Date	Theme	Sector
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WILSONS

Company

Mach7 Technologies (M7T)

Recommendation	OVERWEIGHT
12-mth target price (AUD)	$1.15

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Q124: First look

Announcement Highlights

Mach7 provided a Q124 update today. As expected from recently announced deals, the company reported $33.5M in total sales orders for the quarter, importantly representing 70% of their FY24 target sales orders of $48M. It is becoming increasingly clear that both new and renewal customers are opting for a subscription-based license model, rather than a capital model, which bodes well for Mach7 in the long-term (reaching ARR covering 100% of their opex sooner), however, as we have pointed out, creates uncertainty in hitting their revenue target in the near-term. Management appear confident in FY24 sales pipeline, already supported by a >30% uplift in ARR in 12 months' time (CARR reported at $25.5M).

Wilsons' View

Initial analysis

Q124 summary. Mach7 recorded $33.5M in sales order during Q124 which included the announced contract wins with Veteran's Affairs National Teleradiology Program (NTP) - $11.7M and Diagnostic Imaging Associates (DIA) - $3.7M, in additional to their contract renewal with Hospital Authority Hong Kong - $15.3M. The delta of $2.8M is likely new immaterial contract as well as existing customer renewal and overage (add-ons/expansions), which were not announced. Mach7's reported ARR run rate of $18.4M and CARR of $25.5M (ARR in ~12 months' time). Our FY24 AR of $24.3M is likely ahead of Mach7's expectations, given contributions from recent wins are unlikely to fall this side of FY24. Despite Q1 historically being Mach7's weakest quarter (due to timing of cash receipts), the company generated positive OCF of $0.4M, (likely helped by recognising the delay $2.5M payment from 4Q23).

Deal type and size across FY24. Mach7 confirmed the trend of new and renewal customers increasingly preferencing subscription contracts (vs capital contracts). This is despite the fact that historically, renewal customers would almost always re-sign in accordance to the original contract (i.e. would resign a capital contract again). This has two flow-on effects for Mach7: a) hitting revenue guidance in FY24e becomes precedented on them still attaining sizeable capital contracts, which is less likely and; b) Mach7's ability to attain their target of ARR covering 100% of opex shifts forward (WILSe forecast this case by FY26 end), importantly allowing faster operating leverage to pull through. Mach7 did confirm that there are large deals within the pipeline that are not included in internal forecasts, that if included, would materially alter the target $48M sales orders in FY24.

Veteran's Affairs (VA) contract update. Mach7 confirmed that Phase I of their VA National Teleradiology Program (NTP) contract is well under way, with target completion in June 2024. We acknowledge that whilst a successful deployment of Phase I forms the basis of them attaining the Phase II contract, Mach7's conversations with VISNs (VA hospitals) involved in the Phase II contract have already begun, and these contracts could be 'activated' prior to first productive use (FPU) of the Phase I. This is important given the outcome of the Phase II VA contract (worth $48M in total) may be revealed <12 months. Nevertheless, the timing of this is still not clear.

Guidance. The company maintained FY24e revenue growth of 15-25% and sales order guidance of $48M. We note that the company have already secured 70% of this target signalling the opportunity for sales order 'upgrades' across the remainder of the year. The company also maintained opex growth of 10-15% in FY24e. We note that Q2 is typically weaker from a cashflow perspective (due to higher marketing expenses regarding RSNA).

Earnings implications

Forecasts under review, particularly given the increased likelihood of subscription contracts in FY24.

Investment view

Our last published PT for Mach7 was $1.15/sh with an OVERWEIGHT rating.

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