

September 12, 2022

## GENIANS, INC. (KOSDAQ: A263860)

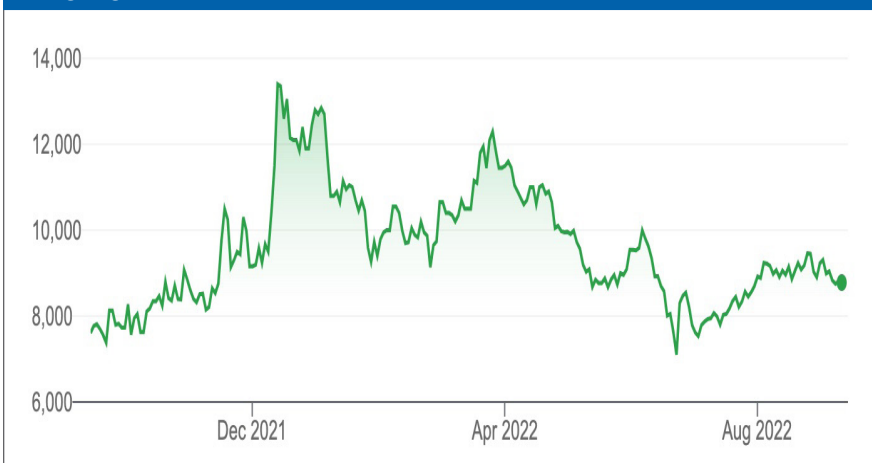
Founded in 2005 and based in South Korea, Genians is an information security software company that provides a fundamental cyber-security platform for building a trusted path to secure access for any connecting devices by leveraging its Device Platform Intelligence (DPI), Network Access Control (NAC), Endpoint Detection & Response (EDR), and Genian Policy Inspector (GPI) solutions. The company recently launched next-generation versions of these platforms including Zero Trust Network Access (ZTNA) and XDR (extended detection and response). Since 2005, the company has served more than 2,400 customers, including Fortune 500 companies and organizations including government, military, critical infrastructure, finance, healthcare and educational entities.

### COMPANY HIGHLIGHTS

- \* Genians: Strong prospects for information security provider
- \* A leader in the Korean Network Access Control (NAC) market, Genians is expanding its offerings to include new platforms, including Endpoint Detection & Response (EDR) and Policy Inspector (GPI) cybersecurity awareness products, and next-generation platforms including Zero Trust Network Access (ZTNA) and XDR (extended detection and response).
- \* In our view, Genians is well positioned to leverage its NAC market position by investing in both internal R&D and external M&A opportunities. We expect the company to emerge as an integrated cyber-security platform provider that can participate in the nascent Internet of Things (IoT) and cloud-based environments. In addition, the company has been profitable since inception and, in our view, has the resources to fund its product and geographic expansion plans.
- \* Although domestic market sales have accounted for most of its revenues to date, Genians is also expanding globally. Its Korea-based sales force focuses on the Asia-Pacific region and the Middle East, while its U.S.-based team focuses on cloud services and device platform intelligence (DPI) in North America, Latin America, and Europe.

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### PRICE CHART



### KEY STATISTICS

#### Key Stock Statistics

Recent price, KRW (9/8/22)	8,790.00
52 week high/low (KRW)	14,500- 7,000
Shares outstanding (M)	8.8
Market cap (M, KRW)	77,748
Dividend	NA
Yield	NA

#### Sector Overview

Sector	Information Technology
Sector % of S&P 500	27.3%

#### Financials

Cash & Mkt Securities (\$M, KRW)	22,122
Debt (\$M, KRW)	171
Working Capital (\$M, KRW)	23,600
Current Ratio	4.6
Total Debt/Equity (%)	NM
Payout ratio	NA
Revenue (\$M, KRW) TTM	36,036
Net Income (\$M, KRW) TTM	6,693
Net Margin	18.6%

#### Risk

Beta	1.39
Inst. ownership	NA

#### Valuation

P/E forward EPS	10.5
Price/Sales (TTM)	2.2
Price/Book (TTM)	2.0

#### Top Holders

Miri Capital Management LLC

#### Management

CEO	Mr. Dong-Bum Lee
COO	Mr. Dong-Seok Lee
CTO	Mr. Kye-Yeon Kim
Company website	www.genians.com

COMPANY SPONSORED REPORT. SEE LAST PAGE FOR DISCLOSURES.

- \* The shares currently trade at a significant discount to a group of software peers, and we think that recent acceleration of revenue and profit growth are not yet fully appreciated by investors. We note that during the middle of the previous decade, the company produced slower top-line growth and compressed operating margins due to investments in next-generation technology, which are in the early stages of being rolled out commercially. We expect the valuation gap to narrow as Genians executes its growth strategy.
- \* Based on our forward P/E analysis, we arrive at a fair value estimate of 21,894 KRW per share, above its current level near 9,000 KRW.

## INVESTMENT THESIS

Founded in 2005 and based in South Korea, Genians is an information security software product and services company that provides Network Access Control (NAC), Endpoint Detection & Response (EDR), and Genian Policy Inspection (GPI) security diagnosis and cybersecurity awareness solutions for global organizations. The company serves more than 2,400 customers, including Fortune 500 companies in a range of industries, government and military entities, and educational institutions. In addition to securing representative references from finance, public, and local governments, we have expanded business coverage such as cryptocurrency exchanges and construction. Genians established a U.S.-based subsidiary in 2016 and listed its stock on the KOSDAQ in 2017.

The company participates in the Korean information security industry, which had 2020 sales of approximately 11.9 trillion Korean won (KRW) (US\$10 billion), up 6.4% from 2019 according to a national industry survey. According to market research firm IDC, the rate of growth for the market declined from 21.4% in 2015 to 6.3% in 2019. We estimate that the cyber-security sub-industry represents approximately one-third of this market, and is poised to grow at a much faster rate, driven by the increased use of online education and digital services (due to COVID-19 and new cybersecurity threats). Globally, Gartner estimated that \$150 billion was spent on information security in 2021.

In our view, Genians' record of consistent profitability reflects its commitment to R&D, as roughly two-thirds of its employees are engineers. The company also outsources production and thus has little production facility overhead. Genians has been awarded ISO/IEC 27001 certification for Information Security Management Systems (ISMS), a worldwide standard for best compliance practices in information security and data protection. In 2021, Genians was named for the third consecutive year as a "representative vendor"

in Gartner's Global Market Guide for Network Access Control.

Genians has been profitable since its inception in 2005. Its sales are divided into two primary categories: sales of information security products, and maintenance and technical support services for these customers. Its product portfolio is led by three products: Network Access Control (NAC), Endpoint Detection & Response (EDR), and Genian Policy Inspector (GPI). To date, the NAC product has been Genians' leading revenue contributor. The product held a 62% market share of the Korean NAC public procurement market in 2021, which was below 2020's 72% level, due to some COVID-19 related delays among its customers.

Genians has maintained a leading market share by incorporating technologies such as next-gen fingerprinting, which underpins its Device Platform Intelligence (DPI) capabilities, and the industry's first cloud-based solution into its offerings. In our view, the market-share position has been supported a lack of technology complexity, expensive deployment, and difficult maintenance, compared with other NAC products.

Genians' cloud service-based NAC has seen solid penetration among more cost-sensitive Small & Medium Business (SMB) customers. Over the course of 2021, Genians acquired Cloud Service Security Certification (CSAP) from the Korea Internet & Security Agency and completed service registration with the Ministry of Science, ICT and Public Procurement Service. We believe this will support continued expansion among not only SMB's, but also larger enterprises.

Frost & Sullivan estimates that the global NAC market grew to \$1.4 billion in 2020, and projected 10.4% compound annual growth to \$2.2 billion between 2019 and 2024. We expect this growth to be driven by the increasing connectivity of devices; the growth of internet of things (IoT) solutions, which link these devices; and the increase in remote work and cloud-based digital transformation. Cybersecurity Ventures estimates that 6 billion people will be connected to the internet in 2022, triple the number connected in 2015, and that many users will have multiple devices.

Genians also has been at the forefront of developing next-generation platforms for its technologies. In 2021, the company introduced its industry-first Zero Trust NAC to establish a seamless path for secure access to IT resources across various settings (including remote and cloud-based access) by creating an identity- and context-based, access boundary removed from public visibility, thus reducing attacks. The new platform can be delivered quickly by leveraging cloud technology and can expedite secure onboarding process for any type of network-enabled device at any location.

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## PEER COMPARISON

Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
GENIANS INC	KOSDAQ: A263860	8,790*	14,500*	7,000*	77,748*	16	19	81	12.6	1.39	NA
HUNESION CO LTD	KOSDAQ: A290270	4,600*	7,320*	3,775*	43,036*	-27	5	346	2.9	1.00	0.9
AHNLAB INC	KOSDAQ: A053800	72,800*	218,500*	63,500*	632,325*	4	16	127	15.0	0.69	1.5
ESTSOFT CORP	KOSDAQ: A047560	9,170*	20,700*	8,340*	90,581*	-29	7	NM	16.2	0.91	NA
RAONSECURE CO LTD	KOSDAQ: A042510	2,650*	5,730*	2,285*	102,467*	-45	17	NM	NM	1.50	NA

\* Stock Statistics in KRW

According to Gartner, the global Zero Trust Network Access (ZTNA) market is expected to grow from \$361 million in 2020 to \$1.674 billion in 2025, representing a CAGR of 35.5%. That is much higher than the traditional NAC category, and is driven by expansion in hybrid and cloud-based work environments. We view positively Genians' investments of NAC profits into new technologies that should help drive future growth.

In 2017, the company launched a second product, Endpoint Detection & Response (EDR), which should help it to compete in IoT, 5G, and cloud-based applications. The EDR platform enables customers to collect, correlate and control data across an entire network environment, and provides comprehensive defense against ever-evolving cybersecurity threats that are expected to continue to grow, as sophisticated online applications such as the metaverse result in increases in time spent on mobile and networked devices.

EDR uses intelligent threat detection and response solutions to detect and stop abnormal device and network behavior caused by errant settings, user violations, security vulnerabilities, or cyberattacks. According to Gartner, the global EDR market grew at a compound annual rate of 45% from 2015-2020, to \$1.6 billion, as enterprises have confronted more sophisticated cybersecurity threats that have outpaced traditional antivirus software. Genians has cited 300,000 new and variant malicious codes represented by ransomware appearing every day. EDR solutions reached the market in 2014. Genians' EDR solution was the first such solution in Korea and the first registrant in Korea's Public Procurement Services department.

In our view, EDR adoption has been fostered by increases in telecommuting, as companies increasingly seek to strengthen network security amid greater remote connectivity, particularly among financial and public institutions, including government offices. With increased demand and the entrance of new competition, we expect continued growth for the EDR market, and view Genians' offering as attractive, given its ability to be integrated with NAC and other offerings. Further, as EDR is a subscription-based service, we expect recurring sales to provide a long-term tailwind to the company's revenue growth trajectory.

As of mid-2022, Genians had exceeded 120 cumulative EDR customers in Korea, with a 73% market share (and both metrics ranking first in the market, according to statistics of the Nara Market Mall by the Public Procurement Service). Similar to NAC moving into Zero Trust capabilities, the EDR business is expanding into new fields, including extended detection and response (XDR). XDR more quickly collects and correlates detections and data activity across multiple network security layers (including email, endpoints, server, and cloud settings), to more quickly detect threats and take mitigation actions.

The global EDR market is fiercely competitive, and includes companies such as CrowdStrike, Cybereason, Palo Alto, and FireEye. In some cases, the larger companies have entered the market by acquiring small EDR providers. However, the Korean market has remained favorable to domestically based companies, and Genians has achieved solid contract wins in Korea. We expect Genians to continue investing in the category by expanding its sales channels and partnering with complementary cybersecurity tech-

nology solution providers. This should allow it to further solidify its EDR market position and more effectively compete globally.

To date, most of Genians' sales have come from the domestic Korean market. In 2021, that market accounted for 98% of sales, while exports accounted for 2%. During the first half of 2022, domestic sales accounted for 97% of total sales. Its domestic Korea-based sales force focuses on on-premise activities in the Asia-Pacific region and the Middle East, while its U.S.-based team focuses on cloud services and device platform intelligence (DPI) in North America, Latin America, the Middle East and Europe.

Genians is in the early stages of global expansion and has already established 32 partnerships in 32 countries. Entry into these new markets has been driven by a qualified partner network that has enabled its NAC product to compete against other vendors, driving customer expansion into areas including finance, hospitals and other enterprises. Although sales growth from international channels has been modest to date, which we attribute to market disruptions related to the COVID-19 pandemic, we view Genians' broad partnership base as likely to expand the EDR market, supported by its applicability in cloud and multi-operating system environments in the future.

We are encouraged by progress in less-penetrated markets. Genians has had success expanding its North American customer base among U.S. financial institutions and Canadian municipalities. The company is also diversifying its sales channels, notably through the Amazon Web Services Marketplace. We are encouraged by recent expansion in the Middle East, to India and North Africa via its distributor RAS Infotech (whose NAC revenues more than doubled in 2021 and are expected to show similar growth in 2022).

In our view, Genians is well positioned to participate in competitive markets, given its investments in new products and patented technologies over the past few years, which has yielded the EDR product, among other future growth drivers. In addition, the company has created a research institute focused on innovation, and we are encouraged by its use of over 70% of its total workforce as technically focused employees.

Lastly, we are encouraged by the Korean government's commitment to national digitization. As part of its "Korean New Deal" initiative, the government plans to spend 49 trillion KRW over the next five years to strengthen cybersecurity and expand digital services. We believe that Genians is well positioned to benefit from the upward trajectory of government spending.

## RECENT DEVELOPMENTS

In 2021, Genians shares rose 93%, compared to a 15% increase for the Kosdaq Small Index. Year-to-date, the stock has declined 32%, compared to a 20% drop for the index.

In August 2022, Genians reported second-quarter and half-year 2022 results. For the six months ended June 30, 2022, revenues increased by 37% over the same period in 2021 (49% in the second quarter), which we attribute to increased demand coming out of the COVID-19 pandemic.

In July 2022, Genians announced its expansion into the India and North Africa markets, in partnership with its Middle East regional distributor, RAS Infotech.



In February 2022, Genians was ranked in the top five NAC vendors by Gartner in its quarterly “Market Share: Enterprise Network Equipment by Market Segment, Worldwide” report. Genians has been named in this publication since 4Q2020.

In December 2021, Genians was designated as an “Institute of Excellent Enterprises” for the second half of 2021 by the Ministry of Science, Technology, Information and Communications and the Korea Association for the Advancement of Industry and Technology.

In November 2021, Genians obtained the Cloud Service Security Certification (CASP) from the Korea Internet & Security Agency (KISA), which is a system that objectively and fairly evaluates and certifies the level of product and service security so that public institutions can safely use the private cloud. Genian Cloud NAC has been certified in the standard software as a service (SaaS) rating field and is the first domestic security solution to be certified in the SaaS category.

In October 2021, Genians received the Grand Prize from the Minister of Small and Medium Venture Business in the Third Korea Small and Medium Business Startup Awards.

In August 2021, Genians announced plans to extend its NAC market leadership into Africa. The company will work with CyberDist Africa to promote the World Bank’s Digital Economy for Africa Initiative. The initiative aims to connect all government agencies, businesses, and individuals in Africa by 2030.

In July 2021, Genians entered into a collaboration with Fortinet to develop solutions that focus on enhancing network security, focused on telecommuting and remote working environments, which have expanded due to the ongoing COVID-19 pandemic.

In June 2021, Genians announced that, for the third consecutive year, it was selected as a representative company in Gartner’s 2021 Network Access Control Market Guide, citing NAC’s role in strengthening security requirements amid increases in connected terminals that participate in network environments.

In March 2021, Genians announced that RAS Infotech, a provider of IT security solutions in the Middle East, India, and Southwest Asia, would be Genians’ sole distributor in the Middle East.

In November 2020, Genians opened a new office in San Jose, California. It expects the new office to boost interest in its Device Platform Intelligence (DPI) offering among cybersecurity vendors and other technology companies in Silicon Valley.

## EARNINGS & GROWTH ANALYSIS

In 2021, total sales increased to 31.9 billion KRW, up 19% from 2020. Product sales accounted for 82.5% of revenues, while maintenance and technical support services accounted for 17.5% of sales. In the first half of 2022, product sales accounted for 83.3% of total revenues, compared with 16.7% for services. We expect Genians to post revenue of 38.5 billion KRW in 2022 and 44.3 billion KRW in 2023, which would represent growth of approximately 21% and 15%, respectively. We expect product sales to represent an increasing portion of total revenue as the company’s EDR and next-generation NAC products gain traction in the market.

We anticipate gross margins of 62% in 2022 and 63% in 2023, which would compare favorably to 61% in 2021. We expect gross

margins to benefit as user network configurations transition from on-premise to cloud-based environments. We also expect operating expenses, which have been declining from 50% of sales to the lower 40% range in recent years, to continue to decline modestly, thanks to investments in new business lines and synergies from selling NAC and EDR in a single network environment. Our operating margin forecasts are 20% for 2022 and 22% for 2023, up from 19% in 2021.

We forecast EPS of 842 KRW in 2022, up 21% from 2021, and 1,009 KRW in 2023 (up 20%), driven by robust revenue growth across the portfolio. We note that the company’s net profit has also benefited from tax credits related to its R&D investments and small-cap status, which we expect to continue over the next few years.

## FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Genians is Medium-High. As of June 30, 2022, the company had 22.1 billion KRW (US\$16.3 million) in cash and short-term investments, up from 19.8 billion KRW (US\$14.6 million) at the end of 2021.

For the year ended December 31, 2021, net cash inflows from operations were 5.7 billion KRW, up from 3.9 billion KRW in 2020. Net cash used in investing activities was 4.3 billion KRW, up from 2.3 billion KRW in 2020. Net cash used in financing activities was 0.3 billion KRW in 2021, compared with 2.1 billion in 2020.

As noted above, Genians designs and develops materials for its solution-related servers, which are then produced by outsourcing companies. As a result, the company is able to avoid the cost of operating its own production facilities and to focus instead on R&D. Approximately two-thirds of its employees are R&D-focused engineers.

Prior to 2021, Genians’ operating margin had been pressured by investments in new technology. Between 2018 and 2020, operating margins were 11%, 9.2% and 9.7%, respectively. However, in 2021, the operating margin increased to 18.5%, reflecting strong revenue growth of 19%, driven by EDR. While we expect double digit revenue growth to continue over the coming years reflecting expansion of the EDR/XDR market and next-generation ZT-NAC market, we believe that the challenging environment over the prior three-year period have overshadowed the company’s rising sales and continued profitability. Genians has steadily increased sales since 2016, with compound annual growth of approximately 9%. During this period, the gross margin has also expanded each year, with annual growth of 11%.

In addition, total assets and total equity have increased at compound annual rates of 14.5% and 16%, respectively, while liabilities have increased at a 10.5% rate. Total equity was 41.1 billion KRW (US\$33 million) as of December 31, 2021, up from 19.7 billion KRW (US\$16.5 million) at the end of 2016.

As of June 30, 2022, Genians had a current ratio of 4.6 and working capital of 23.6 billion KRW (US\$17.4 million), which we think will facilitate access to outside capital and enable the company to implement its expansion plans.

For fiscal year 2021, Genians paid a one-time dividend of 120 won per common share. The company does not pay a regular dividend, and we do not expect it to initiate one in the near term.

## MANAGEMENT

Dong-Bum Lee is Genians' CEO and also a director of the company. Mr. Lee served as a director of Oullim Information Technology Co., Ltd. from March 1998 to December 2004. He graduated from Sungkyunkwan University with a major in Information Engineering in August 1995. In addition, Mr. Lee, the company's largest shareholder, owns approximately 30% of Genians stock.

As of June 30, 2022, the company's board consisted of four inside directors and one auditor.

## RISKS

Risks to an investment in Genians include the company's participation in a highly competitive industry, as it faces competition from large global players such as IBM, Palo Alto, and Cisco, as well as risks as it expands into new markets outside of Korea. The company's technology must also keep pace with increasingly sophisticated cybersecurity threats. In addition, the company could see international expansion initiatives slowed by continued market disruptions related to the COVID-19 pandemic.

## COMPANY DESCRIPTION

Founded in 2005 and based in South Korea, Genians is an information security software company that provides a fundamental cyber-security platform for building a trusted path to secure access for any connecting devices by leveraging its Device Platform Intelligence (DPI), Network Access Control (NAC), Endpoint Detection & Response (EDR), and Genian Policy Inspector (GPI) solutions. The company recently launched next-generation versions of these platforms, including Zero Trust Network Access (ZTNA) and XDR (extended detection and response). Since 2005, the company has served more than 2,400 customers, including Fortune 500 companies and organizations including government, military, critical infrastructure, finance, healthcare and educational entities.

## VALUATION

We think that Genians' valuation does not adequately reflect what we see as the company's prospects for expanding its product suite, market share, and geographic reach. The shares currently trade near 10.5-times our 2022 EPS estimate of 842 KRW, well below the average multiple around 28 for a basket of global system software peers. We attribute this to more-modest liquidity (compared with its global peers) and broader weakness in the Korean market (compared with other global markets).

Although the company had lagged the peer group over the prior three years (through 2021) on revenue and EBIT measures, we note that Genians now compares favorably to the peer growth on both measures (14.2% on revenues compared with 12%) and EBIT growth (35.7% versus 19.4%). Thus, we expect the valuation gap between Genians and its peers to narrow as the company continues to execute and validate its 2021 results.

In addition, Genians' use of outsourcing has allowed the company to operate with low debt; the debt/capital ratio is less than 1%, compared to 20%+ for the peer group. Overall, we view the company's operational and financial growth profile as compelling, and expect the valuation gap with peers to narrow over time. Given ongoing consolidation in the cybersecurity industry, we believe that Genians could also be a potential acquisition candidate for a larger global player.

To value the stock, we apply a P/E multiple of 26 (a modest discount to the global peer average of 28) to our 2022 EPS estimate of 842 KRW and arrive at a fair value estimate of approximately 21,894 KRW. That is well above current levels near 9,000 KRW.

Steve Silver,  
Argus Research Analyst)

**INCOME STATEMENT**

<b>Growth Analysis (\$MIL, KRW)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Q1 2022</b>	<b>Q2 2022</b>	<b>Q3 2022E</b>	<b>Q4 2022E</b>	<b>2022E</b>	<b>Q1 2023E</b>	<b>Q2 2023E</b>	<b>Q3 2023E</b>	<b>Q4 2023E</b>	<b>2023E</b>
Revenue	24926	26814	31917	5668	9713	8855	14264	38500	6518	11170	10183	16404	44275
Gross Profit	14715	15815	19339					23747					27851
SG&A	12421	13223	13433					16106					18289
R&D	NA	NA	NA					NA					NA
Operating Income	2295	2592	5907					7656					9562
Interest Expense	NM	NM	NM					NM					NM
Pretax Income	2629	2796	7245					8587					10496
Tax Rate (%)	NA	NA	15					13					15
Net Income	3107	3424	6174					7431					8922
Diluted Shares	9.2	8.9	8.8					8.8					8.8
EPS	336	386	698	26	226	111	479	842	20	248	159	582	1009
Dividend	NA	NA	NA					NA					NA
<b>Growth Rates (%)</b>													
Revenue	NA	8	19					21					15
Operating Income	NA	13	128					30					25
Net Income	NA	10	80					20					20
EPS	NA	15	81					21					20
<b>Valuation Analysis</b>													
Price (KRW): High	6670.00	8870.00	14500.00					NA					NA
Price (KRW): Low	4210.00	2365.00	5800.00					NA					NA
PE: High	23.9	26.4	37.6					NA					NA
PE: Low	15.1	7.0	15.0					NA					NA
PS: High	2.5	3.2	4.8					NA					NA
PS: Low	1.6	0.8	1.9					NA					NA
Yield: High	NA	NA	NA					NA					NA
Yield: Low	NA	NA	NA					NA					NA
<b>Financial &amp; Risk Analysis (\$MIL, KRW)</b>													
Cash and Equivalents	17617	20390	19801					NA					NA
Working Capital	21247	24197	22960					NA					NA
Current Ratio	4.3	5.0	3.2					NA					NA
LTDebt/Equity (%)	0	0	0					NA					NA
Total Debt/Equity (%)	1	1	1					NA					NA
<b>Ratio Analysis</b>													
Gross Profit Margin	59%	59%	61%					62%					63%
Operating Margin	9%	10%	19%					20%					22%
Net Margin	12%	13%	19%					19%					20%
Return on Assets (%)	3.6	3.7	7.6					NA					NA
Return on Equity (%)	9.4	10.0	16.2					NA					NA
Op Inc/Int Exp	NM	NM	NM					NM					NM
Div Payout	NA	NA	NA					NA					NA

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