

A clearer path from backlog to cash

Vection Technologies Ltd

Evolution Capital reiterates coverage on **Vection Technologies Ltd (ASX: VR1)** with a revised fair value of **\$0.13 per share**, following a solid Q2 FY26 update that highlights improving cash flow performance, a materially stronger balance sheet and increasing execution visibility across Defence and AI-led programs. While the recent capital raise has resulted in dilution, it meaningfully de-risks the balance sheet and supports Vection's transition toward more sustainable and predictable delivery.

The December quarter marked an important inflection in cash generation. Customer **cash receipts** totalled **\$17.5m**, up approximately 250% quarter-on-quarter and 166% year-on-year, driven by the conversion of previously contracted Defence revenues and a normalisation of collections following the European summer period. As a result, Vection returned to positive operating cash flow, reporting a **net inflow** of **\$1.8m** compared with a \$1.7m outflow in the prior quarter.

A key milestone was the receipt of the first \$7.8m order under the \$22.3m NATO-aligned Defence framework, confirming the transition to a structured, multi-year delivery phase through to FY30. Estimated FY26 revenue from this customer is \$7.7m, supporting improved revenue visibility and lower execution risk.

Momentum outside Defence also continued, with \$1.5m in new AI purchase orders secured across multiple industry verticals, including agritech, cybersecurity, healthcare, real estate and public administration. Approximately 45% of these orders were generated through renewals and upselling, supporting Vection's strategy to increase repeat and recurring revenue over time. Ongoing investment in the scalability and integration of the AI+XR platform underpins the company's ability to support larger enterprise deployments.

The balance sheet strengthened materially during the period, supported by the October capital raise and positive operating cash flow. Cash increased to \$14.0m at quarter end, while approximately \$4.8m of debt, primarily short-term facilities, was repaid, materially reducing near-term financing risk. At the same time, **Total Contracted Value** stood at **\$29.6m**, supported by a further **~\$59.5m pipeline under negotiation**, providing increasing visibility despite the project-based nature of revenue. As a result, Vection is moving from balance sheet stabilisation toward execution and value creation, with the revised valuation reflecting dilution from the capital raise rather than any weakening in underlying business fundamentals.

Key Near-Term Catalysts

Further drawdowns and additional orders under the \$22.3m NATO-aligned Defence framework	H2 FY26
Conversion of contracted Defence backlog into revenue and cash	H2 FY26
Expansion of AI+XR deployments across enterprise customers (Healthcare, Retail, Public Sector)	FY26
Improving cash flow consistency as project delivery scales	FY26–FY27
Selective acquisitions to enhance technology capability and data assets	FY26–FY27

Recommendation	Spec BUY
Price Target	\$0.13
Share Price	\$0.031
TSR	319%

Company Profile

Market Cap	\$70m
Enterprise Value	\$71m
EV/Sales	1.00
SOI	2,247m
Free Float	~70.4%
Cash	\$14m
52-Week Range	\$0.013-\$0.08

Price Performance (PTM)



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.

Analyst

Johanna Burkhardt jb@eveq.com
Industrials Analyst

Investment Summary

Vection Technologies Ltd (ASX: VR1) delivered a materially stronger Q2 FY26 operational outcome, with the December quarter providing clearer evidence that contracted activity is translating into cash generation and more predictable execution. While the business remains project-driven, the quarter highlights a step-change in cash flow quality, delivery maturity and balance sheet resilience.

Cash performance was the key highlight. Customer receipts of \$17.5m reflected the conversion of previously contracted Defence revenues alongside improved collection timing following the European summer period. Importantly, this translated into a return to positive operating cash flow, with net operating cash inflow of \$1.8m compared with a \$1.7m outflow in the prior quarter. The improvement appears structural rather than timing-driven, supported by higher billing activity and better alignment between delivery milestones and cash collection.

Progress within the Defence vertical continued to be a central driver of execution visibility. The receipt of the first \$7.8m order under the \$22.3m NATO-aligned Defence framework represents a tangible transition from pilot and ad-hoc engagements into a structured, multi-year delivery program extending through to FY30. With estimated FY26 revenue from this customer now at \$7.7m and cumulative recognised revenue of \$12.3m (unaudited), the Defence program is increasingly anchored by contracted backlog rather than opportunistic project wins, reducing execution risk.

Outside Defence, the quarter demonstrated ongoing traction in AI-led enterprise applications. New purchase orders of \$1.5m were secured across multiple verticals, including agritech, cybersecurity, healthcare, real estate and public administration. The fact that approximately 45% of orders were generated through renewals and upselling supports management's strategy to increase repeat business and improve revenue quality over time. Continued investment in the scalability and integration of the AI+XR platform reflects a focus on supporting broader enterprise deployments rather than one-off implementations.

Balance sheet strength improved materially during the quarter, supported by positive operating cash flow and the October equity raise. Cash increased to \$14.0m at quarter end, while approximately \$4.8m of debt was repaid, primarily relating to short-term facilities. This combination materially lowers near-term refinancing risk and provides greater flexibility to support delivery and platform investment without reliance on incremental short-term funding.

At quarter end, Total Contracted Value stood at \$29.6m, complemented by a pipeline of approximately \$59.5m under negotiation on a rolling three-year forward basis. While revenue recognition is expected to remain uneven due to the project-based nature of the business, the scale and composition of the contracted base increasingly support visibility into future activity.

Overall, the Q2 FY26 update reinforces the view that Vection is moving beyond balance sheet stabilisation and into a phase where execution, delivery discipline and cash conversion are becoming more central to the investment case. While the company remains in a scaling phase, the quarter meaningfully de-risks near-term liquidity and provides greater confidence in Vection's ability to progress toward more sustainable cash generation as its AI+XR platform and Defence programs continue to mature.

Valuation Update

Following the Q2 FY26 Quarterly Update, we have refreshed our valuation of Vection Technologies to reflect changes in the company's capital structure and near-term cash flow profile. Our underlying valuation framework remains unchanged, with WACC, terminal growth and long-term operating assumptions held constant. As such, the valuation update is driven by balance sheet effects and dilution rather than a change in the core business outlook.

The October 2025 capital raise has been fully incorporated into our model. While the increased share and option count results in higher dilution and a lower equity value per share on a mechanical basis, the transaction materially strengthens the balance sheet and removes a key funding overhang. The improved liquidity position allows the company to focus more squarely on execution across its AI and Defence programs rather than short-term financing considerations.

Balance sheet strength improved further during the period through the repayment of approximately \$4.8m of debt, primarily related to short-term financing facilities. Together with the higher cash balance, this materially reduces refinancing risk and results in a significantly cleaner capital structure. Invoice financing continues to be utilised to manage timing differences in cash collection, but its overall balance sheet impact is now meaningfully de-risked.

We have also adjusted our FY26 assumptions for capitalised development expenditure to better reflect the investment pace observed in the first half of the financial year. Based on this run-rate, we now assume payments for intangible assets of approximately \$6.6m for FY26. Assumptions beyond FY26 remain unchanged, and the adjustment does not alter our long-term growth expectations but ensures a more realistic near-term free cash flow profile.

Option assumptions have been updated to reflect the current number of options on issue following the capital raise, which are incorporated into the fully diluted share count.

Overall, the valuation update reflects a more conservative near-term view driven by dilution and higher investment intensity, offset by a materially stronger balance sheet and a lower financing risk profile. We believe the long-term investment case remains intact, supported by improved financial stability and increasing visibility across Vection's AI and Defence activities.

Price Target: We reduce our price target to **\$0.13 from \$0.17**, reflecting dilution from the capital raise and updated capital structure assumptions. Our valuation parameters, including WACC and terminal growth, remain unchanged, and the revised target price does not reflect a deterioration in underlying business fundamentals.

Risks

Vection remains exposed to a defined set of strategic, operational and financial risks broadly consistent with those outlined at initiation, although the Q2 FY26 update reflects a material improvement in the company's funding and balance sheet position.

Execution and delivery risk

A growing proportion of Vection's revenue is derived from large-scale Defence and enterprise programs that are project-based and milestone-driven. While recent progress demonstrates improved execution and increased delivery visibility, delays in project implementation, customer acceptance or milestone sign-off could impact the timing of revenue recognition and cash flows.

Working capital and cash flow volatility

The business continues to operate with long customer payment cycles, particularly in Defence and enterprise contracts. While the balance sheet has strengthened and invoice financing remains available to manage timing differences in cash collection, operating cash flows may remain volatile on a period-to-period basis.

Platform adoption and scalability risk

The investment case relies on successful scaling of Vection's integrated AI and XR platform across Defence, healthcare, retail and enterprise customers. While early traction and contracted value provide support for the strategy, slower-than-expected adoption or higher-than-anticipated implementation costs could delay margin expansion and operating leverage.

**Funding and capital structure risk**

The recent capital raise and debt repayment have materially reduced near-term funding risk. However, as the company continues to invest in platform development and growth initiatives, additional funding may be required over the medium term if cash generation does not scale in line with expectations.

Competitive and technology risk

Vection operates in competitive and rapidly evolving markets, including Defence simulation, AI and immersive technologies. Larger, better-capitalised competitors and the pace of technological change may pressure pricing, margins or limit market share gains over time.

Macroeconomic and contract concentration risk

Increased exposure to government and enterprise customers introduces sensitivity to public sector procurement cycles, budget priorities and broader macroeconomic conditions. Contract concentration within key Defence programs may also contribute to earnings and cash flow variability.

Appendix

Financials

VALUATION DETAILS				
Share Price (A\$)	\$0.031			
Market Cap (A\$m)	69.68			
Enterprise Value (A\$m)	70.77			
Fair Value/Share (A\$)	\$0.13			

FINANCIAL STATEMENTS (A\$m)				
	FY25	FY26E	FY27E	FY28E
Income Statement				
Revenue	36.00	70.00	90.00	120.00
EBITDA	-0.77	5.14	8.72	16.73
EBIT	-6.27	-6.19	-5.00	4.34
Net Income	-7.41	-7.11	-5.98	2.28
Balance Sheet				
Cash	3.10	17.86	25.05	31.44
Trade and other receivables	28.87	56.00	67.50	90.00
Inventories	0.98	2.10	2.70	3.60
Other Assets	39.30	35.12	29.01	25.86
Total Assets	72.26	111.08	124.26	150.90
Total Debt	19.30	15.09	20.84	22.19
Other Liabilities	41.28	68.34	78.54	109.78
Total Liabilities	60.58	83.43	99.38	131.97
Shareholders' Equity	11.68	27.65	24.88	18.93
Cash Flow Statement				
Net Income	-7.41	-7.11	-5.98	2.28
Add: Depreciation & Amortisation	5.50	11.33	13.72	12.39
Less: Change in Net Working Capital/Other	-2.01	4.04	-2.46	1.02
Cash Flow from Operations	-3.92	8.25	5.29	15.69
Cash Flow from Investing	-4.68	-6.80	-7.29	-9.57
Equity Raised (net)	3.00	19.05	0.00	0.00
Net Borrowings/Other	0.89	-5.75	9.19	0.27
Cash Flow from Financing	3.89	13.30	9.19	0.27
Unlevered Free Cash Flow	17.86	25.05	31.44	31.77

PER SHARE DATA				
	FY25	FY26E	FY27E	FY28E
Shares Outstanding (m)	1,767.4	2,266.0	2,349.9	2,433.8
Normalised EPS (A\$)	n/a	n/a	n/a	0.001
Dividends per Share (A\$)	0.00	0.00	0.00	0.00
Payout	0%	0%	0%	0%
Franking	0%	0%	0%	0%

RATIOS				
	FY25	FY26E	FY27E	FY28E
Liquidity				
Quick Ratio	0.73	0.86	0.86	0.88
Solvency				
Debt to Equity	1.7	0.5	0.8	1.2
Debt to Assets	0.3	0.1	0.2	0.1
LT Debt to Assets	0.12	0.08	0.07	0.06
Profitability				
Net Margin	n/a	n/a	n/a	5%
ROA	-13%	-8%	-5%	2%
ROE	-71%	-36%	-23%	10%
Profit Margins				
EBITDA Margin	n/a	7%	10%	14%
EBIT margin	n/a	n/a	n/a	4%
Gross Margin	40%	40%	40%	40%
NPAT Margin	n/a	n/a	n/a	2%
TBV	-26.63	-6.03	-2.29	-5.46
Asset Turnover	49.83%	63.02%	72.43%	79.52%
Valuation				
P/E	n/a	n/a	n/a	33.1
P/B	6.0	2.5	2.8	3.7
EV/EBITDA	n/a	13.8	8.1	4.2
EV/Sales	2.0	1.0	0.8	0.6

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

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

Non-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.

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.



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 ('Spec'):** 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.

Disclaimer & Disclosures

Evolution Capital Pty Ltd (ACN 652 397 263) is a corporate Authorised Representative (number 1293314) of Evolution Capital Securities Pty Ltd (ACN 669 773 979), the holder of Australian Financial Services Licence number 551094. The information contained in this report is only intended for the use of those persons who satisfy the Wholesale definition, pursuant to Section 761G and Section 761GA of the Corporations Act 2001 (Cth) ("the Act"). Persons accessing this information should consider whether they are wholesale clients in accordance with the Act before relying on any information contained. Any financial product advice provided in this report is general in nature. Any content in this report does not take into account the objectives, financial situation or needs of any person, or purport to be comprehensive or constitute investment advice and should not be relied upon as such. You should consult a professional adviser to help you form your own opinion of the information and on whether the information is suitable for your individual objectives and needs as an investor. It is important to note that Evolution Capital, or its agents or representatives, engaged and received a financial benefit by the company that is the subject of the research report. The financial benefit may have included a monetary payment or certain services including (but not limited to) corporate advisory, capital raising and underwriting. In addition, the agent or representative drafting the advice may have received certain assistance from the company in preparing the research report. Notwithstanding this arrangement, Evolution Capital confirms that the views, opinions and analysis are an accurate and truthful representation of its views on the subject matter covered. Evolution Capital has used its best endeavours to ensure that any remuneration received by it, or by an agent or representative, has not impacted the views, opinions or recommendations set out in this research report. The content of this report does not constitute an offer by any representative of Evolution Capital to buy or sell any financial products or services. Accordingly, reliance should not be placed solely on the content of this report as the basis for making an investment, financial or other decision.

Recipients should not act on any report or recommendation issued by Evolution Capital without first consulting a professional advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to their investment objectives, financial situation and particular needs. Any opinions expressed are subject to change without notice and may not be updated by Evolution Capital. Evolution Capital believes the information contained in this report is correct. All information, opinions, conclusions and estimates that are provided are included with due care to their accuracy; however, no representation or warranty is made as to their accuracy, completeness, or reliability. Evolution Capital disclaims all liability and responsibility for any direct or indirect loss, or damage, which may be incurred by any recipient through any information, omission, error, or inaccuracy contained within this report. The views expressed in this report are those of the representative who wrote or authorised the report and no part of the compensation received by the representative is directly related to the inclusion of specific recommendations or opinions. Evolution Capital and / or its associates may hold interests in the entities mentioned in any posted report or recommendation. Evolution Capital, or its representatives, may have relationships with the companies mentioned in this report – for example, acting as corporate advisor, dealer, broker, or holder of principal positions. Evolution Capital and / or its representatives may also transact in those securities mentioned in the report, in a manner not consistent with recommendations made in the report. Any recommendations or opinions stated in this report are done so based on assumptions made by Evolution Capital. The information provided in this report and on which it is based may include projections and / or estimates which constitute forward-looking statements. These expressed beliefs of future performance, events, results, or returns may not eventuate and as such no guarantee of these future scenarios is given or implied by Evolution Capital. Any forward-looking statements are subject to uncertainties and risks that may mean those forecasts made by Evolution Capital are materially different to actual events. As such, past performance is not an indicator of future performance.

Evolution Capital Pty Ltd

Level 8, 143 Macquarie Street Sydney, NSW 2000

Tel: +61 (2) 8379 2960

www.eveq.com