

9 October 2018

Corp

Ticker TRT:AIM

Industrial Engineering
 Shares in issue (m) 12.0
 Next results H1 Apr

Price 44.5p
 Target price Under review
 Upside n/a

Market cap £5.3m
 Net debt/(cash) -£1.6m
 Other EV adjustments £0.0m
 Enterprise value £3.7m

What's changed? **From** **To**
 Adjusted EPS U/R n/c
 Target Price U/R n/c

Share price performance



%	1M	3M	12M
Actual	23.6	23.6	-37.3

Company description

Development and commercialisation of pressure, temperature and torque monitoring equipment

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▶ Transense Technologies*

Full-year results: iTrack, on-track!

Overall, the group achieved a solid result, with good progress made as seen in the pick-up in iTrack II subscription revenues as well as the strong increase in probe sales. Encouragingly, the current year has started well with an increase in sales in the first two months and a progressive reduction in monthly operating loss. Cash stands at £1.6m with reduced monthly cash burn likely to be offset by increased capex investment in further iTrack II kits as momentum accelerates in subscription-based services that also generate ongoing revenues with good visibility.

▶ **Results highlights.** Revenue increased by 2% to £2.05m, with gross margins of 62.9%, up 607bps. The EBITDA loss at £1.36m is 25% lower than last year, resulting in an adjusted pre-tax loss of £1.91m, down by £0.24m. This result was assisted by a 12% reduction in overhead costs. Adjusted LPS came in at 19.7p compared with 22.8p last year. There was a £0.96m cash outflow in the year after a £0.92m equity placing, resulting in net cash of £1.6m.

▶ **Operations.** Translogik sales increased by 60% to £1.9m, assisted by the significant increase in iTrack II subscription revenues. There has also been a strong uptick in probe sales, up 80%, boosted by sales to Goodyear with positive prospects in the current year. This resulted in Translogik generating a gross margin of 62% and posting a contribution before group overheads of £0.2m versus a loss of £0.9m last year. The increase in subscription revenues gives much better revenue visibility as well as a higher gross margin. SAWSense sales were down to £0.15m and a £0.37m loss, reflecting the absence of last year's licence fee from GE and the advanced stage of some ongoing projects.

▶ **Outlook.** The statement points to the first two months of the current year starting well with an increase in revenues resulting in a lower trading loss. Cash burn has also reduced and currently stands at £0.11m a month on the basis of the first two months' experience. In the short to medium term, the group is expected to have sufficient funds. However, the increase in demand for the iTrack II services will place pressure on working capital due to the time lag between investment in kit and the recoupment of its cost.

▶ **Forecasts.** We currently have no forecasts and our price target is under review.

Key estimates Year end: Jun		2015A	2016A	2017A	2018A
Revenue	£m	1.2	2.1	2.0	2.1
Adj EBITDA	£m	-1.6	-0.9	-1.8	-1.4
Adj EBIT	£m	-1.8	-1.2	-2.2	-1.9
Adj PBT	£m	-1.8	-1.2	-2.2	-1.9
Adj EPS	p	-0.6	-19.3	-22.8	-20.0
DPS	p	0.0	0.0	0.0	0.0

Key valuation metrics		2015A	2016A	2017A	2018A
EV/EBIT (adj)	x	-2.0	-3.1	-1.7	-2.0
P/E (adj)	x	-76.7	-2.3	-1.9	-2.2
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%
Free cash Yield	%	-48.9%	13.5%	-22.5%	-35.1%
Pre-tax ROCE	%	-55.3%	-17.5%	-45.3%	-48.7%

Full-year results: iTrack, on-track!

Income statement		2015A	2016A	2017A	2018A
Year End: Jun					
Sales	£m	1.2	2.1	2.0	2.1
Gross profit	£m	0.8	1.3	1.1	1.3
EBITDA (adjusted)	£m	-1.6	-0.9	-1.8	-1.4
EBIT (adjusted)	£m	-1.8	-1.2	-2.2	-1.9
Associates/other	£m	0.0	0.0	0.0	0.0
Net interest	£m	0.1	0.1	0.0	0.0
PBT (adjusted)	£m	-1.8	-1.2	-2.2	-1.9
Total adjustments	£m	-1.4	0.0	0.0	0.0
PBT (stated)	£m	-3.2	-1.2	-2.2	-1.9
Tax charge	£m	0.0	0.1	-0.0	0.0
Minorities	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	-3.1	-1.1	-2.2	-1.9
Adjusted earnings	£m	-1.7	-1.1	-2.2	-1.9
Shares in issue (year end)	m	295.5	9.4	9.4	12.0
EPS (stated)	p	-1.1	24.1	-22.8	-20.0
EPS (adjusted, fully diluted)	p	-0.6	-19.3	-22.8	-20.0
DPS	p	0.0	0.0	0.0	0.0

Cash flow		2015A	2016A	2017A	2018A
Year End: Jun					
EBITDA	£m	-1.6	-0.9	-1.8	-1.4
Net change in working capital	£m	0.7	-0.5	0.9	-0.1
Other operating items	£m	-1.4	2.3	-0.0	0.0
Cash flow from op. activities	£m	-2.3	0.8	-1.0	-1.4
Cash interest	£m	0.1	0.1	0.0	0.0
Cash tax	£m	0.1	-0.0	0.1	-0.0
Capex	£m	-0.5	-0.1	-0.3	-0.4
Free cash flow	£m	-2.6	0.7	-1.2	-1.9
Acquisitions / disposals	£m	0.0	0.0	0.0	0.0
Dividends	£m	0.0	0.0	0.0	0.0
Shares issued	£m	0.0	2.5	0.1	0.9
Other	£m	0.0	0.0	0.0	0.0
Net change in cash flow	£m	-2.6	3.2	-1.1	-1.0
Opening net cash (debt)	£m	3.1	0.5	3.7	2.5
Closing net cash (debt)	£m	0.5	3.7	2.5	1.6

Balance sheet		2015A	2016A	2017A	2018A
Year End: Jun					
Tangible fixed assets	£m	0.3	0.3	0.3	0.5
Goodwill & other intangibles	£m	0.8	0.9	0.9	0.9
Other non current assets	£m	0.9	0.4	0.1	0.0
Net working capital	£m	0.8	1.6	1.2	1.1
Other assets	£m	0.0	0.1	0.0	0.0
Other liabilities	£m	-0.0	-0.0	-0.1	-0.1
Gross cash & cash equivs	£m	0.5	3.7	2.5	1.6
Capital employed	£m	3.3	7.0	4.8	3.9
Gross debt	£m	0.0	0.0	0.0	0.0
Net pension liability	£m	0.0	0.0	0.0	0.0
Shareholders equity	£m	3.3	7.0	4.8	3.9
Minorities	£m				
Capital employed	£m	3.3	7.0	4.8	3.9

Growth analysis		2015A	2016A	2017A	2018A
Year End: Jun					
Sales growth	%		66.8%	-3.8%	2.3%
EBITDA growth	%		41.2%	-95.3%	25.4%
EBIT growth	%		33.8%	-79.4%	12.0%
PBT growth	%		33.9%	-85.3%	11.3%
EPS growth	%		n/m	-18.3%	12.5%
DPS growth	%				

Profitability analysis		2015A	2016A	2017A	2018A
Year End: Jun					
Gross margin	%	67.2%	63.7%	56.8%	62.9%
EBITDA margin	%	-127.2%	-44.9%	-91.1%	-66.3%
EBIT margin	%	-147.1%	-58.4%	-108.8%	-93.6%
PBT margin	%	-141.2%	-55.9%	-107.7%	-93.4%
Net margin	%	-137.3%	-53.0%	-107.9%	-92.1%

Cash flow analysis		2015A	2016A	2017A	2018A
Year End: Jun					
Cash conv'n (op cash / EBITDA)	%	n/m	n/m	n/m	n/m
Cash conv'n (FCF / EBITDA)	%	164.4%	-77.1%	65.7%	138.0%
U/lying FCF (capex = deprn)	£m	-2.3	0.6	-1.2	-2.0
Cash quality (u/l FCF / adj Earn)	%	135.3%	-52.3%	56.0%	105.6%
Investment rate (capex / deprn)	x	6.1	1.2	2.9	2.0
Interest cash cover	x	net cash	n/a	net cash	net cash
Dividend cash cover	x	n/a	n/m	n/a	n/a

Working capital analysis		2015A	2016A	2017A	2018A
Year End: Jun					
Net working capital / sales	%	66.6%	78.3%	58.7%	52.0%
Net working capital / sales	days	243	286	214	190
Inventory (days)	days	171	100	179	122
Receivables (days)	days	194	303	128	124
Payables (days)	days	122	117	93	56

Leverage analysis		2015A	2016A	2017A	2018A
Year End: Jun					
Net debt / equity	%	no debt	no debt	no debt	no debt
Net debt / EBITDA	x	n/a	n/a	n/a	n/a
Liabilities / capital employed	%	0.0%	0.0%	0.0%	0.0%

Capital efficient & intrinsic value		2015A	2016A	2017A	2018A
Year End: Jun					
Adjusted return on equity	%	-51.7%	-15.9%	-44.9%	-47.9%
RoCE (EBIT basis, pre-tax)	%	-55.3%	-17.5%	-45.3%	-48.7%
RoCE (u/lying FCF basis)	%	-69.9%	8.3%	-25.2%	-50.6%
NAV per share	p	1.1	73.6	50.9	32.9
NTA per share	p	0.8	64.2	41.0	25.3

FY results

Despite a fairly flat level of sales in the year, the group has achieved a significant increase in Translogik revenues, up 60%, with a step up in recurring iTrack II subscription revenues, which greatly improves forward revenue visibility. There has also been an 80% increase in probe sales following the adoption by multiple outlets. SAWSense experienced a decline in revenues (even after stripping out the £0.6m licence fee received last year), mainly reflecting the timing of customer-chargeable engineering activity. Nevertheless, there has been an increase in live projects.

Trading outlook

Trading in the first two months of the current year has seen an increase in revenues and a reduction in pre-tax losses with a reduction in cash burn at a monthly rate of £0.11m in the first two months. This is roughly half the burn rate of the corresponding period last year.

Results highlights

Results for the year to 30 June 2018

- ▶ Revenue increased by 2% to £2.05m, made up of a 60% increase in Translogik, and an 82% decline in SAWSense (a large licence fee was received last year).
- ▶ Gross margins increased by 607bps to 62.9%, reflecting the move towards more subscription-based iTrack II revenues from outright sales last year.
- ▶ Admin expenses, excluding depreciation and amortisation, reduced by 11% to £2.65m.
- ▶ EBITDA loss at £1.36m, down 25%.
- ▶ Depreciation & amortisation increased from £0.36m to £0.56m, partly due to the higher charge from capitalised iTrack kit as well as a higher charge for the amortisation of intangible assets.
- ▶ Adjusted pre-tax loss at £1.91m improved by 11%.
- ▶ Adjusted LPS of 20p compared with a LPS of 22.8p.
- ▶ Net cash of £1.6m after a £0.9m equity placing in June 2018 with underlying cash consumption of £1.9m.

Figure 1: Divisional trading

FY to June 30 (£m)	Turnover			Gross profit			Gross Margin		EBIT	
	2018	2017	%	2018	2017	%	2018	2019	2018	2017
Translogik	1.90	1.19	60%	1.17	0.56	212%	62%	32%	0.20	-0.93
SawSense (incl. Licence fees)	0.15	0.81	-36%	0.12	0.76	-85%	518%	94%	-0.37	0.28
Head office									-1.7	-1.51
	2.05	2.00	2%	1.29	1.32	13%	77.7%	65.9%	-0.87	-0.65

Source: Company data

Translogik (93% of sales)

iTrack II

The roll-out and commercialisation has been solid in the year. iTrack II is now live on a substantial number of trucks across eight mines. The level of monthly subscription service revenue has seen a threefold increase over the year. Overall, we extrapolate that iTrack II and other sensor and parts revenues have increased by 45% in the year to £1.06m. The run rate of subscription service revenues has increased from £50k in FY18 to around £80k per month currently.

Sales are being driven by offering the TPMS system as a subscription-based service as opposed to an outright sale. iTrack II collects live tyre performance data and transmits it to a cab-based display and/or web-based applications, monitored by the Translogik Global Control Centre as well as individual mine control rooms. It is an important tool in generating information on tyre condition monitoring as well as on asset utilisation and productivity.

There are realistic expectations of success at a further 10 sites. Progress has been achieved since the interim report by moving from 'opportunities to work more closely with selected partners' to now holding discussions on collaborative arrangements with global mining companies. One or two additional customers could substantially lift market penetration.

Ongoing investment to ensure that the system remains the most technologically advanced has recently focused on the addition of accelerometer data and improved connectivity.

Probe

Sales of tyre tread depth probes increased by 80% during the year to £0.84m. The operation has sales with three major tyre manufacturers – Goodyear, Bridgestone and Continental – and the increase in revenues in the year is partially associated with the timing of Goodyear USA's launch of their new tyre management system, 'Tire Optix', in March 2018, which incorporates the Translogik tyre probe. This has resulted in a significant increase in orders from Goodyear, which should continue in the current year as their system is rolled out in the US and worldwide.

SAWSense (7% of sales)

Revenue in the year was down 82% on the prior year at £0.15m. Last year was boosted by the £0.58m one-off licence fee from GE. Stripping this out, the level of recharged customer engineering activity was £0.15m versus £0.29m a year ago.

Following last year's licence fee, GE will pay the group a perpetual sales royalty on unit sales, although these sales are unlikely to be achieved for several years. In the last year, a manufacturing partner has been selected and technical progress made. The group remains in discussion with GE on a further three industrial projects.

It also has two current automotive projects. It continues to provide instrumented torque shafts for US motor sport via its JV with McLaren. It has also gained funding in conjunction with a university from a charity connected with a major financial institution for developing a SAW-based solution for improved health and safety in the maritime transportation of fluids.

Cashflow and finances

During the year, net working capital increased marginally with a £0.3m reduction in inventory, offset by a £0.2m increase in trade receivables and a £0.17m outflow on trade debtors. There was also a decrease in trade lease receivables of £0.27m.

Cash used in operations therefore stood at £1.13m compared with £0.96m last year.

There was a significant increase in capex from £0.06m to £0.44m, representing investment in capitalised iTrack II systems. This is set to increase further as momentum builds in the subscription-based service. There was also a £0.3m investment in intangibles – a fairly similar level to last year.

In June 2018, the company raised £0.92m in an equity placing, which resulted in a net decrease in cash and cash equivalents of £0.96m, down from £1.13m last year. As such, net cash at the end of June was £1.6m.

The statement notes a UK accumulated tax loss of £19.8m. The company recognises R&D tax credits on a cash basis and, subject to HMRC approval, the expected tax credit to be received in the June 2019 accounts in relation to 2018 and 2018 is approximately £0.27m.

Full-year results: iTrack, on-track!

Income statement		2015A	2016A	2017A	2018A
Year End: Jun					
Sales	£m	1.2	2.1	2.0	2.1
Cost of sales	£m	-0.4	-0.8	-0.9	-0.8
Gross profit	£m	0.8	1.3	1.1	1.3
Operating expenses	£m	-2.4	-2.3	-3.0	-2.6
EBITDA (adjusted)	£m	-1.6	-0.9	-1.8	-1.4
Depreciation	£m	-0.1	-0.1	-0.1	-0.2
Amortisation	£m	-0.2	-0.2	-0.2	-0.3
EBIT (adjusted)	£m	-1.8	-1.2	-2.2	-1.9
Associates/other	£m	0.0	0.0	0.0	0.0
Net interest	£m	0.1	0.1	0.0	0.0
PBT (adjusted)	£m	-1.8	-1.2	-2.2	-1.9
<i>restructuring costs</i>	£m	0.0	0.0	0.0	0.0
<i>share based payments</i>	£m	-0.0	0.0	0.0	0.0
<i>other adjustments</i>	£m	-1.4	0.0	0.0	0.0
Total adjustments	£m	-1.4	0.0	0.0	0.0
PBT (stated)	£m	-3.2	-1.2	-2.2	-1.9
Tax charge	£m	0.0	0.1	-0.0	0.0
<i>tax rate</i>	%	n/a	n/a	n/a	n/a
Minorities	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	-3.1	-1.1	-2.2	-1.9
Tax effect of adjustments / other	£m	0.0	0.0	0.0	0.0
Adjusted earnings	£m	-1.7	-1.1	-2.2	-1.9
<i>shares in issue (year end)</i>	m	295.5	9.4	9.4	12.0
<i>shares in issue (weighted average)</i>	m	295.5	4.9	9.5	9.4
<i>shares in issue (fully diluted)</i>	m	295.5	8.2	9.5	9.4
EPS (adjusted, fully diluted)	p	-0.6	-19.3	-22.8	-20.0
EPS (stated)	p	-1.1	24.1	-22.8	-20.0
DPS	p	0.0	0.0	0.0	0.0

Growth analysis (adjusted basis where applicable)					
Sales growth	%		66.8%	-3.8%	2.3%
EBITDA growth	%		41.2%	-95.3%	25.4%
EBIT growth	%		33.8%	-79.4%	12.0%
PBT growth	%		33.9%	-85.3%	11.3%
EPS growth	%		n/m	-18.3%	12.5%
DPS growth	%				

Profitability analysis (adjusted basis where applicable)					
Gross margin	%	67.2%	63.7%	56.8%	62.9%
EBITDA margin	%	-127.2%	-44.9%	-91.1%	-66.3%
EBIT margin	%	-147.1%	-58.4%	-108.8%	-93.6%
PBT margin	%	-141.2%	-55.9%	-107.7%	-93.4%
Net margin	%	-137.3%	-53.0%	-107.9%	-92.1%

Full-year results: iTrack, on-track!

Cash flow		2015A	2016A	2017A	2018A
Year End: Jun					
EBITDA	£m	-1.6	-0.9	-1.8	-1.4
Net change in working capital	£m	0.7	-0.5	0.9	U/R
Share based payments	£m	0.0	0.0	0.0	0.0
Profit/(loss) on sale of assets	£m	0.0	0.0	0.0	0.0
Net pensions charge	£m	0.0	0.0	0.0	0.0
Change in provision	£m	0.0	0.0	0.0	0.0
Other items	£m	-1.4	2.3	-0.0	0.0
Cash flow from operating activities	£m	-2.3	0.8	-1.0	-1.4
Cash interest	£m	0.1	0.1	0.0	0.0
Tax paid	£m	0.1	-0.0	0.1	-0.0
Capex	£m	-0.5	-0.1	-0.3	-0.4
Free cash flow	£m	-2.6	0.7	-1.2	-1.9
Disposals	£m	0.0	0.0	0.0	0.0
Acquisitions	£m	0.0	0.0	0.0	0.0
Dividends on ord shares	£m	0.0	0.0	0.0	0.0
Other cashflow items	£m	0.0	0.0	0.0	0.0
Issue of share capital	£m	0.0	2.5	0.1	0.9
Net change in cash flow	£m	-2.6	3.2	-1.1	-1.0
Opening net cash (debt)	£m	3.1	0.5	3.7	2.5
Closing net cash (debt)	£m	0.5	3.7	2.5	1.6

Cash flow analysis					
Cash conversion (op cash flow / EBITDA)	%	n/m	n/m	n/m	n/m
Cash conversion (free cash flow / EBITDA)	%	164.4%	-77.1%	65.7%	138.0%
Underlying free cash flow (capex = depreciation)	£m	-2.3	0.6	-1.2	-2.0
Cash quality (underlying FCF / adjusted earnings)	%	135.3%	-52.3%	56.0%	105.6%
Investment rate (capex / depn)	x	6.1	1.2	2.9	2.0
Interest cash cover	x	net cash	n/a	net cash	net cash
Dividend cash cover	x	n/a	n/m	n/a	n/a

Full-year results: iTrack, on-track!

Balance sheet		2015A	2016A	2017A	2018A
Year End: Jun					
Tangible fixed assets	£m	0.3	0.3	0.3	0.5
Goodwill	£m	0.0	0.0	0.0	0.0
Other intangibles	£m	0.8	0.9	0.9	0.9
Other non current assets	£m	0.9	0.4	0.1	0.0
<i>inventories</i>	£m	0.6	0.6	1.0	0.7
<i>trade receivables</i>	£m	0.7	1.7	0.7	0.7
<i>trade payables</i>	£m	-0.4	-0.7	-0.5	-0.3
Net working capital	£m	0.8	1.6	1.2	1.1
Other assets	£m	0.0	0.1	0.0	0.0
Other liabilities	£m	-0.0	-0.0	-0.1	-0.1
Gross cash & cash equivalents	£m	0.5	3.7	2.5	1.6
Capital employed	£m	3.3	7.0	4.8	3.9
Gross debt	£m	0.0	0.0	0.0	0.0
Net pension liability	£m	0.0	0.0	0.0	0.0
Shareholders equity	£m	3.3	7.0	4.8	3.9
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	£m	3.3	7.0	4.8	3.9
Leverage analysis					
Net debt / equity	%	no debt	no debt	no debt	no debt
Net debt / EBITDA	x	n/a	n/a	n/a	n/a
Liabilities / capital employed	%	0.0%	0.0%	0.0%	0.0%
Working capital analysis					
Net working capital / sales	%	66.6%	78.3%	58.7%	52.0%
Net working capital / sales	days	243	286	214	190
Inventory (days)	days	171	100	179	122
Receivables (days)	days	194	303	128	124
Payables (days)	days	122	117	93	56
Capital efficient & intrinsic value					
Adjusted return on equity	%	-51.7%	-15.9%	-44.9%	-47.9%
RoCE (EBIT basis, pre-tax)	%	-55.3%	-17.5%	-45.3%	-48.7%
RoCE (u/lying FCF basis)	%	-69.9%	8.3%	-25.2%	-50.6%
NAV per share	p	1.1	73.6	50.9	32.9
NTA per share	p	0.8	64.2	41.0	25.3

Full-year results: iTrack, on-track!

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