

xReality Group (ASX: XRG)

Operator XR — Comprehensive Valuation & Scenario Analysis

v6 Peer-Reviewed | Corrected ARR Revenue Model | FY26A → FY30E | DCF + Profit Multiples

Prepared 3 June 2026 (v6)

Not financial advice. Illustrative analysis based on publicly available information. Consult a licensed financial adviser.

1. Executive Summary

xReality Group is a Sydney-based defence and law-enforcement training technology company whose primary product, Operator XR, is a portable virtual- and mixed-reality simulation platform used by over 108 military and law-enforcement agencies across the United States, Australia, Japan and Scandinavia. As of the May 2026 operational update, the company reported annual recurring revenue (ARR) of A\$7.4m, a qualified sales pipeline of A\$74.4m, FY26 year-to-date revenue of A\$16.0m at an 84% gross margin, and its first commercial MR-1 sale to a US Department of Defense customer.

Source: [May 2026 operational update](#); [Q3 FY26 quarterly report](#).

Core thesis: XRG presents a structurally asymmetric opportunity. The investment case rests on whether its A\$74.4m pipeline — growing at an accelerating rate — converts into recurring revenue over a 3-to-4 year horizon. Because the current market capitalisation (~A\$43m) is low relative to even conservative conversion outcomes, the downside scenarios still produce positive returns while the upside scenarios are several multiples of the current price.

This document extends the prior analysis by (i) stress-testing every structural assumption, (ii) projecting to FY30, (iii) discounting all outcomes back to present value at an 18% WACC, (iv) computing trailing and forward P/E ratios for each year and scenario, and (v) providing an accompanying interactive spreadsheet so assumptions can be flexed directly. All return figures are expressed as percentages rather than absolute amounts.

1A. Version 4 Revision — Peer Review Corrections

Following circulation, a technically rigorous peer review identified several structural issues. This section documents the changes; the figures in Sections 4–6 reflect the prior (v3) architecture and should be read alongside the corrected outputs summarised here and in the accompanying v4 spreadsheet.

P1 — Scenario divergence (accepted). Previously, new pipeline generation was constant across scenarios, causing nominal revenue to converge over time. New pipeline is now scenario-dependent: the bull case generates more pipeline (product traction, NATO momentum) and the bear case less (CR-suppressed lead generation), so the scenarios diverge as they should.

P3 — No double-counting (accepted, most material). The prior model added pipeline conversion and ARR as separate revenue streams. This double-counted, because a converted contract IS the ARR — XRG collects a 3-year contract upfront and recognises it as ARR over the term. The corrected model treats converted pipeline TCV as the source of ARR ($TCV \div 3$ added per year), with total recognised revenue equal to ARR plus iFLY only. This materially lowers projected revenue and is the single biggest change in v4.

P6 — Working-capital-positive dynamic (accepted). The prior model treated rapid growth as a cash drain requiring a dilutive raise. The reviewer correctly noted the opposite: because customers pay three years upfront, growth GENERATES cash. The corrected cash model shows all scenarios remain cash-positive while growing; the April 2027 debt becomes a genuine risk only if growth stalls. This reduces the dilution risk that previously weighed on the bear case.

P4 — Profit multiples added (accepted). Alongside the price-to-sales method, the v4 spreadsheet now includes a profit-multiple valuation (P/E and EV/EBITDA) in a separate tab, per the reviewer's preference for multiples that can be compared to discount rates and growth. Both methods are shown so the difference is visible.

P5 — Discount rate tension (acknowledged). The reviewer noted that an 18% WACC is high and reflects a personal required return rather than a market-clearing rate (~10%), and that pairing a high discount rate with high multiples double-counts conservatism. The v4 model retains 18% as the primary rate but shows a 10% alternative side-by-side so the effect is explicit.

P2 — Formula reference (fixed). The reviewer found that the online spreadsheet's conversion formula referenced the probability row rather than the conversion-rate row. The v4 model was rebuilt from scratch with clean references.

Net effect: the corrected model is meaningfully more conservative. The asymmetric structure survives — the probability-weighted EV remains a multiple of the current price and the downside scenarios are bounded — but the magnitude is lower and more defensible. The reviewer's view that the debt cliff is low-risk (P6) is a genuine positive that partially offsets the lower revenue. The bear case is now the key area to watch: it is close to break-even on a present-value basis, meaning the margin of safety is thinner than the v3 model implied if conversion disappoints.

Headline Position (May 2026)		
Metric	Value	Trend
Share price	A\$0.057–0.068	+134% 1yr
Market cap	~A\$43m	Micro-cap
ARR	A\$7.4m	+32% YTD
Qualified pipeline	A\$74.4m	+18% QoQ
Gross margin	84%	SaaS-grade
Cash / debt	A\$2.7m / A\$4.7m	Debt due Apr-27

2. Stress Test — Attacking Every Pillar

The model was subjected to a structured stress test across five structural pillars. Each challenge is assessed below with a verdict: accepted (model changed), partially accepted (minor adjustment), or rebutted (evidence holds). This section materially shaped the final assumptions.

2.1 Continuing resolutions & pipeline quality decay

Verdict: Partially accepted

Challenge: US federal budgets frequently operate under continuing resolutions (CRs) that legally bar agencies from initiating new procurement. A sustained multi-year CR environment — which occurred across FY23–24 — could compress conversion not just for one year but across the entire projection window, shifting revenue beyond FY30. Separately, scaling pipeline from early-adopter tier-1 units (SWAT, SOCOM) toward resource-constrained tier-3 agencies may structurally lower the blended conversion rate.

Model response: A new “severe bear” scenario at 8% conversion was added to capture a sustained CR environment. The bear floor is lower than the prior model assumed.

2.2 ARR churn — the zero-churn fallacy

Verdict: Partially accepted

Challenge: The prior model implied near-100% net revenue retention (NRR). Because Operator XR bundles hardware (VR headsets, weapon peripherals) that degrades, agencies unable to budget for hardware refresh at renewal could churn. A more defensible assumption is 85% NRR — below VirTra’s 93–95% benchmark but consistent with hardware-dependent training vendors.

Model response: ARR growth rates reduced across all scenarios (Bear 25%→17%, Base 35%→28%, Bull 50%→40%), shaving revenue off later years.

2.3 iFLY “clean exit” liability

Verdict: Accepted — model changed

Challenge: This was the strongest challenge. iFLY operates under a licence agreement in specialist heavy-industrial venues with long-dated leases. The half-year report uses the language “reviewing strategic options” — not “selling.” A wind-down (rather than going-concern sale) could trigger lease break costs of several million dollars, drawing on Operator XR cashflow precisely when working capital is most needed.

Model response: iFLY exit now modelled as a cash cost: A\$5m (bear), A\$2m (base), A\$0 (bull). This compounds directly with the April 2027 debt maturity.

2.4 Hardware margin drag — the hybrid discount

Verdict: Partially accepted — 84% GM rebuts the hardware discount argument, but 2026 market multiple compression required downward revision

Challenge: The challenge argued XRG should trade at a 4–6x hardware multiple, not a SaaS multiple. The 84% gross margin argument holds: XRG already reports 84% gross margin at A\$16m revenue — higher than Palantir (80%) or Salesforce (77%) — confirming the economics are SaaS-grade regardless of the hardware component. However, the 2026 SaaS market environment independently compressed all multiples: the median public SaaS EV/Revenue fell to 3.3x by March 2026 (Aventis SaaS Index), down from 6.2x at end-2024. This compression is unrelated to hardware margins but it is real and the model must reflect it. The hybrid discount argument is therefore rebutted on the margin question, but the broader multiple environment required a downward revision. The prior model’s 6–8x base / 9–12x bull multiples were anchored to a mid-2025 market that no longer exists.

Model response: Multiples revised downward to 3.75x / 5.75x / 8.0x (bear/base/bull), reflecting the March 2026 SaaS market compression. XRG still commands a premium above the 3.3x market median due to its vertical/defence profile, 84% gross margin, and government switching costs — but the prior 9–12x bull assumption was indefensible in the current environment. Monitoring trigger retained: if gross margin falls below 78% at scale, revisit multiples further downward.

2.5 Working capital & the April 2027 debt cliff

Verdict: Accepted — model changed

Challenge: A\$2.7m cash plus ~A\$5.2m expected annual operating cashflow must cover a A\$4.7m debt maturity, potential iFLY exit costs, and the working capital to pre-fund hardware inventory for an accelerating pipeline. A dilutive raise (e.g. A\$10m at a 20% discount, ~23% dilution) is a plausible median outcome in the bear case.

Model response: Bear and base per-share outcomes now reflect dilution. The April 2027 refinancing is flagged as the single most important near-term monitorable.

3. Methodology

The model is a pipeline-conversion engine. Each year, the qualified pipeline pool (after a 30% haircut to the self-reported figure) has new pipeline added and a conversion percentage applied. Converted pipeline becomes revenue; unconverted pipeline rolls forward to the next year — consistent with the empirical observation that government procurement deals delay rather than cancel.

Conversion benchmark: Conversion rates are anchored to VirTra, Inc. (Nasdaq: VTSI), the only directly comparable listed company. VirTra's SEC filings show ~85% backlog-to-revenue conversion and ~95% subscription renewal; its Q1 2026 revenue decline of 51% was explicitly attributed to delivery timing, not lost deals. Source: [VirTra Q1 2026 results](#).

Revenue architecture (corrected): converted pipeline becomes signed total contract value (TCV), collected upfront and recognised as ARR over the 3-year term ($TCV \div 3$ per year). Recognised revenue each year = 90% of closing ARR (allowing for part-year contribution of new contracts) plus residual iFLY revenue (nil by FY29). Pipeline conversion is the SOURCE of ARR, not a separate revenue line — avoiding the double-count identified in review. Deal economics use A\$175k as the assumed average contract value — a deliberately conservative figure, below the observed ~A\$209k average per non-flagship new client derived from ASX primary announcements (Q2 FY26: 11 new US clients, A\$7.8m TCV, excluding the A\$5.71m Texas DPS outlier). Deal size is not a direct model input — the model operates on the aggregate pipeline pool multiplied by a conversion rate. The conservative assumption provides a mild understatement of potential pipeline revenue if larger-format contracts convert. Sources: ASX announcements — Q2 FY26 quarterly (TCV/customer maths); Texas DPS A\$5.71m contract; Australian state government A\$800k contract; Swedish Armed Forces ~A\$450k contract.

Discounting: All scenario share prices are computed undiscounted (at the FY30 terminal multiple) and then discounted back to present value at an 18% weighted average cost of capital (WACC). The 18% reflects a micro-cap defence-tech risk profile: a beta near 1.1, plus a small-cap premium and execution-risk premium. For a pre-scale micro-cap this sits within the defensible 15–20% range; a reader who prefers 10% or 20% can flex this directly in the accompanying spreadsheet.

Valuation multiple: Terminal value uses a price-to-sales (P/S) multiple — 3.75x (bear), 5.75x (base), 8.0x (bull) — revised downward in June 2026 to reflect the current SaaS multiple environment. The median public SaaS EV/Revenue multiple fell to 3.3x by March 2026 (Aventis SaaS Index; QuantPillar), down from 6.2x at end-2024, driven by AI-disruption concerns and the “SaaSocalypse” of February 2026. XRG's multiples are set above this median due to three factors: (i) vertical SaaS commands a 25–30% premium over horizontal SaaS (Windsor Drake, Feb 2026); (ii) defence/government clients create high switching costs and low churn that are AI-disruption-proof; (iii) 84% gross margin places XRG in the top decile of comparable businesses. However, XRG is a micro-cap at the pre-profitability-at-scale stage, which caps the premium versus large-cap comps. P/E ratios are computed separately using an assumed 18% net margin at scale.

4. Financial Projections, FY26A → FY30E (v4 corrected)

Revenue recognition method (updated): recognised revenue equals 90% of closing ARR plus residual iFLY. The 90% factor reflects that newly-signed contracts contribute only part of a full year of recognised revenue in their first year — a prudent midpoint between the conservative open/close average and the full closing run-rate. Converted pipeline feeds ARR (no double-count); new pipeline generation is scenario-dependent so scenarios diverge. FY26 ARR estimated at A\$7.8m at 30 June 2026. All figures A\$m.

Bear Case (15% conversion)

Lower scenario pipeline, 15% churn, A\$5m iFLY exit cost. Revenue dips in FY27 as iFLY rolls off faster than new ARR builds, then recovers.

Bear — Revenue Build	FY26A	FY27E	FY28E	FY29E	FY30E
Closing ARR	7.8	11.5	16.4	22.3	29.0
Recognised revenue (90% ARR)	7.0	10.3	14.8	20.1	26.1
iFLY / entertainment	6	5	1	0	0
TOTAL REVENUE	22.0	15.3	15.7	20.1	26.1
NPAT (18% net margin)	4.0	2.8	2.8	3.6	4.7

Base Case (25% conversion) — most likely

Base — Revenue Build	FY26A	FY27E	FY28E	FY29E	FY30E
Closing ARR	7.8	16.6	28.6	43.2	59.4
Recognised revenue (90% ARR)	7.0	14.9	25.7	38.9	53.5
iFLY / entertainment	6	5	1	0	0
TOTAL REVENUE	22.0	20.0	26.7	38.8	53.5
NPAT (18% net margin)	4.0	3.6	4.8	7.0	9.6

Bull Case (40% conversion)

Bull — Revenue Build	FY26A	FY27E	FY28E	FY29E	FY30E
Closing ARR	7.8	26.1	50.7	80.7	114.6
Recognised revenue (90% ARR)	7.0	23.5	45.6	72.6	103.1
iFLY / entertainment	6	5	1	0	0
TOTAL REVENUE	22.0	28.5	46.7	72.6	103.2
NPAT (18% net margin)	4.0	5.1	8.4	13.1	18.6

5. DCF-Discounted Valuation (v4 corrected)

Two methods shown: price-to-sales (P/S) and profit-based (P/E / EV/EBITDA). FY30 terminal value discounted to present value at 18% WACC (a 10% market-rate alternative is in the spreadsheet). The 18% reflects a personal required return for a micro-cap of this risk; pairing it with the multiples is deliberately conservative.

FY30 Valuation (P/S method)	FY30 rev (A\$m)	P/S mult.	Undisc. price	PV @18%
Bear	26.1	3.75x	A\$0.13	A\$0.07
Base	53.5	5.75x	A\$0.41	A\$0.21
Bull	103.2	8x	A\$1.10	A\$0.57

Profit-method cross-check (P/E):

FY30 Valuation (profit method)	FY30 NPAT (A\$m)	P/E mult.	Undisc. price	PV @18%
Bear	4.7	18x	A\$0.11	A\$0.06
Base	9.6	28x	A\$0.34	A\$0.17
Bull	18.6	38x	A\$0.92	A\$0.47

Returns (P/S method, present value vs current A\$0.057): bear ~+18%, base ~+270%, bull ~+895%. The bear case is close to break-even on a present-value basis — the key caution: if conversion disappoints, the margin of safety is thin. The asymmetry holds because base and bull dominate the probability-weighted outcome.

Probability-Weighted Expected Value

Six scenarios (catastrophic < deep bear < bear < base < bull < blue sky). EV on present-value share price, P/S method at 18% WACC.

Scenario	Probability	PV price (A\$)	EV contribution (A\$)
Catastrophic (near-zero)	4%	0.015	0.001
Deep bear (8% conv.)	8%	0.023	0.002
Bear (15% conv.)	17%	0.067	0.011
Base (25% conv.) ★	43%	0.211	0.091
Bull (40% conv.)	23%	0.567	0.130
Blue sky (acquisition)	5%	0.900	0.045
TOTAL / Weighted EV	100%	—	~A\$0.28

The probability-weighted present-value EV is ~A\$0.28 (P/S method) or ~A\$0.24 (profit method) — approximately 4.9x and 4.3x the current price of A\$0.057. The corrected model remains a multiple of the current price while being materially more conservative than earlier versions.

6. P/E Analysis (v4 corrected)

P/E ratios use an 18% net margin at scale. “P/E at current price” divides today’s A\$0.057 by each year’s modelled EPS — showing how cheap the stock is against future earnings if held from today.

Bear — P/E at current price	FY26A	FY27E	FY28E	FY29E	FY30E
EPS (A\$ cents)	0.53	0.37	0.38	0.48	0.63
P/E at current price	10.8x	15.4x	15.0x	11.9x	9.0x

Base — P/E at current price	FY26A	FY27E	FY28E	FY29E	FY30E
EPS (A\$ cents)	0.53	0.48	0.64	0.93	1.28
P/E at current price	10.8x	11.9x	8.9x	6.1x	4.5x

Bull — P/E at current price	FY26A	FY27E	FY28E	FY29E	FY30E
EPS (A\$ cents)	0.53	0.68	1.12	1.74	2.47
P/E at current price	10.8x	8.4x	5.1x	3.3x	2.3x

Interpretation: in the base case, buying today implies ~4.5x FY30 earnings — cheap if the trajectory holds. These assume an 18% net margin at scale; XRG is around breakeven today, so they are forward-looking and contingent on the operating-leverage thesis.

7. Key Risks & 12-Month Monitorables

The three signals below will indicate which scenario is unfolding over the next 12 months:

- **1. April 2027 debt resolution.** Does XRG refinance the A\$4.7m Causeway facility from operating cashflow, or does an equity raise come first? A raise below A\$0.08 is a severe-bear signal; A\$0.05–0.07 is a bear signal; no raise needed points to base or better.
- **2. iFLY strategic review outcome.** A going-concern sale is neutral-to-positive; a wind-down is negative and triggers lease-break cost exposure. Watch for any language mentioning “lease obligations” or “transition costs.” Source: [iFLY operates under licence agreement](#).
- **3. Second NATO military contract.** If the Swedish Armed Forces win functions as a NATO reference architecture, the next coalition close (Norway, Finland, Denmark, Germany) should arrive within 18 months. Absence of a second NATO close by Q3 FY27 delays the network-effect thesis.

Other material risks

- **Key-person concentration:** CEO Wayne Jones is central to the company’s defence credibility; no public successor is identified.
- **Pipeline quality:** The A\$74.4m figure is self-reported and unaudited; a 30% haircut partially addresses this.
- **Margin compression:** If gross margin falls below 78% at scale, the SaaS-multiple thesis weakens and the valuation should be revisited.
- **Team scaling:** 38 employees servicing 108 customers across four continents is lean; growth may outpace hiring.
- **Dilution:** Any capital raise increases share count and compresses per-share outcomes in bear and base scenarios.

8. Glossary of Acronyms & Terms

Term	Definition
ARR	Annual Recurring Revenue — the annualised value of subscription/recurring contracts.
CAGR	Compound Annual Growth Rate.
CR	Continuing Resolution — a US legislative measure funding government at prior levels, which restricts new procurement starts.
DCF	Discounted Cash Flow — valuing future cash flows/prices in today's money using a discount rate.
DoD	(US) Department of Defense.
DPS	Department of Public Safety — US state-level law enforcement agency (e.g. Texas DPS).
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation.
EPS	Earnings Per Share.
EV	Expected Value (in this document) — the probability-weighted average outcome. (Note: in other contexts EV can mean Enterprise Value.)
FIRB	Foreign Investment Review Board — Australian body reviewing foreign acquisitions, relevant to defence-tech takeovers.
FY	Financial Year. XRG's runs to 30 June; FY26 ends 30 June 2026. "A" = actual, "E" = estimate.
GM	Gross Margin — revenue less cost of goods sold, as a percentage of revenue.
IP	Intellectual Property.
MR	Mixed Reality — blends physical and digital environments (the basis of XRG's MR-1 product).
MR-1	XRG's next-generation mixed-reality training system, developed under a US DoD R&D contract.
NATO	North Atlantic Treaty Organization.
NRR	Net Revenue Retention — revenue retained from existing customers including expansion, net of churn.
OP-2 / Operator XR	XRG's flagship portable VR/MR tactical training platform for military and law enforcement.
P/E	Price-to-Earnings ratio. "Trailing" uses historical earnings; "Forward" uses projected earnings.
P/S	Price-to-Sales ratio — market capitalisation divided by revenue.
PV	Present Value — a future amount discounted to today's money.
QoQ / YTD / PcP	Quarter-on-Quarter / Year-To-Date / Prior corresponding Period.
SaaS	Software-as-a-Service — subscription software with recurring revenue and high gross margins.
SOCOM	(US) Special Operations Command.
TAM	Total Addressable Market.
TCV	Total Contract Value — the full value of a contract over its term.
VR / XR	Virtual Reality / Extended Reality (umbrella term for VR, AR and MR).

WACC	Weighted Average Cost of Capital — the discount rate reflecting the riskiness of the business.
-------------	--

9. References

All figures and assumptions are drawn from the publicly available sources below. Hyperlinks are live.

1. Q3 FY26 quarterly report: pipeline A\$74.4m, ARR A\$7.0m, cash A\$2.7m, debt A\$4.7m, +62% cash receipts — [link](#)
2. May 2026 operational update: ARR A\$7.4m, 108 customers, 84% gross margin, A\$16m YTD revenue, first MR-1 DoD sale — [link](#)
3. H1 FY26 interim report: revenue A\$10.4m (+41%), EBITDA A\$2.6m (+190%), pipeline A\$63m, ARR A\$6.2m — [link](#)
4. PitchBook company profile: ~751m shares on issue, market cap — [link](#)
5. StockAnalysis: shares outstanding, financial statistics, 84% gross margin — [link](#)
6. Morningstar: shares outstanding 750.97m, market cap, price/sales — [link](#)
7. VirTra (VTSI) Q1 2026 results: revenue -51% on delivery timing, not lost deals (conversion benchmark) — [link](#)
8. Deal size derivation (ASX primary sources): Q2 FY26 quarterly report — 11 new US clients, A\$7.8m TCV; implied ~A\$209k per deal excl. Texas DPS outlier. Texas DPS A\$5.71m (ASX announcement); Australian state govt A\$800k; Swedish Armed Forces ~A\$450k. Model uses A\$175k deliberately conservative — below observed averages. Deal size is a cross-check only, not a direct model input. If larger-format contracts convert, pipeline revenue is higher than modelled.
9. XRG company structure: iFLY operates under licence agreement (lease liability context) — [link](#)
10. XRG board & management profiles — [link](#)
11. Investing News: Operator XR TAM US\$3.37bn ARR (US\$1.3bn US) — [link](#)

Disclaimer: This document is not financial advice. All scenarios are illustrative estimates based on publicly available information and subjective assumptions. Past performance is not indicative of future results. Probability weights, discount rates and multiples are judgemental and can be flexed in the accompanying model. Always consult a licensed financial adviser before making any investment decision.