THRUVISION
TECHNOLOGY

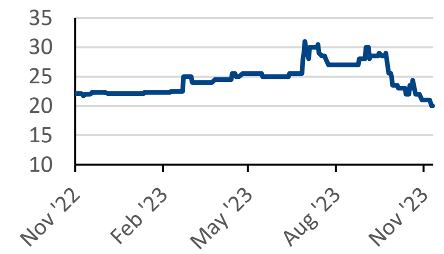
20 November 2023

THRU.L

20p

Market Cap: £32.2m

SHARE PRICE (p)



12m high/low	31p/20p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£4.2m *(at 16/11/23)*
Enterprise value	£28m
Index/market	AIM
Next news	Prelims, June
Shares in issue (m)	161.0
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

THRUVISION IS A RESEARCH CLIENT OF PROGRESSIVE

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Resilient H1 24 with many opportunities ahead

Thruvision has delivered 28% revenue growth for the H1 trading period (to 30 September 2023). Its diversified business model, with a broad customer base in a number of international markets, is helping to offset the lack of a US Customs and Border Protection (CBP) order in this US Government fiscal year, which we view as a timing issue. International government activity has increased, including initial orders from two new customs agencies, and a renewed focus on entrance security has generated a marked pick-up in revenue. Despite the difficult retail trading backdrop, Retail Distribution has delivered a resilient performance, continuing to add clients. We welcome the recent report by Retail Economics highlighting the scale of theft in the UK retail market (see our note). We see this as a significant driver of demand for the Thruvision product, which is gaining traction with a growing number of leading retailers and global 3PLs.

- **Financial highlights.** Revenue in H1 24 increased 28% to £3.5m (H1 23: £2.8m). The adjusted EBITDA loss improved 11% to £1.4m (H1 23: loss of £1.6m), despite an uplift in costs as the business invests for growth. Net cash at 30 September was £2.4m (31 March 2023: £2.8m), with a decrease in trade receivables reflecting the receipt of the outstanding CBP balances. Post period the balance sheet has been strengthened by the recent £3.2m fundraise (see our note), with Pentland Capital, owner of numerous consumer brands, increasing its strategic stake to 10% post raise. In our view, this serves as a clear validation of Thruvision's business model.
- **Retail Distribution a huge opportunity.** The group added new customers during H1 24 including GXO, the global logistics provider, and TD Synnex, a global technology provider. Although adoption by new clients can take time, with initial orders often small, once embedded into a client's infrastructure the Thruvision solution delivers a fast payback and becomes inherently 'sticky' within the organisation.
- **Customs revenue grew 16%**, driven by a major contract win with a new Asian customer. While we do not expect any CBP orders to flow through in FY24, we understand that CBP remains committed to procuring 100 passive body scanners per annum, with over 100 Thruvision high-performance cameras already successfully deployed.
- **Maintaining estimates for FY24.** We downgraded revenue at the October trading update to £8.1m (from £13.6m) due to the CBP setback and cut EBITDA to a £2.5m loss (from breakeven). Thruvision's order backlog currently stands at £1m, with FY24 expected to be second-half weighted.

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	-1.9
EV/Sales (x)	4.2x	3.3x	2.3x	3.4x
EV/EBITDA (x)	-18.1x	-16.5x	-127.9x	-11.0x
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.

H1 24 highlights

The group's proven track record in a number of international markets has led to a robust performance in H1 24, despite the CBP setback in September. Growth has been driven both by adding new customers and from existing customers extending and upgrading.

Total revenue increased 28% to £3.5m (H1 23: £2.8m), resulting in adjusted EBITDA loss of £1.4m (H1 23: loss of £1.6m).

Overall, the adjusted gross margin was up 5.0pp to 53.9% (production overheads are excluded) and statutory gross margin grew 5.9pp to 45.7%.

Net cash at 30 September was £2.4m (31 March 2023: £2.8m). Trade and other receivables decreased by £1.5m, principally driven by cash received from CBP of £2.7m.

In late October, Thruvision raised £3.2m gross, at 23.5p per share. This included a £2.5m strategic investment from Pentland Capital, part of the Pentland Group, which owns leading sports brands such as Speedo, Berghaus, Canterbury, Ellesse and Mitre, as well as being the majority shareholder in JD Sports, a long-term customer and early adopter of the Thruvision technology. Existing shareholder Canaccord Genuity Wealth Management invested a further £0.5m. In our view, the strategic investment by Pentland serves as a clear validation of Thruvision's business model, as well as bolstering its financial flexibility. The net proceeds of the placing will be used for continued investment in sales and marketing, and delivering key new software functionality.

Cost control was strong despite investment for growth. Overheads increased 13% to £3.0m (H1 23: £2.7m) cycling a £0.2m foreign exchange gain in the prior period, and this was lower as a percentage of revenue, at 86% (H1 23: 98%). Administrative expenses (including bonuses) increased 6% to £3.2m.

Thruvision – Key performance metrics, H1 24 vs H1 23

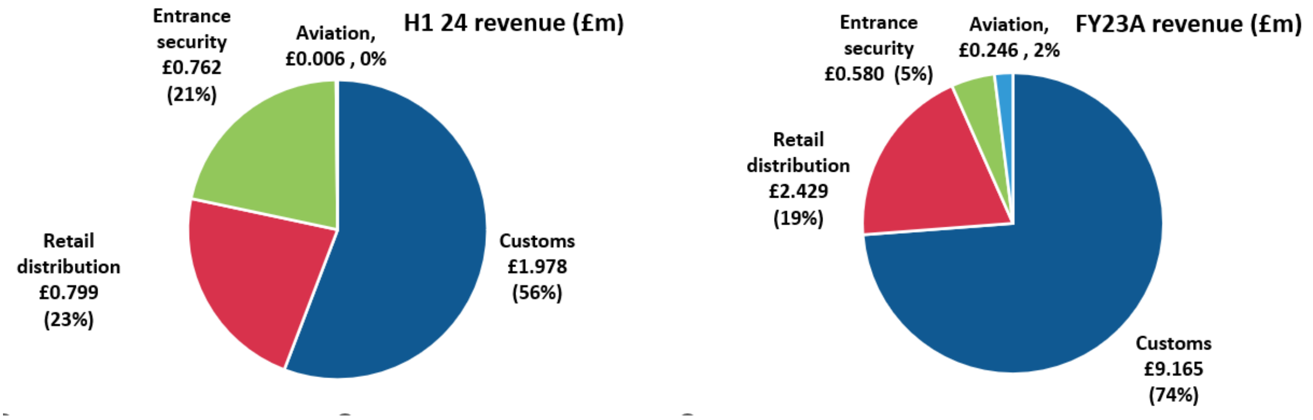
	H1 24 (£m)	H1 23 (£m)
Revenue	3.5	2.8
Adjusted gross profit	1.9	1.4
Adjusted gross margin	53.9%	48.9%
Overheads	3.0	2.7
Adjusted EBITDA loss	1.4	1.6
Adjusted loss before tax	1.6	1.8

Source: Company information, Progressive Equity Research

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. We understand that seven walk-through lanes were purchased in H1 24, with customers clearly demonstrating that they are willing to upgrade for extra functionality.

Segmental performance

Divisional revenue split



Source: Company information, Progressive Equity Research estimates

Retail Distribution

Retail Distribution performed well against a difficult trading backdrop for retailers. Overall revenue was down to £0.8m (H1 23: £1.0m) but this included a mix of existing business and new customer wins. It is worth noting that in FY23 management highlighted that over half of revenue was from additional systems or upgrades by existing customers that have proved the returns from deploying the Thruvision product. We understand 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.

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.

Earlier this month, Thruvision and Retail Economics published a report forecasting that theft would cost UK retailers c.£7.9 bn in 2023, with employee theft from distributions centres (DCs) representing approximately £1.4bn of this total (see our note *Market forecasts highlight scale of opportunity*, 13 November 2023)

Management estimates there are over 20,000 DCs 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.

International Customs Agencies

The International Customs Agencies business segment grew revenue 16% to £2.0m (H1 23: £1.7m), with several of the delayed customs opportunities progressing. First-half performance was underpinned by a major contract win with a new Asian customer and another from a new Central American customs agency.

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. We believe that the Customs division is well placed with a diversified revenue base and increased traction internationally, including two new clients secured in H1 24.

Although it was 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. We therefore expect that further orders will come through, albeit unlikely until later in 2024. In early 2022, CBP made public its intention 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 previous US Government fiscal year was $14m, indicating the scale of the opportunity.

Entrance Security

Entrance security has seen renewed interest given the global political unrest and new sales activity in prisons, critical national infrastructure sites, natural resources and high-security buildings. Revenue increased significantly in H1 24 to £762k, vs £35k in H1 23 and £580k in FY23.

The Thruvision product can process high visitor throughput rates and reliably detect mass-casualty threats such as assault rifles and person-borne bomb vests. New customers were secured in Africa and Asia, with a further order flow from an existing Middle East customer. Given broadening demand for the product, Thruvision has increased its sales effort in this area.

Aviation and other

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, with a formal change in US Government policy in progress requiring US airports to upgrade security screening for staff that work airside. Thruvision is well-placed to provide approved technology to meet these new requirements, having gained operational experience over the past four years developing a policy-compliant system for Seattle Tacoma International Airport.

Maintaining FY24 estimates

Thruvision's order backlog currently stands at £1m, expected to be recognised in Q3, and management anticipates that 'second half revenue will exceed that of the first half'. We note that first-half revenue of £3.5m and the £1m order backlog gives a total of £4.5m, which already exceeds the non-CBP revenue for FY23 of £4.15m. This highlights the growth across the business and the strength of the group's diversified business model.

We have chosen to hold fire on introducing FY25 estimates at this stage. 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 will revisit estimates once we have more visibility as the year progresses.

Financial Summary: Thruvision

Year end: March (£m unless shown)

PROFIT & LOSS	**2021**	**2022**	**2023**	**2024E**
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)	(1.9)
Fully Adj EPS (p)	(1.7)	(1.1)	(0.5)	(1.9)
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)	0.5
Free Cash flow	(1.0)	(1.8)	(2.6)	(0.1)
FCF per share (p)	(0.7)	(1.2)	(1.7)	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	3.0
Net cash flow	(1.1)	(1.8)	(2.7)	2.9
Overdrafts / borrowings	0.0	0.0	0.0	0.0
Cash & equivalents	7.3	5.4	2.8	5.8
Net (Debt)/Cash	7.3	5.4	2.8	5.8
NAV AND RETURNS	**2021**	**2022**	**2023**	**2024E**
Net asset value	11.3	9.4	8.8	8.8
NAV/share (p)	7.8	6.5	5.8	5.5
Net Tangible Asset Value	1.1	1.2	1.2	1.2
NTAV/share (p)	0.8	0.8	0.8	0.7
Average equity	12.3	10.4	9.1	8.8
Post-tax ROE (%)	(18.9%)	(16.8%)	(8.8%)	(33.8%)
METRICS	**2021**	**2022**	**2023**	**2024E**
Revenue growth	(16.3%)	24.8%	48.5%	(34.6%)
Adj EBITDA growth	45.0%	9.5%	(87.1%)	1063.3%
Adj EBIT growth	36.1%	9.2%	(60.4%)	254.5%
Adj PBT growth	98.8%	(5.9%)	(62.4%)	272.1%
Adj EPS growth	128.0%	(33.3%)	(53.8%)	252.6%
Dividend growth	N/A	N/A	N/A	N/A
Adj EBIT margins	(30.9%)	(27.0%)	(7.2%)	(39.0%)
VALUATION	**2021**	**2022**	**2023**	**2024E**
EV/Sales (x)	4.2	3.3	2.3	3.4
EV/EBITDA (x)	-18.1	-16.5	-127.9	-11.0
EV/NOPAT (x)	-15.5	-13.8	-38.9	-9.3
PER (x)	N/A	N/A	N/A	N/A
Dividend yield	N/A	N/A	N/A	N/A
FCF yield	(3.5%)	(6.2%)	(8.5%)	(0.2%)

Source: Company information and Progressive Equity Research estimates

Progressive Equity Research

20 November 2023

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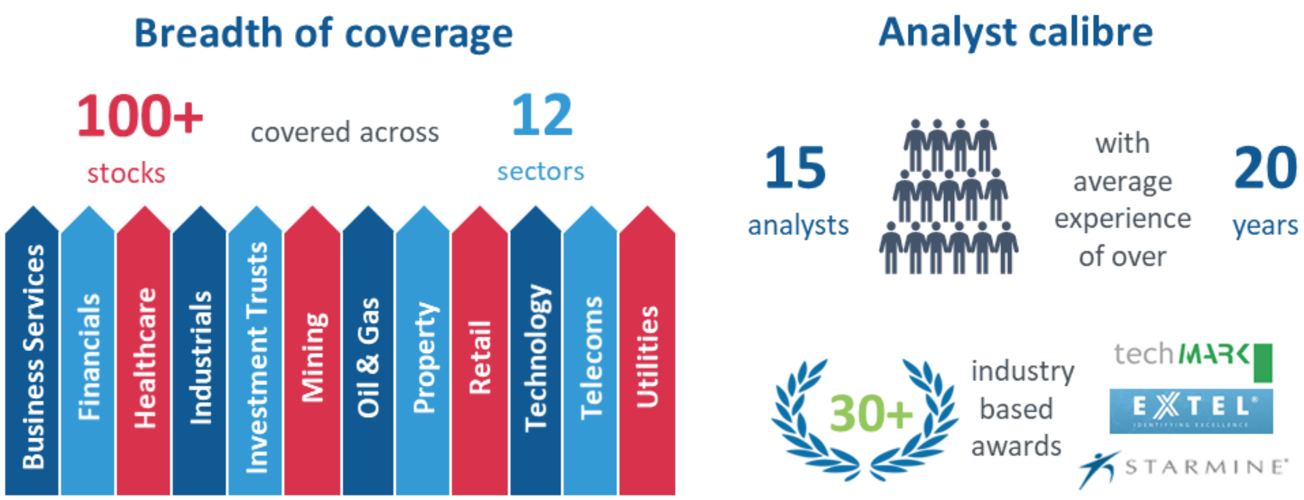

To arrange a meeting with the management team, or for further information about Progressive, please contact us at:
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