

# Checkit

H123 trading update

## ARR growth in a more cautious market

Despite a challenging market environment, Checkit has grown annualised recurring revenue (ARR) by 48% y-o-y to £10.2m at the end of H123 and looks on track to meet our FY23 forecasts. Having made the strategic decision to focus on its platform for deskless workers, Checkit's H123 recurring revenue grew 44% to make up 82% of total revenue. The company plans to accelerate its path to profitability; we maintain our forecasts pending further detail on these plans.

Year end	Revenue (£m)	ARR* (£m)	PBT** (p)	EPS** (p)	DPS (p)	EV/sales (x)
01/21	13.2	5.7	(3.1)	(5.2)	0.0	0.5
01/22	13.3	8.2	(4.7)	(7.0)	0.0	0.5
01/23e	11.2	12.0	(8.8)	(8.1)	0.0	0.6
01/24e	14.0	15.9	(6.6)	(6.1)	0.0	0.5

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

## H123: ARR growth of 48% y-o-y, 24% h-o-h

Checkit reported end-H123 ARR of £10.2m (+48% y-o-y, +24% h-o-h), noting that growth was resilient despite the challenging macroeconomic environment and was in line with market expectations. H123 recurring revenue of £4.4m (82% of total revenue) was up 44% from £3.1m (39%) in H122. As expected, Checkit has moved away from project work in favour of subscription contracts, resulting in a 79% decline in non-recurring revenue to £1.0m and a 31% decline in total revenue to £5.4m. Bookings were flat year-on-year, reflecting slower progression of deals through the pipeline due to the current market environment. We believe the rationale for using Checkit's software is still intact (to improve operational efficiency, digitise compliance and support revenue generation) and Checkit's ability to demonstrate a rapid return on investment is a key advantage in the sales process.

## Looking to accelerate profitability

In light of the current market environment, the company is accelerating its plans to reach profitability and will provide further detail at its interims on 15 September. Net cash at the end of H123 was £19.5m, down from £24.2m at the end of FY22. We maintain our forecasts, noting that we continue to forecast net cash of £15.0m by the end of FY23 and £8.5m by the end of FY24.

## Valuation: Significant discount to peers

On an EV/sales multiple of 0.6x for FY23e and 0.5x for FY24e, Checkit trades at a significant discount to the UK software sector (3.2x current year sales, 2.7x next year sales) and US SaaS peers (7.4x current year, 6.1x next year). If Checkit were to trade on the UK average for FY23e, it would be worth 52p per share and moving to trade in line with US SaaS peers would imply a valuation of 96p. Key triggers to help Checkit attract a multiple more in line with SaaS peers include evidence that customers are signing up to use its software, existing customers are expanding their usage and non-recurring revenues are being converted to subscription services. The company has already made a good start on all three of these metrics.

## Software and comp services

11 August 2022

**Price** **29p**
**Market cap** **£31m**

\$1.21/£

Net cash (£m) at end H123 19.5

Shares in issue 108.0m

Free float 56%

Code CKT

Primary exchange AIM

Secondary exchange N/A

## Share price performance



%	1m	3m	12m
Abs	(12.1)	(20.6)	(54.3)
Rel (local)	(16.1)	(23.4)	(54.58)

52-week high/low 66p 29p

## Business description

Checkit optimises the performance of people, processes and physical assets with its intelligent operations software. It is headquartered in Cambridge, UK, and has operations centres in Fleet, UK, and Tampa, US.

## Next events

H123 results 15 September

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**Exhibit 1: Financial summary**

	£m	2019	2020	2021	2022	2023e	2024e
Year end 31 January		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>							
Revenue		1.0	9.8	13.2	13.3	11.2	14.0
Cost of Sales		(1.0)	(7.2)	(6.7)	(7.1)	(4.7)	(5.1)
Gross Profit		0.0	2.6	6.5	6.2	6.5	8.9
EBITDA		(2.3)	(4.9)	(2.5)	(4.2)	(7.8)	(5.1)
Normalised operating profit		(4.4)	(6.5)	(3.1)	(4.7)	(8.8)	(6.6)
Amortisation of acquired intangibles		(0.1)	(1.0)	(1.3)	(1.4)	(0.5)	(0.1)
Exceptionals		0.0	(1.7)	(0.9)	(1.0)	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	(0.1)	0.0
Reported operating profit		(4.5)	(9.2)	(5.3)	(7.1)	(9.4)	(6.7)
Net Interest		0.0	0.1	0.0	0.0	0.0	0.0
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		(4.4)	(6.4)	(3.1)	(4.7)	(8.8)	(6.6)
Profit Before Tax (reported)		(4.5)	(9.1)	(5.3)	(7.1)	(9.4)	(6.7)
Reported tax		0.0	0.1	0.3	0.3	0.0	0.0
Profit After Tax (norm)		(4.4)	(6.4)	(3.1)	(4.7)	(8.8)	(6.6)
Profit After Tax (reported)		(4.5)	(9.0)	(5.0)	(6.8)	(9.4)	(6.7)
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations		8.6	89.8	0.6	0.0	0.0	0.0
Net income (normalised)		(4.4)	(6.4)	(3.1)	(4.7)	(8.8)	(6.6)
Net income (reported)		4.1	80.8	(4.4)	(6.8)	(9.4)	(6.7)
Basic average number of shares outstanding (m)		178	161	62	68	108	108
EPS - basic normalised (p)		(2.5)	(4.0)	(5.2)	(7.0)	(8.1)	(6.1)
EPS - diluted normalised (p)		(2.5)	(4.0)	(5.2)	(7.0)	(8.1)	(6.1)
EPS - basic reported (p)		2.3	50.2	(7.2)	(10.0)	(8.7)	(6.2)
Dividend (p)		0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	880.0	34.7	0.8	(15.4)	24.4
Gross Margin (%)		0.0	26.5	49.2	46.6	58.1	63.4
EBITDA Margin (%)		(230.0)	(50.0)	(18.9)	(31.6)	(69.1)	(36.4)
Normalised Operating Margin		(440.0)	(66.3)	(23.5)	(35.3)	(78.0)	(47.1)
<b>BALANCE SHEET</b>							
Fixed Assets		5.0	8.5	6.8	8.3	9.8	10.4
Intangible Assets		2.9	7.3	6.0	7.3	8.6	9.0
Tangible Assets		1.7	1.2	0.8	1.0	1.2	1.4
Investments & other		0.4	0.0	0.0	0.0	0.0	0.0
Current Assets		19.5	19.8	17.5	28.7	18.7	12.3
Stocks		4.3	1.7	1.1	1.8	1.2	0.8
Debtors		5.1	3.4	4.4	2.6	2.5	2.9
Cash & cash equivalents		10.1	14.3	11.5	24.2	15.0	8.5
Other		0.0	0.4	0.5	0.1	0.0	0.0
Current Liabilities		(7.9)	(5.6)	(5.9)	(5.4)	(6.2)	(7.0)
Creditors		(7.6)	(5.1)	(5.6)	(4.9)	(5.7)	(6.5)
Tax and social security		(0.3)	0.0	0.0	0.0	0.0	0.0
Short term borrowings		0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	(0.5)	(0.3)	(0.5)	(0.5)	(0.5)
Long Term Liabilities		(0.3)	(1.3)	(0.8)	(0.6)	(0.6)	(0.6)
Long term borrowings		0.0	0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(0.3)	(1.3)	(0.8)	(0.6)	(0.6)	(0.6)
Net Assets		16.3	21.4	17.6	31.0	21.7	15.0
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		16.3	21.4	17.6	31.0	21.7	15.0
<b>CASH FLOW</b>							
Op Cash Flow before WC and tax		(2.3)	(4.9)	(2.5)	(4.2)	(7.8)	(5.1)
Working capital		(0.5)	(1.0)	0.3	0.2	1.5	0.8
Exceptional & other		9.1	5.3	(0.7)	(1.0)	0.0	0.0
Tax		(0.5)	(0.5)	0.0	0.1	0.0	0.0
Net operating cash flow		5.8	(1.1)	(2.9)	(4.9)	(6.3)	(4.3)
Capex		(2.2)	(0.3)	(0.3)	(2.3)	(2.6)	(1.8)
Acquisitions/disposals		1.3	84.2	0.3	0.0	0.1	0.0
Net interest		0.0	0.1	0.0	0.0	0.0	0.0
Equity financing		0.0	(77.9)	0.5	20.2	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	(0.8)	(0.4)	(0.3)	(0.4)	(0.4)
Net Cash Flow		4.9	4.2	(2.8)	12.7	(9.2)	(6.5)
Opening net debt/(cash)		(5.2)	(10.1)	(14.3)	(11.5)	(24.2)	(15.0)
FX		0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(10.1)	(14.3)	(11.5)	(24.2)	(15.0)	(8.5)

Source: Checkit, Edison Investment Research

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