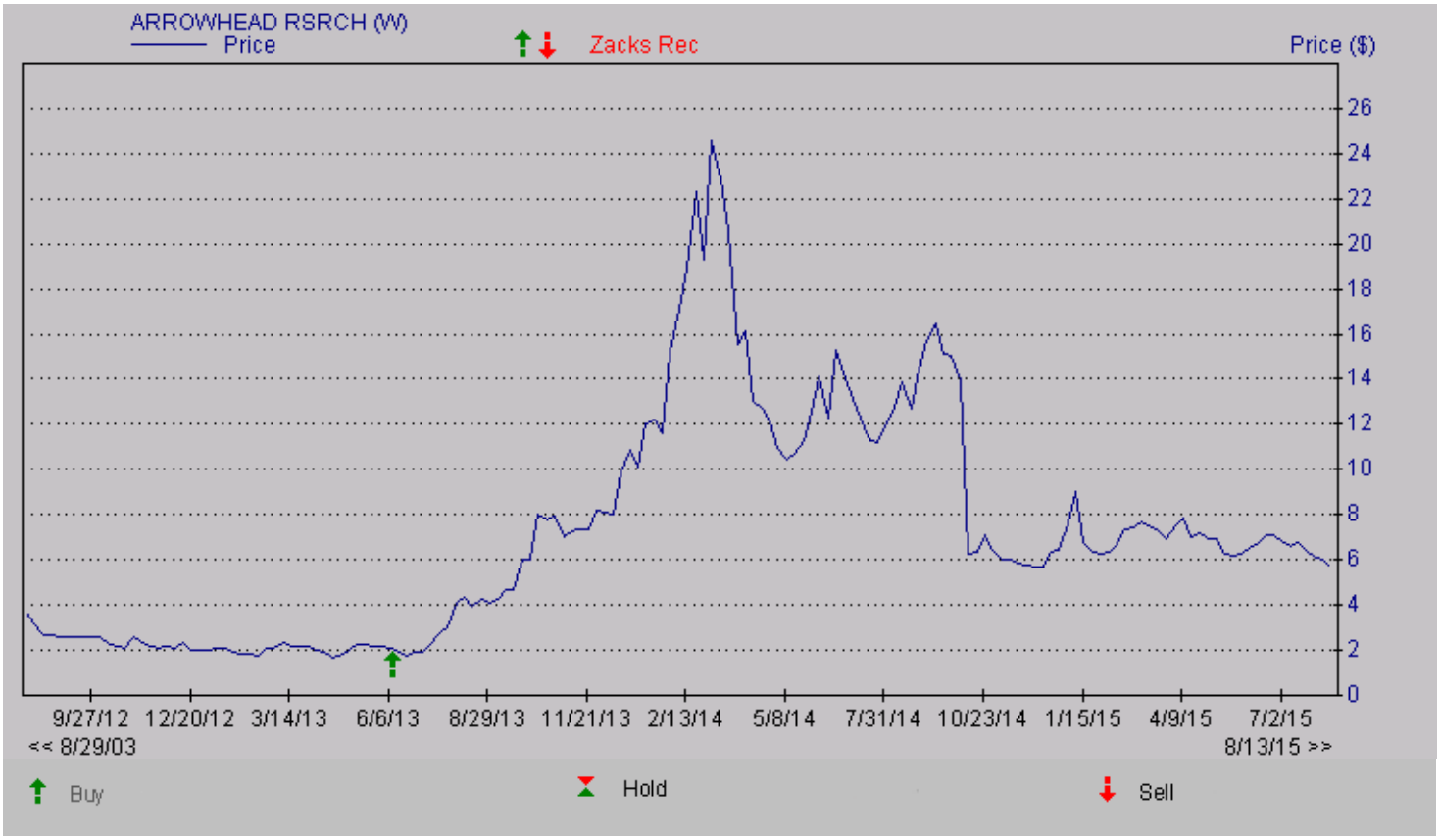
PROJECTED INCOME STATEMENT

	2014 (Sept)					2015 (Sept)					2016 (Sept)	2017 (Sept)	2018 (Sept)	2019 (Sept)
$ in millions except per share data	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FYE	FYE	FYE	FYE	FYE
Revenue	$0.04	$0.04	$0.04	$0.04	$0.18	$0.17	$0.04	$0.12	$0.04	$0.38	$0.30	$0.50	$25.00	$250.00
YOY Growth											-	*66.7%*	*4900.0%*	*900.0%*
Total Revenues	**$0.04**	**$0.04**	**$0.04**	**$0.04**	**$0.18**	**$0.17**	**$0.04**	**$0.12**	**$0.04**	**$0.38**	**$0.30**	**$0.50**	**$25.00**	**$250.00**
YOY Growth	*-73.0%*	*0.0%*	*0.0%*	*1.7%*	*-39.7%*	*297.1%*	*0.0%*	*182.9%*	*-10.1%*	*116.1%*	*-20.7%*	*66.7%*	*4900.0%*	*900.0%*
Cost of Revenue	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.1	$3.8	$35.0
Gross Income	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.2**	**$0.2**	**$0.0**	**$0.1**	**$0.0**	**$0.4**	**$0.3**	**$0.4**	**$21.3**	**$215.0**
Gross Margin	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*85.0%*	*85.0%*	*86.0%*
R&D	$3.1	$5.2	$6.4	$8.4	$23.1	$17.7	$21.8	$7.5	$10.0	$57.0	$65.0	$75.0	$55.0	$60.0
% R&D	*7286.1%*	*11923.3%*	*14610.7%*	*18868.3%*	*13221.7%*	*10392.0%*	*49791.0%*	*6052.8%*	*25000.0%*	*15074.2%*	*21666.7%*	*15000.0%*	*220.0%*	*24.0%*
Salary and G&A	$3.0	$4.4	$4.0	$7.2	$18.7	$5.2	$5.2	$5.4	$6.5	$22.4	$25.5	$30.0	$37.5	$50.0
% SG&A	*6966.5%*	*10161.3%*	*9227.2%*	*16281.6%*	*10699.1%*	*3067.0%*	*11973.2%*	*4363.6%*	*16250.0%*	*5915.4%*	*8500.0%*	*6000.0%*	*150.0%*	*20.0%*
Other expenses	$0.9	$1.6	$2.3	$2.2	$7.0	$2.3	$2.7	$3.2	$2.0	$10.2	$7.0	$8.5	$10.0	$12.0
% Other	*2150.1%*	*3643.9%*	*5290.8%*	*4962.5%*	*4023.9%*	*1349.9%*	*6067.7%*	*2607.8%*	*5000.0%*	*2693.1%*	*2333.3%*	*1700.0%*	*40.0%*	*4.8%*
Operating Income	**($7.0)**	**($11.2)**	**($12.7)**	**($17.8)**	**($48.7)**	**($25.1)**	**($29.6)**	**($16.0)**	**($18.5)**	**($89.2)**	**($97.2)**	**($113.1)**	**($81.3)**	**$93.0**
Operating Margin	-	-	-	-	-	-	-	-	-	-	-	-	-	*37.2%*
Other Income (Net)	($3.6)	($2.7)	$1.1	$0.7	($4.5)	$2.5	$0.9	$0.1	$0.0	$3.5	($0.5)	($0.5)	($0.5)	($0.5)
Pre-Tax Income	**($10.6)**	**($13.9)**	**($11.6)**	**($17.1)**	**($53.3)**	**($22.6)**	**($28.7)**	**($15.9)**	**($18.5)**	**($85.7)**	**($97.7)**	**($113.6)**	**($81.8)**	**$92.5**
Net Taxes (benefit)	$0.0	$0.0	$0.0	$5.4	$5.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*-10.2%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Reported Net Income	**($10.6)**	**($13.9)**	**($11.6)**	**($22.5)**	**($58.7)**	**($22.6)**	**($28.7)**	**($15.9)**	**($18.5)**	**($85.7)**	**($97.7)**	**($113.6)**	**($81.8)**	**$92.5**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Margin	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Weighted avg. Shares Out	*37.7*	*44.3*	*51.9*	*53.7*	*46.9*	*54.7*	*55.7*	*59.5*	*59.5*	*57.4*	*65.0*	*75.0*	*80.0*	*85.0*
Reported EPS	**($0.28)**	**($0.31)**	**($0.22)**	**($0.42)**	**($1.25)**	**($0.41)**	**($0.51)**	**($0.27)**	**($0.31)**	**($1.49)**	**($1.50)**	**($1.51)**	**($1.02)**	**$1.09**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One time charge	$3.62	$2.73	($1.07)	($0.73)	$4.55	$2.54	$0.95	$0.06	$0.00	$3.55	$0.00	$0.00	$0.00	$0.00
Non GAAP Net Income	**($7.0)**	**($11.2)**	**($12.7)**	**($23.3)**	**($54.2)**	**($20.0)**	**($27.7)**	**($15.9)**	**($18.5)**	**($82.1)**	**($97.7)**	**($113.6)**	**($81.8)**	**$92.5**
Non GAAP EPS	**($0.19)**	**($0.25)**	**($0.24)**	**($0.43)**	**($1.15)**	**($0.37)**	**($0.50)**	**($0.27)**	**($0.31)**	**($1.43)**	**($1.50)**	**($1.51)**	**($1.02)**	**$1.09**

Source: Company filing and Zacks estimates

© Copyright 2015, Zacks Investment Research. All Rights Reserved.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Grant Zeng, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

Zacks SCR has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Zacks SCR Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, investment management, non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand per annum.

© Copyright 2015, Zacks Investment Research. All Rights Reserved.

POLICY DISCLOSURES

Zacks SCR Analysts are restricted from holding or trading securities in the issuers which they cover. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each Zacks SCR Analyst has full discretion on the rating and price target based on his or her own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1056 companies whose securities it covers, including securities covered by Zacks SCR:
Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 16.7%, Hold/Neutral- 77.0%, Sell/Underperform – 5.6%. Data is as of midnight on the business day immediately prior to this publication.