

SenSen Networks

Q123 activity report

International and domestic wins lift cash receipts

SenSen Networks (SNS) started its new fiscal year with robust cash receipts of A\$2.6m, climbing 39% y-o-y. Boosted by multiple contract wins across the globe, management reported annual recurring revenues (ARR) of A\$7.6m. Furthermore, management expects to approach an ARR of about A\$10m by the end of FY23, and the A\$600k from [recently announced North American contracts](#) should support that effort. SNS will also be implementing A\$1.1m in annual savings starting in the current quarter to improve cash flows. These factors support our forecasts, and if SenSen continues driving ARR growth across multiple geographies and improves liquidity, we believe it could narrow the valuation gap versus its peers.

| Year end | Revenue (A\$m) | Adjusted 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) | 8.1 | 3.9 |
| 06/22 | 9.1 | (7.8) | (12.3) | (2.02) | 4.9 | 3.9 |
| 06/23e | 15.5 | (2.8) | (5.6) | (0.83) | 2.9 | 2.5 |
| 06/24e | 23.5 | 3.2 | 0.4 | 0.05 | 1.9 | 3.5 |

Note: *Adjusted EBITDA excludes non-cash share-based payments. **PBT and EPS are normalised, excluding amortisation of acquired intangibles, other income and exceptional items. ***Net cash is cash less debt and including leases.

International and domestic contract wins

SenSen made progress in its expansion plans both internationally and domestically as it continued its transition to a 'pragmatic SaaS' model. The North American wins included Vancouver and Abbotsford, BC, multiple hospital chains and school districts across the United States, and a rollout in the Las Vegas Airport. Asian wins included expansion in Solaire Casino in the Philippines and two projects in the Port of Singapore. Domestically, SNS has projects underway with multiple Australian city councils, and continued its roll-out across the retail fuel market, with about 430 locations using SenSen's solutions.

Q123: Cash receipts growth and favourable FX rates

SenSen reported a seventh consecutive period of year-on-year cash receipt growth, with cash receipts climbing 39% to A\$2.6m. FX movements also affected Q123's results, as the Australian dollar (which SenSen reports in) was materially weaker against the US dollar (ie the Australian dollar depreciated 6.9% q-o-q versus the US dollar). The company reported gross Q123 cash and equivalents of A\$3.2m and we estimate net cash of A\$0.8m (including leases).

Valuation: Growth potential not being captured

SenSen's shares, down 54% year-to-date, trade at a 1.9x FY24e price/revenue multiple, a discount to its peers despite the company's higher expected growth rates, though some of the gap could be due to the company's liquidity situation. Using the peer average price/sales multiple of 3.9x suggests a share price of A\$0.14, a potential upside of 102%. If SenSen can continue its momentum in wins across the globe and improve cash flows and liquidity (as the current level is only about six months at the Q123 cash burn rate), we expect the gap could narrow.

Software and comp services

7 November 2022

Price **A\$0.07**

Market cap **A\$45m**

US\$0.64/A\$

Pro forma net cash (A\$m) at 30 September 2022 (including leases) 0.8

Shares in issue 651.1m

Free float 45%

Code SNS

Primary exchange ASX

Secondary exchange OTCQB

Share price performance



% 1m 3m 12m

Abs (17.1) (30.0) (53.3)

Rel (local) (21.7) (28.5) (48.9)

52-week high/low A\$0.16 A\$0.06

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

Q223 quarterly activities report January 2023

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Contract wins across the globe drive results

Boosted by multiple contract wins across the globe in Q123, management reported ARR of about A\$7.6m. Furthermore, management expects to approach ARR of about A\$10m by the end of FY23, and a minimum of A\$600k from [recently announced North American contract wins](#) should support that effort. Notable deals include Smart City customer Vancouver, the City of Abbotsford in British Columbia, and several new orders for security operations and safety solutions from leading hospital chains and school districts in the United States. The security and safety wins illustrate SenSen's expansion into the healthcare and education sectors, where its analytics platform gathers data from a network of sensors and enables hospital and university asset managers to optimise the safety and security of patients and students, respectively.

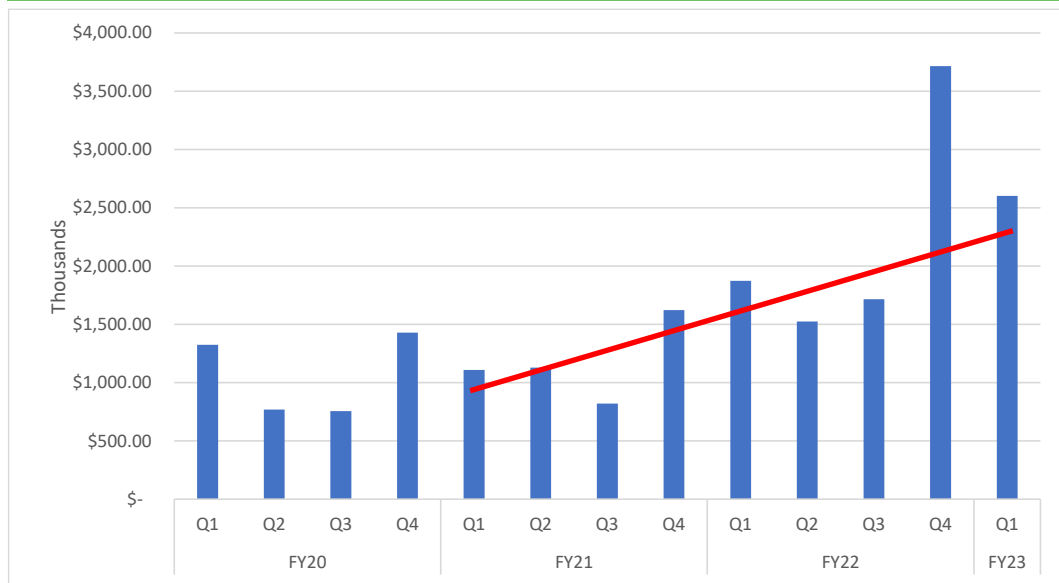
Altogether, the numerous contract wins, along with recent deployments in Illinois, California, Pennsylvania and Oklahoma, reflect how SenSen's land-and-expand sales strategy continues building momentum in North America. SNS's approach is to start by addressing one or more issues with a customer, with the expectation that as the client sees the value of the company's [SenDISA platform](#), it would naturally lead to expanding the platform into other use cases and solutions.

SenSen also won contracts across multiple use cases in Asia and Australia. In the Philippines, Solaire Casino further expanded its usage of SenSen's gaming table solution, while in Singapore, two projects for the Port of Singapore are underway. Management expects that successful completion of these projects would lead to further projects at the Port Authority of Singapore. SenSen also reported progress in the Australian city council projects won near the close of FY22, including Adelaide, Cockburn, Mackay, Toowoomba and others. Furthermore, the company is in discussions with existing and new city council customers across Australia regarding SenSen's solutions. In the Australian fuel retail segment, SenSen continued its rollout, with about 430 locations now using the company's solutions.

Cash receipts and favourable FX movements

In Q123, the company reported A\$2.6m in cash receipts, up from Q122's A\$1.8m. This result is SenSen's second highest ever quarterly collection, after Q422's A\$3.7m (see Exhibit 1). Net cash used in operating activities was A\$2.8m, up A\$1.0m y-o-y due to investments in sales and marketing and R&D to support growth. Net cash used in investing and financing activities were modest at A\$70k and A\$186k, respectively.

Exhibit 1: Quarterly cash receipts from customers (A\$k)



Source: SenSen Networks, Edison Investment Research

FX movements also affected Q123's results, as the Australian dollar (which SenSen reports in) was materially weaker against the US dollar (the Australian dollar depreciated 6.9% q-o-q vs the US dollar). Consequentially, the North American contracts provided foreign currency revenues that helped insulate SenSen from increases in foreign currency inputs. In the event the Australian dollar depreciates further against the US dollar, future wins in the region and the associated foreign currency revenues should leverage the favourable FX movements.

Cash conservation and reaching cash flow positivity by FY24

SenSen ended the quarter with a cash balance of A\$3.2m, down from Q422's A\$6.2m, and unused finance facilities of A\$1.8m. We estimate that SNS has about A\$0.8m in net cash (including leases) as of 30 September.

In a [previous note](#), we discussed SenSen's expense reduction efforts and the drive towards cash flow positivity. Recognising the importance of conserving cash in the current inflationary environment (above 7% in Australia), management continued focusing its attention on cost control and reaching positive cash flow. The company streamlined its operations under a single platform strategy and focused its efforts on those with a direct short- to medium-term revenue opportunity, putting long-term projects on hold. SenSen also removed redundant staffing positions, which should deliver about A\$1.1m in annual savings for about A\$0.1m in one-off costs, as part of the [previously announced A\\$2.5m planned reduction in operating costs](#). Moreover, the company is investigating various working capital facilities to close the timing gap between ordering equipment, customer billing and payment collection. Consequently, management expects to be cash neutral over the period between now and the end of FY23.

As a result of SenSen's cost-saving efforts, the company believes that its cost base is relatively fixed and does not expect it to materially increase. We recognise that macro issues and higher inflation could increase input prices, but we believe these cost-saving efforts should help offset rising costs. Furthermore, many of SenSen's newer contracts contain escalation clauses that pass through higher input prices.

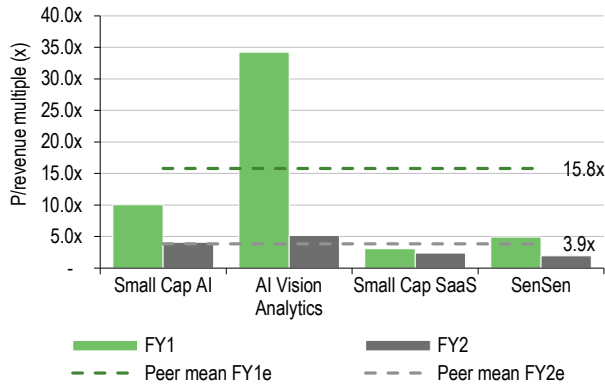
At the current levels of operating cash burn and funding available, management estimates it has about 1.8 quarters worth of funding available. As such, we continue to assume a A\$2m equity raise in FY23 to maintain a minimum level of cash. SenSen expects to move into cash flow positivity and

profitability shortly after the end of FY23. We thus anticipate free cash flow reaching positive levels by FY24, lessening the need for future capital raises to fund operations.

Valuation

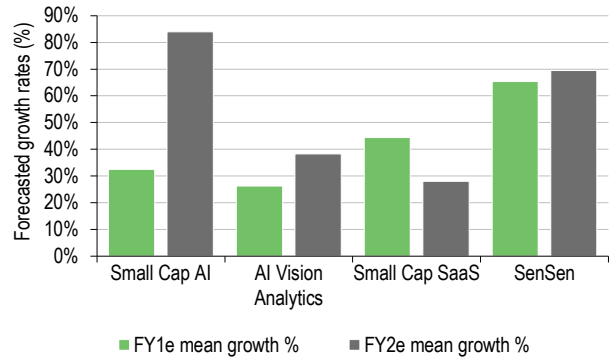
SenSen's shares are down 54% year-to-date, similar to its peer group of small cap AI and SaaS, and vision analytics firms, which are down an average of 48%. The company trades at a 1.9x FY24e price/revenue multiple, a discount to its peers (see Exhibit 2) despite the company's higher expected growth rates (see Exhibit 3), though some of the gap could be due to the company's liquidity situation. Using the peer average price/sales multiple of 3.9x suggests a share price of A\$0.14, a potential upside of 102%. If SenSen can continue its momentum in contract wins across the globe and improve cash flows and liquidity, we expect the gap could narrow.

Exhibit 2: Price/revenue multiple versus peer groups



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

Exhibit 3: 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 1 November 2022.

Exhibit 4: 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 expenses (not including 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 accounts, Edison Investment Research

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