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Zacks Small-Cap Research

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VIQ Solutions (VQS-NASDAQ)

VQS: Accretive Acquisitions & Product Rollouts

VIQ recently announced agreements to acquire Auscript Australasia Pty Ltd in Australia and The Transcription Agency (TTA) in the U.K. Both deals are expected to be accretive and strategic in terms of strengthening VIQ's market position and accelerating growth. Following the TTA deal, VIQ introduced NetScribe in the U.K. and Canada; VIQ continues the ongoing roll-out of FirstDraft.

OUTLOOK

The rollout of NetScribe, FirstDraft and other products is expected to accelerate revenue growth and facilitate the company's ability to cross-promote and cross-sell its growing suite of digital products and SaaS model. The rollout of FirstDraft and other products is also expected to shift the product mix towards higher margins. We remain optimistic about the contribution from recent acquisitions and organic growth, as VIQ's customers emerge from the constraints of the pandemic.

Current Price (10/25/21)	$2.66
Valuation	**$10.00**

SUMMARY DATA

52-Week High	**$7.92**
52-Week Low	**$2.37**
One-Year Return (%)	**-34.48**
Beta	**-0.40**
Average Daily Volume (sh)	**176,509**
Shares Outstanding (mil)	**29**
Market Capitalization ($mil)	**$78**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**10%**
Insider Ownership (%)	**24%**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2021 Estimate	**N/A**
P/E using 2022 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**N/A**
Industry	**Technology Services**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	6.4	6.2	6.5	6.1	25.1
2020	7.5A	8.3A	8.2A	7.8A	31.7 A
2021	8.3A	8.2A	7.0E	10.1E	33.6 E
2022					41.8 E

Per Share Data

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	-0.12	-0.17	0.04	-0.25	-0.49
2020	-0.37A	-0.05A	-0.02A	- 0.18A	-0.62A
2021	-0.07A	-0.42A	-0.11E	-0.05E	-0.64E
2022					-0.46E

Quarters might not sum due to rounding & share counts

PF for reverse stock split. Disclosures on page 10

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KEY POINTS

- **Accretive acquisitions** VIQ recently announced agreements to acquire Auscript Australasia Pty Ltd in Australia and The Transcription Agency (TTA) in the U.K. Both deals are expected to be accretive and strategic in terms of accelerating growth.

- **Rolling out NetScribe** VIQ introduced NetScribe in the U.K. and Canada. As demand for digital transcription and documentation services continues to rise, VIQ expects to transition existing TTA customers and prospective customers to the digital platform. In turn, this is also expected to facilitate the company's ability to cross-promote and cross-sell its growing suite of digital products and SaaS model.

- **M&A Pipeline; Funds in-hand** The company recently raised US$18 million, in part, for continued development of its product and service offerings and for M&A. VIQ has other acquisition candidates in the pipeline and another one or more transactions might close over the next several quarters, we believe.

- **Lower 3Q21 Forecast on Continued COVID Uncertainty** We noted in a recent report that some of the revenue we had forecasted for 2H21 were delayed due to COVID; we now lower our 3Q21 revenue forecast to $7.0 million from $8.3 million earlier. We maintain our 4Q21 forecast of $10.1 million.

- **Remain Optimistic About Growth Outlook** We remain optimistic about the contribution from recent acquisitions to revenue and in terms of VIQ's strategic market position. VIQ is also evaluating RFPs and plans to respond to several. VIQ also expects the ongoing roll-out of *FirstDraft* to accelerate revenue growth and shift the product mix towards higher margins.

ACCRETIVE TRANSACTIONS FORM SOLID BASE FOR GROWTH

Strategic M&A expected to enhance resumed organic growth

TTA in the U.K.

VIQ Solutions (VQS-NASDAQ and VQS-TSX) recently announced agreements to acquire the assets of Auscript Australasia Pty Ltd, an Australian court recording and transcription services company with a 100-year operating history, and The Transcription Agency (TTA), a leading U.K. supplier of transcription services. The TTA transaction closed on October 1, 2021, giving the company a solid foundation in the U.K. market, where VQS expects to grow. TTA and VQS share a large U.K. customer and service offerings are complementary.

Following the TTA deal, VIQ introduced NetScribe in the U.K. and Canada. As demand for digital transcription and documentation services continues to rise, VIQ expects to transition existing TTA and prospective customers to the digital platform. In turn, this is also expected to facilitate the company's ability to cross-promote and cross-sell its growing suite of digital products and SaaS model. TTA has qualified for inclusion on the NHS Shared Business Services Group purchasing grid, which is also likely to facilitate VIQ's marketing to prospective customers. Many U.K. law enforcement agencies and insurance providers use this grid. VIQ paid about US$1.7 million for TTA. At the end of 2Q21, VIQ had $12.4 million in cash. The company recently raised US$18 million through a registered direct offering, in part, for continued development of its product and service offerings and for M&A. Both deals were done at multiples that are consistent with those VIQ has historically paid for M&A transactions, according to the company, and are expected to be accretive and strategic in terms of accelerating growth.

Auscript Australasia in Australia & Asia Pacific Region

The Auscript Australasia deal is expected to close in 4Q21. Auscript is expected to enable VIQ to provide exception service and enhance the quality of delivery for all Australian clients with a significant opportunity to leverage technology to improve overall margins and offer innovation to customers and transcriptionists across Australia. The company expects Auscript to accelerate its expansion in Australia and across the Asia Pacific region and enable cross-promotion of its growing product portfolio, as noted.

EXPECT FURTHER COVID DELAYS, FOLLOWED BY ACCELERATING GROWTH

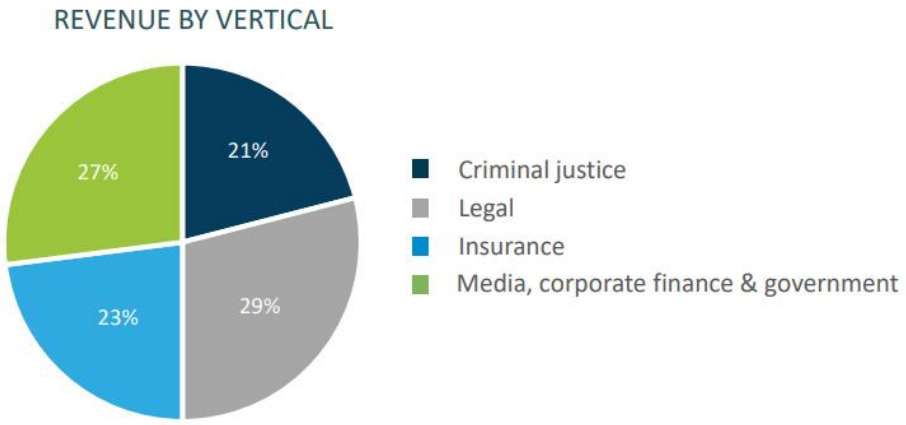
2021 Outlook

COVID-19-related disruptions and shutdowns in VIQ's largest markets -- the U.S., U.K., and Australia -- have caused revenue delays, as courts and law enforcement agencies in Australia have intermittently operated at reduced capacity. We noted in a recent report that we would not be surprised if some of the roughly $18.4 million revenue we had forecast for 2H21 were delayed due to COVID; we now lower our 2H21 forecast, as the company now expects this is likely. For example, the Queensland contract was expected to begin in 3Q21, but has been delayed into 1H22 because of the pandemic.

The company expects revenue of $34 million to $35 million in 2021 and a gross margin of 48% to 50%, with 3Q21 revenue of $7 million to $7.1 million and a gross margin of 48% to 49%. Labor shortages in the U.S. had a negative impact on margins over the past several months; this trend could persist in the near-term. Moreover, given intermittent closures and delays in the company's largest markets, including Australia, VIQ now anticipates that some revenue previously expected in 2H21 likely will be delayed into 2022. We lower our 3Q21 revenue forecast to $7.0 million from $8.3 million earlier. We maintain our 4Q21 forecast of $10.1 million.

We remain optimistic about the contribution from recent acquisitions to revenue and in terms of VIQ's strategic market position. We also note that VIQ expects the ongoing roll-out of *FirstDraft* (see below) to accelerate revenue growth and shift the product mix towards higher margins. VIQ is also evaluating and plans to respond to a growing number of new RFPs (requests for proposals) being generated globally by courts and insurance carriers in its geographic footprint. These verticals currently comprise nearly 75% of total revenue (see below). The media vertical represents about 27%. The pro forma contribution from this vertical could be higher; the company recently announced that VIQ Media has entered into two new contracts with leading global news agencies that are valued at a combined roughly $580,000 and the five-year renewal with its largest media client, which represents annual revenue of about $1.9 million, on average.

Importantly, many of the RFPs are for multiple products in VIQ's product portfolio, including *FirstDraft*. *First Draft* enables faster turnaround of transcripts in advance of editing the transcript. *FirstDraft* converts audio files to text quickly, leveraging the VIQ speech recognition engine, enabling faster turnaround than under prior methods. Although the transcript still needs to be put through editing, the *FirstDraft* transcript allows users to get a written document that they can use quickly. It enables a cost-effective way to digitize large volumes of data.



Source: https://viqsolutions.com/investor presentation

2022 Outlook

The company is optimistic about the outlook for 2022, as customers emerge from the impact of the pandemic and resume full operations, combined with recent and potential acquisitions and organic growth. The company expects 2022 revenue to reach or exceed $50 million, including the Queensland contract, and gross margins in a range of 47% to 55% and adjusted EBITDA margins in a range of 10% to 20%. The company also expects to reach breakeven and positive be free cash flow. Our 2022 forecast is unchanged at this point, pending greater visibility into the medium-term impact of the pandemic on court closures, logistics and other factors exogenous to VIQ, although we believe the company is well-positioned once customers have resumed full operations.

Moreover, in addition to expected organic growth, VIQ continues to identify and evaluate additional prospective M&A candidates to enhance organic growth and potentially expand its global footprint. Growing awareness of the need for digitalized content could also be a catalyst to accelerate the company's expected market share gains within its targeted addressable market. Moreover, with its expanding product portfolio – including *FirstDraft* – the company believes it can also address a greater portion of this market. The U.S. accounted for about 59% of total revenue in 1H21, Australia another 30%, as noted, and Canada and EMEA the remaining 11%. As noted, lockdowns in Australia and the U.K. delayed some revenue VIQ had expected in 2Q21. Certain other segments have experienced a slower recovery than originally anticipated.

MIGRATION TO SAAS MODEL

Positive Takeaways

The company is well-positioned to respond to requests for multiple products and services. For instance, the company's $30 million multiyear contract with Queensland in Australia is for courtroom monitoring and transcription services. This contract underscores the advantages of the VIQ AI technology platform and validates VIQ's business strategy, in our view. VIQ expects to offer customers multi-products / services bundles going forward, in addition to a la carte offerings, which could further enhance revenue growth. The contract has been delayed by the pandemic, as noted.

This is consistent with the company's ongoing migration to a SaaS model. VIQ intends to offer customers bundled service plans tailored to meet an individual customer's needs. At the same time, the company also plans to continue offering a la carte pricing for those customers that find this model more suitable for their needs. Over time, however, we would expect the vast majority of VIQ customers to transition to the

bundled pricing model, as clients will be able to get access to certain features, with overage fees that will also provide upside for VIQ on customers with heavy use above the plan capacity. Other benefits for VIQ of the transition to a SaaS model include that the hybrid SaaS pricing model will generate recurring monthly revenue and create greater visibility and predictability of the monthly fees.

Migration to SaaS Hybrid Pricing Models



Source: https://viqsolutions.com/investors/

VALUATION

Based on our 2022 revenue forecast, VIQ shares trade at a significant discount to peers in the cloud-based technology space. Peers trade at an average multiple of about 6x to 8x. We also point to Nuance Communications, a large player in the technology/ communications solutions space that helped consolidate the medical transcription market through a series of M&A transactions and organic measures much as VIQ is now doing in its core silos.

As a publically traded company, Nuance shares commanded an even higher than industry average multiple of forward revenue basis, according to consensus data. Moreover, Microsoft acquired Nuance at a valuation that implied a roughly 23% premium to where they had been trading prior to the announced offer. We believe this underscores the importance of the sector and also implies a higher valuation for VIQ shares over time.

We expect the multiple gap on VQS shares to narrow further compared to peers, as the company continues to make strides in its organic and acquisition-driven growth strategy. We anticipate multiple expansion. Our valuation of $10 equates to about 6x our 2022E estimated revenue, which is below the group average and does not take into consideration a possible significant M&A transaction in 2021.

We also believe the recent uplisting supports potential for share price multiple expansion. The uplisting of VIQ shares to the Nasdaq (under the ticker VQS) is expected to boost awareness of the company and the company's prospects, as well as expand the pool of potential investors.

RECENT NEWS

- VIQ announced the commercial launch of NetScribe™ across the U.K. and Canada on October 26, 2021.
- VIQ signed or renewed contracts with news outlets on October 21, 2021.
- VIQ announced pending acquisition of Auscript Australasia Pty Ltd on October 12, 2021.
- VIQ announced acquisition of TTA on October 5, 2021.
- VIQ announced the closing of its registered direct offering on September 15, 2021.
- VQS shares began trading on the Nasdaq on August 12, 2021.
- On July 26, 2021, VIQ announced a strategic partnership with Law In Order to drive Asia Pacific growth.
- VIQ announced the hiring of sales leaders to accelerate its growth in the insurance and criminal justice Industries on June 15, 2021.

RISKS

We believe risks include those outlined below, among others.

- The impact of COVID-19 on VIQ's business could last longer than originally anticipated.
- VIQ might not gain market share or wallet share as quickly as it expects.
- The company might not continue migrating customers to the SaaS model as quickly as management anticipates.
- The company could incur unanticipated costs associated with its growth strategy and for marketing to promote its platform.
- Additional M&A transactions that the company anticipates might take longer than expected to close or might not close at all.
- Competition could increase.

PROJECTED INCOME STATEMENT

VIQ Solutions Inc. Income Statement & Projections ($)

	2018	2019A	Mar-20A	Jun-20A	Sep-20A	Dec-20A	2020A	Mar-21A	Jun-21A	Sep-21E	Dec-21E	2021E
Revenue	$11,462,804	$25,096,308	$7,548,204	$8,253,015	$8,172,800	$7,775,674	$31,749,693	$8,254,222	$8,191,812	$7,044,958	$10,113,939	$33,604,931
Cost of sales	7,874,219	14,276,321	4,318,312	3,202,737	3,268,679	4,809,709	15,599,437	4,236,387	4,210,733	3,663,378	5,259,248	17,369,746
Gross profit	3,588,585	10,819,987	3,229,892	5,050,278	4,904,121	2,965,965	16,150,256	4,017,835	3,981,079	3,381,580	4,854,691	16,235,185
Gross margin	31.3%	43.1%	42.8%	61.2%	60.0%	38.1%	50.9%	48.7%	48.6%	48.0%	48.0%	48.3%
Selling & administrative expenses	5,533,724	8,954,512	2,377,154	3,090,612	2,693,818	2,873,318	11,034,902	3,539,110	3,953,046	3,968,858	4,206,990	15,668,004
Research & development expenses	458,675	994,640	252,321	209,537	324,174	288,146	1,074,178	239,663	260,010	261,050	276,713	1,037,436
Stock-based compensation	(31,461)	195,113	47,725	483,253	106,536	87,802	725,316	85,995	6,687,792	100,528	112,591	6,986,906
FX & other	198,180	217,040	(252,249)	(54,651)	21,709	152,885	(132,306)	(95,994)	153,400	(54,296)	(57,554)	(54,444)
Depreciation & amortization	648,873	3,502,429	1,189,092	1,179,129	1,360,535	1,530,487	5,259,243	1,248,363	1,188,115	1,192,867	1,264,440	4,893,785
Total operating expenses	6,994,435	12,295,345	3,614,043	4,907,880	4,506,772	4,932,638	17,961,333	5,017,137	12,242,363	5,448,797	5,823,389	28,531,686
Operating income	(3,405,850)	(1,475,358)	(384,151)	142,398	397,349	(1,966,673)	(1,811,077)	(999,302)	(8,261,284)	(2,067,217)	(968,699)	(12,296,502)
Interest expense	(96,484)	(1,549,904)	(3,695,952)	(375,018)	(371,699)	(491,848)	(4,934,517)	(331,419)	(335,594)	(321,980)	(318,760)	(1,307,754)
Other	(2,552,729)	(1,399,781)	(1,871,826)	(313,080)	(225,986)	(2,932,852)	(5,343,744)	(599,037)	(597,177)	(83,865)	(135,592)	(1,415,671)
Total operating inc / (expenses)	(2,649,213)	(2,949,685)	(5,567,778)	(688,098)	(597,685)	(3,424,700)	(10,278,261)	(930,456)	(932,771)	(405,845)	(454,352)	(2,723,424)
Pretax income	(6,055,063)	(4,425,043)	(5,951,929)	(545,700)	(200,336)	(5,391,373)	(12,089,338)	(1,929,758)	(9,194,055)	(2,473,062)	(1,423,051)	(15,019,926)
Tax	(11,571)	(99,155)	(53,444)	(390,831)	(145,526)	1,533,833	944,032	262,969	(1,304,607)	(346,229)	(207,723)	(1,595,590)
Net inc/ (loss)	(6,066,634)	(4,524,198)	(6,005,373)	(936,531)	(345,862)	(3,857,540)	(11,145,306)	(1,666,789)	(10,498,662)	(2,819,291)	(1,630,773)	(16,615,515)
FX	(95,899)	(262,811)	15,939	(166,265)	(24,485)	230,963	56,152		101,642	22,889	23,347	147,877
Per share data:												
Comprehensive loss	(6,162,533)	(4,787,009)	(5,989,434)	(1,102,796)	(370,347)	(3,626,577)	(11,089,154)	(1,666,789)	(10,397,020)	(2,796,402)	(1,607,427)	(16,467,638)
LPS	($0.04)	($0.49)	($0.37)	($0.05)	($0.02)	($0.18)	($0.62)	($0.07)	($0.42)	($0.11)	($0.05)	($0.64)
Avg shares out	161,816,064	9,251,546	16,278,598	18,364,354	18,494,247	19,184,933	18,080,533	24,467,151	25,029,019	25,734,901	29,264,313	26,123,846

Source: Company reports, Zacks estimates Quarterly LPS/EPS might not sum to annual reflecting differences in share count.

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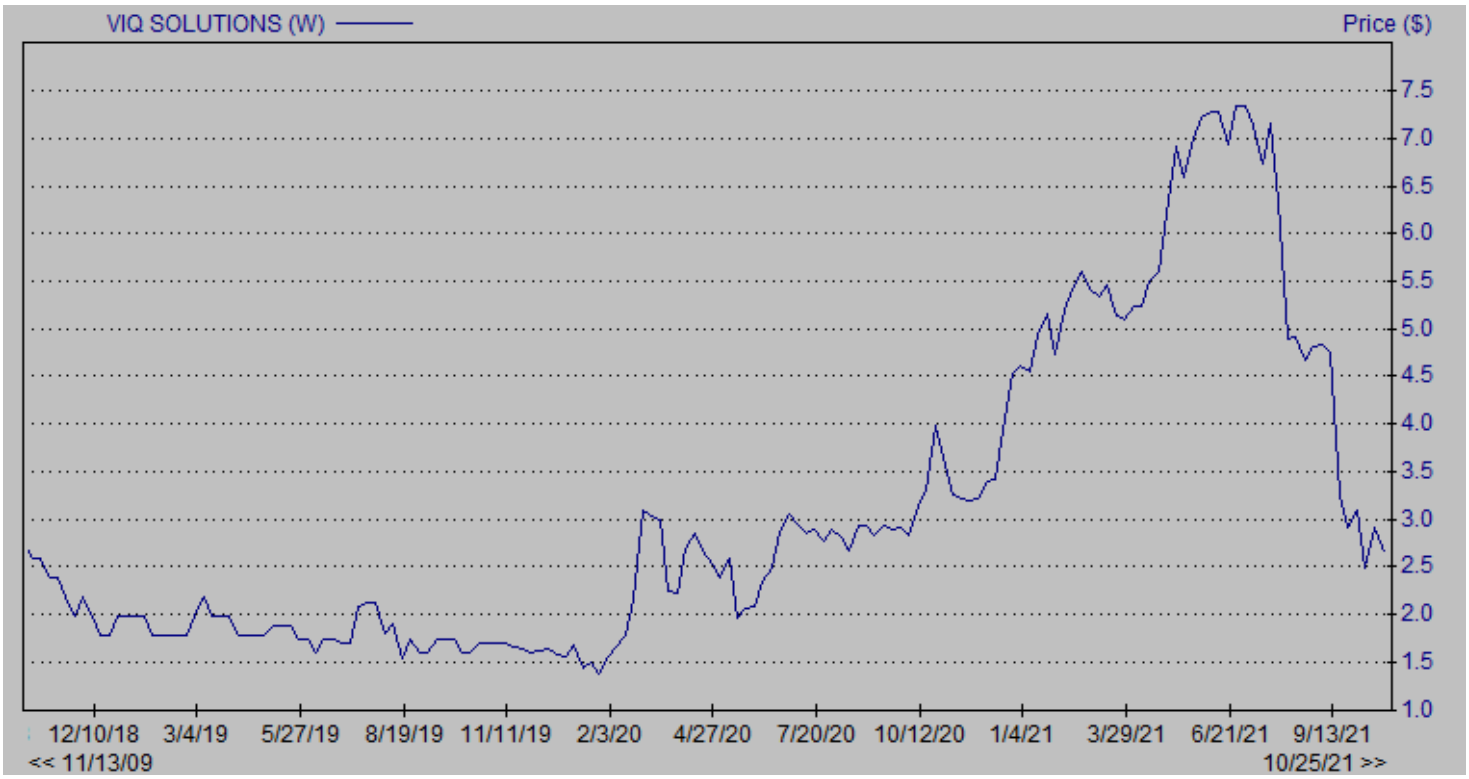
HISTORICAL STOCK PRICE



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