Capital Markets
Canaccord Genuity

Australian Equity Research
16 May 2023

Initiation of Coverage

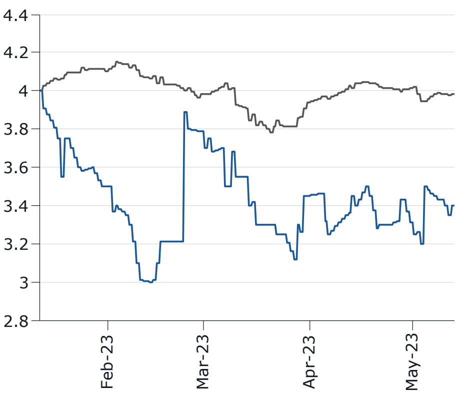
Acusensus Ltd
Enterprise Software

Rating **BUY**	Price Target **A$5.40**
ACE-ASX	Price **A$3.39**

Market Data

52-Week Range (A$) :	2.99 - 4.00
Avg Daily Vol (M) :	0.2
Market Cap (A$M) :	85.1
Shares Out. (M) :	25.1
Enterprise Value (A$M) :	60.7
Cash (A$M) :	24.4
Long-Term Debt (A$) :	0.0

FYE Jul	2022A	2023E	2024E	2025E
Sales (A$M)	28.7	41.0	48.7	56.8
EBITDA (A$M)	3.7	4.8	5.8	7.1
EBIT (A$M)	1.7	0.4	1.5	2.7
Net Debt (Cash) (A$M)	(9)	(24)	(26)	(28)
EV/Sales (x)	2.7	1.5	1.2	1.0



ACE
S&P/ASX All Ordinaries (rebased)

Source: FactSet

Priced as of close of business 15 May 2023

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There's a new sheriff in town

Acusensus (ACE-ASX) provides a broad range of technologies to combat the growing problem of distracted driving. The company has **pioneered its AI-enabled road safety technology that provides a patented first mover advantage in what it considers to be an immediate $1.8b market opportunity**. Since the company's inception in 2018 ACE has grown rapidly; we estimate revenues of $41m in FY23E compared to $7m in FY21; representing one of the fastest-growing small cap stocks over the previous three years. ACE reports a highly recurring and profitable revenue growth profile, backed by a patented technology that should see the company grow revenues independent of the economic cycle.

ACE's technology is used to detect and provide prosecutable evidence of distracted driving (mobile phone use), seatbelt compliance, speeding and railway crossing compliance as well as monitoring vehicles of interest. The company currently has 108 fixed trailer-based and car-based enforcement units (84 at IPO). While all revenues are currently derived from Australia, the company is **exporting its technology and currently has pilot programs across 10 countries,** providing a large global growth opportunity where contracts tend to be longer and larger than Australian state-based governments. To date, no country/state has undertaken a pilot program for mobile enforcement and not awarded a material contract, with ACE exhibiting superior technology in terms of accuracy and reliability, in our view.

ACE's core technology is its **Heads-Up product, that was designed to detect illegal use of mobile phones while driving**. Since then, the technology has evolved into a comprehensive, multi-solution offering which supports speed (average and point), seatbelt non-compliance, and licence plate-based detection and enforcement.

According to Frost and Sullivan, total revenues generated in the global traffic enforcement solutions market were estimated at A$4.6b in 2021, growing at a CAGR of +11% to reach an expected A$7.6b in 2026. Mobile phone enforcement solutions is an emerging sub-sector, with an estimated opportunity of A$1.8b where ACE holds a first mover and patented sustainable competitive advantage. This TAM has been extrapolated from its NSW government contract ($7m revenue p.a., 6m registered vehicles); however, we envisage **significant upside as revenues are linked to the quantum of cameras in field, which should increase in line with program success** (similar to the number of red-light cameras in operation).

We identify five core growth drivers for ACE including: i) **geographic expansion** with pilot programs in 10 countries; ii) **product expansion** into other verticals (i.e. railway crossing monitoring, drugs or alcohol, road worker safety monitoring); iii) **distribution agreements** in new markets (capital light expansion); iv) bolt-on **acquisitions** given existing distribution ($23m cash, FCF positive); and v) **upsell** from existing contracts (>75% of FY23 revenue is from existing customers).

ACE is a profitable, high growth with recurring revenues business that should generate elevated incremental EBIT margins (CGe gp margins >40%). ACE revenue is derived from highly predictable, long duration, high margin government contracts with no contract churn since inception. While the company is currently in an investment phase (elevated S&M for geographic expansion and R&D for product growth) we expect its EBITDA margins to expand to ~20% over the medium term. While the marginal investor may value ACE on a one-year forward EV/EBITDA multiple, we believe this materially underrates the long-term opportunity.

Assuming a 15% discount rate, 10x terminal EBIT multiple, long-term gross profit margins of 45%, and a five-year opex/capex growth of +15%, the marginal investor is pricing in a five-year revenue CAGR of just +19% (vs FY19-23E CAGR +161%). **We initiate coverage of ACE with a BUY recommendation and $5.40 price target premised on a two-stage DCF and FY28E revenue expectations of $83m**.

Contents

Financial summary

Target Price $ 5.40
Share Price $ 3.39

Acusensus (ACE)

Profit & Loss ($m)	2021A	2022A	2023F	2024F	2025F
Distracted Driving	5.5	9.3	12.6	17.6	22.6
Speed cameras	0.0	18.1	26.4	28.9	31.8
Other	0.8	1.3	2.1	2.3	2.5
Sales Revenue	**6.7**	**28.7**	**41.0**	**48.7**	**56.8**
COGS	-2.8	-16.2	-23.4	-26.8	-31.3
Gross profit	**3.9**	**12.6**	**17.6**	**21.9**	**25.6**
Opex	-7.1	-8.9	-12.9	-16.1	-18.5
EBITDA	**-3.2**	**3.7**	**4.8**	**5.8**	**7.1**
D & A	-0.6	-2.0	-3.2	-3.2	-3.2
Leases	0.0	-1.2	-1.2	-1.2	-1.2
EBIT	**-3.8**	**1.7**	**0.4**	**1.5**	**2.7**
Net Interest Expense	-0.1	0.0	-0.1	0.0	0.0
NPBT	**-3.9**	**1.7**	**0.4**	**1.5**	**2.7**
Tax expense	0.0	0.0	0.0	0.0	0.0
NPAT (Normalised)	**-3.9**	**1.7**	**0.4**	**1.5**	**2.7**
Significant items	0.0	0.0	0.0	0.0	0.0
NPAT (Reported)	**-3.9**	**1.7**	**0.4**	**1.5**	**2.7**
Gross profit margin (%)	*57.8%*	*43.7%*	*43.0%*	*45.0%*	*45.0%*
EBITDA Margin (%)	*-47.5%*	*12.8%*	*11.6%*	*12.0%*	*12.5%*
EBIT Margin (%)	*-56.5%*	*5.9%*	*1.0%*	*3.1%*	*4.8%*
NPAT Margin (%)	*-57.6%*	*5.8%*	*0.9%*	*3.1%*	*4.8%*

Cash Flow ($m)	2021A	2022A	2023F	2024F	2025F
Operating EBITDA	**-3.2**	**3.7**	**4.8**	**5.8**	**7.1**
- Interest & Tax Paid	-0.1	0.0	-0.1	0.0	0.0
+/- change in Work. Cap.	2.3	1.3	-3.7	0.6	0.6
- other	0.0	0.0	0.0	0.0	0.0
Operating Cashflow	**-1.0**	**5.0**	**1.0**	**6.4**	**7.7**
- Capex	-2.8	-6.8	-1.6	-3.0	-3.0
- Intangiables	-0.3	-0.4	-1.0	-1.0	-1.0
- other	0.0	-1.2	-1.2	-1.2	-1.2
Free Cashflow	**-4.2**	**-3.4**	**-2.8**	**1.2**	**2.4**
- Ord Dividends	0.0	0.0	0.0	0.0	0.0
- Equity /other	15.1	0.0	18.7	0.0	0.0
Net Cashflow	**10.9**	**-3.4**	**15.8**	**1.2**	**2.4**
Cash at beginning of period	1.1	12.3	8.6	24.4	25.6
+/- borrowings / other	0.3	-0.3	0.0	0.0	0.0
Cash at end of period	**12.3**	**8.6**	**24.4**	**25.6**	**28.1**

Balance Sheet	2021A	2022A	2023F	2024F	2025F
Cash		8.6	24.4	25.6	28.1
Debtors		3.6	5.2	6.2	7.2
PPE		8.2	7.6	8.5	9.3
Intangibles		0.6	0.6	0.6	0.6
Other assets		5.2	5.2	5.3	5.3
Total Assets		**26.2**	**43.1**	**46.1**	**50.5**
Borrowings		0.0	0.0	0.0	0.0
Trade Creditors		5.9	8.6	10.2	11.8
Deffered Consideration		1.4	1.4	1.4	1.4
Other Liabilities		3.5	3.5	3.5	3.5
Total Liabilities		**9.4**	**12.1**	**13.6**	**15.3**
NET ASSETS		**16.8**	**31.0**	**32.5**	**35.2**

Valuation ratios	2021A	2022A	2023F	2024F	2025F
EPS (cps)		7.7	1.3	5.6	10.2
EPS Growth (%)	*nmf*	*nmf*	*nmf*	*nmf*	*nmf*
P/E (x)	nmf	44.1	251.8	60.8	33.2
Enterprise Value ($m)	85.1	76.5	60.7	59.5	57.1
EV/Revenue	12.6	2.7	1.5	1.2	1.0
EV/Gross profit	21.8	6.1	3.4	2.7	2.2
EV / EBITDA (x)	nmf	20.7	12.7	10.2	8.1
EV / EBIT (x)	nmf	44.8	145.4	40.0	20.9
FCFPS - excl acq. (cps)		-14.9	-7.5	8.7	13.7
P / FCFPS (x)		-22.7	-45.4	38.8	24.7

Dupont Analysis	2021A	2022A	2023F	2024F	2025F
Net Profit Margin	-57.6%	5.8%	0.9%	3.1%	4.8%
Asset Turnover		1.1	1.0	1.1	1.1
ROA (%)		6.4%	0.8%	3.2%	5.4%
Financial Leverage		1.6	1.4	1.4	1.4
ROE (%)		10.0%	1.2%	4.6%	7.7%

Balance Sheet ratios	2021A	2022A	2023F	2024F	2025F
Net Debt (cash)		-8.6	-24.4	-25.6	-28.1
NTA per share ($)		0.80	1.21	1.27	1.38
Price / NTA (x)		4.2	2.8	2.7	2.5
EFPOWA (m)		20.1	25.1	25.1	25.1

Growth ratios	2021A	2022A	2023F	2024F	2025F
Sales revenue (%)		326%	43%	19%	17%
Gross Profit (%)		222%	40%	24%	17%
Opex (%)		25%	45%	25%	15%
EBITDA (%)		nmf	29%	22%	21%

Segment	2021A	2022A	2023F	2024F	2025F
Distracted Driving	5.5	9.3	12.6	17.6	22.6
Speed cameras	0.0	18.1	26.4	28.9	31.8
Other	0.8	1.3	2.1	2.3	2.5
Group	**6.3**	**28.7**	**41.0**	**48.7**	**56.8**

Source: Company reports, Canaccord Genuity estimates

Company profile

ACE has pioneered AI-enabled road safety technology that focuses on combating distracted driving globally. The core ACE technology is its Heads-Up solution, which was designed to detect illegal use of mobile phones while driving. Since then, the technology has evolved into a comprehensive, multi-solution offering, supporting speed monitoring (average and point-to-point), seatbelt non-compliance and licence plate-based detection and enforcement, holding contracts with the NSW, QLD, ACT and WA state governments.

ACE operates within the A$4.6b global traffic enforcement solutions market, which is growing at a CAGR of +11% and is largely dominated by legacy solutions. Its customers are global government and enforcement agencies with a mandate for road safety initiatives. To date, contracts have been secured with 20 domestic government clients while ACE remains in pilot programs (some of which are revenue generating), with potential clients across 10 countries including New Zealand, Spain, Belgium, UK and Canada.

Figure 1: Key contracts

Region	Service	Commenced
NSW		
Transport for NSW	Mobile Phone	Dec-19
	MSC - Subcontract (Mobile Speed Camera)	Jul-21
QLD		
QLD Department of Transport and Main Roads	Mobile Phone and Seat Belt	Jul-21
	Speed Enforcement	Jun-23
ACT		
ACT	Mobile Phone	Feb-23
WA		
WA Main Roads	Smart Freeways Safety Trial	Feb-21
WA Police	Mobile Phone, Seatbelt, Point Speed, Point to Point Speed	Jul-22
USA		
Westat Inc	Mobile Phone and Seatbelt	Oct-22
India		
Ador Powertron	Harmony Speed Enforcement	Aug-20

Source: Company reports

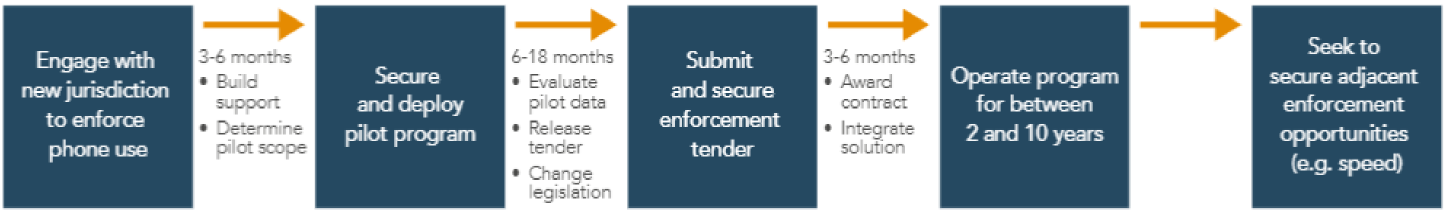
Early expansion success remains an important competitive advantage, given many contracts are signed on multiyear agreements and data collected from these contracts are used to iteratively improve the AI models accuracy and reliability. In addition to its first mover advantage, ACE has a portfolio of IP covering its Hardware, AI Software and Cloud system which makes the technology difficult to replicate without potential patent infringement.

The key innovation has been an ability to take clear high-resolution photographs through the windshield of each vehicle at speeds up to 300km/hour. The internally developed AI model is then able to detect infringements and make necessary adjustments to protect the privacy of the driver. ACE's cloud-based management system is also patented and connects all aspects of camera control, monitoring, data transfer and review management, which adds additional layer of security to the process.

ACE engages in long duration government-style contracts with adjacent services to the out of the box product. This includes implementation, maintenance of cameras and image review. As ACE contracts are large enterprise agreements with government agencies, the business has lower-than-average spend on S&M but elevated spend on wages and contractors (~75% opex). As the company invests in expanding its suite of products, its R&D spend (including expensed and capitalised) sits at around 10% of revenue, below the average of its SaaS peer group.

Contract sale cycles for a new jurisdiction are typically long (~2 years from initial engagement) given jurisdictions are typically required to amend legislation to allow for automated enforcement. However, once contracts are awarded, these typically operate for 2-10 years typically with upsell throughout the contract life depending on the success of the contracts.

Figure 2: Acusensus sales cycle



Source: Company reports

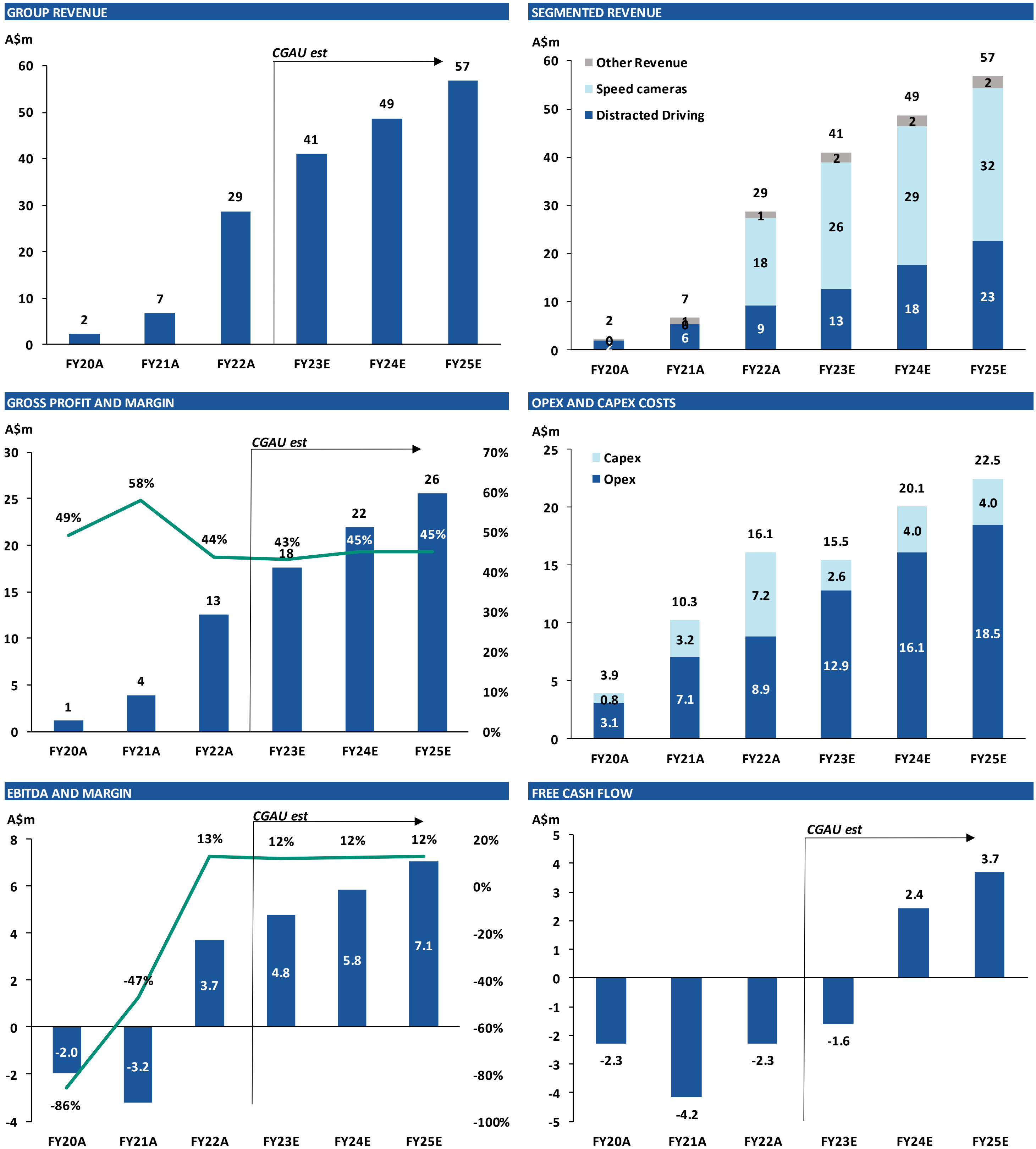
Business segments

- **Acusensus Heads-Up:** Acusensus' core patented technology is its Heads-Up camera solution. The solution was built to detect illegal mobile phone use but can now be used for speeding, seatbelt non-compliance and registration review. The camera can be installed on fixed infrastructure or portable trailers (single or custom built double-lane trailers). The technology has also been leveraged for speed detection solutions installed in vehicles with revenue derived on a per-camera basis (i.e. per lane monitored).
- **Acusensus Heads-Up Realtime:** Realtime has been developed specifically for the North American market, providing real-time data to enforcement agencies when an offence is detected. An agent is then able to pull over non-compliant vehicles further down the road and is equipped with appropriate evidence (images) to prove an offence. This supports the technology to be used as a tool for enforcement agencies, rather than the direct source of enforcement. To our knowledge no comparable solution in the distracted driver market exists in North America. Since market entry two years ago, ACE has rolled out trial programs across 20 North American jurisdictions which appear to be nearing contracting based on the lodged funding applications submitted by enforcement bodies.
- **Acusensus Harmony:** This product captures speed only, leveraging the Heads-Up technology at a lower price point. ACE currently has 60 vehicles operating the speed solution in NSW with the company undertaking 30% of the monitoring hours in NSW.

Figure 3: Mobile speed enforcement; trailer-based enforcement; fixed asset enforcement

Source: Company reports

Figure 4: Key ACE growth charts



Source: Company reports, Canaccord Genuity estimates

Revenue model

ACE's revenue is derived from multi-year contracts from government agencies paid on a fixed monthly basis and not related to the quantum of infringements detected.

The company typically secures a contract following a tender process with the initial contract lasting between two and six years with a renewal period. The company articulates a high success rate to date when entering a tender process (it has only lost one contract) and has seen no contract churn to competitors.

While initial contracts have been for shorter durations and on a limited volume of units, the company stated that recent tender opportunities has seen contract duration including optional extension periods up to 10 years, particularly in Europe.

ACE's revenue is generated by five primary means:

- Licence fees for the use of the products and IP.
- Review fees for the manual review of images prior to issuing an infringement.
- Maintenance fees for the ongoing maintenance of purchased/rented products.
- Deployment fees for the relocation of camera vehicles to various locations.
- Consulting fees for recommendations for suitable locations.

While not disclosed, we believe the bulk of ACE's revenue (>90%) is derived from ongoing licence/maintenance fees. We believe the best proxy for revenue is the number of cameras in operation. At the time of the IPO ACE reported 84 fixed trailer-based and car-based enforcement units which has since expanded to 108 units as new contracts come online (38 mobile enforcement, 70 speed enforcement). The company assembles its trailer units in Ingleburn, Sydney, with an estimated annual capacity of 50 units (with flexibility to expand based on contract lead times) and has outsourced the product build in Europe. As the company secures new contracts in global markets (i.e. North America), we expect ACE to build new manufacturing facilities in these markets.

We estimate a revenue per trailer/camera in operation at $300k p.a. that typically has a useful life of 10 years, but amortised over five years. We forecast an upfront cost of a trailer at $160k (fixed camera $80k), with the company generating consistent gross profit margins of 40%, on our estimates, after accounting for maintenance and support cost of its infield cameras. Over a five-year period, each mobile enforcement trailer generates $600k gross profit, relative to an upfront cost of $160k (unit economics: payback period one year, ~4x gp/upfront cost, IRR +30%); however, this improves if the asset is utilised for the full 10 years (8x gp/upfront cost).

The highly recurring nature of ACE recurring revenue stream provided a high degree of predictability into future periods with almost all of ACE FY23E revenue/gross profit ($41m) contracted into FY24.

Industry and competitive landscape

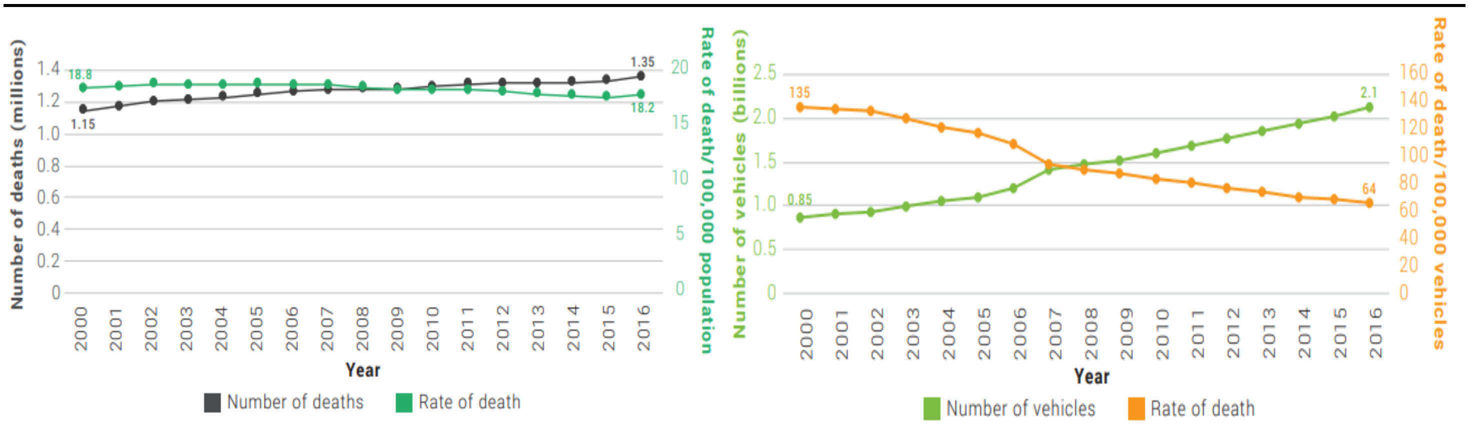
ACE operates in the traffic enforcement solutions market, which Frost and Sullivan expects to grow at a +11% CAGR to a market size of A$7.6bn in 2026 and potentially materially above this given the global tailwinds and innovation working in favour of the market.

While still in its nascent stages, the sector is rapidly evolving through the adoption of advanced technologies including artificial intelligence, machine learning and cloud-based enforcement solutions. These advancements have facilitated the development of innovative solutions, such as automated mobile phone detection and enforcement, which broaden the industry's total addressable market as jurisdictions embrace these new technologies.

To illustrate this potential, consider Ascensus Heads-Up technology for mobile only, which secured a $21.8m contract with Transport for NSW for mobile phone detection (ACE revenue $7m p.a.). Extrapolating this to a global scale implies mobile phone detection alone could represent an expanded market opportunity valued at approximately $1.8b annually. ACE appears to have a first mover advantage in this market, which currently has government and community support. While we do not expect all markets to adopt similar technology, we believe a small proportion can have a material benefit to ACE's revenue.

In the past 15 years, traffic fatality rates have remained relatively steady at 18 per 100,000 people, positioning road traffic accidents as a top 10 global cause of death. Consequently, traffic and road safety have gained significant prominence on the international stage. The United Nations has set a goal to reduce road-related fatalities by 50% by 2030. Likewise, local jurisdictions have aligned with this objective, with Australia's adoption of the target through its National Road Safety Strategy 2021-30. Road safety solutions have proven to be effective however, with the rate of death per 100,000 vehicles steadily declining as governments push resources towards road safety programs, incentivising ongoing investment.

Figure 5: Deaths per 100k population; Deaths per 100k vehicles



Source: World Health Organisation

Due to the nascency of the industry, the competitive landscape for automated traffic enforcement solutions is small but fragmented. Domestically, there are a handful of small-scale competitors, including OneTask; and multinational players. Internationally, ACE competes against Verra; Sensys and Jenoptic. North America is unique, with no comparable solutions currently on the market as enforcement bodies look for tools to be used in combination with police presence (i.e. Heads-Up Realtime).

We believe automated traffic enforcement has some time to play out in North America, ACE has adapted its technology as a tool to incorporate a human element to enforcement. Early expansion is an important competitive advantage, given many contracts are signed on multiyear agreements and data collected from these contracts are used to iteratively improve the AI models accuracy and reliability.

M&A for product expansion is a feature of traffic enforcement market and Ascensus will likely play a part in this over time either as the hunter or the hunted. This can be illustrated through competitor Verra Mobility who acquired T2 systems in December 2021 for $347m [4.3x rev/16.5x EBITDA] and Redflex in June 2021 for $153m [2.2x rev/11.4x EBITDA].

Key growth drivers

Industry tailwinds

Distracted driving has only recently become an area of focus for road safety agencies and law enforcement agencies following the adoption of advanced mobile phones over the previous decade. We believe government agencies will seek to utilise technology solutions to solve this emerging problem. ACE currently has a first mover advantage which we consider a large and growing market, with community/government support providing a strong demand for its products.

Extrapolating ACE's contract with Transport for NSW ($7m p.a., 6m registered vehicles), we estimate global market opportunity at A$1.8b. Achieving a small fraction of this opportunity generates significant upside revenue to ACE. As the technological industry leader, with a patent portfolio protecting its IP, we expect ACE to be a major player in the mobile phone enforcement market, and overtime the $5b distracted driver market as it expands its product portfolio into other verticals.

Geographic expansion

In ACE's short history, the company has secured a large proportion of the Australian market and is seeking to export its first mover advantage into global markets. The company has pilot programs in 10 countries and has sales representatives in the US (3), Europe (1) and the UK (1). We believe North America represents a significant long-term opportunity with limited competing technologies. We note ACE undertaking demonstrations in 20 jurisdictions across 18 states. We understand four states have applied for funding to use ACE's technology.

In Europe ACE has entered into an exclusive arrangement with a number of distributors (including EBO van weel) and pilot programs have been undertaken in four European jurisdictions (Netherlands, Belgium, Spain and the UK). We expect the company to monetise other jurisdictions through distribution partners with ACE generating high margin royalty revenues.

Figure 6: Pilot programs

Australia	Speed, Phone, Railway, Seatbelt
New Zealand	Mobile phone, Seatbelt
India	Mobile phone, Speed
South Africa	Mobile phone
Belgium	Mobile phone
Netherlands	Mobile phone
USA	Mobile phone, Speed
Spain	Mobile phone
United Kingdon	Mobile phone, Speed
Canada	Mobile phone

Source: Company reports

Product expansion

ACE's Heads-Up solution has been proven through deployment across multiple contracts, trials, demonstrations, and pilots to reliably take high-quality photographs through vehicle windshields, in all weather conditions, with minimal motion blur, and to automatically analyse those images using artificial intelligence. ACE has further developed Harmony for mobile speed detection and Heads-Up Realtime for the North American market.

The initial focus for ACE has been for analysis and reporting of distracted driving offences, the enforcement of speeding, licence plate recognition, seatbelt enforcement and monitoring lane closures on freeways. However, ACE is expecting to expand its product portfolio to include railway crossing monitoring (NSW and VIC); phone use warning solution; Heads-Up technology to detect when drivers are impaired by drugs or alcohol; and detection of dangerous situations for first responders/road workers.

Accretive acquisitions

ACE remains well capitalised ($22m net cash) and is profitable (CGe FY23E ~$5m EBITDA) which enables the company to internally funded product and business development. The industry in which ACE operates is evolving with new technologies likely to develop, providing various potential acquisition opportunities.

We believe the company's breadth of contracts will continue to expand, providing opportunities to bolt on and distribute new products or additional features to its customer base. While ACE is not currently seeking acquisitions at this time, we believe this may form part of its growth strategy over the medium term to fast-track product expansion.

Contract upsell

While ACE has experienced a strong uptake of its initial Mobile Enforcement Heads-Up product, it has also been successful with upselling new products to existing customers. For example, its NSW contract initially started with a three-year mobile phone detection program ($7m p.a.) which was expanded to include a multi-year speed enforcement contract ($20m p.a.). In QLD the initial pilot program for mobile phone detection resulted in a multi-year mobile phone and seatbelt enforcement contract.

With an expanded product suite and recognised as the technology leader within the industry, we expect upsell to for a major part of ACE growth strategy. We estimate 75% of ACE's revenue growth in FY23E ($9m) will be derived from existing customers relative to new contracts ($2m).

Financials and earnings growth forecasts

ACE is a profitable, high-growth, recurring revenue model business that should demonstrate high incremental EBIT margins (CGe >20%) as the company grows, in our view. The company operates on long-term government contracts which generate defensive and predicable revenue allowing the company to reinvest gross profit into new opportunities.

- **Revenue growth:** Our FY23E revenue forecasts align to company upgraded guidance of $41-42m (CGe A$41m, revg +44%, +4% upgrade at mid-point). We forecast this to moderate in FY24E to +19% ($49m) and +17% ($57m) in FY25E. We imply a five-year revenue CAGR of +15% with asymmetric risk to our forecasts if ACE is able to convert a number of its trials to contracts in North America and Europe. In our view, this is a very likely outcome given the low competitive pressures in North America for its market-specific Heads-Up Realtime solution and recent demand for more trailer units in the UK.
  - **Distracted driving:** We assume a five-year revenue CAGR of +25% for distracted driving, against FY22 growth of +35% and FY21 growth of +69%. We moderate our growth rate as ACE rolls enter the late stages of its trial program and agencies undergo funding application processes. We expect this to accelerate in accelerate FY24E as a result of pipeline conversion, with its segment revenue increasing +40% in FY24 and +28% in FY25E.
  - **Speed enforcement:** We assume a five-year revenue CAGR +10%. This is premised on strong growth in FY23E (+41%) as ACE works contract with NSW becomes steady state.
- **Gross margins**: ACE solution is predominantly out-of-the-box, with some implementation and monitoring costs that leads to group gross profit margin of 40%. We expect these to stabilise at ~45% with its distracted driving a higher gross profit margin and expected to grow at a fast rate than group revenue.
- **EBITDA:** Our EBITDA forecast for FY23E again aligns to guidance of $4.6-5.1m (CGe $4.8m, +52% upgrade at mid-point). This represents an EBITDA margin of 12% (FY22 13%). While the company is currently in an investment phase (elevated S&M for geographic expansion and R&D for product growth) we expect its EBITDA margins to expand to 20% over the medium term.
- ACE primarily generates its revenue from leasing its camera units to state governments. This requires upfront capex to build the units with service and maintenance incorporated in COGS. Given the quantum of contracts secured over the preceding three years, ACE has experienced an elevated **capex** profile in FY21-23. We estimate maintenance/replacement capex at 20% of PPE (i.e. five-year average asset life that equates to <5% revenue); however, we assume ACE's growth capex amounts to 5% of revenue as new units are built/deployed. We forecast capex at ~10% of group revenue in the forecast period.
- ACE holds a strong balance sheet with $22m of cash and broadly FCF positive. While acquisitions may form part of its growth strategy, we do not forecast any acquisitions in our modelling.

Valuation

ACE is a profitable, high-growth, recurring revenue model business with elevated incremental margins with its revenue immune to the broader economic environment. Almost all of ACE's revenue comes from highly predictable and contracted revenue from government agencies with no customer churn to date. This predictability and limited S&M spend should result in a strong track record of profitable growth.

We identify multiple levers for ACE to sustain and increase the level of revenue growth in future periods. These include: i) geographic expansion, with pilot programs in 10 countries; ii) product expansion into other verticals (i.e. railway crossing monitoring, drugs and/or alcohol, road worker safety monitoring); iii) distribution agreements in new markets (capital light expansion); iv) bolt-on acquisitions given breadth of customers ($25m cash, FCF positive); and v) upsell from existing contracts (75% of FY23 revenue from existing customers).

Profitable growth is in vogue and we expect ACE to retain EBITDA profitability despite an elevated investment in growth initiatives. The company operates in a large addressable market (A$8b by 2026 in the traffic enforcement solutions market) with strong industry tailwinds and an apparent technological advantage over its competitors, which in our view is likely to drive above-average revenue growth over the medium term. Given the elevated gross profit margins (40%) and limited S&M spend, we believe ACE should achieve terminal EBIT margins of ~20%.

DCF methodology ($5.40/share, Ke: 11%, β: 1.4x, ERP 5.5%): Our terminal value incorporates a long-term cash EBIT margin of 18% (gross profit margin 50%, G&A 25%, steady-state capex 7%) on our FY28E revenue expectations of $83m (+15% CAGR). We assume a terminal EBIT multiple of 10x which is a slight discount to the broader ASX-listed industrial index accounting for revenue concentration risk.

Figure 7: CGe DCF methodology

DCF Analysis - Firm Value	**FY24e**	**FY25e**	**FY26e**	**FY27e**	**FY28e**
1. Explicit cash flow					
EBITDA	5.8	7.1	8.1	8.9	9.3
Less cash tax	0.0	0.0	0.0	0.0	0.0
Less Increase in working capital	0.6	0.6	0.7	0.8	0.9
Less capex/other	-5.2	-5.2	-5.2	-5.2	-5.2
Free Cashflow to Firm	**1.2**	**2.4**	**3.5**	**4.4**	**5.0**
Discount factor	*0.90*	*0.81*	*0.73*	*0.66*	*0.59*
PV of Free Cashflow	1.1	2.0	2.6	2.9	2.9
Total PV of explicit free cash flow					11.5
2. Terminal value					
Terminal revenue (FY28)					83.2
LT sustainable EBIT margins					18%
Cash EBIT					14.6
Long term multiple					10
Terminal value					146
Discount factor					0.59
PV of terminal value					86.3
PV of explicit free cash flow					11.5
Firm Valuation					**97.8**
Net Cash					24.4
Equity Valuation					**122.2**
EFPOWA					25.1
Value per share					**4.87**
Target price (rolled forward by K_e)					**5.40**

LT sustainable cash EBIT margins	
Revenue	100%
Gross profit margins	**50%**
G&A	25%
Capex	8%
EBIT margin	**18%**
LT EBIT multiple	10.0

Risk Free Rate	3.6%
Equity RP	5.5%
Beta	1.4
Cost of Equity	**11.0%**
Cost of Debt	**5.0%**
Gearing Ratio	0.0%
WACC	**11.0%**

Source: Canaccord Genuity estimates

Peer comparison

Our peer set comprises direct and indirect domestic and international peers, a handful of which are in the road enforcement industry.

ACE has a one-year forward EV/EBITDA multiple of 11x on our estimates, which sits -32% below its peer group. However, we believe ACE should command a premium multiple to its peer set given its elevated growth profile [FY23E: +43%; peer set +19%] and significant growth optionality should it convert a proportion of its North American and European pipeline.

Figure 8: Peer set

	Ticker	Currency	Price	Market Cap	EV	Revenue			EBITDA			EV/Revenue		EV/EBITDA		Revenue Growth			EBITDA Margin	Revg & EBITDA Margin
						FY22	FY23	FY24	FY22	FY23	FY24	FY23	FY24	FY23	FY24	FY22	FY23	FY24		
Acusensus	ASX:ACE	AUD	$3.39	$85	$63	29	41	49	4	5	6	1.5	1.3	12.7	10.2	326%	43%	19%	12%	54%
Direct Peers																				
Verra Mobility Corp	NasdaqCM:VRRM	USD	$17.24	$2,593	$3,717	742	792	840	300	367	393	4.7	4.4	10.1	9.4	35%	7%	6%	46%	53%
Sensys Gatso Group	OM:SENS	USD	$0.86	$791	$802	495	613	824	55	55	133	1.3	1.0	14.6	6.0	-2%	24%	34%	9%	33%
Iteris	NASDAQ: ITI	USD	$4.52	$192	$192	134	154	170	-3	-5	14	1.2	1.1	nmf	13.4	14%	15%	10%	-3%	12%
Jenoptik	XTRA:JEN	USD	$28.80	$1,648	$2,127	981	1,060	1,139	176	206	225	2.0	1.9	10.3	9.5	31%	8%	7%	19%	28%
Synectics	AIM:SNX	USD	$1.07	$18	$17	46	45	53	2	4	5	0.4	0.3	3.8	3.2	27%	-2%	17%	9%	7%
Teradata Corporation	NYSE:TDC	USD	$44.00	$4,448	$4,543	1,795	1,832	1,918	246	476	507	2.5	2.4	9.5	9.0	-6%	2%	5%	26%	28%
Zhejiang Dahua Tech	SZSE:002236	USD	$21.94	$71,338	$63,195	30,565	34,419	39,776	1,788	4,349	5,660	1.8	1.6	14.5	11.2	-7%	13%	16%	13%	25%
Sensen Networks	ASX:SNS	AUD	$0.04	$28	$27	9	11	17	-14	-3	4	2.4	1.6	-7.7	7.4	65%	21%	53%	-31%	-10%
Domestic Peers (Hardware leasing)																				
EROAD	NZSE:ERD	AUD	$0.52	$59	$108	115	162	178	10	35	47	0.7	0.6	3.1	2.3	25%	41%	9%	22%	31%
Catapult	ASX:CAT	AUD	$0.73	$175	$168	109	128	151	-26	-15	9	1.3	1.1	nmf	18.3	25%	18%	18%	-12%	5%
Life360	ASX:360	AUD	$5.82	$1,158	$1,091	228	308	373	-89	7	25	3.5	2.9	151.6	43.0	103%	35%	21%	2%	37%
Nanosonics	ASX:NAN	AUD	$5.60	$1,693	$1,605	120	167	192	5	24	28	9.6	8.3	67.7	56.8	17%	39%	15%	14%	53%
Family Zone	ASX:FZO	AUD	$0.17	$177	$189	45	82	105	-51	-14	0	2.3	1.8	nmf	nmf	399%	84%	28%	-17%	67%
Smartpay	ASX:SMP	AUD	$1.45	$344	$345	48	78	105	7	18	25	4.4	3.3	19.3	13.7	42%	62%	35%	23%	58%
Tyro	ASX:TYR	AUD	$1.55	$804	$788	326	431	467	1	38	47	1.8	1.7	20.8	16.9	37%	32%	8%	9%	41%
Group average												*2.7*	*2.3*	*26.5*	*15.7*	*54%*	*27%*	*19%*	*9%*	*31%*

Source: CapitalIQ, Canaccord Genuity estimates for ACE

Board and management

Ravin Mirchandani: Non-Executive Chairman (0.9m shares; 0.4%)

Ravin co-founded Acusensus in 2018. He has extensive commercial experience across sectors and geographies and holds an MBA in International Business from Queensland University of Technology. Ravin is a member of the Road Safety Partnership Panel for the World Economic Forum and is Chairman of the Indo Australian Chamber of Commerce (West Indo Chapter) and Executive Chairman of Ador Powertron.

Alexander Jannink: Managing Director and CEO (3.4m shares; 13%)

Alexander is the co-founder of Acusensus and has pioneered the development and deployment of radar and camera enforcement technologies worldwide. Previously, he was the Head of Future Product Group for Redflex Traffic Systems Limited. Alexander holds an MBA from RMIT University, a BE(Hons) in Mechatronics, and BCS from UoM.

Tom Patterson: Non-Executive Director (0.4m shares, 0.2%)

Tom has extensive experience in accounting, finance and tax, working with investors and small cap ASX companies at Deloitte and Pitcher Partners. He holds a Chartered Accountant and Chartered Tax Advisor designation, a Master of Applied Taxation from UNSW and a B. Commerce (Corporate Finance) from University of Adelaide.

Sue Klose: Non-Executive Director

Sue has a background in digital business growth, corporate development and marketing. She serves as a Non-Executive Director for Nearmap, Envirosuite, Halo Foods and Pureprofile. She holds an MBA from Northwestern University and a B. Science in Economics from the University of Pennsylvania.

Mark Lawrence: Chief Financial Officer

Mark is an experienced ASX-listed CFO who started his career at Deloitte Touche Tohmatsu and held senior finance roles at Lendlease and Programmed Group. He has a strong commercial background and M&A experience. Mark holds an ACA and a Bachelor of Business (Accounting) from Monash University.

Olivia Byron: General Counsel and Company Secretary

Olivia a lawyer with expertise in corporate, financing, technology and projects law. She started her legal career at Corrs Chambers Westgarth and later worked at Transurban. Olivia holds a Master of Corporate Law (Hons) from University of Cambridge and a Bachelor of Commerce/Bachelor of Laws (Hons) from University of Melbourne.

Christopher Kells: Chief Technology Officer

Christopher has extensive technical expertise in imaging, enforcement and machine learning. He held senior R&D positions at Redflex Traffic Systems and led the adoption of various technologies within Redflex's Future Product Group. Chris holds a Bachelor of Engineering and Bachelor of Computer Science from University of Melbourne.

Andrew Matthews: Head of Operations

Andrew formed the operations, image review and camera deployment teams for Acusensus, partnering with non-profit organisations. He was previously Head of Delivery and Operations for a multi-national enforcement camera provider. Andrew holds an Advanced Diploma in Electrical Engineering from Southern Sydney Institute of TAFE.

Shaun Miller: Head of Customer Engagement

Shaun has led business development activities for Fortune 500 and start-up companies globally, in industries such as manufacturing and technology. He has also worked with various layers of government in Australia and globally. He holds a GradCert in Business Administration and is currently pursuing a Master of Global Development from Griffith University.

Risks

Contract reliance risk

ACE currently has few long-term customer contracts (predominantly Transport for NSW and the Department of Transport and Main Roads QLD) which constitute a large proportion of its revenue. Should these contracts be prematurely terminated, there would be material impact on revenue and earnings.

Government policy

ACE relies on governments to amend legislation around automated enforcement in order to contract, particularly in offshore markets. While this has been successful in NSW, QLD and other jurisdictions, there is no guarantee all jurisdictions will enable automated enforcement. Further, any decisions by governments not to pursue policies in the areas that ACE's technology address would have an adverse effect on its growth prospects, financial position and performance.

Protection of intellectual property

The core competitive advantage for ACE is its patented camera, workflow and image capture. If competitors replicate its IP, there could be ramifications in terms of lost revenue and/or costs if legal action is pursued.

Data privacy risks

ACE handles a large volume of highly sensitive personal data. There is risk this data is mishandled or becomes subject to a cyber-attack. There is also risk the company inadvertently infringes on existing IP or become subject to litigation which could result in legal costs, damages awards and risk to future revenue generating opportunities.

Autonomous vehicle development

Significant investments are being made to develop fully autonomous vehicles. This could potentially impact the addressable opportunity for driver distraction solutions if autonomous vehicles eliminate human error and the need to detect distracted drivers.

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: May 15, 2023, 17:00 ET

Date and time of production: May 15, 2023, 03:01 ET

Target Price / Valuation Methodology:

Acusensus Ltd - ACE

We value ACE using a DCF methodology ($5.40/share, Ke: 11%, β: 1.4x, ERP 5.5): Our terminal value incorporates a long-term cash EBIT margin of 18% (gross profit margin 50%, G&A 25%, steady-state capex 7%) on our FY28E revenue expectations of $83m (+15% CAGR). We assume a terminal EBIT multiple of 10x which is a slight discount to the broader ASX-listed industrial index accounting for revenue concentration risk.

Risks to achieving Target Price / Valuation:

Acusensus Ltd - ACE

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	#	%	%
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Hold	140	15.04%	10.71%
Sell	16	1.72%	0.00%
Speculative Buy	158	16.97%	46.84%
	931*	100.0%	

*Total includes stocks that are Under Review

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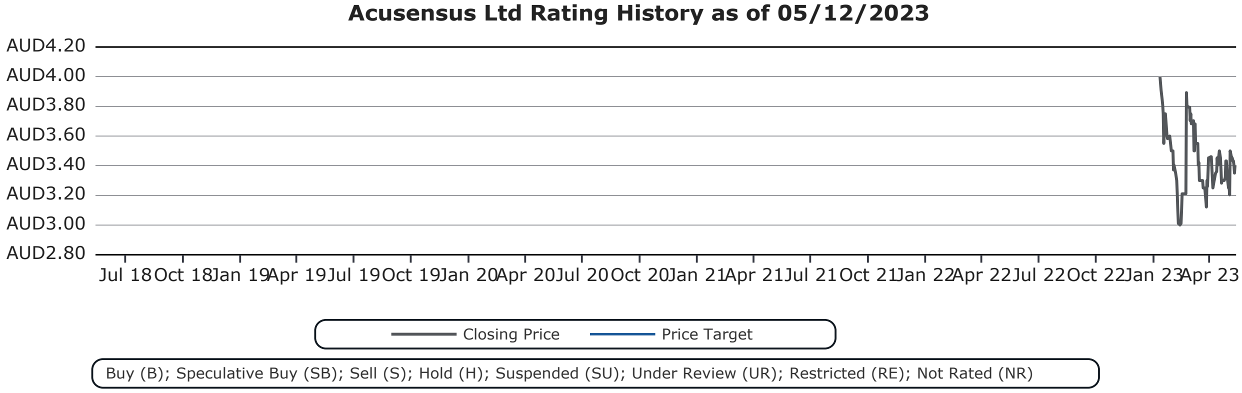

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