

Vection Technologies

Q323 activities report

Poised to reach guidance after a strong quarter

Software and comp services

Vection Technologies' Q323 activities report confirms that contract growth continued to accelerate in H223, with the company reporting 100% total contract value (TCV) growth from the end of January to 28 April. The momentum in TCV growth indicates that management is well-positioned to deliver the triple-digit half-on-half top-line growth required to reach its FY23 expectations. Cash receipts on a quarterly and nine-month basis increased year-on-year. Vection Technologies' balance sheet is set to be sustained by a further A\$3.5m in Q423 from an R&D tax receipt and outstanding invoices, supporting the company's M&A pipeline.

4 May 2023

Price **A\$0.05**

Market cap **A\$51m**

Net cash (A\$m) at 31 March 2023 (including H123 lease liabilities of A\$0.4m) 8.9

Shares in issue 1,127m

Free float 49%

Code VR1

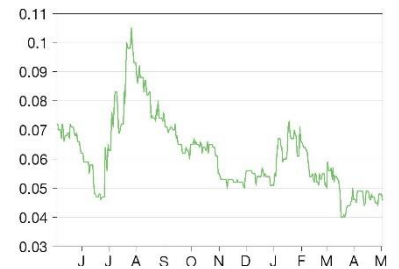
Primary exchange ASX

Secondary exchange OTC (VCTNY)

| Year end | Revenue (A\$m) | Adj EBITDA* (A\$m) | PBT** (A\$m) | EPS** (c) | EV/sales (x) | P/sales (x) | Net cash*** (A\$m) |
|----------|----------------|--------------------|--------------|-----------|--------------|-------------|--------------------|
| 06/21 | 3.5 | (0.4) | (2.5) | (0.27) | 12.2 | 14.6 | 2.2 |
| 06/22 | 18.9 | 0.9 | (7.0) | (0.67) | 2.2 | 2.7 | 10.8 |
| 06/23e | 26.1 | 3.7 | (6.4) | (0.59) | 1.6 | 1.9 | 11.5 |

Note: *Adjusted EBITDA is normalised, excluding non-cash payments, exceptional items and interest revenue. **PBT and EPS are normalised, excluding exceptional items and interest revenue. ***Includes debt, financial leases and term deposits.

Share price performance



% 1m 3m 12m

Abs 4.4 (26.6) (38.2)

Rel (local) 4.8 (22.8) (36.5)

52-week high/low A\$0.11 A\$0.04

Business description

Vection Technologies, an Australia-based technology company, operates in the field of extended reality, which encompasses immersive technologies such as augmented reality, virtual reality and mixed reality. The company's immersive solutions suite, IntegratedXR, is a combination of technology solutions designed to integrate systems, processes and technologies via digital transformation. Vection Technologies partners with companies to build out the foundational elements that enable them to engage with the metaverse.

Next events

Q4 activities report July 2023

Preliminary FY23 results August 2023

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Guidance maintained following strong Q323

Vection Technologies reported A\$5.7m in cash receipts in Q323, up 85% y-o-y and up 24% q-o-q. Its balance sheet remains robust with net cash of c A\$8.9m at period end, despite total cash burn of A\$3.1m. Management expects Q4 cash inflows of A\$1m from a 2022 R&D tax refund (expected on 24 May), and A\$2.5m from net outstanding invoices. TCV at 28 April was A\$20m, up 100% versus H123 and already ahead of the A\$19m reported in FY22. At this rate, the company is well on track to meet management's A\$24–26m guided range and our A\$25m revenue forecast for its IntegratedXR product suite. We note the company's proven track record of converting c 100% of TCV into revenue by year-end, but we leave our forecasts unchanged reflecting the current uncertain trading environment.

TCV driver presents larger opportunity

Following our [last TCV update](#), Vection Technologies announced that its major defence pilot order has increased from A\$1m to A\$2m. First mentioned in our [H123 update](#), the pilot forms part of a larger tender of up to A\$30m, which management expects to finalise within the next four months. It has a pipeline of M&A targets, which could be used to grow its product stack to enter new verticals or encourage more upsells and cross-sells among existing clients. Its acquisitive firepower should benefit from a A\$1.1m increase in its credit facilities to A\$5.0m, of which A\$2.9m remains undrawn, as well as from management's and our expectations of a strong Q423. Partnerships and technology integrations, such as its latest with expert.AI to digitise technical manuals, will also be key to the company developing its technology.

Valuation: Delivering on objectives could drive stock

Vection Technologies currently trades on 1.6x EV/sales for FY23, representing a 63% discount to our small-cap peer group average and a 3pp decline since our last update. In the short term, we believe additional TCV growth towards management's guided range and further detail on potentially transformational contracts, including its defence order, could act as catalysts for its stock performance.

Exhibit 1: Financial summary

| | A\$000s | 2021 restated | 2022 | 2023e |
|---|---------|---------------|----------|----------|
| Year end 30 June | | AAS | AAS | AAS |
| PROFIT & LOSS | | | | |
| Revenue | | 3,471 | 18,894 | 26,056 |
| Variable Cost of Sales | | (849) | (11,454) | (13,127) |
| Gross Profit | | 2,622 | 7,440 | 12,929 |
| Operating Expenses* | | (3,993) | (10,453) | (11,595) |
| Adjusted EBITDA | | (424) | 881 | 3,695 |
| Non-Cash Payments | | (230) | (1,892) | (2,606) |
| EBITDA | | (654) | (1,011) | 1,090 |
| D&A | | (658) | (958) | (1,000) |
| Operating Profit (Normalised) | | (2,285) | (5,907) | (2,557) |
| Exceptionals/Other | | (26) | (44) | (285) |
| Operating Profit/(Loss) (EBIT) | | (2,259) | (5,863) | (2,272) |
| Net Interest and financial expense | | (171) | (1,070) | (3,840) |
| Profit Before Tax (norm) | | (2,456) | (6,977) | (6,397) |
| Profit Before Tax (AAS) | | (2,430) | (6,933) | (6,112) |
| Tax | | (77) | (168) | (183) |
| Profit After Tax (norm) | | (2,533) | (7,144) | (6,580) |
| Profit After Tax (AAS) | | (2,506) | (7,100) | (6,295) |
| Profit/(loss) from discontinued operations | | (36) | - | - |
| Minority interest | | (137) | (419) | (371) |
| Net income (norm, to Vection Technologies equity holders) | | (2,533) | (7,144) | (6,580) |
| Net income (AAS, to Vection Technologies equity holders) | | (2,543) | (7,100) | (6,295) |
| Average Number of Shares Outstanding, basic, millions | | 931 | 1,071 | 1,118 |
| EPS - normalised, basic (A cents) | | (0.27) | (0.67) | (0.59) |
| EPS - AAS, basic, to Vection Technologies equity holders (A cents) | | (0.24) | (0.62) | (0.50) |
| Gross Margin (%) | | 75.5% | 39.4% | 49.6% |
| EBITDA Margin (%) | | NA | NA | 4.2% |
| Operating Margin (before GW and except.) (%) | | NA | NA | NA |
| BALANCE SHEET | | | | |
| Fixed Assets | | 18,273 | 17,785 | 14,912 |
| Intangible Assets | | 17,338 | 17,028 | 14,180 |
| Tangible Assets | | 240 | 293 | 339 |
| Right of Use Assets | | 632 | 424 | 361 |
| Other | | 63 | 41 | 33 |
| Current Assets | | 13,063 | 22,419 | 25,055 |
| Cash | | 7,084 | 14,869 | 7,379 |
| Receivables | | 4,879 | 6,208 | 7,502 |
| Inventories | | 1,084 | 1,341 | 2,174 |
| Other | | 17 | - | 8,000 |
| Current Liabilities | | 11,272 | 8,475 | 12,428 |
| Trade and other payables | | 3,615 | 6,974 | 10,637 |
| Provisions and Other | | 6,405 | 30 | 183 |
| Employee benefits | | 36 | 78 | 108 |
| Lease liabilities | | 168 | 195 | 183 |
| Borrowings | | 1,047 | 1,199 | 1,317 |
| Long Term Liabilities | | 4,637 | 3,751 | 3,429 |
| Provisions | | - | - | - |
| Employee benefits | | 333 | 433 | 477 |
| Lease liabilities | | 530 | 286 | 233 |
| Borrowings | | 3,175 | 2,415 | 2,103 |
| Other | | 599 | 616 | 616 |
| Net Assets | | 15,428 | 27,977 | 24,111 |
| Minority Interest | | (117) | (479) | (898) |
| Shareholder's Equity | | 15,545 | 28,457 | 25,009 |
| CASH FLOW | | | | |
| Operating Cash Flow (before interest, tax, etc.) | | (2,251) | (1,092) | 2,067 |
| Net Interest | | (50) | (50) | (30) |
| Tax | | (24) | (104) | (183) |
| Capex | | (66) | (164) | (246) |
| Purchase of intangibles | | (1,330) | (1,838) | (1,838) |
| Acquisitions/disposals | | 2,305 | (21) | - |
| Equity financing | | 7,221 | 12,127 | - |
| Lease payments | | (96) | (80) | (65) |
| Change in net cash | | 5,708 | 8,777 | 704 |
| Opening net debt/(cash), not incl. leases | | (735) | (2,862) | (11,255) |
| Exchange rate movements | | (280) | (383) | - |
| Other | | (3,301) | 0 | (8,000) |
| Closing net debt/(cash), not incl. leases | | (2,862) | (11,255) | (3,959) |
| Closing net debt/(cash), incl. leases and other marketable securities | | (2,164) | (10,774) | (11,543) |

Source: Vection Technologies, Edison Investment Research

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