

# Zacks Small-Cap Research

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## EpicQuest Education (EEIQ-NASDAQ)

### EEIQ: Enrollment Trends, Growing Number of International Collaborations Positive

EEIQ's recruitment partnerships & new recruitment hub extend efforts to students in additional markets in Asia, Latin America & other regions. The Sri Lanka recruitment hub markets EEIQ's O&O colleges to students from Southeast Asia & the Middle East & offers support for filling out applications, visa assistance, obtaining transportation and student housing, as well as course counseling. Davis also hired a recruiting agent in Mexico to conduct initial recruitment activities in Latin America.

### OUTLOOK

Reflecting a growing number of new academic international collaboration agreements and pathway programs – including with Chongqing Technology & Business Institute (CTBI) – enrollment trends are up substantially. Davis College registered a nearly 3-fold y/y increase in international student enrollment for the first academic Q of 2023, including 50 international students through the CTBI agreement. We believe recent enrollment trends and a growing number of international collaborations bode well for EEIQ's strategy.

Current Price (11/22/23) \$0.86  
Valuation \$2.30

### SUMMARY DATA

52-Week High \$3.63  
52-Week Low \$0.80  
One-Year Return (%) -25  
Beta 0.83  
Average Daily Volume (sh) 29,162

Shares Outstanding (mil) 11  
Market Capitalization (\$mil) \$10  
Short Interest Ratio (days) N/A  
Institutional Ownership (%) N/A  
Insider Ownership (%) \* 69

Annual Cash Dividend N/A  
Dividend Yield (%) N/A

5-Yr. Historical Growth Rates  
Sales (%) N/A  
Earnings Per Share (%) N/A  
Dividend (%) N/A

P/E using TTM EPS N/A  
P/E using 2023 Estimate N/A  
P/E using 2024 Estimate N/A

Risk Level Above Avg.  
Type of Stock Small-Growth  
Industry Edu & Training Svcs

### ZACKS ESTIMATES

#### Revenue

(in millions of \$)

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2020					\$9.1 A
2021		\$3.1 A			\$5.3 A
2022		\$4.1 A			\$6.3 A
2023		\$3.4 A			\$6.9 E

#### Per Share Data

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020					\$0.13 A
2021		-\$0.04 A			-\$0.12 A
2022		-\$0.23 A			-\$0.55 A
2023		-\$0.24 A			-\$0.59 E

Quarters might not sum due to rounding & share counts

Disclosures on page 11

\*Includes CEO's corp. holdings

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## WHAT'S NEW? NEW AGREEMENTS FURTHER EXPAND O&O OFFERINGS

### *Recent enrollment trends, growing number of international collaborations bode well...*

Recent measures taken by EpicQuest Education Group (Nasdaq: EEIQ) are designed to expand its target market, boost recruitment efforts and broaden educational offerings for domestic and international students interested in college, university and career oriented programs in the US, Canada and the UK. Since implementing these initiatives, EEIQ has indicated solid advances at EEIQ subsidiary Davis College.

EpicQuest is the owner and operator (O&O) of for-profits Davis College as well as EduGlobal College. Its O&O positions reflect two acquisitions about two years ago designed to enable EEIQ to create an internationalized academic platform and expand the educational choices it can offer students so that they can pursue specific career training goals and improve their post-academic job prospects.

### *... Transfer pathways: pursuing academics post associates degree ...*

Davis College is a private, two-year career training college located in Toledo, Ohio that was founded in 1858. It offers career training in business, design, medical and early childhood education, among other programs. Davis began offering a four-year Bachelor of Science degree in Business in the Fall of 2023 and also has agreements with several four-year U.S. universities for 'transfer pathways' that can facilitate students with associate degrees to obtain admission and transfer course credits towards obtaining a 4-year degree. The company expects this can help Davis in terms to recruit those students who are unsure as to how they would fare in a large university setting but with Davis' new four-year degree, they now have the option to stay at Davis or transfer to larger schools.

The O&O initiative is a key component of the company's strategy to acquire academic institutions that enable EEIQ to establish its own programming and the venues included in its educational offerings to both domestic and international students. A key element of this strategy is its numerous collaborations with international institutions in order to offer its career-focused programs and services in order to broaden its student recruiting and grow its revenue.

Davis College also was recently approved by the Higher Learning Commission (HLC), which accredits degree-granting post-secondary educational institutions in the US, to offer a four-year Bachelor of Science in Business degree. EEIQ believes that offering the BS in business degree expands the opportunities that Davis College students can pursue.

### *Expanding recruitment activities extends efforts to additional markets in Asia, Latin America, other regions via partnerships, new recruitment hub ...*

To enhance and expand its recruitment efforts, the company has forged additional recruitment partnerships and also established a new recruitment hub. While EEIQ's original focus was on students in China, the company has expanded its recruitment efforts over the past several quarters to extend its marketing efforts to students in other markets in Asia, in Latin America and other markets. This is consistent with EEIQ's strategy to expand its geographical market for recruiting international student for both O&O schools.

Specifically, in 3Q23, Davis entered into a non-exclusive agreement with the largest student recruitment agent in China – Beijing New Oriental Vision Overseas Consulting – for New Oriental Consulting to act as a recruiting agent for Davis for three years. Davis also entered into an agreement with Peking University School of Education for a two-year continuing education and training program. During the first two years of the program, Davis College students will attend courses at Peking University, followed by courses on the Davis Toledo, Ohio campus to obtain a degree. The education program with Peking University began on September 1, 2023 and a maximum of 50 Davis College students will be admitted to the program.

Earlier, Davis College hired a recruiting agent in Mexico to conduct initial recruitment activities in Latin America as part of its international expansion strategy.

In addition, the company also recently opened a recruiting office in Sri Lanka as its primary hub to market to and recruit students from Southeast Asia and the Middle East for its O&O colleges. The new Sri Lanka hub adds a new team for EEIQ's international recruiting efforts. Through the hub, the company will offer support to students for filling out applications, visa assistance, obtaining transportation and student housing, as well as course counseling. The company aspires to provide a one-stop educational solution that it believes creates a competitive advantage for its O&O venues compared to recruitment efforts at other colleges.

The Sri Lanka office will recruit for both Davis College and EduGlobal College, marketing to students in Sri Lanka, India, UAE, Malta, Nepal, Pakistan, Malta, Indonesia, Malaysia and Thailand. It is located in Colombo, the capital and largest city in Sri Lanka. EEIQ believes it is important to have a local presence in order to showcase its programs and offerings to prospective students and their parents.

In addition, EduGlobal College signed a non-exclusive MOU (memorandum of understanding) with Apex Ed, which is a London-based career college, to recruit international students from Sri Lanka. Apex is a career college that offers undergraduate and graduate courses across a wide range of programs. EduGlobal focuses on providing English proficiency programming to help international students attain the level of linguistic skills they need to pursue academic programming. The company expects the Apex relationship to accelerate its penetration of the Sri Lankan student market. Apex operates educational centers offering services to students in Sri Lanka.

While EEIQ has broadened its geographic recruiting activities, the company also aims to further penetrate the Chinese student market as it expands into additional markets, including in Southeast Asia. Its targeted Southeast Asian markets include Viet Nam, Thailand, Malaysia and India. EpicQuest has personnel in place in Sri Lanka to facilitate this initiative.

### ***Encouraging enrollment trends; Davis' nearly 3-fold increase in international student enrollments includes 50 through Chongqing Technology & Business Institute***

Last month the company provided an operations update for Davis College and we are encouraged by the college's recent enrollment trends. Davis registered a nearly three-fold increase in international student enrollment for the first academic quarter of 2023 compared to the comparable period in 2022, according to EEIQ, including 50 international students through the agreement with Chongqing Technology and Business Institute and 42 international students through EEIQ's foundational programs in China. Specifically, as of September 30, 2023, Davis had enrolled 102 international students for the first academic quarter of 2023 (from August 21 to November 3), compared with 35 international students that were enrolled at Davis in the same academic quarter in 2022. This represents a 191% year-over-year increase and a substantial improvement compared to the same academic quarter in 2021 during the pandemic when 18 international students were enrolled.

EEIQ expects its ongoing expanded recruiting activities and anticipated enrollment trends to lead to revenue growth and improving operating results over time. Separately, in September of 2023 the Higher Learning Commission (HLC) approved Davis College's online courses and program offerings, enabling Davis to provide flexibility to its students. Davis College also signed an articulation agreement with Cambie College to create a transfer pathway from Cambie to Davis by facilitating the transfer of credits from Cambie for its students to enroll in Davis' associate degree programs.

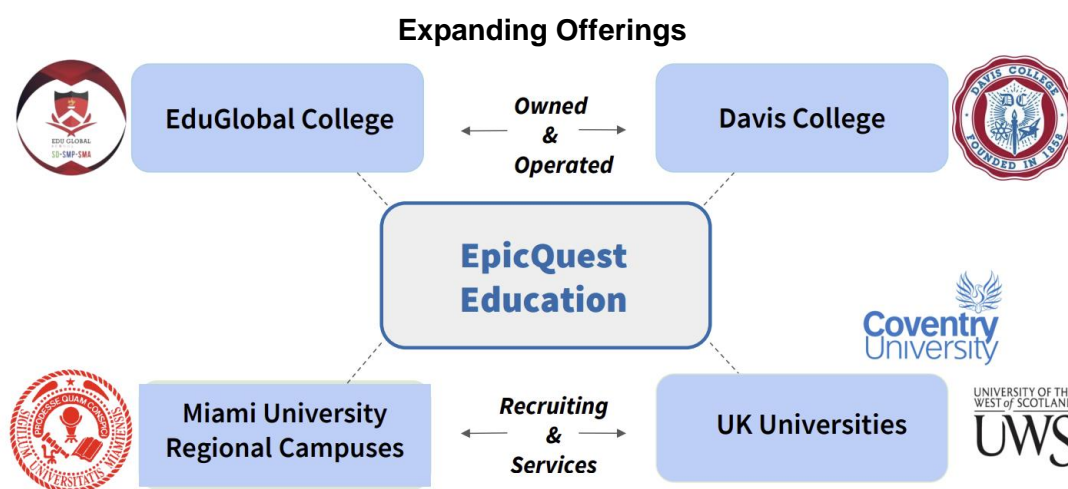
### ... Expanding offerings to improve academic experiences, post-academic prospects ...

The company's measures are part of its international expansion strategy. The initiatives reflect its goal of internationalization, which includes recruiting and enrolling international students from a growing number of international markets, forming multiple academic and student exchange collaborations with academic institutions in international markets and potentially closing on strategic acquisitions.

For example, in September, EduGlobal College signed an MOU and Articulation Agreement with Corpus Christi College. It is a liberal arts school located on the campus of the University of British Columbia in Vancouver, Canada. EduGlobal also signed an Articulation Agreement with Academy of Learning, which operates more than 50 campuses with over 100,000 students throughout Canada. The college provides diploma-level and certificate-level programs in business, healthcare, social work and web design, among others.

These agreements are intended to promote the partners' academic programs to EduGlobal students and facilitate admission and credit transfers for qualified EduGlobal international students to an Associate of Arts Degree Program at Corpus Christi and certificate and diploma programs at Academy of Learning. The company's goal is to expand and diversify its international student body.

These agreement follow earlier ones EduGlobal College has formed. For example, the company has a partnership with Algoma University to facilitate transfer pathways for international students who want to complete post-secondary studies in Canada. EduGlobal also recently signed an articulation agreement with Yorkville University to establish a pathway for EduGlobal students who have successfully completed the International Undergraduate Pathways Program to complete bachelor degrees at Yorkville University, which is a private Canadian institution that was established in 2004 and has three campuses and almost 14,000 undergraduate and graduate students. The company believes pathway programs benefit EduGlobal students by providing flexibility to enable students to develop customized academic programs.



Source: [Company presentation](#)

### ... EEIQ expects over time ~50% of revenue will come from recently initiated operations ...

Reflecting the initiatives aimed at broadening its global reach, EpicQuest expects that over time roughly half of revenue will be generated from recently initiated operations such as those at Davis College and EduGlobal. Moreover, EpicQuest plans to leverage the academic offerings of Davis College and EduGlobal College via a growing number of international partnerships. Programming agreements signed in recent months include with Holy Cross of Davao College (HCDC) in Davao City, Davao del Sur, Philippines and with China's Anhui Business College, among others. Davis College and EduGlobal College also recently signed an MOU (memorandum of understanding) with ICBT Campus of Sri Lanka and one with Chongqing Technology and Business Institute that is designed to increase student enrollment at Davis College.

Specifically, Davis College's agreement with Chongqing Technology and Business Institute (CTBI) entails CTBI students attending Davis College. They will earn an associate bachelor degree upon completion of course requirements. This is another step in the company's goal to further the internationalization of Davis College, including conducting international recruiting as with EEIQ's recent LATAM recruiting agreement. In addition to internationalizing the student body, the agreement includes CTBI sending faculty and staff members to visit Davis College. The agreement calls for 46 students to enroll in the CTBI - Davis College joint program annually. As 46 new students enter the joint program each year and with existing students who have not completed all credits continuing, the company expects 46 CTBI students will be enrolled in September 2023, at least 96 in September 2024, and at least 138 in September 2025.

The company believes increasing internationalization will, in turn, drive student enrollment and contribute to enhanced overall experiences for students. Moreover, as the company continues to expand its program offerings, including career and job training offerings, and increase students' options, EpicQuest expects to improve overall student post-graduate outcomes.

### Programming agreements expand Davis College offerings

- Davis College & EduGlobal College - ICBT Campus of Sri Lanka
- Davis College – Isabela State University of the Philippines
- Davis College – PSB Academy of Singapore
- Davis College – Infrastructure University of Malaysia
- Davis College – Anhui Business College, in Wuhu, Anhui Province, China
- Davis College – bilateral exchange agreement, Chongqing Technology and Business Institute, China
- EduGlobal College – Pathway Program partnership with Algoma University in Canada
- Davis College – Holy Cross of Davao College of the Philippines
- Davis College – Urumqi Vocational University
- Davis College – Hetu Technology
- Davis College – Suzhou Polytechnic Institute of Agriculture
- Davis College – Portsmouth Higher Education Institution
- Davis College – Lourdes University
- Davis College – Universidad Isidro Fabelo de Toluco S.C.

Davis College signed an MOU with Urumqi Vocational University and another with Hetu Technology Co, Ltd. Both institutions are located in Xinjiang, China. Davis also signed MOUs with Suzhou Polytechnic Institute of Agriculture in Suzhou, China and Chongqing Technology and Business Institute. The latter is for at least 46 students in September 2023. Davis' MOU with Chongqing College of Electronic Engineering is for a minimum of 50 students per annum to enroll in this program. Davis College signed another MOU with the University of Portsmouth Higher Education Institution in Portsmouth, United Kingdom. Davis College and the University of Portsmouth intend to pursue joint research projects and jointly develop academic programs, while exchanging faculty and students. The University of Portsmouth has approximately 31,000 undergraduate and postgraduate students.

Additional collaborative agreements and potentially strategic M&A are likely to enhance its internationalization and growth strategy, according to management. Davis College also has multiple articulation agreements to offer transfer pathways. EEIQ believes these will be especially helpful for international students who want to attend a smaller school and then have access to transfer programs.

## Articulation Agreements

### Davis College

- Rennes School of Business - France
- Sofia University - California
- University of Cincinnati - Ohio
- Northeastern University - Massachusetts
- Cleveland Institute of Arts - Ohio
- Lourdes University – Ohio
- Cambie College - Vancouver

### EduGlobal College

- Algoma University – Ontario, Canada
- Yorkville University – Toronto, Canada
- Corpus Christi College – Vancouver, Canada
- Academy of Learning – Ontario, Canada

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## OVERALL ENROLLMENT TRENDS

EpicQuest’s initial services were offered in its relationship with Miami University of Ohio, one of the oldest national public universities in the U.S., operating since 1809. EpicQuest has worked with Miami University (Regional Campuses) since 2015, especially with the English Language Center at the university’s Middletown campus. EpicQuest offers a broad array of in-person services such as private housing, dining facilities, a student life center and academic guidance, among others.

### *Enrollments up at Miami University also...*

Reflecting EEIQ’s measures, as well as factors including the end of the pandemic and easing of travel restrictions, EpicQuest recorded a 72% increase in international high school applications for 2023. As of March 31, 2023, EEIQ’s applications to the Miami University Regionals for the 2023 academic year increased 72% to 93 applicants from 32 international high schools, up from 54 applicants from 12 international high schools for the comparable period of 2022.

### **EpicQuest’s Miami University Campus Relationships With Regional Campuses**



Source: Company reports

As of March 31, 2023, 100 students attended in-person classes in the English Language Program at the MU Regional Campuses (79 students for the Fall 2022 term and 21 students for the Spring 2023 term), compared to 142 students attending online for the respective terms in the previous year.

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## VALUATION

We believe recent enrollment trends and a growing number of international collaborations bode well for this strategy. EEIQ is optimistic about its growth plans and its O&O strategy as it expands its presence into new markets, increases its recruitment efforts, offers students a growing range of options and further develops its O&O channel. If EEIQ can deliver growth on its initiatives, in success we would anticipate share price appreciation over time. In the near-term, it would not surprise us to see investors wait on the sidelines until the company delivers proof-of-concept that its strategy is successful and sustainable.

Given the early stage of the company's O&O and further internationalization strategy, as well as the fluid situation of travel restrictions, we assign an 85% confidence multiple to our 2023 forecast at this point. Conversely, if enrollments and revenue from new initiatives ramp faster than we anticipate, our 2023 forecast might prove conservative. Depending on enrollment and application trends, we might increase / lower our confidence multiple in the future.

Given its mix of academic learning and career training and focus on international students, we believe it is difficult to compare EpicQuest shares to those of other publically traded companies operating in the overall education space. Nevertheless, the mean valuation of 4.0x-4.5x of companies such as Coursera, Inc., Grand Canyon Education and Instructure, among others, can provide a general benchmark, in our view. If we apply a 4.5x multiple to our FY 2023 revenue forecast, we derive a valuation of about \$2.94 per share for EEIQ shares. Applying the 85% confidence multiple on this metric leads to a near-term valuation of \$2.50. If the company delivers milestones earlier than we anticipate, it could impact these multiples.

Any delay or failure in successful execution of the strategy could represent a potential risk to our valuation and cause the share price to decline. We believe the risk / reward ratio could be attractive for investors who have a higher than average risk tolerance and longer time horizon.

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## RISKS

We believe risks to EEIQ achieving its goals, and to our valuation, include the following, among others.

- The shares came under pressure in mid-2021 reflecting concerns around China's after school sector even though EEIQ does not operate in this space. EEIQ shares could be further impacted by issues overhanging that sector.
- EpicQuest might not gain market share in new international markets as quickly as the company expects, which could lead to slower than anticipated revenue ramp.
- The impact of the pandemic could linger longer than management expects.
- The company could incur unanticipated costs associated with its initiatives.
- Competition could increase.
- The company might need to raise capital to support its strategy that might be dilutive to current shareholders.
- The company faces regulatory risk.
- EEIQ anticipates substantially higher enrollments of international students for fiscal 2024, particularly following the Davis College-CTBI agreement but the number of students enrolling might lag the company's expectations.

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## RECENT NEWS

- On November 7, 2023, Davis College announces two new agreements.
- EpicQuest announced the opening of a recruiting office in Sri Lanka to focus on the Southeast Asia and Middle East regions on October 24, 2023.
- On October 10, 2023, EEIQ provided an operations update for Davis College.
- EduGlobal signed agreements with two schools on September 26, 2023.
- Davis College announced articulation agreement with Northeastern University on July 31, 2023.
- On April 6, 2023, EpicQuest increased its stake in EduGlobal College to 100%.
- On July 5, 2023, Davis College announced an articulation agreement with Lourdes University.
- Davis College signed an MOU with The University of Portsmouth on June 27, 2023.
- On June 20, 2023, Davis College was approved to offer a 4-year Bachelor's Degree in business.
- Davis College signed MOUs with 2 China-based organizations on June 13, 2023.
- On May 30, 2023, EpicQuest renewed its recruiting agreement with Miami University.



## PROJECTED FINANCIALS

### EpicQuest Education Group International Income Statement & Projections (\$) FY ends Sept.

	2018	2019	2020	1H21A	2021A	1H22A	2022A	1H23A	2023E
Revenues	\$6,285,176	\$8,700,332	\$9,063,137	\$3,101,646	\$5,341,850	\$4,055,213	\$6,330,428	3,420,669	\$6,900,167
Costs of services	<u>1,752,049</u>	<u>2,228,307</u>	<u>2,342,276</u>	<u>1,280,083</u>	<u>1,934,237</u>	<u>1,327,308</u>	<u>2,021,058</u>	<u>769,619</u>	<u>2,208,053</u>
Gross profit	4,533,127	6,472,025	6,720,861	1,821,563	3,407,613	2,727,905	4,309,370	2,651,050	4,692,113
Selling expenses	1,288,863	1,965,102	2,310,188	626,017	1,732,758	757,969	952,888	474,169	1,038,648
G&A	<u>1,579,650</u>	<u>1,863,290</u>	<u>3,115,120</u>	<u>1,588,611</u>	<u>3,148,256</u>	<u>5,299,119</u>	<u>10,521,551</u>	<u>5,367,085</u>	<u>11,468,491</u>
Total operating expenses	2,868,513	3,828,392	5,425,308	2,214,628	4,881,014	6,057,088	11,474,439	5,841,254	12,507,139
Income from operations	1,664,614	2,643,633	1,295,553	(393,065)	(1,473,401)	(3,329,183)	(7,165,069)	(3,190,204)	(7,815,025)
Other income			(55,000)		(71,640)	(797,411)	(819,135)	(1,655)	(827,326)
Interest income	(51,879)	(79,921)	(35,293)	(38,152)	(9,537)	-	(26,463)	(20,833)	(26,728)
FX	-	-	<u>(23,262)</u>	-	<u>(743)</u>	<u>(4,206)</u>	-	<u>(5)</u>	-
Total other (income) / expenses	(51,879)	(79,921)	(113,555)	(38,152)	(81,920)	(801,617)	(845,598)	(22,493)	(854,054)
Pretax income	1,716,493	2,723,554	1,409,108	(354,913)	(1,391,481)	(2,527,566)	(6,319,471)	(3,167,711)	(6,960,971)
Taxes	646,879	668,796	397,553	(63,025)	(307,168)	13,741	(83,355)	(164,422)	(70,852)
Net income	1,069,614	2,054,758	1,011,555	(291,888)	(1,084,313)	(2,541,307)	(6,236,116)	(3,003,289)	(6,890,120)
Comprehensive income	1,069,614	2,054,758	1,011,555	(291,888)	(1,084,313)	(2,549,521)	(6,265,055)	(3,007,443)	(6,327,706)
Non-controlling interest							(164,887)	(305,928)	(166,536)
Unrealized FX adjustment							(28,939)	(4,154)	(29,228)
Net to shareholders	1,069,614	2,054,758	1,011,555	(291,888)	(1,084,313)	(2,541,307)	(6,071,229)	(2,697,361)	(6,723,584)
EPS	\$0.13	\$0.26	\$0.13	(\$0.04)	(\$0.12)	(\$0.23)	(\$0.55)	(\$0.24)	(\$0.59)
Average shares out	7,938,000	7,938,000	7,938,000	7,946,678	9,160,447	10,835,956	11,010,240	11,469,800	11,471,800
<i>Metrics</i>									
Gross margin	72.1%	74.4%	74.2%	58.7%	63.8%	67.3%	68.1%	77.5%	68.0%
COGs % revenue	27.9%	25.6%	25.8%	41.3%	36.2%	32.7%	31.9%	22.5%	32.0%

Source: Company reports & Zacks

FY ends Sept. 30

# HISTORICAL STOCK PRICE



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