EVOLUTION CAPITAL

VR1 | UPDATE REPORT | TECHNOLOGY

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HY26 Results

Vection Technologies Ltd

Evolution Capital reiterates coverage on Vection Technologies Ltd (ASX: VR1) with a revised fair value of **$0.08 per share**, following the company's HY1 FY26 results which highlight improving operational execution and strengthening financial fundamentals. **Revenue increased 34% year-on-year to $17.4m, with gross margins expanding to 56% and the company reporting its first positive underlying EBITDA for a first half period.** These results indicate early signs of operating leverage as Vection continues to scale its integrated AI and XR platform. While revenue came in below our previous near-term expectations, the results confirm ongoing traction across the company's platform strategy and support its medium-term growth outlook. The revised valuation primarily reflects a more gradual near-term scaling profile and updated capital structure assumptions rather than any deterioration in the underlying strategic outlook.

The first half of FY26 showed continued progress in platform adoption and commercial deployment, supported by expanding enterprise implementations and increasing demand for AI-enabled XR solutions across multiple industry verticals. While the business remains project-driven, the HY results indicate improving operational discipline and growing delivery capability as Vection continues to scale its integrated technology platform.

Progress within the Defence vertical remains a key driver of future activity. The previously announced **$22.3m NATO-aligned Defence framework agreement**, alongside initial orders secured under the program, represents an important step toward structured multi-year delivery through to FY30 and provides increasing visibility into future revenue generation.

Momentum across AI-led enterprise solutions also continued during the period, with contracts secured across sectors including healthcare, cybersecurity, real estate and public administration. A growing share of these engagements is generated through renewals and upselling, supporting Vection's strategy to expand recurring revenue while scaling deployments of its AI+XR platform.

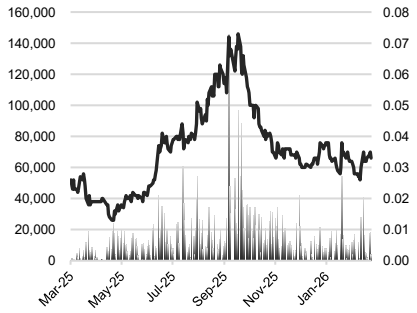
The balance sheet strengthened materially following the recent capital raise and ongoing debt repayment, reducing near-term financing risk and providing greater flexibility to support platform development and commercial expansion. With a growing contracted base and pipeline under negotiation, Vection is increasingly transitioning toward a phase focused on execution and platform scaling.

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	**$0.08**
Share Price	**$0.032**
TSR (12m)	**150%**

Company Profile	
Market Cap	$72m
Enterprise Value	$73m
EV/Sales	1.8
SOI	2,253m
Free Float	~70.5%
Cash	$13.7m
52-Week Range	$0.013-$0.08

Price Performance (PTM)



Company Overview

Vection Technologies provides enterprise solutions integrating Artificial Intelligence (AI), Extended Reality (XR), and IoT to connect digital and physical environments. Growth is driven by its flagship platform Algho, a scalable AI ecosystem that improves decision-making, operational efficiency, and productivity. Now deployed across sectors such as education, transportation, and healthcare, the company is expanding its rollout to organisations ranging from SMEs to global enterprises, creating significant growth opportunities across multiple industries.

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Industrials Analyst

VR1 Coverage

Update 29 Jan 2026 Link

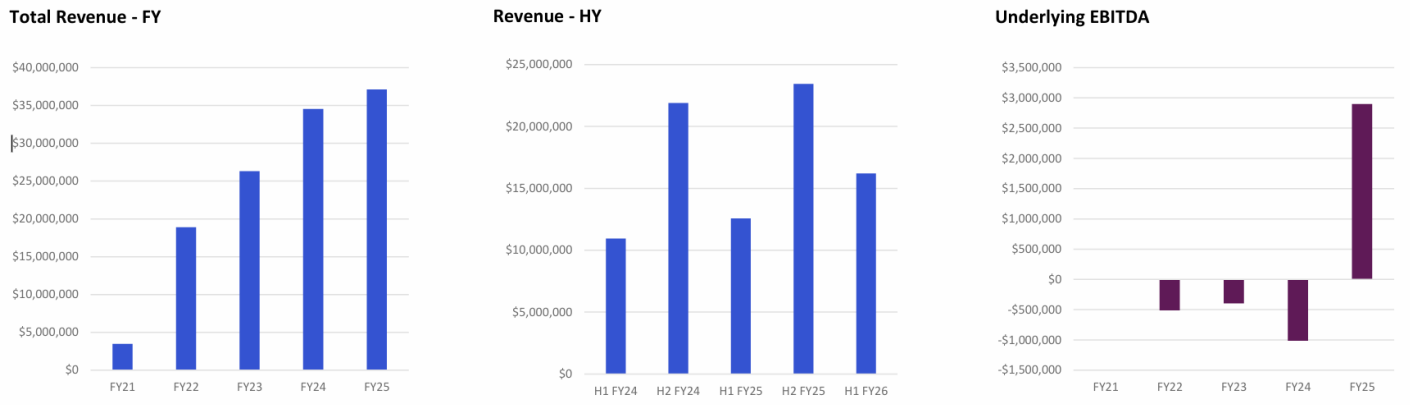
Initiation 2 Sept 2025 Link

Investment Summary

Vection Technologies Ltd (ASX: VR1) delivered a strong operational update for the half-year ended 31 December 2025, highlighting accelerating revenue growth, improving margins and the company's first positive underlying EBITDA performance for a first half period.

HY1 FY26 revenue reached $17.4m, representing 34% growth year-on-year, supported by the integration of the The Digital Box (TDB) acquisition and increasing adoption of Vection's integrated AI and XR platform solutions across enterprise and defence applications.

Figure 1: Historical Financial Performance



Source 1: Corporate Presentation March 2026

The company also reported maiden positive underlying EBITDA of approximately $0.2m, marking a significant operational milestone and reflecting improved cost discipline, higher platform utilisation and scaling revenues.

Operational leverage is beginning to emerge within the business model. Gross margin expanded to 56%, up materially from approximately 42% in the prior corresponding period, supported by deeper AI integration, increased recurring revenue contribution and synergies from the TDB acquisition.

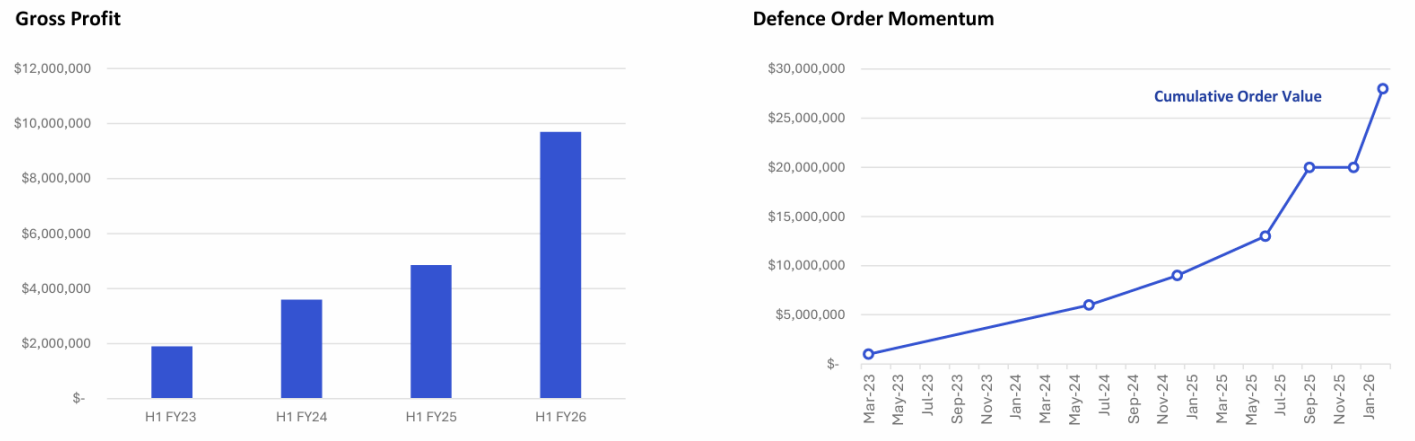
Cash flow performance also improved meaningfully. The company generated positive operating cash flow of approximately $90k for the first half, representing a material improvement compared with an operating cash outflow of $4.3m in the prior corresponding period. Customer receipts increased 49% to $22.5m, reflecting stronger conversion of contracted backlog into cash collections.

Strategically, Vection continues to benefit from growing momentum within the defence vertical. During the period the company secured a $22.3m multi-year framework agreement with a NATO-approved partner running through to 2030, alongside a $7.8m first order and a $7.2m second framework order, the latter representing the largest individual contract in the company's history.

In February 2026, Vection also secured a $2.2m FEDRA order for its proprietary defence-grade edge AI data platform, opening a new product category within the defence ecosystem. More recently, the company announced approximately $4m in new orders for its Algho AI platform across 10 enterprise verticals, highlighting accelerating commercial traction and growing adoption of its AI solutions.

The company enters the second half of FY26 with a Total Contracted Value of approximately $30m and a sales pipeline of approximately $60m under negotiation, providing increasing visibility into future revenue conversion despite the project-based nature of the business model.

Figure 2: Recent Financial Milestones



Source 2: Corporate Presentation March 2026

Importantly, the first half of the financial year is historically the weaker period for Vection due to project timing and seasonality, with revenue and cash collections typically weighted toward the second half. The HY result therefore represents the strongest first half performance in the company's history.

Management remains focused on three core strategic priorities:

- expanding operating margins
- converting backlog into revenue and cash
- accelerating international expansion, including evaluating entry into the US market.

Overall, the HY result highlights a clear improvement in Vection's operational execution, demonstrating progress toward a more scalable technology platform model supported by increasing AI adoption, stronger defence contract visibility and improving cash flow discipline.

Valuation Update

Following the release of Vection Technologies' HY1 FY26 results, we have updated our financial model to reflect the company's recent operating performance, adjustments to the capital structure, and a more measured near-term growth trajectory. While our long-term investment thesis remains unchanged, several key assumptions have been revised to better align the model with the company's current operational development and scaling profile.

The most significant adjustment relates to our near-term revenue assumptions. Based on the results reported for the first half of FY26 and the current run-rate of project delivery, we have revised our FY26 revenue forecast from $70m to $45m. This revision reflects a more gradual scaling trajectory than previously anticipated, as a portion of revenues originally expected in FY26 appears likely to shift into later periods. Given the project-based nature of many defence and enterprise contracts, revenue recognition can be dependent on implementation timelines and milestone completion, which may result in timing shifts between reporting periods. In our updated model we now assume revenues of $45m in FY26, increasing to approximately $75m in FY27 and $100m in FY28, implying continued strong growth albeit with a smoother ramp than previously forecast.

We have also updated our margin assumptions to better reflect the current operating profile of the business. Based on the margin structure reported in the HY results, we assume a gross margin of approximately 55% in the near term, which remains broadly

stable through FY28. This assumption reflects the current revenue mix, which still includes a meaningful contribution from project-based services and hardware-related components alongside higher-margin software solutions. From FY29 onwards, we assume a gradual improvement in profitability as the share of software, AI and platform-based revenues increases. Gross margin is therefore projected to rise modestly from 56% in FY29 to approximately 58% over the longer term, reflecting the expected shift toward a more scalable software-driven revenue mix and the emergence of operating leverage within the platform.

Our assumptions for capitalised development expenditure have also been revised. Payments for intangible assets have been updated based on the investment pace observed in the first half of FY26. The resulting intangible assets are assumed to be amortised on a straight-line basis over six years, which we believe appropriately reflects the economic life of Vection's internally developed software and platform technologies. This adjustment results in somewhat higher amortisation expenses in the near term but more accurately reflects the company's ongoing investment in technology development.

Several adjustments have also been made to the capital structure within the model. We have incorporated the ongoing repayment of financial liabilities, which reduces interest-bearing debt over time and results in updated assumptions for net interest expenses based on the current half-year run-rate. In addition, the fully diluted share count has been revised to reflect the expected exercise of outstanding options and performance rights. The option schedule has been updated accordingly, incorporating the most recent information regarding incentive instruments and their potential dilution impact. Earn-out obligations related to previous acquisitions have also been adjusted, with our model assuming that remaining earn-out payments will be fully settled by FY2028.

Finally, we have updated our cost of capital assumptions. Our model now incorporates a weighted average cost of capital (WACC) of 11.85%, reflecting updated market parameters including a risk-free rate of 4.7% and an estimated cost of debt of approximately 9%. These assumptions are intended to capture the current financing environment as well as the risk profile associated with a growth-stage technology company operating in emerging AI and XR markets.

Taken together, these adjustments lead to a more conservative near-term financial outlook while leaving the longer-term growth trajectory broadly intact. Reflecting the revised revenue assumptions and updated cost of capital, we reduce our price target from $0.13 to **$0.08 per share**. The revised valuation primarily reflects the lower near-term revenue expectations and updated capital structure assumptions rather than a change in our view of the company's long-term strategic positioning. Vection continues to benefit from structural growth drivers including increasing adoption of AI-enabled XR solutions, expanding defence contracts and the ongoing scaling of its integrated technology platform.

Risks

Vection remains exposed to a defined set of strategic, operational and financial risks broadly consistent with those outlined at initiation. While the HY1 FY26 update reflects a stronger balance sheet and improving operational discipline, the company continues to operate in a scaling phase where execution and timing factors can influence financial outcomes.

Execution and delivery risk

A growing share of Vection's revenue is derived from large-scale Defence and enterprise programs that are project-based and milestone-driven. While recent contract wins and framework agreements improve revenue visibility, the timing of project implementation, customer acceptance and milestone approvals may influence the pace of revenue recognition and cash collection. Delays in project execution or extended

implementation cycles could therefore lead to short-term variability in reported revenues and operating performance.

Working capital and cash flow volatility
Vection continues to operate with relatively long customer payment cycles, particularly within Defence and large enterprise contracts. Although the company reported improving operating cash flow and strengthened its liquidity position following the recent capital raise, working capital movements may still create volatility in operating cash flows between reporting periods. The company continues to utilise invoice financing facilities to manage the timing differences between project delivery and cash receipts.

Platform adoption and scalability risk
The long-term investment case is closely linked to the successful scaling of Vection's integrated AI and XR platform across multiple industries, including defence, healthcare and enterprise digital transformation. While early commercial traction and a growing contracted pipeline support this strategy, the pace of platform adoption remains a key variable. Slower-than-expected enterprise uptake or higher implementation complexity could delay the realisation of operating leverage and margin expansion.

Funding and capital structure risk
The company's recent equity raise and ongoing debt repayment have materially improved the balance sheet and reduced near-term liquidity risk. However, Vection remains in a growth and investment phase, with continued spending on platform development, product innovation and international expansion. Should revenue growth or cash conversion progress more slowly than anticipated, additional capital may be required over the medium term to support expansion initiatives.

Competitive and technology risk
Vection operates in highly competitive and rapidly evolving technology markets, including immersive technologies, AI-enabled simulation and enterprise digitalisation. Larger technology providers and specialised software vendors may compete for similar enterprise and government opportunities. In addition, rapid technological change may require ongoing investment in product development in order to maintain competitiveness and technological relevance.

Macroeconomic and contract concentration risk
An increasing proportion of Vection's activity is linked to government and enterprise customers, particularly within the defence sector. While this can provide longer-term contracts and improved revenue visibility, it also introduces exposure to procurement cycles, government budgeting processes and broader macroeconomic conditions. Revenue concentration within larger programs may therefore contribute to variability in revenue and earnings between reporting periods.

Appendix

Financials

VALUATION DETAILS	
Share Price (A$)	$0.032
Market Cap (A$m)	72.10
Enterprise Value (A$m)	72.76
Fair Value/Share (A$)	$0.08

FINANCIAL STATEMENTS (A$m)	FY25	FY26E	FY27E	FY28E
Income Statement				
Revenue	36.00	45.00	75.00	100.00
EBITDA	-0.77	2.60	14.40	24.30
EBIT	-6.27	-5.82	5.80	14.52
Net Income	-7.41	-7.69	3.10	9.48
Balance Sheet				
Cash	3.10	14.11	15.31	11.36
Trade and other receivables	29.04	29.25	41.25	58.00
Inventories	1.70	2.25	3.75	4.00
Other Assets	42.50	43.30	45.09	51.98
Total Assets	76.34	88.91	105.40	125.34
Total Debt	18.98	14.37	10.37	7.37
Other Liabilities	44.13	45.52	59.20	72.53
Total Liabilities	63.11	59.89	69.57	79.90
Shareholders' Equity	13.23	29.02	35.84	45.43
Cash Flow Statement				
Net Income	-7.41	-7.69	3.10	9.48
Add: Depreciation & Amortisation	5.50	8.42	8.60	9.77
Less: Change in Net Working Capital/Other	-2.01	1.65	2.01	1.85
Cash Flow from Operations	-3.92	2.38	13.70	21.11
Cash Flow from Investing	-4.68	-8.93	-10.68	-21.71
Equity Raised (net)	3.00	19.16	0.00	0.00
Net Borrowings/Other	0.89	-1.61	-1.82	-3.36
Cash Flow from Financing	3.89	17.56	-1.82	-3.36
Unlevered Free Cash Flow	14.11	15.31	11.36	21.24

PER SHARE DATA	FY25	FY26E	FY27E	FY28E
Shares Outstanding (m)	1,767.4	2,305.1	2,477.3	2,531.8
Normalised EPS (A$)	n/a	n/a	n/a	0.004
Dividends per Share (A$)	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	0.78	0.82	0.89	0.92
Solvency				
Debt to Equity	1.4	0.5	0.3	0.2
Debt to Assets	0.2	0.2	0.1	0.1
LT Debt to Assets	0.14	0.09	0.06	0.04
Profitability				
Net Margin	n/a	n/a	7%	17%
ROA	-12%	-9%	3%	8%
ROE	-66%	-36%	10%	23%
Profit Margins				
EBITDA Margin	n/a	6%	19%	24%
EBIT margin	n/a	n/a	n/a	15%
Gross Margin	55%	55%	55%	56%
NPAT Margin	n/a	n/a	4%	9%
TBV	-28.24	-12.56	-6.32	-2.19
Asset Turnover	47.16%	50.61%	71.15%	79.79%
Valuation				
P/E	n/a	n/a	23.3	7.6
P/B	5.4	2.5	2.0	1.6
EV/EBITDA	n/a	28.0	5.1	3.0
EV/Sales	2.0	1.6	1.0	0.7

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

Gianmarco Biagi Managing Director, CEO & Chairman	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.

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