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VIQ Solutions (VQS-NASDAQ)

VQS: Increases in Net New Bookings as Proxy for Organic Growth

VIQ expects the ongoing global rise in demand for digital content to continue driving demand for its technology solutions, citing 1Q23's 69% y/y increase in net new bookings as an example. The company's backlog growth includes sizable new opportunities across targeted segments, particularly the media silo, according to management, and new geographies, as well.

Current Price (5/22/23)	$0.22
Valuation	**$3.00**

OUTLOOK

VIQ cites its expanding solutions portfolio as a key driver of new bookings, which have spanned a range of products & services across key silos and geographies. As VIQ seeks to drive organic growth, its focus is on SaaS to grow recurring revenue. The company has also implemented cost containment measures that it expects will help margins as revenue ramps. With the Queensland contract up and running, the company expects revenue & margins to improve over 2023 and beyond.

SUMMARY DATA

52-Week High	**$1.71**
52-Week Low	**$0.18**
One-Year Return (%)	**-75.5**
Beta	**-0.30**
Average Daily Volume (sh)	**63,272**
Shares Outstanding (mil)	**34**
Market Capitalization ($mil)	**$7**
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 Actual	**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 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	11.8A	10.2A	45.8 A
2023	10.1A	11.3E	12.9E	15.1E	49.4 E

Per Share Data

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	-0.04A	-0.09A	-0.28A
2023	-0.10A	-0.09E	-0.06E	-0.05E	-0.31E

Quarters might not sum due to rounding & share counts

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GROWING NET NEW BOOKINGS - POSITIVE TAKEAWAYS

Company views rising backlog as reflective of organic growth …

VIQ Solutions (VQS-NASDAQ and VQS-TSX) expects rising demand for digital content globally to continue driving demand for its technology solutions to process data rapidly in a secure way. The company attributes this trend as a factor behind its 1Q23 69% year-over-year increase in bookings. The $2.8 million quarterly increase in net new bookings brought total contracted net new bookings to $9.4 million. Of that amount, about 20% had been recognized as of the end of 1Q23. The company's backlog growth includes sizable new opportunities across targeted segments, particularly the media silo, according to management.

The company entered the Media vertical with the 2020 acquisition of ASC Services LLC and the segment has subsequently become a key focus vertical. VIQ has grown this sector organically and through M&A. For instance, in 3Q22 VIQ entered into an agreement to expand its technology solutions through the purchase of Carbon™, an AI-powered media technology platform. Carbon is a cloud-based media content and text workflow platform. The transaction and subsequent integration of the VIQ Carbon media platform with Sony Ci Media Cloud is expected to accelerate the company's ability to produce captioned video/audio elements using AI-generated text, strengthen VIQ's Media offering and improve the company's ability to provide real-time solutions to journalists, global media players and other clients.

In turn, the increase in net new bookings is expected to be a catalyst for revenue growth, have a positive impact on VIQ's revenue mix and ultimately lead to significant margin improvement. VIQ's new clients include Fortune 500 organizations. Larger contracts generally take longer to ramp for VIQ and as a result, the company does not expect these backlog agreements to impact overall results before 2H23. The company views net new bookings as a proxy for organic growth from existing and new customers.

…and expanding suite of solutions / IP as key driver of backlog, organic growth…

The company believes its expanding suite of products and IP is a key driver of organic growth. For example, the recent Carbon acquisition noted above is consistent with VIQ's goal of advancing its growth strategy and expanding its suite of product and service offerings. Notably, net new bookings spanned a range of products and services across key targeted silos and geographic regions, including new markets. Specifically, the company signed multiple large SaaS contracts for NetScribe and FirstDraft technologies and a service agreement with one of the top five domestic insurance companies.

VIQ has also launched Velocity and CapturePro Mobile. VIQ describes CapturePro Mobile as a tool to "Simplify Recording, Transcription and Collaboration," thereby expanding its solutions that integrate video capture and editing in mobile applications. As the company seeks to drive organic growth, its focus is on SaaS to grow recurring revenue. The company has also implemented several cost containment measures that it expects will help margins as revenue ramps. Now that VIQ has gotten the Queensland contract up and running – 1Q23 was the first full quarter of revenue under its new VIQ-Queensland agreement following a transition from the former Auscript one (see below) – the company is optimistic about the revenue outlook in sequential 2023 quarters. Moreover, the company has indicated that subsequent to 1Q23, Queensland volumes are trending up ahead of management's original expectations, which it expects will be positive for margins and revenue.

Moreover, in terms of geographic expansion, VIQ recently signed a multi-year deal with e24 Technologies in India and has completed the first installation of NetScribe in India. Importantly, the company's partner in India can now also resell NetScribe throughout the region and VIQ believes it can provide resellers with tools to facilitate the onboarding, training and support of new customers and, in turn, accelerate revenue growth and scale SaaS recurring revenue.

VIQ has more than 4,155 clients across the globe and continues to grow its customer base in its four key verticals organically and via strategic acquisitions. Despite near-term headwinds, including a potential temporary slowdown in conversion of new bookings to revenue reflecting labor shortages in some markets, VIQ nevertheless continues to expand its client base and expects to accelerate growth and increase its global market penetration over time.

RECENT RESULTS

VIQ's 1Q23 revenue came in at $10.1 million, which represented a 13% year-over-year decline compared to 1Q22, primarily reflecting the ramp up of the Queensland contract. VIQ had been awarded the Queensland contract In December 2020 prior to its acquisition of Auscript. Auscript's contract with Queensland was for both transcription and recording services. By comparison, VIQ's contract was for transcription services only and at the time, Queensland was revamping the technology underlying how it captured recordings and processed transcripts. The rollout of the Queensland-VIQ contract proved to be more challenging than VIQ had anticipated, in part because of the older state of the Queensland technology platform.

Seasonality in court activity was also a factor, as courts resumed operations following year-end holiday recesses. VIQ has completed the migration of the Queensland contract at this point, which the company believes is critical as it continues to scale and grow recurring revenue in order to have greater visibility into the revenue and workflow outlook.

Gross profit of $4.4 million equated to a 44% grow margin compared to 47.6% in 1Q22. The decrease primarily reflected the Queensland contract transition from the Auscript agreement to the VIQ one. The company recorded a net loss of $3.5 million or ($0.10) per share compared to a net loss of $2.0 million or ($0.07) per share.

During the quarter, the company completed a debt refinancing. Specifically, in 1Q23, the company obtained a senior secured loan from Beedie Investments for up to US$15 million. Beedie Investments advanced US$12 million to VIQ as an initial advance, of which about US$9 million was earmarked to refinance all of the company's existing senior debt. The company has also earmarked roughly US$2 million and US$1 million, respectively, for working capital and growth initiatives. An additional US$3 million remains available to be drawn in subsequent minimum US$1 million tranches. If Beedie exercised all roughly 8 million warrants associated with the loan (the warrants expire on January 16, 2030), Beedie would hold a greater than 18% stake in VIQ.

…As Queensland ramps / backlog conversion continues, expected positive impact on margins …

VIQ expects its recent debt refinancing and cost containment measures combined with the ongoing migration of customers to NetScribe and net new bookings growth to have a positive impact on margins and its cash position. The company had $2.5 million of cash at quarter end.

VALUATION

As we have noted in prior reports, VIQ has been impacted by general economic uncertainty, which has caused some of its customers to shift from large upfront spending on technology to monthly billing arrangements instead. This shift has the benefit of accelerating the company's planned transition toward subscription-based annual recurring revenue (ARR) model but, in the short-term, has constrained revenue. In addition, the Queensland contract proved more difficult to ramp than the company initially expected, as noted, reflecting several factors, including Queensland's existing technology platform.

VQS shares fell 39% in the 2+ weeks leading up to a 3Q21 revenue shortfall (compared to relatively flat performance of the NASDAQ) and have remained under pressure subsequently. We believe dilution from capital issuances to finance growth measures and the recent refinancing – VIQ had about $7.8 million of long-term debt that was scheduled to mature in 4Q23 – also contributed to share price pressure.

VIQ shares trade at a significant discount to peers in the cloud-based technology space based on our 2023 revenue forecast. We expect the multiple gap to narrow as the company continues to make strides in its organic and acquisition-driven growth strategy. The company expects its growing customer relationships and ongoing transition to a monthly recurring revenue model to lead to improved revenue and margins over time and to help smooth out lumpiness in monthly and annual revenue flows.

As sector multiples have declined amid market volatility and economic uncertainty, average multiples of other cloud-based tech companies have declined to under 4x forward revenue, down from over 6x pre-pandemic. Our valuation of $3 equates to under 3x our 2023E revenue estimate, even if Beedie fully exercises its warrants (which we have not factored into our 2023 model). This multiple is well below the group average.

Our 2023 revenue forecast incorporates the potential headwinds of VIQ's customers slowing / delaying projects, given economic uncertainty and the interest rate environment. We expect revenue to ramp through 2023 and to be back-end weighted. Although we expect VIQ to focus on consolidating and strengthening its existing operations near-term, if an attractive tuck-in opportunity came along, we would expect the company to consider it, although this is not in our current forecast, which also mirrors continued potential upward pressure on labor costs.

RECENT NEWS

- VIQ reported 1Q23 results on May 11, 2023.
- On February 28, 2023, VIQ announced a new partnership with a top-ten U.S. insurance company.
- VIQ implemented the integration of Carbon with Sony Ci on February 22, 2023.
- VIQ announced a new multi-year deal with e24 Technologies in India on February 8, 2023.
- On January 17, 2023, VIQ announced the new US$15 million Beedie credit facility.
- VQS shares began trading on the Nasdaq on August 12, 2021.

RISKS

We believe risks include those outlined below, among others.

- The impact of the economy on VIQ's business could linger longer or be greater 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 additional capital to support growth initiatives.
- The company has received an extension from Nasdaq regarding listing requirements but might fail to achieve compliance with these requirements.

PROJECTED INCOME STATEMENT

VIQ Solutions Inc. Income Statement & Projections ($)

	2020	2021A	Mar-22A	Jun-22A	Sep-22A	Dec-22A	2022A	Mar-23A	Jun-23E	Sep-23E	Dec-23E	2023E
Revenue	$31,749,693	$31,046,812	$11,524,981	$12,351,655	$11,785,713	$10,181,580	$45,843,929	$10,052,571	$11,258,880	$12,947,711	$15,143,363	$49,402,525
Cost of sales	15,599,437	16,123,853	6,035,932	6,257,453	6,208,528	5,416,313	23,918,226	5,624,614	6,029,355	6,687,751	7,594,606	25,936,326
Gross profit	16,150,256	14,922,959	5,489,049	6,094,202	5,577,185	4,765,267	21,925,703	4,427,957	5,229,525	6,259,960	7,548,757	23,466,200
Gross margin	50.9%	48.1%	47.6%	49.3%	47.3%	46.8%	47.8%	44.0%	46.4%	48.3%	49.8%	47.5%
Selling & administrative expenses	11,034,902	19,119,713	6,136,309	6,532,440	5,960,010	5,897,544	24,526,303	5,361,301	5,414,914	5,469,063	9,321,799	25,567,077
Research & development expenses	1,074,178	1,092,108	199,085	278,357	164,849	91,824	734,115	144,809	146,257	147,720	425,918	864,704
Stock-based compensation	725,316	8,495,189	952,196	540,580	681,193	605,343	2,779,312	333,292	336,625	339,991	1,993,801	3,003,709
FX & other	(132,306)	(1,248,520)	(623,940)	(7,489)	(288,578)	(1,040,146)	(1,960,153)	835,649	844,005	852,446	(4,126,210)	(1,594,110)
Depreciation & amortization	5,259,243	4,641,601	1,159,344	1,219,637	1,272,637	2,436,585	6,088,203	1,356,462	1,370,027	1,383,727	992,974	5,103,190
Total operating expenses	17,961,333	32,100,091	7,822,994	8,563,525	7,790,111	7,991,150	32,167,780	8,031,513	8,111,828	8,192,946	8,608,282	32,944,570
Operating income	(1,811,077)	(17,177,132)	(2,333,945)	(2,469,323)	(2,212,926)	(3,225,883)	(10,242,077)	(3,603,556)	(2,882,303)	(1,932,986)	(1,059,525)	(9,478,370)
Interest expense	(4,934,517)	(1,331,100)	(339,713)	(241,128)	(234,892)	(236,885)	(1,052,618)	(333,836)	(337,174)	(337,208)	(337,242)	(1,345,460)
Other	(5,343,744)	(226,790)	615,045	(35,583)	1,094,007	(321,621)	1,979,059	163,716	165,353	167,007	(218,891)	277,185
Total operating inc / (expenses)	(10,278,261)	(1,557,890)	275,332	(276,711)	859,115	(558,506)	926,441	(170,120)	(171,821)	(170,201)	(556,132)	(1,068,275)
Pretax income	(12,089,338)	(18,735,022)	(2,058,613)	(2,746,034)	(1,353,811)	(2,667,377)	(9,315,636)	(3,773,676)	(3,054,124)	(2,103,188)	(1,615,657)	(10,546,645)
Tax	944,032	(943,727)	(48,696)	37,699	(23,871)	(499,355)	(609,621)	(313,995)	(94,199)	(47,099)	(29,853)	(485,146)
Net inc/ (loss)	(11,145,306)	(19,678,749)	(2,009,917)	(2,783,733)	(1,329,940)	(2,168,022)	(8,706,015)	(3,459,681)	(2,959,926)	(2,056,088)	(1,585,804)	(10,061,500)
FX	56,152	153,432	412,798	(489,803)	(823,213)	388,662	(1,288,880)	12,348	10,000	10,000	(216,398)	(184,050)
Per share data:												
Comprehensive loss	(11,089,154)	(19,525,317)	(1,597,119)	(3,273,536)	(2,153,153)	(1,779,360)	(9,994,895)	(3,447,333)	(2,949,926)	(2,046,088)	(1,802,202)	(10,245,550)
LPS	($0.62)	($0.74)	($0.07)	($0.11)	($0.04)	($0.09)	($0.28)	($0.10)	($0.09)	($0.06)	($0.05)	($0.30)
Avg shares out	18,080,533	26,448,594	29,881,717	28,653,056	32,749,800	23,061,227	31,648,001	34,649,697	34,650,697	34,651,697	34,652,697	34,651,197

Source: Company reports, Zacks estimates

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