Tripling down on NEXGEL after doubling my money

An updated thesis on $NXGL

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I have been invested in NEXGEL (NXGL) to varying degrees since July last year. I was fortunate enough to double a good chunk of my money in NXGL during the latter half of 2024; I sold out after the stock ran much faster than my conviction at year's end. I do regret not buying more when it was obvious the stock was undervalued last October. Though I knew it was (and said as much), I was distracted by other companies with "higher upside".

That said, I do not intend to make the same mistake again. One year on, my conviction in the long-term prospects of NEXGEL has significantly strengthened. At the same time, the stock has been left for dead, trading at a price lower than it was when I last doubled down. Over the past week, I have been tripling down on my position, making this the largest position in my portfolio.

For a general introduction to the company, please do check out my initiation article from last July. I will give you the concise version here. NEXGEL produces hydrogel, which is used in many medical and cosmetic applications. NEXGEL utilises unique technology/equipment to produce hydrogel in a distinct manner, ensuring its gel has excellent consistency and is notably safer/healthier than alternatives. While there are many hydrogel producers, for specific medical applications, NEXGEL is the only viable supplier. That is to say, it dominates a small but rapidly growing niche in the hydrogel market. The market is sufficiently small that other larger players are not interested, and capital costs, as well as captive/happy customers, mean smaller players cannot enter the market. Recently, the company has been expanding into consumer products with great success.

I will spend most of this article discussing one revenue stream at a time, examining progress, prospects, and how I believe each will unfold. I wrap up with some estimates for 2026 and 2027. In brief, I believe revenues will continue to grow in the 70% YoY range for the next two years, and that the company will go from EBITDA breakeven (2025) to $5 million EBITDA by 2027, assuming only the opportunities on the table play out under modest to average assumptions. I believe the $19 million market cap is an excellent price for this soon-to-be-profitable, ultra-high-growth, net-cash company with a long runway and considerable operating leverage. There is room for more upside, especially if STADA continues to roll out more products, AbbVie actually gets going at pace, or the CEO closes any more large deals (as he regularly does).

Contents:

Contract Manufacturing

Contract manufacturing (CM) is NEXGEL's bulk rollstock business. It supplies medical-grade hydrogel sheets to OEMs who convert them into finished devices under their own brands (wound dressings, drug-delivery patches, electrodes, etc.). It's typically long-duration and sticky once a device is validated (e.g., post-510(k)), with revenue recognised on shipment and growth driven by new OEM program wins and volume ramps at existing customers. They are currently only utilising a small fraction of what their existing equipment can produce (<20%), so they have a long runway without needing capital investments on this front. CM contribution margins are high, typically in the 40-50% range, as most costs are fixed in the currently underutilised machinery.

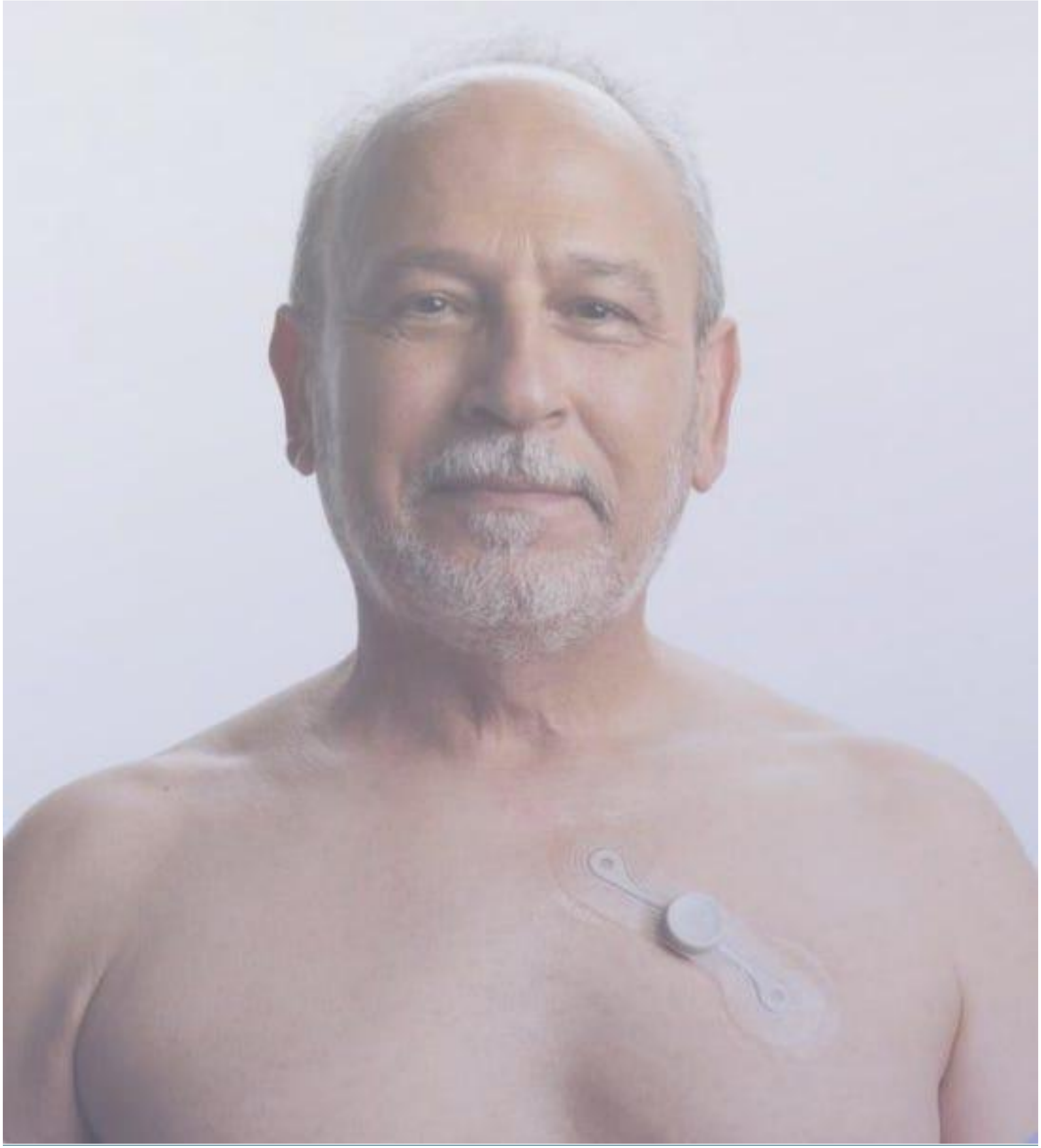
This segment has a 55% CAGR since 2021, though growth is choppy (as low as 3% and as high as 166%). This year, the segment grew almost 80% in H1 YoY, thanks to NEXGEL signing additional, undisclosed CM agreements (e.g., iRhythm, disclosed below). Management has signalled that pipeline activity is "very strong", with a mix of smaller and larger potential partners. Recent momentum seems to be coming less from tariff dislocations (which should work in NEXGEL's favour) and more from stricter biocompatibility/extended-wear requirements in higher-end medical devices.

	2021	2022	2023	2024	2025	2026	2027
CM revenue	0.8	1.0	2.7	2.8	3.8	5.0	6.5
Growth rate		35%	166%	3%	34%	32%	30%
Revenue added						1.2	1.5
EBITDA added						0.5	0.6

I model a slowdown in growth to account for the uncertainty and the higher base. However, I would emphasise the fact that management appears bullish on the segment overall, and growth seems to be coming from both existing customers and new wins (e.g., Owens & Minor). I use a 40% contribution margin, assuming 2025 is roughly breakeven. I expect CM to add around $0.6 million in EBITDA each year through 2027.

iRhythm

Although this deal has not been publicly announced, it was recently added to the investor deck. Given that it is rare for NEXGEL to disclose partners, I will briefly explore the relationship as an illustration (though the revenues are modelled inside CM above). Management has indicated that iRhythm were a small, indirect customer at first, but orders suddenly ramped up in the last year, and they began purchasing rolls directly. By my estimate, iRhythm could be contributing almost $700k in annual revenue (run rate) to NEXGEL. This estimate assumes that iRhythm is currently deploying 2 million patches per year, with each patch requiring 11.44 square inches of hydrogel (including a 10% scrap allowance on the 5.2" × 2.0" patch size). I estimate a price of $30 per MSI. The rate of growth for this customer should be over 20% each year, tracking that of iRhythm test growth. Product switch-out is highly unlikely.



iRhythm's testing device shown above

AbbVie

AbbVie is an enormous swing factor in NEXGEL's pipeline. In 2021, AbbVie acquired Soliton for approximately $550 million, along with Resonic, an FDA-cleared cellulite treatment that utilises acoustic pulses. The product requires a safe, high-water, biocompatible gel for which there is no good substitute for NexGel. A partnership was announced in 2023. The treatment was expected to launch first in Q3 2024, but has slipped several times due to console-side product/integration problems with a different AbbVie vendor, unrelated to NEXGEL. I believe the market is assigning a near-zero probability to this deal bearing fruit.

Management has been pessimistic about the timeline for some time now, not wanting investors to factor in the contract in case of further shifts. Although management is still disciplined in not making promises, there is a notable shift in tone. I believe management is growingly confident in the current timeline (orders beginning in Q1).

Regarding potential contract size, I maintain my earlier assumptions. Each device should operate for 260 working days a year, perform 2.5 procedures/day, and use 2.5 pads/procedure, all at $3.50 per pad. This yields ~1,625 pads/year and ~$5.7k ARR per device, likely at a **40%** contribution margin.

In terms of timeline, people familiar with AbbVie's plans estimate that the rollout could be around 900 devices per year, with an upper limit of approximately 10,000. Given the delays we've experienced, I model only 200 devices producing revenue as of 2026, and 800 as of 2027 (device averages for the year). However, there is huge upside if AbbVie decides to hit the gas, which is a real possibility once they have ironed out the improvements they wanted to make.

Personally, I believe this product will launch in 2026. However, I think investors should ask themselves whether they are happy with the outcome if this product never launches.

Branded Products

This is NEXGEL's consumer-facing business sold under distinct labels through Amazon, DTC (Shopify), and retail/distributor channels. Growth is primarily driven by SKU- and channel-led initiatives, focusing on winning customer loyalty through high-quality products and expanding offerings (including sizes/variants/adjacent-indications) and channels (international extensions, retail/distributor rollouts, and B2B partnerships). The growth has been extremely impressive; this segment didn't exist in 2020 and yet should reach $9.3m in 2025 (65% of the total business).

Here's my current estimated breakdown of revenue within the segment:

- Internally developed products, mainly SilverSeal & Medagel (~10%)
- Acquired brands, Silly George & Kenkoderm (~80%)
- Sales partner for other brands, STADA (~10%)

SilverSeal (internally developed)

SilverSeal was first launched on Amazon in the United States in early 2021, positioned as a consumer version of NEXGEL's hospital-grade hydrogel dressing. Initial reception was strong, with Amazon sales across the portfolio roughly doubling between Q1 and Q2 2021 as SilverSeal gained traction. The brand is well-liked, with high user ratings on Amazon US (4.6 stars on average); the three products collectively generate $311k a year (run rate). Other sales channels (incl. DTC & B2B) likely contribute around $1 million.

In June 2024, NEXGEL announced a partnership with Cintas to distribute SilverSeal through its national first-aid and safety network in the United States. Initial shipments were delivered in Q4 2024 and were soon followed by reorders in 2025, suggesting healthy sell-through. This channel is strategically important, as it places SilverSeal directly into employer first-aid kits and medical cabinets nationwide, generating durable B2B volume while increasing brand awareness (free advertising).

Looking ahead, NEXGEL plans to expand the SilverSeal line with wound and burn kits, as well as additional moist burn pads. The company has also obtained Health Canada approval, with Amazon Canada listings expected imminently, and a Cintas Canada rollout is anticipated to follow once its ~10-month onboarding cycle is complete.

Other ‘Medagel’ Brands (internally developed)

There are numerous other products on Amazon US sold under the Medagel brand, excluding SilverSeal (same ‘Medagel’ seller). Together, these generate $380k a year (current run rate). This is a little more than SilverSeal’s $310k, but these revenues are spread across 15 products and various brands. The products appear to be well-received, with an average rating of 4.2 stars across all products. I believe they also generate almost $1m through other channels.

Silly George (acquired)

Silly George is a fast-growing international beauty brand NEXGEL acquired in mid-2024 for $600k ($400k cash, $200k stock) plus a four-year profit-based earnout that runs through 2028 if the business delivers net profit above agreed (undisclosed) hurdles. NEXGEL took on inventory with deferred payment terms, which helped cash flow. The contract design entailed little upfront risk and provides NEXGEL with an incentive to scale the brand over the short term, prioritising long-term profitability.

The brand currently sells adhesive lashes, liners, growth serums, and accessories. It sells across Amazon and a DTC shopfront (Shopify), with a presence in the US, UK, EU, and Australia. If DTC sales have held steady since July last year, DTC sales would be around $4.6 million. Therefore, Amazon sales will need to reach $1.4 million to hit the $6-6.5 million goal for Silly George this year. Silly George lists roughly 30 SKUs on Amazon US, which I believe are currently at a $1.3 million sales run rate. I would guess international Amazon sales are closer to $300k. All of which combined would get Silly

George to this year's goal. Additionally, although I don't have exact run rates for Q1 and Q2, the seasonal decline was the smallest Silly George has experienced in its history, likely driven by brand growth that masked seasonality, which in turn implies a strong end to the year.

While there will be organic growth within product lines, the most significant drivers for growth will be expanding the product line. Soon after the acquisition, we observed that the introduction of pop-on eyelashes significantly increased the business from a $2 million run rate to $4.5 million over a couple of months. The company will imminently launch its lip gloss line, as well as a few other accessories. The range of outcomes is broad; the launch could add anywhere from $400k to $4 million to the run rate, depending on how well the product launch goes. My base case is that the lip gloss is as additive as the lashes, contributing $2.5 million in revenue. The launch should be easier this time around, given that the team is becoming more experienced with launching product lines and has a larger captive audience. The primary risk to this part of the thesis is product quality and customer satisfaction, although the track record is certainly reassuring. Overall, my base case for modelling is 10% growth within existing product lines, with an additional $2.5 million brought in by new products over the next two years.

Kenkoderm (acquired)

NEXGEL acquired Kenkoderm in late 2023 for approximately $0.5 million in cash, plus a one-year profit-based earnout of up to an additional $0.5 million. The brand was already profitable and came with minimal upfront risk; NEXGEL also gained deferred payment terms on inventory again, preserving cash.

Kenkoderm sells a small, dermatologist-developed line of psoriasis care products, including salicylic acid shampoo and conditioner, mineral soaps, cream, and vitamins. It operates primarily through Amazon and its own DTC site. Sales are modest but sticky, supported by subscription bundles and a loyal base of repeat users. Early 2024 guidance implied Kenkoderm adds only a few hundred thousand dollars per quarter, but at positive margins.

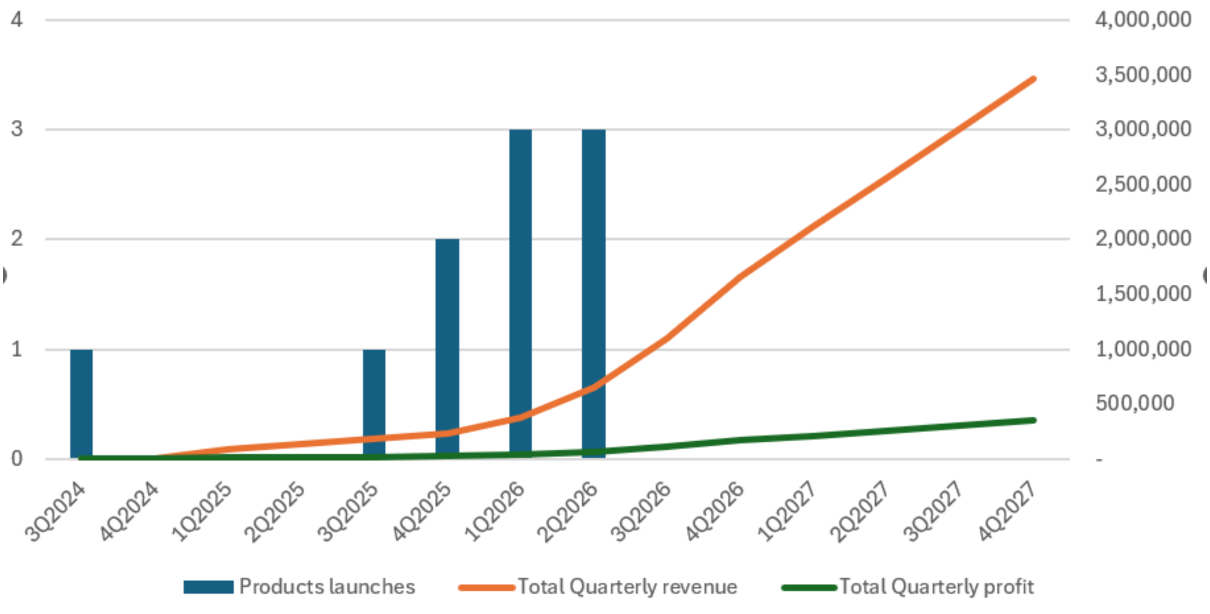
NEXGEL plans to double the number of SKUs for Kenkoderm this year, including a push into eczema alongside the core psoriasis line. Growth should be driven by the expanded product set, combined with stronger marketing, broader channel reach, and selective U.S. retail placement. If eczema products resonate, I believe this would more than double current revenues.

Kenkoderm is small in comparison to Silly George, but it is profitable, stable, and aligns with NEXGEL's consumer health portfolio, adding scale and generating cash.

STADA (partnership)

The partnership with STADA was announced on June 11, 2024, indicating that NEXGEL would market and sell HISTAsolv in the US, a diamine oxidase (DAO) enzyme supplement for dietary histamine intolerance, which generates approximately EUR 10 million in sales in Europe under STADA's DAOSiN brand. The product was launched in Q3 2024. Analysing Amazon sales metrics and a sense check with management, I put annualised sales after one year at $720k. The product continues to set record sales each week, and I imagine sales will continue growing at a similar trajectory for years to come, especially since sales are currently less than 10% of those in Europe, with the US market likely to be larger.

NEXGEL and STADA decided to expand the partnership in July this year, expecting to launch numerous new SKUs with STADA. Below is my best estimate of how this will translate into product launches and revenue growth. I expect around ten products in total by mid next year, with launches heavily weighted towards next year (for conservatism). Given HISTAsolv was effectively a trial to test the relationship, the average SKU should have a higher potential. In my model, I assume that, on average, each product will follow a similar trajectory to HISTAsolv. I expect EBITDA margin to be around 20%, of which I expect half of the profits to accrue to NEXGEL (this is a profit share JV).

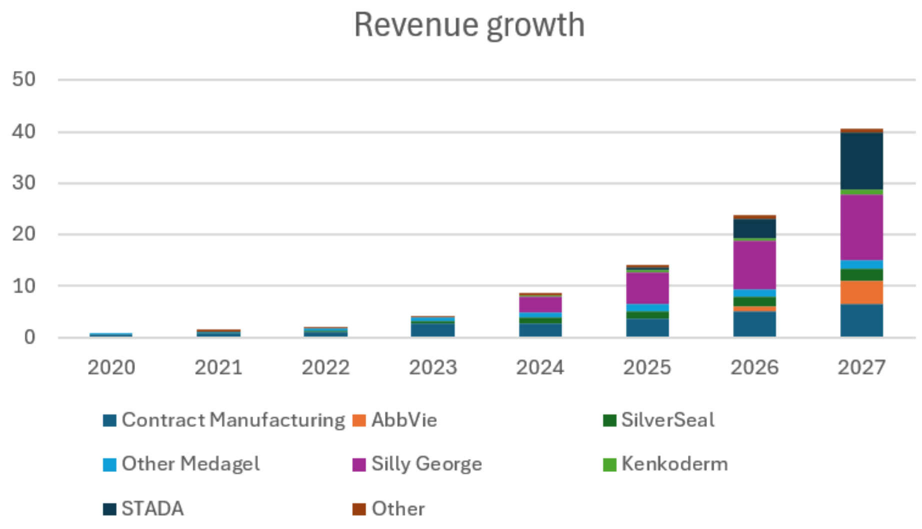


This next expansion alone is expected to generate nearly $400k in 2026 and $1.1 million in EBITDA in 2027, which is substantial for a company with a $19 million market cap. The range of outcomes here is wide, and I believe my estimates to be conservative. The biggest upside which I omit is the potential for further product expansions (which I don't see why they wouldn't consider assuming they continue to deliver).

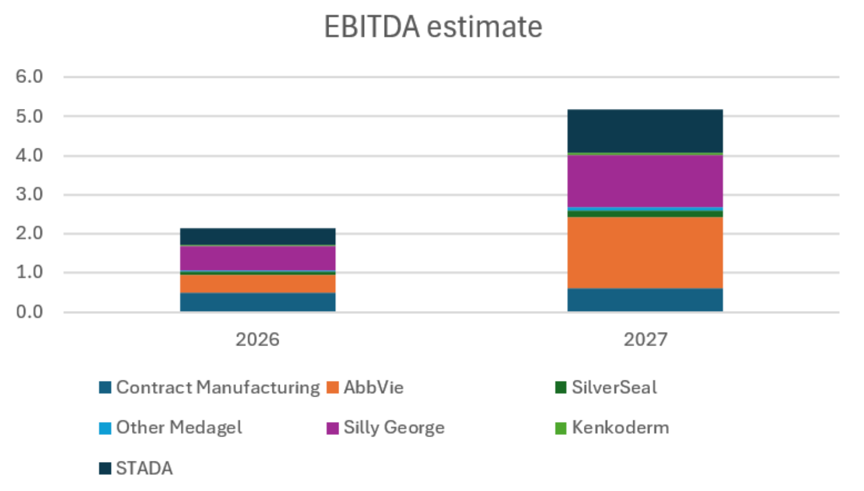
Combined Business Overview

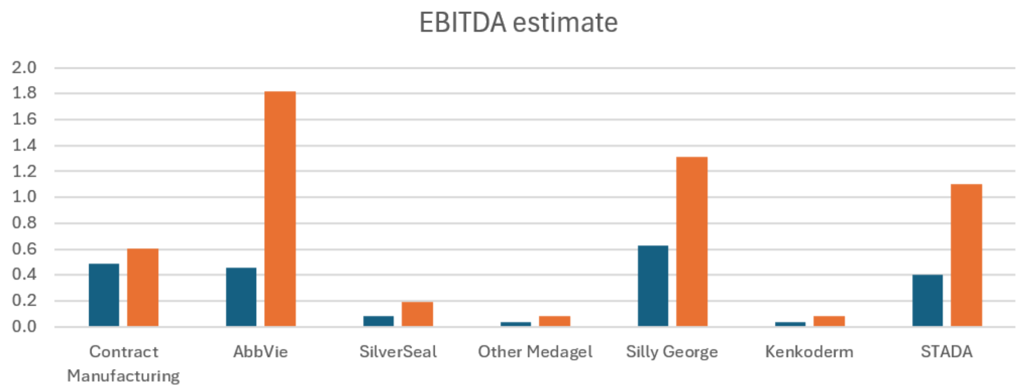
Below, I copied my estimates for how revenue will grow for each business.

Revenues	2020	2021	2022	2023	2024	2025	2026	2027
Contract Manufacturing	0.6	0.8	1	2.7	2.8	3.8	5.0	6.5
AbbVie	0.0	0.0	0.0	0.0	0.0	0.0	1.1	4.5
SilverSeal	0.0	0.1	0.4	0.6	1.1	1.4	1.8	2.4
Other Medagel	0.1	0.1	0.4	0.6	1.1	1.3	1.5	1.7
Silly George	0.0	0.0	0.0	0.0	3.1	6.2	9.3	12.8
Kenkoderm	0.0	0.0	0.0	0.0	0.3	0.4	0.6	0.8
STADA	0.0	0.0	0.0	0.0	0.0	0.6	3.8	11.2
Other	0.0	0.6	0.2	0.1	0.4	0.5	0.6	0.7
Total	0.7	1.6	2.0	4.0	8.7	14.2	23.8	40.6
YoY growth		129%	25%	100%	118%	63%	67%	71%



I assume 2025 is a breakeven year, so any revenue from 2026 onward would add the contribution margin in EBITDA. It's a little crude, but it gives a good ballpark.





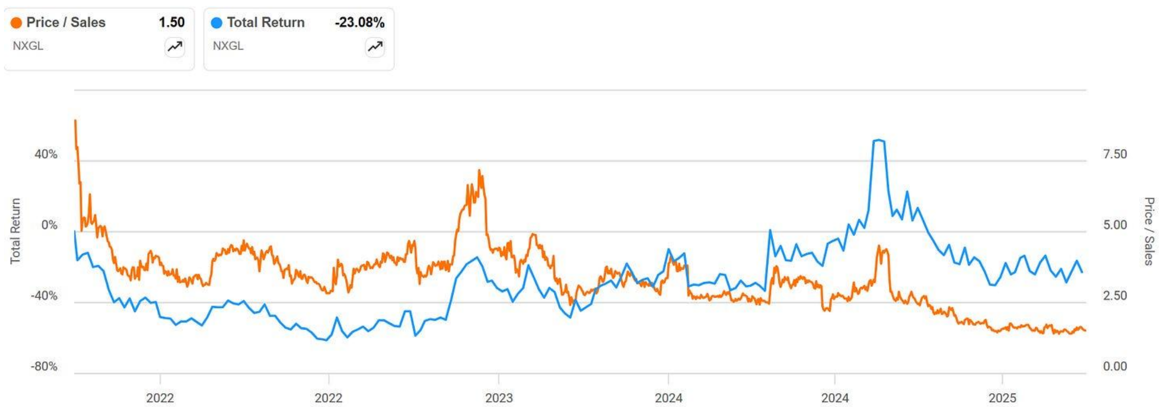
I assume that in approximately twelve months, the stock could be trading at a forward EV/EBITDA ratio of around 10x. Therefore, a $5.6 million EBITDA (2027) would suggest a market cap of $56 million, approximately 3 times higher than the current market cap. Depending on how fast the growth outlook appears, it could trade at a notably higher ratio. However, I want to reiterate that with a company like this, growing at this pace, with as many distinct opportunities as it has, all of which have their own broad bands of outcomes, nailing EBITDA estimates or multiples is a fool's errand. I use these numbers as an illustration of potential.

If you exclude the AbbVie deal, you'd still reach $3.4 million EBITDA by 2027, which would still imply a 70% upside in the next year.

Why so cheap?

I think NEXGEL is cheap for several reasons.

First is momentum. The stock has chronically underperformed since its listing on the NASDAQ in 2021, having remained essentially flat since the IPO. This year, the stock has been underperforming in 2025, despite the broader market booming. No one wants to invest in a losing stock when many stocks are enjoying fantastic momentum. This creates an opportunity if you are willing to get in before the momentum shifts.



I believe the historic underperformance was driven by the stock being too expensive in the first place. The initial price-to-sales ratio was 8x. Even for a fast-growing company, this was way too expensive, especially given its size and lack of profitability. Over the four years, despite a six-fold increase in revenue, the valuation fell by the same amount, resulting in flat stock. However, the valuation has no further room to fall from here. In fact, I think a 6-8x sales multiple would be more appropriate now, assuming the company turns profitable in H2 as guided, given its leverage-free balance sheet and robust growth trajectory. However, I prefer an EBITDA multiple since it's now turning profitable.

Otherwise, I believe there were investors in the stock who were in it for the AbbVie deal and were disappointed by the delays, which created downward pressure. That said, I believe that the market is no longer factoring in success on this front, as evident from the stock levelling out over the last few months.

Lastly, this is not a hot sector. The world is focusing on macro, energy, and AI, and this story is being overlooked. That much is evident even from my own contacts. Before writing this piece, I reached out to a few people I know who closely followed the stock a year ago. For one reason or another, they mentioned they had not looked at the company in some time, instead being pulled in other directions. I believe weaker hands have left the stock, and even those who like the company haven't been paying it much notice.

Risks

My general approach here has been to model a scenario where all opportunities unfold in a positive manner, but under conservative assumptions. In terms of risks, I think it's likely something will go wrong, whether it's AbbVie never getting going, Silly George's lip gloss flops, STADA delays all the new products for whatever reason, etc. That said, I believe several significant things will need to go wrong simultaneously for the investment to really suffer. In my opinion, the biggest potential risk would be for NEXGEL to lose a large customer/partner (e.g., STADA). However, I deem this rather unlikely, given the inherent advantages of their product and the customer satisfaction seen to date.

I do believe there's plenty of upside potential to my numbers. What if AbbVie actually gets going at pace? Will STADA continue to expand its partnership? Could Silly George's growth accelerate faster than expected? What about the deals we don't know about yet? NEXGEL has many shots on goal, and I think it has room for some not to work out and still perform very well.

Final thoughts

I will end with this. When looking for a quality compounder in microcaps, I think two things make all the difference: product and management.

NEXGEL's product has a clear and distinct edge which is highly appreciated by consumers and businesses alike, as evidenced by reviews, high growth, and repeat customers. Effectively, they own a small, fast-growing niche, which has high barriers to entry.

In management teams, I look for integrity and a thorough understanding of their customer. I perceive Adam, the CEO, as both honest and fairly customer-obsessed. He has proven himself to be an outstanding dealmaker and has done an excellent job of setting the company up for success. It's clear to me that he is deeply invested in the company's long-term success.

While I model only two years due to the breadth of potential outcomes (I don't want to compound uncertainty), I could see myself holding the company for a long time, especially if the team continues to deliver results as they have over the last few years.