Zacks Small-Cap Research

January 15, 2015

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Green Polka Dot Box (GPDB-OTC)

GPDB: *Optimistic About Recent Initiatives*

Current Recommendation	**Hold**
Prior Recommendation	N/A
Date of Last Change	10/06/2014
Current Price (1/14/15)	$1.05
Target Price	**$2.00**

OUTLOOK

Several recent initiatives Green PolkaDot Box has made have shown early momentum, we believe, including the company's new *Health Merchant* program and marketing and sales of appetite suppressant Appethyl. Moreover, a new credit line has enabled GPDB to increase inventory for order fulfillment, in turn contributing to a 31% improvement in the core business in December 2014, according to management. We continue to believe the market opportunity for GPDB is significant, as consumer interest in organic products is growing rapidly.

SUMMARY DATA

52-Week High	**$3.47**
52-Week Low	**$0.70**
One-Year Return (%)	**-57.1**
Beta	**-4.44**
Average Daily Volume (sh)	**13,129**
Common Shares Out (mil)	**12.3**
Market Capitalization ($mil)	**$12.9**
Short Interest Ratio (days)	**0.3**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**87**
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	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Retail-Mail Ord**
Zacks Rank in Industry	**4 of 6**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	0.4 A	0.4 A	1.0 A	1.1 A	2.9 A
2013	1.2 A	0.9 A	1.7 A	0.5 A	4.3 A
2014	0.4 A	0.5 A	0.3 A	0.4 E	1.6 E
2015					3.2 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$0.30 A	-$0.13 A	-$0.12 A	-$0.24 A	-$0.72 A
2013	-$0.40 A	-$0.04 A	-$0.14 A	-$0.66 A	-$1.26 A
2014	-$0.23 A	-$0.06 A	$0.18 A	-$0.06 E	-$0.16 E
2015					-$0.25 E

Quarters might not sum reflecting rounding, share count changes

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

Disclosures begin on page 10

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KEY POINTS

- We are optimistic about several recent Green PolkaDot Box initiatives, including its new *Health Merchant* program, marketing of appetite suppressant Appethyl® and a new credit line that has enabled GPDB to increase inventory for order fulfillment.
- We believe the market opportunity for GPDB is significant, as consumer interest in organic products is growing rapidly. In our view, the company continues to add new ways to leverage the rapidly growing organic products market, which reached $35.1 billion in 2013, according to the Organic Trade Association (OTA), and is expected to expand 14% from 2014-2018.
- Earlier this month, the company announced that December sales were up about 65% sequentially, reflecting membership growth, higher inventory levels, strong demand for the *Health Merchant* program and early Appethyl sales.
- We believe the new *Health Merchant* program could augment revenue and cash flow significantly. The program allows health professionals and others to launch their own, self-branded online health products store for an upfront cost of up to $1,995, plus a monthly service fee of $100. As the program develops, we believe the annual $1,200 per store could become an important annuity for GPDB.
- Management has indicated that about 400 potential applicant have expressed interest in the *Health Merchant* program since its late November 2014 launch. The company enrolled 29 over the Thanksgiving weekend, for estimated revenue of over $42,000 and nearly $35,000 in annual fees.
- Marketing for Appethyl includes magazine promotions and cinema advertising, as well as an electronic direct sales campaign. Given the rising incidence of obesity, this product could have significant commercial potential, in our opinion.
- Separately, in October 2014, Green PolkaDot Box announced that one of its major investors had agreed to provide a $1 million credit line, which management earmarked for inventory in anticipation of growing demand.

NEW INITIATIVES TO TAP GROWING ORGANIC MARKET

Several recent initiatives by Green PolkaDot Box (OTC:GPDB), a membership club that offers organic and natural products to its members at attractive prices, have shown early momentum, we believe. These include the company's recently introduced *Health Merchant* program, marketing for appetite suppressant Appethyl and the negotiation of a new credit line. We believe the market opportunity for GPDB is significant, as consumer interest in organic products is growing rapidly. In our view, the company continues to add new ways to tap into this high growth market.

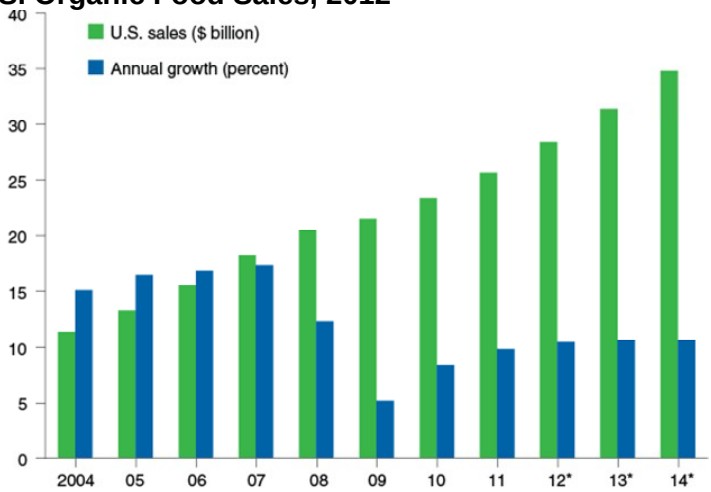
According to the *Nutrition Business Journal*, domestic sales of organic products through conventional retail channels posted a 12% CAGR from 1997 to 2011 and reached an estimated $28.4 billion in 2012, which represented more than 4% of total food sales. Sales of organic products reached $35.1 billion in 2013, according to the Organic Trade Association (OTA). The market is expected to expand 14% from 2014-2018.

We believe the growth in sales of natural and organic foods reflects several trends, including heightened understanding that healthful eating is important to remaining healthy and a better-educated and more affluent population. We also believe that the growing incidence of obesity and obesity linked medical problems is a factor driving increased interest in natural products. With obesity rates in adults and children having more than doubled since the 1970's, according to the National Center for Health Statistics, the focus on making healthier food choices likely continues to rise, in our opinion. As noted, Technomic's Healthy Eating Consumer Trend Report indicated that 64% of U.S. consumers believe it is important to eat healthy foods, up from 57% in 2010. Moreover, 50% of consumers would also like to see healthier choices in restaurants.

The *Nutrition Business Journal* writes:

> This overall demand for healthy products is driven by many factors, including increased awareness about the benefits of eating healthy, a greater focus on preventative health measures, and the rising costs of health care. We believe customers are attracted to retailers with comprehensive health and wellness product offerings. As a result, food retailers are offering an increased assortment of fresh, natural and organic foods as well as vitamins and supplements to meet this demand.

U.S. Organic Food Sales, 2012



*Estimated.
Source: USDA, Economic Research Service using data from *Nutrition Business Journal*, 2013.

HEALTH MERCHANT PROGRAM

In November 2014, the company unveiled a new *Health Merchant* program that enables health professionals and others to launch a turnkey, self-branded online health products store, with Green PolkaDot Box providing back office and logistics. The company's target market for this program includes doctors with disease prevention practices, nutritionists, chiropractors, gym operators, personal fitness trainers and pharmacists, among others.

For $300 up to $1,995, depending on which package the health practitioner selects, *Health Merchant*s get an online health and wellness store that offers a broad range of natural products at competitive prices. For a $100 monthly service fee, GPDB handles the logistics, from product acquisition, inventory storage, website hosting and maintenance, liability insurance, online order processing to shipping and customer service.

*Health Merchant*s also get access to a media kit including informational videos that GPDB will update frequently. Green PolkaDot Box also offers weekly specials, supported with electronic marketing. The company believes these promotions give GPDB a higher than average conversion rate of first time website visitors into repeat customers.

Management has indicated that about 400 potential applicants have expressed interest in the *Health Merchant* program since its late November 2014 launch. The company enrolled 29 over the Thanksgiving weekend, which equates to estimated revenue of over $42,000 and nearly $35,000 in annual fees. We are optimistic about the *Health Merchant* program and believe it could result in a monthly cash flow for GPDB to augment the revenue and cash flow of its core direct-to-consumer business.

APPETHYL

Green PolkaDot Box announced on June 24, 2014 that it had entered into an agreement with Sweden's Greenleaf Medical to be the exclusive domestic licensor of Appethyl, a spinach-based product that uses natural ingredients to suppress the appetite and reduce blood glucose levels. It was developed at Sweden's Lund University, according to Greenleaf Medical. Appethyl received the award for Best New Ingredient at the 2013 Nutracon conference based on scientific merit, efficacy, market potential, safety and innovation, among other criteria. Amazon (AMZN-not rated) and specialty retailers such as GNC (GNC-not rated) and The Vitamin Shoppe (VSI-not rated), among others, will carry Appethyl.

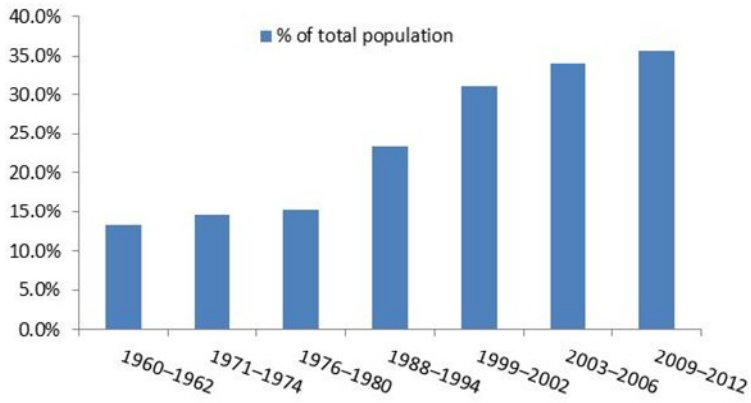
Last month, GDPB announced that it had started marketing Appethyl in the U.S., including magazine promotions, in-theater advertising and an electronic direct sales campaign. GPDB has engaged public relations firm Marketing Maven PR to promote Appethyl through various media. Appethyl was featured on the cover of *First for Women* magazine, which has more than 3 million subscribers nationwide.

Through an agreement with Digital Target Marketing, a national advertising agency, GPDB has also launched an electronic direct sales campaign for Appethyl. People who participate in a 1-week free trial of the product then purchase monthly Appethyl supplies after the trial ends unless they cancel. GPDB pays Digital Target Marketing only for people who convert to paying customers, on a cost-per-acquisition basis.

The company also began advertising Appethyl last month in the Larry H. Miller MegaPlex Theatres, which operates 17 theaters in Utah that reach an aggregate roughly 800,000 consumers each month. The ad invites people to participate in the 1-week trial noted above. Depending on how successful the ads are in the Larry Miller circuit, GPDB may roll ads out to other theaters across the country. Statistics indicate that ad recall of a cinema ad beats that of a TV ad. For example, according to the Cinema Advertising Council (CAC), a study released by the NYU Stern Center for Measurable Marketing found that cinema can be as effective or more than TV for "generating significant sales volume per ad dollar spent." There is also no disruptive ad skipping technology with cinema ads; they are viewed live.

Given the rising incidence of obesity, Appethyl could have significant commercial potential, in our opinion. According to the CDC, 34.9% of American adults are obese. Obesity rates in adults and children have more than doubled since the 1970's, according to the National Center for Health Statistics. Health conditions that are related to obesity include heart disease, stroke, type 2 diabetes and certain cancers. Moreover, obese people average $1,429 higher per annum spending on medical care than people of average weight. In addition to Appethyl, management has also indicated that it is in discussions for exclusive distribution of other innovative natural products.

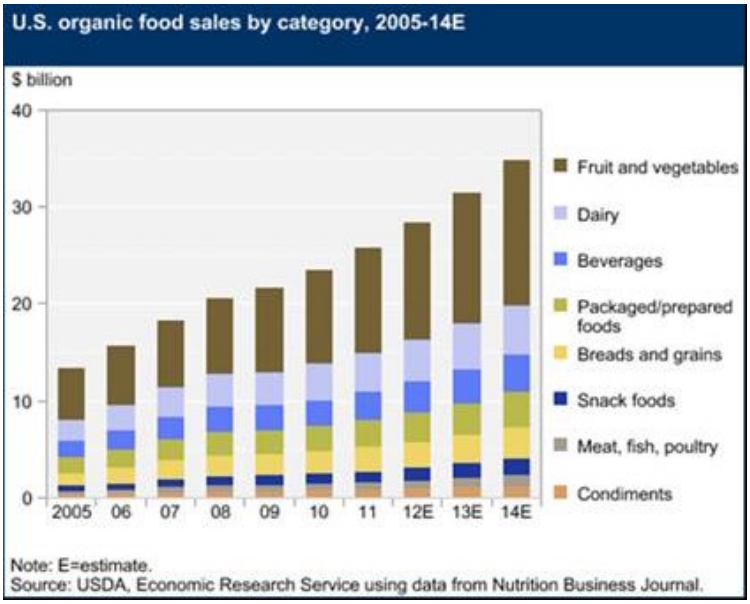
Domestic Obesity Trends, 1960s-2012 (%)



Source: CDC

LIVING PRODUCE FARM

The company also continues to move forward on its Living Produce farm initiative. GPDB is developing a large scale Living Produce farm, using vertical growing towers and aeroponic technology and a patented water soluble organic fertilizer. In an aeroponic environment, plants are grown in an air or mist environment, without soil. Advantages of using aeroponic production methods over conventional and greenhouse plant production include greater nutrition uptake by the plants, a faster growth cycle, a contained growing environment that protects crops from pests and greater water conservation. Demand for organic produce has grown dramatically since 2005, as illustrated in the chart below. It is expected to continue to rise. In response, the number of farmers' markets in the country has expanded from 1,755 in 1994 to more than 8,144 by 2013. Nevertheless, a recent USDA survey indicates that most farmers market managers would like to see an increase in the number of organic farmers in order to meet consumer demand in many markets. Management believes this could portend well for GPDB s living produce initiative.



The farm is being developed in Spring City, Utah and will encompass a 40-acre hydroponic, vertical growing facility, once it is fully developed. In general, the use of vertical farms grown in greenhouses has increased over the past decade, reflecting the many advantages cited above, including that they can minimize the use of pesticides and herbicides because plants are grown indoors in a controlled environment.

The company has developed a patent pending vertical aeroponic technology that uses up to 95% less water than conventional organic farming. GPDB expects to fund this project through a combination of crowd funding and private equity. Management targets raising at least $3.9 million to complete Phase I of the farm development, including a 10,000 square foot testing greenhouse. The company has already funded over 10% of the capital it needs for Phase I and expects to fund a significant portion of the balance through bank financing backed by Utah Farm Service Agency or USDA loan guarantees. Green PolkaDot Box recently broke ground for the first Living Produce Growing center and believes construction could be completed early this year.

NEW CREDIT LINE

In October 2014, Green PolkaDot Box announced that one of its key investors had agreed to provide GPDB access to a $1 million credit line, which management earmarked to triple inventory levels in anticipation of growing demand. Reflecting the initiatives noted above, as well as the company's distribution agreement with Amazon, management is optimistic about upcoming order flow and intends to have sufficient inventory to fulfill orders.

Management noted that it has been difficult in recent months for GPDB to sustain full inventory levels, which in turn has constrained sales and customer retention. The company believes that access to this credit facility, in conjunction with the cash flow from the *Health Merchant* program, will help alleviate inventory pressure.

Early Financial Impact Seems Positive

The initial impact of these initiatives appear to be positive, we believe; earlier this month, the company announced that sales advanced about 65% sequentially in December 2014. This reflected a roughly 31% advance in its core online general goods business, as higher inventory levels enabled order fulfillment, augmented by the early positive response to the *Health Merchant* program.

The company also noted that Appethyl sales through Amazon in early January were ahead of expectations. Through January 5, aggregate revenue from Appethyl and the *Health Merchant* program were north of $65,000, which represents about 37% of total monthly sales in December 2014, according to management, which believes that January monthly revenue could be on-track to beat that of November and December combined.

We also believe that 2015 results will provide greater insight into the trends of GPDB's underlying business, as 2014 year-over-year comparisons were distorted by non-cash items recorded in 2013. Specifically, according to management, 2013 sales included the impact of non-cash spending by lifetime members using their reward points. Lifetime and charter member categories have subsequently been eliminated.

RECENT NEWS

- On October 29, 2014, Green PolkaDot Box announced that one of its major investors had agreed to provide the company a $1 million dollar credit line to increase inventory levels.
- On November 20, 2014, the company filed its third quarter 2014 10-Q.
- In November 2014, the company launched registration for its *Health Merchant* program and announced that 29 *Health Merchant*s had enrolled over the Thanksgiving Holiday weekend.
- On December 30, 2014, the company began selling Appethyl in the U.S.
- On January 6, 2015, Green PolkaDot Box announced that December 2014 sales were up about 65% sequentially.

RISKS

- One of the biggest risks for Green Polka Dot Box, in our view, is that it fails to grow its membership base in a meaningful way and it needs to find new ways to raise awareness of its service.
- Overall, membership growth could be slower than the company anticipates or might never materialize, the early success of the *Health Merchant* program notwithstanding.
- Competition in the organic product category continues to increase, which could make it difficult for GPDB to execute its growth strategy.
- As conventional supermarket chains such as Walmart, Krogers and others expand their organic selection of competitively priced organic products, it could hurt GPDB.
- Similar to many other developing companies, GPDB is under-capitalized and will likely need to seek additional short-term funding until sales reach a higher level.

PROJECTED INCOME STATEMENT AND BALANCE SHEET

Green Polka Dot Income Statement & Projections ($)

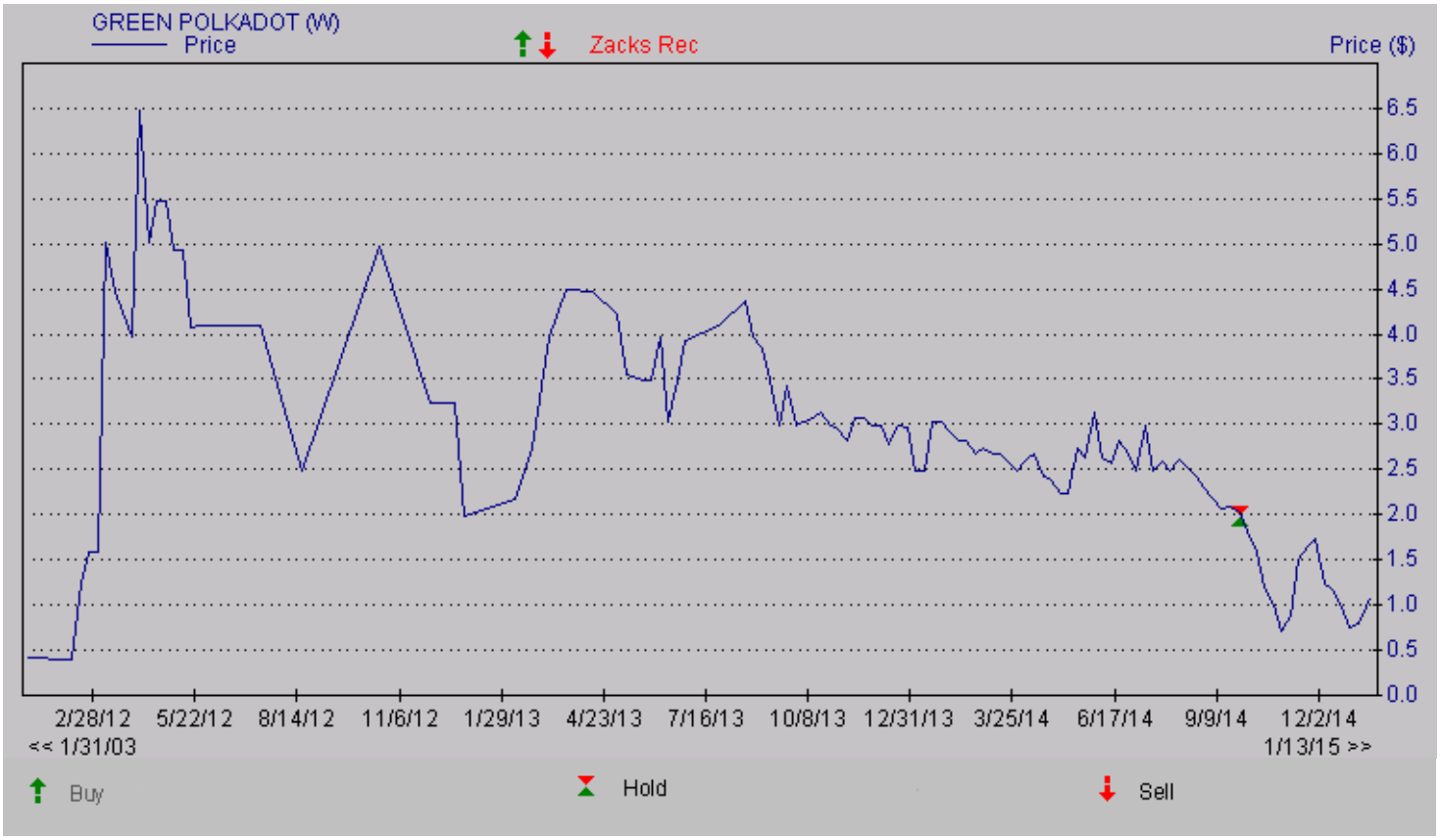
	1Q13	2Q13	3Q13	4Q13	2013	1Q14A	2Q14A	3Q14A	4Q14E	2014E	2015E
Merchandise	818,713	441,057	737,227	396,180	2,393,177	394,765	420,270	304,108	425,751	1,544,894	3,244,278
Other include'g membership revenue	418,883	412,867	1,004,141	100,473	1,936,364	200	77,428	11,286	91,000	233,628	443,893
Total sales	**$1,237,596**	**$853,924**	**$1,741,368**	**$496,653**	**$4,329,541**	**$394,965**	**$497,698**	**$315,394**	**$516,751**	**$1,778,522**	**$3,688,171**
Cost of sales	1,169,031	994,987	843,919	646,959	3,654,896	462,412	377,202	443,085	421,494	1,704,193	2,984,736
Gross profit	68,565	(141,063)	897,449	(150,306)	674,645	(67,447)	120,496	(127,691)	95,258	74,330	703,435
Wages & professional fees	325,391	479,359	1,275,344	957,016	3,037,110	990,818	511,477	321,631	550,000	2,373,926	2,136,533
Development costs		7,724	7,142	(14,866)							
Advertising, promotion & marketing costs	50,419	39,731	41,788	24,584	156,522	12,978	54,370	18,411	18,521	104,280	103,238
Warehouse expenses & supplies	160,237	25,405	64,608	53,509	303,759	10,712	23,362	28,425	28,596	91,095	86,540
Rent expenses	8,181	18,308	38,132	32,090	96,711	15,649	18,077	35,005	35,215	103,946	98,749
Depreciation & amoritization	30,444	30,251	29,066	19,189	108,950	23,016	32,873	28,031	28,199	112,119	112,119
Loss on disposal of assets	-	-	-	13,810	13,810	-	-	-	-	-	-
G&A	106,547	173,004	238,158	305,193	822,902	128,103	136,212	210,004	211,264	685,583	205,675
Total Operating Expenses	681,219	773,782	1,694,238	1,390,525	4,539,764	1,181,276	776,371	641,507	871,795	3,470,949	2,742,854
Op'g income / (loss)	(612,654)	(914,845)	(796,789)	(1,540,831)	(3,865,119)	(1,248,723)	(655,875)	(769,198)	(776,538)	(3,396,620)	(2,039,418)
Interest income (expense)	(158,371)	(76,234)	(159,224)	(57,031)	(450,860)	(95,540)	(204,808)	(128,150)	(204,808)	(633,306)	(819,232)
Amortization of debt discount		(44,846)	(96,629)	(144,624)	(286,099)	(62,294)	(108,112)	(47,488)	(108,112)	(326,006)	(432,448)
Amortization beneficial conversion features	(234,630)	(123,200)	(587,999)	(21,085)	(966,914)	(18,694)	2,401	(2,733)	2,401	(16,625)	9,604
Gain (loss) on derivative valuation	(3,350,199)	689,994	114,675	(5,729,349)	(8,274,879)	(1,300,077)	241,096	3,152,978	241,096	2,335,093	(200,000)
Other	-	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense	(3,743,200)	445,714	(729,177)	(5,952,089)	(9,978,752)	(1,476,605)	(69,423)	2,974,607	(69,423)	1,359,156	(1,442,076)
Pretax income / (loss)	(4,355,854)	(469,131)	(1,525,966)	(7,492,920)	(13,843,871)	(2,725,328)	(725,298)	2,205,409	(845,961)	(2,037,464)	(3,481,494)
Taxes	-	-	-	-	-	-	-	-	-	-	-
Preferred dividend	-	-	-	-	-	-	-	-	-	-	(36,882)
Net income / (loss)	**(4,355,854)**	**(469,131)**	**(1,525,966)**	**(7,492,920)**	**(13,843,871)**	**(2,725,328)**	**(725,298)**	**2,205,409**	**(845,961)**	**(2,037,464)**	**(3,518,376)**
Per share data:											
LPS	**($0.40)**	**($0.04)**	**($0.14)**	**($0.66)**	**($1.26)**	**($0.23)**	**($0.06)**	**$0.18**	**($0.06)**	**($0.16)**	**($0.25)**
Avg. shares out	10,777,045	10,934,853	10,993,995	11,274,687	10,995,145	11,890,000	12,176,168	12,303,571	13,303,571	12,418,328	14,303,571

Green Polka Dot Balance Sheet ($)

	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Cash	$149,027	($37,576)	$21,133	$160,274	$1,035	$17,965	$0	$0
Accounts receivable	75,191	-	-	-	50,423	50,423	94,137	93,714
Inventory	420,327	390,714	333,297	380,581	192,342	204,732	304,549	401,650
Prepaid assets	10,941	11,007	8,403	7,000	7,000	7,000	7,000	7,000
Total current assets	655,486	364,145	362,833	547,855	250,800	280,120	405,686	502,364
Fixed assets	381,954	356,874	384,325	358,876	598,048	593,162	565,288	633,047
Security deposits	10,994	10,994	10,994	10,994	10,994	10,994	10,994	10,994
Deferred costs	2,933,888	1,200,652	3,366,087	395,711	275,784	257,621	250,473	230,592
Total assets	**3,982,322**	**1,932,665**	**4,124,239**	**1,313,436**	**1,135,626**	**1,141,897**	**1,232,441**	**1,376,997**
Accounts payable & accrued expenses	971,828	1,169,018	1,210,322	973,914	1,235,104	1,419,907	1,608,985	1,886,664
Checks drawn in excess of bank balance	-		25,494	11,370	-	-	27,067	41,128
Convertible notes payable	549,160	1,521,885	2,004,569	2,941,333	951,762	1,047,875	1,253,642	1,863,773
Convertible notes payable - related party	703,074				1,135,106	1,197,398	1,397,398	1,397,398
Loan payable-other	71,444	71,444	71,444	71,444	71,444	71,444	71,444	131,444
Reward point liability	2,933,888	681,038	3,366,087	395,711	275,784	257,621	250,473	230,592
Deferred revenue	1,470,034	1,174,147	895,447		-	-		
Deferred revenue	187,634	207,744	139,979	93,087	93,087	93,087	93,087	93,087
Derivative liability	1,301,119	4,651,318	3,961,324	3,846,649	9,575,998	10,871,673	10,632,794	7,479,816
Current portion of long-term debt			34,685	6,161	6,161	6,161	6,161	6,161
Current portion capital lease	52,219	28,475	-	32,354	32,354	32,354	32,354	32,354
Total current liabilities	**8,240,400**	**9,505,069**	**11,709,351**	**8,372,023**	**13,376,800**	**14,997,520**	**15,373,405**	**13,162,417**
Loan payable of current portion	-		42,118	34,479	31,637	29,477	27,316	25,156
Capital lease	129,362	147,275	122,291	131,949	125,876	125,876	125,876	125,876
Total long-term liabilities	**129,362**	**147,275**	**164,409**	**166,428**	**157,513**	**155,353**	**153,192**	**151,032**
Total liabilities	8,369,762	9,652,344	11,873,760	8,538,451	13,534,313	15,152,873	15,526,597	13,313,449
Total stockholders' deficit	(4,387,440)	(7,719,679)	(7,749,521)	(7,225,015)	(12,398,687)	(14,010,976)	(14,294,156)	(11,936,452)
Total liabilities & stockholders' deficit	**3,982,322**	**1,932,665**	**4,124,239**	**1,313,436**	**1,135,626**	**1,141,897**	**1,232,441**	**1,376,997**

Source: Company reports, Zacks

HISTORICAL ZACKS RECOMMENDATIONS



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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- 15.3%, Hold/Neutral- 78.6%, Sell/Underperform – 5.8%. Data is as of midnight on the business day immediately prior to this publication.