

# Zacks Small-Cap Research

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## VIQ Solutions

(VQSLF-OTC)

### VQSLF: Expect Accelerating Momentum Over 2021

### OUTLOOK

We expect revenue momentum to build in 2021. The \$30 million multiyear contract with Queensland in Australia, which equates to \$5 million of annualized revenue over a six-year period, is expected to commence this year. VIQ also expects to begin generating revenue from its new *First Draft* product this year. First Draft enables faster turnaround of transcripts leveraging the VIQ speech recognition engine.

VIQ has made substantial investments in technology and infrastructure in order to strengthen the platform and enable scale as the company grows in its four key targeted verticals and to launch what the company calls "VIQ 3.0," the next-gen phase of the company and its growth strategy. Moreover, consistent with the ongoing strategy to enhance organic growth with complementary acquisitions, VIQ targets at least two acquisitions in 2021 to add transformative technology, accelerate growth and possibly expand its geographic footprint.

Current Price (5/27/21) \$7.29  
Valuation \$10.00

### SUMMARY DATA

52-Week High \$7.92  
52-Week Low \$2.07  
One-Year Return (%) 231  
Beta -0.46  
Average Daily Volume (sh) 27,930

Risk Level High  
Type of Stock N/A  
Industry Technology Services  
Zacks Rank in Industry N/A

Shares Outstanding (mil) 25  
Market Capitalization (\$mil) \$190  
Short Interest Ratio (days) 2.5  
Institutional Ownership (%) 10%  
Insider Ownership (%) 21%

Annual Cash Dividend \$0.00  
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates  
Sales (%) N/A  
Earnings Per Share (%) N/A  
Dividend (%) N/A

P/E using TTM EPS N/A  
P/E using 2021 Estimate N/A  
P/E using 2022 Estimate N/A

Zacks Rank N/A

### ZACKS ESTIMATES

#### Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2019	6.4	6.2	6.5	6.1	25.1
2020	7.5A	8.3A	8.2A	7.8A	31.7 A
2021	8.3A	10.0E	10.4E	10.6E	39.2 E
2022					47.0 E

#### Per Share Data

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2019	-0.12	-0.17	0.04	-0.25	-0.49
2020	-0.37A	-0.05A	-0.02A	-0.18A	-0.62A
2021	-0.07A	-0.01E	0.00E	-0.00E	-0.08E
2022					0.07E

Quarters might not sum due to rounding & share counts  
PF for reverse stock split. Disclosures on page 9

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## KEY POINTS

- VIQ reported 1Q21 results earlier this month, with revenue reaching a record \$8.3 million, which represents a roughly 9.4% y/y advance. The revenue increase primarily reflects higher software license sales, professional service revenue and software support, as well as the full quarter consolidation of acquisitions made in 2020.
- Revenue in Australia, where results had been impacted by the pandemic and accompanying closures of courts and many businesses, grew roughly 22.5% year-over-year. VIQ is optimistic that the openings in Australia portend well for overall trends.
- Gross margin for 1Q21 was 49% compared to 43% in 1Q20. The increase in gross profit is primarily due to higher software license and support sales, as well as productivity gains as the company migrates its customers to the NetScribe AI-enabled platform. VIQ also received COVID-19 related wage subsidies.
- In 2021, VIQ intends to focus on measures to drive further growth and profitability and strengthen its market position. The company has a strong cash position to advance its objectives. In 1Q21, VIQ closed an upsized \$15.3 million equity offering and ended the quarter with \$16.0 million in cash and equivalents.
- Strategic M&A has long formed a core component of the company's strategy. In 2021, VIQ intends to leverage M&A to acquire transformative technology that can help accelerate growth. The company is also open to expanding its global footprint via strategic M&A and targets at least two acquisitions.
- We expect revenue momentum to build over 2021. For instance, the above-noted 1Q21 revenue advance in Australia bodes well for the \$30 million multiyear contract with Queensland in Australia, which management expects will commence this year. The contract term equates to \$5 million of annualized revenue over a six-year period, with expected gross margins of 50% to 55%.
- VIQ also expects to begin generating revenue from its new *First Draft* product this year. *First Draft* enables faster turnaround of transcripts in advance of editing, converting audio files to text quickly by leveraging the VIQ speech recognition engine.
- We expect multiple expansion on VIQ shares and are revising our valuation from \$8.00 per share to \$10. This equates to about 6x 2022E revenue, which is below the group average multiple.

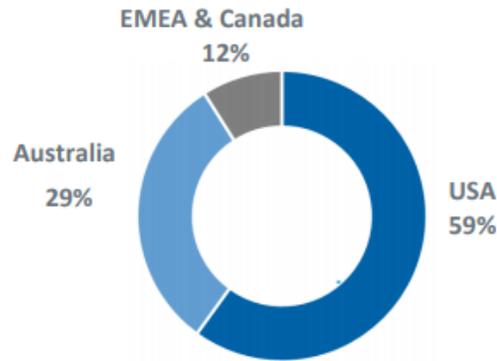
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## 1Q21 HIGHLIGHTS

### ***Revenue Up 9%; Expect Momentum to Build Over 2021***

VIQ Solutions (VQSLF-OTC and VQS-TSXV) reported 1Q21 results earlier this month. Revenue in 1Q21 reached a record \$8.3 million, which represents a roughly 9.4% year-over-year advance compared to \$7.5 million in 1Q20. The revenue increase primarily reflects higher software license sales, professional service revenue and software support. Moreover, VIQ consolidated the acquisitions it made in 2020 for a full quarter. At the same time, in Australia, where results had been impacted by the pandemic and the accompanying closures of courts and many businesses, revenue in Australia grew roughly 22.5% year-over-year. VIQ is optimistic that the openings in Australia portend well for overall trends. Australia accounts for about 29% of total revenue.

## REVENUE BY GEOGRAPHY



Source: Company reports

In the U.S., which accounts for about 59% of total revenue, revenue fell 8.6% compared to 1Q20, primarily reflecting the negative impact of the pandemic, mainly in the Insurance silo. However, the company noted that business volumes began to increase in March. VIQ expects steady increases throughout 2Q21, as clients resume pre-pandemic operational levels. The benefit of these positive factors was partially offset by lower revenue from technology services, reflecting the ongoing overhang of the pandemic in many of VIQ's markets.

Gross margin for 1Q21 was \$4.0 million, or 49% of revenue. The 1Q21 margin expanded from 43% in 1Q20. The increase in gross profit is primarily due to higher software license and support sales, as well as productivity gains as the company migrates its customers to the NetScribe AI-enabled platform and COVID-19 related wage subsidies.

VIQ recorded adjusted EBITDA of \$335,056 in 1Q21. This represents a 44% year-over-year decline from adjusted EBITDA of \$600,417 in 1Q20. The decrease primarily reflected higher professional service fees and TSX up listing fees. The net loss was \$1.7 million in 1Q21, significantly narrower than the \$6.7 million net loss incurred in 1Q20.

### 2021 Outlook For Accelerating Organic Growth ...

In 2021, VIQ intends to focus on measures to drive further growth and profitability and strengthen its market position. For instance, the company intends to:

- Invest in sales & marketing, as well as technology and other areas of operation
- Further integrate recently acquired business
- Continue to migrate customers to the cloud-based platform
- Expand its global footprint organically and via strategic M&A – at least two acquisitions targeted
- Continue to develop AI-driven solutions for client

VIQ has a strong cash position to advance its objectives. In 1Q21, VIQ closed an upsized \$15.3 million equity offering on a bought deal basis of 4.7 million shares at C\$4.25 (USD\$3.24) per share in 1Q21. Reflecting, we believe, strong demand during the offering, the underwriters increased the size of the bought deal to 4.7 million shares from 3.5 million shares originally. The company ended the quarter with \$16.0 million in cash and equivalents.

Certain revenue catalysts are expected to occur in 2H21. For instance, the 1Q21 revenue advance in Australia bodes well for the \$30 million multiyear contract with Queensland in Australia to commence

beginning later this year. Specifically, the new Queensland contract adds courtroom monitoring and transcription services for approximately 50% of Queensland's court cases.

The contract term equates to \$5 million of annualized revenue over a six-year period, with expected gross margins of 50% to 55%. The contract is expected to begin in 2021, although COVID-19 might have an impact on this timeline. This is a big contract win for VIQ, in our view, as it provides proof-of-concept of the scalability of the company's platform and the company's ability to support its growth and provide services to larger clients.

The Queensland contract also supports management's view that the platform has strong competitive advantages that can drive client migration and build market share and revenue. The artificial intelligence (AI) of the platform means that it "learns" the vocabulary of its target markets. Other competitive advantages include VIQ's compliance certifications. For example, the company recently obtained CJIS ACE compliance. VIQ's Criminal Justice Information Services (CJIS) compliance certification contributes to VIQ being compliant with data sovereignty regulations, according to management. We also believe that the shift in working patterns as more businesses, law enforcement support and courts shift to a hybrid in-office / offsite model highlights the functionality of the overall VIQ system.

The company also expects to begin generating revenue from its new *First Draft* product beginning this year. The company is beta testing the *First Draft* product with several strategic clients. *First Draft* enables faster turnaround of transcripts in advance of editing the transcript. *FirstDraft* converts audio files to text quickly, leveraging the VIQ speech recognition engine, enabling faster turnaround than under prior methods. Although the transcript still needs to be put through editing, the *FirstDraft* transcript allows users to get a written document that they can use quickly. It enables a cost-effective way to digitize large volumes of data.

### ... Potentially Enhanced By Strategic M&A

Strategic M&A has long formed a core component of the company's strategy. For instance, VIQ completed major acquisitions in 2020 aimed at enhancing growth. VIQ acquired ASC Services and WordZ, which are expected to add a combined roughly \$12 million in annual revenue. The transactions accomplished other goals, as well. For example, the ASC Services transaction also added new sectors that have become core VIQ focus sectors, providing entry into the media, news / conferencing sector, with a client base that includes ABC, CBS, Bloomberg, CNN and Fox News, among others.

In 2021, VIQ intends to leverage M&A to acquire transformative technology that can help the company accelerate growth, focused on accelerating the use of AI. The company is also open to expanding its global footprint via strategic M&A and targets at least two acquisitions. VIQ has indicated that its 2021 M&A goals as "more broadly focused on the acceleration of AI."

We believe VIQ's \$16.0 million in cash at the end of 1Q21 provides enhanced flexibility to support anticipated growth in 2021 and ahead of a targeted uplisting to a U.S. national exchange. VIQ intends to use funds for the continued development of its product and service offerings, potential M&A transactions and operations.

In terms of the expected uplisting, the company has met several NASDAQ listing requirements, including stock price minimum, trading liquidity, shareholder minimum and public market capitalization minimum, among other requirements. VIQ's goal is to complete the uplisting to NASDAQ this year. We believe this expected transition also supports potential for share price multiple expansion.

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## VALUATION

Our 2022 revenue forecast implies that VIQ shares trade at a multiple of roughly 3.6x revenue on a price to forward revenue basis. This metric is a significant discount to peers in the cloud-based technology space, which trade at an average multiple of about 6x to 8x. We also point to a large player in the technology/ communications solutions space, Nuance Communications, that helped consolidate the medical transcription market through a series of M&A transactions and organic measures such as VIQ is now doing in its core silos.

Nuance shares commanded an even higher than industry average multiple of forward revenue basis, according to consensus data. Moreover, Microsoft's recent bid to acquire Nuance in a transaction that values the shares at a roughly 23% premium to where they had been trading prior to the announced offer. We believe this underscores the importance of the sector and also implies a higher valuation for VIQ shares over time.

We expect VIQ's multiple gap to narrow further compared to peers, as the company continues to make strides in its organic and acquisition-driven growth strategy. We anticipate multiple expansion for VIQ shares. We are revising our valuation from \$8.00 per share to \$10, which equates to about 6x 2022E revenue, which is below the group average and does not take into consideration a possible significant M&A transaction in 2021.

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## RECENT NEWS

- VIQ announced 1Q21 results on May 13, 2021.
  
- VIQ announced 4Q20 results on April 7, 2021.
  
- VIQ completed its bought deal offering on November 26, 2020.
  
- On November 6, 2020, VIQ announced that it had upsized the public issuance to C\$20 million.
  
- VIQ launched CapturePro™ On-the-Go for offsite legal proceedings on October 14, 2020.
  
- On October 6, 2020, VIQ announced that it had successfully migrated 400 Clients to the NetScribe™ transcription platform.
  
- VIQ provided an update on MobileMic Pro™ for the law enforcement industry on September 29, 2020.
  
- VIQ reported 2Q20 results on July 30, 2020.
  
- VIQ appointed KPMG as its auditors on July 8, 2020.

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## **RISKS**

We believe risks include those outlined below, among others.

- The potential impact of COVID-19 on VIQ's business.
- VIQ might not gain market share or wallet share as quickly as it expects.
- The company might not continue migrating customers as quickly.
- The company could incur unanticipated costs associated with its roll-up strategy and for marketing to promote its new platform.
- Additional M&A transactions that the company anticipates might take longer than expected to close or might not close at all.
- Competition could increase.

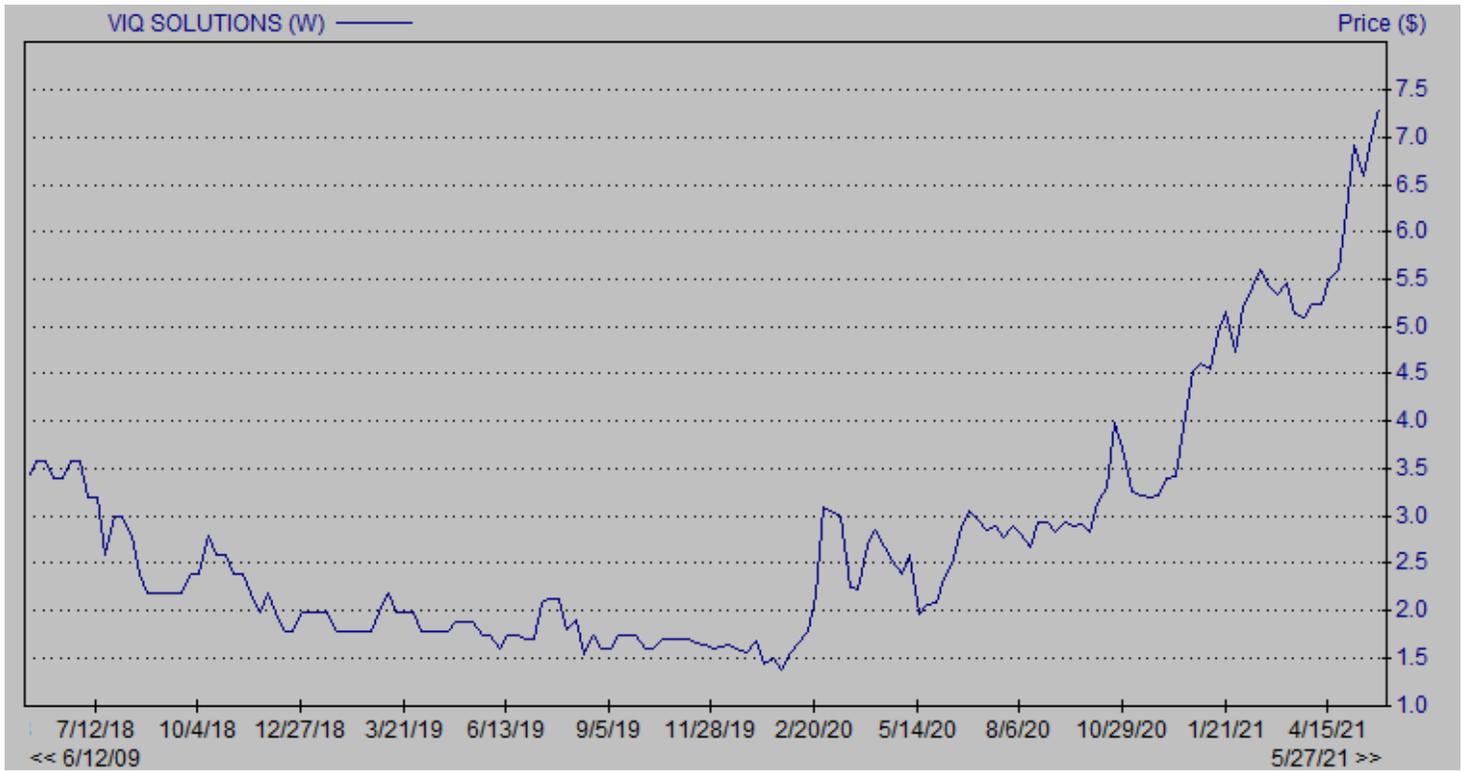
## PROJECTED INCOME STATEMENT

### VIQ Solutions Inc. Income Statement & Projections (\$)

	2018	2019A	Mar-20A	Jun-20A	Sep-20A	Dec-20A	2020A	Mar-21A	Jun-21E	Sep-21E	Dec-21E	2021E	2022E
Revenue	\$11,462,804	\$25,096,308	\$7,548,204	\$8,253,015	\$8,172,800	\$7,775,674	\$31,749,693	\$8,254,222	\$9,986,148	\$10,379,456	\$10,586,485	\$39,206,311	\$47,047,574
Cost of sales	<u>7,874,219</u>	<u>14,276,321</u>	<u>4,318,312</u>	<u>3,202,737</u>	<u>3,268,679</u>	<u>4,809,709</u>	<u>15,599,437</u>	<u>4,236,387</u>	<u>4,793,351</u>	<u>4,836,826</u>	<u>4,785,091</u>	<u>18,651,656</u>	<u>20,230,457</u>
Gross profit	3,588,585	10,819,987	3,229,892	5,050,278	4,904,121	2,965,965	16,150,256	4,017,835	5,192,797	5,542,630	5,801,394	20,554,655	26,817,117
Gross margin	31.3%	43.1%	42.8%	61.2%	60.0%	38.1%	50.9%	48.7%	52.0%	53.4%	54.8%	52.4%	57.0%
Selling & administrative expenses	5,533,724	8,954,512	2,377,154	3,090,612	2,693,818	2,873,318	11,034,902	3,539,110	3,029,052	3,150,214	3,339,227	13,057,602	14,363,363
Research & development expenses	458,675	994,640	252,321	209,537	324,174	288,146	1,074,178	239,663	292,192	303,879	322,112	1,157,846	1,215,738
Stock-based compensation	(31,461)	195,113	47,725	483,253	106,536	87,802	725,316	85,995	92,227	100,528	112,591	391,341	410,908
FX & other	198,180	217,040	(252,249)	(54,651)	21,709	152,885	(132,306)	(95,994)	(52,208)	(54,296)	(57,554)	(260,052)	(273,055)
Depreciation & amortization	<u>648,873</u>	<u>3,502,429</u>	<u>1,189,092</u>	<u>1,179,129</u>	<u>1,360,535</u>	<u>1,530,487</u>	<u>5,259,243</u>	<u>1,248,363</u>	<u>1,551,975</u>	<u>1,614,054</u>	<u>1,710,897</u>	<u>6,125,289</u>	<u>6,431,554</u>
Total operating expenses	6,994,435	12,295,345	3,614,043	4,907,880	4,506,772	4,932,638	17,961,333	5,017,137	4,913,238	5,094,168	5,447,483	20,472,026	22,148,508
Operating income	(3,405,850)	(1,475,358)	(384,151)	142,398	397,349	(1,966,673)	(1,811,077)	(999,302)	279,559	448,461	353,911	82,629	4,668,609
Interest expense	(96,484)	(1,549,904)	(3,695,952)	(375,018)	(371,699)	(491,848)	(4,934,517)	(331,419)	(318,162)	(321,980)	(289,782)	(1,261,344)	(1,324,411)
Other	<u>(2,552,729)</u>	<u>(1,399,781)</u>	<u>(1,871,826)</u>	<u>(313,080)</u>	<u>(225,986)</u>	<u>(2,932,852)</u>	<u>(5,343,744)</u>	<u>(599,037)</u>	<u>(119,807)</u>	<u>(83,865)</u>	<u>(228,246)</u>	<u>(1,030,955)</u>	<u>(824,764)</u>
Total operating inc / (expenses)	(2,649,213)	(2,949,685)	(5,567,778)	(688,098)	(597,685)	(3,424,700)	(10,278,261)	(930,456)	(437,970)	(405,845)	(518,028)	(2,292,299)	(2,149,175)
Pretax income	(6,055,063)	(4,425,043)	(5,951,929)	(545,700)	(200,336)	(5,391,373)	(12,089,338)	(1,929,758)	(158,410)	42,616	(164,117)	(2,209,670)	2,519,434
Tax	(11,571)	(99,155)	(53,444)	(390,831)	(145,526)	1,533,833	944,032	262,969	(22,177)	5,966	22,976	269,734	(503,887)
Net inc/ (loss)	(6,066,634)	(4,524,198)	(6,005,373)	(936,531)	(345,862)	(3,857,540)	(11,145,306)	(1,666,789)	(180,588)	48,582	(141,141)	(1,939,936)	2,015,547
FX	(95,899)	(262,811)	15,939	(166,265)	(24,485)	230,963	56,152		22,440	22,889	23,347	68,675	75,543
<i>Per share data:</i>													
Comprehensive loss	(6,162,533)	(4,787,009)	(5,989,434)	(1,102,796)	(370,347)	(3,626,577)	(11,089,154)	(1,666,789)	(158,148)	71,471	(117,794)	(1,871,260)	2,091,090
LPS	(\$0.04)	(\$0.49)	(\$0.37)	(\$0.05)	(\$0.02)	(\$0.18)	(\$0.62)	(\$0.07)	(\$0.01)	\$0.00	(\$0.00)	(\$0.08)	\$0.07
Avg shares out	161,816,064	9,251,546	16,278,598	18,364,354	18,494,247	19,184,933	18,080,533	24,467,151	24,468,151	24,480,151	24,492,151	24,476,901	28,476,901

Source: Company reports, Zacks estimates Quarterly LPS/EPS might not sum to annual reflecting differences in share count.

# HISTORICAL STOCK PRICE



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