

Zacks Small-Cap Research

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EpicQuest Education (EEIQ-NASDAQ)

EEIQ: Expanding Recruiting Efforts, Student Options & Enrollments

If EEIQ can deliver growth on its initiatives, in success we would anticipate share price appreciation over time. In the near-term, however, given the early stage of the company's O&O and internationalization strategies, it would not surprise us to see investors wait on the sidelines until the company delivers proof-of-concept that the strategy is successful and sustainable. While it is difficult to compare EEIQ to others, education companies can provide a general benchmark, in our view, yielding a valuation of about \$2.30/ share.

Current Price (8/11/23) \$1.29
Valuation \$2.30

OUTLOOK

Per its international expansion strategy, EEIQ has expanded its target markets, recruitment efforts and educational offerings to provide a broader selection of education solutions for international students. Through two acquisitions, EEIQ owns and operates Davis College & EduGlobal College, part of its strategy to expand student options, flexibility and enrollments and have direct control over the educational programming it offers, including career-focused programs. A recent MOU with Chongqing Technology & Business Institute (CTBI) is designed to increase student enrollment at Davis College. EEIQ expects 46 CTBI students will be enrolled in September 2023, at least 96 in September 2024, and at least 138 in September 2025.

SUMMARY DATA

52-Week High \$3.63
52-Week Low \$0.80
One-Year Return (%) -32
Beta 0.72
Average Daily Volume (sh) 568,579

Shares Outstanding (mil) 11
Market Capitalization (\$mil) \$14
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 12

*Includes CEO's corp. holdings

KEY POINTS – EXPANDING RECRUITING, STUDENT OPTIONS & ENROLLMENTS

Measures designed to boost student options and, in turn, revenue growth ...

- As part of its international expansion strategy, over the past several quarters EpicQuest has expanded its target markets, recruitment efforts and educational offerings to provide a broader selection of higher education solutions for international students studying abroad.
- Through two acquisitions, EpicQuest has become an owner and operator (O&O) of Davis College and EduGlobal College, part of its strategy to expand student options, flexibility and enrollments and have direct control over the educational programming it offers, including career-focused programs.
- A recent MOU with Chongqing Technology and Business Institute (CTBI) is designed to increase student enrollment at Davis College. EEIQ 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 expects additional collaborative agreements and potentially strategic M&A to further enhance its internationalization and growth strategy. Davis College also has multiple articulation agreements in place to offer students transfer pathways.
- EpicQuest recorded a 72% increase in international applications for 2023 and a 26% increase in international student enrollment at Davis College and recently hired an agent to conduct recruitment activities in Latin America, while expanding recruitment efforts in several ASEAN countries.
- A new 5-year agreement is in place with Miami University & students are returning for in-person learning. Management is optimistic about total enrollment trends and expects its ongoing expanded recruiting activities and expected enrollment trends to lead to improved revenue and financial results over time.

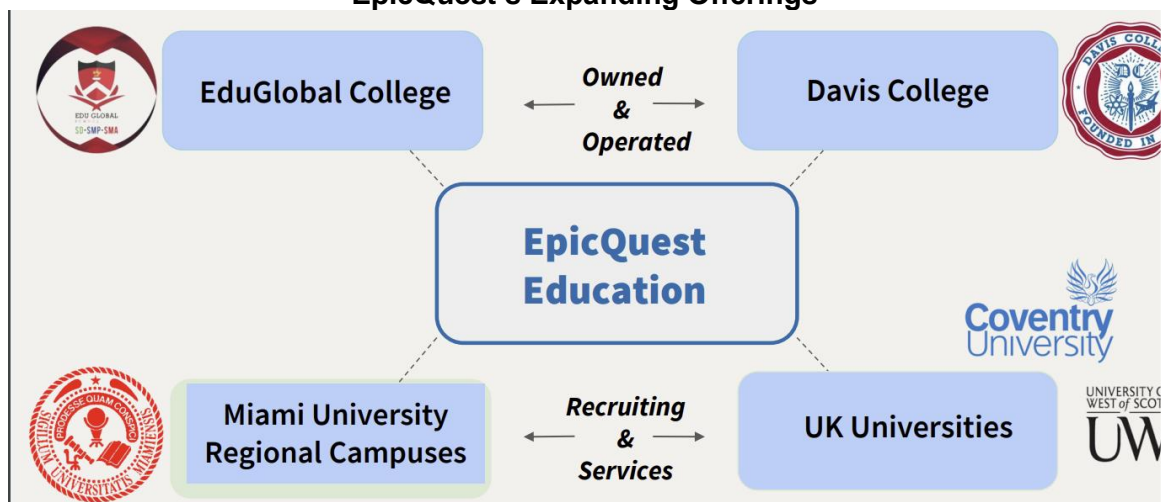
WHAT'S NEW? ADVANCING INTERNATIONALIZATION STRATEGY

Expanding international offerings via new affiliations...

EpicQuest Education Group International Limited (Nasdaq: EEIQ) has taken several steps over the past several quarters designed to expand its target market, recruitment efforts and educational offerings in order to provide a broader selection of education solutions for both domestic and international students interested in college, university and career oriented programs in the US and Canada, as well as the UK. 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.

EEIQ expects its ongoing expanded recruiting activities and anticipated enrollment trends to lead to revenue growth and improving operating results over time. We are encouraged by the company's measures, as well as by recent application statistics (see below). If EEIQ can deliver growth on its initiatives, in success we would anticipate share price appreciation over time. In the near-term, however, 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. We believe it likely will take time for the expanded recruitment efforts and collaboration agreements to make a sustainable impact on student enrollments and company revenue.

EpicQuest's Expanding Offerings



Source: [Company presentation](#)

Through two recent acquisitions, EpicQuest has become an owner and operator (O&O) of for-profit Davis College and EduGlobal College (see above). 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, medical, and early childhood education. The company also purchased the equity of British Columbia, Canada-based EduGlobal College, which focuses on English proficiency educational programming for students pursuing academic degrees.

... to expand student options, flexibility & enrollments...

The O&O initiative is a key component of the company's strategy to acquire academic institutions in order to have direct control over the programming and venues included in its educational offerings to international students and to expand into international institutions in order to offer its career-focused programs and services to broaden its target customer base and grow revenue. Moreover, the company also believes that many students enrolled in two-year career training and education venues might want to transfer into traditional universities through 'transfer pathway' programs following the completion of two year programs and offering a four-year baccalaureate degree program. Davis College 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 and is expected to help attract an estimated roughly 100 additional international students to Davis College in the 2023-24 academic year. This would represent a 355% year-over-year increase compared to 22 new international students admitted to Davis College's two-year associate's degree program in 2022-23. The program is slated to commence in Fall 2023.

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.

... and improve student opportunities following studies

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 this month. The company believes such internationalization will, in turn, drive student enrollment and contribute to fuller overall cultural 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 outcomes. 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.

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 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.

Davis College – Articulation Agreements

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

Expanding beyond the academic year ...

Moreover, the company is also extending its revenue generating period. Reflecting the seasonality of the academic calendar, EEIQ operated summer exchange camps for high school students from Latin American countries and China from July 16 to July 29, 2023. The camp was intended to provide introductory collegiate workshops, cultural exchange and exposure to US college and university programs, including English as a 2nd Language (ESL) for high school students from Mexico.

Enrollments up ...

Reflecting these measures and the end of the pandemic and easing of travel restrictions, EpicQuest recorded a 72% increase in international high school applications for 2023. Specifically, as of March 31, 2023, EEIQ's applications to the Miami University Regionals and Davis College 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 also announced a 26% increase in international student enrollment at Davis College reflecting its growing internationalization for the first three quarters of the 2022 – 2023 academic year. For the first three quarters of the 2022-23 academic year, 107 international students enrolled at Davis College and made up 31% of Davis College's student body, up from 85 international students in 2021-22 and 28%, respectively.

... as company expands geographic recruitment efforts to Latin America...

EpicQuest continues to broaden its recruiting efforts in order to expand its prospective customer base. In calendar 1Q23, Davis College hired a recruiting agent in Mexico to conduct initial recruitment activities in Latin America as part of its international expansion strategy. With this measure, EpicQuest now conducts recruitment efforts in several ASEAN and Latin American countries to broaden its student body.

These measure enable the company to provide a broad range of educational solutions for domestic and international students who are interested in pursuing college, university and career training programs in the company's key target markets. The company has implemented several steps to further its international expansion and other growth initiatives over the past few months. The company aims to diversify into additional international markets and, at the same time, to strengthen and expand its presence in the U.S., Canada and other key markets.

... while retaining focus on ASEAN markets...

The company aims to further penetrate the Chinese student market and also expand into additional markets in Southeast Asia. A recent Davis College / EduGlobal College - Sri Lanka agreement furthers the company's goal to build upon its presence in certain target new markets by establishing an operating hub in Sri Lanka to facilitate further expansion into the Southeast Asia market. Target Southeast Asian markets include Viet Nam, Thailand, Malaysia and India. EpicQuest has personnel in place in Sri Lanka to facilitate this initiative.

Pathway program for international students to advance studies

EduGlobal College has a partnership with Algoma University to facilitate transfer pathways for international students who want to complete post-secondary studies in Canada through its International Undergraduate Pathways Program - iUPP). International students who have completed iUPP and its English for Academic Purposes - EAP) program, a 36-week intensive English program to enable students to achieve proficiency levels required for admission to Algoma University, are eligible to pursue baccalaureate degrees and graduate certificates at Algoma's campuses in Brampton and Sault Ste. Marie.

EEIQ's EduGlobal College recently signed an articulation agreement with Yorkville University to establish a pathway for EduGlobal students who have successfully completed the International Undergraduate Pathways Program - iUPP) or English for Academic Purposes - EAP) 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.

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 dormitory space, cafeteria services and transportation, among others.

The company recently signed a new 5-year agreement with Miami University to recruit for the MU Regional Campuses' English Language Center. Moreover, students are returning for in-person learning now, which the company views as positive for EEIQ enrollment trends.

EpicQuest's Miami University Campus Relationships With Regional Campuses



Source: Company reports

At the same time, the company's various agreements and pathway programs that enable greater student flexibility are also expected to lead to improving enrollment trends over time. Management is optimistic about total enrollment trends and believes its ongoing expanded recruiting activities and expected enrollment trends to lead to improved revenue and financial results over time. Enrollments at the MU Regional Campuses continue to show the lingering impact of reduced recruitment efforts during the pandemic, according to management. 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.

The company is also optimistic about enrollment trends at Davis College. As of March 31, 2023, 111 students were enrolled in the winter quarter and 99 students in the spring quarter for Davis College. EEIQ anticipates substantially higher enrollments of international students for fiscal 2024, particularly following the Davis College-CTBI agreement that calls for 46 students to enter the joint program at Davis College annually.

RECENT RESULTS / OUTLOOK

Last month, EpiQuest's reported 1H financial results for the six months ending March 31, 2023. The company reported revenues of \$3.42 million for 1H FY 2023 compared to \$4.06 million for 1H FY 2022. The decline was primarily attributable to the lingering impact of the pandemic, particularly, according to EEIQ, as recruiting activities leading into the 2023 period were down. Nevertheless, reflecting cost containment and efficiency measures, the company's relative costs were lower year-over-year and its gross margin improved. OpEx of \$5.84 million was down from \$6.06 million in 1H FY 2022, despite higher G&A expenses primarily reflecting non-cash share-based compensation. EEIQ's gross profit was \$2.65 million, down about 2.8% from the same period of 2022, and the gross margin was 77.5% compared to 67.3%.

EEIQ recognized an operating loss of \$3.19 million and net loss of \$3.00 million, or (\$0.24) per share for the first half of fiscal 2023, compared to \$3.33 million and \$2.54 million or (\$0.23) per share for the same period of 2022. At the end of the period, EEIQ had \$5.86 million in cash and equivalents to advance its strategy. EEIQ expects its ongoing expanded recruiting activities and expected enrollment trends to lead to improved revenue and financial results over time.

VALUATION

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.

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.

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.

RECENT NEWS

- EEIQ reported 1H23 results on July 14, 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.
- An MOU with Chongqing College of Electronic Engineering was signed on May 23, 2023.
- On May 15, 2023, EEIQ's Davis College signed an MOU with Suzhou Polytechnic Institute of Agriculture.
- On May 8, 2023, EduGlobal College announced a transfer pathway with Yorkville University.
- On May 3, 2023 EEIQ announced it would operate summer camps for high school students.

- EpicQuest announced a 26% increase in international student enrollment at Davis College on April 25, 2023.
- On April 12, 2023, EpicQuest announced an agreement between Davis College and Chongqing Technology and Business Institute (CTBI) for the intake of at least 46 students in September 2023.
- EpicQuest gained 100% ownership of EduGlobal College on April 6, 2023.
- On April 4, 2023, EEIQ announced a 72% increase in applications for 2023.
- EpicQuest launched a Latin American recruitment initiative on March 30, 2023.

PROJECTED FINANCIALS

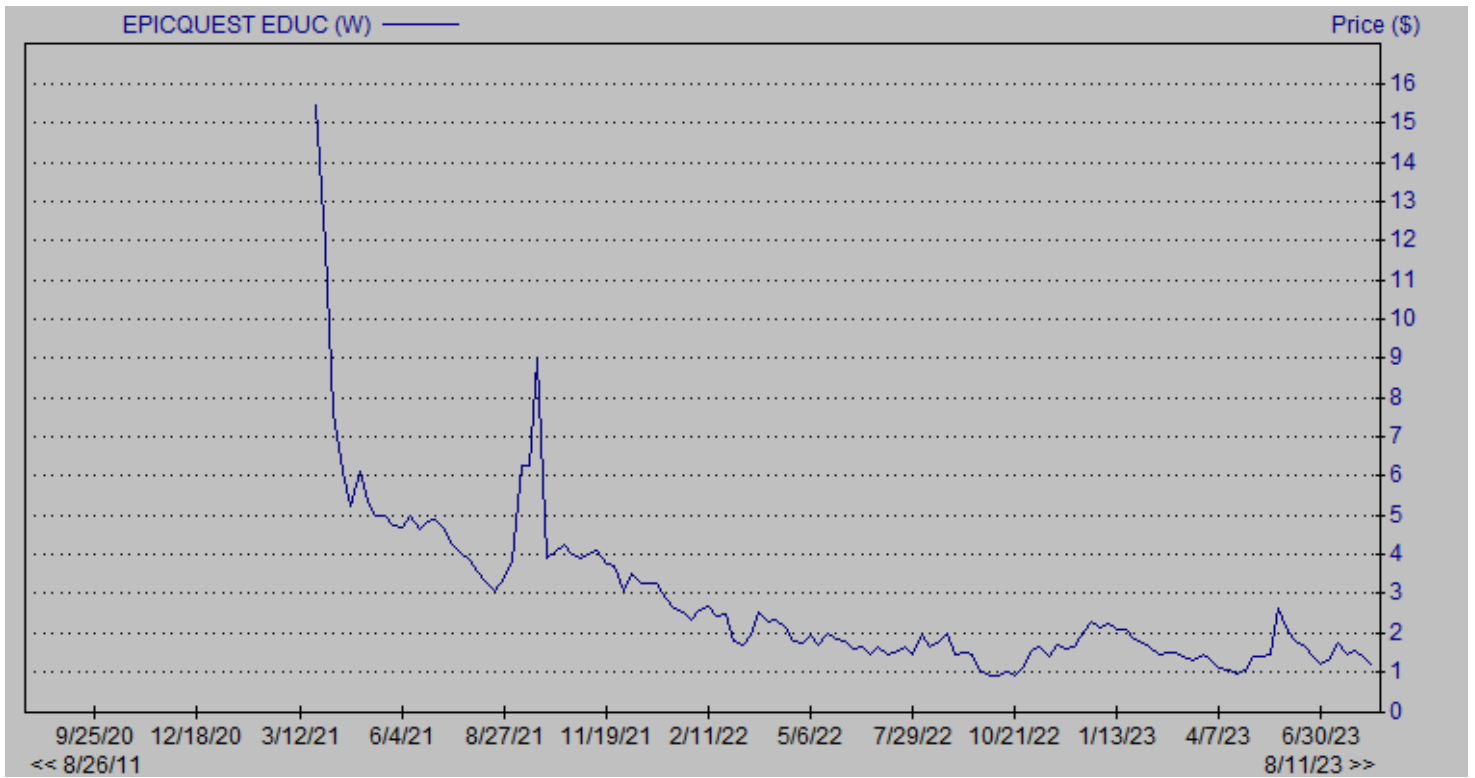
EpicQuest Education Group International Income Statement & Projections (\$) FY ends Sept.

| | 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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