

THRUVISION TECHNOLOGY

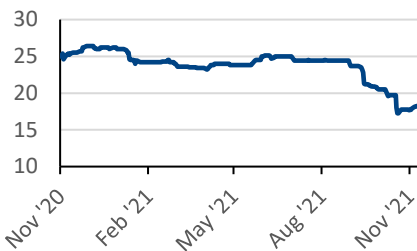
22 November 2021

THRU.L

18.3p

Market Cap: £26.6m

SHARE PRICE (p)



12m high/low 26p/17p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£4.1m (at 30/09/21)
Enterprise value	£22.5m
Index/market	AIM
Next news	Trading Update, Feb '22
Shares in Issue (m)	145.8
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

www.thruvision.com

THRUVISION IS A RESEARCH CLIENT OF
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H1 2022 results reflect increasing confidence

Thruvision's H1 results to 30 September 2021 demonstrate enhanced confidence for H2 and beyond, and we reinstate forecasts for FY22 with revenue of £8m. Momentum has steadily gathered pace, with a strong performance from Profit Protection. The decision by Tesco, the leading UK retailer, to deploy Thruvision at scale represents a significant contract win. The group has delivered gross margin growth and retained its balance sheet strength by way of stringent cost control and a shift in revenue mix. Management has acted quickly to offset pandemic-related weakness in some of its core end-markets by capitalising on the growth in Profit Protection. We see this segment as a significant driver of profitability in the short to medium term, coupled with an anticipated increased order flow from US Customs and Border Protection (CBP).

- Results are in line with the October trading update, with revenue for H1 22 at £2m, below the prior-year figure of £4.7m, which included revenues of £2.9m from US CBP. Continued strong engagement with US CBP during H1 22 supports confidence for order flow in H2.
- Profit Protection is growing rapidly, with clear evidence that Thruvision is gaining traction in this high-growth market. Revenue grew by 50% compared with H1 21 (H1 20 to H1 21 158%) from both new and existing customers, including ASOS, JD Sports and Next. Tesco is the latest major UK retailer to invest in a substantial rollout following a pilot programme. Since the period end, a further £1.7m of Profit Protection orders have been secured.
- Effectively managing supply chain issues, which impacted generic components, such as power supplies and PCs, rather than core specialist components. We expect further investment in manufacturing capacity, with the outsourcing of US assembly to a Florida-based partner being completed this calendar year. This will scale up group production capacity and business resilience.

We believe that Thruvision is well-positioned to grow as the market leader in 'safe distance' people-screening technology, particularly benefitting from the rapidly growing market of Profit Protection. The group remains financially sound and poised to take advantage of the expected recovery in both Customs and Aviation over the medium term. We have reinstated estimates for FY22 and expect revenue of £8m, with the group now back on track to deliver its pre-pandemic growth trajectory.

FYE MAR (£M)	2018	2019	2020	2021	2022E
Revenue	3.1	6.0	8.0	6.7	8.0
Adj EBITDA	-1.8	-1.6	-0.8	-1.8	-1.3
Fully Adj PBT	-2.9	-1.7	-1.2	-2.3	-1.8
Fully Adj EPS (p)	-1.7	-1.1	-0.7	-1.6	-1.2
EV/Sales (x)	7.3x	3.8x	2.8x	3.4x	2.8x
EV/EBITDA (x)	-12.6x	-14.5x	-29.8x	-12.3x	-16.8x
PER (x)	N/A	N/A	N/A	N/A	N/A

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

H1 22 Financial Highlights

Thruvision has reported H1 22 results consistent with its October 2021 trading statement. Momentum has continued to build in the year to date, with increased confidence for H2. Overall revenue for H1 22 was £2m, which sequentially is flat (H2 21: £2m). Revenue in the comparative period (H1 21) was £4.7m, which included revenues of £2.9m from US Customs and Border Protection (CBP). Profit Protection revenue grew by 50% to £1m in the half year (H1 21 £0.65m) and a further £1.7m of orders have been received since the period end.

The number of units shipped dropped from 58 to 22, which is a creditable performance given the continuing weakness in the Aviation and Customs sectors. Profit Protection accounted for 19 of these units (H1 21: 11 units, FY21: 36 units) and revenue per unit increased slightly to £73k (H1 21: £72k, FY21: £67k). There was a small uplift in the gross profit margin to 49% (H1 21: 48%, FY21: 48%).

KEY PERFORMANCE METRICS			
	H1 21	FY21	H1 22
Units shipped	58	84	22
Average revenue per unit (£'000s)	72	67	73
Gross margin	48%	48%	49%

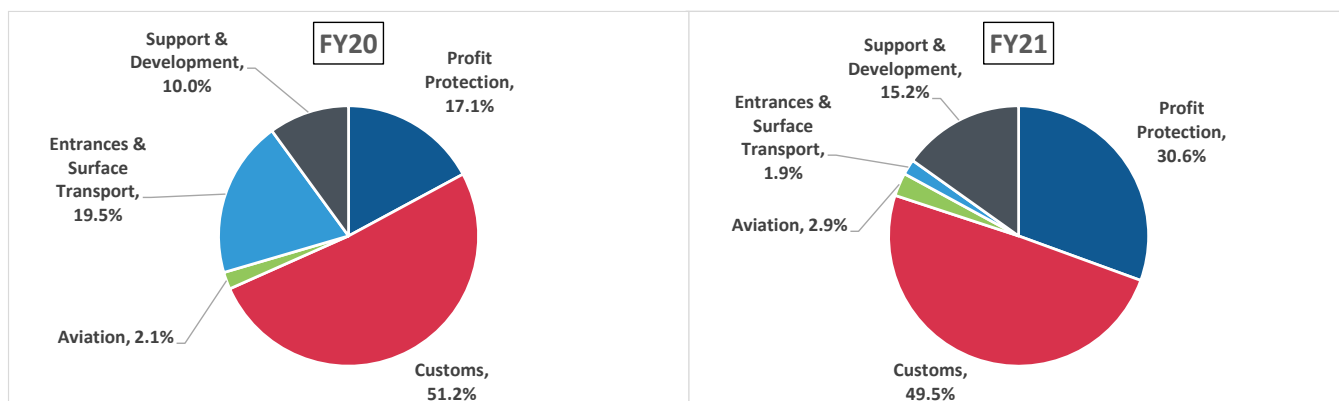
Source: Company information, Progressive Equity Research analysis

Overheads increased by 11.4% compared with H1 21, to £2.8m, mainly due to investment to drive growth in the US and Europe Profit Protection markets, partly offset by reduced travel costs. Management is already starting to see a good return on this investment.

The group EBITDA loss was £1.6m (H1 21: breakeven, FY21: loss of £1.5m). Cash at the half year was £4.1m, versus cash at 19 November 2021 of £4.0m (FY21: £7.3m). We expect an improvement in cash in H2 as the increased stock to support orders in H2 unwinds through the fulfilment of existing and expected orders.

Segmental performance

Sector revenue split



Source: Company information, Progressive Equity Research

Profit Protection

There is clear evidence that Profit Protection is gaining traction. This is a high-growth market driven by the increase in online retailing and associated theft by employees in distribution centres, often of small, high-value items (eg tobacco and razor blades). Thruvision shifted its short-term focus to accelerating growth in Profit Protection by beefing up its sales and marketing resources.

Revenue grew by 50% to £1m compared with H1 21 (H1 20 to H1 21 158%), with growth from existing customers, including ASOS, JD Sports and Next, as well as new customers. Tesco is the latest major UK retailer to invest in a substantial rollout following a pilot programme that demonstrated a strong return on investment. Since the period end, a further £1.7m of Profit Protection orders have been secured. Management has also invested in further sales capacity in the last six months in the US and Europe. This sector accounted for 30% of group revenues in FY21, up from 17% in FY20.

Customs

Given strong engagement with US CBP during H1 22, management is confident of further order flow in H2 driven by growing immigration pressure on the US Southern border, despite orders not materialising in the first half.

Customs is a well-established market for Thruvision, where its equipment can detect predominantly non-metallic, prohibited items such as cash and drugs, with currently no direct competition. Thruvision has equipment in service with nine international customs agencies, with the US CBP the largest opportunity in this market. The Chief Privacy Officer for the US Department of Homeland Security has approved Thruvision's operational use by US CBP, and more than 700 officers have been trained in the last few months.

Aviation

We are encouraged to note that aviation TSA traffic levels are starting to slowly recover and Thruvision continues to progress the TSA accreditation process in the US. Its contactless detection capability remains a key differentiator and management has seen a pick-up in enquiry rates from airlines and airports both in the US and the UK. We see potential for the Thruvision "Detection at Range" (as described by TSA) to become a formalised equipment category, alongside existing airport body scanners and metal detection.

Other

The entrance security and surface transportation markets remain a potential driver of revenue in the medium term. Fatal workplace shootings in the US have resulted in increased interest in Thruvision products, with the potential for "dual-use" deployments covering both outgoing theft and incoming firearms detection.

Thruvision has experienced increasing interest and some early sales into two new niche markets. In the Prisons market, units have been sold to both Australia and the Netherlands to disrupt the flow of contraband. Also, within the natural resources sector there is interest from mining and mineral processing businesses.

Managing supply chain and investing for growth

Management has effectively managed supply-chain issues, which have impacted generic components, such as power supplies and PCs, rather than core specialist components. We expect further investment in manufacturing capacity, with the outsourcing of US assembly to a Florida-based partner being completed in the remainder of 2022. This will both scale up production capacity and improve business resilience.

Cost control has been good and overall headcount remained constant as Thruvision reduced administrative support but strengthened its US team and grew the Profit Protection sales team in Europe.

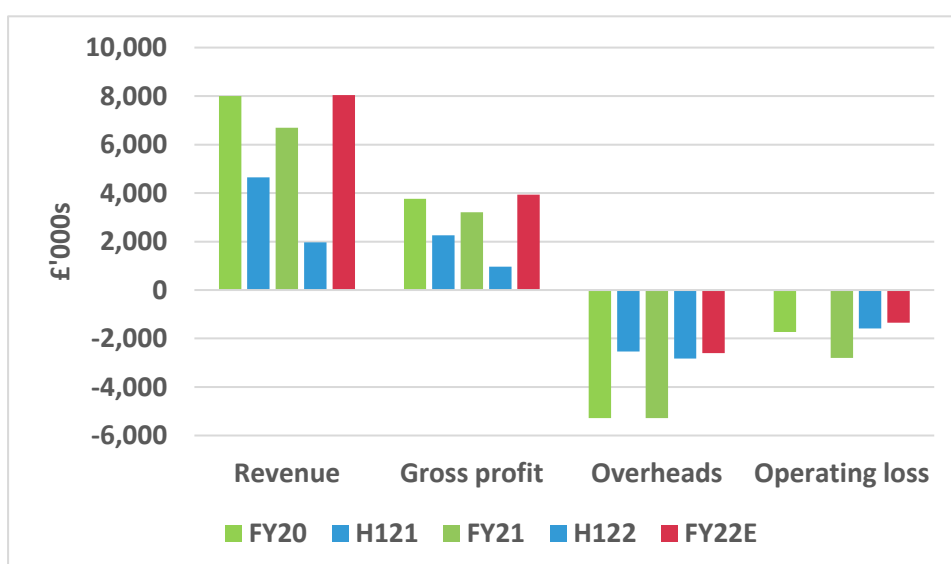
Outlook and reinstating full-year estimates

Thruvision has shown good resilience despite the challenges it has faced during the pandemic. H1 22 results highlight a significant strengthening of the Profit Protection business, in contrast to a not unexpected short-term weakness in both Customs and Aviation sub-sectors. However, trading since 30 September has strengthened significantly and confidence for H2 trading is strong.

With Profit Protection performing strongly and growing confidence on order flow with US CBP, management is confident of achieving growth in full-year revenue and an improvement in the cash position in H2. In our view, the business is now on track to return to its pre-pandemic growth trajectory.

As a consequence of the limited short-term visibility, we previously withdrew our forecasts for the next two financial years. However, given improved visibility we are reinstating estimates for the full year to March 2022. We expect to revisit forecasts for FY23 next year as visibility hopefully further improves.

REVENUE AND PROFIT PROGRESSION



Source: Company information, Progressive Equity Research analysis

Financial Summary: Thruvision

Year end: March (£m unless shown)

	2018	2019	2020	2021	2022E
PROFIT & LOSS					
Revenue	3.1	6.0	8.0	6.7	8.0
Adj EBITDA	(1.8)	(1.6)	(0.8)	(1.8)	(1.3)
Adj EBIT	(2.2)	(1.7)	(1.2)	(2.3)	(1.9)
Reported PBT	(3.2)	(2.1)	(1.5)	(2.8)	(1.8)
Fully Adj PBT	(2.9)	(1.7)	(1.2)	(2.3)	(1.8)
NOPAT	(2.2)	(1.7)	(1.0)	(2.3)	(1.9)
Reported EPS (p)	(1.9)	(1.3)	(0.9)	(1.7)	(1.2)
Fully Adj EPS (p)	(1.7)	(1.1)	(0.7)	(1.6)	(1.2)
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(3.6)	(4.2)	(0.7)	(1.9)	(2.1)
Free Cash flow	(3.6)	(4.2)	(0.7)	(2.2)	(2.1)
FCF per share (p)	(2.2)	(2.7)	(0.5)	(1.5)	(1.5)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Net cash flow	(3.6)	(4.2)	(0.7)	(2.2)	(2.1)
Overdrafts / borrowings	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	17.6	9.4	8.4	7.3	5.1
Net (Debt)/Cash	17.6	9.4	8.4	7.3	5.1
NAV AND RETURNS					
Net asset value	19.5	14.1	13.4	11.3	9.5
NAV/share (p)	11.8	9.7	9.2	7.8	6.5
Net Tangible Asset Value	0.3	0.8	1.2	1.1	0.7
NTAV/share (p)	0.2	0.5	0.9	0.8	0.5
Average equity	9.7	16.8	13.7	12.3	10.4
Post-tax ROE (%)	(17.8%)	(7.2%)	(17.0%)	(14.2%)	(3.0%)
METRICS					
Revenue growth		92.7%	33.8%	(16.3%)	20.0%
Adj EBITDA growth		(12.8%)	(51.4%)	142.6%	(26.6%)
Adj EBIT growth		(20.6%)	(30.8%)	94.7%	(16.9%)
Adj PBT growth		(40.1%)	(30.5%)	93.6%	(24.9%)
Adj EPS growth		(34.1%)	(39.7%)	137.6%	(25.0%)
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		(29.0%)	(15.0%)	(34.8%)	(24.1%)
VALUATION					
EV/Sales (x)	7.3	3.8	2.8	3.4	2.8
EV/EBITDA (x)	-12.6	-14.5	-29.8	-12.3	-16.8
EV/NOPAT (x)	-10.3	-13.0	-23.1	-9.6	-11.6
PER (x)	N/A	N/A	N/A	N/A	N/A
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(12.0%)	(15.0%)	(2.6%)	(8.1%)	(8.0%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

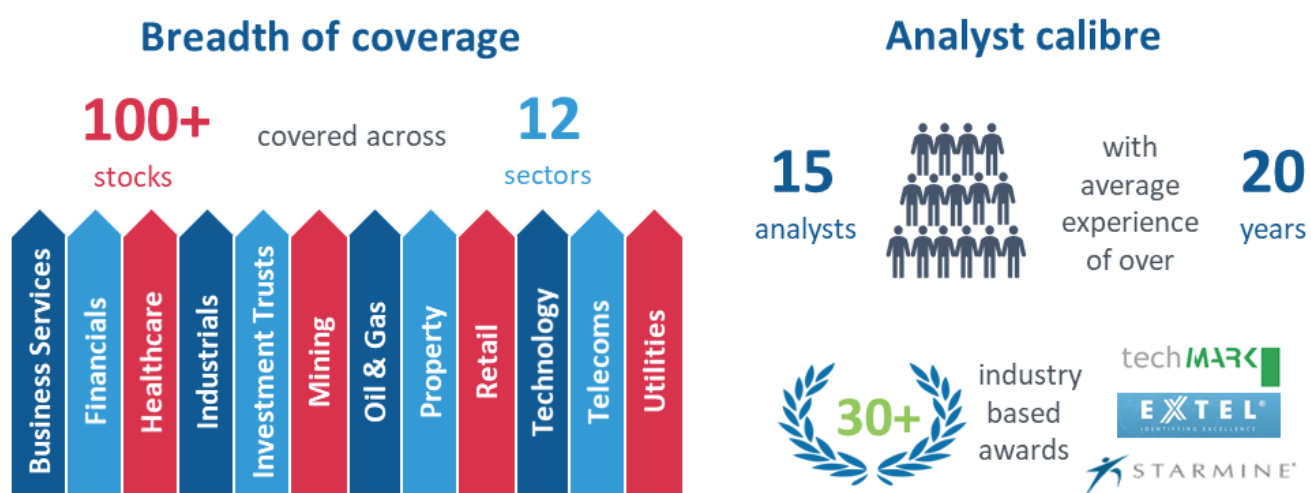
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