

Comstock Inc.

Oct 08, 2024

GenMat Acquisition Positions Comstock to Leverage the Power of AI

Nat Resources

LODE

NYSE

Rating

Outperform

Unchanged

Current Price

\$0.51

Target Price

\$2.60

Market Capitalization

89.04m

Shares Outstanding

175.28m

Float

160.38m

Institutional Holdings

6.01%

12-Month Low/High

\$0.13/\$0.72

Average 90-Day Volume

8930000

Fiscal Year End

12/31/2024

Acquisition of Quantum Generative Materials (GenMat). Comstock executed an agreement to acquire Quantum Generative Materials, including GenMat's artificial intelligence materials discovery platform, along with retaining most of the associated technical team. A holding company controlled by Mr. Deep Prasad, GenMat's founder, will assume control of GenMat's space-oriented business. GenMat will become a 100%-owned subsidiary of Comstock Inc. and will continue development and commercialization of its physics-based artificial intelligence products and services.

Transaction terms. GenMat will pay \$1 million to Mr. Prasad in exchange for the assignment of the rights and related intellectual property. Comstock will make the following payments: 1) \$250,000 on the closing date, 2) \$250,000 on November 15, 2024, and 3) \$500,000 on March 31, 2025. Under terms of the agreement, Mr. Prasad is entitled to a contingent earn-out payment equal to 3% of either the consideration paid in connection with a liquidation of GenMat in excess of \$100 million or funds raised by GenMat upon completion of an initial public offering valuing GenMat in excess of \$100 million.

Transaction rationale. In our view, it makes sense to split GenMat's artificial intelligence materials discovery platform from its space-centered business. Comstock's ownership of GenMat will give it more control over the development and commercialization of its artificial intelligence products and services, ensure alignment with objectives associated with each of Comstock's business units, and enhance Comstock's competitive advantages and position it for growth into new markets.

Rating is Outperform. With the integration and commercialization of GenMat's AI platform, Comstock may expand its innovation capacity and strengthen and grow its market position. While work related to Comstock's mining operations have been carried out by GenMat's space development business, data associated with these activities will be provided to Comstock on or before closing with imaging provided on or before the second anniversary of the closing date.


Revenues (\$ MIL)

Period	2022A	2023A	2024E
Q1	\$0.0546A	\$0.0308A	\$0.4260A
Q2	\$0.0529A	\$0.0353A	\$0.4348A
Q3	\$0.0399A	\$0.7607A	\$0.6884E
Q4	\$0.0308A	\$0.4476A	\$0.7002E
	\$0.1782A	\$1.2744A	\$2.249E


EPS (\$)

Period	2022A	2023A	2024E
Q1	\$(0.09)A	\$(0.06)A	\$(0.06)A
Q2	\$(0.20)A	\$(0.05)A	\$(0.06)E
Q3	\$(0.07)A	\$0.11A	\$(0.03)E
Q4	\$(0.24)A	\$0.09A	\$(0.03)E
	\$(0.62)A	\$0.09A	\$(0.17)E

Equity Research

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Refer to the last two pages for Analyst Certification & Disclosures

Company Profile

Comstock Inc. commercializes technologies that enable systemic decarbonization and the energy transition by efficiently converting under-utilized natural resources into renewable energy products, and by leveraging physics based artificial intelligence for more efficient and effective mineral and materials discovery. Comstock Inc. shares trade on the NYSE American under the ticker symbol "LODE."

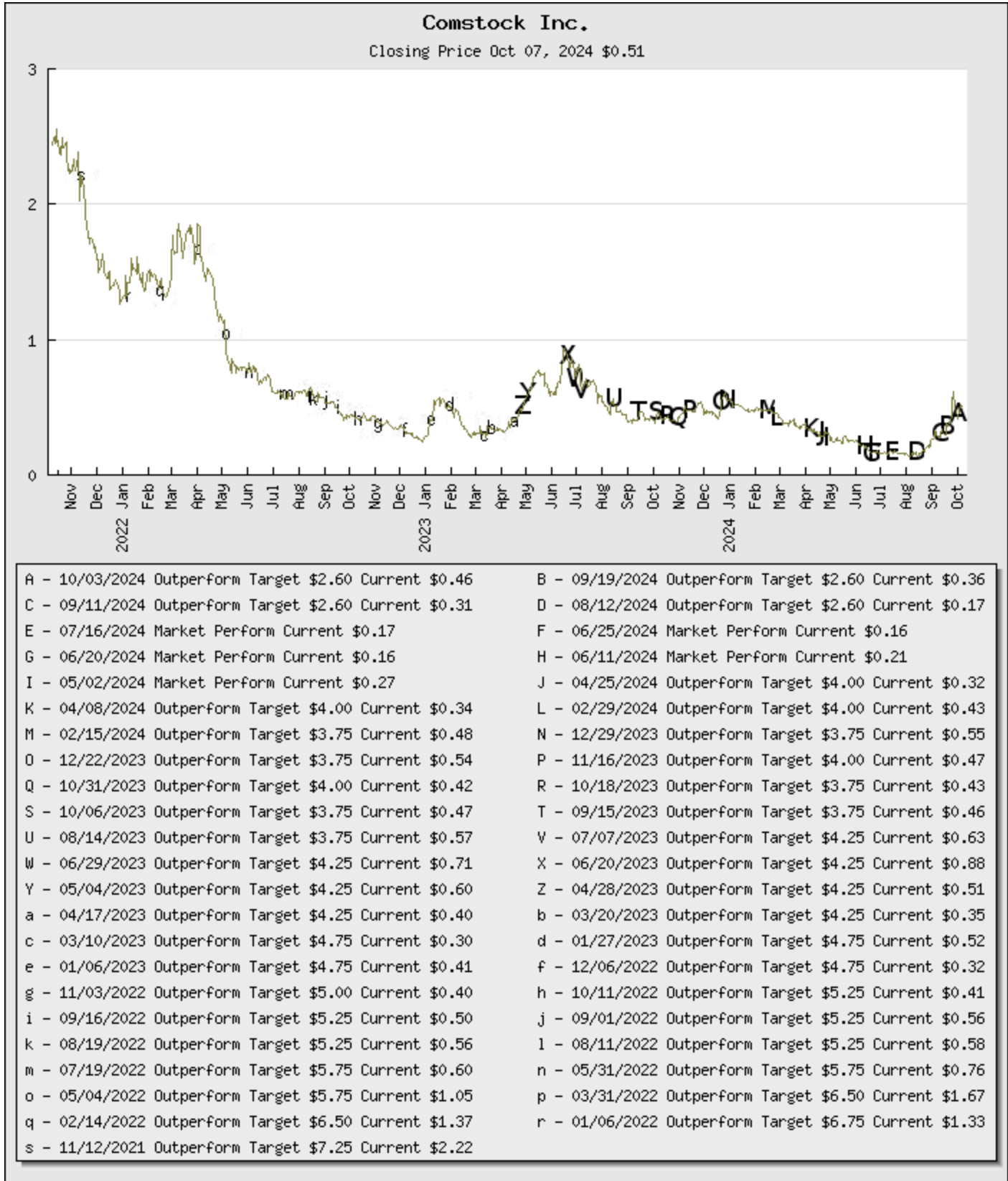
Fundamental Analysis - 3.0/5.0 Checks

Our fundamental assessment rating, separate from our investment rating and valuation, is based on five attributes. We assign 3.0 checks out of 5.0, which falls within our Average range of 2.5 to 3.0 checks. In our opinion, the company's corporate governance practices are shareholder friendly with the company's seven-member board of directors being comprised of five independent directors and two from management. Our rating reflects the fact that recent corporate development initiatives are centered on building businesses in relatively nascent industries that offer significant growth potential albeit with higher risk profiles. For further explanation of our fundamental analysis, please refer to the disclosures at the end of this report.

Valuation Summary

Our investment rating is Outperform. We have used a sum of the parts framework for our valuation. It is based on business segment values implied by the proposed SBC Commerce transaction and the book value of strategic investments. Rounding to the nearest \$0.05, our price target is \$2.60 per share. While our price target may seem high relative to where the equity trades currently, we think the valuation will move closer to our price target as each successive tranche of the company's proposed transaction with SBCC is closed. In the event that one or more tranches does not close, it would have implications for the equity valuation and our price target. As the company's business lines mature, we will likely value them based on a discounted cash flow framework. For example, with the benefit of a mine plan for Dayton, a discounted cash flow framework would be appropriate. Similarly, the same framework is applicable to Comstock Metals as it moves closer to commercializing its industry-scale facilities. For now, we think our valuation is appropriate.

Investment risks, including those relevant to achieving our price target, include but are not limited to: 1) failure to execute planned asset divestitures on expected terms, 2) failure to develop economic mineral resources, 3) global economic and capital market uncertainties, 4) uncertainties associated with the availability and costs of future financing, 5) changes in capital market and macroeconomic environments, 6) changes in supply and demand fundamentals for minerals, including gold and silver, 7) delays in the development of projects, 8) uncertainties associated with operational execution, 9) changes in regulation or actions taken by various regulatory entities including the Bureau of Land Management, the Nevada Department of Environmental Protection and the U.S. Environmental Protection Agency, 10) the potential for operating costs and financing costs to vary from management expectations, 11) unexpected claims or financial obligations associated with environmental and/or reclamation duties, 12) the development of each of the company's business lines may not succeed as planned, and 13) Comstock may or may not close all proposed transactions with SBC Commerce. An investment in Comstock Inc. should be considered speculative with high return potential and high risk.



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Noble has managed or co-managed a public offering in the past 12 months. Noble expects to receive compensation for investment banking services in the next 3 months. The Company has attended Noble investor conference(s) in the last 12 months. Noble has arranged non-deal roadshow(s) with investors in the last 12 months.

Noble intends to seek compensation for investment banking services and non-investment banking services (securities and non-securities related) within the next 3 months.

Noble is not a market maker in the Company.

FUNDAMENTAL ASSESSMENT

The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or underserved needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclical, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

ANALYST CREDENTIALS, PROFESSIONAL DESIGNATIONS, AND EXPERIENCE

Senior Equity Analyst focusing on Basic Materials & Mining. 20 years of experience in equity research. BA in Business Administration from Westminster College. MBA with a Finance concentration from the University of Missouri. MA in International Affairs from Washington University in St. Louis.

Named WSJ 'Best on the Street' Analyst and Forbes/StarMine's "Best Brokerage Analyst."

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Neither I nor anybody in my household has a financial interest in the securities of the subject company or any other company mentioned in this report.

NOBLE RATINGS DEFINITIONS	% OF SECURITIES COVERED	% IB CLIENTS
Outperform: potential return is >15% above the current price	90%	25%
Market Perform: potential return is -15% to 15% of the current price	10%	3%
Underperform: potential return is >15% below the current price	0%	0%

NOTE: On August 20, 2018, Noble Capital Markets, Inc. changed the terminology of its ratings (as shown above) from "Buy" to "Outperform", from "Hold" to "Market Perform" and from "Sell" to "Underperform." The percentage relationships, as compared to current price (definitions), have remained the same.

Additional information is available upon request. Any recipient of this report that wishes further information regarding the subject company or the disclosure information mentioned herein, should contact Noble Capital Markets, Inc. by mail or phone.

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Report ID: 27017