



# Sify Technologies Limited Sponsored ADR (SIFY)

**1Q:F24 Revenue Beat, EPS In Line With Forecast; New Data Center Capacity Coming Online In F2024 Remains An Overlooked Growth Catalyst; Maintain \$7 Price Target**

	<u>F2022</u>	<u>F2023</u>		<u>F2024E</u>		<u>F2025E</u>	
		<u>OLD</u>	<u>NEW</u>	<u>OLD</u>	<u>NEW</u>	<u>OLD</u>	<u>NEW</u>
June	\$0.03	\$0.02		\$0.01	\$0.01A	\$0.01	\$0.00
Sep.	0.03	0.01		0.01	0.00	0.02	0.01
Dec.	0.03	0.02		0.01	0.00	0.02	
Mar.	<u>0.03</u>	<u>0.00</u>		<u>0.02</u>		<u>0.05</u>	<u>0.04</u>
EPS (FY)	<b>\$0.12</b>	<b>\$0.06</b>		<b>\$0.04</b>	<b>\$0.03</b>	<b>\$0.10</b>	<b>\$0.07</b>
EPS (Cal.)	\$0.08	\$0.02		\$0.06	\$0.05		
P/E (FY)					<b>78.3x</b>		<b>33.6x</b>
P/E (Cal.)					47.0x		

Note: NR = Not Rated. Risk Ratings: H = High; M = Moderate. F2022-F2025E EPS estimates assume 178 million fully diluted shares, constant-currency USD/INR exchange rate of 65. Sum of quarterly data may not equal full-year total due to rounding and/or changes in share count. NC = Not covered by Sidoti & Company, LLC.

Year	F2016	F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024E	F2025E
Rev.(Mil.)	\$231.3	\$283.6	\$318.2	\$331.5	\$353.1	\$374.1	\$415.8	\$513.9	\$564.6	\$680.2
GAAP EPS	\$0.04	\$0.06	\$0.08	\$0.09	\$0.06	\$0.09	\$0.12	\$0.06	\$0.03	\$0.07

**Description:** Sify Technologies Ltd., (www.sifytechnologies.com) is one of the largest integrated Information & Communication Technology (ICT) solutions and services companies in India, offering end-to-end solutions over a common telecom data network infrastructure. Sify's network reaches more than 1,550 cities in India and connects 45 data centers, including six owned Tier 3 data centers. Headquarters are in Chennai, India.

- Sify delivered another quarter of top-line growth in 1Q:F24, with revenue rising 11% year-over-year to \$131.5 million, topping our \$129.7 million forecast.
- Management is doing a good job of driving profitable growth, but margin widened slightly less than we projected as the company continues to invest in infrastructure and headcount.
- That said, we remain bullish in our outlook for both revenue and earnings growth, as we view Sify's data center expansion as an accelerant on both fronts.
- Data center spending causes free cash outflow in F2024-F2025, by our model, but given Kotak Advisors' latest investment, modest balance sheet leverage and cash generated from operations, we find Sify has access to sufficient capital to fund its growth.
- At the end of 1Q:F24, net debt was \$280 million, or 2.8x trailing 12-month EBITDA.
- We maintain our \$7 price target, based on 100x our F2025 EPS forecast of \$0.07; previously we valued the stock at 70x our higher EPS target of \$0.10. Given Sify's track record of revenue growth and its potential for continued expansion, we see merit to the stock trading at the high-end of the peer range.
- Our moderate risk rating considers Sify's track record of growth and positive earnings and cash generation.

**Revenue in 1Q:F24 exceeded our expectation.** June-quarter revenue grew 11% to \$131.5 million, topping our \$129.7 million forecast. Sify's Data Center and Network Services segments were in line with our expectation, with the Data Center business posting 3% growth and Network rising 12%. By our model, the upside was driven by Sify's Digital Services segment, where revenue increased 19% versus our 10% estimate. This segment is comprised of Sify's Cloud and Managed services as well as its Technology Integration and Application Integration services, which are project-based and can lead to large quarterly fluctuations depending on timing. We expect Sify's infrastructure businesses will remain its primary growth drivers, but management also highlighted the opportunity for Sify to leverage

**NR**

Price Target: \$7

Price: \$2.35

Risk Rating: M

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## Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$430
Enterprise Value	\$681
52-Week Range (NASDAQ)	3-1
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	243,000
Shares Out (Mil)	182.835
Float Shares (Mil)	24.1
Insider Ownership	N/A
Institutional Holdings	1%
Annualized Dividend	Nil
Dividend Yield	N/A
FCF Per Share (F2025E)	(\$0.11)
FCF Yield (F2025E)	NM
Net Cash Per Share (F2025E)	(\$2.00)
Price to Book Value	2.3x
Return on Equity (F2025E)	5.7%
Total Debt to Capital	62%
Interest Coverage Ratio	1.5x
Short Interest %	N/A
Short Interest Days To Cover	N/A
Russell 2000	1,967
Russell 2000 - Last 12 Months	7.6%
SIFY - Last 12 Months	10.8%



its infrastructure and Cloud expertise to build a portfolio of digital services to support customers. These services will allow Sify to monetize its infrastructure in new ways, creating a new pillar of growth in addition to our already bullish outlook for the growth we expect from Sify's data center expansion.

**Profitability was slightly below our forecast.** Gross margin increased 90 basis points to 37.2%, missing our 40.1% forecast, and EBITDA margin widened 40 basis points to 20.2%, versus our 21.4% forecast. Gross margin varies depending on revenue mix in a given quarter, with lower-margin project work in Technology Integration Services typically driving quarterly variances, which might have been the case this quarter. Sify is also adding personnel to support network investments and the growth of its Digital Services. As a result, SG&A was up 14% from a year ago though this was slightly less than we projected, as management has been prudent with controlling spending. Although EBITDA of \$26.5 million was below our \$27.7 million estimate, this still represented 13% growth, which outpaced the 11% revenue gain. Net income declined 65%, due to higher depreciation and interest expense from Sify's data center and network investments, leading to EPS of \$0.01, matching our forecast.

**Sify secured additional funding from Kotak Advisors to help fund its data center expansion.** In November, Sify received a \$135 million commitment from Kotak Advisors in the form of Compulsory Convertible Debentures. This was a lower-cost source of capital for Sify and banks consider these instruments like equity leaving Sify with capacity to tap debt markets as needed. Sify yesterday announced Kotak is investing another \$73 million in Sify's data center business through another tranche of convertible debentures. Sify is in the early stages of a major expansion of its data center footprint and this funding, along with the average \$80 million of operating cash flow we project in F2024 and F2025, plus the company's \$55 million of cash on hand, helps to secure the company's near-term capital needs, as we project \$305 million of total capital spending in F2024-F2025.

**Sify's data center expansion will be a major catalyst for growth.** Given the strong secular trends driving data demand in India, along with new accelerants like 5G wireless, the demand for data center infrastructure in India is not in question. The only question is how fast operators can build the capacity to meet demand. The number of third-party data centers is projected to grow from 138 with 737 megawatts (MW) of capacity as of March 2022 to 183 with 1,752 MW over the next five years. Sify should be a major part of this expansion. The company operates 11 data centers with about 100 MW of capacity and has three greenfield projects underway that are slated to come on line in F2024. The first should be live in 2Q:F24, adding 38 MW of capacity. Another should be operational in 4Q:F24. After these three facilities, Sify aims to add six new data centers with an additional 150 MW of capacity over the next 18 months. Beyond this, over the next 4-5 years Sify hopes to triple its data center capacity to 25 units and 350 MW. Sify's data center business (30% of F2023 revenue) has been the driving force, with a five-year revenue CAGR of 33%. We still project a healthy 20% gain in F2024 but expect growth to accelerate in F2025 as the new data center capacity comes online, underpinning the 15% average gain in revenue and 28% average EBITDA growth we project in F2024-F2025.

Exhibit 1: Sify Technologies Variance Analysis						
	1Q:F24E	1Q:F24A	Var	1Q:F23A	1Q:F24A	% Change
Total revenue	\$129.7	131.5	1.8	\$118.6	131.5	10.9%
Gross Profit	52.0	48.9	(3.1)	43.1	48.9	13.5%
(%)	40.1%	37.2%		36.3%	37.2%	
EBITDA	27.7	26.5	(1.2)	23.5	26.5	12.8%
(%)	21.4%	20.2%		19.8%	20.2%	
Diluted EPS	\$0.01	\$0.01	(\$0.00)	\$0.02	\$0.01	(65.2%)

Sources: Sidoti & Company, LLC estimates and company filings

<b>Valuation</b>	<b>We maintain our \$7 price target on SIFY.</b> Sify is a primary beneficiary of India's digital transformation. With the stock trading at enterprise value of just 6x our F2024 EBITDA projection and 4.5x our F2025 forecast, SIFY is valued at a steep discount to peers in the India telecom and application and technology integration market players group, which trade 8x-12x EBITDA. Given Sify's track record of revenue and EBITDA growth and its potential for continued expansion, we see merit to the stock trading at the high-end of the peer range. Our \$7 price target is based on 100x our F2024 EPS estimate of \$0.07. This equates to 10x our F2025 EBITDA estimate of \$153 million, less projected net debt of \$415 million, to yield \$1.12 billion, or \$6.40 per share. The company's growth potential and modest leverage support our moderate risk rating.		
<b>Key Risks</b>	Foreign exchange	Concentrated ownership	

## SIFY TECHNOLOGIES LIMITED SPONSORED ADR

**Table 1: Sify Technologies Ltd., Income Statement**

(Dollars in millions except where noted)

	F2022	Jun	Sep	Dec	Mar	F2023	JunA	SepE	DecE	MarE	F2024E	JunE	SepE	DecE	MarE	F2025E
Total revenue	415.8	118.6	122.1	136.9	136.3	513.9	131.5	134.1	140.7	158.4	564.6	155.8	161.8	171.0	191.7	680.2
COGS	247.9	75.5	76.7	88.7	87.9	328.9	82.6	82.2	86.1	98.4	349.4	94.1	97.2	102.6	116.5	410.3
Gross profit	167.9	43.1	45.4	48.1	48.4	185.0	48.9	51.9	54.5	60.0	215.3	61.7	64.6	68.4	75.2	269.9
SG&A	74.9	19.6	22.2	23.2	23.2	88.2	22.3	24.1	25.3	26.4	98.2	27.4	28.5	30.1	31.1	117.0
EBITDA	92.9	23.5	23.2	24.9	25.2	96.8	26.5	27.8	29.2	33.6	117.0	34.3	36.1	38.3	44.2	152.9
D&A	50.5	14.3	14.7	15.3	16.8	61.1	17.2	19.4	20.7	22.0	79.3	23.6	23.7	23.8	23.9	94.9
EBIT	42.4	9.2	8.5	9.6	8.4	35.7	9.3	8.4	8.5	11.5	37.8	10.7	12.4	14.6	20.2	58.0
Interest and other expense (income)	15.8	4.3	5.6	6.5	5.6	22.0	7.2	8.2	8.2	8.2	31.8	10.4	10.4	10.4	10.4	41.5
Other expense (income)	(1.8)	(1.2)	(0.4)	(0.4)	(0.0)	(2.0)	(0.2)	(0.5)	(0.5)	(0.5)	(1.8)	(0.5)	(0.5)	(0.5)	(0.5)	(2.2)
EBT	28.4	6.1	3.4	3.5	2.8	15.7	2.3	0.7	0.9	3.9	7.8	0.9	2.6	4.7	10.4	18.6
Taxes	7.6	1.9	1.7	(0.5)	2.2	5.3	0.8	0.2	0.3	1.2	2.5	0.3	0.8	1.4	3.1	5.6
Net income	20.8	4.2	1.7	4.0	0.5	10.4	1.5	0.5	0.6	2.7	5.3	0.6	1.8	3.3	7.3	13.0
EPS - diluted	\$0.12	\$0.02	\$0.01	\$0.02	\$0.00	\$0.06	\$0.01	\$0.00	\$0.00	\$0.02	\$0.03	\$0.00	\$0.01	\$0.02	\$0.04	\$0.07
Shares outstanding - diluted	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0
<b>Margins</b>																
Gross margin	40.4%	36.3%	37.2%	35.2%	35.5%	36.0%	37.2%	38.7%	38.8%	37.9%	38.1%	39.6%	39.9%	40.0%	39.2%	39.7%
EBITDA	22.3%	19.8%	19.0%	18.2%	18.5%	18.8%	20.2%	20.7%	20.8%	21.2%	20.7%	22.0%	22.3%	22.4%	23.0%	22.5%
Operating margin	10.2%	7.8%	7.0%	7.0%	6.2%	6.9%	7.1%	6.2%	6.1%	7.3%	6.7%	6.9%	7.7%	8.5%	10.6%	8.5%
Net margin	5.0%	3.5%	1.4%	2.9%	0.4%	2.0%	1.1%	0.4%	0.4%	1.7%	0.9%	0.4%	1.1%	1.9%	3.8%	1.9%
<b>Growth YoY</b>																
<b>YoY</b>																
Total revenue	11.1%	19.5%	13.6%	31.2%	30.2%	23.6%	10.9%	9.8%	2.8%	16.2%	9.9%	18.5%	20.6%	21.5%	21.1%	20.5%
Gross profit	13.4%	10.0%	5.9%	9.7%	15.3%	10.2%	13.5%	14.3%	13.3%	23.9%	16.4%	26.3%	24.4%	25.5%	25.4%	25.4%
EBITDA	18.8%	4.9%	2.2%	2.9%	6.6%	4.1%	13.1%	19.5%	17.2%	33.2%	20.9%	29.3%	30.1%	31.2%	31.6%	30.6%
EBIT	22.5%	(8.3%)	(19.5%)	(15.6%)	(19.8%)	(15.9%)	1.3%	(1.6%)	(11.0%)	37.6%	5.9%	14.9%	48.7%	70.8%	75.4%	53.5%
EPS	29.7%	(17.6%)	(68.5%)	(25.0%)	(89.5%)	(50.1%)	(64.9%)	(70.1%)	(84.3%)	422.0%	(48.6%)	(58.0%)	254.8%	430.9%	166.6%	144.5%

Note: Historical results and estimates assume constant currency USD/INR exchange rate of 65

Sources: Sidoti &amp; Company, LLC. estimates and company reports

**Table 2: Sify Technologies Ltd.. Cash Flow Statement**

(Dollars in millions except where noted)

	<b>F2022</b>	<b>F2023</b>	<b>F2024E</b>	<b>F2025E</b>
Net income	\$19.3	\$10.4	\$5.3	\$13.0
D&A	50.7	62.4	80.1	94.9
Provision for doubtful accounts	6.7	-	-	-
Stock compensation	0.4	0.2	0.2	0.2
Net finance (income) / expense	15.8	-	-	-
Unrealized (gain) / loss on account of exchange differences	(0.2)	-	-	-
Amortization of leasehold prepayments	-	-	-	-
Accounts receivable	(62.8)	(14.9)	(22.8)	(52.0)
Inventory	(15.3)	0.9	(2.2)	(6.7)
Prepaid and other current assets	10.6	-	-	-
Accounts payable	21.0	39.4	13.3	39.6
Employee benefits	(1.1)	-	-	-
Deferred income	-	-	-	-
Income taxes (paid)/ refund received	(19.6)	-	-	-
<b>Cash from operating activities</b>	<b>34.5</b>	<b>100.9</b>	<b>73.8</b>	<b>89.0</b>
PPE	(104.6)	(203.4)	(197.6)	(108.8)
Intangible assets	-	-	-	-
Investments in debt securities	(4.1)	-	-	-
Finance income received	-	-	-	-
<b>Cash from investing activities</b>	<b>(112.4)</b>	<b>(203.4)</b>	<b>(197.6)</b>	<b>(108.8)</b>
Proceeds (purchase) of common stock	0.7	-	-	-
Debt	85.5	108.3	84.6	38.5
Finance expenses paid	(17.1)	-	-	-
Proceeds (repayment) finance lease liabilities	(4.9)	-	-	-
Dividend and distribution tax	-	-	-	-
<b>Cash from financing activities</b>	<b>64.2</b>	<b>108.3</b>	<b>84.6</b>	<b>38.5</b>
FX	-	-	-	-
Net change in cash	(13.7)	5.8	(39.2)	18.6
Cash at the beginning of period	84.3	70.6	76.4	37.2
<b>Cash at the end of period</b>	<b>70.6</b>	<b>76.4</b>	<b>37.2</b>	<b>55.9</b>
FCF	(70.1)	(102.5)	(123.8)	(19.8)
FCF / share	(\$0.39)	(\$0.58)	(\$0.70)	(\$0.11)

Note: Historical results and estimates assume constant currency USD/INR exchange rate of 65

Sources: Sidoti &amp; Company, LLC. estimates and company reports

**Table 3: Sify Technologies Ltd., Balance Sheet**

(Dollars in millions except where noted)

	F2022	F2023	F2024E	F2025E
Cash	58.2	64.0	24.8	43.5
Restricted cash	12.2	12.2	12.2	12.2
Inventory	\$37.0	\$36.2	\$38.4	\$45.1
Accounts receivable	216.3	231.3	254.1	306.1
Prepaid expenses	14.8	14.8	14.8	14.8
<b>Total current assets</b>	<b>338.6</b>	<b>358.4</b>	<b>344.3</b>	<b>421.7</b>
PPE	256.8	384.4	501.9	515.8
Intangible assets	9.8	9.8	9.8	9.8
Lease payments	-	-	-	-
Other assets	32.9	32.9	32.9	32.9
Other investments	7.3	7.3	7.3	7.3
<b>Total assets</b>	<b>645.4</b>	<b>792.8</b>	<b>896.2</b>	<b>987.4</b>
Finance lease obligations	-	-	-	-
Borrowings	109.4	109.4	109.4	109.4
Bank overdraft	5.7	5.7	5.7	5.7
Accounts payable	174.4	213.8	227.1	266.7
Deferred income	-	-	-	-
<b>Total current liabilities</b>	<b>324.7</b>	<b>364.1</b>	<b>377.3</b>	<b>417.0</b>
Finance lease obligations	-	-	-	-
Long-term debt	119.5	174.0	258.6	297.1
Employee benefits	2.2	2.2	2.2	2.2
Other liabilities	55.0	55.0	55.0	55.0
Compulsory convertible debentures	-	53.8	53.8	53.8
Other	-	-	-	-
Other	-	-	-	-
<b>Total liabilities</b>	<b>501.4</b>	<b>649.1</b>	<b>747.0</b>	<b>825.1</b>
Share capital	28.3	28.5	28.6	28.8
Share premium	302.7	302.7	302.7	302.7
Share based payment reserve	5.4	5.4	5.4	5.4
Other components of equity	1.2	(9.6)	(9.6)	(9.6)
Accumulated defecit	(114.9)	(104.5)	(99.2)	(86.1)
<b>Total stockholders' equity</b>	<b>222.7</b>	<b>222.4</b>	<b>227.9</b>	<b>241.1</b>
<b>Total liabilities and equity</b>	<b>724.1</b>	<b>871.5</b>	<b>974.9</b>	<b>1,066.2</b>
ROE	10.7%	5.1%	2.5%	5.7%
Total Debt-to-capital	50.7%	56.0%	61.8%	62.8%
Net debt-to-TTM EBITDA	1.76x	2.20x	2.87x	2.33x
Cash (debt) per share	(\$0.92)	(\$1.20)	(\$1.89)	(\$2.00)

Note: Historical results and estimates assume constant currency USD/INR exchange rate of 65

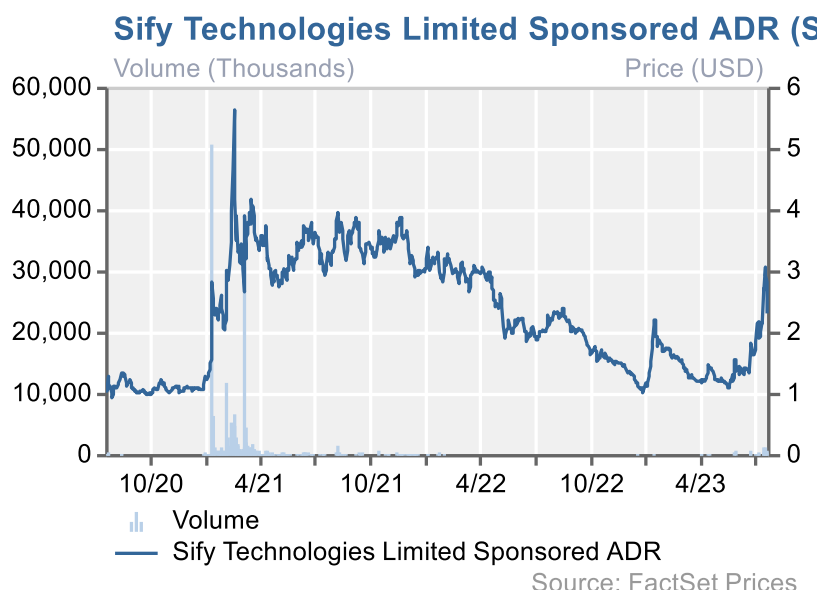
Sources: Sidoti &amp; Company, LLC. estimates and company reports

## Required Disclosures

**Sify Technologies Limited Sponsored ADR (SIFY-\$2.35) NR Price Target: \$7 Risk Rating: M**

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
PT	1/28/21	2.3		5	
PT	5/7/21	2.9		6	
PT	10/29/21	3.5		7	



### Valuation

We maintain our \$7 price target on SIFY. Sify is a primary beneficiary of India's digital transformation. With the stock trading at enterprise value of just 6x our F2024 EBITDA projection and 4.5x our F2025 forecast, SIFY is valued at a steep discount to peers in the India telecom and application and technology integration market players group, which trade 8x-12x EBITDA. Given Sify's track record of revenue and EBITDA growth and its potential for continued expansion, we see merit to the stock trading at the high-end of the peer range. Our \$7 price target is based on 100x our F2024 EPS estimate of \$0.07. This equates to 10x our F2025 EBITDA estimate of \$153 million, less projected net debt of \$415 million, to yield \$1.12 billion, or \$6.40 per share. The company's growth potential and modest leverage support our moderate risk rating.

### Key Risks

Foreign exchange

Concentrated ownership

**(IF A COMPANY SPONSORED RESEARCH ("CSR") REPORT, ALSO REFER TO  
ADDITIONAL CSR-SPECIFIC DISCLOSURES PROVIDED BELOW)**

### Rating System

Sidoti's Equity Research rating system consists of BUY and NEUTRAL recommendations, as well as a NOT RATED classification. We do not assign these BUY or NEUTRAL ratings for companies covered under our Company Sponsored Research program. Companies (or equity securities) covered by our CSR program are classified as NOT RATED (NR) and are only assigned a HIGH (H) or MODERATE (M) risk rating. Unless otherwise noted in a report, Sidoti ratings should be interpreted as follows:

Rating	Industry	Interpretation
<b>BUY</b>	All, except Utilities	Capital appreciation of at least 25% over the next 12 months
<b>NEUTRAL</b>	All, except Utilities	Capital appreciation of less than 25% over the next 12 months
<b>BUY</b>	Utilities(a)	Capital appreciation of at least 15% over the next 12 months
<b>NEUTRAL</b>	Utilities(a)	Capital appreciation of less than 15% over the next 12 months
<b>HIGH (RISK)</b>	All in CSR program	Companies/equities with among others, one or more of the following characteristics: <ul style="list-style-type: none"> <li>• significant potential for loss of principal;</li> <li>• significant share price volatility;</li> <li>• limited revenue or cash flow and/or high unpredictability associated with revenue and cash flow;</li> <li>• short and/or unprofitable operating history;</li> </ul>

		<ul style="list-style-type: none"> <li>• potentially significant issues regarding operational and/or financial success;</li> <li>• problematic financial, liquidity, legal, regulatory or political issues;</li> <li>• upcoming need for additional capital when availability is questionable;</li> <li>• significant related party transactions which could lead to a conflict of interest;</li> <li>• any other factor that the analyst believes could materially and adversely impact the subject company and/or the value of its securities.</li> </ul>
<b>MODERATE (RISK)</b>	All in CSR program	<p>Companies which have many of the same risks as described under the HIGH risk rating, but which risks are mitigated (on a relative basis and in the opinion of the analyst) due to, among others, one or more of the following:</p> <ul style="list-style-type: none"> <li>• more stable and predictable revenue, profits and cash flow;</li> <li>• more established operating history;</li> <li>• more favorable operating or business environment</li> <li>• lower potential for financial, liquidity, regulatory or political issues; or</li> <li>• less onerous upcoming capital needs.</li> </ul>

(a) those with at least 75% of operations derived from regulated state and federal businesses

#### ***Percentage of Covered Companies with Each Rating and***

#### ***Realization of Investment Banking Income from Covered Companies Over the Past 12 Months:***

With reference to the information described in the header immediately above please refer to the table below, which is as of, and reflects information immediately prior to, the publication of this report:

Rating	# of Companies	% (b)	Realized Investment Banking Income (# of companies with rating)	Realized Investment Banking Income (% of companies with rating)
BUY	85	53.8%	0	0.0%
NEUTRAL(a)	13	8.2%	0	0.0%
NOT RATED	1	0.6%	1	100.0%
NR -CSRs Moderate Risk (c)	54	34.2%	0	0.0%
NR -CSRs High Risk (c)	5	3.2%	0	0.0%
TOTAL	158	100%	1	0.6%

(a) Of the NEUTRALS 6 trade above our price target.

(b) Numbers may not add due to rounding or because of a pending drop of coverage.

(c) 91.5% of our CSRs are moderate risk, while 8.5% are high risk.

#### **Certain Risks**

A universal risk to all our price targets is that the analyst's estimates or forecasts may not be met. Past performance should not be construed as indicative of future performance. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the subject company's SEC filings available in electronic format through SEC Edgar filings at [www.sec.gov](http://www.sec.gov).

#### **Certain information Regarding Analyst Compensation**

Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, brokerage activities, from issuers participating in Sidoti's Company Sponsored Research program, from covered (and non-covered) companies paying to attend our conferences or compensating Sidoti for arranging Non-Deal Road Show (NDR) meetings, but compensation is not directly related to any of these revenue streams. As noted below such factors present a potential conflict of interest.

#### **Factors that May Influence Continuation of Coverage and Related Potential Conflicts of Interest**

Sidoti research analysts generally do not cover (or continue to cover) those companies where Sidoti does not deem coverage to be profitable. In determining whether coverage is profitable, Sidoti considers among other things, (a) an estimate of invoice payments received from its institutional investor clients as it relates to a covered company; (b) whether management of a covered company participates in Sidoti-sponsored conferences and/or non-deal roadshows (Sidoti receives a fee from the issuer if the issuer presents at a conference and may receive a fee from the issuer if it schedules an NDR); and (c) whether a covered company has in the past or is inclined to include Sidoti in an investment banking transaction as a co-manager or otherwise. A possible effect of factors (b) and (c) above may be that continued coverage decisions are based, in part, on the willingness of management of covered companies to participate in, and compensate Sidoti for, such conferences and NDR meetings, as well as inclusion in investment banking transactions. This approach could be viewed as presenting potential conflicts of interest.

#### **Sidoti and Analyst Ownership of Securities Described Herein and Other Analyst Restrictions**

Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household or any account in which they otherwise hold a beneficial interest to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities.

#### **Sidoti Investment Banking Revenue Realized from the Subject Company in the Last 12 Month**

Sidoti has non-research employees that will seek compensation for investment banking services from the company covered hereunder. As of the date hereof, Sidoti may expect to receive or may intend to seek investment banking compensation from any of its covered companies, including the subject company covered herein, within the next 3 months (additional detail, if any, is provided in a special disclosure below). Investment banking services, as defined under FINRA Rule 2241, includes, among other things, acting as an underwriter in or as a member of the selling group in a securities underwriting. Sidoti's role in most investment banking transactions can be viewed on this company's filings at [www.sec.gov](http://www.sec.gov). The table below sets forth instances where Sidoti has received investment banking revenue from the company covered hereunder in the last twelve months, if any:

Date	Role	Transaction	Security

#### **Sidoti Non-Investment Revenue Realized from the Subject Company in the Last 12 Months**

Prior to December 31, 2022, Sidoti held multiple conferences a year and charged a fee of up to \$6,000 per conference to presenting companies. Beginning January 2023, Sidoti Events, LLC ("Sidoti Events"), an affiliate of Sidoti by common ownership, began to hold these conferences. Sidoti or Sidoti Events may also receive a fee of up to \$8,000 for scheduling a Non-Deal Roadshow ("NDR") day. Sidoti Events reimburses Sidoti for certain services provided by Sidoti to Sidoti Events in respect of these conferences (or NDR days) pursuant to an Expense Sharing Arrangement. The table below sets forth instances where Sidoti or Sidoti Events received non-investment revenue from the company covered hereunder, if any, over the past 12 months:

Conferences	NDR Days
August 2022	

#### **Additional Disclosures Specific to the Subject Company of this Report Including the Pursuit or Expectation of Investment Banking Revenue in the Next Three Months**

None.

#### **Analyst Certification**

The research analyst that authors this report, Gregory Burns, certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report.

#### **Other Disclosures**



This report is for information purposes only and is not intended as an offer to sell or a solicitation to buy securities. Sidoti does not maintain a predetermined schedule for publication of research and will not necessarily update this report. The stock rating on this report reflects the analyst's recommendation based on a 12-month period. Past performance should not be construed as indicative of future performance. Information contained herein is based on sources Sidoti believes to be reliable, but it does not guarantee their accuracy. Targets, forecasts, estimates, valuations, and opinions concerning the subject company or its securities, and information involving composition of market sectors included in this report reflect analyst judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Sidoti receives and seeks to receive, through the efforts of non-research employees, commission sharing agreement compensation from institutional investors in connection with providing securities-related services including access to this report. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request. The trademarks and service marks contained in Sidoti & Company Research are the property of their respective owners. Third-party data providers make no warranties or representations relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages relating to such data.

### **SPECIAL CSR-RELATED DISCLOSURES**

#### **Very Important Notice to Recipients Regarding Purpose and Usage of CSR Reports**

If demarcated "Company Sponsored Research" on the cover page of this document, this report was commissioned for a fee by the subject company and is part of our Company Sponsored Research ("CSR") program. All Sidoti & Company, LLC ("Sidoti") research is prepared only for market professionals and institutional investor customers based on publicly available information. This report is for information purposes only and is not intended as an offer to sell or a solicitation to buy securities. Sidoti research does not provide individually tailored investment advice and has been prepared without regard to the circumstances and objectives of those who receive it. Should recipients use the information contained herein to assist them in making an investment decision, they must consider this report as only one factor in making their investment decisions, exercise their own independent judgment and carefully consider the appropriateness of an investment based on their individual circumstances and objectives – including, without limitation, financial status, risk tolerance and risk/return preferences. An investment in the securities described herein may not meet any or all of the recipient's income, capital appreciation or other objectives and is subject to considerable risks. No non-institutional investor recipient should make an investment in the securities discussed herein without first having received advice from his or her purchaser representative, qualified financial advisor and tax and legal advisors. For more information concerning the valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact Sidoti's Client Support Team at US/Canada +1 212-453-7000. Alternatively, you may contact a Sidoti investment representative by mailing Sidoti & Company, LLC, Attention: Director of Research, 1177 Avenue of the Americas, 5th Floor, New York, NY 10036, USA.

#### **CSR Fees and Related Potential Conflicts of Interest**

Sidoti receives a flat fee of \$40,000 from companies who commissioned CSR coverage from Sidoti prior to January 1, 2023 ("Pre-2023 CSRs") and \$50,000 from companies that are not Pre-2023 CSRs. Those Pre-2023 CSRs will pay a flat fee of \$45,000 for an additional year of coverage when renewing in 2023. This fee is for the production and dissemination of an Initiation Report (if the initial year of the contract) and quarterly update reports during the one-year term of a CSR contract. (Sidoti does not accept stock or warrant compensation). Such contractually required reports coincide with initiation of coverage and the subject companies' quarterly earnings releases. Sidoti may also publish reports on its CSR companies between each earnings report for which it has a contractual obligation to publish. The purpose of the CSR fee is to subsidize the high costs of providing securities research coverage. Sidoti's receipt of a fee from the issuer described herein for producing this report could present potential conflicts of interest. To mitigate the potential for conflicts, Sidoti:

- assures its contracts with the issuer described herein allows for Sidoti's full editorial control of all research and, within reason, the timing of its release;
- requires the term of a contract extend for one full year, which contract the issuer cannot unilaterally terminate;
- provides Sidoti the ability to terminate the contract under certain circumstances;
- insists that, at a minimum, pro-rata payment of the annual fee is received prior to the publication or release of a research report;
- utilizes analysts who must abide by the CFA Institute Code of Ethics and Standards of Professional Conduct;
- provide analysts with full discretion on the price target and over other coverage points based on their own due diligence;

- maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst;
- does not directly tie analyst compensation to their willingness to cover a company on a commissioned basis, provided however that the provision of CSR coverage is one of several overall considerations that is factored into Sidoti's determination of analyst compensation; and
- does not directly or indirectly tie analyst compensation to the specific recommendations or views expressed in any research report.

Notwithstanding the measures set forth above to mitigate the risk of potential conflicts of interest, Sidoti makes no representations and does not warrant that such measures can or will fully eradicate potential conflicts.

### **Certain Additional CSR Risk Considerations**

Many companies covered under Sidoti's CSR program can be classified as microcap stocks, which equities typically bear certain risks that are not as prevalent in the "Blue Chip", large capitalization, mid capitalization or even the small capitalization segment of the market. Microcap stocks are more prone to trade at discounts. They generally have smaller trading volume and smaller public floats than companies with larger market capitalization, which can lead to an inability to buy or sell shares (liquidity risk) in quantity without moving the market (or at all), large bid-ask spreads, and increased stock price volatility (which can result) even if a trade involves a very small number of shares. In addition, microcaps tend to have significant company specific risks that contribute to lower valuations and may limit stock price appreciation. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market. Given the foregoing, readers of this report are urged to pay special attention to the risk rating and risk factors set forth in this report, as well as to seek more detailed information regarding risks by reviewing the company's public filings at [www.sec.gov](http://www.sec.gov).

### **Source(s)**

Key Statistics data is sourced from FactSet Research Systems