

OXFORD METRICS TECHNOLOGY

27 June 2022

OMG.L

108p

Market Cap: £137.1m

SHARE PRICE (p)



12m high/low 127p/77p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£67.7m (at 22/06/22)
Enterprise value	£69.4m
Index/market	AIM
Next news	Trading update Oct '22
Shares in Issue (m)	126.9
Chairman	Roger Parry
Chief Executive	Nick Bolton
Finance Director	David Deacon

COMPANY DESCRIPTION

Oxford Metrics develops smart sensing software that enables the interface between the real world and its virtual twin.

www.oxfordmetrics.com

OXFORD METRICS IS A RESEARCH CLIENT OF
PROGRESSIVE

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Good news keeps flowing

Oxford Metrics' interim results for the six months ended 31 March 2022 showed a strong performance by the company, most notably with regards to the record strength of the order book, £12.95m at period end. Management estimates that the H1 revenue of £12.55m could have been held back by component supply constraints to the tune of around £2m, but notes that the situation is gradually improving. These results follow the exciting news on 30 May that OM had sold Yotta, its infrastructure asset management software business, for a cash consideration of £52.0m. Management is understandably confident that the company is on track to achieve its financial expectations for the full year. We are revising our estimates to reflect the Yotta disposal but maintain our stance on OM's trading prospects.

- Revenue ahead 12% year on year.** H1 FY22 saw Vicon's revenue ahead of the same period last year by 11.8% at a headline level, with underlying growth (ex Contemplas acquisition) of 5.0%. These figures belie a significantly stronger performance.
- Supply constraints hold back revenue.** Management is confident that it can work through the supply chain challenges and deliver on expectations for the full year. The order book strength (£12.95m at 31 March 2022 vs £0.74m at 31 March 2021) suggests that the demand is certainly there.
- Key market segments performing well.** Performance was encouraging across all of OM's end segments, but Entertainment and Location-Based Entertainment (LBE) were the salient verticals. LBE revenue was up 131% year on year as venue operators would appear to have restarted their roll-out programmes in earnest. Entertainment revenue actually declined marginally (£60k) vs H1 FY21, but the £7.4m Entertainment order book is 10 times that of the entire business at H1 FY21.
- Yotta – helping fund the next steps.** These encouraging results should not overshadow the disposal of Yotta for £52.0m in cash, announced at the end of May. The disposal will leave OM, on our forecasts, with £65.5m of cash at the September 2022 year-end, providing it with significant acquisition firepower.

With end markets bouncing back, forecast year-end cash of £65.5m and a management experienced in adding value through acquisitions, FY22 could mark the start of a sustained period of strong growth for Oxford Metrics.

FYE SEP (£M)	2020	2021	2022E	2023E	2024E
Revenue	30.3	27.6	32.4	36.9	40.9
Adj EBITDA	5.6	5.0	7.4	8.2	9.0
Fully Adj PBT	2.6	4.0	4.1	5.0	5.8
Fully Adj Dil EPS (p)	2.0	3.6	2.9	3.6	4.2
EV/Sales (x)	2.3x	2.5x	2.1x	1.9x	1.7x
EV/EBITDA (x)	12.3x	13.8x	9.4x	8.5x	7.7x
PER (x)	53.5x	30.3x	37.5x	29.8x	25.8x

Source: Company Information and Progressive Equity Research estimates.

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Please refer to important disclosures at the end of the document.

Revenue growth understates performance

Vicon's H1 FY22 revenue was 11.8% ahead of the same period of last year on a headline basis, with underlying growth (ex Contemplas acquisition) of 5%. Beneath this, the underlying performance was even better, as H1 revenue was impacted by supply constraints. Management has suggested that the impact could have been in the region of £2m. If Contemplas' £0.77m revenues were not impacted by the supply constraints, this would imply that, without these issues, OM could have seen organic growth of over 20%.

Encouraging performance across all market segments

Performance was encouraging across all of OM's end segments, but Entertainment and Location-Based Entertainment were the salient verticals. This is encouraging for us as these are the segments that we identified in our initiation report as possible drivers to significant share price performance (see '*Value in motion*').

Revenue and order book by market

Revenue / Order book by market	H1 FY22 £m	H1 FY21 £m	Change £m	Change %	Order Book £m
Engineering	2.68	2.47	0.21	8.3%	1.15
Entertainment	3.96	4.02	-0.06	-1.7%	7.37
Life Sciences	4.64	4.18	0.46	11.0%	3.47
Location Based Entertainment	1.27	0.55	0.72	131.3%	0.96
Vicon	12.55	11.22	1.33	11.8%	12.95

Source: OM

Location-Based Entertainment revenue was up 131% on 1H FY21 as venue operators would appear to have restarted their roll-out programmes in earnest. Management stated that operators are back on the front foot across resort, destination and high street business models. While it is still not the primary driver to revenue growth, we share management's enthusiasm for the growth that this market could generate in the medium to long term.

Entertainment revenue actually declined marginally (£60k) vs H1 FY21 but the £7.4m order book is 10 times that of the entire business at the same point of last year. This order book, according to management, contains orders from across gaming, film and TV. This gives us comfort that the double-digit % annual growth in revenue we had applied in our forecasts can be matched.

Engineering's 8.3% increase in revenue vs 1H FY21 may contain an element of business held back over the pandemic, but even with this the order book of £1.2m suggests that the segment should continue on its long-term path of mid-single figures revenue growth.

Life Sciences 11% increase in revenue vs H1 FY21 was, we believe, driven by the Contemplas acquisition in August 2021. However, that aside, the £3.5m order book is a clear indication that Vicon's core Life Sciences business is seeing an organic recovery.

Working around supply chain constraints

Management is confident that it can work through the supply chain challenges and deliver on financial expectations for the full year. The order book strength suggests that the demand is certainly there. The issues now lie with production of components rather than logistics, as was the case for much of the pandemic. That is not, however, to say that these pressures will disappear anytime soon, and management suggests that they could be a feature of OM's markets (and perhaps many others) across CY22 and CY23.

Yotta disposal – to fund acquisitions and organic investment

These encouraging results should not overshadow the disposal of Yotta. Based on Yotta's headline reported revenues for FY21 of £8.1m, this is a trailing EV/Sales multiple of 6.5x, and 5.8x on our FY22 revenue estimate of £9.0m. While not in what might be seen as bubble territory, PE-backed Causeway Technologies is clearly paying a price that reflects the growth opportunity at Yotta and the benefits it can bring alongside Causeway's existing construction and maintenance management software offerings.

The disposal will leave Oxford Metrics, on our forecasts, with £65.5m of cash at the September 2022 year-end, and per the interims release with £67.7m of cash as at 22 June. Prior to the transaction, management had stated it believed that with debt and nearly £20m in cash, the group had acquisition firepower of £70m. The company now has that level of firepower without taking on any significant debt.

Although there might be some demand for a return of capital to investors, we expect that there will be a far greater call for management to reapply the capital. Management has just delivered a profit of over £40m on the sale of Yotta, so it would appear wise to see what the team can do with the funds.

Management has provided some additional clarity on the possible M&A targets, stating that acquisitions would be directly relevant to Vicor and its technologies and skills. We note that the Oxford Metrics management team patiently built Yotta up over the best part of two decades and that it has historically been considered in its approach to acquisitions, investing mainly in areas the team is familiar with and in companies / managements that it has become comfortable with over a number of years.

Estimate revisions to reflect the Yotta disposal

We have adjusted our estimates for FY22, FY23 and FY24, removing Yotta and leaving underlying trading at Vicor as before.

Revisions to estimates post Yotta disposal

£m unless stated	FY22E		FY23E		FY24E	
	Old	New	Old	New	Old	New
Revenue	41.3	32.4	46.5	36.9	51.0	40.9
Adj EBITDA	8.5	7.4	9.9	8.2	11.1	9.0
Fully adj PBT	5.1	4.1	6.3	5.0	7.2	5.8
Fully adj Dil EPS (p)	3.7	2.9	4.5	3.6	5.2	4.2
Net cash	17.7	65.5	20.1	65.3	23.2	65.1

Source: Progressive Equity Research estimates

Financial Summary: Oxford Metrics

Year end: Sep (£m unless shown)

	2020	2021	2022E	2023E	2024E
PROFIT & LOSS					
Revenue	30.3	27.6	32.4	36.9	40.9
Adj EBITDA	5.6	5.0	7.4	8.2	9.0
Adj EBIT	3.2	5.0	4.5	5.4	6.2
Reported PBT	1.6	3.6	47.8	4.6	5.4
Fully Adj PBT	2.6	4.0	4.1	5.0	5.8
NOPAT	2.6	4.5	3.7	4.6	5.3
Reported EPS (p)	1.3	2.4	37.5	3.3	3.9
Fully Adj Dil EPS (p)	2.0	3.6	2.9	3.6	4.2
Dividend per share (p)	1.8	2.0	2.2	2.4	2.7
CASH FLOW & BALANCE SHEET					
Operating cash flow	7.0	14.5	2.3	7.5	8.2
Free Cash flow	6.9	14.4	1.8	7.1	7.7
FCF per share (p)	5.5	11.4	1.5	5.6	6.1
Investment / Acquisitions	(3.1)	(4.2)	(4.2)	(4.5)	(4.8)
Disposals	0.0	0.0	49.7	0.0	0.0
Shares issued	0.3	0.7	0.0	0.0	0.0
Net cash flow	1.1	8.0	44.2	(0.7)	(0.7)
Overdrafts / borrowings	(2.3)	(2.1)	(1.6)	(1.1)	(0.6)
Cash & equivalents	14.9	23.0	67.2	66.4	65.7
Net (Debt)/Cash	12.6	20.8	65.5	65.3	65.1
NAV AND RETURNS					
Net asset value	30.7	32.4	77.3	78.7	80.6
NAV/share (p)	24.4	25.6	60.7	61.8	63.3
Net Tangible Asset Value	18.2	18.9	68.1	68.2	68.6
NTAV/share (p)	14.5	14.9	53.5	53.6	53.8
Average equity	31.0	31.6	54.9	78.0	79.6
Post-tax ROE (%)	8.4%	14.0%	4.7%	5.9%	6.6%
METRICS					
Revenue growth	(14.3%)	(9.0%)	17.4%	14.0%	10.9%
Adj EBITDA growth	(31.3%)	(11.2%)	47.1%	11.2%	9.7%
Adj EBIT growth	(51.1%)	55.2%	(10.7%)	20.7%	14.7%
Adj PBT growth	(53.2%)	57.4%	1.8%	22.6%	15.8%
Adj EPS growth	(48.2%)	76.2%	(19.1%)	25.8%	15.7%
Dividend growth	0.0%	- 11.1%_	- 10.0%_	- 9.1%_	- 10.4%_
Adj EBIT margins	8.8%	18.2%	13.8%	14.6%	15.1%
VALUATION					
EV/Sales (x)	2.3	2.5	2.1	1.9	1.7
EV/EBITDA (x)	12.3	13.8	9.4	8.5	7.7
EV/NOPAT (x)	27.0	15.3	18.9	15.0	13.0
PER (x)	53.5	30.3	37.5	29.8	25.8
Dividend yield	1.7%	1.9%	2.0%	2.2%	2.5%
FCF yield	5.1%	10.5%	1.3%	5.2%	5.6%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

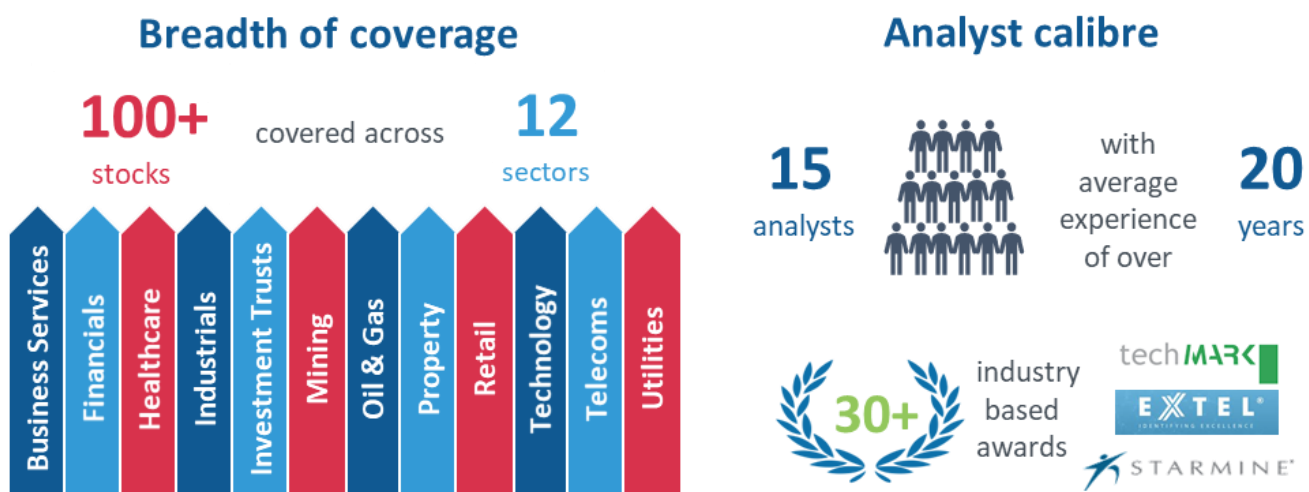
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