

# Checkit

US acquisition

## Building foundations in the US

Checkit has acquired Tutela, its US distributor, for \$0.85m/£0.62m in cash and intends to use it as a springboard for its plans to grow the wider business in the US. At the same time, Checkit has strengthened its management team, hiring a managing director to run the US operations and a group chief commercial officer (CCO). With a significantly larger addressable market than the UK, Checkit is keen to drive adoption of its connected solutions by large US enterprises.

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | EV/sales (x) |
|----------|--------------|-----------|----------|---------|---------|--------------|
| 01/19    | 1.0          | (4.4)     | (2.5)    | 0.0     | N/A     | N/A          |
| 01/20    | 9.8          | (5.1)     | (3.1)    | 0.0     | N/A     | 1.7          |
| 01/21e   | 13.0         | (3.8)     | (6.0)    | 0.0     | N/A     | 1.3          |
| 01/22e   | 14.1         | (3.2)     | (5.2)    | 0.0     | N/A     | 1.2          |

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

## Acquisition of Tutela US

Checkit has acquired Tutela Monitoring Systems (Tutela), its exclusive distributor in the US, for consideration of \$0.85m/£0.62m from existing cash resources. Tutela was previously owned by Next Control Systems (acquired by Checkit in May 2019) before a management buyout in August 2018. Florida-based Tutela provides wireless temperature monitoring sensors for all applications and facilities that store sensitive inventory for healthcare businesses, similar to the UK-based CAM+ business already owned by Checkit. Checkit intends to use Tutela as a platform to pursue all target industries and verticals in the US. In CY20, Tutela generated revenue of \$2m/£1.46m and PBT of \$0.27m/£0.2m; on a consolidated basis, this would equate to revenue of c £1m. Netting off \$0.25m cash in the Tutela business and applying the 3x EBITDA multiple paid, this implies EBITDA of \$0.2m and an EBITDA margin of 10%. We maintain our forecasts pending the year-end trading update expected later this month.

## Building out the management team

Checkit has recently made two additions to its management team: Kit Kyte has joined as CCO, based in the UK, and Steve Peck as managing director of the US business. Based in the US, he will oversee the acquired business's operations and spearhead the overall US growth strategy.

## Valuation: Sum of the parts suggests upside

On an EV/sales multiple of 1.3x in FY21e, Checkit trades at a significant discount to the UK software sector (5.7x forward 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 FY21e multiple for Checkit Connect and 1x for Checkit BEMS would result in a valuation of 72p per share.

## Software & comp services

4 February 2021

**Price** **50p**

**Market cap** **£31m**

\$1.28:£1

Net cash (£m) at end Q321 12.4

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 (2.0) 12.4 63.9

Rel (local) (2.8) (1.3) 80.3

52-week high/low 54p 24p

## Business description

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

## Next events

FY21 trading update February

## Analysts

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**Exhibit 1: Financial summary**

|  | £m | 2019   | 2020   | 2021e  | 2022e  |
|--|----|--------|--------|--------|--------|
| 31-January                                     |    | IFRS   | IFRS   | IFRS   | IFRS   |
| <b>INCOME STATEMENT</b>                        |    |        |        |        |        |
| Revenue  |    | 1.0    | 9.8    | 13.0   | 14.1   |
| Cost of Sales                                  |    | (1.0)  | (7.2)  | (8.3)  | (8.9)  |
| Gross Profit                                   |    | 0.0    | 2.6    | 4.6    | 5.2    |
| EBITDA   |    | (2.3)  | (2.6)  | (3.0)  | (2.4)  |
| Normalised operating profit                    |    | (4.4)  | (5.2)  | (3.8)  | (3.2)  |
| Amortisation of acquired intangibles           |    | (0.1)  | (1.0)  | 0.0    | 0.0    |
| Exceptionals                                   |    | 0.0    | (10.3) | (0.8)  | (0.4)  |
| Share-based payments                           |    | 0.0    | 0.0    | 0.0    | 0.0    |
| Reported operating profit                      |    | (4.5)  | (16.5) | (4.5)  | (3.6)  |
| Net Interest                                   |    | 0.0    | 0.1    | 0.0    | 0.0    |
| Joint ventures & associates (post tax)         |    | 0.0    | 0.0    | 0.0    | 0.0    |
| Exceptionals                                   |    | 0.0    | 0.0    | 0.0    | 0.0    |
| Profit Before Tax (norm)                       |    | (4.4)  | (5.1)  | (3.8)  | (3.2)  |
| Profit Before Tax (reported)                   |    | (4.5)  | (16.4) | (4.5)  | (3.6)  |
| Reported tax                                   |    | 0.0    | 0.7    | 0.0    | 0.0    |
| Profit After Tax (norm)                        |    | (4.4)  | (5.0)  | (3.8)  | (3.2)  |
| Profit After Tax (reported)                    |    | (4.5)  | (15.7) | (4.5)  | (3.6)  |
| Minority interests                             |    | 0.0    | 0.0    | 0.0    | 0.0    |
| Discontinued operations                        |    | 8.6    | 89.4   | 0.9    | 0.0    |
| Net income (normalised)                        |    | (4.4)  | (5.0)  | (3.8)  | (3.2)  |
| Net income (reported)                          |    | 4.1    | 73.7   | (3.6)  | (3.6)  |
| Basic average number of shares outstanding (m) |    | 178    | 161    | 62     | 62     |
| EPS - basic normalised (p)                     |    | (2.48) | (3.10) | (6.05) | (5.21) |
| EPS - diluted normalised (p)                   |    | (2.48) | (3.10) | (6.05) | (5.21) |
| EPS - basic reported (p)                       |    | 2.31   | 45.78  | (5.81) | (5.85) |
| Dividend (p)                                   |    | 0.00   | 0.00   | 0.00   | 0.00   |
| Revenue growth (%)                             |    | N/A    | 880.0  | 32.3   | 8.6    |
| Gross Margin (%)                               |    | 0.0    | 26.5   | 35.8   | 36.8   |
| EBITDA Margin (%)                              |    | -230.0 | -26.5  | -22.8  | -17.3  |
| Normalised Operating Margin                    |    | -440.0 | -53.1  | -28.9  | -22.9  |
| <b>BALANCE SHEET</b>                           |    |        |        |        |        |
| Fixed Assets                                   |    | 5.0    | 1.2    | 1.2    | 1.2    |
| Intangible Assets                              |    | 2.9    | 0.0    | 0.0    | 0.0    |
| Tangible Assets                                |    | 1.7    | 1.2    | 1.2    | 1.2    |
| Investments & other                            |    | 0.4    | 0.0    | 0.0    | 0.0    |
| Current Assets                                 |    | 19.5   | 19.4   | 16.6   | 13.1   |
| Stocks   |    | 4.3    | 1.7    | 2.1    | 2.2    |
| Debtors  |    | 5.1    | 3.4    | 3.4    | 3.6    |
| Cash & cash equivalents                        |    | 10.1   | 14.3   | 10.5   | 7.1    |
| Other  |    | 0.0    | 0.0    | 0.6    | 0.2    |
| Current Liabilities                            |    | (7.9)  | (5.6)  | (6.0)  | (6.2)  |
| Creditors                                      |    | (7.6)  | (5.1)  | (5.5)  | (5.7)  |
| Tax and social security                        |    | (0.3)  | 0.0    | 0.0    | 0.0    |
| Short term borrowings                          |    | 0.0    | 0.0    | 0.0    | 0.0    |
| Other  |    | 0.0    | (0.5)  | (0.5)  | (0.5)  |
| Long Term Liabilities                          |    | (0.3)  | (0.7)  | (0.7)  | (0.7)  |
| Long term borrowings                           |    | 0.0    | 0.0    | 0.0    | 0.0    |
| Other long term liabilities                    |    | (0.3)  | (0.7)  | (0.7)  | (0.7)  |
| Net Assets                                     |    | 16.3   | 14.3   | 11.1   | 7.5    |
| Minority interests                             |    | 0.0    | 0.0    | 0.0    | 0.0    |
| Shareholders' equity                           |    | 16.3   | 14.3   | 11.1   | 7.5    |
| <b>CASH FLOW</b>                               |    |        |        |        |        |
| Op Cash Flow before WC and tax                 |    | (2.3)  | (2.6)  | (3.0)  | (2.4)  |
| Working capital                                |    | (0.5)  | (1.0)  | 0.0    | (0.2)  |
| Exceptional & other                            |    | 9.1    | 4.3    | (0.8)  | (0.4)  |
| Tax  |    | (0.5)  | (0.5)  | 0.0    | 0.0    |
| Net operating cash flow                        |    | 5.8    | 0.2    | (3.7)  | (3.0)  |
| Capex  |    | (2.2)  | (1.6)  | (0.3)  | (0.3)  |
| Acquisitions/disposals                         |    | 1.3    | 84.2   | 0.2    | 0.4    |
| Net interest                                   |    | 0.0    | 0.1    | 0.0    | 0.0    |
| Equity financing                               |    | 0.0    | (77.9) | 0.5    | 0.0    |
| Dividends                                      |    | 0.0    | 0.0    | 0.0    | 0.0    |
| Other  |    | 0.0    | (0.8)  | (0.5)  | (0.5)  |
| Net Cash Flow                                  |    | 4.9    | 4.2    | (3.8)  | (3.4)  |
| Opening net debt/(cash)                        |    | (5.2)  | (10.1) | (14.3) | (10.5) |
| FX   |    | 0.0    | 0.0    | 0.0    | 0.0    |
| Other non-cash movements                       |    | 0.0    | 0.0    | 0.0    | 0.0    |
| Closing net debt/(cash)                        |    | (10.1) | (14.3) | (10.5) | (7.1)  |

Source: Checkit, Edison Investment Research

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