



ADT acquisition delivering strong momentum

Intelligent Monitoring Group (ASX: IMB) is Australasia's largest independent security monitoring provider. It provides A1-graded monitored security, and fire and Internet of Things (IoT) solutions, ensuring the safety of over 180,000 businesses, homes, and individuals.

Strong H1 results represents the first five months impact of the ADT acquisition

Intelligent Monitoring Group recently released its results for the first half of FY24 (1HY24). This represents the impact of five months of the ADT acquisition. The group's revenue increased from A\$11.6m in H1 2023 to A\$55.7m in H2 2024, while EBITDA increased from A\$1.7m in H1 2023 to A\$14.2m in H1 2024. \$11.7m of the latter figure came from ADT.

These are clear signs that the ADT acquisition is the game changer the company has hoped it would be, not just in theory (by taking it from the third largest player to the largest) but in reality. It also shows that the core business is going strong, also recording EBITDA growth of \$0.8m.

Robust operational strategy and growth engines to support outlook

Intelligent Monitoring Group is focused on three key strategies – rebuilding the commercial market position, driving the residential security service penetration and simplification of the business. It anticipates that Australia will follow the US in market penetration for residential security services – where over 20% of US households have a system – given household crime rates are on the rise. IMG also hopes to increase penetration in the commercial security space. ADT had exited commercial security operations prior to its acquisition, but IMB has re-commenced marketing and sales for new commercial customers.

Valuation of A\$0.57–0.75 per share

We reiterate our valuation of Intelligent Monitoring Group, as outlined in our initiation report – A\$0.57 per share in a base-case scenario and A\$0.75 per share in an optimistic case scenario, based on a blended DCF/RV approach. Please refer to pages 11-12 for details pertaining to our valuation and an outline of the key risks.

Share Price: A\$0.395

ASX: IMB

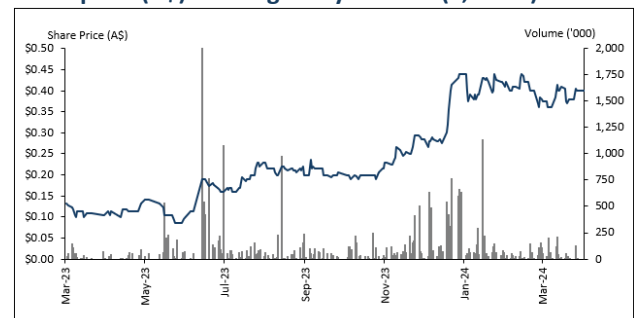
Sector: Technology

4 April 2024

Market cap. (A\$m)	95.4
# shares outstanding (m)	241.4
# shares fully diluted (m)	269.9
Market cap ful. dil. (A\$m)	106.6
Free float	42.0%
12-months low/high (A\$)	0.085/0.440
Avg. daily volume ('1000)	114.8
Website	intelligentmonitoringgroup.com

Source: Company, Pitt Street Research

Share price (A\$) and avg. daily volume (k, r.h.s.)



Source: S&P Capital IQ, Pitt Street Research

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Intelligent Monitoring Group is Australasia's largest independent security monitoring service provider.

Re-Introduction to Intelligent Monitoring Group (ASX: IMB)

Intelligent Monitoring Group is Australasia's largest independent security monitoring service provider. The company offers A1-graded monitored security, and fire and IoT solutions that ensure the safety and protection of over 200,000 commercial and residential customers from three control rooms in Australia and one in New Zealand.

The company operates through three business segments – **Monitoring, Protective Services, and Services** which have been explained below:

1. Monitoring

Intelligent Monitoring Group provides 24-hour monitored home security systems with a premium alarm system technology. The company provides security monitoring services through wholesale monitoring and its direct brand. Between wholesale and direct businesses, the company's key focus is on premier wholesale business. Intelligent Monitoring Group works with over 30% of the 2,000 active resellers in Australia to provide focussed and independent services as well as new products such as video surveillance, asset monitoring and personal protection. The company aims to grow its lines and penetration of devices through relationships with new resellers as well as growth of its existing resellers.

Intelligent Monitoring Group provides monitoring services primarily through its monitored security and safety brand, Monitoring Excellence. The brand is a national provider of electronic security monitoring services attributable to A1-graded electronic system monitoring, extensive monitoring capability and capacity, rapid and flexible response and service, business development tools and assistance for resellers, and complimentary software solutions. We believe that Monitoring Excellence is well positioned for growth fuelled by state-of-the-art monitoring infrastructure, professional quality control, and response procedures. It is one of the most extensive, reliable, and progressive provider of electronic monitoring services to homes, businesses, and government agencies in Australia.

Intelligent Monitoring Group has worked on several initiatives to improve its monitoring platform. In FY21, the company collaborated with Icetana¹ to conduct a pilot study, which enabled the company to present an increased level of effectiveness in monitoring of assets and operational efficiencies. In FY23, the company successfully completed the merger of its two principal control rooms and delivered a priority alarm response time placing it ahead of its nearest like sized competitors and among the fastest globally. Furthermore, the company upgraded its existing platform to the new Patriot operating platform which enabled it to ensure enhanced customer experience and access new growth opportunities.

¹ Icetana provides video analytics solutions designed for the automatic identification of anomalous actions in real time for large scale surveillance networks.



2. Protective Services

Intelligent Monitoring Group provides personnel and monitoring services to select customers. Security personnel services range from personal protection for travelling executives to security officers providing protection to retail employees. The services include the following:

- **Security officers**

These include officers in a patrolling or static role. The security officers cater to large industrial complexes, hospitals, mines, sites, and retail chains.

- **Close Personal Protection (CPP)**

CPP forms a key part of a security management plan when a threat is perceived to exist for specific individuals.

- **Concierge**

The company provides concierge personnel who provide a security presence as well as reception services including access control, alarm or emergency response, coordination of emergency procedures, management and supervision of contractors as well as programmed, scheduled, and synchronised checks and reporting.

- **Secure transport**

The group provides secure personal delivery and transportation service performed by highly trained security operatives. One is assured of confidentiality and reliability when a package handled by multiple employees is left unattended.

3. Services

This segment provides alarm and video installation, and maintenance services. Its personal solutions include monitored security systems, intruder detection, and safe@home. Its business solutions include business security, security and risk consultancy, monitored security systems, security personnel and case studies.

A key offering of the services segment is a personal monitoring system, safe@home. The innovative system acts as a personal alarm with an optional fail detector providing users peace of mind in case of an emergency. It can be worn as a pendant on the watch, clip-on or in the form of a necklace. One can press the emergency button on the pendant when in distress. The emergency button connects to a base station installed at home and signals for assistance. The base station acts as a handsfree phone connecting the user to the monitoring control centre where the appropriate response can be made.



Intelligent Monitoring Group

IMG's acquisitions and strategic partnerships have placed it on an exponential growth trajectory

Intelligent Monitoring Group has entered into several acquisitions and partnerships in the past few years. The noteworthy acquisitions include Advanced Inland Security (AIS) in February 2022, Mammoth Technology Group (MTG) in July 2022, Monitored 24/7 in January 2023, Bellrock in April 2023, and Tyco Australia Group (ADT) in August 2023. Among these, the acquisition of ADT represents the greatest milestone for the company.

Intelligent Monitoring Group has also entered in collaborations with Icetana in December 2021 and Tasmania Combined Monitoring (TCM). The deal with TCM in May 2023 is likely to enable the company to take over 1,600 new lines and alarms, which are serviced and owned by various TCM's bureau customers. The agreement is likely to result in addition of A\$250,000 p.a. of recurring revenue to Intelligent Monitoring Group.

ADT – the most compelling deal of all

In August 2023, Intelligent Monitoring Group acquired all shares in ADT for A\$45m. ADT is a leading security provider offering installations of security systems as well as maintenance and monitoring services to residential, commercial, and medical customers in Australia and New Zealand.

The ADT deal is highly accretive to the company due to the following reasons:

- The acquisition transitioned the company from being the third largest independent monitoring services provider to the number one independent player in this market.
- Added material size and scale (resulted in the adding of 340 staff and A\$95m in revenue and taking monitored security lines from 70,000 to around 180,000) to the combined business.
- Improved recognition for Intelligent Monitoring Group, as ADT is the only globally known security brand in its portfolio.
- Added a DIY home security solution to the group's product portfolio. The solution is the only alarm package that offers both full monitoring and self monitoring services.
- Deleveraged the balance sheet by providing a pathway to investment grade credit rating and allowed the company to refinance its debt.

We believe that the acquisition of ADT's Australian and New Zealand businesses was the most significant step the company took to to further enhance the scale and reach of its business. The acquisition will facilitate - and evidently already is facilitating - Intelligent Monitoring Group to lead the market with the introduction of enhanced monitoring services and more financially accessible products to the existing and future customer bases.

ADT's acquisition elevated Intelligent Monitoring Group to the number one position in the security monitoring market in Australasia



A glance at Intelligent Monitoring’s 1HY24 results

Q2 2024 represents the first quarter of the ADT acquisition. Revenue increased from A\$3.9m in Q2 2023 to A\$30.4m in Q2 2024 and EBITDA increased from A\$2.0m in Q2 2023 to A\$8.9m in Q2 2024.

In H1 2024, the revenue increased from A\$11.6m in H1 2023 (Pre ADT acquisition) to A\$55.7m in H1 2024 (with five months of impact of ADT acquisition) with A\$41m being the recurring revenue. The increase in revenue was mainly attributable to a strong contribution from ADT AU’s commercial operations. Adjusted EBITDA excluding acquisition costs increased from A\$1.7m in H1 2023 (Pre ADT acquisition) to A\$10.7m in H1 2024 (with five months of ADT acquisition). The adjusted EBITDA reflected some of the targeted gains and business improvement initiatives while also making reinvestments in insourced staff in technical services. The acquisition and integration costs have been excluded from the reported financials to better understand the economic power of the business (Figure 1 and Figure 2).

Figure 1: Revenue increased sharply from H1 2023 to H1 2024

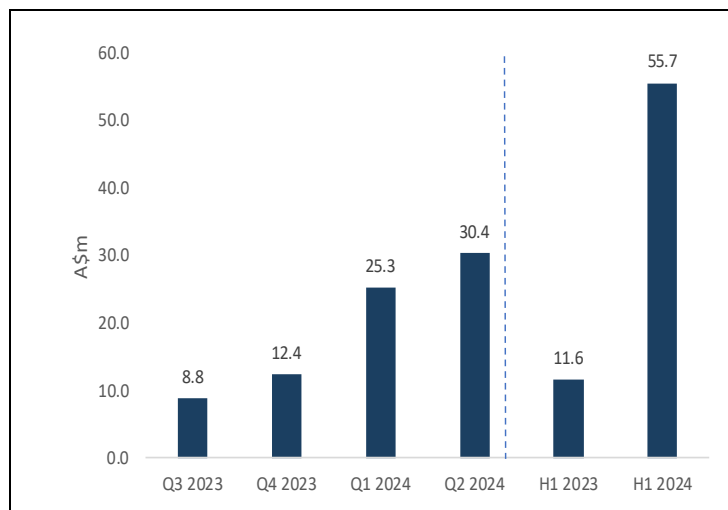
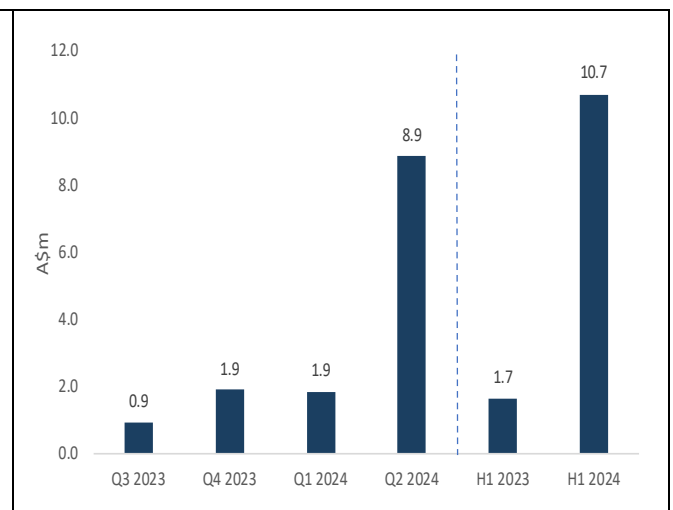


Figure 2: ADT acquisition resulted in a strong uplift in EBITDA from H1 2023 to H1 2024



Source: Company, Pitt Street Research

The company’s balance sheet has been reset and stabilised with net debt corresponding to 2.2x on FY24 EBITDA guidance (for full period equivalent of ADT)

The company’s balance sheet has also been reset and stabilised with a cash position of A\$8.9m, gross debt of A\$75.8m and net debt of A\$66.9m. The net debt corresponds to 2.4x (on an actual H1 2024 annualised basis) or 2.2x on FY24 EBITDA guidance (for full period equivalent of ADT).

Intelligent Monitoring Group also registered a strong pick up in free cash flow which however was impacted by the acquisition of ADT, restructuring costs and short-term working capital changes due to deal closure and transition from the former owner’s systems. Restructuring costs outside of the ADT acquisition relate to priorly committed systems and non-medical alarm products and 4G upgrade units. Medical capex is an ongoing feature of the business. Medical revenues have a higher value and are backed to a great extent by government funding mainly in New Zealand. The 3G to 4G programme is also likely to be completed in both Australia and New Zealand within the next 12 months. Additionally, a substantial chunk of work was gained under the old economic model which heavily subsidised new customer



Intelligent Monitoring Group

installations. This resulted in capex being higher than normal in the first few months of the company’s ownership and amid the transition from 3G to 4G. Going forward, we believe that capex is likely to generate a positive return on investments compared to the prior ownership model, with non-medical alarm capex likely to reduce with the conclusion of the 3G transition (Figure 3).

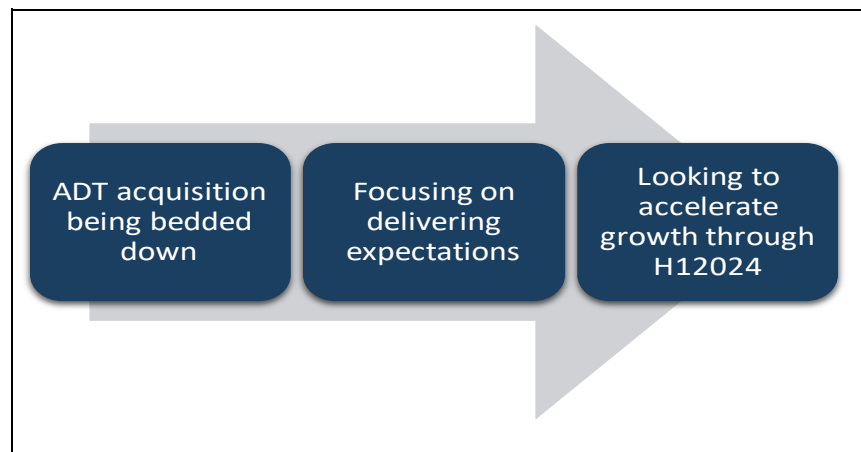
Figure 3: Cash flow summary

		ADT AU	ADT NZ (A\$0.94)	ADT Medical
August	\$0.0	1038.2	465.7	326.4
September	\$0.0	1343.2	435.3	290.6
October	\$0.0	987.9	375.5	373.1
November	\$0.0	616.2	87.9	376.7
December	\$0.0	367.1	168.6	441.3
Expected monthly capex medical				340

Source: Company, Pitt Street Research

Intelligent Monitoring Group continues to trade at or ahead of its guided EBITDA forecast of A\$31m (annualised for 12 months of ADT) for FY24 five months into the financial year (with 4 months of ADT’s contribution). Going forward, the company is likely to be ready with a new and refreshed team with a refreshed and leading product set which is likely to be delivered through one of the only truly globally known security brands operating in Australasia (Figure 4).

Figure 4: Significant progress in the first five months of ADT acquisition



Source: Company, Pitt Street Research



Intelligent Monitoring Group’s operational strategy

ADT’s operational strategy entails driving the residential security service penetration through DIY security offers, rebuilding of the commercial market position and simplifying the business

The market for security systems is currently underpenetrated as compared to rest of the world. Security services are akin to financial services with people and businesses needing quality advice (mainly at times of escalating crimes and threats) due to there being no household names in the space currently.

Against this backdrop, the company is likely to focus on three key strategies entailing rebuilding the commercial market position, driving the residential security service penetration through DIY security offers and simplification of the business (Figure 5).

Figure 5: Operational strategy has a host of benefits

Strategy	Details
Residential: Do-it-yourself Business	<ul style="list-style-type: none"> • Currently, the ADT business largely resells wired security panels. • In February 2024, ADT launched the Sybersense ADT Home Secure package. This is the first iPhone-quality self-installed security system in large-scale release in Australasia and marks a new era for home and small business monitored security in the two countries. This new service is likely to be launched by ADT New Zealand in late March in New Zealand. • This has largely driven market growth in the US in the past five years and is yet to drive market growth in Australia.
Rebuilding the commercial market position	<ul style="list-style-type: none"> • In late 2020, ADT made its exit from commercial security installations. • One of the key operational strategies of the company is the reboot of the commercial installation and service business of ADT. The reboot provides highly advanced systems of access control security using the lightest technology in corporate Australia and New Zealand. • ADT currently has close to 4000 remaining commercial customers. • Intelligent Monitoring Group has recommenced marketing and sales for new commercial customers. The company’s initial focus is likely to be on re-engagement with existing customers to provide servicing, maintenance work and system upgrades.
Simplification of the business	<ul style="list-style-type: none"> • The third component of the operational strategy includes simplification of the business with focus on processes. • This includes a focus on streamlining overheads and sales, monitored centres and operators, and consolidation of suppliers and logistics. • Immediate cost synergies have been identified and pursued. • Prime savings are likely to stem from unwinding to a focussed single service provider off shared costs of a former global multinational business owner.

The separation of ADT’s businesses will bode well for growth prospects

The acquisition of Securely by ADT New Zealand is likely to bolster the RMR of the New Zealand business in Q3 2024

In H1 2024, Intelligent Monitoring Group separated the Australian and New Zealand (NZ) businesses. ADT NZ delivered a key update in Q2 2024. It acquired Securely (NZ) (which had been delayed earlier). As a result, security customers of Securely (NZ) are likely to be welcomed to the ADT family. We believe that the lift in the Recurring Monthly Revenue (RMR), stemming from the Securely acquisition, is likely to provide a boost to the New Zealand business in Q3 2024.



Shift towards new growth areas will boost revenue

With the realisation of ADT transaction and refinancing costs, the company is likely to turn its focus to driving cash flows, debt reduction, building for growth into FY25 and refinancing its balance sheet to lower cost funding. With a guaranteed 18 months of interest owing to its debt holders, the likely window could open at the end of the year with a refinancing announced early in 2025 and completed by February 2025. Once the refinancing has been undertaken, the company aims to review its capital management policy. It is likely to become a strong cash flow generating business and a good dividend payer. Meanwhile, the company retains its focus on meeting its FY24 targets while also building a strong outlook to accelerate business in FY25.

In FY25, the company intends to move its focus to three growth engines – ADT Commercial, ADT DIY and ADT Care.

ADT Commercial

Since August 2023, Intelligent Monitoring Group has disclosed significant progress in ADT's commercial operations. The company has introduced significant structural changes within operations in terms of team alignment and refocussing with several new team hires. Intelligent Monitoring Group replaced outsourced technical staff with highly skilled and credentialed technicians in the past three months.

The early success of this strategy has also been highlighted through anticipated new product launches including Gallagher SMB² and Sybersense. Additionally, the company secured a significant work order by a major mining company worth A\$1.9m to be delivered by March 2024. This assignment is with an ADT client and reflects the company's commitment to deliver high-quality commercial work. This was further substantiated by work worth of A\$346,867 secured in November 2023. The division has an estimated annual revenue potential of \$120m, following a prior peak in 2013 (before the wind down).

We believe that with the incumbent knowledge and processes to deliver scaled commercial work, Intelligent Monitoring Group is right to be optimistic regarding the growth potential of the division over the next few years.

ADT DIY

DIY home security solutions have the potential to become an important market trend as in other jurisdictions, and this places Intelligent Monitoring Group in an ideal position to capitalise. Introduction of DIY alarm installation kits have significantly reduced the upfront cost of a home security system. In H1 2024, Intelligent Monitoring Group has identified several cost-effective white-label products for installation of DIY products.

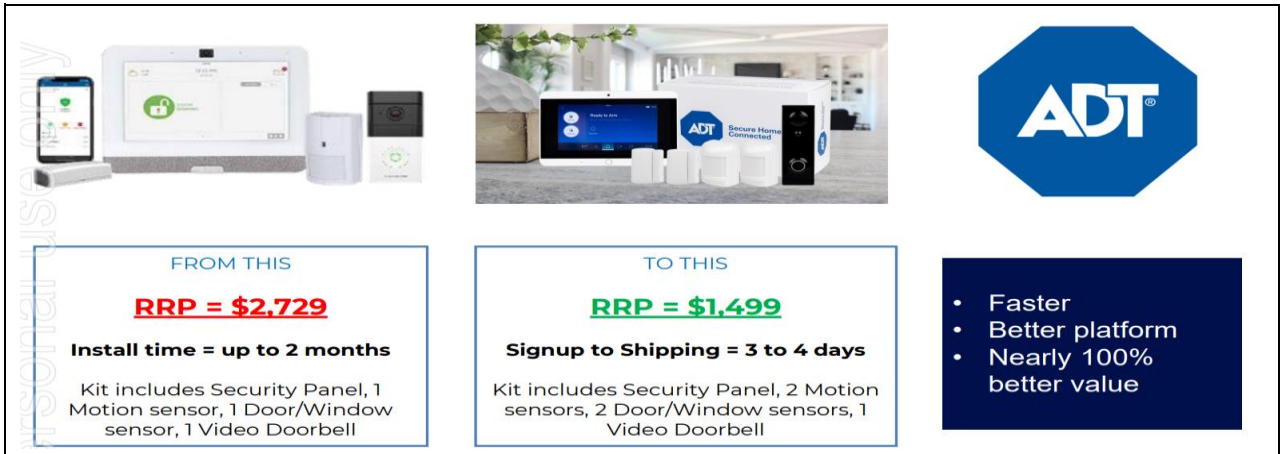
The division has an estimated annual revenue potential of \$350m from the Foxtel subscriber base (40%) with ADT attracting 50% of the market (Figure 6).

Intelligent Monitoring Group remains optimistic over the growth potential of the ADT Commercial growth engine in the near term

² Gallagher's cloud-based SME solution extends beyond the conventional solutions and enables businesses to harness their potential and take charge of their security.



Figure 6: DIY Security has arrived



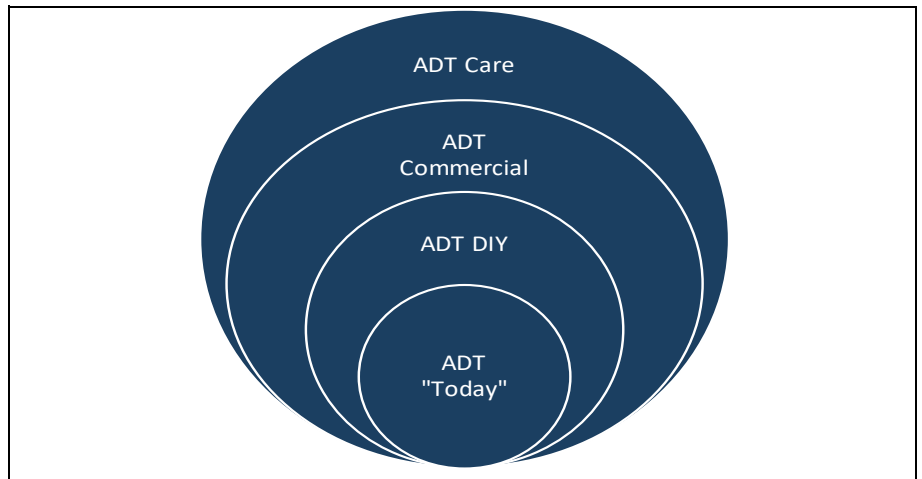
Source: Company

ADT Care

Intelligent Monitoring Group has created a standalone division inside ADT Australia – ADT Care. This division will run separately from the ADT security monitoring centre and focus on stand-alone care procedures. The company intends to introduce next-generation quality of care and service to the aged care and aging market through this division.

The division has an estimated annual revenue potential of \$75m from the Home care, Retirement and Nursing Home markets (Figure 7).

Figure 7: Intelligent Monitoring Group has identified three growth areas



Source: Company, Pitt Street Research



We reiterate our target valuation of A\$0.569 in our base case and A\$0.748 in our bull case.

Our valuation of Intelligent Monitoring Group

In our December 2023 report, we valued Intelligent Monitoring Group using a combination of Discounted Cash Flow (DCF) and relative valuation (50% each) methods to arrive at the intrinsic value of the company. We reiterate our target valuation of A\$0.569 per share in our base case and A\$0.748 per share in our bull case. With the strong growth opportunity, effect of the ADT acquisition kicking in and introduction of the new growth area 'ADT Care', the valuation looks reasonable and achievable (Figure 8).

Figure 8: Composite valuation for Intelligent Monitoring Group

BASE CASE		
Base Case	Weights (%)	Share price (A\$)
DCF	50.0%	0.651
Relative valuation	50.0%	0.488
Composite Value		0.570
Current Price		0.395
Upside/ Downside (%)		44.3%
BULL CASE		
Bull Case	Weights (%)	Share price (A\$)
DCF	50.0%	0.940
Relative valuation	50.0%	0.567
Composite Value		0.753
Current Price		0.395
Upside/ Downside (%)		90.6%

Estimates: Pitt Street Research

Catalysts for a re-rating of Intelligent Monitoring Group

Notwithstanding progress made since our initiation report, the stock is still trading below our valuation range. We believe the following factors can contribute to the re-rating of the stock in the direction of our valuation range:

- The company has projected combined revenue (including ADT) of approximately A\$147m and EBITDA of A\$31m for FY24. If the management is successful in achieving or surpassing these targets, it will serve as a catalyst for the stock.
- Future acquisitions that can be as value-accretive as ADT has been - this would help attract greater investor attention.



Key risks

We foresee following key risks to our investment thesis for Intelligent Monitoring Group:

- **Competitive risk:** The company is in a highly competitive market that requires constant innovation. There is the risk of major competitors seizing the group's market share through the development of superior products and/or by causing pricing pressure in the market.
- **Regulatory risk:** The company is subject to several Australian laws and regulations, such as consumer protection laws, privacy laws, and workspace health and safety laws. Any instance of a critical regulatory lapse in future could have an impact on the company's future product line and its cashflows.
- **Key personnel risk:** The company's performance is highly dependent on its management team and staff. There is the risk that the company could lose these individuals and be unable to replace them and/or their contribution to the business.
- **Cost pressures:** The demand for security products is running ahead of the ability to install alarms. And so, wage inflation can be a threat to the company. This risk is mitigated to a certain extent for the group as it has started focusing more on DIY product categories.
- **Value-destroying acquisitions:** Intelligent Monitoring Group has relied on acquisitions to grow its scale and it is likely that the management will continue to follow this target in future. There is the risk that the company may enter into deals that do not yield the desired benefits and also negatively impact its capital structure and shareholder wealth.



Appendix I – Analyst certification

Stuart Roberts, lead analyst on this report, has been an equities analyst since 2002.

- Stuart obtained a Master of Applied Finance and Investment from the Securities Institute of Australia in 2002. Previously, from the Securities Institute of Australia, he obtained a Certificate of Financial Markets (1994) and a Graduate Diploma in Finance and Investment (1999).
- Stuart joined Southern Cross Equities as an equities analyst in April 2001. From February 2002 to July 2013, his research speciality at Southern Cross Equities and its acquirer, Bell Potter Securities, was Healthcare and Biotechnology. During this time, he covered a variety of established healthcare companies, such as CSL, Cochlear and Resmed, as well as numerous emerging companies. Stuart was a Healthcare and Biotechnology analyst at Baillieu Holst from October 2013 to January 2015.
- After 15 months over 2015–2016 doing Investor Relations for two ASX-listed cancer drug developers, Stuart founded NDF Research in May 2016 to provide issuer-sponsored equity research on ASX-listed Life Sciences companies.
- In July 2016, with Marc Kennis, Stuart co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including Life Sciences companies.
- Since 2018, Stuart has led Pitt Street Research's Resources Sector franchise, spearheading research on both mining and energy companies.

Nick Sundich is an equities research analyst at Pitt Street Research.

- Nick obtained a Bachelor of Commerce/Bachelor of Arts from the University of Sydney in 2018. He has also completed the CFA Investment Foundations program.
- He joined Pitt Street Research in January 2022. Previously he worked for over three years as a financial journalist at Stockhead.
- While at university, he worked for a handful of corporate advisory firms.

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The analyst has received assistance from the company in preparing this document. The company has provided the analyst with communication with senior management and information on the company and industry. As part of due diligence, the analyst has independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in the report. Diligent care has been taken by the analyst to maintain an honest and fair objectivity in writing this report and making the recommendation.