

House in order

16 June 2020

Results for the year to 31 January 2020

Checkit plc today announced FY20 Preliminary Results following restructuring, the highlights of which were: the sale of Bulgin and return of £81.0m to shareholders; acquisition of Next Control Systems for £8.8m, subsequently renamed Checkit UK Ltd.; renaming of Elektron Technology plc as Checkit plc; and a renewed focus on cloud-based Software-as-a-Service operational management solutions. FY20 results:

- Revenue from continuing operations of £9.8m.
- An adjusted operating loss of £5.2m; loss of £16.5m inclusive of non-cash intangible asset impairments and acquisition-related non-recurring items.
- An adjusted EBITDA loss (LBITDA) of £3.6m; (FY19: £2.8m loss).
- Cash at 31 January of £14.3m providing the basis to withstand the economic impact of COVID-19. Indicative of strong cash management, cash at 31 May was £13.1m.
- Management changes. John Wilson moved from CEO of Bulgin, on disposal, to Non-Executive Director of Checkit plc; Giovanni Ciuccio stepped down and was replaced by Rachel Neaman, a digital transformation specialist as Non-Executive Director; CFO Andy Weatherstone has announced his intention to step down in September 2020.

Outlook and COVID-19

In line with the 14 April 2020 Trading Update on the impact of the COVID-19 pandemic on operations, Checkit has withdrawn outlook guidance. However, there are positive signs arising from: an emphasis on profitable recurring income from Connected Workflow Management (CWM) and Connected Automated Monitoring (CAM) operations; focus on larger enterprise customers such as BP, a FY20 contract win; development of SaaS-based revenue (reported at 30% of revenue); close ties with the NHS; new business opportunities.

Sale of Bulgin, acquisition of Checkit UK

Acquired in May 2019, Checkit UK (previously Next Control Systems) contributed £8.5m (87%) of FY20 group revenue, +7%YoY. Checkit Europe revenue of £1.3m rose 30%YoY. Checkit UK's systems enable remote management and optimisation of business processes deployed in areas such as healthcare temperature monitoring and Connected Building Management (CBM). The acquisition created opportunities for cross-selling, diversification from Checkit plc's core food sector services focus and additional sensing technology. Checkit finalised the sale of Bulgin on 24 September 2019 for a net debt- and expenses-adjusted sum of £93.7m and returned to shareholders £81.0m in cash via a 2:3 tender offer at 65p/share. Ophthalmic instruments specialist Elektron Eye Technology (EET) remains an asset for disposal.

In line with the company announcement on guidance we suspend forecasts, whilst noting **a current enterprise valuation which stands at a 41% discount to FY20 revenue and 34% discount to the purchase price of Checkit UK Limited.**

Company Data

EPIC	AIM: CKT
Price (last close)	30p
52 weeks Hi/Lo	56p/24p
Market cap	£19m
Net cash	£13.1m

Share Price, p



Source: ADVFN

Nb Elektron Technology changed its name to Checkit on 24 Sept, 2019

Description

Checkit specialises in software-based real-time management solutions to improve client companies' operational efficiency, safety, and accountability. Solutions combine Internet of Things (IoT), mobile and cloud technologies to access and monitor mobile-based operations, business processes and buildings management. Current sectors served include Retail, Hospitality, Healthcare, Real Estate Management and Manufacturing. Checkit has 173 FTEs, headquartered in the UK in Cambridge, with an Operations Centre in Fleet.

Checkit aims to expand its operations management platform and market presence based on a Software-as-a-Service (SaaS) model.

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FY20 Performance

Shown below, the key features of FY20 were principally the outcome of extensive group restructuring, comprising:

- The acquisition of Checkit UK (formerly Next Control Systems) on 14 May 2019. This contributed £8.5m to FY20 revenue based on a proforma annualised increase from £10.8m in FY19 to £11.5m in FY20, +6.5%YoY. The acquisition cost was £8.8m net of cash of £1.7m and fees of £0.2m.
- The disposal of Bulgin on 24 September 2019 for the net cash sum of £93.7m. This resulted in the return to shareholders of £80.6m in cash through a 2 for 3 tender offer at 65p/share and cancellation of 124m shares resulting in shares in issue of 62m.
- Electron Eye Technology (EET), the ophthalmic instruments operation, remains earmarked for sale and is consequently classified as discontinued. Bulgin and EET together generated a FY20 PAT contribution of £4.1m (FY19: £8.3m).

Financial Summary FY 2019-20

Y/e Jan 31, £m	FY19 (restated)	FY20	Proportion
Checkit Europe	-	1.3	13.3%
Checkit UK	1.0	8.5	86.7%
Revenue	1.0	9.8	100.0%
Of which:			
Recurring subscription-based	0.9	3.2	32.7%
Installation maintenance and support	0.1	6.6	67.3%
Geographical breakdown:			
UK	1.0	9.4	95.9%
Americas	0.0	0.4	4.1%
Gross Profit	0.0	2.6	
Operating expenses	(4.5)	(7.8)	
Revision to development costs amortisation	-	(0.3)	
Impairment of development costs	-	(2.0)	
Checkit UK restructuring	-	(0.5)	
Checkit UK acquisition	-	(0.2)	
Amortisation of acquired intangibles	-	(1.0)	
Impairment of goodwill	-	(7.3)	
Sum Non-recurring	-	(11.3)	
Operating Reported	(4.5)	(16.5)	
Operating Adjusted	(4.5)	(5.2)	
Depreciation & Amortisation	(1.7)	(1.6)	
EBITDA Reported	(3.8)	(16.4)	
EBITDA Adjusted	(2.8)	(3.6)	

Source: Company data

Of total revenue of £9.8m, 30% was derived from SaaS-type contracts, an additional 17% from repeatable annual calibration contracts and the remaining 53% from lower-margin contract-based installation. The strategic focus emphasises SaaS-based revenues and larger, Tier 1, clients.

Acquisition of Checkit UK Ltd

Summarised below, the acquisition of Next Control Systems was completed on 14 May 2019, and the company renamed Checkit UK Limited. The Checkit UK contribution to FY20 Group revenue was £8.5m which, on a proforma annualised basis, represented an increase of 6.5% from £10.8m in FY19 to £11.5m in FY20. The acquisition was completed for a cash consideration of £8.8m (inclusive of £1.7m of cash acquired) on an indicative, undemanding, FY18 EBITDA multiple of 6.6x, particularly given current group enterprise value of £7.4m.

FY19-20 Proforma performance

Y/e Jan 31 (£m)	FY19 Reported	FY19 Normalised	FY20 Reported	FY20 Normalised	YoY
Revenue					
Checkit Europe	1.0	1.0	1.3	1.3	30%
Checkit UK	-	10.8	8.5	11.5	6.5%
Sum	1.0	11.8	9.8	12.8	8.5%
Recurring (subscription)	0.9		3.1		
Installation support	0.1		6.7		
Sum	0.9		9.8		
Operating loss (adjusted)	(4.5)	(3.4)	(5.2)	(4.8)	

Source: Company, ED

Checkit UK acquisition

14 May 2019	£m
Cash consideration paid	10.5
Fixed assets	4.5
Current assets	5.1
Fixed liabilities	(0.9)
Current liabilities	(2.5)
Goodwill	4.3
Cash acquired	(1.7)
Net cash consideration	8.8
Acquisition costs	(0.2)
Multiple of FY18 EBITDA paid:	6.6x

Source: Company data

The Checkit group specialises in cloud-based workflow and systems management and automated monitoring services, targeting both UK and overseas markets. Remote monitoring is increasingly relevant, not least in light of the impact of COVID-19 on working practices and to ensure that vital systems are maintained in vacated buildings.

Demand for remote monitoring is also augmented by the deployment of internet-of-things (IoT) devices and supported by high capacity 5G wireless and other networks. Checkit UK adds a specialisation in sophisticated temperature monitoring systems for the healthcare and life sciences sector in the UK and the provision of data-driven Connected Building Management (CBM) systems.

The acquisition offers a number of follow-on benefits and opportunities:

- Cross-selling opportunities from its Connected Workflow Management customer base
- Diversification away from a traditional focus on the food services sector
- Additional sensor technology
- Access to and expertise in CBM markets.

Disposal of Bulgin

Checkit completed the sale of Bulgin in late September 2019 for cash net proceeds of £93.7m. The transaction comprised:

- Gross proceeds of £105m
- Consideration net of Director LTIP and working capital adjustments at £99.9m
- Resulting gain on disposal, net of costs and foreign exchange adjustments and included in FY20 consolidated P&L, of £85.3m.

The transaction enabled the return to shareholders of £81m via a tender offer of 2 out of 3 shares at 65p/share. The resulting year-end cash balance was £14.3m.

Bulgin disposal

24 September 2019	£m
Gross proceeds	105.0
Director LTIP shares	(4.1)
Working capital adjustments	(1.0)
Consideration received	99.9
Transaction costs	(2.5)
Transaction and retention bonuses	(3.7)
Cash received	93.7

Source: Company data

Cash position

FY20 cash generated from operations totalled £0.2m (FY19: £5.8m) against the background of £1.6m of capital investment (FY19: £2.2m). The principal transactions were:

- The acquisition of Checkit UK for £8.8m
- The disposal of Bulgin generated £15.1m in (net) proceeds

The resulting year-end cash position was £14.3m, an increase of £4.2m. Cash as of 31 May 2020 was £13.1m.

COVID-19 impact

The current situation resulted in a short-term contraction in revenues, in April and May, of approximately 36% versus company expectations, although the impact on debtor recovery was minimal. COVID-19 impacts Checkit in two respects:

- on revenue generation and financial provisions, and
- on employment practices and operational adjustments.

The company has conducted a thorough assessment of cashflow and operational outlook, as a result of which it reported that cash is sufficient to meet day-to-day working capital requirements, including a scenario in which revenue generation falls to “negligible” levels. In assessing the impact in operational terms, Checkit reports a number of responses and initiatives:

- Ceasing non-essential expenditure and recruitment, with limited staff redundancies
- Deferral of April 2020 VAT payment to March 2021 in line with Government guidelines
- Utilisation of Government employee furlough scheme assistance, with pay reductions in the April to June 2020 period.

Checkit segments the market by sector and size of participating businesses. It views the market as being divided into four tiers by size (T1, T2, T3 and T4). During the period it adjusted its approach to the targeted Tier 1 customer base.

Focus on Tier 1 clients

Checkit conducted a strategic review of targeted customers resulting in a focus on the largest (T1) national and multinational customers, estimating that this group should comprise c. 50% of revenues and major source of growth.

Consequently, second tier (T2) customer access is increasingly limited by a willingness to pay for Checkit’s solutions.

Thirdly, the Group has ceased to address smaller, single site T3 and T4 customers with an unfavourable balance of cost of access to returns.

The company notes reduced activity amongst the UK casual dining sector – a segment already heavily impacted by COVID-19 ‘lockdown’ and distancing measures.

However, during the period the group reported several notable contract wins: a multi-branch leisure business using work management for front- and back-of-house activities; a global framework agreement with the retail business of the energy major BP; and a building management system on a university campus as part of a carbon footprint reduction project.

The company reports having currently wound down its US operation, whilst still retaining a longer-term interest in that opportunity.

Board and Management changes

Appointment of Rachel Neaman as a Non-Executive Director

On February 3rd, 2020 Checkit announced the appointment of Rachel Neaman as a Non-Executive Director. Rachel has her own independent consultancy, Neaman Consulting Ltd., which specialises in digital transformation, strategy, healthtech and skills and inclusion, working with the private, public, and not-for-profit sectors.

She holds advisory positions for the Campaign for Social Science (see <https://campaignforsocialscience.org.uk>), DigitalHealth London and Digital Leaders in addition to being Strategy Advisor for DigitalAgenda and a mentor for PUBLIC's GovStart programme.

A frequent keynote speaker at UK and international conferences, Rachel has appeared regularly before Parliamentary Select Committees and on the judging panels of digital awards. A Fellow of the Royal Society of Arts she has featured since 2016 in *Computer Weekly's* annual list of Most Influential Women in IT.

Other Board changes

Bulgin CEO John Wilson became a Non-Executive Director on the Board of Checkit plc following the disposal.

Giovanni Ciuccio stepped down from the Board at the end of FY20 and was replaced by Rachel Neaman.

Chief Financial Officer Andy Weatherstone will step down in September 2020. Checkit notes that a replacement to this position is expected to be announced soon.

Major shareholders

As of 2 June 2020, Keith Daley, Checkit Chairman, held 21.0% of shares outstanding, having nearly doubled his holding from 11.7% in December 2019.

Major shareholders	
	Stake
Daley K	21.16%
D&A Income Limited	19.1%
Ruffer LLP	8.9%
Herald IM	7.5%
Total	56.66%
Shares outstanding: 62,033,517	

Source: Company data (as at 6 June 2020)

Financials

Summary P&L

Y/e Jan 31 (£m)	FY19 (Restated)	FY20
Bulgin (discontinued)	30.1	
Elektron Eye Technology (discontinued)	2.6	
Checkit Europe		1.3
Checkit UK	1.0	8.5
Revenue	1.0	9.8
Gross Profit	0.0	2.6
COGS	(1.0)	(7.2)
Operating expenses	(4.5)	(7.8)
Non-recurring items		
Revision to development costs amortisation	-	(0.3)
Impairment of development costs	-	(2.0)
Checkit UK restructuring	-	(0.5)
Checkit UK acquisition	-	(0.2)
Amortisation of acquired intangibles	-	(1.0)
Impairment of goodwill	-	(7.3)
Sum Non-recurring	-	(11.3)
Operating Reported	(4.5)	(16.5)
Operating Adjusted	(4.5)	(5.2)
Depreciation	(0.1)	(0.7)
Amortisation	(1.6)	(0.9)
EBITDA Reported	(3.8)	(16.4)
EBITDA Adjusted	(2.8)	(3.6)
Finance income	-	0.1
PBT Reported	(4.5)	(16.4)
PBT Adjusted	(4.5)	(5.1)
Tax	-	0.7
PAT Reported	(4.5)	(15.7)
PAT Adjusted	(4.5)	(5.1)
Discontinued operations	8.6	89.4
Comprehensive income Reported	4.1	73.7
Comprehensive income Adjusted	4.1	84.3
Exchange rate adjustments	-	2.2
Basic Weighted Average shares (m)	177.7	161.4
Fully diluted weighted average shares (m)	188.1	161.8
EPS Reported Basic (p)	(2.5)	(9.8)
EPS Reported Diluted (p)	(2.5)	(9.8)
EPS Adjusted Basic (p)	(2.5)	(3.2)
EPS Adjusted Diluted (p)	(2.5)	(3.2)

Source: Company

Note: in the calculation of FY20 EPS, tax (£0.7m), relating to the amortisation of acquired intangibles, is included in the reported basic and diluted EPS, but not in the calculation of adjusted basic and diluted EPS.

Balance Sheet

Summary Balance Sheet

Y/e Jan 31 (£m)	FY19 (Restated)	FY20
Capitalised R&D	2.6	0.0
Other intangibles	0.3	0.0
PPE	1.7	1.2
Deferred tax	0.4	0.0
Sum Fixed Assets	5.0	1.2
Inventory	4.3	1.7
Trade receivables	5.1	3.4
Cash, Equivalents	10.1	14.3
Sum Current Assets	19.5	19.4
Total Assets	24.5	20.6
Trade payables	6.6	5.1
Tax	0.3	0.0
Contract lease liabilities	0.0	0.5
Provisions	1.0	0.0
Sum Current Liabilities	7.9	5.6
Net Current Assets	11.6	13.8
Provisions	0.3	0.3
Sum Long-term Liabilities	0.3	0.7
Total Liabilities	8.2	6.3
Share Capital	9.3	3.1
Share Premium	5.4	5.4
Merger reserve	1.1	0.0
Capital redemption reserve	0.2	6.4
Own shares	(1.9)	(0.7)
Other reserves	0.8	0.0
Translation reserve	(2.2)	0.0
Retained earnings	3.6	0.1
Equity	16.3	14.3
Net cash/(debt)	10.1	14.3

Source: Company data

Cashflow

Summary Cashflow

Y/e Jan 31 (£m)	FY19 (Restated)	FY20
Reported PBT	(4.5)	(16.4)
Discontinued operations	9.5	89.9
Depreciation	0.4	1.3
Amortisation (R&D)	1.8	2.3
Disposal	(0.4)	(85.2)
Finance (net)		(0.1)
Operating Cash Flow	6.8	1.7
(Increase)/Decrease in debtors/receivables	(0.2)	(0.9)
Increase/(Decrease) in creditors/payables	0.0	(0.1)
Change in inventories	(0.6)	0.1
Movement in working capital	(0.8)	(0.9)
Change in provisions	0.3	(0.1)
Cash generated by operations	6.3	0.7
Tax	(0.5)	(0.5)
Net cash from operations	5.8	0.2
Investing activities		
PPE	(0.7)	(0.3)
Intangibles		(8.8)
Product development	(1.5)	(1.3)
Disposal	1.3	93.0
Net cash used in investing	(0.9)	82.7
Net OpFCF	4.9	82.9
Financing activities		
Repurchase and cancellation of loans		(80.6)
Employment benefit trust		2.7
Contract leases		(0.8)
Net cash from financing		(78.7)
Net increase in cash / equivalents	4.9	4.2
Cash at beginning of year	5.2	10.1
Cash at year end	10.1	14.3
Net cash/(debt)	10.1	14.3

Source: Company data



Investor Access

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