NTG Clarity Networks Inc (NCI.CVE) **BUY**

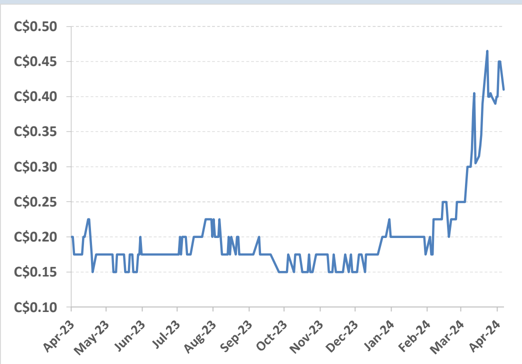
16th April 2024

Price Target	**C$3.58**
Price (15 April 2024)	C$0.41

Shares on Issue (ordinary)	37.53m
Shares (fully diluted)	41.48m
Mkt Cap	C$15.4m
Mkt Cap (fully diluted)	C$17.0m
52 Week Range	C$0.125 - C$0.47
Primary Ticker (Canada TSXV)	NCI.CVE
OTC Ticker (USA - Pink)	NYWKD.PKC

Dec y/e (C$m)	2023e	2024e	2025e
Revenue $	$27.2	$54.6	$73.3
Rev Growth	*53.9%*	*101.1%*	*34.2%*
Gross margin $	$10.7	$21.7	$29.7
GM %	39.2%	39.8%	40.5%
EBITDA $	$4.1	$9.1	$14.9
Net Income $	$2.5	$7.0	$11.1
NI Margin %	9.3%	12.7%	15.1%
EPS	8.0¢	18.5¢	29.6¢
EPS Growth	*199.0%*	*132.5%*	*59.5%*
P/E	5.1x	2.2x	1.4x

12 month share price chart



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Explosive Revenue Growth to Drive Share Price Re-Rating

NTG Clarity Networks Inc is an exciting turnaround story in the software, IT and network services industry, headquartered in Canada with operations in the Middle East, and is yet to be fully recognised by the market. We recommend a BUY rating.

Revenue Growing +66.2% CAGR CY21 to CY24

The Company has been rapidly growing its revenue from both existing and new customers alike, increasing at an estimated +66.2% CAGR from CY21 to CY24.

Management Target CAD$50m Revenue in CY24

Management has announced their formal CY24 revenue target of CAD$50m (+84% vs est CAD$27.2m CY23e), with a target 40% gross margin and 10% net income margin.

We believe they will beat the revenue and net income margin targets, with our estimated CY24e revenue of CAD$54.6m and net income margin of 12.7% resulting in net income of CAD$7.0m (EPS 18.5¢) or trading on 2.2x P/E.

Winning New Contracts Consistently

The Company has announced numerous new POs in the last couple of months, with contracted work to be mostly completed in CY24 already totalling ~CAD$46.8m by the middle of April, versus the targeted CAD$50m for CY24. We think more contract wins are likely following their attendance at two major international trade shows (MWC and LEAP) in March.

Vision 2030 and Digital Transformation Tailwinds

The Saudi Arabian Vision 2030 strategy to drive digital transformation to reduce reliance on oil is a major tailwind for the Company, with its 30 year history in the region.

Price Target = $3.58/share

Based on a blended average of our DCF valuation and the three CY24e multiple based valuations, our price target for NTG Clarity Ordinary Shares listed in the TSXV exchange is CAD$3.58/share, which represents a potential upside of +772% from the current share price.

Company Overview

Background

NTG Clarity Networks Inc. (NTG Clarity or the Company) is a prominent software and network services provider. The current CEO founded NTG International in 1992 and the Company listed on the TSXV via a reverse takeover of Clarity Telecom in 2001.

Headquartered in Toronto, the Company has subsidiaries and branch offices in Egypt, the USA, Saudi Arabia, and Oman. Their expertise lies in delivering network, telecom, IT digital transformation and infrastructure solutions to large tier-1 customers in the telecom, finance, utilities, enterprise and government sectors.

They have a growing workforce of over 600 IT, network and engineering professionals with local cultural expertise ,and strong partnerships with leading global technology providers.

NTG Clarity operates and reports two business segments:

1. Canadian Segment:
    - Activities in Canada and USA
    - Offices in Saudi Arabia and Oman
2. Egypt Segment:
    - Software development group
    - Provides professional services, offshoring services, and network services to customers in Egypt.

NTG Clarity has over 30 years of experience and credibility, providing IT services and products in the Middle East.

With over 30 years' experience in designing, building, integrating and maintaining data centres and telecommunications networks, the Company offers commercial off-the-shelf products, catering to a wide range of industries. This includes its flagship solution: NTGApps, a comprehensive digital toolbox designed to accelerate the digital transformation journey of organizations across industries with solutions including Enterprise Resource Planning (ERP), project portfolio management, demand and capacity analytics & dashboard and decision-making using real-time data.

In addition to product development, and a key driver of revenue, the Company provides comprehensive end-to-end services such as software development outsourcing, customized solutions development including software, web, and application development, systems integration, Testing as a Service (TaaS), outsourcing, and consulting.

Key Products and Services

Professional Services – ~85% of revenue

Delivering the majority of revenue, the Company's service offering includes local, onsite and offshore support in the following areas:

- Solution Development - developing and deploying customized solutions from ideation to creation, designing applications, websites, mobile apps, tablet apps, graphics design.

- System Integration - managing the process of bringing together multiple systems into one integrated solution so they function together seamlessly to manage business processes.
- Digital Transformation – integrating digital technology into all areas of a customer's business.
- Outsourcing – offering resources from the most junior level developer to senior level executives for both short- and long-term tenure.
- Other services – business consulting, training, testing as a service, data migration and smart cities/buildings for a seamless, single-point of access to building, security and energy management solutions.

Software Products, Implementation and Support – ~15% of revenue

The company has been developing niche software products and IT digital transformation solutions since its inception in 1992. These include:

- NTG-Apps - designed to simplify digital transformation by providing customisable digital application templates:
  - Telecom Suite, designed specifically for telecommunication operators, a robust management tool that empowers service providers to efficiently manage services, resources, processes, and activities and address all automation needs.
  - ITSM Suite, to track and manage IT services and support for increased productivity, lower costs, and improved end-user satisfaction, offering modules such as incident management, problem management, knowledge management, IT Asset management, service level agreements and change requests.
- NTS-Billing: Billing-related software.
- NTS-Inventory Management and Control: Tools for managing inventory.
- NTS-Workflow Management: Streamlining workflow processes.
- NTS-Partner Relationship Management: Managing partner relationships.
- NTS Teleco in a Box - a comprehensive end-to-end BSS / OSS solution designed specifically for telecommunication operators.
- Network Inventory System (NIS) - empowers telecom operators and other network-powered organizations to gain full visibility of physical and logical network component statuses and settings, as well as compare and reconcile against planned configurations.

AI Product Implementation

Announced in March 2024, the Company launched an AI Department, integrating AI with the NTG-Apps platform. This enables enterprises to quickly build custom AI applications powered by custom Large Language Models (LLMs) trained with that enterprise's proprietary data.

The announcement outlined the proof of concept projects in play, one working with an existing customer in the Middle East training LLMs on large-scale proprietary financial data to aid in decision-making for investments, mergers, and acquisitions, and one to improve internal process efficiencies with proposal writing and training.

We don't expect this to have a major impact on revenue and earnings but it will add another solution to their current product portfolio, aimed at saving customers time and money through AI technology, which may assist with customer retention as the popularity of AI increases.

Partnerships

The Company has been able to secure partnerships with leading and trusted brands globally, which shows that they can deliver at scale.

Source: Company presentation

Major Tier 1 Current and Past Customer List

The Company has built up a long list of Tier 1 customers across telecom, finance, utilities, enterprise and government sectors.

NTG Clarity has a long history in the Middle East and has built a solid reputation as a quality provider, as shown by the list of tier 1 brands they can boast as being current and past clients.

Source: Company presentation

Experienced Management Team

CEO & Chairman - Ashraf Zaghloul

Ashraf Zaghloul founded NTG International in 1992. Ashraf has held senior management positions at, and consulted to, many major private and public sector corporations in the areas of data and voice networks, and Internet/Intranet. He holds a B.Sc. in Electrical Engineering, Electronics, and Communications from the University of Cairo and a M.Sc. in Electrical Engineering from the University of Manitoba.

President & Director – Kristine Lewis

Kristine Lewis has extensive experience in management and operations in the IT and telecom industries. She has a B.Sc. in Computers, Psychology from the University of Toronto Scarborough and has been involved in the management of NTG since its founding in 1992.

Executive Vice President - Gamal Metwally

Gamal Metwally has over 30 years of experience in innovative solutions and senior management. He's led several teams developing software products, IT, IoT and telecom solutions. He has held senior positions in software development, integration, testing, operations, product management and project management at IBM and Nortel Networks. He holds a B.Sc. in Electrical Engineering, Electronics and Communication from the University of Alexandria.

CEO & Chairman, NTG Egypt – Adel Zaghloul

Adel Zaghloul serves as the Chairman and Chief Executive Officer of NTG Egypt, a subsidiary of NTG Clarity. He is the former CEO of Olympic Group and has extensive senior executive management experience. In 1988, he joined General Electric where he was Regional Manager and later Executive of the Middle East and Africa Region. In 1997, he pursued a challenging position as CEO of Ghabbour Group, the largest truck, bus and car manufacturer in Egypt. He joined Olympic Group in 1999 where he was CEO. Mr. Zaghloul has a degree in Mechanical Engineering from the University of Cairo.

CTO – Yaser Yousef

Yaser Yousef is a senior manager and network architect with over 20 years of Telecom and IT experience and extensive experience in business and system analysis and software system design in telecommunications industry. His expertise covers telecom network design, process and procedures and reengineering, OSS system architecture and design and data modelling.

CPO – Fouad Selim

Fouad Selim has 30 years of experience in various functions including both vertical and cross-functional management within the IT &Telecom sectors, He's founded multiple start-ups and delivered several large IT projects in ERP, CRM, Contact Center Technologies, Enterprise and Sales systems. He holds an MBA from the Arab Academy for Science, Technology, and Maritime Transport and B.Sc. in Engineering from Cairo University.

Senior Vice President, Professional Services – Dr. Medhat Helmy

Medhat Helmy has more than 25 years of IT and Telecom experience, and has held executive management positions in several multi-national organizations. He specializes in building and leading remote development teams and working as a consultant in the project management and business process fields. He holds a Doctor of Business Administration from Ain Shams University, an MBA from Paris ESLSCA Business School, and a B.Sc. in Engineering from Ain Shams University.

Vice President, Strategy & Planning - Adam Zaghloul

Adam Zaghloul is in charge of corporate development, strategy, planning and investor relations for NTG Clarity. He has a BASc in Chemical Engineering, Sustainable Energy from University of Toronto and has been involved in a number of technology startups.

Digital Transformation in Saudi Arabia

Vision 2030 Expanding NTG's Opportunity

To shift the focus of its economy away from the oil dependence upon which its immense wealth was created, the kingdom of Saudi Arabia launched their "Vision 2030" strategy in 2016.

The kingdom announced 3 main pillars to this strategy, which they are targeting to achieve their vision of a diversified economy that is resilient and broad based, to secure a brighter future for all Saudi citizens.

These pillars are:

- A Vibrant Society
    - Cultivating a rich cultural environment and promoting healthy lifestyles (to achieve a dynamic and engaged populace with a high quality of life)
- A Thriving Economy
    - Fostering innovation and supporting entrepreneurship (to provide diversified revenue streams and sustainable economic growth)
- An Ambitious Nation
    - Maximising efficiency and transparency in the government (offering robust governance and increased international competitiveness)

Vision 2030 is driving digital transformation across Saudi Arabia, which NTG Clarity is well placed to capitalise on

To achieve these pillars, the kingdom has placed a large focus on digitising its society, presenting a particularly valuable opportunity for NTG Clarity.

The kingdom set up the Digital Government Authority (DGA) to streamline and enhance governmental procedures and services, which will provide citizens with a digital solution for many of life's day to day needs. These include health services, banking, communications, and government services.

Saudi Arabia also launched a series of programs designed to enhance the digital competence of its population, so that they have an opportunity to build their skills and participate in the growth of the emerging digital sector.

Saudi's Western Technology Hubs Leading the Way

Saudi's most populated and economically active region is in the westernmost part of the country, including the commercial hub of Jeddah, as well as Meccah and Medinah. This segment has seen significant investment in ICT infrastructure, to facilitate achieving the pillars of Vision 2030 and to improve connectivity. This has been implemented to facilitate a thriving economy and encourage an ambitious society of entrepreneurs.

Examples of this infrastructure include data centres, fibre optic networks and ICT parks, the maintenance and upkeep of which present significant opportunities for tech service businesses like NTG Clarity.

Several projects have already commenced in pursuit of this vision. One of which is the National Digital Transformation Program (NDTP), aimed at both improving e-commerce and digitising public services. This includes investment in 5G, smart cities, startups, and advanced technologies including cloud, AI, cybersecurity and IoT.

Saudi ICT Market growing ~8.49% CAGR

According to research by Mordoor Intelligence[#], the Saudi Arabian ICT Market is estimated to be worth US$50.6 billion in 2024, and is expected to grow at a CAGR of 8.49% per annum to US$76.1 billion by 2029.

The kingdom's intensive investment in services such as fast internet, wireless connections and cloud computing over the last 8 years has positively impacted the day-to-day operations of multiple industries. Further aided by the pandemic, banking, financial services, pharmacy, healthcare, retail and education sectors have all undergone significant changes, as smart gadgets and the internet revolutionise how we operate. In the manufacturing sector, Industry 4.0 has seen factories utilise technology to improve and automate their entire process, using AI and robotics.

The Communications and Information Technology Commission (CITC) of Saudi Arabia predicts that around 97.6% of residents will be online as of 2026. Through the governments' funding of broadband networks, mobile internet speeds have increased to 105.32 Mbps, placing it 6th internationally.

Given their plan to lead the rest of the world, the kingdom is passing new laws to further enable apps and services to support digital transformation. One of these was a new information and technology (ICT) law, aimed at bolstering telecommunications and IT sectors, by focusing on digital infrastructure, new technologies and e-government.

 # Source: https://www.mordorintelligence.com/industry-reports/saudi-arabia-ict-market

Energy and Utilities' Sector Transformation

While Vision 2030 aims to diversify the economy away from oil, Saudi Arabia is not yet ready to forgo its greatest export. In fact, the government still plans to have oil production at 12 million barrels of oil a day by 2027[@]. The expansion in oil and gas production should see new job opportunities, and further increase the GDP of the kingdom.

However, the energy sector can greatly benefit from the digital transformation that is sweeping through the rest of the Saudi economy, and NTG Clarity is well positioned to benefit from this. The oil and gas industry will see data analysis and communication technologies scaled up to increase efficiency and sustainability.

@ Source: https://www.reuters.com/markets/commodities/saudi-energy-minister-says-there-is-huge-oil-spare-capacity-cushion-2024-02-12/

What does this mean for NTG Clarity?

Due to 30 years of hard work, NTG Clarity has forged strong partnerships and established significant trust with its clients. As a result, the Company is in a unique and valuable position to benefit from the goals of Vision 2030. NTG Clarity's existing clients trust them with the increased work required to achieve the vision, while simultaneously their reputation as a reliable partner, means they are readily able to win work from new customers.

NTG Clarity has already shown their capability to secure large new contracts from both existing and new customers, and are giving us confidence that they are well positioned to capitalise on this growing market opportunity.

Underlying investment thesis based on Vision 2030 and beyond

The Vision 2030 project means the Saudi region has at least 6 ½ years of intensive investment in digital transformation ahead of it for NTG Clarity to exploit, but the opportunities are likely to continue for many years beyond that. So, while a large part of our investment thesis is based on Vision 2030 in the near term, the whole Middle East region is likely to be a happy hunting ground for new work for the company well into the next decade.

Egyptian Outsourcing Office

Set up for growth in off-shore outsourcing

NTG has plenty of offshoring capacity in its' recently opened state of the art Egyptian office to satisfy the demand from new customer contract wins

NTG Clarity owns a 95% equity interest in the Egyptian subsidiary and has a +30-year history of doing business in this region.

A new state-of-the-art office was set up in Cairo in 2023, with the initial focus on key projects announced early that year.

At the time, the President of the Company said:

> *"By establishing this central hub on the Nile, NTG Clarity has strategically positioned itself to tap into a diverse talent pool from all corners of Cairo. Combined with our existing campuses in Haram and Maadi, we now boast a large and expanding presence in the east, west, and central regions of the city."*
>
> *"These three locations not only strengthen NTG Clarity's capacity to attract and retain top-tier talent but also enhances our agility in delivering cutting-edge solutions to clients worldwide"*

This new office can accommodate a further +300 staff in the current location, and has scope to take additional floor space within the same building. This means the Egyptian outsourcing business can scale rapidly without needing long lead times for implementation.

The site is designed for seamless productivity to support customer needs 24/7 across all time zones.

Sourcing qualified staff is not a bottleneck

One potential issue could be talent acquisition to handle the growth in demand that NTG is experiencing. However, the company has told us they have not had major problems in this regard, supporting the comments above from the President that Cairo is a great place to source qualified staff. To date, the Company has been able to find staff quickly and the onboarding process has been relatively efficient, giving us confidence the business can achieve the ambitious growth forecasts we have in our models.

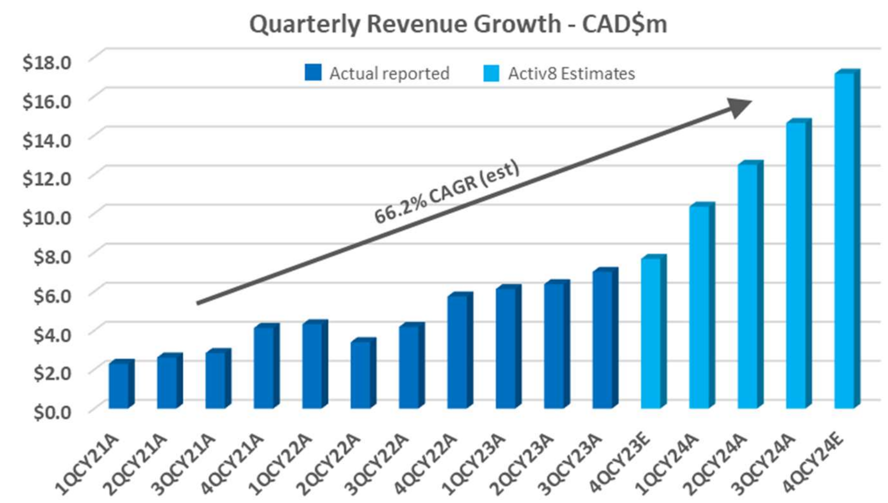
Strong Revenue Growth

Revenue Growing at 66.2% CAGR

The company has seen a very strong recovery in revenue over the last couple of years, with growth accelerating into CY24. Given the macro tailwinds of digital transformation throughout the Middle East, and more specifically Saudi Arabia, we'd expect to see this growth rate maintained for the next few years at least, or even accelerate in the short term – see the growth chart below.

With Vision 2030 having 6 ½ years left to run, and the focus on IT, cloud computing, AI and telecommunications becoming a larger part of the overall economy globally, we are excited to see how much of this potential work NTG Clarity can secure.

Revenue is estimated to grow at a 66.2% CAGR from 2021 to 2024



Source: Company filings/Activ8 estimates

CY24 formal target – CAD$50m revenue and 10% net income margin

On the 18th March 2024, NTG Clarity announced their formal CY24 revenue target of CAD$50m, with a target 40% gross margin and a target 10% net income margin.

In the same announcement, the company announced that 14 new purchase orders (POs) worth CAD$6.5m had been secured and that including those POs, the company already had contracts totalling approximately CAD$40m of work to mostly be completed in the CY24 year, meaning up to 80% of the formal target was underpinned by contracts in hand.

New contract wins announced recently and more to come

On the 19th March 2024, NTG Clarity announced further new contracts and renewals for CAD$4.5m for two different departments of the same existing customer in the financial sector in the Middle East. This took the value of contracted work to mostly be billed in CY24 to CAD$44.5m (against the CAD$50m target). This underpinned approximately 89% of the formal target.

On the 9th April 2024, the company added a further CAD$1.8m of new and existing customer work/renewals, which took the value of contracted work to mostly be billed in CY24 to CAD$46.3m (against the CAD$50m target). This underpinned approximately 93% of the formal target.

Given the success the company has already achieved in the early stages of CY24, we are expecting more contracts to be secured over the coming months and as such, we expect the company is likely to beat their formal target and is likely to upgrade their CY24 revenue target.

We expect more contract wins over the coming months, suggesting there is some upside risk to the already ambitious CAD$50m revenue target for CY24

Long history in middle east means NTG Clarity is well positioned

NTG Clarity was founded in 1992 and has been working in the emerging middle east market throughout that time. This means they have built trust and brand recognition over a long period of time, before the macro tailwinds of digital transformation and Vision 2030 in Saudi Arabia became such strong drivers.

While many global firms and new startups in the industry are scrambling to capture a slice of this massive pie, NTG Clarity are able to use their history of quality work and their status as being a natively middle eastern company (but with North American listed company credibility) to maximise their contract wins.

High rotation of key decision makers contributing to new customer work

With so much investment in the Middle East in the digital transformation economy, a good way for executives and educated professionals to progress their careers is to move jobs regularly (every 2 to 3 years).

This dynamic has been a positive for NTG Clarity, with a lot of new customer wins coming from executives moving from one business where NTG Clarity successfully provided products/services to another role in a new company and introducing NTG Clarity as a trusted provider. We expect this will continue to be a key customer acquisition channel over the coming years.

Trade show customer acquisition channel getting great results

The company attends trade shows and conferences around the world as part of their new customer acquisition strategy. In the first quarter of 2024, they were present at MWC 2024 in Barcelona, Spain and LEAP 2024 in Riyadh, Saudi Arabia, with a number of new contracts already announced.

We note the Middle East has been observing Ramadan over the last month or so, which is traditionally a quiet time for new business dealings. Post this period, we'd expect to see continued momentum in contract wins and new POs for work to be completed in CY24 and into CY25, which could impact our revenue forecasts on the upside.

We also note GITEX in Dubai and AfricaCom in South Africa which are slated for later in CY24, are trade shows the company has attended previously.

~50% recurring revenue and/or contract renewals

It's our understanding that approximately 50% of the work secured to date (of their CY24 CAD$50m target) has come from existing customers, be it from contract renewals, product renewals and/or an expansion of new services.

This speaks to the quality of the work undertaken by NTG Clarity and shows that existing customers are satisfied with the products and services provided and are choosing to renew their contracts with the Company.

As such, we can be confident there is an underlying foundation of revenue to underpin our forecasts over the next few years at least.

We believe there is operating leverage in the G&A and selling expenses, resulting in higher final net income margins than the company is currently guiding

Operating leverage will see ~12.7% net income margin in CY24

The company has put out a formal forecast of 10% final net income margin for the CY24 year, however we believe there is significant operating leverage likely to flow through from the significant revenue growth.

Selling expenses and G&A expenses as a % of revenue should fall versus the strong revenue growth. We believe the company is unlikely to expand head office staffing levels dramatically and we also feel they are unlikely to boost marketing headcount or spending beyond that which we have forecast.

Despite our estimated 86% increase in selling/G&A spending that we factored into our models, we estimate final net income margin to be 12.7% in CY24e and believe there may be further upside in the final margin.

Customer concentration not a major concern

In the CY22 annual report, the company stated that two customers accounted for approximately 35% of total revenue, which could be cause for concern. It's our understanding that they were both long standing customers where a lot of customer loyalty had been built up, which provides some comfort.

With the significant growth in revenue throughout CY23 and CY24, the company is seeing a diversification of the customer base, from the addition of new customers in conjunction with growth amongst the existing customers.

We are aware however, that one of the major long standing customers continues to expand its business, and is still likely to be responsible for +15% of revenue in the CY24 year.

Profit & Loss Estimates

Earnings Forecast - CAD$m				
	CY22A	CY23F	CY24E	CY25E
Revenue - $m	**17.7**	**27.2**	**54.6**	**73.3**
Revenue Growth %	*48.4%*	*53.9%*	*101.1%*	*34.2%*
Cost of Goods	-10.9	-16.5	-32.9	-43.7
Gross Profit - $m	**6.7**	**10.7**	**21.7**	**29.7**
Gross Profit Margin %	*38.1%*	*39.2%*	*39.8%*	*40.5%*
Selling - incl Direct Salaries	-1.7	-2.0	-3.8	-4.5
General & Admin - incl Direct Salaries	-2.5	-4.0	-7.4	-8.3
FX Gain/(Loss)	-0.2	-0.5	-1.5	-2.0
Adjustments	0.0	0.0	0.0	0.0
EBITDA - $m	**2.3**	**4.1**	**9.1**	**14.9**
Depreciation & Amortisation	-0.4	-0.5	-0.6	-0.9
EBIT	**1.9**	**3.6**	**8.5**	**14.0**
Net Financing Expense	-0.3	-0.3	-0.4	-0.2
Share Based Compensation	-0.3	-0.1	-0.1	-0.1
Profit Before Tax	**1.2**	**3.2**	**8.0**	**13.7**
Income Tax Expense	0.0	0.0	0.0	-2.2
NPAT - $m	**1.2**	**3.2**	**8.0**	**11.5**
Exchange Gain/(loss)	*-0.5*	*-0.7*	*-1.0*	*-0.4*
Net Income - $m	***0.8***	***2.5***	***7.0***	***11.1***
Net Income Margin %	*4.5%*	*9.3%*	*12.7%*	*15.1%*
EPS (¢)	2.7¢	8.0¢	18.5¢	29.5¢
EPS Growth %		*199.0%*	*132.5%*	*59.5%*
DPS (¢)	0.0¢	0.0¢	0.0¢	0.0¢

Source: Company Filings/Activ8 estimates

Quarterly P&L estimates for CY24

Our forecast quarterly P&L shows a ramp up in realised revenue throughout the year, as the company implements the contracts it has won already (over CAD$46m of the targeted CAD$50m announced in the first quarter). With an implementation time of between 4 and 8 weeks on most contracts, we expect revenue to be weighted to the second half of the year.

Note that we have factored in the majority of the FX losses due to the devaluation of the Egyptian Pound in the 1QCY24, with less impact throughout the balance of CY24.

CY24 - Quarterly Earnings Forecast - CAD$m				
	1QCY24	**2QCY24**	**3QCY24**	**4QCY24**
Revenue - $m	10.3	12.5	14.6	17.2
Gross Profit - $m	**4.1**	**5.0**	**5.8**	**6.9**
Gross Profit Margin %	*39.4%*	*39.6%*	*39.9%*	*40.0%*
Operating Expenses	-2.7	-2.9	-3.3	-3.8
EBITDA - $m	**1.4**	**2.1**	**2.6**	**3.0**
Depreciation & Amortisation	-0.1	-0.2	-0.2	-0.2
Net Financing Expense	-0.1	-0.1	-0.1	-0.1
Share Based Compensation	0.0	0.0	0.0	0.0
Income Tax Expense	0.0	0.0	0.0	0.0
Exchange Gain/(loss)	-0.6	-0.2	-0.1	-0.1
Net Income - $m	***0.5***	***1.6***	***2.2***	***2.6***
Net Income Margin %	*5.3%*	*12.5%*	*15.0%*	*15.4%*
EPS (¢)	1.5¢	4.2¢	5.8¢	7.0¢

Source: Company Filings/Activ8 estimates

Tax losses improves reported profit & cashflow short term

In the CY22 annual report, NTG Clarity stated it has available income tax losses in the amount of CAD$15.1m to be offset against future Canadian federal and provincial tax bills. The losses expire between 2037 and 2040.

Based on our forecasts, these losses may have been used in CY23 year in the order of CAD$2.5m, which would bring the carried forward loss balance down to CAD$12.6m at the end of CY23.

We estimate these losses will be utilised entirely by the middle of CY25 based on our financial forecasts. The net positive effect of offsetting these losses would be CAD$3.3m over the CY24 and CY25 reporting years, which will have a positive impact on net income (and therefore EPS) and cashflow.

Cashflow Estimates

Our cashflow forecasts factor in a negative working capital movement in each of CY23, CY24 and CY25, with customer payment terms likely to be an average of 30 to 45 days against staff/provider payments paid monthly. With the strong ramp up in revenue, the differential in payment terms is causing a negative working capital movement in our estimates.

Our forecasts include capital expenditure on intangibles (software and products) to be ramping up as the business scales, although with a majority of the core software development already in place and the fact that the customisation for customers (which is often integrated in some way into the products) is invoiced and paid by their customers. This may be an area where the company can preserve cash and instead use it to pay down debt and other liabilities.

We have factored in debt repayments of CAD$800k in CY24 and CAD$1.8m in CY25 at this stage, although the cash balance builds up quickly under our forecasts, which could be utilised to pay down a greater proportion of debt and also potentially pay a dividend to shareholders in CY25 or CY26.

Cashflow Forecast - CAD$m				
	CY22A	**CY23F**	**CY24E**	**CY25E**
Net Profit After Tax	0.8	2.5	7.0	11.1
+ Depreciation	0.2	0.1	0.2	0.3
+ Amortization	0.3	0.4	0.5	0.7
+/- WC/Other Op cf	1.3	-1.6	-1.1	-0.4
Operations Cashflow	**2.5**	**1.4**	**6.5**	**11.6**
Acquisitions - Sale/(Exp)	-0.1	0.0	0.0	0.0
PPE - (Capex Expense)	-0.1	-0.5	-0.5	-0.6
Intangibles - Sales/(Exp)	-1.3	-1.6	-2.5	-2.9
Other Investing	0.0	0.0	0.0	0.0
Investing Cashflow	**-1.6**	**-2.1**	**-3.0**	**-3.5**
Loans - Drawn/(Repayment)	-0.1	-0.2	-0.8	-1.8
Shares - Issues/(Buybacks)	0.0	1.1	0.0	0.0
Dividends - (Payments)	0.0	0.0	0.0	0.0
Other Financing	-0.4	-0.3	0.0	0.0
Financing Cashflow	**-0.5**	**0.7**	**-0.8**	**-1.8**
Free Cash Flow	**0.9**	**-0.7**	**3.5**	**8.1**
Opening Cash Balance	0.2	0.7	0.6	3.4
Net Increase/(Decrease) in Cash	**0.4**	**-0.1**	**2.7**	**6.3**
Exchange Rate Differences	*0.0*	*0.0*	*0.0*	*0.0*
Closing Cash Balance	**0.7**	**0.6**	**3.4**	**9.7**

Source: Company Filings/Activ8 estimates

Cash conversion to improve as FX impact reduces

We have noted that cash conversion in CY23 was negatively impacted due to the losses on FX from the "translation of foreign operations" on the P&L, which came from the devaluation of the Egyptian Pound. In addition, we expect the rapid ramp up in revenue coincides with a slight delay in cash collection , which pushed cash conversion (based on EBITDA) down to 33.5% in our estimates.

We expect a similar FX impact to occur in the 1QCY24 following the floating of the Egyptian Pound during the period, which saw a further sharp devaluation of the currency. Despite this, we estimate cash conversion to be better in CY24, increasing to 71.2% and then to continue to improve throughout the forecast period to 92.8% in CY25.

Cash Conversion				
	CY22A	**CY23F**	**CY24E**	**CY25E**
EBITDA (before FX)	2.3	4.1	9.1	14.9
Operating Cashflow (adj for Tax)	2.5	1.4	6.5	13.8
Cash Conversion Ratio	**107.0%**	**33.5%**	**71.2%**	**92.8%**

Source: Company Filings/Activ8 estimates

Balance Sheet Estimates

Debt & related entity liabilities paydown a focus for management

The company has long term debt of CAD$6.55m, current debt of CAD$0.79m and related party liabilities for outstanding management dues of CAD$2.8m (included in current payable/liabilities on the balance sheet).

The long-term debt (previously bank held) was acquired in September 2019 by 2729252 Ontario Inc, a company owned by the CEO and President. It attracts a comparatively low interest rate of approximately ~1.0% and with no formal repayment deadline, there is no pressure to repay the debt in the near term.

Balance Sheet Forecast - CAD$m				
	CY22A	CY23F	CY24E	CY25E
Cash and Equiv	0.7	0.6	3.4	9.7
Receivables	3.9	7.4	9.1	9.6
Prepayments/Tax Assets	0.0	0.0	0.0	0.0
Other CA	0.1	0.3	0.3	0.3
Total Current Assets	**4.7**	**8.3**	**12.7**	**19.6**
Property Plant and Equip	0.2	0.6	1.0	1.3
Goodwill/Intangible	3.2	4.1	6.1	8.3
Deferred Tax	0.0	0.0	0.0	0.0
Other NCA	0.0	0.0	0.0	0.0
Total Non-Current Assets	**3.5**	**4.7**	**7.1**	**9.7**
Payables	7.0	9.0	9.6	9.8
Interest Bearing Loans/Debt	1.2	0.8	0.8	0.8
Current Tax Liabilities	0.0	0.0	0.0	0.0
Other CL	0.0	0.0	0.0	0.0
Total Current Liabilities	**8.3**	**9.9**	**10.4**	**10.6**
Interest Bearing Loans/Debt	6.7	6.6	5.8	4.0
Non-Current Tax Liabilities	0.0	0.0	0.0	0.0
Other NCL	0.0	0.0	0.0	0.0
Total Non-Current Liabillities	**6.7**	**6.6**	**5.8**	**4.0**
Net Assets	**-6.8**	**-3.4**	**3.6**	**14.6**
Share Capital	13.6	14.7	14.7	14.7
Reserves/FX	-0.8	-1.2	-1.2	-1.2
Retained Earnings/(Losses)	-19.6	-16.9	-9.9	1.1
Total Equity	**-6.8**	**-3.4**	**3.6**	**14.6**

Source: Company Filings/Activ8 estimates

Capital Structure – Tightly Held by Founders & Management

The founders of the company and their related entities hold 44.1% of the ordinary shares, and a majority of the outstanding options. We consider this a good sign of commitment to the business, with plenty of “skin in the game”.

In December 2023 the founders invested CAD$1.1m via a private placement at the equivalent of $0.15/share to assist with payables and for working capital.

Major Shareholders & Capital Base	Shares	%
2729252 Ontario Inc (A. Zaghloul/K. Lewis)	5,620,000	15.0%
Ashraf Zaghloul	5,720,150	15.2%
Kristine Lewis	5,227,750	13.9%
All other holders	20,966,571	55.9%
Total	**37,534,471**	**100.0%**
Options - $0.25 exercise / Oct-26	3,949,200	9.5%
Options - $0.50 exercise / Apr-27	100,000	0.2%
Total - Fully diluted	**41,583,671**	**109.7%**

Source: Company filings

Options are expected to be exercised

The most recent filings show there are 3.95m (post consolidation) options outstanding, with a strike price of $0.25/share which would raise CAD$987k upon exercise. Given these options are in the money already, we expect all of them to be exercised before they expire in October 2026.

There are also 100,000 advisor options issued to entities related to Activ8 Capital Advisors with an exercise price of $0.50/share expiring in April 2027. Based on our forecast rise in the share price over the next few years, we expect these options will be exercised also, raising CAD$50k for the Company.

Once exercised, these new ordinary shares would account for 9.7% of the fully diluted capital base of the company.

1:5 share consolidation in March 2024

The company had flagged its intention to undertake a share consolidation for some time, having secured shareholder approval at the AGM held in July 2023.

In March 2024, they executed the consolidation, which reduced the number of shares down to 37.5m shares (from 187.5m).

Investors and analysts often see share consolidations as a negative, particularly in a loss making startup or in companies with a history of ongoing capital raising.

In the case of NTG Clarity however, we believe a share consolidation in a business experiencing significant revenue growth, which is generating profits and positive cashflow would be viewed as neutral or even a positive.

It is often the case that new investors analysing a company for the first time may prefer a share price above 10¢ (ie: not a "penny" stock) and may give it more credibility in their first glance.

It may also be a positive in the eyes of some investors to have fewer shares on issue if NTG Clarity decides to raise capital for balance sheet repair, or for future acquisitions (scrip or cash based).

Note*: Our forecasts and modelling is on a post-consolidation basis.*

Auditors

The financial accounts of the Company have been audited by NVS Chartered Accountants Professional Corporation, Ontario, Canada, who have been the auditors for at least the last 10 years.

Risks

All investments carry some level of risk, and there is typically a direct relationship between risk and return. Investing in micro-cap companies or those companies with highly variable track records of revenue or earnings/losses can carry higher levels of risk.

We have highlighted a number of risks below that relate to the company and their potential future prospects, however there may be other risks that we cannot foresee or that are not listed below that could have a major detrimental impact on the company's performance or the share price.

We have not taken into account any risks related to individual investors situations, nor the suitability of NTG Clarity as an investment for any individual portfolio and highlight disclaimers on the back page of this report.

Past Operational Volatility and Choppy Share Price History

Investors need to gain confidence in NTG's ability to maintain growth and profitability over the long term

NTG Clarity has been listed for two decades and in that time has seen various periods of strong revenue growth, which has not always coincided with strong cashflow conversion and/or returns to shareholders.

These periods of strong revenue growth have sometimes been followed by a rapid drop in revenue in subsequent periods. Most recently, there was a decline from ~CAD$15.5m of revenue in both the CY14 and CY15 years (with net income of CAD$1.2m and CAD$0.4m respectively), followed by a choppy and unprofitable 5 year period to CY20, where revenue was only CAD$7.9m and a loss of CAD$1.1m was reported.

We recognise that it can be difficult to maintain strong continuous growth in IT services and technology businesses over long periods of time, but we see a number of high level macro drivers in the Middle East which appear to be underpinning a more secure business out to CY30 and beyond.

We also believe the most recent revenue growth is more substantial in terms of overall dollars and appears to be more broadly based across a wide range of customers, which may help to offset this risk.

Finally we feel the management team have learned from the difficult periods they have gone through in the past, and are conscious of building a more resilient and diversified portfolio of customers to strengthen the financial base of the company on the back of the current success.

Customer Concentration Risk

In the CY22 annual report, the company stated that two customers accounted for approximately 35% of total revenue.

We have addressed this issue in the previous section and believe that while it is an issue to be considered, there is also a strong and long-standing relationship with both of the major customers, which may be an offsetting factor.

Debt and Related Entity Liabilities Risk

As outlined previously in this report, the company has a relatively high level of debt compared to its historical revenue, profits and cashflow, with long term debt of CAD$6.55m, current debt of CAD$0 0.79m and related party liabilities for outstanding management dues of CAD$2.8m (included in current liabilities on the balance sheet).

Related party liabilities of CAD$2.8m to be repaid to management

With the rapid increase in revenue and cashflow, we are less concerned about the total debt, particularly given the very low interest rate. We have forecast operating free cashflow of CAD$6.9m in CY24 and CAD$11.7m in CY25, so the company would theoretically be able to pay down all the outstanding debt and liabilities by the end of CY25 (depending on capex requirements).

However, shareholders would most likely prefer to be sharing in the positive cashflow and profits, through the payment of a dividend, rather than all of the cash being paid out to the debt holders. There is no formal dividend policy in place currently, so shareholders have no guarantee they will be rewarded.

Require Another Independent Director

In CY20, the Company saw the resignation of three directors following an issue relating to D&O insurance. Since then the Company has maintained four Directors (two executive Directors and two independent Directors). The Company should have five directors, with an additional independent Director needed to meet with the preferred governance requirements. We would like to see this issue rectified as soon as it is practical to do so.

FX Risk

Egyptian Pound (E£) impact likely in 1QCY24

On Wednesday 6th March 2024, the Egyptian government agreed to float the currency, as part of an US$8 billion IMF bailout agreement. By the end of the day, the Egyptian Pound (E£) had devalued ~65%, trading at a record high of E£49.15 versus the US$, after more than a year of a stabilised official exchange rate of E£30.9. It's worth noting that the "black market" rate had surged to E£70 versus the US$ early in 2024, which was adversely impacting the locals, with consumer prices soaring in what is an import-dependent economy.

Egyptian Pound devaluation following floating of their currency will impact 1QCY24

By mid April the exchange rate was around E£47.5 or a change of around ~60%, which based on the P&L impact published by the company, is expected to negatively effect the P&L by up to ~CAD$0.45m (our forecast -CAD$0.6m).

10% impact to:	USD	Omani Riyal OMR	Kuwait Dinar KWD	Saudi Riyal SAR	Turkish Lira TRY	Iraqi Dinar IQD	Egyptian Pound LE
P&L in CAD	22,303	7,119	19,588	225,981	1,046	5,529	72,269
Equity in CAD	16,393	5,232	14,397	166,096	769	4,064	53,118

We believe the bulk of the impact of this floating of the currency has most likely been felt in the 1st quarter of the year, however we have allowed for further negative currency impact of CAD$0.4m throughout the balance of CY24. We also note that management are attempting to reduce the potentially negative flow through of the Egyptian office on revenue and earnings, by reducing the level of "new work" accepted in Egypt in the short term and by attempting to bill in US$ where possible.

The positive impact of the lower operating costs for the outsourcing business (ie: wages in Egypt are lower in CAD$ terms) may prove to be a positive offsetting factor as revenues grow in the other regions.

Saudi Riyal is pegged to US$

The bulk of the Middle Eastern business is in Saudi Arabia, which has a relatively stable currency versus the Canadian dollar, given the Saudi Riyal is pegged to the US$ at a rate of US$1/SR3.75 (US$/CAD$ being relatively stable over the long term).

As such, we don't believe the overall impact of FX on the majority of the revenue is significant.

Liquidity Risk

Micro-cap and nano-cap companies typically have far lower daily volumes of shares traded than larger companies. The average daily volume of shares traded over the last 12 months has been approximately 43,000 shares per day (or approximately CAD$10,000/day) and on some days no shares are traded at all. This can make it difficult to buy and sell shares in any kind of volume, making the investment more risky. In addition, small volumes of traded shares can have a large impact on the share price either up or down.

We expect the liquidity to improve as more institutional and sophisticated investors begin to recognise the financial success the company is having, and the share price re-rates.

Saudi GDP to Grow +1.5% in 2024 (Non-Oil GDP +3-4%)

Saudi Arabia's GDP is expected to recover from a contraction of -0.9% in 2023, to a positive real GDP growth of +1.5% in 2024. The non-oil sector could expand by 3% to 4%.

We note also that fiscal policy (government spending) may not grow as much as expected and that the oil price has been declining. This could see the Saudi economy grow at a slower rate, which could impact business confidence and possibly reduce government digital transformation spending, which may negatively impact the NTG Clarity share price.

Source: https://agsiw.org/stronger-growth-expected-in-saudi-arabia-in-2024-amid-high-uncertainty/

Vision 2030 Investment Slows Down

One of the key projects underpinning the Vision 2030 plans to transform the Saudi economy is the ambitious NEOM project.

Early in April 2024, an unconfirmed report suggested that one of NEOM's major components, THE LINE (a 170km long high rise "wall" planned to house 1.5m residents), was running well behind schedule and that only a fraction of the total construction would be completed by 2030.

While a slow down in these major government backed projects would potentially slow investment in the Saudi economy generally and could dampen the spending in digital transformation, we don't believe there is a huge risk for NTG Clarity directly from this unconfirmed report.

We also note that a number of other components making up the total NEOM project appear to be on time, with the Sindalah luxury tourist destination expected to open later in 2024.

Geopolitical Risk in Middle East

NTG Clarity operates in countries around the Middle East which are considered by many to be more stable politically (Saudi Arabia, UAE, Egypt, Oman, etc), however the middle east has a long history of conflict.

The recent conflict in Israel & Palestine, and the ongoing instability around Iran and Saudi Arabia, may concern some investors. As recently as yesterday we saw direct attacks on Israel from Iran, further increasing tensions in the region.

The concentration of operations in the Middle East may limit the number of investors willing to buy into the NTG Clarity business, and this could impact the performance of the shares over the short and long term.

Valuation and Price Target

Comparable Companies Analysis

Comparable company multiples show the IT Services, Telecom and Technology sectors are trading on 3.6x P/Sales, 25.1x EV/EBITDA and 29.0x P/E

In order to determine fair market multiples for companies similar to NTG Clarity, we have looked at TSX and TSXV listed micro-cap and small-cap IT services, telecoms and technology companies that have similar characteristics.

We have used these comparable companies listed below as we see NTG Clarity as having both traditional IT services and software product sales, plus the fact that NTG Clarity has recurring or renewals revenue of ~50%.

We believe profitability is a key metric for fair comparison, as NTG Clarity is generating solid profits and free-cashflow. The Company achieves a strong gross margin of ~40%+ and ~10%+ final net income margins (our forecast is 12.9% in CY24), which compares favourably to many of the profitable, or close to profitable companies we've identified in the table below.

We have also identified companies with similar market capitalisations from $9m and $55m for the most part. In addition, we included a few larger companies in the hundreds of millions market cap range, where their level of revenue is similar to what we estimate NTG Clarity will generate over the coming few years ($50m to $100m).

The "Curr" numbers shown represent the last reported full year numbers, or an estimate of what the most recent reporting period will likely be based on quarterly filings (using an assumption of 4QCY23 or the TTM as a proxy).

	CAD$m	Revenue	EBITDA	NPAT	P/Sales	EV/EBITDA	P/E
Company Name	**Mkt Cap**	**Curr**	**Curr**	**Curr**	**Curr**	**Curr**	**Curr**
AirIQ Inc	$12.84	$5.0	$0.7	$0.9	2.5x	17.8x	14.9x
Intouch Insight Ltd	$10.21	$21.9	$0.7	$0.2	0.5x	17.4x	47.9x
Sylogist Ltd	$226.92	$65.5	$5.7	$1.1	3.5x	43.0x	206.3x
NamSys Inc	$25.20	$6.1	$2.3	$1.6	4.1x	11.0x	15.7x
Ackroo Inc	$10.73	$6.7	$0.4	$0.5	1.6x	34.8x	21.6x
BeWhere Holdings	$35.03	$11.9	$1.0	$0.7	2.9x	34.9x	46.8x
Computer Modelling	$816.41	$73.8	$25.9	$19.8	11.1x	31.6x	41.2x
Quorum IT Inc	$55.13	$40.7	$1.1	-$0.7	1.4x	61.3x	-79.1x
Total Telecom Inc	$8.59	$2.4	$0.7	$0.6	3.6x	10.4x	14.7x
Copperleaf Tech Inc	$495.86	$79.6	-$39.1	-$34.9	6.2x	-12.7x	-14.2x
Nubeva Tech Ltd	$30.31	$3.0	-$0.8	-$0.7	9.9x	-38.9x	-44.1x
Average - all	**$157.6**				**4.8x**	**4.7x**	**10.0x**
Average - excl outliers	***$189.7***				***3.6x***	***25.1x***	***29.0x***

Source: Simply Wall Street/Yahoo Finance/Activ8 analysis - 15th April 2024

We excluded some of the outliers where we saw extremely high multiples, or where negative multiples arise due to losses (NTG Clarity is profitable).

As a result, we calculate fair market multiples in "green" for what we believe are fair comparable companies before any risk discount (see below) as follows:

- P/Sales multiple of 3.6x
- EV/EBITDA multiple of 25.1x
- P/E multiple of 29.0x

Discounting our comparable valuation multiples for risk

We have applied discounts to the comparable valuation multiples to factor in a number of the risks as outlined in the previous section in this report.

In particular, the following issues are being allocated a discount factor for each risk, when applied to our "multiple" based valuations:

- Sales concentration (country and customer) = 10%
- Debt & related liabilities = 10%
- Liquidity/Micro-cap risk = 10%
- Geopolitical risk = 5%

We have applied a discount of 35% to our fair market multiple assumptions to account for sales concentration, debt & related liabilities, geopolitical and liquidity risks

The total discount we have applied to our valuation multiples is 35% currently. However, we highlight that any significant improvement in the risk profile in relation to those factors would likely lead to a reduction of the discounts and a subsequent re-rating to our the valuations.

The table below shows the selected final valuation multiples chosen for each of our methods, being:

- P/Sales multiple of 2.4x
- EV/EBITDA multiple of 16.3x
- P/E multiple of 18.8x

Multiples for Valuation	Avg	Disc	Final
P/Sales	**3.6x**	**35%**	**2.4x**
EV/EBITDA	**25.1x**	**35%**	**16.3x**
P/E	**29.0x**	**35%**	**18.8x**

Source: Simply Wall Street/Yahoo Finance/Activ8 analysis

Price/Sales Valuation – CY24E = C$3.43/share

We have noted that amongst our list of comparable companies, those with strong YoY revenue growth similar to NTG and/or strong final net income margins around ~10% or higher, are typically trading on P/Sales multiples in the ~1.5x to ~3.0x range.

NTG has a 3-year estimated CAGR over the 2021 to 2024 period of 66.2% and is showing strong gross and final margins (we estimate 12.7% in CY24), thus we believe it is fair to include a P/Sales valuation using a 2.4x multiple to contribute to our blended price target.

P/Sales Valuation		
	CY24E	**CY25E**
Sales (CAD$m)	$54.6	$73.3
P/Sales multiple	2.4x	2.4x
PE Valuation	**$128.8**	**$172.9**
P/E Valuation (CAD$/share)	**$3.43**	**$4.61**
Current Share Price	***$0.41***	***$0.41***
Premium/(Discount)	*736.9%*	*1023.3%*

Source: Activ8 estimates

EV/EBITDA Valuation – CY24E = C$3.79/share

We have included an EV/EBITDA valuation as part of our blended price target calculations, given the relatively high level of debt compared to the current market capitalisation and because we believe investors should be focused on cash flow generated by NTG Clarity near term (EBITDA being a proxy for cashflow for the purposes of this valuation method).

EV/EBITDA Valuation		
	CY24E	CY25E
EBITDA (CAD$m)	$9.1	$14.9
EV/EBITDA multiple	16.3x	16.3x
EV	$148.4	$243.0
Net Debt/(Cash)	-$6.0	$4.9
Equity Valuation	**$142.4**	**$247.9**
EV/EBITDA Valuation (CAD$/share)	**$3.79**	**$6.61**
Current Share Price	***$0.41***	***$0.41***
Premium/(Discount)	*825.4%*	*1511.1%*

Source: Activ8 estimates

P/E Multiple Valuation CY24E = C$3.49/share

We've also included a P/E valuation to add to our blended price target, based on an 18.8x P/E multiple, which we believe can be justified based on the current revenue growth, solid gross margins and our estimate that CY24 net income margin will be 12.7%, resulting in EPS growth of 132.5% over CY23.

P/E Valuation		
	CY24E	CY25E
EPS - underlying (¢)	18.5¢	29.5¢
PE multiple	18.8x	18.8x
PE Valuation	**$130.9**	**$208.8**
P/E Valuation (CAD$/share)	**$3.49**	**$5.56**
Current Share Price	***$0.41***	***$0.41***
Premium/(Discount)	*750.7%*	*1256.6%*

Source: Activ8 estimates

DCF Valuation = C$3.60/share

As the rapidly increasing forecast revenue results are reported over the next few years, investors should focus on cashflow from operations and free cashflow (after debt repayments), for the benefit of all shareholders.

If successful, the company should be in a position to pay down all the debt and start paying dividends to shareholders within the next 24 to 36 months.

We've included a DCF valuation to take into account the estimated free cashflow that should be derived over the next 10 years (with a terminal value for the future cashflows).

To provide a basis for our DCF we modelled the company on a quarterly basis for 10 years (to 2034), making various assumptions around sales growth, margins, cost of doing business ratios, tax payments (once the tax losses are utilised), capex and changes in working capital. The cashflow modelling summary is shown in the table below.

DCF : Free Cashflow Analysis CAD$m													
	CY23F	CY24E	CY25E	CY26E	CY27E	CY28E	CY29E	CY30E	CY31E	CY32E	CY33E	CY34E	Terminal
Fully Taxed Net Income	2.5	7.0	11.1	12.9	16.6	19.9	21.7	23.0	23.8	24.3	24.7	25.2	
(After-Tax Int Exp)	-0.3	-0.4	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Unlevered Net Income	**2.8**	**7.4**	**11.4**	**13.1**	**16.7**	**20.0**	**21.7**	**23.0**	**23.9**	**24.3**	**24.8**	**25.3**	
Add: D&A	0.5	0.6	0.9	1.2	1.5	1.8	2.1	2.3	2.6	2.8	3.0	3.2	
Less: (CapEx)	-2.1	-3.0	-3.5	-3.8	-4.1	-4.3	-4.3	-4.5	-4.6	-4.7	-4.8	-4.9	
Add: Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Less: (Change in W/C)	-1.6	-1.1	-0.4	-0.3	-0.2	0.0	0.2	0.3	0.5	0.5	0.4	-0.2	
Unlevered FCF	**-0.4**	**3.9**	**8.4**	**10.3**	**13.8**	**17.5**	**19.7**	**21.2**	**22.3**	**22.9**	**23.4**	**23.4**	**23.4**
Years	0	0	1	2	3	4	5	6	7	8	9	10	11
Disc'd unlevered FCF	**-0.4**	**3.9**	**7.5**	**8.3**	**9.9**	**11.3**	**11.4**	**11.0**	**10.3**	**9.5**	**8.7**	**7.8**	
Growth rate FCF		*n/a*	*114%*	*22%*	*34%*	*27%*	*13%*	*7%*	*5%*	*3%*	*3%*	*0%*	

Source: Company Filings/Activ8 estimates

We derived a WACC based discount rate, using a cost of equity assumption using the Canadian market equity risk premium of 5.64%, the Canadian government 10-year bond rate of 3.62% for a cost of equity of 9.1% and the NTG Clarity 5 year Beta of 0.95.

In order to adjust for the variety of risks we highlighted in the previous section, and specifically for the micro-cap status of the company, we have applied an additional risk premium of 5% to arrive at our discount rate of 11.6%.

Next, we assumed a terminal growth rate of 1.2% for the years beyond 2034 and calculated a discounted terminal value to add to the discounted value of the FCF from the 10 year model.

The resulting valuation of the equity (adjusted for net debt) was CAD$149.5m which equates to $3.60/share (on a fully diluted basis – we assume all options will be exercised).

DCF Valuation	
	Current NPV
Discount Rate / WACC	11.6%
Terminal growth assumed	1.2%
Valuation (CAD$m)	**$149.5**
DCF Valuation (CAD$/share)	**$3.60**
Current Share Price	***$0.41***
Upside/(Downside)	*777.0%*
WACC	
Kd - Canadaian 10 yr bond	3.6%
Ke - CAPM (equity risk + risk free)	9.1%
Beta - adjusted (5yr 0.95)	0.95
Micro-cap risk premium adjustment	5.0%
WACC - adjusted for valuation	**11.6%**

Source: Activ8 estimates

Price Target (blended) = C$3.58/share

Based on a blended average of our DCF valuation and the three CY24E multiple based valuations outlined above, our price target for NTG Clarity Ordinary Shares listed in the TSXV exchange is CAD$3.58/share, which represents a potential upside of +772% from the current share price.

We believe the catalysts for a re-rating of the share price over the next 12 months could include the following:

- Further announcements of new POs from customers
- Reporting the pay down of debt from positive cashflow to show managements clear intention to repair the balance sheet
- Increased interest from institutional investors as credibility builds
- Management giving shareholders a clear message of their intention to pay dividends from future profits in the medium term (2026 and beyond)

Valuation – Comparable Company Metrics

				CAD$m	Net Debt	CAD$m		Revenue	Rev Gr %	EBITDA	NPAT	NI Margin	P/Sales	EV/EBITDA	P/E
Company Name	**Code.Exch**	**Price**	**Shrs (m)**	**Mkt Cap**	**/(Cash)**	**EV**	**Y/E**	**Curr**	**Curr**	**Curr**	**Curr**	**Curr**	**Curr**	**Curr**	**Curr**
AirIQ Inc	IQ.CVE	$0.44	29.5	$12.84	$0.00	**$12.8**	**June**	$5.0	16%	$0.7	$0.9	17.1%	2.5x	17.8x	14.9x
Intouch Insight Ltd	INX.CVE	$0.40	25.5	$10.21	$2.10	**$12.3**	**Dec**	$21.9	-7%	$0.7	$0.2	1.0%	0.5x	17.4x	47.9x
Sylogist Ltd	SYZ.TSX	$9.67	23.5	$226.92	$17.21	**$244.1**	**Dec**	$65.5	69%	$5.7	$1.1	1.7%	3.5x	43.0x	206.3x
NamSys Inc	CTZ.CVE	$0.93	27.1	$25.20	$0.00	**$25.2**	**Oct**	$6.1	13%	$2.3	$1.6	26.4%	4.1x	11.0x	15.7x
Ackroo Inc	AKR.CVE	$0.09	119.2	$10.73	$2.99	**$13.7**	**Dec**	$6.7	6%	$0.4	$0.5	7.5%	1.6x	34.8x	21.6x
BeWhere Holdings	BEW.CVE	$0.40	87.6	$35.03	$0.38	**$35.4**	**Dec**	$11.9	19%	$1.0	$0.7	6.3%	2.9x	34.9x	46.8x
Computer Modelling	CMG.TSX	$10.05	81.2	$816.41	$0.00	**$816.4**	**Mar**	$73.8	12%	$25.9	$19.8	26.8%	11.1x	31.6x	41.2x
LifeSpeak Inc	LSPK.TSX	$0.57	59.1	$33.71	$85.50	**$119.2**	**Dec**	$52.4	11%	-$9.8	-$26.3	-50.2%	0.6x	-12.2x	-1.3x
NowVertical Group Inc	NOW.CVE	$0.26	77.8	$20.23	$1.42	**$21.6**	**Dec**	$45.9	70%	-$4.6	-$8.6	-18.8%	0.4x	-4.7x	-2.4x
Adcore Inc	ADCO.TSX	$0.23	60.3	$13.87	$0.00	**$13.9**	**Dec**	$23.1	18%	-$0.4	-$0.9	-4.1%	0.6x	-33.4x	-14.7x
Quorum IT Inc	QIS.CVE	$0.75	73.5	$55.13	$12.30	**$67.4**	**Dec**	$40.7	5%	$1.1	-$0.7	-1.7%	1.4x	61.3x	-79.1x
Total Telecom Inc	TTZ.CVE	$0.33	26.4	$8.59	-$1.20	**$7.4**	**June**	$2.4	45%	$0.7	$0.6	24.3%	3.6x	10.4x	14.7x
Thinkific Labs Inc	THNC.TSX	$3.88	162.2	$629.16	$0.00	**$629.2**	**Dec**	$59.1	15%	-$10.6	-$9.8	-16.5%	10.6x	-59.4x	-64.3x
Copperleaf Tech Inc	CPLF.TSX	$6.70	74.0	$495.86	$0.00	**$495.9**	**Dec**	$79.6	8%	-$39.1	-$34.9	-43.9%	6.2x	-12.7x	-14.2x
OneSoft Solutions Inc	OSS.CVE	$0.80	122.3	$97.84	$0.00	**$97.8**	**Dec**	$5.9	-14%	-$3.8	-$3.4	-57.7%	16.6x	-25.8x	-28.7x
Nubeva Tech Ltd	NBVA.CVE	$0.44	68.9	$30.31	$0.03	**$30.3**	**Apr**	$3.0	47%	-$0.8	-$0.7	-22.5%	9.9x	-38.9x	-44.1x
Average - all				**$157.6**		**$165.2**							**4.8x**	**4.7x**	**10.0x**
Average - excl outliers				***$189.7***		***$192.5***							***3.6x***	***25.1x***	***29.0x***

Source: Simply Wall Street/Yahoo Finance/Activ8 analysis - 15th April 2024

Summary Financial Estimates

NTG Clarity Networks	Price	C$ 0.41
	Market Cap	C$ 15.4

Year end 31 December

Profit & Loss (C$m)	CY22A	CY23F	CY24E	CY25E	CY26E
Revenue	**17.7**	**27.2**	**54.6**	**73.3**	**85.3**
COGS	-10.9	-16.5	-32.9	-43.7	-50.4
Gross Margin	**6.7**	**10.7**	**21.7**	**29.7**	**34.9**
Selling Expenses	-1.7	-2.0	-3.8	-4.5	-4.9
G&A Expenses	-2.5	-4.0	-7.4	-8.3	-8.3
Other Exps	-0.2	-0.5	-1.5	-2.0	-2.3
EBITDA	**2.3**	**4.1**	**9.1**	**14.9**	**19.3**
Dep & Amort.	-0.4	-0.5	-0.6	-0.9	-1.2
EBIT	**1.9**	**3.6**	**8.5**	**14.0**	**18.1**
Net Interest Expense	-0.3	-0.3	-0.4	-0.2	0.1
Share Compensation	-0.3	-0.1	-0.1	-0.1	-0.1
NPBT	**1.2**	**3.2**	**8.0**	**13.7**	**18.0**
Tax expense	0.0	0.0	0.0	-2.2	-4.7
FX & other expense	-0.5	-0.7	-1.0	-0.4	-0.4
Net Income after FX	**0.8**	**2.5**	**7.0**	**11.1**	**12.9**

Cash Flow (C$m)	CY22A	CY23F	CY24E	CY25E	CY26E
NPAT	**0.8**	**2.5**	**7.0**	**11.1**	**12.9**
+ Depreciation	0.2	0.1	0.2	0.3	0.3
+ Amortization	0.3	0.4	0.5	0.7	0.9
- Change in Working Capital/o	1.3	-1.6	-1.1	-0.4	-0.3
Operating Cashflow	**2.5**	**1.4**	**6.5**	**11.6**	**13.9**
- Capex	-1.4	-2.1	-3.0	-3.5	-3.8
- Acquisitions	-0.1	0.0	0.0	0.0	0.0
- Other Investing.	0.0	0.0	0.0	0.0	0.0
Investing Cashflow	**-1.6**	**-2.1**	**-3.0**	**-3.5**	**-3.8**
Free Cashflow	**0.9**	**-0.7**	**3.5**	**8.1**	**10.1**
Loans - Drawn/(Repayment)	-0.1	-0.2	-0.8	-1.8	-4.0
Shares - Issues/(Buybacks)	0.0	1.1	0.0	0.0	1.0
Dividends - (Payments)	0.0	0.0	0.0	0.0	0.0
Other Financing	-0.4	-0.3	0.0	0.0	0.0
Financing Cashflow	**-0.5**	**0.7**	**-0.8**	**-1.8**	**-3.0**
Net Cashflow	**0.4**	**-0.1**	**2.7**	**6.3**	**7.0**
Cash at beginning of period	0.2	0.7	0.6	3.4	9.7
Cash at end of period	**0.7**	**0.6**	**3.4**	**9.7**	**16.7**

Balance Sheet (C$m)	CY22A	CY23F	CY24E	CY25E	CY26E
Cash	0.7	0.6	3.4	9.7	16.7
Recievables/Debtors	3.9	7.4	9.1	9.6	10.1
Curr Tax Assets	0.0	0.0	0.0	0.0	0.0
PP&E	0.2	0.6	1.0	1.3	1.6
Intangibles/Goodwill	3.2	4.1	6.1	8.3	10.6
NC Tax Assets	0.0	0.0	0.0	0.0	0.0
Other assets	0.1	0.3	0.3	0.3	0.3
Total Assets	**8.2**	**13.0**	**19.8**	**29.3**	**39.3**
Borrowings	7.9	7.4	6.6	4.8	0.8
Payables/Creditors	7.0	9.0	9.6	9.8	9.9
Other Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**14.9**	**16.4**	**16.2**	**14.6**	**10.7**
NET ASSETS	**-6.8**	**-3.4**	**3.6**	**14.6**	**28.6**

Board of Directors / Substantial Shareholders		
Substantial Shareholders	**Shareholding (m)**	**%**
2729252 Ontario Inc	5.6	15.0%
Ashraf Zaghloul	5.7	15.2%
Kristine Lewis	5.2	13.9%
Other shareholders	21.0	55.9%
Total Shares (undiluted)	**37.5**	**100.0%**
Options on Issue	**Options (m)**	**% f.dil.**
$0.25 exercise / Oct-26 expiry	4.0	9.5%

Valuation ratios	CY22A	CY23F	CY24E	CY25E	CY26E
EPS (cps)	2.7¢	8.0¢	18.5¢	29.5¢	33.6¢
PE Ratio (x)	15.4x	5.1x	2.2x	1.4x	1.2x
Enterprise Value ($m)	$38.0	$67.7	$148.4	$243.0	$314.9
EV / EBITDA (x)	8.3x	6.0x	2.4x	0.7x	0.1x
DPS (cps)	0.0¢	0.0¢	0.0¢	0.0¢	0.0¢
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Profitability ratios	CY22A	CY23F	CY24E	CY25E	CY26E
Gross Margin %	38.1%	39.2%	39.8%	40.5%	41.0%
EBITDA Margin (%)	13.2%	15.3%	16.7%	20.3%	22.6%
Net Income Margin (%)	4.5%	9.3%	12.7%	15.1%	15.2%
ROE (%)	n/a	n/a	223.6%	78.4%	46.7%
ROA (%)	15.3%	24.9%	40.2%	39.2%	33.9%
ROIC (%)	5.8%	13.0%	33.0%	58.8%	80.8%

Balance Sheet ratios	CY22A	CY23F	CY24E	CY25E	CY26E
Net Debt (cash)	$7.2	$9.5	$6.0	-$4.9	-$16.0
Net Gearing (%) ND/ND+E	1720.1%	155.3%	62.8%	-50.0%	-126.6%
Interest Cover (x)	6.0	11.1	21.1	50.5	118.0
NTA per share ($)	-$0.34	-$0.20	-$0.07	$0.17	$0.43
Price / NTA (x)	-121.5	-205.5	-607.2	244.5	94.9

Growth ratios	CY22A	CY23F	CY24E	CY25E	CY26E
Sales revenue (C$m)	48.4%	53.9%	101.1%	34.2%	16.3%
EBITDA ($m)		78.1%	119.2%	63.8%	29.6%
EBIT ($m)		92.2%	132.6%	65.0%	29.4%
Net Income after FX ($m)		219.1%	176.2%	59.5%	16.6%
EPS (cps)		199.0%	132.5%	59.5%	13.7%
DPS (cps)		0.0%	0.0%	0.0%	0.0%

Interim Analysis - most recent Quarterly Filings	1QCY23	2QCY23	3QCY23
Revenue	**6.1**	**6.4**	**7.0**
COGS	-3.9	-3.9	-3.9
Gross Margin	**2.3**	**2.4**	**3.1**
Gross Margin %	36.8%	38.1%	44.0%
Operating Expenses	-1.0	-1.3	-2.2
EBITDA	**1.2**	**1.2**	**0.9**
D&A, Interest, FX & Other	-0.6	-0.5	-0.4
Net Income after FX	**0.6**	**0.7**	**0.5**
Net Income Margin %	10.4%	11.0%	7.3%
EPS (cps)	2.2¢	2.4¢	1.7¢
DPS (cps)	0.0¢	0.0¢	0.0¢

Valuations	CY24E	CY25E
PE Multiple (x)		
EPS (c) - cash	18.5¢	29.5¢
PE Multiple (x)	18.8x	18.8x
Valuation Estimate	**130.9**	**208.8**
Per Share	**$3.49**	**$5.56**
Price to Sales multiple (x)		
Sales/Revenue ($m)	$54.6	$73.3
P/S multiple (x)	2.4x	2.4x
Valuation Estimate	**128.8**	**172.9**
Per Share	**$3.43**	**$4.61**

Discounted Cash Flow			
Cost of equity	9.1%	Terminal Growth Rate	1.2%
Cost of debt	3.6%	**Valuation - fully dil.**	**$149.5**
WACC	11.6%	**Per Share - fully dil.**	**$3.60**

Source: Company filings / Activ8 estimates

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