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Zacks Small-Cap Research

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Lisa Thompson
312-265-9154
lthompson@zacks.com

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

Revolution Lighting Technologies, Inc. (RVLT-NASDAQ)

RVLT: Q2 Miss as Contract Shipments Slide to the Second Half

Using a multiple of 12.1x EBITDA in line with its peers, we come up with an average price target of $4.95 by next year should our estimates prove accurate.

Current Price (08/02/18)	$3.37
Valuation	**$4.95**

OUTLOOK

Revolution Lighting is a pure play in commercial, industrial, and government LED end-user lighting products and services. It has no legacy technology dragging down growth and is projected to grow as customers reap increasingly attractive paybacks. To date, only 15% of installed lighting is LED in the US, providing extensive growth opportunity. Its sales channel has been greatly enlarged and the company in now qualified by the Navy and is winning contracts and is now seeking qualification at the FAA. It also has product Made in America that is having great success with the new emphasis to Buy American.

SUMMARY DATA

52-Week High	**$7.78**
52-Week Low	**$3.09**
One-Year Return (%)	**-53.8**
Beta	**0.5**
Average Daily Volume (sh)	**68,265**
Shares Outstanding (mil)	**22**
Market Capitalization ($mil)	**$75**
Short Interest Ratio (days)	**30.1**
Institutional Ownership (%)	**38**
Insider Ownership (%)	**42**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**65.6**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2018 Estimate	**N/M**
P/E using 2019 Estimate	**14.0**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small Value**
Industry	**Bldg Prod-Ltg Fixtur**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	27.6 A	43.1 A	50.2 A	51.2 A	172.1 A
2017	30.6 A	43.4 A	43.1 A	35.3 A	152.3 A
2018	33.7 A	36.4 A	39.0 E	45.0 E	154.2 E
2019					166.7 E

Earnings Per Share
(Adjusted Non-GAAP EPS before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-$0.06 A	$0.07 A	$0.11 A	$0.14 A	$0.29 A
2017	-$0.15 A	-$0.03 A	-$0.03 A	-$0.15 A	-$0.34 A
2018	-$0.06 A	-$0.04 A	$0.01 E	$0.07 E	-$0.07 E
2019					$0.24 E

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

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WHAT'S NEW

Revolution Lighting Misses Revenue Target as Large Deals Slip

RVLT missed its revenue guidance by reporting Q2 revenues of $36.4 million versus $43.4 million a year ago, down 16%. A few large opportunities that were won, were expected to have started shipping in Q2, but slipped out of the quarter. For example, a large contract with the city of Boston that was won by its partner Honeywell was supposed to have begun in Q2 but product delivery has not started.

In Q2 2018, the company had a gross margin of 32.3%, slightly down from 32.8% a year ago on reduced sales.

Operating expenses were $12.9 million versus $15.5 a year ago when acquisition, severance, and transition costs are included. Without those in both quarters, operating costs were $12.1 million versus $13.3 million in 2017. $800,000 of the difference was a decline in amortization and depreciation. Operating income was a loss of $1.1 million versus breakeven a year ago.

Interest expense increased to $1.1 million for the quarter from $943,000 in Q2 2017. The company expects cash flow and collections to improve in the second of the year when it should begin to pay down some borrowings.

GAAP net loss was again $2.2 million, as it was in Q1 2018, versus a loss of $0.7 million a year ago. The company pays no taxes and has a federal tax loss carry forward of more than $50 million and a state tax loss carry forward of over $36 million.

GAAP EPS loss per share was $0.10 versus a loss of $0.12 per share in 2017. Excluding charges and stock based compensation the non-GAAP EPS loss was $0.04 versus a loss of $0.03 per share in Q2 2017.

Adjusted EBITDA for the quarter was $1.7 million versus $3.2 million in 2017 and $1.0 million in the first quarter of 2018. The company uses EBITDA as its goal metric. This was an EBITDA margin of 4.7%, an improvement over the 2.8% in Q1.

Forecast Guidance

Management expects **Q2 2018 revenue in the $40 - $42 million range** and adjusted EBITDA in the area of 6%. It reduced its full year 2018 revenue guidance from $165 - $175 million to $160 - $170 million, versus $152 million in 2017, and adjusted EBITDA in the 6% - 7% range from its previous guidance of 8% - 10%.

The company continues to increase its addressable market and is now working with a partner to be approved by the FAA for airport light replacement. This could be a huge opportunity with only one other competitor. While sales could be a way off, it would allow the company to replace airport lights in US commercial and military airports as well as aircraft carriers and overseas locations. This includes runway lights, facilities, and parking areas.

Another new avenue of sales is exemplified by its deal with a large REIT with $2.8 billion in properties. RVLT will be a partner in retrofitting properties to improve energy efficiency and property values. It is especially excited about the implementation of an online ordering system that allows owners to send requests directly to RVLT to be filled.

The company recently introduced a new line of controls to rave reviews. Management believes it has an offering that beats the competition hands down in quality and features and is even in talks with a

competitor for a private-label version. It believes it may even have licensing opportunities for its technology.

In the quarter, RVLT started delivery of its second award from a large box retailer, and is in a pilot with this retailer to replace fixtures also leading to even more upside if successful.

The company already sold $4 million to the Navy by providing 100,000 bulbs earlier this year, and is expecting at least another 150,000 units to be put out on an RFP in the next few months.

Revolution's ability to meet Made in America standards as well as Trade Agreement Act compliance has helped it in the US government as well as the corporate market. It recently doubled the size of its Simi Valley facility in order to meet demand. While there are threats of potential tariffs on Chinese goods, RVLT believes what it sources from China will not be affected. In the worst case scenario, it is already aware of US based suppliers of its needed components due to contacts made in sourcing its Made in America product line.

The company continues to work to cut costs and improve operations. It recently actions include reorganizing and cutting staff and it believes it has taken $1.3 million out of its annual budget. It now believes its EBITDA breakeven point has been brought down to $31 million in quarterly revenues.

INVESTMENT THESIS

- Revolution Lighting Technology is a **pure play in the LED lighting products and services space, selling to the commercial, and industrial and government sectors.**

- Replacing incandescent and fluorescent lighting with LED fixtures and/or lamps typically produces measurably **significant payback** for customers. The industry is now at a point where LED prices are so low that significant savings are possible and deal sizes and opportunities are growing and easier to close. The payback period is often lowered as utility and state incentives further reduce overall project costs.

- Unlike competitors, it has **no legacy fluorescent lighting** sales to cannibalize. The company growth reflects LED sales and installations alone. The company **does not compete in the consumer market** or direct to consumers, where extensive competition exists.

- The company is a **consolidation play in an extremely fragmented market.** It has brought together product companies, distributors, and turnkey solution providers who cross-pollinate and complement each other.

- Revolution potentially has **big upsides to sales** to the US Navy and other navies around the world. After a year and a half gaining compliance the company has shipped its first order and looks to bid on bid on more. Since this has just started and traction could provide big upside as contracts are large and at higher than average margins. In addition it has just begun to pursue sales to airports via approval from the FAA, which could also add huge revenues. Being able to meet Made In America and Trade Agreement Act compliance also positions the company for success selling to government.

- At an enterprise value of $136 million, we believe stock in the company has upside if it can achieve our EBITDA estimate of $14 million in 2019. At the current EV to EBITDA multiple of its peer group 12.1, that would equal a valuation of $4.95 per share.

OVERVIEW

RVL LLC acquired Revolution Lighting Technologies in September of 2012. RVL LLC is an investment company created by Ashton Capital and is owned primarily by Robert LaPenta and principals of Aston Capital. Since 2012, the company has acquired eight more companies in LED lighting products, full service turnkey operations and LED distribution, all of which target commercial, industrial or government end users. Its operating divisions include Energy Source, Value Lighting, Tri-State LED, E-Lighting, All-Around Lighting, and TNT Energy. It has 250 employees.

VALUATION

We believe the company should be valued on enterprise value to EBITDA as management runs the business based on EBITDA goals. If we average all the company peers together, they trade at 12.1 times trailing EV/EBITDA. Using adjusted EBITDA of $14 million for 2019, we would value the company at an enterprise value of $171 million. The market value would then be $110 million. **This equates to a stock price of $4.95 per share.**

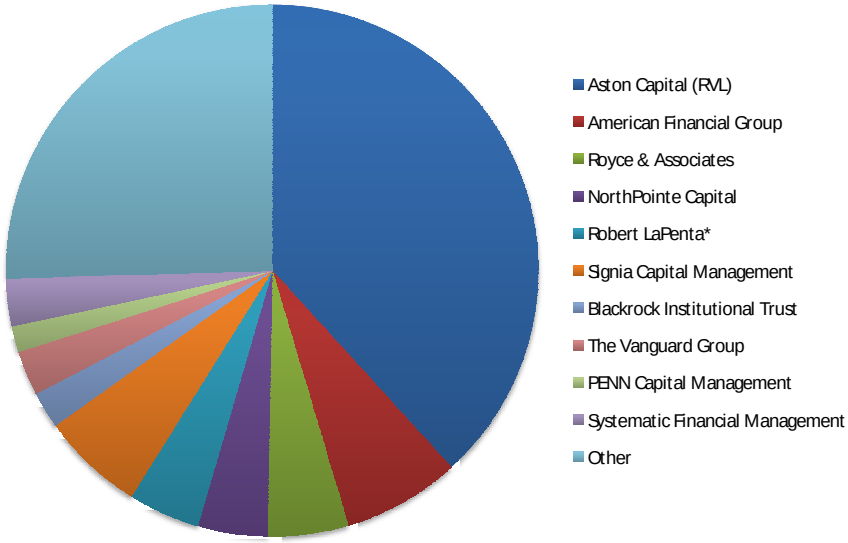
	Ticker	EPS 18	EPS 19	Price	PE 2018	PE 2019	Gr Rate	EBITDA	EV	EV/EBITDA
Company										
Acuity Brands	AYI	9.17	9.50	135.69	14.8	14.28	4%	568	5,450	9.6
Capstone Companies	CAPC	NA	NA	0.24	NA	NA	NA	3	8	3.1
Cree	CREE	0.39	NA	46.87	120.2	NA	NA	65	4,510	69.4
Energy Focus	EFOI	-0.61	-0.32	2.16	-3.5	-6.8	-48%	-9	14	-1.6
Lighting Science Group Corp.	LSCG	NA	NA	0.01	NA	NA	NA	-16	35	-2.1
LSI Industries	LYTS	0.31	NA	4.83	15.6	NA	NA	19	189	9.7
Orion Energy Systems	OESX	-0.18	NA	1.00	-5.6	NA	NA	-8	26	-3.1
Average					50.2	NA	NA		All	12.1
									Profitable	23.0

RISKS

- LED lighting products had experienced rapid declines in price due to extraordinary competition here and in China. While prices are currently more stable, the company must be able to maintain parity in pricing and generate margin in order to be profitable.
- The industry is highly fragmented and currently undergoing consolidation.
- Management may not be able to manage so many separately operating companies and channel conflict and overlap may be a problem in growing internally.
- Governments and utilities may stop offering subsidies and rebates making LED installation less cost effective. Alternatively given the price of oil, electricity prices may come down in some markets with the same effect.
- The production facility in California may not be able to easily scale to meet demand or costs to produce there might be uncompetitive.

OWNERSHIP

Aston Capital owns RVL 1 LLC and owns 38% of RVLT. Certain management and directors of Revolution Lighting including Robert LaPenta and James DePalma are also owners of Aston Capital. Robert LaPenta's position shown below is shares owned by him in addition to shares owned by RVL 1 LLC. As of June 30, 2018 the company had 22.4 million shares outstanding.



INCOME STATEMENT

	Q1 2017 31-Mar	Q2 2017 30-Jun	Q3 2017 30-Sep	Q4 2017 31-Dec	Q1 2018 31-Mar	Q2 2018 30-Jun	Q3 2018E 30-Sep	Q4 2018E 31-Dec	2016	2017	2018E	2019E
Total revenue	**30.6**	**43.4**	**43.1**	**35.3**	**33.7**	**36.4**	**39.0**	**45.0**	**172.1**	**152.3**	**154.2**	**166.7**
Yr-to-yr Growth	11%	1%	-14%	-31%	10%	-16%	-9%	28%	32.8%	-11.5%	1.2%	8.1%
Cost of services	20.5	29.1	29.2	22.6	22.2	24.7	26.2	30.2	116.3	101.4	103.3	110.3
Restructuring costs	0.0	0.0	0.0	9.3	0.0	0.0	0.0	0.0	0.0	9.3	0.0	0.0
Gross profit	10.1	14.2	13.9	3.5	11.5	11.8	12.8	14.8	55.9	41.7	50.9	56.3
Gross Margin	33.0%	32.8%	32.2%	9.8%	34.1%	32.3%	32.8%	32.9%	32.5%	27.4%	33.0%	33.8%
Operating expenses:												
Acquisition, severance and transition costs	0.7	0.9	1.2	3.3	0.2	0.8	0.0	0.0	3.9	6.1	1.0	0.0
Amortization and depreciation	1.9	1.8	1.5	0.8	1.0	1.0	1.0	1.0	6.1	6.1	4.1	4.2
Stock-based compensation	1.1	0.5	0.6	0.8	0.7	0.5	0.5	0.5	2.1	3.0	2.3	2.5
Other SG&A	10.1	10.4	11.0	12.6	10.1	9.6	9.4	10.1	39.4	44.0	39.2	38.0
R&D	0.4	0.7	1.1	1.5	0.8	1.0	1.0	1.0	2.4	3.7	3.8	4.2
Total operating expenses	14.2	14.2	15.5	19.0	12.8	12.9	12.0	12.7	53.9	62.9	50.4	48.9
Operating income:	(4.2)	0.0	(1.6)	(15.5)	(1.3)	(1.2)	0.8	2.1	2.0	(21.2)	0.5	7.4
Operating margin	-13.6%	0.1%	-3.7%	-44.0%	-3.8%	-3.2%	2.1%	4.7%	1.2%	-13.9%	0.3%	4.5%
Other income:												
Interest expense, net	(0.8)	(0.8)	(0.9)	(1.3)	(0.9)	(1.1)	(1.1)	(1.1)	(2.5)	(3.9)	(4.2)	(4.4)
Write off of intangibles, goodwill, restructuring	-	-	-	(28.8)	-	-	-	-	-	(28.8)	0.0	-
Total other income	(0.8)	(0.8)	(0.9)	(30.2)	(0.9)	(1.1)	(1.1)	(1.1)	(2.5)	(32.7)	(4.2)	(4.4)
Income before income taxes	(5.0)	(0.7)	(2.5)	(45.7)	(2.2)	(2.3)	(0.3)	1.0	(0.5)	(53.9)	(3.7)	3.1
Pretax Margin	-16.2%	-1.7%	-5.8%	-129.5%	-6.5%	-6.2%	-0.7%	2.2%	0%	-35%	-2%	2%
Income tax	0.0	0.0	0.0	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%	0.0%	0.0%	0.0%	0.0%
Net income	(5.0)	(0.7)	(2.5)	(45.7)	(2.2)	(2.3)	(0.3)	1.0	(0.5)	(53.9)	(3.7)	3.1
Stk based compensation	1.1	0.5	0.6	0.8	0.7	0.5	0.5	0.5	2.1	3.0	2.3	2.5
One-time expenses	0.7	0.9	1.2	41.5	0.2	0.8	-	-	3.9	44.2	-	-
Non-GAAP Income from continuing	(3.2)	0.6	(0.7)	(3.5)	(1.3)	(1.0)	0.3	1.5	5.5	(6.7)	(1.5)	5.6
Net Margin	-10.4%	1.5%	-1.6%	-9.8%	-4.0%	-2.6%	0.7%	3.4%	3.2%	-4.4%	-0.9%	3.3%
Yr-to-yr Growth	204%	-52%	-131%	-217%	-58%	-250%	-138%	-144%	139.2%	-222.5%	-78.3%	-482.5%
Net income per share:												
EPS	(0.24)	(0.04)	(0.12)	(2.17)	(0.10)	(0.10)	(0.01)	0.05	(0.03)	(2.59)	(0.17)	0.13
EPS Diluted	(0.24)	(0.04)	(0.12)	(2.17)	(0.10)	(0.10)	(0.01)	0.05	(0.03)	(2.59)	(0.17)	0.13
Adjusted Non-GAAP Diluted	**(0.15)**	**0.03**	**(0.03)**	**(0.16)**	**(0.06)**	**(0.04)**	**0.01**	**0.07**	**0.29**	**(0.32)**	**(0.07)**	**0.24**
	138.5%	-55.3%	-129.8%	-217.4%	-60.3%	-240.2%	-135.8%	-141.9%	229.3%	-212%	-80%	-464%
Shares												
Basic	20.6	20.8	20.9	21.1	21.8	22.2	22.2	22.2	19.0	20.8	22.1	23.2
Diluted	20.6	20.8	20.9	21.1	21.9	22.2	22.2	22.2	19.0	20.8	22.1	23.2
	23.7%	7.1%	2.2%	-0.5%	5.9%	7.1%	6.2%	5.4%	12.4%	9.5%	6.2%	5.0%
Adjusted EBITDA	(0.4)	3.2	2.3	0.4	1.0	1.7	2.8	4.0	14.1	4.7	7.9	14.1
EBITDA Margin	-1.4%	7.3%	5.3%	1.1%	2.8%	4.7%	7.1%	9.0%	8.2%	3.1%	5.1%	8.5%

BALANCE SHEET

	June 30, 2018	Mar. 31, 2018	% Change Jun-Mar	June 30, 2017	% Change Yr-Yr
Current assets					
Cash and equivalents	**$457**	**$1,439**	-68%	**$475**	-4%
Accounts receivable, net	34,963	29,746	18%	50,664	-31%
Unbilled contract receivable	6,813	6,557	4%	6,255	9%
Inventories, net	26,706	27,276	-2%	31,234	-14%
Other current assets	9,554	10,416	-8%	9,814	-3%
Total current assets	78,493	75,434	4%	98,442	-20%
Property and equipment, net	2,051	2,125	-3%	1,651	24%
Other assets					
Goodwill	61,508	61,508	0%	72,210	-15%
Intangible assets, net of accumulated amortization	27,164	27,518	-1%	41,166	-34%
Other assets	999	1,051	-5%	1,202	-17%
Total other assets	89,671	90,077	0%	114,578	-22%
Total assets	170,215	167,636	2%	214,671	-21%
Current liabilities					
Accounts payable	23,476	24,605	-5%	26,294	-11%
Acquisition payable	**510**	**1,886**	-73%	**2,360**	-78%
Related party payable	1,000	1,200	-17%	0	#DIV/0!
Accrued and other current liabilities	7,990	9,822	-19%	11,556	-31%
Purchase price obligations, current	**0**	**130**	-100%	**561**	-100%
Total current liabilities	32,976	37,643	-12%	40,771	-19%
Long-term liabilities					
Revolving credit facility	**42,107**	**40,060**	5%	**38,741**	9%
Related party payable	**17,728**	**11,720**	51%	**11,065**	60%
Acquisition payable	**1,326**	**180**	637%	**1,886**	-30%
Other liabilities	244	375	-35%	386	-37%
Total Liabilities	94,381	89,978	5%	92,849	2%
Stockholder's equity					
Common stock	22	22	0%	21	5%
Additional paid-in capital	209,302	208,928	0%	202,678	3%
Accumulated deficit	(133,490)	(131,292)	2%	(80,877)	65%
Total stockholders' equity	75,834	77,658	-2%	121,822	-38%
Total liabilities and stockholders' equity	$170,215	$167,636	2%	$214,671	-21%
Current ratio	2.4	2.0	19%	2.4	-1%
Quick ratio	1.6	1.3	23%	1.6	-5%
Working Capital	45,517	37,791	20%	57,671	-21%
Net Cash as % of assets	0%	1%	-69%	0%	21%
Cash per share	$0.00	$0.00	-66%	$0.00	-3%
Debt % of assets	36%	33%	10%	25%	42%
Inventory Turnover	2.7	2.4	12%	3.6	-26%
Days Sales	129	110	17%	159	-19%

CASH FLOWS

$ in Thousands	3 Months Ended March 31, 2017	3 Months Ended June 30, 2017	3 Months Ended Sept 30, 2017	3 Months Ended Dec 31, 2017	Year Ended Dec 31, 2017	3 Months Ended March 31, 2018	3 Months Ended June 30, 2018
Cash Flows from Operating Activities:							
Net loss	$ (4,955)	$ (727)	$ (2,520)	$ (45,705)	$ (53,907)	$ (2,190)	$ (2,198)
Adjustments to reconcile net loss to net cash used in operating activities:							
Amortization and depreciation	1,939	(1,678)	5,549	1,739	7,549	1,367	1,458
Amortization of intangibles and other assets	0	3,471	2,080	(5,812)	0	0	0
Reacquired common stock issued for acquisition	0	0	0	0	0	0	0
Change in fair value of contingent consideration	(785)	(860)	43	169	(1,433)	0	0
Deferred income tax benefit	0	0	0	0	0	0	0
Stock-based compensation	1,118	478	601	779	2,976	673	522
Impairment of goodwill	0	0	0	10,702	10,702	0	0
Impairment of intangible assets	0	0	0	10,480	10,480	0	0
Restructuring expense	0	0	0	16,908	16,908	0	0
Other non-cash items affecting net loss	21	(124)	41	(123)	(185)	86	100
Changes in operating assets and liabilities, net of the effect of acquisitions (Note 2):							
Increase in trade accounts receivable, net	7,161	(4,478)	2,694	8,236	13,613	5,226	(5,217)
Increase in unbilled contract receivables	1,841	2,071	744	(572)	4,084	(474)	(256)
Increase in inventories, net	(3,571)	(985)	(2,404)	(411)	(7,371)	(1,112)	570
Increase in other assets	(1,549)	(445)	(3,270)	407	(4,857)	(1,709)	195
Decrease in accounts payable and other liabilities	(5,432)	(947)	810	10	(5,559)	(6,308)	(1,945)
Decrease in accrued compensation and benefits	0	0	0	0	0	0	0
Net cash used in operating activities	(4,212)	(4,224)	(1,181)	2,617	(7,000)	(4,441)	(6,771)
Cash Flows from Investing Activities:							
Acquisition of businesses, net of cash acquired	0	0	0	(530)	(530)	0	0
Payment of acquisition obligations	0	(284)	0	0	(284)	0	(137)
Purchase of property and equipment	(231)	(421)	(309)	(98)	(1,059)	(292)	(1,111)
Proceeds from the sale of assets	0	0	0	0	0	0	0
Net cash used in investing activities	(231)	(421)	(309)	(628)	(1,873)	(292)	(1,111)
Cash Flows from Financing Activities:							
Fee pertaining to the issuance of common stock	0	0	0	0	0	0	0
Fee pertaining to the issuance of debt	0	0	603	0	0	0	0
Issuance of common stock, net of fees and expenses	0	0	0	0	0	3,600	0
Repayments of short-term borrowings and notes payable	(10,090)	(90)	(90)	(2,090)	(12,360)	0	(90)
Proceeds of loans from related party note payable	0	7,000	0	3,655	10,655	200	5,080
Repayments of loans from affiliates of controlling stockholder	0	0	(500)	(1,500)	(2,000)	0	0
Proceeds from revolving credit facility, net	14,819	(2,072)	1,919	(2,026)	12,640	1,427	2,047
Net cash provided by financing activities	4,729	4,838	1,932	(1,961)	8,935	5,227	7,037
(Decrease) increase in Cash and Cash Equivalents	286	193	442	28	62	494	(845)
Cash and Cash Equivalents, beginning of period	883	1,169	475	917	883	945	1,439
Cash and Cash Equivalents, end of period	1,169	1,362	917	945	945	1,439	594

HISTORICAL STOCK PRICE



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