

Innodata Inc.

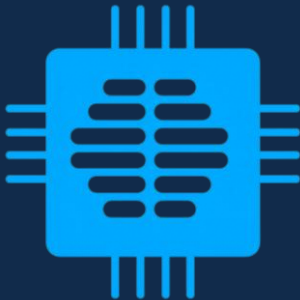
Building Order from Chaos

As the AI boom matures, the companies feeding clean, structured data into large models are becoming just as essential as the ones building them. Innodata stands at the core of that shift, combining steady revenue growth, expanding margins, and a strong cash position with one of the most crucial roles in the data economy. **We rate INOD a BUY with a one-year PT of \$82,** reflecting balanced assumptions of sustained contract wins, margin expansion, and durable AI demand despite a volatile macro backdrop. With AI investment accelerating across industries, Innodata’s position as a trusted data partner gives it a clear runway for continued growth and re-rating potential in the coming year.

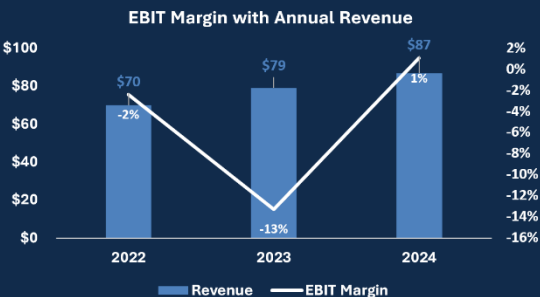
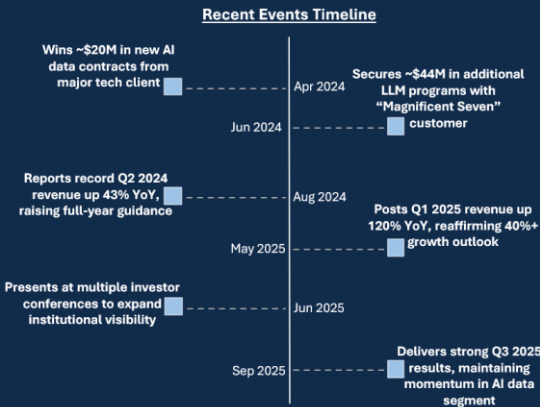
Data as the Bottleneck in AI: While most attention in artificial intelligence goes to chipmakers and software giants, the real constraint lies in usable data. Innodata fills that gap by transforming unstructured text, images, and voice data into the clean, organized inputs models need to learn. The company’s recent results highlight how essential that work has become. In Q2 2025, revenue rose 79 percent year over year to \$58 million, and adjusted EBITDA grew nearly fourfold. On a trailing twelve-month basis, Innodata reported \$228 million in revenue and \$43 million in profit, maintaining gross margins around 40 percent. That level of growth and profitability is rare among small-cap AI firms, especially those still dependent on outside capital. As demand for AI training data accelerates and companies prioritize data quality, Innodata’s niche position in the value chain should continue to generate durable tailwinds. Looking ahead, its continued integration of automation and proprietary labeling tools could drive further scalability, allowing the company to take on larger enterprise clients and capture greater share within the expanding AI supply chain.

Balance Sheet Strength as Downside Protection: In a market that feels increasingly fragile, Innodata’s balance sheet provides a meaningful cushion. The company holds roughly \$60 million in cash against only \$4 to \$5 million in debt, leaving it in a strong net cash position. It also maintains a \$30 million credit facility that remains untapped, giving it flexibility to keep investing in automation, infrastructure, and talent even if the broader tech cycle slows. That’s a key distinction from many AI peers that rely on equity raises or debt financing to fund growth. With healthy free cash flow generation, limited leverage, and expanding margins, Innodata can weather short-term volatility while still positioning for long-term growth. The balance sheet strength not only lowers risk but gives the company optionality if acquisition or partnership opportunities arise. As AI spending becomes more competitive and consolidation increases, this financial flexibility could prove to be one of Innodata’s most strategic advantages.

Company Overview: Innodata operates in the data processing and outsourced services industry, specializing in data enrichment, labeling, and engineering for artificial intelligence and digital transformation. The company converts unstructured information such as text, documents, and images into clean, structured data that enterprises use to train and deploy AI models. Its low-code platform, GoldenGate, helps automate internal workflows and improve data integration for clients. Most of Innodata’s revenue comes from recurring, long-term contracts with large technology and enterprise customers, providing stability and room for margin growth. Financially, the company is expanding quickly and profitably, with about \$228 million in trailing twelve-month revenue and \$43 million in net income as of mid-2025, supported by roughly \$60 million in cash and minimal debt. With revenue up 79 percent year over year in the most recent quarter and margins improving, Innodata has become an important and undervalued player in the AI ecosystem, supplying the data foundation that modern machine learning depends on. As AI adoption spreads beyond large tech firms to traditional industries, Innodata’s scalable data infrastructure and growing enterprise partnerships position it well to sustain double-digit growth for years to come.



TICKER:	\$INOD
RATING:	BUY
PRICE:	\$74.61
PRICE TARGET:	\$82.28
MARKET CAP:	\$2.38bn
52-W RANGE:	\$20.22 - \$93.85
P/E:	57.84x
IMPLIED UPSIDE:	10.29%



Risk 1 - Customer Concentration and Dependence on Key Contracts: Innodata relies heavily on a small number of large enterprise and technology clients for most of its revenue. While this has helped the company scale quickly through deep, long-term partnerships, it also creates exposure if one or more major customers reduce spending or delay renewal. The loss or downsizing of a top client could significantly impact results in the short term. Management has acknowledged this risk and continues to emphasize customer diversification, but investors should monitor disclosures closely for signs of concentration.

Risk 2 - Pricing Pressure and Competitive Threats: The growing demand for AI data services has attracted competition from startups and offshore providers offering cheaper alternatives. At the same time, some of Innodata’s largest customers are investing in internal data engineering capabilities, which could lead to pricing pressure or partial insourcing. If clients begin shifting more work in-house or negotiate lower rates, revenue growth and margins could be affected. Maintaining differentiation through data quality, automation, and reliability will be critical to defending share and sustaining profitability.

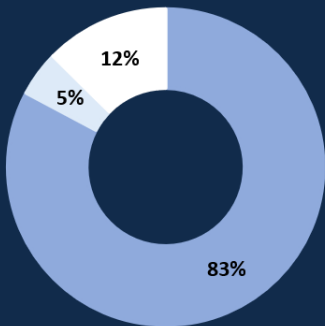
Catalysts: Several factors could act as meaningful catalysts for Innodata’s stock. Continued success in expanding contracts with major AI and enterprise clients would strengthen its positioning and drive visible revenue growth. Ongoing margin expansion from automation could further reframe the company as a software-enabled platform rather than a labor-intensive service provider, supporting higher valuation multiples. Improved free cash flow and tighter working capital management would also highlight operational discipline. Finally, as the AI industry increasingly recognizes that quality labeled data is the true bottleneck to model performance, Innodata’s specialized role in that ecosystem should gain greater investor and strategic interest.

DCF Analysis (\$mm)						
	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/2025	12/31/2026	12/31/2027	12/30/2028	12/30/2029	12/31/2030
Revenue	255	333	422	519	615	698
Revenue Growth	50%	30%	27%	23%	18%	14%
Digital Data Solutions	190	262	347	439	530	609
Synodex	40	44	49	53	57	60
Agility	25	26	27	28	28	29
EBIT	42	63	84	108	133	157
EBIT Margin	16%	19%	20%	21%	22%	23%
Tax Expense	10	16	21	26	32	38
Effective Tax Rate	24%	25%	25%	25%	24%	24%
NOPAT	32.00	47.40	63.17	81.35	100.71	119.39
D&A	3	4	5	6	8	9
Capex	7	11	14	18	22	25
Changes in NWC	8	33	40	47	52	56
UFCF	20	7	14	23	35	47
PV of FCF	19	6	11	16	20	24

Valuation: Our base case DCF projects revenue growing at a 21 percent CAGR through FY2030, driven mainly by Digital Data Solutions expanding from \$190 million in FY2025 to \$609 million by FY2030. EBIT margins are modeled to rise steadily from 16 percent in FY2025 to 23 percent by FY2030 as automation and higher-value contracts improve efficiency. We applied a 30.0x EV/EBITDA exit multiple and a 16.3 percent WACC, which reflects Innodata’s small-cap profile, high beta, and minimal leverage. Under these assumptions, our base case yields a fair value estimate of **\$82.28 per share**, implying roughly **10 percent upside** from the current price of \$74.61 and supporting our **Buy** rating. Our conservative and optimistic cases suggest a valuation range between \$35.86 and \$139.19 per share.

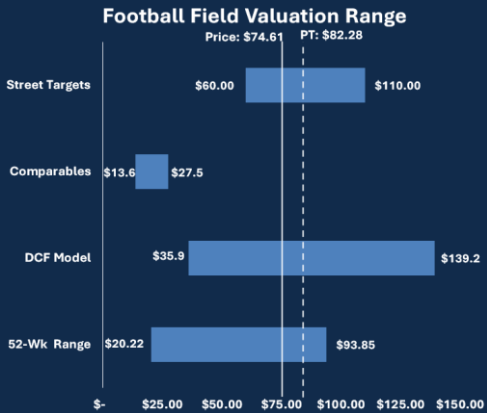
Conclusion: We rate Innodata a **BUY** based on its expanding role in the AI data infrastructure space and the continued strength of its core Digital Data Solutions segment. The company’s financial position has strengthened, with revenue expected to grow at more than 20 percent annually and EBIT margins rising toward 23 percent by FY2030. While client concentration and intensifying competition pose risks, Innodata’s data expertise, balance sheet flexibility, and operational automation provide meaningful long-term support. The market continues to underappreciate its position as a critical enabler of AI model development. We assign a **\$82 price target**, representing **10.3 percent upside** from current levels, supported by steady execution and improving profitability over the next 12 months.

Revenue Segments

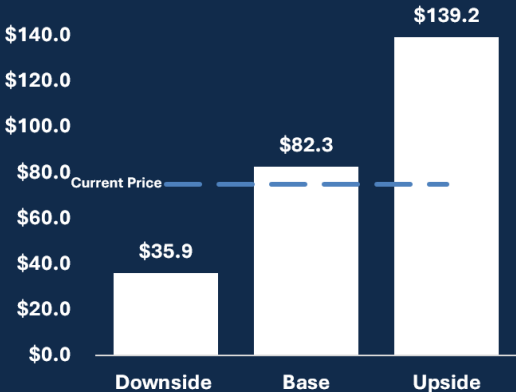


Digital Data Solutions Synodex Agility

Terminal Value	
Exit Multiple Method	
2034 EBITDA	\$166
EV/EBITDA Exit Multiple	30.0x
Terminal Value	\$4,985
PV of Terminal Value	\$2,469
PV of Projection Period	\$96
PV of Terminal Value	\$2,469
Implied TEV	\$2,565
(-) Debt	\$4
(+) Cash	\$60
Implied Equity Value	\$2,620
Diluted Shares Outstanding	32
Implied Share Price	\$82.28
Upside/Downside	10.3%



Risk vs. Reward - DCF Cases



Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	170	255	333	422	519	32.1%
EBITDA	27	45	67	89	114	43.8%
EBIT	24	42	63	84	108	45.1%
NOPAT	29	32	47	63	81	29.9%
Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	15.6%	17.5%	20.1%	21.0%	22.0%	19.2%
EBIT Margin	14.3%	16.5%	19.0%	19.9%	20.8%	18.1%
Revenue Growth	96.4%	49.6%	30.4%	27.0%	22.9%	45.3%
EBIT Growth	2610.0%	72.6%	50.5%	32.8%	28.3%	558.9%
Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	100.1x	121.8x	332.3x	170.1x	102.5x	165.4x
EV/Sales	13.6x	9.1x	7.0x	5.5x	4.5x	7.9x
EV/EBITDA	87.1x	52.1x	34.7x	26.1x	20.4x	44.1x
FCF Yield	1.0%	0.8%	0.3%	0.6%	1.0%	0.7%
Comparable Companies						
\$mm						
Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM	
Appen Limited (ASX:APX)	\$132	\$82	-5.5x	\$225		-\$23
Cognizant Technology Solutions Corporation (Na	\$33,587	\$32,956	13.9x	\$20,486		\$3,688
ExlService Holdings, Inc. (NasdaqGS:EXLS)	\$6,690	\$6,680	28.6x	\$1,969		\$345
Genpact Limited (NYSE:G)	\$7,021	\$7,885	13.4x	\$4,929		\$821
Innodata	\$2,453	\$2,397	60.3x	\$228		\$42
Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF	
Appen Limited (ASX:APX)	-3.6x	16.1%	(10.2%)	(10.7%)	(9.4%)	
Cognizant Technology Solutions Corporation (Na	8.9x	34.2%	18.0%	15.5%	6.3%	
ExlService Holdings, Inc. (NasdaqGS:EXLS)	19.4x	38.0%	17.5%	15.2%	15.2%	
Genpact Limited (NYSE:G)	9.6x	35.6%	16.7%	14.8%	7.4%	
Innodata	56.7x	42.0%	18.6%	17.5%	112.5%	
High	56.68x	42.0%	18.6%	17.5%	112.5%	
75th Percentile	19.36x	38.0%	18.0%	15.5%	15.2%	
Average	18.20x	33.2%	12.1%	10.5%	26.4%	
Median	9.61x	35.6%	0.0%	15.2%	7.4%	
25th Percentile	8.94x	34.2%	16.7%	14.8%	6.3%	
Low	-3.56x	16.1%	-10.2%	-10.7%	-9.4%	
Innodata						
Implied Enterprise Value (25th Percentile)				\$		378
Implied Enterprise Value (Median)				\$		406
Implied Enterprise Value (75th Percentile)				\$		819
Implied Share Price (25th Percentile)				\$		13.61
Implied Share Price (Median)				\$		14.51
Implied Share Price (75th Percentile)				\$		27.46

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.10%
Beta	2.90
Risk Free Rate	4.39%
Cost of Equity	16.26%
Weighted Average Cost of Debt	8.00%
Tax Rate	25.00%
Cost of Debt	0.01%
Total Equity	\$2,376
Total Debt	\$56
Equity/Total Capitalization	99.82%
Debt/Total Capitalization	0.18%
WACC	16.27%

Disclosures and Ratings: Bluegrass Capital Research does not hold any professional relationships with the securities mentioned in this report. Our ratings are defined as follows: **Buy** (expected to outperform the market), **Hold** (expected to perform in line with the market), and **Sell** (expected to underperform the market), typically over a 12-month horizon. This report is for educational and informational purposes only and should not be considered as financial advice.

Downside Case: Our **\$36** downside case assumes a **23.0x EV/EBITDA multiple**, with revenue growing about **10% annually** through 2030 and EBIT margins topping out near **18%**. We model slower enterprise AI spending and delayed automation benefits, limiting margin expansion and free cash flow growth. Valuation compresses toward the lower end of peers under these conditions.

Upside Case: Our **\$139** upside case uses a **36.0x EV/EBITDA multiple**, reflecting roughly **30% annual revenue growth** and margin expansion to around **24%** by 2030. Strong AI data demand, recurring enterprise deals, and greater automation efficiency drive higher profitability and free cash flow, supporting a premium multiple and **86% upside**.