

Avtech: A Promising Microcap Play

Avtech is a SaaS company that provides digital aircraft solutions to clients in the aviation industry. The revenue streams are contractual based, with clients paying subscription fees. Their flagship product ClearPath provides real-time data forecast on weather and aircraft parameters such as thunderstorms, wind gusts and cost index.

Key Drivers

The aviation industry: with over 26,000 aircraft, is increasingly moving towards digital solutions for efficiency. While aircraft lifespans extend to 25-35 years, UI/UX in aviation hasn't kept pace with the rapid software advancements. Avtech's digital interfaces, like mapping real-time weather data for pilots during cruise, address this gap.

Intrinsic product value: Pilots, while accustomed to physical buttons for *operational* tasks, can benefit significantly from Avtech's digital solutions. I believe a digital interface mapping out thunderstorms, windgusts, etc. is a great idea, especially for cruise (majority of flight time). Most of cruise time is spent checking nominal values anyway. Thus, having a high-res map where the pilot can layer parameters that are of interest, is a unique value proposition.

Pricing power: Avtech's recent contract with Royal Air Maroc, generating approximately SEK25k per aircraft, showcases not only market acceptance but also potential for pricing power. With established relationships and value demonstrated, airlines are likely to accept moderate price increases and will likely not run away because of a 3% price increase.

Currently, Avtech trades at P/E 27,2 which is slightly high but in line with the high-growth-potential SaaS industry. Avtech's PEG ratio for 2025 is 0.88, indicating a potential undervaluation.

Main risk is client Southwest Airlines, compromising ca 50% of revenue. The contract expires Jun 2026 (no to be renewed), indicative of huge revenue uncertainty. Furthermore, late customer payments and dividends have contributed to a negative FCF in Q2 24'.

In conclusion, I recommend a short-term long position, with caution on customer retention and pipeline conversion.

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