

# SYLA TECHNOLOGIES CO LTD

## (NasdaqCM: SYT)

Headquartered in Tokyo, Japan, SYLA Technologies owns and operates the largest membership real estate crowd-funding platform in Japan, Rimawari-kun. This platform aims to democratize real estate investment around the world through technology and asset management, targeting individuals, corporate and institutional investors, as well as high net worth individuals. The company is also engaged in other early-stage businesses that focus on the sale of renewable energy related products.

### COMPANY HIGHLIGHTS

- \* SYLA Technologies: Democratizing Real Estate Investment in Japan
- \* In our view, SYLA Technologies has achieved a leading position among Japanese real estate crowdsourcing platforms in the three years since the platform launch. We see the company being well positioned to capitalize on favorable regulatory trends promoting real estate investments in Japan.
- \* We view the company's investments in artificial intelligence (AI) as supporting its efficiency, by automating several processes in identifying properties and developing and managing projects.
- \* In the first half of 2023, SYLA reported a nearly 60% increase in its crowdsourcing member base, and anticipates continued growth in both members and revenue, as several property projects are expected to be completed by the end of 2023. We expect long-term membership growth to be supported by key marketing agreements, including with leader Rakuten, which features more than 100 million members in Japan.
- \* We expect higher revenues in the second half of 2023, and view positively SYLA's outlook to double its dividend over the prior year, with a target payout ratio of 30% over time. In our view, the company's prospects to increase its profitability while

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### KEY STATISTICS

#### Key Stock Statistics

Recent price (11/16/23)	\$4.05
Fair Value Estimate	\$8.00
52 week high/low	\$8.40-\$2.80
ADS outstanding (M)	30.0
Market cap (\$)	\$121.5
Dividend (yen)	140.0
Yield	0.3%

#### Sector Overview

Sector	Financials
Sector % of S&P 500	12.8%

#### Financials (as of 6/30/23, JPY)

Cash & Mkt Securities (M)	3,705.7
Total Debt (M)	22,417.4
Working Capital (M)	14,167.2
Current Ratio	4.1
Total Debt/Equity (%)	237.3
Payout ratio	5%
Revenue (2022)	22,056
Net Income (2022)	394.9
Net Margin	1.8%

#### Risk

Beta	NA
Inst. ownership	0%

#### Valuation

P/E forward EPS	25.3
Price/Sales	0.7
Price/Book (TTM)	4.2

#### Top Holders

NA

#### Management

CEO/Co-President	Mr. Hiroyuki Sugimoto
Chairman/Co-President/COO	Mr. Yoshiyuki Yuto
CFO/Group Exec. Officer	Mr. Nobuo Higuchi
Company website	<a href="https://syla-tech.jp/en">https://syla-tech.jp/en</a>

### PRICE CHART



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returning capital to its shareholders through share repurchases and dividends are underappreciated by investors.

- \* As of June 30, 2023, the company had 3.8 billion yen (\$25.3 million USD) in both free and restricted cash on its balance sheet, with an improved asset base and working capital position following its 2023 initial public offering and Nasdaq listing.
- \* Based on our Enterprise Value (EV) to revenue analysis, we arrive at a fair value of \$8.00 per ADS.

## INVESTMENT THESIS

SYLA Technologies is a Japan-based property technology (Prop-tech) company that utilizes a business model that enhances the real estate and financial industries through the use of advanced technologies. The company was established in 2009 to develop, construct, sell, lease, and manage real estate, primarily investment condominiums, targeted in attractive areas of Tokyo which historically show frequent turnover, consistently high occupancy rates and rising rent prices. Its SYFORME brand of condominiums are typically within a 10-minute walk from train stations, boosting its attractive profile. Its portfolio has diversified to include office buildings, commercial buildings, and recently more nascent businesses, including solar power plants, and data centers.

In our view, demand for rental housing within the Japanese real estate market is well positioned for continued growth, as the country moves further past the COVID-19 pandemic. While the coronavirus contributed to more people moving out of Tokyo, the country’s primary office and residential income-producing market, this market has since recovered. We note that Tokyo’s population recently reached an all-time high of more than 14 million residents, and workers have seen historic wage increases in 2023 of approximately 3.7%, the highest in over 30 years.

We view the Japanese real estate market opportunity as attractive, as more investors begin to introduce risk into their asset portfolios, amid sluggish stock markets and protracted periods of ultra-low interest rates on their deposits. We view positively the administration of Prime Minister Kishida’s public goal of doubling Japan’s asset income to encourage a shift towards investments and away from savings, given the low interest rates.

Among the more attractive alternatives, the Japanese real estate market, which has historically focused on the rental and sale of properties, has seen rental yield spreads of 3%-5%, which we view favorably compared with other major cities globally. We attribute this to factors including cultural barriers and above-average weather-related risks. As such, we see investor perceptions towards the Japanese real estate market improving and attracting foreign investment.

Contributing to this trend, in our view, is the proliferation of online business and the trading of financial instruments in Japan, especially among the younger generation. As of 2021, internet banking use had increased to 66% of the population and 50% conducted stock transactions online. However, the percentage of Japan’s population that had been involved in any real estate investment including REITs was 12.6% (compared with 44% in the US), none of which was conducted online.

We are encouraged by Japan’s regulatory environment that supports a simpler and faster transaction process compared with many global markets. Japan’s largely deregulated market enables real estate transaction to be conducted electronically, and completed in as little as two weeks.

Among the small group of investors in the real estate market, opportunities had primarily been restricted to corporations, institutions and high net worth individuals. In May 2022, laws allowing online transactions for real estate transactions were passed, which we view as a key catalyst toward the acceptance of crowdsourcing markets for real estate that appeal to smaller investors who are seeking above-average returns. SYLA expects online real estate transactions to rise to approximately 30% of total real estate transactions over the next ten years.

To capitalize upon this new opportunity, SYLA launched a new business model focused on crowdfunding, whereby funds are collected from investors of any size, with investments as little as 10,000 yen (around \$70) to be invested in real estate properties, whereby rental income and sale proceeds are used to pay dividends. Under this model, SYLA seeks to “democratize real estate investment” by making the market accessible to more investors.

As of mid-2023, “Rimawari Kun” had approximately 261,000 members while “Rimawari Kun Pro”, which consists mainly of single-building sales to real estate operators, but also provides a service that earns brokerage commissions from matching sellers and buyers, had approximately 1,800 user members.

We expect emerging competition in the space, with market entrants including Creal, FundRise and RealtyMobiles, as well as Owner’s Book and Rimple, supporting the high growth potential for the field. Among these peers, we see SYLA as well positioned to attract smaller investors through a crowdsourcing model, while companies such as Creal have focused on high-net-worth members and more expensive properties, and FundRise and RealtyMobiles focus on commercial properties and areas outside of Japan. We see SYLA as uniquely positioned, given that they also develop, build and manage properties, rather than serve only as a financial

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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 Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
SYLA TECHNOLOGIES CO LTD	NasdaqCM: SYT	4.05	8.40	2.80	122	NA	32	36	40.4	NA	0.3
LEAD REAL ESTATE CO LTD	NasdaqGM: LRE	6.71	7.35	4.52	92	NA	22	0	24.0	NA	NA
CREAL INC	TSE: 2998	3160*	9070*	1327*	18456*	123	55	55	50.6	NA	NA
AVANTIA CO LTD	TSE: 8904	838*	919*	776*	11982*	7	-1	NM	9.7	0.64	4.5

\* Stock Statistics in Japanese Yen (M)

intermediary. Under this model, we think that SYLA can achieve greater profitability through rental income, as well as acquisition fees, and more effectively manage risk than its peers.

Underpinning SYLA's real estate portfolio platform is a proprietary artificial intelligence (AI) based tool that helps identify real estate properties to acquire, based on ideal location and size-based parameters, and utilizes algorithms to help qualify land acquisition costs and enable the company to identify those that can offer the lowest buying price and highest selling price among thousands of potential properties each day. The Rimawari-kun platform, developed by SYLA Brain, which was which was acquired in 2022, is based on a proprietary algorithm and was recognized as the "most accurate price estimation model" by the Japanese Society for Artificial Intelligence 2020 and MIPR 2021. The platform was created by Tianqi Li, SYLA's Chief AI Officer.

According to the company, Japan's real estate crowdfunding market has grown rapidly from 1.3 billion yen (approximately \$8.7 million) in FY 2018 to 50.8 billion yen (more than \$340 million) by FY 2022, and is expected to grow to around 1.5 trillion yen (\$10 billion) by FY 2026. Amid this early growth cycle, Rimawari Kun has already increased its member base to over 261,000 as of June 30, 2023, a more than doubling of its size since the end of 2021. We view this growth, as well as the limited number of public companies that currently invest in the space as supporting the company's long-term growth outlook by attracting global investment capital. We also note that among its peers, only Creal (listed in Japan) has completed an initial public offering to date.

Thus, we believe that the member base expansion will be key towards the company reaching an inflection point, where it will meaningfully benefit from its enhanced ability to collect management fees and thus increase its levels of investments and achieve economies of scale on the value of these investments.

A key initiative towards growing the member base has been working to raise awareness among young people. As one method, the company formed a capital and business alliance with Rakuten Group, which features more than 100 million members. Under the agreement, SYLA has recruited members by utilizing Rakuten Group's banner advertisements and mailed magazines, as many of Rakuten users are in SYLA's target demographic for small value real estate investing between the ages of 20-40. The agreement promotes cross-membership through the issuance of points-based rewards and gifts. We estimate that the marketing partnership with Rakuten has contributed roughly 10% of its crowdsourcing member base to date, and new programs designed to facilitate the registration of new members have recently become available online. Thus, we expect the partnership has significant potential room for growth over the coming years.

We view positively SYLA's commitment to making investments that support social issues that can promote revitalization in Japan. In our view, Japan is at the forefront of global adherence to a model of ESG (Environment, Social and Governance) issues. Over the past few years, SYLA has transformed its business portfolio to include projects in the renewable energy space, including solar and biomass power generation that contribute to the expansion of ZEB (Zero Energy Buildings) and ZEH (Zero Energy Houses).

In the renewable energy business, the company maintains, manages, and sells solar power generation, and also sells and maintains solar and biomass power generation equipment and operates and maintains data centers. The company's recently launched SYLA Biotech business in which the company provides a one-stop service covering construction, installation, operation, and maintenance of data centers that are powered by solar energy, designed to reduce CO2 emissions.

We expect the company to acquire additional entities through its wholly-owned SYLA Power subsidiary that can promote these goals. In addition, we see SYLA working to integrate its renewable power and AI capabilities into its new real estate projects more broadly, noting that it has strong governmental support and funding. We estimate that Japan currently has a renewable energy rate around 20%, and envision goals for the country at around 30% by 2030 and 50% by 2050, supporting a robust rationale for continued investment.

Other initiatives include nursing care amid an aging population, stray animal protection and new technologies, among others. Despite its expansion into new ventures, we view positively SYLA's decisive action to exit certain markets when facing unfavorable macro-conditions. In December 2022, the company recognized the deterioration of crypto and mining machine market conditions and exited a business that manufactured and sold computers with mining machine capabilities, as well as provided maintenance solutions on these machines.

## RECENT DEVELOPMENTS

In April 2023, SYLA completed an IPO consisting of 1,875,000 American Depositary Shares at \$8.00 per ADS. 100 ADS's represent one common share of SYLA. The deal yielded gross proceeds of \$15 million (\$13.7 million on a net basis). The ADSs trade on the Nasdaq Capital Market under the symbol "SYT." Since the IPO, the ADS's have declined by approximately 50%, compared with a 9% increase for the S&P 500.

In October 2023, SYLA Technologies reported six-month results for 2023, which were highlighted by a 15% increase in revenues to 9.3 billion yen (\$62.3 million at the prevailing exchange rate) and a 147% increase in net income attributable to SYLA of 250 million yen (834 yen per share). The company also reported a 58% year-over-year increase in its Rimawari-kun member base to 261,633.

In November 2023, SYLA announced negotiations to enter into a business alliance with RIBERESUTE CORPORATION, a developer and seller of family-type condominiums, and that it had agreed to acquire shares from four of RIBERESUTE's shareholders, including its largest shareholder. SYLA expects that an alliance will help diversify and expand SYLA's real estate crowdfunding projects and enable the company to consider development of new products, such as mixed-type and larger scale residences.

In November 2023, SYLA announced that it had entered into a definitive agreement for a cash transaction to acquire the business of ietty Inc, a real estate portal and rental broker business featuring proprietary AI and chatbot technologies.

In October 2023, SYLA launched an Employee Stock Purchase Plan for the purchase of its American Depositary Shares, aimed at enhancing employee engagement and benefits through ownership in the company.

In September 2023, SYLA's Board of Directors paid an interim dividend of 70 yen per common share (approximately \$0.0046 per ADS). The company expects total dividends of 140 yen per share for the full-year of 2023, which would represent a doubling of its dividend over the prior year.

In August 2023, SYLA Technologies appointed Hajime Sugino as Head of SYLA USA. In this newly created role, Mr. Sugino will oversee the expansion of SYLA's US operations, including its investor communication efforts.

In July 2023, SYLA issued guidance for the full-year 2023, which included 12%-21% revenue growth, and up to 17% earnings per ADS growth.

In July 2023, SYLA's board authorized a repurchase program, for up to ¥200 million yen (around \$1.3 million) of its American Depositary Shares ("ADSs").

In July 2023, SYLA's Rimawari-kun platform was ranked as the top real estate crowdfunding platform in Japan by total membership for the second year in a row, according to a survey performed by the Japan Marketing Research Organization.

## EARNINGS & GROWTH ANALYSIS

Since its inception, a majority of SYLA's revenues have been generated by rental income from managed properties and from property sales. Its "Rimawari Kun Pro" segment primarily sells properties to real estate funds and businesses, typically realizing profits of approximately 5%-15% from exited properties. However, these transactions have resulted in financial results that have been quite variable. Thus, we expect growth over the long-term to be driven by the expansion of its crowdfunding member base and portfolio's gross merchandise value (GMV), which it defines as its total amount of funding raised, through which it will generate asset management fees. We see other sources of revenue including acquisition fees (typically 3%-5%) when acquiring properties developed by other companies.

In our view, the crowdfunding business model, which can generate investment yields on rental properties of more than 5%, can begin to reach economies of scale over the next 3-5 years, as the assets under management increase. Importantly, we believe these fees will improve the company's margin profile, as management fees require little capital investment compared with more capital-intensive property construction and management activities.

In 2022 and 2021, the number of units managed by the company increased by 2% and 11%, respectively. Again, we expect these figures to be quite variable, as SYLA in 2022 constructed and sold seven buildings, which contributed about a third of its revenue. In 2021, sales activities contributed to 60% of revenue. We expect this trend to continue, while the crowdfunding model gains traction.

As of June 30, 2023, the member base for the "Rimawari Kun" platform increased 58% year-over-year (10% since the start of 2023) to more than 261,000. We forecast this figure doubling to more than 500,000 by 2026. Thus, we expect Asset Management to become a primary contributor to its revenue profile over the coming years.

For 2023, we project revenues of 25 billion yen (\$165 million, at the recent yen to USD rate of 1:0.0066), which would represent

13% growth over 2022. For 2024, we project total revenues of 27 billion yen (\$178.2 million), which would represent 8% growth. For 2023, we expect revenue growth to be back half loaded, as new funds come into the company, and it begins to realize benefits from its marketing, sales, and development investments.

We are encouraged by SYLA's margin expansion prospects. In our view, first half 2023 gross profit margin was 25%, compared with 16% for 2022. This was attributable to the sale of a profitable large-scale development site that boosted the margin for the current year period. As such, we expect gross margin of 22% for the full year of 2023 and 23% in 2024.

In terms of operating expenses, we do expect higher costs as a percentage of revenues compared to 2022, due to increased personnel and regulatory expenses as a public company. We expect operating expenses to amount to 19% of sales in 2023, higher than the 13% of 2022. For 2024, we expect expenses to comprise 18% of sales, as the company begins to achieve greater economies of scale.

We forecast that SYLA Technologies will achieve earnings per share of 1,630 yen and 2,230 yen in 2024, which would represent 17% and 37% growth, respectively.

## FINANCIAL STRENGTH & DIVIDENDS

Our financial strength rating for SYLA Technologies is Medium-High. As of June 30, 2023, the company had 3.8 billion yen (\$25 million USD) in cash and restricted cash on its balance sheet.

Total net assets increased by 15% to 34.3 billion yen (approximately \$227.5 million). Net working capital was 14.2 billion yen (approximately \$94 million), representing a current ratio of 4.1, up from 2.8 at December 31, 2022, which we largely attribute to proceeds from the initial public offering in early 2023.

We view favorably SYLA's capacity to manage both growth and returning capital to its shareholders, as evidenced by its July 2023 announced board authorization of a repurchase program, under which the company could repurchase up to ¥200 million yen of its American Depositary Shares ("ADSs"), and its dividend policy, which has already been increased to 140 yen per share for 2023 from 70 yen for the year ended December 31, 2022. The higher figure represents a payout ratio of approximately 10% on an annualized basis to our 2023 net income estimate. Its board of directors intends to continue to increase dividends annually until it achieves a payout ratio of about 30% of net income.

For the year-ended December 31, 2022, net cash used in operating activities from continuing operations was 3.4 billion yen (approximately \$22 million), compared with net cash provided by operating activities from continuing operations of 25.1 million yen (approximately \$166,000) for the year ended December 31, 2021. In 2022, positive net income was primarily offset by higher depreciation and amortization expense, non-cash lease costs, deferred income tax benefit and negative changes in working capital primarily driven by higher inventories.

Net cash used in investing activities from continuing operations in 2022 was 2.64 billion yen (approximately \$17.4 million), compared with net cash used of 1.93 billion yen (approximately \$12.7 million) in 2021, primarily attributable to increased purchases of property, plant and equipment and solar power systems.

Net cash provided by financing activities from continuing operations was 5.74 billion yen (approximately \$38 million) in 2022, compared with net cash provided by financing activities from continuing operations was 1.74 billion yen (approximately \$11.5 million) for the year ended December 31, 2021, with the increase primarily attributable to higher borrowings and capital contribution from partnerships.

In October 2023, SYLA initiated an Employee Stock Purchase Plan for its American Depositary Shares. The company expects the plan to enhance employee engagement through ownership in the company, which we also expect to have a favorable impact on talent retention and long-term operating expense leverage.

## MANAGEMENT

Mr. Hiroyuki Sugimoto founded SYLA Holdings in 2009, following the financial crisis of 2008. He previously founded S-GRANT, CO. LTD, which also became a public company.

As of July 2023, the company had nine directors, five of which are considered independent, which we view positively for corporate governance purposes. We also view positively the company's commitment to fostering an operating culture to expand female representation among its leadership and expanding maternity and paternity programs.

We note that SYLA's management controls roughly two-thirds of the company's voting power, led by CEO Hiroyuki Sugimoto, who holds a majority 54%, and Chief Operating Officer Yoshiyuki Yuto, who holds an approximate 10% stake.

## RISKS

Risks to making an investment in SYLA Technologies include its operating in a highly competitive industry, which carries the potential for new financial institutions with larger customer bases and comparable technology platforms to enter the market. Other risks include its reliance on successfully growing and maintaining its crowdsourcing membership base, amid a still-nascent market in

Japan in order to achieve sufficient economies of scale from asset management fees. In addition, we see the company as reliant on continued favorable monetary policy in regard to low interest rates, as these policies should enhance investor appetite for participation in the real estate market.

## COMPANY DESCRIPTION

Headquartered in Tokyo, Japan, SYLA Technologies owns and operates the largest membership real estate crowd-funding platform in Japan, Rimawari-kun. The platform aims to democratize real estate investment around the world through technology and asset management, targeting individuals, corporate and institutional investors, and high net worth individuals. The company is also engaged in other early-stage businesses that focus on the sale of renewable energy related products.

## VALUATION

Since its April 2023 IPO at \$8 per ADS, SYLA ADSs have traded in a range between \$8.40 and \$2.80, and recently traded near \$4.00 per ADS. With a market capitalization around \$110 million, we do not think the current ADS price properly reflects the growth potential of SYLA, as it begins to meaningfully expand its asset and member base through crowdsourcing over the coming years. Additionally, we believe that the scarcity of public companies in this space is likely to bring attention to new investors.

To value SYLA, we apply an Enterprise Value/Revenue multiple of 2.0-times on our 2024 revenue estimate of 27 billion yen (around \$178 million) This multiple is in line with a peer group of global real estate management and development companies, which we believe is warranted given SYLA's robust growth potential, balancing its relative early-stage in its growth cycle. Our analysis assumes a yen to \$USD ratio of 1:0.0066, and 30 million ADSs outstanding (a 100 ADS:1 common share ratio).

We arrive at a fair value estimate of \$8 per SYT ADS, well above current levels.

Steve Silver,  
Argus Research Analyst

**INCOME STATEMENT**

<b>Growth Analysis (M, JPY)</b>	<b>2021</b>	<b>2022</b>	<b>1H 2023</b>	<b>2H 2023E</b>	<b>2023E</b>	<b>1H 2024E</b>	<b>2H 2024E</b>	<b>2024E</b>
Revenue	16665.4	22056.0	9318.4	15682.0	25000.4	13000.0	14000.0	27000.0
Gross Profit	3149.1	3604.0	2340.9	3261.9	5602.7			6220.0
SG&A	2467.0	2421.1			4666.1			4860.0
Operating Income	682.4	778.9	434.7	501.8	936.5	520.0	840.0	1360.0
Interest Expense	NA	NA			NA			NA
Pretax Income	500.0	655.9			948.7			1370.0
Tax Rate (%)	44	40			40			42
<b>Net Income</b>	<b>277.5</b>	<b>394.9</b>	<b>250.0</b>	<b>238.8</b>	<b>488.8</b>	<b>264.9</b>	<b>426.4</b>	<b>691.3</b>
Diluted Shares (Thousand)	231	239			300			310
EPS (JPY)	1022.4	1395.4	834.0	796.0	1630.0	854.6	1375.4	2230.0
Dividend	NA	70			140			NA
<b>Growth Rates (%)</b>								
Revenue	NA	32%			13%			8%
Operating Income	NA	14%			20%			45%
Net Income	NA	42%			24%			41%
EPS	NA	36%			17%			41%
<b>Valuation Analysis</b>								
ADS Price (\$): High	NA	NA			NA			NA
ADS Price (\$):Low	NA	NA			NA			NA
PE: High	NA	NA			NA			NA
PE: Low	NA	NA			NA			NA
PS: High	NA	NA			NA			NA
PS: Low	NA	NA			NA			NA
Yield: High	NA	NA			NA			NA
Yield: Low	NA	NA			NA			NA
<b>Financial &amp; Risk Analysis (MIL, JPY)</b>								
Cash & Investments	3058.5	2702.9			NA			NA
Working Capital	3867.7	9167.5			NA			NA
Current Ratio	1.9	2.8			NA			NA
LTDebt/Equity (%)	202.4	268.7			NA			NA
Total Debt/Equity (%)	257.4	318.7			NA			NA
<b>Ratio Analysis</b>								
Gross Profit Margin	19%	16%			22%			23%
Operating Margin	4%	4%			4%			5%
Net Margin	2%	2%			2%			3%
Return on Assets (%)	2.1	1.9			NA			NA
Return on Equity (%)	5.6	5.1			NA			NA
Op Inc/Int Exp	NM	NM			NA			NA
Div Payout	NA	5%			8.6%			NA

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