

Checkit

H122 trading update

Further growth in recurring revenues

Software & comp services

In H122, Checkit made further progress in its strategy to become a pure SaaS business, with 16% h-o-h growth in annual recurring revenue (ARR) and 13% group revenue growth year-on-year on a normalised basis. Management reiterated that it continues to invest in sales, marketing and product development to take advantage of the opportunity in the deskless worker software market. We maintain our forecasts pending H122 results.

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	2.9
01/21	13.2	(3.1)	(5.2)	0.0	N/A	2.1
01/22e	15.2	(4.5)	(7.2)	0.0	N/A	1.9
01/23e	17.8	(2.7)	(4.3)	0.0	N/A	1.6

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

ARR growth of 16% h-o-h to £6.6m

Checkit disclosed revenue of £3.6m for Q222: group revenue grew 9% y-o-y on a normalised basis and 24% on a reported basis. H122 revenue grew 13% on a normalised basis, with 10% growth for Checkit Connect (core business +12%, Checkit US -2%) and 19% growth for Checkit BEMS. ARR at the end of H122 was £6.6m, up 16% h-o-h. Cash at the end of H122 was £8.5m.

Recurring revenue continues to grow

Recurring revenue made up 44% of Q222 revenue and 39% of H122 (Checkit BEMS undertook a one-off project that boosted non-recurring revenues in Q122). While Checkit US saw a decline in revenue in H122, in constant currency the business grew. Checkit US H122 recurring revenue grew 13% y-o-y as a result of new subscriptions. The core Checkit Connect business saw 32% y-o-y growth in recurring revenue in H122 as new subscriptions went live; at the same time, non-recurring revenue declined 35% y-o-y, reflecting the shift to a subscription model. The company noted that Checkit BEMS is likely to see lower revenue in H222, with the focus of the BEMS business increasingly on smart building technology through the Checkit Connect platform. When its transformation is complete, management expects to merge the BEMS business with Checkit Connect. We maintain our forecasts pending Checkit's H122 results on 16 September.

Valuation: Sum-of-parts suggests upside

On an EV/sales multiple of 1.9x for FY22e and 1.6x for FY23e, Checkit trades at a significant discount to the UK software sector (5.7x 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 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.

12 August 2021

Price **63.5p**
Market cap **£40m**

Net cash (£m) at end FY21 11.5

Shares in issue 62.4m

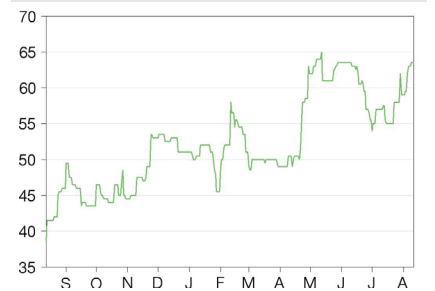
Free float 56.2%

Code CKT

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 11.4 (0.8) 64.9

Rel (local) 9.4 (5.1) 36.7

52-week high/low 65p 39p

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 event

H122 results 16 September 2021

Analyst

Katherine Thompson +44 (0)20 3077 5730

tech@edisongroup.com
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Exhibit 1 shows revenue performance by division in Q221 and H221.

Exhibit 1: Q221 and H221 revenue by division						
£m	Q222	Q221*	y-o-y	H122	H121*	y-o-y
Checkit Connect						
Core business						
Recurring	1.5	1.1	36%	2.9	2.2	32%
Non-recurring	0.3	0.3	0%	0.6	0.9	(35%)
	1.8	1.4	29%	3.5	3.1	12%
Checkit US (Tutela)						
Recurring	0.1	0.1	0%	0.2	0.2	13%
Non-recurring	0.4	0.5	(20%)	0.7	0.7	(7%)
	0.5	0.6	(17%)	0.9	0.9	(2%)
Checkit Connect total						
Recurring	1.6	1.2	33%	3.1	2.4	29%
Non-recurring	0.7	0.8	(13%)	1.3	1.6	(19%)
	2.3	2.0	15%	4.4	4.0	10%
Checkit BEMS						
Non-recurring	1.3	1.3	0%	3.5	3.0	19%
Group revenue						
Total recurring revenue	1.6	1.2	33%	3.1	2.4	31%
Total non-recurring revenue	2.0	2.1	(5%)	4.8	4.6	4%
Recurring/total	44%	36%		39%	34%	

Source: Checkit. Note: *Checkit US was acquired 4 February 2021; growth rates shown on a normalised basis as if Checkit US was owned in the prior periods.

Exhibit 2: 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	17.2
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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