

Analyst Brief: Reaching the Declining Phase of Growth is Tough on both Companies and Investors

Summary

Dataram Corporation (Dataram), incorporated in 1967, is an independent manufacturer of memory products and provider of performance solutions. The Company provides customized memory solutions for original equipment manufacturers (OEMs) and memory for brands, including Cisco, Dell, Fujitsu, HP, IBM, Lenovo and Oracle, as well as a line of memory products for Intel and AMD motherboard based servers. The Company has four business lines, which include Dataram/Princeton Memory, Micro Memory Bank (MMB), memorystore.com and 18004Memory.com. Dataram's customers include an international network of distributors, resellers, retailers, OEM customers and end users. In addition to memory products, Dataram offers solutions, which include design and engineering services, contract and manufacturing to accommodate special customer needs, simulation labs for testing and validation, FINANCIAL PROGRAMS and trade-in/trade-up programs to allow customers to optimize memory procurements and software tools to assess memory needs and optimize memory deployment, and application performance. The Dataram/Princeton Memory business provides memory products that support enterprise/mission critical need; custom and high end memory solutions for customers ranging from enterprise and data center segments to power users and gamers; provides solutions to extend the density memory options available to customers. The business also provides memory solutions services, such as performance optimization, total cost of computing reduction consulting, engineering and design services for embedded applications, engagements, customized consignment programs, product on-demand offerings and installation services; software, which includes products that improve application and COMPUTING PERFORMANCE, and buy-back program, which in conjunction with the MMB business, provides customers with OPPORTUNITY to trade-in existing memory as part of a sale with trade-in credited towards purchase of new memory. The Micro Memory Bank business provides refurbished memory products. These solutions extend the life of the system where memory is no longer available by the OEM. The Micro Memory Bank business also provides brokerage services, which include making purchases of excess surplus inventories for less than market price and also buying unknown inventory, which is then opened, cataloged, and sometimes refurbished; buy-back program, which works with Princeton business to provide customers with opportunity to trade-in existing memory as part of a sale with trade-in credited towards purchase of new memory, and technology recycling program, which provides end of life recycling services to customers across all information technology (IT) hardware categories, including laptops, desktops, workstations, servers, main frames, hubs and switches. The Company's Memory.com Web property provides a source for new and refurbished memory products used in desktops, laptops, notebooks, servers, printers and digital cameras, among others. They provide memory upgrades for all major brands, including Compaq, Dell, Apple, Hewlett-Packard, Toshiba, IBM, Gateway, Sony, Fujitsu and Acer. The Memorystore.com Web property provides a Web source for Dataram Value Memory products used in desktops, laptops, notebooks, servers and workstations, among others. Dataram Value Memory is memory specifically designed and tested to meet industry standards. It is purchased by customers who know the exact technical specifications of the memory they need.

Dataram Corporation has a current market capitalization of \$5.05 M with 3.32 M outstanding shares. Its daily average volume traded is 24,155 shares.

DATARAM CORPORATION

SEPTEMBER 25, 2015

RATING:
SELL

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PRINCETON, NJ 08543-7528
UNITED STATES
WWW.DATARAM.COM

Key Indicators (Q1 2015)

Shares Outstanding	3.32 M
Revenue (FY 2014)	7.34 M
Gross Profit	1.40 MI
Net Loss (basic/diluted)	-0.12 M
Cash and Short-term Inv	0.54 M
Total Debt	3.04 M

Performance (6 months)



Recent News

The company recently reported it received formal notification from the NASDAQ Stock Market LLC ("NASDAQ") that the Company has cured its deficiencies and regained compliance with all applicable listing standards. The Company will continue to be listed on NASDAQ and the listing qualification matters previously disclosed by the Company have been closed. On August 14, 2015, NASDAQ Staff notified the Company that its Form 10-K for the year ended April 30, 2015 was considered "incomplete" due to the filing not containing its predecessor auditor's audit report covering the financial statements for the fiscal year ended April 30, 2014, and as a result, was not in compliance with Listing Rule 5250(c)(1). Subsequently, in a Staff Determination Letter dated August 20, 2015, Staff notified the Company was not in compliance with Listing Rule 5550(b)(1) as the Form 10-K reported stockholders' equity of \$2,117,000. On September 11, 2015, the Company filed an amended Form 10-K containing audit opinion for the fiscal years ended April 30, 2014 and 2015. Additionally, on September 14, 2015, the Company filed its Form 10-Q for the period ended July 31, 2015 evidencing stockholders equity of \$2,712,168.

In addition, the company recently released Q1 2015 Financial results for the quarter ended July 31, 2015. The financials showed the company generated \$7.34 million in revenue for the quarter with a gross profit margin of 19%; an improvement from 13% the previous quarter. This is the only positive aspect of the financials, as from gross profit down to the bottom line, the numbers only get worse. Operating costs exceed gross profit significantly leading to a net loss for the quarter and for the previous four years. On an annual basis, net loss is increasing (negative trend) with decreasing revenues since 2011. It seems that the headwinds the company is facing are falling demand as seen by falling revenues, inability to control operating costs effectively, and an increasing cost of revenue as evident by a decreasing gross profit margin; 23% in FYE2012 to 14% in FYE2015.

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Pros

- The most recent quarter does show an improvement in gross margins; a factor that has hurt the company's bottom line for the past several years. It may be the sign of a turnaround but more data is necessary.
- Remaining on the NASDAQ is a positive factor for the company and its shareholders making it easier for the company to raise cash and improves liquidity for shareholders.
- Lastly, the share price has been trending upwards for the past month and has crossed over the 20 – day SMA opening the potential for moving back to the 100 – day SMA of approximately \$1.80 - \$2.00. Technicals may play a role here.

Cons

- There exists an unfavorable trend in profitability. The company has, over the past four years, declined in revenue, declined in gross profit margins and racked up \$11 million in accumulated deficits. Controlling of costs and potentially and increase in marketing efforts may lead to revenue growth and a return to profitability.
- The threat from the NASDAQ to delist the company is certainly not a positive aspect. Reporting errors were made that were later justified, however it leads to question management commitment into running the business.

Verdict

Dataram Corp. has been operating for many years, but seems to have run into trouble in the last several years. Revenues have been declining, margins declining and accumulated deficits growing exponentially. Additionally, a scare from the NASDAQ has really put fears in the eyes of investors. Is it difficult to justify a buying opportunity here when this company seems to have reached a declining stage in its business cycle. Significant change is required to restart the growth phase, but there currently is no evidence of this on the horizon. The shares of Dataram Corp. are recommended as a 'Sell' until more updates come from management.

Sources:

1. <http://www.google.ca/finance?q=NASDAQ%3ADRAM&fstype=ii&ei=a4kEVvnAB9CDsAHunLjoAQ>
2. <http://www.reuters.com/finance/stocks/companyProfile?rpc=66&symbol=DRAM.O>
3. <http://stockcharts.com/h-sc/ui?s=DRAM&p=D&b=5&g=0&id=p36436344452>
4. <http://www.dataram.com>
5. <http://finance.yahoo.com/news/dataram-regains-compliance-nasdaq-listing-124500357.html>
6. <https://ca.finance.yahoo.com/q/ta?s=DRAM&t=1y&l=on&z=l&q=l&p=m100%2Cm20&a=&c=>

Risk Factors

An investment in the common stock of the company is subject to a number of risks. The information below contains excerpts of some of the risk factors included in the company's Form 10-K for the fiscal year ended December 31, 2014, and should be considered by all investors. Investors should carefully consider the risk factors set out below and consider all other information contained herein, and in the company's SEC filings, before making an investment decision. We assume no obligation to update or revise any such forwardlooking statements to reflect events or circumstances that occur after such statements are made. A more complete list of risk factors for the company can be found beginning on page 7 of its Form 10-K filing, dated December 31, 2014, which is available on the SEC's Edgar website:

<https://www.sec.gov/edgar/searchedgar/companysearch.html>

Our Rating System

We rate enrolled companies based on the appreciation potential we believe their shares represent, and the "riskiness" we perceive in our ratings. The business results of those companies "NOT RATED" are often highly dependent on some future event, such as FDA drug approval or the option of a new key technology.

Explanation of Ratings

OVERWEIGHT/BUY

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country Index average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

EQUAL WEIGHT/HOLD

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

NOT RATED

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

UNDERWEIGHT/SELL

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country's equity indices and/or the total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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