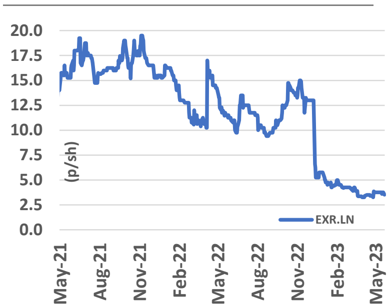
23rd May 2023

Sector: Software

Specialised Virtual Reality (VR) communications platform company

Market data

Ticker	EXR
Price (p/sh)	3.75p
12m High (p/sh)	16.0p
12m Low (p/sh)	3.1p
Shares (m)	524.5m
Mkt Cap (£m)	19.7m
Markets	AIM



Source: Alpha

Description

ENGAGE XR is a leading virtual reality ('VR') technology company, focused on becoming the world's largest crossed reality ('XR') communications, training and virtual events platform provider, through commercialisation of ENGAGE, its proprietary online virtual platform

www.engagexr.co

Board & key management

Chairman	Richard Cooper
CEO	David Whelan
COO	Sandra Whelan
CFO	Seamus Larrissey

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ENGAGE XR Holdings

FY22 full year results – and looking beyond

ENGAGE XR (formerly known as VR Education Holdings) has published its full year results for FY22, which were delayed following the successful and oversubscribed net equity raise of €9.9m in February 2023. These formally confirm the details and dynamics already provided in the January and April trading updates. The FY22 EBITDA loss widened to €5.8m (from €2.8m) driven primarily by increased headcount, with a subsequent cost reduction exercise cutting annualised payroll costs by 25%. Net cash stood at €10.3m on 30 April 2023.

- **FY22 results:** ENGAGE XR showed good progress in its commercial development in FY22 with the successful launch of its corporate metaverse ENGAGE Link product. Revenue growth in FY22 was strong, with ENGAGE revenues rising 86% year-on-year, albeit held back from Autumn 2022 by macro-economic uncertainty extending the decision-making cycle within the group's customer base. This adversely affected many tech companies, with many, including ENGAGE XR, subsequently adjusting their employee cost base to offset lower growth projections.

- **Client gains:** ENGAGE XR made considerable client gains in FY22, ending the year with over 190 enterprise and education clients. Further client gains over the first four months of trading in FY23E have seen this number increase to over 200. More than 70 new customers signed up in FY22, complemented by an impressive and encouraging rate of renewal from existing clients, almost invariably including additional services and licenses. This helped to deliver an average increase of 24% to the achieved average contract value to €21K, in line with the group's medium-term plan, and underlining the attraction of ENGAGE XR's platform and service offer in the global marketplace.

- **Lenovo – a budding commercial relationship:** The group has added to its relationships with major technology giants with the November 2022 signing of a commercial reseller agreement for ENGAGE with Lenovo. This includes bundling Lenovo hardware with ENGAGE software licences for large corporate clients and providing metaverse services where requested. This will kick in with the release of the new all-in-one VR headset for enterprise customers, The Lenovo ThinkReality VRX, which will be available in early H2 2023 with ENGAGE XR as the premium enterprise offering for Lenovo's customers. Commercial benefits should therefore start to flow through from H2 FY23.

- **Forecasts:** We have revised our forecasts in light of the FY22 results and the Board's careful evaluation of options on discretionary spending and the delivery of cost savings, whilst ensuring the company would still be able to capitalise on the overall pipeline of commercial opportunities. We have adopted a more conservative and prudent stance to our forecasts, most specifically with regard to the overall size of the operating cost base, the largest element of which relates to staff headcount and salaries. This has a knock-on impact on the level of turnover growth that can be delivered without material expansion of the operating cost base. Further details are shown within this note.

- **Investment case**: ENGAGE XR has high ambitions, with a scalable platform utilising leading edge technology, soon to include the world's first integration of Artificial Intelligence (AI) into VR, further enhancing the technological offer to the company's clients. The Total Addressable Market (TAM) is estimated by management to range between $10bn - $44bn, with a substantial double-digit growth rate forecast over the medium-term. Client and revenue growth remains strong, with especially high interest and demand from North America, which accounted for 58% of revenue in Q1 2023.

ENGAGE XR has signed a rapidly growing number of strategic and commercial partnership agreements with companies invested in promoting the VR medium and the development of corporate metaverses. This reflects the significant changes in how people work, study and travel following the pandemic, favouring remote working with more immersive communication and conferencing platforms. This has underpinned ENGAGE XR's finances and ability to support the wider uptake of ENGAGE platforms in the enterprise, education, and events communities.

Looking to the future and the Metaverse

Executive Summary

ENGAGE XR has developed a unique and market-leading technology platform, targeting a differentiated professional market compared with its perceived competitors in the realm of the Metaverse. Its growing client base includes several giant tech companies, underlining the company's market-leading skills and innovation within the rapidly emerging world of virtual and extended reality (VR and XR), which is being embraced by consumers and the wider enterprise community. To date, ENGAGE XR has developed in excess of 900 metaworlds for its clients.

The following points underpin ENGAGE XR's growth prospects in our view:

- **A superior technology platform** – The ENGAGE platform offers a superior total package to the universe of Metaverse competitors, including some unique functionality such as spatial recordings, private server installations, and a suite of content development tools.
- **A differentiated target market** – ENGAGE is focused on serving a wide spectrum of needs for commercial enterprises and educational establishments rather than a more limited focus of gaming, social events, and meetings. This is reflected in its older customer demographic with an even gender split.
- **A leading innovator** – ENGAGE has long been a pioneer of technological innovation, targeting specific user needs and applications. The presence of leading technology providers as clients, including Meta, Lenovo, Hewlett Packard Enterprise, and HTC, speak eloquently in support of this point. The world's first integration of Artificial Intelligence (AI) into VR, as announced earlier this year, further enhances the technological offer to the company's clients and underlines the commitment to trailblazing innovations by the company.
- **An evolving business model with new revenue streams** – The business model continues to evolve on the back of the ongoing platform evolution. ENGAGE's current three revenue stream sources (licence subscriptions, event production, and content development) will be complemented by new revenue streams from H2 FY23 on the back of ENGAGE Link clients being able to include B2C models, selling directly to their customers. These new revenue streams will include MetaWorld hosting services, along with revenue share arrangements for marketplace content sales, professional services, and Metaverse events & subscriptions.
- **A growing customer base….** – ENGAGE has added over 70 clients in 2022, bringing the total to over 190 customers by the end of the year. This portfolio includes 22 Fortune 500 companies. This number has since risen to over 200 companies at the end of April 2023.
- **…with growing contract value** – Contracts with larger organisations and incremental annual license subscriptions within existing clients have seen the average contract value rising, in line with a key medium term growth objective. ENGAGE struck fourteen deals with a value in excess of $75K in FY22, compared with four in FY21. Retention rates are ahead of the medium-term objective, hitting 121% in FY22.

- **The successful launch of ENGAGE Link** – In November 2022, the company successfully launched its ENGAGE Link Metaverse platform with an initial fourteen launch partners. This proof of concept initiation should act as a catalyst for substantial future growth.
- **A record trading month in December 2022** – ENGAGE achieved monthly revenue of €0.6m in the closing month of FY22. The company signed three six-figure ($) contracts in the month, comprising a Fortune 500 company, a global consulting company, and a Canadian educational institute.
- **A developing partnership with Lenovo** – ENGAGE XR has been commissioned to build out its own Metaverse by Lenovo, the world's largest computer hardware manufacturer. A commercial reseller agreement between the companies will also see Lenovo resell Metaverse services directly to its own clients, building them within the ENGAGE ecosystem from H2 FY23. This also coincides with the release of Lenovo's VR Enterprise headset. Given Lenovo's position as the leading hardware supplier to education and corporations in the EU, and with a large share also of the US market, this is an important relationship with significant long-term commercial potential for ENGAGE XR.

As we have previously opined, the Covid 19 pandemic continues to influence the behaviour of businesses, institutions, and individuals. It is clear that working, learning, and living practices have evolved and are unlikely to return to the "old normal". The "new normal" will see, and is already seeing, more flexible and home working embedded into everyday life. Such a shift will see and indeed requires an even greater acceptance of and role for immersive virtualisation of the broad spectrum of activities that constitute our working, learning and social lives.

The ability to host remote teaching, meetings, events and conferences in a more engaging way than traditional video-based methods will play to the strengths of the company's proprietary ENGAGE platform. While the benefits to the educational community and to commercial and other organisations are ever better understood and appreciated, there is also potential for virtualisation in other areas such as entertainment, as shown by FatBoy Slim performing a highly acclaimed virtual concert on the platform in March 2023.

The benefits in the educational realm were clearly demonstrated and underlined through the 2022 launch by the company's US partner, Victory XR, of ten "Metaversities", funded by Meta and built on the ENGAGE platform. Each school involved has rolled out a digital twin, replica campus, which students can attend whether on campus or studying remotely. A new round of schools was subsequently announced in March 2023, with all students within the Victory XR ecosystem needing a full ENGAGE licence to access the Victory XR content, generating a recurring revenue stream for ENGAGE XR.

Additionally, embracing the Metaverse will make a significant contribution to the imperative for businesses and consumers alike to live more sustainable lives by reducing the need for daily and international travel.

The Metaverse – the next iteration of the internet

The Metaverse is a term which has become ever more widely used in recent years, not least because of its embrace by the highest echelons of "Big Tech", most notably Mark Zuckerberg's Meta group. Despite this, there are significant variations within visions and definitions of the Metaverse. There are certainly many variations thus far in the execution and presentation of the/a Metaverse by companies, which have embraced the concept.

We believe the best and simplest definition of the Metaverse is that it represents the next evolution of the internet. The most significant aspect of this evolution sees the internet move from a primarily two-dimensional experience to a fully 3D experience. It therefore sees a 2D solitary experience of browsing, reading webpages and streaming video evolve into a shared 3D communications experience that can be explored with friends and co-workers in virtual worlds using avatars.

As we shall see later when reviewing the competitor landscape, there are considerable differences at this early stage of Metaverse development in the quality and styles of avatar rendering, from half body cartoons or heads and hands through to full body realistic avatars, as deployed within the ENGAGE platform.

Market sizes – a substantial addressable market

The potential utilisation of the ENGAGE platform has evolved much further than its original aspirations, which were primarily focused within the spheres of education and corporate training. Much of its incremental reach to cover collaboration and meetings and to host large scale virtual events was developed in response to the requirements of a locked-down world, characterised by drastically reduced travel, home-working and distance learning.

It is worth re-iterating the potential scale of ENGAGE XR's core markets, as previously disclosed by the company. The table below summarises and quantifies the three key market segments ENGAGE XR is addressing, including management estimates of the Total Addressable Market (TAM) for ENGAGE XR.

Global market size of ENGAGE's core markets (USD bn)

($bn - unless otherwise stated)	**Market size 2021**	**Growth CAGR**	**Period up to**	**Market size Period end**	**Initial TAM**	**TAM as % of 2021**
Team collaboration software	22	9.5%	2030	45	5	22.7%
E-learning	315	20.0%	2028	941	16	5.1%
Virtual events	114	21.4%	2030	538	23	20.2%

Source: Grand View Research; Facts & Factors; Management estimates; Shard Capital

When originally produced by the company, the market size quantifications from the same research sources for 2020 stood at $10bn, $165bn and $94bn respectively. The 2021 market sizes show the impressive growth rates achieved in the three core markets within which ENGAGE XR is focussing its attention.

Business model evolution

The group's business model has evolved considerably over its still young life, and will continue to evolve going forward. Its initial primary customer goal was to transform the delivery method of digital education and corporate training through the utilisation of Virtual Reality technology. Its central internal business focus was the development, promotion, and adoption of its proprietary VR learning platform - ENGAGE.

The ENGAGE platform was released as a public Alpha version in 2015, with a more fully featured development version released in 2016. Significant updates to the ENGAGE platform were delivered in 2018 ahead of its full commercial release in December 2018. These included an updated avatar system, the creation of user accounts and the integration of a payments system. The ENGAGE platform enabled students and educators to attend lessons remotely in a virtual reality environment. It also allowed corporate training sessions and meetings to be conducted remotely, as well as enabling educators and corporate trainers to create their own VR content for publication within the platform. This last feature, namely enabling content creation by customers/users, remains a central tenet of Engage Link, with the inclusion of content development tools remaining a key competitive advantage and differentiator for the company.

In its early days, while ENGAGE was being developed and ahead of its commercial release, the company pursued a complementary path, which generated revenue, allowed the Group to build its virtual asset base and served to raise awareness of and interest in VR and ENGAGE. This was achieved through the development of a series of so-called Showcase Experiences. These positioned the company as a leader in the creation of educational content at the same time as showcasing to the potential for VR within the education sector to the market. These Showcase Experiences included Apollo 11 and Titanic, which generated seven-figure sums for the company.

In May 2020, the company announced a strategic partnership with HTC Corporation (HTC) after it had successfully hosted the 2020 HTC Vive Ecosystem Conference via ENGAGE. This would otherwise have been cancelled due to the global impact of COVID-19. Based in Taiwan, HTC is a technology innovation company and global leader in VR technology and equipment through its VIVE platform and ecosystem. The partnership included HTC investing €3.0m (£2.64m) in the company via a subscription issue for a 20% stake in the group, alongside a global Distribution and License Agreement for the company's proprietary ENGAGE platform, running for an initial four-year period. The agreement included a guaranteed minimum quarterly payment of €75K to ENGAGE XR from January 2021 for the duration of the agreement, irrespective of the quantum of net global revenue collected by HTC.

In February 2021, the group re-aligned the positioning of ENGAGE, its principal future revenue driver through user license fees, as a comprehensive communications platform. This marked a significant evolution of its early objective, when ENGAGE was primarily marketed as an education and training platform, enabling remote distance learning and providing content creation tools. Thereafter, the platform evolved to cover a broader spectrum of end-users, most notably in business and events. In recognition of this and to better communicate its proposition, the company created three sub-brands to address its three main user groups, namely enterprise, education and events. These were ENGAGE Virtual Office, ENGAGE Virtual Campus and ENGAGE Virtual Events respectively.

June 2021 marked the next stage of ENGAGE's development and service proposition. Alongside a €9m equity placing the company announced that it would go live in 2022 with a fully featured corporate metaverse. Initially codenamed as ENGAGE Oasis, it aspired to become the LinkedIn of the metaverse. Subsequently rechristened as ENGAGE Link, the metaverse platform was officially launched in November 2022 with fourteen commercial partners. This marked the transition of the Group into a fully-fledged metaverse technology company.

ENGAGE Link has significant differences from the previous immersive communications platform. The two main ones are that it is open to the public, and it is always on, or "persistent" to use the technical jargon. It has been designed to enable the Group's extended and diverse base of customers to create their own virtual worlds within which they can conduct business with their own clients, liaise with their suppliers, and engage with their employees. This differentiates ENGAGE Link from other metaverse projects, such as that of Meta's (formerly known as Facebook) proposed entry into this arena, which targets and appeals more to younger users, with a primary focus on entertainment, advertising and social opportunities. It is anticipated that ENGAGE Link will be used most extensively by its corporate customer base for stakeholder communications, private events, education, and training. Individuals will also be able to create their own domestic environments and social interaction with other users.

A third significant difference is that ENGAGE Link offers the potential to deliver incremental new revenue streams to the business compared with the current configuration, which comprises three components, as shown below with their estimated revenue mix participation in FY22.

ENGAGE XR – current revenue streams

Revenue stream	Frequency	Mix % FY22
Yearly license subscriptions	Recurring	70.0%
Immersive event production	One-off	10.0%
Professional content development	One-off	20.0%

Source: ENGAGE XR; Shard Capital

The professional Metaverse ENGAGE Link platform offers enhanced functionality to clients through the inclusion of a B2C model. This means that clients can sell direct to customers, creating an opportunity for revenue share agreements with the platform provider. Thus ENGAGE XR will receive a share of revenue related to the sale of professional services, tickets to Metaverse events, subscriptions, and Marketplace content, generated by clients through the ENGAGE Link platform. Another new revenue stream will arise from the provision of MetaWorld hosting services. The company anticipates these new revenues will start to flow through in H2 FY23.

The company has a busy product roadmap of new developments and services for the platform covering the next two years. As announced early in 2023, these include the integration of artificial intelligence (AI) into the ENGAGE metaverse platform. This included the creation of a virtual employee in avatar form, named Athena, who can be used for conversations and interactions with humans. Athena can respond to voice commands from and complete tasks for users., with many potential uses in the realms of customer service provision, technical support, training, information gathering and dissemination, art creation, and virtual world building.

This link gives a demonstration of the AI- driven avatar: https://youtu.be/pK6Uo5-jDfE.

Client portfolio

ENGAGE XR has built a substantial and varied portfolio of clients, comprising commercial enterprises, government agencies and educational institutions. The client list now numbers as at the end of April 2023 over 200 enterprise and education entities. Within this figure, the group can boast the presence of 22 Fortune 500 companies, with an ambition to drive this number considerably higher. Indeed, CEO David Whelan's vision is for ENGAGE to become the dominant metaverse platform of choice for Fortune 500 companies.

The appeal and relevance of the ENGAGE platform and its functionality is wide-ranging, if not universal, as can be seen from the table below. This includes both new clients signed in 2022 and existing clients renewing in 2022. A key point to note on renewing clients is that the renewals invariably include an increased number of licences as ENGAGE becomes more widely used within these organisations. 2023 has already seen some notable client gains already, including two of the world's leading banks.

High quality client base – examples of wins and renewals in 2022

Source: ENGAGE XR

In terms of the range of clients, these cover a multitude of industry and commercial services, including banking, consultancy, car makers, industrial manufacturers, mining, pharmaceuticals, computer hardware, technology, and publishing. In addition, a variety of national and international governmental agencies are clients, such as the US Department of State, along with an impressive roster of educational facilities, both long established universities such as Oxford and Stanford, and more contemporary organisations such as Adtalem, Victory XR and Tokyo Global Gateway.

From H2 FY18 to H2 FY22, license numbers have grown from 50 to over 10,100, equating to a compound semi-annual growth rate of 94%. The annual growth in license numbers in FY22 was 64%. This growth has been complemented by increasing average annual contract value and high rates of revenue retention. ENGAGE struck fourteen deals with a value in excess of $75K in FY22, compared with just four in FY21. Retention rates are ahead of the medium-term objective, hitting 121% in FY22, with an increase in the average annual contract value to €21K, both ahead of the Medium-Term Growth Plan targets.

The breakdown of revenues by individual client varies enormously, though revenues can be broadly classified into three core categories, namely recurring licenses, virtual events, and custom content. The latter two categories could be described as more one-off sources of revenue generation, though the group does generate repeat business within these categories on behalf of clients.

Competitor landscape

The competitor landscape in the realm of Metaverse platforms is wide and varied, as is to be expected in a relatively young technology. There is equally a wide diversity in terms of functionality, main uses, avatars, support, and integrated technologies.

Overview matrix of Metaverse platforms by key functionalities and properties

Platform	ENGAGE	Meta	AltspaceVR	VirBELA	Spatial	FRAME	glue.	immersed
Download Type	Client	Client	Client	Client	Client / Browser	Browser	Client	Client
Main Use Cases	Training, Events, Collaboration, World Building, Business Networking, Meetings	Social Gatherings, Game Building Entertainment	Social Meetups Social Events	Company Events Meetings	NFT Spaces Social Events	Web Meetings Social Spaces	Meetings Presentations Events	VR Collaboration Desktop Replacement
Max Users Per Room	70	32	50	200	50	30	32	6
VR Support	✓	✓	✓	✗	✓	Limited	✓	✓
Avatar Type	Full Body Realistic	Half Body Cartoon	Half Body Cartoon	Full Body Cartoon	Full Body Realistic	Robots	Head / Hands	Head / Hands
Spatial Recordings	✓	✗	✗	✗	✗	✗	✗	✗
Content Development Tools	✓	Limited	✗	✗	✗	✗	Limited	✗
Cloud File Upload Support	✓	✗	✗	✗	✓	✓	✓	✗
Custom Forums	✓	✗	✗	✓	✗	✗	✓	✗
Mac Support	✓	✗	✗	✓	✓	✓	✓	✓
Desktop Streaming	✓	✗	✓	✓	✓	✓	✓	✓
Private Server Installations	✓	✗	✗	✗	✗	✗	✗	✗

Source: ENGAGE XR

The matrix above comparing the functionalities of various providers has been compiled by ENGAGE XR. It demonstrates that ENGAGE XR is arguably the most developed and supportive Metaverse platform provider at the current time, a position it intends to hold on to and maintain its competitive advantage.

ENGAGE XR beats or matches the selected competitor set on pretty well all selected criteria. Its platform is also unique on some criteria, such as the provision of spatial recordings and private server installations. In the arena of content development tools, it also leads the way for its customers, with only two other competitors offering limited facilities in this area. Alongside Spatial, it is the only provider of full body realistic avatars, which can be attuned to their host's physical appearance (or otherwise if preferred).

While some competitive offerings also target a more corporate client base, there is a significant weighting towards more "social" types of activities. This matrix also excludes some more established Metaverse platforms, focused squarely on gaming for a considerably younger audience. Prime examples in this category would be Roblox, Fortnite and The Sandbox.

FY22 results

As a prelude to presenting our new forecasts, we review the performance for the financial year FY22. Much of the key detail had been previously published in the January and April trading updates. The latter focused on Q1 2023, when the group saw revenues increase by 40 % over the equivalent period in 2022. It also stated that the group's net cash position following its equity placing stood at €10.8m as of 31 March 2023, which has subsequently decreased to stand at €10.3m as of 30 April 2023. This is in line with the group's statement that the current run-rate of staffing and other ongoing costs is approximately €0.4m per month. The expected monthly cash utilisation rate of around €0.4m is expected to reduce further over time as revenue grows.

The following table provides a summary of the key financial metrics from ENGAGE XR's FY22 full year financial, focussing on the P&L and net cash.

Summary of FY22E full year results – key financials for FY22 and FY21

€'000 unless otherwise stated	**FY21A**	**FY22A**	**Change**	**% change**
Turnover	2,386	3,869	1483	62%
Gross profit	1,894	3,160	1266	67%
Gross margin (%)	*79.4%*	*81.7%*		
EBITDA	(2,769)	(5,774)	(3,005)	*(109%)*
EBITDA margin (%)	*(116%)*	*(149%)*		
Operating profit/(loss)	(3,114)	(5,974)	(2,860)	*(92%)*
Operating margin (%)	*(130%)*	*(154%)*		
Pre-exceptional pre-tax loss	(3,130)	(6,005)	(2,875)	*(92%)*
Fully diluted pre-exceptional EPS	(0.010)	(0.019)	(0.009)	*(90%)*
Net cash	7,790	2,209	(5,581)	*(72%)*

Source: Shard Capital: ENGAGE XR

The company delivered a very strong end to FY22, delivering a monthly record revenue of €0.6m in December. This saw the company deliver a financial outturn at the upper end of the guidance published in mid-December, following slower than expected conversion of the client pipeline, notably in October and November, with companies deferring purchase decisions in response to the challenging economic backdrop. The company delivered a 63% increase in full year revenues to €3.9m at the top end of the guidance range issued in December 2022.

The turnover line has continued to swing into ENGAGE revenues as the main growth driver of the business. This can clearly be seen from the table below, both in absolute terms (€3.3m) and in its mix participation (86% vs 75%in FY21 and 42% in FY20). The higher participation of ENGAGE revenues was the key driver of the increase in gross margin to 82% from 79% in FY21.

Summary of revenue generation – FY22 and FY21

€'000 unless otherwise stated	FY21	FY22	Change	% change	Mix FY21	Mix FY22
Showcase Experiences revenue	469	374	(95)	*(20%)*	20%	10%
ENGAGE revenue	1,791	3,333	1,542	86%	75%	86%
Other revenue	125	161	36	*29%*	5%	4%
Total revenue	**2386**	**3869**	**1482**	**62%**	**100%**	**100%**

Source: Shard Capital

With the US a key geography for future development, it was pleasing to see that 30% of group revenues was generated in the US market in FY22. This follows the deployment of a dedicated US sales team in mid-2022. Q1 2023 has seen even greater traction being achieved with 58% of revenues generated in the US market.

The combination of stronger revenues and better than scheduled cash collections saw year end cash standing at €2.2m, ahead of the previous guidance of €1.9m. Operating cash outflows were a net outflow of €5.5m for the FY22 period. The group delivered an FY22 EBITDA loss of €5.8m compared with the prior year EBITDA loss of €2.8m, largely reflecting the investment in increased headcount to deliver future growth. Staff and contractor costs increased to €7.0m in FY22, an increase of just under 90% compared with FY21, as the group looked to accelerate the development of the ENGAGE Link metaverse. Within this increase, employee costs rose by 56% (to €5.24m), with contractor costs rising by a factor of 5x (to €1.77m).

The extension of the decision-making cycle by corporates and educational organisations in response to the deteriorating macro-economic backdrop from Autumn 2022 inevitably had an adverse impact on the revenues of many tech companies, including ENGAGE XR. The deceleration in expected corporate sales led to both a downgrading of FY22 guidance and a cost reduction exercise. While the latter has successfully reduced annualised payroll costs by around 25%, this inevitably also somewhat compromises the rate of growth over the short- to medium-term compared with our previous expectations.

The balance sheet and cash position were strengthened considerably post the FY22 period with a successful and oversubscribed equity placing in February 2023, which raised €10.5m gross and €9.9m net.

Forecasts

The following table summarises the key financial elements of our forecasts up to 2025E, which have been revised following the FY22 results and the equity placing.

Summary of key ENGAGE XR forecasts – 2020 – 2025E

	2020	2021	2022	2023E	2024E	2025E	3-yr CAGR
Turnover	**1.417**	**2.386**	**3.869**	**5.920**	**7.705**	**10.238**	**38.3%**
Gross profit	1.013	1.894	3.160	4.972	6.472	8.682	40.1%
Gross margin (%)	*71.5%*	*79.4%*	*81.7%*	*84.0%*	*84.0%*	*84.8%*	
EBITDA	**(2.067)**	**(2.478)**	**(5.507)**	**(3.951)**	**(2.703)**	**(0.826)**	**(46.9%)**
EBITDA margin (%)	*(145.9%)*	*(103.9%)*	*(142.3%)*	*(66.7%)*	*(35.1%)*	*(8.1%)*	
Operating profit	**(2.721)**	**(3.114)**	**(5.974)**	**(4.028)**	**(2.758)**	**(0.891)**	**(47.0%)**
Operating margin (%)	*(192.1%)*	*(130.5%)*	*(154.4%)*	*(68.0%)*	*(35.8%)*	*(8.7%)*	
Pre-exceptional pre-tax loss	**(2.728)**	**(3.130)**	**(6.005)**	**(4.058)**	**(2.793)**	**(0.921)**	**(46.5%)**
Pre-exceptional EPS (€)	**(0.011)**	**(0.010)**	**(0.019)**	**(0.008)**	**(0.005)**	**(0.002)**	**(55.0%)**
Net cash/(debt)	**2.033**	**7.790**	**2.209**	**7.845**	**5.107**	**4.362**	**25.5%**

Source: Shard Capital, ENGAGE XR

While FY22E delivered a very encouraging increase in turnover, with group sales up by 63% and the more important ENGAGE platform revenue stream up 83%, these increases were behind our previous forecasts. This largely reflected customer delays in making contract decisions against a deteriorating backdrop of challenging global economic conditions, as referenced previously. Gross margin performance at 82% was just over 100bps below our forecast, with both the EBITDA loss and year end net cash position around €1.4m below our previous forecasts.

From the lower base of the FY22 results, we have adopted a more conservative and prudent stance with regard to our outer year forecasts, most specifically with regard to the overall size of the operating expenses base, the largest element of which relates to staff headcount and salaries. This in turn has a knock-on impact on the level of turnover growth that can be delivered without material expansion of the operating cost base. The flat operating cost base profile reflects savings in areas such as marketing, hosting services and director salaries more than offsetting further growth in the aggregate remuneration of the core team. Core team salaries will still likely show growth, despite some redundancies, due to the full year impact of incremental staff recruitment during FY22. FY23E group turnover rises by 53% to €5.9m, within which we forecast ENGAGE revenues to increase by 65% to €5.5m. The increased participation of high margin ENGAGE revenue sees the gross margin percentage advance to a forecast 84%. The FY23E EBITDA and operating losses are reduced by around €1.6m and €1.9m respectively compared with FY22.

We adopt a similarly conservative approach for the operating cost base in FY24E, albeit showing a forecast 2.6% increase to just over €9.2m. This increase should lag the overall level of cost inflation within the broader economy, with the key driver being the retention of the core team. Overall group revenue rises by 30%, within which ENGAGE revenues are forecast to grow by 33% to €7.3m, which equates to a revenue mix participation of 95%. We have conservatively held the gross margin percentage at 84%, despite the greater participation of ENGAGE revenues, so the gross profit risk should be marginally to the upside. The EBITDA loss consequently reduces by some €1.27m compared with FY23E to €2.7m.

We initiate our forecasts formFY25E, which show group turnover rising by 33%. Within this, ENGAGE revenues increase by 35% to €9.9m, a whisker shy of the

€10m targeted ENGAGE revenues by the end of 2025. With the higher sales participation of ENGAGE revenues, the gross margin shows further accretion, rising to 84.8%. The operating cost base increases by just under 4% to €9.6m. These combined metrics translate into a further narrowing of losses at both EBITDA and operating profit levels, with each improving by around €1.9m to losses of €0.8m and €0.9m respectively.

Our forecast FY25E ENGAGE revenues translate into a five-year CAGR of 75% over FY20. While this is therefore below the medium-term growth objective of 100%, it still represents a good track record of consistently strong growth.

Further to the net equity raise of €9.9m, our forecasts project year-end cash of €7.8m for FY23E, €5.1m for FY24E and €4.4m for FY25E.

For reference, a more detailed summary of our P&L, cash flow and balance sheet forecasts is presented below as the Summary Financials section of this note.

Summary financials

Profit and loss account and cash flow forecasts – 2019 – 2025E

Profit and loss account

Year to December	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Turnover	**1.025**	**1.417**	**2.386**	**3.869**	**5.920**	**7.705**	**10.238**
Cost of sales	(0.401)	(0.404)	(0.492)	(0.709)	(0.948)	(1.233)	(1.556)
Gross profit	0.623	1.013	1.894	3.160	4.972	6.472	8.682
Gross margin (GM) (%)	*60.8%*	*71.51%*	*79.37%*	*81.7%*	*84.0%*	*84.0%*	*84.8%*
Operating costs	(2.555)	(3.734)	(5.007)	(9.134)	(9.000)	(9.231)	(9.573)
Operating profit	**(1.932)**	**(2.721)**	**(3.114)**	**(5.974)**	**(4.028)**	**(2.758)**	**(0.891)**
Operating profit margin (%)	*(188.6%)*	*(192.1%)*	*(130.5%)*	*(154.4%)*	*(68.0%)*	*(35.8%)*	*(8.7%)*
Depreciation and amortisation	(0.494)	(0.655)	(0.635)	(0.467)	(0.077)	(0.055)	(0.065)
EBITDA	**(1.438)**	**(2.067)**	**(2.478)**	**(5.507)**	**(3.951)**	**(2.703)**	**(0.826)**
EBITDA margin (%)	*(140.4%)*	*(145.9%)*	*(103.9%)*	*(142.3%)*	*(66.7%)*	*(35.1%)*	*(8.1%)*
Interest charge	(0.007)	(0.007)	(0.017)	(0.031)	(0.030)	(0.035)	(0.030)
Pre-exceptional PBT	**(1.939)**	**(2.728)**	**(3.130)**	**(6.005)**	**(4.058)**	**(2.793)**	**(0.921)**
Exceptional charges	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Profit before tax	(1.939)	(2.728)	(3.130)	(6.005)	(4.058)	(2.793)	(0.921)
Adjusted diluted EPS (c)	**(0.010)**	**(0.011)**	**(0.010)**	**(0.019)**	**(0.008)**	**(0.005)**	**(0.002)**
Diluted EPS (c)	(0.010)	(0.011)	(0.010)	(0.019)	(0.008)	(0.005)	(0.002)
Dividend (c)	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Cash flow

Year to December	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Operating profit	(1.933)	(2.721)	(3.114)	(5.974)	(4.028)	(2.758)	(0.891)
Depreciation and amortisation	0.494	0.655	0.635	0.467	0.077	0.055	0.065
Inventory (increase)/decrease	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Debtors (increase)/decrease	0.189	(0.153)	(0.288)	(0.720)	0.087	0.030	0.133
Creditors increase/(decrease)	(0.002)	0.165	0.124	0.741	(0.337)	0.020	0.043
Other	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Operating cash flow	**(1.252)**	**(2.055)**	**(2.642)**	**(5.486)**	**(4.202)**	**(2.653)**	**(0.650)**
Interest	(0.007)	(0.007)	(0.017)	(0.031)	(0.030)	(0.025)	(0.010)
Tax	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Dividends	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Deferred tax	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Capital expenditure	(0.036)	(0.013)	(0.116)	(0.074)	(0.025)	(0.060)	(0.085)
Trading cash flow	**(2.185)**	**(2.190)**	**(2.774)**	**(5.591)**	**(4.257)**	**(2.738)**	**(0.745)**
Acquisition of businesses	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Disposal of businesses	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Share issues	0.000	2.938	8.466	0.000	9.900	0.000	0.000
Currency effects, other	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Net cash inflow/(outflow)	**(2.192)**	**0.740**	**5.757**	**(5.581)**	**5.636**	**(2.738)**	**(0.745)**
Net (debt)/cash	**1.293**	**2.033**	**7.790**	**2.209**	**7.845**	**5.107**	**4.362**

Source: Shard Capital, ENGAGE XR

Summary of balance sheet forecasts – 2019 – 2025E

Balance sheet							
Year to December	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Tangible fixed assets	0.116	0.084	0.102	0.096	0.028	0.033	0.053
Intangible fixed assets	1.434	0.964	0.426	0.039	0.000	0.000	0.000
Investments and other	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total fixed assets	**1.550**	**1.048**	**0.529**	**0.136**	**0.029**	**0.034**	**0.054**
Stock	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Trade and other debtors	0.205	0.358	0.646	1.366	1.279	1.449	1.316
Deferred tax	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Cash and short term deposits	1.293	2.033	7.790	2.209	7.845	5.107	4.362
Current assets	**1.498**	**2.391**	**8.436**	**3.575**	**9.124**	**6.556**	**5.678**
Total assets	**3.047**	**3.439**	**8.964**	**3.711**	**9.153**	**6.589**	**5.732**
Trade and other payables	(0.193)	(0.357)	(0.482)	(1.222)	(0.735)	(0.755)	(0.798)
Borrowings	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other current liabilities	(0.033)	(0.039)	(0.013)	(0.008)	(0.028)	(0.033)	(0.053)
Current liabilities	**(0.226)**	**(0.396)**	**(0.494)**	**(1.230)**	**(0.763)**	**(0.788)**	**(0.851)**
Borrowings	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other non-current liabilities	(0.034)	(0.020)	(0.008)	0.000	0.000	0.000	0.000
Non-current liabilities	**(0.034)**	**(0.020)**	**(0.008)**	**0.000**	**0.000**	**0.000**	**0.000**
Total liabilities	**(0.260)**	**(0.417)**	**(0.502)**	**(1.230)**	**(0.763)**	**(0.788)**	**(0.851)**
Net assets	**2.788**	**3.022**	**8.463**	**2.480**	**8.390**	**5.801**	**4.881**

Source: Shard Capital, ENGAGE XR

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