

Siyata Mobile Inc.

(TSXV: SIM)

BUY

Current Price: \$0.09

Fair Value: \$0.90

Risk*: 4

Launched UV350 with Verizon / Plans to List on the NASDAQ

Sector/Industry: Special Situations

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Highlights

- Siyata Mobile Inc. ("Siyata", the "company") reported Q1-2020 financials, with revenue comparable on a year-over-year basis, and 4% higher quarter-over-quarter. Management has stated that growth in their 4G PTT products was not enough to offset the decline in sales of legacy products.
- The gross margin in Q1-2020 was 32% (Q1-2019: 28%). The improvement is attributed to greater sales of its 4G PTT products and a greater mix of sales to North America.
- The EBITDA and net income in Q1-2020 was -\$0.74 million and -\$1.57 million (EPS: -\$0.02), respectively, versus Q1-2019's -\$1.63 million and -\$2.16 million (EPS: -\$0.01), respectively.
- In March 2020, Siyata launched its UV350 with Verizon (NYSE: VZ).** In an article published by the Wall Street Journal, it was mentioned that Verizon controlled about two-thirds of the market for police, fire, and other first responders. This development is expected to materially increase the product reach and sales of UV350.
- In April 2020, Siyata launched a product portfolio of 4G cellular signal boosters. These signal boosters are available for purchase on numerous retail sites, including Amazon.com (NASDAQ: AMZN), Costco.ca (NASDAQ: COST), BestBuy.ca (NASDAQ: BBY), and Walmart.ca (NYSE: WMT). According to the Digital Journal, the global signal booster market was valued at US\$8.2 billion in 2017, and is expected to reach US\$17.60 billion by the end of 2025, reflecting a compound annual growth rate ("CAGR") of 10%.
- In April 2020, Siyata launched the 4G/LTE UR5 rugged device for the first responder and enterprise mobile workforce. The UR5 is an extremely lightweight, handheld, rugged Android smartphone, with integrated PTT. **We are pleased to see Siyata expand its 4G PTT product portfolio and expect this new offering to increase the company's revenue potential.**
- Siyata has outlined plans to list on the NASDAQ. We are pleased to see this, and contingent on this listing, feel that larger investors and institutions in the United States may be more likely to look at Siyata.

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SIM Price and Volume (1-year)



	YTD	12M
SIM	-74%	-80%
TSXV	13%	14%

Company Data

52-Week Range	\$0.09 - \$0.49
Shares O/S	125,247,819
Market Cap.	\$11.27 million
Current Yield	N/A
P/E (forward)	N/A
P/B	1.05x

Key Financial Data (FYE - DEC 31)				
(C\$)	2018	2019	2020E	2021E
Cash	\$ 2,420,205	\$ 3,465,371	\$ 327,085	\$ 506,258
Working Capital	\$ 4,565,215	\$ 6,704,651	\$ 5,031,902	\$ 4,570,974
Assets	\$ 17,784,342	\$ 21,010,797	\$ 19,987,448	\$ 19,548,862
Total Debt	\$ 4,100,831	\$ 6,874,537	\$ 6,735,752	\$ 5,343,252
Revenues	\$ 14,220,542	\$ 13,019,792	\$ 17,812,500	\$ 25,147,059
Net Income	\$ -11,527,981	\$ -10,160,351	\$ -3,242,421	\$ -1,081,219
EPS (basic)	\$ -0.12	\$ -0.09	\$ -0.02	\$ -0.01

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

Company Update

Since our last update report (dated November 21, 2019), Siyata announced numerous material positive developments:

Launched with Major Telecom Company

Launched with Verizon

In Q1-2020, Siyata launched its UV350 with Verizon. In an article published by the Wall Street Journal (dated August 2017), it was mentioned that Verizon controlled about two-thirds of the market for police, fire and other first responders. Furthermore, Siyata now has access to Verizon’s fleet of commercial vehicle customers. **This development is expected to materially increase the product reach and sales of UV350.** UV350 is now available in North America through:



Launched a Product Portfolio of Cellular Signal Boosters

Launched product portfolio of cellular signal boosters

In Q2-2020, Siyata launched a product portfolio of cellular signal boosters, which include the Uniden U60C 4G and Uniden U65C 4G. Cellular boosters are used to strengthen (amplify) cellular signals in homes, vehicles, remote areas, etc.



According to the company, due to the COVID-19 pandemic, demand for their cellular signal boosters have been strong. The aforementioned products are available for purchase on numerous retail sites, including Amazon.com, Costco.ca, BestBuy.ca, and Walmart.ca.

We see these cellular boosters as being complementary to the UV350 – the company has indicated that the **boosters can connect directly into the UV350 to enhance cellular coverage for enterprise and first responders within their vehicles.** The company is currently exploring opportunities to provide its cellular boosters through one of its existing U.S. Tier 1 cellular carrier partners, which would tremendously expand the sales channel for its cellular boosters.

The global signal booster market was valued at US\$8.2 billion in 2017, and is expected to reach US\$17.60 billion by the end of 2025, reflecting a compound annual growth rate (“CAGR”) of 10% (Source: Digital Journal).

Available through numerous retail sites

Complementary to the UV350

Global signal booster market to witness a CAGR of 10%

Launched the UR5

Launched UR5 Rugged Devices

On April 27, 2020, Siyata launched the 4G/LTE UR5 rugged device for the first responder and enterprise mobile workforce. According to Siyata, the UR5 is an extremely lightweight, handheld rugged Android smartphone, with integrated PTT. An image of the UR5 is provided below.



Source: Company Filings

There are ~37.6 million task enterprise workers (Source: Sonim Technologies Inc. / NASDAQ: SONM), ~0.87 million police officers (Source: Statistics Canada, NLEOMF), ~1.27 million firefighters (Source: NFPA), and ~0.98 million emergency medical service professionals (Source: ASCFUSA, FRC Estimates) in North America. We believe this outlines a tremendous target market for the UR5. With that said, to date, management has stated that rugged handset device sales (the UR5 above and the UR7 - discussed in our previous reports) have been modest. **We are pleased to see Siyata expand its 4G PTT product portfolio and expect this new offering to be accretive to revenue.**

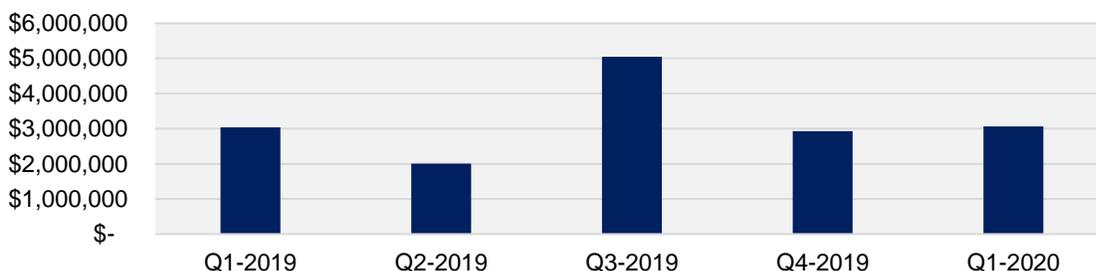
Financials

Revenue

Q1-2020 comparable to Q1-2019

In Q1-2020, Siyata reported revenue of \$3.06 million – a comparable figure to Q1-2019 (of \$3.04 million) and a 4% quarter-over-quarter (“QoQ”) increase. The following shows the quarterly trend in revenue.

Revenue: Q1-2019 to Q1-2020



Source: Company Filings, FRC

Legacy product sales were lower than expected

We were surprised to see revenue be marginally higher compared to Q1-2019 and Q4-2019. Management has stated that growth in their 4G PTT products were not enough to offset lower sales from legacy products. It seems highly unlikely that Siyata will meet our 2020 revenue forecast of \$31.45 million. Our revisions will be discussed later in the report.

Due to COVID-19, management has stated that product sales to commercial customers have decreased, but that sales to first responders have increased. The net impact was undisclosed. We believe that commercial fleet vehicles currently represent Siyata’s largest customer segment and suspect that the overall impact of COVID-19 on the company will be negative.

Margins

Gross margin improvement

The gross margin in Q1-2020 was 32% (Q1-2019: 28%). The improvement is attributable to greater sales of 4G PPT products (higher margin products) versus its legacy products, and a greater mix of sales to North America. **Management expects the gross margin to continually improve in subsequent quarters as more sales of UV350 are realized.** Although the EBITDA, EBIT and net margins continue to be negative, each metric improved YoY due to a higher gross margin and lower selling, general, and administrative (“SG&A”) expenses and share-based expenses. SG&A expenses were 53% of revenue in Q1-2020 (59% in Q1-2019), attributable to the reduction in advertising and marketing spend.

Salary reductions and layoffs

The company has indicated that they are continually reducing their cash burn due to COVID-19 – temporary salary reductions of 20% were enacted onto management and directors, in addition to permanent lay-offs across the company. **We are pleased to see the company be proactive in managing its cost base during unstable times.**

Margins	Q1-2019	Q1-2020
Gross	28.0%	32.4%
EBITDA	-53.5%	-24.3%
EBIT	-61.8%	-38.5%
Net	-71.0%	-51.3%
Expenses	Q1-2019	Q1-2020
SG&A	58.6%	52.6%
Share-based comp.	22.9%	4.1%

Source: Company Filings, FRC

EBITDA and Net Loss

The following shows the company's EBITDA and net loss, which improved YoY.

Line Items	Q1-2019	Q1-2020
EBITDA	-\$1.63 million	-\$0.74 million
Net Loss	-\$2.16 million	-\$1.57 million
EPS	-\$0.02	-\$0.01

Source: Company Filings, FRC

Cash Flows

FCF deteriorated due to cash being tied up in receivables

Although the net loss improved YoY, free cash flows ("FCF") deteriorated YoY due to a significant amount of cash being tied up in receivables. We note that the company had a materially higher receivables balance at the end of Q1-2020 (of \$4.71 million) versus year-end 2019 (of \$1.94 million). According to management, they expect to collect most of these receivables within the next six to eight weeks. We note that Siyata Mobile Israel ("SMI"), a wholly owned subsidiary, has a factoring agreement on its receivables (amount undisclosed) with a funding entity (name undisclosed).

Summary of Cash Flows	Q1-2019	Q1-2020
Operating	-\$2,148,709	-\$2,517,663
Investing	-\$1,064,988	-\$476,627
Financing	\$5,973,590	\$226,336
Effects of Exchange Rate	-\$23,733	\$241,548
Net	\$2,736,160	-\$2,526,406
Free Cash Flows to Firm (FCF)	-\$3,213,697	-\$2,994,290

Source: Company Filings, FRC

Balance Sheet

At the end of Q1-2020, Siyata reported a cash position of \$0.94 million, working capital of \$5.93 million, and a long-term debt position of \$5.63 million. The majority of the long-term debt consists of convertible debentures with an interest rate of 12% per annum, exercise price of \$0.45 per share, and a maturity date of December 23, 2021.

Liquidity & Capital Structure	Q1-2020
Cash	\$938,965
Working Capital	\$5,925,419
Current Ratio	2.23
LT Debt	\$5,627,903
Total Debt	\$7,436,942
LT Debt / Capital	0.31
Total Debt / Capital	0.41

Source: Company Filings, FRC

Completed a private placement for gross proceeds of \$1.33 million

Subsequent to the quarter, Siyata completed a non-brokered private placement with Accel Telecom Inc, a related party, for gross proceeds of \$1.33 million. In consideration for the proceeds, Accel has subscribed for 1,330 convertible debentures that mature on June 26, 2021, and bear an interest rate of 10% per annum. The convertible debentures have an exercise price of \$0.30 and are redeemable at 101% of the face value at any time after June 26, 2020. **We are pleased to see the company improve its liquidity position.**

Stock Options and Warrants

Siyata currently has 12.37 million options (weighted average exercise price of \$0.46) and 17.57 million warrants (weighted average exercise price of \$0.51) outstanding. Currently, nil options and warrants are in the money.

Projections and Valuation

Our 2020 and 2021 revenue, EBITDA and net income forecasts are presented below.

Line Items	Old Forecasts		New Forecasts	
	2020	2021	2020	2021
Revenue	\$31.45 M	\$46.79 M	\$17.81 M	\$25.15 M
EBITDA	\$2.13 M	\$6.05 M	-\$0.52 M	\$1.73 M
Net Income	\$84k	\$4.89 M	-\$3.24 M	-\$1.08 M
EPS	\$0.00	\$0.04	-\$0.03	-\$0.01

Note: M denotes million

Source: FRC

We have made the following key revisions:

- Revenue Forecasts:** We have been overly optimistic on the adoption rate of Siyata’s products in the market, and have revised our revenue forecasts lower to reflect a slower ramp-up of sales. In Siyata’s conference call, it was indicated that the government tender for the majority of PTT devices (valued between \$3 million to \$5 million) are to be delivered in Q2-2020 and Q3-2020. This is expected to provide a strong uplift to revenue in subsequent quarters.

- **EBITDA Forecasts:** We have revised SG&A expenses in 2020 materially lower compared to 2019, owing to the reduction in expenses outlined on page four. Our longer-term SG&A expenses have also been revised lower.
- **Debt Forecasts:** We assumed that Siyata’s convertible debentures with a maturity date of December 2021 will be refinanced.

Our updated valuation models are presented below.

Discounted Cash Flow

Our updated discounted cash flow (“DCF”) valuation on Siyata’s shares is \$0.79 per share (previously \$1.21).

DCF valuation of \$0.79 per share

DCF Model	Q2-2020:Q4-2020	2021E	2022E	2023E	2024E	2025E	2026E	Terminal
EBIT(1-tax)	\$ -967,776	\$ -65,022	\$ 427,811	\$ 3,845,449	\$ 6,300,966	\$ 11,777,869	\$ 14,222,095	
Non-Cash Expenses and Investment in WC	\$ 1,924,452	\$ 4,631,894	\$ 3,593,320	\$ 2,036,738	\$ 2,273,339	\$ 2,761,194	\$ 3,431,220	
CFO	\$ 956,676	\$ 4,566,872	\$ 4,021,131	\$ 5,882,188	\$ 8,574,306	\$ 14,539,063	\$ 17,653,315	
CAPEX	\$ -1,520,529	\$ -1,979,001	\$ -2,176,901	\$ -2,394,591	\$ -2,330,259	\$ -2,897,455	\$ -3,187,201	
FCF	\$ -563,852	\$ 2,587,871	\$ 1,844,229	\$ 3,487,596	\$ 6,244,046	\$ 11,641,607	\$ 14,466,114	\$ 14,900,097
PV	\$ -548,101	\$ 2,246,053	\$ 1,429,139	\$ 2,413,057	\$ 3,857,354	\$ 6,421,231	\$ 7,124,251	\$ 81,533,100
Discount Rate	12%							
Terminal Growth Rate	3%							
Total PV	\$ 104,476,085							
Cash - Debt	\$ -5,234,477							
Equity Value	\$ 99,241,608							
Shares O/S (dil)	125,247,819							
Fair Value	\$0.79							

Source: FRC

Comparables Valuation

Our updated comparables valuation model is outlined below. The updated EV/R and EV/EBITDA multiples are 2.00x (previously 2.28x) and 11.43x (previously 12.00x), respectively.

Sector	EV/R	EV/EBITDA
Communications Equipment	2.10	12.50
Telephone and Telecommunications Equipment	2.30	11.70
Wireless Telephone Equipment	2.20	10.70
Technology Hardware and Equipment	1.40	10.80
Average:	2.00	11.43

Average comparables valuation of \$0.96

Comparables Valuation			
2026 Forecast (Gross Revenues)	\$126,666,667	2026 Forecast (EBITDA)	\$22,366,667
Average EV/ Revenue	2.00	Average EV/ EBITDA	11.43
Expected EV (C\$)	\$253,333,333	Expected EV (C\$)	\$255,539,167
Discounted EV (C\$)	\$124,761,244	Discounted EV (C\$)	\$125,847,570
Expected Market Cap (C\$)	\$119,526,767	Expected Market Cap (C\$)	\$120,613,093
Value per Share (C\$)	\$0.95	Value per Share (C\$)	\$0.96

Source: S&P Capital IQ, FRC

We are revising our fair value estimate on Siyata’s shares from \$1.14 per share to \$0.90 per share. This is the average of all three of our valuation models. We are reiterating our BUY rating.

Risks

We believe the company is exposed to the following risks (list is non-exhaustive):

- Valuation is highly dependent on penetration of the North American commercial vehicle and first responder vehicle markets.
- Whilst the company is currently the only provider of an “all in-one”, in-vehicle integrated PoC communications platform, success in their field may attract rivals and competitors.
- Partner risk associated with distributors that work with Siyata.
- Upgrade cycles and constant need for innovation: whilst the company is well positioned to take advantage of the LMR to PoC upgrade cycle, there is no guarantee that the company will have a competitive business model in the long run.
- The overall impact of COVID-19 on the company is still unknown.
- The company relies on suppliers for the delivery of components that are used in the assembly of products.
- Company products are manufactured in a facility in China – the trade war between the United States and China may cause Siyata to incur significant additional costs when shipping products to the United States.
- Exchange rate risk, as the company operates internationally but reports in C\$.

*Maintaining risk
rating of 4*

We are maintaining a risk rating of 4 (Speculative).

Appendix

STATEMENTS OF OPERATIONS			
(in C\$) - YE Dec 31st	2019	2020E	2021E
Revenues	13,019,792	17,812,500	25,147,059
COGS	9,732,577	11,671,875	16,329,044
Gross Profit	3,287,215	6,140,625	8,818,015
EXPENSES			
SG&A Expense	8,810,202	6,035,880	6,337,674
Share-based Compensation	1,490,313	623,438	754,412
EBITDA	(7,013,300)	(518,693)	1,725,929
Depreciation & Amortization	1,550,607	1,628,137	1,790,951
EBIT	(8,563,907)	(2,146,830)	(65,022)
Financing Costs	1,276,827	1,095,591	1,016,197
EBT	(9,840,734)	(3,242,421)	(1,081,219)
Non-Recurring Expenses	319,617		
Taxes			
Net Profit (Loss)	(10,160,351)	(3,242,421)	(1,081,219)
FOREX Translation Adj.	-385,221		
Comprehensive Net Profit (Loss)	(10,545,572)	(3,242,421)	(1,081,219)
Shares outstanding	117,153,662	139,286,708	139,286,708
EPS	\$ -0.09	\$ -0.02	\$ -0.01

STATEMENTS OF CASH FLOWS			
(in C\$) - YE Dec 31st	2019	2020E	2021E
OPERATING ACTIVITIES			
Net Profit for the Year	(10,160,351)	(3,242,421)	(1,081,219)
Adjusted for items not involving cash:			
Amortization	1,550,607	1,628,137	1,790,951
Share-based Compensation	1,490,313	623,438	754,412
Finance Fees Accretion	437,487		
Lease Liability Finance Expense Accretion	14,827		
Accretion of Future Purchase Consideration	30,000		
Debt modification	176,737		
Recovery of Deferred Tax			
Impairment of Intangibles	147,977		
Unrealized FOREX			
Funds From Operations	(6,312,403)	(990,846)	1,464,144
Change in working capital			
A/R	(1,371,383)	(2,509,297)	1,309,743
Inventory	372,624	838,123	(209,559)
A/P	(1,142,752)	470,920	1,280,722
Prepays		(46,553)	(190,022)
Deferred Charges			
Advances to Suppliers		(28,193)	(104,352)
Related Parties	(90,313)	-	-
NET CASH USED IN OPERATING ACTIVITIES	(8,544,227)	(2,265,845)	3,550,675
INVESTING ACTIVITIES			
PPE	(2,605)	(97,688)	(107,457)
Loan to director	(260,400)	(43,391)	-
Acquisition Costs			
Intangibles	(2,757,875)	(1,856,077)	(1,871,544)
NET CASH USED IN INVESTING ACTIVITIES	(3,020,880)	(1,997,156)	(1,979,001)
FINANCING ACTIVITIES			
Equity Issue	2,756,621	1,263,500	
Issue Costs			
Lease Payments	(165,584)		
ST Loans			
Loans	3,744,634	(96,555)	(1,392,500)
Bank loan	42,230	(42,230)	
Exercise of Options			
Exercise of Warrants	5,862,745		
Exercise of Agent's Options	328,758		
NET CASH FROM FINANCING ACTIVITIES	12,569,404	1,124,715	(1,392,500)
Foreign Exchange / Others	40,869		
INCREASE IN CASH FOR THE YEAR	1,045,166	(3,138,286)	179,174
CASH, BEGINNING OF THE YEAR	2,420,205	3,465,371	327,085
CASH, END OF THE YEAR	3,465,371	327,085	506,258

BALANCE SHEET			
(in C\$) - YE Dec 31st	2019	2020E	2021E
ASSETS			
CURRENT			
Cash and Cash Equiv.	3,465,371	327,085	506,258
A/R	1,943,828	4,453,125	3,143,382
Inventory	4,400,623	3,562,500	3,772,059
Prepays	329,234	375,787	565,809
Advance to Suppliers	847,198	875,391	979,743
Loan to Director	-	-	-
Related Parties	-	-	-
Total Current Assets	10,986,254	9,593,887	8,967,251
Loan to Director	260,400	303,791	303,791
PPE + ROU Assets	318,580	334,861	352,771
Intangibles	8,423,294	8,732,640	8,902,780
Goodwill	1,022,269	1,022,269	1,022,269
Total Assets	21,010,797	19,987,448	19,548,862
LIABILITIES			
CURRENT			
A/P	2,565,802	2,917,969	4,082,261
Other Payables	-	-	-
Related Parties	100,079	100,079	100,079
Future Purchase Consideration	-	-	-
Lease Obligations	151,437	151,437	151,437
Bank Loan	42,230	-	-
Current Portion of Long-Term Debt	58,000	62,500	62,500
Current Portion of Convertible Debt	1,364,055	1,330,000	-
Total Current Liabilities	4,281,603	4,561,985	4,396,277
Future Purchase Consideration	-	-	-
Other Payables	173,044	291,797	408,226
Lease Obligations	101,582	101,582	101,582
LT Debt	138,000	71,000	8,500
Convertible Debt	5,272,252	5,272,252	5,272,252
Total Liabilities	9,966,481	10,298,616	10,186,837
SHAREHOLDERS EQUITY			
Share Capital	37,346,168	38,609,668	38,609,668
Reserves	6,602,751	7,226,189	7,980,600
AOCI	(125,084)	(125,084)	(125,084)
Deficit	(32,779,519)	(36,021,940)	(37,103,159)
Total shareholders' equity (deficiency)	11,044,316	9,688,833	9,362,025
Total Liabilities and Shareholders Equity	21,010,797	19,987,448	19,548,862

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.

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