

Zacks Small-Cap Research

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NexTech AR Solutions (NEXCF-OTC)

NEXCF Reports Q4 Revenues for Calendar Year 2019

Based on EV to forecasted 2020 sales, we believe NexTech stock could be worth \$1.70 per share if it can achieve those revenues and contain dilution.

OUTLOOK

NexTech AR is a technology start-up and a unique public company pure play investment in Augmented Reality. It does not produce hardware, but rather uses AR to improve eCommerce results for customers as well as its company-owned sites. In addition, it uses hologram technology and is starting to apply its technologies to the education and entertainment spaces. As one of the first movers in a multi-billion dollar market growing at almost 300% per year, NexTech should be able to grow rapidly as this nascent market explodes.

Current Price (01/07/20) US\$1.23
Valuation US\$1.70

SUMMARY DATA

52-Week High \$2.11
52-Week Low \$0.43
One-Year Return (%) N/A
Beta N/A
Average Daily Volume (sh) 94,528

Shares Outstanding (mil) 56.3
Market Capitalization (\$mil) 69.2
Short Interest Ratio (days) 0.9
Institutional Ownership (%) 0.0
Insider Ownership (%) 30.7

Annual Cash Dividend \$0.00
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates
Sales (%) N/A
Earnings Per Share (%) N/A
Dividend (%) N/A

P/E using TTM EPS N/M
P/E using 2020 Estimate N/M
P/E using 2021 Estimate N/M

Zacks Rank N/A

Risk Level High
Type of Stock Small Growth
Industry IT Services

ZACKS ESTIMATES

Revenue

(in millions of CAN\$)

	Q1 (Mar)	Q2 (June)	Q3 (Sept)	Q4 (Dec)	Year (Dec)
2018	0.0 A	0.0 A	0.0 A	0.0 A	0.0 A
2019	0.0 A	0.0 A	0.0 A	N/A	N/A
2019	N/A	N/A	N/A	2.6 A	6.5 E
2020					15.6 E

EPS (GAAP)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sept)	Q4 (Dec)	Year (Dec)
2018	N/A	N/A	N/A	N/A	N/A
2019	N/A	N/A	N/A	-\$0.01 E	N/A
2019	N/A	N/A	N/A	N/A	N/A
2020					N/A

Zacks Projected EPS Growth Rate - Next 5 Years % N/A

WHAT'S NEW

NexTech Reports Preliminary Q4 Revenues for Calendar Year 2019...

NexTech released its revenue and gross margin numbers for calendar year Q4 2019. It has just moved to a calendar year and has not yet reported a quarter this way so our model is still using the fiscal year. For Q4 2019 NexTech says it had revenues of \$2.58 million and gross margin of \$1.34 million or 51.9% right on target with gross margin expectations. This is higher than the \$2.38 million we had expected for the quarter ending Feb 28, 2020 and the same gross margin percent we expected. For the Christmas month of December, the company had revenues of \$760,000 and gross margin of \$453,000 (or 59.6%.) This compares with \$700,000 for the month of November with gross profit of \$300,000 (or 42.9%.)

It looks like the company reached approximately \$6.5 million for calendar year 2019 (\$5.0 million US) on target with guidance. Its goal is US\$15 million (or \$19.5 million Canadian) for revenues in calendar 2020. The gross margin target for 2020 is still between 60-70%.

When the company reports Q4 2019, we will update our model to match the calendar year with what information we are provided.

...Since our last report...

On November 19, 2019 NexTech announced it **partnered with [LivePerson](#)** (NASDAQ:LPSN), to integrate augmented reality (AR) for enhanced product views and 3D advertising into LivePerson's platform.

On November 22, NexTech closed on a non-brokered private placement of four million units priced at \$0.75 per unit **for gross proceeds of \$3 million**. Each unit comprised one common share and one share purchase warrant exercisable at \$0.93 per share for a period of two years from issuance, subject to acceleration. All securities issued were subject to a four-month hold period from the date of issuance, expiring on March 23, 2020. Only existing investors and shareholders invested in this round. We believe the company now has over \$2.0 million in cash on the balance sheet.

On November 28, 2019 NexTech AR Solutions announced that its 3D augmented reality (3D/AR) solution for eCommerce now **integrates seamlessly with Magento 2.0**. 250,000 eCommerce sites use Magento.

On December 11th, 2019 it announced **plans to launch a stand-alone dual platform app** in early Q1 2020 and we believe that is still on track. The app will employ the freemium business model whereby a user gets one free 3-D scan, but is billed for additional scan "packs" as well as charged a monthly subscription fee for hosting the 3-D asset.

On Dec. 20, 2019 NexTech AR Solutions announced that NexTech's 3D augmented reality (3D/AR) solution now **integrates seamlessly with Facebook Messenger**. It will work on desktop computers and mobile phones and is device agnostic.

...Still on Track for the Launch of the Ad Network

On October 24th, 2019 NexTech announced that it **expects to launch a 3D-AR-360 ad network** in Q1 2020. All of its customers have expressed interest in running 3D ads and NexTech is working with Google and others to help facilitate this. NexTech believes it is the only company that will have an end-to-end solution—from creating the 3D assets, hosting them, and then serving up the ads. The company has found AR ads deliver consistently better click through rates than flat 2D ads, and works especially well on mobile phones. The click through rate for immersive ads has been 200-300% higher than the click through rate for standard 2D ads.

KEY POINTS

- Augmented Reality (AR) is just beginning to make its way into mainstream use and the market is exploding. NexTech AR is the only public pure play we know of that is providing services to allow companies to use AR in marketing and advertising their goods. At a price to vendors of \$30 per month per SKU, adoption of just a tiny percent of the trillions of products sold worldwide will create a massive revenue stream for NexTech AR.
- NexTech AR is a small, B2B startup based in Toronto that was formed to provide services for, and invest in, businesses using Augmented Reality (AR) and hologram technologies. These technologies are used to improve sales and profits for eCommerce sites, and other verticals such as entertainment. This technology converts two-dimensional images of real objects and people into three dimensions using scanners and software. Using AR is a proven way to boost sales and reduce returns in eCommerce, and provides an engaging, economic way to provide information in the education and training space.
- AR technology is just starting to be introduced to online advertising. Instagram just added four vendors who have pioneered the space with try-on features and is working to add AR marketing and advertising to its platform. Google and Unity are both active in working on adding AR capability to their advertising platforms, and NexTech AR is working with both of them to make it easy for customers to create and place AR ads with them. This market is starting from virtually zero today and should be huge if even a small percentage of companies use AR to sell or advertise their products. Just as video ads grew and are sold at much higher prices than display ads, we expected AR ads to be even more expensive opportunity for ad networks.
- The company is currently has two sources of revenue:
 - A SaaS offering to businesses that place AR renderings created by NexTech AR, or by the customer themselves, for use on their shopping websites and mobile apps, or in ad campaigns. ECommerce customers are charged a monthly fee based on the number of SKUs. Current customers include IBM, Budweiser, Zoltan David, Block Scientific, Walther Arms, Wright Brothers, Vertical Designs, Touchstone Home Products, and BRNT Designs.
 - The sale of products via the web or mobile app enhanced by the use of AR and holograms in its marketing. This business currently generates most of the revenues for the company. NexTech is acquiring eCommerce businesses that have standard web sites and then adding AR and/or holograms to boost sales and profitability. This year NexTech purchased two small companies, selling unrelated products, but with positive cash flow and it has already started to improve them. We expect it to continue to buy web sites at low valuations when available. While these company-owned web sites are primarily being used for in house testing, we could see the company growing them and ultimately reselling them later at higher valuations.
- The company is uniquely positioned versus its competition. Its platform works with both Apple and Android, while others work only on IOS. It can push 3D content to both the web, and an app, while others cannot do both. It allows customers to self publish which others do not. It provides a full range of services—from image capture to hosting, and it has expertise in holograms and training allowing it to add more than just basic 3D AR capabilities.
- It has just launched its education and training platform that can not only be integrated into eCommerce sites to teach customers about products, but can be used for traditional teaching, training and even entertainment. It just announced technology to allow customers to video products themselves to cut costs to AR images, which should boost adoption. This quarter, NexTech hope to launch its own AR ad network to allow customers to place their AR content in advertisements with one stop shopping.

- With a nascent market projected to increase by 289% per year over the next five years, NexTech as a unique public pure play could deserve a higher valuation. It currently trades at an enterprise value of US \$68 million or 5.7xs projected 2020 calendar sales of US\$12 million.

OVERVIEW

The NexTech AR Platform

NexTech offers a web-enabled augmented reality (AR) platform with Artificial Intelligence (AI) and analytics to a variety of vertical market industries via a SaaS model. It integrates with Shopify, Magento, and Wordpress, and offers eCommerce sites a universal 3D shopping solution. With just a few lines of embed code, the company's patent-pending platform offers the most technologically advanced 3D AR/AI technology anywhere. The company believes it has created the AR industry's first end-to-end affordable, intelligent, frictionless, scalable platform. In FYQ3 2019, it launched a new unity plugin developer-focused program called the "ARitize Studio", which is a publishing platform available for the creation and distribution of AR-first and AR-native experiences for IOS, Android and NexTech's AR platform. NexTech provides the **only platform that works with both IOS and Android**. It also provides a complete solution which can include image capture to turn objects into 3D, customer self publishing, hosting, and provides the ability to add AR images through the addition of a single line of JavaScript.

VALUATION

As a start-up, NexTech is difficult to value given its unique position as a public company with no others doing what it does. If we look to value it as an eCommerce business, there are few companies out there with the growth NexTech AR should show. We have taken a group of companies involved in augmented reality and looked at their valuations. This group has an average enterprise value to sales of 8.2 times 2019 estimated calendar sales and 3.8 times 2020.

Using a conservative \$12 million in US dollars for calendar year 2020 sales, its current fully diluted share count of 58.6 million, and a multiple of 8.2 times EV to sales we reach an enterprise value of \$98.4 million or \$1.70 per share in US dollars by next year.

Ticker	Calendar	Calendar	LTM	EBIDTA Margin	Enterprise Value / Sales		LTM	Included in Average?	Enterprise Value
	Revenue 2020E	Revenue 2019E			2020E	2019E			
KOPN	39	29	29	-100%	0.3	0.5	0.5	y	13
MVIS	44	7	6	-538%	1.9	11.1	13.5	y	83
SNAP	2,330	1,720	1,540	-62%	9.6	13.0	14.5	y	22,400
VUZI	19	7	7	-303%	3.2	8.4	9.2	y	61
				-250.9%	3.8	8.2	9.4		4,005

WiMi Hologram Cloud is a Beijing-based company that offers hologram and AR based advertising services and has recently filed for a \$50 million IPO. This is the closest comparable to NexTech and it will be interesting to see where it is priced. In the last twelve month the company generated \$37.1 million in

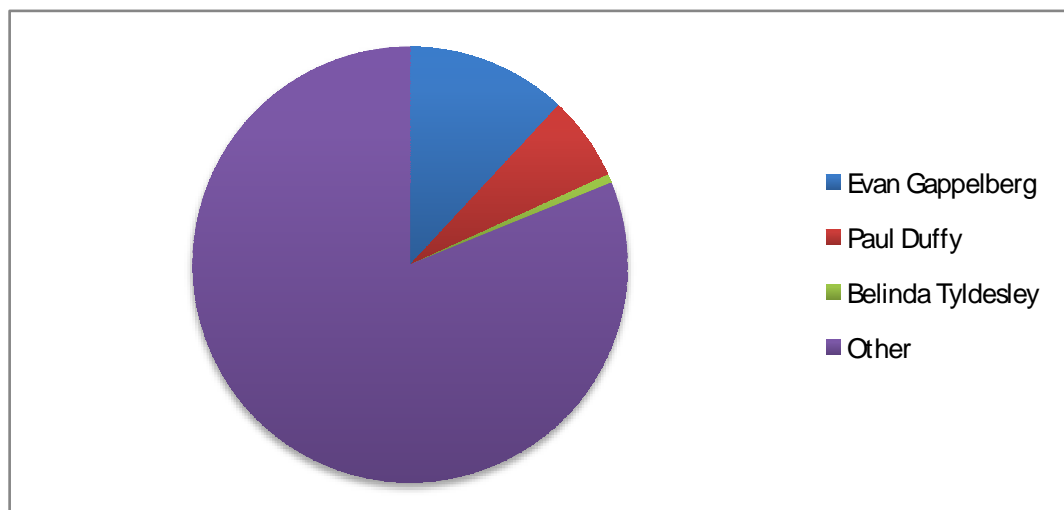
revenues and is highly profitable. Its Q1 revenues grew 59% and it claims to be the biggest in China at what it does.

In the private market there are large valuations for some A/R V/R pure plays: [Magic Leap \(well over \\$6 billion\)](#), Niantic ([nearly \\$4 billion](#)), Oculus ([\\$3 billion from exit to Facebook](#)), Beijing Moviebook Technology (\$1 billion+) and Lightricks (\$1 billion).

RISKS

- NexTech is a start-up with limited operating history. There is no assurance its will evolve into a sustainable going concern.
- The company is operating at a loss and may need to raise capital until it reached cash flow break even which could result in dilution of current shareholders.
- NexTech depends heavily on funding from senior management.
- AR usage is just beginning to be used by early adopters and it is hard to predict how fast or even if AR will be put into use by mainstream eCommerce sites. The company's business with AR customers is still very small and has yet to garner meaningful traction.
- This industry will attract many larger companies with much greater resources who could compete with NexTech in the future.
- The company has plans to launch an ad network, which make take more resources and time than expected and may not be successful.

OWNERSHIP



PROJECTED INCOME STATEMENT

In Canadian Dollars	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan 12, 2018- May 31, 2018	FY 2019	FY 2020E	FY 2021E
	Aug 31, 2018	Nov 30, 2018	Feb 28, 2019	May 31, 2019	Aug 31, 2019	Nov 30, 2019E	Feb 28, 2020E	May 31, 2020E				
E-commerce	\$0	\$0	\$508,000	\$1,371,530	\$1,510,191	\$2,225,000	\$2,300,000	\$2,000,000	-	\$1,879,530	\$8,035,191	\$13,659,825
A/R and other	22,544	43,132	23,185	33,974	3,005	50,000	80,000	100,000	24,947	122,835	233,005	699,015
Net Revenue	\$22,544	\$43,132	\$531,185	\$1,405,504	\$1,513,196	\$2,275,000	\$2,380,000	\$2,100,000	\$24,947	\$2,002,365	\$8,268,196	\$14,358,840
Yr-to-Yr Growth	NA	NA	NA	5534%	6612%	5175%	348%	49%	NM	NM	312.9%	73.7%
Cost of goods	12,738	-	322,435	1,083,185	818,338	1,114,750	1,142,400	945,000	10,621	1,418,358	4,020,488	7,179,420
Gross margin	9,806	43,132	208,750	322,319	694,858	1,160,250	1,237,600	1,155,000	14,326	584,007	4,247,708	7,179,420
Percent of revenues	43.5%	100.0%	39.3%	22.9%	45.9%	51.0%	52.0%	55.0%	57.4%	29.2%	51.4%	50.0%
Accretion expense	10,991	7,655	-	2,405	27,232	-	-	-	12,348	21,051	27,232	-
Admin fees and office costs	86,950	113,121	144,283	345,998	323,046	300,000	280,000	280,000	51,273	690,352	1,183,046	1,000,000
Advertising and marketing	-	-	-	259,676	179,546	180,000	180,000	180,000	-	259,676	719,546	720,000
Amortization	24,377	28,382	23,069	48,511	102,247	105,000	105,000	105,000	13,889	124,339	417,247	420,000
Business development	2,398	21,120	-	-	-	-	-	-	-	23,518	-	-
Consulting fees	239,156	273,457	293,669	774,558	595,077	600,000	600,000	600,000	220,055	1,580,840	2,395,077	2,400,000
Depreciation	-	-	-	27,944	-	-	-	-	548	27,944	-	-
Foreign exchange (gain) loss	(3,545)	(32,332)	(44,436)	(29,101)	10,760	-	-	-	(25,536)	(109,414)	10,760	-
Impairment of intangible assets	-	-	194,444	-	-	-	-	-	-	194,444	-	-
Investor relations	17,097	59,140	306,971	164,651	118,537	100,000	100,000	100,000	52,093	547,859	418,537	300,000
Management fees	104,085	88,770	103,322	56,255	136,388	136,388	136,388	136,388	50,930	352,432	545,552	200,000
Payroll and benefits	-	-	-	160,236	186,374	180,000	190,000	190,000	-	160,236	746,374	800,000
Professional fees	81,700	36,835	65,512	141,498	60,692	75,000	60,000	60,000	54,392	325,545	255,692	200,000
Sales and marketing	-	-	-	59,863	30,094	60,000	40,000	45,000	-	59,863	175,094	180,000
Share-based payments	-	96,390	370,549	283,943	184,938	200,000	220,000	220,000	370,125	750,882	824,938	880,000
Transfer agent & regulatory fees	-	18,203	17,798	24,299	1,950	2,000	2,000	2,000	-	60,300	7,950	8,000
Travel	45,621	47,174	61,895	42,970	62,388	60,000	65,000	70,000	40,275	197,660	257,388	250,000
Other expense	-	-	-	-	4,810	5,000	5,000	5,000	-	-	19,810	20,000
Total operating expenses	608,830	757,915	1,537,076	2,363,706	2,024,079	2,003,388	1,983,388	1,993,388	840,392	5,267,527	8,004,243	7,378,000
Operating income	(599,024)	(714,783)	(1,328,326)	(2,041,387)	(1,329,221)	(843,138)	(745,788)	(838,388)	(826,066)	(4,683,520)	(3,756,535)	(198,580)
Operating margin	-2657.1%	-1657.2%	-250.1%	-145.2%	-87.8%	-37.1%	-31.3%	-39.9%	-3311%	-234%	-45.4%	-1.4%
Deferred income tax recovery	-	-	-	15,971	9,993	-	-	-	-	15,971	9,993	-
NET INCOME	(599,024)	(714,783)	(1,328,326)	(2,025,416)	(1,319,228)	(843,138)	(745,788)	(838,388)	(826,066)	(4,667,549)	(3,746,542)	(198,580)
Currency translation adjustment	0	573	33,467	(26,353)	(3,625)	-	-	-	-	7,687	(3,625)	-
Total other income	0	573	33,467	(26,353)	(3,625)	-	-	-	-	7,687	(3,625)	-
Comprehensive Income	(599,024)	(715,356)	(1,361,793)	(2,015,034)	(1,322,853)	(843,138)	(745,788)	(838,388)	(826,066)	(4,659,862)	(3,760,160)	(198,580)
Net loss per share	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.11)	\$ (0.07)	\$ (0.00)
Non-GAAP loss per share	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.08)	\$ (0.05)	\$ 0.01
Shares outstanding	37,537,872	39,139,213	47,336,099	53,750,000	55,581,781	56,309,250	56,309,250	56,309,250	22,081,328	44,443,149	56,127,383	57,000,000
Yr-to-Yr Growth	NA	NA	514%	199%	48%	44%	19%	5%	NA	101%	26%	2%
Fully diluted shares	53,737,872	55,339,213	67,736,099	55,250,000	58,571,781	59,299,250	59,299,250	59,299,250	NA	45,943,149	59,117,383	59,299,250
EBITDA	(574,647)	(590,011)	(740,264)	(1,680,989)	(1,042,036)	(538,138)	(420,788)	(513,388)	(441,504)	(3,585,911)	(2,514,350)	1,101,420

BALANCE SHEET

	August 31, 2019	May 31, 2019	Qtr-Qtr % Change
Assets:			
Cash and cash equivalents	\$ 1,404,449	\$ 329,678	326%
Accounts receivable	321,986	421,274	-24%
Prepaid expenses	240,552	178,715	35%
Inventory	759,916	579,857	31%
Total current assets	2,726,903	1,509,524	81%
Equipment	140,961	149,879	-6%
Right of use assets	29,418	NA	NA
Intangible assets	6,104,537	6,188,060	-1%
Total Assets	9,001,819	7,847,463	15%
Current Liabilities:			
Accounts payable & accrued liabilities	714,379	747,479	-4%
Other payables	279,074	772,078	-64%
Convertible debentures	0	0	0%
Lease liabilities	28,677	NA	NA
Total current liabilities	1,022,130	1,519,557	-33%
Deferred income tax liability	180,177	193,435	-7%
Total Liabilities	1,202,307	1,712,992	-30%
Stockholders' Equity			
Common Stock	12,358,149	10,551,142	17%
Convertible debentures	995,949	0	NM
Reserves	1,258,257	1,076,944	17%
Deficit	(6,812,843)	(5,493,615)	24%
Total Stockholders' Equity	7,799,512	6,134,471	27%
Total Liabilities and Stockholders' Equity	9,001,819	7,847,463	15%
Current ratios	2.7	1.0	169%
Quick ratio	1.9	0.6	215%
Cash as % of assets	16%	4%	271%
Working Capital	1,704,773	(10,033)	-17092%
Convertible Debt	995,949	0	NM
Debt/Total Assets	11%	0%	NM
EV	48,675,510	25,790,891	89%
Mkt value	50,675,510	27,790,891	82%

CASH FLOW

	Beginning to May 29, 2018	3 Months Ending Aug 31, 2018	3 Months Ending Nov 30, 2018	3 Months Ending Feb 28, 2019	3 Months Ending May 29, 2019	Year Ending May 29, 2019	3 Months Ending Aug 31, 2019
Net Income	\$ (826,066)	\$ (599,024)	\$ (714,783)	\$ (1,328,326)	\$ (2,025,416)	\$ (4,667,549)	\$ (1,319,228)
Adjustments to reconcile net loss to net cash used in operating activities:							
Amortization	13,889	24,377	28,382	23,069	48,511	124,339	102,247
Accretion expense	12,348	10,991	7,655	0	2,405	21,051	27,232
Consulting fees	0	60,000	60,000	60,000	(180,000)	0	-
Deferred income tax recovery	0	0	0	0	(15,197)	(15,197)	(9,993)
Depreciation	548	0	0	0	27,944	27,944	0
Interest expense							10,449
Share based payments	370,125	0	96,390	370,549	363,943	830,882	184,938
Write-off of intangible asset	0	0	0	194,444	-	194,444	0
Currency translation adjustment	0	0	573	(26,691)	26,118	0	(6,890)
Changes in assets and liabilities:							
Receivables	(14,325)	(37,553)	(17,037)	(46,092)	(240,426)	(341,108)	99,288
Prepaid expenses	(62,444)	(14,394)	(35,379)	27,607	(93,242)	(115,408)	(61,837)
Inventory	0	0	0	(45,456)	(26,333)	(71,789)	(180,059)
Accounts payable and accrued liabilities	221,281	229,495	(170,690)	(72,444)	475,144	461,505	(33,100)
Net Cash Used In Operating Activities	(284,644)	(326,108)	(744,889)	(843,340)	(1,636,549)	(3,550,886)	(1,186,953)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Cash acquired on a business combination	0	0	0	125,532	3,138	128,670	0
Purchase of equipment	(41,912)	(89,582)	(37,221)	11,823	(12,144)	(127,124)	0
Purchase of intangibles	0	(80,586)	(101,796)	(316,690)	499,072	0	0
Acquisition of Infinite Pet Life	0	0	0	0	(1,760,294)	(1,760,294)	0
Acquisition of HootView	0	0	0	0	(85,664)	(85,664)	0
Net Cash Used In Investing Activities	(41,912)	(170,168)	(139,017)	(179,335)	(1,355,892)	(1,844,412)	0
CASH FLOWS FROM FINANCING ACTIVITIES:							
Convertible debenture	250,000	0	0	0	0	0	985,500
Capital contribution	0	0	318,375	0	(212,037)	106,338	0
Proceeds from the issue of shares	2,600,273	0	0	1,916,150	1,164,600	3,080,750	1,740,377
Lease payments							(13,292)
Business acquisition installment payments							(450,861)
Net Cash Provided By Financing Activities	2,850,273	0	318,375	1,916,150	952,563	3,187,088	2,261,724
Foreign exchange	0	0	0	0	14,171	14,171	0
Net Increase in Cash	2,523,717	(496,276)	(565,531)	893,475	(2,025,707)	(2,194,039)	1,074,771
Cash - Beginning of Period	0	2,523,717	2,027,441	1,461,910	2,355,385	2,523,717	329,678
Cash - End of Period	2,523,717	2,027,441	1,461,910	2,355,385	329,678	329,678	1,404,449
Cash Paid During the Period for:							
Income taxes	0	0	0	0	0	0	0
Interest	0	0	0	0	0	0	0
Operating cash flow	(429,156)	(503,656)	(521,783)	(706,955)	(1,751,692)	(3,484,086)	(1,011,245)
Free cash flow	(471,068)	(673,824)	(660,800)	(1,011,822)	(1,264,764)	(3,611,210)	(1,011,245)

HISTORICAL STOCK PRICE



Source: Zacks Investment Research

DISCLOSURES

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