

# SenSen Networks

Positioned to scale on a lower cost base

SenSen Networks (SNS) reported its ninth consecutive quarter of year-on-year record cash receipts in Q323, with growth across all key verticals and no customer churn. The company has also introduced further measures to achieve cash flow positivity and profitability from Q423, focusing on upselling to existing customers and introducing a salary sacrifice scheme for senior staff. We moderate our revenue growth forecasts to reflect these measures but upgrade our profitability and cash forecasts as a result. The short to medium term is likely to see greater focus on the smart cities segment, where the company has established a promising international market presence and where it has considerable scope to expand its engagements in its existing customer base. This positions SenSen well to scale more profitably in the mid-term.

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)	(0.59)	5.4	(3.9)
06/22	9.1	(7.8)	(12.5)	(1.42)	3.3	(3.9)
06/23e	11.1	(3.5)	(5.4)	(0.62)	2.7	(2.6)
06/24e	17.0	3.6	1.5	0.33	1.8	(4.3)

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

## Positioned for profit and cash flow positivity

SenSen's Q323 customer cash receipts increased by 69% y-o-y. Our forecasts indicate further q-o-q growth in Q4, although we have lowered our FY23 revenue expectations to reflect managements' drive for margin expansion over top-line growth. The implementation of a salary sacrifice plan for senior staff is expected to have an annualised impact of A\$0.5m. Management believes it is on track to move to profitability and cash flow positivity in Q423 and beyond. We slightly increase our FY23 EBITDA loss estimate but increase our FY24 EBITDA and net cash estimates (detailed below) to reflect the timing of these cost reduction measures. SenSen's balance sheet remains robust, with A\$1.7m undrawn in existing credit facilities.

## Promising progress in smart cities

To optimise the use of resources, the group focused on upselling to drive growth, most notably delivering a three-year contract extension with the adoption of two additional products by the City of Las Vegas, one of the largest customers in its smart cities segment. It delivered additional upselling in smart cities across client sizes and secured contract wins, expanding its Canadian customers from two to nine in the year, highlighting its ability to rapidly scale in new regions. SenSen recently announced a proof of concept (POC) road condition monitoring contract with Transport for New South Wales, using its SenMAP technology. If successful, this contract is expected to convert into a recurring revenue stream, and the recent flooding problems in Australia provide significant scope for rapid expansion.

## Valuation: Discount to peers remains

SenSen trades at 2.7x and 1.8x sales in FY23e and FY24e respectively, at an average 36% discount to peers. Delivering another record quarter and achieving our forecasts could act as a catalyst, helping to close this current discount.

Q323 activity report

Software and comp services

11 May 2023

**Price** **A\$0.04**

**Market cap** **A\$30m**

US\$0.66/A\$

Net debt (A\$m) at 31 March 2023 0.8  
(includes H123 leases of A\$0.9m)

Shares in issue 678.7m

Free float 67%

Code SNS

Primary exchange ASX

Secondary exchange OTCQB

### Share price performance



% 1m 3m 12m

Abs 2.2 (9.8) (48.9)

Rel (local) 1.7 (7.6) (50.0)

52-week high/low A\$0.10 A\$0.04

### Business description

SenSen Networks, an Australia-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

FY23 annual report September 2023

### Analysts

Max Hayes +44 (0)20 3077 5721

Dan Ridsdale +44 (0)7930 166512

[tech@edisongroup.com](mailto:tech@edisongroup.com)

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## Scope for SenMAP contract expansion

On 3 May, SenSen announced that it had won a A\$145k initial POC contract with Transport for New South Wales for its new SenMAP, AI-based asset mapping technology (see video below). SenMAP will be trialled over 200km of road to showcase the software's ability to complete asset audits such as detecting street signs, fire hydrants, meters etc, at a significantly lower cost than the high-cost sensors which are currently used throughout Australia. If successful, management anticipates that this should convert into a recurring revenue opportunity following the end of the trial in August.

**Exhibit 1: SenMAP promotional video**



Source: SenSen Networks.

SenMAP is currently being trialled across Brisbane, Sunshine Coast, Gold Coast, Vancouver, Chicago and Toronto, generating a total of A\$150k to date. Recent high levels of flooding in Australia have increased the need for regular asset audits in cities, providing a strong catalyst for the adoption of a low-cost solution throughout the country, such as SenMAP.

## Cash forecasts raised following cost-cutting measures

In addition to the A\$2.5m annualised cost saving measures undertaken in the first half of the year (analysed in our [previous note](#)), which included role reductions and office relocations, management opened a salary sacrifice plan for its senior staff members on 1 May 2023. Selected staff will receive ordinary shares in lieu of 20% of their salary calculated on a 20-day volume-weighted average price. Management anticipates that this will result in an annualised A\$0.5m of cost savings, which we have partially reflected in our FY23 net cash forecasts. The full benefit of the plan can be seen in FY24.

**Exhibit 2: Changes to forecasts**

A\$m	FY23e				FY24e			
	Old	New	Change	y-o-y change	Old	New	Change	y-o-y change
Revenue	15.5	11.1	(28.4)%	21.4%	23.5	17.0	(27.7)%	53.2%
Gross profit	10.8	7.7	(28.8)%	36.8%	17.0	12.4	(27.0)%	61.5%
Gross margin	69.8%	69.4%	(0.4)%	7.8%	72.5%	73.2%	0.7%	3.8%
Adjusted EBITDA	(2.8)	(3.5)	(25.5)%	55.0%	3.2	3.6	13.8%	N/A
Normalised EBIT	(5.3)	(3.9)	26.2%	67.2%	0.6	3.2	431.5%	N/A
Normalised PBT	(5.6)	(4.2)	25.1%	66.0%	0.4	3.0	592.4%	N/A
EPS - normalised, diluted (c)	(0.83)	(0.62)	25.2%	69.4%	0.05	0.33	581.9%	N/A
Cash flow from operations	(2.5)	(2.3)	6.7%	69.4%	1.9	2.9	47.9%	N/A
Net cash/(debt) including leases	2.5	2.6	1.8%	34.3%	3.5	4.3	21.5%	66.8%

Source: Edison Investment Research

We have lowered our revenue expectations for FY23 and FY24, reflecting SenSen's focus on delivering profits and positive cash flow from Q423 at the expense of some top-line growth. We understand that some opportunities, while still very much alive, may have been delayed, particularly within SenSen's large government customer base, while the legal dispute with Angel Group (discussed below) is suppressing activity in the casino segment.

The group's balance sheet remains robust, with virtually zero net debt excluding leases and an additional A\$1.7m undrawn in its current credit facilities. Management also expects to add a further A\$0.6m to its Rocking Horse capital facility (to be settled in June 2023), which should provide protection in the case of any unforeseen short-term shocks. Moving to profitability in FY24 should mitigate the need to raise further capital.

## Update on the Angel dispute

On 7 March, SenSen announced that the first case management hearing for a patent dispute with Angel Group had taken place in the Federal Court of Australia. On 24 April, SenSen announced that it had been served with a similar claim in the Philippines regarding Angel's Philippine patents. Management claims that this type of legal action is not uncommon in the gaming industry. The casino segment accounts for less than 10% of overall revenues, and the legal costs are covered by the company's IP insurance. Both underpin management's confidence that this dispute should not have a material impact on the group.

**Exhibit 3: Financial summary**

	A\$'000s	2021	2022	2023e	2024e
31-December		IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>					
Revenue		5,533	9,145	11,100	17,000
Cost of Sales		(2,030)	(3,513)	(3,397)	(4,560)
Gross Profit		3,503	5,633	7,703	12,440
Other income		2,807	2,978	2,200	2,200
Operating expense (not including share-based payments)		(8,518)	(16,362)	(13,391)	(10,999)
EBITDA		(2,209)	(7,751)	(3,488)	3,641
Normalised operating profit		(2,685)	(8,337)	(3,947)	3,167
Amortisation of acquired intangibles		(83)	(536)	(500)	(500)
Exceptionals		0	0	0	0
Share-based payments		(72)	(3,173)	(750)	(1,000)
Reported operating profit		(2,840)	(12,046)	(5,197)	1,667
Net Interest		(176)	(254)	(237)	(162)
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	(154)	0	0
Profit Before Tax (norm)		(2,861)	(8,591)	(4,184)	3,005
Profit Before Tax (reported)		(3,016)	(12,454)	(5,434)	1,505
Reported tax		(6)	225	(33)	(301)
Profit After Tax (norm)		(2,878)	(8,641)	(4,208)	2,404
Profit After Tax (reported)		(3,022)	(12,229)	(5,467)	1,204
Minority interests		0	0	0	0
Discontinued operations		0	0	0	0
Net income (normalised)		(2,878)	(8,641)	(4,208)	2,404
Net income (reported)		(3,022)	(12,229)	(5,467)	1,204
Basic average number of shares outstanding (m)		484	608	679	729
EPS - basic normalised (c)		(0.59)	(1.42)	(0.62)	0.33
EPS - diluted normalised (c)		(0.59)	(1.42)	(0.62)	0.33
EPS - basic reported (c)		(0.62)	(2.01)	(0.80)	0.17
Dividend (c)		0.00	0.00	0.00	0.00
Revenue growth (%)		47.0	65.3	21.4	53.2
Gross Margin (%)		63.3	61.6	69.4	73.2
EBITDA Margin (%)		-39.9	-84.8	-31.4	21.4
Normalised Operating Margin		-48.5	-91.2	-35.6	18.6
<b>BALANCE SHEET</b>					
Fixed Assets		2,168	9,127	8,852	8,577
Intangible Assets		1,300	8,281	7,781	7,281
Tangible Assets		800	770	995	1,220
Investments & other		68	75	75	75
Current Assets		8,022	11,391	10,483	11,474
Stocks		241	232	168	175
Debtors		979	1,943	1,825	2,655
Cash & cash equivalents		5,176	6,214	5,414	5,123
Other		1,625	3,002	3,076	3,521
Current Liabilities		3,946	8,185	9,663	7,675
Creditors		750	1,239	1,949	1,356
Tax and social security		0	0	0	0
Short term borrowings		861	1,954	2,488	488
Lease liabilities		306	185	185	185
Other		2,028	4,806	5,040	5,645
Long Term Liabilities		244	201	201	201
Long term borrowings		0	0	0	0
Lease liabilities		138	183	183	183
Other long term liabilities		106	19	19	19
Net Assets		6,000	12,132	9,470	12,174
Minority interests		0	0	0	0
Shareholders' equity		6,000	12,132	9,470	12,174
<b>CASH FLOW</b>					
Op Cash Flow before interest and tax		(3,250)	(7,770)	(2,334)	2,862
Net interest		(127)	(117)	(237)	(162)
Tax		(31)	0	(33)	(301)
Net operating cash flow		(3,409)	(7,887)	(2,603)	2,399
Capex		(253)	(254)	(400)	(400)
Acquisitions/disposals		0	(1,080)	0	0
Equity financing		7,043	9,644	1,930	0
Borrowings		(414)	1,120	534	(2,000)
Dividends		0	0	0	0
Other		(253)	(506)	(260)	(290)
Net Cash Flow		2,714	1,037	(800)	(291)
Opening net debt/(cash)		(1,150)	(4,315)	(4,259)	(2,926)
FX		0	0	0	0
Movement in borrowings		451	(1,093)	(534)	2,000
Closing net debt/(cash)		(4,315)	(4,259)	(2,926)	(4,635)
Closing net debt/(cash) w/ leases		(3,871)	(3,891)	(2,558)	(4,266)

Source: SenSen Networks, Edison Investment Research

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