

Enterprise Group Inc.

(TSX: E)

A One-Stop Oilfield Site Infrastructure Provider – Initiating Coverage

BUY

Current Price: \$0.40

Fair Value: \$1.06

Risk*: 3

Sector/Industry: Energy/Oil & Gas

[Click here for more research on the company and to share your views](#)

Highlights

- Enterprise, formed in 2004, provides specialized equipment and services for companies operating in the energy, pipeline, and construction sectors. The company **operates in Alberta and B.C.**
- Revenue primarily comes from renting equipment to oil and gas companies, including majors such as Suncor (TSX: SU), Chevron (NYSE: CVX), and ConocoPhillips (NYSE: COP). The company has \$41M in equipment and property assets. **Enterprise' EV (enterprise value) of \$31M, implies that its shares are trading at just 76% of hard assets.**
- Enterprise owns 2,500+ pieces of equipment, allowing it to offer a wide range of services. Although the sector is highly competitive, filled with both large and small players, Enterprise is one of the very few **one-stop oilfield site infrastructure providers.**
- EBITDA was up 29% in 2021, and 27% YoY in Q1-2022, amid a rebound in market activities due to stronger oil and gas prices. Despite rising rates and slower GDP growth forecasts, we have a **positive outlook on oil prices** as we are expecting a prolonged period of conflict between the West and East. Russia accounts for 13% of global oil production.
- It is estimated that the oil and gas field services market in Canada will grow 15% this year vs the five-year average of 5% p.a. (Source: IBISWorld).
- Earlier this year, the company **started offering portable/mobile power using natural gas**, replacing diesel generators, so that clients can realize costs savings and achieve their Environment, Social, and Governance (ESG) goals. Note that natural gas is one of the cheapest and cleanest energy sources.
- Enterprise is trading at 4.3x EBITDA vs the sector average of 9.2x. **Upcoming catalysts** include strong Q2 results, and increased adoption of the company's mobile power systems.

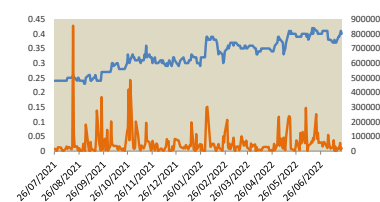
Risks

- The oil/gas field services market is **highly dependent on oil and gas prices.**
- Highly competitive space**
- As the company uses leverage, a downturn in business activities can negatively impact its balance sheet.

Sid Rajeev, B.Tech, CFA, MBA
Head of Research

Alexis Cabel, B.A.Econ
Equity Analyst

Price and Volume



	YTD	12M
E	25%	67%
TSX	-11%	-6%

Pro forma Company Data

52-Week Range	\$0.23 - \$0.42
Shares O/S	48M
Market Cap.	\$19M
Current Yield	N/A
P/E (forward)	N/A
P/B	0.6

Key Financial Data (\$)

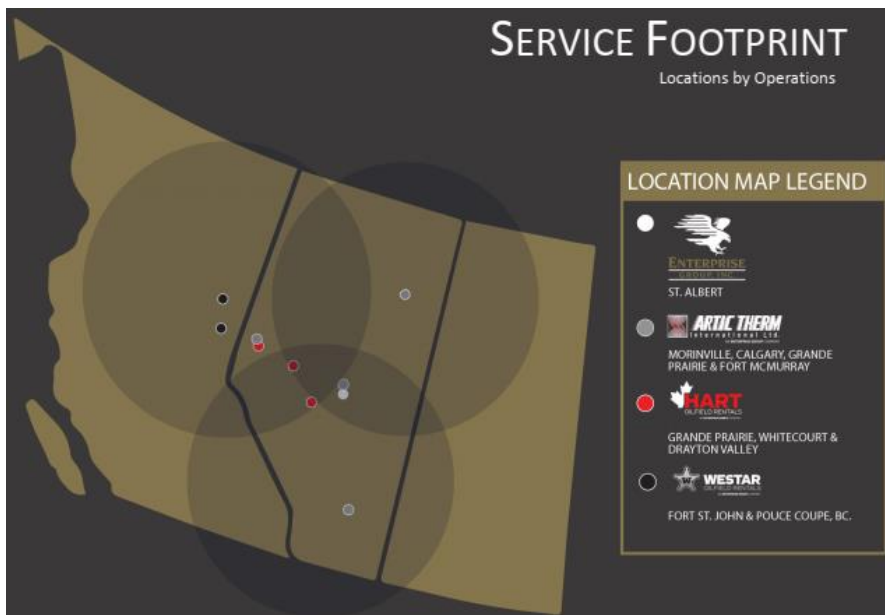
YE Dec 31	2021	2022E	2023E
Cash	\$ 876,543	\$ 2,353,289	\$ 4,885,170
Working Capital	\$ 4,295,421	\$ 5,966,806	\$ 8,730,745
Total Assets	\$ 51,146,957	\$ 53,215,893	\$ 55,997,063
Total Debt	\$ 12,386,581	\$ 12,120,810	\$ 10,844,457
Revenue	\$ 18,732,335	\$ 25,645,760	\$ 28,183,748
Net Income	\$ (2,375,818)	\$ 1,827,253	\$ 3,707,240
EPS	\$ (0.05)	\$ 0.04	\$ 0.08

***See last page for important disclosures, rating, and risk definitions. All figures in C\$ unless otherwise specified**

Overview

Enterprise provides specialized equipment and services for companies operating in the energy, pipeline, and construction sectors. The company operates in Alberta and B.C.

125 employees across seven offices in Alberta and B.C.



Strong Clientele

38% of revenue in Q1-2022 came from three undisclosed tier-one oil and gas producers



Strong track record of acquiring and subsequently divesting companies at attractive ROI

DISPOSITION HISTORY		
	Enterprise acquired TC Infrastructure in 2007 for \$12 million or a 2.0 multiple of trailing EBITDA. The Company divested TC in 2016 for \$20 million. Over the course of ownership, TC cumulated \$27 million in EBITDA for Enterprise Group.	
		Enterprise acquired CT Underground in 2013 for \$12 million or a 2.1 multiple of trailing EBITDA. The Company divested CT in 2018 for \$20.6 million. Over the course of ownership, CT cumulated \$18.4 million in EBITDA for Enterprise Group.

Source: Company

A one-stop oilfield site infrastructure provider

Clients use Enterprises' equipment primarily for infrastructure to support drilling and completion operations

Recurring revenue model as oil and gas producers undergo drilling/completions regularly

Enterprise's rental equipment fleet consists of 2,500+ pieces of equipment; the existing fleet can support annual revenue of up to \$35M

Four subsidiaries: Westar, Hart, and Evolution are in the business of leasing equipment (accounting for 85% of revenue), while Artic Therm offers heating services

Q1-2022 revenue came from 50+ clients

Typically generates \$2-\$3M in annual revenue from larger clients

Enterprise Subsidiaries

<p>Artic Therm (Acquired in 2012)</p> <p>Provides flameless heating services (a safer and cleaner alternative), primarily for pipeline construction</p>  	<p>Hart Oilfield Rentals: AB Focused (Acquired in January 2014)</p> <p>Provides oilfield infrastructure site services and rentals; has 20+ patent-pending modular designs</p>  
<p>Westar Oilfield Rentals: B.C. Focused (Acquired in October 2014)</p> <p>Provides oilfield infrastructure site services and rentals</p>  	<p>Evolution Power Projects (Launched in Early 2022)</p> <p>Provides natural gas based mobile power systems and associated surface infrastructure for cost savings and reduced emissions</p>  

Source: Company

Evolution Power Projects

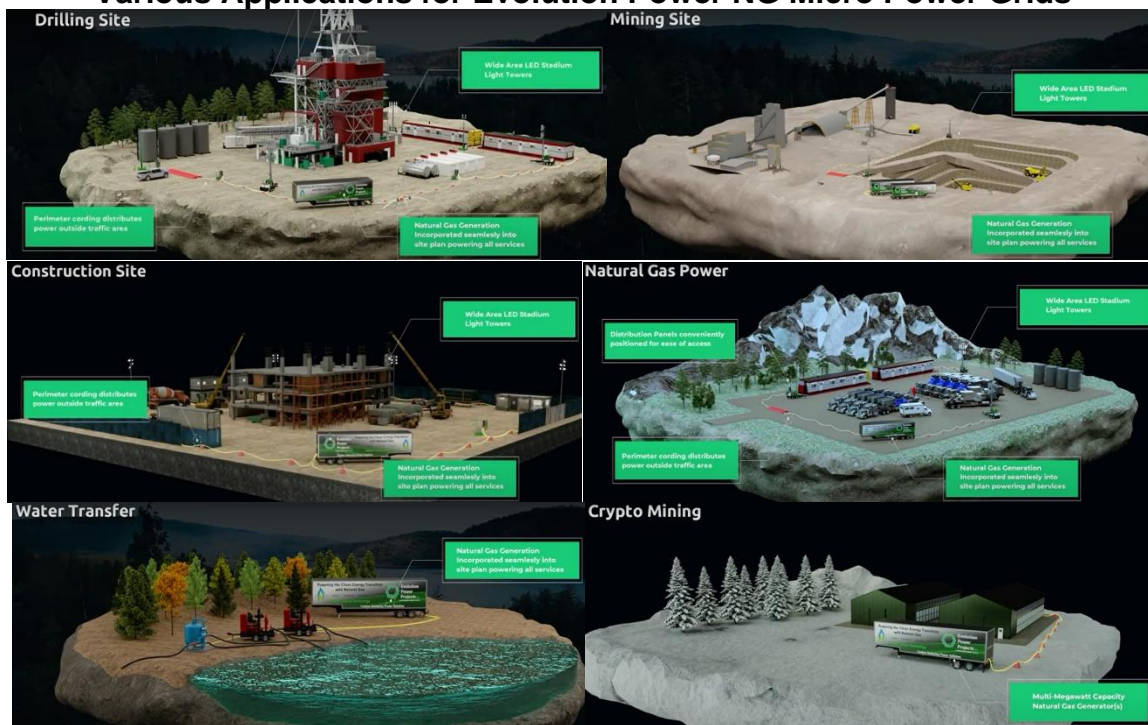
Enterprise launched this division earlier this year. According to management, its systems are currently used by 20+ clients. Evolution Power offers portable/mobile power systems using natural gas, replacing diesel generators. Natural gas is one of the cheapest and cleanest energy sources. As the company is primarily targeting natural gas producers, **natural gas can be sourced directly from clients' operations**. Note that 90%+ of sites in Western Canada use diesel generators.

There are approximately 500+ sites in Western Canada that can potentially use Enterprise's systems. **Assuming \$200k/year of revenue per site, we estimate that this division is targeting a \$100M market.**

Benefits of Evolution Power Micro-grid

1. 30% of carbon dioxide, 70%-90% of carbon monoxide, and 99% of sulfur dioxide emissions are reduced by replacing diesel with natural gas.
2. A single Evolution Power generator can replace up to 15 diesel generators, eliminating up to 5,000 litres per day of fuel usage. Evolution's systems have potential to cut costs by 30%-50%.
3. Natural gas-powered generators generate less noise.
4. Lower carbon emissions enable clients to achieve their ESG goals.

Various Applications for Evolution Power NG Micro Power Grids



Source: Company

Competition

The oil and gas equipment services sector is highly competitive, filled with numerous large and small players. While major oilfield services companies (such as Schlumberger/NYSE: SLB) offer drilling services, Enterprise and smaller oil field services companies offer ancillary services. Enterprise is one of the very few one-stop oilfield site infrastructure providers.

Ideal for remote sites

Wide range of applications

Enterprise has higher gross margins, and lower debt to capital

However, shares are trading 12% below the EV/R and EV/EBITDA of comparables

Comparable Companies	EV (\$M)	Revenue (\$M)	Q1-2022 Gross Margin	EBITDA (\$M)	EV/Revenue (x)	EV/EBITDA (x)	Debt to Capital	Q1-2022
Fortress Transportation and Infrastructure	\$6,562	\$668	50%	\$300	6.46	7.97		82%
Precision Drilling Corp.	\$2,411	\$1,102	27%	\$141	1.59	6.26		51%
Ensign Energy Services Inc.	\$2,107	\$1,110	25%	\$200	1.39	5.82		54%
Dexterra Group Inc.	\$525	\$802	13%	\$52	0.54	5.71		34%
Total Energy Services Inc.	\$482	\$500	23%	\$86	0.69	4.19		27%
Black Diamond Group Ltd	\$436	\$344	34%	\$58	1.44	6.00		43%
Acrow Formwork and Construction Services Ltd	\$157	\$105	63%	\$15	1.18	4.92		44%
Vertex Resource Group Ltd	\$140	\$172	24%	\$18	0.67	4.52		66%
Wolverine Energy and Infrastructure Inc.	\$120	\$80	62%	-\$13	1.59	7.84		74%
High Arctic Energy Services	\$84	\$87	18%	\$3	0.61	3.81		10%
Enterprise Group Inc. (2022E)	\$31	\$26	46%	\$7	1.21	4.28		36%
Average			35%		1.25x	5.39x		47%

Source: S&P Capital IQ

Market Outlook

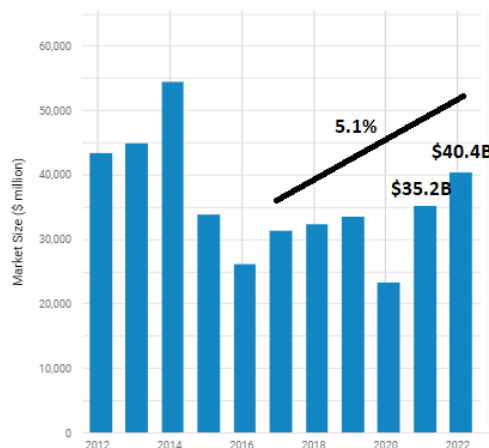
The oilfield services market in Canada rebounded in 2021 amid strong oil and gas prices

The market is estimated to grow 15% this year (from \$35.2B to \$40.4B)

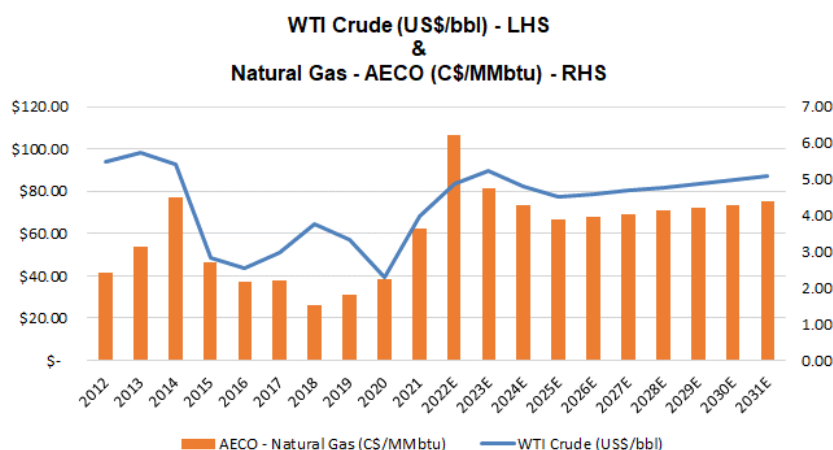
The oil & gas infrastructure market in North America (Enterprise's target market) is expected to grow by 6.5% p.a. from 2022-2030 (gm insights.com)

Oil and gas prices are expected to remain well above historic averages, implying a positive outlook for the oilfield services sector

Oil and Gas Field Services Market in Canada



Source: ibisworld.com as of June 2022



Source: Sproule, McDaniel, and GLJ

The CEO owns 26%, and is the largest shareholder

Management and board own 34%

Three out of five directors are independent

Management and Board

Name	Position(s)	# Shares Outstanding	% of Total
Leonard Jaroszuk	Chairman, President and CEO	12,558,133	26.40%
Desmond O'Kell	SVP and Director	1,109,166	2.33%
Warren Cabral	CFO	1,032,833	2.17%
John Pinsent	Independent Director	437,500	0.92%
John Campbell	Independent Director	125,000	0.26%
Neil Darling	Independent Director	933,000	1.96%
Total Shares		16,195,632	34.04%

Source: FRC/Company

Brief biographies of the senior management and board members, as provided by the company, follow:

Leonard Jaroszuk – Chairman, Chief Executive Officer, and President

Mr. Jaroszuk is the Founder of Enterprise Group. He is also an officer in nine different companies. He is President and Chief Executive Officer at Bancshares Capital Corp., President, Chief Executive Officer and Director at Samoth Oilfield, Inc., President, Chief Executive Officer, CFO and Director at United Global, Inc., President & Director at Richfield Explorations, Inc., and President & Director at West One Ltd. Previously, Mr. Jaroszuk was also a Director at Leis Industries Ltd., President, Chief Executive Officer & Director at Select Sands Corp., and a Director at United Protection Security Group, Inc.

Desmond O'Kell – Vice President, Corporate Secretary, and Director

Desmond O'Kell has been Vice President, Corporate Development of the company from 2005 to the present. He is also on the board of Samoth Oilfield, Inc. Previously, he was the President of Rochester Resources Ltd., a gold and silver producing mining company. He was also the President of Eland Jennings Investor Services, Inc., President of Rochester Resources Ltd., and Chief Financial Officer, Secretary and Director at Leis Industries Ltd.

Warren Cabral – Chief Financial Officer

Mr. Cabral previously occupied the positions of Chief Financial Officer of Quest PharmaTech, Inc., Principal at Alberta Securities Commission, Chief Financial Officer at Northern Sun Mining Corp., Chief Financial Officer for Alberta Investment Management Corp. (Private Equity), Chief Financial Officer for Alberta Investment Management Corp., and Principal at Ernst & Young LLP (Canada). Mr. Cabral is a graduate from the University of Alberta, a member of the Institute of Chartered Accountants of Alberta, and an alumnus of Ernst & Young.

John Campbell – Independent Director

Mr. Campbell is a Chartered Accountant and a Chartered Financial Analyst. He founded Camlin Asset Management, Inc. and TriView Capital Ltd. Mr. Campbell is also on the board of Catalyst Healthcare Ltd. He previously held the position of Principal at CWC Capital Ltd., Manager at The Jim Pattison Group, Inc., Manager of Pemberton Securities, Inc., Money Manager at Camlin Asset Management Ltd.

And Chief Investment & Compliance Officer at Camlin Asset Management, Inc. (a subsidiary of Camlin Asset Management Ltd.), Managing Director at Second City Capital Corp., and Managing Director at Balfour Pacific Capital, Inc. He received an MBA from Simon Fraser University and an undergraduate degree from the University of British Columbia.

John Pinsent – Independent Director

John H. C. Pinsent is a Chartered Accountant. In 2004, he became a founding partner at St. Arnaud Pinsent & Associates following a ten-year career with Ernst and Young LLP. Mr. Pinsent is also Chief Financial Officer & Director at SmileSonica, Inc. and Director at Fastrainer LLP. He previously was Chairman at Hyduke Energy Services, Inc., Chief Financial Officer of Eco-Trade Corp., Technology Director & Senior Manager-Assurance at Ernst & Young LLP (Canada), Senior Manager-Audit at Luscar Ltd., Senior Manager-Audit at Luscar Coal Income Fund, Senior Manager-Audit at Echo Bay Mines Ltd., Senior Manager-Audit at IMC Global, Inc., and Chairman of Special Olympics Alberta.

Neil Darling – Independent Director

Mr. Darling is the President and founder of Ramdar Resource Management Ltd. Since 1988. It is a company specializing in wellsite management, employing operational engineers, project managers and supervisors. Ramdar provides its services in Canada and Internationally, operating offshore and onshore well-sites.

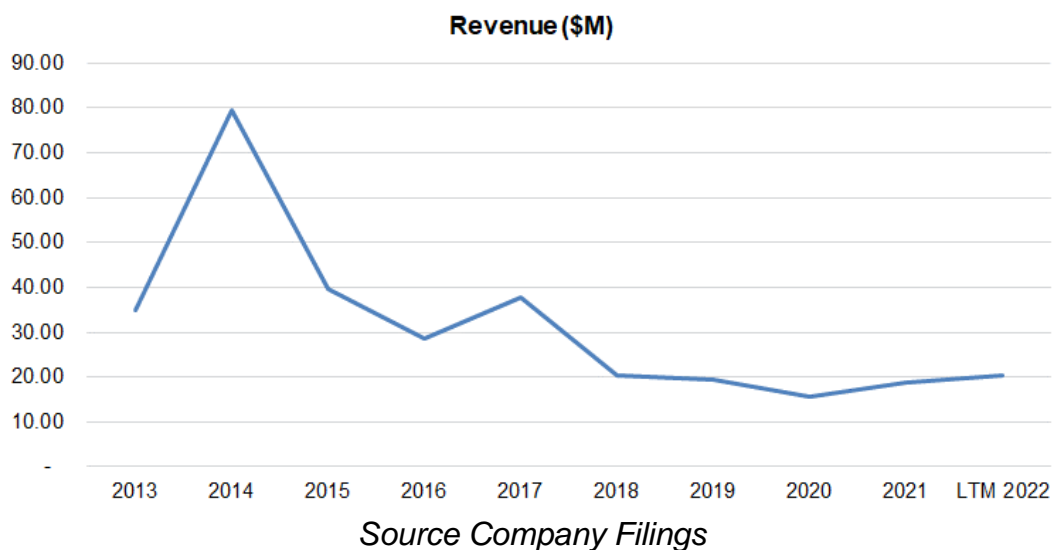
Financials

Revenue was on a declining trend from 2014 to 2020 due to softer oil/gas prices

2021 revenue was up 21%, and Q1-2022 revenue was up 30% YoY, amid a rebound in market activities

The company does not provide segmented revenue, but did indicate to us that 85% of revenue comes from its rental business

Due to seasonality, Q4 and Q1 are typically the strongest quarters



Gross margins are well above the sector average

FCF increased significantly in Q1-2022

Healthy balance sheet; relatively low debt/capital

Our DCF valuation is \$1.91 per share

Our models are based on the assumption that the legacy business (Westar/Hart/Artic Therm) will grow at 6.5% p.a., which is in line with the sector growth forecast

We are conservatively assuming that the company will be able to triple its Evolution Power business by 2030

STATEMENT OF OPERATIONS						
Y/E 31 Dec, (\$)	2020	2021	YoY%	Q1-2021	Q1-2022	YoY%
Revenue	\$15,520,105	\$18,732,335	21%	\$5,859,287	\$7,629,418	30%
Gross Profit	\$5,194,826	\$6,631,818	28%	\$2,726,389	\$3,521,822	29%
SG&A Expense	\$1,418,545	\$1,763,932	24%	\$333,590	\$491,961	47%
EBITDA	\$3,764,668	\$4,842,801	29%	\$2,392,799	\$3,029,861	27%
Net Profit (Loss)	-\$5,033,709	-\$2,375,818	-53%	\$93,639	\$1,678,048	1692%
EPS	-\$0.10	-\$0.05	-50%	\$0.00	\$0.03	1754%
Margins	2020	2021		Q1-2021	Q1-2022	Sector
Gross	33%	35%		47%	46%	35%
EBITDA	24%	26%		41%	40%	
EBIT	-15%	-5%		15%	25%	
Net	-32%	-13%		2%	22%	

Summary of Cash Flows	Q1-2021	Q1-2022
Operating	\$1,389,501	\$2,679,056
Investing	-\$667,533	-\$1,271,062
Financing	-\$341,081	-\$1,092,588
Net	\$380,887	\$315,406
Free Cash Flows to Firm (FCF)	\$58,056	\$997,690

Liquidity & Capital Structure	2020	2021	Q1-2022	Sector
Cash	\$783,617	\$876,543	\$1,191,949	
Working Capital	\$2,749,004	\$4,295,421	\$5,472,696	
Current Ratio	2.06	2.50	2.46	1.60
LT Debt	\$9,268,750	\$11,161,438	\$10,844,457	
Total Debt	\$10,591,387	\$12,386,581	\$12,120,810	
LT Debt / Capital	30%	38%	36%	
Total Debt / Capital	26%	35%	32%	47%

Source: Company Filings, FRC

FRC Projections and Valuations

(YE December 31; In C\$)	2022E	2023E	2024E	2029E	2030E
Artic Therm/Westar/Hart	20,937,576	22,298,519	23,747,922	32,536,712	34,651,598
Evolution Power	4,708,184	5,885,229	7,062,275	12,947,505	14,124,551
Total Revenue	25,645,760	28,183,748	30,810,198	45,484,216	48,776,149
Direct Expenses	16,430,384	16,910,249	18,486,119	27,290,530	29,265,689
Net Revenue	9,215,376	11,273,499	12,324,079	18,193,687	19,510,459
SG&A Expenses	1,967,844	1,972,862	2,156,714	3,183,895	3,414,330
EBITDA	7,247,532	9,300,637	10,167,365	15,009,791	16,096,129

DCF Model	2022E	2023E	2029E	2030E	Terminal
EBIT(1-tax)	3,637,868	8,556,586	13,809,008	14,808,439	
Non-Cash Expenses	2,829,344	4,186,582	5,610,420	5,890,941	
Change in Working Capital	(245,849)	(206,452)	(539,227)	(561,781)	
Cash from Operations	6,221,363	12,536,715	18,880,201	20,137,599	
CAPEX	(3,607,286)	(3,987,221)	(5,343,257)	(5,610,420)	
Free Cash Flow	2,614,077	8,549,495	13,536,944	14,527,178	
Present Value	2,393,062	6,957,024	5,433,611	5,183,185	56,196,636
Discount Rate	12.5%				
Terminal Growth	3%				
Present Value	106,844,700				
Cash - Debt	(10,928,861)				
Fair Value	95,915,839				
Shares O/S	50,244,424				
Value per Share (C\$)	\$1.91				

Source: FRC

Enterprise is trading
12% below the EV/R
and EV/EBITDA of
comparables

Comparable Companies	EV/ Rev	EV/ EBITDA	
Enterprise Group Inc. (2022E)	1.21	4.28	
Acrow Formwork and Construction Services	1.22	5.08	
Black Diamond Group Ltd	1.29	5.40	
Dexterra Group Inc.	0.55	6.03	
Ensign Energy Services Inc.	1.22	5.11	
Fortress Transportation and Infrastructure	6.85	8.51	
High Arctic Energy Services	1.15	6.22	
Precision Drilling Corp.	1.40	5.49	
Total Energy Services Inc.	0.62	3.67	
Vertex Resource Group Ltd	0.66	4.44	
Wolverine Energy and Infrastructure Inc.	1.66	8.19	
Oil & Gas Equipment & Services Sector Average	1.40x	9.20x	
Average (excluding outliers)	1.25x	5.39x	Average
Enterprise Group's Premium/(Discount)	-3%	-21%	-12%

Source: S&P Capital IQ and FRC

Fair value of \$1.06
per share

Valuation Method	Fair Value per share (\$)	Weight
DCF Valuation	\$1.91	40.0%
Fair value per share (\$) - Average EV/R Multiple (2022E)	\$0.42	30.0%
Fair value per share (\$) - Ave EV/EBITDA Multiple (2022E)	\$0.56	30.0%
Fair Value Estimate (\$)		\$1.06

Source: FRC

We are initiating coverage with a BUY rating, and a fair value estimate of \$1.06 per share (weighted average of our DCF and comparables valuations). Upcoming catalysts include strong Q2 results, and increased adoption of the company's mobile power systems. We note that Enterprise' historical revenue (2014-2022) has been strongly correlated to oil prices. During 2014-2022, Enterprise revenue has increased/decreased by 0.8% for every 1% change in oil prices.

Risks

We believe the company is exposed to the following key risks (not exhaustive):

- The oil/gas field services market is highly dependent on oil and gas prices.
- **Highly competitive space**
- As the company uses leverage, a downturn in business activities can negatively impact its balance sheet.

Assigning a risk
rating of 3

Appendix

STATEMENTS OF OPERATIONS (C\$)			
YE December 31	2021	2022E	2023E
Revenue	18,732,335	25,645,760	28,183,748
Total revenues	18,732,335	25,645,760	28,183,748
Direct expenses	12,100,517	16,430,384	16,910,249
Gross margin	6,631,818	9,215,376	11,273,499
SG&A	1,763,932	1,967,844	1,972,862
Share-based expenses	25,085	-	-
EBITDA	4,842,801	7,247,532	9,300,637
Depreciation	5,795,696	3,987,221	4,186,582
Amortization	60,519	-	-
D&A	5,856,215	3,987,221	4,186,582
EBIT	(1,013,414)	3,260,311	5,114,055
Net financing expense	1,201,988	1,460,144	1,084,446
EBT	(2,215,402)	1,800,167	4,029,609
Income tax expense	(42,591)	144,013	322,369
Unusual/Non-recurring expense	203,007	(171,100)	-
Net Income (Net Loss)	(2,375,818)	1,827,253	3,707,240
EPS	(0.05)	0.04	0.08
BALANCE SHEET (C\$)			
YE December 31	2021	2022E	2023E
Assets			
Cash	876,543	2,353,289	4,885,170
Receivables	5,133,070	5,912,742	6,177,260
Unbilled revenue	581,792	610,882	641,426
Inventories	296,229	321,651	330,400
Prepays and other current assets	265,694	278,979	292,928
Current Assets	7,153,328	9,477,543	12,327,184
PP&E	40,947,466	40,567,531	40,368,170
Intangible assets	553,031	553,031	553,031
Deferred taxes	2,493,132	2,617,789	2,748,678
Total Assets	51,146,957	53,215,893	55,997,063
Liabilities & Shareholders' Equity			
Payables and accrued liabilities	1,632,764	2,234,383	2,345,691
Borrowings	1,225,143	1,276,353	1,250,748
Current Liabilities	2,857,907	3,510,736	3,596,439
Borrowings	11,161,438	10,844,457	9,593,709
Lease Liabilities	353,776	189,500	189,500
Mortgages	2,058,762	2,161,700	2,269,785
Deferred taxes	2,493,132	2,617,789	2,748,678
Total Liabilities	18,925,015	19,324,182	18,398,111
Equity	68,172,183	67,478,130	67,478,130
Contributed Surplus	17,178,348	17,714,917	17,714,917
Deficit	(53,128,589)	(51,301,336)	(47,594,095)
Total Liabilities and Shareholder's Equity	51,146,957	53,215,893	55,997,063

STATEMENTS OF CASH FLOWS (C\$)	2021	2022E	2023E
YE December 31			
Operating Activities			
Net loss for the period	(2,375,818)	1,827,253	3,707,240
Items not involving cash			
D&A	5,856,215	3,987,221	4,186,582
Other non-cash adjustments	1,351,384		
Share-based compensation	25,085		
FFO	4,856,866	5,814,474	7,893,822
Prepaid expense		(13,285)	(13,949)
Inventory	(84,373)	(25,422)	(8,749)
Receivables	(1,188,478)	(779,672)	(264,518)
Accounts payable and accrued liabilities	373,931	601,619	111,308
Others	(457,077)	(29,090)	(30,544)
Changes in WC	(1,355,997)	(245,849)	(206,452)
Cash from (used in) Operations	3,500,869	5,568,625	7,687,370
Financing activities			
Equity	(434,053)	(157,484)	
Debt	337,537	(265,771)	(1,276,353)
Lease	(840,892)	(164,276)	-
Cash provided by Financing Activities	(937,408)	(587,531)	(1,276,353)
Investing activities			
PP&E	(3,845,497)	(3,607,286)	(3,987,221)
Others	1,374,962	102,938	108,085
Cash used in Investing Activities	(2,470,535)	(3,504,348)	(3,879,136)

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

Disclaimers and Disclosure

The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. "FRC" does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees were paid by E to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, E has agreed to a minimum coverage term including an initial report and three updates. Coverage cannot be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time.

The distribution of FRC's ratings are as follows: BUY (65%), HOLD (7%), SELL / SUSPEND (28%).

To subscribe for real-time access to research, visit <https://www.researchfrc.com/website/subscribe/> for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward-looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.