

Vection Technologies

Established strategy to drive scalable growth

Q124 and AGM update

Software and comp services

Vection Technologies' Q124 and AGM update shows continued top-line momentum driven by an established partner strategy. Now embedded with leading players across diverse verticals, management sees an opportunity to convert low-margin, one-off transactions into large, multi-year contracts in FY24. Expanding use cases and commercialisation is driving rapid market growth, underpinning secular tailwinds. To bolster its outlook, the company introduced several efficiency measures in the period, which it expects to enhance margins and cash flows more visibly in H2.

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	(0.2)	(2.5)	(0.27)	7.6	6.8	2.2
06/22	18.9	1.4	(7.0)	(0.67)	1.4	1.3	10.8
06/23	26.3	1.5	(11.2)	(1.05)	1.0	0.9	0.7

Note: *Adjusted EBITDA is normalised, excluding non-cash payments, exceptional items and interest revenue. FY22 figure re-stated. **PBT and EPS are normalised, excluding exceptional items and interest revenue. ***Includes debt, financial leases and term deposits.

No signs of momentum slowing

Vection's AGM update showed continued momentum, with total revenue up 88% y-o-y to A\$6.9m (+76% organically) in the first four months of FY24. This top-line improvement drove an 86% increase in Q1 cash receipts to A\$8.2m and a 30% rise in total contract value (TCV). We note that Q1 is seasonally the weakest quarter due to European exposure concentrated during holiday periods, so management believes there is room for further momentum over the remaining three quarters of FY24. To bolster its financial outlook, the group is enacting several efficiency measures across the business. Although revenue and cash flows grew, Vection reported a A\$4.0m free cash outflow in Q124 (Q123: A\$1.6m outflow), emphasising the need for planned cost reduction efforts to enhance margins going forward.

Partner strategy to drive long-term value

Vection's established partner strategy is accelerating, with 66% of Q1 TCv generated from partners. Multi-year relationships with advisers, tech leaders and notable players across verticals provide access to larger contract opportunities and enhanced visibility with key players and can augment Vection's technology. Currently a large share of these transactions are one-off and low-margin but have the potential to convert into large, multi-year agreements in FY24. Longer-term opportunities hold promise, such as the [Lunar City joint venture](#) targeting the space industry – management expects market revenues could reach US\$1tn by 2030. More broadly, global spending on extended reality is forecast to grow by 36% annually to US\$100bn by end-2026 (source: Statista), driven by expanding use cases and growing commercialisation, underpinning tailwinds for Vection. This is shown by partner Marotta applying Vection's technology for [hypersonic flights](#).

Valuation: Scaling on lower cost to drive upside

With Vection's partner deals gaining momentum, converting initial projects into larger contracts presents significant upside for revenue and earnings growth, alongside operating efficiencies. Success here may catalyse stock appreciation.

12 December 2023

Price **A\$0.02**

Market cap **A\$23m**

Net debt (A\$m) at 30 September 2023 (ex-financial leases) 2.7

Shares in issue 1,127m

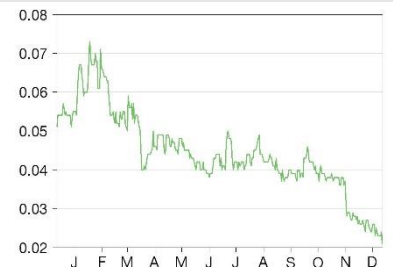
Free float 49%

Code VR1

Primary exchange ASX

Secondary exchange OTC (VCTNY)

Share price performance



% 1m 3m 12m

Abs (14.3) (36.8) (56.4)

Rel (local) (17.0) (37.0) (56.4)

52-week high/low A\$0.07 A\$0.02

Business description

Based in Australia, Vection Technologies 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

Q224 update January 2024

H124 report February 2024

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Vection Technologies is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	A\$000s	2021 restated	2022	2023
Year end 30 June		AAS	AAS	AAS
PROFIT & LOSS				
Revenue		3,471	18,894	26,299
Variable Cost of Sales		(849)	(11,454)	(19,280)
Gross Profit		2,622	7,440	7,019
Operating Expenses*		(3,993)	(10,453)	(11,356)
Adjusted EBITDA		(209)	1,385	1,465
Non-Cash Payments		(230)	(1,892)	(1,860)
EBITDA		(439)	(508)	(395)
D&A		(658)	(958)	(1,217)
Operating Profit (Normalized)		(2,285)	(5,907)	(7,625)
Exceptionals/Other		(26)	(44)	(212)
Operating Profit/(Loss) (EBIT)		(2,259)	(5,863)	(7,414)
Net Interest and financial expense		(171)	(1,070)	(3,554)
Profit Before Tax (norm)		(2,456)	(6,977)	(11,179)
Profit Before Tax (AAS)		(2,430)	(6,933)	(10,968)
Tax		(77)	(168)	(55)
Profit After Tax (norm)		(2,533)	(7,144)	(11,234)
Profit After Tax (AAS)		(2,506)	(7,100)	(11,023)
P/(L) from discontinued operations		(36)	N/A	N/A
Minority interest		(137)	(419)	(202)
Net income (norm, to Vection Technologies equity holders)		(2,533)	(7,144)	(11,234)
Net income (AAS, to Vection Technologies equity holders)		(2,543)	(7,100)	(11,023)
Average Number of Shares Outstanding, basic, millions		931	1,071	1,071
EPS - normalised, basic (AUS cents)		(0.27)	(0.67)	(1.05)
EPS- AAS, basic, to Vection Technologies equity holders (AUS cents)		(0.24)	(0.62)	(0.98)
Gross Margin (%)		75.5%	39.4%	26.7%
EBITDA Margin (%)		N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A
BALANCE SHEET				
Fixed Assets		18,273	17,785	16,419
Intangible Assets		17,338	17,028	15,463
Tangible Assets		240	293	550
Right of Use Assets		632	424	322
Other		63	41	84
Current Assets		13,063	22,419	25,683
Cash		7,084	14,869	11,359
Receivables		4,879	6,208	13,647
Inventories		1,084	1,341	676
Other		17	N/A	N/A
Current Liabilities		11,272	8,475	19,382
Trade and other payables		3,615	6,974	10,969
Provisions and Other		6,405	30	16
Employee benefits		36	78	72
Lease liabilities		168	195	211
Borrowings		1,047	1,199	8,114
Long Term Liabilities		4,637	3,751	3,529
Employee benefits		333	433	544
Lease liabilities		530	286	165
Borrowings		3,175	2,415	2,194
Other		599	616	627
Net Assets		15,428	27,977	19,191
Minority Interest		(117)	(479)	(711)
Shareholder's Equity		15,545	28,457	19,902
CASH FLOW				
Operating Cash Flow (before interest, tax, etc.)		(2,251)	(1,092)	(7,392)
Net Interest		(50)	(50)	(28)
Tax		(24)	(104)	(58)
Capex		(66)	(164)	(403)
Purchase of intangibles		(1,330)	(1,838)	(2,677)
Acquisitions/disposals		2,305	(21)	(7)
Equity financing		7,221	12,127	N/A
Lease payments		(96)	(80)	(3)
Change in net cash		5,708	8,777	(10,568)
Opening net debt/(cash), not incl. leases		(735)	(2,862)	(11,255)
Exchange rate movements		(280)	(383)	365
Other		(3,301)	0	N/A
Closing net debt/(cash), not incl. leases		(2,862)	(11,255)	(1,052)
Closing net debt/(cash), incl. leases and other marketable securities		(2,164)	(10,774)	(676)

Source: Edison Investment Research, company accounts

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