



Aug 09, 2022

Consumer

KNDI

NGS

Rating

Outperform

Unchanged

Current Price

\$2.54

Target Price

\$5.00

Market Capitalization

192.29M

Shares Outstanding

75.70M

Float

61.14M

Institutional Holdings

15.6%

12-Month Low/High

\$2.12/\$5.60

Average 90-Day Volume

262260

Fiscal Year End

12/31/2022

Kandi Technologies Group, Inc.

The shift towards off-road vehicles accelerates

Off-road vehicle sales rose 80% as the company continues to shift towards golf carts, go-karts, and ATVS. Off-road vehicle sales carry higher gross margins (10-15%) than other businesses. Management indicates that crossover golf carts delivered from the factory have increased from dozens in March 2022 to more than 2,000/month. Management believes the off-road market could be a \$2.2 billion market by 2028, demonstrating 19% annual growth. Kandi plans on introducing new models this fall to stay ahead of demand. Battery sales (following an acquisition earlier this year) were also strong and contributing to profitability.

Kandi is deemphasizing the electric vehicle market and seeing a slow down in scooters/bikes. Management continues to believe the EV market is currently too competitive stating that competitors are losing up to \$10,000/vehicle to gain market share. Scooters/bikes sales, which were especially strong during COVID, declined 90% year over year as demand for the product drops.

There was a big drop in R&D spending. R&D spending, which was \$39 million in 2021, has declined to a level of \$1.2 million each of the last two quarters. We believe the decline reflects the company's shift towards electric off-road vehicles and away from EV sales and battery swap technology. The decline has made the company's pathway to positive cash flow and earnings a simpler one. We believe profitability could come as early as 2024 should off-road and battery sales continue at the current pace.

And of course, there still is that large cash position and questions about share repurchasing. Cash and CDs totaled \$232 million, or more than \$3 per share. The cash position rose 7% during the quarter due to working capital adjustments, primarily a large increase in accounts payable. Kandi has a share buyback program in place, but its level of activity (less than \$2 million per quarter) is modest. With the stock price trading below the level of cash per share, investors continue to push management toward increased repurchases.

We view the shift in production favorably and reiterate our Outperform rating and \$5 price target.

Equity Research

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**Refer to the last two pages for
Analyst Certification & Disclosures**

Revenues (\$ MIL)

Period	2021 A	2022 E	2023 E
Q1	\$16.0 A	\$24.9 A	
Q2	\$29.9 A	\$20.8 A	
Q3	\$17.0 A	\$29.3 E	
Q4	\$28.8 A	\$40.4 E	
	\$91.5 A	\$115.5 E	\$145.3 E

EPS (\$)

Period	2021 E	2022 E	2023 E
Q1	(\$0.08) A	(\$0.02) A	
Q2	\$0.54 A	(\$0.02) A	
Q3	(\$0.10) A	(\$0.03) E	
Q4	(\$0.09) A	(\$0.04) E	
	(\$0.26) A	(\$0.11) E	(\$0.01) E

Company Profile

Kandi Technology (China) is engaged in the development, production, and distribution of electric transportation devices and associated parts. Kandi provides a variety of electric products including electric cars, ATVs, go-carts, scooters, and bikes. In addition, the company has signed partnership agreements connected to ride sharing and battery exchange programs that promote the use of electric cars. Kandi is headquartered in China (58% of sales in the most recent quarter) but has operated in the United States since 2019. The shares of Kandi Technologies trade on the NASDAQ exchange under the symbol KNDI. As of November 3, 2021, there were 77.4 million diluted common shares outstanding, and the current market capitalization is approximately \$250 million.

Fundamental Analysis – 2.5 / 5.0 Checks

Our fundamental assessment rating, separate from our investment rating and valuation, is based on five attributes consisting of corporate governance/management, market opportunity, competitive position, operating leverage, and financial leverage. We assign 2.5 checks out of 5.0 checks, which falls within our "Average" range. The company's corporate governance practices are average with a limited external oversight of management (four of seven board members are independent) offset by a large management ownership position. We view Kandi's market opportunity favorably given expected above-average top-line growth for its business segments. Kandi's competitive position is somewhat challenged given its small size relative to competitors. However, it has distinguished itself as a prominent player in several niches of the electric transportation market. Operating leverage is below average given recent operating and cash losses (absent nonrecurring gains). Financial leverage is favorable due to the company's strong balance sheet. For further explanation of our fundamental analysis, refer to the disclosures at the end of this report.

Valuation Summary

We rate the shares of Kandi as OUTPERFORM at prices below our twelve-month price target of \$5.00 per share. Our price target is based on a two-stage discounted cash flow analysis that projects cash flow for the next five years and then assumes a long-term growth rate of 3%, in line with our assumed long-term rate of inflation. Projected cash flow is discounted back at a weighted average cost of capital of 14%, which is based on an assumed cost of debt of 10% and a cost of equity of 18%. Discounted cash flow is then adjusted for estimated cash and debt outstanding and then divided by diluted shares outstanding at the end of twelve months.

Risks to achieving our price target include but are not limited to the following:

- Kandi's success depends on its ability to protect its core technology and intellectual property. Technological advances by competitors could affect future sales.
- Kandi is a small player in a space dominated by larger players showing increasing interest in developing EV technology and manufacturing capabilities.
- Future sales are highly dependent upon customers' adoption of electric cars and other electric transportation devices.
- The company could face product liability claims or recalls. Kandi vehicles make use of lithium-ion cells, which have the potential to catch fire or vent smoke and flame.
- Sales are concentrated among a small number of customers. The loss of one or more of the company's largest customers would have an adverse effect on sales and profitability. Similarly, Kandi is reliant on key suppliers for its parts and the loss of a large supplier could negatively affect results.
- Short-seller interest and activity could affect the stock price. In the past, a firm holding a short position in the stock issued a report questioning the validity of recorded sales and other aspects of Kandi's operations (see section entitled short seller report). Further actions by short sellers could have an adverse impact on Kandi's stock price.

Ratios	2017	2020	Mar	June	Sep	Dec	2021	Mar	June	Sep	Dec	2022E	2023E
Gross Bookings Backlog							95.0%						
Revenues													
Other	4,818	47,526	7,867	6,181	7,060	11,562	32,670	10,736	10,446				
China	97,988	29,394	8,110	23,695	9,735	17,275	58,816	14,155	10,395				
	102,806	76,921	15,978	29,876	16,796	28,837	91,486	24,891	20,841				
Revenues													
Unrelated parties	9,853	76,177	15,976	29,876	16,796								
Affiliated company	92,952	744	2	-	-								
	102,806	76,921	15,978	29,876	16,796								
Revenues													
EV Parts		40,650	6,368	6,680	3,167	9,133	25,348	3,668	589	3,167	9,133	16,556	16,556
EV Products		680	121	610	329	418	1,479	340	2,487	329	418	3,574	3,574
Off-road Vehicles		29,820	5,619	5,470	6,848	11,399	29,337	10,714	10,092	7,533	12,539	40,878	60,324
Electric Scooters		5,770	3,869	16,530	6,276	3,344	30,018	2,127	1,217	6,276	3,344	12,964	12,964
Battery	100%	-	-	-	176	5,129	5,305	8,017	6,457	12,000	15,000	41,474	51,842
Total Revenues		76,921	15,978	29,876	16,796	29,423	91,486	24,866	20,841	29,304	40,434	115,446	145,260
COGS													
EV Parts								(3,328)	(492)	(2,850)	(8,220)	(14,890)	(14,665)
EV Products								(320)	(2,337)	(309)	(393)	(3,359)	(3,360)
Off-road Vehicles								(9,288)	(8,210)	(6,403)	(10,658)	(34,560)	(50,981)
Electric Scooters								(1,855)	(1,139)	(5,875)	(3,130)	(11,999)	(11,928)
Battery								(7,713)	(5,943)	(11,046)	(13,807)	(38,509)	(48,258)
Total COGS		(63,433)	(11,623)	(23,778)	(14,046)	(25,791)	(75,239)	(22,504)	(18,122)	(26,483)	(36,208)	(103,318)	(116,208)
Gross Margins													
EV Parts								340	97	317	913	1,666	1,891
EV Products								20	149	20	25	214	214
Off-road Vehicles								1,426	1,882	1,130	1,881	6,318	9,343
Electric Scooters								272	78	401	214	964	1,036
Battery								304	514	954	1,193	2,965	3,584
Total Gross Margins		13,488	4,354	6,098	2,750	3,632	16,834	2,362	2,719	2,822	4,226	12,128	29,052
Margins													
EV Parts								9.3%	16.4%	10.0%	10.0%	11.4%	11.4%
EV Products								6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Off-road Vehicles								13.3%	18.6%	15.0%	15.0%	15.5%	15.5%
Electric Scooters								12.8%	6.4%	6.4%	6.4%	8.0%	8.0%
Battery								3.8%	8.0%	8.0%	8.0%	6.9%	6.9%
Gross Margins		17.5%	27.3%	20.4%	16.4%	12.3%	20.0%	9.5%	13.0%	9.6%	10.5%	20.0%	20.0%
Annual Growth Rates													
EV Parts		-63.3%	206.0%	-46.6%	-62.5%	-48.2%	-37.6%	-42.4%	-91.2%	0.0%	0.0%	-33.4%	0.0%
EV Products		518.2%	-46.2%	-131.9%	-36.2%	-77.4%	117.4%	179.8%	307.6%	0.0%	0.0%	121.9%	0.0%
Off-road Vehicles		31.1%	39.2%	-16.6%	-22.6%	9.9%	-1.6%	90.7%	79.6%	10.0%	10.0%	47.6%	47.6%
Electric Scooters		161.1%	#DIV/0!	4491.7%	589.1%	-25.7%	420.2%	-45.0%	-92.6%	0.0%	0.0%	-34.4%	0.0%
Battery		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	#DIV/0!	25.0%
Total		-43.3%	-50.7%	87.0%	-43.8%	75.2%	182.4%	55.6%	-30.2%	74.5%	37.4%	34.3%	25.8%

\$ thousand

Income Statement	2017	2018	2019	2020	Mar	June	Sep	Dec	2021	Mar	June	Sep	Dec	2022E	2023E
Income Statement															
Revenues															
Total Revenues	112,439	135,741	76,921	15,978	29,876	16,796	28,837	91,486	24,891	20,841	29,304	40,434	115,471	145,260	
Cost of Goods Sold	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total COGS	(92,191)	(110,310)	(63,433)	(11,623)	(23,778)	(14,046)	(25,791)	(75,239)	(22,504)	(18,122)	(26,483)	(36,208)	(103,318)	(116,208)	
Gross Margin	20,247	25,431	13,488	4,354	6,098	2,750	3,046	16,248	2,387	2,719	2,822	4,226	12,154	29,052	
Operating Expenses															
Research and Development	(10,084)	(6,208)	(7,246)	(21,625)	(3,565)	(6,748)	(7,035)	(38,972)	(1,141)	(1,254)	(1,254)	(1,254)	(4,902)	(4,902)	
Selling, general and admin.	(11,801)	(18,314)	(19,661)	(5,577)	(6,417)	(5,022)	(7,326)	(24,341)	(6,950)	(7,747)	(5,273)	(7,692)	(27,662)	(29,045)	
Total Operating Expenses	(21,886)	(24,521)	(26,908)	(27,202)	(9,982)	(11,769)	(14,360)	(63,313)	(8,091)	(9,000)	(6,526)	(8,946)	(32,564)	(33,947)	
Operating Income (Loss)	(1,638)	910	(13,420)	(22,847)	(3,884)	(9,020)	(11,314)	(47,066)	(5,704)	(6,282)	(3,705)	(4,720)	(20,410)	(4,895)	
Other Income (Loss)	4,261	(4,760)	(462)	16,211	51,867	664	899	69,641	2,978	2,446	-	-	5,424	-	
Interest Income (Expense)	(547)	(4,031)	(1,560)	402	896	1,184	1,319	3,801	1,074	1,240	896	1,184	4,395	3,801	
Pretax Operating Inc.	2,076	(7,881)	(15,441)	(6,234)	48,879	(7,172)	(9,097)	26,376	(1,652)	(2,595)	(2,809)	(3,536)	(10,592)	(1,094)	
Income Taxes Expense (Gain)	(7,771)	692	5,047	(169)	(7,949)	(697)	2,469	(6,346)	33	720	421	530	1,704	164	
Tax Rate	-374%	-9%	-33%	3%	-16%	10%	-27%	-24%	-2%	-28%	-15%	-15%	-15%	-15%	
Discontinue/Smooth	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Foreign Currency Translation Adj	(13,610)	(2,802)	13,945	(1,176)	4,875	(116)	5,447	9,030	-	-	-	-	-	-	
Earnings for Common	(19,305)	(9,991)	3,551	(7,579)	45,804	(7,985)	(1,181)	29,060	(1,619)	(1,876)	(2,387)	(3,006)	(8,888)	(930)	
Avg. Common Shares	51,189	52,337	55,960	75,384	75,511	76,395	77,500	77,500	75,384	75,863	77,500	77,500	77,500	77,500	
Diluted Common Shs end	51,189	52,337	55,960	75,384	75,511	77,500	77,500	77,500	75,384	75,863	77,500	77,500	77,500	77,500	
Earnings Per Share															
June Quarter				\$ (0.08)											
September Quarter					\$ 0.54										
December Quarter															
March Quarter	\$ -	\$ (0.14)	\$ (0.19)			\$ (0.10)	\$ (0.09)	\$ 0.26	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.11)	\$ (0.01)	
Reported EPS	\$ (0.11)	\$ (0.14)	\$ (0.19)	\$ (0.08)	\$ 0.54	\$ (0.10)	\$ (0.09)	\$ 0.26	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.11)	\$ (0.01)	
Adjustments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Adjusted EPS	\$ (0.11)	\$ (0.14)	\$ (0.19)	\$ (0.08)	\$ 0.54	\$ (0.10)	\$ (0.09)	\$ 0.26	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.11)	\$ (0.01)	
Statistics															
EBITDA	(6,375)	2,911	9,189	(5,576)	56,494	(5,999)	(1,791)	43,129	592	(66)	(1,232)	(1,542)	(3,463)	6,629	
EBITDA Per Share	\$ -	\$ 0.06	\$ 0.16	\$ (0.07)	\$ 0.75	\$ (0.08)	\$ (0.02)	\$ 0.56	\$ 0.01	\$ (0.00)	\$ (0.02)	\$ (0.02)	\$ (0.04)	\$ 0.09	



Kandi Technologies Group, Inc. (KNDI) | Current Price: \$2.54 | Outperform | Aug 09, 2022

Cash Flow	2017	2018	2019	2020	Mar	June	Sep	Dec	2021	Mar	June	Sep	Dec	2022E	2023E
Net Income	(5,695)	(7,189)	(10,394)	(6,403)	40,929	(7,869)	(3,794)	22,864	(1,619)	(1,876)	(2,387)	(3,006)	(8,888)	(930)	
Depreciation/Depletion	4,326	8,203	8,223	2,213	2,230	2,450	3,146	10,039	3,294	3,153	2,450	3,146	10,039	10,039	
Share-based Compensation	286	1,360	903	23	1,407	23	32	1,485	23	617	23	32	1,485	1,485	
Other	19,295	6,591	(1,859)	(15,478)	(47,937)	(3)	1,922	(61,496)	(2,686)	275	-	-	-	-	
Total Cash from Oper.	18,212	8,966	(3,128)	(19,645)	(3,371)	(5,399)	1,306	(27,109)	(987)	2,169	85	172	2,636	10,594	
Changes in Working Cap	(4,625)	(38,852)	(47,756)	13,627	(2,274)	(2,371)	18,368	27,350	7,176	14,746	-	-	-	-	
Net Cash From Oper.	13,588	(29,886)	(50,883)	(6,017)	(5,645)	(7,770)	19,674	242	6,188	16,915	85	172	2,636	10,594	
Maintenance Capital				-	-	-	-	-	-	-	-	-	-	-	
Free Cash Flow	13,588	(29,886)	(50,883)	(6,017)	(5,645)	(7,770)	19,674	242	6,188	16,915	85	172	2,636	10,594	
PV of Cash Flow									6,188	16,915	85	172	2,636	9,598	
								-							
Cash From Investing	(947)	31,253	51,151	11,130	4,953	13,979	(7,851)	22,210	(16,716)	(6,702)	-	-	-	-	
Cash From Financing															
Issue of Common Stock	-	(2,493)	181,083	-	-	-	(2,413)	(2,413)	(1,584)	(1,997)	-	-	-	-	
Net Debt Issues	(5,298)	(4,488)	(54,637)	-	250	2,380	531	3,161	1,304	(804)	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	787	-	-	-	-	
Net Cash From Finance	(5,298)	(6,981)	126,446	-	250	2,380	(1,882)	748	(280)	(2,013)	-	-	-	-	
Effect of Exchange Rate Changes	(1,100)	(226)	(707)	(438)	998	431	1,965	2,956	352	(7,087)					
Surplus/Deficit	6,243	(5,840)	126,008	4,674	556	9,019	11,906	26,155	(10,455)	1,113	85	172	2,636	10,594	
Beginning Cash Levels	16,110	22,353	16,513	142,521	147,195	147,751	156,770	142,521	168,676	158,221	159,334	159,419	168,676	171,312	
Ending Cash Levels	22,353	16,513	142,521	147,195	147,751	156,770	168,676	168,676	158,221	159,334	159,419	159,592	171,312	181,906	



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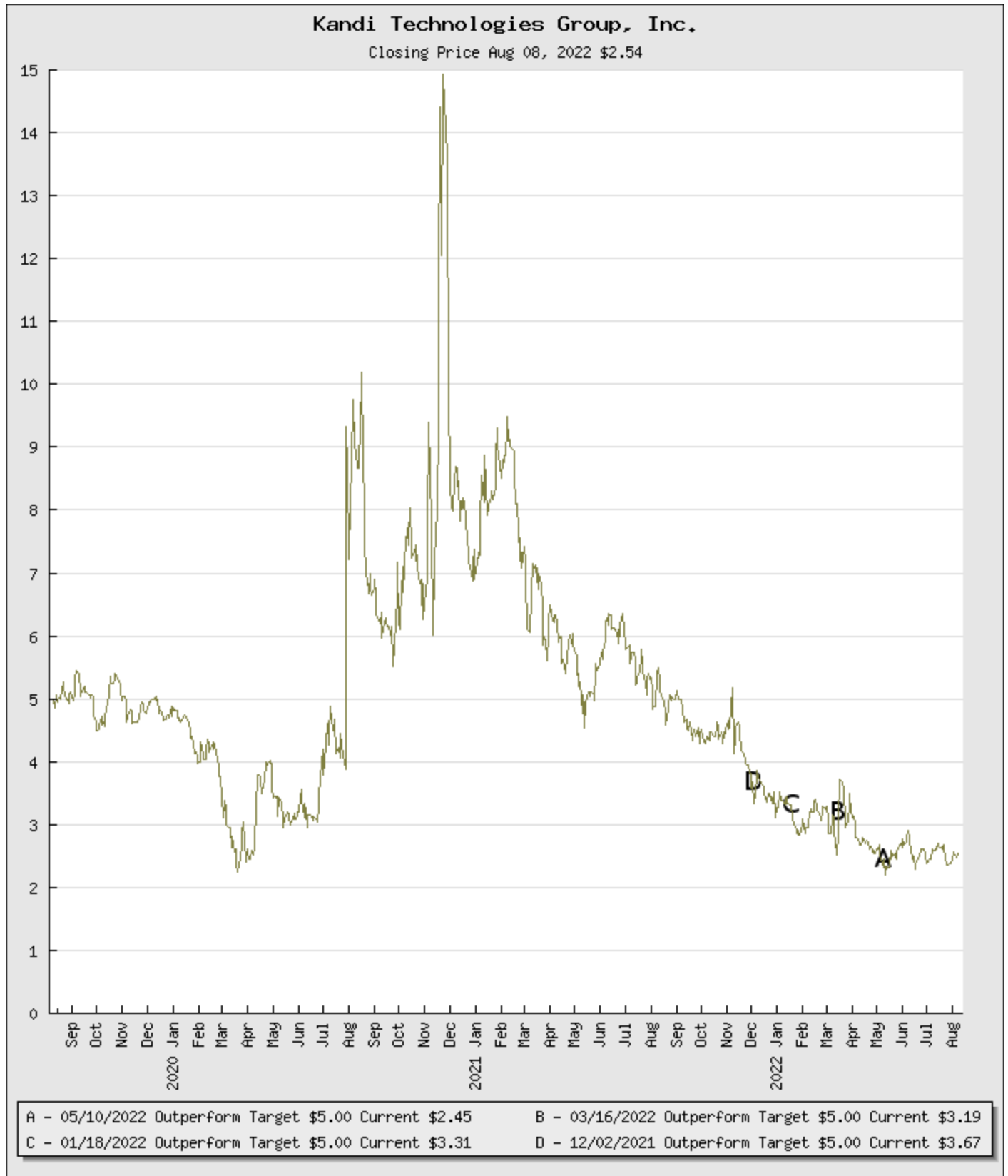
Balance Sheet	2017	2018	2019	2020	Mar	June	Sep	Dec	2021	Mar	June	Sep	Dec	2022E	2023E
Current Assets															
Cash		22,353	16,513	142,078	147,195	148,189	156,770	168,676	168,676	158,221	159,334	159,419	159,592	171,312	181,906
Certificate of Deposit		-		442	15,259	54,222	54,207	55,042		58,223	73,174	73,174	73,174	73,174	73,174
Accounts Receivable		34,275	61,182	38,547	49,888	48,714	43,999	52,896	38,547	40,262	37,795	37,795	37,795	37,795	37,795
Inventory		21,998	27,737	19,697	20,482	23,232	27,347	33,172	19,697	30,959	41,938	41,938	41,938	41,938	41,938
Other Current Assets		88,724	90,141	106,350	89,532	79,626	55,739	32,822	106,350	31,910	18,712	18,712	18,712	18,712	18,712
Total Current Assets		167,350	195,572	307,116	322,355	353,984	338,062	342,608	333,271	319,575	330,952	331,037	331,210	342,930	353,524
Long-term Assets															
Properties, plant (net)		82,046	74,408	65,403	69,204	81,579	90,462	111,577	111,577	110,004	102,736	88,012	108,432	101,538	91,499
Goodwill		28,552	28,270	29,712	29,622	29,970	29,964	36,027	36,027	36,109	34,679	34,679	34,679	34,679	34,679
Other		150,881	72,968	93,019	63,391	38,328	34,254	29,947	93,019	30,608	28,510	28,510	28,510	28,510	28,510
Total Long-term Assets		261,479	175,646	188,134	162,217	149,878	154,680	177,552	240,624	176,721	165,925	151,201	171,621	164,727	154,688
Total Assets		428,829	371,218	495,250	484,572	503,862	492,742	520,160	573,895	496,296	496,877	482,238	502,830	507,657	508,212
Current Liabilities															
Accounts Payable		112,310	81,348	34,258	29,847	31,374	26,177	36,678	34,258	27,966	32,636	32,636	32,636	32,636	32,636
Other Payables & Accrued		-	-	7,218	4,648	8,931	3,000	11,298	11,298	9,259	8,695	8,695	8,695	8,695	8,695
ST Debt & Notes Payable		43,327	50,525	92	92	482	3,002	9,148		11,998	19,383	19,383	19,383	19,383	19,383
Other		9,186		42,229	43,676	15,848	16,445	7,039	42,229	6,726	6,087	6,087	6,087	6,087	6,087
Total Current Liabilities		164,823	131,874	83,797	78,263	56,635	48,624	64,163	87,784	55,950	66,801	66,801	66,801	66,801	66,801
Long-term Liabilities															
Long-term Debt		28,794	14,354	-	-	-	2,380	2,211	2,211	2,211	2,211	2,211	2,211	2,211	2,211
Other		9,589	7,134	7,686	7,327	1,067	1,067	10,587	7,686	8,571	8,884	8,884	8,884	8,884	8,884
Total Long-term Liabilities		38,384	21,488	7,686	7,327	1,067	3,447	12,797	9,896	10,782	11,095	11,095	11,095	11,095	11,095
Equity															
Preferred Stock		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Common Equity		225,623	217,857	403,767	398,982	446,161	443,051	443,200	431,898	442,299	418,981	440,687	440,227	424,495	425,050
Total Liabilities & Equity		428,829	371,218	495,250	484,572	503,862	495,122	520,160	520,160	509,031	496,877	518,582	518,123	502,391	502,946
Common Equity %		89%	94%	100%	100%	100%	99%	100%	99%	100%	99%	100%	100%	99%	99%



Valuation

Rf	3%
Rm	8%
B	3
It g	3%
debt cost	12%
k	18.0%
WACC	18%

NT DCF	56,596
LT DCF	\$ 133,105.72
Debt	(2,211)
Cash	\$ 255,079.38
Equity Value	\$ 442,570.83
Fully Diluted Shares	77,500
Per Share	\$ 5.71



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Noble intends to seek compensation for investment banking services and non-investment banking services (securities and non-securities related) within the next 3 months.

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FUNDAMENTAL ASSESSMENT

The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or underserved needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclicity, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

ANALYST CREDENTIALS, PROFESSIONAL DESIGNATIONS, AND EXPERIENCE

Senior Equity Analyst focusing on energy and utility stocks. 24 years of experience as an analyst. Chartered Financial Analyst®. MBA from Washington University in St. Louis and BA in Economics from Carleton College in Minnesota.

Named WSJ 'Best on the Street' Analyst four times. Named Forbes/StarMine's "Best Brokerage Analyst" three times.

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Unless otherwise noted through the dropping of coverage or change in analyst, the analyst who wrote this research report will provide continuing coverage on this company through the publishing of research available through Noble Capital Market's distribution lists, website, third party distribution partners, and through Noble's affiliated website, channelchek.com.

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NOBLE RATINGS DEFINITIONS	% OF SECURITIES COVERED	% IB CLIENTS
Outperform: potential return is >15% above the current price	93%	27%
Market Perform: potential return is -15% to 15% of the current price	7%	2%
Underperform: potential return is >15% below the current price	0%	0%

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Additional information is available upon request. Any recipient of this report that wishes further information regarding the subject company or the disclosure information mentioned herein, should contact Noble Capital Markets, Inc. by mail or phone.

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