

THRUVISION TECHNOLOGY

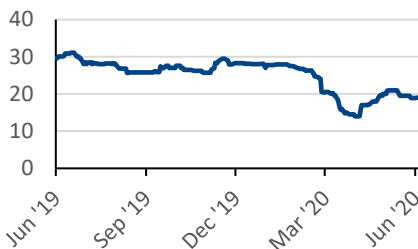
8 June 2020

THRU.L

19p

Market Cap: £27.6m

SHARE PRICE (p)



12m high/low

31p/14p

Source: LSE Data

KEY DATA

Net (Debt)/Cash £8.4m (at 31/03/20)

Enterprise value £19.2m

Index/market AIM

Next news Trading update, Oct '20

Shares in Issue (m) 145.5

Chairman Tom Black

Chief Executive Colin Evans

Finance Director Adrian Crockett

COMPANY DESCRIPTION

Thruvision develops, manufactures and sells people screening technology to the global security market

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Well positioned for the medium term

Thruvision today reported a strong performance for the year to March, albeit slightly impacted by the obvious slowdown in the final few weeks. The group entered the COVID-19 challenges with rapidly-growing market acceptance of its leading product range, and a strong cash balance. Today's announcement signals that management are unable to offer FY21 guidance given continued uncertainty (so we withdraw estimates), but the offering is well suited to a post-COVID world where people-screening must be carried out from a safe distance. The business has delivered a good FY20, and we continue to see it as well positioned for both the medium and long term.

- FY20 results** Results are detailed overleaf, but were in line with the April update and demonstrate good y/y sales growth (34%) and a very strong cash position, at £8.4m relative to an adjusted loss before tax of £1.2m.
- Estimates withdrawn** Given the comment in the RNS ("it remains too early to provide guidance on the Group's prospects for the current financial year") we choose to withdraw our forecasts until the situation around COVID-19 becomes clearer, particularly with regard to international travel, which is key to Thruvision's sales process, and which also represents an important end market.
- Growing acceptance** The group has seen a steadily-expanding level of customer acceptance of its products across the key markets of Profit Protection, Aviation and Customs (described overleaf), as its unique approach to hidden-object detection becomes better-known and can offer significant numbers of high-quality reference sites.
- COVID-19 increases relevance** The Thruvision cameras operate "at distance" and remove the need for physical pat-downs or the use of detection "wands". Given the need for social distancing, the COVID-19 pandemic is leading to a number of new potential customers considering the Thruvision system, specifically to avoid the need for proximity between individuals. This increased market opportunity will, in the short term, be balanced by the difficulties of deal closure and installation, but bodes well for the medium term.

Overall, today's RNS is reassuring – the business has performed well during FY20, enjoys a very healthy net cash position, and has a product suite which was already gaining traction, but which is particularly well-suited to a post-COVID-19 world.

FYE MAR (£M)	2018	2019	2020
Revenue	3.1	6.0	8.0
Adj EBITDA	-1.8	-1.6	-0.8
Fully Adj PBT	-2.9	-1.7	-1.2
Fully Adj EPS (p)	-1.7	-1.1	-0.7
EV/Sales (x)	6.2x	3.2x	2.4x
EV/EBITDA (x)	-10.8x	-12.4x	-25.5x
PER (x)	N/A	N/A	N/A

Source: Company Information and Progressive Equity Research estimates

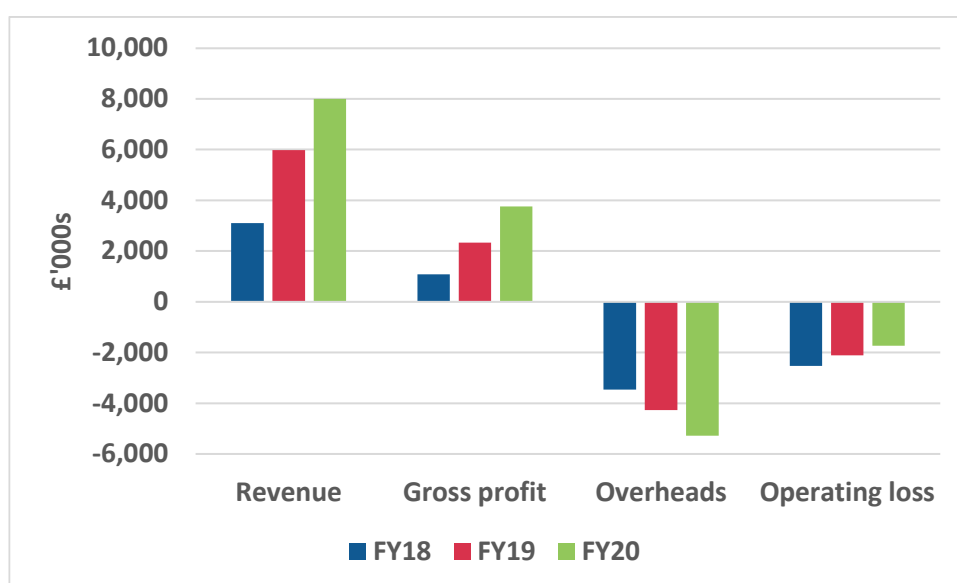
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FY20 highlights

In spite of the COVID-19 crisis curtailing business activity in March, FY20 represented a very positive year for Thruvision, with revenues growing 34% to £8.0m and its three key markets of Customs, Profit Protection and Aviation all performing well. Underpinning revenue growth was a year-on-year increase in the number of units shipped, accompanied by a rise in average revenue per unit, reflecting higher pricing being achieved on existing product models as well as new higher-priced TAC8 models being sold in the US.

REVENUE AND PROFIT PROGRESSION



Source: Company information, Progressive Equity Research analysis

Improved pricing led to an expansion of the gross profit margin, driving a strong rise in gross profit, and a more moderate increase in overheads resulted in the operating loss narrowing to £1.7m for the year. The adjusted loss before tax from continuing operations (excluding share-based payments and share buyback costs) was £1.2m in FY20 compared with an adjusted loss before tax of £1.7m in FY19.

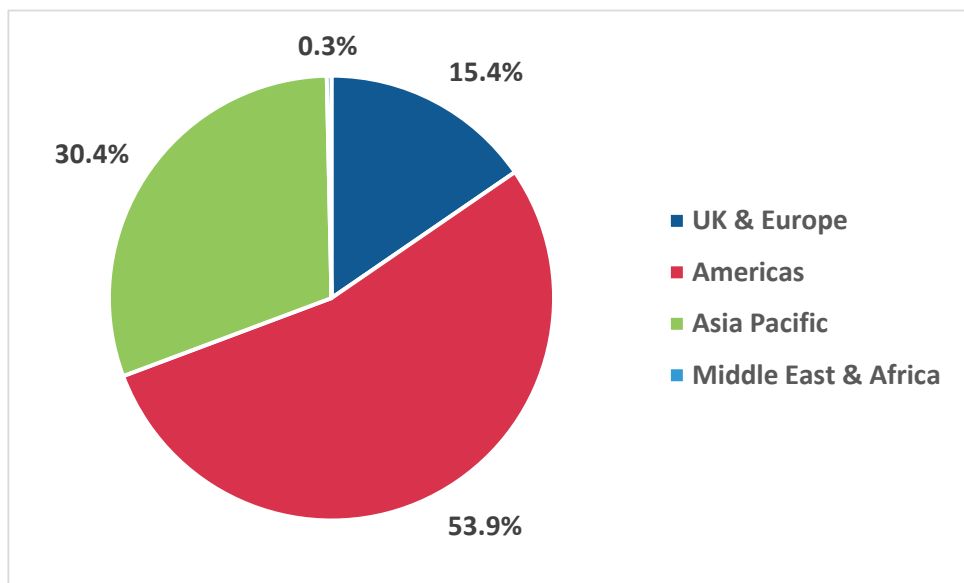
KEY PERFORMANCE METRICS

	FY18	FY19	FY20
Units shipped	57	109	114
Average revenue per unit (£'000s)	51	54	68
Gross margin	35%	39%	47%

Source: Company information, Progressive Equity Research analysis

Overall unit sales growth in FY20 appears relatively modest, reflecting the impact of the COVID-19 crisis on order flow in March. We note that this will become a less relevant metric going forward, given the expanding product range and growing service revenues. However, unit sales for the year increased more than fourfold in the US – Thruvision’s main target market – and this region accounted for around half of total revenues for the year. This strong growth reflects the strategic progress that Thruvision has made with US Federal Government agencies, and company management expects to build on this momentum, with the US remaining the primary focus for the business in the near term.

FY20 GEOGRAPHIC SPLIT OF REVENUES



Source: Company information, Progressive Equity Research analysis

Customer and market developments

Reflecting the growth profile of the business, shipments were made to 10 new customers in FY20, including ‘flagship’ organisations US Customs and Border Protection (CBP), Morrisons and Los Angeles World Airports, while existing customers also expanded their use of Thruvision’s people security screening units.

As Thruvision has transitioned its technology into the mainstream international security market, its focus has been refined onto three key markets where the purchase of its screening technology is either driven by regulation or commercial return on investment:

- **Customs** – A well-established market for Thruvision, predominantly relating to screening for non-metallic objects at all types of border checkpoints including airports, land crossings, seaports, cruise-liner terminals, bridges and railway stations. Thruvision’s customers are national government agencies, including CBP, Hong Kong Customs and the US State Department’s Bureau of International Narcotics and Law Enforcement (INL).
- **Profit protection** – Another well-established market (previously ‘Loss prevention’), largely involving screening for non-metallic items being misappropriated by employees at retail distribution centres. There are a potentially very large number of retailers across sub-sectors including grocery, fashion, electronics, healthcare as well as third-party logistics, with a clear financial return on investment driving purchases. Thruvision’s customers include Morrisons, Next, JD Sports, Matalan, Sony and Hermes.
- **Aviation** – A new key market for Thruvision that has developed over the last year, where people are screened for prohibited items at airport security checkpoints. Thruvision has secured US Transport Security Administration (TSA) approval for screening employees at US airports – Los Angeles, Seattle and LaGuardia airports are all key customers. The necessary approval process for Thruvision’s units to be used for passenger screening in the US is now underway, which is expected to open up the international aviation security market.

COVID-19 impact on business

The COVID-19 crisis has had a negative short-term impact on the business, with sales having slowed down since March this year. However, management has maintained sales and manufacturing operations through the lockdown and the company's supply chain remains solidly intact. Thruvision also had a very healthy £8.4m cash position at end-March 2020, with management making efforts to ensure that this strong cash position is retained, while steadily rebuilding inventories so that production is able to meet the anticipated increase in demand as customer order flow resumes.

A secondary effect of the COVID-19 pandemic is that the security industry is unlikely to continue to rely on legacy security solutions such as walk-through metal detectors and traditional airport body scanners that often require close-proximity manual searches to be conducted when alarms are triggered. Management reports that they have recently received considerable interest for their 'safe distance' security screening driven by security users globally seeking to adapt to social distancing requirements to address COVID-19 concerns. This seems likely to have a significant long-term positive effect on Thruvision's business prospects, as its screening units operate at a range of several metres and obviate the need for manual searches.

In the near-term, Thruvision management reports that the front end of the sales cycle has been shortened by the virtual product demonstrations that the sales teams are conducting, as they have adapted to travel restrictions that have been enforced as part of the COVID-19 lockdowns being imposed globally, noting that visual demonstrations are a very effective way to demonstrate the capabilities of the company's screening products.

Summary

Overall, the business remains robust, with a healthy cash position and strong sales pipeline, and medium-term prospects for Thruvision appear to have been boosted materially by the increased need for 'safe distance' security post the COVID-19 pandemic. Despite this, visibility over the timing of customers resuming order activity in the very near-term remains limited and management consider it too early to provide guidance for the current financial year (to 31 March 2021).

As a consequence of the limited short-term visibility, we are withdrawing our forecasts for FY21 and FY22. We anticipate that the company's performance during the first half of FY21 will continue to be impacted by challenges encountered as a result of COVID-19, and the consequent delays in customer orders. However, we would expect to see Thruvision enjoying a strong recovery in its activities in the second half of the current financial year, assuming the business environment experiences the expected pick-up, and with the benefit of the virtual pre-sales work shortening the front-end of the sales cycle. In our view, this could enable the company to deliver a year-on-year performance that is flat at worst, although with a stronger run-rate going into FY22.

Financial Summary: Thruvision

Year end: March (£m unless shown)

	2018	2019	2020
PROFIT & LOSS			
Revenue	3.1	6.0	8.0
Adj EBITDA	(1.8)	(1.6)	(0.8)
Adj EBIT	(2.2)	(1.7)	(1.2)
Reported PBT	(3.2)	(2.1)	(1.5)
Fully Adj PBT	(2.9)	(1.7)	(1.2)
NOPAT	(2.2)	(1.7)	(1.0)
Reported EPS (p)	(1.9)	(1.3)	(0.9)
Fully Adj EPS (p)	(1.7)	(1.1)	(0.7)
Dividend per share (p)	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET	2018	2019	2020
Operating cash flow	(3.6)	(4.2)	(0.7)
Free Cash flow	(3.6)	(4.2)	(0.7)
FCF per share (p)	(2.2)	(2.7)	(0.5)
Acquisitions	0.0	0.0	0.0
Disposals	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0
Net cash flow	(3.6)	(4.2)	(0.7)
Overdrafts / borrowings	0.0	0.0	0.0
Cash & equivalents	17.6	9.4	8.4
Net (Debt)/Cash	17.6	9.4	8.4
NAV AND RETURNS	2018	2019	2020
Net asset value	19.5	14.1	13.4
NAV/share (p)	11.8	9.7	9.2
Net Tangible Asset Value	0.3	0.8	1.2
NTAV/share (p)	0.2	0.5	0.9
Average equity	9.7	16.8	13.7
Post-tax ROE (%)	(17.8%)	(7.2%)	(5.0%)
METRICS	2018	2019	2020
Revenue growth		92.7%	33.8%
Adj EBITDA growth		(12.8%)	(51.4%)
Adj EBIT growth		(20.6%)	(30.8%)
Adj PBT growth		(40.1%)	(30.5%)
Adj EPS growth		(34.1%)	(39.7%)
Dividend growth		N/A	N/A
Adj EBIT margins		(29.0%)	(15.0%)
VALUATION	2018	2019	2020
EV/Sales (x)	6.2	3.2	2.4
EV/EBITDA (x)	-10.8	-12.4	-25.5
EV/NOPAT (x)	-8.8	-11.1	-19.7
PER (x)	N/A	N/A	N/A
Dividend yield	N/A	N/A	N/A
FCF yield	(11.5%)	(14.4%)	(2.5%)

Source: Company information and Progressive Equity Research estimates

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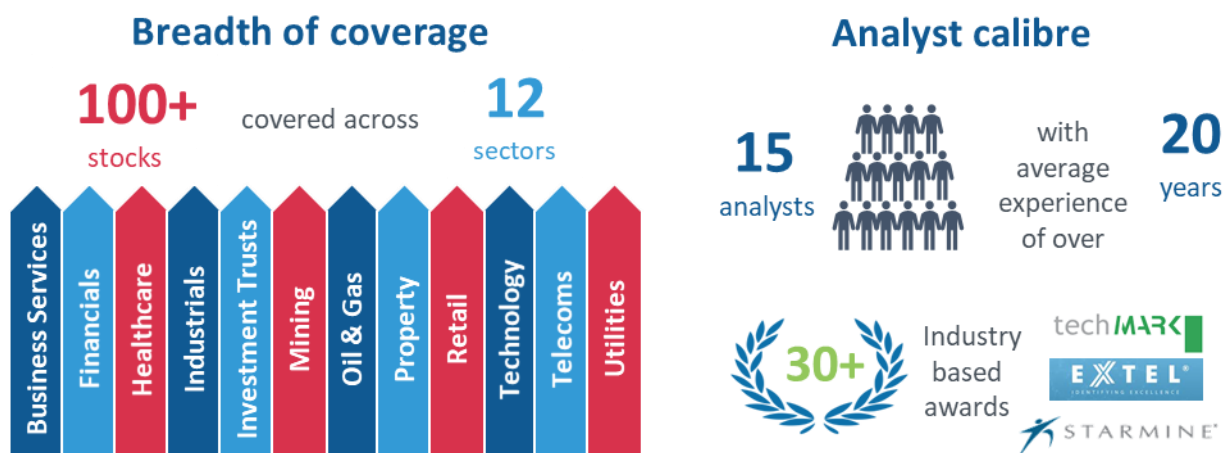
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