

# Zacks Small-Cap Research

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## Elite Education

(EEIQ-NASDAQ)

### EEIQ: Optimistic About New *Pathways* Model, O&O Initiative, Other Growth Plans

Elite has launched several growth initiatives in recent quarters to diversify and boost revenue and expand in key markets. Moreover, with enrollments up and the company's new initiatives discussed in this report, Elite is optimistic about the outlook. Elite also plans to develop new relationships with universities in the U.S., U.K. and Canada and expand its marketing to students in many geographic locations, among other objectives.

### OUTLOOK

EEIQ intends to own and operate academic institutions and recently acquired control of Canada's Davis College, a career training college, and EduGlobal College, which focuses on English educational programming in Canada. EduGlobal College recently partnered with Algoma University to facilitate transfer pathways for international students who want to complete post-secondary studies in Canada. Elite is optimistic about this new initiative and believes the EduGlobal-Algoma pathways model could become a template to replicate this service at other Canadian schools.

Current Price (2/10/22) **\$2.75**  
Valuation **\$10.00**

### SUMMARY DATA

52-Week High **\$18.54**  
52-Week Low **\$2.30**  
One-Year Return (%) **N/A**  
Beta **N/A**  
Average Daily Volume (sh) **31,209**

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 2022 Estimate **N/A**  
P/E using 2023 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)
2019					\$8.7 A
2020					\$9.1 A
2021		\$3.1 A			\$5.3 A
2022					\$7.3 E

#### Per Share Data

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019					\$0.26 A
2020					\$0.13 A
2021		-\$0.04 A			-\$0.12 A
2022					\$0.02 E

Quarters might not sum due to rounding & share counts

Disclosures on page 12

\*Includes CEO's corp. holdings

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## KEY POINTS EXECUTING ON KEY GROWTH INITIATIVES

- Elite has launched several growth initiatives in recent quarters to diversify and boost revenue and expand in key markets. EEIQ intends to own and operate academic institutions, develop new relationships with universities in the U.S., U.K. and Canada and expand its marketing to students in many geographic locations who are interested in study abroad, among other objectives.
- Through a recent transaction (Ameri-Can), EEIQ has acquired the underlying equity of Davis College, a career training college in Toledo, Ohio. The company believes that many students enrolled in two-year career training and education programs might want to transfer into traditional universities through 'transfer pathway' programs following completion of the two year program.
- Consistent with this view, the company also acquired 80% of Vancouver, Canada-based EduGlobal College, which focuses on English educational programming. EduGlobal College recently partnered with Algoma University to facilitate transfer pathways for international students who want to complete post-secondary studies in Canada. Elite intends to pursue additional expansion opportunities within the Canadian education market and believes that Algoma could form the basis for a model that it can replicate.
- In November, 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's London campus. This is consistent with Elite's goals to expand its presence in the U.K.
- The company expects its expanding suite of product offerings will make its services attractive for students in South America, Europe and Africa, as well as from China. Expanding its reach and marketing efforts is a core goal for Elite.
- Applications and enrollments are on the rise. At the end of September 2021, 136 students had been admitted to the English Language Program at the MU Regional Campuses compared to 134 students for the same period of 2020. The conversion rate from application to enrollment was also higher, at 36.4% versus 25.7%. EEIQ believes its strong marketing efforts contributed to this increased conversion rate, which management notes was the highest since 2015.

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## WHAT'S NEW? NEW GROWTH INITIATIVES

### *Becoming a leading broad-based education company*

Elite Education Group International Limited (Nasdaq: EEIQ) has launched several new growth initiatives over the past few quarters to diversify and boost revenue and expand its presence in key markets, particularly the U.S., U.K. and Canada. The company intends to:

- ❖ Own and operate academic institutions
- ❖ Develop new relationships with universities in the U.S., U.K. and Canada
- ❖ Expand its marketing to students in many geographic locations interested in study abroad

One recent important initiative is the company's strategy to acquire academic institutions in order to have direct control over venues included in its program offerings to international students. This strategy has also enabled the company to expand into institutions that offer career-focused programs and services. In turn, this is expected to broaden the company's target customer base and enhance revenue and accelerate its ability to attain operating scale.

For example, Elite recently acquired Ameri-Can Education Group Corp., which is a U.S. company that focuses on career-training education. Elite purchased 70% of Ameri-Can for about \$5 million, including a \$2.5 million cash infusion into Ameri-Can. The transaction is consistent with Elite's aim to become a leading broad-based education company. Through Ameri-Can, EEIQ has acquired the underlying equity of Davis College, a career training college in Toledo, Ohio. Davis College, founded in 1858, offers programs teaching skills for career placement and advancement in a variety of industries.

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.

### ***EduGlobal College - focus on English educational proficiency***

Consistent with this view, the company also acquired 80% of Vancouver, Canada-based EduGlobal College, which focuses on English educational programming. EduGlobal College recently partnered 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). The eight-month iUPP offers content-based English language courses and other courses to prepare international students for academic studies at Canadian universities.

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. Elite expects the EduGlobal -Algoma program to launch the initial program for international students in May 2022.

Elite's goal is to pursue additional expansion opportunities within the Canadian education market. The company believes that Algoma could form the basis for a model that the company can replicate at additional venues to broaden the options it offers international students. Elite will assist with key necessary preparation for academic studies, as it does in its traditional business, including language proficiency.

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

The Ameri-Can transaction also reflects Elite's expansion of its marketing and service offerings to include students pursuing career training programs. 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. The two college acquisitions advance Elite's goal to provide practical academic programming to a diversified and growing student body to enable them to pursue higher education and fulfill career goals. The expanded services offerings are also expected to expand Elite's education services target market.

The company intends to develop a diversified student body, as it expands its recruitment and marketing efforts in new geographic markets (see below) and to maintain a hybrid model at both colleges that includes both in-person and online instruction. Moreover, Elite also expects to continue growing this offering and intends to seek additional educational institutions in the US, Canada and the UK to evaluate for potential acquisition.

### **U.K. Expansion**

Separately, in November, 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. This is consistent with Elite's goals to expand its presence in the U.K. Elite has also operated as a recruiting agent for admission to Coventry University for the 2021-2022 academic year

since April 2021. Coventry University has more than 29,000 undergraduate and 6,000 postgraduate students at its various campuses.

For the University of West of Scotland, Elite 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.

### **Expanding marketing in many key geographies, including Southeast Asia, South America and others**

Elite's initial focus was on recruiting prospective students throughout China for study abroad at universities. 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.

Elite also believes that having a broader product and services offering such as the Ameri-Can suite of offerings can facilitate its ability to enter Southeast Asian markets and attract students from new countries, as well as from China.

In addition to marketing in new Asian markets, the company expects its expanding suite of product offerings from its acquisitions of colleges will make its services attractive for students in South America, Europe and Africa, as well as from China. Expanding its reach and marketing efforts is a core goal for Elite.

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

In 2021, Chinese regulatory authorities 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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## **COMPANY OPTIMISTIC ABOUT IMPROVING ENROLLMENT TRENDS**

Elite'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. Elite has worked with Miami University (Regional Campuses) since 2015, especially with the English Language Center at the university's Middletown campus. 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. Elite operates on Miami University's Middletown and Hamilton campuses.

## Elite's Miami University Campus Relationships With Regional Campuses



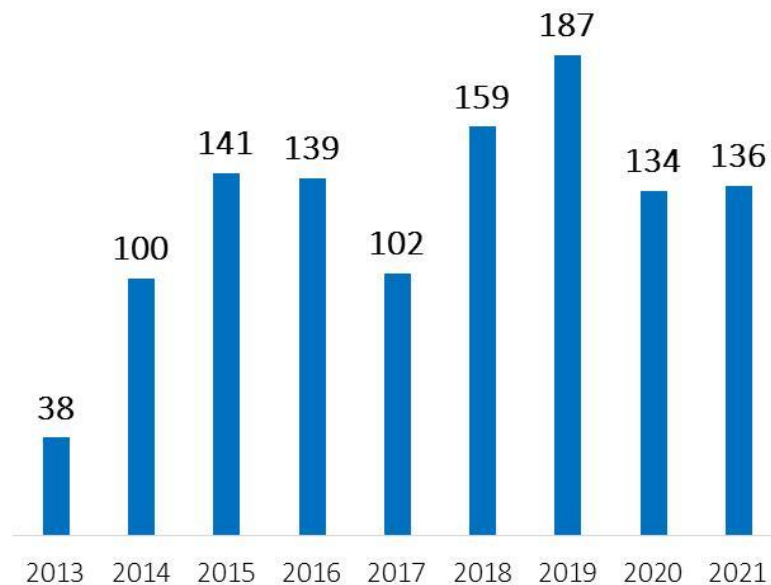
Source: Company reports

### *Number of enrolled students climbing*

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. 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.

However, applications and enrollments are on the rise as the overhang of the pandemic appears to have abated. At the end of September 2021, 136 students had been admitted to the English Language Program at the MU Regional Campuses compared to 134 students for the same period of 2020. The conversion rate from application to enrollment was also higher, at 36.4% versus 25.7% in 2020. The company believes its strong and expanding marketing efforts contributed to this increased conversion rate, which management notes was the highest since 2015.

### EEIQ Overseas Student Enrollment at MU Regional Campuses



Source: Company [presentation](#)

Moreover, at the end of September of 2021, 52 students were attending classes in-person at the MU Regional Campuses and an additional 40 students were beginning in-person studies in January 2022. In turn, the company expects this to have a positive impact on residential and other fees.

Given its expectation for improved enrollment at MU, Elite recently announced plans to expand and upgrade its residential facilities at the MU regional campuses. The upgrades are expected to be completed by the Fall 2022 semester. Elite sold its existing residential properties there at a substantial premium (about 150%) and plans to use the proceeds to modernize and improve its student facilities.

### ***... 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 (Regional Campuses).

### **Striving To Be an End-to-End, One-Stop Solution for Chinese & 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.

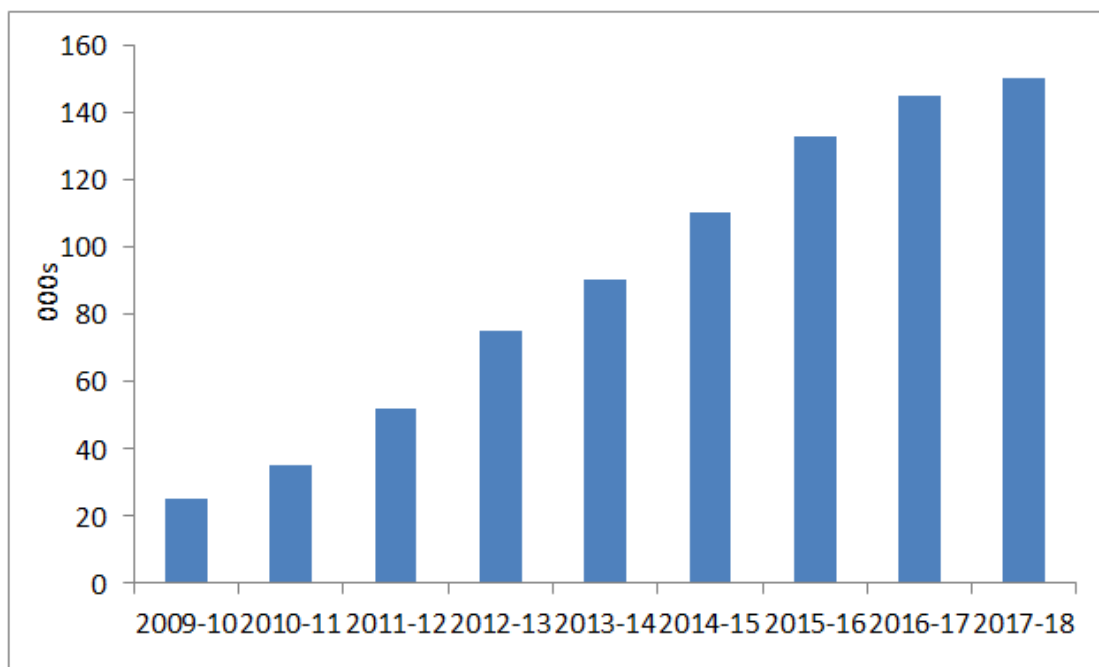
By assuming many of the non-academic tasks for its student customers, Elite enables Chinese students to focus almost exclusively on their studies. The company aims to be a one-stop solution making it easier for Chinese students to study abroad.



## 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

Elite is optimistic about its plans to replicate its successful relationship with MU at other academic institutions and the new pathways model, to expand operations in Canada and the U.K. and to also expand its recruiting efforts into other markets. In turn, this could imply higher growth prospects, particularly when combined with improving enrollment, application and conversion metrics.

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. 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 based on normalized pre-pandemic trends and growth prospects. In FY 2019, EEIQ generated revenue of nearly \$9 million and EPS of \$0.26. Using this as a baseline and anticipating 50% growth over the next few years, we believe it is reasonable that the company can attain EPS of about \$0.40 - \$0.50. At a market multiple, that implies a valuation of about \$10 per share. We do not expect the shares to get to that level in the short-term. However, as EEIQ delivers additional milestones, we would anticipate share price appreciation.

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.

- EEIQ shares could be impacted by issues overhanging the Chinese after school sector, despite Elite's different business model.
- 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

- The company provided a business update on February 10, 2022.
- On February 1, 2022, Elite's EduGlobal College entered into an agreement with Algoma University to create a transfer pathway for international students.
- Elite announced its purchase of controlling interest in Canada's EduGlobal College on January 24, 2022.
- Elite announced potential Ameri-Can deal on October 18, 2021 and closed the transaction on December 1, 2021.
- On November 29, 2021, Elite announced plans to expand and upgrade its MU residential facilities.
- Elite provided an update on its U.K. expansion on November 3, 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

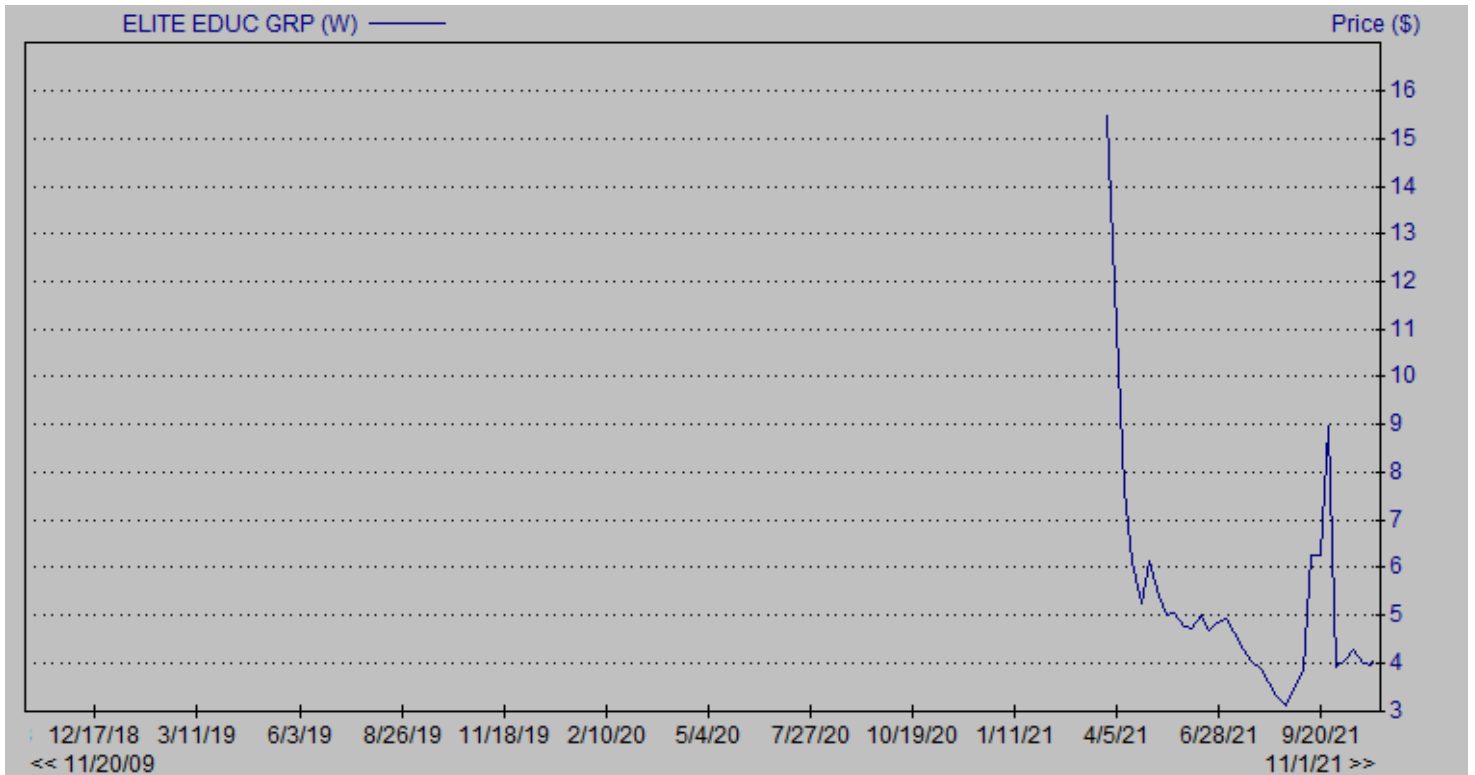
### Elite Education Income Statement & Projections (\$) FY ends Sept.

	2018	2019	1H20A	2H20	2020	1H21A	2021A	2022E
Revenues	\$6,285,176	\$8,700,332	\$6,128,360	\$2,934,777	\$9,063,137	\$3,101,646	\$5,341,850	\$7,264,916
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>1,934,237</u>	<u>2,088,976</u>
Gross profit	4,533,127	6,472,025	4,572,541	2,148,320	6,720,861	1,821,563	3,407,613	5,175,940
Selling expenses	1,288,863	1,965,102	1,142,150	1,168,038	2,310,188	626,017	1,732,758	1,871,379
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>3,148,256</u>	<u>3,400,116</u>
Total operating expenses	2,868,513	3,828,392	2,893,552	2,531,756	5,425,308	2,214,628	4,881,014	5,271,495
Income from operations	1,664,614	2,643,633	1,678,989	(383,436)	1,295,553	(393,065)	(1,473,401)	(95,555)
Other income				(55,000)	(55,000)		(71,640)	(73,073)
Interest income	(51,879)	(79,921)	(19,900)	(15,393)	(35,293)	(38,152)	(9,537)	(9,728)
FX	-	-	12,682	(35,944)	(23,262)	-	(743)	(758)
Total other (income) / expenses	(51,879)	(79,921)	(7,218)	(106,337)	(113,555)	(38,152)	(81,920)	(83,558)
Pretax income	1,716,493	2,723,554	1,686,207	(277,099)	1,409,108	(354,913)	(1,391,481)	(11,997)
Taxes	646,879	668,796	374,642	22,911	397,553	(63,025)	(307,168)	(205,200)
Net income	1,069,614	2,054,758	1,311,565	(300,010)	1,011,555	(291,888)	(1,084,313)	193,203
Comprehensive income	1,069,614	2,054,758	1,311,565	(300,010)	1,011,555	(291,888)	(1,084,313)	193,203
EPS	\$0.13	\$0.26	\$0.17	(\$0.04)	\$0.13	(\$0.04)	(\$0.12)	\$0.02
Average shares out	7,938,000	7,938,000	7,938,000	7,938,000	7,938,000	7,946,678	9,160,447	9,190,447
<i>Metrics</i>								
Gross margin	72.1%	74.4%	74.6%	73.2%	74.2%	58.7%	63.8%	71.2%
COGs % revenue	27.9%	25.6%	25.4%	26.8%	25.8%	41.3%	36.2%	28.8%

Source: Company reports & Zacks

FY ends Sept. 30

# HISTORICAL STOCK PRICE



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