Progressive EQUITY RESEARCH

THRUVISION

TECHNOLOGY

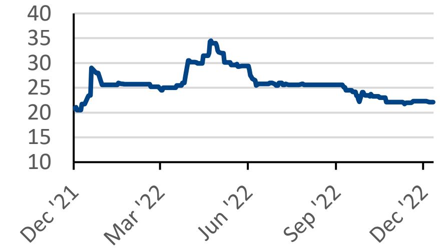
19 December 2022

THRU.L

22.1p

Market Cap: £32.2m

SHARE PRICE (p)



12m high/low	35p/21p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£4.3m *(at 15/12/22)*
Enterprise value	£27.9m
Index/market	AIM
Next news	Trading update, April 23
Shares in Issue (m)	145.8
Chairman	Tom Black
Chief Executive	Colin Evans
Finance Director	Victoria Balchin

COMPANY DESCRIPTION

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

www.thruvision.com

THRUVISION IS A RESEARCH CLIENT OF PROGRESSIVE

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Strong H1 shows traction in core markets

Thruvision has announced strong H1 results to 30 September, with the full year expected to be in line with market expectations. Thruvision's unique offering and growing traction within its two core markets have driven revenue growth of 41% to £2.8m. The Customs division has contributed very strongly, and we expect the acceleration of growth to continue given the recently announced US Customs and Border Protection (CBP) framework agreement. Two confirmed CBP orders worth £8.7m ($9.7m) underpin FY23E, with most of the backlog, if not all, expected to be delivered in H2. Profit Protection revenue was flat year on year, having achieved c. 70% growth in FY22. Management has been quick to acknowledge the slower growth in Profit Protection caused by economic uncertainty, however employee theft continues to be a big (and growing) issue for retailers. Thruvision remains firmly on track to deliver an EBITDA-breakeven result in FY23, for the first time in the group's history, with cash burn much reduced.

- **Financial highlights.** Revenue increased by 41% to £2.8m (H1 22: £2.0m). Cash at 30 September was £1.1m, and £4.3m as at 15 December 2022. The gross margin remained flat at 49% (FY22: 47%).
- **Profit protection remains a huge opportunity.** The model is evolving and there is strong interest for 'Walk-THRU' lanes that allow mass screening, with a major UK retailer verifying ROI within 6-12 months. Units have been sold to existing customers Next and JD Sports in the UK, and a new prestigious US customer, Saks Fifth Avenue. The focus on third-party logistics providers (3PLs) has delivered further success. In addition to CEVA, a global supply framework has been signed with a second major global 3PL. Management estimates that there are over 20,000 DCs across the UK, US and Europe, representing a huge strategic opportunity
- **Further order flow is expected from US CBP.** The quantum of CBP spend is large, with the two recent orders totalling £8.7m ($9.7m). Once delivered, CBP will have deployed over 100 of Thruvision's latest, high-performance cameras. The total CBP spend with Thruvision for the last US Government fiscal year was $14m, which gives an indication of the potential scale of the opportunity. Earlier in 2022, CBP made public its intentions to acquire 500 'passive body scanners' over the next five years.
- **Maintaining estimates.** With growing confidence on order flow with US CBP, we are comfortable to maintain our FY23 estimates, with revenue at £12.7m and breakeven at the EBITDA level

FYE MAR (£M)	2020	2021	2022	2023E
Revenue	8.0	6.7	8.4	12.7
Adj EBITDA	-1.1	-1.5	-1.7	0.1
Fully Adj PBT	-1.2	-2.3	-2.3	-0.5
Fully Adj EPS (p)	-0.8	-1.7	-1.1	-0.2
EV/Sales (x)	3.5x	4.2x	3.3x	2.2x
EV/EBITDA (x)	-26.1x	-18.6x	-16.5x	232.9x
PER (x)	N/A	N/A	N/A	N/A

Source: Company Information and Progressive Equity Research estimates.

Financial highlights

Total revenue increased by 41% to £2.8m (H1 22: £2.0m), resulting in an adjusted EBITDA loss (excl. share-based payments) flat at £1.6m. New equipment sales increased by 46% to £2.4m (H1 22: £1.6m) and Support and Development by 20% to £407k (H1 22: £340k).

The Customs business segment contained a single large order from US Customs and Border Protection (CBP) that resulted in revenue of £1.3m in H1 23. However, as we highlight later in the note, the recently announced CBP contracts are expected to deliver £7.4m ($8.3m) of revenue in H2 23.

Profit Protection performed well against the difficult trading backdrop for retailers. Overall revenue was held flat at £1.0m, following the strong growth experienced at the full year to 31 March 2022, when product revenue increased over 70% to £3.5m (total PP revenue including support and development was £3.8m versus £2.2m in FY21).

Net cash was £1.1m at the half year (FY22: £5.4m), with an overall operating cash outflow of £4.2m. The working capital outflow in the period was £2.7m, due in part to an increase of £2.4m in trade receivables from the CBP order, with the cash received after the period end. Supply chain issues are being effectively managed, with generic components impacted more than specialist components. Thruvision is able to manufacture using its US-based partner, which is playing a significant role in delivering the major CBP orders. Stock increased by £0.9m to support H2 order delivery, and also forward purchasing. Reflecting the focus on working capital management, net cash at 15 December 2022 has increased to £4.3m, and we forecast £4.0m at the year-end.

Thruvision continued to upsell higher-specification products in both Customs and Profit Protection, which is expected to continue, along with an increased proportion of high-margin service revenue. Overall the gross margin was maintained at 49%, above the 47% achieved at the full year.

Cost control was strong despite investment in sales and marketing for Profit Protection, with additional headcount and travel to support growth in its European and US Profit Protection markets. Adjusted overheads increased to £3.2m (H1 22: £2.8m), but this was lower as a percentage of revenue at 115% (H1 22: 144%).

Key performance metrics

	H1 23 (£'000)	H1 22 (£'000)
Revenue	2.8	2.0
Gross profit	1.4	1.0
Gross margin	49%	49%
Adjusted overheads	3.2	2.8
Adjusted EBITDA loss	1.6	1.6
Adjusted loss before tax	1.8	1.9

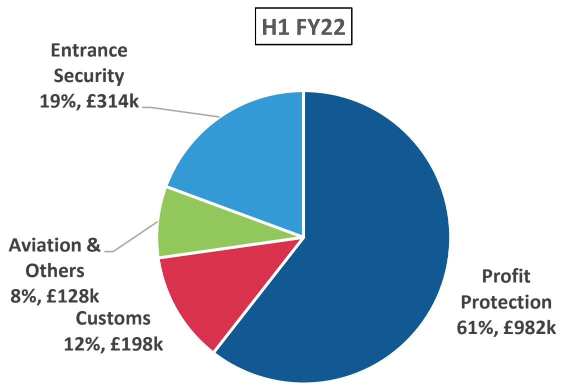
Source: Company information, Progressive Equity Research analysis

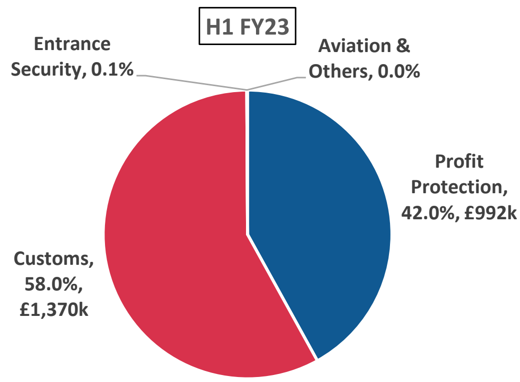
Maintaining estimates

With Profit Protection holding its own and growing confidence on order flow with US CBP, we are comfortable to maintain our FY23 estimates, with revenue at £12.7m and breakeven at the EBITDA level. Economic uncertainty is holding back upgrade potential, and we will revisit estimates at the full-year trading update in April 2023. We will also look to introduce FY24 estimates once we have more clarity on the order flow from CBP, which is inherently lumpy in nature.

Segmental performance

Sector product revenue split





Source: Company information, Progressive Equity Research

Profit Protection

Profit Protection product revenue was flat year on year having achieved over 70% growth in FY22. Management has been open and quick to acknowledge that the economic situation has become increasingly challenging for retailers, however employee theft continues to be a big (and growing) issue in the industry. Customers that have proved the returns from deploying Thruvision continue to expand and upgrade fleets, with one major UK retailer verifying the ROI of around 6-12 months.

The 'Walk-THRU' lane pioneered with Next PLC is garnering strong interest, and has been sold into JD Sports in the UK and a new prestigious US customer, Saks Fifth Avenue.

The focus on third-party logistics providers (3PLs) has delivered further success. In addition to CEVA, a global supply framework has been signed with a second major global 3PL, headquartered in Germany. A 'Walk-THRU' solution has been delivered to one of its high-profile sites in the UK and further deployments over the next few months are being discussed. Management estimates that there are over 20,000 DCs across the UK, US and Europe, representing a huge strategic opportunity, although short-term prospects are dependent on the health of the retail market.

Customs

Customs is a well-established market for Thruvision, where its equipment can detect non-metallic prohibited items such as cash and drugs, with currently no direct competition. Thruvision have received two strategically important orders from US Customs and Border Protection (CBP), via its US Government contracting partner, totalling £8.7m ($9.7m). The first of these orders announced in September, totalling £2.4m ($2.7m), was to complete the process of upgrading CBP's existing fleet of 60 cameras to the high definition 16-channel variant. Half of this first order was delivered in H1 with the balance to be delivered in H2.

The second order, announced in October for £6.3m ($7.0m), was the first to be received under a new five-year framework purchasing agreement. The initial order was larger than management anticipated for FY23. The framework allows CBP to place additional orders up to the end of September 2026. This follows the statement of works published by the Department of Homeland Security as part of its ‘Pedestrian Detect-at-Range’ Privacy Impact Policy. CBP publicly announced earlier in the year its intention to procure 100 ‘passive body scanners’ (PBS) during the base year and a total of 400 PBS during four ‘option years’.

Once the two recent orders have been delivered, CBP will have deployed over 100 of Thruvision’s latest high-performance cameras, in line with its base year intention. On this basis, it is possible that CBP will look to purchase a further 100 units each year. However, 400 units is a commitment rather than a firm order and the exact timing is difficult to predict.

Several of the delayed customs opportunities in other countries have started progressing. Other orders received include one from an existing Asian Customs agency customer for a sixth tranche of cameras to be delivered in H2 23. Management notes that the Thruvision product was selected ahead of Chinese competition. We see opportunities with several other international Customs agencies (some existing customers, others new) with discussion underway for the Thruvision product.

Aviation and other

Aviation traffic levels are starting to slowly recover but overall sales activity remains depressed. We do not expect any meaningful growth in revenue in the short to medium term. However, Thruvision continues to progress the delayed TSA accreditation process in the US, given highly regulated passenger security screening market and testing has recommenced. There is also renewed interest for staff screening activity within some US airports.

Entrance Security

The Thruvision product can process high visitor throughput rates and reliably detect mass-casualty threats such as assault rifles and person-borne bomb vests. Management notes that although it is seeing some renewed interest, principally from the Middle East, this is unlikely to become a reliable revenue stream for the business.

Outlook

For Thruvision’s Profit Protection business, although the economic situation has become more challenging for retailers, demand for detection is robust as employee theft continues to be a big (and growing) issue in the industry. Within Customs, confirmed CBP orders underpin FY23E, with additional significant orders via the framework agreement likely in future years. The combination of strength in both Thruvision’s major revenue segments should drive ongoing revenue growth and, given the strong gross margin, earnings and cash.

Thruvision has delivered a strong set of results and a robust outlook, with caution surrounding the economic backdrop constraining upgrade potential at this stage. It remains firmly on track to deliver an EBITDA-breakeven result in FY23, for the first time in the group’s history. We look forward to further positive developments as the year progresses and greater clarity on current momentum and further order flow from CBP at the FY23 trading update expected in April 2023.

Financial Summary: Thruvision

Year end: March (£m unless shown)

PROFIT & LOSS	**2020**	**2021**	**2022**	**2023E**
Revenue	8.0	6.7	8.4	12.7
Adj EBITDA	(1.1)	(1.5)	(1.7)	0.1
Adj EBIT	(1.5)	(2.0)	(2.3)	(0.4)
Reported PBT	(1.1)	(2.5)	(1.7)	(0.3)
Fully Adj PBT	(1.2)	(2.3)	(2.3)	(0.5)
NOPAT	(1.3)	(1.8)	(2.0)	(0.2)
Reported EPS (p)	(0.8)	(1.7)	(1.1)	(0.2)
Fully Adj EPS (p)	(0.8)	(1.7)	(1.1)	(0.2)
Dividend per share (p)	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET	**2020**	**2021**	**2022**	**2023E**
Operating cash flow	(0.8)	(0.6)	(1.6)	(0.9)
Free Cash flow	(0.9)	(1.0)	(2.3)	(1.4)
FCF per share (p)	(0.6)	(0.7)	(1.6)	(1.0)
Acquisitions	0.0	0.0	0.0	0.0
Disposals	0.3	0.0	0.0	0.0
Shares issued	0.0	0.1	0.2	0.0
Net cash flow	(1.0)	(1.1)	(1.8)	(1.4)
Overdrafts / borrowings	0.0	0.0	0.0	0.0
Cash & equivalents	8.4	7.3	5.4	4.0
Net (Debt)/Cash	8.4	7.3	5.4	4.0
NAV AND RETURNS	**2020**	**2021**	**2022**	**2023E**
Net asset value	13.4	11.3	9.4	9.1
NAV/share (p)	9.2	7.8	6.5	6.3
Net Tangible Asset Value	1.2	1.1	1.2	1.1
NTAV/share (p)	0.9	0.8	0.8	0.8
Average equity	13.7	12.3	10.4	9.3
Post-tax ROE (%)	(8.8%)	(18.9%)	(16.8%)	(5.2%)
METRICS	**2020**	**2021**	**2022**	**2023E**
Revenue growth	34%	(16.3%)	24.8%	52.0%
Adj EBITDA growth	(19.8%)	40.4%	13.1%	(107.4%)
Adj EBIT growth	(14.7%)	32.8%	11.8%	(81.0%)
Adj PBT growth	(30.5%)	94.8%	(3.9%)	(75.6%)
Adj EPS growth	(33.8%)	128.0%	(33.3%)	(81.2%)
Dividend growth		N/A	N/A	N/A
Adj EBIT margins	(19.0%)	(30.1%)	(27.0%)	(3.4%)
VALUATION	**2020**	**2021**	**2022**	**2023E**
EV/Sales (x)	3.5	4.2	3.3	2.2
EV/EBITDA (x)	-26.1	-18.6	-16.5	232.9
EV/NOPAT (x)	-21.5	-15.9	-13.8	-146.0
PER (x)	N/A	N/A	N/A	N/A
Dividend yield	N/A	N/A	N/A	N/A
FCF yield	(2.7%)	(3.2%)	(7.1%)	(4.3%)

Source: Company information and Progressive Equity Research estimates

19 December 2022

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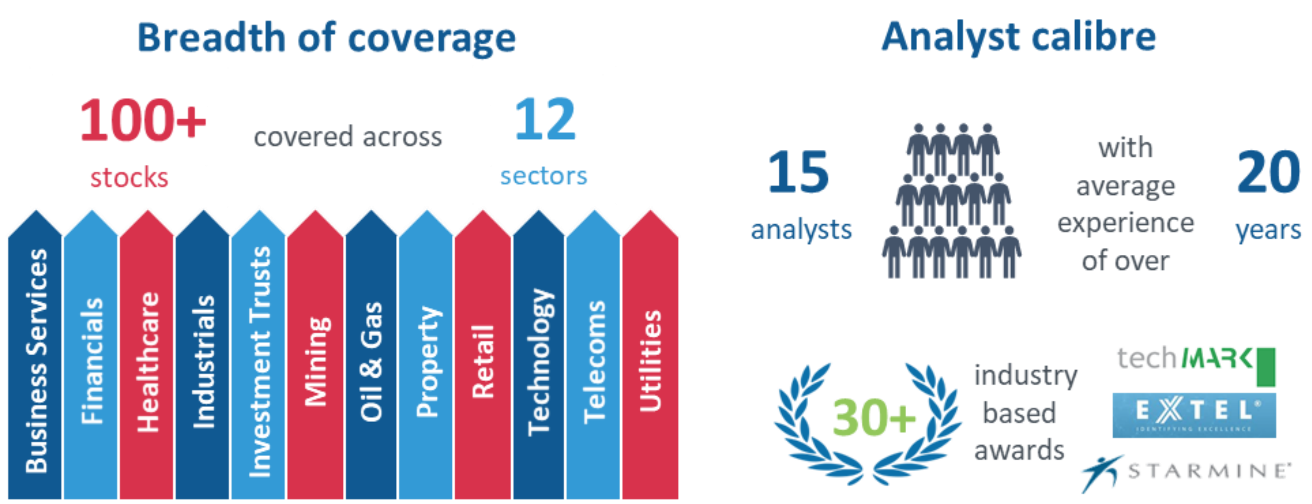

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