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Elite Education

(EEIQ-NASDAQ)

EEIQ: Growing Enrollments & Diversification Efforts - Positive Indicators

Elite Education Group recently reported 1H21 results and provided a business update. The company has been able to leverage online platforms to market its programs, support recruitment efforts and boost student enrollments. As of June 30, 2021, the number of students who had been admitted to the English language programs at MU and paid tuition fees increased substantially compared to 2020, which Elite views as a positive indicator of the accelerating return to pre-pandemic conditions and enrollment metrics.

Current Price (07/29/21) **\$3.61**
Valuation **\$10.00**

OUTLOOK

The company believes that growing student enrollments at Miami University (MU) have positive implications for 2022-23 results. At the same time, Elite is also focused on diversification efforts to expand operations in Canada, the U.K. and potentially other markets and replicate the success it has had with the MU model. Elite has Highrim Holding International Limited in Canada to focus primarily on expanding the operations in Canada and the U.K. Separately, the company believes new regulatory directives in China underscore the value of its service offerings and the differences between the services it provides and those offered by the afterschool education sector.

SUMMARY DATA

52-Week High **\$18.54**
52-Week Low **\$4.00**
One-Year Return (%) **N/A**
Beta **N/A**
Average Daily Volume (sh) **477,644**

Shares Outstanding (mil) **10**
Market Capitalization (\$mil) **\$38**
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 Rank in Industry **N/A**

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 13

*Includes CEO's corp. holdings

KEY POINTS

- Elite Education Group recently reported 1H21 results and provided a business update. The company has been able to leverage online platforms to market its programs, support recruitment efforts and boost student enrollments.
- As of June 30, 2021, the number of students who had been admitted to the English language programs at Miami University (MU) and paid tuition fees increased substantially compared to 2020. Specifically, 58 students had been admitted to MU and paid their full tuition fees. By comparison, by this time in 2020 only three students had been admitted and paid the full tuition. Elite views this as a positive indicator of the accelerating return to pre-pandemic conditions and enrollment metrics.
- The company is also focused on its diversification efforts to expand operations in Canada, the U.K. and potentially other markets in order to replicate the success it has had with its MU model and extend its operating footprint. 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 is also expanding its marketing efforts in China to further collaborate with domestic universities and institutions bridging with preparatory programs. During the global pandemic, Elite initiated a strategy to work with a greater number of academic institutions in order to be prepared as travel and international study continue to grow.
- Elite ended the March 2021 period with no debt and \$9.3 million in cash. Elite expects to allocate a portion of the funds from the IPO to its growth initiatives.
- Chinese regulators have recently tightened regulations around private the afterschool education industry. The company believes that the new regulatory directives underscore the value of its service offerings and the differences between the services it provides and those offered by the afterschool education sector.

WHAT'S NEW? 1H21 RESULTS

Shifting some recruitment marketing efforts to virtual or online format helps drive numbers of matriculating students toward pre-pandemic levels...

Elite Education Group International (Nasdaq: EEIQ) reported 1H21 results and provided a business update. The company has been able to leverage online platforms to market its programs and supplement courses. Specifically, 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 and student enrollments have increased (see below).

... as Elite also focuses on diversification efforts

The company is also focused on its diversification efforts to expand operations in Canada, the U.K. and potentially other markets in order to replicate the success it has had with its Miami University (MU) model and boost its operating footprint. The company intends to extend its educational services programs to targeted elite universities and colleges in order to boost student enrollments. In fact, Elite has Highrim Holding International Limited in Canada to focus primarily on expanding the company's operations in Canada and the U.K.

Revenue in 1H21 fell \$3.0 million compared to the same period of 2020, primarily reflecting the impact of the pandemic. As a result of the COVID-19 pandemic, 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. Elite had 132 confirmed enrolled students at the end of May 2020 compared to 159 as of May 2019, which represents 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. However, given the company's newly developed online platform, Elite ultimately had, an aggregate 134 students enrolled in its program in FY 2020. Moreover, COVID-19 also delayed many of the company's initiatives.

At the same time, due to many of the COVID-19-related restrictions, the company shifted its recruitment focus to primarily on online formats in China to maintain brand awareness and interest in its programs, as travel restrictions continue to be lifted.

1H21 results were hurt by the pandemic

Elite generated 1H21 revenue of \$3.1 million compared to \$6.1 million in the same period of 2020 which represents a \$3.0 million decrease. The decline reflects a lower number of registrations in the Fall 2020 and Spring 2021 semesters compared to the same period in the prior year due to COVID-19.

On the lower revenue base, Elite recorded a gross profit of \$1.8 million compared to \$4.6 million in 1H20 and the gross margin was 58.7% compared to 74.6%, primarily reflecting higher costs due to the pandemic. Because students could not attend the Elite English Program courses in the U.S. in-person as a result of pandemic-related travel restrictions, the company had to rent space in a local university in China to continue providing English Program classes locally and online. Moreover, Elite also implemented measures to protect the health of students who stayed at the MU regional campuses. The added costs of these initiatives had a negative impact on Elite's 1H21 gross margin.

Operating expenses of \$2.2 million were some \$0.7 million, or 23.5%, lower compared to \$2.9 million in 1H20. The decrease primarily reflected a proactive reduction in spending on selling and promotional efforts. Selling expense fell \$0.5 million to \$0.6 million in 1H21 compared to \$1.1 million in 1H20. With lower revenue and gross profit, the company reported an operating loss of (\$0.4) million compared to operating income of \$1.7 million in 1H20.

Including income tax recovery of \$0.06 million compared to income tax expense of \$0.4 million in 1H20, Elite reported a \$0.3 million net loss, or a loss of \$0.04 per share, for 1H21 compared to net income of \$1.3 million, or EPS of \$0.17, in 1H20.

Number of students enrolled climbing dramatically

Most of the programs at MU Regional Campuses were postponed for the Fall 2020 semester. As a result, the company experienced a 28% decrease in its 2020 enrollment compared to the prior academic year.

However, importantly, as of June 30, 2021, the number of students who had been admitted to the English language programs at MU and paid tuition fees increased substantially compared to 2020. Specifically, 58 students had been admitted to MU and paid their full tuition fees. By comparison by this time in 2020, only three students had been admitted and paid the full tuition. Elite views this as a positive indicator of the accelerating return to pre-pandemic conditions and enrollment metrics. We look for strong sequential improvement in the back half of fiscal 2022 accelerating into calendar 2022.

Strong balance sheet to support growth initiatives

Moreover, reflecting Elite's March IPO, Elite ended the period with no debt and \$9.3 million in cash, up from \$7.4 million as of September 30, 2020. Elite expects to allocate a portion of the funds from the IPO to its growth initiatives (see below). These include expanding its program at MU, the UK, Canadian and Southeast Asia markets and the online platform.

BUSINESS UPDATE

Despite the challenging environment, Elite continues to move forward with its growth strategies (see below). The company is expanding its marketing efforts in China to further collaborate with domestic universities and institutions bridging with preparatory programs. During the global pandemic, Elite initiated a strategy to work with a greater number of academic institutions in order to be prepared once travel and international study resume to pre-pandemic levels. Elite also began opening new English-speaking markets, such as Canada and the U.K.

To bolster its pool of applicants from China in the 2021-2022 fiscal year, Elite introduced online courses to improve its recruitment efforts for when conditions return to pre-pandemic norms. Indicators of recruitment and enrollment at MU are improving. In addition to the above-noted 58 students enrolled and fully paid versus only three in the prior year period, the conversion rate from admission to receipt of deposit payments was 42.9%, up from 32.7% in the same period in 2020. Elite anticipates returns to pre-pandemic levels, particularly as travel restrictions on international students continue to ease.

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

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, Elite has worked with Miami University since 2015 and established an English Language Center at the university's Middletown campus. Reflecting the success of its partnership with Miami University, as measured by the 20% CAGR of enrolled students, the company extended its partnership with Miami University to the university's Hamilton Campus, providing the same range of services there as it has at the Oxford main campus.

Elite recruit's prospective students throughout China, with four sales and marketing teams 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 frequent presentations to summer camps and other programs for high school students.

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, 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 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.

Elite offers collaborative services with Miami University of Ohio, one of the oldest national public universities, operating since 1809. Miami University operates seven colleges at five different campuses. Miami University provides a substantial and diverse curriculum. 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's Miami University Campus Partnerships



Source: Company reports

Elite operates on three of Miami University's campuses: Middletown, Hamilton and Oxford. 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. It is a cooperative facility EEIQ operates with American universities that help Chinese students to study abroad. At MIE, EEIQ provides catering services, 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.

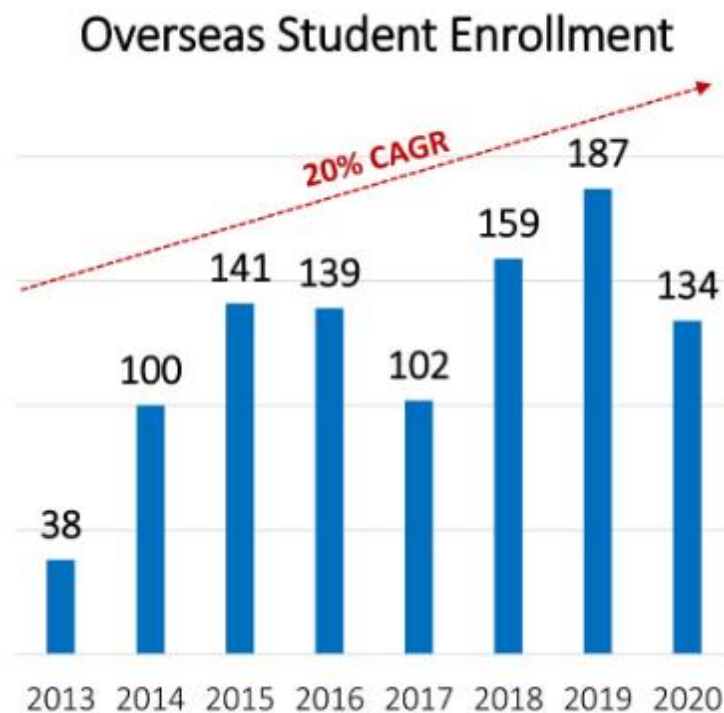
Elite Organizational Structure



Source: Company reports

Growth of Students Studying Abroad

Elite enrolled 187 students in 2019 through its relationship with Miami University of Ohio, increased from 159 in 2018 (see below). According to [McKinsey](#), China is the largest “exporter of students” in the world, targeting universities in the U.S., U.K. and other nations. Chinese students studying abroad are an important source of tuition revenue for academic institutions. For example, Chinese students studying in the U.S. spent [\\$13.9B](#) in the 2017-18 academic year. The growth in numbers of Chinese students studying internationally contributes to growth in the overall number of students studying abroad. According to [United Nations](#) data, the total number of students pursuing higher education internationally advanced to 4.85 million by 2016, from about 3.96 million in 2011. In total, international students contributed almost \$41 billion to the U.S. economy in 2019, according to the NAFSA Association of International Educators, and Chinese students comprise the largest percentage of the international student population.



Source: Company reports

In 2020, the company’s enrollments were negatively impacted by the restrictions on travel abroad imposed by the COVID-19 pandemic. Management expects growth to resume once such travel restrictions are lifted. Because universities in other countries such as the UK, Australia and Canada are also experiencing a rise in international students from China, the company’s growth plan includes expanding to additional U.S. and UK universities, further penetrating the Chinese student market and also expanding into additional markets in Southeast Asia.

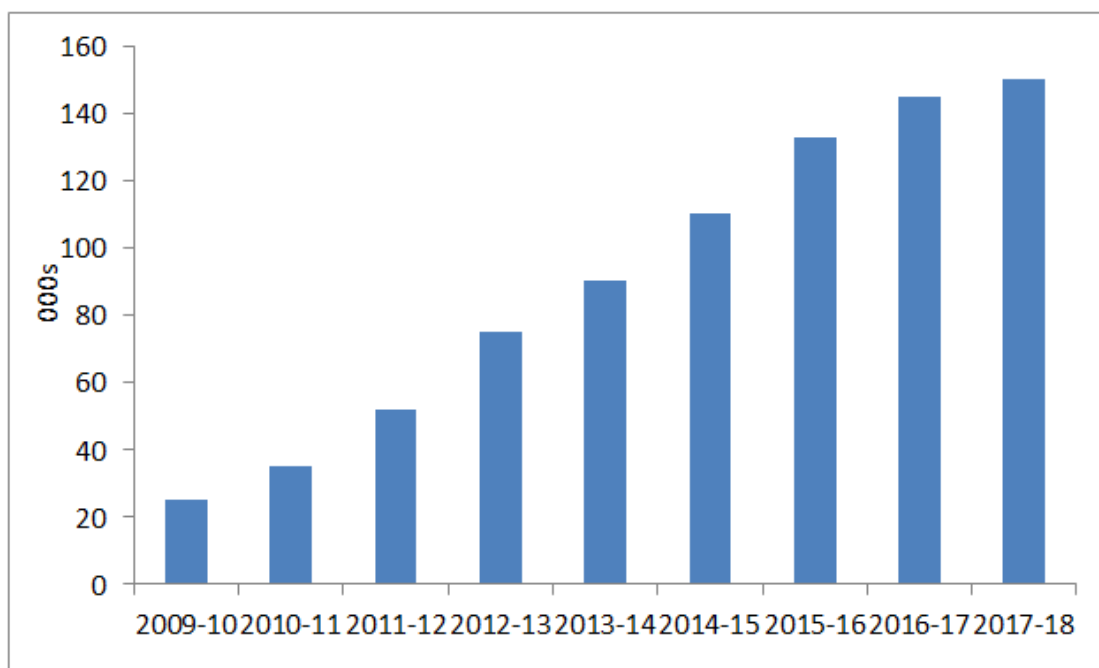
- Resumed travel abroad
- Expansion to additional universities – in Canada, the U.S. and the U.K.
- Expansion to Southeast Asian markets
- Establish early-stage venture fund for student-managed projects in the future

One-Stop Solution For Chinese And Other Students Abroad

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.

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 in case international students require unscheduled transportation services.

Expansion to Online

The company implemented quarantine measures for its students who remained on the Miami University campus and also discontinued recruitment efforts in the short-term. However, the need for online educational support and provision has been highlighted by the COVID-19 pandemic.

The company has an online initiative, including an online education platform in partnership with Miami University and the University of Northumbria. Northumbria is located in the city of Newcastle, England in the northeast part of the country. The university has its origins in the Rutherford College, which was founded in 1880. Northumbria also has campuses in London and Amsterdam. Proceeds of the company's recent IPO are earmarked to advance this initiative.

IMPLEMENTING THE GROWTH STRATEGY

As noted, the company's growth strategy includes adding new partnerships with academic institutions, extending its market efforts to new markets in order to help students from other countries apply for and pursue study abroad and gaining market share from Chinese competitors by offering a better range of services, expanding the number of international study destinations it offers and marketing its services to students outside China in other Asian markets.

Providing complete, end-to-end solutions

Elite's comprehensive student service offerings of most non-academic services – such as dormitory living, catering, legal and medical services, and guidance – will enable the company to further expand its customer base. For example, the company operates 11 dorms, a cafeteria, gym and a student life center on the Middletown campus that are designed to make Chinese students feel comfortable in an environment that is so far from their home market. In addition, if students have questions about filling out and submitting transfer applications, Elite offers counseling support. The company also offers guidance for obtaining internships and employment.

Elite maintains a U.S. office and coordinates with a business partner located in China, Beijing-based Renda Financial Education Technology Co., Ltd. Renda offers language testing, student application, visa service, pre-departure training for students before they depart for overseas study, and also arranges ground transportation and accommodations for students once they arrive at their international destination.

Renda provides services prior to departure for study abroad:

- Language Test Training Counseling – English Proficiency Test (ITEP) counseling, registration and test placement
- Admission application guidance – review of student applications
- Visa counseling - counseling and guidance to apply for and obtain visas
- Pre-departure guidance – logistical and organizational support
- Arrangements upon landing – pick-up and drop-off services, dormitory arrangements, and other services

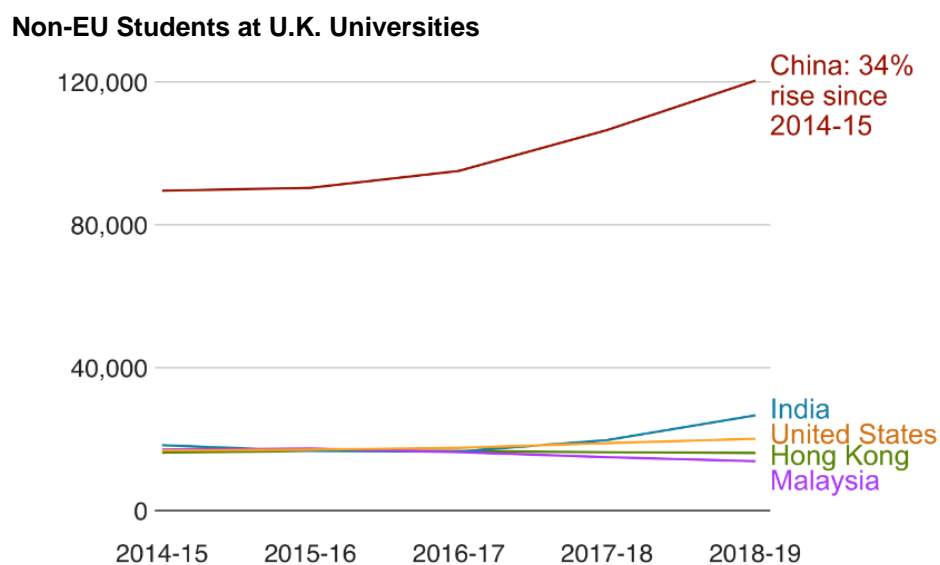
Elite provides services upon arrival for study abroad:

- Pick-up services upon arrival
- Dormitory administrators on duty 24-7
- Meal services catering to the diets of Chinese students
- Academic guidance
- Internship and employment counseling

Expanding to other international markets

Using its partnership with Miami University as a model, Elite expects to expand its services to other international markets, including Canada and the U.K. Elite intends to set up a private high school and language training school in Canada to support its international students who are enrolled in a growing number of North American universities. Elite's wholly-owned subsidiary Highrim Holding International

Limited was registered in Canada as of July 9, 2021 as its vehicle to replicate the successful MU model in that market and in the U.K.



Source: Higher Education Statistics Agency, <https://www.hesa.ac.uk/>, accessed March 2021

Beginning in 2019, Elite began developing relationship with universities in the U.K. with the goal of creating a partnership program modeled along the University of Miami format. Elite has established a partnership with the University of Northumbria at Newcastle and begun recruiting Chinese students interested in studying abroad in the U.K. Chinese students have increasingly sought study abroad at the U.K., Canada and other markets in recent years and the company expects this trend to continue. Chinese students represent the largest population of non-EU students studying in the U.K. and the number of Chinese students at UK universities had grown by 34% from 2014-2015 to 2019-2020, according to the BBC.

Targeting Expansion in Southeast Asia

Elite intends 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 partnership model with other elite universities in the U.K. and Australia to attract a growing number of international students. The company intends to introduce this initiative for the upcoming academic year.

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.

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.

RECENT NEWS

- 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.

PROJECTED FINANCIALS

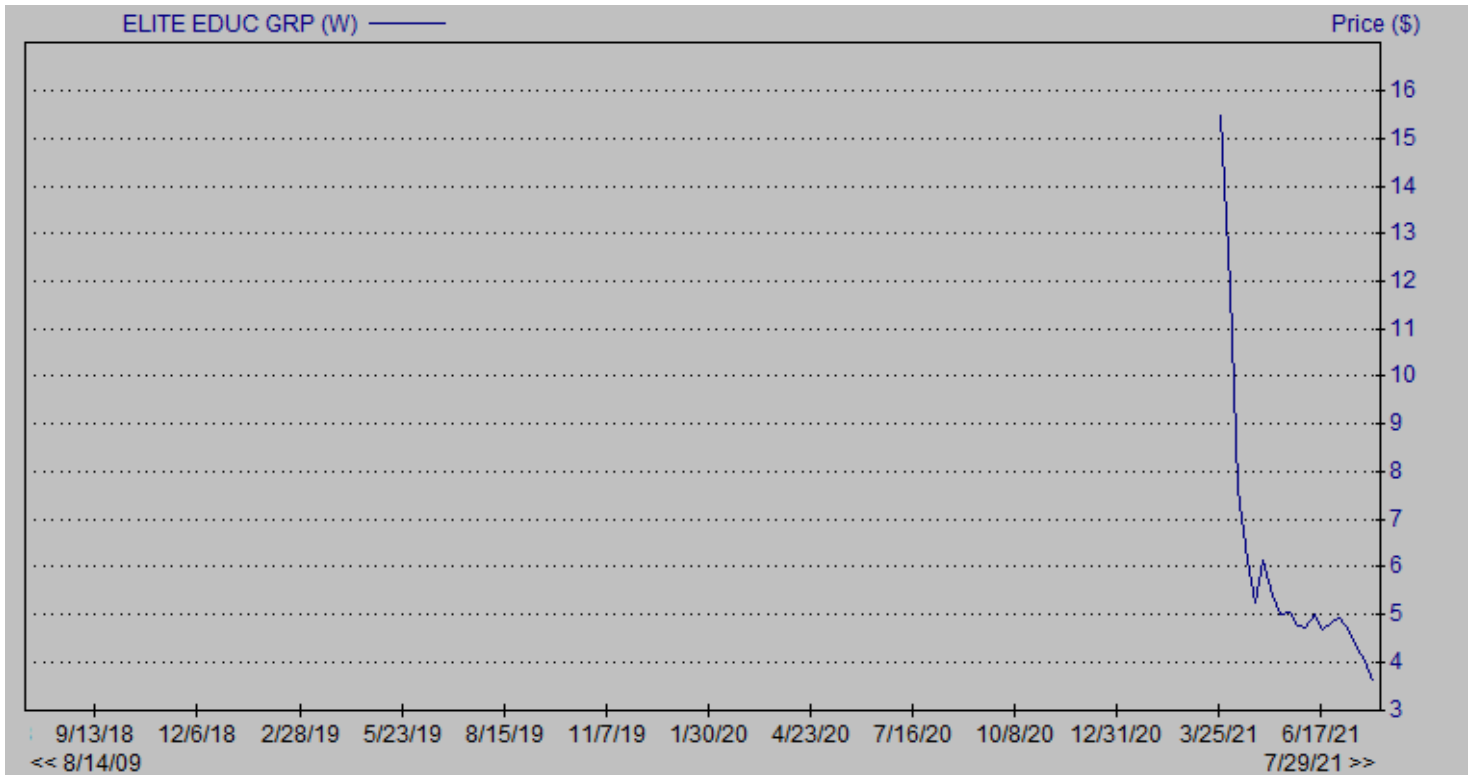
Elite Education Income Statement & Projections (\$)

	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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