

# Zacks Small-Cap Research

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

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

## Elite Education

(EEIQ-NASDAQ)

### EEIQ: Expanding A Successful Model To New Markets and New Channels

Elite Education Group believes that by providing an end-to-end solution for students seeking to study abroad, including language training to help students improve English language proficiency, preparatory services to help with the application process to gain admission to its partnered university, as well as a full range of solutions while students are at the destination university, the company makes it possible for Chinese students who might not otherwise pursue international study to do so. Elite aims to be a one-stop solution to make it easier for candidates to prepare for and apply for international study and then complete study abroad.

Current Price (04/26/21) **\$5.70**  
Valuation **\$10.00**

### OUTLOOK

China has the world's largest population of students studying internationally, representing an important addressable market for EEIQ. The growth in Chinese students studying abroad has been dramatic as China's GDP has increased. Elite has a successful partnership with Miami University of Ohio where it has placed hundreds of students over the past few years. The company hopes to replicate this model with programs in other markets, and begin offering its services in additional Asian markets for students who want to study in the U.S., the U.K., Canada and potentially other nations.

### SUMMARY DATA

52-Week High **\$15.54**  
52-Week Low **\$4.00**  
One-Year Return (%) **N/A**  
Beta **N/A**  
Average Daily Volume (sh) **2,346,243**

Shares Outstanding (mil) **9**  
Market Capitalization (\$mil) **\$49**  
Short Interest Ratio (days) **N/A**  
Institutional Ownership (%) **N/A**  
Insider Ownership (%) \* **90**

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	\$2.5 E	\$3.2 E	\$3.3 E	\$2.4 E	\$11.4 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	\$0.05 E	\$0.06 E	\$0.06 E	\$0.05 E	\$0.21 E

Quarters might not sum due to rounding & share counts

Disclosures on page 14

\*Includes CEO's corp. holdings

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## KEY POINTS

- Elite Education Group believes that by providing preparatory services to help students with the application process, and helping them to gain admission to its partnered university, the company makes it possible for Chinese students who might not otherwise pursue international study to do so. The company also provides a broad range of on-campus services that it believes enables it to be a complete one-stop solution for students from the application process to living life on campus to the completion of study abroad.
- Elite's partnership with Miami University (MU) of Ohio, one of the oldest U.S. public universities, has led to a 20% CAGR in the numbers of enrolled students since 2013. The company intends to replicate this successful partnership at universities in other nations (U.K., Canada, Australia and others) to increase its enrollments and boost revenue. Elite has established a partnership with the University of Northumbria at Newcastle and begun recruiting.
- The number of Chinese international students in the U.S. grew by a roughly [11% CAGR](#) from 2009 to 2019. Chinese students represented roughly 33% of the U.S. international student population, according to IIE, and form the largest population of students studying internationally.
- The company has an online education platform in partnerships with MU and the University of Northumbria. Proceeds of the company's recent IPO are earmarked to advance this initiative.
- Elite also intends to replicate the success it has enjoyed with its China-MU model with new projects in markets in Southeast Asia. By making it easier for students from a growing number of countries to navigate the application process and then to facilitate their living and studying situations when they arrive at their international destinations, EEIQ expects to fuel revenue growth.

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## COMPANY OVERVIEW

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

Elite Education Group International Limited helps Chinese high school and college students study in the U.S., primarily via its subsidiary Miami International Education Center. By offering support services to Chinese students, Elite Education Group believes it provides the opportunity for Chinese students who may not have done so otherwise to pursue international study. The company assumes 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 its partnered university, Elite enables its international students to improve English language proficiency and thus gain 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 even offers 24-7 emergency support for the students. The company aims to be a one-stop solution making it easier for candidates to prepare for, apply for and complete study abroad and then provides counseling to help with post-graduate studies and employment.

Elite offers services in partnership with Miami University of Ohio, one of the nation's oldest public universities, operating since in 1809. Miami University operates seven colleges at five different campuses. Miami University provides a substantial and diverse curriculum. The university range of study options for Elite's student customers, offering 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's partnership includes three of Miami University's campuses: Middletown, Hamilton and Oxford. The company provides support 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 a safe and structured academic environment.

### Elite Organizational Structure



Source: Company reports

### Growth of Students Studying Abroad

Elite enrolled 187 students in 2019 through its partnership with Miami University of Ohio, up 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.

## Overseas Student Enrollment



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.

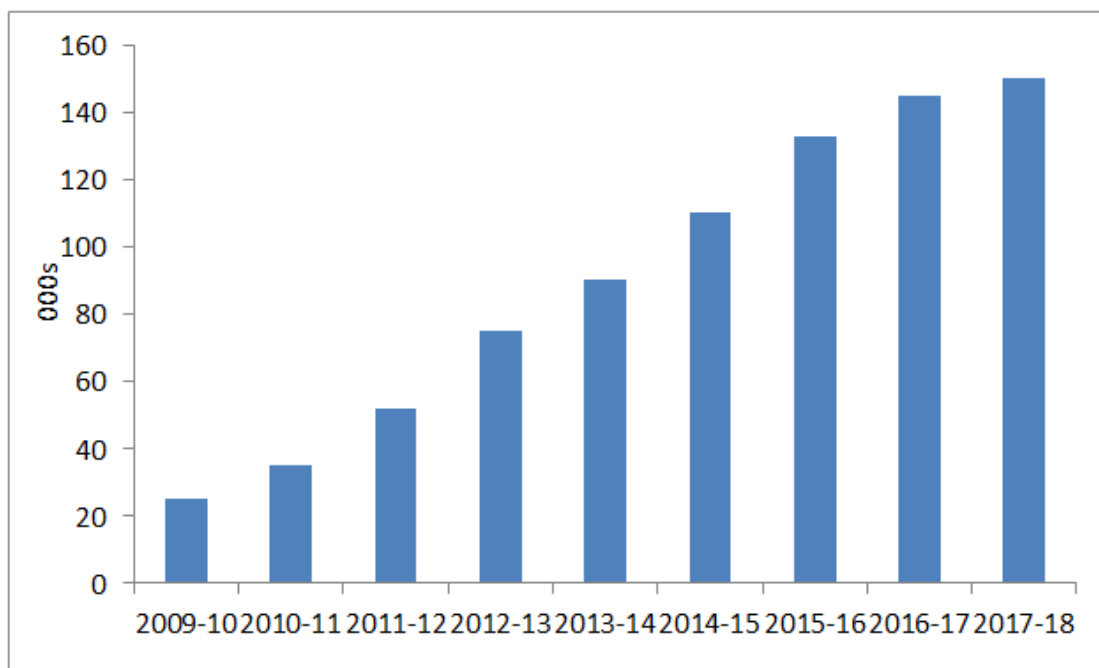
- Resumed travel abroad
- Expansion to additional universities – U.S. and U.K.
- Expansion to Southeast Asian markets

### 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, as noted.

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.

As a result, the company has an online initiative and intends to launch 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.

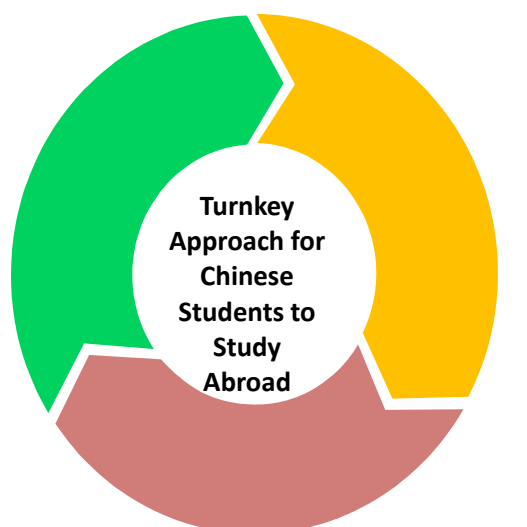
## GROWTH STRATEGY

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.



Source: Company reports

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:**

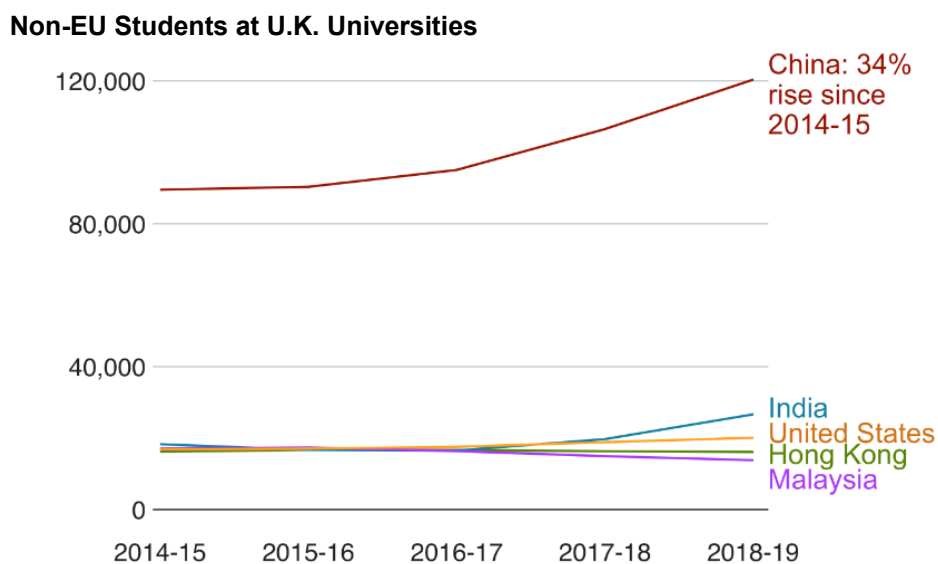
- Language Test Training Counseling – English Proficiency Test (ITEP) counseling, registration and test placement
- Admission application guidance – review of student applications
- Visa counseling - counseling and guidance to apply for and obtain visas
- Pre-departure guidance – logistical and organizational 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.



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.

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## EDUCATION INDUSTRY

Although the growth in number of Chinese students studying in the U.S. appears to have slowed, in part reflecting factors noted above as well as political tensions between the U.S. and China and the impact of COVID-19, For instance, the U.S. issued fewer than 1,000 visas to Chinese students in 2020 during the pandemic, down from more than 90,000 in 2019, a larger decline than the decline in visas to international students from other nations. During the 2018–2019 school year, Chinese students represented roughly 33% of the U.S. international student population, according to the Institute of International Education. According to [educationdata.org](http://educationdata.org), the number of Chinese international students studying in the U.S. grew from about 128k in 2009 to nearly 370k in 2019, representing an 11% CAGR, although growth had declined to low single digits in 2019 as political tension between the two countries grew, below China's Ministry of Education data that puts the advance in the number of Chinese students studying abroad at [8.8%](#) year-over-year.

This is consistent with data from the 2019 White Book of Chinese international students indicating that students appear to have expanded the destinations where they want to pursue studies abroad. The U.K. and Canada rising as popular destinations for Chinese students, which management believes bodes well for the company's partnership with the University of Northumbria and other academic institutions.

At the same time, U.S. institutions of higher learning continue to recruit Chinese students and are encouraged that the new administration might have a positive impact on boosting metrics. At the same time, Elite believes that it is well-positioned to gain market share from competitors offering pre-study services to Chinese students.

### Miami University of Ohio Among Top 100 Universities For Chinese Students

For example, Chinese students studying in the U.S. spent [\\$13.9B](#) in the 2017-18 academic year, according to Global Times. The Miami University of Ohio is among the top 100 U.S. universities for Chinese students seeking to study in the U.S. Because many Chinese students need to improve their language skills to study at Miami University, Elite partnered with Miami University in 2015 to establish 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.

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## COMPETITIVE MARKET POSITION

In addition to competition from other privately-run service providers, Elite also competes with the local Chinese recruiting offices of many U.S. and other foreign universities seeking to boost their international student enrollments, as well as international education groups.



Nevertheless, the company has increased its customer base, as noted, and enrolls an average of 120 to 130 students each year, and retains more than 95% of these students at University of Miami. The company ascribes this high retention rate to the preparatory courses it offers and its non-academic services during the study abroad period.

The company believes that its ability to offer ongoing end-to-end services that support the student during the process of applying for international study abroad, during the time spent at a foreign academic institution and then once the student has graduated in terms of internship and employment counseling create competitive advantages that distinguish the company's full service offerings from those offered by competitors. Moreover, Elite believe that's its post-study services also create a significant competitive advantage, as students seek to leverage their degrees via employment and/or internship opportunities.

According to management, many competitors short-term preparation courses that do not support the student as extensively as Elite's coordinated work with Renda and University of Miami do. Over the past few years, Elite has entered into training agreements with four Chinese universities to provide accredited courses to offer to its student customers to take in China before they depart for Miami University in Ohio. This enables domestic universities to offer students the experience of learning in classes taught by foreign university professors while they are still at home and receive credits from Miami University. This also provides tuition cost savings for its customers.

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## MANAGEMENT TEAM

### CEO

Jianbo Zhang founded the company in 2017 and is the controlling shareholder. He is also is the sole director and shareholder of Wonderland Holdings International, which holds a 65% stake in Elite Education Group. Following the company's recent IPO, he owns about 84% of EEIQ shares.

### CFO

Zhenyu Wu is Elite's CFO. Following the company's recent IPO, he owns about 4.5% of the company's shares.

With insiders collectively owning a majority of EEIQ shares, Elite is a controlled company.

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## RECENT RESULTS

The company generated revenue of \$9.1 million and net income of \$1.0 million in its fiscal year (FY) ended September 30, 2020. In FY 2019, EEIQ produced \$8.7 million in revenue, with net income coming in at \$2.1 million. This represents a 4.2% year-over-year increase in revenue in FY 2020 and 50% drop in net income, attributable, in part, to the impact of COVID-19. The company expanded its operating structure to support expected growth. With the impact of COVID-19, many of the company's initiatives were delayed. Elite anticipates operating expenses will continue to increase as the company introduces the above-mentioned growth initiatives. The company's revenues are seasonal and correlated with the academic calendar year.

As a result of the COVID-19 pandemic, Miami University delayed many, if not most, of its classes and programs. The company experienced a reduced number of applications of students using its services. Specifically, it had 132 confirmed enrolled students at the end of May 2020 compared to 159 as of May 2019. This 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 received in 2020. However, given the company's online initiative, Elite ultimately had, an aggregate 134 students enrolled in its program in FY 2020 for its online learning platform.

The company has earmarked the funds raised in its recent IPO to expand its existing and future campuses at Miami University of Ohio, enter the UK, Canadian and SE Asia markets, launch and maintain the online platform, as well as for working capital and general corporate purposes.

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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. The company is optimistic about its plans to replicate its successful relationship with MU at other institutions of higher education and to also expand into other markets such as Vietnam and others, which could, in turn, imply higher than sector average growth.

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.

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## RECENT NEWS

- 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

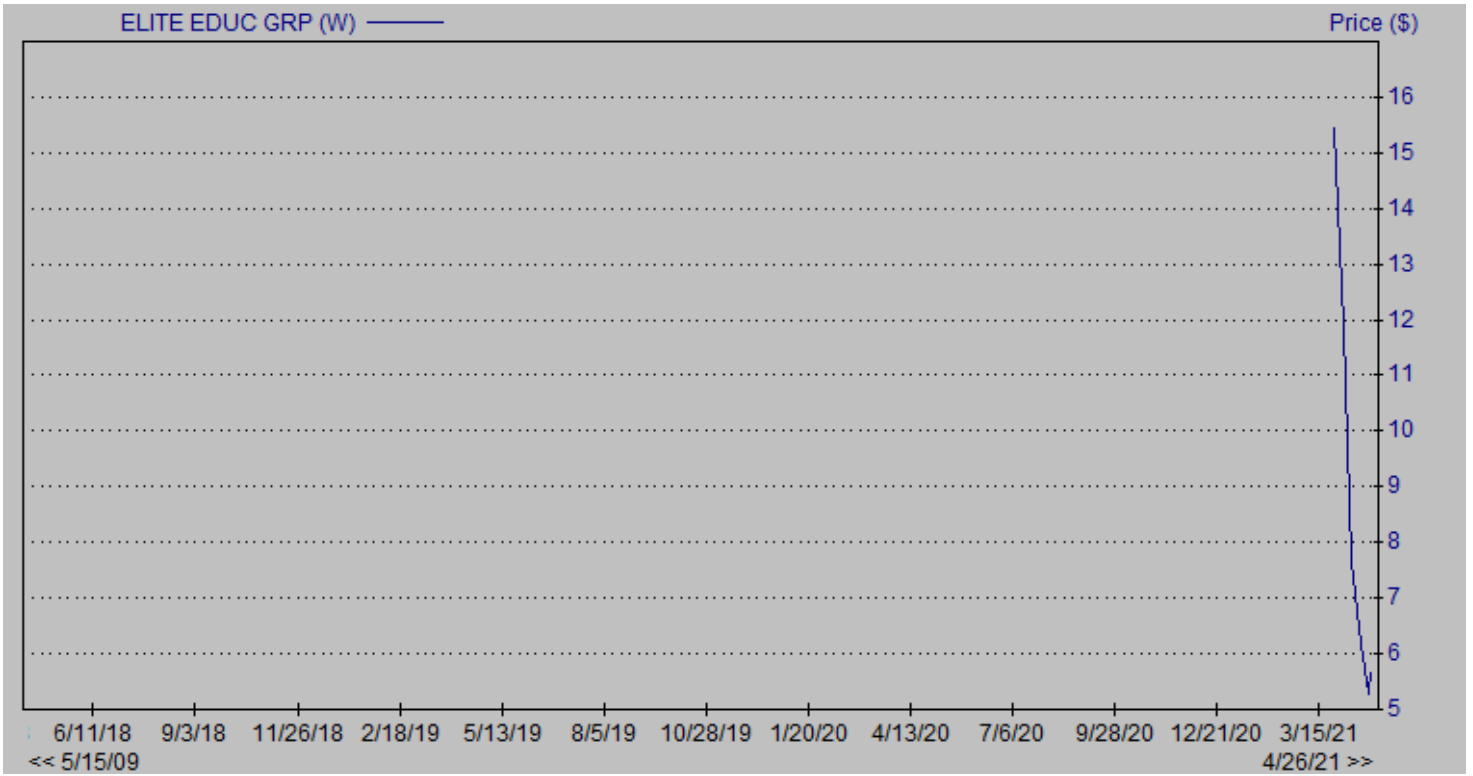
### Elite Education Income Statement & Projections (\$)

	2018	2019	2020	Dec-20 1Q21E	Mar-21 2Q21E	Jun-21 3Q21E	Sep-21 4Q21E	2021E
Revenues	\$6,285,176	\$8,700,332	\$9,063,137	\$2,512,302	\$3,220,314	\$3,254,572	\$2,432,365	\$11,419,553
Costs of services	<u>1,752,049</u>	<u>2,228,307</u>	<u>2,342,276</u>	<u>645,662</u>	<u>824,400</u>	<u>823,407</u>	<u>538,580</u>	<u>2,832,049</u>
Gross profit	4,533,127	6,472,025	6,720,861	1,866,640	2,395,913	2,431,166	1,893,784	8,587,504
Selling expenses	1,288,863	1,965,102	2,310,188	559,065	711,538	711,538	559,065	2,541,207
G&A	<u>1,579,650</u>	<u>1,863,290</u>	<u>3,115,120</u>	<u>753,859</u>	<u>959,457</u>	<u>959,457</u>	<u>753,859</u>	<u>3,426,632</u>
Total operating expenses	2,868,513	3,828,392	5,425,308	1,312,925	1,670,995	1,670,995	1,312,925	5,967,839
Income from operations	1,664,614	2,643,633	1,295,553	553,716	724,919	760,171	580,860	2,619,665
Other income			(55,000)	(13,310)	(16,940)	(16,940)	(13,310)	(60,500)
Interest income	(51,879)	(79,921)	(35,293)	(8,541)	(10,870)	(10,870)	(8,541)	(38,822)
FX	-	-	(23,262)	(5,629)	(7,165)	(7,165)	(5,629)	(25,588)
Total other (income) / expenses	<u>(51,879)</u>	<u>(79,921)</u>	<u>(113,555)</u>	<u>(27,480)</u>	<u>(34,975)</u>	<u>(34,975)</u>	<u>(27,480)</u>	<u>(124,911)</u>
Pretax income	1,716,493	2,723,554	1,409,108	581,196	759,894	795,146	608,340	2,744,575
Taxes	646,879	668,796	397,553	127,863	167,177	174,932	133,835	603,807
Net income	1,069,614	2,054,758	1,011,555	453,333	592,717	620,214	474,505	2,140,769
Comprehensive income	1,069,614	2,054,758	1,011,555	453,333	592,717	620,214	474,505	2,140,769
EPS	\$0.13	\$0.26	\$0.13	\$0.05	\$0.06	\$0.06	\$0.05	\$0.21
Average shares out	7,938,000	7,938,000	7,938,000	9,938,000	9,938,000	9,938,000	9,938,000	9,938,000
<i>Metrics</i>								
Gross margin	72.1%	74.4%	74.2%	74.3%	74.4%	74.7%	77.9%	75.2%
COGs % revenue	27.9%	25.6%	25.8%	25.7%	25.6%	25.3%	22.1%	24.8%

Source: Company reports & Zacks

FY ends Sept. 30

# HISTORICAL STOCK PRICE



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