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

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

VIQ Solutions (VQSLF-OTC)

VQSLF: Benefits of Recurring Revenue Model in Current Environment

VIQ continues to transition to recurring monthly fee revenue under a SaaS model. In the current economic environment, this is expected to help offset possible revenue pressure. Moreover, VIQ's target markets – law enforcement, judicial and insurance – continue to operate and the company has added new revenue, both organically and through M&A.

OUTLOOK

VIQ completed two accretive transactions earlier this year, adding annual revenue, as well as new clients, including several Fortune 500 companies. The company has also added new revenue sources by signing new clients and contracts organically. For instance, earlier this year, VIQ was awarded a \$1.2 million contract with the Queensland Courts and also has added another roughly \$500,000 from six new clients.

Current Price (3/24/20) \$2.15
Valuation \$3.00

SUMMARY DATA

52-Week High \$3.33
52-Week Low \$1.35
One-Year Return (%) 10
Beta -2.2
Average Daily Volume (sh) 29,101

Shares Outstanding (mil) 18
Market Capitalization (\$mil) \$35
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 (%) N/A
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 18x

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	6.3E	25.3 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	-0.05E	-0.29E
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 8

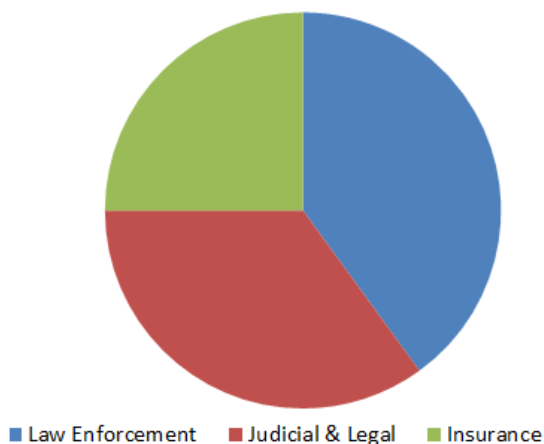
KEY POINTS

- VIQ's recent initiatives to transition revenue toward a recurring SaaS and AI model based on ongoing monthly fees likely will help offset possible revenue pressure in the current economic environment, we believe. Moreover, the company's three focus markets – law enforcement, judicial and insurance – continue to operate, despite current market conditions, and in many jurisdictions, courts are taking advantage of downtime to address their backlog of documents that need to be transcribed.
- Moreover, consistent with its strategy to leverage M&A to complement organic growth, VIQ Solutions has made five acquisitions in little more than a year, including two accretive transactions completed earlier this year. The acquisition of Washington, DC-based ASC Services and Atlanta, Georgia-based ZWord are expected to add new revenue, as well as new clients, including several Fortune 500 companies.
- The company has also added revenue through new contracts and by signing new clients. For instance, earlier this year, VIQ was awarded a \$1.2 million contract to provide digital capture and management of official court records for the Queensland Department of Justice and Attorney-General. Australia has been an important market for VIQ, comprising roughly 24% of its total revenue.
- The company is beginning to build a significant backlog of orders as it expands its footprint and service offerings organically and through strategic acquisitions. With about 1,300 customers worldwide, VIQ can scale its technology platform to provide service to its expanding client base and even provide customized solutions for customers' specific needs.

RECURRING REVENUE MODEL A POSITIVE

Toronto, Canada and Phoenix, Arizona-based VIQ Solutions (VQSLF –OTC and VQS-TSXV) expects its recent initiatives to transition revenue toward a recurring SaaS and AI model based on ongoing monthly fees to help offset potential revenue pressure in the current environment. Importantly, the company's three focus markets – law enforcement, judicial and insurance – continue to operate, despite current market conditions and in many jurisdictions, courts are taking advantage of downtime in court dockets to address their backlog of documents that need to be transcribed.

Revenue Breakdown



Source: Company reports

Moreover, consistent with its strategy to leverage M&A to complement organic growth, VIQ Solutions has made five acquisitions in little over a year, including two accretive transactions completed earlier this year. The acquisition of Washington, DC-based ASC Services and ZWord are expected to add a combined roughly \$12 million in annual revenue, as well as new clients, including several Fortune 500

companies. Moreover, the company also added new clients in the last quarter of 2019 through organic efforts that are expected to add an aggregate roughly \$500,000 in recurring annual revenue.

The company had pre-announced 2019 revenue and gross margins of about \$25 million and 44%. We are adjusting our 4Q19 projections accordingly, reducing our revenue forecast from \$8.4 million to \$6.3 million. Earlier this month, management indicated that its run-rate of expected recurring revenue going forward was approximately \$35.5 million. On top of that, the company anticipates M&A to add another \$2.5 million to \$4.0 million. Longer-term, the backlog was approximately \$3 million.

RECENT ACQUISITIONS

The company operates a technology platform that offers artificial intelligence (AI) enabled video capture software and audio recording with voice-to-text capabilities. VIQ has made M&A an integral part of its growth strategy to complement organic advances. In just over a year, VIQ has purchased five companies to further its expansion efforts. VIQ completed two accretive acquisitions earlier this year.

The company acquired Washington, DC-based ASC Services, which provides digital media content and transcription, services in the U.S. VIQ expects ASC Services to be accretive immediately to its consolidated operating income and net earnings. Key factors driving the acquisition are that it adds:

- Roughly \$6 million in annual accretive recurring revenue;
- U.S. government and Fortune 500 clients, as well as new media content distribution partners;
- About 2.8 million additional minutes annually of video and audio content that must be transcribed.

Management expects an immediate benefit to 2020 operating income and net earnings. VIQ paid \$6.9 million for ASC, including \$3.1 million in cash paid upon closing and \$3.8 million payable as a quarterly earn-out over 30 months. The purchase price equates to a multiple of about 1.2x revenue. The company accessed its Crown Capital Partner Funding debt facility for the funds that it paid upon closing the transaction.

Last month, VIQ acquired Atlanta, Georgia -based wordZXpressed, Inc. (WordZ), which has a nearly three decade operating history. Management anticipates that the transaction will be accretive. WordZ adds roughly \$6 million in annual recurring revenue and also expands VIQ's client base by more than 100 new companies, including Fortune 500 insurance clients. With this acquisition, VIQ's client base expands to about 1,300 companies, spanning the range of the company's target sectors: insurance, law enforcement, courts, and government agencies.

WordZ typically transcribes about three million minutes of single and multi-speaker audio and video content each year. With this transaction, VIQ expects the geographic breakdown of its annual revenue to be roughly 69% originating in the U.S., another 24% in Australia and the approximately 7% balance from EMEA and Canada.

VIQ paid \$4.7 million for WordZ, or about 0.8x revenue. About \$1.3 million was paid upon closing, with a promissory note for another \$1.2 million to be paid in quarterly installments over three years and the \$2.2 million balance through an earn-out that is payable each quarter over the next three years. The company used its Crown Capital Partner debt facility to finance the transaction, drawing down roughly \$1.3 million.

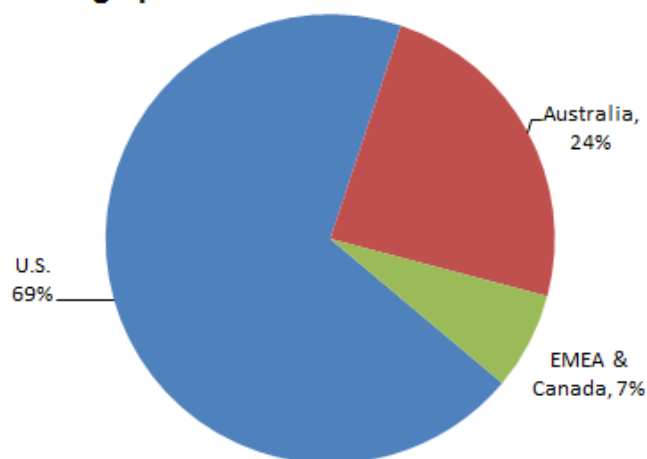
RECENT CONTRACT AWARDS AND ONGOING MARGIN EXPANSION

Historically, VIQ's average customer contract length has been about 5+ years. That factor, combined with the ongoing transition to a recurring monthly revenue model likely will help offset potential revenue

pressure in this environment, we believe. Moreover, the company is beginning to build a significant backlog of orders as it expands its footprint and service offerings organically and through strategic acquisitions. With about 1,300 customers worldwide, the company can scale its technology platform to provide service to its expanding client base and also provide customized solutions for customers' specific needs.

For instance, earlier this year, VIQ was awarded a \$1.2 million contract to provide digital capture and management of official court records for the Queensland Department of Justice and Attorney-General. Specifically Queensland chose VIQ's subsidiary Spark & Cannon to provide recording solutions for hundreds of courtrooms across several jurisdictions in Queensland. Spark & Cannon will implement its CapturePro™ Solution Suite. The Queensland contract strengthens VIQ's footprint in Brisbane and Queensland. Overall, Australia has been an important market for VIQ, comprising roughly 24% of its total revenue, as noted.

Geographic Revenue Breakdown



Source: Company reports

Migration to the Platform Drives Margin Expansion

Leveraging its digital tools enables VIQ's 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. After migrating to its new technology platform, VIQ customers have reported efficiency gains of up to 30%, according to management.

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. As the amount of data that must be accessed and analyzed grows, clients often seek more efficient ways to perform these functions. VIQ believes this ongoing trend will lead to further client migration to its digital, AI-enabled platform.

Management expects that as customers migrate to the technology platform, gross margins will continue to expand from roughly 44% by the end of 2019 to an estimated 65% by the end of 2020, on average. Gross margins are highly correlated to the customer migration to the platform. Currently, about 40% of VIQ's transcription volume is on the new technology platform.

BALANCE SHEET

The company has also focused on strengthening its balance sheet in recent quarters. Since September 2019, VIQ has converted most of its convertible notes to equity and also called a significant number of outstanding warrants.

VIQ amended its debt facility agreement with Crown Capital to cancel the warrant that it issued to Crown in 2018 for the purchase of 9.0 million shares. In exchange, Crown received a new warrant for the purchase of 450,000 VIQ shares at C\$2.06 per share. The new warrants expire on November 28, 2023.

RECENT NEWS

- On February 27, 2020, VIQ acquired wordZXpressed, Inc., which represented its fifth M&A transaction in just over a year.
- On February 4, 2020, VIQ announced the purchase of ASC Services, which is based on Washington, D.C.
- VIQ signed a contract valued at \$1.2 million with Australia's Queensland Courts on January 21, 2020.
- On December 5, 2019, the company announced that it had qualified to trade on the OTCQX from the OTCQB.

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.

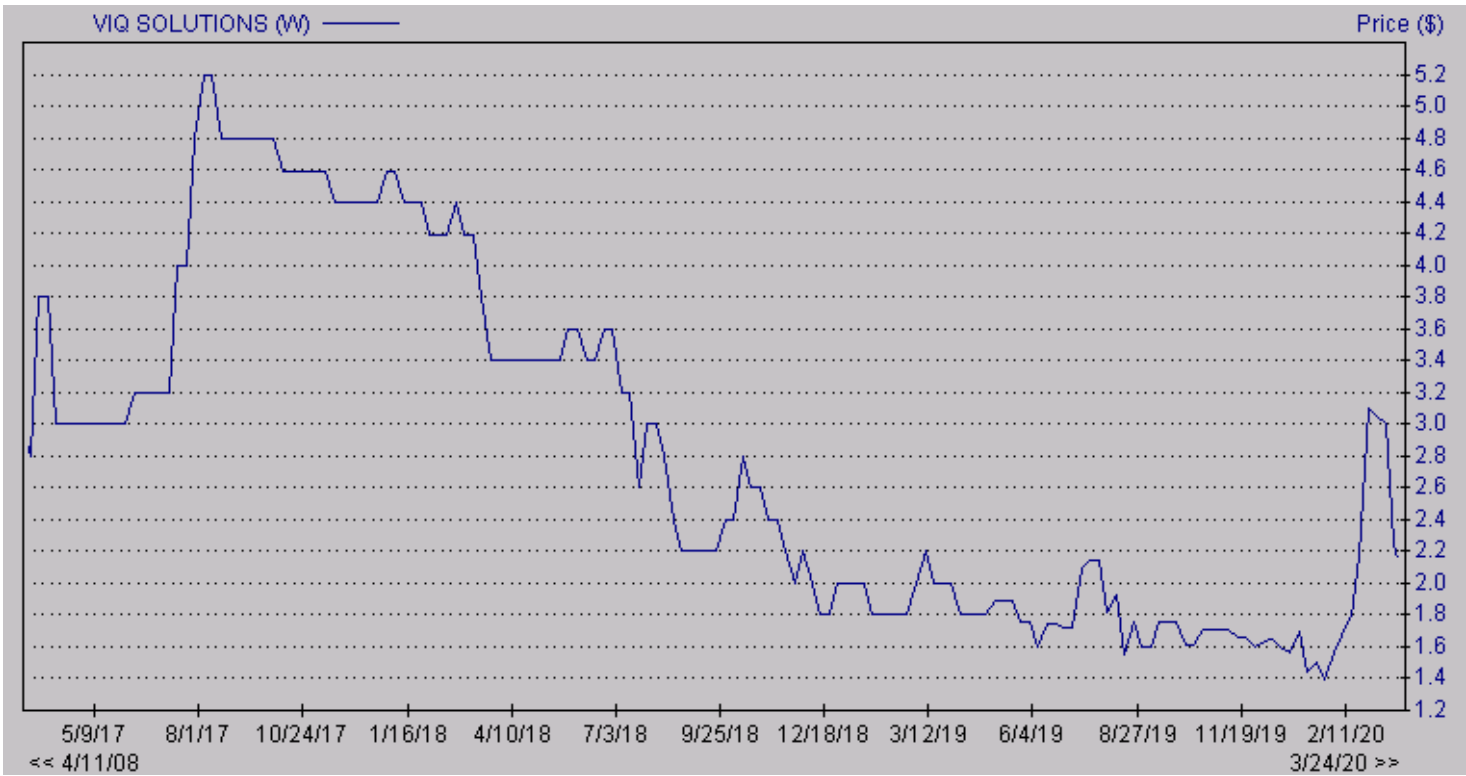
PROJECTED INCOME STATEMENT

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
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	\$6,348,175	\$25,347,933
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	3,606,108	14,218,466
Gross profit	1,192,016	1,104,611	866,456	425,502	3,588,585	3,037,138	2,450,242	2,900,020	2,742,067	11,129,467
Gross margin	39.7%	33.6%	28.4%	20.2%	31.3%	47.8%	39.6%	45.0%	43.2%	43.9%
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
Research & development expenses	134,844	88,567	103,777	131,487	458,675	200,611	231,824	286,531	286,651	1,005,617
Stock-based compensation	73,331	42,423	100,784	(247,999)	(31,461)	24,301	90,280	109,272	79,832	303,685
Loss on revaluation of conversion liab	-	-	-	186,444	186,444	(357,930)	320,828	(1,558,119)	70,582	(1,524,639)
FX	(124,940)			323,120	198,180	19,750	126,889	16,231	62,176	225,046
Depreciation & amortization	50,574	47,197	45,367	505,735	648,873	792,529	856,408	922,887	804,007	3,375,831
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
Operating income	62,706	(538,777)	(620,816)	(2,308,963)	(3,405,850)	(155,988)	(975,420)	975,516	74,741	(81,151)
Interest income	30	1,104	615	537	2,286	623	178	309	300	1,410
Interest expense	(1,744)	(2,189)	(2,730)	(89,821)	(96,484)	(405,306)	(331,935)	(390,445)	(400,000)	(1,527,686)
Other inc / (exp)	591	(591)		(66,142)	(66,142)	(210,484)	(212,178)	(293,386)	(200,000)	(916,048)
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	(524,959)	(2,523,475)
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	(524,959)	(2,523,475)
FX	(213,504)	(176,916)	102,802	191,719	(95,899)	(377,430)	(82,768)	91,687	(80,000)	(448,511)
Comprehensive loss	(151,921)	(676,854)	(586,057)	(4,747,701)	(6,162,533)	(1,148,585)	(1,602,123)	383,681	(604,959)	(2,971,986)
<i>Per share data:</i>										
LPS	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.03)	(\$0.04)	(\$0.00)	(\$0.01)	\$0.00	(\$0.05)	(\$0.29)
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

Source: Company reports, Zacks estimates

HISTORICAL STOCK PRICE



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