

Recommendation: BUY
Target Price: C\$6.00
Prior Target Price: C\$6.00
Risk: High

Market Data

Current Price C\$1.25
 52-Wk Range C\$0.83-1.74
 Mkt. Cap. (mm) C\$38
 Dividend C\$0

Financial Data

Fiscal Y/E December 31
 Shares O/S Basic (mm) 30.3
 2022A Revenues (mm) \$19.7
 2023A Revenues (mm)* \$28.4
 2024E Revenues (mm) \$35.0
 2025E Revenues (mm) \$46.0

Estimates

Year	2023A	2024E	2025E
EPS Adjusted Oper.	\$0.03*	\$0.12	\$0.20

Valuations

Year	2023A	2024E	2025E
Mkt. Cap./Revenue	1.3x	1.0x	0.8x
P/E Mult.	n.a.	10.0x	6.0x

*2023 Est. for 15 Months

iFabric Corp.



Chart Courtesy Big Charts (CS)

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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.

IFABRIC CORPORATION

(IFA – TSX \$1.25)

Quarter Driven by 89% Y/Y Increase in IFTNA Revenues
Significant Broadening of U.S. Commercial Relationships
Expected to Accelerate Future Order Flow

Conclusion: BUY - Share Price Target Maintained at \$6.00

iFabric reported results for its Q5 period ended December 31, 2023 (year-end changed from September 30 to December 31). Consolidated revenue of \$6.8 million was higher by 37% Y/Y. The quarter was marginally higher than our expectations. The Intelligent Fabrics (IF or IFTNA) segment was the main driver in the quarter with revenue of \$5.8 million, up 89% Y/Y. The revenue exceeded our expectations largely due to an increase in new apparel programs. The Intimate Apparel segment revenue in the quarter was \$0.9 million, down 50% Y/Y and well below expectations. The lower revenue was largely attributed to unanticipated weaker retail sales in North America.

Gross profit for the quarter was \$2.6 million, up 30% Y/Y. The gross profit margin was 37.8% versus 39.8% in the same period last year. For 2023 (15 months), gross margins increased to 39.0% from 35.6% largely reflecting lower freight costs (returning to near pre-pandemic levels) as well as product mix changes. Margins also reflected the increase in selling prices of select products.

Operating EBITDA was \$273,000, up 64% Y/Y. Net loss for the quarter was \$2.7 million which included an impairment charge of \$3.8 million. The charge related to a Chinese supplier which defaulted on a shipment of masks. Due to the uncertainty of the recovery timeline and its ability to fully assess the degree of recoverability, the Company chose to make a full impairment of its \$3.8 million claim. All future recoveries will be treated as income.

iFabric Well Positioned For Growth

iFabric has continued to expand its customer relationships and broaden its range of product offerings. Management recently announced that new relationships include three new national-level retailers based in the U.S. One of which we speculate could be Walmart USA. Performance-apparel programs in clothing categories that are new to iFabric reinforce the Company's position as an industry leader in innovative textile solutions. Specifics of these new programs are targeted to be disclosed throughout the year in cooperation with iFabric's customers. The expansion of IFA's products include areas of medical scrubs, laboratory coats, rainwear, swimwear, and activewear. iFabric's textile technologies have been integrated into many of the world's top brands and their performance-apparel offerings.

We view these advancements as highly significant in accelerating iFabric's future order flow and our financial outlook going forward. We contend that iFabric's clients, which include Under Armour, Lululemon, Walmart Canada, Costco Canada, Target, The North Face, Roots, Hanes, Kohl's and Amazon (just to name a few) will now be able to label and market products referencing both the clinical trial results and the U.S. Environmental Protection Agency (EPA) "Non-Apparel" registration for PROTX2®. For example, Careismatic Brands has initiated marketing of its medical apparel referencing the results of the clinical trial. As such, iFabric is uniquely positioned to provide its customers with dynamic tools to increase their revenue generation. Products would include new protective clothing for frontline healthcare workers to combat infection from viruses as well as healthcare-acquired bacterial infection. As such, we believe iFabric is now uniquely positioned as a market leader whereby we see the accelerated adoption of its textile treatments. To accommodate this growth, management has acquired 5,000 square feet of additional office space in Markham. The new space will house the Canadian management and administrative personnel, while the existing space will be repurposed as warehouse space.

Important to future revenue growth is the recent receipt of an EPA "Non-Apparel" Kill Claim Registration for PROTX2® (see "Non-Apparel Kill Claim" section). This registration allows textiles treated with the PROTX2® technology to make public health claims (Kill Claims) on non-apparel products including curtains, carpeting, furniture and surfaces generally.

We believe the Company is closing in on an EPA “Apparel Kill Claim” registration for PROTX2® (see “EPA Apparel Kill Claim” section). A final dataset regarding the leaching protocol has been reached with the EPA, and the study is currently in process. Management indicated that the Company’s prior testing has always shown that leaching of its products is well within the acceptable safety norm. This process is expected to be the final step in the approval process for public health claims on apparel. Our optimism is supported by the Company’s successful clinical trial for PROTX2® (see “Outline & Review of Clinical Trial” section). The summary of the clinical trial findings is that treated scrubs demonstrated statistically significant reductions in bacterial loads on the surfaces of treated scrubs as compared to untreated scrubs. The trial has now moved to Phase IV or essentially the final stage which involves submitting the study to a recognized medical journal for peer review. Management has identified multiple journals and once selected, the process is expected to take about 3 to 6 months.

Financial Outlook

Our revenue targets assume that the higher inflation and interest rate scenario could cause some slowdown in economic activity in both Canada and the U.S. Our forecast includes a strong order flow (see “Recent Initiatives”) from (i) new and existing clients, (ii) further swimwear orders by major retailers totalling approximately \$3.2 million (refer to the recent Roots Corporation Agreement), and (iii) iFabric’s recently launched direct-to-consumer brand “VERZUS ALL”. The latter is being marketed on-line on its website www.verzus.com. Direct-to-consumer sales provide the highest margin point for iFabric products.

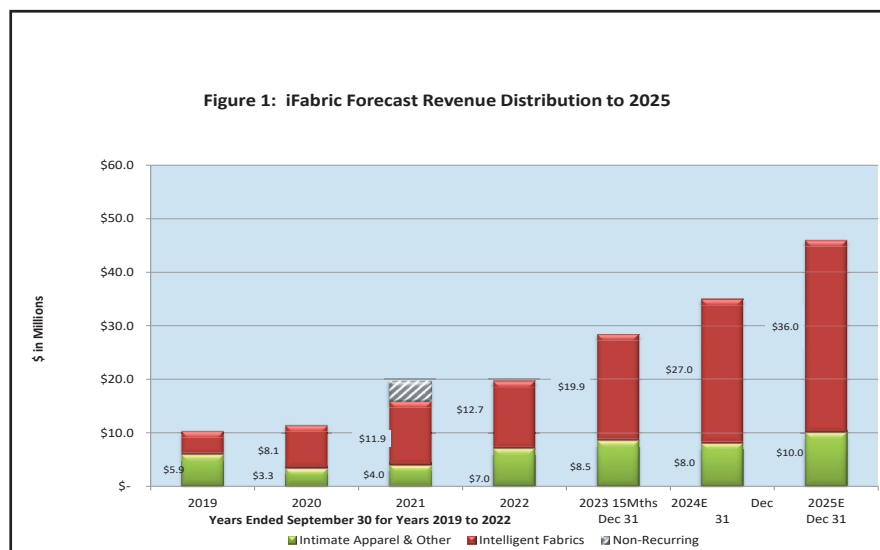
For the 12-month periods ended December 2024 and 2025, we have maintained our revenue targets at \$35 million and \$46 million. Gross margin is expected to decline marginally. Our EPS estimates are \$0.12 and \$0.20 respectively. The strong revenue gains are expected to result from the recent breakthrough EPA public health kill claim for non-apparel products, the positive clinical trial results and the acquisition of new clients particularly in the U.S. Our revenue forecast does not include (i) potential sales from bioACTIV AM, and (ii) roll-out of PROTX2® treatments particularly in the medical arena given our expectation of an EPA “apparel” kill claim. Investors should note that our model illustrates the earnings leverage which we believe would apply proportionately to higher volumes. We would expect the net profit margin as a percentage of revenue potentially increasing to 13%+ as operating leverage improves due to more limited expense growth relative to revenue growth.

We recommend iFabric as a BUY.

Valuation

iFabric is a compelling investment with a near-term focus on the Company’s proprietary PROTX2® technology such that efficacy testing on fabrics treated with PROTX2® have demonstrated a greater than 99.9% reduction in active viral loads against the SARS-CoV-2 virus (which causes the COVID-19 disease). Our revenue model considers several key factors, namely, (i) exceptional revenue growth potential, (ii) ability to introduce new applications and products, particularly in the medical and market segments, (iii) increasing economies of scale, (iv) cost effective competitive differentiation provided to clients, and (v) proprietary product branding.

We have employed a discounted cash flow analysis (DCF) for the determination of a valuation for iFabric. Given the uncertain economic outlook, we have maintained our discount rate assumption at 12%. Net income is forecast to grow at a higher rate than revenues driven by increased leverage and potentially higher margins. Revenue growth is projected at 25% to 30% annually over the next several years. Our target of \$6.00 reflects a P/E multiple of 30.0x our projected 2025 EPS. At its current share price, iFabric trades at about 6.0 times our 2025 EPS forecast.



Fiscal Year-End Date Change: iFabric has changed its fiscal year-end to December 31 from its prior fiscal year-end of September 30. The Company believes the change of year-end will better allow the Company to count inventory during a non-peak shipping period and at a time when inventory is generally at its lowest level. As a result of the change, the Company reported audited financial results for a fifteen-month transitional fiscal year from October 1, 2022 to December 31, 2023 with a comparative to the audited financial statements for the twelve months ended September 30, 2022. We have adjusted our forecast model to accommodate this change.

Review of Q5/23

iFabric reported Q5/23 consolidated revenue of \$6.8 million, up 37% from the same period ending December 31, 2022. Results were marginally above our expectations, although revenue from the Intelligent Fabrics group was well above expectations in the quarter.

Gross profit for the quarter was \$2.6 million, up 30% Y/Y. The gross profit margin was 37.8% versus 39.8% in the same period last year. For 2023 (15 months), gross margins increased to 39.0% from 35.6% largely reflecting lower freight costs (returning to near pre-pandemic levels) as well as product mix changes. Margins also reflected the increase in selling prices of select products.

SG&A costs in Q5/23 increased by 27% Y/Y in line with expectations. The growth reflected the higher staffing levels required to support new business initiatives as well as higher selling costs which are more variable in nature. We expect that the bulk of the new hirings has now been completed.

Operating EBITDA was \$273,000, up 64% Y/Y. Net loss for the quarter was \$2.7 million which included an impairment charge of \$3.8 million. The charge related to a Chinese supplier which defaulted on a shipment of masks. The Company is seeking to recover its remaining deposit whereby all future recoveries will be treated as income.

Figure 2: Segmented Earnings Summary

3 Months Ended	Intelligent Fabrics		Intimate Apparel		Other & Corporate		Consolidated	
	31-Dec 2023	31-Dec 2022	31-Dec 2023	31-Dec 2022	31-Dec 2023	31-Dec 2022	31-Dec 2023	31-Dec 2022
Revenue	\$ 5,839,500	\$ 3,087,600	\$ 913,000	\$ 1,806,700	\$ 3,500	\$ 22,100	\$ 6,756,000	\$ 4,916,400
Pre-Tax Income	\$ (3,112,100)	\$ 134,100	\$ (567,200)	\$ 43,000	\$ (49,200)	\$ (42,200)	\$ (3,728,500)	\$ 134,900
Pre-Tax Inc. % of Rev.	n.m.	4.3%	n.m.	2.4%	n.m.	n.m.	-55.2%	n.m.

15 Months Ended	Intelligent Fabrics		Intimate Apparel		Other & Corporate		Consolidated	
	31-Dec 2023	31-Dec 2022	31-Dec 2023	31-Dec 2022	31-Dec 2023	31-Dec 2022	31-Dec 2023	31-Dec 2022
Revenue	\$ 19,852,900	\$ 12,658,900	\$ 8,504,400	\$ 6,976,600	\$ 41,400	\$ 107,500	\$ 28,398,700	\$ 19,743,000
Pre-Tax Income	\$ (2,433,900)	\$ 988,700	\$ (190,600)	\$ (541,900)	\$ (438,300)	\$ (654,300)	\$ (3,062,800)	\$ (207,500)
Pre-Tax Inc. % of Rev.	-12.3%	7.8%	-2.2%	n.m.	n.m.	n.m.	-10.8%	n.m.

Intelligent Fabrics Division

The IF segment reported revenue of \$5.8 million in Q5/23 which was higher by 89% Y/Y. The revenue exceeded our expectations largely due to an increase in new apparel programs and timing differences in the commencement dates of programs for a major customer. Pre-tax loss in the quarter was \$3.1 million. Excluding the impairment charge, we estimate pre-tax earnings of about \$700,000.

IF division gross margins are expected to gravitate to the 25% to 35% range but will also vary depending on the mix of sales. The IF finished apparel sales on private labels support lower margins of 20% to 25%, but in turn generally benefit from higher volumes. Chemical sales and non-private label (IF's own brands such as Frontline) support higher margins closer to 50%.

Intimate Apparel Division

For Q5/23, the Intimate Apparel division reported sales of \$0.9 million, down 50% Y/Y. The lower revenue was largely attributed to unanticipated weaker retail sales in North America. The Q5/23 pre-tax loss for the division was \$567,200 versus a small profit in the same period last year. Margins in the Intimate Apparel division generally gravitate to the higher end at 45% to 50%.

Liquidity & Financial Condition

Working capital was \$15.6 million at the end of the quarter versus \$18.7 million as at September 30, 2022. The decrease was attributed to the impairment provision and reclassification. The Company's cash position as at the end of the quarter was \$1.6 million versus \$0.9 million as at September 30, 2022. As at the end of the quarter, the current portion of loans payable was \$1.0 million. The latter is amortized over 15 years and matures in 2032. The Company has an undrawn line of credit of \$6.75 million from a Canadian chartered bank. Inventories were \$9.5 million, up from \$9.4 million as at September 30, 2022. Inventories represent the carrying amount of merchandise for resale.

Total accounts receivable as at the end of Q5/23 amounted to \$7.8 million. Prepaid expenses and deposits amounted to \$0.9 million versus \$5.3 million as at September 30, 2022. The decrease was largely attributable to a reclassification of a deal made with a Chinese supplier which defaulted on a shipment of masks.

IFA recently announced approval by the Toronto Stock Exchange to extend the exercise period of 2.9 million outstanding common share purchase warrants for a period of one year from their current expiry date to March 23, 2025.

The Company recently received approval from the Toronto Stock Exchange (“TSX”) to extend the exercise period of a total of 2,943,717 outstanding common share purchase warrants (“Warrants”) for a period of one year to March 23, 2024. The Warrants were issued pursuant to a private placement in 2021 and represent approximately 8.85% of the Company’s issued and outstanding common shares. The original issue price of the subscription receipts (“Units”) was \$3.90. Each Unit comprised of one common share and one common share purchase Warrant with each Warrant exercisable into one common share at a price of \$4.90.

Figure 3: Income Statement Historical & Forecast

	3 Months Ended		Years Ended				
	31-Dec 2023	31-Dec 2022	30-Sep 2021	30-Sep 2022	31-Dec 2023 15-mth	31-Dec 2024E	31-Dec 2025E
Revenue							
Intelligent Fabrics	\$ 5,839,500	\$ 3,087,600	\$15,672,500	\$12,658,900	\$19,852,900	\$27,000,000	\$36,000,000
Intimate Apparel	\$ 913,000	\$ 1,806,700	\$ 3,979,300	\$ 6,976,600	\$ 8,504,400	\$ 8,000,000	\$10,000,000
Other Segments	\$ 3,500	\$ 22,100	\$ 111,900	\$ 107,500	\$ 41,400	\$ -	\$ -
Total Revenue	\$ 6,756,000	\$ 4,916,400	\$19,763,700	\$19,743,000	\$28,398,700	\$35,000,000	\$46,000,000
Cost of Sales	\$ 4,203,600	\$ 2,960,500	\$12,002,800	\$12,716,700	\$17,325,700	\$21,700,000	\$28,550,000
Gross Profit	\$ 2,552,400	\$ 1,955,900	\$ 7,760,900	\$ 7,026,300	\$11,073,000	\$13,300,000	\$17,450,000
Gross Margin	37.8%	39.8%	39.3%	35.6%	39.0%	38.0%	37.9%
Operating Expenses							
General & Administrative	\$ 1,407,000	\$ 1,326,400	\$ 4,082,200	\$ 5,092,800	\$ 6,880,900		
Selling Costs	\$ 872,500	\$ 464,800	\$ 982,600	\$ 1,347,700	\$ 2,987,100		
Total SG&A	\$ 2,279,500	\$ 1,791,200	\$ 5,064,800	\$ 6,440,500	\$ 9,868,000	\$ 8,500,000	\$ 9,600,000
Operating EBITDA	\$ 272,900	\$ 164,700	\$ 2,696,100	\$ 585,800	\$ 1,205,000	\$ 4,800,000	\$ 7,850,000
Other Expense (Income)							
Amortization	\$ 42,000	\$ 35,300	\$ 116,900	\$ 130,700	\$ 187,799	\$ 140,000	\$ 140,000
Interest Expense	\$ 24,600	\$ 19,600	\$ 53,400	\$ 49,700	\$ 110,200	\$ 120,000	\$ 100,000
Stock Based Comp.	\$ 77,200	\$ -	\$ 22,000	\$ 473,000	\$ 162,200	\$ 40,000	\$ 50,000
Impairment Loss	\$ 3,842,200				\$ 3,842,200		
Other Items ⁽¹⁾	\$ 16,400	\$ (25,100)	\$ (538,300)	\$ 139,900	\$ (34,600)	\$ -	\$ -
Total Other Items	\$ 4,002,400	\$ 29,800	\$ (346,000)	\$ 793,300	\$ 4,267,799	\$ 300,000	\$ 290,000
Income Before Tax	\$ (3,729,500)	\$ 134,900	\$ 3,042,100	\$ (207,500)	\$ (3,062,799)	\$ 4,500,000	\$ 7,560,000
Income Tax	\$ (1,025,000)	\$ 3,000	\$ 667,100	\$ 245,000	\$ (952,900)	\$ 1,000,000	\$ 1,560,000
Net Income	\$ (2,704,500)	\$ 131,900	\$ 2,375,000	\$ (452,500)	\$ (2,109,899)	\$ 3,500,000	\$ 6,000,000
EPS Basic & FD	\$ (0.09)	\$ 0.00	\$ 0.08	\$ (0.02)	\$ (0.07)	\$ 0.12	\$ 0.20
Operating EBITDA/Share	\$ 0.01	\$ 0.01	\$ 0.09	\$ 0.02	\$ 0.04	\$ 0.16	\$ 0.25
Weighted Avg. Shares Basic	30,200,300	29,824,500	28,136,700	29,689,400	30,200,300	30,300,000	30,300,000
Fully Diluted Avg. Shares O/S Est.	30,278,900	30,097,400	29,213,500	30,379,400	30,278,900	30,800,000	30,800,000
Operating Margins							
Operating Expense % of Revenue	33.7%	36.4%	25.6%	32.6%	34.7%	24.3%	20.9%
EBITDA as a % of Revenue	4.0%	3.4%	13.6%	3.0%	4.2%	13.7%	17.1%
Net Income as a % of Revenue	-40.0%	2.7%	12.0%	n.a.	-7.4%	10.0%	13.0%

Review of Recent Initiatives

Non-Apparel Kill Claim Registration for PROTX2®: IFTNA received an EPA registration for PROTX2® as a “Continually Self-Sanitizing Textile”. This registration allows textiles, treated with the PROTX2® technology, to make public health claims (Kill Claims) including:

- Kills 99.99% of bacteria in 10 min, with non-stop disinfection for 24 hours;
- Kills pathogenic bacteria;
- Kills 99.99% of bacteria non-stop for 24 hours;
- Continuously disinfects bacteria after 24 hours of continuous use without washing.

Non-apparel products include curtains, grocery shopping bags, carpeting, home furnishing fabrics just to name a few applications. This EPA registration is a significant positive step forward as public health claims for non-apparel products are expected to drive further adoption of the iFabric's textile treatments and translate into significant revenue gains.

EPA Apparel Kill Claim Registration for PROTX2®: The EPA has requested a final dataset regarding the leaching nature of textiles treated with PROTX2®. Although IFA has internally conducted leaching testing to apparel and medical industry standards for some time, the EPA have requested a distinct protocol that is acceptable to them. The study is being carried out at an independent laboratory under Good Laboratory Practices standards. Management indicated that the Company's prior testing has always shown that leaching of its products is well within the acceptable safety norm and, thus, management expects the current test to yield similar results and, thus, be their final step in the approval process for public health claims on apparel.

Outline & Review - Clinical Trial: The clinical trial was conducted at the MemorialCare Medical Group – Irvine, in the U.S. and comprised of scrubs supplied in three forms:

- One treated with PROTX2® antimicrobial technology.
- A second with a combination of PROTX2® and RepelTX® (durable water repellent).
- A third (control) group of untreated scrubs.

The trial comprised of 125 nurses recruited for 3 shifts per nurse, equating to a total of 375 regular staff-shifts. At the start of each shift, nurses were provided with new and unmarked scrubs from one of the three groups, which were swabbed twice, once prior to the commencement of the shift and a second time at the end of the shift.

The principal endpoint of the trial is to compare bacterial loads on the scrubs treated with the Company's technologies compared to the untreated scrubs. A pathogen load reduction is key to enhancing the protection of the wearer and those with which they encounter during their workday. The spread of infection from surface contact is a major concern in the healthcare industry.

Phase IV (the final stage) will involve the submission of the analysis to a recognized medical journal for peer review and publishing.

PROTX2® is a powerful eco-friendly technology that provides antibacterial, antimicrobial, anti-mold, anti-mildew and anti-odour protection. When treated, each textile fiber is fundamentally transformed through PROTX2®'s technology, providing proprietary unrivalled protection against pathogens related to healthcare-associated infections as well as the toughest odours for medical and performance textiles.

RepelTX® is the next generation in sustainable water repellency performance. RepelTX® modifies fabric at the molecular level by permanently attaching hydrophobic 'hairs' to individual fibers that lift liquids causing them to bead and roll right off the fabric's surface.

Figure 4: ProTx 2 Clinical Trial Outline - Medical Garments (Scrubs)		
TRIAL PHASES	TRIAL DESCRIPTION	STATUS
Phase I	Medical Garment Testing at MemorialCare Medical Group	Completed
Phase II	Laboratory-Based Testing for Bacterial Loads	Completed
Phase III	Analysis of Data Given Set of Criteria	Completed
Phase III b	Release of Phase III Laboratory Testing Results	Completed
Phase IV	Submission of Data for Peer Review	Active
Phphase IV (b)	Release of Peer Review	TBD

EPA Registration for bioACTIV AM: IFTNA recently received an EPA registration for its innovative new multifunctional technology, bioACTIV AM. This new technology combines anti-microbial, anti-viral, deodorant and UV Protection into a single formulation. This 4-in-1 registration resulted from a lengthy period of development and testing and marries anti-bacterial and anti-viral efficacy with deodorization and UV protection in a single textile finishing application. In fact, bioACTIV AM represents the first technology of its kind that offers multiple performance attributes within a single formulation. bioACTIV AM allows the ability to create high performance single application chemistries that can be combined and then durably embedded as a single finish, thus creating multiple distinct or synergistic performance characteristics for any textile-based product. This new multifunctional capability combined into a single application can be brand specific, allowing for customization of products by customers to deliver extensive performance combinations across various industries. We expect the margin on bioACTIV AM will be higher than existing treatments, in part, due to the convenience of a single application which should greatly simplify mill production of garments. Although not factored into our revenue forecast, we expect the impact on 2024 potential revenue to be material.

Simon Chang Licence Agreement – IFTNA entered an exclusive license agreement between Les Innovations Simon Chang Inc. ("Simon Chang"). The license provides IFTNA with the right to use the Simon Chang trademarks in connection with the manufacture and distribution of men's and women's

swimwear, athleisure, underwear, sleepwear/loungewear, ready-to-wear fashionwear, swim accessories and cover-ups, to retailers and distribution channels approved by Simon Chang in North America, Europe, and Australia. The new collections will feature innovative fabrics and proprietary fabric technologies that offer added performance attributes such as anti-odor, UV protection and quick dry and improved fit.

Roots Corporation (“Roots”) license agreement – provides IFTNA with the right to use the Roots trademarks in connection with the manufacture and distribution of men’s, women’s and children’s swimwear to retailers and distribution channels approved by Roots, including Roots stores. All products are designed and manufactured by IFTNA and showcase a number of IFTNA’s innovative textile technologies. Management expects that the technologies that are to be incorporated into the products will be key differentiators and bring a fresh approach to this commercially important market segment.

The North Face Agreement – iFabric announced that Intelligent Fabric signed a new license agreement with The North Face®. The agreement provides for a license to use RepelTX ecoPEL in outdoor apparel, footwear and equipment manufactured and distributed by The North Face®. This collaboration is the culmination of rigorous product testing that demonstrated the superior water repellency required by The North Face.

Amazon Products – which include (i) the “Underit” brand which is a base layer for Men, Women and Children using iFabric’s PROTX2®, DryTX®, and TempTX® technologies, and (ii) “A Week’s Worth” package that offers a 7-pack of underwear using DryTX® and PROTX2® technologies. These brands are sold exclusively through Amazon PRIME.

Medical & Sports Equipment Markets – Entry into the medical and sports equipment markets, in the form of scrubs treated with PROTX2®, is well underway via programs for both the retail and hospital markets by one of the largest scrub manufacturers in the U.S. Other potential offerings are face masks, gloves and hospital coverings such as bedding and curtains. The inclusion of this technology in products like PPEs would provide a much-needed additional level of protection for current front-line workers. This technology can be deployed in everyday apparel for added protection. It can also be applied to surfaces such as handrails and counters. Such applications are expected to be extended to household products including “wash additives” for laundry. In total, IF currently has over a dozen various treatments, in addition to PROTX2®, that are being marketed as a product enhancement to their existing client base as well as new potential clients.

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

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