

Checkit

Highlighting the opportunity

At its recent capital markets day, Checkit outlined the opportunity to supply its intelligent operations management software to the deskless worker market, a currently underserved market for productivity software. The product development roadmap features supporting iOS devices, increasing integration with other systems and enhancing the platform's data analytics capabilities. Management is focused on driving adoption of its end-to-end solution in Europe and increasingly in the US.

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	2.4
01/21	13.2	(3.1)	(5.2)	0.0	N/A	1.8
01/22e	15.2	(4.5)	(7.2)	0.0	N/A	1.6
01/23e	17.8	(2.7)	(4.3)	0.0	N/A	1.3

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

Large untapped market to support deskless workers

Checkit highlighted that enterprise software is mostly targeted at desk-based knowledge workers, with a limited amount of software developed for deskless workers. This reduces management oversight of dispersed business operations and makes it harder to standardise processes across a business. Checkit's Intelligent Operations Platform has been designed to serve this market. The platform brings together a digital assistant app to guide workers through activities, a central console for management to review activity and create new workflows, integration with smart sensor networks and data analytics. Management is not aware of a competitor that can offer a similar end-to-end solution, instead seeing competition from point solution providers for different elements of the platform.

Evolving the platform to support growth

Product development is focused on developing more integration with third-party IoT networks and enterprise software applications so that Checkit becomes more embedded within a customer's systems and captures more data, and enhancing the platform's data analytics capabilities. The company is also developing an iOS-based app, which should expand the addressable market, particularly in the United States. The acquisition of Tutela earlier this year and the appointment of a managing director for the US business highlight the company's ambitions to grow the adoption of Checkit's software in the US.

Valuation: Sum-of-parts suggests upside

On an EV/sales multiple of 1.6x for FY22e and 1.3x for FY23e, Checkit trades at a significant discount to the UK software sector (5.3x 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 that 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 83p per share.

Capital markets day

Software & comp services

26 July 2021

Price **56.5p**

Market cap **£35m**

Net cash (£m) at end FY21 11.5

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 (2.5) 0 54.7

Rel (local) (2.2) (1.5) 32.2

52-week high/low 65p 38p

Business description

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

Next events

H122 trading update 12 August 2021

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Capital markets day review

Checkit held a capital markets day on 15 July, with presentations from the recently appointed CEO Kit Kyte (previously CCO), chief product officer David Davies and US head Steve Peck. Simon Greenman, who recently joined the board as a non-executive director, also gave a brief presentation on the potential for the application of AI technology within the enterprise.

Deskless worker opportunity untapped

The company outlined the large potential opportunity in providing productivity software to deskless workers. The bulk of software today is designed for desk-based knowledge workers. However, the majority of workers globally are deskless (c 2.7bn or 80% of the workforce), for example retail, hospital, restaurant, hotel, manufacturing and facilities management workers. The way that these workers complete and record the necessary processes and procedures for their roles tend to be paper-based checklists or spreadsheets, and in some cases limited vertical solutions. These methods tend to be error prone, inflexible and do not scale well. One Checkit customer estimated that for paper-based checklists, the amount of work carried out was only c 25% of that claimed on the completed checklist. This increased to more like 95% once Checkit's Connected Workflow Management (CWM) software was introduced.

The use of these methods results in what Checkit calls 'dark operations'. Management has little oversight of what employees are doing and is failing to capture operational intelligence from workers' activities.

Checkit Intelligent Operations Platform

To meet these challenges, Checkit has developed its Intelligent Operations Platform. This includes the cloud-based core apps for workflow management and automated monitoring, integrated with sensor networks where appropriate. Information from the apps is fed back to the platform where it can be reviewed by management. The data are available for analysis either within the platform or for use with third-party business intelligence applications. The platform is based on four pillars:

- **Capture** data from people, places and assets in real time;
- **Connect** people, places and assets through connected workflows; give management visibility in real time;
- **Collaborate** – facilitate shared work and task approvals carried out by deskless workers. Often deskless workers need to work on the same tasks at the same time; role-based permissions allow one worker to start a task before handing it over for approval by another worker; and
- **Comprehend** – analyse the data produced by workers to make the business more efficient, understand risks and identify revenue opportunities.

The **app**, which is a guided assistant, can be used on workers' own or company-supplied devices. Checkit supplies a dedicated Android-based device called the Memo, which has been designed to be robust when used in environments such as kitchens or hospitals. The app prompts workers to undertake tasks, guides them on how to do them and tracks that they have completed them. A check can be triggered in one of several ways: by time (eg two hours since the last check), by event (eg a delivery), by a sensor (eg temperature has exceeded prescribed limit) or by location (eg when the worker scans a QR code on an asset). If a workflow needs to change, the app can be updated in real time. The app can work offline and will sync with other app users once it comes back online.

The platform features **no-code workflows** – new activities or processes can be designed with a drag-and-drop builder. From time to time, the company will add new workflows to the platform based on customer demand.

Checkit also supplies **smart sensors** which automatically feed data into the platform to drive alerts.

Product development

The company announced the launch of three new product features:

- Shared workflow libraries. This allows organisations to build, share and easily update workflow templates.
- Job sharing. This allows multiple staff to collaborate on a single activity.
- Event-driven actions. This enables users of Checkit's monitoring technology to feed sensor alerts from equipment or buildings directly into a corrective workflow for action by frontline employees.

Future product development includes:

- iOS app. This is important for the US market where Apple devices in the workplace are more common. It also provides the opportunity to capture more data.
- Integration with other enterprise software applications, eg user management database.
- Enhanced data analytics.
- Integration with third-party IoT networks, to expand the sources of data.

Sales strategy

Checkit is focused on tier one and two customers in five markets: healthcare, food retail, franchise, pharma and facilities management. These five sectors make up c 800 million of the 2.7 billion deskless workers globally, with 113 million in the US alone.

In the US, the recent acquisition of Tutela has opened up the opportunity to sell CWM to CAM+¹ customers and pipelines for both are ahead of targets.

Over time, the company would like to develop partnerships with system integrators and consultants undertaking end-to-end digital transformation projects.

Competitive positioning

The company is not aware of any competitors with end-to-end solutions. There are companies that provide workflow management apps for specific industries, but they do not tend to offer smart sensors or reporting and analytics. Checkit has seen companies using two or three different solutions to achieve the same outcome, as is possible from using Checkit's technology.

Business transformation

The company has undergone a major transformation since the sale of Elektron in 2019. A restructuring programme has been underway since then to transform the business from its original hardware focus to a SaaS business with the business infrastructure this requires. A new management team is in place, with a new CFO, COO, CCO and CEO appointed over the last year.

¹ CAM+: connected automated monitoring + is used for demanding compliance environments in healthcare and life sciences.

Exhibit 1: Financial summary

	£m	2019	2020	2021	2022e	2023e
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)	(9.5)	(9.7)
Gross Profit		0.0	2.6	4.7	5.7	8.1
EBITDA		(2.3)	(4.9)	(2.5)	(3.9)	(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)	(0.4)
Exceptionals		0.0	(1.7)	(0.9)	(0.4)	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0
Reported operating profit		(4.5)	(9.2)	(5.3)	(6.2)	(3.1)
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)	(6.2)	(3.1)
Reported tax		0.0	0.1	0.3	0.0	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)	(6.2)	(3.1)
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)	(6.2)	(3.1)
Basic average number of shares outstanding (m)		178	161	62	62	62
EPS - basic normalised (p)		(2.5)	(4.0)	(5.2)	(7.2)	(4.3)
EPS - diluted normalised (p)		(2.5)	(4.0)	(5.2)	(7.2)	(4.3)
EPS - basic reported (p)		2.3	50.2	(7.2)	(9.9)	(5.0)
Dividend (p)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	880.0	34.7	14.9	17.1
Gross Margin (%)		0.0	26.5	35.6	37.3	45.5
EBITDA Margin (%)		-230.0	-50.0	-18.9	-25.6	-11.3
Normalised Operating Margin		-440.0	-66.3	-23.5	-29.6	-15.2
BALANCE SHEET						
Fixed Assets		5.0	8.5	6.8	7.7	7.3
Intangible Assets		2.9	7.3	6.0	6.8	6.2
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	11.2	9.8
Stocks		4.3	1.7	1.1	1.2	1.3
Debtors		5.1	3.4	4.4	4.8	5.1
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)	(6.7)	(8.0)
Creditors		(7.6)	(5.1)	(5.6)	(6.4)	(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	11.4	8.3
Minority interests		0.0	0.0	0.0	0.0	0.0
Shareholders' equity		16.3	21.4	17.6	11.4	8.3
CASH FLOW						
Op Cash Flow before WC and tax		(2.3)	(4.9)	(2.5)	(3.9)	(2.0)
Working capital		(0.5)	(1.0)	0.3	0.3	1.0
Exceptional & other		9.1	5.3	(0.7)	(0.4)	0.0
Tax		(0.5)	(0.5)	0.0	0.0	0.0
Net operating cash flow		5.8	(1.1)	(2.9)	(4.0)	(1.0)
Capex		(2.2)	(0.3)	(0.3)	(1.8)	(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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