SenSen Networks

FY22 preliminary results

A story of growth and investing for the future

Software and comp services

SenSen Networks (SNS) reported accelerating growth in FY22, with operating results reflecting continued investments to support the company's rapid, ongoing vertical and geographic expansion. Management's expense rationalization efforts should stabilize SNS's cost base. We adjust our forecasts to account for ongoing macro events and rising inflation, though we still forecast substantial growth through FY24. SenSen's shift to a 'pragmatic SaaS' model should boost margins, and we see the company's growth potential as underappreciated in the market.

Year end	Revenue (A$m)	EBITDA* (A$m)	PBT** (A$m)	EPS** (c)	P/sales (x)	Net cash*** (A$m)
06/21	5.5	(2.2)	(3.0)	(0.62)	8.6	3.9
06/22	9.1	(7.8)	(12.3)	(2.02)	5.2	3.9
06/23e	15.5	(2.8)	(5.6)	(0.83)	3.1	2.5
06/24e	23.5	3.2	0.4	0.05	2.0	3.5

Note: *Adjusted EBITDA excludes non-cash share-based payments. **PBT and EPS are normalized, excluding other income and exceptional items. ***Net cash/(debt) is cash less debt and leases.

FY22: Stabilizing the operating cost base

SenSen reported accelerating growth in FY22, with revenues up 65% to A$9.1m, topping a 47% increase in FY21. All three segments rose year-on-year, including Smart Cities up 22% and Gaming climbing 14%. The company's investments contributed to an operational loss of A$11.9m (versus A$2.8m in FY21) with half (A$6.6m) from non-cash or one-off expenses. To offset this, management took several actions to rationalize expense levels and expects the cost base to be 'now largely fixed and not expected to materially increase in the near term.' SNS closed FY22 with A$3.9m in net cash, supported by record cash collections and several equity raises.

Higher-margin SaaS revenue underpins outlook

SenSen continued transitioning to a 'pragmatic SaaS' model that generates higher-margin recurring revenues. SenSen reported ARR 'closing in on A$8m', boosted by recent contract wins and almost doubling FY21's A$4.1m. While we recognize that ongoing macro events and rising inflation could have an impact on SenSen's growth trajectory (so we tweak our forecasts down slightly), growing ARR and recent contract wins should support significant revenue growth of 70% in FY23e and 50%+ in FY24e. We foresee margin expansion as business won in FY22 shifts from initial low-margin hardware/setup to higher-margin, ongoing license revenues.

Valuation: Not reflecting potential growth

SenSen's shares are trading down 51% year-to-date, and at a 2.0x FY24e price/revenue multiple. Considering that revenues are forecasted to grow much faster than peers, the valuation does not seem to reflect SNS's potential growth. Using an average peer multiple of 4.2x FY24e price/revenue implies a A$0.15 share price, double SenSen's trading level. If SenSen continues its momentum of customer wins across multiple geographies and verticals, we expect there could be a reduction in the gap.

15 September 2022

Price	**A$0.07**
Market cap	**A$48m**
	US$0.67/A$
Net cash (A$m) as at 30 June 2022	3.9
Shares in issue	651.1m
Free float	45%
Code	SNS
Primary exchange	ASX
Secondary exchange	OTCQB

Share price performance

%	1m	3m	12m
Abs	(18.9)	(5.2)	(43.8)
Rel (local)	(16.4)	(7.8)	(38.5)
52-week high/low		A$0.16	A$0.07

Business description

SenSen Networks, an Australian-based technology company, operates in the field of sensor artificial intelligence. By applying its SenDISA AI platform to physical space monitoring, it extracts real-time insights for customers. It provides solutions to customers in the smart city, gaming, retail and surveillance verticals.

Next events

FY22 annual report	September 2022
Q123 quarterly activities and cashflow report	October 2022

Analysts

Ken Mestemacher, CFA +44 (0)20 3077 5700

Dan Ridsdale +44 (0)20 3077 5700

tech@edisongroup.com

Edison profile page

SenSen Networks is a research client of Edison Investment Research Limited

Review of FY22 preliminary results

SenSen reported solid top-line FY22 growth of 65%, buoyed by rising sales across all three business segments (see Exhibit 1). Smart Cities rose 22% y-o-y, Gaming improved 14% y-o-y and we estimate that Retail (formerly Scancam, acquired in July 2021) rose 6% y-o-y, all driven by multiple contract wins from new and existing global customers, as well as renewals and extensions from customers such as Brisbane City Council, City of Las Vegas, Crown Resorts, Solaire Resort and Casino, AMPOL and Chevron. However, the A$9.1m in total FY22 revenues was slightly lower than our forecast of A$9.3m due to the timing of several orders in late Q422. Finally, SenSen maintained its zero-churn rate in FY22 with a net retention rate of 103%, reflecting the 'stickiness' of the company's products and its ability to renew existing contracts and generate upsells.

Management reported an operational loss of A$11.9m for FY22, though more than half (A$6.6m) was from non-cash and/or one-off expenses in sales, marketing and IT to support SenSen's global expansion. These included A$3.2m in non-cash share-based payments, A$1.1m in amortization and depreciation charges, A$1.6m in normalized salary adjustments to address an increasingly competitive global IT/tech environment, and the inclusion of about A$1m in staff salaries for Scancam. SNS also filed four additional patents to protect its technological investments in global AI, the Internet of Things and video analytics, with more patent applications in the pipeline.

While we expected EBITDA to fall due to these necessary investments, actual EBITDA was A$0.3m better than our forecast as management's actions to reduce its operational cost base were even more effective than we anticipated. The normalised loss before tax of A$12.3m was in line with our forecast, while the loss per share of 2.02 cents was better than our 2.11 cent estimate.

Exhibit 1: FY22 preliminary results versus Edison forecasts and FY21

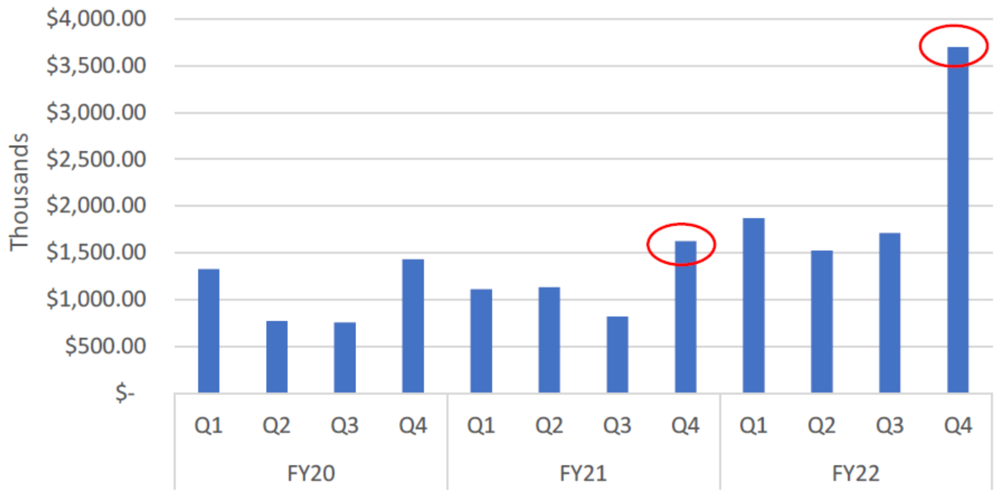
A$m	FY21	FY22e	FY22	diff	y-o-y
Revenue	5.5	9.3	9.1	(2.1)%	65.3%
Gross profit	3.5	5.7	5.6	(1.8)%	60.8%
Gross margin	63.3%	61.4%	61.6%	0.1%	(1.7)%
EBITDA*	(2.2)	(8.1)	(7.8)	4.8%	(251.0)%
EBIT, normalised**	(2.8)	(12.1)	(12.0)	0.2%	(324.7)%
PBT, normalised**	(3.0)	(12.2)	(12.3)	(0.5)%	(308.3)%
EPS, normalised (c)**	(0.62)	(2.11)	(2.02)	4.0%	(224.5)%
EPS, reported (c)	(0.62)	(2.11)	(2.02)	3.9%	(224.1)%
Net cash***	3.9	3.5	3.9	10.9%	0.5%
ARR****	4.1	8.2	'Closing in on A$8m'		
Segmental performance					
Revenues					
Smart Cities	4.8	6.3	5.9	(6.2)%	22.3%
Gaming	0.7	0.9	0.8	(3.1)%	13.8%
Retail*****	2.3	2.2	2.4	10.1%	6.1%
Gross Profit					
Smart Cities	3.2	4.1	3.8	(6.8)%	19.3%
Gaming	0.3	0.5	0.6	4.9%	78.9%
Retail	-	1.1	1.3	13.0%	-
Gross Margin					
Smart Cities	66.2%	65.0%	64.6%	(0.4)%	(1.6)%
Gaming	44.1%	64.0%	69.3%	5.3%	25.2%
Retail	-	50.4%	51.7%	1.3%	-

Source: SenSen Networks, Edison Investment Research. Note: Preliminary results are unaudited. *Adjusted EBITDA excludes non-cash share-based payments. **PBT and EPS are normalised, excluding other income and exceptional items. ***Net cash/(debt) is cash less debt and leases. ****ARR = annual recurring revenue, ie latest monthly recurring revenue x 12. *****Retail FY21a revenues are estimated.

The company closed the year with a net cash position of A$3.9m (including debt and leases), unchanged from FY21 and supported by record cash collections in Q122 and Q422 (see Exhibit 2) and the aforementioned cost saving efforts. While Sensen has little debt (A$2.0m), the company's share count grew from 518.2m in FY21 to 651.1m at the end of FY22, driven primarily by:

- 20 July 2021 – the issue of 39.3m shares at A$0.13/share as part of the Scancam acquisition.
- 9 November 2021 – the placement of 30m shares at A$0.12/share to institutional and sophisticated investors.
- 21 November 2021 – the placement of 5m shares at A$0.12/share to senior leadership.
- 20 December 2021 – the issue of 23.3m shares at A$0.12/share as part of a share purchase plan that raised A$2.8m.
- 23 December 2021 – the placement of 25m shares at A$0.12/share.
- 24 December 2021 – the issue of 9.6m shares in relation to the company's long-term incentive plan.

Exhibit 2: Quarterly cash receipts from customers (A$k)



Source: SenSen Networks

Recurring revenue up about 90%+

SenSen's transition to a 'pragmatic SaaS' business model that generates significant portions of higher-margin recurring revenues has significantly affected the company's annual recurring revenue (ARR) over the last several years. Management reported that ARR (monthly recurring revenue × 12) is 'closing in on A$8m', though we note that the actual values can vary quarter by quarter depending on the timing of when contracts close. The progression of revenues recognized over time (see Exhibit 3) also reflects SenSen's transition, moving from 48% of total revenues in FY21 to 57% in FY22. This trend was also seen in the Smart Cities and Gaming segments, which advanced to 65% and 33% of total segment revenues generated over time in FY22, respectively.

Exhibit 3: Revenue by type

Revenue (A$m)	FY21	% of total	FY22	% of total
Consolidated				
Point in Time	2.9	52%	3.9	43%
Over Time	2.7	48%	5.2	57%
Total	5.5		9.1	
Smart Cities				
Point in Time	2.3	48%	2.1	35%
Over Time	2.5	52%	3.8	65%
Total	4.8		5.9	
Gaming				
Point in Time	0.6	78%	0.6	67%
Over Time	0.2	22%	0.3	33%
Total	0.7		0.8	
Retail				
Point in Time			1.3	54%
Over Time			1.1	47%
Total			2.4	

Source: SenSen Networks, Edison Investment Research. Note: Differences due to rounding.

Updated forecasts

We adjust our forecasts for FY23e and FY24e (see Exhibit 4), lowering revenues slightly to account for potential macro disruptions caused by higher inflation, COVID-19 issues, the war in Ukraine and potential issues in the Taiwan Strait. Nevertheless, we still believe SenSen can achieve significant revenue growth of 70% in FY23e, and over 50% in FY24e, as the growth in ARR and recent Q422 contract wins provide increasing levels of recurring revenue. Moreover, SenSen's investments made in FY22 should support efforts to continue penetrating the US market. While we do not include potential M&A opportunities in our forecast, it should be noted that the current depressed valuations among many tech companies provide opportunities for management to make bolt-on acquisitions to help scale its business and expand into new and adjacent verticals.

We maintain the view that gross margins should markedly increase in FY23e by 8%. The gross margin profile of SenSen's contracts typically has two phases: (1) initial point in time, where revenues are from hardware (eg installation of new pods in smart cities, camera systems in gaming and retail locations) and setup at lower gross margins; followed by (2) recurring revenues recognized over time for licenses and maintenance at higher gross margins. In FY22 (see Exhibit 3), 43% of SenSen's business came from initial contracts, so were at a lower margin and resulted in the full year gross margin of 62%. Now that many initial customers are set up and operating, revenues in FY23e and FY24e should be generated at a much higher margin. Moreover, gross margins should benefit as management converts old Scancam clients to new business models with lower upfront costs and higher subsequent levels of recurring revenue. Altogether, we expect FY23e gross margins to be 69.8% and FY24e to reach 72.5%.

While macro issues and higher inflation could increase input prices, SenSen's expense reduction efforts (targeting staff costs, professional services, IT, travel and administrative costs) should somewhat offset rising costs. Moreover, many of SenSen's newer contracts contain escalation clauses that pass through higher input prices. We expect operating costs to remain relatively steady across FY23 and FY24, as management believes the cost base is 'now largely fixed and not expected to materially increase in the near term as the Company continues to expand revenue.' We increase our forecasted normalised EPS by about 0.1c in FY23e.

Finally, management is 'driving towards cash-flow positivity and profitability' and we expect free cash flow to reach positive levels by FY24 and thus lessen the need for future capital raises to fund operations. However, we are assuming a further A$2m raise in FY23 to maintain a minimum level of cash.

Exhibit 4: Changes to forecasts

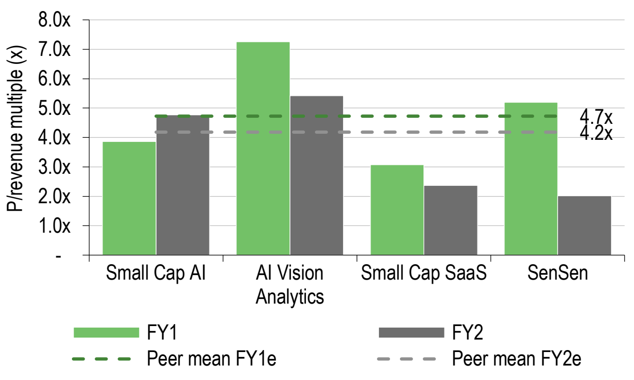
A$m	FY23e				FY24e			
	Old	New	change	y-o-y	Old	New	change	y-o-y
Revenue	16.4	15.5	(5.6)%	69.5%	24.9	23.5	(5.8)%	51.6%
Gross profit	11.7	10.8	(7.2)%	92.0%	19.0	17.0	(10.4)%	57.6%
Gross margin	71.0%	69.8%	(1.7)%	8.2%	76.3%	72.5%	(5.0)%	2.7%
EBITDA*	(3.3)	(2.8)	14.9%	64.1%	2.5	3.2	26.9%	N/A
EBIT, normalised**	(6.2)	(5.3)	13.3%	55.6%	0.1	0.6	453.0%	N/A
PBT, normalised**	(6.3)	(5.6)	10.9%	54.6%	0.0	0.4		N/A
EPS, normalised (c)**	(0.9)	(0.8)	12.8%	59.0%	0.0	0.0		N/A
EPS, reported (c)	(1.0)	(0.8)	12.7%	59.0%	0.0	0.0		N/A
Net cash/(debt)***	(0.7)	2.5	N/A	N/A	1.7	3.5	111.1%	39.1%

Source: Edison Investment Research. Note: *Adjusted EBITDA excludes non-cash share-based payments. **PBT and EPS are normalised, excluding other income and exceptional items. ***Net cash/(debt) is cash less debt and leases.

Valuation

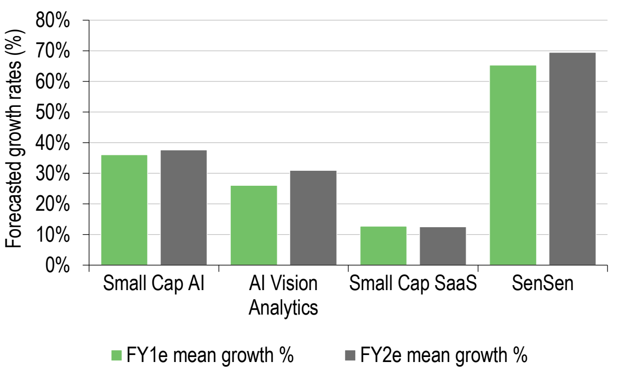
SenSen's share price is down 51% year-to-date, slightly more than the 48% recent average for its peer group of small cap AI and SaaS, and vision analytics firms. This is the lowest level it has traded this year, bar the recent dip in mid-June to mid-July. The company trades at 2.0x FY24e's price/revenue multiple, substantially below the 4.2x peer multiple (see Exhibit 5), despite a much larger forecasted growth rate (see Exhibit 6). Using the 4.2x peer multiple implies a share price of A$0.15, or double its current A$0.073 trading level. SenSen's transition to a 'pragmatic SaaS' model should support sustained recurring revenue growth, and if management can sustain the recent momentum of contract wins across verticals, we expect that it could lead to a reduction in the valuation gap.

Exhibit 5: Price/revenue multiple versus peer groups



Source: Edison Investment Research, Refinitiv. Note: Multiples are medians for peer group. Pricing as of 1 September 2022.

Exhibit 6: Growth estimates for FY1e and FY2e



Source: Edison Investment Research, Refinitiv, company websites. Note: Peer forecasts are consensus, SenSen's forecast is Edison's. Estimates as of 2 September 2022.

Exhibit 7: Financial summary

A$000s	2020	2021	2022	2023e	2024e
Year end 30 June	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	3,764	5,533	9,145	15,500	23,500
Cost of Sales	(997)	(2,030)	(3,513)	(4,683)	(6,455)
Gross Profit	2,766	3,503	5,633	10,817	17,045
Other Income	1,539	2,807	2,978	3,275	3,603
Operating Expense (not incl. share-based payments)	(7,567)	(9,078)	(17,330)	(17,950)	(18,561)
Share-based payments (non-cash)	(290)	(72)	(3,173)	(1,500)	(1,500)
EBITDA	(2,807)	(2,209)	(7,751)	(2,779)	3,199
Operating Profit (before except.)	(3,534)	(2,835)	(12,038)	(5,349)	596
Exceptionals	(18)	(6)	145	(9)	(9)
Operating Profit (EBIT)	(3,552)	(2,840)	(11,893)	(5,357)	587
Net Interest	(138)	(176)	(254)	(237)	(162)
Other	-	-	-	-	-
Profit Before Tax (norm)	(3,672)	(3,011)	(12,292)	(5,586)	434
Profit Before Tax (reported)	(3,690)	(3,016)	(12,300)	(5,594)	425
Tax	(15)	(6)	8	(34)	(85)
Other	-	-	-	-	-
Profit After Tax (norm)	(3,687)	(3,016)	(12,284)	(5,619)	349
Profit After Tax (reported)	(3,705)	(3,022)	(12,292)	(5,628)	340
Average Number of Shares Outstanding (m)	436	484	608	678	721
EPS - normalised (c)	(0.85)	(0.62)	(2.02)	(0.83)	0.05
EPS - reported (c)	(0.85)	(0.62)	(2.02)	(0.83)	0.05
Dividend per share (c)	-	-	-	-	-
Gross Margin (%)	73.5%	63.3%	61.6%	69.8%	72.5%
EBITDA Margin (%)	N/A	N/A	N/A	N/A	13.6%
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	N/A	2.5%
BALANCE SHEET					
Fixed Assets	790	2,168	9,127	8,733	8,319
Intangible Assets	-	1,300	8,281	7,681	7,081
Tangible Assets	353	391	435	641	827
Other	437	477	410	410	410
Current Assets	4,706	8,022	11,391	11,570	11,967
Stocks	803	241	232	232	232
Debtors	744	979	1,943	3,000	4,400
Cash & cash equivalents	2,463	5,176	6,214	5,336	4,333
Other	696	1,625	3,002	3,002	3,002
Current Liabilities	(4,498)	(3,640)	(7,999)	(10,060)	(8,237)
Creditors	(1,095)	(750)	(1,239)	(2,500)	(2,000)
Short term borrowings	(1,313)	(861)	(1,954)	(2,454)	(454)
Lease Liabilities	(235)	(306)	(185)	(185)	(185)
Other	(1,856)	(1,723)	(4,621)	(4,920)	(5,597)
Long Term Liabilities	(276)	(244)	(506)	(508)	(510)
Long term borrowings	-	-	-	-	-
Lease Liabilities	(197)	(138)	(183)	(183)	(183)
Other long-term liabilities	(79)	(106)	(324)	(325)	(327)
Net Assets	721	6,305	12,012	9,734	11,539
Minority Interests	-	-	-	-	-
Shareholder equity	721	6,305	12,012	9,734	11,539
CASH FLOW					
Operating Cash Flow	(2,884)	(3,250)	(7,632)	(2,502)	1,935
Net Interest	(42)	(127)	(73)	(237)	(162)
Tax	(101)	(31)	(232)	(34)	(85)
Capex	(100)	(253)	(220)	(400)	(400)
Acquisitions/disposals	-	-	(1,010)	-	-
Equity financing	3,329	7,043	9,644	2,070	-
Dividends	-	-	-	-	-
Other*	288	(667)	560	224	(2,290)
Net Cash Flow	490	2,714	1,037	(878)	(1,002)
Opening net debt/(cash) w/o Leases	(648)	(1,150)	(4,315)	(4,259)	(2,881)
HP finance leases initiated	-	-	-	-	-
Exchange rate movements	-	-	-	-	-
Other	12	451	(1,093)	(500)	2,000
Closing net debt/(cash)	(1,150)	(4,315)	(4,259)	(2,881)	(3,879)
Closing net debt/(cash) w/ Leases	(718)	(3,871)	(3,891)	(2,513)	(3,511)

Source: SenSen Networks, Edison Investment Research. Note: *Includes repayment of leases, proceeds from/repayment of borrowings, etc.

General disclaimer and copyright

Australia

New Zealand

United Kingdom

United States

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia