EDISON

Checkit

H122 results

Bringing visibility to deskless worker operations

Software & comp services

Checkit grew normalised revenue 13% y-o-y in H122, with 16% h-o-h growth in annual recurring revenue (ARR). In H122, Checkit invested to grow its salesforce, enhance its technology platform and expand in the US, with the aim of capitalising on the opportunity in the deskless worker market. Management is confident about the outlook for the remainder of the year; our estimates are broadly unchanged.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	EV/sales (x)
01/20	9.8	(6.4)	(4.0)	0.0	N/A	2.7
01/21	13.2	(3.1)	(5.2)	0.0	N/A	2.0
01/22e	15.2	(4.5)	(7.2)	0.0	N/A	1.7
01/23e	17.8	(2.7)	(4.4)	0.0	N/A	1.5

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

H122: Investing to harness growth opportunities

In H122, Checkit strengthened its US business with the acquisition of Tutela (now called Checkit US) and boosted its sales, marketing and product development teams to accelerate the adoption of its deskless worker SaaS software. In H122, Checkit reported revenue growth of 23% y-o-y or 13% on a normalised basis (as if Checkit US was owned for both periods). Normalised recurring revenue grew 31% y-o-y while non-recurring revenue grew only 4% as new customers signed up to use Checkit's software and existing customers shifted to a subscription-pricing model. This resulted in gross margin expansion of 8.3pp y-o-y. The EBITDA loss widened to £1.4m from £1.1m in H120, reflecting increases in headcount.

Estimates broadly unchanged

Our revenue forecasts are unchanged; we have increased our gross margin and operating cost assumptions to reflect H122 performance, although our normalised operating profit forecasts are unchanged for both years. Checkit's SaaS software brings applications for smart people, smart assets and smart buildings onto a single platform and the immediate focus for the company is to sign up new customers in target markets (food retail, healthcare, hospitality, franchise, pharmaceutical and facilities management) and expand the use of its software by existing customers. ARR growth will be the key metric to track when assessing the progress of Checkit's strategy to become a pure SaaS business.

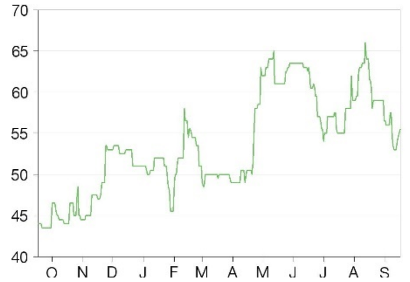
Valuation: Subscription revenue growth key to upside

On an EV/sales multiple of 1.7x for FY22e and 1.5x for FY23e, Checkit trades at a significant discount to the UK software sector (5.6x current year sales). On a sum-of-the-parts basis attributing EV/sales multiples that better reflect the performance and prospects for each division, we estimate the stock is significantly undervalued. For example, using a 4x FY22e multiple for Checkit Connect and 1x for Checkit BEMS would result in a valuation of 80p per share.

17 September 2021

Price	**55.5p**
Market cap	**£35m**
	$1.38/£
Net cash (£m) at end H122	8.5
Shares in issue	62.4m
Free float	56.2%
Code	CKT
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(9.8)	(11.9)	27.6
Rel (local)	(8.4)	(11.1)	6.9
52-week high/low		66p	44p

Business description

Checkit optimises the performance of people, processes and physical assets with connected digital solutions. Its headquarters are in Cambridge, UK, and its operations centre is in Fleet, UK.

Next events

Q3 trading update	November

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Edison profile page

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Review of H122 results

Checkit published H122 revenues in its August trading update – see Exhibit 1. Exhibit 2 summarises the key highlights of the H122 results.

Exhibit 1: Revenue performance, H122 versus H121

£m	H122	H121*	y-o-y
Checkit Connect			
Core business			
Recurring	2.9	2.2	32%
Non-recurring	0.6	0.9	(35%)
	3.5	3.1	12%
Checkit US (Tutela)			
Recurring	0.2	0.2	13%
Non-recurring	0.7	0.7	(7%)
	0.9	0.9	(2%)
Checkit Connect Total			
Recurring	3.1	2.4	29%
Non-recurring	1.3	1.6	(19%)
Total	4.4	4.0	10%
Checkit BEMS			
Non-recurring	3.5	3.0	19%
Group revenue	**7.9**	**7.0**	**13%**
Total recurring revenue	3.1	2.4	31%
Total non-recurring revenue	4.8	4.6	4%
Recurring/total	*39%*	*34%*	

Source: Checkit. Note: *Checkit US was acquired 4 February 2021; growth rates shown on a normalised basis as if Checkit US was owned in the prior periods.

Exhibit 2: H122 results highlights

£m	H122	H121	y-o-y
Revenue	7.9	6.4	23.4%
Gross profit	3.5	2.3	52.1%
Gross margin	44.3%	35.9%	8.3pp
EBITDA	(1.4)	(1.1)	23.8%
Normalised operating profit	(1.7)	(1.5)	14.1%
Reported operating profit	(2.7)	(2.7)	(1.4%)
Normalised PBT	(1.7)	(1.5)	14.1%
Reported PBT	(2.7)	(2.7)	(1.4%)
Normalised net income	(1.7)	(1.5)	14.1%
Reported net income	(2.6)	(2.6)	(1.5%)
Normalised basic EPS (p)	(2.7)	(2.5)	8.0%
Reported basic EPS (p)	(4.2)	(4.3)	(2.3%)
Net cash	8.5	13.4	(36.6%)

Source: Checkit, Edison Investment Research

H122 revenue grew 23% on a reported basis and 13% on a normalised basis, with 10% growth for Checkit Connect (core business +12%, Checkit US -2%) and 19% growth for Checkit BEMS. ARR at the end of H122 was £6.6m, up 16% h-o-h, mainly due to customers going live with new subscription contracts. Recurring revenue made up 39% of H122 revenue. While Checkit US saw a decline in revenue in H122, in constant currency the business grew. Checkit US H122 recurring revenue grew 13% y-o-y as a result of new subscriptions. The core Checkit Connect business saw 32% y-o-y growth in recurring revenue in H122 as new subscriptions went live; at the same time, non-recurring revenue declined 35% y-o-y, reflecting the shift to a subscription model.

As the proportion of subscription-based revenue increased year-on-year, gross margin increased from 35.9% in H121 to 44.3% in H122. Operating costs increased to reflect the inclusion of Checkit US from 4 February and ongoing investment in sales, marketing and product development. This resulted in an EBITDA loss of £1.4m for H122 compared to a loss of £1.1m in H121. After depreciation and amortisation totalling £0.3m (excluding amortisation of acquired intangibles), Checkit generated a normalised operating loss of £1.7m, compared to £1.5m in H121. On a reported basis, the operating loss of £2.7m is after £0.7m amortisation of acquired intangibles and £0.3m in restructuring and integration costs. The company capitalised £0.6m of development costs in H122 and a further £0.3m for an ongoing internal digital transformation project. Checkit closed H122 with a gross/net cash position of £8.5m.

Business update

The business has ramped up its sales and marketing efforts this year (sales and marketing teams doubled in size in H122) and the pipeline for new business is four times higher than at the start of the year. Growth in H122 was from a combination of new customer wins and expansion of strategic enterprise accounts. In the US market, the company is seeing net new business in the healthcare sector and ongoing pricing conversions to the subscription-based model. Checkit US is also focusing on the food retail and hospitality sectors for new business.

As previously guided in the August trading update, the company noted that Checkit BEMS is likely to see lower revenue in H222, with the focus of the BEMS business increasingly on smart building technology through the Checkit Connect platform. When its transformation is complete, management expects to merge the BEMS business with Checkit Connect.

The company highlighted some of the new features it is adding to its platform this year:

- **Event driven actions:** sensor alerts from Checkit's monitoring technology can be fed directly into a corrective workflow for immediate action by frontline employees. The platform delivers a step-by-step workflow to frontline staff's mobile device to guide them through the actions that need to be undertaken.
- **Job sharing:** a tool for collaborative working to increase frontline flexibility while capturing all the action taken in a single record. Multiple staff can work on the same activity (eg lab opening procedures, cleaning, safety checks) without the risk of tasks being duplicated or missed. It is a useful option to ensure tasks are completed across different shifts or to allow remote teams to communicate and divide ad hoc tasks between them.
- **Checkit Franchise Edition:** stores common workflows (eg food safety procedures, site inspections, equipment maintenance) in an online library to enable franchisors and other organisations to implement consistent brand standards and safety routines across their entire network of sites. It also supports benchmarking for measurement against KPIs.

Outlook and changes to forecasts

The board remains confident about the outlook for FY22 and plans to continue to invest cash wisely to deliver on its aggressive growth ambitions. Our revenue forecasts are unchanged; we have revised our gross margin assumptions to reflect the stronger than expected performance in H122 and increased our operating cost assumptions, but overall our normalised operating loss forecasts are unchanged. In FY22, we have increased our assumptions for capitalised development costs and related amortisation; the net effect of this is to reduce the EBITDA loss in FY22 by £0.2m. Our net cash forecasts are unchanged.

Exhibit 3: Changes to forecasts

£m	FY22e Old	FY22e New	Change	y-o-y	FY23e Old	FY23e New	Change	y-o-y
Revenues	15.2	15.2	0.2%	15.2%	17.8	17.8	0.0%	16.8%
Gross profit	5.7	6.6	17.4%	41.4%	8.1	8.8	8.4%	32.0%
Gross margin	37.3%	43.7%	6.4%	8.1%	45.5%	49.4%	3.9%	5.7%
EBITDA	(3.9)	(3.7)	-5.4%	47.1%	(2.0)	(2.0)	2.1%	-44.3%
EBITDA margin	-25.6%	-24.2%	1.4%	-5.2%	-11.3%	-11.5%	-0.2%	12.6%
Normalised operating profit	(4.5)	(4.5)	-0.2%	44.4%	(2.7)	(2.7)	1.6%	-38.6%
Normalised operating profit margin	-29.6%	-29.4%	0.1%	-6.0%	-15.2%	-15.5%	-0.2%	14.0%
Reported operating profit	(6.2)	(6.3)	1.5%	18.4%	(3.1)	(3.2)	4.6%	-48.2%
Reported operating margin	-40.8%	-41.3%	-0.5%	-1.1%	-17.5%	-18.3%	-0.8%	23.0%
Normalised PBT	(4.5)	(4.5)	-0.2%	44.4%	(2.7)	(2.7)	1.6%	-38.6%
Reported PBT	(6.2)	(6.3)	1.5%	18.4%	(3.1)	(3.2)	4.6%	-48.2%
Normalised net income	(4.5)	(4.5)	-0.2%	44.4%	(2.7)	(2.7)	1.6%	-38.6%
Reported net income	(6.2)	(6.1)	-1.9%	37.9%	(3.1)	(3.2)	4.6%	-46.5%
Normalised basic & diluted EPS (p)	(7.2)	(7.2)	-0.2%	37.9%	(4.3)	(4.4)	1.6%	-38.6%
Reported basic EPS (p)	(9.9)	(9.7)	-1.9%	35.8%	(5.0)	(5.2)	4.6%	-46.5%
Net debt/(cash)	(5.1)	(5.1)	1.6%	-55.4%	(3.5)	(3.5)	2.0%	-31.0%
ARR	7.6	7.6	0.0%	34.2%	11.5	11.5		50.0%

Source: Edison Investment Research

Valuation

With Checkit not expected to hit full-year EBITDA profitability within our forecast period, comparison with peer multiples is restricted to EV/sales multiples. Checkit trades at a significant discount to UK software peers (on average 5.6x current year forecasts), in our view reflecting its current loss-making position and mix of recurring versus non-recurring business. Currently, c 55% of Checkit's revenues could be considered as SaaS-based (ie Checkit Connect revenues), but we expect this proportion to increase over time as Checkit Connect grows more quickly than Checkit BEMS. Within Checkit Connect, we also expect recurring revenues to increase as a proportion of divisional revenues, which should also be more highly valued.

Looking at the business on a sum-of-the-parts basis, in the table below we show the potential valuation on the basis of a range of multiples for each part of the business. Using a multiple of 4x FY22e sales for Checkit Connect (at a discount to UK software peers and well below larger US SaaS peers) and 1x for Checkit BEMS (reflecting limited growth prospects for this part of the business) would suggest a fair value of 80p per share, well ahead of the current share price of 55.5p.

Exhibit 4: Sum-of-the-parts valuation (pence per share)

	Checkit Connect multiple							
Checkit BEMS multiple	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0
0.2	30	44	58	72	86	100	114	129
0.4	32	46	60	74	88	102	116	131
0.6	34	48	62	76	90	104	119	133
0.8	36	50	64	78	92	106	121	135
1.0	38	52	66	$\boxed{80}$	94	109	123	137
1.2	40	54	68	82	96	111	125	139
1.4	42	56	70	84	98	113	127	141

Source: Edison Investment Research

Exhibit 5: Financial summary

£m	2019	2020	2021	2022e	2023e
Year end 31 January	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	1.0	9.8	13.2	15.2	17.8
Cost of Sales	(1.0)	(7.2)	(8.5)	(8.6)	(9.0)
Gross Profit	0.0	2.6	4.7	6.6	8.8
EBITDA	(2.3)	(4.9)	(2.5)	(3.7)	(2.0)
Normalised operating profit	(4.4)	(6.5)	(3.1)	(4.5)	(2.7)
Amortisation of acquired intangibles	(0.1)	(1.0)	(1.3)	(1.3)	(0.5)
Exceptionals	0.0	(1.7)	(0.9)	(0.5)	0.0
Share-based payments	0.0	0.0	0.0	0.0	0.0
Reported operating profit	(4.5)	(9.2)	(5.3)	(6.3)	(3.2)
Net Interest	0.0	0.1	0.0	0.0	0.0
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	(4.4)	(6.4)	(3.1)	(4.5)	(2.7)
Profit Before Tax (reported)	(4.5)	(9.1)	(5.3)	(6.3)	(3.2)
Reported tax	0.0	0.1	0.3	0.2	0.0
Profit After Tax (norm)	(4.4)	(6.4)	(3.1)	(4.5)	(2.7)
Profit After Tax (reported)	(4.5)	(9.0)	(5.0)	(6.1)	(3.2)
Minority interests	0.0	0.0	0.0	0.0	0.0
Discontinued operations	8.6	89.8	0.6	0.0	0.0
Net income (normalised)	(4.4)	(6.4)	(3.1)	(4.5)	(2.7)
Net income (reported)	4.1	80.8	(4.4)	(6.1)	(3.2)
Basic average number of shares outstanding (m)	178	161	62	62	62
EPS - basic normalised (p)	(2.5)	(4.0)	(5.2)	(7.2)	(4.4)
EPS - diluted normalised (p)	(2.5)	(4.0)	(5.2)	(7.2)	(4.4)
EPS - basic reported (p)	2.3	50.2	(7.2)	(9.7)	(5.2)
Dividend (p)	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	N/A	880.0	34.7	15.2	16.8
Gross Margin (%)	0.0	26.5	35.6	43.7	49.4
EBITDA Margin (%)	-230.0	-50.0	-18.9	-24.2	-11.5
Normalised Operating Margin	-440.0	-66.3	-23.5	-29.4	-15.5
BALANCE SHEET					
Fixed Assets	5.0	8.5	6.8	8.0	7.5
Intangible Assets	2.9	7.3	6.0	7.1	6.4
Tangible Assets	1.7	1.2	0.8	0.9	1.1
Investments & other	0.4	0.0	0.0	0.0	0.0
Current Assets	19.5	19.8	17.5	11.1	9.6
Stocks	4.3	1.7	1.1	1.1	1.2
Debtors	5.1	3.4	4.4	4.8	4.9
Cash & cash equivalents	10.1	14.3	11.5	5.1	3.5
Other	0.0	0.4	0.5	0.1	0.0
Current Liabilities	(7.9)	(5.6)	(5.9)	(6.8)	(8.0)
Creditors	(7.6)	(5.1)	(5.6)	(6.5)	(7.7)
Tax and social security	(0.3)	0.0	0.0	0.0	0.0
Short term borrowings	0.0	0.0	0.0	0.0	0.0
Other	0.0	(0.5)	(0.3)	(0.3)	(0.3)
Long Term Liabilities	(0.3)	(1.3)	(0.8)	(0.8)	(0.8)
Long term borrowings	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	(0.3)	(1.3)	(0.8)	(0.8)	(0.8)
Net Assets	16.3	21.4	17.6	11.5	8.3
Minority interests	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	16.3	21.4	17.6	11.5	8.3
CASH FLOW					
Op Cash Flow before WC and tax	(2.3)	(4.9)	(2.5)	(3.7)	(2.0)
Working capital	(0.5)	(1.0)	0.3	0.5	1.1
Exceptional & other	9.1	5.3	(0.7)	(0.5)	0.0
Tax	(0.5)	(0.5)	0.0	0.2	0.0
Net operating cash flow	5.8	(1.1)	(2.9)	(3.4)	(1.0)
Capex	(2.2)	(0.3)	(0.3)	(2.3)	(0.3)
Acquisitions/disposals	1.3	84.2	0.3	(0.2)	0.1
Net interest	0.0	0.1	0.0	0.0	0.0
Equity financing	0.0	(77.9)	0.5	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Other	0.0	(0.8)	(0.4)	(0.4)	(0.4)
Net Cash Flow	4.9	4.2	(2.8)	(6.4)	(1.6)
Opening net debt/(cash)	(5.2)	(10.1)	(14.3)	(11.5)	(5.1)
FX	0.0	0.0	0.0	0.0	0.0
Other non-cash movements	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)	(10.1)	(14.3)	(11.5)	(5.1)	(3.5)

Source: Checkit, Edison Investment Research

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