Progressive EQUITY RESEARCH

THRUVISION

TECHNOLOGY

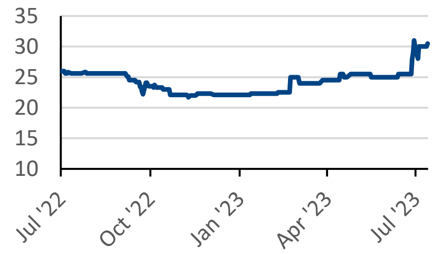
21 July 2023

THRU.L

30.5p

Market Cap: £44.9m

SHARE PRICE (p)



12m high/low	31p/22p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£2.8m *(at 31/03/23)*
Enterprise value	£42.1m
Index/market	AIM
Next news	AGM, September
Shares in Issue (m)	147.1
Chairman	Tom Black
Chief Executive	Colin Evans
CFO	Victoria Balchin

COMPANY DESCRIPTION

Thruvision is the leading developer, manufacturer and supplier of walk-through security technology.

www.thruvision.com

THRUVISION IS A RESEARCH CLIENT OF PROGRESSIVE

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Delivering on profitable growth

Thruvision has announced FY23 results in line with the guidance given in its April trading update. The group's unique offering and growing traction in its two core markets has driven revenue growth of 49%, with EBITDA almost at breakeven (£0.2m loss). The Customs division has contributed very strongly, and should continue to grow, underpinned by the US Customs and Border Protection (CBP) framework. Despite the difficult trading backdrop, Retail Distribution (formerly Profit Protection) delivered a robust performance, adding new clients and generating 50% of revenue from existing client upgrades and expansion. Employee theft remains a big problem for the retail industry, and we believe that Thruvision is well placed to take advantage when economic conditions improve. We introduce our FY2024 which show continuing turnover growth and a positive EBITDA of £0.1m.

- **Financial highlights.** Revenue increased by 49% to £12.4m (FY22: £8.4m) and adjusted EBITDA was near breakeven, with a loss of £0.2m (FY22: loss of £1.7m). Net cash at 31 March was £2.8m (FY22: £5.4m), slightly below expectations due to the post year-end timing of payments; as at 20 July, net cash was £2.5m and the group has agreed a £1m overdraft facility.
- **Breakthrough contract with CBP** underpins business performance, amid growing interest from other international agencies. The CBP order backlog was successfully delivered in H2 following the two orders totalling £8.7m ($9.7m) received in September. Total CBP spend for the last US Government fiscal year was c.$14m, indicating the scale of the opportunity, with the next order anticipated at the end of the US Government fiscal year (September 2023).
- **Retail Distribution – a huge opportunity.** Performance has been robust despite a tough trading backdrop, with the growing traction in Europe and the US, plus strong repeat business. With an estimated market of 20,000 distribution centres across the UK, US and Europe, the opportunity is clear. Thruvision's model is evolving, with strong interest for 'WalkTHRU' lanes that allow mass screening with ROI below twelve months.
- **FY24 estimates.** Our FY2024 estimates assume that despite the pressure on household incomes, retailers increase investment to deter theft at their distribution centres. Orders in the Customs division are very lumpy but the company has been working hard with its customers in the USA and believes operational demand for its products is high. We've assumed Customs orders marginally up on FY23 but we hope to revisit this assumption with the trading statement in the autumn.

FYE MAR (£M)	2021	2022	2023	2024E
Revenue	6.7	8.4	12.4	13.6
Adj EBITDA	-1.66	-1.7	-0.2	0.1
Fully Adj PBT	-2.44	-2.3	-0.8	-0.5
Fully Adj EPS (p)	-1.7	-1.1	-0.5	-0.2
EV/Sales (x)	6.3x	5.0x	3.4x	3.1x
EV/EBITDA (x)	-27.1x	-24.8x	-192.1x	311.7x
PER (x)	N/A	N/A	N/A	N/A

Source: Company Information and Progressive Equity Research estimates.

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

FY23 highlights

The group's strategy to focus on the two main markets of Customs and Retail Distribution has delivered a robust performance in FY23 despite the difficult economic backdrop. Growth has been driven both by adding new customers and from existing customers extending and upgrading. Total revenue increased by 49% to £12.4m (FY22: £8.4m), resulting in adjusted EBITDA nearing breakeven, with a loss of £0.2m (FY22: loss of £1.7m).

Thruvision continued to upsell higher-specification products in both Customs and Retail Distribution, which is expected to continue, along with an increased proportion of high-margin service revenue. Overall, the adjusted gross margin was up 4.8pp to 51.5% due to product mix and higher-margin AI software revenue (production overheads are excluded due to recent changes in product mix and investments in the production team). The statutory gross margin also grew, by 6.2pp to 47.0%, reflecting production efficiencies and increasing economies of scale. For the first time in the group's history, software license revenue made a contribution, at £0.5m (FY22: nil). This is expected to become a margin-enhancing revenue stream going forward, with additional licensable software functionality expected to be launched in FY24.

Net cash at 31 March was £2.8m (FY22: £5.4m), slightly below expectations due to the post year-end timing of payments. The working capital outflow in the period was £2.3m, in part because of an increase of trade receivables from the CBP order, for which settlement occurs as equipment is deployed in the field. As at 20 July, net cash was £2.4m and we forecast £2.8m for FY24. Thruvision has agreed an overdraft facility with HSBC of £1.0m, reducing to £0.25m from 30 September 2023, to support investment in growth; the facility is undrawn to date.

Supply chain issues are being effectively managed, with Thruvision able to manufacture using its US-based partner, which is playing a significant role in delivering CBP orders.

Cost control was strong despite investment in sales and marketing for Retail Distribution, with additional headcount and travel to support growth in its European and US markets. Overheads increased to £6.1m (FY22: £5.2m), but this was lower as a percentage of revenue at 49% (FY22: 62%). The board decided to award bonuses across the business for the first time, totalling £0.5m (FY22: £0.1m), to support and incentivise performance for the longer term. Administrative expenses (including bonuses) therefore increased by 29% to £6.8m.

Key performance metrics

	FY 23 (£m)	FY 22 (£m)
Revenue	12.4	8.4
Adjusted gross profit	6.4	3.9
Adjusted gross margin	51.5%	46.7%
Overheads	6.1	5.2
Adjusted EBITDA loss	0.2	1.7
Adjusted loss before tax	0.8	2.3

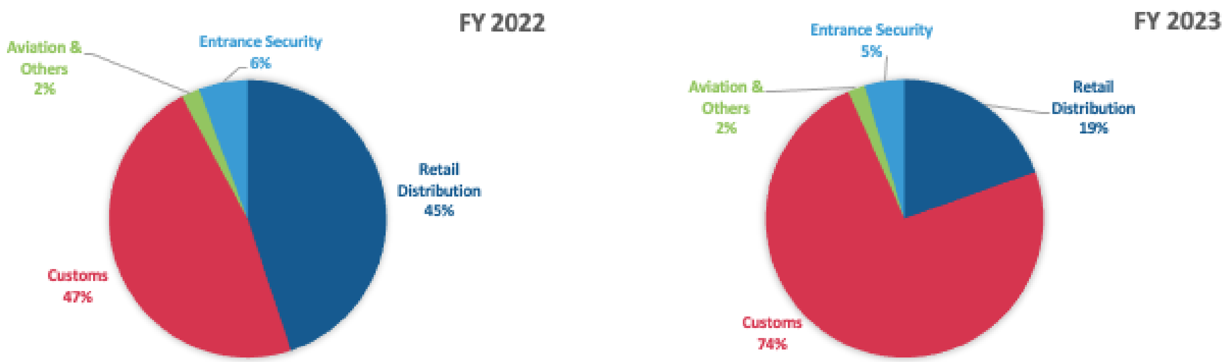
Source: Company information, Progressive Equity Research analysis

Thruvision's product range has expanded, with strong interest for its new 'WalkTHRU' solution, launched in October 2022, that allows mass screening for concealed items at walking pace. NEXT, Selfridges and Saks Fifth Avenue bought walk-through lanes in 2H FY23. Customers are demonstrating that they are willing to upgrade for extra functionality, as highlighted by CBP upgrading systems and purchasing the AI-software algorithm.

Thruvision intends to launch a series of new products and product upgrades in FY24, including software upgrades that can be licensed separately. Nick Graham-Rack was recently promoted to Chief Technical Officer (CTO) to continue to drive this area of the business.

Segmental performance

Divisional revenue split



Source: Company information, Progressive Equity Research

Retail Distribution

Retail Distribution performed well against a difficult trading backdrop for retailers. Overall revenue was down to £2.4m (FY22: £3.8m). However, the 70% growth in FY22 was largely the result of a single major contract; without this, revenue was broadly flat year on year. Management highlighted that over half of revenue in FY23 was from additional systems or upgrades by existing customers that have proved the returns from deploying the Thruvision product.

Thruvision is gaining significant traction with a growing number of leading UK and US retailers, including Tesco, NEXT, Boots, JD Sports and Saks, and global logistics providers, including GXO and CEVA. It is worth noting that often initial orders with new clients are relatively small and continue to build, therefore the full benefits from recent client wins have not yet flowed through.

Employee theft continues to be a big (and growing) issue for the retail industry. Management estimates there are over 20,000 distribution centres across the UK, US and Europe that could use Thruvision systems. This represents a huge strategic opportunity, although short-term prospects are dependent on the health of the retail market. Management notes that a very large opportunity exists in the US, and the group continues to invest to take advantage of this growth potential, including the recruitment of an experienced sales leader who has over 20 years' experience with a global security equipment vendor.

International Customs Agencies

The International Customs Agencies business segment more than doubled revenue to £9.2m (FY22: £3.9m). In FY23, Thruvision 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, announced in September, totalled £2.4m ($2.7m), which was to complete the process of upgrading CBP's existing fleet of 60 cameras to the high-definition 16-channel variant. The second order, announced in October, was for £6.3m ($7.0m), and was the first to be received under the five-year framework purchasing agreement. Both of these orders have been fulfilled in FY23 and CBP has now deployed over 100 of Thruvision's latest high-performance cameras.

In early 2022, CBP made public its intentions to acquire 500 'passive body scanners' over the following five years. CBP has 328 Ports of Entry, with Thruvision currently supplying technology to around 14 of these. The framework agreement allows CBP to place additional orders up to the end of September 2026. The spend with Thruvision for the last US Government fiscal year was $14m, indicating the scale of the opportunity.

Several of the delayed customs opportunities in other countries have started progressing, including from an existing Asian customs agency for a sixth tranche of cameras, with the Thruvision product selected ahead of Chinese competition.

Aviation and other

Aviation traffic levels are starting to slowly recover but overall sales activity for Thruvision remains minimal. 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, which would allow it to compete with airport body scanners in the highly regulated passenger screening market. 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.

Introducing FY24 estimates

We introduce FY24 estimates in this note which we hope will prove cautious, and which we understand to be roughly in line with existing consensus forecasts. However, this is with the caveat that we expect more clarity on the order flow from CBP, which is inherently lumpy in nature, later in FY24. Orders under the multi-year CBP framework, which runs to September 2026, are usually placed in the latter part of the US Government fiscal year, ending 30 September, with limited visibility prior to the order being placed. We understand that the existing CBP units have been well received, so it becomes a question of budget allocation in the current year.

We also note that economic uncertainty is holding back growth potential within Retail Distribution

We will revisit estimates once further information is available and hope to also introduce FY25 forecasts at that time.

Conclusion

Thruvision offers exposure to growth markets with high barriers to entry. The business is at an inflexion point as the technology and capabilities are proven by its blue-chip customer base, gaining significant traction in its core markets of Retail Distribution and International Customs Agencies.

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. The rate of customer acquisition for Thruvision has been strong, with blue-chip clients such as NEXT upgrading their hardware and software add-ons, plus growing traction among some of the largest global third-party logistics players. Retail Distribution remains a large and rapidly growing addressable market, with management estimating there are around 20,000 distribution centres across UK, Europe and the US that could deploy Thruvision systems.

The recent breakthrough order with US Customers and Border Protection (CBP) underpins revenue moving forward, with additional significant orders via the framework agreement likely in future years, coupled with growing interest from international agencies.

Thruvision has delivered a strong set of results with EBITDA nearing breakeven and a robust outlook, although caution surrounding the economic backdrop constrains estimates.

Thruvision provides UK investors with the opportunity to invest in unique, proven technology, as well as pointing a way to potential eventual exit via M&A once the group has built additional scale.

We look forward to further positive developments as the year progresses, with greater clarity on current momentum and further order flow from CBP in the H1 24 trading update.

Financial Summary: Thruvision

Year end: March (£m unless shown)

PROFIT & LOSS	**2021**	**2022**	**2023**	**2024E**
Revenue	6.7	8.4	12.4	13.6
Adj EBITDA	(1.6)	(1.7)	(0.2)	0.1
Adj EBIT	(2.1)	(2.3)	(0.9)	(0.5)
Reported PBT	(2.5)	(1.7)	(0.8)	(0.4)
Fully Adj PBT	(2.4)	(2.3)	(0.8)	(0.5)
NOPAT	(1.8)	(2.0)	(0.7)	(0.3)
Reported EPS (p)	(1.7)	(1.1)	(0.5)	(0.2)
Fully Adj EPS (p)	(1.7)	(1.1)	(0.5)	(0.2)
Dividend per share (p)	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET	**2021**	**2022**	**2023**	**2024E**
Operating cash flow	(0.6)	(1.6)	(2.5)	0.6
Free Cash flow	(1.0)	(2.3)	(2.6)	0.0
FCF per share (p)	(0.7)	(1.6)	(1.8)	0.0
Acquisitions	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Shares issued	0.1	0.2	0.1	0.0
Net cash flow	(1.1)	(1.8)	(2.7)	0.0
Overdrafts / borrowings	0.0	0.0	0.0	0.0
Cash & equivalents	7.3	5.4	2.8	2.8
Net (Debt)/Cash	7.3	5.4	2.8	2.8
NAV AND RETURNS	**2021**	**2022**	**2023**	**2024E**
Net asset value	11.3	9.4	8.8	8.5
NAV/share (p)	7.8	6.5	6.0	5.7
Net Tangible Asset Value	1.1	1.2	1.2	1.2
NTAV/share (p)	0.8	0.8	0.8	0.8
Average equity	12.3	10.4	9.1	8.6
Post-tax ROE (%)	(18.9%)	(16.8%)	(8.8%)	(4.2%)
METRICS	**2021**	**2022**	**2023**	**2024E**
Revenue growth	(16.3%)	24.8%	48.5%	9.4%
Adj EBITDA growth	45.0%	9.5%	(87.1%)	(160.6%)
Adj EBIT growth	36.1%	9.2%	(60.4%)	(45.3%)
Adj PBT growth	98.8%	(5.9%)	(62.4%)	(37.5%)
Adj EPS growth	128.0%	(33.3%)	(52.0%)	(55.4%)
Dividend growth	N/A	N/A	N/A	N/A
Adj EBIT margins	(30.9%)	(27.0%)	(7.2%)	(3.6%)
VALUATION	**2021**	**2022**	**2023**	**2024E**
EV/Sales (x)	6.3	5.0	3.4	3.1
EV/EBITDA (x)	-27.1	-24.8	-192.1	311.7
EV/NOPAT (x)	-23.4	-20.8	-58.4	-129.5
PER (x)	N/A	N/A	N/A	N/A
Dividend yield	N/A	N/A	N/A	N/A
FCF yield	(2.3%)	(5.2%)	(5.8%)	0.0%

Source: Company information and Progressive Equity Research estimates

Progressive EQUITY RESEARCH

21 July 2023

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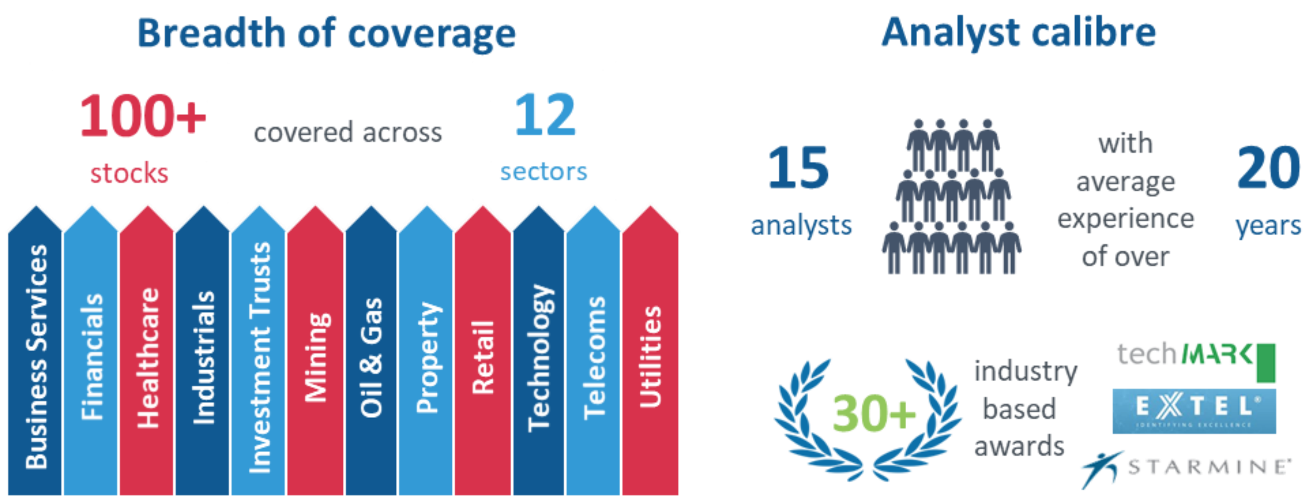

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