

FINGERMOTION, INC.

(NasdaqCM: FNGR)

FingerMotion, founded in 2017, is a technology company that is leveraging relationships with leading telecommunications providers in China to provide mobile payment and recharge platform solutions, corporate SMS messaging, and additional value-added technologies, led by the emerging Big Data analysis of customer behavior, initially to the InsurTech (Insurance Technology) industry.

COMPANY HIGHLIGHTS

- * FingerMotion: Leveraging Telecom Partners to Enter New Technology Markets
- * In our view, FingerMotion has built several operating vertical markets that serve users of China's leading telecommunication providers China Mobile and China Unicom, including mobile payment and recharge solutions. The company appears to be well positioned to leverage its exclusive licenses from these carriers to drive future expansion into new markets with new value-added products and services, led by the InsurTech (Insurance Technology) industry.
- * We expect near-term revenues to be generated by its focus on providing value-added services to the Telecommunications Services vertical, including data subscription, device sales and device protection programs. We also expect FingerMotion to advance its partnerships with leading global re-insurers including Pacific Life Re and Munich Re to monetize its analysis of telecom customer demographic and behavior data to help shape new insurance offerings.
- * We are encouraged by its December 2021 listing on Nasdaq and expect it to provide enhanced share liquidity as well as increased access to capital, as it invests towards executing its growth strategy.
- * The shares are currently trading at valuations more aligned with Telecommunications Services companies, which typically garner a 2X-3X forward EV/Revenue multiple, which we attribute to its nascent initiatives in the higher margin data and

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KEY STATISTICS

Key Stock Statistics

Recent price (3/4/22)	\$2.86
Fair Value Estimate	\$9.00
52 week high/low	\$13.80 - \$2.03
Shares outstanding (M)	42.6
Market cap (M)	\$121.8
Dividend	Nil
Yield	Nil

Sector Overview

Sector	Information Technology
Sector % of S&P 500	28.1%

Financials (\$M, as of 11/30/21)

Cash & Mkt Securities	1.1
Debt	0.0
Working Capital (\$M)	5.5
Current Ratio	2.3
Total Debt/Equity (%)	0.0%
Payout ratio	NM
Revenue (M) TTM	22.7
Net Income (M) TTM	NM
Net Margin	NM

Risk

Beta	2.11
Inst. ownership	0%

Valuation

P/E forward EPS	NM
Price/Sales (TTM)	5.4
Price/Book (TTM)	22.0

Top Holders

Kingsview Wealth Management LLC
HighTower Advisors LLC

Management

CEO	Mr. Martin Shen
CFO	Mr. Yew Hon Lee
SVP	Ms. Li Li
Company website	https://fingermotion.com

PRICE CHART



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IT software industries, which we believe can carry a forward multiple near 10X using this metric. Over the coming years, we expect Big Data to provide a more balanced revenue mix and improve its margin profile, which we view as presently underappreciated by the market. As such, we expect the valuation gap to narrow as FingerMotion executes its growth strategy.

* Based on our forward EV/Revenue analysis, we arrive at a fair value estimate of \$9.00 per share, well above current levels in the \$3.00 area.

INVESTMENT THESIS

FingerMotion is a technology company with a core competency in mobile payment and recharge platform solutions in China. The company is developing additional value-added technologies to market to its users and leveraging its unique access to user data to drive new product and partnership opportunities.

Following a change of control, the company assumed the name FingerMotion in 2017, to reflect its then-focus on operating and publishing mobile games, which were experiencing favorable shifts towards a direct-to-consumer model featuring downloadable digital software and streaming.

However, in June 2018, FingerMotion pivoted to capitalize on the opportunities it saw in the telecommunications sector upon establishing relationships with leading operators in China. Since inception under this model, the company has established several active lines of business including Telecommunications Products and Services, SMS and MMS messaging services, a Rich Communication Services (RCS) platform, and, most recently, Big Data insights under its “Sapientus” brand name.

The company’s ability to penetrate these markets has been driven by the granting of licenses by China Unicom and China Mobile, which are among the major telecommunications providers in China. We estimate that these firms have more than one billion combined subscribers, and participate in a market in which the top three providers generated nearly \$200 billion in revenues in 2020. These licenses enable FingerMotion to distribute mobile data for businesses and corporations, and provide mobile payment and recharge services to businesses as well as customers of these large providers. Over the past few years, these opportunities have expanded to include additional provinces across China, which we expect to provide additional channels for sales growth.

FingerMotion’s mobile payment and recharge platform enables the seamless delivery of real-time payment and recharge services. While U.S. cell phone plans are typically post-paid and carry unlimited minutes, China’s model centers around pre-paid phones, and data/talk minutes that need to be recharged once used, under a process called “topping up”. Thus, FingerMotion acts as an

intermediary, allowing e-commerce companies, including industry leaders T-Mall (owned by Alibaba), Pinduoduo, and JD.com, to connect their customers with the phone companies.

Under this model, FingerMotion earns a rebate from its telecom provider partners on the funds paid by consumers through the platform. In addition, the company offers mobile data and talk time at a rate discounted from providers’ standard rates, which encourages consumers to utilize its portal, instead of competitors or direct platforms. In order to provide these services, the company purchases mobile data and talk time from the providers, and then provides them to consumers through its platform.

Although we view this as a capital-intensive process, we note that Chinese mobile phone users often utilize such third-party marketers to pay bills, so we view FingerMotion’s ability to drive traffic through its platform by offering benefits and marketing discounts favorably, as it provides opportunity to scale the platform to offer expanded products and services. Over the past few years, the company has built its “PigeonHoles Integration System”, which seamlessly integrates telecommunication operators and online stores of various e-commerce companies, and offers services including new user subscription plans for China Mobile and China Unicom, enhanced brand loyalty programs, and a market to sell mobile phones to end users.

We expect FingerMotion to further leverage its relationships with its telecom partners and further expand its offerings this year, by offering device protection and maintenance programs in partnership with a top-five American insurance company. FingerMotion introduced a device protection product with China Unicom in January 2022, and recently announced a similar service program for China Mobile. We expect this service to cover more than 10 provinces in China and encompass more than 1 billion users, representing approximately 80% of users in the world’s largest mobile market. Importantly, we see these services feeding into the loyalty programs, cited above. Ahead of these launches, in October 2021, FingerMotion trademarked two new brands, “Ji Shi Fu” and “Baowo”, through which the company expects to launch and integrate these programs.

In 2019, FingerMotion launched a second vertical market, upon acquiring a company that provides mass SMS text services to businesses looking to communicate with large numbers of their customers and prospective customers. The company’s SMS integrated platform is currently processing more than 150 million SMS text messages per month. It acts as a wholesaler, purchasing and then providing access to text messaging bundles for corporate customers to distribute under a model that also differs from the one used in the U.S. FingerMotion’s SMS platform retains a license

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PEER COMPARISON

Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev (TTM) Growth (%)	1 YR EPS (TTM) Growth (%)	PE Ratio (TTM)	Beta	Yield (%)
FINGERMOTION INC	NASDAQ: FNGR	2.86	13.80	2.03	122	-71	54	NM	NM	2.11	NA
UCLLOUDLINK GROUP	NASDAQ: UCL	1.61	13.95	1.35	46	-85	-43	NM	NM	NA	NA
KORE GROUP HOLDINGS	NYSE: KORE	5.00	11.15	4.76	360	-51	26	NM	NM	NA	NA
FAR EASTONE TELCO	TWSE: 4904	73.20*	73.20*	60.00*	238,522*	18	7	9	26.1	0.03	4.4

* Stock Statistics in New Taiwan Dollar (TWD)

from China's Ministry of Industry and Information Technology (MIIT) to operate the SMS and MMS business in the PRC and enables its clients to fulfill government guidelines through delivery. In this vertical, the company's IP provides corporate clients with a robust platform to access and manage their settings and its client base spans multiple industries, ranging from the Insurance and Financial industry to airlines, e-commerce and consumer markets.

In March 2020, the FingerMotion began the development of a proprietary Rich Communication Services (RCS) platform that enables businesses and brands to communicate and service their customers via on-site messaging utilizing China's 5G infrastructure. Under RCS, telecommunication providers such as China Unicom and China Mobile are able to retain users on their systems, rather than utilizing third party apps or having to log onto the Internet. FingerMotion has positioned this service as representing a first-mover advantage in being able to provide Messaging as a Platform (Maap) that can deliver an efficient user experience at a lower cost for telecom providers, and other business partners.

In our view, the company remains in the early stages of its growth trajectory. Through the first nine months of fiscal 2022, which ends on February 28, 2022, revenues increased by more than 50%, year-over-year, to approximately \$17.3 million. Telecommunications Products and Services comprised 39% of revenues, while SMS messaging accounted for 61%. In the prior year, the former comprised 14%, compared with 86% for the latter. We are encouraged by the re-allocation of company resources towards capitalizing on new opportunities within the Telecommunications Products and Services vertical, as we believe that messaging carries a lower gross margin and represents a more modest driver for future growth. As evidenced by recent platform expansion to include new services including device subscriptions and sales, loyalty programs and most recently, a plan to offer device protection, we think FingerMotion is successfully executing on its growth strategy for its core capabilities.

In late 2018, it was awarded contracts with China Unicom and China Mobile that enabled the formation of partnerships surrounding the analysis of data among their vast customer bases. This new operating unit called "Sapientus" was launched in mid-2020 and has pegged insurance, healthcare, and financial services among its primary initial targeted vertical markets. The unit leverages FingerMotion's access to consumer demographic and location data, while, importantly, avoiding privacy concerns, given that they do not take ownership of the data or utilize data at the specific name-level. Rather, Sapientus uses anonymous user demographic and location service combining high frequency geolocation and mobile usage data with auxiliary contextual information details to compile data for broad analysis and application regarding behavioral insights.

To date, Sapientus has secured contracts with Pacific Life Re and most recently with Munich Re, both global reinsurers, through which new products can be developed, and ultimately commercialized, thus leveraging the Company's proprietary analytics and algorithms to derive user insights that can help to transform the insurance value chain, including more effective and efficient underwriting, fraud evaluation and management, and other risk assessment tools. In our view, Sapientus' utilization of in-house experienced actuaries, data scientists and computer programmers

can serve as a key market differentiator, by enhancing the understanding of behavioral patterns, mining behavioral patterns and distinctive features that can be linked to key risk drivers and product economics, to help insurers offer their customers new products and a better customer experience through enhanced claim management and underwriting efficacy.

Sapientus has completed its first stage analytical framework and business application development. Over the course of calendar 2022, we expect the unit to shift towards commercialization, and for FingerMotion to define the monetization of the unit potentially to include earning commissions and profit sharing through its customer segmented programs with partners. Over time, we see the potential for the platform to extend beyond insurance into other verticals, including diversified financial services, healthcare and other e-commerce applications, and be integrated within the systems of other service providers.

RECENT DEVELOPMENTS

In 2021, FingerMotion shares declined by 29%, compared to a 27% increase for the S&P 500. However, we note that the shares did not begin trading on Nasdaq until December 28, 2021. Year-to-date in 2022, the stock has declined by approximately 60%, compared to a 9% decline for the index.

In January 2022, FingerMotion reported 3Q FY22 (November 2021-end) results, which were highlighted by revenue of \$5.9 million, for a 21% increase over the same period in 2020. Of note, its Telecommunications Products and Services unit contributed \$2.8 million (47%) of this total, and showed a 580% advance over the same period of 2020. Both the basic and diluted loss per share of \$0.02, compared with a \$0.02 loss in the same period in 2020.

In February 2022, the company announced the signing of cooperation agreements with China Unicom and China Mobile to launch device protection products in the China market. Once both providers have launched this service, the reach is expected to encompass more than 1 billion users, representing around 80% of the total market.

In December 2021, FingerMotion's shares began trading on Nasdaq under the ticker symbol FNGR.

In December 2021, FingerMotion's Shanghai JiuGe Information Technology subsidiary formed a collaborative research alliance with large global re-insurer Munich Re, to utilize the Sapientus platform to conduct behavioral analytics to enhance understanding of morbidity and behavioral patterns in the China market, with the goal of creating value for both insurers and the end insurance consumers through better technology, product offerings and customer experience.

In October 2021, FingerMotion trademarked two new brands, "Ji Shi Fu" and "Baowo", through which the company is offering innovative device protection programs for telecom customers.

EARNINGS & GROWTH ANALYSIS

We expect FingerMotion to post revenue of \$22.5 million for fiscal 2022 (ended February 28, 2022) and \$45 million for fiscal 2023, which would represent growth of 35% and 100%, respectively. We expect near-term growth to be driven by its telecom services and messaging verticals, as the company continues to

build infrastructure around its Sapietus Big Data initiative and newer Telecommunication Services initiatives, including device protection programs. Over the long-term, however, we expect the Big Data opportunity to become its largest revenue contributor, perhaps as early as fiscal 2025.

As mentioned earlier, during fiscal 2022, FingerMotion's revenue mix shifted towards Telecommunication Products & Services, and away from its SMS & MMS messaging business. Over the nine months ended November 30, 2021, revenues increased 54% year-over-year, with Telecommunication Products & Services accounting for 85% of that growth, followed by 13% from SMS & MMS, and 2% for consulting services related to Sapietus.

We anticipate gross margins of 14% in fiscal 2022 and 19% in fiscal 2023, up from 10% in fiscal 2021. We expect margins to benefit from the shift in the revenue mix towards Telecommunications Services from messaging. We note that under both segments, FNGR incurs the cost of the products acquired from its telecom partners and its applied discounts to its customers, before distributing them and generating any value-add above such costs. Over the long-term, we see potential for gross margin expansion to over 20% as Big Data analytics and other value-add initiatives comprise a larger percentage of revenues. We also expect operating expenses, which have averaged approximately 40% of revenues in recent years, to remain high, as the company invests in its growth.

We forecast a net loss per share of \$0.16 for fiscal 2022 and loss of \$0.24 for fiscal 2023. We see potential for FingerMotion to approach breakeven in fiscal 2024, as it achieves greater efficiencies from the InsurTech portfolio. We assume an average share count of 39.6 million for fiscal 2022 and 48 million for fiscal 2023, as we expect the company to raise capital during calendar 2022, given a modest cash balance of \$1.1 million at November 30, 2021.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on FingerMotion is Medium-Low. As of November 30, 2021, the company had \$1.1 million in cash and equivalents, compared with \$850,717 at February 28, 2021. During the nine months ended November 30, 2021, FNGR raised \$4.7 million through the sale of common stock in private placement transactions, prior to its Nasdaq listing. Moving forward, we expect this listing, which occurred in late December 2021, to facilitate raising capital on more-favorable terms.

We expect the company to need to raise additional capital in the next 12 months, given the modest cash balance cited above, coupled with the capital requirements to operate its mobile payment business. That requires periodic fund deposits with its telecommunication provider partners, from which it obtains access to the mobile data and talk-time it offers consumers on its portal under its mobile recharge business. In addition, we see other initiatives towards its growth strategy requiring capital, including human capital and technology investments for its Sapietus unit, geographic and vertical market expansion, and further enhancing the telecommunications services platform to support additional value-add and differentiating programs to drive greater customer traffic.

As of November 30, 2021, FingerMotion had a current ratio of 2.3-times and working capital of \$5.5 million (\$9.8 million in current assets, compared with \$4.3 million in current liabilities). The company had shareholder equity of approximately \$5.5 million.

For the year-ended February 28, 2021, net cash used in operating activities was \$4.3 million, compared with \$2.6 million for the prior year. For the nine months ended November 30, 2021, net cash used in operating activities was \$5.1 million, up from \$4.1 million in the same prior year period.

During the year ended February 28, 2021, net cash used in investing activities was approximately \$238,000, compared with approximately \$17,000 used for the year ended February 29, 2020. For the nine months ended November 30, 2021, cash used for investing activities were approximately \$14,000, compared with about \$321,000 in the same prior-year period, with the latter attributable to the purchase of equipment and platform investments.

During the year ended February 28, 2021, financing activities provided cash of approximately \$5.2 million, compared with \$1.3 million for the year ended February 29, 2020, with the increase primarily due to common stock issuances. For the latest nine months, net cash generated by financing activities was approximately \$5.4 million, compared with \$5.2 million during the comparable year-earlier period.

FingerMotion does not pay a dividend, and we do not expect it to initiate one in the near term.

MANAGEMENT

Mr. Martin Shen has served as FingerMotion's Chief Executive Officer and Chief Financial Officer since December 2018. Mr. Shen has nearly 15 years of experience in senior management roles in entrepreneurial startups as well as large multinational corporations, with expertise in corporate management, financial oversight and operational administration. Previously, he had founded Imperial Distributors (formerly AP Martin Pharmaceutical Supplies Ltd.) and served as its Chief Operating Officer and Chief Financial Officer at Wales and Son Industrial (later re-named Weir Minerals) from 2004 to 2014. Mr. Shen began his career in the tax department at PricewaterhouseCoopers in Singapore and the audit and advisory group in Hong Kong.

As of November 30, 2021, the board of directors consisted of four members, including three independent directors, which we view positively for corporate governance. In addition, we note that CEO Martin Shen is not a board member, which we think also reinforces the independent framework for the board to operate. Over time, we expect the board to be expanded to benefit from expertise in its new targeted verticals, including potentially insurance, given the importance of its Sapietus unit to its growth strategy.

RISKS

FingerMotion operates in a highly competitive industry, particularly in the mobile payments and payment processing segments. We think that the granting of exclusive licenses to act as an authorized processor of payments in China for China Unicom and China Mobile are competitive advantages, we also see FingerMotion as being reliant on maintaining a favorable position in the market. We believe the company will have to maintain sufficient intellectual

property rights to operate and expand its platform and service offerings to meet market demands. Lastly, we see risk in the company's thinly traded stock, which is likely to keep its shares volatile over the near-term. However, we expect the recent commencement of trading on Nasdaq to foster enhanced liquidity and improved potential access to future capital.

COMPANY DESCRIPTION

FingerMotion, founded in 2017, is a technology company that is leveraging relationships with leading telecommunications providers in China to provide mobile payment and recharge platform solutions, corporate SMS messaging, and additional value-added technologies, led by the emerging Big Data analysis of customer behavior, initially to the InsurTech (Insurance Technology) industry.

VALUATION

With a current stock price near \$3, compared with its 52-week high near \$14, and a market capitalization around \$125 million, we think that FingerMotion's valuation does not adequately reflect the company's prospects for driving robust revenue growth through its Sapientus unit over the coming years, as well as expanding its Telecom Services platform offerings. While its current revenue mix is focused on Telecommunications Services, and SMS messaging,

which are typically valued at lower multiples than Big Data and software-based applications, we expect that FingerMotion will be increasingly aligned in value with the latter categories over the coming years. We view the recent partnerships with large global insurers Pacific Life Re and Re Munich as a key validation of its approach to create a value-additive service that can promote the digitization and enhanced risk management capabilities of the Insurance industry initially, and others longer-term.

Further, we think such insights deriving from the company's unique access to the China Mobile and China Unicom user bases represent competitive advantages and potential first-mover advantages over potential competitors.

In comparing FingerMotion with a hybrid basket of Wireless Telecommunication Services companies and IT Application software firms, we use a blended forward EV/revenue multiple of 5.8X (which assumes a multiple of 3.0X for telco, weighted at 60%, and a multiple of 10.0X for software stocks, weighted at 40%), which we expect to approximate the company's revenue mix by fiscal 2024 (ending February 28, 2024). Applying this target multiple to our fiscal 2024 revenue estimate of \$100 million, discounted back one period at 15%, and assuming a fully-diluted share count of 55 million, up from 49 million currently and anticipating a capital raise during calendar 2022, we arrive at a fair value estimate for FNGR of \$9 per share, well above current levels near \$3.00.

Steve Silver,
Argus Analyst

INCOME STATEMENT

Growth Analysis (\$MIL)	FY 2019	FY 2020	FY 2021	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22E	FY2022E	Q1 FY23E	Q2 FY23E	Q3 FY23E	Q4 FY23E	FY 2023E
Revenue	1.5	9.1	16.7	6.0	5.4	5.9	5.2	22.5	8.5	10.0	12.0	14.5	45.0
Gross Profit	0.3	1.0	1.6					2.8					3.3
Selling & Marketing	2.8	2.7	4.6					7.1					13.5
R&D	0.0	0.4	0.4					0.2					1.0
Operating Income	-2.6	-3.1	-4.2					-6.1					-11.3
Interest Expense	0.0	-0.3	-0.3					-0.4					-0.1
Pretax Income	-2.9	-3.0	-4.3					-6.4					-11.6
Tax Rate (%)	NA	NA	NA					NA					NA
Net income	-2.9	-3.0	-4.4					-6.4					-11.6
Diluted Shares	24.8	25.8	33.7					39.6					47.5
EPS	-0.12	-0.12	-0.13	-0.03	-0.05	-0.03	-0.05	-0.16	-0.05	-0.05	-0.06	-0.08	-0.24
Dividend	NA	NA	NA					NA					NA
Growth Rates (%)													
Revenue	NA	521	83%					146					100
Operating Income	NA	NM	NM					NA					NA
Net Income	NA	NM	NM					NA					NA
EPS	NA	NM	NM					NA					NA
Valuation Analysis													
Price (\$): High	NA	NA	NA					NA					NA
Price (\$): Low	NA	NA	NA					NA					NA
PE: High	NA	NA	NA					NA					NA
PE: Low	NA	NA	NA					NA					NA
PS: High	NA	NA	NA					NA					NA
PS: Low	NA	NA	NA					NA					NA
Yield: High	NA	NA	NA					NA					NA
Yield: Low	NA	NA	NA					NA					NA
Financial & Risk Analysis (\$MIL)													
Cash/Restricted Cash	1.3	0.1	0.9					NA					NA
Working Capital	0.6	-0.3	3.0					NA					NA
Current Ratio	1.1	0.9	1.7					NA					NA
LTDebt/Equity (%)	NA	NA	NA					NA					NA
Total Debt/Equity (%)	NA	NA	NA					NA					NA
Ratio Analysis													
Gross Profit Margin	20%	11%	10%					12%					7%
Operating Margin	NA	NA	NA					NA					NA
Net Margin	NA	NA	NA					NA					NA
Return on Assets (%)	NA	NA	NA					NA					NA
Return on Equity (%)	NA	NA	NA					NA					NA
Op Inc/Int Exp	NA	NA	NA					NA					NA
Div Payout	NA	NA	NA					NA					NA

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