

SenSen Networks

Q423 activity report

Strong finish to FY23, positive start to FY24

Software and comp services

SenSen's Q423 update shows robust quarter-on-quarter growth in cash receipts, broadly aligning with our full year revenue forecast. Lead indicators for FY24 are positive, highlighted by the recent signing of a A\$1.4m three-year contract with a new Asian casino customer, as well as a strong contract pipeline. SenSen also launched several new solution variants in Q4, which could lead to high-margin upsell opportunities. The group has identified cost-cutting measures for H124, with the aim of becoming cash flow positive for the full year, which we have reflected in our updated forecasts.

Year end	Revenue (A\$m)	Adj EBITDA* (A\$m)	PBT** (A\$m)	EPS** (c)	P/sales (x)	Net cash*** (A\$m)
06/21	5.5	(2.2)	(2.9)	(0.59)	7.4	(3.9)
06/22	9.1	(7.8)	(8.6)	(1.42)	4.5	(3.9)
06/23e	11.1	(4.7)	(5.4)	(0.82)	3.7	1.5
06/24e	17.6	4.2	3.5	0.40	2.3	(0.0)

Note: *Adjusted EBITDA excludes non-cash share-based payments. **PBT and EPS are normalised, excluding amortisation of acquired intangibles, other income and exceptional items. ***Net cash is cash less debt and including leases.

Positioned to scale profitably in FY24

SenSen's Q423 customer cash receipts grew by 19% q-o-q to A\$3.3m and totalled A\$11.2m for the year, continuing to be primarily driven by Smart Cities and broadly in line with our forecast. On a year-on-year basis, Q4 was down 11% from the record levels achieved in FY22 due to a small number of large customer payments slipping into Q124. In addition to a delay in a A\$400k drawdown from its Rocking Horse facility, this resulted in management falling shy of its cash flow positive target for Q4. At end FY23, SenSen won a new A\$1.4m casino contract in Asia and an A\$89k proof-of-concept trial, showing encouraging progress in the division despite its ongoing dispute with Angel. We have updated our FY24 forecasts to reflect these wins, with revenue growth driving margin expansion above our previous forecasts.

New products to drive high-margin growth

Lead indicators for FY24 are positive. Management expects to win several new customers in the coming months, with the goal of surpassing 100 enterprise customers in the first half (up from c 85 now). During Q4, SenSen launched several new solution variants, primarily in Smart Cities, which is currently its largest revenue driver. Now these solutions are finalised and have several case studies illustrating their value, they can be more easily deployed either through upsells with existing clients or by winning new clients through a more diversified product suite. The group has also been granted six patents in the last six months (five in Casino, one in retail), building on its strong IP and barriers to entry.

Valuation: Discount to peers remains

SenSen trades at EV/sales multiples of 3.7x and 2.3x in FY23e and FY24e respectively, at an average 28% discount to peers. As discussed in our [previous update](#), we believe achieving strong Q4 growth and reaching our forecasts has supported its stock performance and has helped close the valuation gap.

26 July 2023

Price **A\$0.06**

Market cap **A\$40.8m**

US\$0.68/A\$

Net debt (A\$m) at 31 March 2023 (assumes H123 leases) 0.03

Shares in issue 680.3m

Free float 67%

Code SNS

Primary exchange ASX

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 26.0 40.0 (18.2)

Rel (local) 21.5 39.2 (24.1)

52-week high/low A\$0.09 A\$0.04

Business description

SenSen Networks, an Australian-based technology company, operates in the field of sensor artificial intelligence. By applying its SenDISA AI platform to physical space monitoring, it extracts real-time insights for customers. It provides solutions to customers in the smart city, gaming, retail and surveillance verticals.

Next events

FY23 annual report September 2023

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Q423 activities report and changes to forecasts

SenSen closed Q423 with customer cash receipts of A\$3.3m, up 19% q-o-q but down 11% y-o-y. On a full-year basis, the group finished the year with cash receipts of A\$11.2m, up 27% y-o-y and the first time the company has delivered double-digit millions of dollars in cash receipts in its history. Cash receipts provide a proxy for revenue, giving us confidence in our FY23 estimate, which we leave materially unchanged.

Exhibit 1: Changes to forecasts								
A\$m	FY23e				FY24e			
	Old	New	Change	y-o-y change	Old	New	Change	y-o-y change
Revenue	11.1	11.1	(0.4)%	20.9%	17.0	17.6	3.7%	59.1%
Gross profit	7.7	7.7	(0.4)%	36.2%	12.4	12.9	3.8%	67.9%
Gross margin	69.4%	69.4%	(0.0)%	7.8%	73.2%	73.2%	0.0%	3.8%
Adjusted EBITDA	(3.5)	(4.7)	(36.1)%	38.8%	3.6	4.2	14.0%	N/A
Normalised EBIT	(3.9)	(5.2)	(31.8)%	56.8%	3.2	3.7	16.2%	N/A
Normalised PBT	(4.2)	(5.4)	(29.9)%	55.8%	3.0	3.5	17.0%	N/A
EPS - normalised, diluted (c)	(0.62)	(0.82)	(32.6)%	59.4%	0.33	0.40	21.6%	N/A
Cash flow from operations	(3.4)	(4.7)	(38.0)%	38.5%	1.4	1.9	33.6%	N/A
Net cash/(debt) including leases	2.6	(1.5)	N/A	137.8%	4.3	0.0	(99.8)%	N/A

Source: Edison Investment Research

Payments to suppliers and employers in the quarter were higher than our expectations, which we have reflected in our higher EBITDA loss and net debt forecast for FY23. Additionally, the company's drawdown of A\$400k from its Rocking Horse facility was delayed to Q124 due to a backlog of funding requests on the lender's side. The combination of higher-than-expected costs and the funding delay meant that SenSen saw a A\$566k cash outflow in the quarter. The company expects to recognise a further A\$750k in annualised cost savings in H124, in addition to its A\$500k salary sacrifice plan announced in Q3. Our prior forecasts already factored in additional cost savings, but we believe higher top-line growth (explained below) and operating leverage could drive margin expansion in FY24.

New product launches and customer wins

SenSen launched six new products in Q4 (see Exhibit 2), which are now operational and have been met with a positive reception among several of its clients. Below we show how management has used these products to generate up- and cross-sell opportunities, as well as potential new contract wins:

- **Up-sell:** AI co-pilot for mobile enforcement is an add-on product that is now operational in Chicago and generating additional SaaS revenues from existing AI Co-Pilot software licensees.
- **Cross-sell:** SenSen completed its Sea Ports AI trial for Singapore in Q423 worth A\$500k, integrating its software into 60 cameras to deliver real-time safety alerts. There are thousands of cameras in the port, providing scope to upscale its services. Additionally, management has identified several other government customers that it could sell its Sea Ports AI product to.
- **New customer growth:** previously theft recovery had only been available to service station owners that had bought SenSen's Scancam product. Management has now engineered the service to be available to all fuel retailers, integrated with point-of-sale provider QuickFuel, and within a month of its launch the solution had been adopted by 10 service stations.

Exhibit 2: New solutions launched in Q423

Source: SenSen Networks

Elsewhere, the company showcased its Smart Cities products in North America's leading parking and mobility conference in June, leading to multiple customer and partner opportunities. In Q124, it also received extension orders from Transport for New South Wales for a Digital Smart Curbs project. Management expects several new Australian customers to be onboarded in the coming months for its flagship SenFORCE mobile enforcement solution, which is where its Digital Smart Curbs product sits.

In the fuel retail division, the company expanded its customer base with 25 new Scancam Edge sites for Liberty Oil, as well as for Atlas Fuel and various independent sites. The company is also seeing strong demand for its security and surveillance solutions within the US and Singapore markets. We believe its Sea Port AI solution offers the greatest opportunity for growth in this area, particularly in Singapore following the end of the trial.

Finally, in the casinos division, the company won contracts worth over A\$1.5m, including a three-year A\$1.4m contract with a new Asian casino and a proof-of-concept trial worth A\$89k with an independent Asian casino. This is encouraging given its ongoing dispute with Angel Group, which has been a significant headwind for the division (discussed in our [previous note](#)). Management signed five new patents in the period, strengthening its gaming IP and its competitive advantage.

Exhibit 3: Financial summary

	A\$'k	2021	2022	2023e	2024e
Year end 30 June		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue		5,533	9,145	11,055	17,589
Cost of Sales		(2,030)	(3,513)	(3,385)	(4,713)
Gross Profit		3,503	5,633	7,670	12,876
Other income		2,807	2,978	2,276	2,276
Operating expense (not incl. share-based payments)		(8,518)	(16,362)	(14,693)	(11,001)
EBITDA		(2,209)	(7,751)	(4,747)	4,151
Normalised operating profit		(2,685)	(8,337)	(5,205)	3,679
Amortisation of acquired intangibles		(83)	(536)	(500)	(500)
Exceptionals		0	0	0	0
Share-based payments		(72)	(3,173)	(750)	(1,000)
Reported operating profit		(2,840)	(12,046)	(6,455)	2,179
Net Interest		(176)	(254)	(231)	(164)
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	(154)	0	0
Profit Before Tax (norm)		(2,861)	(8,591)	(5,436)	3,516
Profit Before Tax (reported)		(3,016)	(12,454)	(6,686)	2,016
Reported tax		(6)	225	(279)	(403)
Profit After Tax (norm)		(2,878)	(8,641)	(5,467)	2,813
Profit After Tax (reported)		(3,022)	(12,229)	(6,965)	1,613
Minority interests		0	0	0	0
Discontinued operations		0	0	0	0
Net income (normalised)		(2,878)	(8,641)	(5,467)	2,813
Net income (reported)		(3,022)	(12,229)	(6,965)	1,613
Basic average number of shares outstanding (m)		484	608	666	701
EPS - basic normalised (c)		(0.59)	(1.42)	(0.82)	0.40
EPS - diluted normalised (c)		(0.59)	(1.42)	(0.82)	0.40
EPS - basic reported (c)		(0.62)	(2.01)	(1.05)	0.23
Dividend (c)		0.00	0.00	0.00	0.00
Revenue growth (%)		47.0	65.3	20.9	59.1
Gross Margin (%)		63.3	61.6	69.4	73.2
EBITDA Margin (%)		-39.9	-84.8	-42.9	23.6
Normalised Operating Margin (%)		-48.5	-91.2	-47.1	20.9
BALANCE SHEET					
Fixed Assets		2,168	9,127	8,626	8,125
Intangible Assets		1,300	8,281	7,781	7,281
Tangible Assets		800	770	769	768
Investments & other		68	75	75	75
Current Assets		8,022	11,391	7,725	9,661
Stocks		241	232	168	232
Debtors		979	1,943	1,817	2,891
Cash & cash equivalents		5,176	6,214	1,898	2,250
Other		1,625	3,002	3,842	4,288
Current Liabilities		3,946	8,185	10,292	9,580
Creditors		750	1,239	2,092	1,874
Tax and social security		0	0	0	0
Short term borrowings		861	1,954	2,974	1,874
Lease liabilities		306	185	185	185
Other		2,028	4,806	5,040	5,645
Long Term Liabilities		244	201	201	201
Long term borrowings		0	0	0	0
Lease liabilities		138	183	183	183
Other long term liabilities		106	19	19	19
Net Assets		6,000	12,132	5,857	8,005
Minority interests		0	0	0	0
Shareholders' equity		6,000	12,132	5,857	8,005
CASH FLOW					
Op Cash Flow before interest and tax		(3,250)	(7,770)	(4,182)	2,482
Net interest		(127)	(117)	(231)	(164)
Tax		(31)	0	(279)	(403)
Net operating cash flow		(3,409)	(7,887)	(4,692)	1,915
Capex		(253)	(254)	(174)	(174)
Acquisitions/disposals		0	(1,080)	0	0
Equity financing		7,043	9,644	0	0
Borrowings		(414)	1,120	1,020	(1,100)
Dividends		0	0	0	0
Other		(253)	(506)	(497)	(290)
Net Cash Flow		2,714	1,037	(4,342)	351
Opening net debt/(cash)		(1,150)	(4,315)	(4,259)	1,076
FX		0	0	0	0
Movement in borrowings		451	(1,093)	(1,020)	1,100
Closing net debt/(cash)		(4,315)	(4,259)	1,103	(375)
Closing net debt/(cash) including leases		(3,871)	(3,891)	1,471	(7)

Source: Edison Investment Research, company accounts

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