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Research Note

NTG Clarity – Q2 Financials Affected by Middle East Conflict

Rating	Target Price
BUY	**$1.25**
Unchanged	*Prev. $2.00*

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Disseminated on Behalf of NTG Clarity Networks Inc.

All figures in CAD unless otherwise stated

NTG Clarity Networks Inc.	NCI:TSXV
Rating	BUY
Target Price	$1.25
Return to Target	140%

Market Data	
Share Price	$0.52
Average Daily TSXV Volume (K)	25.1
FD ITM Shares (M)	48.7
Market Cap ($M)	$25.3
Cash & Marketable Securities ($M)	$2.8
Debt ($M)	$5.8
Enterprise Value ($M)	$28.3

FYE Dec 31	2025A	2026E	2027E
Revenue ($M)	$83.4	$84.0	$93.8
Gross Margin (%)	36%	33%	36%
Adj. EBITDA ($M)	$11.9	$1.9	$9.2
Adj. EBITDA Margin (%)	14%	2%	10%
Net Income ($M)	$5.5	$2.6	$5.0
EPS (Basic)	$0.11	$0.07	$0.10
FCFF ($M)	($3.8)	$7.9	$4.3

Valuation	2025A	2026E	2027E
EV/EBITDA	2.4x	15.3x	3.1x
EV/Sales	0.3x	0.3x	0.3x
P/E	4.6x	9.7x	5.0x

Please refer to the applicable disclosures on the back page
Source: Atrium Research, CapitalIQ, Company Documents

NTG Clarity Networks' vision is to be a global leader in digital transformation solutions. As a Canadian company established in 1992, NTG Clarity has delivered software, networking, and IT solutions to large enterprises including financial institutions and network service providers. More than 1,400 IT and network professionals provide design, engineering, implementation, software development and security expertise to the industry's leading enterprises.

What you need to know:

- NTG reported Q2 revenue of $20.1M (+6% YoY, $22.1M expected) and adjusted EBITDA of breakeven vs. our $2.4M estimate.
- The Company has withdrawn its 2026 financial guidance and now expects gross margin in the low-to-mid 30% range for the foreseeable future as the Middle East conflict has weighed on its clients.
- Customers are negotiating discounted rates, pausing extensions and in some cases scaling back engagements to preserve cash.

Yesterday, NTG Clarity Networks (NCI:TSXV, NYWKF:OTCPK) reported Q2 financial results that missed our forecasts due to impacts from the conflict in the Middle East. We believe these results are only temporary and that the Company will get back to historical profitability over the medium/long-term. **We are maintaining our BUY rating and lowering our target price to $1.25/share (previously $2.00/share) on NTG Clarity.**

Financial Highlights

- Q2 revenue was $20.1M (+6% YoY), below our estimate of $22.1M and CapitalIQ consensus of $21.5M. This was impacted by the conflict in the Middle East as client spend did not increase as expected.
- Contracted backlog landed at $80M vs. $73M in Q1 (+10% QoQ).
- Over the six months, revenue was 51% offshore services, 41% onsite services, and 8% product-related revenue. 58% of revenue came from the banking sector, 32% from system integrators, 7% from telecom, and 3% from other.
- Gross margin for the quarter was 34%, compared to our 35% estimate and 38% in Q2/25. Customers also negotiated discounted rates to reserve engagements. Resources were moved off the bench to new engagements, offset by some clients not renewing agreements.
- Adj. EBITDA for Q2 came in at breakeven vs. our estimate of $2.4M (11% margin) and consensus of $2.8M. As a reminder, new staff are booked as G&A before being moved to COGS when deployed (and vice versa).
- S&M was 8% of sales and G&A was 27% of sales, compared to historical averages of ~7% and ~17%, respectively. S&M decreased 2% QoQ, and G&A increased 10% QoQ. NTG maintained its staffing and infrastructure required to see future growth following the conflict stabilization.
- Net income (continuing ops) for Q2 was $1.8M vs. our estimate of $1.3M and $0.4M in Q2/25. This benefited from a $1.8M tax recovery.
- OCF for Q2 was $2.7M before WC changes, but ($4.6M) after WC changes as A/R increased by $5.4M QoQ attributed to the conditions in the region.
- NTG ended Q2 with $2.8M in cash and $5.8M in debt (down $0.2M QoQ).

	Q2/26A	Atrium Est.	YoY
Revenue ($M)	**$20.1**	$22.1	+6%
Gross Margin (%)	**34%**	35%	-440 bps
Adj. EBITDA Margin (%)	**0%**	11%	-1475 bps
Net Income ($M)	**$1.8**	$1.3	+285%

Figure 1: Q2 Financials Summary

Outlook

Similar to last quarter, the Middle East conflict has affected NTG's ability to sign new contracts. Clients have been focusing on cost effectiveness and ROI, resulting in lower pricing, pausing expansion, and scaling back of some agreements. Many of the digitization efforts in Saudi rely on oil shipments for funding; real GDP declined 4.8% YoY in Q2 with non-oil up 0.6%. As such, NTG withdrew its 2026 guidance while monitoring the situation and may update guidance in the future.

Management believes that once the conflict stabilizes, its resources will be quickly deployed as they are critical for its clients. The Company stated that it has a solid base of business and strong Q3 order volume (see below). The Company plans to focus on cash collection through H2 and remaining self-funded, while focusing on modest organic growth opportunities. Specifically, NTG's executive team is now directly involved with collections, with July collections being ~$8M compared to $15M in all of Q2 and $20M in Q1. Management expects low-to-mid 30s for gross margin going forward, maintaining its staff levels until the conflict stabilizes.

New Work Valued at $16.8M
Alongside the results, NTG announced a further $16.8M in new purchase orders and contract renewals, taking Q3 announcements to date to $33.4M. Management characterized Q2 deal flow, across both new and renewals, as materially slower than its own expectations, attributing it to clients across the region extending decision timelines rather than cancelling work. This compares YoY to the $10.9M in work announced on September 9th, 2025.

The bulk of the announcements consists of $15.7M in renewals, expansions and related purchase orders from customers. Of that, $10.4M is billings against the two large framework agreements in place: 1) $6.2M against the $53M three-year contract signed in December 2024, and 2) $5.3M in renewed purchase orders and contracts for offshore and onsite software development. The new work totals ~$1.0M split between $593K across three new customers and one existing customer and $432K from the existing real estate developer customer, representing further billings under the three-year framework signed back in March 2026, which only covers a portion of the expected 2026 work with additional orders anticipated for 2027 and beyond.

Announcement Date	Work Valued	Type
Apr-09-2024	$1.8M	POs/renewals
May-02-2024	$2.1M	POs/renewals
Jun-04-2024	$4.3M	POs/renewals
Jul-02-2024	$5.0M	POs/renewals
Aug-06-2024	$8.5M	POs/renewals
Aug-29-2024	$53.0M	Framework ceiling
Sep-19-2024	$6.0M	POs/renewals
Nov-18-2024	$10.3M	POs/renewals
Dec-04-2024	$22.0M	Framework ceiling
Jan-30-2025	$14.6M	POs/renewals
Apr-30-2025	$11.1M	POs/renewals
May-14-2025	$12.5M	POs/renewals
Jun-18-2025	$11.2M	POs/renewals
Sep-09-2025	$10.9M	POs/renewals
Dec-10-2025	$11.8M	POs/renewals
Feb-17-2026	$14.1M	POs/renewals
Mar-09-2026	$18.2M	Framework ceiling
Apr-09-2026	$12.3M	POs/renewals
Jul-16-2026	$16.6M	POs/renewals
Aug-27-2026	$16.8M	POs/renewals

Figure 2: Contract & Purchase Order Announcements

Our Take
This quarter showed us that the negative effects from the Middle East conflict have gotten worse since Q1 was reported. The Middle East exposure was once a strong tailwind for NTG but has now become a headwind, leaving us waiting for a recovery. While we do not know when the rebound will begin, we believe it will happen eventually as NTG's services and products are highly critical for its clients, meaning the demand still exists. The contract signings tell us that revenue should sustain these levels or continue growing into H2, but margins remain the question. As a reminder, we use 2027 as our valuation year, which would ideally reflect the turnaround; nevertheless, our estimates move lower (Figure 5), decreasing our target price to $1.25/share from $2.00/share. This is based on the same 6.5x 2027E EBITDA, reflecting a strong 140% upside.

We will note that while most software and IT stocks have begun recovering from their lows, NTG has underperformed, now with potential to be a catch-up trade when things recover. NTG trades at 15.3x/3.1x 2026E/2027E EBITDA compared to its peers at 6.1x/5.7x.

EBITDA Multiple Valuation	
2027E Adj. EBITDA	$9.2
EV/EBITDA Multiple	6.5x
Enterprise Value	$59.8
(+) Cash	$2.8
(-) Debt	$5.8
Equity Value	$56.8
Target Price (Rounded)	**$1.25**
Upside	*140%*

Figure 3: Valuation Summary

Conference Call Notes

- Subsequent to the quarter, both revenue and collections improved.
- New POs have longer project lengths to reduce costs for clients. Roughly, half of the POs will be billed in 2026 and half in 2027.
- Cost base has been flat over the past three quarters (measured as COGS + G&A + S&M).
- Priorities going forward: 1) Convert the receivables, 2) Convert the backlog, 3) Hold costs flat or reduce if needed. $1M per month in salary costs on the bench.
- Client's digital roadmaps are still intact, but might be extended over a longer period.
- No clients have cancelled or paused. Not seeing any competitive forces or clients replacing NTG with AI.

Expansion to North America

On August 27th, NTG posted plans on LinkedIn to expand its service offering to Canada and North America, targeting medium- to large-sized enterprises in the region. We see this as a positive development that should help mitigate the negative effects of the war in the Middle East. Although information on the plan is limited, we will be awaiting additional updates from management on the expansion.

Why We Like NCI

- NTG's land-and-expand model turns satisfied customers into referral sources, with contracts scaling from $2-4M in 2024 to consistently above $10M and a contracted backlog of $80M as of Q2.
- NTG has operated in Saudi Arabia for 20+ years, serving tier 1 clients in financial services, telecom, and government. Its Egypt-based offshore delivery model provides a cost and cultural advantage that global IT firms struggle to replicate.
- NTG invested heavily in talent in 2025, compressing EBITDA margins to 14% from a peak of 22%. We expect margins to recover through 2027 as new staff are deployed on new contracts (contingent on the Middle East conflict stabilizing).
- Management and board own 36% of shares outstanding and have led the Company since its founding in 1992, with the last financing conducted at $2.20/share, well above today's price.

Catalysts

- Quarterly Financial Results – Ongoing
- Contract Announcements – Ongoing
- Takeout Candidate – Ongoing

Tear Sheet

Market Data	
Ticker	NCI:TSXV
Stock Price	$0.52
Rating	BUY
Target Price	$1.25
Upside	140%
Market Cap ($M)	$25.3
Cash ($M)	$2.8
Debt ($M)	$5.8
EV ($M)	$28.3

Capital Structure	
Basic Shares Outstanding (M)	48.0
Warrants (M)	4.1
Options (M)	2.6
FD Shares (M)	54.7
FD ITM Shares (M)	48.7

Ownership	
Management & Board	36%
Retail & Institutions	64%

Financial Estimates	2024A	Q1/25A	Q2/25A	Q3/25A	Q4/25A	2025A	Q1/26A	Q2/26A	Q3/26E	Q4/26E	2026E	2027E
Revenue ($M)	**56.1**	**19.7**	**18.9**	**20.9**	**23.9**	**83.4**	**21.3**	**20.1**	**20.4**	**22.2**	**84.0**	**93.8**
% YoY	*102%*	*68%*	*51%*	*42%*	*39%*	*49%*	*8%*	*6%*	*-2%*	*-7%*	*1%*	*12%*
Gross Profit ($M)	**20.8**	**6.7**	**7.2**	**7.3**	**9.1**	**30.3**	**7.0**	**6.7**	**6.7**	**7.3**	**27.8**	**34.2**
Gross Margin	*37%*	*34%*	*38%*	*35%*	*38%*	*36%*	*33%*	*34%*	*33%*	*33%*	*33%*	*36%*
Adj. EBITDA ($M)	**12.3**	**2.9**	**2.8**	**2.5**	**3.8**	**11.9**	**0.8**	**0.0**	**0.2**	**0.9**	**1.9**	**9.2**
Adj. EBITDA Margin	*22%*	*15%*	*15%*	*12%*	*16%*	*14%*	*4%*	*0%*	*1%*	*4%*	*2%*	*10%*
Net Income ($M)	9.8	2.0	0.5	1.8	1.3	5.5	0.6	1.8	(0.1)	0.3	2.6	5.0
EPS (Basic)	0.23	0.05	0.01	0.04	0.01	0.11	0.02	0.05	(0.00)	0.01	0.07	0.10
FCFF ($M)	1.6	(0.0)	(2.7)	(4.1)	3.0	(3.8)	(0.1)	(4.7)	12.4	0.2	7.9	4.3

Figure 4: Tear Sheet

Estimate Revisions

	Q3/26E		Q4/26E		2026E		2027E	
	New	Previous	New	Previous	New	Previous	New	Previous
Revenue ($M)	**$20.4**	$23.6	**$22.2**	$27.0	**$84.0**	$94.0	**$93.8**	$104.4
Gross Margin (%)	**33.0%**	37.0%	**33.0%**	38.0%	**33.1%**	35.9%	**36.4%**	37.0%
Adj. EBITDA ($M)	**$0.2**	$3.4	**$0.9**	$4.7	**$1.9**	$11.3	**$9.2**	$15.1
Net Income ($M)	**($0.1)**	$2.0	**$0.3**	$2.8	**$2.6**	$6.7	**$5.0**	$8.8

Figure 5: Estimate Revisions

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57

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