

OMNIQ Corporation

(OMQS - \$6.11)

Buy

Price Target: \$13

Recap From Management Meetings And Fireside Chat; Reiterating Buy Rating And \$13 PT

We recently hosted investors for a fireside chat and 1x1 meetings with OMNIQ's Chairman and CEO Shai Lustgarten. We came away feeling confident the Company is positioned to build upon the momentum it showed last year and drive meaningful top and bottom line growth this year and next. We think investors should start to get a glimpse of the potential leverage in the model as the AI/recurring revenue stream continues to ramp. With shares trading at only 0.5x EV/'22 revenue, we believe there is room for meaningful multiple expansion as investors get better acquainted with the Company's growth opportunities and start to appreciate the potential earnings power in the model. We are reiterating our Buy rating and \$13 price target.

HIGHLIGHTS

- Municipality Pipeline Is Strong** – On the recent earnings call, OMNIQ noted seeing traction in the public safety market with its Q Shield vehicle recognition solution and having five cities under contract. Q Shield can be used for a range of functions such as license plate and vehicle recognition, unsafe speed detection, stolen vehicles, unregistered and uninsured driver detection, and AMBER and Silver alerting. The Company noted two of the five cities under contract are rolled out already with all of them expected to be rolled out within the next month. Management indicated the pipeline includes 40 cities (including the five under contract), which are in varying stages of discussions. This solution offers an attractive value proposition for cities as it allows them to generate revenue that previously was not being captured and can help supplement their police force. We think this latter point is key given smaller police departments sometimes simply do not have the manpower to address all the potential threats and crimes, and larger cities are having difficulty recruiting officers given the events over the past two years. While other competitors have focused more at the state level (e.g., Rekor with the UVED program in OK), OMNIQ expects to continue targeting municipalities where adoption can be quicker. We believe this approach makes sense and look for the Company to continue to make a landgrab for customers.
- Attractive Economics In Municipality Market** – The Company offers a revenue share model with each city where it takes a split of the citation fee. Management noted this percentage will vary by customer, but the Company generally sees 25%-35% with the customer receiving 65%-75%. Customers tend to not push back on this arrangement as this is revenue they previously were oftentimes not capturing. OMNIQ noted a customer can "turn on" which applications it wants to use for Q Shield which will be one of the variables in determining the fee structure. For example, a city can decide if it wants to use it for speeding citations, parking tickets, unregistered or uninsured vehicles, or general safety applications. Management believes each city represents a \$4-\$6M annual revenue

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Changes	Previous	Current
Rating:	--	Buy
Price Target:	--	\$13
FY22E Rev (M):	--	\$106.3
FY23E Rev (M):	--	\$134.2
FY22E GAAP EPS:	--	(\$0.76)
FY23E GAAP EPS:	--	\$0.15

Profile

Price:	\$6.11
Shares Out (M):	7.5
Market Cap (M):	\$46
Enterprise Value (M):	\$56
Avg. Daily Vol (K):	14
Insiders Own:	28%
Book Val / Sh:	(\$0.01)
Net Cash / Sh:	(\$1.30)
Div / Yield:	\$0.00 / 0.0%

Rev (M)	2021A	2022E	2023E
Mar	\$19.8	\$25.0	--
Jun	\$13.1	\$26.1	--
Sep	\$20.5	\$27.0	--
Dec	\$24.9	\$28.2	--
FY	\$78.3	\$106.3	\$134.2
Y/Y Growth	41.7%	35.8%	26.2%
AEBITDA (M)	(\$4.1)	\$1.9	\$9.6

GAAP EPS	2021A	2022E	2023E
Mar	(\$0.70)	(\$0.23)	--
Jun	(\$0.53)	(\$0.21)	--
Sep	(\$0.74)	(\$0.19)	--
Dec	(\$0.36)	(\$0.14)	--
FY	(\$2.20)	(\$0.76)	\$0.15

Valuation	2021A	2022E	2023E
EV/Rev	0.7x	0.5x	0.4x
P/E	NM	NM	40.7x

Management

Chairman & CEO	Shai Lustgarten
CFO	Neev Nissenson

Company Description

OMNIQ provides computerized and machine vision image processing solutions using AI technology to deliver data collection, real-time surveillance, and monitoring into end markets including safety, safe city, supply chain automation, and traffic management.

opportunity on average, which assumes they only have one functionality turned on (e.g., unregistered vehicles). Further, they estimate gross margin would be 90%.

- **Ramp Of AI Solutions Set To Change The Model** – The Company continues to expect AI/recurring revenue to comprise 20% of revenue this year. We estimate it was in the high-single digits (%) in 2021. The Company is targeting recurring revenue to be 50%-60% longer-term. The continued ramp of this revenue stream should drive meaningful margin expansion, which we think starts to become apparent this year.
- **Dangot Business** – Management remains upbeat about how the integration of the Dangot business has progressed and continues to be bullish on the cross-selling opportunities. On April 5, the Company announced it had closed the acquisition of the remaining 23% stake of Dangot, bringing its ownership to 100%.
- **Navigating The Challenging Supply Chain Environment** – Similar to others, the Company has not been completely immune from the supply chain environment. While it did not quantify the impact, management noted there was some demand that could not be fulfilled in Q4 due to these constraints. However, the Company looks for these conditions to improve in 2H22.

INVESTMENT THESIS & VALUATION

We believe OMNIQ is transforming itself from a hardware-centric company to one positioned to drive sustained, meaningful top line growth, recurring revenue and margin expansion, and improving earnings leverage as it attacks multiple, greenfield opportunities in the object identification market. With a TAM the Company estimates will grow from \$28B in 2019 to \$62B in 2025, we believe the size of this market creates a rising tide lifting all boats. However, the appointment of Shai Lustgarten as CEO in 2017, a strategic shift toward the AI/machine-learning portfolio, an established and growing customer list, the recent acquisition of Dangot Computers, and the solutions' broad applicability across numerous markets, gives us confidence OMNIQ can see outsized traction in this space.

VALUATION

Our \$13 price target is based on an approximate 0.8x EV/Rev multiple using our 2023 revenue estimate of \$134.2M.

RISKS

We believe an investment in OMNIQ involves the following risks.

- **Competition** – The Company faces a high level of competition from numerous other companies, some of which have both much larger scale and resources than it. The ability of the Company to keep pace with the technical innovations of the industry is imperative for it to be successful.
- **Business Can Be Lumpy** – The Company's order patterns can be lumpy and vary quarter to quarter. This lumpiness, along with the timing of when orders flow to the P&L, can create volatility in quarterly results.
- **ALPR Market Growth** – The Company's future growth is predicated on the continued growth of the automatic license plate recognition (ALPR) market. If growth within this market stalls the Company's future expectations may not be met.

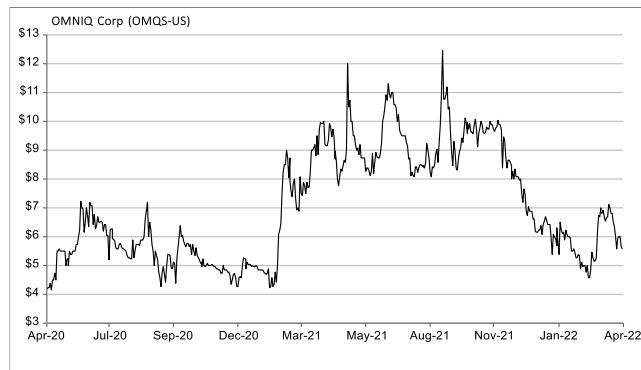
- **Lack Of Profitability** – The Company has incurred significant losses in the past. If the Company continues to incur such losses it will likely put a strain on its balance sheet. This could negatively impact customers' desire to work with the Company in the future.
- **Dependency On Government Agencies' Budgets** – The Company's ability to win contracts from government agencies is largely dependent on these customers' annual budgets. Any significant budget changes or reductions of funds would likely have a negative impact on the Company's ability to grow. The Company is competing for allocations from these limited budgets.
- **Supply Chain** – The current challenges throughout the supply chain create additional risk to being able to meet growth estimates. If the Company is unable to secure components and deliver product to its customers this has the potential to impact both near-term and long-term customer relationships.
- **Integration Risk** – The Company's recent acquisition of Dangot Computers Ltd. creates the potential for integration risk as it combines the two businesses.

FINANCIAL MODEL

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OMNIQ

(in 000s, except per share data)	2019	2020	2021				2022E				2023E
	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE			
Revenues	57,199	55,209	19,751	13,119	20,513	24,868	78,251	25,000	26,100	27,000	28,200
Cost of Revenue	43,165	44,293	17,115	9,820	15,842	18,805	61,582	18,750	19,366	19,791	20,332
Gross Profit	14,034	10,916	2,636	3,299	4,671	6,063	16,669	6,250	6,734	7,209	7,868
Research and Development	1,063	1,805	494	468	474	437	1,873	600	700	800	900
Selling, General and Administrative	13,682	15,802	4,438	4,109	6,801	6,517	21,865	6,000	6,200	6,400	6,600
Total Operating Expenses	16,898	19,899	5,500	5,141	8,885	7,623	27,149	7,375	7,709	8,037	8,374
Stock Comp Expense	1,267	3,478	1,107	842	647	316	2,912	500	500	500	500
Other Non-GAAP Adjustments	620	152	(2)	-	2	22	21	-	-	-	-
Operating Profit (Loss)	(2,864)	(8,983)	(2,864)	(1,842)	(4,214)	(1,560)	(10,480)	(1,125)	(975)	(828)	(506)
Adjusted EBITDA	1,176	(3,061)	(1,191)	(436)	(1,955)	(553)	(4,136)	150	334	509	868
Total Other	(2,578)	(2,516)	(479)	(665)	(746)	(618)	(2,508)	(620)	(620)	(620)	(2,480)
Pre-Tax Income (Loss)	(5,442)	(11,499)	(3,343)	(2,507)	(4,960)	(2,178)	(12,988)	(1,745)	(1,595)	(1,448)	(1,126)
Taxes on Income (Benefit)	14	5	-	3	117	36	156	17	16	14	11
Preferred Dividend - Series C	146	(191)	(31)	(25)	(12)	(9)	(77)	(12)	(12)	(12)	(48)
Net Income From Non-Controlling Interest	-	-	-	-	166	52	218	-	-	-	-
GAAP Net Income (Loss) - Continuing Operations	(5,310)	(11,695)	(3,374)	(2,535)	(5,255)	(2,275)	(13,439)	(1,750)	(1,599)	(1,450)	(1,126)
GAAP EPS	(\$1.37)	(\$2.75)	(\$0.70)	(\$0.53)	(\$0.74)	(\$0.36)	(\$2.20)	(\$0.23)	(\$0.21)	(\$0.19)	(\$0.14)
Diluted Shares Outstanding - GAAP	3,889	4,322	4,701	4,930	7,225	7,475	6,083	7,600	7,700	7,800	7,900
Margin & Expense Analysis											
Cost of Revenue	75.5%	80.2%	86.7%	74.9%	77.2%	75.6%	78.7%	75.0%	74.2%	73.3%	72.1%
Gross Margin	24.5%	19.8%	13.3%	25.1%	22.8%	24.4%	21.3%	25.0%	25.8%	26.7%	27.9%
Research and Development	1.9%	3.3%	2.5%	3.6%	2.3%	1.8%	2.4%	2.4%	2.7%	3.0%	3.2%
Selling, General and Administrative	23.9%	28.6%	22.5%	31.3%	33.2%	26.2%	27.9%	24.0%	23.8%	23.7%	23.4%
Total Operating Expenses	29.5%	36.0%	27.8%	39.2%	43.3%	30.7%	34.7%	29.5%	29.5%	29.8%	29.7%
Operating Margin	-5.0%	-16.3%	-14.5%	-14.0%	-20.5%	-6.3%	-13.4%	-4.5%	-3.7%	-3.1%	-1.8%
Adjusted EBITDA	2.1%	-5.5%	-6.0%	-3.3%	-9.5%	-2.2%	-5.3%	0.6%	1.3%	1.9%	3.1%
Tax Rate	-0.3%	0.0%	0.0%	-0.1%	-2.4%	-1.7%	-1.2%	-1.0%	-1.0%	-1.0%	-1.0%
Net Income	-9.3%	-21.2%	-17.1%	-19.3%	-25.6%	-9.1%	-17.2%	-7.0%	-6.1%	-5.4%	-4.0%
Growth Analysis (Q/Q)											
Revenue			53.1%	-33.6%	56.4%	21.2%		0.5%	4.4%	3.4%	4.4%
Gross Profit			5.7%	25.2%	41.6%	29.8%		3.1%	7.7%	7.1%	9.1%
Total Operating Expenses			7.7%	-6.5%	72.8%	-14.2%		-3.3%	4.5%	4.3%	4.2%
Operating Income			-9.6%	35.7%	-128.8%	63.0%		27.9%	13.3%	15.1%	38.8%
Adjusted EBITDA			10.9%	63.4%	-348.4%	71.7%		127.1%	122.5%	52.5%	70.5%
Net Income			-16.7%	24.9%	-107.3%	56.7%		23.1%	8.6%	9.3%	22.4%
Growth Analysis (Y/Y)											
Revenue	1.8%	-3.5%	43.1%	3.5%	29.6%	92.8%	41.7%	26.6%	98.9%	31.6%	13.4%
Gross Profit	7.4%	-22.2%	-13.2%	28.0%	66.3%	143.2%	52.7%	137.1%	104.1%	54.3%	29.8%
Total Operating Expenses	5.0%	17.8%	8.4%	32.1%	52.4%	49.3%	36.4%	34.1%	50.0%	-9.5%	9.9%
Operating Income	5.3%	-213.7%	-40.7%	-40.2%	-39.5%	40.3%	-16.7%	60.7%	47.1%	80.4%	67.5%
Adjusted EBITDA	199.4%	-360.3%	-43.0%	-3453.8%	-116.0%	58.6%	-35.1%	112.6%	176.6%	126.0%	256.9%
Net Income	1.9%	-120.2%	-14.6%	-23.9%	-37.8%	21.3%	-14.9%	48.1%	36.9%	72.4%	50.5%
Key Balance Sheet Metrics											
Cash and Cash Equivalents			\$2,669	\$5,437	\$9,993	\$7,085					
Debt			7,424	8,171	14,587	16,801					
Net Cash			(\$4,755)	(\$2,734)	(\$4,594)	(\$9,716)					
Shareholder Equity			(7,339)	(8,637)	2,224	(98)					
Book Value/Share			(\$1.56)	(\$1.75)	\$0.31	(\$0.01)					
Net Cash/Share			(\$1.01)	(\$0.55)	(\$0.64)	(\$1.30)					

IMPORTANT DISCLOSURES


Initiate: November 17, 2021 – Rating: Buy - Price Target: \$13

Source: FactSet

RATINGS DEFINITION

Buy rated stocks are expected to generate greater than 10% returns during the next 12 months. **Hold** rated stocks are expected to generate returns of 0% to 10% during the next 12 months. **Sell** rated stocks are expected to generate negative returns over the next 12 months and generally do not have a price target.

Information on our valuation methodology and risks can be found in the “Investment Thesis & Valuation” and “Risks” sections above.

RATINGS DISTRIBUTION

(as of Mar 1, 2022)

Rating	All Covered Companies (%)	Investment Banking Clients (%)
Buy	95.2%	24.7%
Hold	4.8%	12.5%
Sell	0.0%	0.0%

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