

M7T 3Q24: First Look

Recommendation

OVERWEIGHT

Announcement Highlights

Mach7 provided a 3Q24 update today. Update was largely in line with expectations, noting ARR run-rate of \$22.3M (Mar-q end), sits ahead of WILSe FY24 ARR of \$20.1M. Sales orders for the quarter of \$7.4M now arm Mach7 with \$56.9M in total sales orders for the year – tracking well to beat their FY24 target of \$60M. Positive cash flow for the quarter (\$1.4M) instills confidence in still meeting cash flow breakeven for FY24. The question to seek out is new, material contract wins in FY24-FY25.

Wilsons' View

Initial analysis

3Q24 summary. Mach7 recorded \$7.4M in sales order during 3Q24 which included \$5.0M of subscription license revenue and \$1.7M in capital software licensing – the remaining portion (\$0.7M) in professional service fees. To note, 42% of sales orders were accounted for by the contract renewal with Penn State Health of \$3.1M (representing a 100% uplift in our model). M7T spoke to a doubling of scan volume in this contract since its inception in 2015, which supports this. To flag, only 10% of sales orders in the quarter were from new customers (immaterial contract wins). We understand the new contract wins during 3Q included a teleradiology firm – Innovative Radiology, which supports [our previous assessment](#) of Mach7's niche in this market segment. Mach7's reported ARR run rate of \$22.3M and CARR of \$28.2M (ARR in ~12 months' time) tracks ahead of WILSe FY24 ARR: \$20.1M. Current WILSe FY25E ARR of \$27.1M tracks well against CARR of \$28.2M, noting that some contracts (Akumin) are back-end weighted (support fee uplift in second portion of 10-year contract). The company generated positive OCF of \$1.4M, are on track to maintain positive OCF for full FY24 – remembering that the 2H is a strong cash collection period.

R&D. The company mentioned that they are focused on three key factors looking towards FY25: a) most importantly ongoing focus in cloud enablement, b) product upgrades in both the eUnity viewer and VNA, looking to maintain and improve KLAS rankings and; c) interoperability to provide the most flexible solution in the market. Cost growth involved in continuing to execute these projects were not disclosed. For reference WILSe have an additional 10% growth in opex pegged for FY25.

Guidance. The company maintained FY24 revenue guidance of \$27-30M. With current ARR run-rate of \$22.3M and no visible subscription license 'activation', reaching forecasts still requires >\$4.7M in capital (new license fees, expansion/add-on, professional service fees) to reach bottom-end of guidance. Sales order guidance of >\$60M maintained. We note that the company have already secured 95% of this target.

Earnings implications

Small changes expected.

Investment view

We maintain our OVERWEIGHT rating and \$1.05/sh PT on Mach7 Technologies.

Madeleine Williams

madeleine.williams@wilsonsadvisory.com.au

Tel. +61 3 9640 3834

Dr Melissa Benson

melissa.benson@wilsonsadvisory.com.au

Tel. +61 2 8247 6639

Dr Shane Storey

shane.storey@wilsonsadvisory.com.au

Tel. +61 7 3212 1351

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For more information please phone: 1300 655 015 or email: publications@wilsonsadvisory.com.au