

Checkit

FY22 trading update

FY22 ARR growth of 44%

Checkit's FY22 trading update confirmed it closed the year broadly in line with our revenue forecasts and, due to several contracts signed close to year end, beat our annualised recurring revenue (ARR) forecast with 44% y-o-y growth to £8.2m, versus our £7.6m forecast. We maintain our estimates for FY22 and FY23, noting the higher level of ARR at year-end supports our FY23 revenue growth forecast.

Year end	Revenue (£m)	ARR* (£m)	PBT** (£m)	EPS** (p)	DPS (p)	EV/sales (x)
01/20	9.8	3.9	(6.4)	(4.0)	0.0	2.4
01/21	13.2	5.7	(3.1)	(5.2)	0.0	1.8
01/22e	13.3	8.2	(4.5)	(6.6)	0.0	1.8
01/23e	11.2	12.0	(8.8)	(8.1)	0.0	2.1

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

Revised reporting reflects shift to SaaS business

FY22 revenue of £13.3m (+1% y-o-y) was marginally ahead of our £13.2m forecast. Recurring revenue grew 33% y-o-y and non-recurring revenue declined 20%. As previously flagged, the company is transitioning to a pure SaaS model and in H222 significantly reduced the project work carried out by the BEMS division. Consequently, Checkit will no longer report across the Connect and BEMS divisions, instead disclosing revenue split by recurring/non-recurring. Recurring revenue made up 51% of FY22 revenue, rising to 75% of Q422 revenue. End FY22 cash stood at £24.2m, marginally ahead of our £24.1m forecast.

ARR growth accelerates in Q422

Checkit reported ARR of £8.2m at the end of FY22 (+44% y-o-y, +24% h-o-h), ahead of our £7.6m forecast, as it benefited from several contract wins at the end of Q4. These had a minimal impact on FY22 recurring revenue but should support recurring revenue growth in FY23. We note the majority of the Grifols deal announced earlier this month will add to ARR in FY23. With detail on profitability due with FY22 results on 28 April, our forecasts are substantially unchanged.

Valuation: Recurring revenue growth the trigger

On an EV/sales multiple of 1.8x for FY22e and 2.1x for FY23e, Checkit trades at a significant discount to the UK software sector (4.9x current year sales, 4.0x next year sales) and US SaaS peers (12.7x current year, 9.8x next year sales). We note the multiple for the UK software sector is down c 10% and for US SaaS peers down c 20% since [we wrote in December](#), reflecting the market shift from growth to value. If Checkit were to trade on the UK average for FY23e, it would be worth 63.5p per share, and moving to trade in line with US SaaS peers would imply a valuation of c 154p. 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 & comp services

17 February 2022

Price **44p**
Market cap **£48m**

\$1.36:£1

Net cash (£m) at end FY22 24.2

Shares in issue 108.0m

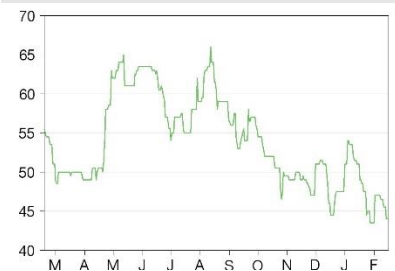
Free float 56%

Code CKT

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (13.7) (10.2) (20.7)

Rel (local) (13.6) (11.6) (28.4)

52-week high/low 66p 44p

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

FY22 results 28 April

Analyst

Katherine Thompson +44 (0)20 3077 5730

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

CheckitCheckit is a research client of Edison Investment Research Limited

FY22 trading update

Checkit reported the following update for FY22:

Exhibit 1: FY22 trading update						
£m	FY22	FY22e	FY21	FY21 normalised*	y-o-y	y-o-y normalised
Recurring revenue	6.8	6.7	5.1	5.2	33.3%	30.8%
Non-recurring revenue	6.5	6.6	8.1	9.2	-19.8%	-29.3%
Total revenue	13.3	13.2	13.2	14.4	0.8%	-7.6%
ARR** at y/e	8.2	7.6	5.7	5.8	43.9%	41.4%
Cash	24.2	24.1	11.5	N/A	110.4%	

Source: Checkit. Note: *Treats Checkit US (acquired 4 February 2021) as owned for all of FY21. **ARR measured as annual value of recurring revenue relating to contracts that have been installed and are therefore invoiceable.

As flagged at the end of last year when the company raised £20m from the issue of 45.6m shares, Checkit is phasing out the project work undertaken by the BEMS division and transitioning its smart buildings services to a SaaS solution. The company is therefore no longer reporting the two divisions – Checkit Connect and Checkit BEMS – instead reporting revenue split as recurring and non-recurring.

For FY22, the company grew recurring revenue by 33.3%, or 30.8% on a normalised basis that treats Checkit US as owned for both periods. The company noted that US recurring revenue grew 82% y-o-y on a normalised basis. Recurring revenue made up 51% of revenue for the full year, but 75% for Q422 reflecting the phasing out of the BEMS one-off projects and growth in ARR.

Non-recurring revenue declined 19.8% or 29.3% on a normalised basis, reflecting the move away from non-recurring work in the BEMS division and the transition of some Checkit Connect business (particularly in the US) from a project basis to a subscription basis.

ARR at year-end was 43.9% higher y-o-y (41.4% on a normalised basis) and 7.9% ahead of our forecast. Several contracts were signed at the very end of the year, so these have not yet had the chance to positively affect recurring revenue. The company noted that bookings, although not disclosed by value, increased by 95% y-o-y, providing good visibility for FY23.

Net cash of £24.2m at year-end was marginally ahead of our £24.1m forecast, leaving the company well-funded to pursue its growth plans.

Changes to forecasts

We have made minimal changes to our FY22 forecasts, reflecting reported revenue and cash for FY22. We leave our FY23 forecasts substantially unchanged.

Exhibit 2: Changes to forecasts

£m	FY22e		Change	y-o-y	FY23e		Change	y-o-y
	Old	New			Old	New		
Revenues	13.2	13.3	0.4%	0.7%	11.2	11.2	0.5%	-15.6%
Gross profit	6.2	6.2	0.8%	32.4%	8.4	8.4	0.5%	35.2%
Gross margin	46.7%	46.8%	0.2%	11.2%	75.0%	75.0%	0.0%	28.2%
EBITDA	(3.7)	(3.7)	0.0%	46.1%	(7.8)	(7.8)	0.1%	113.3%
EBITDA margin	-27.6%	-27.5%	0.1%	-8.5%	-69.7%	-69.4%	0.3%	-41.9%
Normalised operating profit	(4.5)	(4.5)	0.0%	43.7%	(8.8)	(8.8)	0.1%	97.4%
Normalised operating profit margin	-33.6%	-33.5%	0.1%	-10.0%	-78.6%	-78.3%	0.3%	-44.8%
Reported operating profit	(6.4)	(6.4)	0.0%	19.9%	(9.4)	(9.4)	0.1%	47.8%
Reported operating margin	-48.0%	-47.8%	0.2%	-7.6%	-84.0%	-83.7%	0.3%	-35.9%
Normalised PBT	(4.5)	(4.5)	0.0%	43.7%	(8.8)	(8.8)	0.1%	97.4%
Reported PBT	(6.4)	(6.4)	0.0%	19.9%	(9.4)	(9.4)	0.1%	47.8%
Normalised net income	(4.5)	(4.5)	0.0%	43.7%	(8.8)	(8.8)	0.1%	97.4%
Reported net income	(6.1)	(6.1)	0.0%	39.6%	(9.4)	(9.4)	0.1%	52.9%
Normalised basic & diluted EPS (p)	(6.6)	(6.6)	0.0%	27.5%	(8.1)	(8.1)	0.1%	22.8%
Reported basic EPS (p)	(9.1)	(9.1)	0.0%	27.8%	(8.7)	(8.7)	0.1%	-4.9%
Net debt/(cash)	(24.1)	(24.2)	0.4%	110.2%	(15.3)	(15.3)	-0.1%	-36.6%
ARR	7.6	8.2	7.2%	43.9%	12.0	12.0	0.4%	46.4%

Source: Edison Investment Research

Exhibit 3: Financial summary

	£'m	2019	2020	2021	2022e	2023e
31-January		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		1.0	9.8	13.2	13.3	11.2
Cost of Sales		(1.0)	(7.2)	(8.5)	(7.1)	(2.8)
Gross Profit		0.0	2.6	4.7	6.2	8.4
EBITDA		(2.3)	(4.9)	(2.5)	(3.7)	(7.8)
Normalised operating profit		(4.4)	(6.5)	(3.1)	(4.5)	(8.8)
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	(0.1)	(0.1)
Reported operating profit		(4.5)	(9.2)	(5.3)	(6.4)	(9.4)
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)	(8.8)
Profit Before Tax (reported)		(4.5)	(9.1)	(5.3)	(6.4)	(9.4)
Reported tax		0.0	0.1	0.3	0.2	0.0
Profit After Tax (norm)		(4.4)	(6.4)	(3.1)	(4.5)	(8.8)
Profit After Tax (reported)		(4.5)	(9.0)	(5.0)	(6.1)	(9.4)
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)	(8.8)
Net income (reported)		4.1	80.8	(4.4)	(6.1)	(9.4)
Basic average number of shares outstanding (m)		178	161	62	67	108
EPS - basic normalised (p)		(2.5)	(4.0)	(5.2)	(6.6)	(8.1)
EPS - diluted normalised (p)		(2.5)	(4.0)	(5.2)	(6.6)	(8.1)
EPS - basic reported (p)		2.3	50.2	(7.2)	(9.1)	(8.7)
Dividend (p)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	880.0	34.7	0.7	(15.6)
Gross Margin (%)		0.0	26.5	35.6	46.8	75.0
EBITDA Margin (%)		(230.0)	(50.0)	(18.9)	(27.5)	(69.4)
Normalised Operating Margin		(440.0)	(66.3)	(23.5)	(33.5)	(78.3)
BALANCE SHEET						
Fixed Assets		5.0	8.5	6.8	8.5	9.7
Intangible Assets		2.9	7.3	6.0	7.6	8.6
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	30.0	19.9
Stocks		4.3	1.7	1.1	1.4	0.7
Debtors		5.1	3.4	4.4	4.4	3.8
Cash & cash equivalents		10.1	14.3	11.5	24.2	15.3
Other		0.0	0.4	0.5	0.1	0.0
Current Liabilities		(7.9)	(5.6)	(5.9)	(6.1)	(6.6)
Creditors		(7.6)	(5.1)	(5.6)	(5.8)	(6.3)
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	31.6	22.2
Minority interests		0.0	0.0	0.0	0.0	0.0
Shareholders' equity		16.3	21.4	17.6	31.6	22.2
CASH FLOW						
Op Cash Flow before WC and tax		(2.3)	(4.9)	(2.5)	(3.7)	(7.8)
Working capital		(0.5)	(1.0)	0.3	(0.0)	1.6
Exceptional & other		9.1	5.3	(0.7)	(0.4)	(0.1)
Tax		(0.5)	(0.5)	0.0	0.2	0.0
Net operating cash flow		5.8	(1.1)	(2.9)	(3.9)	(6.3)
Capex		(2.2)	(0.3)	(0.3)	(2.8)	(2.3)
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	20.0	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)	12.7	(8.9)
Opening net debt/(cash)		(5.2)	(10.1)	(14.3)	(11.5)	(24.2)
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)	(24.2)	(15.3)

Source: Checkit, Edison Investment Research

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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