

**Action Summary – 12 September 2023**

Analyst Theodore R. O'Neill

- **Expect to exceed revenue estimates F4Q23.** On September 5, 2023, the company announced preliminary F4Q23 revenues would exceed \$24MM, which would top our estimate for the quarter of \$22.8MM. There is no consensus.
- **Confirms previous guidance.** The company had previously provided calendar year guidance of just under \$72MM.
- **10-K likely to be filed in the next few days. The company requested additional time to file its 10K and under the rules of Form 12b-25, has 15 additional days.**
- Under its FatBrain AI and other brands, it offers a comprehensive suite of Artificial Intelligence (AI) solutions that work by plugging into existing software-as-a-service (SaaS) products like QuickBooks, Shopify, Salesforce, Slack and HubSpot, as well as hundreds of other applications.
- **Shares appear to be priced significantly below absolute and comparative metrics.** While our \$5.00 price target is based on discounted future earnings, a comparable analysis looking at similar AI companies suggests the share price, using peer average metrics, would be higher than our current price target.

<b>9/11 Closing price: \$0.40</b>	<b>Market cap: \$67 million</b>	<b>Multiple of book: 3.6x</b>	<b>EV/2024 Sales: 0.49x</b>
<b>Shares outstanding: 167 million</b>	<b>Insider ownership: 72%</b>	<b>Avg. trading volume: &gt;30,000</b>	<b>Dividend/Yield: NA/NA</b>

**GAAP estimates (EPS in dollars – Revenue in USD millions)**

Period	EPS	Revenue	Op Margin
1Q22A	(\$0.00)	\$0.00	
2Q22A	\$0.00	\$0.04	
3Q22A	\$0.03	\$0.04	
4Q22A	<u>(\$0.03)</u>	<u>\$0.13</u>	
FY22A	<u>(\$0.06)</u>	<u>\$0.21</u>	<u>NME</u>
1Q23A	(\$0.03)	\$2.43	NMF
2Q23A	(\$0.02)	\$6.94	-(27.4%)
3Q23A	(\$0.00)	\$9.56	16.8%
4Q23E	<u>(\$0.06)</u>	<u>\$22.8</u>	<u>(45.6%)</u>
FY23E	<u>(\$0.11)</u>	<u>\$41.7</u>	<u>(34.0%)</u>
1Q24E	(\$0.01)	\$16.0	(8.8%)
2Q24E	(\$0.00)	\$23.0	3.0%
3Q24E	\$0.02	\$30.0	16.0%
4Q24E	<u>\$0.03</u>	<u>\$35.0</u>	<u>20.0%</u>
FY24E	<u>\$0.02</u>	<u>\$104.0</u>	<u>10.7%</u>

Note: Numbers may not add due to rounding or share count. See our full model at the back of this report.

**Cash balance (in USD millions)**

• 2021A	• \$0.01
• 2022A	• \$0.08
• 2023E	• \$3.57
• 2024E	• \$5.89

**LT Debt (in USD millions)**

• 2021A	• \$0.05
• 2022A	• \$0.00
• 2023E	• \$14.0
• 2024E	• \$5.00

**Risks/Valuation**

- Risks include acquisition integration, highly competitive business, commercial development, and marketing.
- Our \$5.00 target is derived using a discounted future earnings model.

**Company description:** LZG International provides powerful and easy-to-use AI solutions under its FatBrain AI and other brand names to empower the enterprise stars of tomorrow to grow, innovate, and drive the majority of the global economy. FatBrain's AI 2.0 technologies and advanced data services transform continuous learning, narrative reasoning, large language models, cloud, blockchain and Web3 technologies into auditable, explainable and easy to integrate AI solutions. FatBrain's global delivery includes a 600-strong team across design, and development centers in the US, UK, India, and the Republic of Kazakhstan.

Figure 1 – LZG International, Inc. - Trading snapshot



Source: FactSet

## Valuation Methodology

We believe LZGI is undervalued, and we support that belief with two valuation techniques: discounted future earnings and sales metrics relative to peers. To determine our price target, we use a discounted future earnings model. The following valuation techniques are being used:

- 1) The discounted value of all future earnings, used for our price target (see Figure 2)
- 2) Valuation based on peer sales metrics (see Figure 3)

## Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$5.00 is based on a discounted earnings model. Figure 2 shows the implied value of all future earnings discounted at 12% and implies a stock value of \$4.82, which we round to \$5.00.

*Figure 2 – LZG International, Inc. – US\$ Discounted Future Earnings*

Implied Value		\$4.82
Years	EPS	Discounted EPS
FY24	\$0.02	\$0.02
1	\$0.15	\$0.13
2	\$0.25	\$0.20
3	\$0.35	\$0.25
4	\$0.45	\$0.29
5	\$0.55	\$0.31
Terminal Value		\$3.62

Source: Litchfield Hills Research LLC

### Valuation Relative to Peers

Figure 3 is a summary of our LZGI peer comparison. The shares are trading at a significant discount to peers. LZGI stock not only trades at a discount to peer averages, but it also trades near the bottom of all metrics despite having very high profit margins. If the stock were to trade at our price target, its Market Cap / Sales would still be below average. This broadly confirms our view that, along with our discounted earnings model, the shares are undervalued. A detailed list of peers can be found in Figure 5.

*Figure 3 – LZG International, Inc. – Summary Comparison to Peers*

2024 Metric	Market Cap/Sales	EV / Sales	Price / Book	EV / EBITDA	PE
Average	6.93	6.54	9.89	24.86	35.13
LZGI	0.41	0.49	3.64	3.32	4.00
Discount to peers	94%	93%	63%	87%	89%

Source: Litchfield Hills Research LLC and FactSet

### Guidance and Financial Forecasts

The company reports on a May ending year but has provided calendar year annual guidance. On May 31, it said the Company projects to beat its calendar revenue guidance of \$72MM.

The company recently provided additional F4Q23 guidance that it would book a \$21.5MM contract with the Kazakhstan Ministry of Digital Transformation with a 3.5% margin and that this would facilitate lowering engineering costs. We believe it will be profitable in fiscal 2024 with margins that come closer to guidance.

Our estimates for 2024 are consistent with its estimates for continued growth. Specifically, the company has provided guidance for the calendar, not fiscal 2023-2027 as shown in Figure 4.

Figure 4 – LZG International, Inc. – Company Supplied Guidance

<b>Consolidated Pro-forma Income Statement</b> (US\$ '000)					
	2023P	2024	2025	2026	2027
<b>Revenue</b>					
Subscription	\$ 64,291	\$ 137,591	\$ 294,562	\$ 628,545	\$ 984,520
Services	7,285	12,781	25,421	62,938	99,438
<b>Total Revenue</b>	<b>71,576 *</b>	<b>150,372</b>	<b>319,983</b>	<b>691,483</b>	<b>1,083,958</b>
		110%	113%	116%	57%
COGS-Subscription	8,429	18,591	38,042	72,946	113,946
COGS Services	3,906	6,882	11,540	18,652	21,652
<b>Total COGS</b>	<b>12,335</b>	<b>25,473</b>	<b>49,582</b>	<b>91,598</b>	<b>135,598</b>
<b>Gross Margin</b>	<b>59,241 **</b>	<b>124,899</b>	<b>270,401</b>	<b>599,885</b>	<b>948,360</b>
	<b>82.8%</b>	<b>83.1%</b>	<b>84.5%</b>	<b>86.8%</b>	<b>87.5%</b>
<b>OPEX</b>					
R&D	18,268	54,222	108,275	234,815	354,199
S&M	22,775	37,910	94,375	224,325	344,649
G&A	7,808	10,657	19,564	31,432	79,422
<b>Total OPEX</b>	<b>48,851</b>	<b>102,789</b>	<b>222,214</b>	<b>490,572</b>	<b>778,270</b>
<b>EBITDA</b>	<b>\$ 10,390</b>	<b>\$ 22,110</b>	<b>\$ 48,187</b>	<b>\$ 109,313</b>	<b>\$ 170,090</b>
	<b>14.5%</b>	<b>14.7%</b>	<b>15.1%</b>	<b>15.8%</b>	<b>15.7%</b>
Clients	2,535	8,565	17,032	37,984	49,984
Revenue per client	\$ 28	\$ 18	\$ 19	\$ 18	\$ 22
People	1,105	2,865	3,945	6,865	7,245
Revenue per employee	65	52	81	101	150

Source: Company presentation July 2023

\*\* Does not reflect an adjustment to extend the FatBrain Knowledge Cloud as part of the \$21.5MM contract at 3.5% margins.

*Figure 5 – LZG International, Inc. – Comp Table*

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2024 Consensus Multiples (except price to book)				
					Market Cap / Sales	EV /Sales	Price to Book	EV / EBITDA	PE
SNOW-US	Snowflake, Inc.	\$165.95	54,714	50,877	15.57	14.31	9.27	NA	NA
PLTR-US	Palantir Technologies Inc.	\$15.13	30,975	31,685	13.00	12.18	5.25	42.89	59.17
DDOG-US	Datadog Inc.	\$97.66	29,207	30,167	13.06	12.29	16.63	54.28	63.25
MDB-US	MongoDB, Inc.	\$377.29	26,918	26,073	14.19	13.56	20.25	NA	NA
SPLK-US	Splunk Inc	\$124.28	20,842	22,310	4.71	5.15		21.35	28.54
ESTC-US	Elastic NV	\$77.89	7,666	7,260	5.31	4.96	13.97	35.56	53.60
CFLT-US	Confluent, Inc.	\$32.30	6,845	8,888	10.50	9.32	8.36	NA	NA
TDC-US	Teradata Corp. (Wi)	\$44.10	4,406	4,687	2.30	2.45	13.19	9.79	18.63
NEWR-US	New Relic, Inc.	\$85.43	5,999	5,556	5.12	4.66	15.38	22.70	42.53
AI-US	C3.ai, Inc.	\$28.04	3,216	2,497	9.03	6.55	2.18		NA
INFA-US	Informatica, Inc.	\$21.49	5,242	7,246	4.28	4.30	2.25	14.68	22.70
AYX-US	Alteryx Inc	\$35.34	2,232	3,094	2.45	2.97	20.28	19.61	32.54
SOW-DE	Software AG	\$33.95	2,512	2,801	2.21	2.46	1.19	12.36	17.91
PRGS-US	Progress Software	\$58.24	2,526	3,278	3.48	4.50	5.79	10.93	12.40
BASE-US	Couchbase, Inc.	\$20.24	953	786	4.45	3.59	4.47		
DOMO-US	Domo Inc	\$11.05	363	462	1.19	1.36		29.35	NA
<b>AVERAGE</b>					<b><u>6.93</u></b>	<b><u>6.54</u></b>	<b><u>9.89</u></b>	<b><u>24.86</u></b>	<b><u>35.13</u></b>
LZGI-US	LZG International, Inc.	\$0.40	61	73	0.41	0.49	3.64	3.32	4.00
<b>LZGI Discount to peers:</b>					<b>-94%</b>	<b>-93%</b>	<b>-63%</b>	<b>-87%</b>	<b>-89%</b>

Source: Litchfield Hills Research LLC and FactSet

Figure 6 – LZG International, Inc. – Income Statement (US\$000)

May ending year	2021A					2022A					2023E					2024E				2024E
	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1A	Q2A	Q3A	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year				Year
<b>Total revenue</b>	\$0	\$0	\$43	\$43	\$129	\$216	\$2,433	\$6,940	\$9,563	\$22,800	\$41,735	\$16,000	\$23,000	\$30,000	\$35,000	\$104,000				
<i>Growth</i>							NMF	15873%	21911%	17537%	19207%	558%	231%	214%	54%	149%				
Cost of Goods	0	0	8	8	26	43	314	1,436	1,803	21,008	24,561	3,200	4,600	6,000	7,000	20,800				
<b>Gross Profit</b>	<b>0</b>	<b>0</b>	<b>35</b>	<b>35</b>	<b>103</b>	<b>174</b>	<b>2,118</b>	<b>5,504</b>	<b>7,760</b>	<b>1,792</b>	<b>17,174</b>	<b>12,800</b>	<b>18,400</b>	<b>24,000</b>	<b>28,000</b>	<b>83,200</b>				
<b>Gross Margin</b>			<b>81.1%</b>	<b>81.1%</b>	<b>79.8%</b>	<b>80.3%</b>	<b>87.1%</b>	<b>79.3%</b>	<b>81.1%</b>	<b>7.9%</b>	<b>41.1%</b>	<b>80.0%</b>	<b>80.0%</b>	<b>80.0%</b>	<b>80.0%</b>	<b>80.0%</b>				
Research and Development	0	0	0	0	0	0	1,137	5,411	1,980	4,000	12,528	5,000	7,500	8,000	8,500	29,000				
Sales & marketing	\$0	\$0	\$0	\$0	\$6	\$6	\$2,017	\$1,272	\$2,746	\$6,000	\$12,035	\$7,000	\$8,000	\$9,000	\$10,000	\$34,000				
% of total revenue			0.0%	0.0%	4.4%	2.7%	82.9%	18.3%	28.7%	26.3%	28.8%	43.8%	34.8%	30.0%	28.6%	32.7%				
G&A	\$14	\$10	\$23	\$18	\$1,019	\$1,069	\$2,438	\$723	\$1,424	\$2,200	\$6,784	\$2,200	\$2,200	\$2,200	\$2,500	\$9,100				
Total Operating Expenses	14	10	23	18	1,024	1,075	5,592	7,405	6,150	12,200	31,347	14,200	17,700	19,200	21,000	72,100				
<b>Operating Income</b>	<b>(14)</b>	<b>(10)</b>	<b>12</b>	<b>18</b>	<b>(921)</b>	<b>(901)</b>	<b>(3,473)</b>	<b>(1,901)</b>	<b>1,610</b>	<b>(10,408)</b>	<b>(14,173)</b>	<b>(1,400)</b>	<b>700</b>	<b>4,800</b>	<b>7,000</b>	<b>11,100</b>				
<b>Operating Margin</b>			<b>28.3%</b>	<b>40.5%</b>	<b>-712.6%</b>	<b>-416.8%</b>	<b>-142.8%</b>	<b>-27.4%</b>	<b>16.8%</b>	<b>-45.6%</b>	<b>-34.0%</b>	<b>-8.8%</b>	<b>3.0%</b>	<b>16.0%</b>	<b>20.0%</b>	<b>10.7%</b>				
Total Other Items	(16)	(4)	(4)	(5)	(5)	(19)	(240)	(1,799)	(1,648)	(1,500)	(5,188)	(1,500)	(1,500)	(1,500)	(1,500)	(6,000)				
<b>Pre-Tax Income</b>	<b>(30)</b>	<b>(14)</b>	<b>8</b>	<b>13</b>	<b>(926)</b>	<b>(920)</b>	<b>(3,713)</b>	<b>(3,701)</b>	<b>(39)</b>	<b>(11,908)</b>	<b>(19,360)</b>	<b>(2,900)</b>	<b>(800)</b>	<b>3,300</b>	<b>5,500</b>	<b>5,100</b>				
<b>Pre-Tax Margin</b>			<b>18.1%</b>	<b>29.4%</b>	<b>-716.7%</b>	<b>-425.5%</b>	<b>-152.6%</b>	<b>-53.3%</b>	<b>-0.4%</b>	<b>-52.2%</b>	<b>-46.4%</b>	<b>-18.1%</b>	<b>-3.5%</b>	<b>11.0%</b>	<b>15.7%</b>	<b>4.9%</b>				
Taxes (benefit)	0	0	0	0	0	0	0	21	14	(2,382)	(2,346)	(580)	(160)	660	1,100	1,020				
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.6%	-37.3%	20.0%	12.1%	20.0%	20.0%	20.0%	20.0%	20.0%				
<b>Net Income (loss)</b>	<b>(30)</b>	<b>(14)</b>	<b>8</b>	<b>13</b>	<b>(926)</b>	<b>(920)</b>	<b>(3,713)</b>	<b>(3,721)</b>	<b>(53)</b>	<b>(9,526)</b>	<b>(17,014)</b>	<b>(2,320)</b>	<b>(640)</b>	<b>2,640</b>	<b>4,400</b>	<b>4,080</b>				
<b>Net Margin</b>			<b>18.1%</b>	<b>29.4%</b>	<b>-716.7%</b>	<b>-425.5%</b>	<b>-152.6%</b>	<b>-53.6%</b>	<b>-0.6%</b>	<b>-41.8%</b>	<b>-40.8%</b>	<b>-14.5%</b>	<b>-2.8%</b>	<b>8.8%</b>	<b>12.6%</b>	<b>3.9%</b>				
<b>EPS</b>	<b>(\$0.12)</b>	<b>(\$0.00)</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>(\$0.03)</b>	<b>(\$0.06)</b>	<b>(\$0.03)</b>	<b>(\$0.02)</b>	<b>(\$0.00)</b>	<b>(\$0.06)</b>	<b>(\$0.11)</b>	<b>(\$0.01)</b>	<b>(\$0.00)</b>	<b>\$0.02</b>	<b>\$0.03</b>	<b>\$0.02</b>				
<b>Shares</b>	251	14,189	4,426	10,251	27,890	14,189	144,899	152,966	150,401	160,000	152,067	160,000	160,000	167,000	167,000	163,500				

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – LZG International, Inc. – Balance Sheet (US\$000)

May ending year	2024E	2023E	2022A
<b>Balance sheet</b>			
Current Assets			
Cash and S.T.I.	\$5,893	\$3,573	\$82
Accounts receivable	7,000	3,500	155
Inventories	0	0	0
Other assets	5,000	4,100	9,795
<b>Total Current Assets</b>	<b>17,893</b>	<b>11,173</b>	<b>10,031</b>
Net PP&E	1,200	100	0
Other non-current assets	35,000	36,000	11,465
<b>Total Assets</b>	<b>\$54,093</b>	<b>\$47,273</b>	<b>\$21,496</b>
Current Liabilities			
Accounts payable	\$5,000	\$2,500	\$2
Accrued expenses	8,000	10,400	3,050
Other current liabilities	12,000	12,000	98
<b>Total current liabilities</b>	<b>25,000</b>	<b>24,900</b>	<b>3,150</b>
Long-term debt	5,000	14,000	0
Other non-current	1,000	100	0
<b>Total Liabilities</b>	<b>31,000</b>	<b>39,000</b>	<b>3,150</b>
Stockholders' Equity			
Preferred stock			
Common stock	200	160	145
Additional paid-in-capital	30,000	30,000	22,474
Retained earnings	(6,107)	(21,287)	(4,273)
Cum. trans. adj. and treasury stock	(1,000)	(600)	0
Total stockholders' equity	23,093	8,273	18,346
<b>Total Liabilities and equity</b>	<b>\$54,093</b>	<b>\$47,273</b>	<b>\$21,496</b>

Source: Company reports and Litchfield Hills Research LLC

*Figure 8 – LZG International, Inc. – Cash Flow (US\$000)*

	<b>2024E</b>	<b>2023E</b>	<b>2022A</b>
Net Income	\$15,180	(\$17,014)	(\$920)
Accounts receivable	(3,500)	(3,345)	(155)
Inventories	0	0	0
Other assets	(900)	5,695	(9,795)
PP&E	(1,100)	(100)	0
Other non-current	1,000	(24,535)	(11,465)
Accounts payable	2,500	2,498	(4)
Accrued expenses	2,600	350	50
Notes Payable	(5,000)	7,000	2,811
Other current liabilities	0	11,902	43
Long-term debt	(9,000)	14,000	(45)
Other non-current	900	100	0
Pfd. Stock	0	0	0
Common stock	40	15	145
Additional paid in capital	0	7,526	19,411
Accumulated other comp. loss	(400)	(600)	0
Dividend and tax adj.	0	0	0
<b>Total Cash Flow</b>	<b>\$2,320</b>	<b>\$3,491</b>	<b>\$77</b>

Source: Litchfield Hills Research LLC

#### **Disclosures:**

##### **Analyst Certification**

We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

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**BUY:** We expect the stock to provide a total return of 15% or more within a 12-month period.

**HOLD:** We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

**SELL:** We expect the stock to have a negative total return of more than 15% within a 12-month period.

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