

Nextech AR Solutions

(OTCQX: NEXCF)

NEXCF: Nextech AR Preannounces Q2 Revenues of \$1.7 Million, up 153%

Based on an EV to estimated EV/2024 sales multiple of 4.6xs, plus the value of ARway and Toggle3D.ai we believe Nextech stock could be worth \$0.78 per share.

Current Price (7/31/2023) US\$0.29
Valuation US\$0.78

OUTLOOK

Nextech AR Solutions is a diversified augmented reality, AI technology company that leverages proprietary artificial intelligence (AI) to create 3D experiences for the metaverse. Its main businesses are creating 3D WebAR photorealistic models for the Prime Ecommerce Marketplace as well as many other online retailers. The company develops or acquires what it believes is a disruptive technology and once commercialized, spins them out as stand-alone public companies issuing a stock dividend to shareholders while retaining a significant ownership stake in the public spin-out. In October, Nextech completed its first spin-out—an augmented reality wayfinding solution company called ARway (CSE: ARWY.CN, OTC: ARWYF.) The company owns 13 million shares in ARway and distributed four million shares to Nextech AR shareholders. The company's second spinout - Toggle3D.ai (CSE: TGGL.CN, PINK: TGGLF) began trading in June. It is an AI-powered 3D design studio to compete with Adobe. 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.

SUMMARY DATA

52-Week High US\$0.95
52-Week Low US\$0.28
One-Year Return (%) -52.9
Beta 1.7
Average Daily Volume (sh) 270,679

Shares Outstanding (mil) 118.5
Market Capitalization (\$mil) US\$34.3
Short Interest Ratio (days) 0.4
Institutional Ownership (%) 0
Insider Ownership (%) 14

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 2023 Estimate N/M
P/E using 2024 Estimate N/M

Risk Level

Type of Stock
Industry

Above Average
Small Growth
IT Services

ZACKS ESTIMATES

Revenue

(In millions of CAN\$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2021	\$1.7 R	\$1.7 R	\$1.2 A	\$2.2 A	\$6.7 R
2022	\$0.5 R	\$0.6 R	\$0.9 R	\$1.4 A	\$3.2 A
2023	\$1.3 A	\$1.4 E	\$1.7 E	\$2.1 E	\$6.4 E
2024					\$21.2 E

Earnings per Share

(IFRS)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2021	NA	NA	NA	NA	-\$0.35 R
2022	-\$0.07 R	-\$0.09 R	-\$0.05 A	-\$0.06 A	-\$0.26 A
2023	-\$0.06 A	-\$0.05 E	-\$0.04 E	-\$0.04 E	-\$0.19 E
2024					-\$0.09 E

R= restated Quarters may not sum to years due to restatements

WHAT'S NEW

Nextech Preannounces Q2 Revenues of \$1.4 Million Showing Revenue Growth of 153%

Nextech preannounced Q2 revenues of \$1.4 million, up \$100,000 sequentially from Q1 and 153% from Q2 2022. It expects gross margins to be the same as in Q1 at 38%. It also guided to Q3 revenues of \$1.7 million to \$1.9 million with gross margin increasing to 40-50%. We have adjusted our model accordingly. We will wait until the company reports Q2 to see if we need any changes to our 2024 model or valuation. The company is starting to ramp up revenues and increasing sales to Amazon and others. Investors are awaiting news that Nextech's 3D modeling services will be available to merchants in Amazon's Seller Central which is expected to boost demand dramatically. It is unknown when this might be as the launch is controlled by Amazon.

The company just closed a capital raise that added 6.3 million shares to the outstanding and another 6.3 million warrants. It now has approximately 118.5 million shares outstanding and has added \$2.65 million in cash. On July 27th, Nextech announced an add-on order from Amazon of \$2.2 million and we expect that borrowing against this contract could be another source of cash.

We expect further information when the company reports in approximately three weeks.

KEY POINTS

- Nextech AR Solutions (OTCQX: NEXCF) (CSE: NTAR) (FSE: EP2) is a diversified augmented reality, AI technology company that leverages proprietary artificial intelligence (AI) to create 3D experiences for the metaverse. Its main businesses are creating 3D WebAR photorealistic models for the Prime Ecommerce Marketplace as well as many other online retailers. The company develops or acquires what it believes is a disruptive technology and once commercialized, spins them out as stand-alone public companies issuing a stock dividend to shareholders while retaining a significant ownership stake in the public spin-out. On October 26, 2022, Nextech completed its first spin-out of an augmented reality wayfinding solution company called ARway, (OTC: ARWYF/CSE: ARWY). The company owns 13 million shares in ARway and distributed four million shares to Nextech AR shareholders. The company's second spinout was Toggle3D.ai (OTC:TGGLF/CSE: TGGL), an AI-powered 3D design studio to compete with Adobe.
- Nextech AR is a startup based in Toronto that was formed to provide services for and invest in, businesses using Augmented Reality (AR), holograms, and other technologies in the Metaverse. These technologies are used to improve sales and profits for eCommerce sites, and other verticals such as entertainment and education. The technology converts two-dimensional images of real objects and people into three dimensions. Using AR is a proven way to boost sales and reduce returns in eCommerce, and provides an engaging, economical way to provide information in the education and training space.
- Augmented Reality (AR) and 3D Models are just beginning to make their 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 and 3D in marketing and advertising their goods. At a small price to vendors per month per SKU, the adoption of just a tiny percent of the trillions of products sold worldwide will create a massive revenue stream for Nextech AR.

- The company had three sources of revenue:
 - Its largest revenue generator had been an eCommerce business used as a test lab and driven by AR, 3D Models, and holograms in its marketing. It was discontinued in 2022. Investors should not expect any revenue from this business in 2023.
 - Its main revenue generator is its SaaS offerings for businesses that provide AR, 3D models, holograms, and metaverses 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 or per model.
 - The company also owns an events business that provides both virtual and in-person events and incorporates all its AR and Metaverse technologies

- With a nascent market projected to increase by 289% per year over the next five years, Nextech is a unique public pure play that could deserve a higher valuation. It currently trades at an enterprise value of approximately US\$32 million or 2.0xs projected 2024 sales.

VALUATION

We have taken a group of companies involved in augmented reality, companies that provide conferencing plus Roblox the metaverse company. At current valuations, we get an average of 4.4 times EV/2024 Sales. However, given Nextech's rapid growth versus the comps, we believe it deserves at least the high end of the range or 6.2 times revenues which is Roblox.

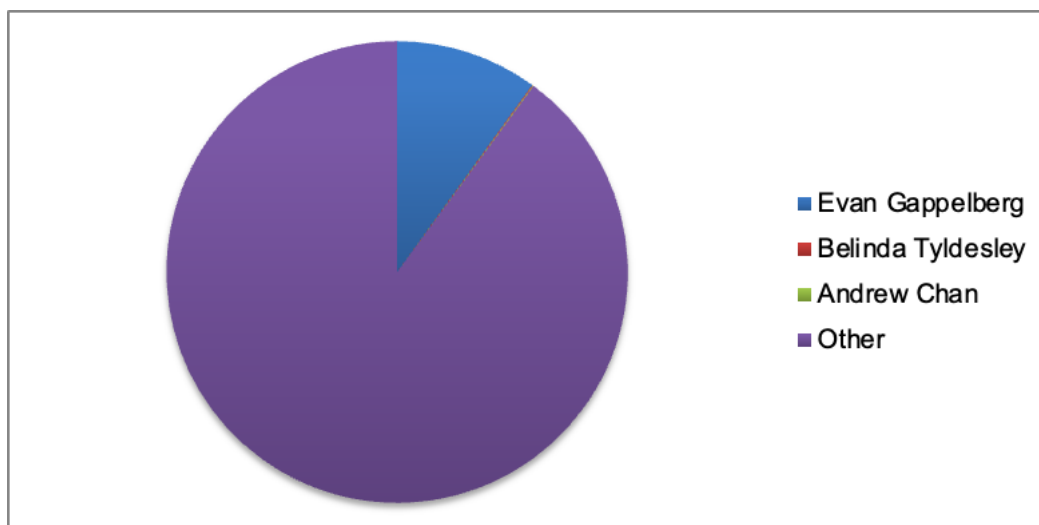
So, using US\$16.0 million for 2024 estimated sales, and a 4.6 multiple, Nextech could be worth an enterprise value as high as US\$74 million or a market value of US\$76 million. Dividing by the current shares of 118.5 million, this would be approximately US\$.64 per share. Nextech's ownership of ARway of 13 million shares adds US\$6.4 million to the valuation as an asset and adding 13 million shares of Toggle3D.ai adds another \$10.9 million. With those two, the stock is worth at least US\$0.78 per share.

Company	Ticker	Revenue	Revenue	LTM	EBIDTA Margin	Enterprise Value / Sales			Enterprise Value
		2024E	2023E			2024E	2023E	LTM	
Roblox	RBLX	3,950	3,430	2,340	-39%	5.9	6.8	10.0	23,370
Salesforce	CRM	38,400	34,650	32,190	21%	5.7	6.3	6.8	217,400
Snap	SNAP	5,210	4,530	4,601	-26%	3.6	4.1	4.0	18,500
Zoom	ZM	4,700	4,480	4,420	4%	3.4	3.6	3.6	16,120
Average						4.6	5.2	6.1	63,044

RISKS

- Nextech is a start-up with limited operating history in its current businesses. There is no assurance it will evolve into a sustainable, profitable going concern. As such forecasts are subject to a wide range of outcomes.
- The company is operating at a loss, and though it is not expected, it may need to raise capital until it reaches cash flow break-even which could result in the dilution of current shareholders.
- AR usage is beginning to be used by early adopters and it is hard to predict how fast AR will be put into use by mainstream eCommerce sites. The company's business with AR customers is still very small although it seems to be beginning 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 is constantly launching new products and features that may or may not be commercially successful.
- In Q1 Amazon was 47% of total sales. The loss of Amazon as a customer would be significant. The company does have a long-term contract with Amazon negating most of the risk.
- With the return to normal business operations, the need for virtual conferencing capabilities has waned further and has reduced revenues.
- Some of the value of Nextech is based on its ability to successfully spin out other parts of its business at high valuations. These spin-outs may not occur or reach the valuations investor might expect.

OWNERSHIP



INCOME STATEMENT

	Mar 31, 2022R	June 30, 2022R	Sept 30, 2022R	Dec 31, 2022	Mar 31, 2023	June 30, 2023E	Sept 30, 2023E	Dec 31, 2023E	2021R	2022	2023E	2024E
Technology services	36,763	35,478	45,768	\$62,287	80,250	80,000	80,000	80,000	5,255,451	180,296	320,250	320,250
Yr-to-Yr Growth	-97%	-97%	-95%	-96%	118%	125%	75%	28%	53.8%	-96.6%	NA	NA
Renewable Software licenses	459,469	517,889	875,016	\$850,769	1,188,673	1,300,000	1,610,000	2,000,000	1,394,070	2,849,171	6,098,673	21,000,000
Yr-to-Yr Growth	25%	79%	286%	67%	159%	151%	84%	135%	315.8%	104.4%	114.1%	244.3%
Interest and investment income	13,979	NA	NA	139,802	32,271	20,000	10,000	-	40,328	195,324	-	-
Net Revenue	\$510,211	\$553,367	\$920,784	\$1,052,858	\$1,301,194	\$1,400,000	\$1,700,000	\$2,080,000	\$6,689,849	\$3,224,791	\$6,418,923	\$21,320,250
Yr-to-Yr Growth	-70%	-67%	-20%	-51%	155%	153%	85%	98%	78.3%	-51.8%	99.0%	232.1%
Cost of goods	254,483			\$642,843	767,308	868,000	1,003,000	1,144,000	4,821,321	1,593,076	3,720,037	7,462,088
Gross margin	255,728			410,015	533,886	532,000	697,000	936,000	1,868,528	1,631,715	2,698,886	13,858,163
Percent of revenues	50.1%			38.9%	41.0%	38.0%	41.0%	45.0%	27.9%	50.6%	42.0%	65.0%
Operating expenses												
Sales and marketing	1,652,708			934,116	1,650,308	1,290,308	1,200,000	1,200,000	10,437,523	5,013,367	5,340,616	7,500,000
General and administrative	3,021,987			4,301,592	2,591,629	2,600,000	2,200,000	2,200,000	9,683,311	13,377,575	9,591,629	8,800,000
R&D	1,027,194			827,334	879,904	950,000	950,000	950,000	6,609,471	3,892,208	3,729,904	3,729,904
Stock-based compensation	578,805			(52,702)	1,170,671	800,000	800,000	800,000	5,030,449	1,715,690	3,570,671	3,570,671
Amortization	373,594			934,275	530,659	530,000	530,000	530,000	2,050,147	2,655,652	2,120,659	1,500,000
Depreciation	31,659			28,393	29,331	29,000	29,000	29,000	114,733	122,930	116,331	50,000
Right of use amortization	19,226			19,226	55,846	55,800	55,800	55,800	44,861	76,905	223,246	223,246
Total operating expenses	6,705,173			6,992,234	6,908,348	6,255,108	5,764,800	5,764,800	33,970,495	26,854,327	24,693,056	25,373,821
Operating Income	(6,449,445)			(6,582,219)	(6,374,462)	(5,723,108)	(5,067,800)	(4,828,800)	(32,101,967)	(25,222,612)	(21,994,170)	(11,515,659)
Other income												
Interest expense	-			-	-	-	44,000	66,000	-	-	110,000	66,000
Gain on liability	-			-	-	-	-	-	(219,321)	(381,019)	-	-
Gain on short-term investments	-			(290,275)	-	-	-	-	-	-	-	-
Gain on contingent consideration	-			-	-	-	-	-	(1,573,308)	-	-	-
Impairment of intangibles	-			476,113	-	-	-	-	-	3,178,426	-	-
Impairment of goodwill	-			-	184,097	-	-	-	-	-	184,097	-
Loss on sale of assets	-			-	194,979	-	-	-	-	-	194,979	-
Foreign exchange loss (gain)	441,880			(374,859)	(93,962)	-	-	-	(267,725)	(1,345,593)	(93,962)	-
Total other expense	441,880			(189,021)	285,114	-	-	-	(2,060,354)	1,451,814	395,114	66,000
Income before income taxes	(6,891,325)			(6,771,240)	(6,659,576)	(5,723,108)	(5,067,800)	(4,828,800)	(30,041,613)	(26,674,426)	(22,389,284)	(11,581,659)
Income taxes	30,334			271,033	95,647	95,647	95,647	95,647	177,386	637,222	382,588	382,588
Tax rate	-0.4%			-4.0%	-1.4%	-1.7%	-1.9%	-2.0%	-0.6%	-2.4%	-1.7%	-3.3%
Net income	(6,860,991)			(6,500,207)	(6,563,929)	(5,627,461)	(4,972,153)	(4,733,153)	(29,864,227)	(26,037,204)	(22,006,696)	(11,199,071)
Income from discontinued ops.	(589,241)			(1,292,021)	-	-	-	-	(2,787,826)	(1,341,111)	-	-
Non-IFRS net income	(5,632,186)			(5,642,071)	(5,393,258)	(4,827,461)	(4,172,153)	(3,933,153)	(26,407,086)	(19,774,107)	(18,436,025)	(7,628,400)
Exchange differences on translating	(24,687)			76,662	(96,448)	0	0	0	226,852	(121,940)	(96,448)	0
Exchange differences on discontinued	NA			NA	0	0	0	0	43,715	(310,905)	0	0
Total comprehensive loss	(6,885,678)			(6,423,545)	(6,660,377)	(5,627,461)	(4,972,153)	(4,733,153)	(32,425,201)	(27,811,160)	(22,103,144)	(11,199,071)
Non-controlling interests	0			(438,201)	(699,499)	(700,000)	(700,000)	(700,000)	0	(438,201)	(2,799,499)	(1,000,000)
Total comp. to Nextech shareholders	(7,474,919)			(5,985,344)	(5,960,878)	(4,927,461)	(4,272,153)	(4,033,153)	(32,425,201)	(27,372,959)	(19,303,645)	(10,199,071)
Earnings per share	\$ (0.07)			\$ (0.06)	\$ (0.06)	\$ (0.05)	\$ (0.04)	\$ (0.04)	\$ (0.35)	\$ (0.26)	\$ (0.20)	\$ (0.09)
Non-IFRS earnings per share	\$ (0.06)			\$ (0.06)	\$ (0.05)	\$ (0.04)	\$ (0.04)	\$ (0.03)	\$ (0.31)	\$ (0.20)	\$ (0.16)	\$ (0.06)
Shares outstanding	97,550,931			101,000,000	106,925,652	109,874,662	114,158,000	118,500,000	83,888,487	100,201,691	112,364,579	118,500,000
Yr-to-Yr Growth	26%			12%	10%	10%	16%	17%	22.2%	19.4%	12.1%	5.5%
All in shares	115,451,931	117,626,256	133,202,993	133,642,000	139,113,652	142,062,662	150,504,000	156,988,000	92,224,652	124,980,795	147,167,079	156,988,000
Adjusted EBITDA	(6,449,445)	(8,734,100)	(5,920,402)		(4,587,955)	(4,308,308)	(3,653,000)	(3,414,000)	(32,101,967)	(25,222,612)	(21,994,170)	(11,515,659)

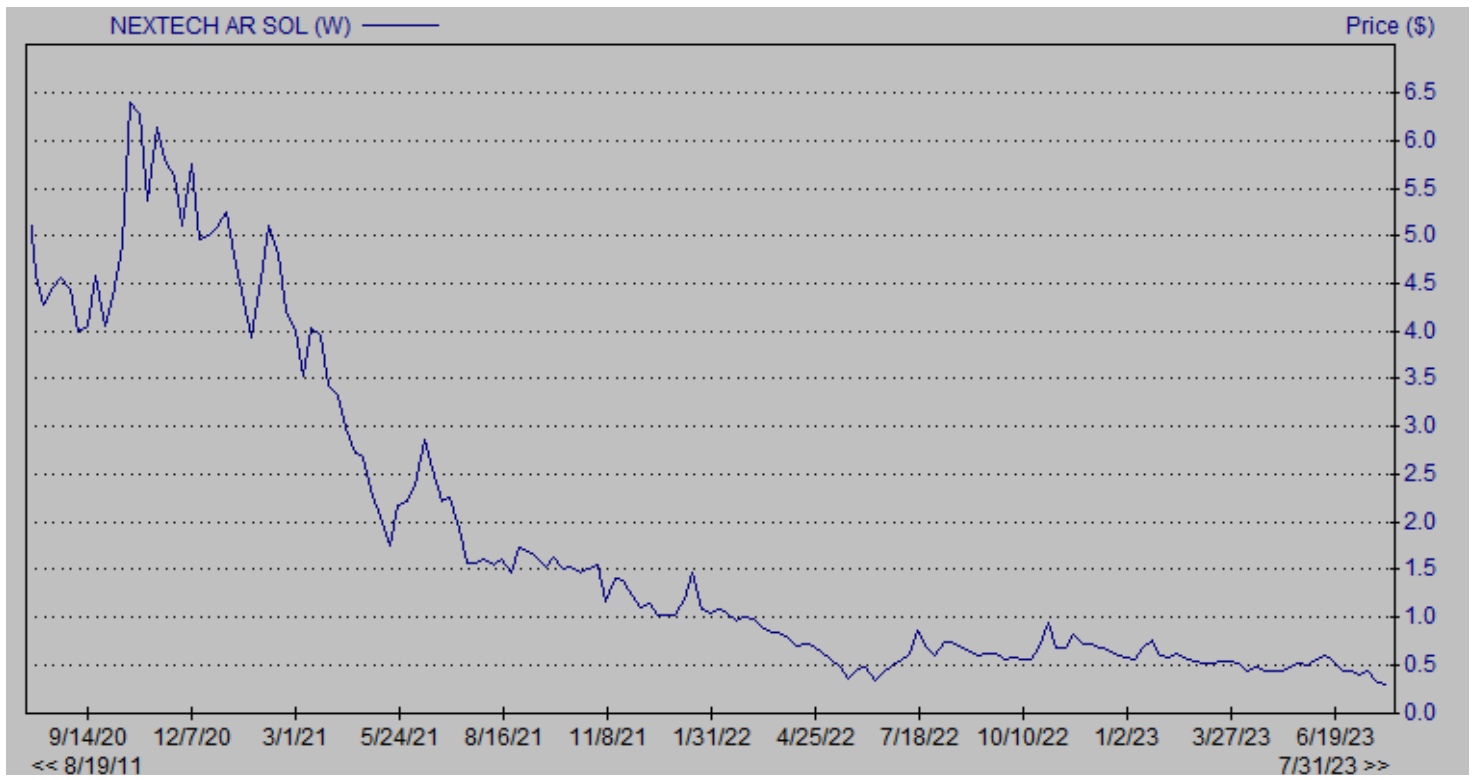
BALANCE SHEET

Canadian Dollars	Mar 31, 2022	Dec 31, 2022	Qtr-Qtr % Change	Mar 31, 2022	Yr-Yr % Change
Assets:					
Cash and cash equivalents	3,502,217	3,777,117	-7%	10,781,775	-68%
Accounts receivable	941,071	744,331	26%	1,019,014	-8%
Deferred asset	267,922	256,818	4%	0	NM
Prepaid expenses	393,394	310,906	27%	894,805	-56%
Contract assets	253,474	332,197	-24%	124,982	103%
Inventory	0	45,289	-100%	2,527,193	-100%
Non-current assets held for sale	0	501,188	-100%	0	0%
Total current assets	5,358,078	5,967,846	-10%	15,347,769	-65%
Equipment	200,754	278,463	-28%	376,473	-47%
Deferred consideration for PET	205,230	0	NM	0	NM
Right of use assets	778,351	829,278	-6%	1,002,598	-22%
Intangible assets	2,816,471	3,313,741	-15%	5,575,700	-49%
Goodwill	6,624,776	6,746,378	-2%	8,670,827	-24%
Total Assets	15,983,660	17,135,706	-7%	30,973,367	-48%
Current Liabilities:					
AP & accrued liabilities	2,750,665	2,641,918	4%	1,910,159	44%
Deferred revenue	539,312	437,746	23%	622,898	-13%
Lease liabilities	157,994	222,250	-29%	290,357	-46%
Liab. assoc w/assets held for sale	0	92,532	-100%	0	NM
Total current liabilities	3,447,971	3,394,446	2%	2,823,414	22%
Lease liabilities	591,142	582,586	1%	706,654	-16%
Deferred income tax liability	(69,373)	29,974	-331%	590,391	-112%
Loan payable	0	0	0%	86,756	-100%
Total Liabilities	3,969,740	4,007,006	-1%	4,207,215	-6%
Stockholders' Equity					
Share capital	86,931,638	83,271,706	4%	80,202,550	8%
Reserves	14,380,369	12,754,708	13%	11,272,102	28%
Accum. other comprehensive inc	730,653	827,101	-12%	1,953,782	-63%
Shareholder's Equity NexTech	(91,763,291)	(85,898,862)	7%	(66,662,282)	38%
Non-controlling interest	1,734,551	2,174,048	-20%	0	NM
Total Stockholders' Equity	12,013,920	13,128,701	-8%	26,766,152	-55%
Total Liabilities & Stockholders' Equity	15,983,660	17,135,707	-7%	30,973,367	-48%
Current ratios	1.6	1.8	-12%	5.4	-71%
Quick ratio	1.6	1.7	-11%	4.5	-66%
Cash	3,502,217	3,777,117	-7%	10,781,775	-68%
Cash as % of assets	22%	22%	-1%	35%	-37%
Working Capital	1,910,107	2,573,400	-26%	12,524,355	-85%
Debt	0	0	0%	86,756	-100%
Debt/Total Assets	0.0%	0.0%	0%	0.3%	-100%

CASH FLOW

	3 Months Ending Mar 31, 2022R	3 Months Ending June 30, 2022	3 Months Ending Sept 30, 2022	3 Months Ending Dec 31, 2022	Year 2022	3 Months Ending Mar 31, 2023
Net Income	\$ (6,860,991)	\$ (10,475,723)	\$ (4,354,675)	\$ (4,203,201)	\$ (26,037,215)	\$ (6,563,929)
Discontinued operations	\$ (589,241)	NA	\$ (49,090)	\$ (2,074,264)	\$ (1,341,111)	\$ 0
Adjustments to reconcile net loss to net cash used in operating activities:						
Amortization	728,378	750,429	597,354	579,491	2,655,652	531,458
Right of use assets	63,082	63,770	77,624	56,625	261,101	55,846
Deferred income tax recovery	(138,933)	(121,852)	(126,777)	126,777	0	0
Depreciation	37,117	37,124	36,941	32,385	143,567	29,331
Gain on liability	0	0	(90,744)	(290,275)	(381,019)	0
Employee pay program	0	0	0	0	0	309,593
Treasury shares for employee pay program	0	0	0	0	0	(252,366)
Stock-based compensation	578,805	878,286	311,301	(52,702)	1,715,690	1,170,671
Write off of equipment	0	0	0	0	0	85,679
Deferred consideration receiv on sale of PET	0	0	0	0	0	(205,230)
Share-based payments	0	0	0	625,000	625,000	0
Shares for services	717,066	148,500	581,286	(154,015)	1,292,837	0
Impairment of intangible asset & goodwill	0	2,702,313	0	476,113	3,178,426	184,097
Changes in assets and liabilities:						
Receivables	62,150	600,222	(223,510)	(168,989)	269,873	(129,780)
Deferred asset	0	(153,185)	(107,454)	3,821	(256,818)	(11,104)
Contract asset	261,220	(68,653)	(68,057)	(70,505)	54,005	78,723
Prepaid expenses	(145,331)	362,636	59,727	131,711	408,743	(52,663)
Inventory	861,905	160,434	1,228,785	703,218	2,954,342	434,756
Accounts payable and accrued liabilities	(848,858)	739,778	(342,533)	427,043	(24,570)	16,219
Deferred tax liabilities	0	0	0	(673,290)	(673,290)	(99,347)
Deferred revenue	13,897	(200,758)	49,695	(34,089)	(171,255)	101,566
Net Cash Used In cont operating activities	(5,841,560)	(4,576,679)	(2,716,519)	(5,366,944)	(16,615,587)	(4,316,479)
Net cash from discontinued	581,826	NA	296,392	1,068,583	1,289,545	0
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of equipment	(46,553)	(37,485)	(15,951)	(18,178)	(101,784)	(29,000)
Interest on lease liability	(6,712)	(6,890)	(8,441)	(6,625)	(28,668)	(6,823)
Net Cash Used In Cont Investing Activities	(48,071)	(44,375)	(24,392)	(287)	(105,936)	(35,823)
Net used discontinued	(5,194)	0	0	(24,516)	(24,516)	0
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from private placement, net	8,936,496	1,910	0	(48,057)	8,890,349	2,651,730
Repayment of loan	0	0	(90,896)	0	(90,896)	0
Proceeds from employee pay program	0	0	1,488,526	1,008,102	2,496,628	1,579,220
Lease payments	(73,398)	(74,369)	(90,934)	(92,767)	(331,468)	(131,499)
Subsidiary shares:						
Issuance to non-cont. interest, net	0	0	0	1,657,354	1,657,354	86,748
Net Cash Provided By Fin Activities, cont	8,936,496	(72,459)	1,306,696	2,770,252	12,867,587	4,186,199
Net Cash Provided By Discont.	(73,398)	NA	NA	(245,620)	(245,620)	0
Foreign exchange	(5,620)	(507,166)	(634,979)	294,563	(616,272)	(118,171)
Net Increase in Cash	3,550,099	(4,693,513)	(1,137,823)	(1,798,532)	(2,834,527)	(166,105)
Cash - Beginning of Period	7,237,296	10,610,765	7,063,268	5,290,466	7,237,296	3,786,493
Cash - End of Period, continuing	10,610,765	5,410,086	5,278,516	3,789,071	3,777,120	3,502,217
Cash - End of Period, discontinued	171,010	NA	11,950	(2,574)	9,376	0
Cash, end of period	10,781,775	5,410,086	5,290,466	3,786,497	3,786,496	3,502,217
Operating cash flow	(5,464,717)	(6,017,153)	(3,016,780)	(2,803,802)	(16,545,961)	(4,654,850)
Free cash flow	(5,511,270)	(6,054,638)	(3,032,731)	(2,821,980)	(16,647,745)	(4,683,850)
Supplemental information						
Taxes paid	0	21,571	220	5,214	27,005	800
Interest paid	9,550	8,308	5,600	7,452	30,910	5,467
Interest received	11,830	27,498	34,392	34,670	108,390	33,789

HISTORICAL STOCK PRICE



Source: Zacks Investment Research

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