

Plurilock Security Inc

(PLUR in Canada, PLCKF in US)

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INVESTMENT SUMMARY

Imagine that you have a choice between the following two investments: Choice 1 is a finished house and Choice 2 is a house under construction. The price tag for the finished house is \$1 million and the price tag for the unfinished house is \$20,000.



Which one is a better investment? It depends. How much is it going to cost to finish the house under construction and what is it going to be worth when finished? Let's assume that it will cost \$80,000 to finish the house and once it is finished it will be worth \$1 million like the house in choice number 1.

If you are logical, you would say "Of course, I would rather buy the unfinished house for \$20,000, put in an additional \$80,000 to finish it, and sell it for \$1 million. My total investment will be \$100,000 and I will 10x my money."

You might also say, "Why are you giving me a choice between such scenarios? This would never happen. No one would be dumb enough to sell me a house under construction for \$20,000 if all it takes is \$80,000 to get it to \$1 million valuation."

You are right. In the real world, no one would be dumb enough to do that because in the real world, people tend to think logically. But in the stock market, especially in the microcap space, many investors do not think like owners.

Let's say that a profitable business is like a retail-ready house and an unprofitable business is like an under-construction house. Today, you can make an absolute killing in microcap stocks because the discrepancy between valuations for profitable businesses versus unprofitable businesses is so huge that you can literally buy close-to-profitability businesses, inject them with a little bit of money, and sell them at 10X profits after they become profitable or retail ready.

This is really the entire investment thesis for Plurilock Security Inc. Plurilock's ticker symbols are PLUR in Canada and PLCKF in the US.

PLURILOCK PRIOR TO RECENT RESET

Recently, Plurilock went through a complete recapitalization. You can call it a reset. The company did a 10:1 reverse split and raised \$5.5 million of funds. It is kind of like Plurilock is an under-construction house that was purchased for \$20k and the company was injected with \$80k to get the Plurilock house finished and retail ready.

Before this reset, Plurilock reached a rock-bottom market capitalization of \$2 million. This is after the stock price went down 97 percent from the peak.



In other words, stock market investors were willing to sell the shares of this company for a \$2 million market cap. When you look at this company's revenue profile, type of clientele, and the future upside, this kind of valuation is unbelievable. Would you sell a \$70 million revenue company for \$2 million?

Plurilock Security Inc.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

		Years ended December 31,	
		<i>Restated - see Note 5</i>	
	Notes	2023	2022
		\$	\$
Revenue	23	70,420,131	64,632,371
Cost of sales		(64,568,153)	(59,650,441)
Gross profit		5,851,978	4,981,930
Operating expenses			
Research and development	24	1,806,492	2,485,246
Sales and marketing	24	3,475,147	3,437,141
General and administrative	24	7,660,688	5,420,918
Impairment on goodwill	5,14	711,487	—
Stock-based compensation	20 (d)	317,329	671,804
Total operating expenses		13,971,143	12,015,109
Operating loss		(8,119,165)	(7,033,179)
Other expenses			
Foreign exchange translation gain (loss)		442,362	(152,541)
Acquisition-related expenses		(434,328)	(665,698)
Financing expenses		(175,208)	(288,374)
Other income		65,898	—
Impairment on assets		(9,093)	—
Loss on disposal of assets		(12,512)	—
Interest expenses		(874,914)	(311,320)
Total other expenses		(997,795)	(1,417,933)
Net loss for the year before tax		(9,116,960)	(8,451,112)
Income tax recovery	27	31,121	4,591
Net loss for the year		(9,085,839)	(8,446,521)
Other comprehensive income (loss)			
Items that may be subsequently reclassified to net results			
Foreign exchange translation difference		(220,801)	221,980
Other comprehensive income (loss)		(220,801)	221,980
Comprehensive loss for the year		(9,306,640)	(8,224,541)
Basic and diluted loss per share	25	(0.10)	(0.12)

The accompanying notes are an integral part of these consolidated financial statements.

I wouldn't sell it this cheap, especially when some of the clients are NASA, the US Air Force, the US Navy, the US Army, Adobe, Cisco, Microsoft, and Nvidia.



Some will say “But Plurilock is not profitable.” Just because a house is not finished and retail-ready, does it mean it should sell for \$20k? I don’t think so.

The current revenue profile and clientele are the foundation to building a profitable company.

Unfortunately, past Plurilock shareholders did not get this memo and did not appreciate what they had. Instead, they drove the stock price to a \$2 million market cap, forcing the company to raise money at an incredibly low valuation during a time when cash in the bank was running low. Then, when the capital raise was announced, they complained and blamed the management. Here is my favorite comment.

“Rot in hell losers. You lost us all a ton of money, and lost your own equity as well. A toddler could have done a better job running a private company. Hope your wives ditch you and you have to move into a loud apartment.”

(Expressed in Canadian dollars)

		Restated - see Note 5	
		December 31, 2023	December 31, 2022
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		1,917,770	2,712,684
Restricted cash	6	140,423	140,423
Trade and other receivables	7	17,179,964	12,019,731
Tax credits receivable	8	172,188	219,004
Inventory	9	1,866,017	316,233
Prepaid expenses and deposits	10	331,367	652,798
Total current assets		21,607,729	16,060,873
Non-current assets			
Property and equipment	11	83,425	138,886
Right-of-use asset	12	52,848	211,050
Net investment in sublease	13	45,831	—
Intangible assets	14	1,828,547	2,387,267
Goodwill	5,14	3,490,950	4,139,853
Other non-current assets		26,406	121,401
Total assets		27,135,736	23,059,330
Liabilities			
Current liabilities			
Trade and other payables	15	23,686,325	13,090,663
Unearned revenue	16	1,641,663	689,040
Short-term loans	17	4,504,636	5,262,320
Lease liability	13	109,231	89,522
Total current liabilities		29,941,855	19,131,545
Non-current liabilities			
Lease liability - non-current	13	12,922	137,372
Deferred tax liability	27	18,441	15,970
Convertible debenture	18	1,257,545	1,191,366
Other non-current liabilities	19	240,733	279,784
Total liabilities		31,471,496	20,756,037
Shareholders' equity			
Share capital	20(b)	25,370,093	23,014,218
Equity reserve		675,879	870,871
Foreign currency translation (deficit) reserve		(91,995)	128,806
Contributed and other surplus		2,919,750	2,413,046
Accumulated deficit		(33,209,487)	(24,123,648)
Total equity		(4,335,760)	2,303,293
Total equity and liabilities		27,135,736	23,059,330

Low Cash →

On April 26, 2024, Plurilock closed a round of private placement financing in the amount of \$5.5 million. Because the valuation at that moment was low, significant dilution was created. The share count went from 10 million shares to 37 million shares. The fully diluted number of shares, assuming all the warrants get exercised, will be around 65 million.

As of the date of this report, the market capitalization is approximately \$13 million with 37 million shares. Is this cheap? Well, is a \$20k unfinished house with newly injected \$80k cheap? It all depends on what Plurilock is going to be worth when the company becomes profitable.

GAME PLAN

Plurilock's plan is to become a profitable company. After profitability is achieved, the goal is to grow EBITDA to such a level that the company would be acquired by private equity or any other company looking to grow through acquisitions. Usually, companies with EBITDA north of \$10 million become very interesting to acquirers that are looking for growth. As an investor, it is your job to figure out whether a \$13 million market cap is cheap enough and what possible buyout prices you might get if the company is successful.

Today



3 to 5 years



BUSINESS DESCRIPTION

Since Plurilock is not in the house construction business, it is probably a good idea to tell you what type of business the company is involved in.

Plurilock sells cybersecurity products. Cybersecurity is very topical and needed. Cybersecurity is a \$300 billion market that is expected to grow to \$1.75 trillion by 2025.

Plurilock sells cybersecurity products to some of the top companies and entities in the world.



Yes, they sell products to NASA, the US Air Force, the US Navy, the US Treasury, Adobe, Apple, Cisco, Nvidia, and more.

The business is divided into three segments:

- VAR Segment (Value Added Reseller) – 5 to 10 percent gross profit margin
- Critical Services Segment – 35 to 60 percent gross profit margin
- Plurilock's Own Software Segment – 60 to 80 percent gross profit margin

The VAR segment simply resells cybersecurity products made or created by others. The critical services segment manages cybersecurity product offerings for clients. Plurilock's own software segment sells its own proprietary cybersecurity products.

Obviously, the VAR business has the lowest gross profit margins because a lot of entities are reselling the same products. In order to stay competitive, the company has to make low margins.

The critical services segment yields higher gross profit margins because it provides more than just a commodity. It provides custom services.

Finally, the proprietary product segment carries the biggest gross profit margins because no one else is able to offer such a product.

STRATEGY FOR VALUE CREATION

Even though the business is generating significant revenues right now, the company, as a whole, is not profitable. This is because revenues and gross profit margins are not high enough. However, this is changing. Both revenues and gross profit margins are growing.

Plurilock Security Inc.

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Gross Profit Margin 8.31 % 7.71 %

Plurilock's strategy is to use the existing relationships with VAR clients and cross sell them higher-margin products. This strategy is already producing higher gross profit margins. The foundation for this strategy was established when Plurilock acquired several resellers.

In July 2021, Plurilock acquired Aurora Systems Consulting (ASC), a California-based provider of advanced cybersecurity technology and services. With this acquisition, Plurilock gained access to more than 140 Tier 1 customers and a professional sales team based in the United States that is focused on selling cybersecurity products.

In March 2022, Plurilock acquired Integra Network Corp (INC), a leading Canadian enterprise IT and cybersecurity solutions provider. With this acquisition, Plurilock gained access to more than 50 top-tier organizations in Canada such as Shared Services Canada, the Department of National Defense, and the Royal Canadian Mounted Police.

In September 2022, Plurilock acquired Atrion Communications, a leading US provider of consulting, IT and cybersecurity solutions. Atrion's customers included a Fortune 500 North American food services and facility management provider, a leading multinational pharmaceutical company, and multiple renowned U.S. hospitals and medical centers. Atrion brought more than 600 customers.

These acquisitions set the foundation. They represent client relationships. They also bring diversity of products. In the cybersecurity space, businesses purchase many products from various vendors to feel safe. By acquiring these companies, Plurilock became a one-stop shop for many or some of its clients and the critical services segment (professional services) became the fastest-growing segment.

Selected 2023 financial information

The following selected financial information for the fiscal years ended December 31, 2023, and 2022 has been derived from the annual consolidated financial statements and should be read in conjunction with those financial statements and related notes. Non-IFRS measures are defined below.

Years ended December 31,		Restated - see Note 5	
	2023		2022
	\$		\$
Revenue	70,420,131		64,632,371
Hardware and systems sales	55,716,530		56,919,768
Software, license and maintenance sales	11,921,540		6,970,057
Professional services	2,782,061		742,546

Professional Services grew 275 percent

As you can see, professional services grew 275 percent from 2022 to 2023. The professional services segment was recently renamed the critical services segment. This segment is key to understanding Plurilock's investment thesis and value creation. As mentioned before, critical services produces 35 to 60 percent gross profit margins while VAR sales only produce 5 to 10 percent gross profit margins. Cross-selling critical services to existing VAR clients is the key here. And this strategy is working. Actually, the management was surprised by how much demand Plurilock is getting for critical services from existing VAR clients.

The company can continue to grow this segment without any influx of new clients. The growth of the critical services segment should have a significant impact on the company's profitability and valuation. In 2022, critical services represented only 1.15 percent of total revenues. In 2023, it represented 3.95 percent of total revenues.

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	\$		\$
Revenue	70,420,131		64,632,371
Hardware and systems sales	55,716,530		56,919,768
Software, license and maintenance sales	11,921,540		6,970,057
Professional services	2,782,061		742,546
Gross margin (%)	8.3%		7.7%

3.95%



1.15%



Such a change in revenue composition increased overall gross profit margins from 7.7 percent in 2022 to 8.3 percent in 2023. What is the realistic percentage of total revenues that the critical services segment can represent? Looking at other VAR businesses, we can get an idea. I looked at the financials of four VARs: Arrow Electronics, Insight Enterprises, Juniper Networks, and CDW Corporation.

	Arrow Electronics (ARW)	Insight Enterprises (NSIT)	Juniper Networks (JNPR)	CDW Corporation (CDW)
Revenue				
VAR	76.78%	83.17%	65.28%	73.85%
Critical Services	23.22%	16.83%	34.72%	8.28%


The range for critical services as a percentage of total sales is between 8.28 percent and 34.72 percent. By taking the average, I get 20.76 percent. Let's round it up to 21 percent.

Can Plurilock achieve 21 percent of total revenues from the critical services segment? I think this is very reasonable. Considering that critical services were only 3.95 percent of 2023 revenues, there is a significant growth opportunity within the current client base. Let's go with 21 percent.

Let's play with some numbers. Let's assume that Plurilock's VAR business is not going to grow from 2023 levels (unlikely) but the critical services segment grows to 21 percent of revenues. Let's also assume that this will take three to five years. I am also going to ignore Plurilock's own software sales for simplicity.

Plurilock's revenue profile would look like this:

<u>Revenues</u>		
VAR	\$70,000,000	79.10%
Critical Services	\$18,500,000	20.90%
Total revenues	\$88,500,000	



The gross profit would look like this:

<u>Revenues</u>		Gross Margin	Gross Profit
VAR	\$70,000,000	7.50%	\$5,250,000
Critical Services	\$18,500,000	47.00%	\$8,695,000
Total revenues	\$88,500,000	15.76%	\$13,945,000




Gross profit would be almost \$14 million and the combined gross profit margin would be almost 16 percent. With the current cost structure, the company would be profitable and the combined gross profit margin would be in line with other VAR businesses.

	Arrow Electronics (ARW)	Insight Enterprises (NSIT)	CDW Corporation (CDW)
Gross Profit Margin	12.53%	18.19%	21.76%

Under such a scenario, it is unlikely that Plurilock's market cap would stay at 20 percent of revenues like it is currently.

At this point, the company's focus is on the EBITDA breakeven point through high-margin services growth.

Focused on EBITDA Breakeven and High-margin Services Growth

Profitability 	Recurring Revenue 	Recession Resistance 
Margin Opportunities <ul style="list-style-type: none"> Targeting expanded gross profit and EBITDA margins across the corporation 	High-Margin Cyber Services <ul style="list-style-type: none"> Continued focus on generating high-margin recurring sales Focus on expanding services within new and existing accounts 	Government <ul style="list-style-type: none"> Continued focus on generating additional revenue through government Government revenue is largely recession-resistant Contract Vehicles <ul style="list-style-type: none"> Pursuit of additional contract vehicles for government sales to enable expanded government revenue

PlurilockAI

While the EBITDA breakeven point is just a stepping stone towards profitability, this goal is very important. Today, the difference between valuations for unprofitable companies and breakeven/slightly profitable companies is night and day. Investors will sell you unprofitable companies for almost nothing while they will value breakeven or profitable companies generously.

“On August 28, 2023, the Company enacted a plan to reduce headcount and other costs as part of its ongoing strategy to realized acquisition synergies. The Company expects to realize approximately \$2 million in savings on an annualized basis as a result of these actions. As part of the plan, the Company intends to reduce 18% of headcount costs. In addition, the Company has cut overhead in General and Administrative expenses.”

This announcement was made in Q3 2023. In Q4 2023, \$400k of savings already showed up in the financial statements. General and administrative expenses were lowered by \$300k from the prior quarter. Research and development expenses were lowered by \$100k from the prior quarter.

CONCLUSION

Plurilock is like a house under construction. Recently, the company ran out of money to finish the construction and \$5.5 million of new money was injected to get the job done. The goal is to take the business towards EBITDA breakeven and then towards meaningful profitability.

Now it is your job to decide if success is likely and whether paying a \$13 million market cap is worth the risk. Roll up your sleeves and do your own due diligence. Run various scenarios.

What happens to the valuation when 21 percent of revenues comes from the critical services segment?

What happens to the valuation when EBITDA breakeven is achieved?

What happens to the valuation when the VAR business continues to grow and the critical services segment becomes a meaningful revenue contributor?

What happens to the valuation when EBITDA becomes significant, like around \$10 million?

What happens if the company fails to deliver?

Disclosure: Plurilock awarded Investment Publishing, my company, a \$220,000 contract for IR services over 12 months. My goal is to build the company a strong shareholder base that fully understands the Plurilock investment thesis. Most of this money will be spent on increasing the exposure of Plurilock's message.