

## Fisgard Capital Corporation

### Revenue and Yield Beat Estimates / Raising Our 2024 Estimates

**Expected Yield (2024): 8.2%**

**Rating\*: 2-Risk\*: 2**

Sector: Mortgage Investment Corporations

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#### Highlights

- Fisgard Capital Corporation (FCC) is **one of the larger** Mortgage Investment Corporations (MICs) in Canada. We believe FCC **operates a relatively low-risk fund**, with high exposure to first mortgages, and low Loan-to-Values (LTV), and debt/capital.
- In 2023, **mortgage receivables increased 3% YoY to \$289M** vs our estimate of \$300M.
- The yield increased by 1.6 pp YoY to 7.1%, **beating our estimate of 6.8%**, driven by higher lending rates.
- The MIC **remains focused on first mortgages** for single family residential units in B.C. and ON.
- In spite of a sharp decline in real estate activity in 2023, residential property prices have remained resilient. We **anticipate transaction volumes picking up in H2-2024**, driven by lower interest rates.
- At the end of 2023, FCC had \$6.2M (2.14% of the portfolio) in stage three (impaired) mortgages, spread across 10 out of 566 properties, down from \$7.4M (2.62% of the portfolio) at the end of 2022. **We believe FCC's low LTV (53%) puts them in a comfortable position.**
- Anticipating lower rates, we find high-yielding funds, such as FCC, increasingly appealing. **We are projecting a yield of 8.2% in 2024.**

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

#### Offering Summary

Issuer	Fisgard Capital Corporation
Securities Offered	Class B (5-year lock-in period) / Class D (3-year) / Class F (1-year) non-voting shares
Unit Price	\$1
Minimum Subscription	N/A
Management + Other Fees	2% p.a. of equity & debt + nil % of mortgage origination fee + 1% of capital raised
Distribution Frequency	Quarterly
Sales Commissions	1% p.a.
Auditor	KPMG

Key Financials /YE: Dec 31	2020	2021	2022	2023	2024E	2025E
Mortgage Receivables	\$162,347,354	\$223,391,140	\$279,246,976	\$288,880,559	\$313,344,903	\$329,012,148
Revenue	\$15,294,905	\$16,042,204	\$22,113,313	\$28,934,077	\$33,875,182	\$33,402,567
Net Income	\$11,644,869	\$14,740,411	\$12,491,556	\$18,278,349	\$23,072,276	\$21,467,459
Dividend Yield	6.0%	6.5%	5.4%	7.1%	8.2%	7.3%

**The yields presented above reflects the average for all share classes.**

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

## Investment Strategy

*Short-term loans secured by real estate*

- Focused on single family detached houses, townhouses, and condominiums
- Predominantly focused on first mortgages in B.C. and ON
- Maximum LTV of 75% at the time of origination
- Like most MICs, FCC tends to renew terms once or twice per borrower
- Does not use leverage to enhance yields
- Partners in syndicated mortgages with other MICs and lenders; currently 20% of its mortgages are syndicated

The following table shows how FCC's portfolio compares to that of other MICs (with AUM of \$100M+) focused on single-family residential units.

*FCC's yield is lower than comparables as it operates a relatively low-risk fund, driven by high exposure to first mortgages, and low LTV, and debt/capital*

*FCC has lower stage three mortgages*

	Fisgard	Average
First Mortgage	95%	75%
B.C.	41%	39%
ON	50%	48%
AB	7%	7%
Others	2%	6%
LTV	53%	58%
Yield	7.2%	8.7%
Debt to Capital	5%	23%
Average Loan Size	\$512,048	\$508,064
Stage Three (impaired) % of Mortgages	2.1%	4.7%
Allowances % of Mortgages	0.4%	0.6%

Source: FRC / Various

## Portfolio Details (YE: December 31<sup>st</sup>)

In FY2023, mortgage receivables were up 3% YoY to \$289M vs our forecast of \$300M

NAV remained flat at \$1/share

Debt to capital decreased by 11 pp to 5%, and is significantly lower than that of comparables (15%-30%)

As a result, the interest coverage ratio of FCC is significantly higher (12x vs 3-5x)

Mortgage Portfolio



Balance Sheet (YE - Dec 31st)	2018	2019	2020	2021	2022	2023
<b>Assets</b>						
Cash & cash equivalents	\$2,524,979	\$706,075	\$19,167,763	\$3,357,333	\$4,502,509	\$4,453,320
Other current assets	\$56,235	\$44,740	\$35,271	\$215,138	\$25,700	\$20,964
Mortgages loans - current	\$178,873,412	\$148,505,163	\$143,492,197	\$203,360,691	\$243,102,073	\$262,652,767
Mortgage loans - LT	\$8,634,545	\$33,140,438	\$18,855,157	\$20,030,449	\$36,144,903	\$26,227,792
Investments in associates	\$6,369,540	\$20,662,756	\$17,934,237	\$100		
<b>Total Assets</b>	<b>\$209,514,604</b>	<b>\$203,059,172</b>	<b>\$199,484,625</b>	<b>\$226,963,711</b>	<b>\$283,775,185</b>	<b>\$293,354,843</b>
<b>Liabilities</b>						
Short-term loans	\$18,895,159	\$12,842,093		\$2,410,666	\$46,069,316	\$14,442,260
Accounts payable and accruals	\$205,898	\$562,265	\$40,001	\$35,770	\$441,698	\$293,974
Interest reserve	\$185,133	\$34,592	\$468,365	\$92,791	\$405,600	\$67,981
Redeemable shares - current	\$48,022,178	\$42,999,785	\$43,006,946	\$61,664,411	\$57,748,256	\$59,439,957
Redeemable shares - LT	\$142,275,615	\$146,620,172	\$155,980,027	\$161,862,024	\$178,228,802	\$218,063,271
<b>Total Liabilities</b>	<b>209,583,983</b>	<b>203,058,907</b>	<b>199,495,339</b>	<b>226,065,662</b>	<b>282,893,672</b>	<b>292,307,443</b>
<b>Shareholders' Equity</b>						
Share capital	\$480	\$480	\$480	\$480	\$480	\$480
Retained earnings	-\$69,859	-\$215	-\$11,194	\$897,569	\$881,033	\$1,046,920
<b>Total Shareholders' Equity</b>	<b>-\$69,379</b>	<b>\$265</b>	<b>-\$10,714</b>	<b>\$898,049</b>	<b>\$881,513</b>	<b>\$1,047,400</b>
<b>Total Liabilities and SE</b>	<b>\$209,514,604</b>	<b>\$203,059,172</b>	<b>\$199,484,625</b>	<b>\$226,963,711</b>	<b>\$283,775,185</b>	<b>\$293,354,843</b>
Mortgages Invested	\$187,507,957	\$181,645,601	\$162,347,354	\$223,391,140	\$279,246,976	\$288,880,559
Investors' Capital + Debt	\$209,192,952	\$202,462,050	\$198,986,973	\$225,937,101	\$282,046,374	\$291,945,488
Investors' Capital	\$190,297,793	\$189,619,957	\$198,986,973	\$223,526,435	\$235,977,058	\$277,503,228
NAV per share	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Debt	\$18,895,159	\$12,842,093	\$0	\$2,410,666	\$46,069,316	\$14,442,260
Debt to Capital	9%	6%	0%	1%	16%	5%
Interest Coverage	12	16	42	32	10	12

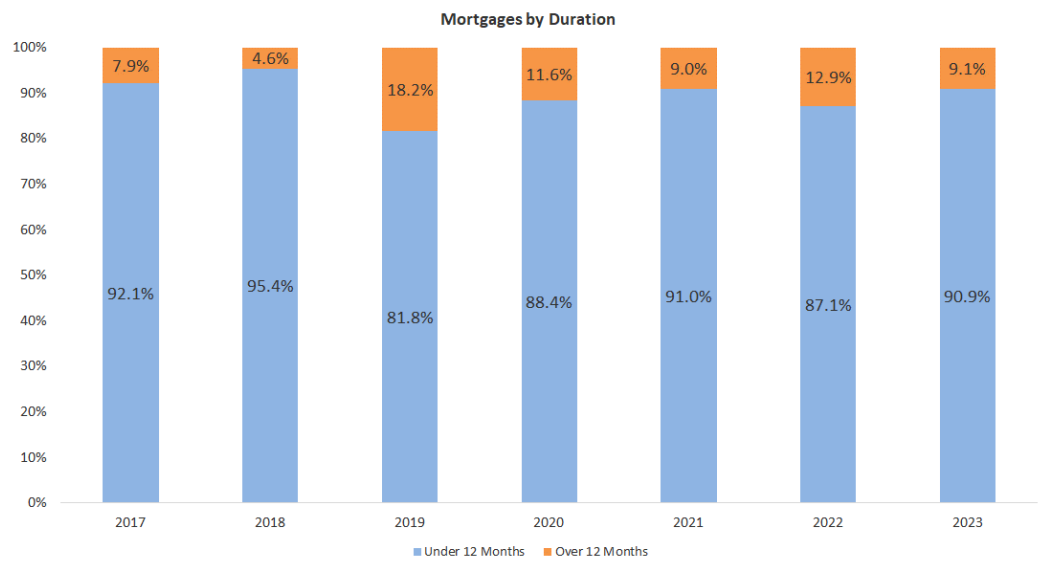
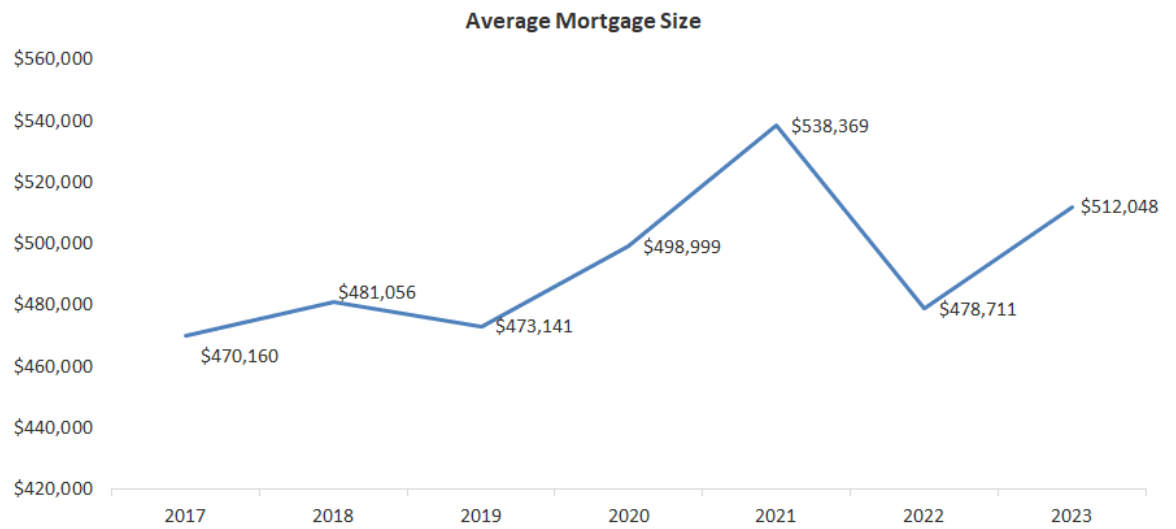
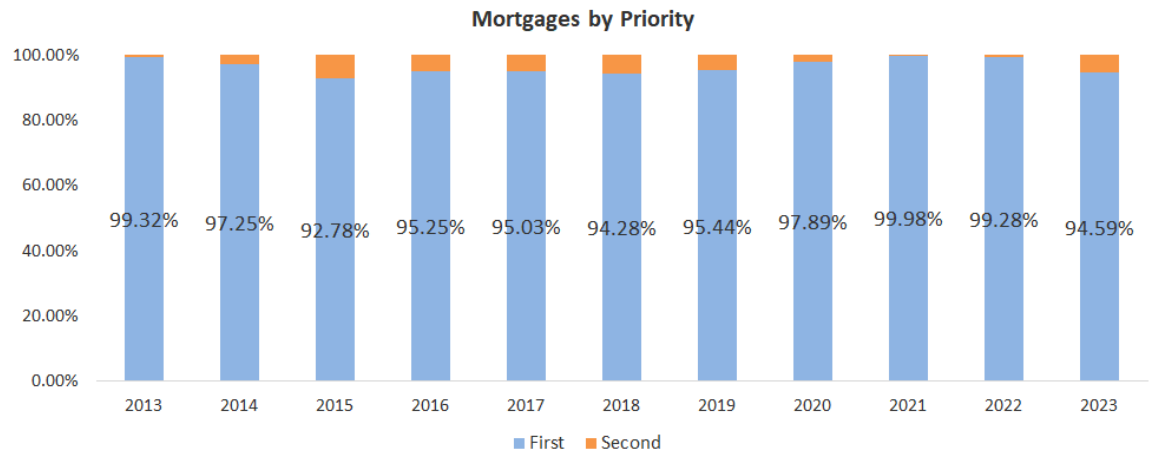
Source: Company / FRC

First mortgages decreased by 4.7 pp to 94.6%, as the MIC acquired a related fund under management focused on second mortgages

Given FCC's focus on first mortgages, we believe the incremental risk associated with the recently added second mortgages is temporary, and will diminish as they mature

The average mortgage size was \$512,048, up 7% YoY

Duration decreased, implying lower risk

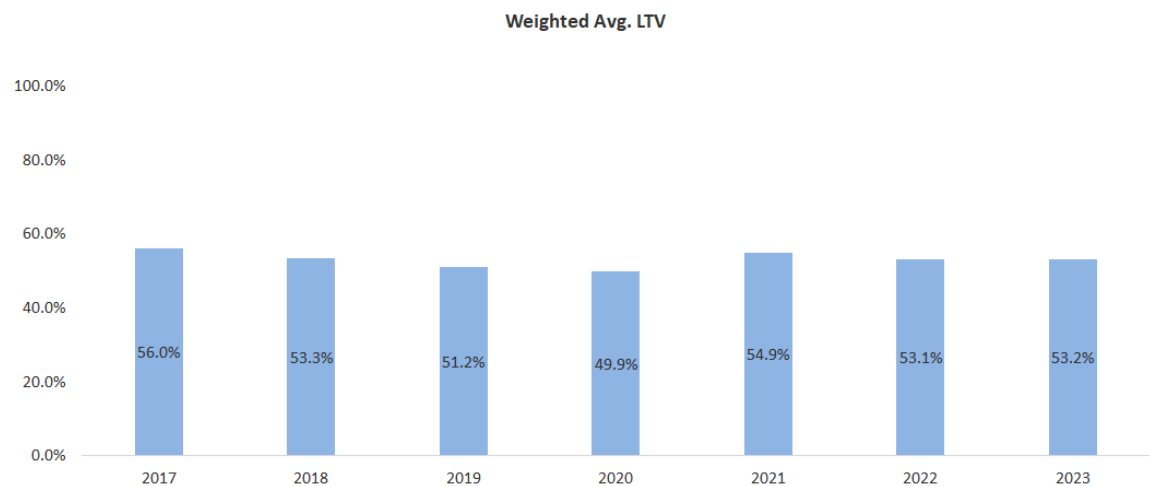
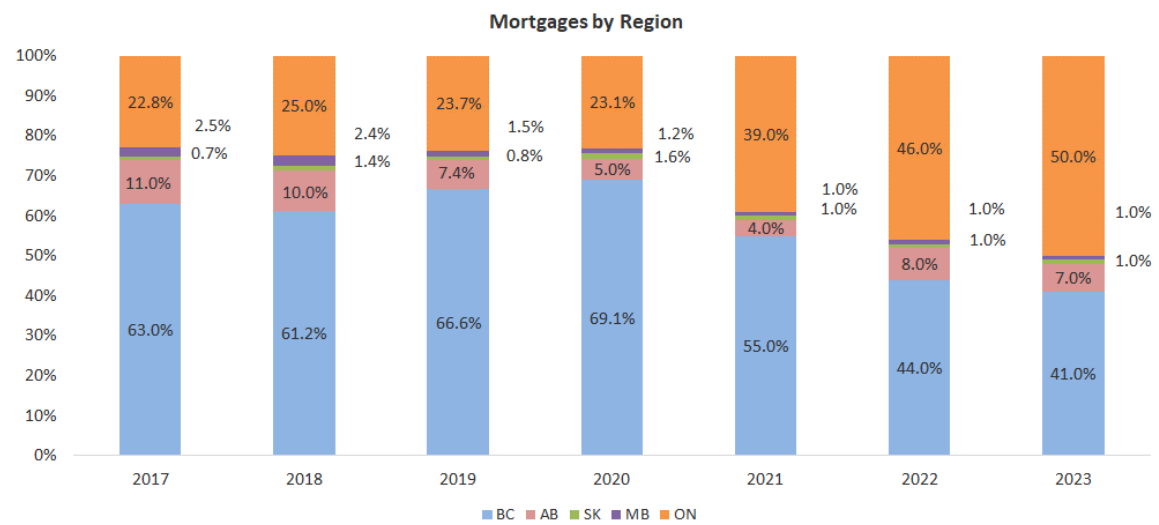
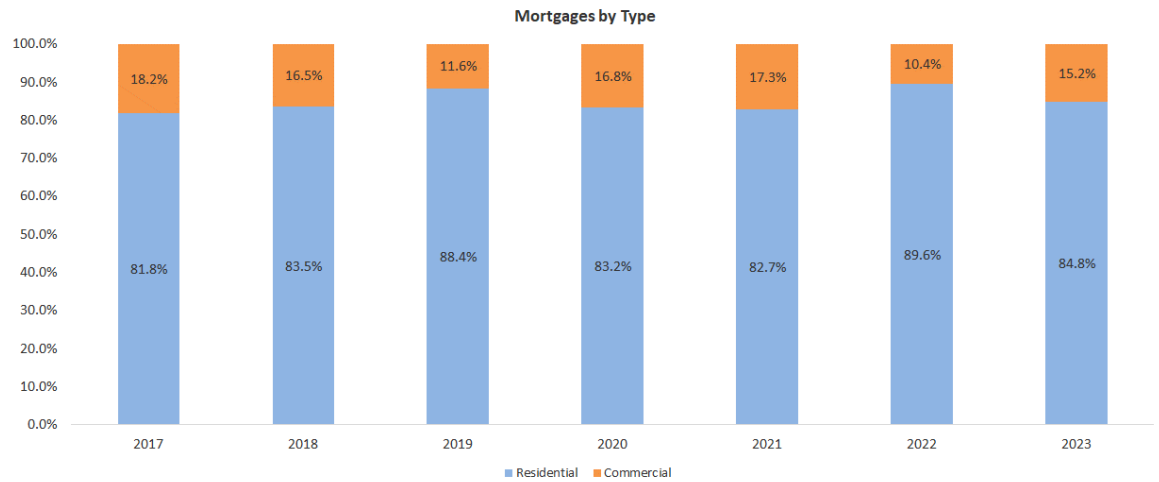


Source: Company / FRC

*Residential mortgages decreased by 4.8 pp to 85%*

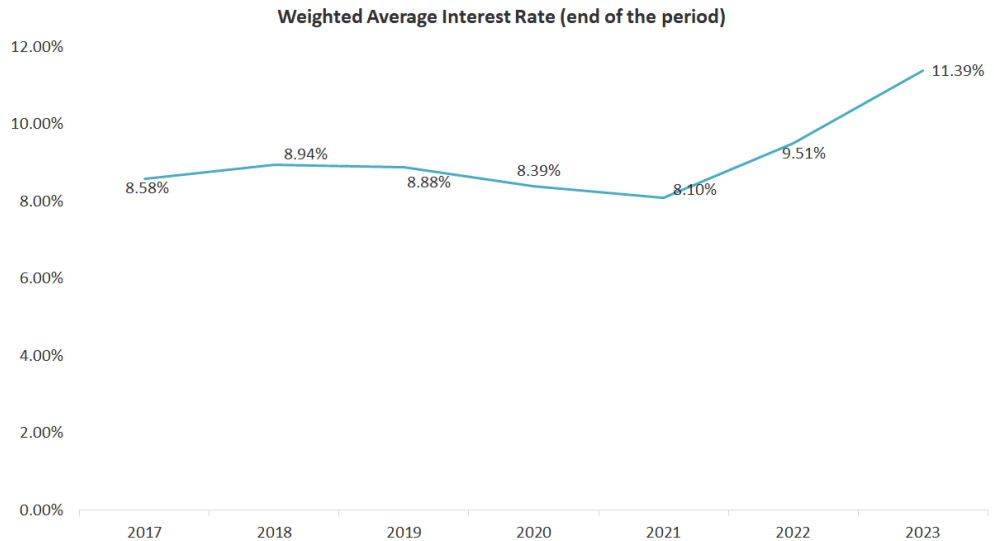
*Increased exposure to ON, and decreased exposure to B.C.*

*LTV remained flat*



Source: Company / FRC

*Lending rates increased amid higher market rates*



*Nil realized losses*

*Stage three mortgages declined by 49 bp to 2.2% of mortgages*

*Despite the improvement, for conservatism, management raised allowances by 10 bp to 0.4% of mortgages*

	2019	2020	2021	2022	2023
Loan Loss Provisions	\$373,105	-\$119,418	\$606,276	-\$54,729	\$293,863
Stage Three Mortgages				\$7,360,031	\$6,212,175
% of Mortgage Receivables				2.64%	2.15%
Loan Loss Allowances (at the end of the period)	\$487,603	\$350,488	\$933,941	\$879,212	\$1,173,075
% of Mortgages	0.27%	0.22%	0.42%	0.31%	0.41%
Actual losses (FRC est.)	\$272,121	\$17,697	\$22,823	\$0	\$0
% of Mortgages	0.15%	0.01%	0.01%	0.00%	0.00%
Reinvested	\$7,922,219	\$8,882,678	\$10,234,892	\$9,344,908	\$13,759,048
Reinvested (as a % of Distributions)	72.4%	76.2%	74.0%	74.7%	76.0%
Redemptions	\$19,571,600	\$14,231,422	\$13,530,956	\$19,396,288	\$21,037,715
Redemption (% of invested capital)	10.3%	7.3%	6.4%	8.4%	8.2%

Source: Company / FRC

*In summary, we believe the portfolio's risk profile remained unchanged (three green vs three red signals)*

Parameter	Risk Profile
Average Mortgage	↑
Geographical Diversification	-
Debt to Capital	↓
Priority	↓
LTV	-
Property Type (lower-risk properties)	↓
Stage 3/Defaults	↓
Duration	↓

- red (green) indicates an increase (decrease) in risk level

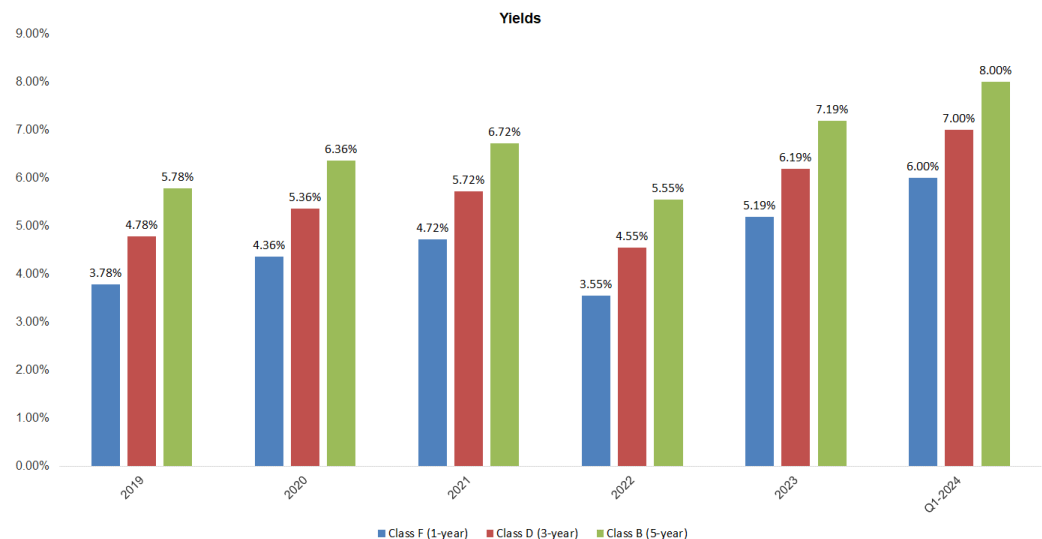
Source: FRC

## Financials

Income Statement	2013	2019	2020	2021	2022	2023	YoY
Interest	\$16,498,266	\$15,406,967	\$14,067,436	\$14,676,520	\$20,093,856	\$27,295,052	36%
Other	\$1,963,366	\$1,400,546	\$1,227,469	\$1,365,684	\$2,019,457	\$1,639,025	-19%
<b>Total Revenue</b>	<b>\$18,461,632</b>	<b>\$16,807,513</b>	<b>\$15,294,905</b>	<b>\$16,042,204</b>	<b>\$22,113,313</b>	<b>\$28,934,077</b>	<b>31%</b>
<b>Expenses</b>							
Financing costs	\$79,995	\$647,742	\$217,651	\$285,040	\$1,445,263	\$1,655,290	15%
Management fees	\$2,580,000	\$4,093,757	\$3,942,456	\$4,504,152	\$5,334,427	\$5,714,196	7%
General & Administrative	\$523,882	\$2,038,593	\$2,110,019	\$2,354,994	\$2,697,495	\$2,992,379	11%
Interest	\$0						
Impairment Loss							
Provision for loss	\$4,333,939	\$373,105	-\$119,418	\$606,276	-\$54,729	\$293,863	
<b>Total Expenses</b>	<b>\$7,517,816</b>	<b>\$7,153,197</b>	<b>\$6,150,708</b>	<b>\$7,750,462</b>	<b>\$9,422,456</b>	<b>\$10,655,728</b>	<b>13%</b>
Unusual Non-Recurring Items		-\$1,357,323	-\$2,500,672	-\$6,448,669	\$199,301		
<b>Net Income</b>	<b>\$10,943,816</b>	<b>\$11,011,639</b>	<b>\$11,644,869</b>	<b>\$14,740,411</b>	<b>\$12,491,556</b>	<b>\$18,278,349</b>	<b>46%</b>
Dividends	\$10,943,816	\$10,941,995	\$11,655,848	\$13,831,648	\$12,508,092	\$18,112,462	45%
<b>Net Income, after Dividends</b>	<b>\$0</b>	<b>\$69,644</b>	<b>-\$10,979</b>	<b>\$908,763</b>	<b>-\$16,536</b>	<b>\$165,887</b>	

% of Mortgage Receivable	2013	2019	2020	2021	2022	2023
Interest	7.74%	8.35%	8.18%	7.61%	8.00%	9.61%
Other	0.92%	0.76%	0.71%	0.71%	0.80%	0.58%
	<b>8.66%</b>	<b>9.11%</b>	<b>8.89%</b>	<b>8.32%</b>	<b>8.80%</b>	<b>10.19%</b>
<b>Less:</b>						
Financing costs	-0.04%	-0.35%	-0.13%	-0.15%	-0.58%	-0.58%
Management fees	-1.21%	-2.22%	-2.29%	-2.34%	-2.12%	-2.01%
General & Administrative	-0.25%	-1.10%	-1.23%	-1.22%	-1.07%	-1.05%
Non-Recurring/Unusual	0.00%	0.74%	1.45%	3.34%	-0.08%	0.00%
Provision for loss	-2.03%	-0.20%	0.07%	-0.31%	0.02%	-0.10%
	<b>-3.53%</b>	<b>-3.14%</b>	<b>-2.12%</b>	<b>-0.67%</b>	<b>-3.83%</b>	<b>-3.75%</b>
<b>Net (excluding dividends)</b>	<b>5.13%</b>	<b>5.97%</b>	<b>6.77%</b>	<b>7.64%</b>	<b>4.97%</b>	<b>6.43%</b>
Investors' Returns as a % of Invested Capital	4.84%	5.76%	6.00%	6.55%	5.44%	7.05%

Note that the above figures may be slightly different from the figures reported by the MIC due to the difference in the method of calculation. We used the average of the opening balance, and year-end balance of the mortgages outstanding, and invested capital, to arrive at the above figures.



Source: Company / FRC

2023 revenue was up 31% YoY, beating our estimate by 4%, amid higher lending rates

Distributions were up 45% YoY, beating our estimate by 4%

Distributions/Equity increased by 1.6 pp YoY to 7.1%

Due to higher lending rates, the yield on class B shares increased from 5.6% in 2022, to 7.2% in 2023 vs our forecast of 6.9%

The following tables show the structure of the fund:

Three options for investors

Class B (five-year) dominates the mix

Shares	Term	Dividend Rate
Class B	5 years	Base Rate
Class D	3 years	Base Rate - 1.00% p.a.
Class F	1 year	Base Rate - 2.00% p.a.

Shares Outstanding	2013	2022	2023	% of Total
Class B	204,793,434	200,264,000	243,399,947	87.7%
Class D	636,087	21,636,079	22,339,684	8.1%
Class F	14,251,388	14,076,979	11,763,597	4.2%
<b>Total</b>	<b>219,680,909</b>	<b>235,977,058</b>	<b>277,503,228</b>	<b>100.0%</b>

Source: Company / FRC

### FRC Projections and Rating

As interest rates have been higher than expected YTD, we are raising our 2024 yield estimate from 7.4% to 8.2%

Our estimate for the 2024 yield varies between 7.8% and 8.4%, using various YoY increases in loan loss allowances

Key Financials /YE: Dec 31	2024E (Old)	2024E (New)	2025E (Introducing)
Mortgage Receivables	\$313,344,903	\$313,344,903	\$329,012,148
Revenue	\$32,497,095	\$33,875,182	\$33,402,567
Class B	\$20,516,790	\$23,072,276	\$21,467,459
Dividend Yield	7.4%	8.2%	7.3%

Loan Loss Allowances (Total Increase of X% in 2024 & 2025)	Loan Loss Allowances (X% of mortgages by the end of 2025)	2024E Yield
0.0%	0.4%	8.37%
50.0%	0.6%	8.27%
100.0%	0.8%	8.17%
200.0%	1.2%	7.97%
300.0%	1.6%	7.77%

**The yields presented above reflect the average for all share classes.**

Source: FRC

**We are reiterating our overall rating of 2-, and a risk rating of 2.** Anticipating lower rates, we find high-yielding funds, such as FCC, increasingly appealing. Key risks include a softer mortgage origination market, and higher default rates. We believe a major highlight of Fisgard is its relatively low risk-profile, reflected by a higher percentage of first mortgages, low LTV, and limited use of leverage.



## Risks

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

- **Operates in a highly competitive sector**
- Investments in mortgages are typically affected by macroeconomic conditions, and local real estate markets
- **A downturn in the real estate sector** may impact the company's deal flow
- Capital preservation is not guaranteed
- No guaranteed distributions
- Timely deployment of capital is critical
- **Default rates can rise during recession**

**APPENDIX**

Income Statement	2021	2022	2023	2024E	2025E
Interest	\$14,676,520	\$20,093,856	\$27,295,052	\$32,068,506	\$31,475,496
Other	\$1,365,684	\$2,019,457	\$1,639,025	\$1,806,676	\$1,927,071
<b>Total Revenue</b>	<b>\$16,042,204</b>	<b>\$22,113,313</b>	<b>\$28,934,077</b>	<b>\$33,875,182</b>	<b>\$33,402,567</b>
<b>Expenses</b>					
Financing costs	\$285,040	\$1,445,263	\$1,655,290	\$1,010,958	\$1,500,000
Management fees	\$4,504,152	\$5,334,427	\$5,714,196	\$6,057,151	\$6,460,792
General & Administrative	\$2,354,994	\$2,697,495	\$2,992,379	\$3,171,976	\$3,383,353
Interest					
Impairment Loss					
Provision for loss	\$606,276	-\$54,729	\$293,863	\$562,822	\$590,963
<b>Total Expenses</b>	<b>\$7,750,462</b>	<b>\$9,422,456</b>	<b>\$10,655,728</b>	<b>\$10,802,907</b>	<b>\$11,935,108</b>
Unusual Non-Recurring Items	-\$6,448,669	\$199,301			
<b>Net Income</b>	<b>\$14,740,411</b>	<b>\$12,491,556</b>	<b>\$18,278,349</b>	<b>\$23,072,276</b>	<b>\$21,467,459</b>
Dividends	\$13,831,648	\$12,508,092	\$18,112,462	\$23,072,276	\$21,467,459

Balance Sheet (YE - Dec 31st)	2022	2023	2024E	2025E
<b>Assets</b>				
Cash & cash equivalents	\$4,502,509	\$4,453,320	\$580,815	\$951,079
Other current assets	\$25,700	\$20,964	\$23,060	\$25,366
Mortgages loans - current	\$243,102,073	\$262,652,767	\$277,200,000	\$291,060,000
Mortgage loans - LT	\$36,144,903	\$26,227,792	\$36,144,903	\$37,952,148
Investments in associates				
<b>Total Assets</b>	<b>\$283,775,185</b>	<b>\$293,354,843</b>	<b>\$313,948,779</b>	<b>\$329,988,594</b>
<b>Liabilities</b>				
Short-term loans	\$46,069,316	\$14,442,260	\$25,000,000	\$31,000,000
Accounts payable and accruals	\$441,698	\$293,974	\$323,371	\$355,709
Interest reserve	\$405,600	\$67,981	\$74,779	\$82,257
Redeemable shares - current	\$57,748,256	\$59,439,957	\$59,439,957	\$59,439,957
Redeemable shares - LT	\$178,228,802	\$218,063,271	\$228,063,271	\$238,063,271
<b>Total Liabilities</b>	<b>282,893,672</b>	<b>292,307,443</b>	<b>312,901,379</b>	<b>328,941,194</b>
<b>Shareholders' Equity</b>				
Share capital	\$480	\$480	\$480	\$480
Retained earnings	\$881,033	\$1,046,920	\$1,046,920	\$1,046,920
<b>Total Shareholders' Equity</b>	<b>\$881,513</b>	<b>\$1,047,400</b>	<b>\$1,047,400</b>	<b>\$1,047,400</b>
<b>Total Liabilities and SE</b>	<b>\$283,775,185</b>	<b>\$293,354,843</b>	<b>\$313,948,779</b>	<b>\$329,988,594</b>
Mortgages Invested	\$279,246,976	\$288,880,559	\$313,344,903	\$329,012,148
Investors' Capital + Debt	\$282,046,374	\$291,945,488	\$312,503,228	\$328,503,228
Investors' Capital	\$235,977,058	\$277,503,228	\$287,503,228	\$297,503,228
NAV per share	\$1.00	\$1.00	\$1.00	\$1.00
Debt	\$46,069,316	\$14,442,260	\$25,000,000	\$31,000,000
Debt to Capital	16%	5%	8%	9%

Cash Flow Statement	2024E	2025E
<b>Operating Activities</b>		
Net Income	\$23,072,276	\$21,467,459
<b>Net change in non-cash working capital:</b>		
Other current assets	\$34,099	\$37,509
<b>Cash Flow from Operating Activities</b>	<b>\$23,106,375</b>	<b>\$21,504,968</b>
<b>Investing Activities</b>		
Assets held for sale		
Decrease (increase) in mortgage loans receivable	-\$24,464,344	-\$15,667,245
<b>Cash Flow from Investing Activities</b>	<b>-\$24,464,344</b>	<b>-\$15,667,245</b>
<b>Financing Activities</b>		
Decrease in loans payable	\$10,557,740	\$6,000,000
Redeemable shares subscription	\$10,000,000	\$10,000,000
Cash dividends	-\$23,072,276	-\$21,467,459
<b>Cash Flow from Financing Activities</b>	<b>-\$2,514,536</b>	<b>-\$5,467,459</b>
<b>Increase (decrease) in Cash flow</b>	<b>-\$3,872,505</b>	<b>\$370,264</b>
Cash (deficiency) - beginning of the year	\$4,453,320	\$580,815
<b>Cash - end of the year</b>	<b>\$580,815</b>	<b>\$951,079</b>

**Fundamental Research Corp. Rating Scale:**

- Rating – 1: Excellent Return to Risk Ratio
- Rating – 2: Very Good Return to Risk Ratio
- Rating – 3: Good Return to Risk Ratio
- Rating – 4: Average Return to Risk Ratio
- Rating – 5: Weak Return to Risk Ratio
- Rating – 6: Very Weak Return to Risk Ratio
- Rating – 7: Poor Return to Risk Ratio

A "+" indicates the rating is in the top third of the category, A "-" indicates the lower third and no "+" or "-" indicates the middle third of the category.

**Fundamental Research Corp. Risk Rating Scale:**

- 1 (Low Risk)
- 2 (Below Average Risk)
- 3 (Average Risk)
- 4 (Speculative)
- 5 (Highly Speculative)

FRC Distribution of Ratings			
Rating - 1	0%	Risk - 1	0%
Rating - 2	33%	Risk - 2	10%
Rating - 3	45%	Risk - 3	41%
Rating - 4	8%	Risk - 4	32%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	9%		

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