

Special Situation Research

NTG CLARITY NETWORKS INC.

Leading Canadian IT Services & Solutions Provider
Making Significant Inroads in Fastest-Growing
Economy in the G20

Website: www.ntgclarity.com

Ticker: TSXV: NCI

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Investment Rationale

NTG Clarity Networks, Inc. has evolved into a prominent international software and service provider and presents a compelling buy opportunity based on its past performance, growth potential, and current valuation. The company operates in a diverse range of sectors, offering telecommunications engineering, Information Technology, networking, and related software solutions to clients in the telecommunications, oil and gas, automotive, banking, and government industries. This broad spectrum of offerings has played a pivotal role in the company's remarkable growth trajectory, allowing it to recently enhance its profit margins. The company's **revenues in the first nine months of 2023 were up by 64% from 2022. Recurring professional service revenue contributed 95%** of the company's Q3 2023 revenue. In 2024, the company aims to achieve **a revenue target of \$50 million** and a 10% bottom-line profit margin. The company has been **profitable for 2 years** now.

The Kingdom of Saudi Arabia (KSA) is a key market for NTG Clarity. KSA's robust economy, due in large part to strong oil prices, continues to show increasing demand for the company's products and services. Expansion in the Financial sector and establishing an offshore center in Egypt are additional growth drivers.

The stock is trading at a compelling valuation. Based on our DCF model, its EV comes to C\$140.6 million with a market capitalization of C\$134.5 million. That implies an **upside of 7 times** its current market value. Likewise, based on relative valuation, the stock offers a compelling upside. **NTG's PE multiple implies an upside of 3.4x and the PS multiple implies an upside of 5.2x** based on the average multiples for its peers.

Business Overview

NTG Clarity is a Canadian publicly traded Corporation (TSXV: NCI) that provides telecommunications engineering, Information Technology, networking, and related software solutions. It has been developing niche software products directed at telecom service providers and utility markets since its inception in 1993. It also provides professional services and managed services to this same vertical. It has also expanded into the financial and government sectors, providing products and technical resources to assist customers with projects that include digital transformation.

The company is headquartered in Toronto, Canada, and has subsidiaries or branch offices in Cairo, Egypt; the USA; Riyadh, Saudi Arabia, and Oman. The company is organized into two business segments:

The Canadian segment: Activities in Canada and its offices in Saudi Arabia and Oman

The Egypt segment: Software development group that also provides professional services, offshoring services, and network services to customers in Egypt.

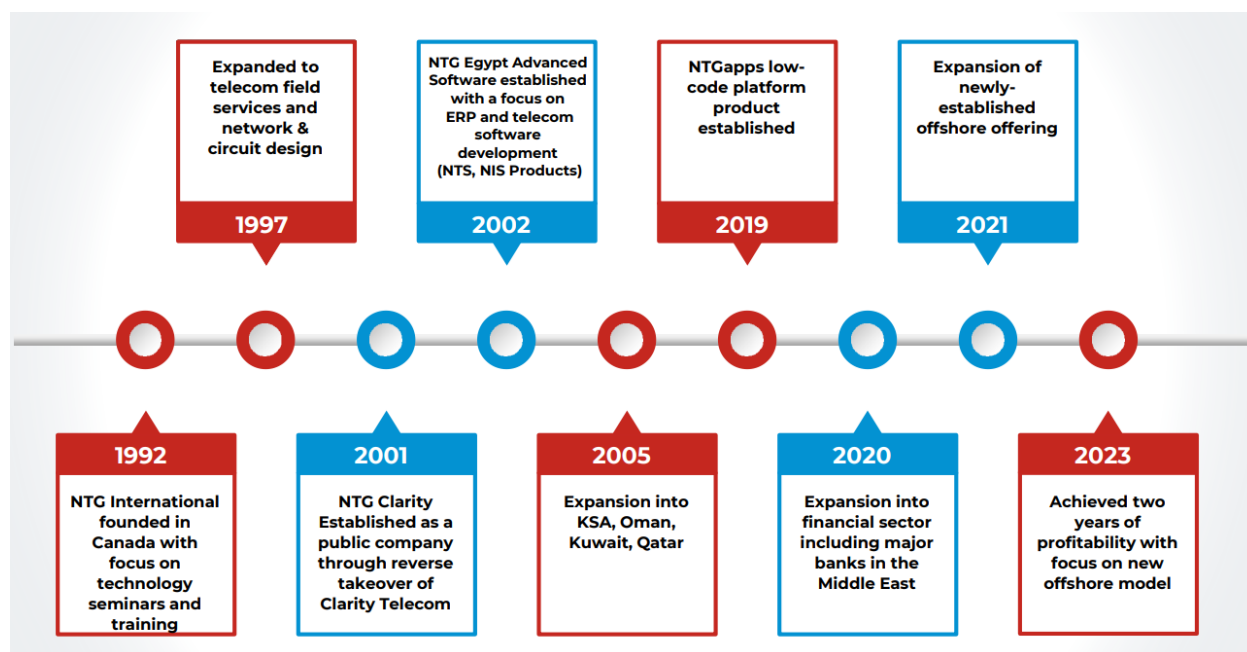
2024 Updates

- NTG Clarity has launched an AI Department, **integrating AI with its NTG apps platform**. The AI Working Group is working on two proof of concept projects: training Large Language Models (LLMs) on proprietary financial data for investment decisions and a knowledge base for NTG's past projects.
- NTG Clarity underwent a consolidation of its outstanding common shares, with one post-consolidation share for every five pre-consolidation shares. The consolidation was approved by shareholders at the annual and special meeting on July 7, 2023. The shares began trading

on the TSX Venture Exchange on March 20, 2024. The number of issued and outstanding shares was reduced from 187,672,355 to 37,534,471 shares.

- NTG Clarity Networks Inc. participated in the MWC Barcelona 2024 and LEAP 2024 technology conferences, signing a Memorandum of Understanding with a Middle Eastern e-commerce software company. The partnership aims to provide resources for software development and promote the NTG app's proprietary software platform.

Chart 1: NTG Milestones



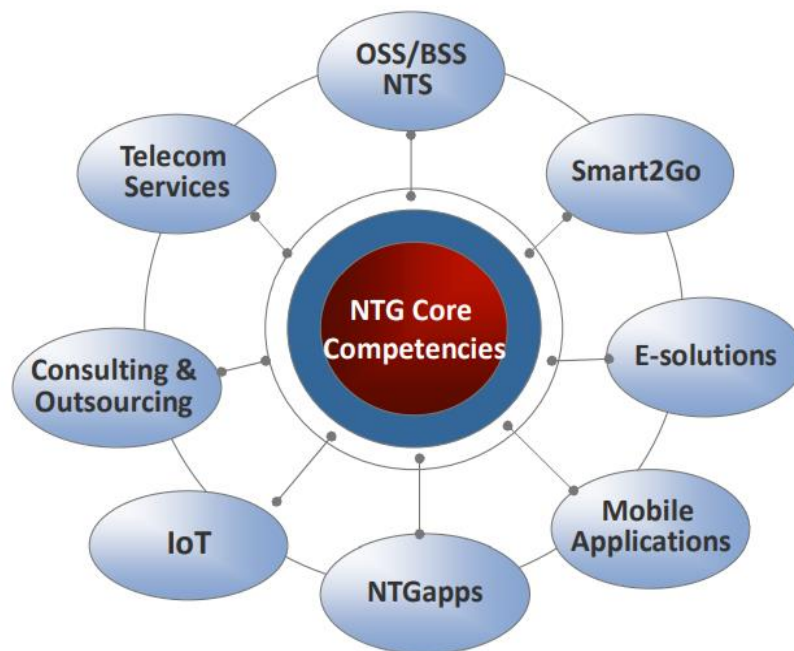
Source: Investor Presentation

Products and Services

The company's key products and services include:

- StageEM
- Workflow Management
- Network Inventory Management
- Partner Relationship Management
- Solution Development
- Testing as a Service (TaaS)
- System Integration
- NTGapps
- NTS Asset Management
- NTS Telco in a Box
- NTS Trouble Ticket Management
- NTS Utility Billing
- Mi-World
- Consulting
- Outsourcing

Chart 2: NTG Core Competencies



Source: Company Report

2024 – Purchase Order Highlights

NTG Clarity received multiple new purchase orders for 15.44M CAD in new work and 6.57M CAD in renewals for customers in the Financial, Telecom, IT, Government, Utilities, and Food & Beverage sectors for onsite and offshore.

In March 2024, NTG Clarity partnered with an Iraqi company to bring its products and services to the growing Iraqi market. The projects will provide NTG with recurring revenue for maintenance and support. It has signed four projects for licensing and implementation of its NTG apps platform, a low-code development tool that allows users to create their own business operations tools. The projects include two projects for end-to-end ERP systems, one for payroll platforms, and one for a mobile app supporting billing, collections, and meter reading for utilities operators.

NTG's new work in software testing as a service is a response to the increasing demand in the Middle East for software testing and quality assurance services due to its vast network of professionals and offshore capabilities in Egypt.

Chart 3: Recent Contracts

Contract	Amount (CAD)	Maximum Duration
April 2024	1.8	1 year
March 2024	4.5	1 year
January 2024	15.7	1 year

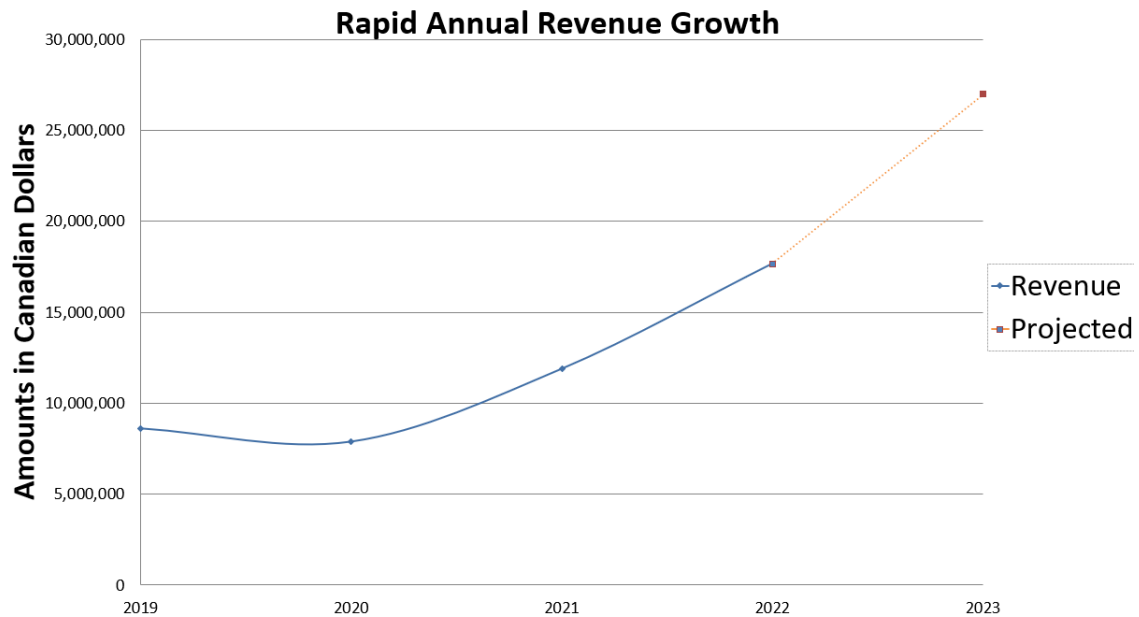
Growth Drivers—New Sector Expansion and New Offshore Model

KSA's robust economy, due in large part to strong oil prices, continues to show increasing demand for the company's products and services.

- In 2020, the company expanded to offer services to the Financials sector. It is expanding rapidly and undergoing a digital transformation, especially in KSA.
- In 2021, it established its Egypt Offshore Centre. Offshore staff have much higher margins and are deployed faster than on-site.

The company's long-term track record and relationships and innovative products and services help it take advantage of this expansion opportunity.

Chart 4: Historical and Projected Revenue



Source: Investor Presentation

Financials

NTG Clarity currently has around \$40 million worth of work in progress, with the majority of it expected to be completed by 2024. The company aims to achieve a revenue target of \$50 million and a 10% bottom-line profit margin. In 2024, NTG is prioritizing growth and profitability, and it has set a target of 10% bottom-line profit margin. The company intends to pay off its existing liabilities and improve its balance sheet.

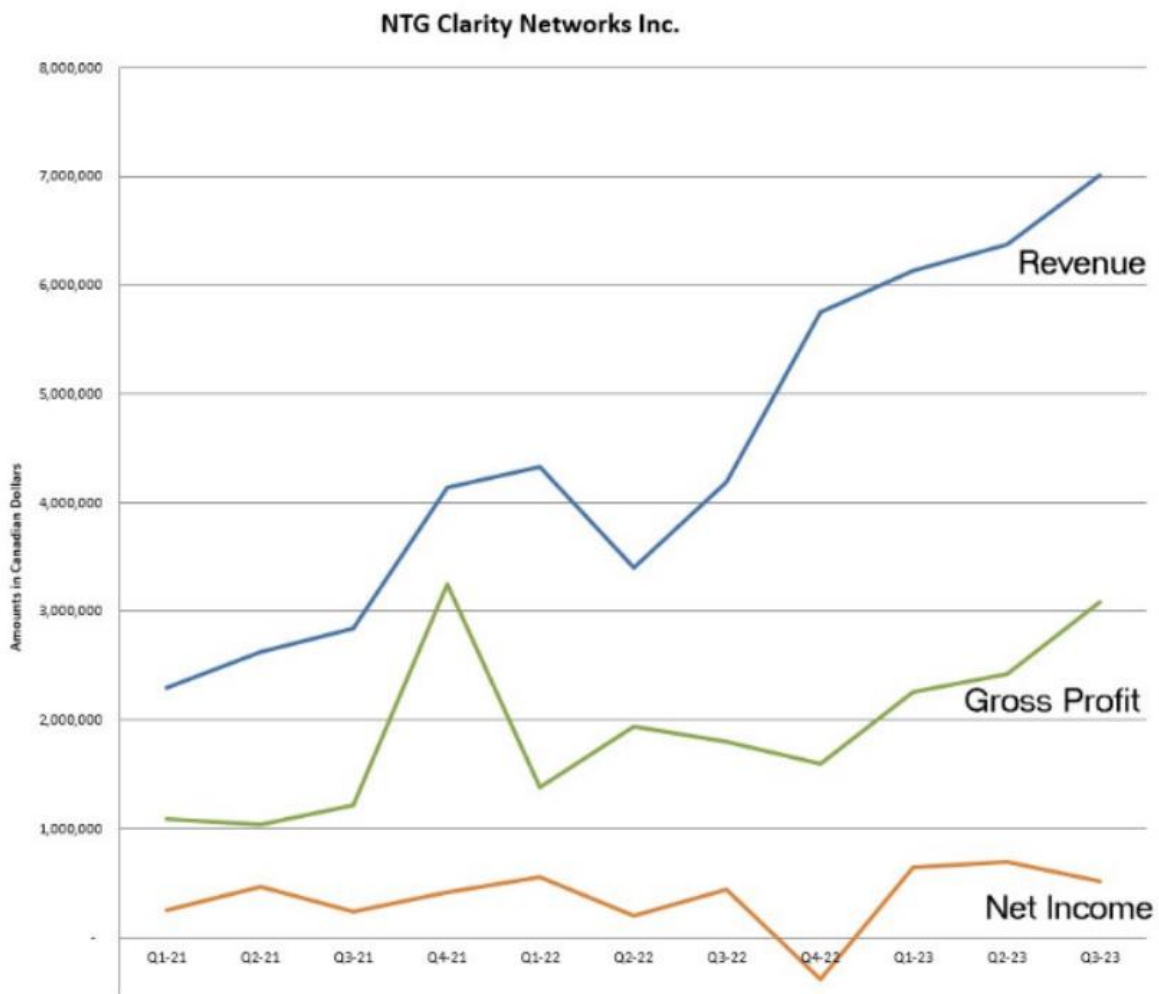
Consolidated revenue for the three months ended September 30, 2023, was \$7,003,553 compared to \$4,185,208 for the same period in 2022 and is made up of product-related revenue and professional services. This is due to significantly increased revenue from existing customers and 13 new customers in KSA which contributed 16.6% of the YTD revenue (25.1% of Q3 2023 revenue). **Year-to-date revenue was up by 64% from 2022.** Professional service and outsourcing/offshoring revenue contributed 95% of the company's Q3 2023 revenue. It is an important strategic source of revenue for NTG, given its generally **recurring nature**. The contribution of product-related revenue was 5% in Q3 2023. The company's gross margin for the 12 months ending Sep. 30, 2023, was 44% and the income from operations was \$3,273,075.

KSA's YTD revenue grew 146% over the last year. There is an increasing demand for the company's products and services as the region undergoes its digital transformation, with 13 new customers in the

banking, real estate, and government sectors, as well as increasing work from its major existing customers in the region. NTG Clarity has been in the region for over 17 years.

The company's **total shareholders' equity is negative** on account of past losses, which is a key concern. The **long-term debt of \$6.5M** is owed to 2729252 Ontario Inc., a company **controlled by Ashraf Zaghloul, NTG CEO, and Kristine Lewis, NTG President**. Ontario Inc. repurchased the loan from the lending bank in 2019. There are **no specific repayment terms** and the effective **interest rate is <1%**.

Chart 5: Revenue and Profit Growth



Source: Q3 Press Release

Valuation

The rise in the demand for digital banking channels, improved customer service, an increase in the popularity of workforce optimization solutions, and a rise in the adoption of financial services software by various companies to monitor and mitigate risks into mainstream decision-making are anticipated to drive the growth of the global financial services software market in the future. Government officials are now recognizing the benefits of SaaS solutions. As public agencies pivoted much of their workforce to telework status in 2020, the demand for cloud to enhance productivity and economic progress has increased. Development in the financial and government sectors will support future business growth as the company expands its commercial activities there. Additionally, strong acquisition of new

customers, contracts, contract extensions, and opportunities in Saudi Arabia to drive growth in the future.

Discounted Cash Flow

We anticipate that revenue will increase by 53% in 2023. For 2024, the company targets revenue of \$50 mn. The detailed forecasts up to the financial year 2025 are provided below.

Income Statement

Particulars	Actual				Estimates		
	2019	2020	2021	2022	2023	2024	2025
Revenue	8,626,000	7,907,000	11,895,943	17,652,313	27,000,000	50,000,000	76,477,230
Cost of Goods Sold	6,373,000	5,673,000	5,307,491	10,929,917	17,020,907	31,520,197	48,211,548
Gross Profit	2,253,000	2,234,000	6,588,452	6,722,396	9,979,093	18,479,803	28,265,682
GP Margin (%)	26%	28%	55%	38%	37%	37%	37%
Operating Expenses							
Selling	2,316,833	3,276,000	1,257,849	1,717,956	2,627,690	4,866,093	7,442,907
General and administration	4,060,000	2,321,000	2,440,239	2,455,510	3,755,812	6,955,208	10,638,300
Loss on foreign exchange			294,457	294,625	294,625	294,625	294,625
Total operating expenses	6,376,833	5,597,000	3,992,545	4,468,091	6,678,127	12,115,926	18,375,832
EBITDA	(4,123,833)	(3,363,000)	2,595,907	2,254,305	3,300,966	6,363,877	9,889,851
EBITDA Margin(%)	-48%	-43%	22%	13%	12%	13%	13%
Amortization			131,222	277,416	379,864	489,796	631,543
Depreciation			112,873	160,795	105,544	129,186	158,124
Total Depreciation	418,672	41,082	244,095	438,211	485,408	618,983	789,667
EBIT	(4,542,505)	(3,404,082)	2,351,812	1,816,094	2,815,558	5,744,894	9,100,183
EBIT(%)	-53%	-43%	20%	10%	10%	11%	12%
Accretion			5,697	5,804	8,877	16,440	25,145
Provision for bad debts			21,524	-	-	-	-
Interest			200,310	315,656	417,276	417,276	417,276
Share-based payments			810,300	328,250	502,073	929,765	1,422,117
Other income			(56,107)	(81,473)	(124,617)	(230,771)	(352,975)
Total Expense			981,724	568,237	803,609	1,132,709	1,511,562
Income from continuing operations	(8,812,000)	(1,632,000)	1,370,088	1,247,857	2,011,949	4,612,186	7,588,621
Other comprehensive income:							
Exchange gain (loss) arising on translation of foreign operations			(6,130)	(459,423)	(459,423)	(459,423)	(459,423)
Total Comprehensive Income(Loss) for the year			1,363,958	788,434	1,552,526	4,152,763	7,129,198
Net Profit Margin (%)			11%	4%	6%	8%	9%

Based on our forecast and assumptions, with a discount rate of 8% and a terminal growth rate of 1%, we arrive at an enterprise value of **CAD 140.6 million**. The company's estimated market capitalization is C\$134.5 million, which gives a fair value of C\$3.58 per share. That implies **an upside of over 7 times from the stock's current price**.

DCF Valuation

Particulars (in CAD)	2023e	2024e	2025e
Net Income	1,552,526	4,152,763	7,129,198
Non cash	987,481	1,386,926	1,964,270
Interest(1-tax)	417276	417276	417276
Change in working capital	-1,225,741	-1,916,115	-2,930,783
Change in fixed capital	1,758,012	1,961,395	2,516,597
FCFF	2,425,011	7,239,749	10,790,021
WACC	8.00%	8.00%	8.00%
PV of FCFF	2,245,381	6,206,918	8,565,467
Terminal Value			155,684,589
Sum of PV of FCFF	17,017,765		
Terminal Value discounted	123,587,447		
Enterprise Value	140,605,212		
Debt	6,829,387		
Cash	725,020		
Market Value	134,500,845		
Shares Outstanding	37,534,471		
In Canadian \$	3.58		

Relative Valuation

NTG Clarity Networks Inc. stock's PS and PE ratios are currently 0.57x and 11.42x, respectively. These are lower than the average PS ratio of 2.94x and the average PE ratio of 39.16x for its peers. This provides a substantial upside potential for the NTG Clarity Network stock as it is trading at a discount of -71% based on its PE ratio and -81% based on its PS ratio respective to peer averages. **The PE multiple implies an upside of 3.43x and the PS multiple implies an upside of 5.16x** based on the average multiples for its peers.

S. No.	Company Name	PE Ratio	PS Ratio
1	NTG Clarity Networks Inc. (NCI.V)	11.42	0.57
2	Equinix (EQIX)	71.98	8.52
3	CGI Inc. (GIB-A)	20.58	2.33
4	Sopra Steria (SOP.PA)	24.92	0.79
5	Rackspace Technology (RXT)	NM	0.12
	Average (ex. NTG Clarity Networks)	39.16	2.94

Management

Kristine Lewis - President & Director

Kristine Lewis has been working in the financial and administrative sector for over 20 years. Kristine began their career at Aratek as a Technical Documentation Specialist before moving on to Rogers CableSystems as a Documentation Coordinator. From there, they became the Manager of Technical Documentation at Rogers Wireless. In 1997, they joined NTG Clarity as the VP of Finance and Admin, and they have been with the company ever since, eventually becoming the President & Director. She has a B.Sc. in both Computers and Psychology from the University of Toronto Scarborough.

Ashraf Zaghloul - Chief Executive Officer and Chairman of the Board

Ashraf Zaghloul founded NTG International in 1992. 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. He has been involved with information technology and communications since 1981. 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.

Gamal Metwally - Executive Vice President

Gamal Metwally has over 30 years of experience in innovative solutions and senior management. He led several teams developing Software Products, IT, IoT, and Telecom solutions and leading business development globally. He has held progressively 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.

Yaser Yousef - Chief Technology Officer

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 the telecommunications industry. His expertise covers telecom network design, process and procedures and reengineering, OSS system architecture, and design and data modeling.

Important Disclosures

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