

Innovotech Inc.

TSXV: IOT · LIFE SCIENCES SERVICES / LABORATORY TESTING · AUG 19, 2026 · Q2 2026 UPDATE

RATING	12-MO TARGET	AT PUBLICATION	IMPLIED UPSIDE	MARKET CAP
Hold	C\$0.10	C\$0.08	+25%	C\$4.36M

Bottom line: Microcap Research rates Innovotech Inc. (TSXV: IOT) Hold with a 12-month price target of C\$0.10, about 25% above the C\$0.08 share price at publication on Aug 19, 2026. Market capitalisation at publication: C\$4.36M.

Q2 broke the thesis. Management confirmed the lost client program is permanent and that antimicrobial revenue is back at 2024 levels — reframing FY2025 as a peak, not a platform. Gross margin collapsed to 8.6% and cash fell 77% to C\$374,671. The stock is 6% cheaper per share than at initiation but enterprise value is 29% higher. Downgrade to Hold, target C\$0.10.

KEY STATISTICS — AS OF AUG 19, 2026

Market Cap	C\$4.36M
EV/Revenue (LTM)	~1.15x
Revenue (Q2 2026)	C\$0.68M (-31%)
Gross Margin (Q2 2026)	8.6%
Adj. EBITDAS (Q2 2026)	C\$(0.64)M
Cash (Jun 30, 2026)	C\$0.37M

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Update Summary

This update follows Innovotech's Q2 2026 results, released after the close on August 18, 2026. We **downgrade** our rating from **Spec. Buy** to **Hold** and **lower** our 12-month price target to **C\$0.10** from C\$0.18, representing approximately 25% upside from C\$0.08 (last trade August 18, 2026, per Stockwatch). The quarter did not merely miss — it changed the shape of the thesis. Management confirmed the lost customer program is a permanent reduction rather than a pause, gross margin collapsed to 8.6%, and cash fell 77% from year-end to C\$374,671. Most importantly, the valuation argument that anchored our initiation has partly closed on its own: enterprise value is now *higher* relative to revenue than when we initiated, because the balance sheet eroded faster than the share price did.

Our initial coverage on IOT was published July 2, 2026 at C\$0.085, framing Innovotech as a textbook microcap dislocation — a GMP-accredited lab-services platform that doubled revenue to C\$4.53M and earned a profit in 2025, priced at ~0.73x EV/Revenue after a single client program ended and cratered Q1. The core question we posed was whether the Q1 stumble was survivable or terminal. Q2 answers a narrower version of that question: it is survivable, but the revenue base being defended is materially smaller than the FY2025 figure our target was struck against.

What Changed

- **Revenue did not recover:** Q2 revenue of C\$679,841 fell 31% year over year from C\$984,327, and H1 revenue of C\$1,327,981 fell 38% from C\$2,142,512. Revenue did rise modestly sequentially from Q1's C\$648,140 — the only directional positive in the print.
- **The client loss is now permanent, by management's own admission:** The MD&A states that after "discussions with the customer and observation of activity levels over an extended period, management concluded that the reduction in work from the client was likely to be a longer-term change rather than a temporary pause." This is the single most consequential sentence in the filing. At initiation we treated the Q1 revenue cliff as a stumble against a doubled base; management now treats it as the new baseline.
- **The FY2025 base is reframed as exceptional:** Management discloses that Q2 2026 antimicrobial testing revenue of C\$270,829 was "consistent with the C\$268,277 reported in the second quarter of 2024," and that 2026 activity is "broadly comparable to pre-2025 activity levels." In other words, the 107% FY2025 revenue growth we underwrote was substantially one large program, and the business has reverted to its 2024 antimicrobial run-rate.
- **Gross margin collapsed:** Q2 gross profit was C\$58,130 on a 8.6% margin, versus 53.3% in Q2 2025 and 24.1% in Q1 2026. Cost of sales *rose* 35% year over year to C\$621,711 on 31% lower revenue — the arithmetic of a fixed lab cost base running at low utilization.
- **Adj. EBITDAS loss more than doubled:** C\$(636,631) in Q2 versus C\$(276,133) a year earlier, a -93.6% margin. H1 Adj. EBITDAS was C\$(982,189).
- **The GMP/analytical line — our designated diversifier — also declined:** C\$320,871 in Q2, down 17% year over year, and down 14% on a H1 basis. At initiation we highlighted this line holding roughly flat while antimicrobial took the hit, and called it "the diversification engine of the thesis." It no longer held flat.
- **Balance sheet erosion is the headline:** Cash fell from C\$1,619,586 at December 31 to C\$374,671. Working capital fell 67% from C\$2,500,350 to C\$834,318; the current ratio fell from 5.79 to 2.07. H1 consumed C\$589,921 in operations and C\$650,605 in investing.

- **Cost reset executed:** Workforce reduced 20% versus end-Q1 staffing. Q2 G&A of C\$543,231 was down 26% year over year, and R&D was cut 39%. Management expects these actions to "become more evident in operating results during the second half of 2026."
- **Business development spend went the other way, deliberately:** Marketing and BD expense rose 305% in Q2 to C\$121,945 and 379% in H1 to C\$239,791 — the largest dedicated BD function in company history.
- **Keystone earnout reversed:** A C\$50,000 gain was recognized on remeasurement of contingent consideration from the November 2024 Keystone acquisition, because management concluded the post-acquisition performance milestones were "unlikely to be achieved." A cash-flow positive but strategically negative datapoint.
- **New commercial initiatives:** InnovoTEST™ hazardous drug wipe testing kits launched August 13, 2026, targeting compounding pharmacies and hospitals against NAPRA environmental-monitoring guidance. The Company also quietly launched client consulting services (evidenced by a FendX release) and cites several clients advancing toward FDA 510(k) submissions.
- **Capital commitments taken on during a cash squeeze:** Innovotech acquired a MALDI-TOF mass spectrometry system, a high-capacity autoclave, and expanded cleanroom infrastructure; PP&E rose 66% to C\$1,492,190. The MALDI-TOF was subsequently sold and leased back in July (48 months at C\$7,090/month), restoring roughly C\$300K of working capital. Separately, the Company has signed a purchase agreement and paid a deposit on a permanent laboratory facility, with a condition-removal date of **October 31, 2026**, subject to mortgage financing not yet secured.

Thesis Check

Reviewing each of the five original pillars, honestly:

- **Pillar 1 — The FY2025 Scale-Up Was Large, Real, and Profitable (BROKEN as a forward anchor):** The FY2025 revenue of C\$4.53M was real and audited, but management has now effectively disclosed that a large portion of it was a single program that is not returning, and that the underlying antimicrobial business is running at 2024 levels. A price target struck as a multiple of FY2025 revenue is a target struck against a number the business is not going to reproduce. This is the pillar that fails, and it is the reason the target moves as much as it does.
- **Pillar 2 — The Valuation Discounts a Permanent Impairment That the Balance Sheet Contradicts (BROKEN):** The balance sheet no longer contradicts it. At initiation we cited C\$1.32M cash, C\$1.79M working capital and a 3.28x current ratio as the cushion that bought management time. Two quarters later that cushion is C\$374,671 of cash, C\$834,318 of working capital and a 2.07x current ratio. Worse, the arithmetic has inverted: enterprise value has *risen* to ~C\$4.28M from ~C\$3.31M at initiation even though the share price fell 6%, because C\$945K of cash left the balance sheet. EV/Revenue on the trailing twelve months is now ~1.15x versus the ~0.73x we cited on FY2025. The stock is cheaper per share and more expensive per dollar of enterprise value.
- **Pillar 3 — Q1 Exposed the Concentration Risk But Also the Catalyst for Fixing It (INTACT, executing):** This is the pillar that held. Management did exactly what the situation demanded — cut headcount 20%, reversed the "hold capacity for a return that isn't coming" error explicitly, tripled BD spend, and installed a CFO focused on cash discipline. New client relationships, renewed former-client outreach, and the inbound funnel from the redesigned website are all real. The caveat is that the GMP line we identified as the resilient half also declined 17%, so diversification is being built rather than merely revealed.

- **Pillar 4 — GLP Certification Is a Structural Market Expander (WEAKENED):** GLP appears in the Q2 outlook only as "preparations toward Good Laboratory Practice (GLP) certification," bundled into a list of initiatives, with no timeline, no cost figure, and no progress milestone. At initiation we called the compliance drag "front-loaded and the option live." With R&D spend cut 36% in H1 and cash at C\$375K, the option is still live but is now competing for capital it may not get on the original schedule.
- **Pillar 5 — Optionality: U.S. Capital-Markets Access, IP, and Owned Infrastructure (WEAKENED, and partly inverted):** The OTCQB listing is done and InnovoTEST plus the new consulting line are genuine additions to the revenue surface. But two of the three original options have turned. The permanent-facility idea is no longer optionality — it is a signed purchase agreement with a deposit down and a hard October 31 condition-removal date, requiring mortgage financing from a company with C\$375K of cash and a C\$1.06M half-year loss. And InnovoSIL™, the silver IP platform, receives no update at all in a quarter where R&D was cut 39%.

Updated Financials

METRIC (C\$)	Q2 2025	Q1 2026	Q2 2026	YOY CHANGE
Revenue	984,327	648,140	679,841	-31%
— Antimicrobial Testing	521,616	302,073	270,829	-48%
— GMP / Analytical / Stability	386,341	292,119	320,871	-17%
— Products (MBEC Assay®)	76,370	53,948	88,141	+15%
Gross Profit	524,354	155,941	58,130	-89%
Gross Margin	53.3%	24.1%	8.6%	-44.7 pts
Marketing & Bus. Development	30,133	117,846	121,945	+305%
General & Administrative	736,281	591,108	543,231	-26%
Adj. EBITDAS	(276,133)	(345,558)	(636,631)	-131%
Net and Comprehensive Loss	(241,199)	(401,294)	(655,700)	-172%

Q1 2026 service-line figures are derived from reported H1 totals less Q2. Q1 2026 net loss was supported by C\$192,294 of 2025 SR&ED tax incentive recognized in the quarter; Q2 includes a C\$50,000 gain on reversal of the Keystone contingent consideration, which Adj. EBITDAS excludes.

BALANCE SHEET (C\$)	DEC 31, 2025	MAR 31, 2026	JUN 30, 2026
Cash & Equivalents	1,619,586	~1,320,000	374,671
Current Assets	3,022,428	—	1,617,200
Current Liabilities	522,078	—	782,882
Net Working Capital	2,500,350	1,790,000	834,318
Current Ratio	5.79x	3.28x	2.07x
Property, Plant & Equipment	897,931	—	1,492,190

BALANCE SHEET (C\$)	DEC 31, 2025	MAR 31, 2026	JUN 30, 2026
Total Assets	4,432,877	~4,300,000	3,585,017
Total Liabilities	784,676	~1,050,000	993,810
Shareholders' Equity	3,648,201	—	2,591,207
Net (Cash) Debt	(1,286,367)	—	(77,558)
Common Shares Outstanding	54,438,235	54,438,235	54,438,235

Source: Innovotech Inc. Q2 2026 MD&A, interim consolidated financial statements and news release (all August 18, 2026), and Q1 2026 filings. Current liabilities at June 30 include C\$214,272 of accounts payable relating to the MALDI-TOF system, which was sold and leased back in July 2026 and is replaced by a 48-month lease obligation at C\$7,090 per month. Shares outstanding are unchanged; 1,900,000 stock options remain outstanding and there are no warrants.

Updated Valuation

Our framework — EV/Revenue, chosen at initiation because project-based volatility makes near-term earnings multiples meaningless — is unchanged. What changes is the revenue base we apply it to, and that change is the whole of the target reduction.

At initiation we applied ~1.9x to FY2025 revenue of C\$4.53M. That base is no longer defensible. Management has disclosed that 2026 antimicrobial activity is running at pre-2025 levels, and the Q2 print of C\$270,829 versus Q2 2024's C\$268,277 makes the point concretely. We therefore reset to a stabilized revenue base of approximately **C\$3.1M**, built as follows: annualizing H1 2026 gives C\$2.66M; the LTM figure is C\$3.72M; we assume the 20% workforce reduction does not further impair delivery capacity, that GMP/analytical stabilizes near its Q2 run-rate, and that InnovoTEST, the consulting line, and the enlarged BD function contribute modestly from 2027. C\$3.1M sits between the depressed H1 annualized figure and the trailing twelve months, and remains 32% below FY2025.

We also raise the multiple applied to that base to ~1.75x from ~1.9x on a much larger number — reflecting that a smaller, less concentrated, cost-reset business with a genuine GMP franchise deserves a normal-ish services multiple, while the liquidity position and the unresolved facility financing warrant a discount to peers. Regulated CRO and analytical-testing comparables generally clear 1.5–2.5x sales; we are mid-range, not distressed.

SCENARIO	BASIS	PRICE / SHARE	VS. CURRENT
Bear Case	1.0x EV/Rev on C\$2.7M; H2 burn continues, facility financing forces a dilutive raise	C\$0.04	-50%
Base Case	1.75x EV/Rev on C\$3.1M stabilized revenue, less ~C\$0.2M net debt	C\$0.10	+25%
Bull Case	2.5x EV/Rev on C\$3.6M; BD pipeline converts, GLP lands, margin recovers on lower cost base	C\$0.165	+106%

Base and bull use 54,438,235 shares; the bear case assumes ~25% dilution from a financing at depressed prices. Shareholders' equity of C\$2,591,207 equates to book value of approximately C\$0.048 per share, which sits between the bear and base outcomes and is a reasonable floor reference so long as no raise occurs.

The asymmetry that justified a Spec. Buy in July has inverted. At initiation we saw roughly -29% to +229% around a +112% base. Today we see -50% to +106% around a +25% base. A 25% base-case return does not compensate for a 50% downside case whose trigger — a financing before the October 31 facility deadline — is on a known calendar.

Risk Update

- **Liquidity (HIGH, materially escalated):** This has replaced customer concentration as the binding risk. Cash of C\$374,671 at June 30 against an H1 operating burn of C\$589,921 and investing outflow of C\$650,605. The July sale-leaseback of the MALDI-TOF returns roughly C\$300K to working capital and the 20% headcount cut should reduce H2 cash costs, but the runway on unchanged Q2 economics is measured in a small number of quarters, not years.
- **Facility Purchase Commitment (HIGH, new):** The Company has signed a purchase agreement and paid a deposit on a permanent laboratory facility, with conditions — including financing approval — to be removed by October 31, 2026. Management is "engaged with financial institutions regarding financing." Two outcomes are unattractive: securing a mortgage adds fixed debt service to a business with negative Adj. EBITDAS, or walking away risks the deposit and leaves the multi-site occupancy problem unresolved. This is the most important dated event in the coverage.
- **Dilution (HIGH, new):** Share count has not moved — 54,438,235 since December 2025 — and management states an objective of "minimizing shareholder dilution." But with C\$375K of cash, a facility to finance, and no operating cash generation, an equity raise near current levels is a live possibility. At C\$0.08, a C\$1M raise would be roughly 23% dilution.
- **Revenue Base Reset (HIGH, was Customer Concentration):** The risk has changed character. The concentrated client is gone and confirmed gone; the question is no longer "will they come back" but "what does the business earn without them." Two quarters of C\$650–680K suggest an annual base near C\$2.7M unless BD conversion materially accelerates.
- **Gross Margin / Utilization (HIGH, escalated from MEDIUM):** An 8.6% gross margin on a fixed lab cost base is the clearest expression of the problem. Cost of sales rose 35% year over year on 31% lower revenue. The 20% headcount reduction should help in H2, but margin recovery to anything resembling the FY2025 52.9% requires volume the Company does not currently have.
- **Keystone Underperformance (MEDIUM, new):** Reversal of the contingent consideration because milestones are "unlikely to be achieved" is a quiet admission that the November 2024 acquisition — which supplied most of the FY2025 revenue growth — is not performing to the terms underwritten at deal close.
- **Liquidity / Small-Cap Risk (HIGH, unchanged):** Roughly C\$4.36M market cap, no analyst coverage, and trading so thin that the last print before this report was 4,000 shares. The 52-week range is C\$0.065 to C\$0.29. Entry and exit are genuinely constrained.

Conclusion

We were wrong about the shape of this, and the honest thing is to say which part. The July thesis had two loads bearing on it: that the FY2025 revenue base was real and recoverable, and that the balance sheet bought management enough time to recover it. Q2 took out both. Management has now told us in plain language that the lost program is not coming back and that the underlying business is running at 2024 levels — which reframes FY2025 as a peak rather than a platform. And the cash that was supposed to fund the recovery was spent, substantially on capital equipment, at a rate that turned a C\$1.29M net cash position into C\$78K in six months.

The perverse result is that the stock is 6% cheaper per share than at our initiation while its enterprise value is 29% higher — C\$4.28M against C\$3.31M — and the multiple paid on the relevant trailing revenue has gone from 0.73x to 1.15x. That is the cleanest statement of why the rating has to change: the dislocation we bought did not close through a price recovery, it closed through balance-sheet erosion. What remains is a real business — GMP-accredited, ISO-certified, two decades of biofilm expertise, C\$2.59M of equity, positive net cash, no debt of consequence, and a management team that has now done the hard and unglamorous work of cutting 20% of headcount and admitting the customer is gone. That business is worth something more than C\$4.36M. It is not obviously worth twice that in the next twelve months.

What would move us back to Spec. Buy: two consecutive quarters of sequential revenue growth with gross margin back above 30%; the October 31 facility decision resolved without a dilutive equity raise; or visible conversion from the enlarged business development function into named multi-client revenue. What would move us to Avoid: a financing below C\$0.06, or a third consecutive quarter near the C\$650K revenue mark with margin still in the single digits.

At C\$0.08 per share and a C\$4.36M market cap, we **downgrade** Innovotech to **Hold** with a **C\$0.10** price target. Holders should not be adding here; the next twelve weeks contain a financing decision that will determine whether the bear case or the base case is the right frame.

Innovotech Inc. (IOT) — key questions

What is Microcap Research's rating and price target on Innovotech Inc. (IOT)?

Microcap Research rates Innovotech Inc. (TSXV: IOT) Hold with a 12-month price target of C\$0.10, about 25% above the C\$0.08 share price at publication on Aug 19, 2026. Market capitalisation at publication: C\$4.36M.

What does Innovotech Inc. (IOT) do?

Our initial coverage on IOT was published July 2, 2026 at C\$0.085, framing Innovotech as a textbook microcap dislocation — a GMP-accredited lab-services platform that doubled revenue to C\$4.53M and earned a profit in 2025, priced at ~0.73x EV/Revenue after a single client program ended and cratered Q1. The core question we posed was whether the Q1 stumble was survivable or terminal.

What is the investment thesis for Innovotech Inc. (IOT)?

Q2 broke the thesis. Management confirmed the lost client program is permanent and that antimicrobial revenue is back at 2024 levels — reframing FY2025 as a peak, not a platform. Gross margin collapsed to 8.6% and cash fell 77% to C\$374,671. The stock is 6% cheaper per share than at initiation but enterprise value is 29% higher. Downgrade to Hold, target C\$0.10.

How is Innovotech Inc. (IOT) valued?

Our framework — EV/Revenue, chosen at initiation because project-based volatility makes near-term earnings multiples meaningless — is unchanged. What changes is the revenue base we apply it to, and that change is the whole of the target reduction.

What are the key risks for Innovotech Inc. (IOT)?

Risks flagged in this report — Liquidity (HIGH, materially escalated); Facility Purchase Commitment (HIGH, new); Dilution (HIGH, new); Revenue Base Reset (HIGH, was Customer Concentration); Gross Margin / Utilization (HIGH, escalated from MEDIUM); Keystone Underperformance (MEDIUM, new); Liquidity / Small-Cap Risk (HIGH, unchanged)

What are the key financial metrics for Innovotech Inc. (IOT)?

As of Aug 19, 2026 — Market Cap: C\$4.36M · EV/Revenue (LTM): ~1.15x · Revenue (Q2 2026): C\$0.68M (-31%) · Gross Margin (Q2 2026): 8.6% · Adj. EBITDAS (Q2 2026): C\$(0.64)M · Cash (Jun 30, 2026): C\$0.37M.

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