Zacks Small-Cap Research

November 16, 2012
Ken Nagy, CFA

www.zacks.com
111 North Canal Street, Chicago, IL 60606

TowerJazz (TSEM-NASDAQ)

TSEM: Weak Top-Line Strong Orders, Margins; OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	02/23/2012
Current Price (11/15/12)	$7.46
Target Price	**$12.00**

OUTLOOK

TowerJazz is a pure-play semiconductor wafer foundry with two IC plants in Israel and one in California, that manufacture SiGe, MEMS, RF, embedded flash-based memory, analog/mixed-signal, and CMOS image-sensor devices. Over the past two years the firm has been building capacity due to accelerated design-win momentum, which have been realized within a large group of diversified, global customers, many of which being market share and technology platform leaders for their respective markets. The recent acquisition of the Micron Technology FAB plant is powering growth in Asia. We see value in the shares and reiterate our outperform rating.

SUMMARY DATA

52-Week High	**$14.99**
52-Week Low	**$7.01**
One-Year Return (%)	**-30.03**
Beta	**1.73**
Average Daily Volume (sh)	**17,077**
Shares Outstanding (mil)	**21**
Market Capitalization ($mil)	**$160**
Short Interest Ratio (days)	**11.97**
Institutional Ownership (%)	**50**
Insider Ownership (%)	**1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**31.1**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**2.5**
P/E using 2012 Estimate	**2.6**
P/E using 2013 Estimate	**2.2**
Zacks Rank	**3**

Risk Level	**Moderate**
Type of Stock	**Small-Blend**
Industry	**Elec Comp-Semic**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	114 A	126 A	135 A	135 A	509 A
2011	121 A	140 A	176 A	175 A	611 A
2012	168 A	169 A	155 A	153 E	644 E
2013					700 E

Earnings per Share
(Non-GAAP Diluted)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	$0.98 A	$1.12 A	$1.12 A	$1.05 A	$4.27 A
2011	$0.68 A	$0.90 A	$0.90 A	$0.75 A	$3.23 A
2012	$0.68 A	$0.91 A	$0.65 A	$0.66 E	$2.89 E
2013					$3.40 E

Reflects 15 for 1 reverse split

© Copyright 2012, Zacks Investment Research. All Rights Reserved.

WHATS NEW

Solid Margins, Orders at TowerJazz

On November 15, 2012, Tower Semiconductor, reported financial results for its third quarter and nine months ended September 30, 2012.

The Company reported mixed results with third quarter revenues of $154.594 million, which fell $21.518 million year over year and $14.043 million sequentially. Still, Year over year, GAAP gross margin improved from 9.3 percent to 12.4 percent for the three months ended September 30, 2012.

The improvement in margins are as a result of the efficiency measures that management has executed, including the cost reduction plan in the Japanese facility, with the aim of lowering operating expenses by more than $30 million on an annual basis.

During the second quarter of 2012, Tower executed a cost reduction plan to increase its efficiency of its Japanese facility in Nishiwaki City. The plan is expected to enable improved margins by greater than $30 million on an annual basis and should enable an approximately 10 point increase in the gross margins produced in this factory as compared to the previous operating expense baseline.

Furthermore, Tower reported third quarter 2012 EBITDA of $40 million, up year-over-year from $39 million for the third quarter of 2011 which excludes the one-time gain from the sale of HHNEC holdings. Operating loss for the three months ended September 30, 2012 was $513,000 compared to an operating loss of $4.619 million for the comparable quarter of 2011.

However, Tower reported a third quarter 2012 GAAP net loss of $18.159 million, down year over year from net income of $1.839 million for the third quarter 2012.

Financing expenses increased significantly primarily as a result of GAAP, non-cash financing expenses resulting from the changes in the fair market value of part of the Company’s debentures and warrants which are recorded at fair market value per GAAP and from the effect of the NIS/USD exchange rate changes on Tower’s NIS denominated debentures.

Excluding financing expenses and the net effect of the one-time gain from the sale of the Company's investment in HHNEC in the third quarter of 2011, net loss in the quarter was reduced by $6 million compared with that of the third quarter last year.

Based on a weighted average number of ordinary shares outstanding of 21.539million, GAAP basicnet loss per share resulted in a net loss of $0.84 per share during the third quarter of fiscal 2012. This compared to basic net income per ordinary share of $0.09 on a weighted average number of ordinary shares of 21.140 million during the three months ended September 30, 2011.

Non-GAAP third quarter 2012 gross profit was $57.413 million representing gross margin of 37.1 percent while non-GAAP net profit was $31.567 million. This compares to non-GAAP gross margin of32.6 percent and a non-GAAP net profit of $31.695 million for the third quarter ended September 30, 2011.

Tower Semiconductor’s balance sheet remained strong with $160.973 million in cash and short-term deposits and working capital of $129.053 million for the period ended September 30, 2012. This compares to $170.661 million in cash and short-term deposits and working capital of $138.577 million for the period ended June 30, 2012.

Similarly, during October 2012, Tower successfully completed a private placement that raised $25 million, in an expansion of its long-term debentures series F, due December 2015 and December 2016.

Net cash from operating activities was $15 million, or $26 million excluding one-time reorganization payments of $11 million related to the previously announced efficiency and cost reduction plan in its Japanese facility resulting in $30 million of savings on an annual basis.

Finally, while Tower's third quarter results were in line with the Company's guidance, the Company continues to execute on its operational and strategic plans.

Along the same lines, during the quarter, Tower announced its largest single customer manufacturing engagement in the Company's history, which is multi-year through 2018 and includes advanced flows in the Nishiwaki, Japan factory, and increased activities in both Migdal Haemek factories and the operation of a jointly built epitaxial center for super junction families.

Furthermore, management believes it continues to make strong progress in growing markets such as Front End Module for mobile communication, power management and high-end image sensors as evidenced by the record number of new masks that have entered Tower factories.

Likewise, the Company is in the final stages of signing a unique contract in Japan, and is in advanced stages of an enabling agreement for one of its strong strategic initiatives.

As a result, Tower anticipates fiscal 2012 fourth quarter revenues to be in the range of $147 million to $157million.

On April 23, 2012 TowerJazz announced the completion of the successful transfer of its CMOS image sensor (CIS) technology from its Migdal Haemek, Israel facility to its US fab in Newport Beach, California providing multi-sourcing to better address its customers' growing needs. TowerJazz's CIS process has already been running in high volume in its Israeli plants, and is now available in its Newport Beach, CA facility for customers that require on-shore manufacturing.

The CIS process enables the customization of pixels according to project needs and its superior performance (dark current, low noise and dynamic range) enables a rich offering for various digital imaging applications. For example, TowerJazz's presence in the industrial sensor market is growing significantly with new applications such as fingerprint detection for homeland security, traffic monitoring cameras and others. Integration of TowerJazz's NMOS pixel with its 0.18 analog CMOS provides a US-based solution for specialty image sensors for aerospace and defense applications as well. In addition, TowerJazz's patented stitching technology overcomes photolithography tool limitations to seamlessly tile 5.5-micron pixel sections into a large pixel array, resulting in ultra-high resolution, high-quality color image sensors. This technology enables manufacturing of die sizes up to a single die per 200-mm wafer.

The firm is now enjoying a substantial ramp in volume productions that were signed in the 2008-2009 time frame. In general the time frame from design win to volume production is a two year process. Design wins per quarter were approximately 50 per quarter in 2008, 75 per quarter in 2009, and 110 per quarter in 2010. The firm received a triple digit number of design wins in the past quarter, which will likely benefit the firm in 2012 and beyond.

On June 5, 2011 TowerJazz announced that it completed its previously announced acquisition of Micron Technology's fabrication facility in Nishiwaki City, Hyogo, Japan. The acquisitions will nearly double TowerJazz's current internal manufacturing capacity, increasing production by 60,000 wafers per month. The deal should also strengthen the company's presence in the Asia-Pacific region as it is likely IDM's in the area would want a partner close by. We feel the deal will help margins eventually, but perhaps not until 2013. 19.7 million shares for increasing your revenues by 80% is dilution we can live with. The first

two years will operate with a cost plus model, which will allow the facility to be 80% utilized while the firm builds up a clientele. We feel this is a positive as new facilities can be a drain until the firm fills excess capacity.

Foundry Landscape 2008-2010

($M)	2008		2009		2010	
1	TSMC	10,556	TSMC	,8989	TSMC	13,307
2	UMC	3,070	UMC	2,815	UMC	3,965
3	Chartered	1,743	GlobalFoundries*	2,641	GlobalFoundries	3,510
4	SMIC	1,353	SMIC	1,070	SMIC	1,555
5	Vanguard	511	Dongbu	395	**TowerJazz**	**510**
6	Dongbu	490	Vanguard	382	Vanguard	505
7	X-Fab	368	**TowerJazz**	**299**	Dongbu	495
8	SSMC	340	SSMC	280	SSMC	330
9	HHNEC	290	HHNEC	240	X-Fab	320
10	**TowerJazz**	**252**	X-Fab	212	HHNEC	295
11	Grace	230	He Jian	180	Grace	260
12	He Jian	195	Silterra	170	WIN	221
13	Silterra	175	WIN	145	Altis	215
14	ASMC	134	Grace	100	He Jian	205
15	WIN	117	ASMC	94	Silterra	200
16	Mosel-Vitelic	98	XinXin	55	ASMC	150
17	XinXin	20	Mosel-Vitelic	51	Mosel-Vitelic	80
18	Altis	0	Altis	0	XinXin	75
19	-	-	-	-	-	-
20+	Others	148	Others	171	Others	204

INVESTMENT THESIS

Tower Semiconductor Ltd. operates as a global specialty foundry company. Its wholly owned subsidiary, Jazz Semiconductor, Inc., specializes in analog-intensive mixed-signal (AIMS) foundry solutions. Tower and Jazz manufacture integrated circuits with geometries ranging from 1.0 to 0.13-micron, as well as provide design enablement tools to allow complex designs to be achieved quickly and accurately. The company and its subsidiary offer a range of process technologies, including digital, mixed-signal and RFCMOS, HV CMOS, BCD, non-volatile memory (NVM), embedded NVM, MEMS, and CMOS image sensors. Tower and Jazz maintain two fabrication facilities in Israel, as well as one fabrication facility in the United States, with additional capacity available through manufacturing partnerships in China.

As of March 31, 2011, the firm held 197 patents in force in the United States and 33 patents in force in foreign countries.

Foundry History

Historically semiconductor firms (also called integrated device manufacturers or IDMs) manufactured chips in their own fabs (chip fabrication plant). By the 1990's as chips grew smaller and more complex it was a natural that fab less outsourced manufacturing began to emerge. Semiconductor devices are broadly divided into three categories—analog, digital and radio frequency (RF). Analog semiconductors condition and regulate real world information such as light, temperature, speed, pressure, power and electrical currents. Digital logic semiconductors process information in only two states. Mixed-signal semiconductors combine both analog and digital technology into a single device. Typically, an analog sensor samples real world information, and then converts the input into an electronic analog signal, which is converted into a digital format for further digital processing. The analog and mixed-signal markets tend to be more varied and specialized, with customized products that have longer life cycles than the digital industry segment. There is an ongoing drive to decrease the number of discrete devices, lessen power requirements and shrink the size of the existing devices, which correspondingly increase performance and reliability. Consequently, a greater amount of functionality is being consolidated into increasingly smaller devices

The availability of IC designs require process technologies other than standard digital CMOS have created a market for independent foundries that focus on providing specialized process technologies. Thus, wafer manufacturers may also need to make a significant investment in specialty process technologies to manufacture these semiconductors. Specialty process technologies enable greater analog content and can reduce the die size of an analog or mixed-signal semiconductor, thereby increasing the number of dies that can be manufactured on a wafer and reducing final die cost. In addition, specialty process technologies can enable increased performance, superior noise reduction and improved power efficiency of analog and mixed-signal semiconductors compared to traditional standard CMOS processes. These specialty process technologies include advanced analog CMOS, radio frequency CMOS (RF CMOS),CMOS Image Sensors (CIS), high voltage CMOS, bipolar CMOS (BiCMOS), silicon germanium BiCMOS (SiGe BiCMOS), and bipolar double-diffused metal oxide semiconductor (BCD).

Specialized Markets, higher margin

The company uses CMOS (complementary metal oxide semiconductor) IC technology within the semiconductor devices. Strategically, management has targeted the manufacture of embedded flash-based memory, analog/mixed-signal and CMOS image-sensor device markets. Management asserts that these targeted specialized markets produce relatively higher gross margins and have higher growth characteristics than the general industry. Embedded flash memory is non-volatile erasable memory used within MP3 players, wireless handsets, digital cameras, DVD players, set-top boxes and PCs. The analog/mixed signal ICs are used in a wide variety of end applications that include wireless handsets, PCs, DVD players, automotive electronics and medical imaging equipment. CMOS image sensors are used within wireless handsets, digital cameras, video cameras and video game consoles. Applications within the consumer market account for 50% of revenue, while communications was 15%, PC was 7%, multi-markets 18% and the combined industrial, medical and automotive the remaining 10%.

Some industries that will benefit from optical sensors include certain processing industries that can use sensors for controlling chemical formulations and temperatures. In the medical industry, the sensors will facilitate the development of novel imaging systems. The sensors will help the construction industry monitor the structural health of different buildings, bridges, and tunnels and

facilitate the environmental industry in monitoring pollutants and contamination.
The multiplexing capability of optical sensors makes them an excellent candidate for structural health monitoring in aerospace applications where weight is a major consideration. Degradable polymer sensors are used to deliver antiviral drugs, pain and chemotherapy medications, and contraceptives. Universities and companies can use simulation equipment for their research and teaching needs. A range of basic and applied research programs are being conducted in aeropropulsion, space sciences, photonics, and materials technology

Merger.
Jazz semiconductor was formed as the result of a spin off in 2002 from Conexant (Conexant dates back to Rockwell Semiconductor). Jazz is the owner of the Newport Beach CA 200mm facility and several industry leading technologies such as SiGE, BiCMOS, and MEMS. We feel the merger is significant to Tower for the following reasons.

- The merger was done at a time when the rest of the industry was in survival mode.
- The customer base was doubled.
- Towerjazz is the lead in specialty higher margin foundry.



Diverse Customer Base (Source,Towerjazz)

The firm produces its products with its specialty process technology the designs are typically more complex than the manufacture of standard technology. This has the effect of drawing industry leading customers to the firm and makes it harder for them to leave for the competition.

SiGe
TSEM's BiCMOS process technologies have more features than RF CMOS process technologies and power various RF semiconductors such as wireless transceivers and television tuners. Towerjazz takes it a step further and incorporate high-speed bipolar transistors into an RF CMOS process. The equipment requirements for BiCMOS manufacturing are specialized and require enhanced tool capabilities to achieve high yield manufacturing. Towerjazz remains the only foundry in the world with multi-fab SiGE capacity.

Power Management
TSEM's high voltage CMOS and BCD process technologies have more features than advanced analog CMOS processes and are well suited for power and driver semiconductors such as voltage regulators, battery chargers, power management products and audio amplifiers.

With worldwide energy standards becoming more stringent, we are optimistic about Towerjazz technology. In particular, several new government standards are being enacted that will force new products to adopt newer technologies, displacing the inefficient legacy linear transformers. The standards imposed by the California Energy Commission (CEC) became mandatory for all external power supplies by July 2008. This is a critical event given that California is the seventh largest economy in the world and usually the pioneer in leading edge legislation that many other states usually adopt later. Washington State and Arizona have both since adopted the same California standard. China recently announced a new voluntary program similar to the Energy Star program and also adopted the California standards. The European Commission has set European standards for energy efficient external AC/DC power supplies that are even more stringent than the CEC standards, although it is initially on a voluntary basis. Australia not only adopted the CEC standards, but made compliance mandatory by April 2006. The current worldwide energy situation has created greater sensitivity to the burgeoning problem. TSEM integrated power products conform to these new standards. As customers begin to design-in integrated power ICs that are in conformance with these new energy efficiency standards, the firm should be able to capitalize on the conversion.

VALUATION

The firm appears undervalued when looking at several metrics.

…Enterprise Multiple

The enterprise multiple looks at a firm as a potential acquirer would, because it takes debt into account - an item which other multiples like the P/E ratio do not include. Enterprise value is calculated as market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents. The Firm's Enterprise multiple is 3.10x compared to 7.34x for the industry. **According to the enterprise multiple TSEM appears undervalued compared to industry.**

$$\text{Enterprise Multiple} = \frac{\text{Enterprise Value}}{\text{EBITDA}}$$

Metric	TSEM	Industry Average
EV/EBITDA	3.10	7.34

…Two Stage Free Cash Flow to Equity Model

FCFE = Net Income - Net Capital Expenditure - Change in Net Working Capital + New Debt - Debt Repayment

Assumptions

- The firm is expected to grow at a higher growth rate in the first period.

- The growth rate will drop at the end of the first period to the stable growth rate.

Rationale for using the Model
As the firm grows its top-line to $1 billion, we expect the firm to grow at a higher overall rate than the industry. As These products mature and the firm faces more competition we expect the growth rate to level off.

Weakness of the Model
As you add more layers to the model it is more sensitive to the assumptions you make. The growth may look more "lumpy" than we have it in the model.

Output
We used the following inputs:

- A 5-year period with an earnings growth rate of 7.0% and a discount rate of 13.50%.
- A continuing period assumed to go on forever, with earnings growing at 4% and a discount rate of 13.05%.

With these inputs we arrive at a price of $12.00

According to the model, the firm appears undervalued.

…Price to Earnings Multiples/ Price to Sales Multiples

Due to its simplicity the Price/Earnings ratio is easily the most widely used metric in all of finance. The first strength of the model is that it is intuitive. It is simply the price paid for current earnings. It can also act as a proxy for other firm characteristics such as risk and growth. There is a downside to the P/E ratio in that it has the potential to reflect investor's mood rather than the fundamentals of the firm. It also eliminates assumptions about risk, growth, and retention ratio (something discounted cash flow models account for.)

While not as popular as Price/Earnings or Price/BV, Price/Sales is not influenced by accounting decisions in depreciation, inventory and extraordinary charges. P/S multiples are much less volatile than P/E multiples. However if the problem with the firm lies in cost control the P/S ratio will not reflect this flaw.

The firm appears undervalued compared to the industry.

Metric	TSEM	Industry Average
P/E TTM	2.49	13.85
P/E 2012 (E)	2.58	11.86
P/S	0.20	1.60

*source for background on valuation models: Investment Valuation, Aswath Damodaran

Our price target of $12.00 per share is a blend of 4.0x our 2012 EPS estimate, our two stage model and the Enterprise Model. We would add shares at these levels. We were conservative in our model and

assumed most of the diluted shares are converted. If the firm addresses this issue down the road one could argue for a higher valuation.

Perhaps the recent disconnect in the shares performance versus its operating results lies in the fact that the firm has capital notes and equity options that if converted could increase the number of shares outstanding to 50 million shares. (if the capital notes are converted at 100% they are convertible to approximately 28 million shares) The notes along with some other equity options may be a medium term headwind for the firm, yet they were given at a time when the firm was questionable as a going concern and was hemorrhaging cash. What once saved the firm now may be holding it back. The notes can be negotiated or bought out, (likely at less than 100% dilution) but that seems to be a longer-term issue for the firm to tackle.

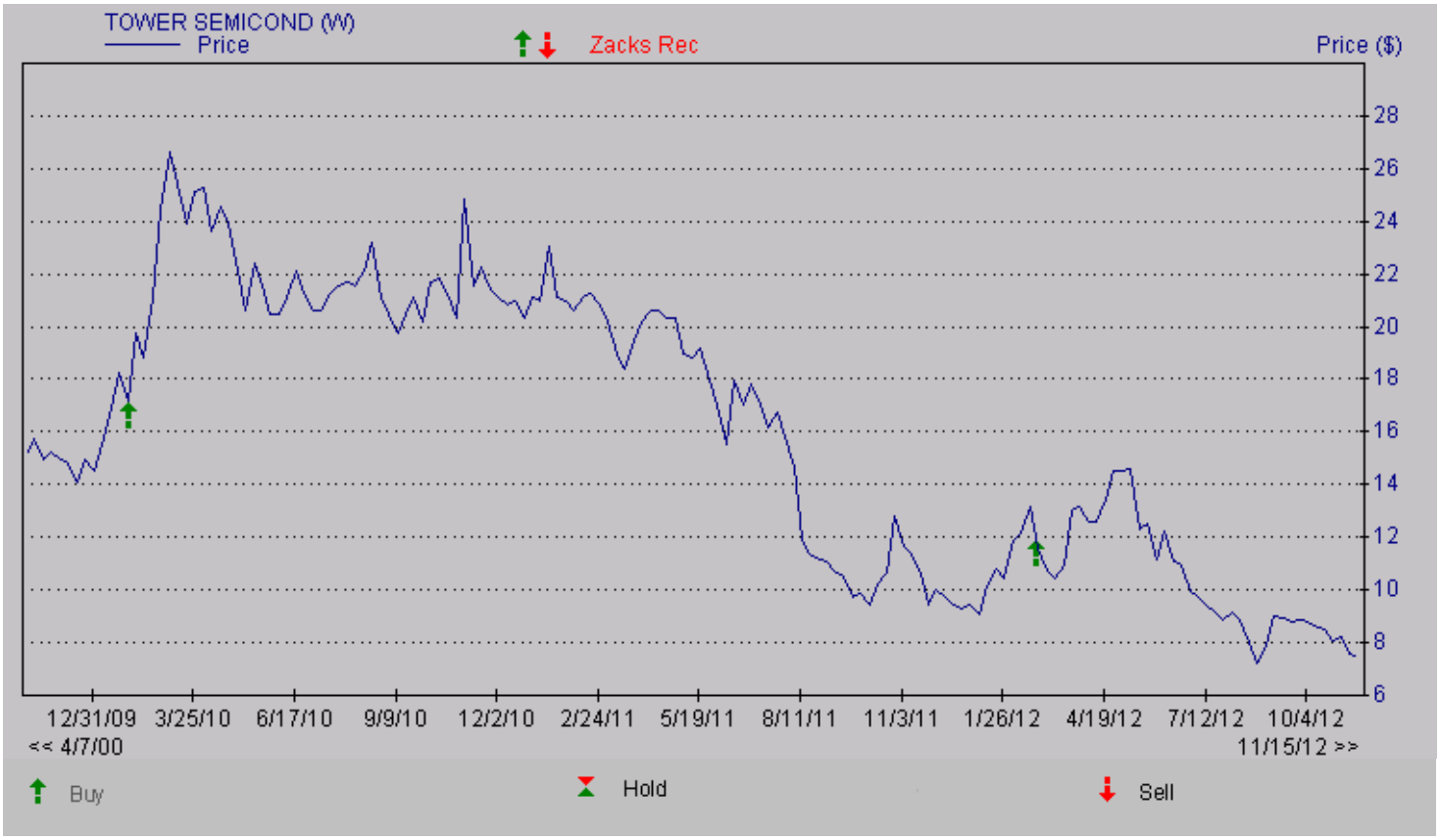
Our opinion is the firm is focused on getting to the $1 billion annual sales mark and will then turn its attention to improving the balance sheet. On October 10th 2011 TSEM announced that Jazz Technologies Inc. completed a voluntary transaction to early redeem the entire remaining $35,091,000 principal amount of its outstanding 8.00% notes originally due December 31, 2011. If not redeemed, the notes were convertible into Tower Semiconductor's shares. The company financed the early redemption through available cash on hand. This could be the first step toward addressing the share count/ balance sheet issue.

PROJECTED INCOME STATEMENT

INCOME STATEMENT ($ Millions)	Sep-11 Q3 11 E	Dec-11 Q4 11	Mar-12 Q1 12	Jun-12 Q2 12	Sep-12 Q3 12	Dec-12 Q4 12 E	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 E
REVENUE												
Net Revenue	**176.1**	**174.6**	**168.0**	**168.6**	**154.6**	**153.0**	**251.7**	**298.8**	**509.3**	**611.0**	**644.2**	**700.0**
Sequential Growth		*-1%*	*-4%*	*0%*	*-8%*	*-1%*						
OPERATING EXPENSES												
Cost of Revenues	118.66	116.84	109.26	100.68	97.18	95.00	174.2	206.5	284.7	383.3	402.1	425.0
% of Revenue	*67.4%*	*66.9%*	*65.0%*	*59.7%*	*62.9%*	*62.1%*						
Gross Profit -	**57.5**	**57.7**	**58.8**	**68.0**	**57.4**	**58.0**	**77.5**	**92.3**	**224.5**	**227.7**	**242.1**	**275.0**
Proforma Gross Margin	*32.6%*	*33.1%*	*35.0%*	*40.3%*	*37.1%*	*37.9%*	*30.8%*	*30.9%*	*44.1%*	*37.3%*	*37.3%*	*39.3%*
R&D + Engg	6.06	6.55	7.39	6.97	7.58	7.25	13.2	22.2	22.6	22.9	29.2	32.0
% of Revenue	*3.4%*	*3.8%*	*4.4%*	*4.1%*	*4.9%*	*4.7%*	*5.3%*	*7.4%*	*4.4%*	*3.7%*	*3.7%*	*4.6%*
SG&A	12.36	11.53	11.10	8.25	10.09	10.50	28.1	29.0	34	41	40	44
% of Revenue	*7.0%*	*6.6%*	*6.6%*	*4.9%*	*6.5%*	*6.9%*	*11.2%*	*9.7%*	*6.6%*	*6.7%*	*6.7%*	*6.3%*
GW Amort, Restructuring, other							-	-		*1.49*	-	-
% of Revenue												
Total Operating Expenses	18.42	18.08	18.49	15.21	17.67	17.75	41.4	51.1	56	65	69	76
% of Revenue	*10.5%*	*10.4%*	*11.0%*	*9.0%*	*11.4%*	*11.6%*	*16.4%*	*17.1%*	*11%*	*11%*	*11%*	*11%*
Operating Income -	**39.0**	**39.7**	**40.3**	**52.7**	**39.7**	**40.3**	**36.1**	**41.2**	**168**	**163**	**173**	**199**
Operating Margin	*22.2%*	*22.7%*	*24.0%*	*31.3%*	*25.7%*	*26.3%*	*14%*	*14%*	*33%*	*27%*	*27%*	*28%*
NON-OPERATING ITEMS												
Non operating Income/Expense	7	-6	-8	-8	-8	-8	-19.4	-22.2	-19	-4	-32	-32
% of Revenue	*3.82%*	*-3.59%*	*-4.86%*	*-4.71%*	*-5.29%*	*-5.23%*	*-7.72%*	*-7.42%*	*-3.79%*	*-0.64%*	*-0.64%*	*-4.57%*
Tax Provision	0.0	-0.5	0.1	0.0	0.0	0.0	0.58	-5.0	13	2	0	0
Effective Tax Rate												
Net Income -	**45.75**	**33.91**	**32.02**	**44.77**	**31.57**	**32.25**	**16.08**	**24.06**	**136.2**	**157.0**	**140.6**	**167.0**
Net Income Margin	*26.0%*	*19.4%*	*19.1%*	*26.5%*	*20.4%*	*21.1%*	*6.4%*	*8.1%*	*27%*	*26%*	*26%*	*24%*
EARNINGS PER SHARE												
EPS - Basic	$2.10	$2.10	$1.56	$2.08	$1.47	$1.50	$1.80	$2.85	$8.55	$7.80	$6.61	$7.76
EPS - Diluted	$0.90	$0.75	$0.68	$0.91	$0.65	$0.66	$0.90	$1.60	$4.27	$3.23	$2.89	$3.40

Ken Nagy, CFA Zacks Investment Research 11/15/2012

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

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

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their 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 non-investment banking services. 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 blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. 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. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the 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. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks SCR uses the following rating system for the securities it covers. 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 of Zacks Ratings is as follows on the 1011 companies covered: Buy/Outperform- 14.4%, Hold/Neutral- 78.0%, Sell/Underperform – 7.0%. Data is as of midnight on the business day immediately prior to this publication.