

Action Summary – 19 May 2025

Analyst Theodore R. O'Neill **Reports 1Q25 results – Reiterate our buy rating and \$5PT.**

- **Lumpy results continue in 1Q25.** Although the company is still pushing forward to generate more recurring revenue, it is still very much a book and ship business and the opportunities it sees tends to fall into that category. This makes quarterly forecasting a challenge. The company reported 1Q25 revenue of \$0.72MM, which was below our estimate of \$1MM. There is no consensus. The company reported a GAAP EPS loss of \$0.22 versus our estimate of a loss of \$0.25. The \$0.03 favorable variance was primarily due to a higher share count, partially offset by lower sales and margins.
- **We believe that uncertainty injected into the marketplace from the tariff lottery will impact 2Q25.** Our analysis of the estimates for other manufacturers tells us the market is likely to take a wait and see approach to 2Q25. While we think the issues impacting 2Q25 are likely to continue, we believe that lowering our expectations for 2Q25 is the appropriately conservative thing to do.
- **Estimate revision.** For 2025, we are lowering our revenue and EPS estimates to \$7.5MM and a loss of \$0.44, respectively from revenue and EPS of \$10MM and a loss of \$0.42, respectively. Our previous 2026 EPS estimate improves to a loss of \$0.08 from a loss of \$0.11 on an increase in share count.
- **Shares are priced significantly below peer averages.** The shares are selling at a discount to both our price target model and its peers. While our target price of \$5 is derived from our discounted earnings model, were it to trade at the at the simple average of its peers at 3.85X 2026 Market cap/sales, the share price would exceed \$6.00 and our price target.

5/16 Closing price: \$0.72	Market cap: \$6.5 million	2026 Market cap/sales: 0.42	2026 EV/Sales: 0.37
Shares outstanding: 9.0 million	Insider ownership: ~20%	Avg. trading volume: <10,000	Dividend/Yield: NA/NA

GAAP estimates (EPS in dollars – Revenue in \$000)

Period	EPS	Revenue	Op. Margin
1Q24A	(\$0.50)	\$726	
2Q24A	(\$0.02)	\$3,431	
3Q24A	(\$0.08)	\$2,541	
4Q24A	<u>(\$0.28)</u>	<u>\$1,062</u>	
FY24A	<u>(\$0.85)</u>	<u>\$7,760</u>	<u>(50.5%)</u>
1Q25A	(\$0.22)	\$721	
2Q25E	(\$0.16)	\$1,000	
3Q25E	(\$0.02)	\$3,000	
4Q25E	<u>(\$0.04)</u>	<u>\$2,800</u>	
FY25E	<u>(\$0.44)</u>	<u>\$7,521</u>	<u>(50.4%)</u>
FY26E	<u>(\$0.08)</u>	<u>\$15,400</u>	<u>(4.8%)</u>

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

Cash balance (\$000)

• 2022A	• \$6,016
• 2023A	• \$2,382
• 2024A	• \$2,267
• 2025E	• \$1,249
• 2026E	• \$1,069

Short term debt (\$000)

• 2022A	• \$553
• 2023A	• \$1,335
• 2024A	• \$774
• 2025E	• \$1,000
• 2026E	• \$1,000

Risks/Valuation

- Risks include competition, history of losses, industry regulatory actions and changes in technology.
- Our \$5.00 target is derived using a discounted future earnings model.

Company description: Actelis Networks, Inc. is a market innovator in hybrid fiber-copper, cyber-hardened networking solutions for rapid deployment in wide-area IoT applications, including government, ITS, military, utility, rail, telecom, and campus networks. Actelis' innovative portfolio offers fiber-grade performance with the flexibility and cost-efficiency of hybrid fiber-copper networks. Through its "Cyber Aware Networking" initiative, Actelis also provides AI-based cyber monitoring and protection for all edge devices, enhancing network security and resilience.

Figure 1 – Actelis Networks – One-year trading snapshot



Source: FactSet

Quarterly Results

Lumpy results continue in 1Q25. Although the company is still pushing forward to generate more recurring revenue, it is still a very much a book and ship business and the opportunities it sees tends to fall into that category. This makes quarterly forecasting a challenge. The company reported 1Q25 revenue of \$0.72MM, which was below our estimate of \$1MM. There is no consensus. The company reported a GAAP EPS loss of \$0.22 versus our estimate of a loss of \$0.25. The \$0.03 favorable variance was primarily due to a higher share count, partially offset by lower sales and margins (see Figure 2).

Figure 2 –Actelis Networks – Quarterly Variance Analysis (\$'000)

	FY25 Q1E	FY25 Q1A	Better / (Worse) Than Estimates
Income Statement			
Sales			
Total Revenue	\$1,200	\$721	(\$479)
Total cost of products sold	<u>720</u>	<u>470</u>	<u>250</u>
Total Gross Profit	480	251	(229)
GP%	40.0%	34.8%	
Operating expenses:			
R&D	575	681	(106)
Sales and Marketing	700	666	34
General and administrative	<u>800</u>	<u>716</u>	<u>84</u>
Total Expenses	<u>2,075</u>	<u>2,063</u>	<u>12</u>
Earnings (loss) from Operations	(1,595)	(1,812)	(241)
Financial costs and other	(10)	(48)	(38)
Earnings before taxes	(1,605)	(1,860)	(255)
Tax expense/(benefit)	<u>0</u>	<u>0</u>	<u>0</u>
Net income	(\$1,605)	(\$1,860)	(255)
EPS	(\$0.25)	(\$0.22)	\$0.03
Diluted common shares	6,500	8,520	

Source: Company filings and Litchfield Hills Research LLC

Valuation Methodology

We believe ASNS is undervalued, and we support that belief with a series of valuation techniques. We use two different techniques, below. To determine our price target, we use a discounted future earnings model, and we validate that result with a comparison to peers, i.e.:

- 1) The discounted value of all future earnings was used for our price target (see Figure 3)
- 2) Valuation relative to peers (see Figure 4)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$5.00 is based on a discounted earnings model. For valuation purposes, we sum up all future earnings discounted at 8%. We assume approximately 30%-50% EPS near-term growth for earnings which steps down to GDP after 5-7 years. Our valuation model is shown in Figure 3 below. Note, this model understates future new products and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$4.51, which we round to \$5.00. Although this target is substantially above where the stock is

currently, were it to trade at the at the simple average of its peers at 3.85X 2026 Market cap/sales, the share price would exceed \$6.00 and our price target.

Figure 3 – Actelis Networks – Price Target Calculation

Discounted future earnings: \$4.51		
YEAR	EPS	Discounted EPS
2025	(\$0.44)	(\$0.44)
2026	(\$0.08)	(\$0.08)
2027	\$0.00	\$0.00
2028	\$0.14	\$0.11
2029	\$0.19	\$0.14
Terminal Value		\$4.78

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

If we compare ASNS to the simple average of its peers, the shares sell at a discount on sales measures ranging from 89% to 91% (see Figure 4). Were the shares to trade simply to the average of their peers, (and we would argue that due to its growth potential, it should trade above average), it would exceed our price target. Details on each of the peers can be found in Figure 5 near the back of the report. The companies we used in Figure 5 are in similar lines of business although none of them are a perfect match.

Figure 4 – Actelis Networks – Discount to Peers

	2026 Market Cap / Sales	2026 EV / Sales
Average	3.85	3.99
ASNS	0.42	0.37
Discount to peers	89%	91%

Source: Litchfield Hills Research LLC and FactSet

Guidance and Financial Forecasts

The company provides no guidance. Our forecast assumes that the company reaches a sustainable B/E in 4Q26 and can do so at approximately ~\$4.5MM/quarter of revenue. We do not need to make more aggressive assumptions to justify our assertion that the shares are undervalued. In addition, if our forecast is correct, we do not see a near-term need for capital if nothing else changes. We would expect a capital raise in the future if the company needs it to support significantly greater growth than is in our forecasts.

Figure 5 – Actelis Networks – Comp Table

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2026 Consensus Multiples			
					PE	EV /Sales	Market Cap / Sales	EV / EBITDA
CSCO-US	Cisco Systems Inc (US Listing)	\$63.62	253,099	268,244	15.84	4.52	4.26	14.20
SIEGY-US	Siemens AG (Adr 2:1)	\$123.12	196,292	250,339	18.80	2.68	2.10	14.23
HON-US	Honeywell Intl Inc	\$222.88	143,241	169,751	19.61	4.04	3.41	15.57
PANW-US	Palo Alto Networks Inc	\$192.98	127,772	134,476	52.80	12.77	12.13	74.71
ANET-US	Arista Networks, Inc.	\$96.42	121,096	115,191	32.30	11.63	12.23	27.98
FTNT-US	Fortinet Inc.	\$104.59	80,055	77,460	37.75	10.19	10.53	33.69
ERIXF-US	Telefon AB L.M.Ericsson (Class B)	\$8.59	28,515	27,606	14.35	1.08	1.12	7.19
NOKBF-US	Nokia Corp. (FI Listing)	\$5.14	28,094	26,014	13.11	1.10	1.19	7.88
CHKP-US	Check Point Software	\$218.68	23,698	22,899	20.20	7.97	8.25	21.05
JNPR-US	Juniper Networks	\$36.05	12,054	12,561	16.41	2.23	2.14	11.77
CIEN-US	Ciena Corp.	\$81.24	11,548	12,223	24.00	2.53	2.39	21.26
AKAM-US	Akamai Technologies	\$78.03	11,408	15,085	11.71	3.48	2.63	12.93
KTOS-US	Kratos Defense & Security Solutions Inc.	\$35.21	5,403	5,519	50.47	3.72	3.64	45.60
BDC-US	Belden Inc.	\$112.39	4,439	5,531	14.42	1.99	1.60	
TENB-US	Tenable Holdings Inc.	\$32.90	4,019	3,910	19.12	3.72	3.82	NMF
CALX-US	Calix Inc.	\$45.43	2,945	2,724	32.68	2.75	2.97	24.82
MRCY-US	Mercury Systems Inc	\$46.14	2,757	3,088	50.77	3.28	2.93	31.15
EXTR-US	Extreme Networks Inc	\$16.22	2,160	2,225	16.38	1.82	1.77	
DGII-US	Digi International	\$33.29	1,234	1,306	15.86	2.96	2.79	
HLIT-US	Harmonic Inc	\$9.54	1,079	1,116	10.58	1.53	1.48	
ADTN-US	ADTRAN Holdings Inc (US Listing)	\$8.13	650	1,185	22.93	1.03	0.57	
LTRX-US	Lantronix	\$2.34	91	93	11.91	0.73	0.72	
AVERAGE					23.73	3.99	3.85	24.27
ASNS-US	Actelis Networks, Inc.	\$0.72	7	6	NA	0.37	0.42	1.42
ASNS Discount to peers:						-91%	-89%	-94%

Source: FactSet and Litchfield Hills Research LLC

Figure 6 – Actelis Networks – Income Statement (\$'000)

December ending year	2023A Year	2024A				2024A Year	2025E				2025E Year	2026E				2026E Year
		Q1A	Q2A	Q3A	Q4A		Q1A	Q2E	Q3E	Q4E		Q1E	Q2E	Q3E	Q4E	
Total revenue	\$5,606	\$726	\$3,431	\$2,541	\$1,062	\$7,760	\$721	\$1,000	\$3,000	\$2,800	\$7,521	\$2,800	\$3,400	\$4,000	\$5,200	\$15,400
Growth	-37%	-61%	81%	201%	4%	38%	-1%	-71%	18%	164%	-3%	288%	240%	33%	86%	105%
Cost of Goods	3,706	506	1,488	798	698	3,490	470	350	1,050	980	2,850	980	1,190	1,400	1,820	5,390
Gross Profit	1,900	220	1,943	1,743	364	4,270	251	650	1,950	1,820	4,671	1,820	2,210	2,600	3,380	10,010
Gross Margin	33.9%	30.3%	56.6%	68.6%	34.3%	55.0%	34.8%	65.0%	65.0%	65.0%	62.1%	65.0%	65.0%	65.0%	65.0%	65.0%
R&D	\$2,702	\$647	\$603	\$543	\$590	\$2,383	\$681	\$650	\$650	\$650	\$2,631	\$600	\$600	\$600	\$600	\$2,400
% of total revenue	48.2%	89.1%	17.6%	21.4%	55.6%	30.7%	94.5%	65.0%	21.7%	23.2%	35.0%	21.4%	17.6%	15.0%	11.5%	15.6%
Sales and Marketing	3,030	627	647	727	638	2,639	666	700	800	750	2,916	1,000	1,000	1,200	1,400	4,600
General and administrative	3,531	817	790	790	772	3,169	716	700	700	800	2,916	900	900	950	1,000	3,750
Total Operating Expenses	9,263	2,092	2,040	2,060	2,001	8,191	2,064	2,051	2,150	2,200	8,463	2,500	2,500	2,750	3,000	10,750
Operating Income	(7,363)	(1,872)	(97)	(317)	(1,637)	(3,921)	(1,813)	(1,401)	(200)	(380)	(3,792)	(680)	(290)	(150)	380	(740)
Operating Margin	-131.4%	-257.8%	-2.8%	-12.5%	-154.1%	-50.5%	-251.4%	-140.1%	-6.7%	-13.6%	-50.4%	-24.3%	-8.5%	-3.8%	7.3%	-4.8%
Total Other Items	1,077	(115)	19	(194)	(163)	(453)	(48)	(10)	(10)	(10)	(78)	(10)	(10)	(10)	(10)	(40)
Pre-Tax Income	(6,286)	(1,987)	(78)	(511)	(1,800)	(4,374)	(1,861)	(1,411)	(210)	(390)	(3,870)	(690)	(300)	(160)	370	(780)
Pre-Tax Margin	-112.1%	-273.7%	-2.3%	-20.1%	-169.4%	-56.4%	-258.1%	-141.1%	-7.0%	-13.9%	-51.5%	-24.7%	-8.8%	-4.0%	7.1%	-5.1%
Taxes (benefit)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	(6,286)	(1,986)	(78)	(511)	(1,799)	(4,374)	(1,860)	(1,410)	(210)	(390)	(3,870)	(690)	(300)	(160)	370	(780)
Net Margin	-112.1%	-273.6%	-2.3%	-20.1%	-169.4%	-56.4%	-258.0%	-141.0%	-7.0%	-13.9%	-51.5%	-24.6%	-8.8%	-4.0%	7.1%	-5.1%
Total GAAP EPS	(2.61)	(0.50)	(0.02)	(0.08)	(0.28)	(0.85)	(0.22)	(0.16)	(0.02)	(0.04)	(0.44)	(0.08)	(0.03)	(0.02)	0.04	(0.08)
Diluted Shares Outstanding	2,413	3,979	4,258	6,015	6,332	5,146	8,520	9,000	9,000	9,000	8,880	9,200	9,300	9,400	9,500	9,350

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Actelis Networks – Balance Sheet (\$000)

December ending year	FY2026E	FY2025E	FY2024A	FY2023A	FY2022A
Balance sheet					
Current Assets					
Cash and S.T.I.	\$1,069	\$1,249	\$2,267	\$2,382	\$6,016
Accounts receivable	3,500	1,700	1,616	664	3,034
Inventories	2,400	2,500	2,436	2,526	1,179
Other assets	<u>600</u>	<u>500</u>	<u>584</u>	<u>340</u>	<u>678</u>
Total Current Assets	7,569	5,949	6,903	5,912	10,907
Net PP&E	50	50	38	61	80
Other non-current assets	<u>1,000</u>	<u>1,000</u>	<u>792</u>	<u>4,658</u>	<u>3,340</u>
Total Assets	<u>\$9,219</u>	<u>\$7,599</u>	<u>\$8,225</u>	<u>\$11,223</u>	<u>\$14,819</u>
Current Liabilities					
Accounts and other payables	\$2,000	\$1,200	\$982	\$1,769	\$1,781
Short term borrowings	\$1,000	\$1,000	\$774	\$1,335	\$553
Accrued royalties	\$1,000	\$1,000	\$673	\$1,062	\$900
Other current liabilities	<u>\$3,000</u>	<u>\$2,500</u>	<u>\$2,154</u>	<u>\$2,746</u>	<u>\$2,968</u>
Total current liabilities	7,000	5,700	4,583	6,912	6,202
Long-term loan, net	0	0	150	3,154	4,625
Other non-current	<u>700</u>	<u>600</u>	<u>507</u>	<u>769</u>	<u>727</u>
Total Liabilities	7,700	6,300	5,240	10,835	11,554
Warrants to placement agent	230	230	228	159	0
Stockholders' Equity					
Preferred stock					
Total stockholders' equity	<u>1,289</u>	<u>1,069</u>	<u>2,757</u>	<u>229</u>	<u>3,265</u>
Total Liabilities and equity	<u>\$9,219</u>	<u>\$7,599</u>	<u>\$8,225</u>	<u>\$11,223</u>	<u>\$14,819</u>

Source: Company reports and Litchfield Hills Research LLC

Figure 8 – Actelis Networks – Cash Flow (\$'000)

	<u>2026E</u>	<u>2025E</u>	<u>2024A</u>	<u>2023A</u>
Net Income	(\$780)	(\$3,870)	(\$4,374)	(\$6,286)
Accounts receivable	(1,800)	(84)	(952)	2,370
Inventories	100	(64)	90	(1,347)
Other current	(100)	84	(244)	338
Net PP&E	0	(12)	23	19
Prepaid	0	(108)	100	(100)
Other non-current	0	(208)	3,866	(1,318)
Accounts and other payables	800	218	(787)	(12)
Short term borrowings	0	226	(561)	782
Accrued royalties	0	327	(389)	162
Other current liabilities	500	346	(592)	(222)
Long-term loan, net	0	(150)	(3,004)	(1,471)
Other non-current	100	93	(262)	42
Warrants to placement agent	0	2	69	159
Common stock	0	0	0	0
Additional paid in capital	1,000	2,182	6,902	3,250
Other comprehensive loss	0	0	0	0
Treasury stock and note	0	0	0	0
Dividend/Financing/Adj. Other	0	0	0	0
Total Cash Flow	<u>(\$180)</u>	<u>(\$1,018)</u>	<u>(\$115)</u>	<u>(\$3,634)</u>

Source: Litchfield Hills Research LLC

Disclosures:

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Actelis Networks, Inc.

NASDAQ: ASNS - Buy-US\$5.00 PT

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