

Zacks Small-Cap Research

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VIQ Solutions

(VQS-NASDAQ)

VQS: Outlook Strong as Active Client Base Reaches Record Levels, Operations Resume in Key Verticals

VIQ's 2Q22 revenue of \$12.4M advanced 51% y/y, placing the company on track to reach targeted revenue of about \$50M or more in 2022. Importantly in our view, bookings, the number of active VIQ clients (more than 3,400 – reflecting both existing clients and new accounts), production volumes, and annual delivered content all reached record levels in 2Q22. The company's goal is to shift to high margin revenue and SaaS bundled / hybrid solutions.

Current Price (8/23/22) **\$0.88**
Valuation **\$10.00**

OUTLOOK

Although VIQ's focus in 2022 is on consolidating operations and likely will not include a large M&A transaction, small strategic tuck-n acquisitions that strengthen a key target vertical would not surprise us. For example, VIQ's recent acquisition of the Carbon™ technology platform is expected to improve its Media offering. We believe the Media vertical illustrates the growth potential VIQ has, as various industries move towards digital data delivery and archiving. The company entered the space with a 2020 acquisition & Media has subsequently become a core vertical that VIQ expects to continue growing.

SUMMARY DATA

52-Week High **\$5.82**
52-Week Low **\$0.81**
One-Year Return (%) **-80.87**
Beta **-0.25**
Average Daily Volume (sh) **38,937**

Shares Outstanding (mil) **34**
Market Capitalization (\$mil) **\$31**
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	11.5A	12.4A	13.3E	13.4E	50.5 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	-0.07A	-0.11A	-0.06E	0.04E	-0.20E

Quarters might not sum due to rounding & share counts

Disclosures on page 8

KEY POINTS

Reiterated 2022 goals & financial guidance ...

- VIQ reported 2Q22 results last week, with revenue of \$12.4 million advancing about 51% year-over-year primarily reflecting the integration of Auscript and TTA. The company expects to reach about \$50 million or more in annual revenue in 2022, reflecting existing business, the integration of Auscript and TTA and the commencement of the Queensland courts contract.
- VIQ's bookings of \$4.4 million represented an increase of 159% sequentially compared to 1Q22 and a 20% net gain in the number of new clients during the quarter. VIQ's active clients base exceed a record 3,400, reflecting both existing clients and new accounts, VIQ expects gross margins ranging from 47% to 55%. The ongoing roll-out of FirstDraft and other high margin products is expected to accelerate revenue growth and enhance margins.
- Importantly, the transition to recurring revenue under SaaS contracts instead of up-front licensing contracts is progressing. The company is advancing its goal of shifting to SaaS bundled and / or hybrid solutions and expects to continue shifting its revenue base toward recurring, higher margin technology revenue. VIQ expects to transition existing and prospective customers to the digital platform, which further facilitates the goal to cross-promote and cross-sell its growing suite of digital products and SaaS model.

Tuck-in acquisitions strengthen company position in key verticals

- The Legal (Courts) vertical continues to represent the company's largest one, contributing 64% of 2Q22 total revenue. The Criminal Justice (including Law Enforcement) vertical represented 12%, Insurance was 12% and the Media, Corporate and Government vertical added another 12%. Although VIQ's 2022 focus is on consolidating operations and will likely not include a large M&A transaction, the company has indicated that it will make small strategic tuck-in acquisitions that make sense.
- For instance, towards the goal of advancing its growth strategy and expanding its suite of product and service offerings, VIQ's recent acquisition of the Carbon™ technology platform is expected to improve its ability to service real-time needs of journalists and global media clients. We believe the Media, Corporate & Government vertical illustrates the growth potential facing VIQ, as various industries move towards digital data delivery and archiving. The company entered the Media vertical within the past two years with the 2020 acquisition of ASC Services LLC and it has subsequently become a key focus vertical for VIQ that is expected to continue growing.
- At the end of 2Q22, VIQ had about \$3.5 million in cash on its balance sheet. Subsequent to the quarter end, VIQ enhanced its cash position with a \$4.8 million private placement. We believe this issuance enhances the company's financial flexibility to maintain its growth strategy and initiatives.

2Q22 HIGHLIGHTS

Shift to SaaS bundled / hybrid solutions

VIQ Solutions (VQS-NASDAQ and VQS-TSX) reported 1Q22 results last week. Revenue was \$12.4 million, up about 51% from \$8.2 million in 2Q21. The improvement primarily reflects the integration of Auscript and TTA, which VIQ acquired in 2021. VIQ's bookings of \$4.4 million represented an increase of 159% sequentially compared to 1Q22 and a 20% net gain in the number of new clients during the quarter. In addition, and VIQ reaffirmed its 2022 goals; the company expects to accelerate growth and increase its global market penetration.

Margin expansion expected

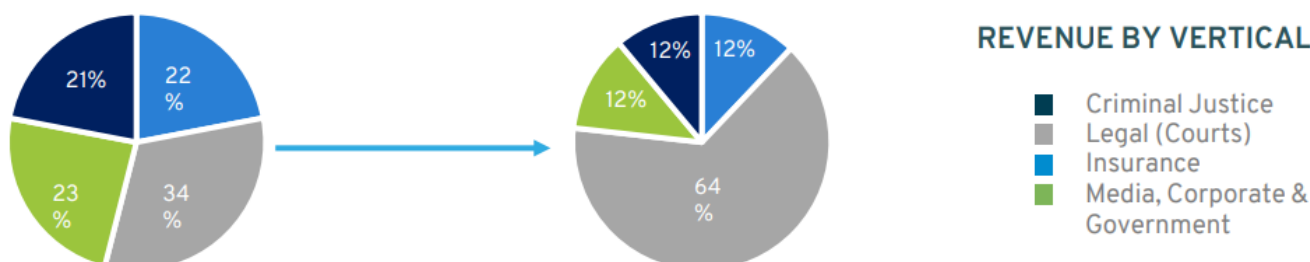
Reflecting the strong bookings noted above and the recovery in the company's production capacity for 1H2022, VIQ anticipates organic revenue growth, excluding acquisitions, to meet expectations. VIQ expects to generate at least \$50 million in revenue in 2022 and gross margins ranging from 47% to 55%. VIQ expects the ongoing roll-out of *FirstDraft* and other high margin products to accelerate revenue growth. Two new technology services contracts that the company signed in 1Q22 to support court recording and transcription services are valued at a combined roughly \$1.9 million per annum. Moreover, the contract to provide courtroom monitoring and transcription services to about half the Queensland, Australia court cases has started, after being delayed during the pandemic. The company also expects revenue to shift towards higher margins.

Importantly, bookings, the number of active VIQ clients (more than 3,400) reflecting both existing clients and new accounts, production volumes, and annual delivered content all reached record levels in 2Q22. The company experienced high levels of client renewals for key accounts during 2Q22. At the same time, the company's cost to produce a minute of documentation dropped by 8.5% year over year. Although adjusted EBITDA was negative (\$0.7) million [compared to negative (\$0.3) million in 2Q21], VIQ generated positive EBITDA in the month of June, which the company believes portends well for further EBITDA generation. VIQ's 2Q22 gross profit of \$6.1 million represented a gross margin of 49.3%, which compares to \$4.0 million and 48.6%, respectively, in 2Q21. VIQ anticipates gross margin improvement as it integrates 2021 acquisitions. VIQ reported a 2Q22 net loss of \$3.2 million or (\$0.11) per share, compared to a net loss of \$10.5 million or (\$0.42) per share in 2Q21.

Importantly, the transition to recurring revenue under SaaS contracts instead of up-front licensing contracts is progressing. The company is advancing its goal of shifting to SaaS bundled and / or hybrid solutions. VIQ intends to continue shifting its revenue base toward recurring, higher margin technology revenue. The company believes the enthusiastic reception to the *FirstDraft* product will facilitate this goal, as *FirstDraft* and other high margin products gain traction. The company indicated that its technology and technology services pipeline has grown, which supports this goal, as well. Moreover, VIQ recently introduced *NetScribe* in the U.K. and Canada. As demand for digital transcription and documentation services continues to rise, VIQ expects to transition existing and prospective customers to the digital platform, which further facilitates the goal to cross-promote and cross-sell its growing suite of digital products and SaaS model.

VIQ's revenue mix shifted towards the Legal (Courts) vertical in 1Q22 and this vertical continues to represent the company's largest one, contributing 64% of 2Q22 total revenue. As illustrated below, the Criminal Justice (including Law Enforcement) vertical represented 12%, Insurance was 12% and the Media, Corporate and Government vertical added another 12%. Australia represented 50% of 2Q22 total revenue and is expected to contribute an estimated 50% of total revenue in 2022, up from about 31% in 2021. The shift primarily reflects the above noted integration of Auscript. The U.S. and EMEA / Canada represented another roughly 33% and 17%, respectively.

Shift towards Legal / Courts ...



Source: [Company reports](#)

2022 focus is on consolidating operations

VIQ has historically leveraged strategic M&A to complement and enhance organic growth. Following the two key acquisitions in 2021, 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. The company will make small strategic tuck-in acquisitions that make sense.

For instance, towards the goal of advancing its growth strategy and expanding its suite of product and service offerings, VIQ's recent acquisition of the Carbon™ technology platform is expected to improve the company's ability to service real-time needs of journalists and global media clients. We believe the Media, Corporate & Government vertical illustrates the growth potential facing VIQ, as various industries move towards digital data delivery and archiving. The company entered the Media vertical within the past two years with the 2020 acquisition of ASC Services LLC and it has subsequently become a key focus vertical for VIQ that is expected to continue growing.

The Carbon tuck-in purchase follows the company's recent strategic partnership with software development company LegalCraft, as VIQ seeks to strengthen its position and offerings in its key verticals. 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. Although the company does not intend to proactively seek prospective M&A candidates, if VQS finds additional attractive tuck-in opportunities, we would not be surprised to see a smaller transaction.

At the end of 2Q22, VIQ had about \$3.5 million in cash on its balance sheet. Subsequent to the quarter end, VIQ enhanced its cash position with a \$4.8 million private placement. We believe this issuance enhances the company's financial flexibility to maintain its growth strategy and initiatives. Moreover, as revenue ramps and margins improve, as anticipated, the company expects to reach cash flow breakeven and be cash flow positive shortly thereafter.

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

- VIQ announced 2Q22 results on August 10, 2022.
- VIQ announced 1Q22 results on May 11, 2022.
- FirstDraft was selected as an honoree in the Fast Company's 2022 World Changing Ideas Awards on May 4, 2022.
- The company announced 4Q21 results on March 30, 2022.
- VIQ appointed two new board members on March 24, 2022 and another board appointment on April 5, 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 launched NetScribe™ across the U.K. and Canada on October 26, 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.

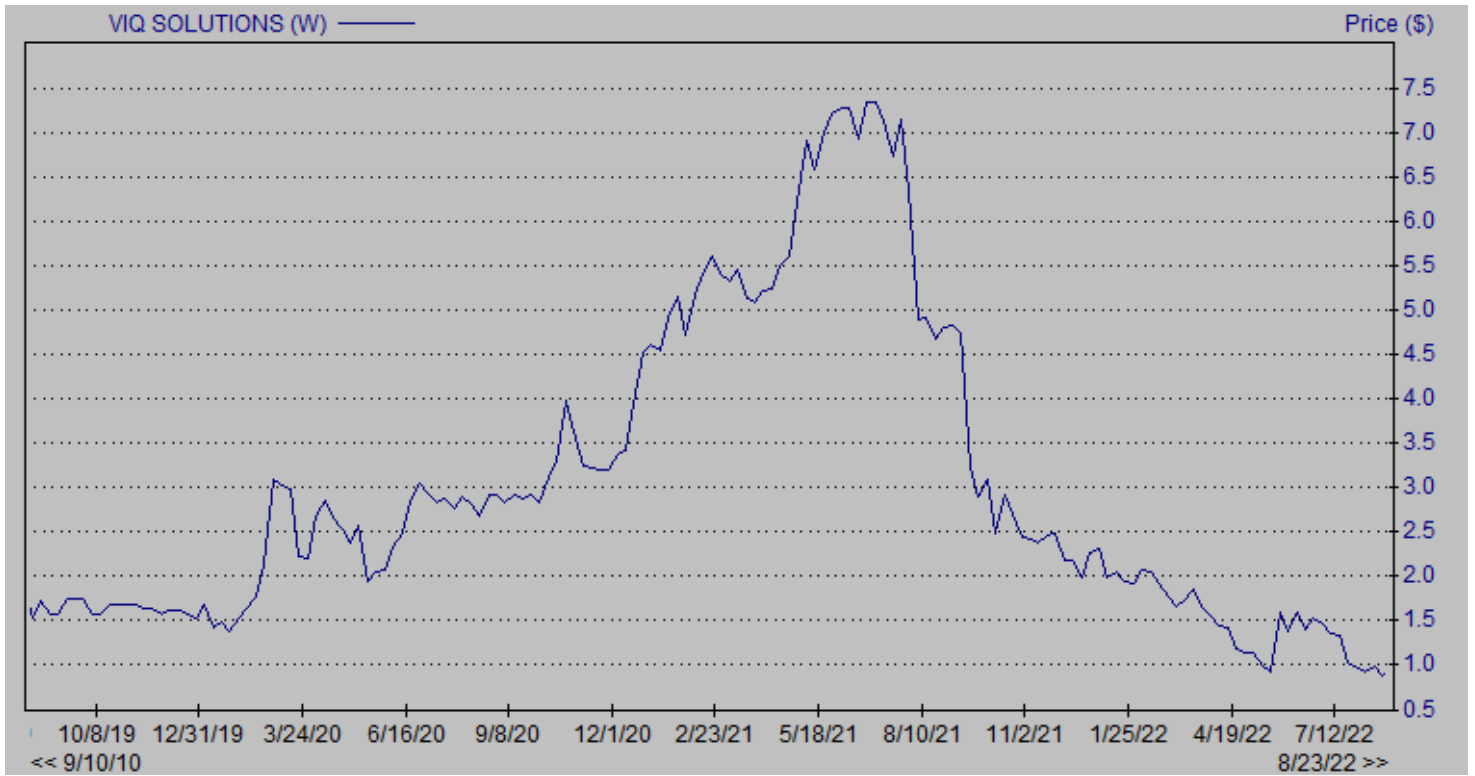
PROJECTED INCOME STATEMENT

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

	2018 [†]	2019 [†]	2020	Mar-21A	Jun-21A	Sep-21A	Dec-21A	2021A	Mar-22A	Jun-22A	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	\$11,524,981	\$12,351,655	\$13,264,078	\$13,396,719	\$50,537,433
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	6,035,932	6,257,453	6,711,624	6,711,756	25,716,765
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	5,489,049	6,094,202	6,552,455	6,684,963	24,820,669
Gross margin	31.3%	43.1%	50.9%	48.7%	48.6%	51.4%	43.7%	48.1%	47.6%	49.3%	49.4%	49.9%	49.1%
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	6,136,309	6,532,440	6,135,082	6,073,731	24,877,562
Research & development expenses	458,675	994,640	1,074,178	239,663	260,010	317,546	274,889	1,092,108	199,085	278,357	195,123	193,172	865,737
Stock-based compensation	(31,461)	195,113	725,316	85,995	6,687,792	859,119	862,283	8,495,189	952,196	540,580	800,000	800,000	3,092,776
FX & other	198,180	217,040	(132,306)	(95,994)	153,400	(445,978)	(859,948)	(1,248,520)	(623,940)	(7,489)	(636,481)	(642,846)	(1,910,756)
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	1,159,344	1,219,637	1,090,827	1,058,102	4,527,910
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	7,822,994	8,563,525	7,584,551	7,482,159	31,453,229
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)	(2,333,945)	(2,469,323)	(1,032,096)	(797,196)	(6,632,560)
Interest expense	(96,484)	(1,549,904)	(4,934,517)	(331,419)	(335,594)	(329,598)	(334,489)	(1,331,100)	(339,713)	(241,128)	(340,053)	(340,223)	(1,261,117)
Other	(2,552,729)	(1,399,781)	(5,343,744)	(599,037)	(597,177)	(353,062)	1,322,486	(226,790)	615,045	(35,583)	(670,818)	2,199,131	2,107,775
Total operating inc / (expenses)	(2,649,213)	(2,949,685)	(10,278,261)	(930,456)	(932,771)	(682,660)	987,997	(1,557,890)	275,332	(276,711)	(1,010,871)	1,858,908	846,658
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)	(2,058,613)	(2,746,034)	(2,042,967)	1,061,712	(5,785,902)
Tax	(11,571)	(99,155)	944,032	262,969	(1,304,607)	97,824	87	(943,727)	(48,696)	37,699	(200,000)	(200,000)	(410,997)
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)	(2,009,917)	(2,783,733)	(1,842,967)	1,261,712	(5,374,905)
FX	(95,899)	(262,811)	56,152		101,642	(432,533)	484,323	153,432	412,798	(489,803)	100,000	100,000	122,995
<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)	(1,597,119)	(3,273,536)	(1,742,967)	1,361,712	(5,251,910)
LPS	(\$0.04)	(\$0.49)	(\$0.62)	(\$0.07)	(\$0.42)	(\$0.15)	(\$0.12)	(\$0.74)	(\$0.07)	(\$0.11)	(\$0.06)	\$0.04	(\$0.20)
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	29,881,717	28,653,056	29,940,689	29,990,689	29,616,538

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

HISTORICAL STOCK PRICE



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