



Duos Technologies Group, Inc.

Q4 miss but 2024 outlook improves. Growth for its RIP over the next year should drive stock higher. Lowering P/T to \$6.00.

United States
Technology

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COMPANY UPDATE

Rating: **BUY**

Ticker: DUOT

Price: \$3.05
(intraday)

Target: \$6.00
(from \$6.50)

Q4 miss: Duos recently (on April 1) reported its fiscal Q4 2023 (ending December) results. Revenue was \$1.5 million (-74% y-o-y), compared to our estimates of \$4.4 million and consensus of \$3.0 million. EPS was \$(0.44), compared to our estimate of \$(0.19) and consensus of \$(0.25). There was no Q4 guidance.

Q4 decline: Q4 (similar to Q3 and Q2) was negatively affected again by delays in production and manufacturing of two high-speed RIP for a passenger transit client.

Increase in backlog: Backlog at Q4 was \$6.6 million, up from \$6.4 million at Q3. Of which ~\$4.4 million is expected to be recognized in 2024.

Q1 2024 guidance: The company provided initial Q1 2024 guidance for revenue to be "similar" to Q4's \$1.5 million.

Lowering estimates: We are lowering our 2024 estimates for revenue to \$16 million, from \$19 million, and for EPS to \$(0.78) from \$(0.54).

Focused on RIP (Railcar Inspection Portal): The company has developed the Railcar Inspection Portal (RIP) that provides both freight and transit railroad customers and select government agencies the ability to conduct fully automated inspections of trains while they are in transit.

RIP system and benefits: The RIP system, which incorporates a variety of sophisticated optical technologies, illumination and other sensors, scans each passing railcar to create an extremely high-resolution image set from a variety of angles including the undercarriage. These images are then processed through various methods of artificial intelligence ("AI") algorithms to identify specific defects and/or areas of interest on each railcar.

8.5 million scans in 2023: Duos believes the market opportunity for its Rail Inspection Portal (RIP) business is substantial. In 2023, the company estimated that it performed over 8.5 million comprehensive railcar scans. Of this, it estimated that 665,000 were unique railcars, representing ~40% of the total freight car population in North America. While this may seem a lot, there are a lot of rules and regulations requiring rail car inspections such that there are still a lot of market growth opportunities.

Market opportunities: There are an estimated 1.6 million railcars, 140,000 track miles, and over 500 rail yards in North America. There is a big push by federal regulators and railroad companies to move towards advanced technology and automation to reduce costs, increase efficiency, and improve safety.

Recent train derailments can be major opportunities: The recent (in February 2023) major train derailment in Ohio of highly hazardous materials may be a catalyst for the railroads or its regulatory agencies to elevate safety inspections requirements including using Duos RIP technologies. The development of the Rail Safety Act of 2023 should be highly beneficial to Duos.

New capital: In Q1 (just completed), the company raised \$2.5 million selling preferred stock. We believe the company has enough cash into 2025.

Positive risks versus rewards: Overall, concerns outweighed by growth prospects and valuation. Duo's main RIP product has long commercialization challenges ahead, but we believe the ~billion dollars market potential presents high rewards for the risks.

Current valuation attractive: We are maintaining our BUY rating, but lowering our 12-month price target to \$6.00 from \$6.50 based on a NPV analysis. This represents significant upside from the current share price and we believe appropriately balances out the high risks with large upside opportunities.

Company Description

Duos Technologies Group, based in Jacksonville, FL develops and operates intelligent vision based inspection technology solutions for rail, logistics, intermodal, and government customers.

Stock Data

Exchange:	NasdaqCM
52-week Range:	1.94 – 7.20
Shares Outstanding (million):	10
Market cap (\$million):	\$30
EV (\$million):	\$28
Debt (\$million):	\$0
Cash (\$million):	\$2
Avg. Daily Trading Vol. (\$million):	\$0.2
Float (million shares):	4
Short Interest (million shares):	~0
Dividend, annual (yield):	\$0 (NA%)

Revenues (US\$ million)

	<u>2024E</u> <u>(Cur.)</u>	<u>2024E</u> <u>(Old)</u>	<u>2025E</u> <u>(Cur.)</u>	<u>2025E</u> <u>(Old)</u>
Q1 Mar	1.5E	2.7E	3.4E	
Q2 Jun	2.0E	2.7E	3.8E	
Q3 Sep	4.4E	4.6E	4.8E	
Q4 Dec	<u>8.1E</u>	<u>9.0E</u>	<u>8.1E</u>	
Total	16.0E	19.0E	20.0E	
EV/Revs	1.8x		1.4x	

Earnings per Share (pro forma)

	<u>2024E</u> <u>(Cur.)</u>	<u>2024E</u> <u>(Old)</u>	<u>2025E</u> <u>(Cur.)</u>	<u>2025E</u> <u>(Old)</u>
Q1 Mar	(0.33)E	(0.24)E	(0.18)E	
Q2 Jun	(0.29)E	(0.22)E	(0.14)E	
Q3 Sep	(0.21)E	(0.14)E	(0.07)E	
Q4 Dec	<u>0.04E</u>	<u>0.05E</u>	<u>0.04E</u>	
Total	(0.78)E	(0.54)E	(0.35)E	
P/E	N/A		N/A	

Important Disclosures

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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report, beginning on page 12.

OVERVIEW

- Duos recently (on April 1) reported its fiscal Q4 2023 (ending December) results.
- Revenue was \$1.5 million (-74% y-o-y), compared to our estimates of \$4.4 million and consensus of \$3.0 million.
- EPS was \$(0.44), compared to our estimate of \$(0.19) and consensus of \$(0.25).
- There was no Q4 guidance.
- The company provided initial Q1 2024 guidance for revenue to be “similar” to Q4’s \$1.5 million.
- The company did not provide specific 2024 guidance.
- We are lowering our 2024 estimates for revenue to \$16 million, from \$19 million, and for EPS to \$(0.78) from \$(0.54).
- We are initiating our 2025 estimates for revenue of \$20 million, and for EPS of \$(0.35).

ADDITIONAL DETAILS

- Gross profit for the quarter was \$0.3 million, compared with our estimate of \$1.6 million.
- Gross margin for the quarter was 20%, versus 36% last year and our expectation of 36%.
- Operating expenses were \$3.5 million, versus our expectation of \$3.0 million.
- Operating loss was \$3.2 million, versus our expectation of a loss of \$1.4 million.
- Net loss was \$3.2 million, versus our expectation of a loss of \$1.4 million.

In November 2022, the company appointed Andrew Murphy, formerly the company’s Vice President of Finance, as its new Chief Financial Officer. Mr. Murphy replaces Adrian Goldfarb who will remain with Duos in a consulting capacity and will take on a new position within Duos’ newly formed Industry Advisory Group.

Adrian Goldfarb has been reappointed as CFO recently (in April 2024) to replace Mr. Murphy who left to pursue another opportunity.

The company’s balance sheet had \$2 million in cash and no debt, compared with \$3 million in cash and no debt at the end of September. In March (just completed Q1), the company raised \$2.5 million selling preferred stock.

Exhibit 1: Duos Technologies Group Corporate Overview



Duos Technologies Overview – Nasdaq: DUOT

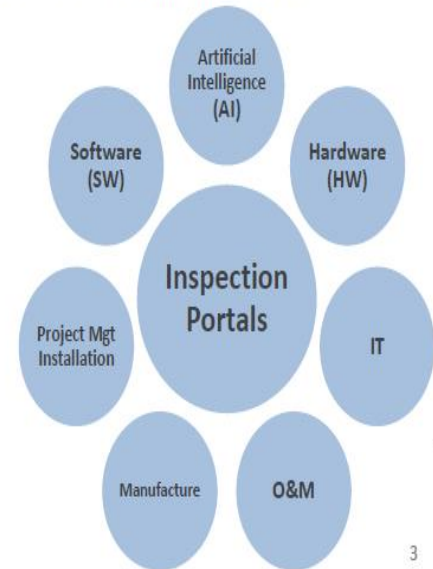


Advanced technology company that specializes in **Machine Vision & Artificial Intelligence** to analyze fast moving objects.

We help customers move commerce more safely and efficiently.

- Headquarters in Jacksonville, FL
- ~ 76 employees
- 15 portals deployed/contracted

Only company in the rail space that self-performs all aspects of HW, SW, IT, and AI.



duostech | Nasdaq: DUOT
connected intelligence

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Source: Company reports.

Exhibit 2: Duos Investment Highlights (as of December 2023)

Investment Highlights



Significant Global Market Opportunities*

- Combined North American markets exceed **\$10B**
 - **\$3.5B** Rail Transportation
 - **\$2.3B** Global Cargo Inspection
 - **\$4.7B** Aviation Maintenance and Repair Operations

* Multiple sources previously cited



Rail Industry Tailwinds

- **Rail Safety Act of 2023**
- Planned deployments of Duos owned portals in strategic locations on North American rail network



Expanded Potential Customer Base

- Multiple multi-million-dollar deployments announced in 2022 continuing in 2023
- Potential for 100s of additional customers through **new subscription data** program



Artificial Intelligence Revolution

- Only company in the rail space that self-performs all aspects of HW, SW, IT and AI
- Plans to grow **AI catalogue** to over 100 detections in the next 24 months



Improving Financial Position

- 2021 revenue of **\$8.3 million**
- 2022 revenue of **\$15.0 million**
- Improved Balance Sheet with sufficient working capital
- **Strengthening cash position to tackle subscription market**
- Increasing project scopes & recurring revenue base



Source: Company reports.

Exhibit 3: Duos Railcar Inspection Portal (RIP)

Our Rail Solution

rip® is a **modular** intelligent visualization system that provides **real-time**, high resolution, **four-sided 360° imagery** of railcars at high speeds.

Railcar Inspection Portal (**rip**®) modules

apis® Automated Pantograph Inspection System

vue® Vehicle Undercarriage Examiner

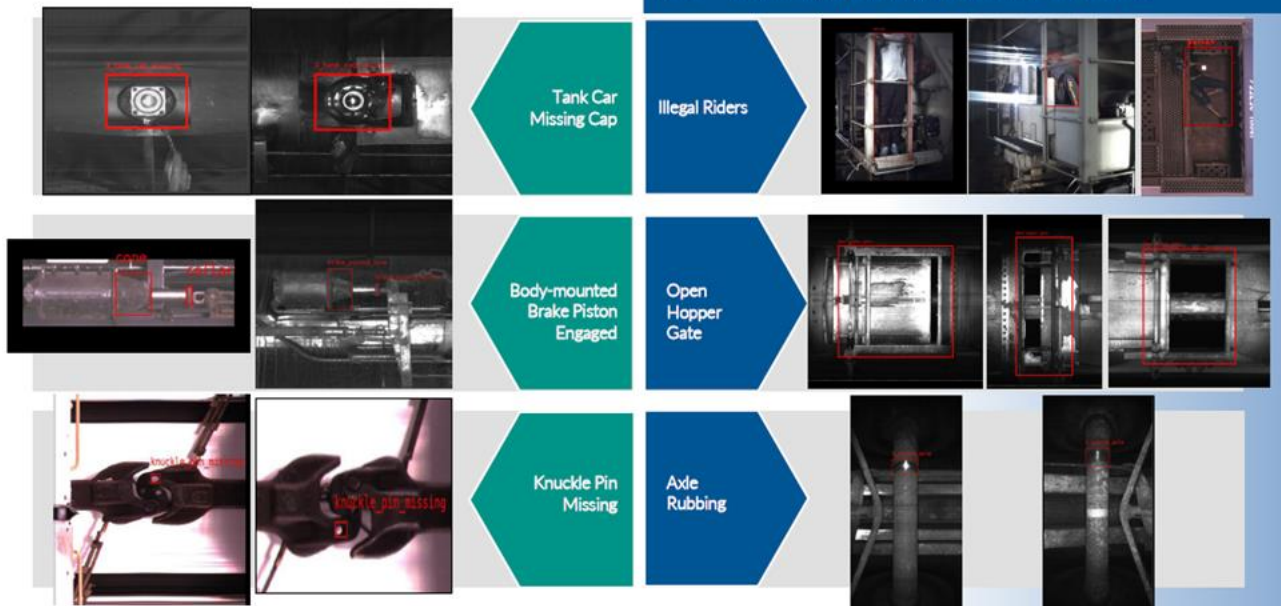
t-vue™ Thermal Vehicle Undercarriage Examiner

obliquevue™ Oblique Vehicle Undercarriage Examiner



Examples of Freight Railcar AI Detections

95%+ reliability ; portfolio of 28 AI Use Cases

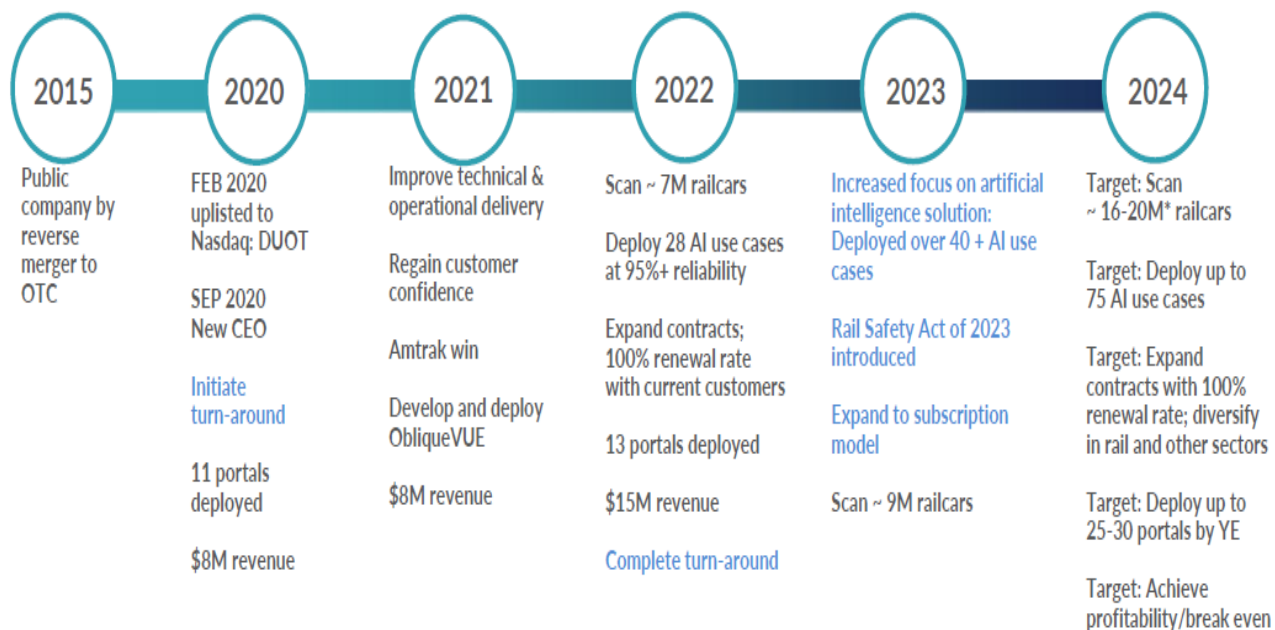


Source: Company reports.

Exhibit 4: Duos Recent History and Future Growth Plans (as of December 2023)

<p>2020-2021 BUSINESS TURNED AROUND Phase 0</p> 	<p>IMPROVED CUSTOMER EXPERIENCE</p> <ul style="list-style-type: none"> • Technical Delivery / QA&QC • Operational • Expand customer base / completing initial R&D phase • Recurring Revenue
<p>2022 INITIAL GROWTH Phase 1</p> 	<p>EXPAND RAIL CUSTOMER BASE</p> <ul style="list-style-type: none"> • Pivot into other sectors through Business Development & R&D Architecture • M&A
<p>2023-24 GROWTH EXPANSION Phase 2</p> 	<p>EXPAND GLOBAL MARKET OPPORTUNITY</p> <ul style="list-style-type: none"> • International Transportation Markets

History and Future Pathway



Source: Company reports.

Exhibit 5: Q4 2023 and Recent Highlights (as of April 1, 2024)

April 1, 2024



Duos Technologies Group Reports Fourth Quarter and Full Year 2023 Results

Short term revenue decline during transition to subscription revenue model combined with significant operational progress and growing pipeline of opportunities

JACKSONVILLE, Fla., April 01, 2024 (GLOBE NEWSWIRE) -- [Duos Technologies Group, Inc.](#) ("Duos" or the "Company") (Nasdaq: DUOT) a provider of machine vision and artificial intelligence that analyzes fast moving vehicles, reported financial results for the fourth quarter ("Q4 2023") and full year ended December 31, 2023.

Fourth Quarter 2023 and Recent Operational Highlights

Secured contract for expansion of recurring revenues including \$2.4 million, multiyear AI subscription and services agreement with Class 1 railroad for advanced AI-Based Defect Detection models.

Closed \$360,000 in annual recurring revenue with Mexican rail operator encompassing expanded support through Duos' Preventative Maintenance Checks and Services (PMCS) Program and Field Services Support.

Scanned more than 8.5 million railcars on over 665,000 unique railcars for the full year. This metric encompasses all railcars scanned at locations across the U.S., Canada, and Mexico, representing approximately 40% of the total freight car population in North America.

Granted wide ranging Patent "Use of Artificial Intelligence to Detect Defects in Trains and Method to Use". This innovative AI patent reinforces Duos' strong commitment to improving rail safety through technology.

Appointed power and logistics industry veteran Christopher King as Chief Commercial Officer. King joins Duos with over 20 years of operational and commercial leadership experience within the energy and supply chain sectors.

At the end of the year, the Company had \$6.6 million of revenue in backlog and more than \$100 million in identified opportunities.

Strengthened industry collaborations with Dell Technologies and NVIDIA to support AI development and achieve significant increases in performance at near "real-time" reporting. Duos featured in Dell promotional video released in Q1 2024.

Source: Company reports.

Exhibit 6: Duos Technologies Group, Inc. Stock Price (5-Years)



Source: <https://bigcharts.marketwatch.com/>

Exhibit 7: Consensus Expectations (as of April 1, 2024)

	Revenue (mil)			EPS	
	2023E	2024E		2023E	2024E
Q1 Mar	\$2.6A	\$2.2E	Q1 Mar	\$(0.30)A	\$(0.25)E
Q2 Jun	\$1.8A		Q2 Jun	\$(0.42)A	
Q3 Sep	\$1.5A		Q3 Sep	\$(0.41)A	
Q4 Dec	\$3.0E		Q4 Dec	\$(0.25)E	
Total	\$8.9E	\$17.9E	Total	\$(1.37)E	\$(0.59)E

*Quarterly estimates may not add to annual estimates due to variations in contributing estimates and rounding.

Source: Company report, LSEG, and Ascendant Capital Markets estimates

FINANCIAL MODEL

Duos Technologies Group, Inc.

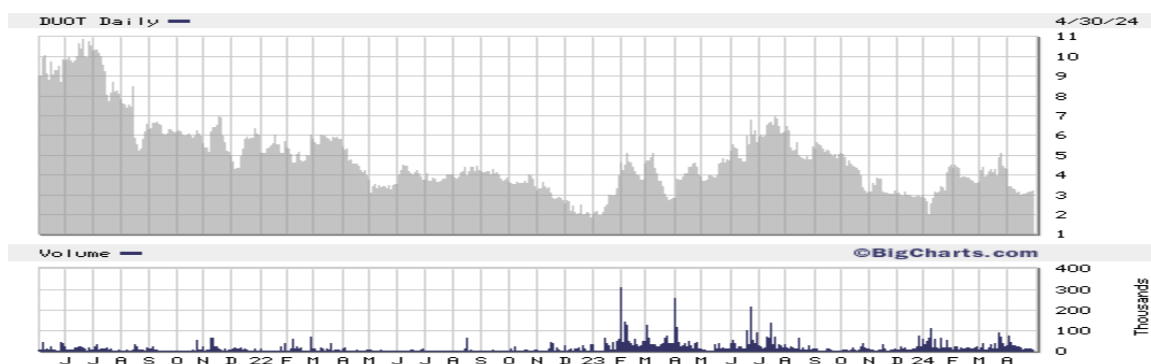
Income Statement (\$ mils)	Mar-22	Jun-22	Sep-22	Dec-22	2022	Mar-23	Jun-23	Sep-23	Dec-23	2023	Mar-24	Jun-24	Sep-24	Dec-24	2024	Mar-25	Jun-25	Sep-25	Dec-25	2025
Fiscal Year End: December 31	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2A	Q3A	Q4A	FY-A	Q1E	Q2E	Q3E	Q4E	FY-E	Q1E	Q2E	Q3E	Q4E	FY-E
Total Revenue	1.4	3.6	4.0	5.9	15.0	2.6	1.8	1.5	1.5	7.5	1.5	2.0	4.4	8.1	16.0	3.4	3.8	4.8	8.1	20.0
<u>Cost of Revenues</u>	1.2	2.3	2.9	3.8	10.3	2.1	1.5	1.3	1.2	6.2	1.1	1.4	2.8	4.9	10.2	2.0	2.3	2.6	4.4	11.4
Gross Profit	0.2	1.3	1.1	2.1	4.7	0.5	0.2	0.2	0.3	1.3	0.4	0.6	1.5	3.2	5.7	1.4	1.5	2.2	3.6	8.7
Sales & marketing	0.3	0.4	0.3	0.4	1.3	0.3	0.3	0.4	0.5	1.5	0.4	0.5	0.3	0.4	1.6	0.5	0.6	0.4	0.4	1.9
Research & development	0.4	0.5	0.3	0.4	1.7	0.4	0.5	0.5	0.4	1.8	0.4	0.5	0.4	0.5	1.8	0.5	0.6	0.4	0.5	2.0
Administration	2.1	1.8	2.3	2.4	8.6	2.0	2.6	2.4	2.5	9.4	2.0	1.7	2.4	2.0	8.2	1.7	1.5	1.9	2.4	7.5
<u>Restructuring and other</u>					0.0					0.0					0.0					0.0
Total operating expenses	2.9	2.7	3.0	3.1	11.6	2.7	3.4	3.2	3.5	12.8	2.8	2.7	3.1	2.9	11.6	2.7	2.6	2.7	3.3	11.4
Operating income (loss)	(2.6)	(1.4)	(1.9)	(1.0)	(6.9)	(2.1)	(3.1)	(3.0)	(3.2)	(11.4)	(2.4)	(2.1)	(1.6)	0.3	(5.8)	(1.4)	(1.1)	(0.6)	0.3	(2.7)
Interest income (expense)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
<u>Other income (expense)</u>	0.0	0.1	(0.1)	0.0	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income before income taxes	(2.6)	(1.3)	(1.9)	(1.0)	(6.9)	(2.1)	(3.0)	(2.9)	(3.2)	(11.2)	(2.4)	(2.1)	(1.6)	0.3	(5.8)	(1.4)	(1.1)	(0.6)	0.3	(2.7)
<u>Income taxes</u>					0.0					0.0					0.0					0.0
Net income (loss)	(2.6)	(1.3)	(1.9)	(1.0)	(6.9)	(2.1)	(3.0)	(2.9)	(3.2)	(11.2)	(2.4)	(2.1)	(1.6)	0.3	(5.8)	(1.4)	(1.1)	(0.6)	0.3	(2.7)
<u>Nonrecurring/noncash adjustments</u>					0.0					0.0					0.0					0.0
Net income (pro forma)	(2.6)	(1.3)	(1.9)	(1.0)	(6.9)	(2.1)	(3.0)	(2.9)	(3.2)	(11.2)	(2.4)	(2.1)	(1.6)	0.3	(5.8)	(1.4)	(1.1)	(0.6)	0.3	(2.7)
EBITDA	(2.2)	(1.0)	(1.8)	(0.6)	(5.5)	(1.9)	(2.6)	(2.5)	(2.7)	(9.7)	(2.1)	(1.8)	(1.3)	0.7	(4.4)	(1.0)	(0.8)	(0.2)	0.7	(1.3)
Shares, Basic	5.4	6.1	6.5	6.9	6.2	7.2	7.2	7.2	7.2	7.2	7.3	7.4	7.5	7.6	7.5	7.7	7.8	7.9	8.0	7.9
Shares, Diluted	5.4	6.1	6.5	6.9	6.2	7.2	7.2	7.2	7.2	7.2	7.3	7.4	7.5	7.6	7.5	7.7	7.8	7.9	8.0	7.9
EPS Basic (pro forma)	(\$0.49)	(\$0.22)	(\$0.30)	(\$0.14)	(\$1.11)	(\$0.30)	(\$0.42)	(\$0.41)	(\$0.44)	(\$1.56)	(\$0.33)	(\$0.29)	(\$0.21)	\$0.04	(\$0.78)	(\$0.18)	(\$0.14)	(\$0.07)	\$0.04	(\$0.35)
EPS Diluted (pro forma)	(\$0.49)	(\$0.22)	(\$0.30)	(\$0.14)	(\$1.11)	(\$0.30)	(\$0.42)	(\$0.41)	(\$0.44)	(\$1.56)	(\$0.33)	(\$0.29)	(\$0.21)	\$0.04	(\$0.78)	(\$0.18)	(\$0.14)	(\$0.07)	\$0.04	(\$0.35)
Margins																				
Gross margin	15%	35%	27%	36%	32%	20%	14%	15%	20%	18%	25%	30%	35%	40%	36%	40%	40%	45%	45%	43%
Sales & marketing	20%	10%	7%	6%	9%	12%	17%	23%	35%	20%	25%	25%	8%	5%	10%	15%	15%	8%	5%	9%
Research & development	30%	15%	8%	6%	11%	15%	30%	29%	28%	24%	25%	25%	9%	6%	11%	15%	15%	9%	6%	10%
Administration	149%	49%	58%	40%	57%	75%	144%	156%	166%	126%	135%	85%	55%	25%	51%	50%	40%	40%	30%	38%
Operating margin	-184%	-39%	-46%	-16%	-46%	-81%	-178%	-194%	-208%	-153%	-160%	-105%	-37%	4%	-36%	-40%	-30%	-12%	4%	-14%
Tax rate, GAAP	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net margin	-184%	-37%	-48%	-16%	-46%	-81%	-169%	-193%	-207%	-150%	-160%	-105%	-37%	4%	-37%	-40%	-30%	-12%	4%	-14%
YY % change																				
Total Revenue	-33%	458%	131%	60%	82%	84%	-51%	-62%	-74%	-50%	-43%	15%	185%	430%	114%	125%	85%	10%	0%	25%
Gross margin	-139%	-183%	-203%	247%	-286%	142%	-81%	-79%	-86%	-72%	-30%	153%	574%	965%	339%	260%	147%	41%	13%	51%
Sales & marketing	-77%	32%	-21%	28%	8%	-77%	-2%	17%	50%	12%	-75%	35%	-31%	16%	10%	-69%	11%	-32%	5%	14%
Research & development	74%	21%	-38%	8%	556%	-75%	33%	-16%	-7%	10%	-79%	35%	-23%	24%	-3%	-71%	11%	-24%	12%	13%
Administration	-37%	-17%	32%	1%	153%	-77%	29%	-6%	6%	10%	-78%	-15%	39%	-16%	-13%	-79%	-11%	27%	26%	-8%
Operating income (loss)	45%	-53%	-24%	301%	-8%	-19%	126%	59%	231%	67%	12%	-32%	-46%	-110%	-49%	-44%	-47%	-64%	0%	-53%
Net income (loss)	551%	-55%	-21%	377%	14%	-19%	123%	53%	232%	64%	12%	-28%	-45%	-110%	-48%	-44%	-47%	-64%	0%	-53%
EPS Diluted (pro forma)	330%	-73%	-56%	191%	-32%	-39%	89%	36%	216%	40%	10%	-31%	-47%	-110%	-50%	-47%	-50%	-66%	-5%	-55%

Source: Company reports and Ascendant Capital Markets estimates.

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Duos Technologies Group, Inc.



Source: <https://bigcharts.marketwatch.com/>

	Report Date		Price	
Report	Date	Rating	Target	
1	1/18/2023	Buy	5.00	
2	4/2/2023	Buy	5.25	
3	6/1/2023	Buy	8.50	
4	10/5/2023	Buy	8.25	
5	12/17/2023	Buy	6.50	

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Risks & Considerations

Risks to attainment of our share price target include balance sheet/liquidity risks, technological changes, customer demand for software, AI, and inspection technologies, investor sentiment for investing in technology stocks, enterprise sentiment and industry growth for technology companies, competition, changing macroeconomic factors, and changes in government regulations.

Ascendant Capital Markets, LLC Rating System

BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

Ascendant Capital Markets, LLC Distribution of Investment Ratings (as of April 15, 2024)

Rating	Count	Percent	Investment Banking Services Past 12 months	
			Count	Percent
Buy	55	98%	18	33%
Hold	0	0%	0	0%
Sell	1	2%	0	0%
Total	56	100%	18	32%

Other Important Disclosures

Our analysts use various valuation methodologies including discounted cash flow, price/earnings (P/E), enterprise value/EBITDAS, and P/E to growth rate, among others. Risks to our price targets include failure to achieve financial results, product risk, regulatory risk, general market conditions, and the risk of a change in economic conditions.

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