

# Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

M. Marin  
312-265-9211  
mmarin@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

## VIQ Solutions

(VQSLD-OTC)

### VQSLD: Operational and Financial Improvements

Shares of VIQ Solutions have qualified to trade on the OTCQX exchange. The company expects the uplisting to boost investor interest in its shares and enhance visibility within the investment community. Moreover, the company targets an uplisting to NASDAQ by the end of 2021 or in 2022.

### OUTLOOK

VIQ had 720 clients set up on NetScribe at the end of September 2019, up from 55 at the end of June 2019. To put this growth in perspective, there were no clients on NetScribe at the end of September 2018. This positive trend underlies the company's operational goal to drive digital transformation and AI integration. In turn, this is expected to help expand the company's margins and lead to growing profitability. Management targets reaching 1,000 clients on NetScribe for 2019 and 100% of its clients by end of 2020.

Current Price (12/9/19) **\$1.72**  
Valuation **\$3.00**

### SUMMARY DATA

52-Week High **\$1.73**  
52-Week Low **\$0.08**  
One-Year Return (%) **N/A**  
Beta **-1.35**  
Average Daily Volume (sh) **66,450**

Shares Outstanding (mil) **10.9**  
Market Capitalization (\$mil) **\$19**  
Short Interest Ratio (days) **1**  
Institutional Ownership (%) **10%**  
Insider Ownership (%) **21%**

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

5-Yr. Historical Growth Rates  
Sales (%) **255**  
Earnings Per Share (%) **N/A**  
Dividend (%) **N/A**

P/E using TTM EPS **N/A**  
P/E using 2019 Estimate **N/A**  
P/E using 2020 Estimate **1.9x**

Zacks Rank **N/A**

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

### ZACKS ESTIMATES

#### Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2017	2.9	3.2	3.2	2.4	11.7
2018	3.0	3.3	3.1	2.1	11.5
2019	6.4	6.2 A	6.5A	8.4E	27.4 E
2020	-	-	-	-	36.3 E

#### Per Share Data

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2017	0.00	0.00	0.00	0.00	0.00
2018	-0.00	-0.00	-0.00	-0.03	-0.04
2019	-0.01	-0.17A	0.04A	0.04E	-0.18E
2020	0.00E	0.00E	0.05E	0.07E	0.12E

Quarters might not sum due to rounding & share counts

PF for reverse stock split. Disclosures on page 10

---

## KEY POINTS

- VIQ Solutions has qualified to trade on the OTCQX. The company expects the uplisting to boost investor interest in its shares and enhance visibility within the investment community. Moreover, the company targets an uplisting to NASDAQ by the end of 2021 or in 2022, according to management.
- In addition, following a 1:20 reverse stock split, every twenty shares of the company's stock are consolidated into one share.
- The company's 3Q19 operational and financial results reflect improvements resulting from management's ongoing implementation of its strategy. For example, the company had 720 clients set up on NetScribe at the end of September 2019, up from 55 at the end of June 2019 and zero at the end of September 2018. Management targets reaching 1,000 clients on NetScribe for 2019 and 100% of its clients by end of 2020.
- Moreover, 3Q19 revenue came in an impressive \$6.45 million, which represents a 111% year-over-year advance. The company reported record gross profit of \$2.9 million, which reflects a gross margin of 45%. Management expects that as it continues to transition toward recurring SaaS accounts, it will further improve the quality of its revenue base and generate higher margins.

---

## SHARE UPLISTING ADVANCES COMPANY STRATEGY

Toronto, Canada and Phoenix, Arizona-based VIQ Solutions (VQSLD –OTC, VQSLF-OTC and VQS-TSXV) operates a technology platform that offers artificial intelligence (AI) enabled video capture software and audio recording with voice-to-text capabilities. Last week, VIQ announced that it has qualified to trade on the OTCQX. Beginning on January 2, 2020, the company's shares will commence trading under the symbol VQSLF. In the interim, the shares will trade on OTCQX under the symbol VQSLD.

In addition to its operational goals, a key company goal is to boost awareness of the strides it is making and expand the potential investor base. The company expects the uplisting to boost investor interest in its shares and enhance visibility within the investment community. Moreover, the company targets an uplisting to NASDAQ by the end of 2021 or in 2022.

Moreover, following a 1:20 reverse stock split, every twenty shares of the company's stock are consolidated into one share. This reduces the number of non-diluted shares outstanding from approximately 217.1 million to roughly 10.9 million. Moreover, as measured by trading volume in the shares, there appears to be increased activity already. Specifically, VIQ's stock market trading volume for the period of January 1 to September 30, 2019 was 42 million shares, according to management, up 56% over the same period in 2018.

---

## NETSCRIBE CLIENT BASE CONTINUES TO EXPAND

The company had 720 clients set up on NetScribe at the end of September 2019, up from 55 at the end of June 2019 and zero at the end of September 2018. Management targets reaching 1,000 clients on NetScribe for 2019 and 100% of its clients by end of 2020.

The company's operational goal to drive digital transformation and AI integration is expected to help expand the company's margins and lead to growing profitability. Thus, as VIQ accelerates the integration of AI into its platform, the company expects gross margins to continue to expand.

By leveraging AI tools, VIQ's technology allows clients to streamline the document-creation process and also to improve efficiency. Management believes that its customers can obtain results faster with VIQ and realize higher volume per worker and reduced unitary cost and production time. The company's strategy is to enable machines to perform most of high-volume speech to text conversion so that workers can focus more on quality assurance. Human to machine collaboration via an integrated cloud-based platform driven by speech recognition is therefore one of the underlying foundations of the company's platform.

The need to access and analyze a growing amount of data and content is driving the need to perform these tasks more efficiently. For instance, low-cost devices enable the collection of significant volumes of audio and video information. Rising data capture from audio and video devices, sensors, body cameras, drones and smartphones, among other devices, leads to a growing volume of data. Management believes that as the volume of data continues to rise, pressure to transform digital evidence to documents and transcripts will mount. Management believes that as this trend continues, pressure to transform data to documents and transcripts digitally leveraging AI technology will further increase. VIQ enables clients to transform audio to content digitally via a cyber-secure AI speech recognition technology.

VIQ expects roughly 33% and 60% of the content it works on in 2019 and 2020, respectively, will use some element of automated AI technology. Moreover, VIQ began to transition its recurring revenue toward a SaaS and AI revenue model that provides services to customers on a recurring monthly fee basis based on VIQ's average customer contract length of 5+ years.

---

## **BOOSTING HIGH MARGIN REVENUE: GROWING SALES EFFORTS, NEW CONTRACTS**

Management's goal to attain 100% of its clients on NetScribe by end of 2020 is a factor underlying its goal of reaching a 65% gross margin by the end of 2020. Overall, the company's aim is to boost its high-margin revenue. VIQ has enhanced its marketing and sales efforts in order to achieve this goal. As a result, the company has announced a number of high-margin new contracts over the course of the year and continues to expand its client base, both organically and through accretive M&A transactions.

In July, for instance, the company announced a new five-year contract with the Western Australia (WA) Police Force. The WA Police Force oversees more than 150 police stations across eight metropolitan and seven regional districts. The WA Police Force believes that it polices the world's largest, single police jurisdiction. If the margins align with those of other recent similar contracts, the company expects gross margin of 25% to 50% on the new revenue.

In addition, the company has several additional potential acquisition candidates under review. The three accretive acquisitions completed in 2018 expanded VIQ's customer base and we would expect future acquisitions to further expand the company's client base.

Consistent with its goal to expand its client base, the company recently hired a new SVP of Sales and Business Development. Tony Incardona is an industry veteran with more than 30 years of sales experience.

---

## THIRD QUARTER 2019 REVIEW

The company's 3Q19 financial results reflect improvements resulting from management's ongoing implementation of its strategy. Revenue came in an impressive \$6.45 million, which represents a 111% year-over-year advance and exceeds our \$6.11 million forecast. The company expects further revenue growth as it expands its client base and diversifies into new international markets. The improvements in third quarter revenue contributed to a cumulative \$19 million of revenue generated during the first nine months of calendar 2019. This represents a more than doubling (up 103%) of revenue compared to the same period of 2018. The average gross margin for the nine-month period ending September 30, 2019 was 44%.

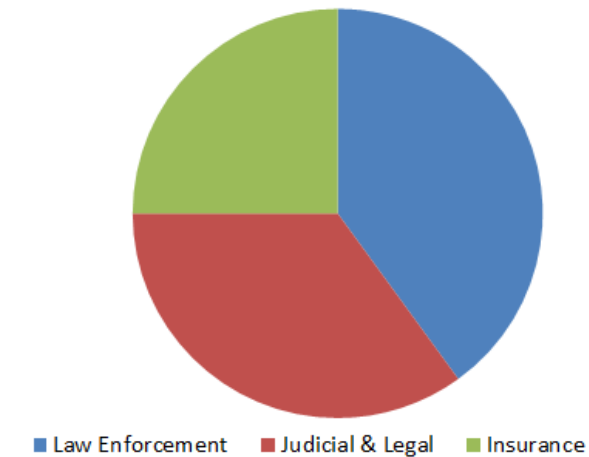
The company reported record gross profit of \$2.9 million on the higher revenue base, a 235% year-over-year advance. The improvement reflects the benefit of the company's strategy to boost recurring revenues. This compares to gross profit of \$866,456 registered in the prior year quarter. VIQ's 3Q 2019 gross profit reflects a gross margin of 45% compared to 28% in the prior year period. VIQ's goal is to reach a gross margin of about 65% by the end of 2020. On the higher 3Q 2019 gross profit, VIQ generated adjusted EBITDA of \$466,000, representing a 198% year-over-year increase. Moreover, pro forma for the exclusion of a the non-cash conversion charge, the company generated positive working capital of about \$1.1 million in the period versus negative working capital in the prior quarter.

The company expects gross margins to improve further, reflecting its strategy to drive business towards a recurring SaaS revenue model and the transition from 100% manual workflow to AI collaboration. Management anticipates an incremental margin increase with each client migration into the cloud. Moreover, the company expects to achieve growing scale as it continues to increase the number of minutes it transcribes. This is another factor that likely will contribute to margin improvement, management believes.

Operating expenses came in a little higher than our projections. Thus, our revised 2019E forecast changes by the 3Q19 variances and by our upward revisions to our expense forecasts, as well as the reverse stock split.

Management expects to generate revenue of more than \$27 million in 2019E. The Company's goal is reaching roughly \$40 million in recurring revenue in 2020, reflecting both organic growth and acquisitions. The company has several potential acquisition candidates under review, as noted, and expects strategic M&A transactions could add some \$10 million in revenue in 2020. The Company expects margins to improve throughout 2019 and 2020 with a goal of reaching ~65% gross margin by the end of 2020.

## Revenue Breakdown



Source: Company reports

Overall, VIQ has more than 1,280 customers worldwide. VIQ markets its platform primarily to law enforcement, insurance, judicial, legal, medical and transcription service providers. VIQ subsidiary Net Transcripts, for example, targets law enforcement transcription, while Transcription Express targets insurance. VIQ recently announced an end-to-end cloud-based workflow solution for the insurance industry. Roughly 40% of VIQ's clients are in public safety, 25% in insurance and the remaining 35% are in the justice and legal sector.

The company recently announced that its subsidiary Net Transcripts had partnered with Karpel Solutions to simplify workflow for criminal case documentation. This partnership will enable law professionals to streamline their process for producing transcripts. VIQ is Criminal Justice Information Services (CJIS) compliant. At this point, all of the company's U.S. transcriptionists have met federal and state security checks to enable VIQ to maintain its CJIS standards.

---

## RECENT NEWS

- On December 5, 2019, the company announced that it had qualified to trade on the OTCQX from the OTCQB.
- On November 27, 2019, VIQ Solutions announced that its share consolidation was approved by shareholders.
- VIQ announced the appointment of Brad Wells to its board of directors on November 27, 2019. He has more than 25 years of entrepreneurial experience.
- On November 7, 2019, the company announced 3Q19 results.
- VIQ announced an end-to-end cloud-based workflow solution for the insurance industry on October 1, 2019.
- On September 24, 2019, VIQ announced that its subsidiary Net Transcripts had partnered with Karpel Solutions to simplify workflow for criminal case documentation, allowing law professionals to streamline their process for producing transcripts.
- On September 10, 2019, the company announced its proposal to amend the exercise price of warrants that it had issued as part of private placements of convertible notes.
- VIQ announced that it had hired Tony Incardona as its new SVP of Global Sales and Business Development on July 30, 2019.

---

## RISKS

We believe risks include those outlined below, among others.

- Among the biggest risks, in our view, is that the VIQ Solutions does not gain market share as quickly as the company expects, which leads to slower than anticipated revenue ramp.
- The company might not migrate its customers to its higher margin services or recurring revenue model as quickly as it expects.
- 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 (\$)

	Mar-18	Jun-18	Sep-18	Dec-18	2018	Mar-19	Jun-19 A	Sep-19 A*	Dec-19	2019E	2020E
Revenue	\$3,006,145	\$3,290,981	\$3,055,320	\$2,110,358	\$11,462,804	\$6,359,223	\$6,189,458	\$6,451,077	\$8,448,175	\$27,447,933	\$36,250,000
Cost of sales	1,814,129	2,186,370	2,188,864	1,684,856	7,874,219	3,322,085	3,739,216	3,551,057	4,606,108	15,218,466	18,668,750
Gross profit	1,192,016	1,104,611	866,456	425,502	3,588,585	3,037,138	2,450,242	2,900,020	3,842,067	12,229,467	17,581,250
Gross margin	39.7%	33.6%	28.4%	20.2%	31.3%	47.8%	39.6%	45.0%	45.5%	44.6%	48.5%
Selling & administrative expenses	995,501	1,465,201	1,237,344	1,835,678	5,533,724	2,513,865	1,799,433	2,147,702	1,364,078	7,825,078	8,255,458
Research & development expenses	134,844	88,567	103,777	131,487	458,675	200,611	231,824	286,531	286,651	1,005,617	1,045,842
Stock-based compensation	73,331	42,423	100,784	(247,999)	(31,461)	24,301	90,280	109,272	79,832	303,685	315,832
Loss on revaluation of conversion liab	-	-	-	186,444	186,444	(357,930)	320,828	(1,558,119)	70,582	(1,524,639)	70,000
FX	(124,940)			323,120	198,180	19,750	126,889	16,231	62,176	225,046	234,047
Depreciation & amortization	50,574	47,197	45,367	505,735	648,873	792,529	856,408	922,887	804,007	3,375,831	3,510,864
Total operating expenses	1,129,310	1,643,388	1,487,272	2,734,465	6,994,435	3,193,126	3,425,662	1,924,504	2,667,326	11,210,618	13,432,043
Operating income	62,706	(538,777)	(620,816)	(2,308,963)	(3,405,850)	(155,988)	(975,420)	975,516	1,174,741	1,018,849	4,149,207
Interest income	30	1,104	615	537	2,286	623	178	309	300	1,410	1,270
Interest expense	(1,744)	(2,189)	(2,730)	(89,821)	(96,484)	(405,306)	(331,935)	(390,445)	(400,000)	(1,527,686)	(1,527,826)
Other inc / (exp)	591	(591)		(66,142)	(66,142)	(210,484)	(212,178)	(293,386)	(200,000)	(916,048)	(916,188)
FX		40,515	(65,928)	25,413				-		-	
Business acquisition & fin'g costs				(2,488,873)	(2,488,873)	-		-	-	-	-
Pretax income	61,583	(499,938)	(688,859)	(4,927,849)	(6,055,063)	(771,155)	(1,519,355)	291,994	575,041	(1,423,475)	1,706,463
Tax				(11,571)	(11,571)	-	-	-	-	-	-
Net inc/ (loss)	61,583	(499,938)	(688,859)	(4,939,420)	(6,066,634)	(771,155)	(1,519,355)	291,994	575,041	(1,423,475)	1,706,463
FX	(213,504)	(176,916)	102,802	191,719	(95,899)	(377,430)	(82,768)	91,687	(80,000)	(448,511)	(100,000)
Comprehensive loss	(151,921)	(676,854)	(586,057)	(4,747,701)	(6,162,533)	(1,148,585)	(1,602,123)	383,681	495,041	(1,871,986)	1,606,463
<i>Per share data:</i>											
LPS	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.03)	(\$0.04)	(\$0.00)	(\$0.01)	\$0.00	\$0.04	(\$0.18)	\$0.12
Avg shares out	161,205,502	161,294,113	161,433,649	163,330,992	161,816,064	183,404,871	188,862,956	200,205,084	12,703,500	10,331,786	12,953,500

Source: Company reports, Zacks estimates

## BALANCE SHEET AND CASH FLOW STATEMENT

### VIQ Solutions Inc. Consolidated Statement of Cash Flows (\$)

	2017	2018	Mar-19	Jun-19	Sep-19
Net loss	(851,117)	(6,066,634)	(771,155)	(1,519,355)	291,994
Depreciation & amortization	237,982	648,873	792,529	856,408	922,887
Stock-based compensation	384,000	(31,461)	24,301	90,280	109,272
Loss on revaluation of conversion liab		186,444	(357,930)	320,828	(1,558,118)
Other				676,144	694,433
Provisions	5,875	(6,129)	7,115	19,473	(8,421)
Deferred income tax expense	(123,089)	11,571	(1,934)	4,769	13,083
Unrealized foreign exchange loss	238,401	196,455	402,282	1,005,090	(201,578)
Changes in working capital	(714,011)	3,543,308	(246,153)	(2,358,643)	84,613
<b>Cash used in operating activities</b>	<b>(821,959)</b>	<b>(1,517,573)</b>	<b>(150,945)</b>	<b>(905,006)</b>	<b>348,165</b>
Purchase of property & equipment	(187,035)	(49,092)	(12,155)	(25,496)	(36,791)
Business acquisitions	-	(9,605,683)	-		
Development costs	(1,227,936)	(1,881,792)	(400,091)	(506,521)	(377,535)
Change in restricted cash	(3,114)	4,406	(268)	433	1,403
<b>Cash used in investing activities</b>	<b>(1,418,085)</b>	<b>(11,532,161)</b>	<b>(412,514)</b>	<b>(531,584)</b>	<b>(412,923)</b>
Proceeds from exercise of stock options	47,135	28,800	17,758	(2,429)	43,886
Repayment of debt			(40,000)	(254,305)	(379,122)
Payment of interest on debt			(41,896)	(130,774)	(317,023)
Payment of interest on lease obligations			(22,029)	52,869	(19,065)
Repayment of lease obligations			(94,886)	(171,195)	(100,546)
Proceeds from exercise of warrants	572,944	-	-		1,922,094
Net proceeds from convertible debt	-	4,692,327	-		
Other		6,345,166	-	1,925,000	
Proceeds from private placement	3,644,091	-	-		
Finance lease advances	-	(20,491)	(10,667)	(3,659)	5,713
<b>Cash provided by financing activities</b>	<b>4,264,170</b>	<b>11,045,802</b>	<b>(191,720)</b>	<b>1,415,507</b>	<b>1,155,937</b>
<b>Net (decrease) increase in cash</b>	<b>2,024,126</b>	<b>(2,003,932)</b>	<b>(755,179)</b>	<b>(21,083)</b>	<b>1,091,179</b>

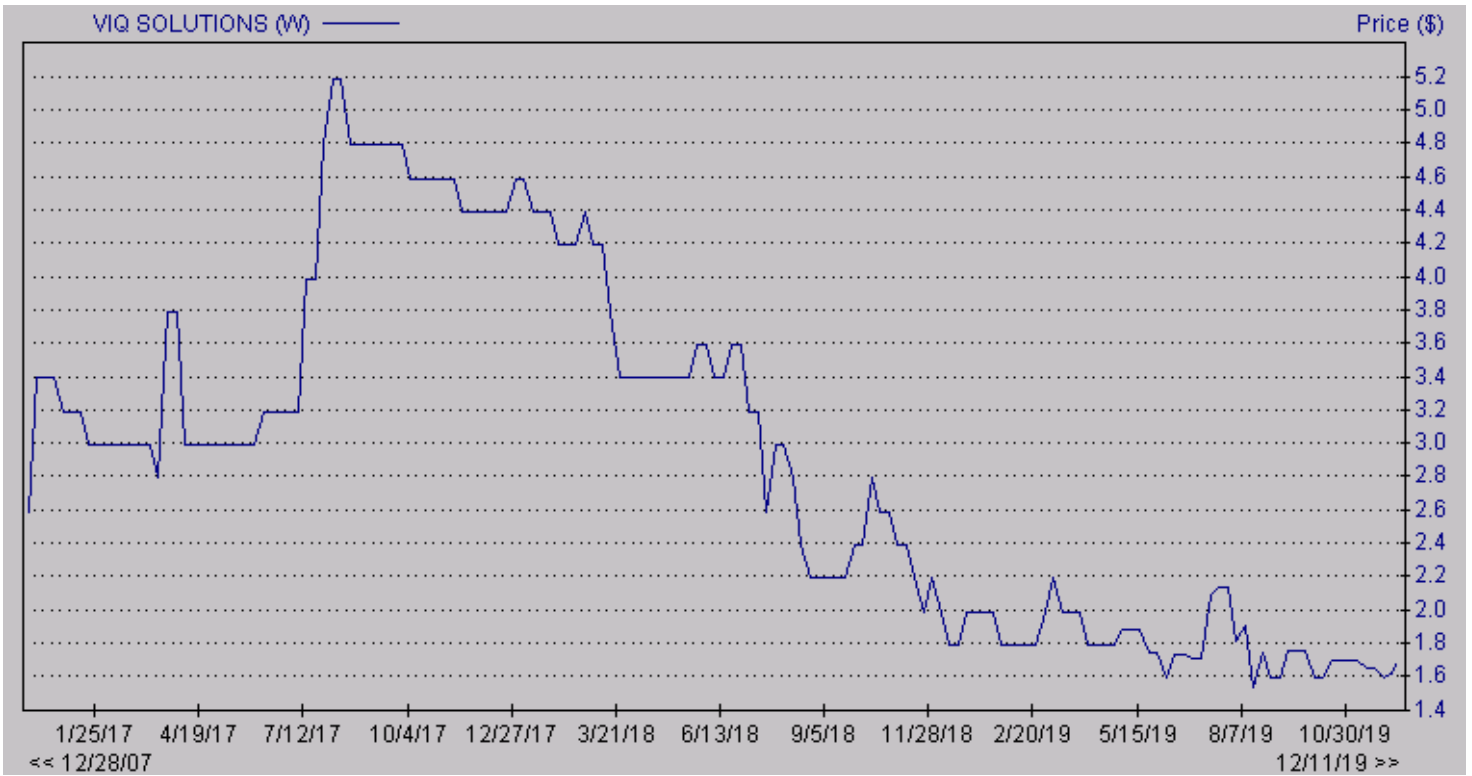


**VIQ Solutions Inc. Consolidated Balance Sheets (US\$)**

	2017	2018	Mar-19	Jun-19	Sep-19
Cash	\$4,112,123	\$1,922,768	\$1,192,493	\$1,188,312	\$2,279,368
Receivables	2,180,533	3,023,127	3,436,522	3,740,870	3,757,223
Inventories	71,083	58,195	105,047	194,550	161,637
Prepaid expenses & deposits	<u>83,381</u>	<u>161,170</u>	<u>266,931</u>	<u>333,772</u>	<u>179,651</u>
Total current assets	\$6,447,120	\$5,165,260	\$5,000,993	\$5,457,504	\$6,377,879
Restricted cash	42,118	37,712	37,980	37,547	36,144
Property & equipment	173,299	111,437	101,061	102,142	114,866
Right of use assets	0	0	841,203	740,728	645,033
Intangible assets	1,849,969	11,358,813	11,181,289	10,931,390	10,589,202
Goodwill	796,841	4,277,887	4,284,847	4,370,935	4,148,675
Deferred tax assets	<u>438,167</u>	<u>368,997</u>	<u>371,558</u>	<u>367,409</u>	<u>353,985</u>
Total assets	\$9,747,514	\$21,320,106	\$21,818,931	\$22,007,655	\$22,265,784
Trade & other payables	1,182,919	4,384,831	3,999,809	2,995,788	2,772,729
Share appreciation rights plan obligations	651,451	257,164	235,494	238,786	199,957
Current portion of long-term debt		1,155,518	1,155,518	1,072,073	1,034,204
Conversion feature derivative liability		3,290,832	3,004,126	4,619,805	3,005,091
Current portion lease obligations			388,561	377,308	335,844
Provisions	498,096	458,959	391,873	419,022	421,533
Contract liabilities	405,563	454,789	579,927	643,842	506,852
Current portion of obligations - finance lease	<u>40,239</u>	<u>38,231</u>	<u>33,400</u>	<u>29,716</u>	<u>27,296</u>
Total current liabilities	2,778,268	10,040,324	9,788,708	10,396,340	8,303,506
Deferred tax liability	88,270	29,752	30,379	30,999	30,658
Convertible debt		1,563,554	1,563,554	2,627,086	3,271,126
Long-term debt		6,877,061	7,260,001	7,395,143	6,678,318
Lease obligation			466,373	388,744	341,451
Provisions	78,767	72,638	79,753	85,987	91,897
Obligations under finance lease	<u>40,355</u>	<u>21,872</u>	<u>16,036</u>	<u>16,061</u>	<u>24,194</u>
Total liabilities	2,985,660	18,605,201	19,204,804	20,940,360	18,741,150
Shareholders' equity	6,761,854	2,714,905	2,614,127	1,067,295	3,524,634
Total liabilities & shareholders' equity	9,747,514	21,320,106	21,818,931	22,007,655	22,265,784

Source: Company reports

# HISTORICAL STOCK PRICE



## DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

### ANALYST DISCLOSURES

I, M. Marin, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

### INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.

Zacks SCR has received compensation from the issuer directly or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

### POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business. SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

### ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.