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Zacks Small-Cap Research

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Chesapeake Financial Shares, Inc. (CPKF-OTCQX)

CPKF: CPKF Hits Another Home Run with Earnings more than Doubling Year over Year

We have chosen \$34.50 as our new valuation, based upon CPKF's 2026 P/E of \$33.00 and forward Price/Tangible Book Value of \$36.00.

Current Price (02/11/26) **\$32.00**
Valuation **\$34.50**

OUTLOOK

CPKF produced another outstanding quarter with 2025 fourth quarter net earnings surging, rising \$3.4 million, or 112%, to \$6.5 million year over year, while 2025's fourth quarter diluted EPS rose \$0.73 or 113%, to \$1.37. This was much better than our estimate. The major reasons for the increase in net earnings versus the prior-year quarter were a \$2.6 million, or 21%, increase in net interest income and a \$1.8 million, or 33%, rise in total noninterest income, plus well-controlled expense growth. For the year, CPKF posted 2025 net earnings of \$17.7 million, up \$6.2 million, or 54%, year over year, while diluted EPS increased \$1.33, or 55%, to \$3.75. This excludes one-time items totalling a \$7.7 million charge, consisting of an aftertax charge from repositioning the investment securities portfolio of \$8.0 million or \$1.69 per diluted share and a \$0.3 million aftertax gain or \$0.07 per diluted share on the sale of a building. We are currently reviewing our estimates and will issue a more comprehensive report when detailed financial information becomes available within the next few weeks. CPKF just raised the quarterly dividend by 6% to \$0.17 per share and has raised its annual dividend payment every year for the past thirty-three years since 1991. In 2025 for the eighteenth consecutive year, CPKF was included in the American Banker magazine list of the "Top 100 Community Banks," ranking #60 out of approximately 348 community banks with total assets under \$2 billion. Chesapeake Bank again garnered a top ranking in the American Banker's list of "Best Banks to Work for: Less than \$3 Billion of Assets," and had a #32 spot in 2025 out of the 51 banks listed.

SUMMARY DATA

52-Week High **\$32.00**
52-Week Low **\$18.50**
One-Year Return (%) **71.44**
Beta **0.26**
Average Daily Volume (sh) **3,159**

Shares Outstanding (mil) **5**
Market Capitalization (\$mil) **\$151**
Short Interest Ratio (days) **N/A**
Institutional Ownership (%) **4**
Insider Ownership (%) **40**

Annual Cash Dividend **\$0.68**
Dividend Yield (%) **2.13**

5-Yr. Historical Growth Rates

Net Revenue (%) **8.8**
Earnings Per Share (%) **9.4**
Dividend (%) **5.4**

P/E using TTM EPS **8.5**
P/E using 2025 Actual **8.5**
P/E using 2026 Estimate **9.6**

Zacks Rank **N/A**

Risk Level

Type of Stock

Industry

Zacks Rank in Industry

Average
Small-Value
Banks-Southeast
N/A

ZACKS ESTIMATES

Net Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2023	15.6 A	16.4 A	16.5 A	15.4 A	63.9 A
2024	15.8 A	17.3 A	18.0 A	17.6 A	68.7 A
2025	17.9 A	19.6 A	21.2 A	22.1 A	80.8 A
2026					**83.8 E

Earnings per Share*

(EPS is operating earnings before nonrecurring items)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2023	0.78 A	0.65 A	0.53 A	0.19 A	2.15 A
2024	0.58 A	0.65 A	0.55 A	0.64 A	2.42 A
2025	0.75 A	0.67 A	0.96 A	1.37 A	3.75 A
2026					**3.32 E

* Quarterly EPS may not add to total due changes in average shares outstanding.

** Under review.

FOURTH QUARTER

CPKF produced another outstanding quarter with 2025 fourth quarter net earnings surging, rising \$3.4 million, or 112%, to \$6.5 million year over year, while 2025's fourth quarter diluted EPS rose \$0.73 or 113%, to \$1.37.

This was much better than our estimate, which had called for a \$0.8 million increase in net earnings to \$3.9 million (off by \$2.6 million), and a \$0.18 increase in diluted EPS to \$0.82 (off by \$0.55).

The primary reasons for the difference between reported results and our estimate were net revenues were \$1.5 million more than the \$20.6 million we had anticipated, largely consisting of net interest income that was \$0.7 million higher than our estimate and noninterest income that was \$0.8 million better than our projection due to revenue surpluses relative to our estimate of \$0.1 million in cash management and of \$0.7 million in other miscellaneous income.

Furthermore, total noninterest expense of \$14.3 million was \$1.2 million below what we had projected, primarily reflecting technology expense that was \$0.3 million lower than anticipated, as well as total compensation costs that were \$0.4 million less and other miscellaneous expense that was \$0.5 million less.

In addition, income tax expense was \$0.1 million higher than our estimate, reflecting greater pretax earnings, partially offset by an effective tax rate that was 5.3 points below our 18.0% estimate.

The major reasons for the fourth quarter's \$3.4 million increase in net earnings versus the prior-year quarter were a \$2.6 million, or 21%, increase in net interest income plus a \$1.8 million, or 33%, rise in total noninterest income, partly offset by \$0.2 million growth in total noninterest expense, a \$0.1 million larger credit loss provision, and \$0.7 million more income taxes.

For the year, CPKF posted 2025 net earnings of \$17.7 million, up \$6.2 million, or 54%, year over year, while diluted EPS increased \$1.33, or 55%, to \$3.75. This excludes one-time items totalling a \$7.7 million charge, consisting of an aftertax charge from repositioning the investment securities portfolio of \$8.0 million or \$1.69 per diluted share and a \$0.3 million aftertax gain or \$0.07 per diluted share on the sale of a building.

Primary contributors to this result were an \$8.0 million, or 17%, gain in net interest income on growth in average interest-earning assets and a higher net interest margin of 3.77%, up 27 basis points from 3.50%, as well as a \$3.9 million, or 17%, gain in noninterest income as most business lines posted notable revenue improvement (though these were offset by a \$0.1 million decline in cash management income). These positives were partly offset by a \$4.5 million, or 8%, increase in noninterest expense, largely due to higher compensation costs (up \$2.7 million, or 9%) and other miscellaneous expense (up \$1.8 million, or 21%), \$1.0 million more taxes, reflecting higher pretax earnings (the effective tax rate was flat at about 14 ½%), and a \$0.2 million rise in the provision for credit losses to \$1.0 million.

As to quarterly results, net interest income rose \$2.6 million, or 21%, year over year in the fourth quarter to \$14.6 million (\$0.7 million above our \$13.9 million estimate). An estimated 7% increase in average interest-earning assets was aided by a much improved net interest margin of 3.98% that was 18 basis points better than our 3.80% estimate and 43 basis points higher than the 3.55% earned in the year-ago quarter.

Noninterest income increased \$1.8 million, or 33%, year over year to \$7.4 million (\$0.8 million above our estimate), as most business lines, except mortgage banking, posted significant revenue improvement (particularly merchant services, up 26%, and cash management, up 32%). In addition, other miscellaneous income surged \$0.9 million, or 72%.

Noninterest expense advanced \$0.2 million, or 1%, to \$14.3 million (\$1.2 million below our estimate) from the prior-year quarter, largely reflecting higher compensation costs (up \$0.2 million).

The loan loss provision rose \$0.16 million to \$0.34 million compared to the year-ago quarter and was about the same as our estimate. Loan loss reserves rose \$0.2 million to \$9.3 million (0.97% of loans) compared with the third quarter (0.98% of loans) and were \$0.8 million above the \$8.5 million (0.96% of loans) in the year-ago quarter. As to other asset quality measures, CPKF recorded net charge-offs of \$112,000 in the fourth quarter. This compares to net charge-offs of \$198,000 in the year-ago quarter and net charge-offs of \$229,000 for the full year in 2025.

CEO Jeffrey M. Szyperski noted that CPKF's total nonperforming assets to total assets rose 7 basis points to 0.35% of total loans at December 31, 2025 from 0.33% at December 31, 2024.

At the October 17, 2025 Chesapeake Financial Shares Board of Directors meeting, the Board raised the quarterly dividend to \$0.17 per share from \$0.16 per share (a 6% increase), to be paid on or before December 15, 2025. Notably, CPKF has increased the annual dividend payment every year for the past thirty-three years since 1991.

On March 3, 2025, CPKF completed a private placement of \$25 million of fixed-to-floating rate subordinated notes. The notes have been structured to qualify as Tier 2 capital for the Company under regulatory capital guidelines. Of the total \$25 million issued, \$18 million has been contributed to the Bank as Tier 1 capital, \$4 million has been retained at the holding company for share buybacks, and another \$3 million has been designated for future interest payments on the subordinated notes. The offering size was increased due to significant investor demand at favorable pricing. The notes will initially bear interest at 8.00% per year, from and including February 28, 2025, to but excluding March 1, 2030, payable semi-annually in arrears, and mature on March 1, 2035.

In 2025 for the eighteenth consecutive year, Chesapeake Financial Shares, Inc. has been included in the American Banker magazine listing of the "Top 100 Community Banks" in the United States. The bank ranked at #60 in the nation out of approximately 348 community banks with total assets under \$2 billion in the study, up from #148 when CPKF first broke into the rankings in 2008, when it was the "Top 200 Community Banks" and there were many more community banks. The ranking is based on a three-year return on average equity (ROAE). Chesapeake Bank again garnered a top ranking for the thirteenth consecutive year in the American Banker's list of "Best Banks to Work for: Less than \$3 Billion of Assets," and had a #32 spot in 2025, out of the 51 banks listed.

We are currently reviewing our estimates and will issue a more comprehensive report when detailed financial information becomes available within the next few weeks.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with \$1,670 million in total assets at December 31, 2025. CPKF is predominantly a small business lender with 17 branch offices and two loan production offices that serve customers in the eastern region of Virginia between the Potomac and James Rivers. CPKF, which began as Lancaster National Bank on April 13, 1900, has a long history and strong ties with the communities it serves.

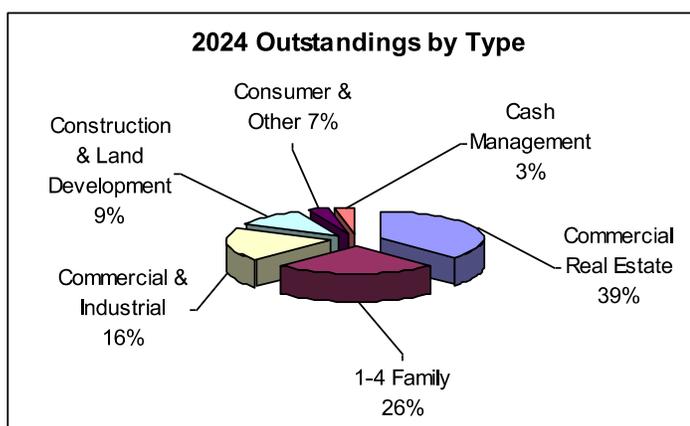
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Wealth Management, an independent wealth management firm with trust powers that manages about \$538 million in assets (at 2024 yearend) through its subsidiaries involved in asset management (Chesapeake Wealth Management is a registered investment

adviser), brokerage, and trust services. Other activities of the Company include Chesapeake Payment Systems, cash management program (now branded as Flexent) and its secondary market mortgage banking operation.

Chesapeake Payment Systems offers merchant processing services such as credit card and debit card processing, electronic benefits transfers, and loyalty and gift card processing to companies involved in travel, entertainment, restaurant, hospitality, retail, mail order, and e-commerce. At yearend 2024, Chesapeake Payment Systems had 1,435 direct merchants in its system and processed over \$663 million in merchant card transactions. In addition, Chesapeake Payment Systems has also partnered with eight independent sales organizations (ISOs) to expand its processing footprint.

The Flexent program, which provides an attractive financing option to growing businesses, involves the purchase of the client company's accounts receivables. The Cash management program is currently offered in the Eastern half of the United States and had 49 customers at the end of 2024, while Flexent Freight had 282 customers.

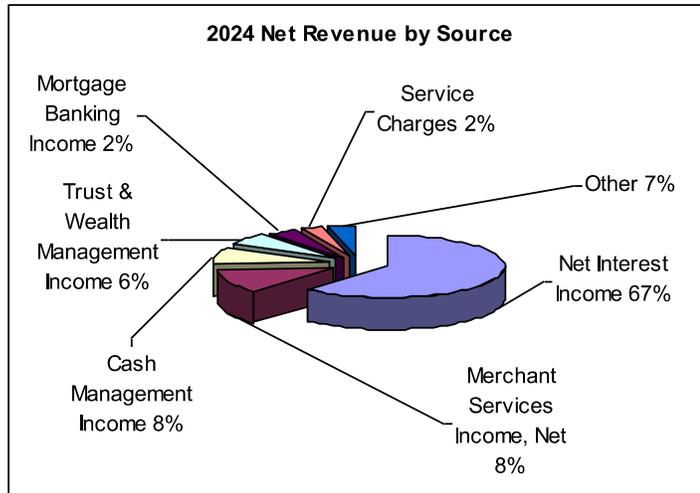
Through Chesapeake's secondary market mortgage banking operation, the Company services a \$285 million loan portfolio (as of December 31, 2024) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately \$708,000 annually) on the outstanding loan portfolio balance. Additionally, CPKF earns a pare-off fee for residential mortgage loans that are originated and closed with FHLMC, which added \$314,000 to revenues in 2024 (both types of fees are included in other noninterest income in the Company's financial statements).



Source:
Zacks Analyst

The lending portfolio is dominated by real estate loans, as shown in the chart. At December 31, 2024, the lending book consisted of commercial real estate (accounting for 39% of total gross outstandings), 1-4 family (26%), commercial and industrial (16%), construction and land development (9%), consumer and other (7%), and cash management (3%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

At December 31, 2024, the liquidity portfolio, which consists of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represented about 5% of total assets and 9% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal at 36% of the total, private label mortgage securities at 31%, and asset-backed and other securities at 24%. Core deposits represented 85% of total deposits at December 31, 2023, with certificates of deposit larger than \$250,000 at 7% and brokered deposits at 8%.



In 2024, net interest income contributed 67% of net revenue, with a significant 33% coming from noninterest income sources. Major contributors to noninterest income include merchant services income, net (8% of net revenue), cash management fee income (8%), trust and wealth management income (6%), mortgage banking income (2%), and service charges (2%).

VALUATION

CPKF stock is up 13.3% year to date, much better than both the 7.6% median price increase for our small-cap bank universe and the 1.4% price gain for the S&P 500, as shown in the following table.

At its current price, CPKF is trading at a 3% discount to the industry median P/E, based upon our current CPKF EPS estimate for 2026. Assuming a median small-cap bank universe valuation of 9.9X, CPKF's target price based upon our 2026 EPS estimate is about \$33.00.

Turning to Price/Tangible Book Value, CPKF is currently valued at 1.2X, about the same as the median for our small-cap bank universe. Assuming a 1.2X multiple based upon our estimated tangible book value twelve months out, our target price is about \$36.00, which compares to CPKF's current tangible book value per share of \$26.94.

We have chosen \$34.50 as our new valuation, based upon CPKF's 2026 P/E of \$33.00 and forward Price/Tangible Book Value of \$36.00.

Industry Comparables - Small-cap Banks

	Pr Chg YTD	EPS TTM*	EPS 2026E	EPS 2027E	ROE TTM*	ROE 5-Yr Avg	ROA TTM*	ROA 5-Yr Avg	Div Yld
Chesapeake Finc'l	13.3	8.5	9.6		11.9	13.1	0.87	0.98	2.1
S&P 500	1.4	27.2	22.4	20.1	N/A	N/A	N/A	N/A	1.2
Median	7.6	10.8	9.9	9.1	11.6	11.7	1.01	1.04	2.3
Average	10.2	11.8	10.8	9.4	10.0	12.0	1.0	1.1	2.3
High	71.3	23.2	24.2	19.1	18.6	20.3	2.3	2.1	5.1
Low	(4.8)	8.2	7.4	6.6	(20.8)	7.7	(1.1)	0.5	-----

*Trailing twelve months

PROJECTED INCOME STATEMENT & BALANCE SHEET – ANNUAL

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	12/20	12/21	12/22	12/23	12/24	12/25P	12/26E
Net interest income	33.5	41.6	44.1	41.6	46.0	54.1	56.7
Non-interest income	19.6	18.9	19.9	22.3	22.7	26.7	27.1
Total net revenue	53.1	60.5	64.0	63.9	68.7	80.8	83.8
Loan loss provision	2.0	(0.4)	0.7	0.8	0.9	1.1	1.2
Non-interest expense	37.3	43.6	45.1	50.7	54.5	59.0	63.4
Income taxes & other	2.1	2.3	2.3	2.3	1.9	3.0	3.5
Zacks adjusted income before NRI	11.7	15.0	15.9	10.1	11.4	17.7	15.7
GAAP net income	11.7	15.0	17.6	10.1	11.4	10.0	15.7
Diluted EPS before NRI	2.39	3.11	3.37	2.15	2.42	3.75	3.32
Reported EPS	2.39	3.11	3.73	2.15	2.42	2.12	3.32
Dividends per share	0.50	0.53	0.58	0.61	0.63	0.65	0.68
Liquid assets	120.2	98.8	79.6	93.9	75.2	169.2	145.0
Outstandings, gross	625.0	699.7	778.1	864.4	907.9	1,000.4	1,042.7
Total assets	1,204.7	1,385.8	1,329.0	1,471.0	1,524.6	1,670.2	1,763.8
Core deposits	984.2	1,101.6	1,144.5	1,118.1	1,162.9	1,226.1	1,284.3
Purchased funds	85.3	122.4	67.8	210.3	214.6	247.6	269.6
Long-term debt	5.2	25.2	25.2	25.2	25.2	50.2	50.2
Shareholders' equity	122.7	126.1	79.1	98.5	111.7	133.6	145.0
Profitability							
Return on avg assets	1.06%	1.14%	1.19%	0.73%	0.74%	1.09%	0.92%
Return on avg equity	10.27%	11.87%	18.88%	11.11%	10.57%	14.75%	11.53%
Net interest margin	3.80%	3.80%	3.70%	3.50%	3.50%	3.77%	3.75%
Loan loss provision % avg assets	0.18%	(0.03)%	0.05%	0.06%	0.06%	0.07%	0.07%
Noninterest income % avg assets	1.76%	1.44%	1.49%	1.61%	1.47%	1.65%	1.58%
Noninterest expense % avg assets	3.36%	3.32%	3.98%	3.66%	3.54%	3.64%	3.70%
Preprovision pretax income % avg assets	1.42%	1.29%	0.81%	0.95%	0.93%	1.34%	1.19%
Tangible efficiency ratio	72%	73%	79%	76%	79%	73%	75%
Payout ratio	21%	17%	16%	28%	26%	31%	20%
Asset Quality							
Net charge-offs % avg outstandings	(0.05)%	0.38%	(0.03)%	0.12%	0.02%		0.08%
Allowance % outstandings	1.47%	1.17%	1.21%	1.09%	1.14%	0.93%	1.12%
NPAs % loans + OREO	1.11%	0.61%	0.52%	0.31%	0.32%		0.53%
Allowance % NPAs	132%	194%	232%	347%	356%		210%
Liquidity & Funding							
Liquid assets % purchased funds	141%	81%	117%	45%	35%	68%	54%
Core deposits % outstandings	157%	157%	147%	129%	128%	123%	123%
Liquid assets % assets	10%	7%	6%	6%	5%	10%	8%
Outstandings % assets	52%	50%	59%	59%	60%	60%	59%
Capital Adequacy							
Total equity % assets	10.18%	9.10%	5.95%	6.70%	7.33%	8.00%	8.22%
Tangible equity % assets	10.18%	9.10%	5.95%	6.23%	6.89%	7.62%	7.87%
Tier 1 capital ratio	14.03%	12.28%	13.04%	11.25%	11.64%		
Total capital ratio	15.20%	15.16%	15.89%	13.77%	14.64%		
Parent Company Statistics							
Interest coverage	41.2X	3.7X	4.7X	6.2X	3.7X	2.0X	2.0X
Interest & dividend coverage	2.0X	0.5X	1.1X	1.6X	0.9X	1.0X	1.0X
Short-term debt coverage	Lge						
Total debt coverage	4.8X	0.7X	1.3X	1.3X	1.2X	0.7X	0.7X
Double leverage	102.1%	117.5%	128.2%	127.3%	119.2%	123.4%	120.2%

PROJECTED INCOME STATEMENT & BALANCE SHEET - QUARTERLY

Chesapeake Financial Shares, Inc.

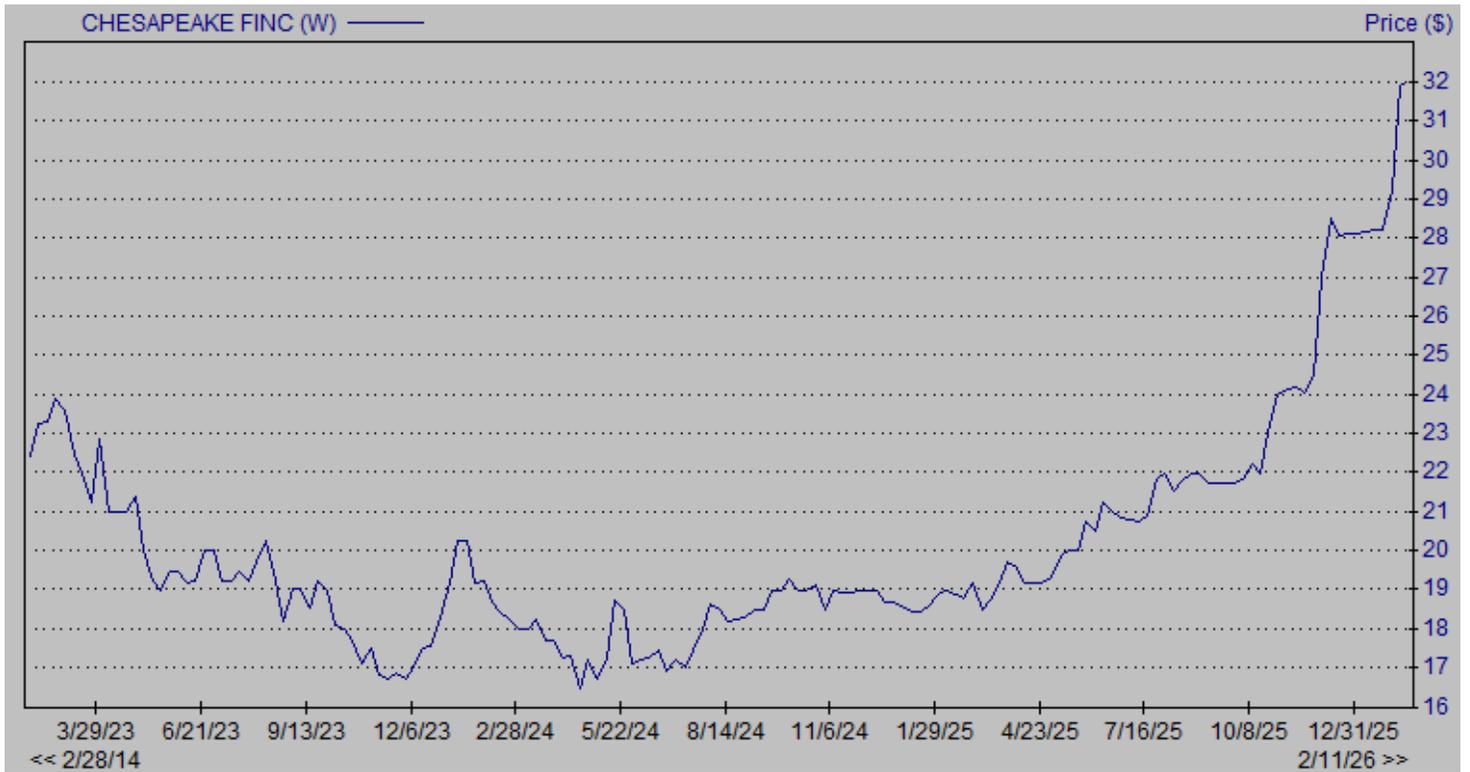
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	2024				2025			
	Q1 A	Q2 A	Q3 A	Q4 A	Q1 A	Q2 A	Q3 A	Q4 A
Net interest income	10.6	11.5	11.8	12.1	12.3	13.2	14.0	14.6
Non-interest income	5.1	5.8	6.2	5.5	5.6	6.4	7.2	7.4
Total net revenue	15.7	17.3	18.0	17.6	17.9	19.6	21.2	22.1
Loan loss provision	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.3
Non-interest expense	12.3	13.3	14.7	14.2	14.1	15.2	15.4	14.3
Income taxes & other	0.5	0.7	0.5	0.2	0.0	1.1	1.0	0.9
Zacks adjusted income before NRI	2.7	3.0	2.6	3.0	3.6	3.1	4.5	6.5
GAAP net income	2.7	3.0	2.6	3.0	(4.5)	3.1	4.9	6.5
Diluted EPS before NRI	0.58	0.65	0.55	0.64	0.75	0.67	0.96	1.37
Reported EPS	0.58	0.65	0.55	0.64	(0.94)	0.67	1.03	1.37
Dividends per share	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.17
Liquid assets	88.1	97.7	111.5	75.2	169.5	175.9	138.0	169.2
Outstandings, gross	900.0	914.8	910.6	907.9	936.5	941.0	963.1	1,000.4
Total assets	1,511.9	1,533.1	1,589.3	1,524.6	1,607.2	1,634.6	1,637.3	1,670.2
Core deposits	1,154.5	1,177.8	1,169.9	1,162.9	1,172.4	1,209.8	1,192.2	1,226.1
Purchased funds	213.3	209.9	259.7	214.6	257.2	241.9	254.0	247.6
Long-term debt	25.2	25.2	25.2	25.2	50.2	50.2	50.2	50.2
Shareholders' equity	102.6	105.4	112.8	111.7	114.6	116.7	124.9	133.6
Profitability								
Return on avg assets*	0.74%	0.80%	0.67%	0.78%	0.91%	0.78%	1.11%	1.56%
Return on avg equity *	10.94%	11.68%	9.53%	10.84%	12.55%	10.88%	14.98	19.98%
Net interest margin*	3.38%	3.55%	3.52%	3.55%	3.54%	3.71%	3.87%	3.98%
Loan loss provision % avg assets*	0.05%	0.09%	0.05%	0.05%	0.06%	0.06%	0.07%	0.08%
Noninterest income % avg assets*	1.38%	1.52%	1.58%	1.43%	1.43%	1.57%	1.78%	1.79%
Noninterest expense % avg assets*	3.30%	3.50%	3.76%	3.64%	3.60%	3.74%	3.77%	3.47%
Preprovision pretax inc.% avg assets*	0.93%	1.05%	0.85%	0.89%	0.97%	1.08%	1.42%	1.87%
Tangible efficiency ratio	78%	77%	81%	80%	79%	77%	72%	65%
Payout ratio	27%	24%	28%	25%	(17)%	24%	16%	12%
Asset Quality								
Net charge-offs % avg outstandings*	(0.03)%	0.02%	0.01%	0.09%	0.01%	(0.00)%	0.02%	
Allowance % outstandings	1.08%	1.10%	1.13%	1.14%	1.12%	1.15%	1.15%	1.13%
NPAs % loans + OREO	0.18%	0.93%	0.55%	0.32%	0.46%	0.47%	0.47%	
Allowance % NPAs	603%	118%	206%	356%	245%	244%	241%	
Liquidity & Funding								
Liquid assets % purchased funds	41%	47%	43%	35%	66%	73%	54%	68%
Core deposits % outstandings	128%	129%	128%	128%	125%	129%	124%	123%
Liquid assets % assets	6%	6%	7%	5%	11%	11%	8%	10%
Outstandings % assets	60%	60%	57%	60%	58%	58%	59%	60%
Capital Adequacy								
Total equity % assets	6.78%	6.88%	7.10%	7.33%	7.13%	7.14%	7.63%	8.00%
Tangible equity % assets	6.33%	6.44%	6.67%	6.89%	6.72%	6.74%	7.23%	7.62%
Tier 1 capital ratio	11.06%	11.11%	11.04%	11.64%	10.85%	10.84%	11.13%	
Total capital ratio	13.53%	13.58%	13.47%	14.64%	15.30%	15.23%	15.54%	

*Annualized.

HISTORICAL STOCK PRICE



DISCLOSURES

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