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Lisa Thompson
312-265-9154
lthompson@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

Tenet Fintech Group

(OTCQX: PKKFF)

Tenet Grows 143% 2021 and Could More than Triple that in 2022

Compared to its peers in the fintech space who trade at an average of 2.6 times enterprise value to 2022 estimated sales, we believe Tenet is worth US\$3.20 per share.

Current Price (5/10/22) US\$1.88
Valuation US\$3.20

OUTLOOK

Tenet Fintech Group (formerly Peak Fintech) operates a B2B business platform for micro and small and medium size (SMBs) businesses in China. Most of its business is lending. It earns a fee for matching lenders and borrowers. It grew revenues 143% in 2021 and could double or triple that this year. It has arrangements with cities, wholesale distributors, retailers and eCommerce platforms to facilitate commercial loans and other business services to their constituents and customers. Tenet earns a fee of between 1-4% of the value of each loan it facilitates as well as fees for other services. It is expanding to other services such as insurance and soon new geographies.

SUMMARY DATA

52-Week High US\$11.09
52-Week Low US\$1.88
One-Year Return (%) -54.2
Beta 3.1
Average Daily Volume (sh) 134,500

Shares Outstanding (mil) 98.8
Market Capitalization (US\$ m) 186
Short Interest Ratio (days) 3.5
Institutional Ownership (%) 0.0
Insider Ownership (%) 7.7

Annual Cash Dividend \$0.00
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates
Sales (%) N/A
Earnings Per Share (%) N/A
Dividend (%) N/A

P/E using TTM EPS N/A
P/E using 2022 Estimate N/A
P/E using 2023 Estimate N/A

Risk Level High
Type of Stock Small Growth
Industry Financial Trans

ZACKS ESTIMATES

Revenue

(in millions of Canadian\$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	3.9 A	7.3 A	15.1 A	16.4 A	42.7 A
2021	14.2 A	30.6 A	25.7 A	33.0 A	103.6 A
2022	33.0 E	45.0 E	65.0 E	77.0 E	220.0 E
2023					380.0 E

Earnings Per Share to Common Shareholder

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	-0.02 A	-0.02 A	-0.03 R	-0.07 A	-0.16 A
2021	-0.01 A	-0.00 A	0.02 A	-0.53 E	-0.66 A
2022	-0.02 E	-0.02 E	-0.03 E	-0.03 E	-0.09 E
2023					0.01 E

Revenues Grow 143% in 2021 Despite Q4 Miss from NASDAQ Listing Delays

Revenues in 2021 grew an amazing 143% to CN\$104 million despite lockdowns, supply chain issues and delays. The company expanded into new verticals, added an insurance product and importantly bought the Cubeler platform that runs its operations in order to roll it out in new countries. This all happened while remaining cash flow (ex-changes in working capital), free cash flow, and adjusted EBITDA positive. However, to grow even faster, the company needs cash to fund working capital.

2021 didn't turn out according to plan due to the removal of Tenet from NASDAQ and the long time it has taken to return. The stock has still not returned to NASDAQ and there is no timetable for that to happen if at all. We have never seen this happen before. To recap-- in an unusual move, NASDAQ allowed Tenet to list and trade on its exchange for about a month when the SEC turned around and decided it really needed more information. As a result, Tenet was delisted from NASDAQ and returned to the OTC where it still trades in the US. The uplisting was to be followed by a capital raise that in turn was needed to fund the company's recently purchased Heartbeat insurance platform and the Canadian Business Hub. Without the raise there was no funding and no money to fund Heartbeat which was looking to be able to use \$11 million. Heartbeat was then expected to add \$11-15 million dollars in revenues with margins of 30-35% in 2021. According to its filing, the company now expects the revenues and profits from insurance expected in Q4 2021 to shift to Q2 2022. The launch of the Canadian Business Hub was also delayed by lack of capital. It was expected to be live in Canada by the end of 2021.

Tenet will be reporting its Q1 2022 results in the next two or three weeks. At that time, we expect the company to further discuss how it is going to raise cash and/or list on other exchanges in light of the NASDAQ delay. We also expect a guidance update based on the slippage in funds, as well as the lockdowns in China and how those might impact revenues and EBITDA going forward. We expect to adjust our forecasts then.

Tenet has lofty plans to expand globally and connect business hubs in many countries. These hubs will allow companies to trade with each other, find financing, sell products and services, and even communicate with each other via its business oriented social network. The company plans to invest heavily to bring this vision to fruition and we look forward to hearing its strategy in the coming weeks.

With CN\$18.8 million on cash on hand and a fully diluted share count of 118.3 million this puts its US market cap at US\$222 million and its enterprise value at US\$207 million. Using company guidance of US\$262 million for 2022 estimated revenues, the stock is trading at 0.8xs EV to sales versus its peers who now trade at 2.6 times. The valuations for the fintech space have come down hugely. We expect that current guidance could change and given events have to happen to reach company guidance that have not yet happened we are using lower estimates. Using a revenue expectation of US\$170 million, that yields an EV to Sales of 1.2 times 2022 estimated revenues.

Q4 2021 Earnings Results

Q4 results fell short of the company guidance made during the Q3 report and revenues missed by \$5.4 million in Q4. The company attributes the shortfall to the delay in generating insurance revenues from the Heartbeat acquisition. Of the \$33 million in sales in the quarter, \$17 million of that was from Tenet's first participation in the annual Singles' Day (November 11th) and Couples' Day (December 12th) shopping festivals. Tenet generated approximately \$7.8M during Singles Day and approximately \$9.9M during

Couples Day. Although Q1 did not contain massive shopping holidays like those, we believe the company successfully deployed its freed-up resources to other verticals.

Supply chain related revenues were \$30.7 million in Q4 2021 compared to \$15.3 million a year ago, or growth of 128%. Non-supply chain revenues were \$2.3 million versus \$1.1 million.

Applying cost of service to the supply chain revenues gives us a gross margin of 6.2% compared to 10.5% in Q3 2021 and 4.2% in Q4 2021. Gross margin was expected to continue to improve by the shift to using Gold River rather than outside suppliers. In the future, more revenues from oil & gas and the insurance verticals that have higher gross margins should increase overall gross margins. Total gross margin was 12.9% this quarter versus 10.2% last year and 17.8% in Q3 2021.

Expenses increased to \$57.7 million with a number of one-time charges compared to \$4.5 million last year. Despite only purchasing Cubeler on October 1, 2021, for \$1,000,000 in cash and 11,133,012 common shares and Heartbeat on September 14, 2021 for \$31 million, the company took impairment charges of \$41,386,422 for the goodwill and \$11,978,283 for other intangibles assets (technology and tradename). The delay in the launch of Tenet's Canadian operations has caused the company's forecasted North American revenue for 2022 and beyond to have shifted by almost a full year, resulting in lower recoverable amount than the carrying value of the intangible assets and goodwill related to the Cubeler platform as previously forecasted. The one-time gain on purchase of the Heartbeat platform of \$1.9 million in Q3, was reversed in Q4. A one-time gain was from a change in the fair value of contingent compensation of \$3,556,574 regarding the Heartbeat acquisition. By missing their hurdles, Tenet expects that the consideration payable in shares relating for the Heartbeat acquisition may be lower than originally forecasted. Taking those three charges out, operating expenses would have been \$5.9 million in the quarter versus \$3.6 million in Q4 2020.

Salaries and fringe benefits increased to \$2.1 million from \$760,000 a year ago as the headcount increased by 65 people. Board remuneration more than tripled to \$315,000 from \$83,000 last year. Consulting fees decreased to \$162,000 compared to \$1.8 million in last year's quarter. Other large increases were in amortization which grew to \$1.6 million from \$147,000 and professional fees (up \$900,000).

The pretax loss was \$53.4 in Q4 2021 versus a loss in Q4 2020 of \$2.8 million. Without the one-time charges, that would have been a loss of \$1.7 this year. \$3.4 million in taxes were reversed. The net loss to common shareholders was \$50.2 in Q4 2021 compared to a loss of \$3.7 in the Q4 2020. On a non-IFRS basis it was a profit of \$2.2 million compared to a loss of \$2.5 million last year.

The loss per share to common shareholders was \$0.53 compared to a loss of \$0.07 a year ago. On a non-IFRS basis, taking out stock-based compensation and the one-time expense, we calculate non-IFRS earnings of \$0.019 per share compared to a loss of \$0.049 in Q4 2020. During that time the share count increased 85% to 95 million. Adjusted EBITDA for Q4 2021 was a loss of \$142,863 versus a negative \$2.4 million a year ago.

Balance Sheet

Tenet ended the December quarter with \$18.8 million in cash. Working capital was \$74.1 million with the bank portfolio and \$53.3 million without. Debt was \$413,000. Its loan portfolio was valued at \$20.8 million. Adjusted EBITDA for the quarter was a negative \$143,000 and a positive \$2.8 million for the year, missing the company's guidance of \$11.3 million for the year. Cash flow and free cash flow not including changes in working capital was \$1.3 million in Q4 and \$3.5 million for the year.

As of May 2, 2022 there were 98,794,693 primary shares outstanding.

Recap of Heartbeat Acquisition

On September 14, 2021 Tenet Fintech acquired the assets of Huayan Kun Tai Technology Company's Heartbeat insurance platform for \$31 million of which \$11 million was paid in cash. The remaining \$20 million will be paid in stock, of which \$6 million have already been issued and the \$14.0M left (minus the Q4 adjustment) will be payable over a three-year period based on certain net income targets. In Q4, the company took a gain against that earnout of \$3.7 million, reducing that \$14 million as it missed its forecasts.

Huayan provides various SaaS solutions to insurers and insurance brokers in China. It sells a insurance product management and brokerage platform called "Heartbeat" (<https://www.happysalers.com>) that users pay for on a subscription basis plus a commission fee when transactions are completed. This operation will bring property casualty and liability insurance related products and services to members of Tenet's Business Hub. Tenet has already started to generate sales with the platform. At the time of acquisition, Heartbeat had 420 insurance brokerage company users and was growing rapidly. Its growth is largely attributed to new Chinese regulations that requires all insurance brokers to have systems that allow them to share data as of February 2022. The Heartbeat platform is one of only a few platforms that offer such capabilities. Heartbeat is already linked to China's top insurance companies, including [Ping An Insurance \(Group\) Ltd.](#), [China Life Property & Casualty Insurance Company Ltd.](#), [The People's Insurance Company \(Group\) of China Ltd.](#), and [Bank of China Insurance Company Ltd.](#)

Legacy Loan Portfolio

Since the launch of its platform, Tenet has been making loans to small and micro businesses primarily as a way to prove its model to potential platform users. It has a \$21 million portfolio that it reinvests to keep that amount steady. The loan business is only 51% owned by Tenet and it consists of loans made to small and micro businesses and was, for the most part, collateralized by vehicles. This year the bank diversified into residential real estate.

Gross Loans Receivable

	3/31/20	6/30/20	9/30/20	12/31/20	3/31/21	6/30/21	9/30/21	12/31/21
Current	13,025,226	13,101,465	12,615,806	15,652,125	16,374,526	18,430,566	17,408,384	17,882,518
30-90 days	2,781,282	2,126,862	2,010,182	1,110,537	35,010	35,010	35,010	540,283
Over 90 days	2,185,414	3,439,835	3,900,619	3,246,443	3,705,805	3,124,592	3,378,553	2,567,134
% over 90 days	12.1%	18.4%	21.1%	16.2%	18.4%	14.5%	16.2%	12.2%
Total over 30 days	4,966,696	5,566,697	5,910,801	4,356,980	3,740,815	3,159,602	3,413,563	3,107,417
% Non-current	27.6%	29.8%	31.9%	21.8%	18.6%	14.6%	16.4%	14.8%
Total	17,991,922	18,668,162	18,526,607	20,009,105	20,115,341	21,590,169	20,821,947	20,989,935

During the Quarter

On October 1, 2021 Tenet bought Cubeler Inc. for CN\$105.5 million: CN\$1,000,000 in cash and 11,133,012 common shares. Cubeler is the developer and owner of the technology that powers Tenet's Business Hub. The shares had a four-month lock up period for 50% of the shares, and the remaining 50% will be released and become free trading over a two-year period. The acquisition is a related party transaction, as Johnson Joseph, CEO and director of Tenet; Liang Qiu, director of Tenet; Jean Landreville, CFO of Tenet; Charles-André Tessier, director of Tenet; and Mark Dumas, director of Tenet are all shareholders of Cubeler. With the acquisition of Cubeler, Tenet is free to use the system to expand beyond China and expects to be live in Canada by year-end. It also has near term plans for the US, France, and other countries.

KEY POINTS

- Tenet Fintech Group operates a lending platform in China that matches lending institutions and borrowers and earns a fee of between one and four percent of the value of those loans. It targets primarily small and micro businesses. Much of what it does involves financing inventory and as a result it has great visibility, in some cases going out months, and lots of repeat business.
- It generated \$103.5 million in revenues in 2021 and we expect it could reach \$220 million this year. Management has guidance of \$345 million this year based on events that have not yet happened and we have not factored into our estimates. We expect guidance to be revised in the coming weeks based on delays incurred to date. The company will need to raise capital to reach its goals, the timing and manor of which are unpredictable from the outside looking in. It is currently profitable and EBITDA positive but needs cash to fund working capital.
- The company has approximately CN\$18.8 million in cash due to a recent capital raise and only CN\$413,000 in debt and with the exception of Q4 2021, is generating cash.
- The stock was recently listed on NASDAQ and then removed as the SEC requested further information on all companies doing most of its business in China. The company went back to the OTC and submitted further information to the SEC where the filing is in review. We expect the stock to eventually return to NASDAQ. In the interim, Tenet is exploring listing on other major exchanges.
- Tenet bought Cubeler, the company from which it licenses its business platform on October 1. It now has the rights to use that platform in countries other than China and plans to launch its in Canada, followed by the US, UK, France and Brazil.
- Compared to its fintech peers who trade at an average of 2.6 times enterprise value to 2022 estimated revenues, Tenet is currently trading at a fully diluted enterprise value US\$207 million or only 1.2 times EV/sales using a 2022 revenue estimate of US\$220 million. With a longer track record, consistent profits, and a return to NASDAQ, we believe Tenet will be able to trade closer to its peers and given its growth could be a much more valuable company next year.

VALUATION

Given the lack of China-based fintech platforms, we are using the US and Canadian names we think are as comparable. Based on its business model, Tenet most closely resembles Upstart which now trades at 2.0 the company's recent guidance for 2022. While the range is great based on margins and growth, we calculate an average of 2.6 times 2022 calendar estimates taking out the low, Green Dot, and the high, Intuit. This is significantly down from the 9.0 multiple this group previously enjoyed.

Based on this multiple and our estimate for Tenet's 2022 sales of CN\$220 million or US\$140 million, and using fully diluted shares of 118.3 million, the enterprise value would be US\$364 million and the market value US\$379 million. The stock price would be approximately US\$3.20. If the company's current CN\$345 million (US\$274 million) 2022 guidance is achieved, that stock price could move to \$6.14 per share next year.

Company	Ticker	Revenue		TTM		Enterprise Value / Sales			EV/ EBITDA	Enterprise Value	EBITDA Margin
		2023E	2022E	LTM	EBITDA	2023E	2022E	LTM			
Fintech Platforms											
Green Dot	GDOT	\$1,530	\$1,420	\$1,430	\$217	0.1x	0.1x	0.1x	0.4x	78	15.2%
Intuit	INTU	NA	\$13,200	\$11,410	\$3,130	NA	8.3x	9.6x	34.9x	109,340	27.4%
LendingTree	TREE	\$1,400	\$1,220	\$1,100	\$48	0.9x	1.1x	1.2x	27.1x	1,292	4.3%
Lightspeed POS	LSPD	NA	\$675	\$484	-\$127	NA	2.3x	3.3x	-12.4x	1,574	-26.3%
PayPal	PYPL	\$33,150	\$28,360	\$25,370	\$5,210	2.7x	3.1x	3.5x	17.0x	88,371	20.5%
Shopify	SHOP	\$9,920	\$7,530	\$4,610	\$364	3.4x	4.5x	7.4x	94.1x	34,200	7.9%
Upstart	UPST	\$1,700	\$1,250	\$852	\$151	1.5x	2.0x	3.0x	16.9x	2,546	17.7%
Square	SQ	\$21,920	\$18,150	\$17,660	\$334	1.9x	2.3x	2.4x	125.8x	41,976	1.9%
Average					1,457	2.1	2.6	3.8		40,850	

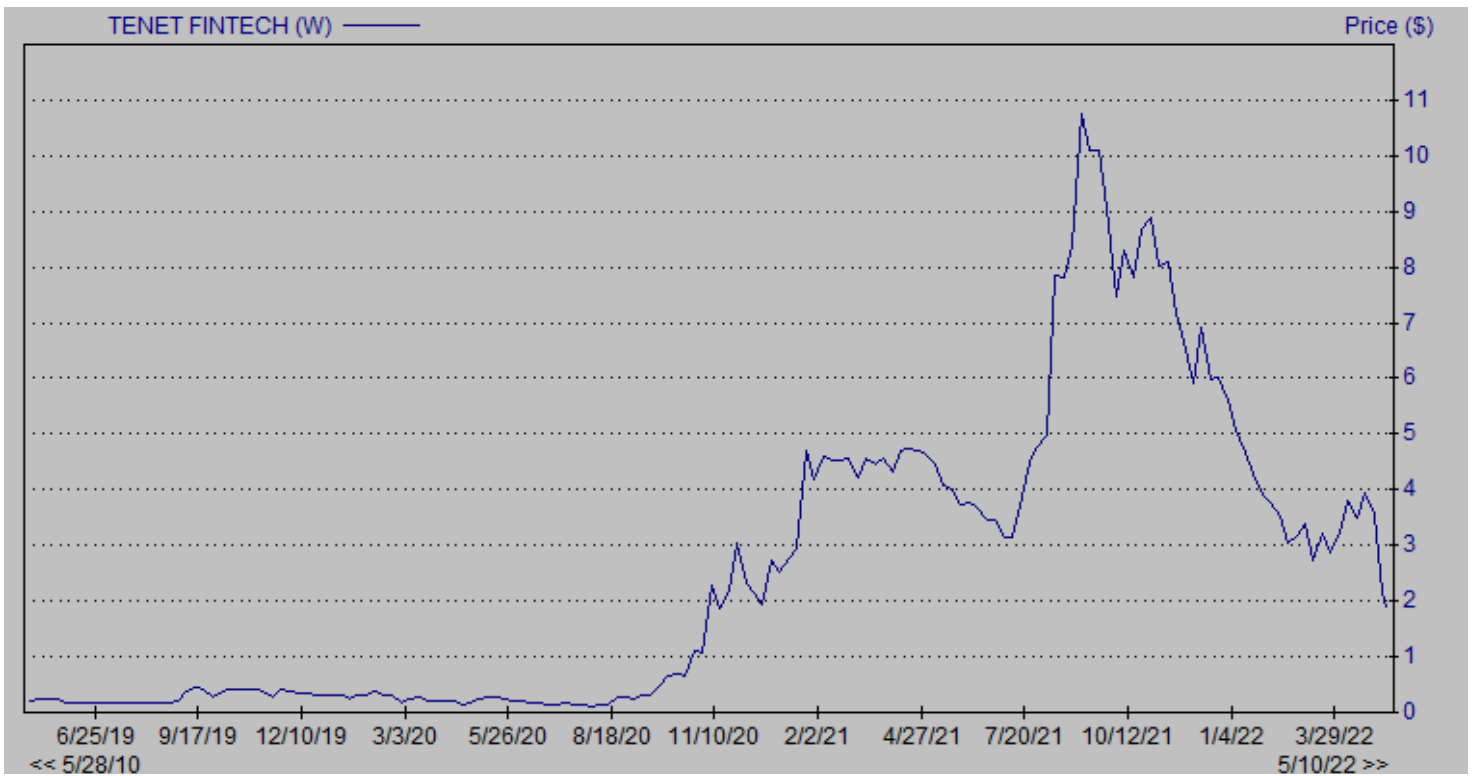
RISKS

- While Tenet has been successful to date facilitating loans and servicing them through its platform, it could suffer loan defaults on its own loan portfolio, which is collateralized by autos and real estate. Tenet could be impacted both in its on portfolio of loans through charge-offs and the reduction of interest income going forward and as well as a loss of loan volume on its platform due to customers' loans also defaulting.
- Tenet plans to enter the Canadian, US, UK, French and Brazilian markets, risking capital and effort, and may not be successful due to better-funded and entrenched competition.
- The banking industry is highly regulated by the Chinese government and changes in rules and requirements could impact Tenet in the future. It has recently set out a draft of rule changes for microlenders ups their capital requirements and increases the criteria for lending. This could affect some of Tenet's lending partners as well as its majority-owned lender. When any rule changes are made, lenders will have twelve months to comply.
- Tenet is a newcomer to the industry and has just become profitable. There is no assurance its business model will ultimately result in sustainable, profitable results.
- Tenet plans to pursue rapid growth and as a result it may need to raise cash through the sale of equity in the future, diluting current shareholders.
- China proves a risky place to invest due to lower quality auditing and investors may require a discount from US and Canadian valuations.
- The company faces many external and internal challenges that could affect sales and earnings. There is no assurance that the company could reach our forecasts or its own guidance. Valuations are based on those forecasts and may not be met.

BALANCE SHEET

	Dec 31, 2021	Sept 30, 2021	Qtr-Qtr % Change	Dec 31, 2020	Yr-Yr % Change
Current assets					
Cash	\$18,796,914	\$36,398,828	-48%	\$5,873,876	392%
Restricted cash	53,333	63,333	-16%	80,091	NA
Loans receivable	17,553,358	16,270,100	8%	15,425,242	10%
Assets held for sale	320,959	266,224	21%	183,732	NA
Accounts receivable	9,632,651	11,481,033	-16%	28,834,941	-37%
Other debtors	46,368,824	24,386,792	90%	1,740,416	1577%
Deposits for investments	0	492,500	-100%	194,900	NA
Prepaid expenses	1,675,549	458,240	266%	989,718	-8%
Total current assets	94,401,588	89,817,050	5%	53,322,916	112%
Loans receivable	3,270,333	4,019,085	-19%	3,999,446	48%
Property and equipment, net	2,062,014	997,127	107%	529,372	64%
Intangible assets	32,845,799	35,089,924	-6%	3,163,877	1058%
Goodwill	62,522,554	0	NA	0	NA
Deferred tax assets	190,833	818,978	-77%	291,931	NA
TOTAL ASSETS	195,293,121	130,742,164	49%	61,307,542	169%
Current liabilities					
Accounts payable and accruals	16,268,296	14,371,288	13%	26,559,427	-20%
Lease liabilities	432,621	168,037	157%	117,709	-30%
Current tax liabilities	3,625,683	3,665,175	-1%	1,568,626	304%
Debentures	0	0	0%	23,311	-100%
Conversion option	0	0	0%	3,489	-100%
Total current liabilities	20,326,600	18,204,500	12%	28,272,562	-20%
Long-term liabilities					
Bonds	313,234	299,026	5%	258,933	24%
CEBA loan	100,000	40,000	150%	40,000	0%
Lease liabilities	1,315,363	582,283	126%	121,798	266%
Foreign deferred tax liabilities	1,922,556	0	NA	0	NA
Canadian deferred tax liabilities	3,804,004	0	NA	0	NA
Contingent consideration payable	1,921,000	10,036,542	-81%	0	NA
Total long-term liabilities	9,376,157	10,957,851	-14%	420,731	2390%
TOTAL LIABILITIES	29,702,757	29,162,351	2%	28,693,293	26%
Stockholder's equity					
Capital stock	208,219,490	89,258,655	133%	39,131,010	221%
Shares to be issued	150,000	6,000,000	-98%	511,221	1116%
Contributed surplus	21,531,185	22,243,418	-3%	11,582,653	85%
Accumulated other comp income	1,366,752	682,616	100%	(140,782)	-635%
Deficit	(79,997,442)	(29,669,028)	170%	(30,240,372)	14%
Shareholder's equity to owners of parent	151,269,985	88,515,661	71%	20,843,730	524%
Non-controlling interest	14,320,381	13,064,153	10%	11,770,520	15%
Total stockholders' equity	165,590,366	101,579,814	63%	32,614,250	298%
Total liabilities and stockholders' equity	\$195,293,123	\$130,742,165	49%	\$61,307,543	169%
Quick Ratio	4.6	4.9	-6%	1.9	165%
Working Capital	74,074,988	71,612,550	3%	25,050,354	266%
Working capital minus bank	53,251,297	51,323,365	4%	(18,647,450)	-386%
Net cash	18,796,914	36,398,828	-48%	5,873,876	392%
Net cash as % of assets	10%	28%	-65%	10%	83%
Debt	\$413,234	\$339,026	22%	\$322,244	-90%
Debt % of assets	0%	0%	-18%	1%	-96%
Loan portfolio	20,823,691	20,289,185	3%	19,424,688	16%

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