

Xtract One Technologies Inc. (XTRA.TO)
Rating: Buy

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**Strong Execution and Outlook Drive Our Estimates
and Price Target Higher; Reit Buy, PT to C\$1.50**

Stock Data		6/7/2024	
Price		C\$0.59	
Exchange		TSX	
Price Target		C\$1.50	
52-Week High		C\$1.02	
52-Week Low		C\$0.43	
Enterprise Value (M)		C\$118	
Market Cap (M)		C\$129	
Shares Outstanding (M)		198.8	
3 Month Avg Volume		225,691	
Short Interest (M)		0.36	
Balance Sheet Metrics			
Cash (M)		C\$10.50	
Total Debt (M)		C\$0.00	
Total Cash/Share		C\$0.05	
Cash (M): Proforma to include recent capital raise			
EPS (C\$) Diluted			
Full Year - Jul	2023A	2024E	2025E
1Q	(0.03)	(0.01)A	(0.01)
2Q	(0.03)	(0.02)A	(0.01)
3Q	(0.02)	(0.01)A	(0.01)
4Q	(0.02)	(0.01)	0.00
FY	(0.09)	(0.06)	(0.03)
Revenue (C\$M)			
Full Year - Jul	2023A	2024E	2025E
1Q	C\$0.6	C\$3.1A	C\$5.1
2Q	C\$0.8	C\$2.9A	C\$6.0
3Q	C\$0.9	C\$4.7A	C\$7.0
4Q	C\$1.8	C\$5.1	C\$8.1
FY	C\$4.1	C\$15.3	C\$26.1
EBITDA (C\$) Adjusted			
Full Year - Jul	2023A	2024E	2025E
1Q	(4.3)	(2.0)A	(1.2)
2Q	(3.1)	(2.6)A	(0.9)
3Q	(3.2)	(1.9)A	(0.4)
4Q	(3.0)	(1.7)	0.2
FY	(13.6)	(8.2)	(2.3)


Revenue and adj. EBITDA beat, scale and improving margin drive operating leverage.

After the market close on June 6, the company announced better-than-expected F3Q24 results, including revenue of C \$4.7M versus our C\$3.4M expectation. While the company continues to see strong momentum in its core sports and entertainment vertical, increasing demand in healthcare, education, and corporate verticals are helping drive a meaningful increase in the backlog of sales commitments to C\$26.6M. As a result, management expects F4Q24 revenue to surpass record revenue levels this quarter. After quarter end, the company announced new contracts with sports teams within the NHL, NBA, and MLB, which the company attributes in part to its Department of Homeland Security SAFETY Act designation, announced in May. We believe this designation could help further accelerate the number of contracts, driving high visibility recurring revenue in FY25 and beyond. Coupled with increasing revenue, gross margin should show improvement over time, potentially approaching 70.0%, from roughly 60.0% today. The combination should drive significant operating leverage in the business, suggesting positive adj. EBITDA on a quarterly basis as early as next fiscal year, which begins in August 2024. While XTRA shares increased 22.9% over the past two trading sessions, versus a 1.8% decline in the Russell 2000, we believe there is much more upside as the company executes its growth strategy. We continue to see an attractive risk reward for XTRA shares and maintain our Buy rating and move our price target to C\$1.50 from C\$1.00.

Demand across verticals, aided by channel partnerships. Earlier on June 6, the company announced new contracts with sports teams across three leagues. However, we are more excited about management commentary surrounding activity in the healthcare, education, and corporate manufacturing and distribution verticals. On the earnings conference call, management indicated that demand is evenly spread across all verticals suggesting a material change from just a few quarters ago when nearly all pipeline activity was driven by sports and entertainment. These newer verticals represent a total addressable market of nearly \$40.0B, almost 10.0x the company's core sports and entertainment vertical. In addition, these verticals have the potential to further smooth quarterly revenue as they do not adhere to a seasonal schedule. As the company's channel partnerships continue to mature, we expect meaningful growth from these new verticals, driving incremental revenue in FY25 and FY26.

Raising estimates on better-than-expected results, price target to C\$1.50. Following F3Q24 operating results we are making a series of adjustments to our F4Q24 and FY25 estimates. As a result, we are now modeling FY24 revenue of C\$15.8M, up from C\$13.0M previously. As revenue continues to grow at a faster rate than costs, we have moved our FY24 adj. EBITDA estimate to a loss of C\$8.2M, from a loss of C \$9.4M previously. With a broadening of the pipeline and stronger FY24 results, we are increasing our revenue estimate for FY25 to C\$26.1M, up from C\$22.0M previously. Higher revenue more than offsets higher R&D expense resulting in an adj. EBITDA estimate of a C\$2.3M loss. Importantly, we are currently modeling positive adj. EBITDA in F4Q25. We are increasing our price target to C\$1.50.

Valuation attractive given revenue opportunity and path to profitability. We are valuing XTRA shares at C\$1.50, reflecting an 10.0x EV/revenue on our FY25 revenue estimate of C\$26.1M. Our C\$1.50 price target represents approximately 150.0% upside from recent trading levels. Our targeted 10.0x EV/revenue multiple is a discount to high quality cybersecurity peers, which currently trade as high as 15.3x 2025 revenue estimates, but average 12.0x. We believe our 10.0x multiple is further justified by the company's current sales commitments, which exceed C\$26.0M, driving revenue growth exceeding 200.0% in FY24. Over time, we believe accelerating recurring revenue growth, increasing gross margin and consistent profitability should warrant a premium valuation multiple. As the company moves towards quarterly profitability in FY26 and investors begin to recognize the factors driving secular growth within the space, we believe new investors should help drive XTRA shares towards our C\$1.50 price target.

Risks. (1) Dilution risk should the company raise additional capital; (2) industry competition; (3) technology and execution risks; (4) customer concentration risk; (5) intellectual property risks; and (6) key personnel risks.

Xtract One Technologies Inc./Spire Global, Inc.
H.C. Wainwright & Co., LLC
(\$000s) in Canadian dollars; July Year-End

Fiscal Year in \$ '000's	2021 2021A	2022 2022A	October 1Q23A	January 2Q23A	April 3Q23A	July 4Q23A	2023E	October 1Q24A	January 2Q24A	April 3Q24A	July 4Q24E	2024E	October 1Q25E	January 2Q25E	April 3Q25E	July 4Q25E	2025E
Revenue																	
Platform revenue			427	721	803			2,996	2,750	4,585	4,952	15,284	4,944	5,776	6,878	7,924	25,521
Xtract revenue			220	94	98			120	170	98	106	494	150	212	123	133	618
Gross revenue	1,082	3,619	647	815	875	1,774	4,111	3,116	2,920	4,684	5,058	15,778	5,094	5,988	7,001	8,056	26,139
Cost of revenue																	
Platform cost of revenue			193	386	321			979	1,081	1,844	1,832	5,737	1,656	2,108	2,304	2,496	8,564
Xtract cost of revenue			114	54	26			53	55	133	42	284	59	83	48	52	241
Cost of revenue	0	0	308	440	346			1,032	1,136	1,977	1,872	6,020	1,706	2,186	2,345	2,538	8,805
Net revenue	1,082	3,619	339	375	529	1,774	4,111	2,084	1,784	2,706	3,187	9,758	3,387	3,802	4,656	5,518	17,334
Gross margin	n/a	n/a	52.4%	46.1%	60.4%	n/a	n/a	66.9%	61.1%	57.8%	63.0%	61.8%	66.5%	63.5%	66.5%	68.5%	66.3%
Operating expenses:																	
Sales & marketing	1,472	1,969	1,490	961	529		2,789	1,508	1,300	1,259	1,575	5,642	1,734	1,495	1,511	1,890	6,630
General and administrative	1,387	2,045	1,577	1,811	415		1,362	1,648	1,693	1,937	1,811	7,088	1,730	1,778	2,033	1,902	7,443
Loss on inventory writedown	0	0		314	2		346	0	107	4	0	111	0	0	0	0	0
Loss on retirement of assets	0	12		81	23		181	0	0	41	0	41	0	0	0	0	0
Other	8,245	35,053			2,409		9,727	0	0	0	0	0	0	0	0	0	0
Research and development	2,757	4,464	2,136	1,696	1,298		6,206	1,726	2,059	2,183	2,258	8,226	1,933	2,306	2,401	2,439	9,079
Total costs and expenses	13,862	43,542	5,203	4,863	4,675	5,870	20,612	4,882	5,158	5,423	5,644	21,107	5,397	5,578	5,946	6,230	23,151
Depreciation and amortization	1,813	1,571	396	422	360		1,449	488	541	514	540	2,083	537	595	565	594	2,291
Operating income	(12,780)	(39,923)	(4,864)	(4,488)	(4,146)	(4,096)	(16,501)	(2,797)	(3,375)	(2,717)	(2,457)	(11,349)	(2,010)	(1,776)	(1,290)	(712)	(5,818)
Adj. EBITDA	(13,764)	(11,531)	(4,252)	(3,109)	(3,539)	(2,670)	(13,570)	(2,033)	(2,558)	(1,935)	(1,668)	(8,193)	(1,173)	(881)	(425)	182	(2,297)
Adj. EBITDA margin	-1272.1%	-318.6%	-657.4%	-381.5%	-404.2%	-150.5%	-330.1%	-65.2%	-87.6%	-41.3%	-33.0%	-51.9%	-23.0%	-14.7%	-6.1%	2.3%	-8.8%
Other income (expense)																	
Unrealized loss on investments	(3,977)	175	66	182	(58)	(58)	3	0	0	0	0	0	0	0	0	0	0
Interest and other income	25	31	(12)	34	31	0	161	(96)	57	45	0	5	0	0	0	0	0
Total other income	(3,953)	206	54.0	216.7	(26.9)	(58.3)	164	(96.0)	56.5	44.7	0.0	5	0.0	0.0	0.0	0.0	0
Income (loss) before income taxes	(16,732)	(39,717)	(4,810)	(4,271)	(4,173)	(4,154)	(16,336)	(2,893)	(3,318)	(2,672)	(2,457)	(11,344)	(2,010)	(1,776)	(1,290)	(712)	(5,818)
Income tax provision	(170)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	(16,562)	(39,717)	(4,810)	(4,271)	(4,173)	(4,154)	(16,336)	(2,893)	(3,318)	(2,672)	(2,457)	(11,344)	(2,010)	(1,776)	(1,290)	(712)	(5,818)
Net Income Margin %																	
Basic Earnings Per Share	(\$0.11)	(\$0.26)	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.02)	(\$0.09)	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.06)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.03)
Diluted Earnings Per Share	(\$0.11)	(\$0.26)	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.02)	(\$0.09)	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.06)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.03)
Average Shares Outstanding (Basic)	150,729	155,744	163,179	163,181	183,576	196,722	176,664	198,355	198,496	200,111	221,111	204,518	222,217	223,328	224,445	225,567	223,889
Average Shares Outstanding (Diluted)	150,729	155,744	163,179	163,181	183,576	196,722	176,664	198,355	198,496	200,111	221,111	204,518	222,217	223,328	224,445	225,567	223,889
Operating Metrics																	
Revenue Growth		234.5%	-8.8%	-30.8%	-6.7%	121.8%	13.6%	381.8%	258.3%	435.0%	185.1%	283.8%	63.5%	105.1%	49.5%	59.3%	65.7%
Price	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59	\$0.59
Market Capitalization (\$000s)	\$88,930	\$91,889	\$96,276	\$96,277	\$108,310	\$116,066	\$116,066	\$117,029	\$117,112	\$118,065	\$130,456	\$130,456	\$131,108	\$131,763	\$132,422	\$133,084	\$133,084
Enterprise Value (\$000s)	\$79,277	\$85,612	\$94,070	\$95,300	\$99,759	\$107,738	\$107,738	\$110,117	\$112,920	\$104,212	\$120,984	\$120,984	\$124,196	\$126,277	\$127,848	\$128,447	\$128,447
Price-to-Earnings	-0.1x	-2.5x	-2.3x	-2.3x	-2.2x	-5.9x	-5.9x	-7.0x	-7.9x	-9.0x	-10.6x	-10.6x	-11.7x	-14.2x	-17.4x	-22.8x	-22.8x
EV to Adj. EBITDA	n/a	n/a	n/a	n/a	n/a	-7.9x	-7.9x	-9.7x	-10.5x	-11.3x	-14.8x	-14.8x	-16.9x	-22.3x	-30.8x	-55.9x	-55.9x
Shareholders Equity	0	14,545	9,777	5,887	15,651	14,743	14,743	12,372	9,254	14,852	12,394	12,394	12,372	10,596	9,306	8,594	8,594
Net Debt	(9,652)	(6,277)	(2,206)	(977)	(8,551)	(8,327)	(8,327)	(6,912)	(4,192)	(13,854)	(9,472)	(9,472)	(6,912)	(5,486)	(4,575)	(4,638)	(4,638)

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Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	555	88.80%	131	23.60%
Neutral	63	10.08%	5	7.94%
Sell	1	0.16%	0	0.00%
Under Review	6	0.96%	1	16.67%

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