Virtualware S.A. ENXTPA: MLVIR - Buy €12 PT

Action Summary – 19 September 2024

Analyst Theodore R. O'Neill – Business and model update – Raising price target to €12 from €10

- Surprisingly good results weathering the economic slowdown. Although it reported preliminary 1H24 results that missed our revenue estimates, the company managed to report better earnings than expected. It was able to do this by achieving higher margins and lower operating expenses. In 2024, we are seeing the benefit of SaaS subscriptions becoming the dominant source of revenue. We believe its VIROO® platform is taking share and becoming a global benchmark for multi-user VR applications. Its combination of security features, and simplicity of operation are driving adoption.
- **Adjusting our 2024 and 2025 estimates and raising our price target.** We believe business has slowed somewhat due to the slowing global economy, but the company has managed the transition well, with better earnings. We are adjusting our 2024 revenue and EPS estimates to €4.3MM and €0.09 from revenue and EPS of €5.1MM and €0.03, respectively. For 2025, we have also lowered our revenue and raised our EPS estimates to €5.15MM and €0.12 from €5.4MM and €0.04, respectively.
- **Attractive Valuation.** Based on our discounted future earnings model, the value of all future earnings stands at €12/share.

9/18 price: €8.40	**Market cap: €42 million**	**Multiple of book: 35x**	**Market Cap/2025 Sales: 6.0**
Diluted shares outstanding: 4.5MM	**Insider ownership: >80%**	**3-mo avg. daily trading volume: 400**	**Dividend/Yield: NA/NA**

GAAP estimates (EPS in EUR – Revenue in EUR thousands)

Period	EPS	Revenue	Op Margin
1H22A	(€0.05)	€1,484	
2H22A	€0.14	€1,735	
FY22A	€0.10	€3,219	0.9%
1H23A	€0.04	€2,148	
2H23A	(€0.04)	€2.404	
FY23A	€0.00	€4,552	3.4%
1H24Prelim	€0.03	€2,034	
2H24E	€0.06	€2,300	
FY24E	€0.09	€4.334	14.8%
1H25E	€0.05	€2,450	
2H25E	€0.07	€2,700	
FY25E	€0.12	€5,150	16.6%

Numbers may not total due to rounding. See the full model at the end of this report.

Cash balance (in EUR thousands)

2022A	€172
2023A	€301
2024E	€259
2025E	€1,089

Debt (in EUR thousands)

2022A	€1,197
2023A	€957
2024E	€1,000
2025E	€1,000

Risks/Valuation

- Risks: emerging technology, potentially competitive markets, regulatory risk, technological risk, foreign currency exchange risk
- Our €12 price target is derived from our discounted future earnings model.

Company description: Headquartered in Bilbao with offices in Toronto, Virtualware is one of the pioneering companies in the field of virtual reality. All its work is focused on developing virtual reality technologies oriented to industry, education, and critical sectors such as energy, transportation and defense. Founded in 2004, the company was recognized in 2021 as the world's most innovative virtual reality company at the VR Awards. Its VIROO technology is one of the first SaaS technologies worldwide adapted to the field of virtual reality and is in use by companies on multiple continents.

Figure 1 – Virtualware – Eight Month Trading snapshot

Source: FactSet

Valuation and Price Target

Valuation Methodology

We believe MILVR is undervalued, and we support that belief with two valuation techniques. To determine our price target, we use a discounted future earnings model, which we then compare its valuation relative to peers. The following valuation techniques are being used:

1) The discounted value of all future earnings was used for our price target (see Figure 2)
2) Valuation relative to peers (see Figure 3)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of €12 is based on a discounted earnings model. For valuation purposes, we sum up all future earnings and discount them by 8%. We assume the company grows rapidly until 2029 before growth eventually slows to GDP. Our valuation model is shown in Figure 2 below. Note, this model understates future new products and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is €11.84, which we round to €12.

Figure 2 - Virtualware - Price Target Calculation

Implied Value of Future Discounted Earnings:		**€ 11.84**
Year 0 is 2024		
Year	Forecast EPS	Discounted EPS
0	€ 0.09	€ 0.09
1	€ 0.12	€ 0.11
2	€ 0.15	€ 0.13
3	€ 0.20	€ 0.16
4	€ 0.50	€ 0.37
5	€ 0.70	€ 0.48
Terminal Value		€ 10.51

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

Figure 3 is a summary of our MILVR peer comparison. The average Market Cap/Sales for 2025 is ~3.65x and ranges from a low of 0.42x to a high of 7.77x and we would argue the shares should trade at the high end of the range. At our € 12.00 price target, its 2025 market cap to sales would be 10.5x and would define the high end of the range, but not by much. All of this broadly confirms our view that, along with our discounted earnings model, the shares are undervalued.

Figure 3 – Virtualware – Valuation of Peers

FactSet Ticker	Company Name	Closing Price USD	Market Cap USD $MM	EV USD $MM	LTM Sales USD $MM	Market Cap / LTM Sales	Market Cap / 2025 Consensus Sales
MTTR-US	Matterport, Inc. Class A	$4.60	1,468	1,094	162	9.05	7.77
VUZI-US	Vuzix Corporation	$1.09	72	63	6	11.34	7.50
KOPN-US	Kopin Corporation	$0.89	108	92	42	2.60	1.97
TOBII-SE	Tobii AB	$0.25	58	74	72	0.81	0.62
IMMR-US	Immersion Corporation	$8.87	285	731	163	1.75	0.42
VRAR-US	Glimpse Group, Inc.	$0.80	15	10	10	1.46	
EXR-GB	Engage XR Holdings PLC	$0.01	4	(4)	4	1.13	
	Average					**4.02**	**3.65**
	High					11.34	7.77
	Low					0.81	0.42
	25th Percentile					1.13	0.52
	75th Percentile					5.82	$\boxed{7.50}$
MLVIR-FR	Virtualware 2007 SA	$9.34	42	44	5	8.62	6.03

Source: Litchfield Hills Research LLC and FactSet

Financial Projections and Guidance

The company does not provide guidance. We have sought to make our estimates conservative, but it is hard to model a rapidly changing market as the company continues to execute its expansion plans into new markets and with new customers. We assume there will be some share growth though share compensation and we expect there will be demand for working capital as the company grows and we have factored that into our balance sheet and cash flow calculations.

Figure 4 – Virtualware – Income Statement EUR €

	H1A	H2A	FY2022A	H1A	H2A	FY2023A	H1P	H2E	FY2024E	H1E	H2E	FY2025E
Business Total Revenue	$1,484,378	$1,734,997	$3,219,375	$2,148,018	$2,403,990	$4,552,008	$2,034,124	$2,300,000	$4,334,124	$2,450,000	$2,700,000	$5,150,000
Changes in inventories of finished goods and WIP	(28,243)	(151,089)	(179,332)	181,698	(175,300)	6,398	69,807	5,000	74,807	10,000	10,000	20,000
Work carried out by the company for its assets	313,984	324,922	638,906	241,174	286,434	527,608	269,544	225,000	494,544	275,000	275,000	550,000
Costs of Goods Sold	(422,299)	(346,243)	(768,542)	(452,601)	(731,524)	(1,184,125)	(340,435)	(460,000)	(800,435)	(588,000)	(648,000)	(1,236,000)
Gross Profit	**1,347,820**	**1,562,587**	**2,910,407**	**2,118,289**	**1,783,600**	**3,901,889**	**2,033,040**	**2,070,000**	**4,103,040**	**2,147,000**	**2,337,000**	**4,484,000**
Unadjusted Gross Profit Margin %	*75%*	*76%*	*75%*	*89%*	*66%*	*77%*	*88%*	*82%*	*85%*	*79%*	*79%*	*79%*
Other Operating Revenues	153,202	388,635	541,837	181,220	234,038	415,258	85,069	310,000	395,069	380,000	420,000	800,000
Personnel Expenses	(1,164,799)	(1,281,117)	(2,445,916)	(1,445,304)	(1,616,359)	(3,061,663)	(1,260,282)	(1,350,000)	(2,610,282)	(1,500,000)	(1,650,000)	(3,150,000)
Other Operating Expenses	(375,240)	(344,912)	(720,152)	(508,479)	(365,630)	(874,109)	(577,514)	(500,000)	(1,077,514)	(500,000)	(500,000)	(1,000,000)
Fixed Assets Depreciation and Amortization	(144,173)	(155,027)	(299,200)	(126,852)	(144,754)	(271,606)	(116,123)	(116,123)	(232,246)	(140,000)	(140,000)	(280,000)
Grants to non-financial assets and others allocation	59,533	0	59,533	21,605	21,605	43,210	70,905	0	70,905	0	0	0
Impairment gains/losses on disposal of NCA	0	0	0	(19,079)	(22,746)	(41,825)	(19,073)	0	(19,073)	0	0	0
Other Results	0	(18,324)	(18,324)	0	42,492	42,492	12,395	0	12,395	0	0	0
Operating Income	**(123,657)**	**151,842**	**28,185**	**221,400**	**(67,754)**	**153,646**	**228,417**	**413,877**	**642,294**	**387,000**	**467,000**	**854,000**
Operating Margin %	*-8.3%*	*8.8%*	*0.9%*	*10.3%*	*-2.8%*	*3.4%*	*11.2%*	*18.0%*	*14.8%*	*15.8%*	*17.3%*	*16.6%*
Financial revenues/(expenses)	(83,082)	(32,916)	(115,998)	(24,386)	(75,237)	(99,623)	(29,252)	(75,000)	(104,252)	(75,000)	(75,000)	(150,000)
Income Before Tax	**(206,739)**	**118,926**	**(87,813)**	**197,014**	**(142,991)**	**54,023**	**199,165**	**338,877**	**538,042**	**312,000**	**392,000**	**704,000**
Income Tax	0	525,933	525,933	0	(34,828)	(34,828)	(39,833)	(67,775)	(107,608)	(62,400)	(78,400)	(140,800)
Net Income	**($206,739)**	**$644,859**	**$438,120**	**$197,014**	**($177,818)**	**$19,196**	**$159,332**	**$271,102**	**$430,434**	**$249,600**	**$313,600**	**$563,200**
Net Margin %	*-13.93%*	*37.17%*	*13.61%*	*9.17%*	*-7.40%*	*0.42%*	*7.83%*	*11.79%*	*9.93%*	*10.19%*	*11.61%*	*10.94%*
EPS	(€ 0.05)	€ 0.14	€ 0.10	€ 0.04	€ (0.04)	€ 0.00	€ 0.03	€ 0.06	€ 0.09	€ 0.05	€ 0.07	€ 0.12
Number of shares	4,542,000	4,542,000	4,542,000	4,542,000	4,542,000	4,542,000	4,600,000	4,700,000	4,700,000	4,800,000	4,800,000	4,800,000

Source: Company reports and Litchfield Hills Research LLC

Figure 5 – Virtualware – Balance Sheet EUR €

	FY2025E	FY2024E	FY2023A	FY2022A	FY2021A
Cash and Equivalents	1,089,217	259,217	301,082	172,164	502,144
Accruals	2,000	2,000	5,586	1,815	2,578
Short-term financial investments	400,000	400,000	310,293	398,726	283,434
Short-term investments in group companies and associates	-	-	-	-	21,610
Account Receivables and others	1,400,000	2,500,000	2,985,406	1,203,148	2,757,026
Inventories	150,000	150,000	99,414	136,780	210,241
urrent Assets	**3,041,217**	**3,311,217**	**3,701,782**	**1,912,633**	**3,777,033**
Deferred tax assets	870,000	2,000,000	2,088,204	2,120,730	1,592,634
Long-term financial investments	60,000	60,000	38,623	64,367	130,867
Long-term investments in group companies and associates	108,575	108,575	108,575	35,297	-
Property, plant and equipment	170,208	170,208	170,208	92,621	89,014
Intangible Assets	2,000,000	1,600,000	1,745,986	1,410,187	989,234
on-Current Assets	**3,208,783**	**3,938,783**	**4,151,596**	**3,723,202**	**2,801,749**
otal Assets	**6,250,000**	**7,250,000**	**7,853,377**	**5,635,835**	**6,578,782**
Short Term Accruals	700,000	1,000,000	1,220,851	508,181	
Account Payables and others	1,600,000	1,400,000	1,159,099	1,392,269	2,850,411
Short Term Debt	1,000,000	2,000,000	1,149,605	1,040,207	1,502,618
urrent Liabilities	**3,300,000**	**4,400,000**	**3,529,556**	**2,940,657**	**4,353,029**
Long Term Accruals	650,000	650,000	1,799,512	664,201	
Deferred tax liabilities	-	-	8,639	8,639	16,645
Long Term Debt	1,000,000	1,000,000	957,324	1,196,719	1,720,704
on Current Liabilities	**1,650,000**	**1,650,000**	**2,765,475**	**1,869,559**	**1,737,349**
Share Capital	1,300,000	1,200,000	1,144,840	799,625	409,402
Capital	158,970	158,970	158,970	158,970	158,970
Reserves and Retained earnings	1,300,000	1,200,000	1,174,082	640,655	250,432
Grants, donations and legacies received	-	-	342,980	35,227	67,254
External partners	-	-	70,527	(9,233)	11,748
Dividend Distributed -					
quity	**1,300,000**	**1,200,000**	**1,558,347**	**825,619**	**488,404**
otal Equity And Liabilities	**6,250,000**	**7,250,000**	**7,853,377**	**5,635,835**	**6,578,782**

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – Virtualware – Cash Flow EUR €

	FY2025E	FY2024E	FY2023A	FY2022A
Net income/(loss)	704,000	538,042	19,196	438,120
Accruals	-	3,586	(3,771)	763
Short-term financial investments	-	(89,707)	88,433	(115,292)
Short-term investments in group companies and associates	-	-	-	21,610
Account Receivables and others	1,100,000	485,406	(1,782,258)	1,553,878
Inventories	-	(50,586)	37,366	73,461
Deferred tax assets	(88,204)	(1,130,000)	1,250,730	(528,096)
Long-term financial investments	-	(21,377)	25,744	66,500
Long-term investments in group companies and associates	-	-	(73,278)	(35,297)
Property, plant and equipment	-	-	(77,587)	(3,607)
Intangible Assets	(400,000)	145,986	(335,799)	(420,953)
Short Term Accruals	(300,000)	(220,851)	712,670	508,181
Account Payables and others	200,000	240,901	(233,170)	(1,458,142)
Short Term Debt	(1,000,000)	850,395	109,398	(462,411)
Long Term Accruals	-	(1,149,512)	1,135,311	664,201
Deferred tax liabilities	-	(8,639)	(0)	(8,006)
Long Term Debt	-	42,676	(239,395)	(523,985)
Capital	-	-	-	-
Reserves	(604,000)	(512,124)	514,232	(47,897)
Grants, donations and legacies received	-	(342,980)	307,753	(32,027)
External partners	-	(70,527)	79,760	(20,981)
Adjustment	1,218,204	1,247,446	(1,406,416)	-
Total Cash Flow	**830,000**	**(41,864)**	**128,918**	**(329,980)**

Source: Litchfield Hills Research LLC

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