EVOLUTION CAPITAL

VR1 | UPDATE REPORT | TECHNOLOGY

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Unlocking the power of AI in defence

Vection Technologies Ltd

Recommendation	**Spec Buy**
Share Price	**$0.056**
Fair Valuation	**$0.17**

Evolution Capital releases an Update on Vection Technologies (ASX: VR1) with a revised fair value of A$0.17 per share. This follows the publication of Vection's FY25 Annual Report and a complete re-roll of our DCF model, reflecting how profoundly the company has evolved over the past year. What began as a niche XR software provider has transformed into a defence-driven AI & XR platform with genuine revenue visibility, expanding recurring streams, and a tangible path to profitability.

FY25 was a decisive turning point. Vection reported record order intake, achieved its first positive underlying EBITDA (pro forma), and set out ambitious yet credible guidance: A$70m revenue in FY26, A$90m in FY27, and A$120m in FY28. Defence has emerged as the spearhead of growth, with multi-year NATO and European prime contracts delivering visibility through 2030, including the largest order in company history. At the same time, the integration of The Digital Box (Algho) is accelerating SaaS adoption, broadening recurring revenues and diversifying exposure across government, healthcare, and industrial markets.

An AI-XR Platform at the Crossroads of Defence and Enterprise

At the core of this transformation is INTEGRATEDXR®, Vection's modular platform that unites AI and XR for mission-critical applications including immersive training, digital twins, and real-time decision support. Defence programs now anchor the company's growth trajectory, with a pipeline of more than A$35m in active opportunities. Beyond defence, Algho is scaling into education, healthcare, and industrial markets, building a durable SaaS revenue base. With gross margins of ~47% and a relatively fixed cost base after FY28, every additional contract contributes disproportionately to profitability, positioning Vection for strong operating leverage as scale builds.

From Transition to Inflection

The next 12–18 months will be pivotal. Converting the defence pipeline into long-term programs, scaling Algho and INTEGRATEDXR® into new sectors, and deepening strategic partnerships with Dell Technologies represent powerful catalysts for growth. FY26 is expected to deliver Vection's first full year of positive EBITDA and operating cash flow – the long-awaited inflection point to sustainable profitability. From there, the combination of recurring SaaS expansion and high-visibility defence contracts sets the stage for multi-year compounding growth. With execution momentum building, Vection has the potential to transition from a small-cap story into a recognised defence-tech platform on the ASX.

Vection is no longer the speculative XR hopeful of yesterday. It is a fast-emerging defence-tech and AI-XR platform with established contracts, a growing SaaS engine, and the operating leverage to drive both earnings expansion and a meaningful valuation re-rate. For investors seeking exposure to the convergence of AI, XR, and Defence, Vection is entering its most compelling phase yet.

Company Profile	
Market Cap	$101M
Enterprise Value	$117M
Free Float	70%
Cash	$3.1m
52-Week Range	$0.007 - $0.058

Price Performance

Company Overview

Vection Technologies is a global provider of enterprise solutions that integrate Artificial Intelligence (AI), Extended Reality (XR), and IoT to seamlessly connect the digital and physical worlds. Growth is anchored by the company's flagship platform Algho a scalable, AI-powered ecosystem that enhances decision-making, streamlines operations, and drives productivity. Having moved well beyond the proof-of-concept stage, Algho is now deployed across key sectors such as education, transportation, and healthcare, underscoring its transformative potential. The company's next phase is focused on a broader rollout, targeting businesses of all sizes from SMEs to global enterprises unlocking significant growth opportunities across diverse industries.

Key Near-Term Catalysts	
R&D outcomes enabling new AlghoAI product releases (CareAR, Xerox XMPie)	Q1 2026
Follow-on orders with global defence contractor	H1 2026
Pilot program progress (Goriziane, KNDS, Dassault, Arquus)	H1 2026
New ICT infrastructure wins and tech refresh contracts	H1 2026
Pilot completions transitioning to commercial rollouts	H2 2026
Sales team expansion to support pipeline and international growth	H1 2027
US market scaling via Dell Technologies and Xerox	H1 2027

Investment Case

From Immersive Applications to a Defence-Tech Platform

Vection Technologies (ASX: VR1) is undergoing a strategic transformation. Once positioned as a provider of immersive XR applications for retail, real estate, and healthcare, the company has evolved into a defence-oriented AI & XR platform delivering mission-critical solutions for simulation, training, and digital twins. This shift positions Vection in markets defined by high entry barriers, long procurement cycles, and recurring revenue potential.

At the core of this transition is INTEGRATEDXR®, Vection's modular platform that merges Extended Reality (XR) with Artificial Intelligence (AI). Designed for enterprise-grade deployments, it enables digital twins, immersive training, and collaborative environments across defence, aerospace, healthcare, and government. Complementary products such as Mindesk (immersive CAD design), EnWorks (AR-guided workflows), 3DFrame (no-code immersive training), and Algho (conversational AI engine) extend the ecosystem across the value chain, enhancing scalability and adoption.

With this portfolio, Vection is directly exposed to two of the most compelling technology growth curves: XR/Spatial Computing and Defence Simulation. The global XR market is expected to grow at ~30% CAGR to over USD 1 trillion by 2030, while the military simulation and training market is set to expand steadily toward USD 22–23 billion by 2034. Positioned at the intersection of these trends, Vection offers investors a differentiated, high-growth narrative.

Ultimately, the investment case comes down to three core questions:

1. How large is Vection's addressable opportunity in defence and enterprise XR?
2. What makes INTEGRATEDXR® and the broader AI-XR ecosystem defensible against global competition?
3. How much upside remains once recurring revenues and profitability inflect?

Strategic Valuation with Room to Re-Rate

With a current market capitalisation of ~A$98 million (August 2025), Vection trades on an EV/Sales multiple of ~3x and an NTM EV/Sales of ~1.5x. While this is in line with smaller ASX-listed technology peers such as XReality Group and Pointerra, Vection operates at a significantly larger revenue base (A$36m in FY25), maintains robust gross margins (47%), and benefits from a pipeline that supports rapid scaling.

Execution visibility is strengthening. Defence contracts with NATO and European prime contractors provide multi-year visibility, including a program worth ~A$19m running through 2030. Management has guided to revenues of A$70m in FY26, A$90m in FY27, and A$120m in FY28. Importantly, Vection delivered its first positive underlying EBITDA in FY25 (A$2.8m), underlining operating leverage. The integration of The Digital Box (Algho) further accelerates the transition to SaaS and AI-driven recurring revenues, expected to rise from 38% in FY26 to ~47% by FY35. Gross margins are stable in the 45–50% range, while a relatively fixed cost base ensures expanding operating leverage.

Upcoming Catalysts (2025–2026)

The coming quarters mark a decisive phase for Vection. Converting a Defence & Space pipeline exceeding A$35m into long-term programs would not only broaden the revenue base but also enhance multi-year visibility. In parallel, the rollout of INTEGRATEDXR® and Algho across government, healthcare, and industrial markets is expected to accelerate the shift toward recurring SaaS revenues. With the full integration of The Digital Box, Vection now operates a unified platform that strengthens scalability and reinforces its positioning as an emerging AI–XR leader in defence and enterprise solutions.

Financially, FY26 is set to deliver the first full year of positive EBITDA and operating cash flow, establishing the long-awaited inflection to sustainable profitability. Strategically, the expansion of partnerships with Dell Technologies and potential alliances with other global players could unlock new avenues for international scaling. Taken together, these milestones represent critical catalysts that have the potential to reshape both market perception and valuation.

Product Overview

Vection Technologies offers a broad portfolio of XR and AI solutions designed to transform workflows and decision-making processes into immersive and interactive environments. These products are intentionally cross-sector in nature: they are used not only in defence and aerospace but also in healthcare, industrial manufacturing, retail, real estate, and transportation. Together they form an ecosystem that covers the entire value chain, from design and planning through training and field execution to customer engagement.

At the core of this ecosystem is INTEGRATEDXR®, the flagship platform that merges virtual, augmented, and mixed reality with artificial intelligence into a single modular environment. It provides the interoperability, scalability, and security required for enterprise-grade deployments, enabling digital twins, immersive training simulations, and collaborative environments across devices. For example, in defence, ministries can integrate various flight and tactical simulators into a unified, secure system, while in healthcare hospitals can use the platform to conduct complex surgical training sessions across multiple locations in real time.

One of the most distinctive applications is Mindesk, which brings immersive design reviews directly into engineering and architectural workflows. By integrating with standard CAD and BIM software, Mindesk enables teams to step inside their models at full scale and modify designs in real time. This drastically reduces the need for physical prototypes, accelerates design iterations, and improves collaboration across stakeholders. For instance, naval engineers can virtually inspect the layout of a submarine to detect ergonomic or spatial issues before construction begins, while architects can walk hospital executives through a planned facility and receive immediate feedback on usability.

EnWorks addresses the needs of field operators by providing augmented reality instructions directly in the user's line of sight. Tasks such as maintenance, assembly, or inspections are supported with visual step-by-step workflows, ensuring consistency, safety, and compliance. Aerospace technicians can use EnWorks to guide them through engine inspections with digital overlays, while industrial workers can follow standardised assembly procedures, significantly reducing training time and human error.

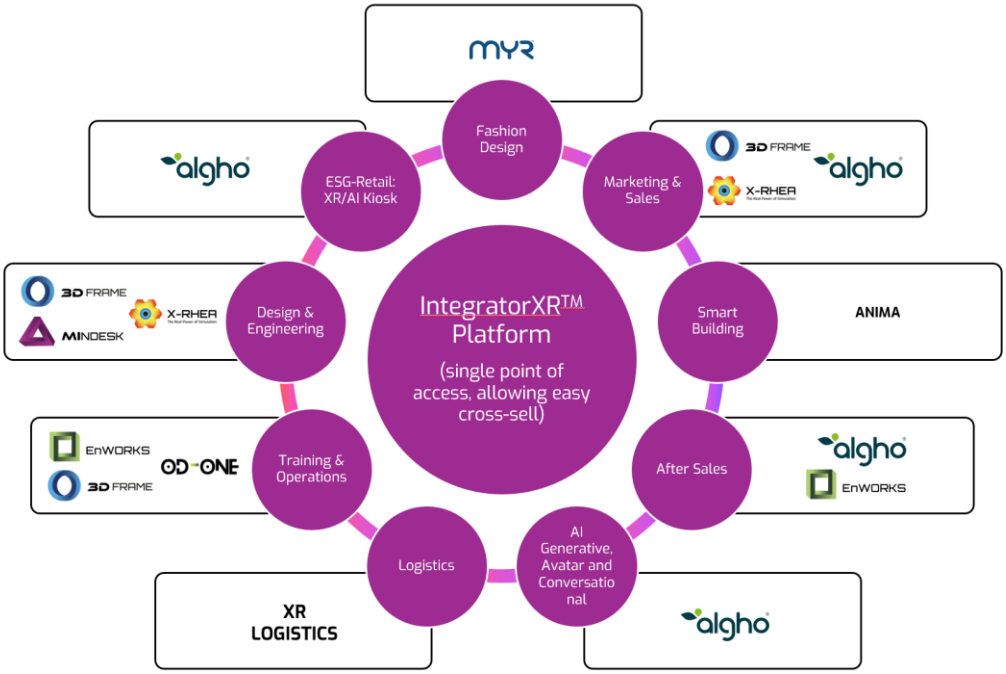
With 3DFrame, Vection offers a no-code environment for creating immersive training, simulation, and presentation content. It allows enterprises to convert static information into interactive experiences that can be deployed across VR headsets, desktops, or embedded into video conferencing platforms. Defence organisations can use 3DFrame to create interactive training programs for new recruits, while retail companies can deploy virtual showrooms that bring new product lines to life for remote customers and partners.

Algho is Vection's conversational AI engine that enhances immersive environments with natural language interaction. It enables hands-free operation, contextual guidance, and AI-driven learning experiences. In defence simulations, Algho can act as a digital instructor, providing real-time instructions during flight training. In industrial inspections, engineers can receive voice-guided checklists while performing tasks, keeping their hands free for critical operations.

ShelfZone extends Vection's solutions into the retail space. As a SaaS platform, it allows brands and retailers to design and test store layouts, optimise product placement, and simulate consumer behaviour in realistic 3D environments. Global consumer goods companies can trial merchandising strategies virtually before physical rollouts, while sales teams can present interactive shelves to clients during product launches.

Myr is designed for style-driven industries such as fashion and furniture, enabling immersive prototyping of new products. Designers can experiment with materials, colours, and configurations in real time and collaborate with stakeholders before committing to costly physical prototypes. A furniture company, for example, can validate the ergonomics and aesthetics of a new sofa line virtually, while a fashion brand can test fabric options for its upcoming collection.

Figure 1: Proprietary Applications on IntegratorXR



To complement its software portfolio, Vection also offers Professional Services, ensuring that clients can successfully adopt and scale immersive technologies. These services include custom XR development, high-quality 3D content creation, IT infrastructure integration, and turnkey kiosk solutions. A government agency may commission a tailored simulation for emergency response training, while an enterprise client could deploy immersive kiosks across multiple sites for standardised workforce training.

Table 1: Product Overview

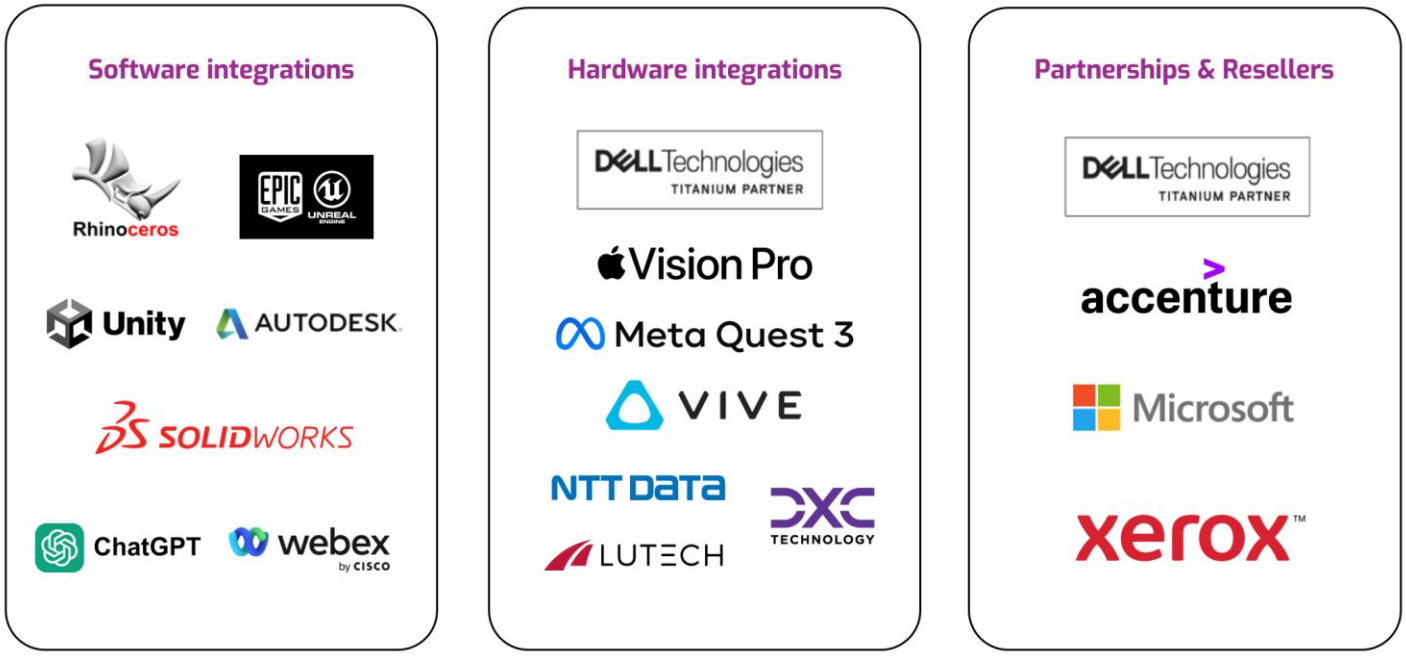
Product	Core Function	Strategic Value	Example Use Case
INTEGRATEDXR®	Platform unifying VR, AR, MR and AI into one ecosystem.	Provides backbone for all solutions; ensures scalability & security.	Defence: integrates simulators into a secure training pipeline. Healthcare: real-time collaborative surgical training.
Mindesk	Immersive design review linked to CAD/BIM workflows.	Shortens design cycles, reduces prototypes, improves collaboration.	Naval engineers review submarine layouts; architects walk executives through hospital wings.
EnWorks	AR-based field guidance and digital workflows.	Standardises procedures, improves safety, reduces error rates.	Aerospace engine maintenance; industrial assembly with step-by-step AR instructions.
3DFrame	No-code creation of immersive training and presentations.	Increases engagement, enables scalable XR content creation.	Defence training modules for recruits; retail virtual showrooms for product launches.
Algho	Conversational AI inside immersive environments.	Adds hands-free, natural-language interaction to XR.	Digital instructor in pilot training; AI-guided industrial inspections.
ShelfZone	SaaS for virtual retail planning and shopper simulation.	Optimises merchandising and reduces cost of physical pilots.	FMCG shelf testing before rollout; interactive product demos for clients.
Myr	Immersive prototyping for fashion, furniture, and design.	Reduces development time and cost; accelerates time-to-market.	Furniture prototyping in VR; fashion fabric testing before sampling.
Professional Services	Custom XR development, content creation, integration.	De-risks adoption; ensures tailored implementation.	Government emergency-response simulation; enterprise training kiosks across sites.

Taken together, Vection's solutions form a comprehensive ecosystem. INTEGRATEDXR® provides the backbone; Mindesk, 3DFrame, EnWorks, Algho, ShelfZone, and Myr each cover specific stages of the value chain; and Professional Services ensure seamless integration and adoption. This combination enables Vection to serve mission-critical applications in defence and government while simultaneously expanding into diverse commercial industries that increasingly demand immersive technologies.

Strategic Partnerships and Customer Ecosystem

A central pillar of Vection Technologies' business model is its broad network of partnerships and customers, which ensures scalability and global reach. These relationships can be grouped into four categories: software integrations, hardware integrations, partnerships & resellers, and customer references. Within these categories, a number of flagship collaborations stand out, highlighting the strategic value of Vection's platform.

Figure 2: Powerful Integrations & Partnerships



Software Integrations

Vection has integrated its solutions with some of the world's leading design and collaboration platforms. These include Unity, Unreal Engine (Epic Games), Autodesk, SolidWorks, and Rhinoceros. Such integrations allow engineers, designers, and architects to seamlessly embed Vection's XR and AI technologies into existing workflows — for example, in digital twins for manufacturing or immersive planning processes in construction. These integrations are complemented by collaboration tools like Cisco Webex and generative AI platforms such as ChatGPT, enabling real-time communication and intelligent assistance inside virtual environments.

Hardware Integrations – Dell Technologies at the Core

On the hardware side, the partnership with Dell Technologies is particularly significant. Vection is certified as a Titanium Partner in Italy, the highest status awarded by Dell. This certification not only provides access to Dell's technological expertise but also to its global distribution ecosystem. The collaboration is designed to tightly connect Vection's AI and XR platforms with Dell's hardware infrastructure. Initial projects have already been launched in the EMEA region, demonstrating the benefits of combined Dell hardware and Vection software solutions. For customers, the value lies in a fully integrated offering: high-performance Dell systems paired with Vection's immersive platforms, accessible to both SMEs and large enterprises across multiple industries.

Vection's products are also fully compatible with leading XR devices such as Apple Vision Pro, Meta Quest 3, and HTC Vive. Collaborations with IT service providers like NTT Data, DXC Technology, and Lutech further ensure seamless integration into enterprise IT environments, supporting large-scale deployments.

Strategic Application Projects – Trenitalia, Cometa, and Blank Canvas

Beyond technological integrations, Vection has developed deep strategic partnerships in specific verticals. A key example is Trenitalia, Italy's leading rail operator, which uses Vection's XR solutions for on-the-job training. By simulating real operational environments, employees can be trained more effectively, safety is improved, and operational risks are reduced. The success of this collaboration highlights the transferability of Vection's platform to other safety-critical industries such as logistics and manufacturing.

Another major partnership is with Cometa, a leader in the Italian education sector. Through Vection's Algho platform, Cometa is transforming how training and education are delivered, enabling immersive learning and personalized experiences. The partnership is structured to expand across hundreds of institutions, with the potential to generate significant recurring software revenues over the coming years.

Vection has also worked with Blank Canvas on the Sydney Spit Bridge project, developing VR-based training modules for bridge operators. The modules cover both standard and emergency scenarios in a highly realistic virtual environment. The outcome has been increased safety, more efficient operations, and improved risk management. The project has been widely recognized as a successful proof of concept, with potential for replication across other infrastructure projects.

Partnerships & Resellers

In addition to direct technological and project collaborations, Vection extends its market reach through global reselling and consulting partners. Collaborations with Accenture, Microsoft, and Xerox enhance the visibility and accessibility of Vection's solutions in key markets. Accenture provides consulting reach, Microsoft integrates XR workflows with its enterprise software, and Xerox offers well-established sales channels. Together, these partners significantly strengthen Vection's ability to scale internationally.

Customer References

The strength of this ecosystem is further illustrated by Vection's diverse customer base. Renowned global companies such as Coca-Cola, Ferrero, Nestlé, Diesel, Natuzzi, Walgreens, Generali, Poste Italiane, Würth, ServiceStream, EnginSoft, and Volvo have adopted Vection's solutions. This client roster spans industries including consumer goods, retail, healthcare, transportation, and industrial services, underscoring both the breadth and the relevance of Vection's offering in the global market.

Figure 3: Customer Referneces

Use Cases & Case Studies

General Case Studies

Nestlé – Virtual Showrooms Driving Consumer Goods Innovation

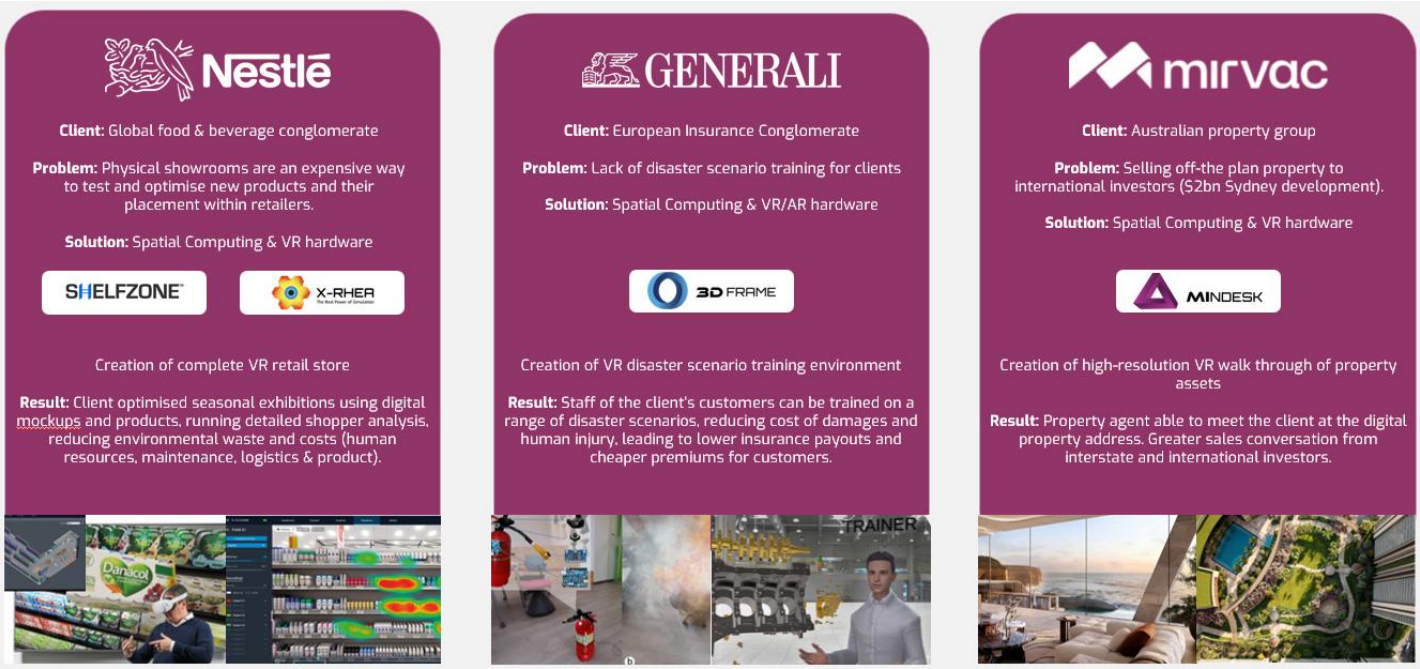
For a global market leader like Nestlé, product launches and in-store presentation strategies are critical but costly. Traditional showrooms require significant investment, are inflexible, and generate logistical challenges. To address this, Nestlé partnered with Vection Technologies to fundamentally digitize its product development and retail placement processes.

Using Vection's spatial computing solutions, particularly ShelfZone and X-Rhea, Nestlé created fully virtual retail stores where new products can be tested in lifelike digital environments. These simulations allow for product placement analysis, shopper

behavior studies, and optimization of seasonal exhibitions without the need for physical prototypes.

The benefits go well beyond cost savings. By leveraging VR, Nestlé reduces environmental waste, optimizes logistics, and accelerates campaign rollouts, while also gathering richer consumer insights. This collaboration highlights Vection's ability to provide scalable solutions for global FMCG companies, marrying operational efficiency with sustainability.

Figure 4: General Case Studies



Generali – Immersive Training for Insurance Clients

The insurance industry faces the challenge of preparing clients and their staff for rare but high-impact disaster events. For Generali, one of Europe's largest insurers, the cost and risk of conducting physical training exercises were prohibitive. Vection offered an alternative: a fully immersive, safe, and repeatable training environment.

Through a dedicated VR/AR training platform, Generali now provides clients with realistic disaster scenario simulations, such as fires or natural disasters. These environments allow participants to experience critical situations first-hand, learning how to react effectively under pressure.

For Generali, the value is twofold: reduced losses through better-prepared customers and lower insurance payouts, coupled with the ability to offer competitive premiums. For Vection, this project underscores how immersive technologies can disrupt even traditionally conservative industries, driving both innovation and risk reduction.

Mirvac – Transforming Real Estate Sales Through Virtual Reality

In real estate, the ability to sell properties before construction is completed is a key competitive advantage, particularly in international markets. Mirvac, one of Australia's leading property developers, needed to attract offshore investors for multibillion-dollar projects in Sydney.

With Vection's Mindesk solution, Mirvac was able to deliver photorealistic VR walkthroughs of properties still under development. International investors could virtually "walk" through apartments and commercial spaces, gaining an authentic sense of layout, scale, and design – all without the need to travel to Australia.

This capability not only accelerated Mirvac's sales cycle but also boosted investor confidence, converting more offshore interest into finalized transactions. The project

demonstrates how Vection enables property developers to expand global reach and secure buyers at earlier stages of the development pipeline.

Defence Sector

Strategic Contracts with NATO and European Security Organizations

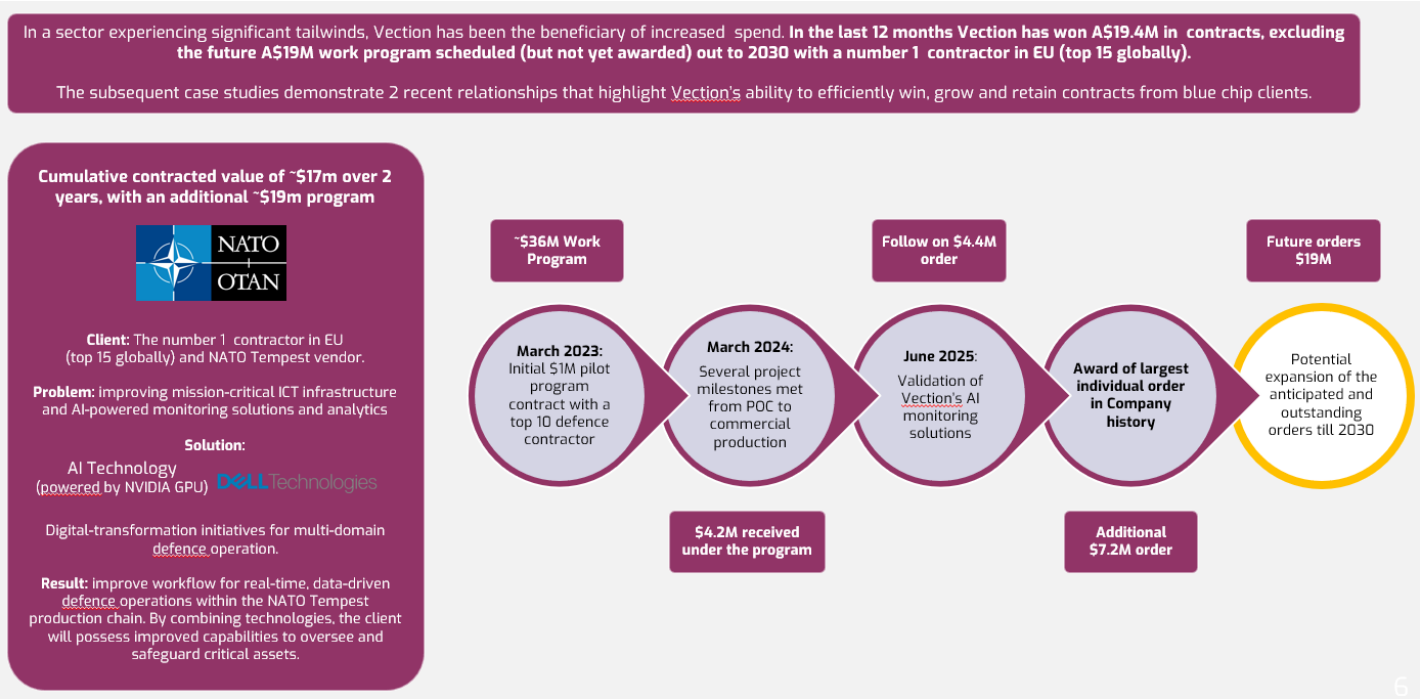
The defence sector represents one of the most important growth pillars for Vection Technologies. Over the past two years, the company has secured multiple high-value contracts with leading European defence contractors and NATO-certified vendors, validating its ability to deliver in highly regulated, mission-critical environments.

A flagship engagement has been Vection's collaboration with a top European defence contractor (ranked among the top 15 globally) and a recognized NATO Tempest vendor. The challenge was to modernize mission-critical ICT infrastructures and deploy AI-powered monitoring and analytics to support multi-domain defence operations.

Vection, in partnership with Dell Technologies and powered by NVIDIA GPU architectures, developed a framework that integrates real-time monitoring, data visualization, and predictive analytics. This digital transformation initiative enhances operational awareness, reduces risks, and improves response times across domains such as aerospace, cyber defence, and ground operations.

The program began with a $1M pilot contract in March 2023, successfully achieving proof-of-concept milestones. By March 2024, the project advanced into full commercial production, validating the scalability of Vection's solutions. Since then, additional contracts have been awarded, including the largest individual order in company history, valued at $7.2M. Furthermore, a long-term program worth approximately $19M AUD is currently in planning, with a horizon extending through 2030 – providing Vection with a highly predictable revenue stream.

Figure 5: Defence Case Study



In parallel, Vection has engaged with a European cybersecurity service provider specializing in critical infrastructure protection. Here, Vection's spatial computing and AI technologies are used to strengthen data security, enhance real-time visualization of complex information, and support faster, data-driven decision-making for government and law enforcement agencies.

What makes the defence sector particularly strategic is not only the financial scale but also the long-term positioning it offers. These programs typically involve multi-year

commitments, recurring revenues, and deep integration into the client's operational ecosystem. For Vection, success in this domain demonstrates its ability to meet the strictest regulatory standards, while positioning itself as a key enabler of digital transformation in global defence.

Beyond contracts, Vection's solutions also address broader defence needs:

- Engineering & Maintenance: Virtual modelling of mission-critical equipment and systems to anticipate problems before they occur.
- VR & AR Training: Realistic simulations of combat, hostage, and tactical scenarios that accelerate training times by up to 70%.
- Situational Awareness: AI-enhanced data integration that combines intelligence streams from multiple sources, improving battlefield decision-making across Europe, the Middle East, and Asia.

In sum, Vection's defence portfolio showcases how immersive and AI-driven solutions can fundamentally reshape how modern militaries train, operate, and secure their missions – providing the company with both near-term revenue growth and long-term strategic relevance.

Market Overview

The digital transformation is entering a new phase, driven by the convergence of **Extended Reality (XR)**, **Artificial Intelligence (AI)**, and **Spatial Computing**. These technologies are no longer isolated innovations but are evolving into platforms that merge physical and digital environments. For enterprises and government institutions, this shift creates opportunities to improve efficiency, reduce costs, and accelerate innovation. Vection Technologies is strategically positioned within this environment, offering integrated solutions that are already applied across multiple industries and are expected to become increasingly relevant over the next decade.

XR Market

What was once considered a niche segment focused largely on gaming and consumer entertainment has rapidly transformed into a strategic tool for enterprises. XR applications are now expanding into industrial use cases such as training, maintenance simulations, digital twins, and collaborative workspaces. Market studies confirm this structural change. According to Grand View Research, the global XR market was valued at approximately USD 142 billion in 2023 and is expected to exceed USD 1.069 trillion by 2030, reflecting a compound annual growth rate (CAGR) of 32.9% (Grand View Research, 2024). Fortune Business Insights projects similar growth, forecasting an increase from USD 183.96 billion in 2024 to USD 1.625 trillion in 2032 (Fortune Business Insights, 2024). These numbers underline that XR is transitioning from an emerging technology to a core enabler of digital transformation across industries.

Spatial Computing and AI

The dynamics become even more pronounced in the area of Spatial Computing, where 3D data, XR, and AI converge into unified platforms. These solutions enable real-time visualization, predictive maintenance, and automated training environments. Grand View Research estimates that the spatial computing market was worth USD 102.5 billion in 2022 and will expand to USD 469.8 billion by 2030, at a CAGR of 20.4% (Grand View Research, 2023). BusinessResearchInsights presents an even higher projection, with the market expected to grow from USD 141.5 billion in 2025 to more than USD 945.8 billion by 2033, reflecting a CAGR of 21.7% (BusinessResearchInsights, 2024). These forecasts highlight how Spatial Computing, particularly when combined with AI, is becoming a foundational technology with applications in manufacturing, healthcare, retail, and beyond.

Defence and Aerospace Sector

One of the most promising verticals for XR and Spatial Computing is the defense and aerospace sector, where demand for advanced training and simulation systems continues to rise. Modern military operations require the integration of data from multiple sources and the ability to run complex simulations in real time. Immersive virtual environments not only improve operational readiness but also provide significant cost advantages compared to traditional exercises. Global Market Insights estimates that the worldwide military simulation and training market reached USD 13.7 billion in 2024 and will grow to USD 22.8 billion by 2034, representing a CAGR of 5.3% (Global Market Insights, 2024). Arizton and ResearchAndMarkets expect even faster growth, with the market expanding from USD 13.2 billion in 2024 to USD 21.08 billion in 2030, reflecting a CAGR of 7.85% (Arizton, 2024; ResearchAndMarkets, 2024). This growth is further supported by steadily increasing global defense budgets, which now exceed USD 2.4 trillion annually (IISS, 2024).

The convergence of XR, Spatial Computing, and AI marks a turning point: technologies that were once experimental are now evolving into scalable platforms embedded across industries. Falling hardware costs, increasing processing power, and the rapid integration of AI are accelerating this adoption. For Vection Technologies, this creates access to a multi-billion-dollar addressable market, with significant opportunities in defense and aerospace, but also in healthcare, real estate, and education. By leveraging its technological expertise and its existing network of partnerships, the company is positioned to capture a meaningful share of this accelerating growth.

Competitive Landscape

The competitive landscape of Vection is shaped by a heterogeneous group of listed technology companies, all active across XR, simulation, geospatial data or edge AI, but each with very different business models and strategic orientations.

Peer Definition

Among the Australian peers, XReality Group (ASX: XRG) and Pointerra (ASX: 3DP) are the closest comparables. XReality operates in the immersive applications space, though with a stronger focus on training and simulation solutions for defense and law enforcement. Pointerra, by contrast, pursues a pure software-as-a-service model, providing a cloud-based platform for the management and analysis of 3D point cloud data. While operating in an adjacent domain, its core customer base lies in engineering, utilities, and infrastructure, whereas Vection's focus is on interactive visualisation and XR workflows. Aerometrex (ASX: AMX) combines traditional aerial imagery and LiDAR scanning with 3D data modelling. Its model is more service-oriented and capital intensive, but it can deliver attractive margins when its datasets are repurposed into subscription-based products.

Appen (ASX: APX) represents another outlier. Appen provides data annotation and training sets for artificial intelligence models. Its role is less about software products and more about acting as a back-end service provider, monetising the supply of labelled data to global AI players. While its business model differs markedly from Vection's, Appen is a relevant comparison point as another Australian mid-cap technology stock framed within the AI theme.

On the US side, VirTra (NASDAQ: VTSI) develops highly integrated simulation systems for police and military use. Its model combines hardware (simulators, replica weapons, projection systems) with proprietary software, resulting in high gross margins and recurring maintenance revenues. It demonstrates how immersive technologies can be profitably scaled in mission-critical environments. The Glimpse Group (NASDAQ: VRAR), based in New York, is a multi-studio XR software company. Its service- and project-driven model spans diverse industries, from marketing to education, aiming to build a broad XR portfolio through a "house of studios" structure.

Taken together, the selected peers reflect more than just direct XR competitors. They also include geospatial SaaS (3DP), service-based data modelling (AMX), and AI training services (APX). This broader peer set was chosen deliberately to provide a comprehensive view of how investors value niche, innovation-driven technology businesses. Within this spectrum, Vection occupies a unique position: with its hybrid model of software products, integration services, and immersive XR solutions, the company sits between pure-play XR specialists and adjacent tech innovators, and can be benchmarked against both.

Financial Comparison

A financial comparison of Vection Technologies (ASX: VR1) with a selected group of listed technology peers highlights the very different stages of maturity, business models, and valuation logics across the sector. To ensure comparability, TTM figures (Trailing Twelve Months) were used wherever available, half-year reports were annualized, and U.S. peer data was converted into AUD using an exchange rate of 1 USD = 1.53 AUD.

In FY2025, Vection generated revenue of approximately A$36 million, placing it among the larger companies in the peer set. With COGS of A$19 million, the company achieved a solid gross margin of 47%. On an EBITDA basis, the result was a modest -A$1 million, which, compared to many peers, represents only a relatively small operating loss. With a market capitalization of roughly A$90 million and an enterprise value of A$107 million, Vection trades on an EV/Sales multiple of about 3x—in line with direct ASX-listed peers, yet leaving meaningful room for re-rating once profitability is achieved.

XReality Group (ASX: XRG) reported A$14 million in revenue and A$19 million in COGS, resulting in negative gross margins. While it delivered a small EBITDA profit of A$1 million, scalability remains limited. At around 3x EV/Sales, the valuation mirrors Vection's, but XReality operates with a much smaller revenue base and weaker margin structure.

Pointerra (ASX: 3DP) posted A$10 million in revenue against only A$2 million in COGS, yielding very high gross margins of 76%. Despite this, EBITDA was negative at -A$1 million. Its EV/Sales multiple of 4x reflects investor expectations of future SaaS scalability rather than current fundamentals.

Aerometrex (ASX: AMX) achieved A$24 million in revenue and A$8 million in COGS, translating into 65% gross margins. With A$3 million in EBITDA, it is one of the few profitable companies in the group. However, its low valuation (EV/Sales of ~1x) reflects the capital intensity of its business and limited scalability compared to software-driven peers.

Appen (ASX: APX), at A$204 million in revenue, is significantly larger than Vection, but continues to struggle with deteriorating profitability. With A$102 million in COGS and an EBITDA loss of -A$8 million, investor sentiment has collapsed, leaving the stock trading at just ~1x EV/Sales.

Among U.S.-listed peers, VirTra (NASDAQ: VTSI) stands out with A$40 million in revenue, A$11 million in COGS, and gross margins of 74%. The company generated A$7 million in EBITDA and trades at only 2.2x EV/Sales, serving as a profitable benchmark for scalable XR/simulation models. The Glimpse Group (NASDAQ: VRAR), in contrast, reported A$13 million in revenue, A$5 million in COGS, and an EBITDA loss of -A$4 million. Its EV/Sales of 3.1x is comparable to Vection's, but based on a smaller revenue base and weaker operating profile.

Table 2: Financial Comparison

Company	Market Cap (in M)	Enterprise Value (in M)	FY25 Revenue (in M)	COGS (in M)	Gross Margin %	EBITDA (in M)	EBITDA Margin	EV/Sales	P/B	Cash (in M)
ASX-Listed Peers										
VECTION TECHNOLOGIES LTD (XASX:VR1)	$90	$107	$36	$19	47%	-$1	-2%	3	7.7	$3
XREALITY GROUP LTD (XASX:XRG)	$35	$37	$14	$19	-34%	$1	5%	3	3.0	$3
POINTERRA LIMITED (XASX:3DP)	$38	$36	$10	$2	76%	-$1	-7%	4	n/a	$2
AEROMETREX LIMITED (XASX:AMX)	$19	$15	$24	$8	65%	$3	14%	1	1.0	$4
APPEN LIMITED (XASX:APX)	$224	$163	$204	$102	50%	-$8	-4%	1	2.3	$61
US-Listed Peers										
VIRTRA, INC. (XNAS:VTSI)	$103	$87	$40	$11	74%	$7	17%	2.2	1.5	$28
THE GLIMPSE GROUP, INC. (XNAS:VRAR)	$44	$41	$13	$5	67%	-$4	-28%	3.1	25.0	$3

Against this backdrop, Vection occupies a balanced position: larger and more diversified than smaller ASX SaaS or XR peers, with solid gross margins and an operating cost base that remains relatively efficient. Unlike Appen, it does not carry extreme losses, and unlike Pointerra, its valuation is not overly dependent on speculative scaling. Trading at ~3x EV/Sales, Vection currently offers an attractive entry point: if the company succeeds in transitioning to sustainable profitability, its present market capitalization appears modest relative to its revenue scale, margin potential, and hybrid model combining software, integration services, and XR solutions.

Financial Performance & Acquisitions

Financial Performance

Solid Revenue Growth Despite Transition Effects

In FY25, Vection Technologies reported statutory revenue of $36.0 million, compared to $32.8 million in FY24 (+9.6%). Including other income, total revenue reached $37.5 million. This growth was underpinned by expanding defence-related contracts and the first contributions from The Digital Box (TDB), consolidated from January 2025 onwards. On a pro forma basis, which assumes TDB had been consolidated for the full year, revenue would have amounted to ~$42 million, demonstrating the stronger underlying trajectory of the business.

Improving Profitability Metrics

While the company reported a statutory net loss after tax of $7.4 million in FY25, operating profitability improved significantly. Reported EBITDA stood at $(0.2) million, but after adjusting for non-cash share-based payments, adjusted EBITDA was $1.2 million. On an underlying basis, excluding one-off M&A expenses and discontinued operations, Vection achieved a positive underlying EBITDA of $2.8 million – its first positive underlying result. This shift highlights the scalability of the business model as revenues expand and recurring streams grow in importance.

Cash Flow and Liquidity

Reported operating cash flow for FY25 was $(3.9) million. However, this figure was heavily distorted by timing effects: a $4.4 million defence-sector payment was received shortly after the fiscal year-end. Adjusting for this, pro forma operating cash flow turned positive at approximately $0.6 million, marking a key milestone as Vection approaches cash-flow breakeven on a full-year basis.

At 30 June 2025, the company reported statutory cash of $3.1 million, with pro forma cash including post-year-end receipts at $7.5 million. This provides a healthier liquidity position than suggested by the statutory accounts alone.

Balance Sheet and Debt
Total borrowings amounted to $19.3 million at year-end, split between ~$10.6 million in short-term working capital facilities and ~$8.7 million in long-term debt. Importantly, the short-term facilities are structured as self-liquidating factoring lines against receivables, while the long-term borrowings carry an average cost of debt of ~4.7% and no financial covenants. Additional financial liabilities of $5.9 million relate to past acquisition structures (notably Invrsion) and are cash-neutral. Net assets stood at $11.7 million, with intangibles of ~$39 million reflecting Vection's technology and customer contracts acquired through M&A.

Acquisition Model and Integration
FY25 marked the first-time consolidation of The Digital Box S.p.A. (TDB), including its subsidiaries such as Algho (QuestIT). Acquired in January 2025, TDB contributed $1.3 million in profit before tax during the partial consolidation period. On a full-year pro forma basis, the acquisition would have lifted group revenue to ~$42 million, demonstrating its strategic value. TDB brings strong expertise in conversational AI, customer engagement platforms, and SaaS recurring revenue streams, which complement Vection's XR and defence-focused solutions.

Previous acquisitions, such as Invrsion, remain integrated within Vection's operations. The related financial liabilities ($5.9 million) remain on the balance sheet but are structured in a cash-neutral way, with no further operational burden. Together, these acquisitions illustrate Vection's model of augmenting its technology base and sector reach through targeted M&A, combining organic growth with strategic bolt-ons.

FY25 was a pivotal year for Vection Technologies: revenue grew both on a statutory and pro forma basis, underlying EBITDA turned positive, and operating cash flow edged toward breakeven. The first-time consolidation of TDB reshaped the company's financial profile, bringing scale and recurring revenue visibility. Looking forward, Vection is better positioned financially to leverage its strong partnerships and sector diversification, with the balance sheet reflecting both its expanded footprint and the impact of past acquisitions.

Acquisitions

Historical Acquisitions: Building the AI & XR Ecosystem
TDB is the most recent in a string of acquisitions that collectively shaped Vection's current positioning as a leading AI & XR company:

- Mindesk (2020, Italy): A specialist in real-time XR design tools integrated into CAD software. This deal allowed Vection to penetrate the architecture, engineering, and construction (AEC) market by enabling immersive 3D design workflows.

- JMC Group (2021, Italy): A systems integrator with expertise in ICT and enterprise digitalisation. This strengthened Vection's ability to deliver end-to-end digital transformation projects, particularly for large-scale clients in government and industry.

- Witar (2022, Italy): A digital solutions provider focused on virtual training and simulation platforms. The acquisition deepened Vection's presence in Defence and Education, expanding its recurring software and services revenue base.

- TDB S.r.l. (2025, Italy): Added advanced AI (conversational and generative) capabilities, creating an integrated AI&XR technology platform.

This acquisition-led strategy demonstrates Vection's consistent approach: target complementary technologies and client networks, integrate them into a scalable platform, and leverage Dell and other partnerships to expand distribution.

Acquisition Model
Vection's acquisition model follows a clear pattern:

1. Focus on technology add-ons in AI, XR, SaaS, and simulation.
2. Financial discipline through covenant-free, long-term financing structures.
3. Retention of founders and key staff via performance-linked equity.
4. Rapid integration into existing distribution networks and product suites.

This disciplined model has allowed Vection to accelerate growth while maintaining financial flexibility, and it is likely to remain a cornerstone of the company's long-term expansion strategy.

With FY25 marking a turning point to profitability, Vection now benefits from a broader product portfolio, stronger recurring revenue base, and an acquisition track record that enhances both capability and market positioning.

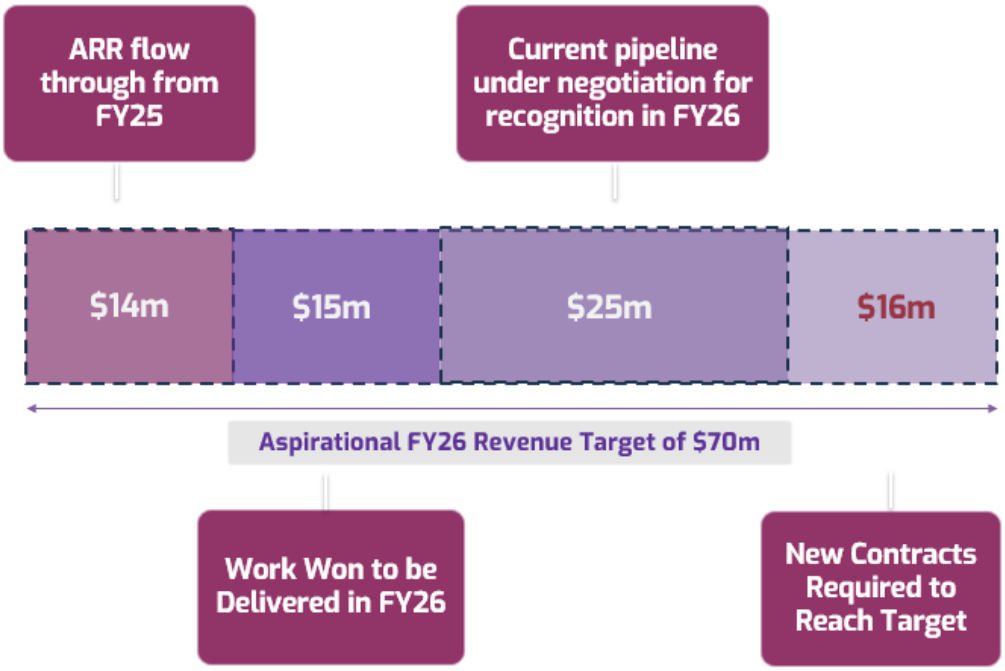
Going forward, execution will hinge on converting the A$35m+ pipeline into realised revenue, expanding recurring SaaS contracts, and pursuing selective acquisitions to consolidate Vection's role as a unique AI & XR platform on the ASX.

Valuation

Revenue Modelling and Growth Assumptions
The valuation of Vection Technologies is based on a detailed Discounted Cash Flow (DCF) model, reflecting the expected revenue trajectory and cost structure through FY2035. The model is anchored on three methodological pillars: (1) management guidance as the near-term foundation, (2) a bottom-up segmentation of revenues across end-markets in the outer years, and (3) external market studies and peer benchmarking to validate growth and margin assumptions. Together, these ensure that the projections are transparent, robust, and consistent with industry dynamics.

For FY2026–FY2028, the model relies directly on company guidance. According to Vection's stated targets, revenues are expected to rise from A$36.0m in FY2025 to A$70.0m in FY2026, A$90.0m in FY2027, and A$120.0m in FY2028 – implying growth rates of +94%, +29%, and +33%, respectively. These figures are further detailed in the company's August presentation, which outlined the FY2026 A$70m revenue bridge: A$14m of recurring ARR carried forward from FY2025, A$15m of already-won contracts, A$25m of pipeline under negotiation, and A$16m to be secured through new business wins.

Figure 6: Revenue Pipeline FY26



Beyond FY2028, revenues are derived through a granular bottom-up segmentation. The strongest driver is Defence & Space, projected to grow from A$25.2m in FY2026 to A$185.7m by FY2035, maintaining a stable 40–42% share of group revenues. This outlook is underpinned by the addressable market: according to *Global Market Insights*, the global military simulation and training market is forecast to expand from USD 13.7bn in 2024 to USD 22.8bn by 2034, representing 5–8% CAGR, supported by global defence budgets now exceeding USD 2.4tn annually. Against this backdrop, Vection is advancing pilot programs with European primes (KNDS, Dassault Aviation, Arquus, and Goriziane) and expanding follow-on orders with an existing global defence contractor – validating its positioning as a trusted technology partner in mission-critical environments.

Retail & Systems (Kiosk AI) is another key growth vector, increasing from A$12.6m in FY2026 to nearly A$80m by FY2035. This trajectory is supported by the global expansion of XR-based customer interfaces and is aligned with the broader XR market, which *Grand View Research* estimates will grow from USD 142bn in 2023 to over USD 1.069tn by 2030 at a 32.9% CAGR.

Government contracts are modelled to expand steadily, reaching A$57.5m by FY2035. This reflects the accelerating adoption of AI-driven spatial computing in public services, supported by industry forecasts projecting annual growth of 20–22% through 2033 (*BusinessResearchInsights*).

The remaining verticals – including Healthcare, Real Estate, Sports Betting, Transportation, Industrial Manufacturing, Fashion & Furniture, and Education & Tourism – are smaller individually but collectively contribute over A$100m by FY2035. Their growth potential is reinforced by external market forecasts, such as *Grand View Research*, which sees the spatial computing market expanding at 20–22% CAGR, providing a scalable backdrop for Vection's cross-industry platforms.

In aggregate, group revenues are expected to rise from A$36.0m in FY2025 to A$442.1m in FY2035, representing a 5-year revenue CAGR of +119%. This strong trajectory is further supported by Vection's historical growth of around 20% CAGR between FY2023 and FY2025. This profile aligns with the broader XR and immersive technology markets (25–30% CAGR) and places Vection toward the upper end of the peer range, alongside international players such as Unity and Matterport. The trajectory is further validated by Vection's historical growth of ~20% CAGR between FY2023 and FY2025, demonstrating execution momentum heading into its next scale-up phase.

Table 3: Revenue Assumptions (sector)

Revenue Assumptions (sector)										
	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35
Defence / Space	25.20	34.20	46.80	60.00	77.49	98.43	119.10	142.92	165.79	185.68
%	36%	38%	39%	40%	41%	42%	42%	42%	42%	42%
Retail + System (Kiosk AI)	12.60	16.20	21.60	27.00	34.02	42.18	51.04	61.25	71.05	79.58
%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%
Government	8.40	10.80	14.40	19.50	24.57	30.47	36.86	44.24	51.32	57.47
%	12%	12%	12%	13%	13%	13%	13%	13%	13%	13%
Sports Betting	4.90	6.30	8.40	10.50	13.23	16.41	19.85	23.82	27.63	30.95
%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Real Estate	4.20	4.50	6.00	7.50	9.45	11.72	14.18	17.01	19.74	22.11
%	6%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Healthcare	4.20	4.50	6.00	7.50	9.45	11.72	14.18	17.01	19.74	22.11
%	6%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Transportation	3.50	4.50	6.00	6.00	7.56	7.03	8.51	10.21	11.84	13.26
%	5%	5%	5%	4%	4%	3%	3%	3%	3%	3%
Industrial Manufacturing	3.15	4.05	5.40	6.00	5.67	7.03	8.51	10.21	11.84	13.26
%	5%	5%	5%	4%	3%	3%	3%	3%	3%	3%
Fashion & Furniture	2.45	3.15	4.20	4.50	5.67	7.03	8.51	10.21	11.84	13.26
%	4%	4%	4%	3%	3%	3%	3%	3%	3%	3%
Education & Tourism	1.40	1.80	1.20	1.50	1.89	2.34	2.84	3.40	3.95	4.42
%	2%	2%	1%	1%	1%	1%	1%	1%	1%	1%
Total	70.00	90.00	120.00	150.00	189.00	234.36	283.58	340.29	394.74	442.11

Recurring Revenues and Business Model Transition

An additional structural driver is the increasing share of recurring revenues. While in FY2026 only 38% of group revenues are recurring, this ratio rises to 47% by FY2035. This transition towards subscription-based and software-driven income streams enhances visibility, improves earnings quality, and reduces reliance on project-based contracts.

Table 4: Recurring/NonRecurring Revenue

Revenue Assumptions							
FY	Total Revenue	Defence	Retail/Govt	Other	Recurring %	Recurring Revenue	NonRecurring Revenue
2026	70.00	25.20	21.00	23.80	38%	26.60	43.40
2027	90.00	34.20	27.00	28.80	39%	35.10	54.90
2028	120.00	46.80	36.00	37.20	40%	48.00	72.00
2029	150.00	60.00	46.50	43.50	41%	61.50	88.50
2030	189.00	77.49	58.59	52.92	42%	79.38	109.62
2031	234.36	98.43	72.65	63.28	43%	100.78	133.59
2032	283.59	119.10	87.91	76.58	44%	124.78	158.81
2033	340.29	142.92	105.49	91.88	45%	153.13	187.16
2034	394.74	165.79	122.37	106.58	46%	181.58	213.16
2035	442.12	185.68	137.05	119.38	47%	207.80	234.32

Cost Structure and Margin Development

On the cost side, gross margins, which improved to 47% in FY2025, are projected to stabilise between 45–47% over the forecast horizon. Operating expenses are structured around a fixed cost base of approximately A$17m, which management defines as comprising employee expenses, consulting and professional services, rent, and general corporate and administrative costs. While rent and administrative items remain relatively stable, employee expenses are expected to rise more strongly in the early years, driving an overall increase of around 38% in the fixed cost base for FY26. By contrast, marketing costs are modelled to increase in line with revenue expansion, supporting customer acquisition and internationalisation.

The cost base is expected to grow in line with operations, yet its proportion of overall revenue is projected to decrease gradually as the company scales. This reflects the operational leverage inherent in the business model. EBITDA thus evolves from a loss of

–A$7.4m in FY2025 to a positive A$5.1m in FY2026, with EBITDA margins reaching ~13% by FY2030 and further expanding to ~28–30% by FY2035.

Balance Sheet Dynamics and Capital Allocation

The balance sheet is modelled to support the growth trajectory through a combination of equity and internally generated cash flows. In FY2026, an equity raise of A$5m is included to stabilise the cash balance in light of the near-term growth investments. Debt remains a component of the capital structure in the early years, with long-term borrowings maintained at A$8.7m until FY2031, when the debt is fully repaid, leaving the company debt-free. Factoring, which is included under current liabilities, is gradually phased out and eliminated by FY2030. This reduction in short-term liabilities aligns with the strengthening operating cash flow and improves the overall quality of the balance sheet. In addition to financial debt, the balance sheet also reflects Other Liabilities of around A$11.7m, largely representing deferred purchase price payments from prior acquisitions. These obligations are cash-settled but non-operational, and are scheduled to be repaid progressively through FY26–FY29, after which no further liabilities remain. Working capital assumptions are consistent with the company's historical trajectory, with receivables growth and reduced factoring integrated into the model in a neutral manner.

Capital allocation assumptions further support the transition towards a self-financed growth model. Investments in intangible assets, primarily software and platform development, are high in the early forecast years at ~25% of revenues, but decrease over time to below 10% as the technology matures. This pattern reflects the transition from an investment-heavy scaling phase to a more cash-generative and margin-accretive business model.

WACC and Valuation Parameters

The discounting of cash flows is based on a Weighted Average Cost of Capital (WACC) of 11.3%. This is derived from a risk-free rate of 4.3%, a beta of 1.49 (calculated on a three-year weekly basis against the ASX200), a cost of equity of 12%, and a pre-tax cost of debt of 7%.

Table 5: Valuation

VR1 Valuation (A$M)	
Terminal Growth Rate	3.5%
Discount Rate	11.28%
Terminal Value (TV)	1,041.06
Present Value of TV	321.28
Enterprise Value	**252.91**
Net Debt	-161.51
Equity Value	**414.42**
Fully Diluted Shares	2,484.07
Implied (Target) Price	**$0.1668**

WACC	
Beta	1.49
Rf	4.30%
Re	12%
Rd	7%
E	101.18
D	19.30
1-T	70%
WACC	**11.28%**

The terminal value is calculated on the basis of a perpetual growth rate of 3.5%, resulting in a terminal value of A$1,041m, which is discounted to a present value of A$321m. Including the present value of forecast free cash flows, the model yields an Enterprise Value of A$253m. After adjusting for net debt of A$162m, the implied Equity Value stands at A$414m. On a fully diluted basis, with 2,484m shares outstanding, this translates into a target price of **A$0.17 per share**.

Sensitivity Analysis

The sensitivity analysis illustrates how the implied equity value per share responds to changes in the Weighted Average Cost of Capital (WACC) and the terminal growth rate. The base case valuation is derived using a WACC of 11.3% and a terminal growth rate of 3.5%, resulting in an implied value of **A$0.17 per share**.

The analysis highlights the model's sensitivity to both parameters. Lowering the WACC to 11.0% while keeping the terminal growth rate constant would increase the implied valuation to around A$0.1669 per share, whereas raising the WACC to 13.5% compresses the value toward A$0.1665 per share. On the growth side, adjusting the terminal growth rate by ±0.5% around the base case shifts the implied value by approximately 1.0 cent per share.

Table 6: Sensitivity Table

		WACC						
	16.68	10.0%	10.5%	11.0%	11.3%	12.0%	12.5%	13.5%
Terminal Growth	2.0%	14.46	14.45	14.44	14.44	14.42	14.42	14.40
	2.5%	15.12	15.11	15.10	15.10	15.09	15.08	15.06
	3.0%	15.87	15.86	15.85	15.84	15.83	15.82	15.81
	3.5%	16.71	16.70	16.69	**16.68**	16.67	16.66	16.65
	4.0%	17.66	17.65	17.64	17.64	17.63	17.62	17.60
	4.5%	18.76	18.75	18.74	18.73	18.72	18.71	18.70
	5.0%	20.03	20.02	20.01	20.00	19.99	19.99	19.97

This underlines that while Vection Technologies shows substantial upside potential, the investment case remains sensitive to discount rate assumptions and long-term growth expectations.

In summary, the validation demonstrates that Vection Technologies is positioned to evolve from a loss-making early-stage company into a scalable, high-margin platform with significant upside potential. The modelling assumptions are grounded in management guidance, detailed market segmentation, and peer benchmarks, ensuring transparency and credibility. The transition to a higher share of recurring revenues, combined with operating leverage, debt repayment, and disciplined capital allocation, underpins the long-term equity story.

Key Risks

While Vection Technologies demonstrates substantial growth potential, the following risks must be carefully considered in order to assess the robustness of the investment case:

Revenue Visibility and Profitability Pathway
Vection remains in the process of transitioning from a loss-making to a profitable company. The business model is heavily dependent on converting a strong pipeline into recurring revenues. While management has provided ambitious guidance (FY26–FY28), execution risk remains. Any delays in contract conversion, customer onboarding, or revenue recognition could materially impact near-term cash flows and delay the expected inflection into profitability. In particular, the reliance on large-scale contracts in Defence & Space and Government introduces project concentration risk.

Competitive Pressure in XR and AI Markets
The company operates in markets characterised by rapid technological change and intense competition. Established global players in AI, XR and immersive platforms (e.g. Unity, Adobe, Microsoft, Matterport) possess substantially larger R&D budgets, entrenched customer bases, and greater distribution networks. Should competitors accelerate product innovation or aggressively price their offerings, Vection could face margin pressure and slower adoption in its targeted verticals. Sustaining differentiation through the Algho platform and customised end-market solutions is therefore critical.

Execution and Integration Challenges
Scaling the Algho platform while integrating acquisitions across multiple sectors (e.g., Defence, Healthcare, Retail, Real Estate) involves considerable operational complexity. Risks include cost overruns in product development, delays in system integration, or

challenges in aligning acquired teams and cultures. Failure to achieve anticipated synergies or operating leverage could undermine the modelled margin expansion and delay the attainment of sustainable EBITDA levels.

Regulatory and Compliance Exposure
As Vection expands internationally, it is subject to diverse regulatory regimes. Compliance requirements extend beyond data privacy frameworks such as GDPR and include industry-specific standards (e.g., Defence security clearances, healthcare data confidentiality). Non-compliance or delays in achieving certifications could restrict market access, trigger fines, or create reputational damage. Moreover, regulatory tightening around AI governance and XR applications could increase compliance costs in the medium term.

Market Adoption and End-Market Sensitivity
The adoption trajectory of XR and AI solutions remains uneven across industries. Defence & Space and Retail/Kiosk AI are expected to drive growth, but these markets are influenced by factors such as government budget cycles, procurement processes, and consumer technology acceptance. A slower-than-expected adoption curve, particularly in emerging segments such as Real Estate or Sports Betting, would reduce the diversification benefit and weigh on overall revenue growth.

Financing and Balance Sheet Risk
Although the model assumes an equity raise of A$5m in FY2026 and strong cash generation thereafter, near-term liquidity remains a potential risk. Should operating cash flows underperform expectations, additional financing may be required earlier or at less favourable terms. Furthermore, while borrowings are forecast to be fully repaid by FY2030, higher-than-expected interest rates or refinancing requirements could negatively impact net income and equity value. The gradual phase-out of factoring by FY2029 reduces short-term funding flexibility, further emphasising the importance of consistent cash flow delivery.

Technology Obsolescence and Innovation Risk
Given the pace of innovation in AI, XR and immersive software, Vection must continuously invest in platform enhancements and maintain technological relevance. A failure to keep up with new hardware standards (e.g., AR/VR devices), competing AI frameworks, or interoperability requirements could erode competitiveness. High capitalisation of intangible assets reflects this ongoing investment need, but also introduces risk should returns on these investments fall short.

In summary, Vection Technologies faces execution, competition, regulatory, financing, and technological risks that must be weighed against its considerable upside potential. The DCF model assumes successful contract conversion, market adoption, and cost discipline, leaving limited room for material underperformance in the near term. However, by focusing on innovation, operational integration, and maintaining strategic partnerships, the company is positioned to mitigate these risks and deliver on its long-term growth strategy.

Appendix

Financials

Income Statement *A$'000s*	FY24	FY25	FY26	FY27	FY28
Revenue	32.83	36.00	70.00	90.00	120.00
Other Income	1.46	1.51	1.54	1.57	1.60
Cost of Sales (COGS)	-24.29	-19.05	-42.00	-54.00	-72.00
Gross Profit	**10.00**	**18.46**	**29.54**	**37.57**	**49.60**
Operating expenses	-16.35	-19.24	-24.40	-28.85	-32.87
EBITDA	-6.36	-0.77	5.14	8.72	16.73
D&A	-2.33	-5.50	-11.05	-13.45	-12.21
EBIT	-8.69	-6.27	-5.91	-4.73	4.52
Net Interest	-0.98	-1.27	-1.32	-0.87	-0.95
NPBT	-9.66	-7.54	-7.23	-5.60	3.57
Tax expense	-0.34	0.14	-	-	-1.07
NPAT	-10.00	-7.41	-7.23	-5.60	2.50
Total comprehensive (loss) for the yea	-9.80	-7.24	-	-	-

Balance Sheet *A$'000s*	FY24	FY25	FY26	FY27	FY28
Cash	7.65	3.10	6.45	5.61	4.23
Trade and other receivables	14.42	28.87	56.70	60.30	79.20
Inventories	1.34	0.98	2.10	2.70	3.60
Current assets	23.41	32.95	65.25	68.61	87.03
Property, plant and equipment	0.54	0.92	0.53	0.58	0.52
Right-of-use assets	0.14	-	0.31	0.52	0.80
Intangible Assets and Other	21.77	38.38	33.47	28.05	24.22
Non-current assets	22.44	39.30	34.32	29.15	25.54
Total assets	45.85	72.26	99.57	97.76	112.56
Trade and other payables	14.12	15.73	38.51	48.88	62.92
Sundry creditors and accruals	4.49	13.82	23.10	20.70	30.00
Contract liabilities	0.68	-	-	-	-
Borrowings	7.50	10.61	11.34	10.85	11.88
Other	0.81	0.74	-	-	-
Current liabilities	27.09	40.90	72.95	80.44	104.80
Borrowings	1.37	8.69	8.69	8.69	8.69
Other liability	8.31	10.99	9.00	7.00	3.00
Non current liabilities	9.68	19.68	17.69	15.69	11.69
Total Liabilities	36.77	60.58	90.64	96.13	116.49
Net Assets	9.08	11.68	8.93	1.64	-3.93
Contributed Equity	46.59	54.57	59.32	59.32	59.32
Retained earnings	-41.06	-43.80	-51.20	-58.43	-64.03
Reserves	4.39	1.80	1.80	1.80	1.80
NCI	-0.85	-0.89	-0.98	-1.04	-1.01
Total equity	9.08	11.68	8.93	1.64	-3.93

Statement of Cashflows *A$'000s*	FY24	FY25	FY26	FY27	FY28
Net profit for period	-10.00	-7.41	-7.23	-5.60	2.50
Depreciation & Amortisation	2.33	5.50	11.05	13.45	12.21
Changes in working capital	-9.98	3.32	-3.12	-3.77	-3.54
Other	18.99	-5.33	1.32	0.87	0.95
Operating cash flow	1.34	-3.92	2.02	4.95	12.11
Payments for PPE	-0.13	-0.99	-0.10	-0.10	-
Payments for intangibles	-3.67	-3.53	-5.50	-7.07	-9.43
Other	0.49	-0.17	-0.10	-0.12	-0.14
Investing cash flow	-3.31	-4.68	-5.70	-7.29	-9.57
Proceeds from issue of shares, net	-	3.00	4.75	-	-
Net Borrowings	-1.65	1.05	0.73	-0.49	1.03
Proceeds from exercise of options	-	-	4.85	4.85	-
Other	-0.25	-0.16	-3.30	-2.87	-4.95
Financing cash flow	-1.90	3.89	7.03	1.50	-3.92
Free cash flow	**-8.60**	**-3.68**	**-2.34**	**2.54**	**5.93**
Cash flows	**-4.71**	**3.35**	**-0.84**	**-1.38**	**0.16**
Effects of exchange rate	0.17	0.17	-	-	-
Cash year end	3.10	6.45	5.61	4.23	4.38

Investment Fundamentals	FY24	FY25	FY26	FY27	FY28
Liquidity					
Quick Ratio	0.6	0.7	0.8	0.8	0.8
Solvency					
Debt to Equity	1.0	1.7	2.2	12.0	-5.2
Debt to Assets	0.2	0.3	0.2	0.2	0.2
LT Debt to Assets	0.0	0.1	0.1	0.1	0.1
Profitability					
Net Margin	n/a	n/a	n/a	n/a	5%
ROA	-23%	-13%	-8%	-6%	2%
ROE	-71%	-71%	-70%	-106%	-218%
Profit Margins					
EBITDA Margin	n/a	n/a	7%	10%	14%
EBIT margin	n/a	n/a	n/a	n/a	4%
Gross Margin	47%	40%	40%	40%	40%
NPAT Margin	n/a	n/a	n/a	n/a	2%
Tangible Book Value (TBV)	-29.22	-21.18	-17.68	-22.39	-27.87
Asset Turnover	72%	50%	70%	92%	107%

Exchange differences on translation were not considered in the overall OCI assessment, as they result from marginal foreign currency translation differences that do not materially impact the financial outlook.

Board & Management

Name / Position	Background & Responsibilities
Marco Landi Proposed Chairman	Former Chief Operating Officer of Apple, President of BMC Software EMEA, and Senior Executive at Texas Instruments Inc. Marco Landi brings extensive leadership experience in global technology and corporate strategy, supporting Vection's long-term vision and governance.
Gianmarco Biagi Managing Director & CEO	Ex-CEO of multinational companies and President of Settepuntonove Holding, Gianmarco Biagi has more than 20 years of expertise in manufacturing and emerging technologies. He oversees Vection's overall strategy, international growth, and execution across the XR and AI markets.
Jacopo Merli Executive Director & COO	Founder of JMC Group, which was acquired by Vection, Jacopo Merli has significant experience in critical sectors including military and telecommunications. As COO, he focuses on operational efficiency, client delivery, and scaling Vection's platform solutions.
Lorenzo Biagi Executive Director	Brings over 10 years of experience in virtual reality technology, sales, and cost control. He plays a key role in enhancing corporate development and innovation within Vection's product portfolio and business expansion.
Bert Mondello Non-Executive Director	Technology and corporate advisor with over 20 years of experience across the public and private sectors. He contributes deep expertise in investor relations, strategic partnerships, and market positioning.
Gianmarco Orgnoni on-Executive Director	Specialist in corporate finance and advisory, spanning civil technology, engineering, and biotech industries. He provides financial and governance oversight, strengthening Vection's board capabilities.

Evolution Capital Ratings System

Recommendation Structure	• **Buy:** The stock is expected to generate a total return of >10% over a 12-month horizon. For stocks classified as 'Speculative', a total return of >30% is expected. • **Hold:** The stock is expected to generate a total return between -10% and +10% over a 12-month horizon. • **Sell:** The stock is expected to generate a total return of <-10% over a 12-month horizon.
Risk Qualifier	• **Speculative:** This qualifier is applied to stocks that bear significantly above-average risk. These can be pre-cash flow companies with nil or prospective operations, companies with only forecast cash flows, and/or those with a stressed balance sheet. Investments in these stocks may carry a high level of capital risk and the potential for material loss.
Other Ratings:	• **Under Review (UR):** The rating and price target have been temporarily suppressed due to market events or other short-term reasons to allow the analyst to more fully consider their view. • **Suspended (S):** Coverage of the stock has been suspended due to market events or other reasons that make coverage impracticable. The previous rating and price target should no longer be relied upon. • **Not Covered (NC):** Evolution Capital does not cover this company and provides no investment view.

Expected total return represents the upside or downside differential between the current share price and the price target, plus the expected next 12-month dividend yield for the company. Price targets are based on a 12-month time frame.

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