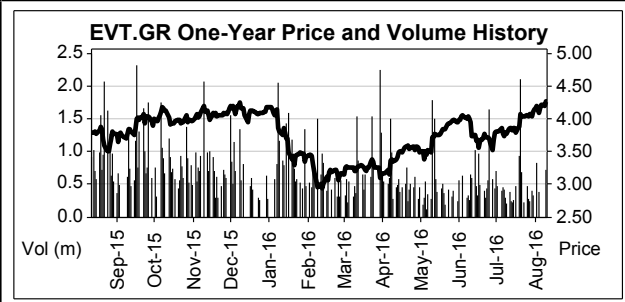


Healthcare: Biotechnology
Evotec AG | EVT.GR - €4.26 - FSE | Buy
Company Update

Stock Data	
52-Week Low - High	€2.86 - €4.31
Shares Out. (mil)	132.80
Mkt. Cap.(mil)	€565.5
3-Mo. Avg. Vol.	538,651
12-Mo.Price Target	€5.50
Cash (mil)	€118.3
Tot. Debt (mil)	€18.2
Est. 3Yr. EPS Growth	27%

EPS €					
Yr Dec	—2015—	—2016E—		—2017E—	
		Curr	Prev	Curr	Prev
1Q	(0.01)A	(0.01)A	(0.01)A	-	-
2Q	0.11A	0.03A	0.00 E	-	-
3Q	(0.02)A	(0.01)E	0.00 E	-	-
4Q	0.04A	(0.01)E	(0.01)E	-	-
YEAR	0.13A	0.01E	(0.02)E	0.14E	0.12E
P/E	0.0x	0.0x	NM	0.0x	0.0x

Revenue (€ millions)					
Yr Dec	—2015—	—2016E—		—2017E—	
		Curr	Prev	Curr	Prev
1Q	21.5A	37.5A	37.5A	-	-
2Q	33.4A	38.0A	35.5E	-	-
3Q	33.2A	38.5E	38.5E	-	-
4Q	39.5A	40.0E	40.0E	-	-
YEAR	127.7A	154.0E	151.5E	172.4E	169.7E


EVT.GR: Strong Quarter; 2016 Profitability Guidance Increased

Evotec posted a strong quarter, with EPS of €0.03 vs. our €0.00 estimate and consensus of €0.01. Revenues of €38.0M were ahead of our €35.5M estimate and just behind consensus of €38.7M. Mgt lifted its 2016 Adjusted Group EBITDA guidance from “positive and significantly improved compared to prior year” to “more than double” 2015’s €8.7M. Guidance on CapEx (<€10M), R&D (~€20M), liquidity (flat YoY, €134.5M) and Group revenues (>15% YoY) remain unchanged and in line with our estimates.

Evotec’s core, drug discovery services unit “EVT Execute” showed continued strength in 1H’16.

Excluding the ~€42M in fixed annual revenues from the March 29, 2015 Sanofi agreement, we estimate Evotec’s revenues were up ~22% vs. 1H’15. While some portion of these revenues are from the EVT Innovate (partnered pipeline) business, the vast majority stems from the reinvigorated growth of the capital markets into global drug discovery efforts. It appears investments the company made in its business development efforts, especially in the U.S., as well as the continued turn-over of experienced R&D personnel, has benefited Evotec and its team of scientists. Evotec’s headcount reached 1,017 at midyear. Examples of milestones reached in 1H’16 include:

- Pre-clinical milestones reached with Bayer (see our August 5 note; endometriosis), Boehringer Ingelheim (>20 milestones since ’04 and 2nd in past year) and Padlock collaborations (autoimmune disorders; acquired by Bristol-Myers for ≤\$600M).
- Collaboration extensions with Genentech (small molecules) and Janssen Pharmaceutica (proteomics in 10th year, plus TargetAD in Alzheimer’s)
- Multi-year compound management agreement with Pierre Fabre (compound management facility in Toulouse)
- Antibiotic Research UK’s first research contract awarded to Evotec
- Development of DNA synthesis, Trianni Mouse genomic modification technology and antibody discovery platform with the next-generation gene editing technology and CRISPR/Cas9 licenses.
- Antibiotic discovery alliance with ANTRUK.

EVT Innovate continues to gain prominence:

- Evotec continues to leverage its established “academic bridge”, including its Cure X/Target X alliances.

(Continued on page 2)

- The development and spinout of its internally developed and partnered company Topas Therapeutics GmbH on March 22nd is an example of types of visible programs we should be seeing from Evotec over the next several years. We believe this type of company formation is one way the company can leverage its efforts and for investors to value its partnered programs.
- The clinical studies for EVT201 (insomnia, Phase 2) and EVT401 (immunology an inflammation, Phase 1) in China are recruiting according to plan.
- Evotec reported that its partnered pre-clinical oncology projects with Sanofi (EVT801, acquired via Toulouse transaction five quarters ago) are progressing well towards clinical initiation in 2017.

VALUATION

We reiterate our Buy rating and price target of €5.50. Our PT is derived from our 2018 to 2020 EPS estimates, discounted by 15% to account for Evotec's steady operations and apply a 25X PE multiple to account for the high rate of growth during these forecasted years. We include our YE17 net cash estimate of €0.86/share, plus €1.48/share for the rNPV of Evotec's pipeline. Factors that may impede shares of EVT.GR from achieving our price target include currency and trading risks, as well as execution risks that may be related to the integration of the Sanofi employees.

RISKS

Drug discovery and research risks: While Evotec AG is an experienced drug discovery company there is no assurance that the company can and will be able to continue to provide research services that outside parties will agree to, and pay for. We cannot define the explicit value that investors are attributing to Evotec's more stable, research services business versus the potential of its pipeline. If the expected value of Evotec's future revenue and profitability potential falls, investors should expect the value of their holdings could decline.

Currency and trading risks: Geographically, 57% of Evotec's 2015 revenues were generated with customers in Europe and 42% in the US. Because Evotec offers its services to worldwide customers there are currency risks to all investors and as such, investors may experience detrimental currency changes which may cause the value of their holdings to decline.

Partnering risks: Because Evotec AG's operating model relies on the initiation and continuation of partnerships with outside parties in mixed and fluctuating degrees of research efforts, Evotec and its shareholders are reliant upon the continued "best efforts" of outside parties. These parties may change their previous intentions towards the development agreements with Evotec and/or may fail in the quality and timeliness of their own execution efforts that may be detrimental to Evotec shareholders.

COMPANY DESCRIPTION

Evotec AG is a drug discovery company headquartered in Hamburg, Germany with operations and customers worldwide. The company is strategically focused on the discovery of novel drugs and drug targets. By design, Evotec is on the cutting edge of discovering the tools, targets and etiologies of undertreated diseases. As a result, Evotec's unique expertise in drug discovery produces scientific methods that are valued by pharmaceutical and biotechnology companies worldwide. Strategically, this 22-year-old company evolves with the biotechnology and drug discovery industries. While continuing to operate a profitable drug discovery services business, in the late 2000s the company began a strategic effort to retain an interest in the clinical assets that it had primarily discovered. These cores competencies are not mutually exclusive as Evotec executes similar services in its core "services business" called EVT Execute as it does in developing clinical assets that the company retains ownership of, called EVT Innovate. This overlap contributes to the high net margins (~30%) on its EVT Execute segment yet provides the company an increased opportunity to develop assets to be funded and developed by outside partners.

Evotec AG																Michael Higgins			
Income Statement, in € (000)																Senior Research Analyst			
																ROTH Capital Partners			
																mhiggins@roth.com			
Fiscal Period:	Actual										Projected								
	2011	2012	2013	2014	Q115	Q215	Q315	Q415	2015	Q116	Q216	Q316	Q416	2016	2017	2018	2019	2020	
Total Revenue	80,128	87,265	85,938	89,496	21,542	33,416	33,240	39,479	127,677	37,479	37,975	38,507	39,988	153,950	172,424	191,046	209,615	229,990	
<i>Rev excl Sanofi</i>					21,542	23,003	22,827	29,066	96,438										
Cost of revenue	(45,143)	(56,242)	(54,716)	(60,118)	(14,919)	(24,273)	(22,837)	(27,661)	(89,690)	(25,008)	(24,442)	(25,800)	(26,792)	(102,042)	(111,213)	(121,868)	(132,196)	(143,346)	
Gross Profit	34,985	31,023	31,222	29,378	6,623	9,143	10,403	11,818	37,987	12,471	13,533	12,707	13,196	51,908	61,210	69,178	77,420	86,644	
Operating income and (expenses)																			
Research & development	(8,437)	(8,340)	(9,664)	(12,404)	(3,834)	(4,672)	(4,995)	(4,842)	(18,343)	(4,386)	(4,647)	(5,384)	(5,833)	(20,250)	(20,691)	(22,925)	(25,154)	(27,599)	
Selling, general & administrative	(15,760)	(16,301)	(16,597)	(17,990)	(5,118)	(7,268)	(6,661)	(6,119)	(25,166)	(5,367)	(6,390)	(8,397)	(9,097)	(29,250)	(27,588)	(29,956)	(32,210)	(34,634)	
Other operating (expenses)	(5,581)	(9,584)	(26,312)	(5,365)	(971)	19,019	616	(1,502)	17,162	26	3,149	634	1,278	5,087	7,155	7,870	8,657	9,523	
<i>Amortization of intangible rights</i>	(1,703)	(2,768)	(3,222)	(2,462)	(587)	(877)	(709)	(687)	(2,860)	0	0	(730)	(708)	(1,438)	(1,582)	(1,740)	(1,914)	(2,105)	
<i>Impairment of intangible assets</i>	(2,058)	(3,505)	(22,023)	(14,967)	0	(69)	0	(7,173)	(7,242)	(1,417)	0	0	0	(1,417)	0	0	0	0	
<i>Income from bargain purchase</i>	0	0	0	0	0	18,476	0	2,938	21,414	0	0	0	0	0	0	0	0	0	
<i>Other operating income</i>	1,426	2,202	4,410	15,352	1,258	3,224	3,486	6,385	14,353	4,403	6,692	3,591	4,895	19,581	21,539	23,693	26,062	28,668	
<i>Other operating expenses</i>	(4,747)	(5,513)	(1,980)	(9,732)	(1,642)	(1,735)	(2,161)	(2,965)	(8,503)	(2,960)	(3,543)	(2,226)	(2,910)	(11,638)	(12,802)	(14,083)	(15,491)	(17,040)	
Total operating expenses	(29,778)	(34,225)	(52,573)	(35,759)	(9,923)	7,079	(11,040)	(12,463)	(26,347)	(9,727)	(7,888)	(13,147)	(13,651)	(44,413)	(41,124)	(45,011)	(48,707)	(52,710)	
Operating income	5,207	(3,202)	(21,351)	(6,381)	(3,300)	16,222	(637)	(645)	11,640	2,744	5,645	(439)	(455)	7,495	20,087	24,167	28,713	33,934	
Other non-operating income (expenses)																			
Interest income	413	655	261	469	178	82	120	153	533	227	270	124	158	778	794	810	826	842	
Interest expense	(1,858)	(1,859)	(1,870)	(1,621)	(406)	(340)	(458)	(522)	(1,726)	(434)	(430)	(472)	(538)	(1,873)	(1,911)	(1,949)	(1,988)	(2,028)	
Loss from equity investments	0	0	0	(10)	0	(6)	(10)	2,060	2,044	(2,128)	1,393	0	0	(735)	0	0	0	0	
<i>Other expense from long-term investments</i>	0	0	0	0	0	0	0	(72)	(72)	(53)	0	0	0	(53)	0	0	0	0	
<i>Other income from financial assets</i>	0	406	26	79	(7)	0	0	7	0	0	287	0	0	287	0	0	0	0	
<i>Other expense from financial assets</i>	(77)	0	(174)	0	0	(3)	0	(12)	(15)	(1)	(156)	0	0	(157)	0	0	0	0	
<i>Foreign currency exchange gain (loss), net</i>	1,360	(1,185)	(556)	2,266	2,031	(488)	(334)	659	1,868	(2,074)	1,451	0	0	(623)	0	0	0	0	
<i>Other non-operating income</i>	211	171	16	146	136	9	88	150	383	0	6	0	0	6	0	0	0	0	
<i>Other non-operating expense</i>	0	0	0	(107)	0	0	0	(120)	(120)	0	0	0	0	0	0	0	0	0	
Total non-operating income (expense)	49	(1,812)	(2,297)	1,222	1,932	(746)	(594)	259	851	(2,335)	1,233	(348)	(380)	(1,830)	(1,117)	(1,139)	(1,162)	(1,185)	
Income before taxes	5,256	(5,014)	(23,648)	(5,159)	(1,368)	15,476	(1,231)	(386)	12,491	409	6,878	(787)	(835)	5,664	18,970	23,027	27,551	32,748	
<i>Current tax income (expense)</i>	(1,153)	(793)	(299)	(1,858)	213	(989)	0	(1,865)	(2,641)	0	(2,911)	0	0	(2,911)	0	0	0	0	
<i>Deferred tax income (expense)</i>	2,548	8,285	(1,486)	39	83	140	0	6,443	6,666	0	(74)	0	0	(74)	0	0	0	0	
Total tax gain (expenses)	1,395	7,492	(1,785)	(1,819)	296	(849)	(1,655)	6,233	4,025	(1,581)	(2,985)	0	0	(4,566)	0	0	0	0	
Net Income (loss)	6,651	2,478	(25,433)	(6,978)	(1,072)	14,627	(2,886)	5,847	16,516	(1,172)	3,893	(787)	(835)	1,098	18,970	23,027	27,551	32,748	
Average basic & diluted shares (000)	116,022	117,296	121,215	131,291	131,451	131,489	131,545	132,230	131,679	132,334	132,427	132,491	132,554	131,968	132,307	132,645	132,984	133,323	
Net Income (loss) per share (basic)	€ 0.06	€ 0.02	(€ 0.21)	(€ 0.05)	(€ 0.01)	€ 0.11	(€ 0.02)	€ 0.04	€ 0.13	(€ 0.01)	€ 0.03	(€ 0.01)	(€ 0.01)	€ 0.01	€ 0.14	€ 0.17	€ 0.21	€ 0.25	
Net Income (loss) per share (diluted)	€ 0.06	€ 0.02	(€ 0.21)	(€ 0.05)	(€ 0.01)	€ 0.11	(€ 0.02)	€ 0.04	€ 0.13	(€ 0.01)	€ 0.03	(€ 0.01)	(€ 0.01)	€ 0.01	€ 0.14	€ 0.17	€ 0.21	€ 0.25	

Sources: Company financial reports and ROTH Capital Partners

Evotec AG																Michael Higgins			
Balance Sheet, in € (000)																Senior Research Analyst			
																ROTH Capital Partners			
																mhiggins@roth.com			
Fiscal Period:	Actual								Projected										
	2011	2012	2013	2014	Q115	Q215	Q315	Q415	2015	Q116	Q216	Q316	Q416	2016	2017	2018	2019	2020	
ASSETS																			
Current assets:																			
Cash and cash equivalents	17,777	39,065	45,644	48,710	49,284	59,060	49,359	44,497	44,497	49,153	57,912	57,125	56,289	56,289	75,259	98,286	125,837	158,585	
Investments	44,651	25,094	50,499	40,112	46,490	81,816	89,463	89,443	89,443	73,329	60,419	60,479	60,540	60,540	60,782	61,025	61,269	61,514	
Trade accounts receivables	10,393	15,053	17,777	25,259	13,804	18,985	17,527	20,933	20,933	19,013	23,392	23,626	23,862	23,862	24,339	24,826	25,323	25,829	
Receivables from associated companies	0	0	0	0	0	9	23	136	136	126	0	0	0	0	0	0	0	0	
Inventories	3,556	2,445	2,358	3,111	3,772	3,255	3,689	3,133	3,133	3,701	3,978	4,018	4,058	4,058	4,139	4,222	4,306	4,392	
Current tax receivables	201	480	433	887	1,535	2,243	2,266	1,121	1,121	1,067	1,699	1,716	1,733	1,733	1,768	1,803	1,839	1,876	
Other current financial assets	1,355	1,478	1,995	1,094	1,908	1,137	839	1,018	1,018	2,175	1,393	1,407	1,421	1,421	1,449	1,478	1,508	1,538	
Prepaid expenses and other current assets	2,965	4,489	3,820	6,127	7,049	7,694	8,173	6,659	6,659	10,212	6,064	6,125	6,186	6,186	6,310	6,436	6,565	6,696	
Total current assets	83,333	88,104	122,526	125,300	123,842	174,199	171,339	166,940	166,940	158,776	154,858	154,495	154,089	154,089	174,046	198,077	226,647	260,431	
Non-current assets:																			
Long-term investments	10	10	10	13	5	0	0	0	0	0	0	0	0	0	0	0	0	0	
Investments accounted via equity method	0	0	0	0	0	0	0	0	0	0	1,692								
Property, plant and equipment	24,946	27,181	24,239	24,045	25,816	38,241	36,901	38,334	38,334	36,360	36,972	37,342	37,715	37,715	38,469	39,239	40,024	40,824	
Intangible assets, excluding goodwill	67,652	63,266	39,826	30,210	30,968	31,836	30,940	25,154	25,154	22,209	21,785	22,003	22,223	22,223	22,667	23,121	23,583	24,055	
Goodwill	42,202	42,342	40,136	44,815	47,192	46,271	45,221	45,648	45,648	44,008	43,426	43,860	44,299	44,299	45,185	46,089	47,010	47,951	
Deferred tax asset	0	2,815	0	0	0	0	0	8,812	8,812	8,680	8,548	8,633	8,720	8,720	8,894	9,072	9,254	9,439	
Non-current tax receivables	0	0	0	0	0	0	0	2,068	2,068	2,348	1,997	2,017	2,037	2,037	2,078	2,119	2,162	2,205	
Other non-current financial assets	70	75	77	78	78	78	78	80	80	80	80	81	82	82	83	85	87	88	
Other non-current assets	0	1,634	566	139	96	52	10	1,502	1,502	2,502	2,502	2,527	2,552	2,552	2,603	2,655	2,709	2,763	
Total non-current assets	134,880	137,323	104,854	99,300	104,155	116,478	113,150	121,598	121,598	116,187	117,002	116,463	117,628	117,628	119,980	122,380	124,827	127,324	
Total assets	218,213	225,427	227,380	224,600	227,997	290,677	284,489	288,538	288,538	274,963	271,860	270,959	271,717	271,717	294,027	320,457	351,474	387,755	
LIABILITIES																			
Current Liabilities																			
Current loan liabilities	13,174	13,223	17,222	13,363	13,512	13,886	14,031	14,213	14,213	14,345	10,316	10,419	10,523	10,523	10,734	10,948	11,167	11,391	
Trade accounts payable	10,134	6,363	6,653	9,450	6,822	12,203	9,341	12,171	12,171	10,631	10,356	10,460	10,564	10,564	10,775	10,991	11,211	11,435	
Advanced payments received	782	232	232	542	284	475	1,172	97	97	650	667	674	680	680	694	708	722	736	
Provisions	11,045	6,914	5,788	3,694	4,618	13,982	15,383	16,694	16,694	6,055	7,424	7,498	7,573	7,573	7,725	7,879	8,037	8,197	
Deferred revenues	5,875	5,548	6,051	2,806	2,439	23,980	18,327	8,763	8,763	7,283	8,527	8,612	8,698	8,698	8,872	9,050	9,231	9,415	
Current income tax payables	492	502	741	1,046	850	257	1,038	232	232	246	460	465	469	469	479	488	498	508	
Other current financial liabilities	1,147	234	342	1,384	998	197	320	633	633	1,263	1,655	1,672	1,688	1,688	1,722	1,756	1,792	1,827	
Other current liabilities	152	865	1,919	783	1,294	1,392	2,787	3,597	3,597	8,659	5,606	5,662	5,719	5,719	5,833	5,950	6,069	6,190	
Total current liabilities	42,833	33,882	38,953	33,068	30,817	66,372	62,399	56,400	56,400	49,132	45,011	45,461	45,916	45,916	46,834	47,771	48,726	49,701	
Non-current liabilities																			
Non-current loan liabilities	2,359	4,178	0	8,186	8,719	8,676	8,900	8,730	8,730	8,278	7,881	7,960	8,039	8,039	8,200	8,364	8,531	8,702	
Deferred tax liabilities	9,904	2,099	1,245	1,583	1,643	1,963	1,719	1,538	1,538	1,377	1,257	1,270	1,282	1,282	1,308	1,334	1,361	1,388	
Provisions	14,618	18,817	18,586	17,957	18,900	29,620	27,734	27,342	27,342	27,516	26,624	26,890	27,159	27,159	27,702	28,256	28,821	29,398	
Deferred revenues	9	12,516	8,382	4,344	3,550	2,496	5,390	6,509	6,509	5,099	3,748	3,785	3,823	3,823	3,900	3,978	4,057	4,139	
Other non-current financial liabilities	1,244	1,388	1,233	1,079	1,041	1,002	964	925	925	886	874	883	892	892	909	928	946	965	
Total non-current liabilities	28,135	38,998	29,460	33,149	33,853	43,757	44,707	45,044	45,044	43,156	40,384	40,788	41,196	41,196	42,020	42,860	43,717	44,592	
STOCKHOLDERS EQUITY																			
Share capital	118,316	118,547	131,460	131,711	131,735	131,783	132,364	132,584	132,584	132,587	132,798	134,126	135,467	135,467	136,662	137,868	139,084	140,311	
Additional paid-in capital	663,820	665,918	686,767	688,669	689,082	691,042	692,554	693,740	693,740	694,358	695,795	0	0	0	0	0	0	0	
Accumulated other comprehensive income	(25,995)	(25,501)	(27,410)	(23,169)	(17,590)	(17,004)	(19,376)	(18,510)	(18,510)	(22,378)	(24,129)	(24,370)	(24,614)	(24,614)	(25,106)	(25,608)	(26,121)	(26,643)	
Accumulated deficit	(608,895)	(606,417)	(631,850)	(638,828)	(639,900)	(625,273)	(628,159)	(622,312)	(622,312)	(623,073)	(619,006)	(619,793)	(620,629)	(621,214)	(602,244)	(579,217)	(551,666)	(518,918)	
Equity attributable to shareholders	147,245	152,547	158,967	158,383	163,327	180,548	177,383	185,502	185,502	181,494	185,458	(510,038)	(509,775)	(509,775)	(490,688)	(466,957)	(438,703)	(405,250)	
Non-controlling interest	0	0	0	0	0	0	0	1,592	1,592	1,181	1,007	694,747	694,381	694,381	695,861	696,783	697,734	698,713	
Total Stockholders' equity	147,245	152,547	158,967	158,383	163,327	180,548	177,383	187,094	187,094	182,675	186,465	184,710	184,606	184,606	205,173	229,826	259,031	293,463	
Total liabilities and stockholders' equity	218,213	225,427	227,380	224,600	227,997	290,677	284,489	288,538	288,538	274,963	271,860	270,959	271,717	271,717	294,027	320,457	351,474	387,755	

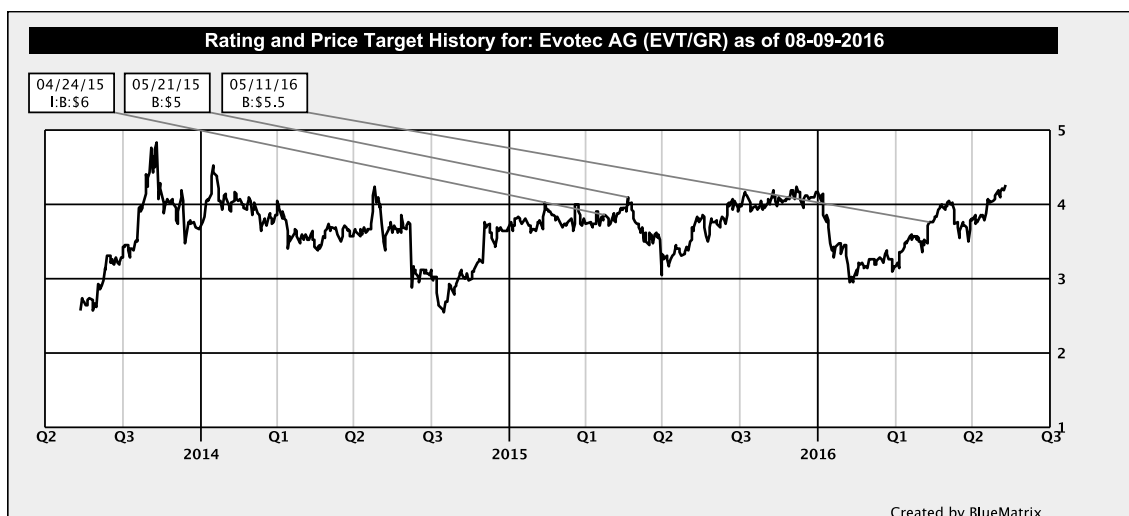
Sources: Company financial reports and ROTH Capital Partners

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Disclosures:

On September 28, 2010, ROTH changed its rating system in order to replace the Hold rating with Neutral.

On May 26, 2011, ROTH changed its rating system in order to incorporate coverage that is Under Review.



Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 08/10/16	
			Count	Percent
Buy [B]	225	73.05	129	57.33
Neutral [N]	48	15.58	24	50.00
Sell [S]	4	1.30	2	50.00
Under Review [UR]	30	9.74	18	60.00

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

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Buy: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return of at least 10% over the next 12 months.

Neutral: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

Sell: A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

Under Review [UR]: A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

Not Covered [NC]: ROTH does not publish research or have an opinion about this security.

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