Canaccord Genuity

Australian Equity Research

26 October 2023

Company Update

Acusensus Ltd

Enterprise Software

Rating	Price Target
BUY *unchanged*	**A$1.10** *unchanged*
ACE-ASX	Price **A$0.72**

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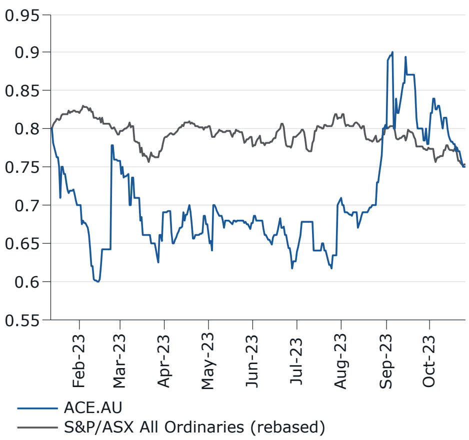
Sales pipeline justifies doubling of units in-field during CY24

Market Data

52-Week Range (A$) :	0.60 - 0.90
Avg Daily Vol (M) :	0.2
Market Cap (A$M) :	90.2
Shares Out. (M) :	126.1
Enterprise Value (A$M) :	65.4
Cash (A$M) :	24.8
Long-Term Debt (A$) :	0.0

FYE Jul	2023A	2024E	2025E	2026E
Sales (A$M)	42.0	49.2	57.8	66.2
EBITDA (A$M)	6.0	5.1	6.0	6.4
EBIT (A$M)	1.3	0.7	1.7	2.1
Net Debt (Cash) (A$M)	(25)	(24)	(25)	(25)
EV/Sales (x)	1.6	1.3	1.1	1.0



Source: FactSet

Priced as of close of business 25 October 2023

- ACE release a strong 1Q24 with **revenues increasing to +$12.1m** (pcp $9.9m, +22% revg) and is run-rating close to our FY24 forecasts of $49m (FY23: $42m, FY22: $29m). ACE revenues are long duration and recurring in nature and therefore largely immune to economic cycles, in our view. We believe ongoing contract momentum in both domestic and international markets presents upside risk to our forward growth estimates. Key highlights during 1Q24 include: i) **Australia** - expansion of QLD contract by +$10m over five years (+50% increase in contract size); ii) **North America** - commenced contract discussions with four potential states in addition to North Carolina (up from three, initial contract size US$1m for one year); iii) **United Kingdom -** delivered three trailers in July 2023 that are fully utilised for FY24 with *"further enforcement trailers anticipated"* in future periods; iv) **Western Europe** (CGe Netherlands) expects the outcome of a six-year tender in 2H24 with revenues commencing in FY25 (CGe initial trailers ~30x; ~$10m p.a. rev, ~>50% incremental gp margins).
- ACE continues to expand its product offering with its Guardian roadworker protection product commencing real-world testing with a paid pilot to begin in 2H23, with product release in FY25. ACE's product portfolio has expanded and includes detection of illegal mobile phone use, seatbelt non-compliance, speeding (incl. point-to-point), automatic number plate recognition, tailgating, and roadworker protection.
- The company was **FCF positive during 1Q24 (+$0.5m)** aided by a positive working capital swing with **$25m net cash** providing ample capital to scale its operations in various geographies.
- **What does ACE look like in 12 months' time?** Over the past two years, ACE has invested in globalising its products across its major potential markets (pilot programs in 10 countries). We expect major contracts to be secured in its key markets in the coming year which will likely drive an acceleration in revenue and earnings growth in FY25-27. Observing ACE's expanded sales pipeline, we see the potential for the company to double the number of trailers/units in field over the coming 12 months (i.e. from 36 to >70, >$15m rev. at >50% gp margins).
- We believe the inherent operating leverage is large given the recurring nature of its contracts and elevated gross profit margins (CGe >50% on mobile enforcement) on a relatively fixed cost base (CGe FY23 $17m p.a.). **ACE trades on an undemanding EV of $65m** which in our view materially underrates its unique technology, global opportunity, and operating leverage to growth We have a BUY recommendation and $1.10. No change to our forecasts.

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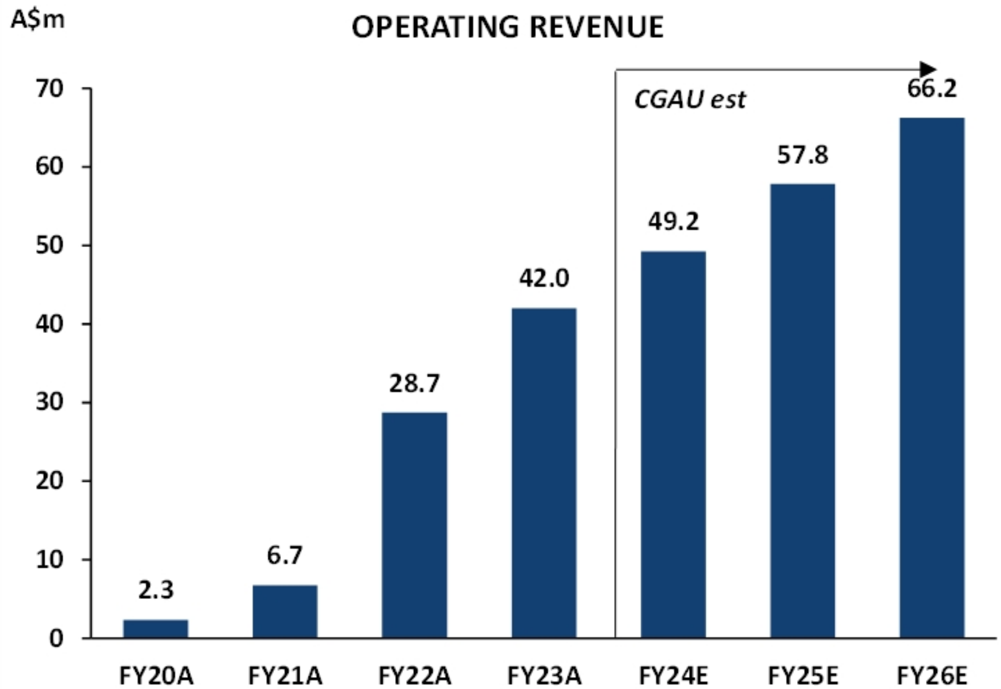


Source: Company reports, Canaccord Genuity estimates

Figure 1: Acusensus (ACE-AU): Financial summary

Acusensus (ACE)

Target Price $ 1.10
Share Price $ 0.72

Profit & Loss ($m)	2022A	2023A	2024E	2025E	2026E
Sales Revenue	**28.7**	**42.0**	**49.2**	**57.8**	**66.2**
COGS	-16.2	-23.3	-27.1	-31.8	-36.4
Gross profit	**12.6**	**18.7**	**22.1**	**26.0**	**29.8**
Opex	-8.9	-12.7	-17.1	-20.0	-23.4
EBITDA	**3.7**	**6.0**	**5.1**	**6.0**	**6.4**
D & A	-2.0	-3.2	-2.9	-2.9	-2.9
Leases	-1.2	-1.5	-1.5	-1.5	-1.5
EBIT	**0.5**	**1.3**	**0.7**	**1.7**	**2.1**
Net Interest Expense	0.0	-0.1	0.0	0.0	0.0
NPBT	**0.5**	**1.2**	**0.7**	**1.7**	**2.1**
Tax expense	0.0	-0.5	0.0	0.0	0.0
NPAT (Normalised)	**0.5**	**0.7**	**0.7**	**1.7**	**2.1**
Significant items	0.0	-0.6	0.0	0.0	0.0
NPAT (Reported)	**0.5**	**0.1**	**0.7**	**1.7**	**2.1**
Gross profit margin (%)	*43.7%*	*44.5%*	*45.0%*	*45.0%*	*45.0%*
EBITDA Margin (%)	*12.8%*	*14.2%*	*10.3%*	*10.5%*	*9.7%*
EBIT Margin (%)	*1.8%*	*3.0%*	*1.5%*	*2.9%*	*3.2%*
NPAT Margin (%)	*1.6%*	*1.6%*	*1.5%*	*2.9%*	*3.2%*

Cash Flow ($m)	2022A	2023A	2024E	2025E	2026E
Operating EBITDA	**3.7**	**6.0**	**5.1**	**6.0**	**6.4**
- Interest & Tax Paid	0.0	0.0	0.0	0.0	0.0
+/- change in Work. Cap.	1.3	-1.7	-0.2	-0.5	-0.4
- other	0.0	0.0	0.0	0.0	0.0
Operating Cashflow	**5.0**	**4.2**	**4.9**	**5.5**	**6.0**
- Capex	-6.8	-4.0	-3.0	-3.0	-3.0
- Intangiables	-0.4	-1.4	-1.0	-1.0	-1.0
- other	-1.2	-1.3	-1.3	-1.3	-1.3
Free Cashflow	**-3.4**	**-2.4**	**-0.4**	**0.2**	**0.7**
- Ord Dividends	0.0	0.0	0.0	0.0	0.0
- Equity /other	0.0	18.6	0.0	0.0	0.0
Net Cashflow	**-3.4**	**16.2**	**-0.4**	**0.2**	**0.7**
Cash at beginning of period	12.3	8.6	24.8	24.4	24.6
+/- borrowings / other	-0.3	0.0	0.0	0.0	0.0
Cash at end of period	**8.6**	**24.8**	**24.4**	**24.6**	**25.4**

Balance Sheet	2022A	2023A	2024E	2025E	2026E
Cash	8.6	24.8	24.4	24.6	25.4
Debtors	3.6	8.6	10.1	11.8	13.6
PPE	8.2	9.2	10.3	11.4	12.5
Intangibles	0.6	1.5	1.5	1.5	1.5
Other assets	5.2	4.3	4.2	4.0	3.8
Total Assets	**26.2**	**48.4**	**50.5**	**53.4**	**56.8**
Borrowings	0.0	0.0	0.0	0.0	0.0
Trade Creditors	5.9	5.8	7.1	8.4	9.7
Deffered Consideration	1.4	4.5	4.5	4.5	4.5
Other Liabilities	3.5	6.7	6.7	6.7	6.7
Total Liabilities	**9.4**	**12.5**	**13.9**	**15.1**	**16.4**
NET ASSETS	**16.8**	**35.9**	**36.6**	**38.3**	**40.4**

Valuation ratios	2022A	2023A	2024E	2025E	2026E
EPS (cps)		0.5	0.5	1.3	1.6
EPS Growth (%)	*nmf*	*nmf*	*nmf*	*nmf*	*nmf*
P/E (x)	nmf	142.1	132.5	56.3	45.6
Enterprise Value ($m)	90.2	65.4	65.8	65.6	64.8
EV/Revenue	3.1	1.6	1.3	1.1	1.0
EV/Gross profit	7.2	3.5	3.0	2.5	2.2
EV / EBITDA (x)	24.4	11.0	13.0	10.8	10.1
EV / EBIT (x)	177.9	51.3	91.4	38.7	31.0
FCFPS - excl acq. (cps)		-0.8	0.5	1.0	1.4
P / FCFPS (x)		-88.8	146.2	73.4	52.3

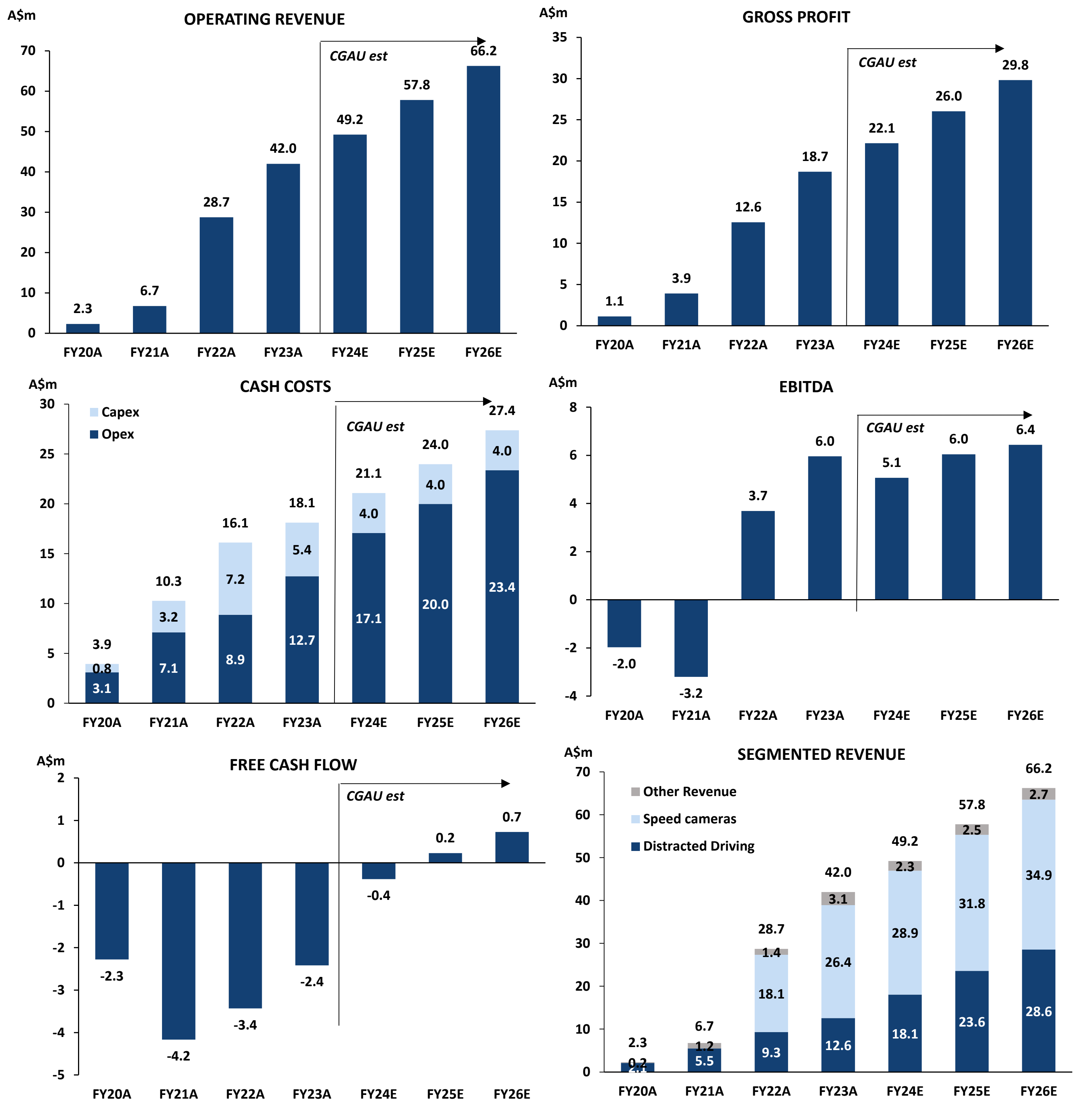
Dupont Analysis	2022A	2023A	2024E	2025E	2026E
Net Profit Margin	1.6%	1.6%	1.5%	2.9%	3.2%
Asset Turnover		0.9	1.0	1.1	1.2
ROA (%)		1.4%	1.4%	3.2%	3.7%
Financial Leverage		1.3	1.4	1.4	1.4
ROE (%)		1.9%	2.0%	4.4%	5.2%

Balance Sheet ratios	2022A	2023A	2024E	2025E	2026E
Net Debt (cash)		-24.8	-24.4	-24.6	-25.4
NTA per share ($)		0.27	0.28	0.29	0.31
Price / NTA (x)		2.6	2.6	2.5	2.3
SOI (m)		126.1	126.1	126.1	126.1

Growth ratios	2022A	2023A	2024E	2025E	2026E
Sales revenue (%)		46%	17%	18%	15%
Gross Profit (%)		49%	18%	18%	15%
Opex (%)		44%	34%	17%	17%
EBITDA (%)		162%	-15%	19%	7%

Source: Company reports, Canaccord Genuity estimates

Figure 2: Key charts



Source: Company reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: October 26, 2023, 00:17 ET

Date and time of production: October 26, 2023, 00:17 ET

Target Price / Valuation Methodology:

Acusensus Ltd - ACE

We value ACE using a DCF methodology ($1.10/share, Ke: 11%, β: 1.4x, ERP 5.5): Our terminal value incorporates a long-term cash EBIT margin of 18% (gross profit margin 50%, G&A 25%, steady-state capex 7%) on our FY28E revenue expectations of $83m (+15% CAGR). We assume a terminal EBIT multiple of 10x which is a slight discount to the broader ASX-listed industrial index accounting for revenue concentration risk.

Risks to achieving Target Price / Valuation:

Acusensus Ltd - ACE

Contract reliance risk

ACE currently has few long-term customer contracts (predominantly Transport for NSW and the Department of Transport and Main Roads QLD) which constitute a large proportion of its revenue. Should these contracts be prematurely terminated, there would be material impact on revenue and earnings.

Government policy

ACE relies on governments to amend legislation around automated enforcement in order to contract, particularly in offshore markets. While this has been successful in NSW, QLD and other jurisdictions, there is no guarantee all jurisdictions will enable automated enforcement. Further, any decisions by governments not to pursue policies in the areas that ACE's technology address would have an adverse effect on its growth prospects, financial position and performance.

Protection of intellectual property

The core competitive advantage for ACE is its patented camera, workflow and image capture. If competitors replicate its IP, there could be ramifications in terms of lost revenue and/or costs if legal action is pursued.

Data privacy risks

ACE handles a large volume of highly sensitive personal data. There is risk this data is mishandled or becomes subject to a cyber-attack. There is also risk the company inadvertently infringes on existing IP or become subject to litigation which could result in legal costs, damages awards and risk to future revenue generating opportunities.

Autonomous vehicle development

Significant investments are being made to develop fully autonomous vehicles. This could potentially impact the addressable opportunity for driver distraction solutions if autonomous vehicles eliminate human error and the need to detect distracted drivers.

Distribution of Ratings:

Global Stock Ratings (as of 10/26/23)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	607	67.00%	23.06%
Hold	118	13.02%	10.17%
Sell	13	1.43%	7.69%
Speculative Buy	158	17.44%	49.37%
	906*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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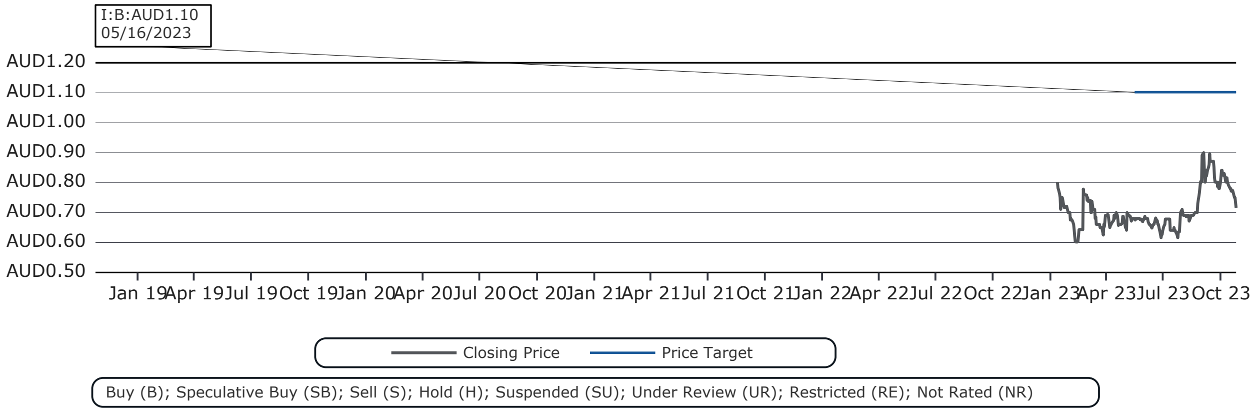

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