

# Checkit

H123 results

## Moderating costs to accelerate break-even

During H123 Checkit made further progress in its transition to a 100% subscription business, achieving 82% recurring revenue and a 48% y-o-y increase in annual recurring revenue (ARR). The pipeline has grown and includes material opportunities with enterprise customers for which conversion timing is uncertain. As customers have become more cautious, sales cycles have lengthened, and we conservatively reduce our ARR and revenue forecasts. Despite this, we have improved our EBITDA loss forecasts for FY23/24 on the back of company plans to accelerate the path to profitability, and we note our end FY24 forecast for net cash of £9.5m.

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	0.2
01/22	13.6	9.1	(4.7)	(7.0)	0.0	0.2
01/23e	10.4	10.8	(7.6)	(7.1)	0.0	0.3
01/24e	12.5	13.3	(5.2)	(4.9)	0.0	0.2

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

## H123 reflects transition to subscription business

Checkit reported H123 revenue of £5.4m, a £3.9m EBITDA loss and a £4.7m operating loss. ARR of £10.2m at the end of H123 was 48% higher y-o-y and 12% higher half-on-half, reflecting a mix of new business, upsells and price increases.

## Slower pipeline conversion but opportunities intact

Reflecting the uncertain economic environment, we conservatively reduce our year-end ARR forecasts by 10% in FY23 and 16% in FY24, but emphasise there are material opportunities in the pipeline that could convert in the near term and drive upgrades. Checkit has taken measures to cope with inflation and is accelerating the path to profitability, reducing the cost base while protecting product development and sales and marketing initiatives. We have reduced our revenue and operating cost forecasts, resulting in EBITDA loss forecasts improving from £7.8m to £6.5m in FY23 and from £5.1m to £3.7m in FY24. We forecast net cash of £9.5m by the end of FY24 (up from £8.5m).

## Valuation: Discount to peers has widened

On an EV/sales multiple of 0.3x for FY23e and 0.2x FY24e, Checkit trades at a material discount to the UK software sector (3.3x current year sales, 2.7x next year sales) and US SaaS peers (6.9x current year, 5.6x next year). If Checkit were to trade on the UK average for FY23e, it would be worth 50p per share and moving to trade in line with US SaaS peers would imply a valuation of 84p. Sustained ARR growth will be the key trigger for Checkit to attract a multiple more in line with SaaS peers, evidenced by customers signing up to use its software and existing customers expanding their usage. In the current environment, faster movement towards break-even is also likely to support the share price.

## Software and comp services

15 September 2022

**Price** 20.88p

**Market cap** £23m

Net cash (£m) at 31 July 2022 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 (14.9) (42.9) (63.3)

Rel (local) (11.6) (43.3) (62.8)

52-week high/low 58p 19p

## 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

FY23 trading update February 2023xxxx

## Analysts

Katherine Thompson +44 (0)20 3077 5730

[tech@edisongroup.com](mailto:tech@edisongroup.com)
[Edison profile page](#)

**Checkit is a research client of  
Edison Investment Research  
Limited**

## Review of H123 results

Exhibit 1 summarises H123 results.

<b>Exhibit 1: Half-yearly results</b>			
<b>£m</b>	<b>H123</b>	<b>H122</b>	<b>y-o-y</b>
Revenue	5.4	7.9	(31%)
Gross profit	3.0	4.1	(25%)
Gross margin	55.8%	51.4%	4pp
EBITDA	(3.9)	(1.4)	177%
Normalised operating profit/PBT	(4.2)	(1.7)	146%
Reported operating profit/PBT	(4.7)	(2.7)	76%
Normalised net income	(4.2)	(1.7)	146%
Reported net income	(4.6)	(2.6)	77%
Normalised basic EPS (p)	(3.9)	(2.7)	44%
Reported basic EPS (p)	(4.2)	(4.2)	0%
Net cash	19.5	8.5	129%
Period end ARR	10.2	6.9	48%
Recurring revenue/total revenue	82%	39%	43%
Source: Checkit			

Checkit reported a revenue decline of 31%, made up of a 44% increase in recurring revenue to £4.4m and a 79% decline in non-recurring revenue to £1.0m, following the company's previously announced decision to discontinue one-off BEMS projects with minimal software input. Recurring revenue now makes up 82% of total revenue, up from 39% in H122 and 70% in H222. As the software subscription business is higher margin than the BEMS project business, the gross margin increased by 4pp y-o-y to 56%. Operating costs (excluding depreciation, amortisation and share-based payments) of £6.9m were 26% higher y-o-y reflecting planned investment in sales and marketing and R&D to support the growth of the subscription business. This resulted in an EBITDA loss increasing from £1.4m to £3.9m and normalised net loss increasing from £1.7m to £4.2m. Net cash at the end of H123 was £19.5m, down from £24.2m at the end of FY22.

### Sales cycle slower but pipeline still strong

ARR increased 48% y-o-y to £10.2m at the end of H123, with US customers now making up 22% of total ARR. Sales bookings were in line with last year and in H1 Checkit realised its first \$1m+ ARR US customer. The increase in ARR came from the combination of upselling to existing customers (eg Compass, Sodexo, Grifols), winning new customers (eg Biolife, Just Eat) and price increases. The company also saw more customers signing up or renewing for longer contract terms, increasing from the standard three-year minimum to four- or five-year contracts.

The company highlighted that contracts with new customers represent initial entry points, providing scope for wider expansion as those customers experience the benefits of using the software.

The pipeline has grown since year-end across the retail, healthcare, facilities management, franchise and pharmaceutical verticals. At the end of H123, 67% of the pipeline by value was for large enterprise targets, 13% for other enterprise targets and 14% for midsize targets. Reflecting the uncertain economic environment, the company has seen sales cycles lengthen, reducing pipeline conversion. However, several large enterprise targets are at the pilot stage and if they decide to use Checkit, should contribute materially to ARR. The difficulty at this point is in estimating exactly when those contracts might convert.

The company has not seen a material change in the competitive environment, with most opportunities found with companies who are shifting from manual to digital processes, and very few competitive tenders.

## Product development drives new use cases

Part of the company's new strategy unveiled last November was the development of an ecosystem of third-party sensor suppliers who would integrate their sensors with the Checkit platform. As an example of this, in March, Checkit signed a partnership with Disruptive Technologies, a Norwegian developer of wireless sensors and IoT infrastructure. This has added Legionnaire's disease prevention to the use cases supported by the platform, which uses a sensor to monitor the temperature of water pipes to ensure the water temperature is outside of the range in which the legionella bacteria thrives. Potential customers for this include care homes, hospitals, hotels and schools.

Product development includes investment in the data platform (to support the generation of predictive insights for customers and to combine data from the Checkit platform with data from other sources such as third-party sensors) and in the resilience and scalability of the platform (using cloud services to bring down unit costs). The company has also replaced outsourced development resources with in-house staff. It spent £2.0m on product development in H123, of which £0.9m was capitalised.

## Outlook and changes to forecasts

---

The board anticipates delivering an FY23 operating result ahead of expectations set at the start of the year. Checkit believes its monthly cash burn rate peaked in H123 and is accelerating its plan to achieve profitability. Measures to reduce costs include reducing hardware and platform costs to drive higher gross margins and automating functions within the call centre, such as automated calls when a sensor measures something out of range, or the provision of self-service customer support for education.

We have revised our forecasts to reflect:

- lower ARR at the end of FY23 and FY24 resulting in lower revenue in both years;
- slightly higher gross margins in both years; and
- lower operating costs in H223 and FY24.

This results in a reduction in our EBITDA loss and operating loss forecasts in both years. Our net cash forecast for FY23 improves marginally, as we expect slightly lower working capital inflows. Our net cash forecast for the end of FY24 increases by £1.0m to £9.5m.

**Exhibit 2: Changes to forecasts**

£'m	FY23e				FY24e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	11.2	10.4	-7.1%	-22.9%	14.0	12.5	-10.9%	19.4%
Gross profit	6.5	6.3	-3.8%	1.4%	8.9	8.1	-8.5%	28.9%
Gross margin	58.1%	60.2%	2.1%	14.5%	63.4%	65.0%	1.7%	4.8%
EBITDA	(7.8)	(6.5)	-15.9%	55.7%	(5.1)	(3.7)	-26.4%	-42.7%
EBITDA margin	-69.1%	-62.6%	6.5%	-31.6%	-36.4%	-30.0%	6.3%	32.6%
Normalised operating profit	(8.8)	(7.6)	-12.9%	62.5%	(6.6)	(5.2)	-20.4%	-31.3%
Normalised operating profit margin	-78.0%	-73.2%	4.9%	-38.5%	-47.1%	-42.1%	5.0%	31.1%
Reported operating profit	(9.4)	(8.3)	-11.0%	17.4%	(6.7)	(5.2)	-21.6%	-37.1%
Reported operating margin	-83.3%	-79.9%	3.5%	-27.5%	-47.8%	-42.1%	5.7%	37.8%
Normalised PBT	(8.8)	(7.6)	-12.9%	62.5%	(6.6)	(5.2)	-20.4%	-31.3%
Reported PBT	(9.4)	(8.3)	-11.0%	17.4%	(6.7)	(5.2)	-21.6%	-37.1%
Normalised net income	(8.8)	(7.6)	-12.9%	62.5%	(6.6)	(5.2)	-20.4%	-31.3%
Reported net income	(9.4)	(8.2)	-12.1%	21.2%	(6.7)	(5.2)	-21.6%	-36.3%
Normalised basic & diluted EPS (p)	(8.1)	(7.1)	-12.9%	1.0%	(6.1)	(4.9)	-20.4%	-31.3%
Reported basic EPS (p)	(8.7)	(7.6)	-12.1%	-23.6%	(6.2)	(4.9)	-21.6%	-36.3%
Net debt/(cash)	(15.0)	(15.2)	1.3%	-37.0%	(8.5)	(9.5)	12.1%	-37.4%
ARR	12.0	10.8	-9.9%	18.8%	15.9	13.3	-16.1%	23.2%

Source: Edison Investment Research

**Exhibit 3: Financial summary**

	£'m	2019	2020	2021	2022e	2023e	2024e
31-January		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>							
Revenue		1.0	9.8	13.2	13.6	10.4	12.5
Cost of Sales		(1.0)	(7.2)	(6.7)	(7.4)	(4.2)	(4.4)
Gross Profit		0.0	2.6	6.5	6.2	6.3	8.1
EBITDA		(2.3)	(4.9)	(2.5)	(4.2)	(6.5)	(3.7)
Normalised operating profit		(4.4)	(6.5)	(3.1)	(4.7)	(7.6)	(5.2)
Amortisation of acquired intangibles		(0.1)	(1.0)	(1.3)	(1.4)	(0.6)	(0.0)
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)	(8.3)	(5.2)
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)	(7.6)	(5.2)
Profit Before Tax (reported)		(4.5)	(9.1)	(5.3)	(7.1)	(8.3)	(5.2)
Reported tax		0.0	0.1	0.3	0.3	0.1	0.0
Profit After Tax (norm)		(4.4)	(6.4)	(3.1)	(4.7)	(7.6)	(5.2)
Profit After Tax (reported)		(4.5)	(9.0)	(5.0)	(6.8)	(8.2)	(5.2)
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)	(7.6)	(5.2)
Net income (reported)		4.1	80.8	(4.4)	(6.8)	(8.2)	(5.2)
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)	(7.1)	(4.9)
EPS - diluted normalised (p)		(2.5)	(4.0)	(5.2)	(7.0)	(7.1)	(4.9)
EPS - basic reported (p)		2.3	50.2	(7.2)	(10.0)	(7.6)	(4.9)
Dividend (p)		0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	880.0	34.7	2.7	(22.9)	19.4
Gross Margin (%)		0.0	26.5	49.2	45.8	60.2	65.0
EBITDA Margin (%)		(230.0)	(50.0)	(18.9)	(31.0)	(62.6)	(30.0)
Normalised Operating Margin		(440.0)	(66.3)	(23.5)	(34.7)	(73.2)	(42.1)
<b>BALANCE SHEET</b>							
Fixed Assets		5.0	8.5	6.8	8.3	9.6	10.3
Intangible Assets		2.9	7.3	6.0	7.3	8.4	8.9
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	19.0	13.3
Stocks		4.3	1.7	1.1	1.8	1.4	1.2
Debtors		5.1	3.4	4.4	2.6	2.3	2.6
Cash & cash equivalents		10.1	14.3	11.5	24.2	15.2	9.5
Other		0.0	0.4	0.5	0.1	0.0	0.0
Current Liabilities		(7.9)	(5.6)	(5.9)	(5.4)	(5.2)	(5.4)
Creditors		(7.6)	(5.1)	(5.6)	(4.9)	(4.7)	(4.9)
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	22.9	17.6
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		16.3	21.4	17.6	31.0	22.9	17.6
<b>CASH FLOW</b>							
Op Cash Flow before WC and tax		(2.3)	(4.9)	(2.5)	(4.2)	(6.5)	(3.7)
Working capital		(0.5)	(1.0)	0.3	0.2	0.4	0.2
Exceptional & other		9.1	5.3	(0.7)	(1.0)	0.0	0.0
Tax		(0.5)	(0.5)	0.0	0.1	0.1	0.0
Net operating cash flow		5.8	(1.1)	(2.9)	(4.9)	(6.1)	(3.5)
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	(9.0)	(5.7)
Opening net debt/(cash)		(5.2)	(10.1)	(14.3)	(11.5)	(24.2)	(15.2)
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)	(15.2)	(9.5)

Source: Checkit, Edison Investment Research

## General disclaimer and copyright

This report has been commissioned by Checkit and prepared and issued by Edison, in consideration of a fee payable by Checkit. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2022 Edison Investment Research Limited (Edison).

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia