OXFORD METRICS

TECHNOLOGY

29 September 2022

OMG.L

81.5p

Market Cap: £103.8m

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	£36.1m
Index/market	AIM
Next news	Trading update Oct '22
Shares in Issue (m)	127.4
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

ANALYSTS

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Supply chain issues vs strong demand

Oxford Metrics' full-year trading update stated that supply chain problems have led to £3.5m of shipments being deferred from FY22 into H1 FY23. However, demand remains strong, with Oxford Metrics once again having a record order book. We have adjusted our forecasts to reflect the impact on FY22. Elsewhere the Location-based Entertainment market continues to grow, with contract wins and leading customers continuing aggressive roll-outs. This is a frustration but does not alter the positive, technology application and adoption driven investment case.

- **Supply chain issues restrict FY22 output.** The trading update, issued on 27 September, disclosed that Oxford Metrics has been affected by the problems of the wider electronics and semiconductor supply chains and as a result has been unable to fulfil £3.5m in orders that were expected to ship in FY22 (year-end September). More positively, the announcement stated that the order book is at a record level, confirming that demand for motion measurement remains strong.
- **FY22 estimates cut, FY23 held.** We have adjusted our forecasts to reflect the volume constraint this year (see details overleaf). We share management's view that they are sales delayed rather than sales lost. However, noting that output could be limited across the whole year, we are not, at present, upping our FY23 estimates to reflect a full rollover of these revenues into FY23.
- **Impact on estimates clear.** The £3.5m delay is in overall systems sales, mixing hardware, software and services. Management has, to an extent, mitigated the impact through constraining costs and spends. Our forecasts include a £1m benefit from this. These feed through into a decline in FY22E adjusted PBT of £1.6m, from £4.1m to £2.5m.
- **Positive news from Location-based Entertainment (LBE).** A news release from Oxford Metrics' Vicon subsidiary, also issued on 27 September, disclosed that it has won further contracts for the supply of motion measurement systems to Sandbox VR.
- **More good news beyond Sandbox VR.** We note from its website that Immersive Gamebox (IG), another of Oxford Metrics' leading LBE customers, is also working hard on its roll-out and on developing its game offering. Its website now shows a further eight locations opening in 2022 and over 100 planned for 2023 worldwide.

FYE SEP (£M)	2020	2021	2022E	2023E	2024E
Revenue	30.3	27.6	28.9	36.9	40.9
Adj EBITDA	5.6	5.0	5.8	8.2	9.0
Fully Adj PBT	2.6	4.0	2.5	5.0	5.8
Fully Adj Dil EPS (p)	2.0	3.6	1.7	3.6	4.2
EV/Sales (x)	1.2x	1.3x	1.3x	1.0x	0.9x
EV/EBITDA (x)	6.4x	7.2x	6.2x	4.4x	4.0x
PER (x)	40.3x	22.9x	48.9x	22.5x	19.5x

Source: Company Information and Progressive Equity Research estimates.

Supply chain issues vs strong demand

Global electronics supply chain turmoil impacts

Oxford Metrics' trading update disclosed that the group has been affected by the problems with the wider electronics and semiconductor supply chains, and as a result of key component shortages has been unable to fulfil £3.5m in orders that were expected to ship in FY22 (year-end September). More positively, the announcement also stated that the order book is at a record level, suggesting that demand for motion measurement remains strong.

We have adjusted our forecasts to reflect the constraint on volume this year. These are commercial sales of capital equipment, so we share management's view that they are sales delayed rather than sales lost. However, noting that output could be limited across the whole year, we are not, at present, upping our FY23 estimates to reflect a full rollover of these revenues into FY23 on top of existing expectations for that year.

Should the supply chain free up, or management find alternative solutions, then we could well see these sales made in FY23 incremental to our existing forecasts.

The £3.5m is in overall systems sales, mixing hardware, software and services. We model an overall gross margin on these revenues of 71.5%, suggesting a knock at gross margin levels of £2.5m. Management has mitigated the impact through constraining costs and spends, to an extent. Our forecasts include an approximate £950k benefit from this.

Estimate revisions

	FY22E				FY23E			
£m unless stated	**Old**	**New**	**Change**	**Change %**	**Old**	**New**	**Change**	**Change %**
Revenue	32.4	28.9	-3.5	-10.8%	36.9	36.9	0.0	0.0%
Adj EBITDA	7.4	5.8	-1.6	-21.6%	8.2	8.2	0.0	0.0%
Fully adj PBT	4.1	2.5	-1.6	-39.0%	5.0	5.0	0.0	0.0%
Fully adj Dil EPS (p)	2.9	1.7	-1.2	-41.4%	3.6	3.6	0.0	0.0%
Net cash	65.5	65.2	-0.3	-0.5%	65.3	64.6	-0.7	-1.1%

Source: Progressive Equity Research

Location-based Entertainment continues to build

A news release issued on 27 September by Oxford Metrics' Vicon subsidiary disclosed that it has won further contracts for the supply of motion measurement systems to Sandbox VR, the leader in Location-based Virtual Reality (LBVR). Sandbox VR uses Vicon at 26 venues worldwide, having started working with Vicon back in 2019. Its recent opening in London marks its first move into Europe, and it has also announced the opening of five new locations in North America.

Sandbox VR provides high-end, full-body virtual reality experiences. It is in the vanguard with both technology adoption and application and, following a $37m Series B round in November 2021, it is well-funded with some of the most respected names in the business behind it, notably Andreesen Horowitz.

Looking beyond the immediate newsflow, we note from its website that Immersive Gamebox (IG), the renamed Electric Gamebox, one of Oxford Metrics' other notable LBE customers, is also working hard on developing its game offering and on its roll-out. With regard to the game offerings, it is particularly encouraging to see that owners of entertainment IP, such as Netflix with Squid Games, are using LBE and Immersive Gamebox as a route to market. IG focuses more on gaming and participant interaction, rather than the precision of its imagery. Its website shows a further eight locations opening in 2022 and over 100 planned for 2023 worldwide, in addition to the fourteen it has operating at present.

Financial Summary: Oxford Metrics

Year end: Sep (£m unless shown)

PROFIT & LOSS	2020	2021	2022E	2023E	2024E
Revenue	30.3	27.6	28.9	36.9	40.9
Adj EBITDA	5.6	5.0	5.8	8.2	9.0
Adj EBIT	3.2	5.0	2.9	5.4	6.2
Reported PBT	1.6	3.6	46.3	4.6	5.4
Fully Adj PBT	2.6	4.0	2.5	5.0	5.8
NOPAT	2.6	4.5	2.1	4.6	5.3
Reported EPS (p)	1.3	2.4	36.3	3.3	3.9
Fully Adj Dil EPS (p)	2.0	3.6	1.7	3.6	4.2
Dividend per share (p)	1.8	2.0	2.2	2.4	2.7
CASH FLOW & BALANCE SHEET	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Operating cash flow	7.0	14.5	1.9	7.2	7.9
Free Cash flow	6.9	14.4	1.5	6.8	7.4
FCF per share (p)	5.5	11.4	1.2	5.4	5.9
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	43.9	(1.1)	(1.0)
Overdrafts / borrowings	(2.3)	(2.1)	(1.6)	(1.1)	(0.6)
Cash & equivalents	14.9	23.0	66.9	65.8	64.8
Net (Debt)/Cash	12.6	20.8	65.2	64.6	64.2
NAV AND RETURNS	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Net asset value	30.7	32.4	75.8	77.2	79.0
NAV/share (p)	24.4	25.6	59.5	60.6	62.0
Net Tangible Asset Value	18.2	18.9	66.5	66.7	67.0
NTAV/share (p)	14.5	14.9	52.2	52.3	52.6
Average equity	31.0	31.6	54.1	76.5	78.1
Post-tax ROE (%)	8.4%	14.0%	2.8%	6.0%	6.8%
METRICS	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Revenue growth	(14.3%)	(9.0%)	4.7%	27.8%	10.9%
Adj EBITDA growth	(31.3%)	(11.2%)	16.1%	41.0%	9.7%
Adj EBIT growth	(51.1%)	55.2%	(41.8%)	85.2%	14.7%
Adj PBT growth	(53.2%)	57.4%	(36.9%)	97.8%	15.8%
Adj EPS growth	(48.2%)	76.2%	(53.2%)	117.2%	15.7%
Dividend growth	0.0%	11.1%	10.0%	9.1%	10.4%
Adj EBIT margins	8.8%	18.2%	10.1%	14.6%	15.1%
VALUATION	**2020**	**2021**	**2022E**	**2023E**	**2024E**
EV/Sales (x)	1.2	1.3	1.3	1.0	0.9
EV/EBITDA (x)	6.4	7.2	6.2	4.4	4.0
EV/NOPAT (x)	14.0	8.0	17.0	7.8	6.8
PER (x)	40.3	22.9	48.9	22.5	19.5
Dividend yield	2.2%	2.5%	2.7%	2.9%	3.3%
FCF yield	6.7%	13.9%	1.5%	6.6%	7.2%

Source: Company information and Progressive Equity Research estimates

29 September 2022

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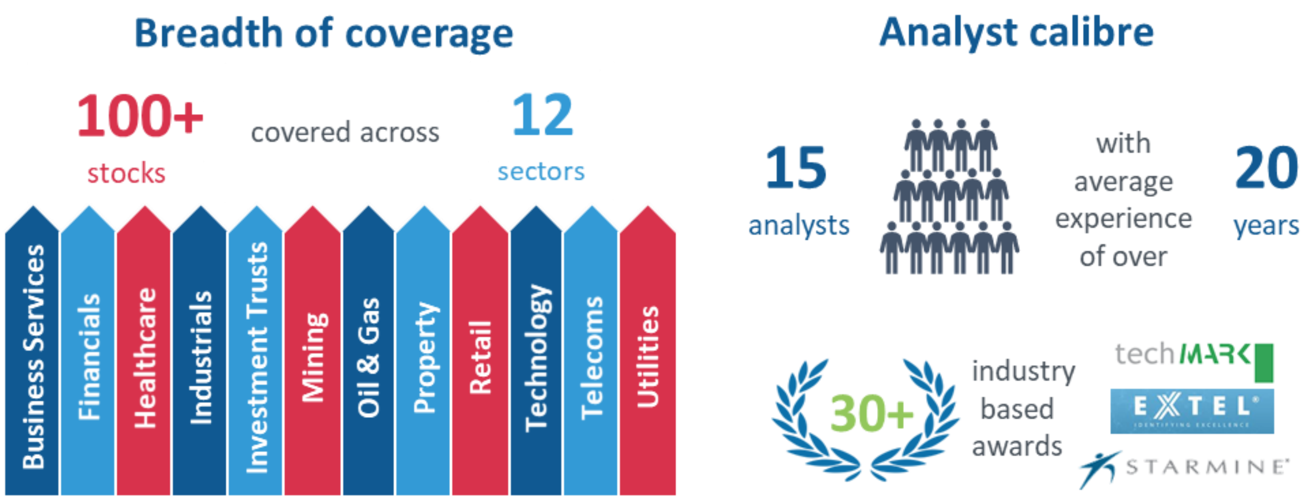

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