

# Zacks Small-Cap Research

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## VIQ Solutions

(VQS-NASDAQ)

### VQS: Enhanced Financial Flexibility to Support Organic Growth & Strategic M&A

We expect revenue momentum to accelerate in 2022 once customers have emerged from the pandemic. (We would not be surprised if some revenue expected in 2H21 were delayed due to COVID.) We also believe the \$30 million multiyear contract with Queensland in Australia offers proof of concept of the benefits of the company's model, growing product portfolio and migration to a SaaS model with bundled services & hybrid pricing options.

### OUTLOOK

VIQ recently raised US\$18 million through a registered direct offering. We believe this gives the company enhanced financial flexibility to advance its growth strategy, including completing strategic M&A to complement organic growth. The company's strategy is to leverage M&A to acquire transformative technology that can help accelerate growth. With the proceeds of this offering combined with about \$12 million in cash at the end of 2Q21, we would not be surprised to see VIQ make an acquisition in the near-term.

Current Price (9/28/21) \$2.92  
Valuation \$10.00

### SUMMARY DATA

52-Week High \$7.92  
52-Week Low \$2.66  
One-Year Return (%) 3.46  
Beta -0.52  
Average Daily Volume (sh) 145,615

Shares Outstanding (mil) 29  
Market Capitalization (\$mil) \$85  
Short Interest Ratio (days) N/A  
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

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

### 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  | 8.2A  | 8.3E  | 10.1E | 34.9 E |
| 2022 |       |       |       |       | 41.8 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 | -0.42A | -0.09E | -0.06E | -0.63E |
| 2022 |        |        |        |        | -0.46E |

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

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## KEY POINTS

- **Enhanced financial flexibility** VIQ recently raised US\$18 million through a registered direct offering. With pro forma cash estimated at over \$25 million and a strategy to leverage M&A to acquire transformative technology that can help accelerate growth, we would not be surprised to see VIQ make an acquisition in the near-term.
- **Backlog reached record levels...** The company's backlog has reached record levels, reflecting organic growth from new orders, as well as the Queensland, Australia contract. This represents the largest contract in the company's history and underscores the advantages of the VIQ AI technology platform, in our view.
- **... while awareness of need for digitalized content is growing ...** Despite the short-term negative impact of COVID, (which potentially could also impact 2H21, causing a short-term shortfall from our forecast) the pandemic has shone a light on the need for digitalized content for the insurance industry, courts and many other sectors. This has positive implications, we believe, for VIQ and could be a catalyst to accelerate the company's expected market share gains within its targeted addressable market.
- **... and VIQ is responding to numerous RFPs, supporting positive outlook** In addition to backlog, VIQ is evaluating and plans to respond to a growing number of new RFPs by courts and insurance carriers in its geographic footprint, with many for multiple products. With its expanding product portfolio, the company believes it is well-positioned to help customers with multiple product needs and also address a greater portion of its addressable market.

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## ISSUANCE ENHANCES FINANCIAL POSITION

### *Financial flexibility for M&A & ongoing product / service development*

VIQ Solutions (VQS-NASDAQ and VQS-TSX) recently raised US\$18 million through a registered direct offering. The offering was originally planned to occur in conjunction with the recent Nasdaq uplisting, but was postponed until market conditions improved. The company plans to use the proceeds for general corporate purposes, including continued development of its product and service offerings. VIQ also has earmarked a portion of the funds for M&A. Strategic M&A has long formed a core component of the company's strategy. VIQ completed major acquisitions in 2020 aimed at enhancing growth, acquiring 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.

The recent offering can facilitate VIQ's plan to leverage M&A to acquire transformative technology that can help the company accelerate growth, focused on accelerating the use of AI. VIQ continues to identify and evaluate prospective M&A candidates to enhance organic growth and potentially expand its global footprint organically and via strategic M&A. VIQ has indicated that its near-term M&A goals are "more broadly focused on the acceleration of AI." The company expects M&A to produce opportunities ranging from \$2 million to \$30 million in incremental revenue.

We believe VIQ has a strong cash position to advance its objectives. At the end of 2Q21, VIQ had \$12.4 million in cash. Pro forma for the recent offering, the company's cash position is estimated at over \$25 million. In our view, this provides enhanced flexibility to support anticipated growth in the next several quarters and for potential M&A transactions.

## Addressable Market

Based on various industry sources and market research estimates, the company puts its U.S. addressable market at about \$10.5 billion in 2021. Although COVID has had the negative impact of delaying some revenue, as noted below, it has also highlighted the need for digitalized content, which in turn has – and might further – expand the market opportunity. Content that is transcribed and produced primarily by hand is neither as secure nor as accurate as the AI-assisted process the VIQ platform performs. When content is transcribed using VIQ's platform, the machine learning with assistance of professional editors results in greater volume of data processed more quickly and with higher accuracy rates. Customers therefore benefit from greater efficiency, faster turnaround and time and cost savings. The AI capability of the VIQ platform drives efficiency and value.

Growing awareness of the need for digitalized content could also be a catalyst to accelerate the company's expected market share gains within its targeted addressable market. Moreover, with its expanding product portfolio – including *FirstDraft* – the company believes it can also address a greater portion of this market. The U.S. accounted for about 59% of total revenue in 1H21, Australia another 30%, as noted, and Canada and EMEA the remaining 11%. As noted, lockdowns in Australia and the U.K. delayed some revenue VIQ had expected in 2Q21. Certain other segments have experienced a slower recovery than originally anticipated.

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## 2021 OUTLOOK

Just as COVID resulted in revenue delays in 2Q21 (see below), we would not be surprised if some of the roughly \$18.4 million revenue we forecast for 2H21 were delayed due to COVID. For example, the Queensland contract (see below) that was expected to begin in 3Q21 has been delayed by the pandemic. Thus, our 2H21 forecast could be subject to potential delays due to economic closures. On the other hand, with the recent issuance, we would also not be surprised to see the company make an acquisition before year-end that could contribute to 4Q21 revenue.

Moreover, VIQ is also evaluating and plans to respond to a growing number of new RFPs (requests for proposals) being generated globally by courts and insurance carriers in its geographic footprint. Importantly, many of the RFPs are for multiple products in VIQ's product portfolio, including *FirstDraft*. *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.

## Positive Takeaways of Migration to SaaS Model

The company is well-positioned to respond to requests for multiple products and services. For instance, the company's \$30 million multiyear contract with Queensland in Australia is for courtroom monitoring and transcription services. This contract underscores the advantages of the VIQ AI technology platform and validates VIQ's business strategy, in our view. VIQ expects to offer customers multi-products / services bundles going forward, in addition to a la carte offerings, which could further enhance revenue growth. The contract has been delayed by the pandemic, as noted.

This is consistent with the company's ongoing migration to a SaaS model. VIQ intends to offer customers bundled service plans tailored to meet an individual customer's needs. At the same time, the company also plans to continue offering a la carte pricing for those customers that find this model more suitable for their needs. Over time, however, we would expect the vast majority of VIQ customers to transition to the bundled pricing model, as clients will be able to get access to certain features, with overage fees that will also provide upside for VIQ on customers with heavy use above the plan capacity. Other benefits for VIQ

of the transition to a SaaS model include that the hybrid SaaS pricing model will generate recurring monthly revenue and create greater visibility and predictability of the monthly fees.

### Migration to SaaS Hybrid Pricing Models



Source: <https://viqsolutions.com/investors/>

## 2Q21 HIGHLIGHTS

### *COVID-Related Delays Obscure Strength of Underlying Core Business*

Separately, last month VIQ reported 2Q21 results, which included some noise that we believe distorts year-over-year comparisons and masks the underlying strength of the company's core operations. For instance, primarily due to COVID-related delays, revenue of \$8.2 million was down about 0.7% year-over-year, despite the company's growing customer base and rising backlog. The revenue decrease primarily reflects delays resulting from COVID-19 as courts in Australia and the U.K. were shutdown intermittently. Australia accounts for about 30% of total revenue. Moreover, the impact of the COVID closures on some VIQ clients in the insurance sector also contributed to the slight revenue decline. VIQ estimates the 2Q21 delayed revenue related to COVID-19 was about \$1.5 million. This revenue was moved into VIQ's growing backlog and is expected to be recorded in 2H21, depending on pandemic-related closures and re-openings.

Moreover, the company recorded lower subsidies related to the pandemic than in 2Q20. As a result, the gross profit was \$4.0 million compared to \$5.1 million. 2Q21's gross margin was 49% compared to 61% in 2Q20. Delayed technology sales and the need to transition transcriptionists to editors also impacted margins.

The company also experienced a timing mismatch between expenses and revenue, as it expended costs to prepare to satisfy new contracts as the backlog continues to grow. VIQ's backlog is now at record levels, according to management. The company has put in place the appropriate workforce and

bandwidth to satisfy the growing number of contracts in its backlog. The investment in expanding its bandwidth in order to support growth is consistent with the company's stated strategy to invest in sales and marketing, as well as technology and other areas of operation to drive further growth and profitability and strengthen its market position. For instance, in 2Q21, the company added industry veterans with significant sales experience to its sales team in order to accelerate its growth in the insurance and criminal justice industries and made several strategic executive leadership appointments in 1Q21 to support its strategy to accelerate product innovation and prepare for further global expansion.

In addition to the above-noted factors, results were also impacted by roughly \$0.6 million in non-recurring professional service fees related to the company's recent uplisting and filings, among other one-time charges. VIQ also recorded roughly \$6.7 million of non-cash stock-based compensation expense, following the recent adoption of a new omnibus stock plan that shareholders approved in 2Q21. The omnibus stock plan ties VIQ executive compensation more closely to share price performance and therefore better aligns management's interest with those of public shareholders, we believe. VIQ reported a net loss of \$10.5 million compared to a net loss of \$1.0 million in 2Q20.

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## VALUATION

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

As a publically traded company, Nuance shares commanded an even higher than industry average multiple of forward revenue basis, according to consensus data. Moreover, Microsoft acquired Nuance at a valuation that implied 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 the multiple gap on VQS shares 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. Our valuation of \$10 equates to about 6x our 2022E estimated revenue, which is below the group average and does not take into consideration a possible significant M&A transaction in 2021.

We also believe the recent uplisting supports potential for share price multiple expansion. The uplisting of VIQ shares to the Nasdaq (under the ticker VQS) is expected to boost awareness of the company and the company's prospects, as well as expand the pool of potential investors.

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## RECENT NEWS

- VIQ announced the closing of its registered direct offering on September 15, 2021.
- VIQ announced 2Q21 results on August 16, 2021.
- VQS shares began trading on the Nasdaq on August 12, 2021.
- On July 26, 2021, VIQ announced a strategic partnership with Law In Order to drive Asia Pacific growth.
- VIQ announced the hiring of sales leaders to accelerate its growth in the insurance and criminal justice Industries on June 15, 2021.
- On April 30, 2021, VIQ announces the voting results of its annual general and special shareholders meeting, including the move to the omnibus stock plan.
- VIQ unveiled AI-powered *FirstDraft* on March 18, 2021.
- On February 24, 2021, VIQ made several strategic executive leadership appointments to support its strategy to accelerate product innovation and prepare for further global expansion.

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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 to the SaaS model as quickly as management anticipates.
- The company could incur unanticipated costs associated with its growth strategy and for marketing to promote its 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.

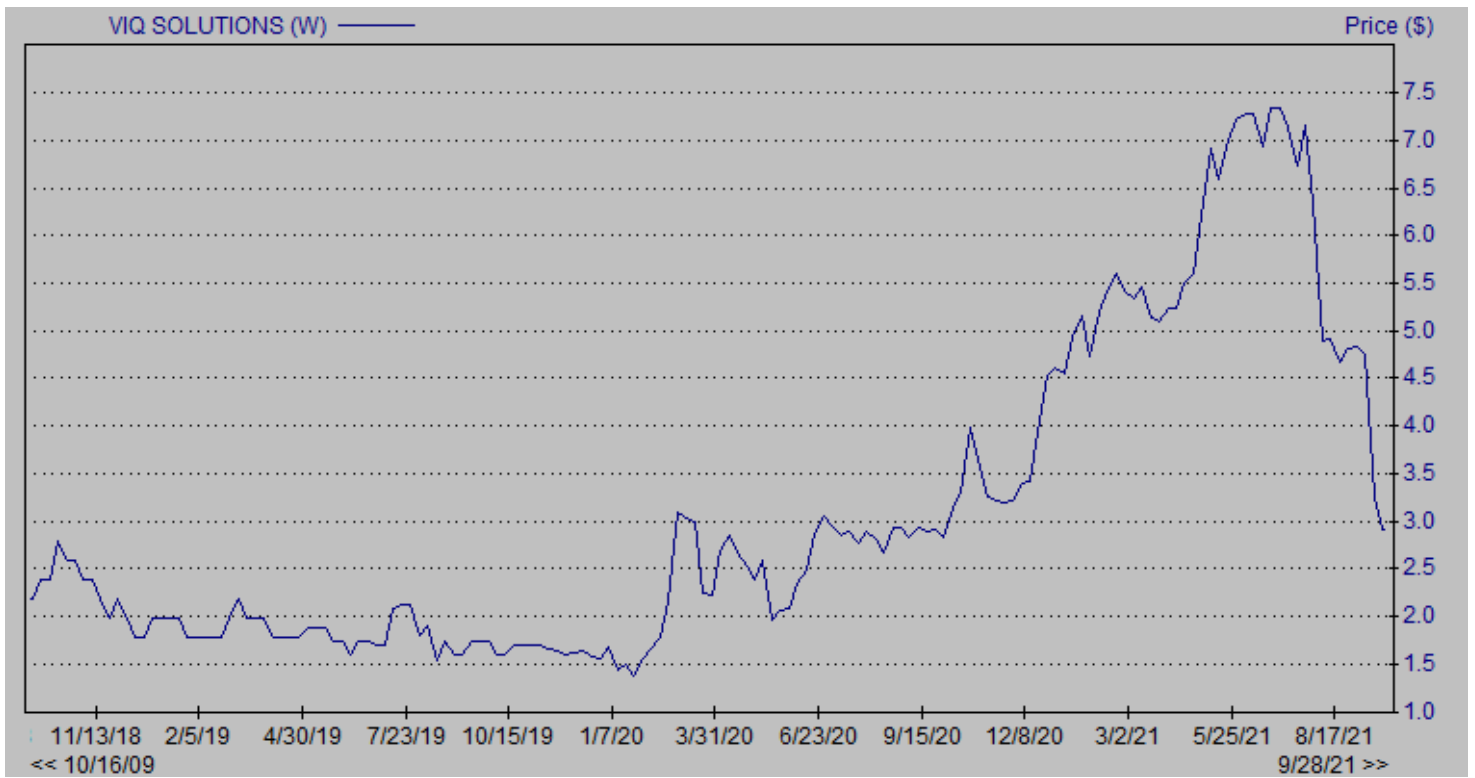
## PROJECTED INCOME STATEMENT

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

|                                   | 2018         | 2019A        | Mar-20A     | Jun-20A     | Sep-20A     | Dec-20A     | 2020A        | Mar-21A     | Jun-21A      | 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 | \$8,191,812  | \$8,290,114 | \$10,113,939 | \$34,850,087 | \$41,820,104 |
| Cost of sales                     | 7,874,219    | 14,276,321   | 4,318,312   | 3,202,737   | 3,268,679   | 4,809,709   | 15,599,437   | 4,236,387   | 4,210,733    | 4,476,661   | 5,319,932    | 18,243,713   | 20,910,052   |
| 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   | 3,981,079    | 3,813,452   | 4,794,007    | 16,606,373   | 20,910,052   |
| Gross margin                      | 31.3%        | 43.1%        | 42.8%       | 61.2%       | 60.0%       | 38.1%       | 50.9%        | 48.7%       | 48.6%        | 46.0%       | 47.4%        | 47.7%        | 50.0%        |
| 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   | 3,953,046    | 3,968,858   | 4,206,990    | 15,668,004   | 17,234,804   |
| Research & development expenses   | 458,675      | 994,640      | 252,321     | 209,537     | 324,174     | 288,146     | 1,074,178    | 239,663     | 260,010      | 261,050     | 276,713      | 1,037,436    | 1,089,308    |
| Stock-based compensation          | (31,461)     | 195,113      | 47,725      | 483,253     | 106,536     | 87,802      | 725,316      | 85,995      | 6,687,792    | 100,528     | 112,591      | 6,986,906    | 7,336,251    |
| FX & other                        | 198,180      | 217,040      | (252,249)   | (54,651)    | 21,709      | 152,885     | (132,306)    | (95,994)    | 153,400      | (54,296)    | (57,554)     | (54,444)     | (57,167)     |
| Depreciation & amortization       | 648,873      | 3,502,429    | 1,189,092   | 1,179,129   | 1,360,535   | 1,530,487   | 5,259,243    | 1,248,363   | 1,188,115    | 1,192,867   | 1,264,440    | 4,893,785    | 5,138,474    |
| 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   | 12,242,363   | 5,448,797   | 5,823,389    | 28,531,686   | 30,741,671   |
| Operating income                  | (3,405,850)  | (1,475,358)  | (384,151)   | 142,398     | 397,349     | (1,966,673) | (1,811,077)  | (999,302)   | (8,261,284)  | (1,635,345) | (1,029,382)  | (11,925,313) | (9,831,619)  |
| Interest expense                  | (96,484)     | (1,549,904)  | (3,695,952) | (375,018)   | (371,699)   | (491,848)   | (4,934,517)  | (331,419)   | (335,594)    | (321,980)   | (318,760)    | (1,307,754)  | (1,373,141)  |
| Other                             | (2,552,729)  | (1,399,781)  | (1,871,826) | (313,080)   | (225,986)   | (2,932,852) | (5,343,744)  | (599,037)   | (597,177)    | (83,865)    | (135,592)    | (1,415,671)  | (1,132,537)  |
| 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)   | (932,771)    | (405,845)   | (454,352)    | (2,723,424)  | (2,505,678)  |
| Pretax income                     | (6,055,063)  | (4,425,043)  | (5,951,929) | (545,700)   | (200,336)   | (5,391,373) | (12,089,338) | (1,929,758) | (9,194,055)  | (2,041,190) | (1,483,734)  | (14,648,737) | (12,337,297) |
| Tax                               | (11,571)     | (99,155)     | (53,444)    | (390,831)   | (145,526)   | 1,533,833   | 944,032      | 262,969     | (1,304,607)  | (285,767)   | (207,723)    | (1,535,127)  | (1,727,222)  |
| 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) | (10,498,662) | (2,326,957) | (1,691,457)  | (16,183,865) | (14,064,518) |
| FX                                | (95,899)     | (262,811)    | 15,939      | (166,265)   | (24,485)    | 230,963     | 56,152       |             | 101,642      | 22,889      | 23,347       | 147,877      | 152,314      |
| <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) | (10,397,020) | (2,304,068) | (1,668,110)  | (16,035,987) | (13,912,204) |
| LPS                               | (\$0.04)     | (\$0.49)     | (\$0.37)    | (\$0.05)    | (\$0.02)    | (\$0.18)    | (\$0.62)     | (\$0.07)    | (\$0.42)     | (\$0.09)    | (\$0.06)     | (\$0.63)     | (\$0.46)     |
| 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  | 25,029,019   | 25,034,019  | 29,264,313   | 25,948,626   | 29,948,626   |

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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