

# Zacks Small-Cap Research

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## Elite Education

(EEIQ-NASDAQ)

### EEIQ: Elite Expands Target Market; Applications & Enrollments Rebound

Enrollments have picked up, the ongoing pandemic-related challenges notwithstanding. At September 30, 2021, EEIQ had 136 students who had been admitted to the English Language Program at the MU regional campuses and paid their tuition fees, compared to 134 students for the same period in 2020. The conversion rate of students who applied and subsequently enrolled was 36.4% compared to 25.7%. Elite views these as positive indicators of the accelerating return to pre-pandemic conditions and enrollment metrics.

Current Price (11/1/21) \$4.10  
Valuation \$10.00

### OUTLOOK

Elite has entered into a non-binding letter of intent with U.S.-based Ameri-Can Education Group, which focuses on career-training education. The transaction, if consummated, would expand Elite's offerings with complementary educational services in the career-training space. EEIQ expects that providing a broader set of academic options would help expand its target demographic and geographic markets and facilitate its ability to enter Southeast Asian markets, as well as expand within China. Elite also believes that its service offerings, including potentially the Ameri-Can offerings, are highly aligned with China's regulatory goals.

### SUMMARY DATA

52-Week High \$18.54  
52-Week Low \$2.91  
One-Year Return (%) N/A  
Beta N/A  
Average Daily Volume (sh) 1,222,284

Shares Outstanding (mil) 10  
Market Capitalization (\$mil) \$40  
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 2021 Estimate N/A  
P/E using 2022 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)
2018					\$6.3 A
2019					\$8.7 A
2020					\$9.1 A
2021		\$3.1 A		\$4.7 E	\$7.8 E

#### Per Share Data

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2018					\$0.13 A
2019					\$0.26 A
2020					\$0.13 A
2021		-\$0.04 A		\$0.10 E	\$0.06 E

Quarters might not sum due to rounding & share counts

Disclosures on page 11

\*Includes CEO's corp. holdings

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## KEY POINTS

- Elite Education Group has launched a strategic growth initiative to enhance its long-term expansion plans. The company has entered into a non-binding letter of intent with a U.S. company that focuses on career-training education, Ameri-Can Education Group Corp.
- If the transaction is consummated, Elite would expand its offerings with complementary educational services in the career-training space. By having a broader set of academic options to offer students, the company also expects to expand its target markets.
- Elite also believes that having a broader product and services offering such as those Ameri-Can suite of offerings would facilitate its ability to enter Southeast Asian markets and attract students from new countries, as well as from China.
- Chinese regulatory authorities have recently made several changes to China's afterschool tutoring industry. Elite does not operate in that sector and focuses on students interested in pursuing study abroad. The company also believes that its service offerings, including potentially the Ameri-Can offerings, are aligned with China's regulatory goals.
- In 2020 and 1H21, enrollments were hurt by the pandemic. Enrollments have picked up, despite the ongoing challenges related to the pandemic. As of September 30, 2021, EEIQ had 136 students who had been admitted to the English Language Program at the MU regional campuses compared to 134 students for the same period in 2020. The conversion rate of students who applied and subsequently enrolled was 36.4% compared to 25.7%.
- Recently, Elite announced that its agreement with the Oxford campus of MU had been terminated. Elite operates on other of Miami University's campuses, Middletown and Hamilton, and the relationship with other MU regional campuses has not been impacted, according to management. Moreover, Elite anticipates that the impact on its operating results will be minimal.

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## WHAT'S NEW? NEW GROWTH INITIATIVES

### *Expanding & diversifying product offerings*

Elite Education Group International (Nasdaq: EEIQ) has launched a strategic growth initiative as part of its long-term expansion plans. The company is expanding its marketing and service offerings to include students pursuing career training programs. Towards this goal, which is that is consistent with Elite's aim to become a leading broad-based education company, Elite entered into a non-binding letter of intent with a U.S. company that focuses on career-training education, Ameri-Can Education Group Corp.

If the transaction moves forward, pending Elite's due diligence and board and other approvals, Elite would purchase 70% of Ameri-Can for \$2.5 million, plus an additional \$2.5 million cash infusion in Ameri-Can if the transaction is consummated. Half of the payment would be in cash and the other half would be paid with EEIQ shares at a share price of \$6.20. Elite would control 77.78% of voting rights.

### *Career-training education represents opportunity to broaden product & service offering*

Elite expects the prospective addition of Ameri-Can to help it expand its offerings with complementary educational services. Elite believes it can provide value added services to help students apply for and succeed in career training programs. Elite would be able to offer students from China and other Asian

countries a broader set of academic and career-training options. In turn, the expanded services offering would also expand Elite's education services target market.

### **Targeting Expansion in Southeast Asia**

Currently, Elite recruits prospective students throughout China for study abroad at universities, with four sales and marketing regions that cover high schools located throughout the country. The company's marketing channels include cooperation agreements with the five largest study abroad agencies in China, B2B partnerships, international high school and language programs, and university foundation programs and other programs for high school students.

Elite is also implementing plans to launch new projects in markets in Southeast Asia, including Vietnam, Thailand, Hong Kong, and Myanmar, among other markets, and make it easier for students in these countries interested in studying abroad to navigate the application process and then to facilitate their living situations when they arrive at their international destination. The company intends to replicate the University of Miami (Regional Campuses) partnership model (see below) with other elite universities in the U.S., U.K., Canada and Australia to attract a growing number of international students.

Elite also believes that having a broader product and services offering such as the Ameri-Can suite of offerings would facilitate its ability to enter Southeast Asian markets and attract students from new countries, as well as from China. Expanding its reach and marketing efforts is a core goal for Elite (see below). Elite believes demand for technical career programs in its target markets is high and likely to grow.

Elite expects to make several potential enhancements that would make the Ameri-Can offering more robust. 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 the two year programs.

### ***Company believes its offerings are aligned with China's regulatory goals***

Chinese regulatory authorities have recently made several changes to China's afterschool tutoring industry. Elite does not operate in that sector and focuses on students interested in pursuing study abroad. The company also believes that its service offerings, including potentially the Ameri-Can offerings, are aligned with China's regulatory goals, including the recent announcement by China's regulators to prioritize career-training education.

In late 2020, Chinese regulators, including the Ministry of Education (MoE) and Ministry of Human Resources and Social Security (MoHRSS), released the *Vocational Education Quality Improvement Action Plan*. The 3-year plan is intended to support the country's goals to improve vocational and career training for the nation's workforce.

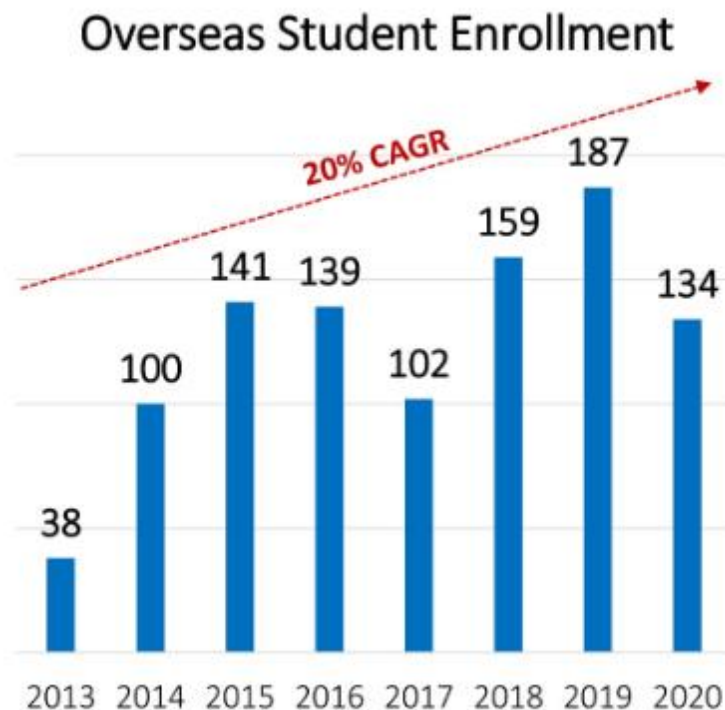
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## **2H21 ENROLLMENTS ILLUSTRATE IMPROVING FUNDAMENTALS**

### ***Number of enrolled students climbing***

Elite reported 2H21 highlights earlier this month. In 2020 and 1H21, enrollments were hurt by the pandemic, as Miami University (MU) of Ohio delayed many, if not most, of its classes and programs. As a result, there were significantly fewer students using the company's service in 2020, as illustrated below. For example, Elite had 132 confirmed enrolled students at the end of May 2020 compared to 159 as of May 2019, which was a 17% year-over-year decline. Similarly, the number of applications Elite received also dropped off substantially in 2020 as a result of the COVID-19 pandemic, as well as rising political

tension between the U.S. and China. In 2020, the company received 24 applications after June 1, down from 42 in 2020.



Source: Company reports

Enrollments have picked up, despite the ongoing challenges related to the pandemic. As of September 30, 2021, EEIQ had 136 students who had been admitted to the English Language Program at the MU regional campuses and paid their tuition fees. This compares to 134 students for the same period in 2020. Moreover, the conversion rate of students who applied and subsequently enrolled was also up, at 36.4% compared to 25.7% in the same period in 2020. Elite views this as a positive indicator of the accelerating return to pre-pandemic conditions and enrollment metrics.

#### ***... as Elite also focuses on geographic diversification efforts & expanded marketing options***

During the pandemic, Elite shifted much of its recruitment marketing efforts to a virtual or online format in China, including online guidance classes and training sessions, to maintain brand awareness and student enrollments. In addition, because universities in other countries such as the UK, Australia and Canada pre-pandemic had experienced a rise in international students from China, the company's growth plan includes expanding to additional U.S. and UK universities, as well as further penetrating the Chinese student market and also expanding into additional markets in Southeast Asia.

Elite also initiated a strategy to work with a greater number of academic institutions and also began opening new English-speaking markets, such as Canada and the U.K. Elite has Highrim Holding International Limited in Canada to focus primarily on expanding the company's operations in Canada and the U.K. The company has an online initiative, including an online education platform in partnership with Miami University and the University of Northumbria, which has campuses in the U.K. and Amsterdam.

#### ***EEIQ Strives To Be an End-to-End Solution for Students***

Elite offers collaborative services with Miami University of Ohio, one of the oldest national public universities in the U.S., operating since 1809. Miami University operates seven colleges at five different

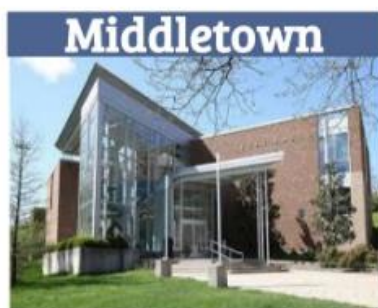
campuses. MU offers more than 120 academic programs to undergraduates, 60 to graduate students and 13 different Ph.D. degrees. Miami University's freshman retention rate is 91%, according to US News and World Report rankings, which is ascribed to the university's high student/teacher ratio.

Elite helps Chinese high school and college students study in the U.S., primarily via its subsidiary Miami International Education Center. The Miami University of Ohio is among the top 100 U.S. universities for Chinese students seeking to study in the U.S. Since many Chinese students need to improve their language skills to study at Miami University (Regional Campuses), Elite has worked with Miami University (Regional Campuses) since 2015 and established an English Language Center at the university's Middletown campus.

### ***Company anticipates minimal impact of ending Oxford campus agreement***

Recently, Elite announced that its agreement with the Oxford campus of MU had been terminated. Elite operates on other of Miami University's campuses, Middletown and Hamilton, and the relationship with other MU regional campuses has not been impacted, according to management. Moreover, Elite anticipates that the impact on its operating results will be minimal.

### **Elite's Miami University Campus Partnerships With Regional Campuses**



Source: Company reports

### **One-Stop Solution For Chinese And Other Students Abroad**

The company provides supportive services, including managing living situations, transportation and meals, as well as offering guidance, if needed. These services enable students to focus on academic studies. Elite's subsidiary Quest Holding International (QHI) operates in Middletown, Ohio near the University of Miami campus. It was established in Ohio in 2012 to facilitate study abroad and post-study services for Chinese students who want to study in the U.S. The company established its subsidiary, Miami International Education Center LLC (MIE), in Ohio in 2017. QHI is a cooperative facility EEIQ operates with American universities that help Chinese students to study abroad, and it provides catering services, off-campus dormitory accommodations with bilingual speaking resident advisors, transportation services with its shuttles, academic counseling and other services with the goal of providing safe and structured experiences abroad.

By offering supportive services to Chinese students, Elite Education Group believes that it provides Chinese students an opportunity to pursue international study. The company covers many non-academic services so that the students can focus on their studies. Moreover, by providing an academic track that includes an intensive English program with MU Regional Campuses, Elite helps its international students improve English language proficiency and earn admission.

By providing services to ensure a safe and structured academic environment for its students, the company believes that parents are more comfortable allowing their children to study abroad. Elite provides off-campus student housing, dorm supervision, dining services, a student life center, a gym and even 24-7 emergency support. The company aims to be a one-stop solution making it easier for

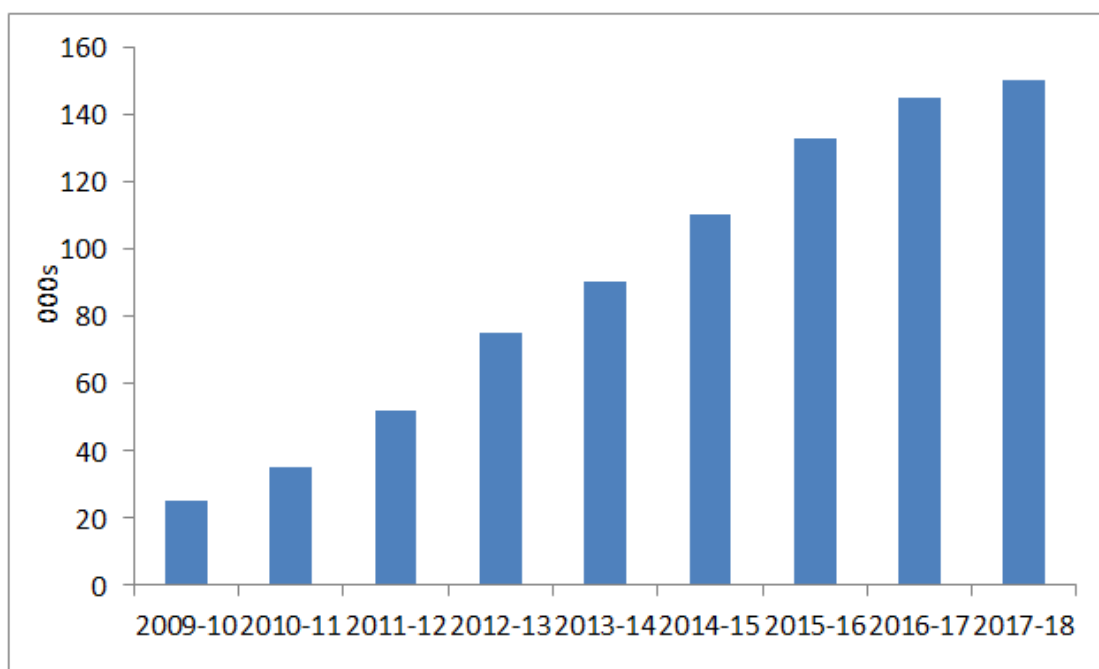
candidates to prepare for, apply for and complete study abroad and obtain counseling for post-graduate studies and employment.

By assuming many of the non-academic tasks for its student customers, Elite enables Chinese students to focus almost exclusively on their studies. The company aims to be a one-stop solution making it easier for Chinese students to study abroad.

### Rising interest in international study

As GDP increased in China over the past decade, more students pursued higher education, including enrollment in foreign universities. This led to a rise in spending on education. According to Open Doors, the number of students from China attending U.S. colleges and universities increased more than four-fold from 2008 to 2018, although the pace of growth appears to have slowed in 2019, in part reflecting a slower growing economy and improvements in domestic education, according to [University World News](#), and were negatively impacted by COVID-19 in 2020, as noted.

### Growth of Chinese Undergraduate Students in the U.S.



Source: Zacks from data from the Institute of International Education accessed March 2021

According to Elite, the U.S. remains the leading destination for Chinese students seeking study abroad opportunities, although students are increasingly looking to other markets, as well. As a result, the company has increased its marketing efforts in the U.K. and formed a partnership with the University of Northumbria (see below).

Management believes that because Chinese families want to ensure that the overseas study environment for their children will be safe and structured, the company's end-to-end solutions for students make parents more comfortable about allowing students to study internationally. For instance, Elite's US office maintains an around-the-clock hotline to Miami University Regional Campuses in case international students require unscheduled transportation services.

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## VALUATION

We believe it is difficult to compare Elite to most publically-traded education or training companies, given Elite's focus. Moreover, the company believes that the new Chinese regulatory directives aimed at the private tutoring afterschool sector underscore the value of its service offerings and the differences between the services it provides and those offered by the afterschool education sector.

Elite is optimistic about its plans to replicate its successful relationship with MU at other institutions of higher education, to expand the operations of Highrim in Canada and the U.K. and to also expand its recruiting efforts into other markets such as Vietnam and others, which could, in turn, imply higher growth prospects.

If Elite can deliver growth on the initiatives discussed above, in success we would anticipate share price appreciation over time. With these growth initiatives, we believe the company could enjoy double digit annual revenue growth and obtain operating leverage that could lead to EPS of about \$0.38 in FY 2022.

As the company continues to boost awareness of the business strategy and if EEIQ can execute its strategy successfully, we would anticipate multiple expansion. In success, we therefore think we could see the shares attain a valuation of about \$10 per share at a market multiple. Moreover, given the company's sizable target market and growth prospects, it would not surprise us if the shares attained a higher than market multiple.

Any delay or failure in successful execution of the strategy could cause the share price to decline and represent a potential risk to our valuation but we believe the risk / reward ratio could be attractive for investors who have a higher than average risk tolerance and longer time horizon. In our view, EEIQ shares represent an option on management's ability to continue to execute its growth strategy.

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## RISKS

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

- Among the biggest risks, in our view, is that the Elite does not gain market share in other markets as quickly as the company expects, which leads to slower than anticipated revenue ramp.
- The company might not gain traction through its new sales channels as quickly as it expects.
- 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.
- Regulatory risk.

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## RECENT NEWS

- Elite announced potential Ameri-Can deal on October 18, 2021.
- Elite reported 2H21 highlights on October 5, 2021.
- Elite reported 1H21 results on July 13, 2021.
- On March 31, 2021, Elite Education Group announced the partial exercise of the underwriters' option.
- Elite completed its IPO on March 30, 2021.
- The company accelerated its online initiative as the COVID-19 pandemic changed how college students pursue academic studies.
- The company reported fiscal year (FY) end September 30, 2020 results.



## PROJECTED FINANCIALS

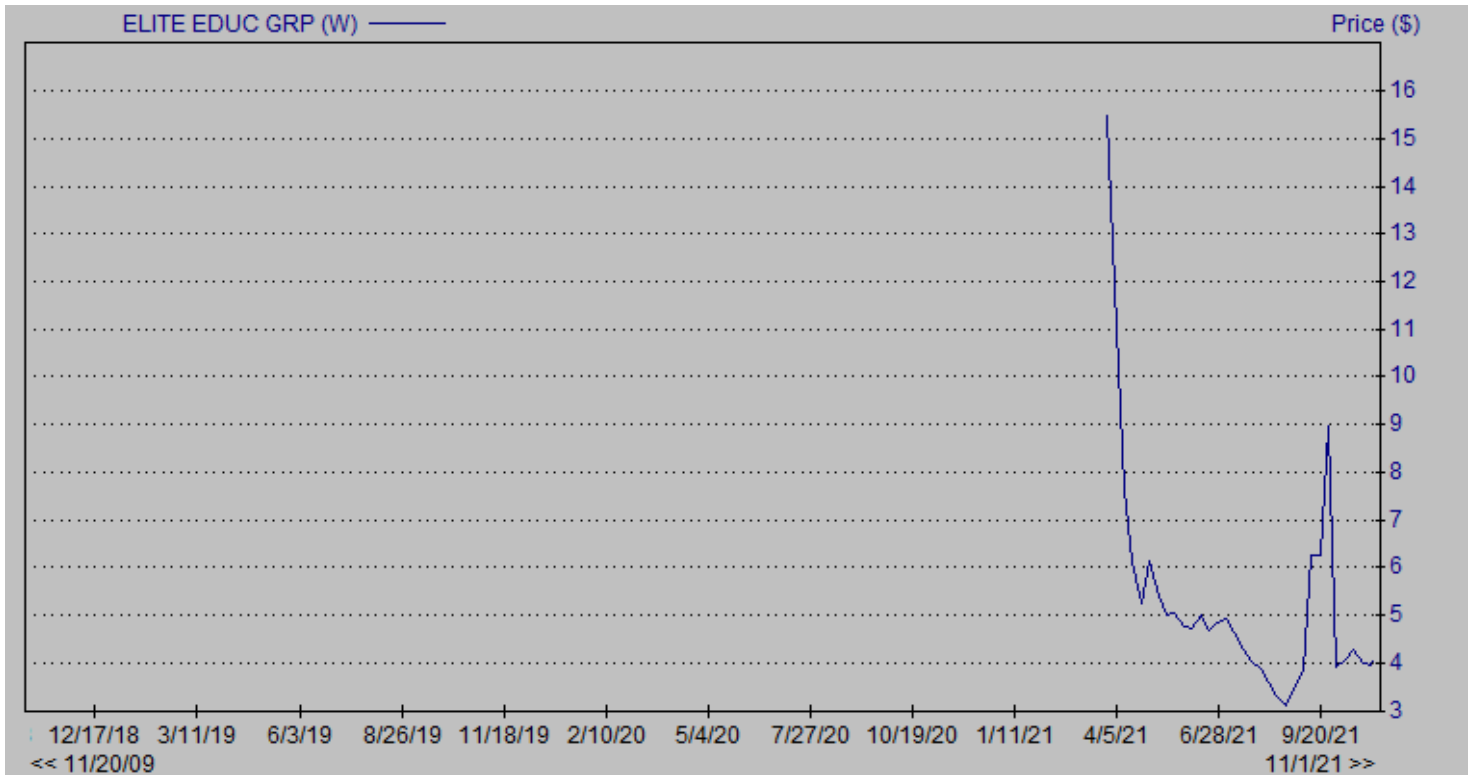
### Elite Education Income Statement & Projections (\$)

	2018	2019	1H20A	2H20	2020	1H21A	2H21E	2021E
Revenues	\$6,285,176	\$8,700,332	\$6,128,360	\$2,934,777	\$9,063,137	\$3,101,646	\$4,695,643	\$7,797,289
Costs of services	<u>1,752,049</u>	<u>2,228,307</u>	<u>1,555,819</u>	<u>786,457</u>	<u>2,342,276</u>	<u>1,280,083</u>	<u>1,179,686</u>	<u>2,459,769</u>
Gross profit	4,533,127	6,472,025	4,572,541	2,148,320	6,720,861	1,821,563	3,493,559	5,315,122
Selling expenses	1,288,863	1,965,102	1,142,150	1,168,038	2,310,188	626,017	632,277	1,258,294
G&A	<u>1,579,650</u>	<u>1,863,290</u>	<u>1,751,402</u>	<u>1,363,718</u>	<u>3,115,120</u>	<u>1,588,611</u>	<u>1,604,497</u>	<u>3,193,108</u>
Total operating expenses	2,868,513	3,828,392	2,893,552	2,531,756	5,425,308	2,214,628	2,236,774	4,451,402
Income from operations	1,664,614	2,643,633	1,678,989	(383,436)	1,295,553	(393,065)	1,256,784	863,719
Other income				(55,000)	(55,000)		-	-
Interest income	(51,879)	(79,921)	(19,900)	(15,393)	(35,293)	(38,152)	(38,534)	(76,686)
FX	-	-	12,682	(35,944)	(23,262)	-	-	-
Total other (income) / expenses	(51,879)	(79,921)	(7,218)	(106,337)	(113,555)	(38,152)	(38,534)	(76,686)
Pretax income	1,716,493	2,723,554	1,686,207	(277,099)	1,409,108	(354,913)	1,295,318	940,405
Taxes	646,879	668,796	374,642	22,911	397,553	(63,025)	284,970	221,945
Net income	1,069,614	2,054,758	1,311,565	(300,010)	1,011,555	(291,888)	1,010,348	718,460
Comprehensive income	1,069,614	2,054,758	1,311,565	(300,010)	1,011,555	(291,888)	1,010,348	718,460
EPS	\$0.13	\$0.26	\$0.17	(\$0.04)	\$0.13	(\$0.04)	\$0.10	\$0.06
Average shares out	7,938,000	7,938,000	7,938,000	7,938,000	7,938,000	7,946,678	9,938,000	9,938,000
<i>Metrics</i>								
Gross margin	72.1%	74.4%	74.6%	73.2%	74.2%	58.7%	74.4%	75.2%
COGs % revenue	27.9%	25.6%	25.4%	26.8%	25.8%	41.3%	25.1%	24.8%

Source: Company reports & Zacks

FY ends Sept. 30

# HISTORICAL STOCK PRICE



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