# Catalyst
Equity Research

*Company Report*

*June 06, 2018*


# MOBI724 GLOBAL SOLUTIONS INC.
**(MOS – TSX-V C$0.11)**

| | |
|---|---|
| **Recommendation:** | **BUY** |
| **Target Price (18-24 Mths):** | **C$0.65** |
| **Prior Target Price:** | **C$0.65** |
| **Risk:** | **High** |

**Market Data**

| | |
|---|---|
| Current Price | C$0.11 |
| 52-Wk Range | C$0.10-0.30 |
| Mkt. Cap. (mm) | C$21 |
| Dividend | C$0 |

**Financial Data**

| | |
|---|---|
| Fiscal Y/E | December 31 |
| Shares O/S Basic (mm) | 192 |
| 2017A Revenues (mm) | $2.9 |
| 2018E Revenues (mm) | $6.0 |
| 2019E Revenues (mm) | $12.3 |
| 2020E Revenues (mm) | $23.0 |

**Estimates**

| Year | 2018E | 2019E | 2020E |
|---|---|---|---|
| EPS Adjusted | $(0.01) | $0.01 | $0.04 |

**Valuations**

| Year | 2018E | 2019E | 2020E |
|---|---|---|---|
| Revenue Mult. | 3.5x | 1.7x | 0.9x |
| P/E Mult. | n.m. | 11.0x | 2.8x |

**Mobi724 Global Solutions Inc.**


Chart Courtesy Stockwatch (C$)


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Notes:
All figures in Canadian dollars, unless otherwise specified.

**Please see the final pages of this document for important disclosure information.**

## *Q1/18 Revenues Lower Than Expected*
## *Revenue Miss Considered Delayed Not Foregone*
## *Recent Share Price Pullback Unwarranted*

MOBI724 Global Solutions Inc. ("MOBI724") is a leading global financial technology company that offers a unique and fully-integrated suite of products that include card-linked offers, digital marketing, and EMV payment solutions. Each offers a comprehensive loyalty and customer relationship solution for retailers to deliver, manage and control a multitude of reward options. MOBI724's business model delivers a technology that provides a turnkey solution to enable smart transactions from any payment card or any mobile device, at any Point-of-Sale ("POS"). MOBI724 solutions enable card issuers, banks and merchants to efficiently create, manage, deliver, track and measure incentive loyalty campaigns globally, and allow their redemption at any POS. These solutions were created to disrupt the antiquated, 25-year-old rewards redemption model currently in use throughout the industry.

## Conclusion: BUY – 18-Month Target Maintained at $0.65

**MOBI724 Global Solutions Inc. ("MOBI724")** reported revenue for Q1/18 of $519,900 representing a decrease of 20% Y/Y. Revenues were lower than expected by about $300,000 and related to shortfalls from our expectations in both the Card-Linked and Digital Marketing segments. The shortfall in the latter was largely attributed to project delays whereby we expect that the revenue shortfall will be, for the most part, recuperated later in the year. This revenue shortfall was offset to a small degree by higher revenues in the Payment Solution segment. The latter revenue was driven by increased sales primarily in the Caribbean as that region experienced higher sales from its existing portfolio as well as the addition of new merchants. The decline in Card-Linked revenues are largely related to lower revenues from the legacy coupon business in Argentina as the Company transitions from the older products to MOBI724's smart transaction technology with a focus on its digital card linked offers (CLO) product. The latter include linking offers to payment cards that allow offer redemptions directly at the POS using "One Swipe", or pay with points at a POS with "Pay with Points" or use "Points4Vouchers" which allows a cardholder the ability to redeem loyalty points for vouchers.

Operating EBITDA for 3 months ended was reported at a negative $1.3 million versus a negative $1.1 million in the year prior and a negative $1.5 million last quarter. Net loss reported for 3 months was $1.6 million versus a loss in Q1/17 of $7.4 million. The net loss last year reflected large non-cash items.

## Key Conference Call Take-Aways

- The shortfall of Q1/18 revenue was attributed to project delays in the Digital Marketing group. Management expects revenues to surface from these projects later in the year.
- MOBI724's major accomplishment last year was the completion of a partnership agreement with Visa. This partnership has accelerated MOBI724's sales effort and is expected to significantly shorten its sales cycle from 15 months to closer to 12 months and eventually to 6 months.
- Management is expecting more than 10 commercial agreements to close over the next several months and has set as an objective of securing a major bank in each of the countries targeted.
- Management indicated that two new opportunities are considered "blue-sky" and could significantly increase revenue generation.
- Cards Under Management approximated 12 million as at the end of the quarter, up from 8 million at year-end. Cards managed are targeted to grow to over 24 million by the end of 2018. This growth is expected to be the primary driver of revenue with a targeted annualized revenue run-rate of $8.4 million by Q4/18 and positive EBITDA by the end of Q4/18.
- As of the beginning of May, MOBI724's cash balance was approximately $2.8 million. Material progress has been achieved in reducing the Company's monthly burn-rate which had been running at about $450,000 in prior periods.
- Management commented that, if needed, the Company could access operating loans which would be non-dilutive to shareholders.

MOBI724's operational momentum is expected to build dramatically throughout 2018 such that we view the first half as more of a transitional period while the second half is set to deliver significant operational leverage. Organic revenue in 2018 is forecast to more than double to an estimated $6.0 million as each of the Card-Linked and Payments segments gain traction. Annualized revenue is expected to exceed $8 million by Q4/18. Some of the key metrics driving revenues are:

- Card-Linked revenues are expected to be driven by the Visa partnership recently put in place. We forecast that almost 40% of the 2018 revenue is expected to be derived from this segment as management leverages its Visa contacts and co-markets with Visa's existing clients. The number of cards under management is expected to double to almost 24 million by the end of 2018.
- Payments revenues should benefit from the first POS terminals delivered to retailers in the Philippines.

Total organic revenue is forecast to increase to $12.3 million and $23.0 million in fiscal 2019 and 2020 respectively. This would represent a four-year compound growth rate of 70%. Card-Linked revenue is expected to comprise over 65% of the revenue by 2020 with the balance split evenly between the other two segments.

We expect that MOBI724's financial profitability will begin to develop positive momentum in the second half of the year. Although we forecast a negative EBITDA of $2.3 million for 2018, we expect MOBI724 to be EBITDA positive by Q4/18. Organic EBITDA is forecast to increase to about $1.4 million and $8.1 million by 2019 and 2020 respectively with the EBITDA margin increasing to the 35% level. Adjusted net income, excluding non-operating items including stock-based compensation, is forecast to increase to $1.2 million and $7.7 million in 2019 and 2020 respectively.

Beyond 2020, we forecast organic revenue growth of 20% to 25% annually. The Card-Linked segment is expected to continue to provide the bulk of the revenue growth and comprise 70% to 75% of total revenue. Our earnings model projects an average CAGR of 25% for net income between fiscal 2020 and 2028. EBITDA margins are forecast to improve to the 40% to 45% level.

The recent pull-back in MOBI724's share price is considered unwarranted, and we reiterate our position that the Company is undervalued. Our 18-24 month target remains at C$0.65 per share.

## Valuation

Our valuation for MOBI724 considers several key factors, namely, (i) organic earnings potential driven by high margin business model, (ii) exceptional organic revenue growth potential, (iii) ability to cross-sell its offerings, (iv) increasing economies of scale, and (v) proprietary technology platform offering significant cost advantage for businesses.

We have employed a discounted cash flow analysis (DCF) for the determination of a valuation for MOBI724. We have also compared our near-term EBITDA and net income estimates to several U.S. comparable companies with similar business models.

For our DCF model, we have employed a discount rate of 18% for the commercial risk associated with the business plan and management achieving our targets. Our DCF more fully accounts for the expected increase in profitability that we forecast for MOBI724 going forward. We have assumed that net income in fiscal 2018 remains somewhat muted and driven by the continued ramp-up in both the Card-Linked and Payments segments.

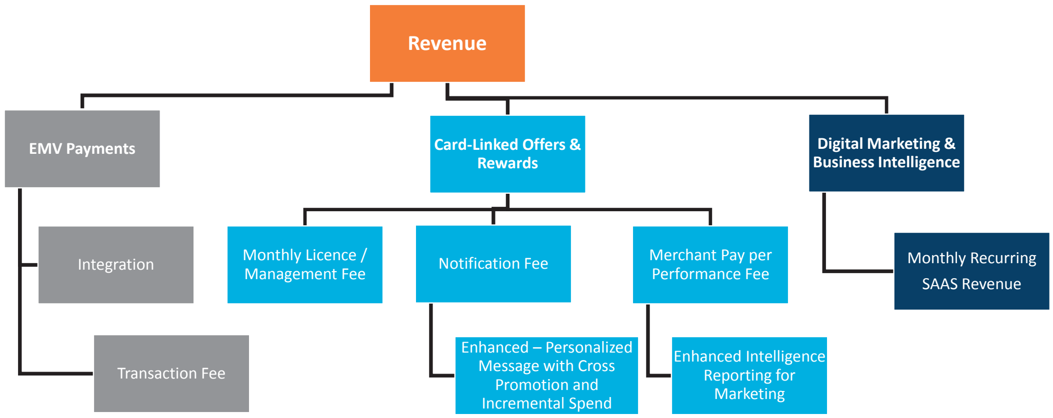
EBITDA and EBITDA margins are forecast to improve significantly beyond 2018 and continue to improve thereafter to the 45% level. No further common share issues have been assumed in our forecast period. We have determined a Net Present Value (NPV) for MOBI724 of $0.63 per share and have set a target price for MOBI724 shares of $0.65.

Our DCF target price of $0.65 represents an Enterprise Value ("EV") of about 17 times our 2020 forecast adjusted EBITDA. Our 2020 adjusted net income of $0.04 per share represents a 16 times multiple. This valuation seems reasonable when compared to other financial technology companies at a similar stage of growth and to the universe of comparable U.S. companies.

## Recent Events

- MOBI724 signed Panama-based Credicorp Bank as a new Visa customer to provide its suite of integrated Loyalty Solutions, including the Card-Linked and Digital Marketing solutions. The Company announced the successful launch of its Card-Linked Offers solution with Creditcorp in early June.
- Conversion of $320,000 of convertible debentures and accrued interest into 2,304,000 common shares.
- Pursuant to an early exercise warrant incentive program, eligible warrant holders exercised 6,200,000 warrants at a price equal to $0.15 for total gross proceeds of $930,000.
- MOBI724 common shares moved to TSX Venture Exchange from the Canadian Securities Exchange.
- The Company received over $536,000 from the settlement of outstanding litigation.
- Management indicated that it expects to receive up to $500,000 in tax credits towards year-end.
- EMV payment transactions went live in the Philippines in May 2018 after a rigorous certification process with BancNet, the largest interbank and payment processing network in that country.
- MOBI724 added Sylvain Tasse as Chief Operating Officer. Sylvain has an extensive background in the technology business and will focus on increasing sales, optimizing product implementation as well as overseeing the launch of new products.

FIGURE 1: REVENUE MODEL




## Review of Q1/18 - Ended March 31, 2018

MOBI724 reported revenue for Q1/18 of $519,900 representing a decrease of 20% Y/Y. Revenues were lower than expected by about $300,000 and related to shortfalls from our expectations in both the Card-Linked and Digital Marketing segments. The shortfall in the latter was largely attributed to project delays whereby we expect that the revenue shortfall will be, for the most part, recuperated later in the year. This revenue shortfall was offset to a small degree by higher revenues in the Payment Solution segment. The latter revenue was driven by increased sales primarily in the Caribbean as that region experienced higher sales from existing portfolio as well as the addition of new merchants. The decline in Card-Linked revenues are largely related to lower revenues from the legacy coupon business in Argentina as the Company transitions from the older products to MOBI724's smart transaction technology with a focus on its digital card linked offers (CLO) product.

Digital Marketing represented 76% of total revenues in the three-month period while Card-Linked revenue represented 13% of total revenues. Payments revenue represented 11% of revenues and remains Mobi724's smallest contributor as the Philippines POS business is still in the early stages of its roll-out.

Canada continued to represent the majority of revenues in Q1/18 at 76% of the total. Revenues sourced from Canada are expected to decline as a percentage of the total growth is expected to accelerate in other regions particularly Latin America and the Philippines.

Operating expenses, excluding stock-based compensation and depreciation, increased to $1.8 million in the 3 months, up 8% Y/Y but declined by 22% sequentially. The higher expenses Y/Y were attributed to increased salaries and benefit costs offset, in part, by lower contract labour expense. The increase in salaries and benefits resulted from the hiring of more expensive senior talent to drive revenues and improve margins.

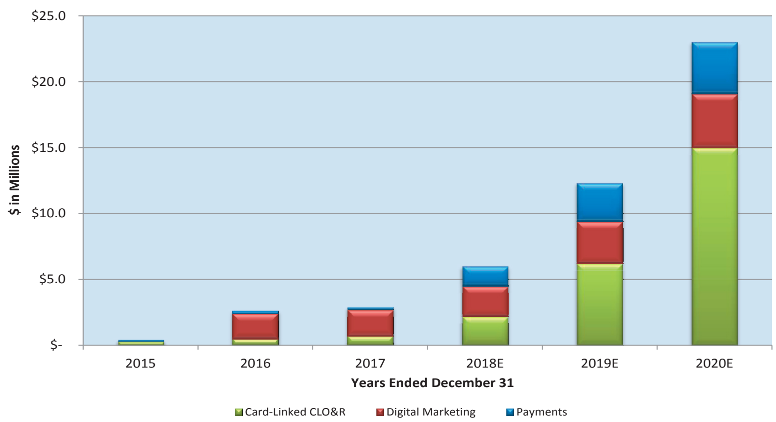
Operating EBITDA for 3 months ended was reported at a negative $1.3 million versus a negative $1.1 million in the year prior and a negative $1.5 million last quarter. Net loss reported for 3 months was $1.6 million versus a loss in Q1/17 of $7.4 million. The net loss last year reflected large non-cash items. Management noted that the burn-rate of cash reserves has decreased materially from $458,000 per month in Q4/17. We estimate the monthly burn-rate will be closer to $300,000 per month in Q2/18.

As at March 31, 2018, the Company had a cash balance of $2.1 million. However, as previously noted, approximately $1.4 million of new cash was raised in the April/May period. At present, we estimate the cash balance to be approximately $2.8 million. If the current cash level proves to be insufficient, additional funding may be required. We believe current financial resources are sufficient to finance operations until the end of December whereby the Company is expected to be EBITDA positive.

## Financial Forecast

MOBI724's strategic plan is directed at (i) growing revenues, (ii) enhancing the organizational structure to accommodate growth, (iii) investing in MOBI724's technology to remain best in class and (iv) seeking out accretive acquisitions. MOBI724's business model is designed to create value by leveraging off its existing core business by cross-selling its other products to its client base. The Company's growth strategy incorporates the following:

**Figure 2: MOBI724 - Forecast of Organic Revenue Distribution**




- The completion of the Visa integration which will allow for leveraging the Visa Offers Platform (“VOP”). Management expects to offer its Card-Linked and DMBI solutions in more than 20 countries focusing on Canada, USA and multiple countries in Latin America as well as the Asia Pacific region (mainly the Philippines).
- Shortening the sales cycle as Visa is enabling MOBI724 to approach Visa customers in a co-marketing strategy. This will allow MOBI724 to leverage its solutions through Visa’s network of partners; namely, banks and financial institutions, card issuers, payment processors, partner channels and cards associations. The Company has established relationships with VISA USA Inc. (through its integration with the Visa Offers Platform), RBC (Caribbean), WeePay Payment Processing Corporation (the Philippines), First Data Cono Sur (Argentina), Future Brands (Argentina) and FiRE Advertainment, CredibanCo (Colombia) and is in discussions with other potential partners.
- Upselling the Card-Linked and DMBI solutions and, conversely, leveraging each of these solutions to the Payments platform.
- Leveraging the iQ7/24 Inc. client portfolio by upselling MOBI724’s Card-Linked solutions.
- Adding key personnel to its sales team to sell the Company’s solutions to cards issuers, banks and financial institutions, acquirers, processors, merchants, mobile companies, marketing firms and consulting firms.

**Figure 3: Segmented Earnings Summary**

| | Payment Solution | | Card-Linked (CLO&R) | | Digital Marketing ( DMBI) | | Unallocated | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| 3 Months Ended | 31-Dec 2017 | 31-Dec 2016 | 31-Dec 2017 | 31-Dec 2016 | 31-Dec 2017 | 31-Dec 2016 | 31-Dec 2017 | 31-Dec 2016 | 31-Dec 2017 | 31-Dec 2016 |
| Revenue | $ 55,200 | $ 43,800 | $ 68,400 | $ 93,900 | $ 396,300 | $ 508,700 | $ - | $ - | $ 519,900 | $ 646,400 |
| Operating Expenses | $ 1,136,300 | $ 1,007,400 | $ 260,300 | $ 250,200 | $ 496,600 | $ 594,500 | $ 285,000 | $ 542,500 | $ 2,178,200 | $ 2,394,600 |
| Operating Profit (Loss) | $ (1,081,100) | $ (963,600) | $ (191,900) | $ (156,300) | $ (100,300) | $ (85,800) | $ (285,000) | $ (542,500) | $ (1,558,000) | $ (1,748,200) |
| Non-operating Expenses | $ (3,000) | $ 300 | $ 5,000 | $ 500 | $ (2,500) | $ 7,900 | $ (53,100) | $ 5,686,800 | $ (53,600) | $ 5,695,500 |
| Net Income Before Tax | $ (1,078,100) | $ (963,900) | $ (196,900) | $ (156,800) | $ (97,800) | $ (93,700) | $ (231,900) | $ (6,229,300) | $ (1,504,400) | $ (7,443,700) |
| Operating Inc. % of Rev. | n.m. | n.m. | -287.9% | n.m. | n.m. | n.m. | | | n.m. | n.m. |

## Revenue Model

MOBI724 sources its revenue from all three of its principle areas, Card-Linked, DMBI and Payments. Three key metrics that drive MOBI724’s revenues are:

- # payment cards outstanding.
- # payment card transactions.
- # POS locations.

Revenues from the Card-Linked segment are derived from:

- Monthly subscription fees which are based on a contracted amount related to the volume of transactions with a merchant or financial institution.
- Transaction fees which are based on the cardholder usage. Fees will apply for each redemption of loyalty points and cardholder purchases from merchant offers. MOBI724 may also receive a percentage of the value of the purchase made by the cardholder.
- Notification fees which are based on the volume of notifications related to offers.
- Set-up fees which may apply to some applications.

Revenues from the DMBI segment are derived from monthly subscription fees based on transaction volume thresholds predetermined by way of agreement. DMBI revenues not only stem from direct sales to retailers but also from the value-added reselling of the DMBI solutions from MOBI724's partners in the CLO&R and Payments spaces.

Revenues from MOBI724's Payment's solutions encompass traditional credit and debit card ("payment card") transaction processing services provided to merchants. This segment is characterized by its largely recurring revenue stream whereby revenues are derived from three main sources; namely:

- Interchange fees are based on the discount rates that are charged for transactions processed through payment card providers.
- Transaction fees are charged based on each payment card (debit or credit) transaction.
- POS terminal sales to merchants whereby MOBI724 earns a margin on each hardware unit sale.

## Earnings & Margins

As scale develops, we believe MOBI724's margins will increase significantly. Other than system upgrades, operating expenses (G&A) are expected to be relatively controllable, therefore, making the business very scalable. Sales, marketing and commission expense is expected to be more variable in nature as more sales staff will be engaged to further expand the Company's network of clients. In the Payments segment, the Company pays third-party processing gateway transaction fees and sales commissions to internal staff or third-party sales leads agreements.

## Near-Term Outlook

Over the near-term, the Company is expected to focus on expanding the sales pipeline, accelerating the sales cycle through new developments in each of the three operating segments and lowering the head office expense.

Revenue momentum is expected to build dramatically throughout 2018 such that we view the period as more of a transitional year. The revenue is expected to be largely driven by the Digital Marketing segment as the Card-Link and Payment segments are still in their early stages of revenue generation. Revenue is forecast to double to an estimated $6.0 million as each of the Card-Linked and Payments segments gain traction. The latter has been adjusted slightly lower from our prior $6.5 million forecast to account for the lower revenues in the current quarter. Annualized revenue is expected to exceed $8 million by Q4/18. Some of the key metrics driving revenues are:

- Card-Linked revenues are expected to be driven by the Visa partnership put in place in the latter part of 2017. We forecast that almost 40% of the 2018 revenue is expected to be derived from this segment as management leverages the Visa contacts and co-markets with Visa's existing client base. The number of cards under contract approximated 12 million in Q1/18 or about double that at the beginning of the year. Management expects that to triple to almost 24 million cards by the end of 2018.
- The Payments segment, on the other hand, should benefit from the first POS terminals delivered to retailers in the Philippines.
- Projects that were delayed in the Digital Marketing segment should begin to positively impact revenues going forward.

We expect MOBI724's financial profitability to be somewhat muted over the first half of fiscal 2018 but begin to develop a positive momentum in the second half of the year. Although we forecast a negative EBITDA of $2.3 million for 2018, we expect MOBI724 to be EBITDA positive by Q4/18 with an annual run rate approaching $1.0 million.

Total revenue is forecast to increase to $12.3 million and $23.0 million in fiscal 2019 and 2020 respectively. This would represent a four year compound growth rate of 70%. Card-Linked revenue is expected to comprise over 65% of the revenue by 2020 with the balance split evenly between the other two segments.

We have projected that costs will increase at a significantly slower pace than revenues resulting in significant gains in operating leverage. EBITDA is forecast to increase to about $1.4 million and $8.1 million by 2019 and 2020 respectively with the EBITDA margin increasing to the 35% level. Adjusted net income, excluding non-operating items including stock-based compensation, is forecast to increase to $1.2 million and $7.7 million in 2019 and 2020 respectively. We have assumed no taxes payable until the current tax-loss carry forward of $24.4 million has been eliminated.

## Longer-Term Outlook

Beyond 2020, we forecast organic revenue growth of 20% to 25% annually. The Card-Linked segment is expected to continue to provide the bulk of the revenue growth and comprise 70% to 75% of total revenue. Our earnings model projects an average CAGR of 25% for net income between fiscal 2020 and 2028. EBITDA margins are forecast to improve to the 40% to 45% level.

**Figure 4: Mobi724 Income Statement & Organic Forecast**

| | 3 Months | | Years Ended | | | | |
|---|---|---|---|---|---|---|---|
| | 31-Mar 2018 | 31-Mar 2017 | 31-Dec 2016 | 31-Dec 2017 | 31-Dec 2018E | 31-Dec 2019E | 31-Dec 2020E |
| **Revenue** | | | | | | | |
| Digital Marketing (DMBI) | $ 396,300 | $ 508,700 | $ 1,933,400 | $ 1,952,800 | $ 2,300,000 | $ 3,200,000 | $ 4,100,000 |
| Card-Linked (CLO&R) | $ 68,400 | $ 93,900 | $ 483,100 | $ 729,200 | $ 2,200,000 | $ 6,200,000 | $ 15,000,000 |
| Payment Solution | $ 55,200 | $ 43,800 | $ 248,600 | $ 192,400 | $ 1,500,000 | $ 2,900,000 | $ 3,900,000 |
| Other | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Total Revenue | $ 519,900 | $ 646,400 | $ 2,665,100 | $ 2,874,400 | $ 6,000,000 | $ 12,300,000 | $ 23,000,000 |
| **Operating Expenses** | | | | | | | |
| Salaries & Benefits | $ 803,900 | $ 467,700 | $ 2,456,100 | $ 3,214,000 | $ 4,200,000 | $ 5,200,000 | $ 6,900,000 |
| Contract Labour | $ 300,300 | $ 579,600 | $ 781,300 | $ 1,530,900 | $ 1,000,000 | $ 1,000,000 | $ 1,200,000 |
| Professional Fees | $ 215,800 | $ 186,500 | $ 517,700 | $ 739,300 | $ 900,000 | $ 1,200,000 | $ 1,400,000 |
| Office Expense | $ 169,400 | $ 167,000 | $ 554,900 | $ 525,200 | $ 600,000 | $ 1,000,000 | $ 1,200,000 |
| Marketing & Travel | $ 162,800 | $ 162,200 | $ 777,100 | $ 1,025,700 | $ 1,100,000 | $ 1,800,000 | $ 3,300,000 |
| Software Development | $ 51,600 | $ 79,700 | $ 206,400 | $ 287,900 | $ 300,000 | $ 500,000 | $ 600,000 |
| Other General Expense | $ 126,500 | $ 56,000 | $ 112,000 | $ 499,300 | $ 200,000 | $ 200,000 | $ 300,000 |
| Total Operating Expense | $ 1,830,300 | $ 1,698,700 | $ 5,405,500 | $ 7,822,300 | $ 8,300,000 | $ 10,900,000 | $ 14,900,000 |
| Operating EBITDA | $ (1,310,400) | $ (1,052,300) | $ (2,740,400) | $ (4,947,900) | $ (2,300,000) | $ 1,400,000 | $ 8,100,000 |
| **Other Expense** | | | | | | | |
| Deprec. & Amort. Prop. | $ 5,800 | $ 1,600 | $ 9,100 | $ 8,000 | $ 6,000 | $ 6,000 | $ 6,000 |
| Stock Based Comp. | $ 105,700 | $ 245,900 | $ 9,600 | $ 747,000 | $ 394,000 | $ 394,000 | $ 394,000 |
| Total Other Expense | $ 111,500 | $ 247,500 | $ 18,700 | $ 755,000 | $ 400,000 | $ 400,000 | $ 400,000 |
| Operating EBIT (1) | $ (1,421,900) | $ (1,299,800) | $ (2,759,100) | $ (5,702,900) | $ (2,700,000) | $ 1,000,000 | $ 7,700,000 |
| Net Income | $ (1,619,500) | $ (7,439,000) | $ (3,016,900) | $ (10,800,000) | $ (3,200,000) | $ - | $ 6,500,000 |
| EPS | $ (0.01) | $ (0.05) | $ (0.03) | $ (0.07) | $ (0.01) | $ - | $ 0.03 |
| Adjusted Net Operating Inc.(2) | | | | | $ (1,700,000) | $ 1,200,000 | $ 7,700,000 |
| Adjusted EPS | | | | | $ (0.01) | $ 0.01 | $ 0.04 |
| Weighted Avg. Shares FD | 190,600,000 | 136,900,000 | 103,339,500 | 162,075,000 | 215,000,000 | 215,000,000 | 215,000,000 |
| **EBITDA Operating Margin** | | | | | | | |
| EBITDA as a % of Total Rev. | n.m. | n.m. | n.m. | n.m. | n.m. | 11.4% | 35.2% |

*(1) Excludes amortization of Intangible Assets.*
*(2) Excludes non-recurring items including warrant FMV changes, bank application charge, stock compensation & extraordinary taxes. Ajusted earnings exclude certain non-recurring expense items including executive search fees.*

**Definition of Risk Rankings**
**Low:** Low financial and operational risk, high predictability of financial results with stronger than average balance sheet and strong free cash flows. Company may pay substantial dividends or have an active share repurchase program.
**Medium:** Moderate financial and operational risk, moderate predictability of financial results, positive free cash flows and may or may not pay a dividend.
**High:** High financial and/or operational risk, low predictability of financial results. Limited financial history, negative free cash flows, adequate working capital and no dividends.

**Definition of Research Ratings**
The Catalyst research recommendation structure consists of the following categories:
**Buy:** The stock's total return, including dividends paid, is expected to exceed a minimum of 15% on a risk-adjusted basis, over the next 12 months.
**Hold:** The stock's total return, including dividends paid is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
**Sell:** The stock's total return, including dividends paid, is expected to be negative over the next 12 months.
**Speculative:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
**Note:** Analysts have discretion within 500 basis points of the upper and lower limit of each rating to maintain the recommendation.

**Analyst Certification**
All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.