

Checkit

H125 results

Contract expansions drive order intake

Software and comp services

12 September 2024

In H125, Checkit reported year-on-year growth in annual recurring revenue (ARR) of 9%, with strong order intake partially offset by higher churn. Existing customers contributed more than half of ARR growth, evidence of the land and expand strategy at work. The company maintains its short- and medium-term outlook, including its target to reach EBITDA break-even in FY27, with the narrowing H125 EBITDA loss confirming progress towards this. We maintain our ARR, revenue and EBITDA forecasts and reduce our cash forecasts to reflect one-offs and higher R&D investment.

Year end	Revenue (£m)	ARR (£m)	PBT* (p)	EPS* (p)	DPS (p)	EV/sales (x)
01/23**	10.3	11.5	(7.3)	(6.9)	0	1.7
01/24	12.0	13.3	(4.2)	(4.1)	0	1.5
01/25e	14.2	15.3	(3.8)	(3.5)	0	1.3
01/26e	16.9	17.5	(2.6)	(2.4)	0	1.1

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

H125 order intake up 38% y-o-y

In H125, Checkit reported ARR growth of 9% y-o-y to £13.8m, with new order intake of £1.2m (+38% y-o-y) partially offset by higher-than-average churn (gross revenue retention (GRR) was 95%). Revenue increased 16% y-o-y to £6.7m and the EBITDA loss reduced to £1.4m from £1.9m in H124. Net cash at the end of H125 was £7.0m. Net revenue retention (NRR) was 109% and more than half of ARR growth was from upselling and cross-selling to existing customers, as they expanded their use of Checkit's technology to additional sites and added extra functionality, including the first sales of the recently launched Asset Intelligence module.

Outlook maintained for FY25

Management anticipates achieving consensus revenue and EBITDA forecasts for FY25 and believes it is on track to reach EBITDA break-even in FY27, with adequate cash resources to achieve this. We maintain our ARR, revenue and EBITDA forecasts for FY25–27 and reduce our net cash forecasts to reflect one-off costs in H125 and slightly higher capitalisation of development costs as the company focuses on product development.

Valuation: ARR growth to reduce the discount

On an EV/sales multiple of 1.3x for FY25e and 1.1x for FY26e, Checkit trades at a material discount to the UK software sector (3.1x current year sales, 2.8x next year sales) and US SaaS peers (5.8x current year, 5.0x next year). If Checkit were to trade on the UK average for FY25, it would be worth 47p per share and moving to trade in line with US SaaS peers would imply a valuation of 83p. We would expect the shares to re-rate as the company approaches break-even. 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.

Price **23p**
Market cap **£25m**

Net cash (£m) at end H125 7.0

Shares in issue 108.0m

Free float 56%

Code CKT

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (11.5) 0.0 (11.5)

Rel (local) (11.7) (0.7) (19.3)

52-week high/low 30.5p 18.5p

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

FY25 trading update February 2025

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Review of H125 results

Exhibit 1 summarises Checkit's financial performance in H125. Management noted that trading was in line with its expectations.

Exhibit 1: H125 results highlights			
£m	H125	H124	y-o-y
Revenue	6.7	5.7	16%
Gross profit	4.5	3.9	12%
Gross margin	68%	69%	-1pp
Adjusted EBITDA	(1.4)	(1.9)	-24%
Normalised operating profit	(2.2)	(2.5)	-11%
Reported operating profit	(2.7)	(2.7)	2%
Normalised PBT	(2.2)	(2.3)	-3%
Reported PBT	(2.7)	(2.5)	10%
Normalised net income	(2.3)	(2.3)	3%
Reported net income	(2.6)	(2.4)	10%
Normalised basic EPS (p)	(2.2)	(2.1)	3%
Reported basic EPS (p)	(2.4)	(2.3)	4%
Net cash	7.0	12.8	-45%
Period end ARR	13.8	12.6	9%
Recurring revenue/total revenue	94%	95%	

Source: Checkit

Revenue increased 16% y-o-y, while ARR increased 9% y-o-y. Gross profit increased by 12%, with the gross margin reducing by 1pp to 68% as the company incurred set-up costs in Australia and New Zealand for one of its largest contracts. Operating costs before depreciation and amortisation totalled £5.9m, broadly in line with H124. Overall, this resulted in the adjusted EBITDA loss reducing from £1.9m in H124 to £1.4m in H125 and normalised operating loss reducing from £2.5m in H124 to £2.2m in H125. The company reported two one-off items – £0.2m in costs for the HMRC VAT recoverability case (which the company won) and £0.2m in costs relating to restructuring and the bid for Crimson Tide (since withdrawn) – and share-based payments of £0.1m. After these charges, the company reported an operating loss of £2.7m, flat versus H124.

Net cash reduced from £12.8m at the end of H124 and £9.0m at the end of FY24 to £7.0m at the end of H125. Benefiting from a working capital inflow of £1.2m, the company reported a £0.5m net cash outflow from operating activities, capex of £0.2m, capitalised development costs of £1.2m and lease payments of £0.1m, resulting in a total reduction in cash of £2.0m in H125.

Business update

ARR order intake £1.2m (+38% y-o-y)

The ARR of orders received in H125 was £1.2m, up 38% y-o-y. The company noted that more than half of this came from cross-selling and upselling to existing customers and the remainder from sales to new customers and price increases.

During H125, ARR increased by £0.5m from £13.3m at the end of FY24 to £13.8m at the end of H125 and was 9% higher year-on-year. The company noted that NRR was 109%, compared to 113% in H124 and 111% in FY24.

The company saw GRR of 95%, with churn of 5% equating to lost ARR of c £0.7m. This is a higher level of churn than in FY24, when it ran at c 1%. Churn was generated from a) a retail customer not renewing a non-core managed service and b) several small low-margin hospitality customers not renewing. We would expect churn to return to more normalised levels from H225.

The company continues to focus on expansion in the US market, growing ARR by 13% y-o-y to £3.7m (27% of group ARR).

Upselling and cross-selling more than half of ARR growth

In April, Checkit signed a contract with an existing customer, an integrated energy company (we believe BP), worth £252k over three years (c £84k per year). This is to provide real-time operations management capability to 50 franchisees in the UK and is being installed in tranches over FY25. Franchises for this customer represent double the opportunity compared to owned locations globally. In July, the contract was extended to 150 additional franchises for a further £250k per year, to be installed in tranches over 32 months.

In April, Checkit also announced that it had signed contracts with a combined minimum value of £165k over three years with a multinational food service company (we believe Compass) for the provision of connected automated monitoring and connected workflow management products to end-users in four additional locations.

In June, the company announced a contract expansion with Octapharma Plasma in the US. Octapharma is expanding its use of the Checkit platform by integrating tactical temperature monitoring units into its existing monitoring system. The contract is worth £718k over three years (c £239k per year).

First Asset Intelligence customers signed up

The recently launched Asset Intelligence module applies advanced analytics and machine learning to IoT data to analyse the condition of monitored appliances to predict issues before they escalate, identify operational inefficiencies and provide greater visibility of asset performance. In June, Checkit signed its first customer for this module and has since signed a second customer.

Outlook and changes to forecasts

The board expects to meet consensus forecasts for FY25. It continues to believe that Checkit will reach EBITDA break-even in FY27 (CY26) and is confident the company has sufficient resources to achieve this. We maintain our ARR, revenue and EBITDA forecasts. Based on the level of capitalised development costs in H125, we have increased our annual forecasts for capitalised development costs from £1.6m to £2.0m in FY25. The combination of one-off costs and higher capitalised development costs results in a lower net cash forecast for FY25, reducing from £5.5m to £5.0m, as well as reducing forecasts for FY26 and FY27.

Exhibit 2: Changes to forecasts

£m	FY25e				FY26e				FY27e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	14.2	14.2	0.1%	18.1%	16.9	16.9	0.1%	19.2%	19.0	19.0	0.1%	12.3%
Gross profit	9.7	9.7	-0.2%	21.1%	11.7	11.7	0.1%	20.3%	13.6	13.6	0.1%	16.4%
Gross margin	68.5%	68.3%	-0.2%	1.7%	69.0%	69.0%	0.0%	0.7%	71.5%	71.5%	0.0%	2.5%
EBITDA	(2.3)	(2.3)	0.1%	-32.7%	(0.9)	(0.9)	0.1%	-59.0%	0.8	0.8	0.1%	-190.0%
EBITDA margin	-16.1%	-16.1%	0.0%	12.2%	-5.6%	-5.6%	0.0%	10.6%	4.5%	4.5%	0.0%	10.0%
Normalised operating profit	(3.8)	(3.9)	2.7%	-17.3%	(2.7)	(2.8)	3.7%	-27.0%	(1.2)	(1.2)	0.0%	-59.3%
Normalised operating margin	-26.7%	-27.4%	-0.7%	11.7%	-16.2%	-16.8%	-0.6%	10.6%	-6.1%	-6.1%	0.0%	10.7%
Reported operating profit	(4.0)	(4.6)	16.1%	-9.3%	(2.9)	(3.1)	4.8%	-33.5%	(1.4)	(1.4)	2.9%	-54.7%
Reported operating margin	-28.1%	-32.7%	-4.5%	9.8%	-17.4%	-18.2%	-0.8%	14.4%	-7.1%	-7.4%	-0.2%	10.9%
Normalised PBT	(3.4)	(3.8)	11.9%	-10.4%	(2.5)	(2.6)	4.0%	-30.3%	(1.0)	(1.0)	-0.1%	-63.8%
Reported PBT	(3.6)	(4.5)	26.3%	-2.2%	(2.7)	(2.9)	5.1%	-36.4%	(1.2)	(1.2)	3.4%	-58.5%
Normalised net income	(3.4)	(3.8)	11.9%	-14.5%	(2.5)	(2.6)	4.0%	-30.3%	(1.0)	(1.0)	-0.1%	-63.8%
Reported net income	(3.6)	(4.4)	23.5%	-2.2%	(2.7)	(2.9)	5.1%	-35.0%	(1.2)	(1.2)	3.4%	-58.5%
Normalised basic EPS (p)	(3.1)	(3.5)	11.9%	-14.5%	(2.3)	(2.4)	4.0%	-30.3%	(0.9)	(0.9)	-0.1%	-63.8%
Reported basic EPS (p)	(3.3)	(4.1)	23.5%	-2.2%	(2.5)	(2.7)	5.1%	-35.0%	(1.1)	(1.1)	3.4%	-58.5%
Net debt/(cash)	(5.5)	(5.0)	-8.8%	-44.1%	(4.0)	(3.5)	-12.8%	-30.4%	(4.6)	(3.8)	-18.3%	8.3%
ARR	15.3	15.3	0.1%	15.1%	17.5	17.5	0.1%	14.5%	20.1	20.1	0.1%	14.5%

Source: Edison Investment Research

Valuation

Exhibit 3: Peer sales multiples

	EV/Sales (x)		Revenue growth (%)	
	CY	NY	CY	NY
Checkit	1.3	1.1	18.1	19.2
UK software - average	3.1	2.8	10.7	11.0
UK software - median	2.4	2.3	9.6	9.3
US SaaS software - average	5.8	5.0	12.8	13.0
US SaaS software - median	4.9	4.4	12.0	11.9

Source: Edison Investment Research, LSEG Data & Analytics (at 10 September)

In the table above, we summarise the EV/sales multiples for the UK software sector and US SaaS software companies. Checkit continues to trade at a discount to both groups. In our view, consistent growth in ARR combined with progress towards profitability should reduce this discount.

Once Checkit reaches EBITDA break-even, operational leverage should support rapid margin expansion. If Checkit were to trade at the average sales multiple for the UK software sector, this would imply a share price of 46.7p. We have performed a reverse discounted cash flow analysis to ascertain what growth/profitability would be required to reach the 46.7p. Using a WACC of 8%, a long-term growth rate of 3% and our forecasts to FY27, we estimate that trending down revenue growth from FY28 to FY33 (a CAGR of 8.3% in FY27–34e) and growing EBITDA margins to 21% by FY34 would be required to reach a valuation of 46.7p per share. If the company could maintain revenue growth at the same level as FY27, we estimate that EBITDA margins could increase to 32% by FY34 and EBIT margins to 23%, resulting in a per-share value of 90.6p.

Exhibit 4: Financial summary

	£'m	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e
31-January		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT										
Revenue		1.0	9.8	13.2	8.4	10.3	12.0	14.2	16.9	19.0
Cost of Sales		(1.0)	(7.2)	(6.7)	(3.8)	(3.8)	(4.0)	(4.5)	(5.2)	(5.4)
Gross Profit		0.0	2.6	6.5	4.6	6.5	8.0	9.7	11.7	13.6
EBITDA		(2.3)	(4.9)	(2.5)	(5.6)	(6.4)	(3.4)	(2.3)	(0.9)	0.8
Normalised operating profit		(4.4)	(6.5)	(3.1)	(6.1)	(7.4)	(4.7)	(3.9)	(2.8)	(1.2)
Amortisation of acquired intangibles		(0.1)	(1.0)	(1.3)	(1.4)	(0.5)	(0.1)	0.0	0.0	0.0
Exceptionals		0.0	(1.7)	(0.9)	(1.0)	(4.3)	(0.1)	(0.5)	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Reported operating profit		(4.5)	(9.2)	(5.3)	(8.5)	(12.4)	(5.1)	(4.6)	(3.1)	(1.4)
Net Interest		0.0	0.1	0.0	0.0	0.1	0.5	0.1	0.2	0.2
Joint ventures & associates (post tax)		0.0	0.0	0.0	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	0.0	0.0	0.0
Profit Before Tax (norm)		(4.4)	(6.4)	(3.1)	(6.1)	(7.3)	(4.2)	(3.8)	(2.6)	(1.0)
Profit Before Tax (reported)		(4.5)	(9.1)	(5.3)	(8.5)	(12.3)	(4.6)	(4.5)	(2.9)	(1.2)
Reported tax		0.0	0.1	0.3	0.3	0.3	0.1	0.1	0.0	0.0
Profit After Tax (norm)		(4.4)	(6.4)	(3.1)	(6.1)	(7.5)	(4.4)	(3.8)	(2.6)	(1.0)
Profit After Tax (reported)		(4.5)	(9.0)	(5.0)	(8.2)	(12.0)	(4.5)	(4.4)	(2.9)	(1.2)
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations		8.6	89.8	0.6	1.4	(0.3)	0.0	0.0	0.0	0.0
Net income (normalised)		(4.4)	(6.4)	(3.1)	(6.1)	(7.5)	(4.4)	(3.8)	(2.6)	(1.0)
Net income (reported)		4.1	80.8	(4.4)	(6.8)	(12.3)	(4.5)	(4.4)	(2.9)	(1.2)
Basic ave. number of shares outstanding (m)		178	161	62	68	108	108	108	108	108
EPS - basic normalised (p)		(2.5)	(4.0)	(5.2)	(9.0)	(6.9)	(4.1)	(3.5)	(2.4)	(0.9)
EPS - diluted normalised (p)		(2.5)	(4.0)	(5.2)	(9.0)	(6.9)	(4.1)	(3.5)	(2.4)	(0.9)
EPS - basic reported (p)		2.3	50.2	(7.2)	(10.0)	(11.4)	(4.2)	(4.1)	(2.7)	(1.1)
Dividend (p)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	880.0	34.7	(-36.4)	22.6	16.5	18.1	19.2	0.0
Gross Margin (%)		0.0	26.5	49.2	54.8	63.1	66.7	68.3	69.0	71.5
EBITDA Margin (%)		(230.0)	(50.0)	(18.9)	(66.7)	(62.1)	(28.3)	(16.1)	(5.6)	4.5
Normalised Operating Margin		(440.0)	(66.3)	(23.5)	(72.6)	(71.8)	(39.2)	(27.4)	(16.8)	(6.1)
BALANCE SHEET										
Fixed Assets		5.0	8.5	6.8	8.3	4.9	5.8	6.7	7.0	7.0
Intangible Assets		2.9	7.3	6.0	7.3	4.0	5.0	5.8	6.2	6.3
Tangible Assets		1.7	1.2	0.8	1.0	0.9	0.8	0.9	0.8	0.7
Investments & other		0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Assets		19.5	19.8	17.5	29.0	22.5	17.3	13.1	11.0	10.9
Stocks		4.3	1.7	1.1	1.8	2.4	3.8	3.4	2.7	1.9
Debtors		5.1	3.4	4.4	2.9	4.5	4.5	4.7	4.9	5.2
Cash & cash equivalents		10.1	14.3	11.5	24.2	15.6	9.0	5.0	3.5	3.8
Other		0.0	0.4	0.5	0.1	0.0	0.0	0.0	0.0	0.0
Current Liabilities		(7.9)	(5.6)	(5.9)	(5.7)	(7.8)	(8.0)	(8.9)	(9.7)	(10.6)
Creditors		(7.6)	(5.1)	(5.6)	(5.2)	(7.5)	(7.8)	(8.7)	(9.5)	(10.4)
Tax and social security		(0.3)	0.0	0.0	0.0	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	0.0	0.0	0.0
Other		0.0	(0.5)	(0.3)	(0.5)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)
Long Term Liabilities		(0.3)	(1.3)	(0.8)	(0.6)	(0.7)	(0.5)	(0.5)	(0.5)	(0.5)
Long term borrowings		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(0.3)	(1.3)	(0.8)	(0.6)	(0.7)	(0.5)	(0.5)	(0.5)	(0.5)
Net Assets		16.3	21.4	17.6	31.0	18.9	14.6	10.4	7.7	6.8
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		16.3	21.4	17.6	31.0	18.9	14.6	10.4	7.7	6.8
CASH FLOW										
Op Cash Flow before WC and tax		(2.3)	(4.9)	(2.5)	(5.6)	(6.4)	(3.4)	(2.3)	(0.9)	0.8
Working capital		(0.5)	(1.0)	0.3	0.2	0.1	(1.2)	1.1	1.4	1.2
Exceptional & other		9.1	5.3	(0.7)	0.4	(0.2)	(0.1)	(0.5)	0.0	0.0
Tax		(0.5)	(0.5)	0.0	0.1	0.1	0.0	0.1	0.0	0.0
Net operating cash flow		5.8	(1.1)	(2.9)	(4.9)	(6.4)	(4.7)	(1.6)	0.5	2.1
Capex		(2.2)	(0.3)	(0.3)	(2.3)	(2.2)	(2.1)	(2.2)	(2.0)	(1.8)
Acquisitions/disposals		1.3	84.2	0.3	0.0	0.2	0.0	0.0	0.0	0.0
Net interest		0.0	0.1	0.0	0.0	0.1	0.5	0.1	0.2	0.2
Equity financing		0.0	(77.9)	0.5	20.2	0.0	0.0	0.0	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	(0.8)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)
Net Cash Flow		4.9	4.2	(2.8)	12.7	(8.6)	(6.6)	(3.9)	(1.5)	0.3
Opening net debt/(cash)		(5.2)	(10.1)	(14.3)	(11.5)	(24.2)	(15.6)	(9.0)	(5.0)	(3.5)
FX		0.0	0.0	0.0	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	0.0	0.0	0.0
Closing net debt/(cash)		(10.1)	(14.3)	(11.5)	(24.2)	(15.6)	(9.0)	(5.0)	(3.5)	(3.8)

Source: Checkit, Edison Investment Research

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