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VIQ Solutions

(VQS-NASDAQ)

VQS: Revenue Growth, Margin Expansion Anticipated

VIQ intends to continue advancing its growth strategy in 2022, including through expanding its suite of product and service offerings and integrating recently acquired operations. Following the two key 2021 M&A transactions, the company expects to consolidate its new units and does not plan to proactively seek prospective M&A candidates. Nevertheless, if VIQ finds an attractive tuck-in opportunity, we would not be surprised to see a smaller transaction, which could imply revenue upside.

Current Price (4/5/22) \$1.60
Valuation \$10.00

OUTLOOK

VIQ expects to reach ~\$50M in annual revenue in 2022, as it integrates Auscript and TTA and with the Queensland courts contract. Importantly, Auscript and TTA are expected to accelerate expansion in their respective regions, while VIQ believes it can leverage Auscript to expand globally, including via cross-promoting its growing suite of products and service offerings. Moreover, as the product mix continues to shift towards FirstDraft, Auscript services and other AI-powered offerings, it is expected to have a positive impact on margins.

SUMMARY DATA

52-Week High \$7.92
52-Week Low \$1.51
One-Year Return (%) -71.00
Beta -0.45
Average Daily Volume (sh) 35,603

Shares Outstanding (mil) 29
Market Capitalization (\$mil) \$46
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 2022 Estimate N/A
P/E using 2023 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	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(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	7.1A	7.5A	31.0 A
2022	10.3E	12.3E	13.5E	14.0E	50.0 E

Per Share Data

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(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	-0.15A	-0.12A	-0.74A
2022	-0.11E	-0.08E	-0.07E	0.04E	-0.21E

Quarters might not sum due to rounding & share counts

Disclosures on page 10

KEY POINTS

- **Consolidating & pursuing growth in 2022...** In 2022, VQS intends to continue advancing its growth strategy, including through expanding its suite of product and service offerings and integrating recently acquired operations. The company expects to reach about \$50 million in annual revenue, as it integrates Auscript and TTA and reflecting the Queensland courts contract.
- **... while growth prospects expand...** The company expects the companies it acquired in 2021 to accelerate expansion in their respective regions and believes that it can also leverage Auscript to expand globally, including via cross-promoting its growing suite of products and service offerings. For instance, VIQ introduced NetScribe in the U.K. and Canada following the TTA deal and continues to rollout FirstDraft.
- **... organically, via recent M&A and through strategic relationships ...** VIQ is expanding its suite of product and service offerings organically, via M&A and through strategic relationships (the partnership with LegalCraft that enables VIQ to offer Lexel in the U.S. is an example). As its offerings grow, the company believes it can address a greater portion of its targeted addressable market.
- **... & positive margin impact expected, as product mix shifts...** Moreover, the ongoing roll-out of FirstDraft, Auscript Australasia services and other AI-powered offerings is expected to accelerate revenue growth and shift the product mix towards higher margins.
- **Although 2022 expected to be a year of consolidation, tuck-in acquisition(s) possible** VIQ has historically leveraged strategic M&A to complement and enhance organic growth. Following the two key acquisitions noted above, the company expects to consolidate its new units and overall organization in 2022 and therefore does not intend to proactively seek prospective M&A candidates. Nevertheless, we would not be surprised to see a smaller transaction *if VQS finds an attractive tuck-in opportunity*.

4Q21 & FULL YEAR 2021 HIGHLIGHTS

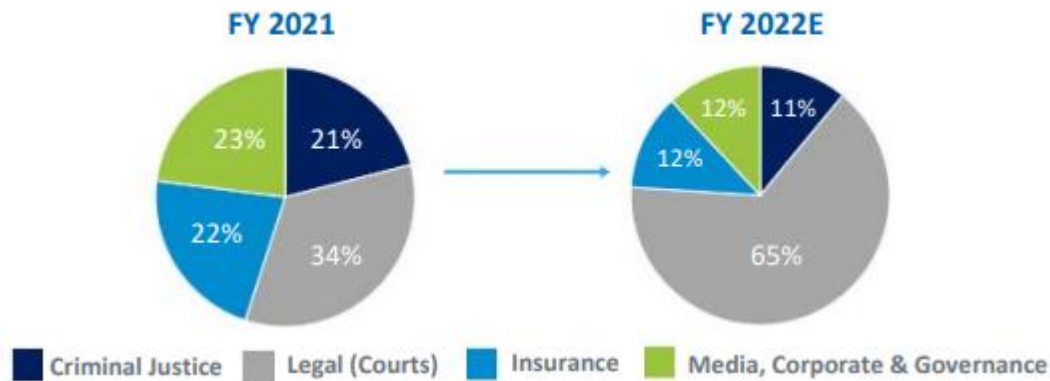
VIQ Solutions (VQS-NASDAQ and VQS-TSX) recently reported total 4Q21 revenue of \$7.5 million, which represented a 3% decline from \$7.8 million in 4Q20. The decline is primarily attributable to revenue delays as a result of the pandemic, which resulted in court closures and also caused delays for other VQS clients. The 4Q21 results contributed to full year 2021 revenue of \$31.0 million. On an annual basis, revenue fell 2% year-over-year compared to 2020.

The company registered 4Q21 gross profit of \$3.3 million and a 4Q21 gross margin of 44%. This compares to 38% gross margin in 4Q20. For the year, the gross margin was 48% compared to 51% in 2020. VQS reported a 4Q21 net loss of (\$3.7) million compared to a net loss of (\$3.1) million recognized in 4Q20. The net loss for the full year of 2021 was (\$19.7) million compared to a net loss of (\$11.1) million in 2020. Results in 2021 included non-recurring costs related to M&A and the uplisting of the shares to the Nasdaq, as well as lower COVID-19 subsidies compared to 2020, among other items.

Consolidating & pursuing growth in 2022

In 2022, VQS intends to continue advancing its growth strategy, including through integrating recently acquired operations and expanding its suite of product and service offerings. Towards this goal, VIQ's recent strategic partnership with software development company LegalCraft is expected to help the company consolidate and grow its strategic market position in the legal sector. LegalCraft focuses on technology innovations for the legal sector particularly via its flagship product Lexel, makes VIQ the first LegalCraft strategic partner to offer Lexel in the U.S. Lexel enables law professionals to collaborate securely to prepare cases for trial.

REVENUE BY VERTICAL



Source: VQS [presentation](#)

The company expects to reach about \$50 million or more in annual revenue in 2022. In addition to the revenue base of roughly \$31 million to \$32 million from existing business, the company expects the integration of Auscript and TTA to result in a combined incremental roughly \$14 million of revenue. Moreover, the commencement of the Queensland courts contract is also expected to add about another \$6 million above that.

VQS expects margins to average about 47% to 55% in 2022, on the higher revenue base and ongoing shift in the business mix, as well as improved efficiencies from the AI-capabilities of the platform. We have revised our estimates and note that the \$50 million projected 2022E revenue does not anticipate any possible tuck-in acquisitions. While we expect opEx to grow as the business and revenue base grow and partially reflected general wage inflation that many companies are experiencing, we anticipate operating expense to be lower relative to revenue in 2022.

Revenue shift towards Legal / Courts ...

Lexel could be particularly useful, in our view, as the company expects its revenue mix to shift toward the legal / court sector in 2022. In part, this reflects Auscript and the Queensland courts contract, but this anticipated increase also reflects the resumption of courts activity generally, as the pandemic abates. The sector accounted for about 34% of total revenue in 2021 and is expected to represent about 65% in 2022.

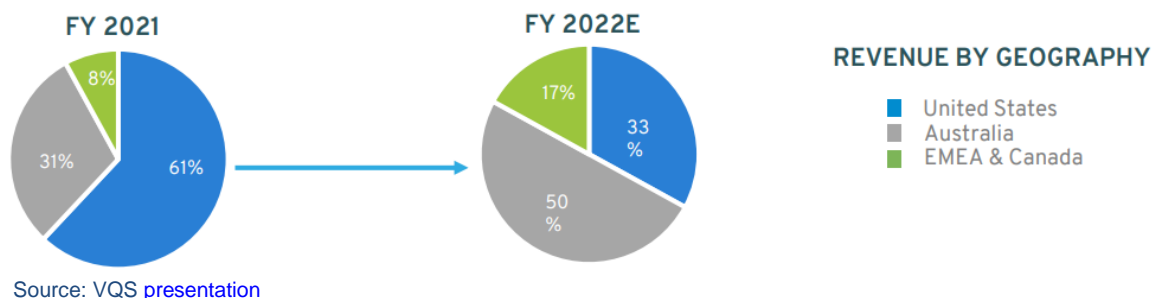
Auscript Australasia Pty Ltd is an Australian court recording and transcription services company with a 100-year operating history VIQ acquired in 2021. Auscript Australasia is expected to enable VIQ to provide exception service and enhance the quality of delivery for all Australian clients, with a significant 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.

The company believes it can also leverage Auscript to expand globally. Moreover, with the addition of more than 2.3 million pages of specialized transcripts and more than 200,000 hours of evidentiary recordings per year, VIQ believes that with Auscript, it is now one of the largest providers of recording and transcription services in the Asia Pacific region. The company also expects to benefit from cross promotional opportunities, including driving FirstDraft and NetScribe™, powered by aiAssist™ adoption in the region.

Revenue from the insurance sector is also expected to grow in 2022, although this growth is somewhat obscured by the expected jump from the legal / court sector reflecting factors noted above. The media vertical contribution might be lower (despite two recent new contracts with leading global news agencies), given the advertising cycle coincident with the U.S. election cycle.

... and towards Australia

Geographic Revenue Breakdown



The Auscript acquisition is also expected to shift the revenue mix within the company's largest markets. In 2021, the U.S. and Australia represented 61% and 31% of total revenue, respectively. With the Auscript acquisition and the recent commencement of the Queensland contract, Australia is expected to contribute about 50% of total 2022 revenue.

... and increasing focus on the U.K...

VIQ recently acquired The Transcription Agency (TTA). According to management, TTA is a leading supplier of secure outsourced transcription services to clients in private and public sectors in the U.K. 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. VQS anticipates the opportunity to cross-sell its growing suite of products and solutions (see below) to government and non-government entities in the U.K. and recently appointed an experienced executive to drive growth in the U.K.

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 also appointed Jayne Perry, an industry veteran with more than 20 years of experience in the court and legal industry, including a prior executive role at Auscript, as Managing Director, United Kingdom and EMEA. She will focus on supporting the integration of TTA and accelerating growth in the U.K. and expanding VIQ's global technology footprint.

Focusing on consolidating operations in 2022

VIQ has historically leveraged strategic M&A to complement and enhance organic growth. Following the two key acquisitions noted above, the company expects to consolidate its new units and overall organization in 2022 and therefore expects its operational focus in 2022 to be on execution of its organic growth initiatives and integration of recent acquisitions and new clients into the AI-enabled system. Although the company does not intend to proactively seek prospective M&A candidates, if VQS finds an attractive tuck-in opportunity, we would not be surprised to see a smaller transaction.

At the end of 4Q21, VIQ had \$10.6 million in cash to advance its strategy. In 2021, the company used funds to finance above-noted strategic M&A. VIQ acquired Auscript for approximately \$7.65 million, paying \$7.5 million at the closing of the transaction (and \$150,000 payable through a seven-month earnout plan). VIQ acquired The Transcription Agency (TTA) for about \$1.7 million. With EBITDA and cash flow expected to improve over 2022, on higher expected revenue and rising gross margins, the company expects its use of cash to be lower and to reach cash flow breakeven / positive as the year progresses.

CROSS-PROMOTIONAL OPPORTUNITIES & ACTIVITIES

Digitalization, cross-promotion & new product launches, among other strategic initiatives

With its expanding offerings portfolio – including *FirstDraft* – the company believes it can address a greater portion of its targeted addressable market. Concurrently, VIQ believes that recent acquisitions also facilitate the potential to introduce and cross-promote new products and services. Moreover, growing awareness of the need for digitalized content could also be a catalyst to accelerate the company’s expected market share gains.

AI-Powered Product Offerings



Source: [VIQ Investor presentation](#)

VIQ expects the ongoing roll-out of *FirstDraft* to accelerate revenue growth and shift the product mix towards higher margins. *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.

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 and believe the recent uplisting is a positive in this regard. 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. Our valuation of \$10 equates to only just over about 5x our 2022E estimated revenue. This multiple is below the group average and our revenue forecast does not take into consideration additional possible M&A tuck-in transactions, as noted.

RECENT NEWS

- The company announced 4Q21 results on March 30, 2022.
- VIQ announced that it was awarded a new U.S. patent on February 08, 2022.
- VIQ announced a strategic partnership with LegalCraft on February 01, 2022.
- On January 04, 2022, VIQ appointed a new managing director to strengthen its U.K. market presence.
- VIQ closed on the Auscript transaction on December 13, 2021.
- 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.

RISKS

We believe risks include those outlined below, among others.

- The impact of COVID-19 on VIQ's business could increase if the number of cases escalate and 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.
- The company's cash burn rate could be higher than management expects and / or it might not reach positive cash generation as quickly.
- VIQ might need to raise capital to support growth initiatives.

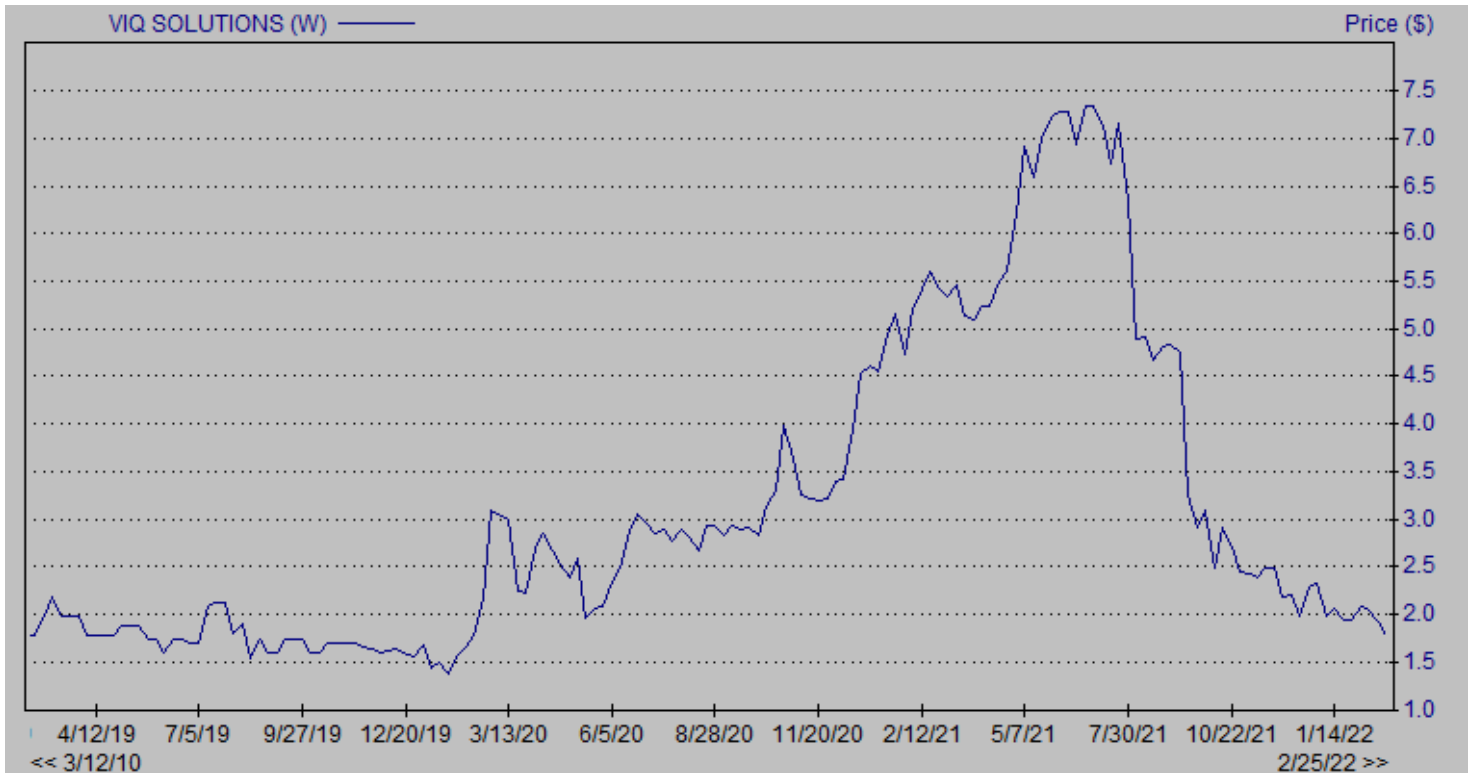
PROJECTED INCOME STATEMENT

VIQ Solutions Inc. Income Statement & Projections (\$)

	2018	2019	2020	Mar-21A	Jun-21A	Sep-21A	Dec-21A	2021A	Mar-22E	Jun-22E	Sep-22E	Dec-22E	2022E
Revenue	\$11,462,804	\$25,096,308	\$31,749,693	\$8,254,222	\$8,191,812	\$7,086,357	\$7,514,421	\$31,046,812	\$10,276,506	\$12,287,718	\$13,464,078	\$14,018,037	\$50,046,340
Cost of sales	7,874,219	14,276,321	15,599,437	4,236,387	4,210,733	3,444,259	4,232,474	16,123,853	5,549,313	6,316,100	7,001,321	7,157,363	26,024,097
Gross profit	3,588,585	10,819,987	16,150,256	4,017,835	3,981,079	3,642,098	3,281,947	14,922,959	4,727,193	5,971,619	6,462,758	6,860,674	24,022,243
Gross margin	31.3%	43.1%	50.9%	48.7%	48.6%	51.4%	43.7%	48.1%	46.0%	48.6%	48.0%	48.9%	48.0%
Selling & administrative expenses	5,533,724	8,954,512	11,034,902	3,539,110	3,953,046	6,516,449	5,111,108	19,119,713	4,544,217	4,542,050	4,996,255	4,941,593	19,024,114
Research & development expenses	458,675	994,640	1,074,178	239,663	260,010	317,546	274,889	1,092,108	298,380	390,015	393,915	397,854	1,480,165
Stock-based compensation	(31,461)	195,113	725,316	85,995	6,687,792	859,119	862,283	8,495,189	800,000	800,000	800,000	800,000	3,200,000
FX & other	198,180	217,040	(132,306)	(95,994)	153,400	(445,978)	(859,948)	(1,248,520)	(119,513)	(121,903)	(124,341)	(126,828)	(492,584)
Depreciation & amortization	648,873	3,502,429	5,259,243	1,248,363	1,188,115	1,034,951	1,170,172	4,641,601	1,385,683	1,366,332	1,241,941	1,144,518	5,138,474
Total operating expenses	6,994,435	12,295,345	17,961,333	5,017,137	12,242,363	8,282,087	6,558,504	32,100,091	6,908,768	6,976,494	7,307,770	7,157,137	28,350,170
Operating income	(3,405,850)	(1,475,358)	(1,811,077)	(999,302)	(8,261,284)	(4,639,989)	(3,276,557)	(17,177,132)	(2,181,575)	(1,004,876)	(845,013)	(296,463)	(4,327,927)
Interest expense	(96,484)	(1,549,904)	(4,934,517)	(331,419)	(335,594)	(329,598)	(334,489)	(1,331,100)	(412,617)	(424,995)	(437,745)	(450,877)	(1,726,234)
Other	(2,552,729)	(1,399,781)	(5,343,744)	(599,037)	(597,177)	(353,062)	1,322,486	(226,790)	(745,801)	(895,766)	(670,818)	2,199,131	(113,254)
Total operating inc / (expenses)	(2,649,213)	(2,949,685)	(10,278,261)	(930,456)	(932,771)	(682,660)	987,997	(1,557,890)	(1,158,418)	(1,320,761)	(1,108,563)	1,748,253	(1,839,488)
Pretax income	(6,055,063)	(4,425,043)	(12,089,338)	(1,929,758)	(9,194,055)	(3,957,329)	(3,653,880)	(18,735,022)	(3,339,993)	(2,325,636)	(1,953,576)	1,451,790	(6,167,414)
Tax	(11,571)	(99,155)	944,032	262,969	(1,304,607)	97,824	87	(943,727)	(200,000)	(200,000)	(200,000)	(200,000)	(800,000)
Net inc/ (loss)	(6,066,634)	(4,524,198)	(11,145,306)	(1,666,789)	(10,498,662)	(3,859,505)	(3,653,793)	(19,678,749)	(3,539,993)	(2,525,636)	(2,153,576)	1,251,790	(6,967,414)
FX	(95,899)	(262,811)	56,152		101,642	(432,533)	484,323	153,432	100,000	100,000	100,000	100,000	400,000
<i>Per share data:</i>													
Comprehensive loss	(6,162,533)	(4,787,009)	(11,089,154)	(1,666,789)	(10,397,020)	(4,292,038)	(3,169,470)	(19,525,317)	(3,439,993)	(2,425,636)	(2,053,576)	1,351,790	(6,567,414)
LPS	(\$0.04)	(\$0.49)	(\$0.62)	(\$0.07)	(\$0.42)	(\$0.15)	(\$0.12)	(\$0.74)	(\$0.11)	(\$0.08)	(\$0.07)	\$0.04	(\$0.21)
Avg shares out	161,816,064	9,251,546	18,080,533	24,467,151	25,029,019	26,359,517	29,938,689	26,448,594	29,938,689	29,939,689	29,940,689	34,292,647	31,027,929

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

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