

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

M. Marin
312-265-9211
mmarin@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

EpicQuest Education (EEIQ-NASDAQ)

EEIQ: Company Optimistic About Growth Strategy & Enrollment Trends

EpicQuest's stake in Davis College and EduGlobal College are 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. The company intends to further expand the reach of these O&O institutions via partnerships and agreements in order to broaden its target customer base and offerings and grow revenue.

Current Price (2/2/23) \$1.75
Valuation \$2.50

OUTLOOK

EpicQuest aims to enhance the international program offerings at its O&O institutions Davis College and EduGlobal College in order to offer its students opportunities for global learning and to attract a geographically diverse student base. EpicQuest has formed many agreements in recent months to advance this goal, including recent agreements with ICBT Campus of Sri Lanka. The company is also establishing an operating hub in Sri Lanka to facilitate further expansion into the Southeast Asia market. 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.

SUMMARY DATA

52-Week High \$3.63
52-Week Low \$0.80
One-Year Return (%) -32
Beta N/A
Average Daily Volume (sh) 47,970

Shares Outstanding (mil) 11
Market Capitalization (\$mil) \$21
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		\$4.4 E			\$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		-\$0.26 E			-\$0.61 E

Quarters might not sum due to rounding & share counts

Disclosures on page 10

*Includes CEO's corp. holdings

KEY POINTS – DEVELOPING A HUB TO EXPAND PRESENCE IN SOUTHEAST ASIA

- Through recent investments, EEIQ owns and operates (O&O) Davis College and EduGlobal College as part of its O&O strategy to exert greater control over the programming it offers and to expand its career-focused programs and services. Davis College also plans to offer a four-year baccalaureate degree program pending receiving regulatory approvals.
- The company also aims to enhance the international program offerings at both Davis College and EduGlobal College to offer its students opportunities for global learning and to attract a geographically diverse student base. EpicQuest has formed many agreements in recent months to advance this goal, including a recent agreement for Davis College and EduGlobal College with ICBT Campus of Sri Lanka.
- The presence in Sri Lanka also furthers EpicQuest's goal to build its presence in certain target new markets. The company is establishing an operating hub in Sri Lanka to facilitate further expansion into the Southeast Asia market.
- The company's growth plan also includes expanding to additional U.S. and UK universities. In November 2022, the company entered into an agreement with The Education Group, agreeing to recruit students from China for admission to the University of the West of Scotland at the university's London campus.
- 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.
- EEIQ is optimistic about enrollment trends. The number of enrolled students is down (80 at Miami University as of September 30, 2022, compared to 136 at the same period of 2021), but the company believes the decline represents the lingering pandemic impact and views the on-campus arrival for Fall 2022 of students admitted in prior years and China's indications about easing travel restrictions as positive indicators.

WHAT'S NEW? EXPANDING RECRUITMENT EFFORTS & PROGRAMMING OFFERINGS

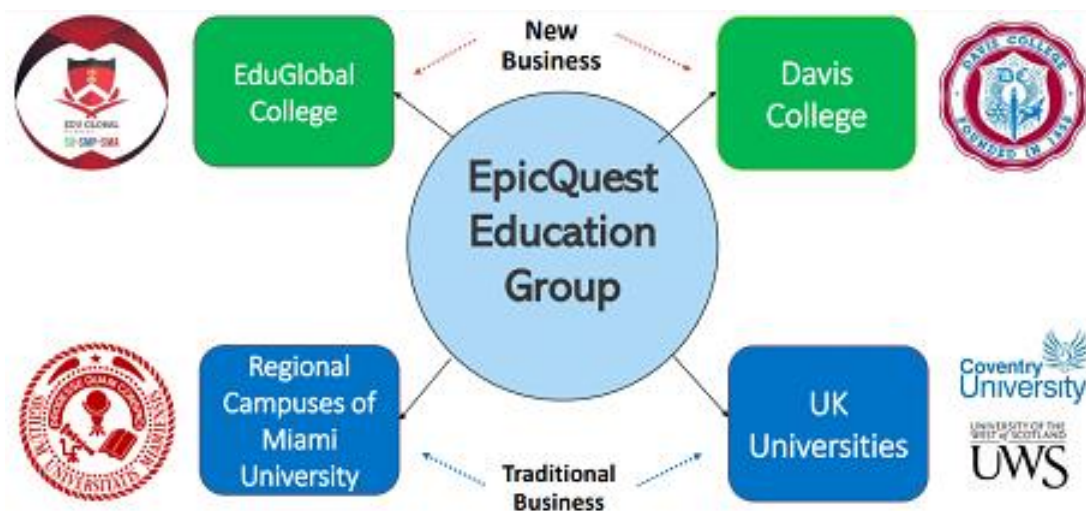
EpicQuest Education Group International Limited (Nasdaq: EEIQ) provides a broad range of educational solutions for domestic and international students who are interested in pursuing college, university and career training programs in the company's key target markets. The company has implemented several 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.

EpicQuest continues to broaden its recruiting efforts in order to expand its prospective customer base and concurrently internationalize the student body participating in its programs. The company has formed multiple partnerships with institutions of higher education to provide its students access to a broad array of programs and expects to develop additional ones.

Through recent investments, EpicQuest has become an owner and operator (O&O) of for-profit Davis College and EduGlobal College. Specifically, through its acquisition of a 70% stake in Ameri-Can Education Group Corp. and Ameri-Can's recently completed acquisition of Davis College, EEIQ now effectively owns Davis College. Davis 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 80% of the equity of British Columbia, Canada-based EduGlobal College, which focuses on English proficiency educational programming for students pursuing academic degrees.

EpicQuest's goal is to expand the career training options it offers to facilitate students' career choices and options after graduating so that its students have marketable skills that enhance their ability to gain employment following graduation. 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. Davis College also plans on offering a four-year baccalaureate degree program pending regulatory approvals.

EpicQuest's Expanding Offerings



Source: [Company Presentation](#)

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.

Enhancing international offerings at Davis College & EduGlobal College

The company also aims to enhance the international program offerings at both Davis College and EduGlobal College to offer its students opportunities for global learning and to attract a geographically diverse student base. EpicQuest has formed many agreements in recent months to advance this goal. Through agreements with multiple international education institutions, the company has expanded the reach of its O&O colleges into new international markets, including the Philippines, Singapore, Malaysia, within China and Sri Lanka.

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 also signed an agreement for bilateral exchange operations and the development of a program in Interior Design with Chongqing Technology and

Business Institute, which is located in Chongqing, China. The agreement will be in place for five years. Chongqing Technology and Business Institute is a full-time college approved by the Ministry of Education of China.

Davis College and EduGlobal College also recently signed an MOU (memorandum of understanding) with ICBT Campus of Sri Lanka. Recent academic accreditation enable ICBT to issue standard internal certificates and transcripts to students from both institutions who complete first year studies in Sri Lanka, while Davis College students who complete the first year of study of the associate degree program at ICBT will be guaranteed placement for their second year at Davis College in the U.S. and university placement in order to complete their undergraduate degrees.

New international offerings at Davis College & EduGlobal College

- 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

Sri Lanka key hub to expand marketing & recruitment efforts in Southeast Asian markets

The company aims to further penetrate the Chinese student market and also expand into additional markets in Southeast Asia. Thus, the Davis College / EduGlobal College - Sri Lanka agreement also furthers the company's goal to build upon its presence in certain target new markets. The company is 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.

Moreover, because universities in countries such as the UK, Australia and Canada saw a rise in international students from China before the pandemic, the company's growth plan includes expanding to additional U.S. and UK universities, as well. In November of 2022, the company entered into an agreement with The Education Group, agreeing to recruit students from China for admission to the University of the West of Scotland at the university's London campus. For the University of West of Scotland, EpicQuest will develop and manage activities related to marketing and student admissions and delivering courses to prepare students, including facilitating English language proficiency. The University of West of Scotland has four campuses in Scotland and one in central London. It offers a range of career-focused undergraduate, postgraduate and research degree opportunities to roughly 17,000 students from 70+ countries. EpicQuest has also operated as a recruiting agent for admission to Coventry University since April 2021. Coventry University has more than 29,000 undergraduate and 6,000 postgraduate students at its various campuses.

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.

COMPANY OPTIMISTIC ABOUT 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. Specifically, EpicQuest operates 11 dormitories, a cafeteria, a student gym and a student life center on the regional Middletown and Hamilton campuses of Miami University. During the pandemic when students generally pursued online learning, these services generated no revenue for EpicQuest. Now that students are returning for in-person learning, service revenue is expected to rebound.

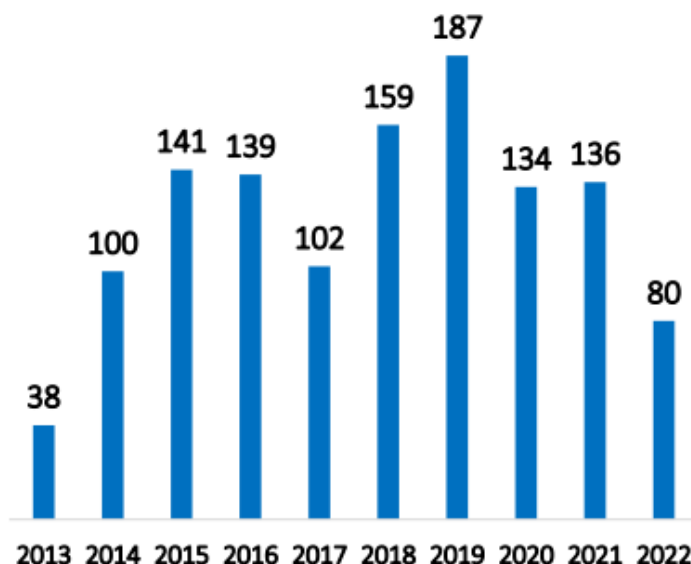
EpicQuest's Miami University Campus Relationships With Regional Campuses



Source: Company reports

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. The Miami University of Ohio is among the top 100 U.S. universities for Chinese students seeking to study in the U.S. EpicQuest operates on Miami University's Middletown and Hamilton campuses.

Overseas Student Enrollment at MU Regional Campuses



Source: [Company Presentation](#)

Eighty students who had been admitted to the English Language Program at the MU Regional Campuses paid full tuition, as of September 30, 2022, compared to 136 students for the same period of 2021. The company believes the decline represents the lingering impact of the pandemic. Nevertheless, management is optimistic about in-person and total enrollment trends. For one thing, including students who had been admitted in the two prior years, 89 students arrived for in-person learning at MU for the Fall 2022 term. EEIQ also notes China's recent indications easing travel restrictions.

RECENT RESULTS / OUTLOOK

EpiQuest's revenue for the fiscal year (FY) ended September 2022 increased 18.5% to \$6.3 million from \$5.3 million reported in FY 2021. Notably, revenue fell by 41% in FY 2021, primarily as a result of pandemic travel restrictions. The company attributes the FY 2022 year-over-year increase primarily to easing of travel restrictions by the U.S., which enabled more international students to attend classes in-person. EEIQ's FY 2022 operating expenses more than doubled (up 135%) year-over-year primarily reflecting higher G&A expenses as a result of stock-based compensations and new management service fees incurred in FY 2022. Specifically, in FY 2022 the company entered into a management service agreement with a third-party that manages its Beijing office. The company reported a net loss attributable to common stockholders of \$6.1 million or (\$0.55) per share, compared to \$1.1 million or (\$0.12) per share, respectively, in FY 2021.

VALUATION

EEIQ is optimistic about its growth plans and its O&O strategy as it expands its presence into new markets and 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.

Our earlier valuation analysis was predicated on EEIQ's pre-pandemic revenue. Reflecting the lingering impact of the pandemic and EEIQ's evolving growth strategy, we revise our valuation analysis based on 2023 forecasts. Given the fluid situation of Covid cases and travel restrictions, we assign an 85% confidence multiple to our 2023 forecast at this point. Conversely, if enrollments 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 such as Coursera, Inc., Grand Canyon Education and Instructure, among others. Nevertheless, the mean valuation of 4.7x in this sector can provide a benchmark, in our view. If we apply the above-noted 4.7x multiple to our FY 2023 revenue forecast, we derive a valuation of about \$2.94 per share for EEIQ shares. Then applying the above-noted 85% confidence multiple 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.

RECENT NEWS

- EEIQ reported FY 2022 results on February 1, 2023.
- The company provided an operations update on January 5, 2023.
- On December 13, 2022, EEIQ announced that Ameri-Can had completed its acquisition of Davis College.
- On September 12, 2022, EpicQuest Education Announces Davis College and EduGlobal College Sign MOUs and Recruitment Agreements with ICBT Campus of Sri Lanka.
- EpicQuest Education Group International Limited Announces Corporate Name Change to EpicQuest Education Group International Limited on August 31, 2022.
- On August 9, 2022, Davis College Signs MOU with Isabela State University of the Philippines as it Furthers its Mission of Internationalization.

PROJECTED FINANCIALS

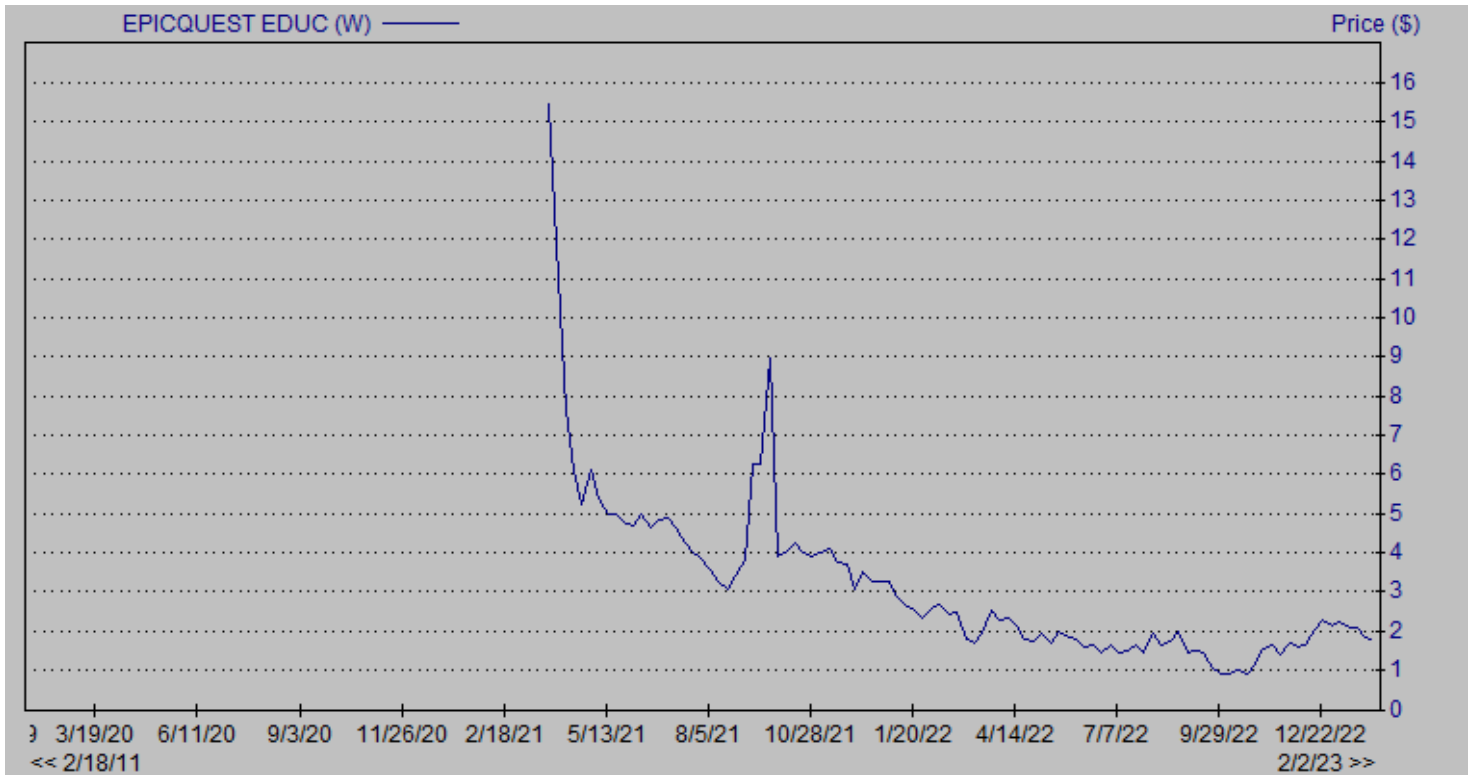
EpicQuest Education Group International Income Statement & Projections (\$) FY ends Sept.

	2018	2019	2020	1H21A	2021A	1H22A	2022A	1H23E	2023E
Revenues	\$6,285,176	\$8,700,332	\$9,063,137	\$3,101,646	\$5,341,850	\$4,055,213	\$6,330,428	\$4,420,182	\$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>1,414,458</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	3,005,724	4,692,113
Selling expenses	1,288,863	1,965,102	2,310,188	626,017	1,732,758	757,969	952,888	826,186	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>5,504,875</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	6,331,062	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)	(3,325,338)	(7,815,025)
Other income			(55,000)		(71,640)	(797,411)	(819,135)	(397,117)	(827,326)
Interest income	(51,879)	(79,921)	(35,293)	(38,152)	(9,537)	-	(26,463)	(12,829)	(26,728)
FX	-	-	(23,262)	-	(743)	(4,206)	-	-	-
Total other (income) / expenses	(51,879)	(79,921)	(113,555)	(38,152)	(81,920)	(801,617)	(845,598)	(409,946)	(854,054)
Pretax income	1,716,493	2,723,554	1,409,108	(354,913)	(1,391,481)	(2,527,566)	(6,319,471)	(2,915,392)	(6,960,971)
Taxes	646,879	668,796	397,553	(63,025)	(307,168)	13,741	(83,355)	(13,604)	(70,852)
Net income	1,069,614	2,054,758	1,011,555	(291,888)	(1,084,313)	(2,541,307)	(6,236,116)	(2,901,788)	(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)	(2,575,016)	(6,327,706)
Non-controlling interest							(164,887)	(79,937)	(166,536)
Unrealized FX adjustment							(28,939)	(14,030)	(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)	(2,821,851)	(6,723,584)
EPS	\$0.13	\$0.26	\$0.13	(\$0.04)	(\$0.12)	(\$0.23)	(\$0.55)	(\$0.26)	(\$0.61)
Average shares out	7,938,000	7,938,000	7,938,000	7,946,678	9,160,447	10,835,956	11,010,240	11,010,540	11,010,840
<i>Metrics</i>									
Gross margin	72.1%	74.4%	74.2%	58.7%	63.8%	67.3%	68.1%	68.0%	68.0%
COGs % revenue	27.9%	25.6%	25.8%	41.3%	36.2%	32.7%	31.9%	32.0%	32.0%

Source: Company reports & Zacks

FY ends Sept. 30

HISTORICAL STOCK PRICE



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, M. Marin, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.

Zacks SCR has received compensation from the issuer directly, from an investment manager, or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.

SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.