

THRUVISION TECHNOLOGY

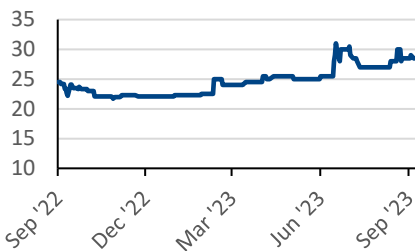
2 October 2023

THRU.L

29p

Market Cap: £42.7m

SHARE PRICE (p)



12m high/low 31p/22p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£2.3m (at 30/09/23)
Enterprise value	£40.4m
Index/market	AIM
Next news	Interims, December
Shares in issue (m)	147.1
Chairman	Tom Black
CEO	Colin Evans
CFO	Victoria Balchin

COMPANY DESCRIPTION

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

www.thruvision.com

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CBP shortfall but strength elsewhere

Thruvision's H1 24 trading update, to 30 September, describes a strong H1 performance, but notes that the Customs sector has suffered a setback. An anticipated order from US Customs and Border Protection (CBP) was not awarded during the US Government fiscal year, due to budgetary challenges. In our view, this is a timing issue, and we would hope to see material CBP orders in September 2024, although these will fall outside Thruvision's current financial year. Despite this, Customs revenue grew 16% half on half, benefitting from a major contract win, while Entrance Security experienced a bounce-back in demand. Retail Distribution has continued to win clients and is gaining traction with a growing number of leading retailers and global logistics providers. Despite the resilient update, and a £1m order backlog, we reduce FY24E estimates to reflect the absence of the CBP order.

- Revenue diversification.** Thruvision expects H1 24 revenue to increase 27% to c.£3.5m (H1 23: £2.8m). We note that this and the £1m order backlog gives a total of £4.5m, which already exceeds the non-CBP revenue for FY23 of £4.15m. Customs revenue grew 16% driven by a major contract win with a new Asian customer. Cash at 30 September was £2.3m (H1 23: £1.1m), with trade receivables at £2.7m (H1 23: £3.3m).
- Retail Distribution.** The group added new customers including GXO, the global logistics provider, and TD Synnex, a global technology provider. It is worth noting that initial orders are often relatively small and frequently build over time. Employee theft continues to be a material (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, representing a huge strategic opportunity.
- CBP budgetary pressures.** Following today's update, we do not expect any CBP orders to flow through in FY24 but believe that CBP remains committed to procuring 100 passive body scanners per annum, with over 100 Thruvision high-performance cameras already successfully deployed. The framework agreement allows CBP to place additional orders up to the end of September 2026. The spend with Thruvision for the previous US Government fiscal year was \$14m, indicating the scale of the opportunity.
- Reducing estimates.** Given the absence of the CBP order, we downgrade revenue to £8.1m from £13.6m for FY24E and reduce our estimate of EBITDA-breakeven to a £2.5m loss given an uplift in costs as the business has logically been investing for growth.

FYE MAR (£M)	2021	2022	2023	2024E
Revenue	6.7	8.4	12.4	8.1
Adj EBITDA	-1.6	-1.7	-0.2	-2.5
Fully Adj PBT	-2.4	-2.3	-0.8	-3.2
Fully Adj EPS (p)	-1.7	-1.1	-0.5	-2.1
EV/Sales (x)	6.0x	4.8x	3.3x	5.0x
EV/EBITDA (x)	-26.0x	-23.8x	-184.3x	-15.6x
PER (x)	N/A	N/A	N/A	N/A

Source: Company Information and Progressive Equity Research estimates.

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Reducing estimates

Thruvision's order backlog currently stands at £1m, expected to be recognised in Q3, and management expects that 'second half revenue will exceed that of the first half'. However, given the disappointing outcome from the CBP, we downgrade FY24E revenue by 40% to £8.1m. We reduce our estimate of EBITDA-breakeven to a £2.5m loss, given increased overheads to support anticipated growth. We forecast net cash to remain flat year on year at £2.8m. The previous CBP order increased working capital outflow, which will unwind. Thruvision has agreed an overdraft facility with HSBC of £0.25m.

Thruvision – Estimate changes

£m unless stated	FY24E		Change (%)
	Old	New	
Revenue	13.6	8.1	-40%
Adj EBITDA	0.1	-2.5	N/A
Fully adj PBT	-0.5	-3.2	N/A
Fully adj EPS (p)	-0.2	-2.1	N/A

Source: Progressive Equity Research estimates

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. These orders are usually placed at the end of the US Government fiscal year, ending 30 September, with limited visibility prior to this. Although disappointing that no CBP order was placed in the just-finished US Government fiscal year, we understand that the existing CBP units have been well-received, and we therefore expect that further orders will come through, albeit unlikely until mid-2024.

In September 2022, Thruvision received two CBP orders totalling £8.7m (\$9.7m), however we have chosen not to reduce FY24E estimates by this quantum given the robust performance elsewhere. Thruvision has a diversified revenue base, increased traction internationally and six new customers were secured in H1 24 across different end markets.

Orders in the Customs division are inherently lumpy but the group has been working hard with its customers in the US and with other international customs agencies. Operational demand for the Thruvision product is high, as evidenced by major customer wins in the period, comprising a new Asian customer and a new Central American customs agency.

Management also notes renewed demand from the international Entrance Security market, which is expected to continue. The Thruvision product can process high visitor throughput rates and reliably detect mass-casualty threats such as assault rifles and person-borne bomb vests.

Although the economic situation has become more challenging for retailers, demand for detection is robust as employee theft continues to be a growing issue in the industry. The rate of customer acquisition for Thruvision has been strong, with its blue-chip clients upgrading software and hardware, plus growing traction among some of the largest global third-party logistics players. In the period, Thruvision onboarded GXO, a global logistics company, and TD Synnex, a global technology provider.

Financial Summary: Thruvision

Year end: March (£m unless shown)

	2021	2022	2023	2024E
PROFIT & LOSS				
Revenue	6.7	8.4	12.4	8.1
Adj EBITDA	(1.6)	(1.7)	(0.2)	(2.5)
Adj EBIT	(2.1)	(2.3)	(0.9)	(3.2)
Reported PBT	(2.5)	(1.7)	(0.8)	(3.0)
Fully Adj PBT	(2.4)	(2.3)	(0.8)	(3.2)
NOPAT	(1.8)	(2.0)	(0.7)	(3.0)
Reported EPS (p)	(1.7)	(1.1)	(0.5)	(2.1)
Fully Adj EPS (p)	(1.7)	(1.1)	(0.5)	(2.1)
Dividend per share (p)	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET				
Operating cash flow	(0.6)	(1.6)	(2.5)	0.5
Free Cash flow	(1.0)	(2.3)	(2.6)	(0.1)
FCF per share (p)	(0.7)	(1.6)	(1.8)	(0.1)
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)	(0.1)
Overdrafts / borrowings	0.0	0.0	0.0	0.0
Cash & equivalents	7.3	5.4	2.8	2.7
Net (Debt)/Cash	7.3	5.4	2.8	2.7
NAV AND RETURNS				
Net asset value	11.3	9.4	8.8	5.8
NAV/share (p)	7.8	6.5	6.0	3.9
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	7.3
Post-tax ROE (%)	(18.9%)	(16.8%)	(8.8%)	(41.7%)
METRICS				
Revenue growth	(16.3%)	24.8%	48.5%	(34.6%)
Adj EBITDA growth	45.0%	9.5%	(87.1%)	1063.4%
Adj EBIT growth	36.1%	9.2%	(60.4%)	254.6%
Adj PBT growth	98.8%	(5.9%)	(62.4%)	279.1%
Adj EPS growth	128.0%	(33.3%)	(52.0%)	277.7%
Dividend growth	N/A	N/A	N/A	N/A
Adj EBIT margins	(30.9%)	(27.0%)	(7.2%)	(39.1%)
VALUATION				
EV/Sales (x)	6.0	4.8	3.3	5.0
EV/EBITDA (x)	-26.0	-23.8	-184.3	-15.6
EV/NOPAT (x)	-22.4	-19.9	-56.1	-13.2
PER (x)	N/A	N/A	N/A	N/A
Dividend yield	N/A	N/A	N/A	N/A
FCF yield	(2.4%)	(5.4%)	(6.1%)	(0.3%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

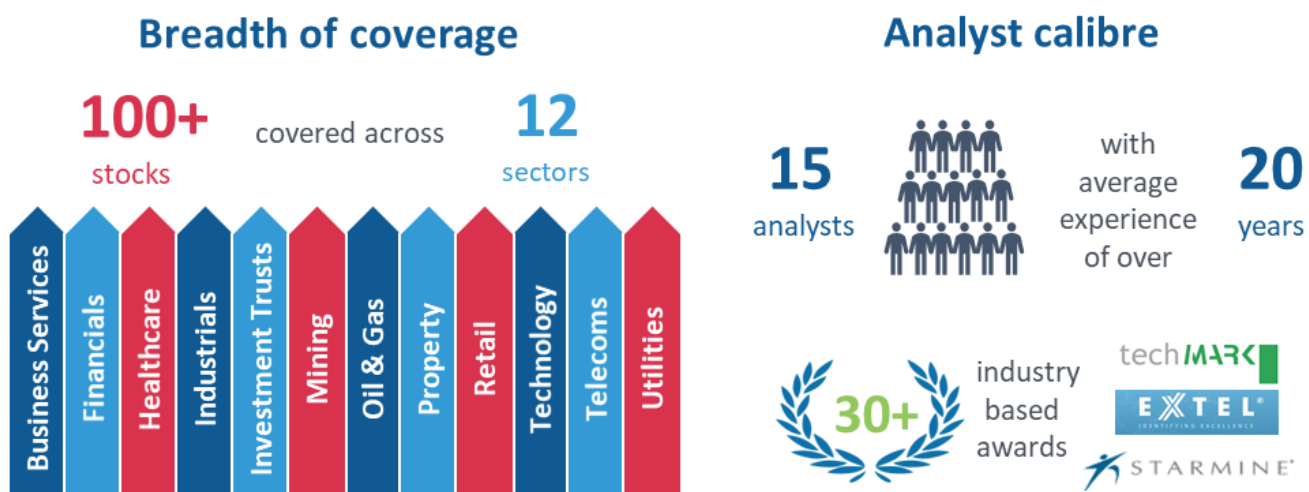
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