

Maiden FY23 profit of \$0.2m, ahead of forecast

Kinatico Ltd (ASX:KYP) is a 'Know Your People' regtech company providing workforce compliance monitoring and management technology and services. KYP has announced in a flash update that it expects to report FY23 NPAT greater than \$0.2m, marking its first profitable full year since listing. This is ahead of our FY23 NPAT forecast of \$0.14m. The company noted the profit was earned from full-year revenue of \$27.7m, up 5% on the previous corresponding period (pcp) with SaaS revenue for the year at 18% of the total or \$5.1m. SaaS revenue has doubled its share of total revenue in the past 12 months. Kinatico also announced Q4 revenue of \$7.1m, a record for the group, with 28% or \$2.0m of this in SaaS revenue. The SaaS revenue was up 217% on the previous corresponding period (pcp) and annualised SaaS revenue is now \$7.8m. Kinatico also reported it was \$0.228m cash positive for Q4, excluding share buyback expenditure which was \$0.672m in the quarter. The results are largely in-line with our forecasts and reflect the continued migration of existing customers from one-off transactional revenue to ongoing subscription for its compliance monitoring platform. We will adjust our forecasts as the full accounts come to hand.

Business model

Over the past 15 months, Kinatico has focussed its business on the generation of SaaS revenue from the provision of simplified real-time workforce compliance monitoring and management. SaaS revenue accounted for 18% of FY23 revenue including 28% of Q4 revenue. The business also has a long-standing screening and verification (SaV) revenue stream, under the brand CVCheck, from transactions, which tend to be one-time (although 80% of customers are recurring). SaV services generate transactional revenue with fees charged per check on a PAYG basis. They are targeted at business, skewed to police checks, and somewhat leveraged to the employment market. For SaaS, customers (employers) pay a set monthly SaaS fee for an end-to-end compliance management solution. KYP now offers a simple, monthly, all-in fee per worker ranging from \$15-\$30. Kinatico is focussed on transitioning all of its revenue to SaaS.

Q4 result demonstrates the benefit of SaaS focus

Kinatico delivered a 217% increase in SaaS revenue in Q4 to \$2.0m, which drove total Q4 revenue up 6% to \$7.1m on the pcp and 1% on Q3, a seasonally stronger quarter. SaaS revenue on an annualised basis is running at \$7.8m, up from \$5.8m at Q3 and \$2.5m in FY22. The company delivered Q4 free cash flow of \$0.228m, excluding share buyback costs of \$0.672m. The end cash position for the year was \$9.9m. Kinatico noted that revenue for FY23 was \$27.7m, up 5% on the pcp but a little below our forecast for \$28.2m. SaaS revenue for the year was \$5.1m, compared with \$2.5m a year ago and our forecast for \$5.3m. NPAT for FY23 is expected to be greater than \$0.2m, which is ahead of our FY23 forecast for \$0.14m. We will adjust our forecasts on the full release of accounts next month.

DCF valuation of \$0.23/share, fully diluted or \$101.1m

Our DCF valuation is \$0.23/share or \$101.1m, fully diluted for options on issue and our forecast for shares at 30 June following the current share buyback. Our DCF methodology incorporates a WACC of 14.4% and a terminal growth rate of 2.2%. This implies EV/Revenue multiples of 3.6x for FY23f and 3.1x for FY24f, compared with the current multiples of 1.4x FY23 and 1.2x FY24. On a relative basis, KYP is trading at a 20% discount to the median of seven ASX-listed peers. Its nearest ASX peer, Xref (ASX:XF1), is also trading at a 20% premium. In the past three months, KYP has narrowed the discount to its peers and we expect this to continue as the company demonstrates continued growth in SaaS clients, secures material new contracts, and delivers sustained positive free cash flow and operating profit.

Historical earnings and RaaS' estimates (in A\$m unless otherwise stated)

Year end	Revenue	Gross profit	EBITDA adj.	NPAT adj.	EPS adj.	EV/Revenue (x)	EV/EBITDA (x)	PER (x)
06/22a	26.4	16.8	1.8	(0.8)	(0.18)	1.5	21.8	n.a.
06/23f	28.1	18.2	2.5	0.1	0.03	1.4	15.4	n.a.
06/24f	32.6	21.6	5.6	2.5	0.61	1.2	6.7	18.9
06/25f	38.4	25.8	8.9	4.6	1.11	0.9	3.9	10.3

Sources: Company data; RaaS estimates for FY23f, FY24f and FY25f. Adjusted EBITDA, NPAT and EPS exclude one-time and non-cash items including share-based compensation

Software & Services

14 July 2023

Share Details

ASX code	KYP
Share price (13-Jul)	\$0.115
Market capitalisation	\$48.2M
Shares on issue (est.)	419.4M
Net cash at 30-Jun-23	\$9.9M
Free float (including founders/ excluding founders)	~66%/ ~80%

Share Performance (12 months)



Company Interview

RaaS Interview with CEO Michael Ivanchenko:
[Kinatico RaaS Interview 11 May 2023](#)

Upside Case

- SaaS take-up exceeds expectations
- Highly-scalable business model
- Well positioned for potential M&A

Downside Case

- Lower/slower-than-expected SaaS uptake rate
- Enterprise customers take longer than expected to sign-up
- Pursuit of planned international expansion leads to higher-than-expected costs/losses

Catalysts

- Material new contracts for SaaS offering
- Delivery of process automation → positioning for future scalability and operating leverage
- M&A activity highlighting relative valuations

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RaaS Contact

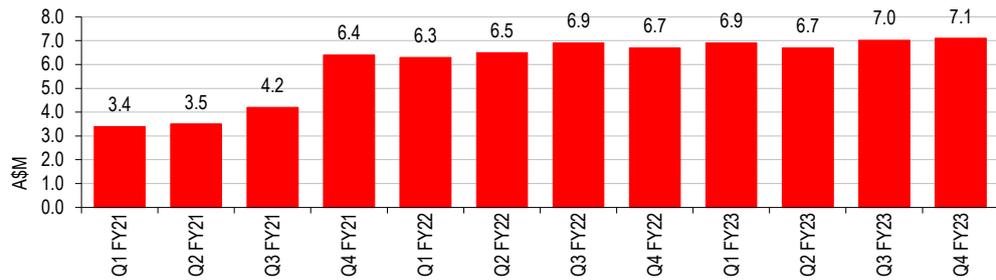
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Q4 Results Snapshot

- Kinatico delivered Q4 revenue of \$7.1m, a record quarter and an increase of 6.0% on the pcp and up 1% on Q3, which is a seasonally stronger quarter. It is worth noting that Q4 FY22 declined 3.1% against Q3 FY22, highlighting the improved performance by the group in Q4 FY23. The growth was entirely driven by SaaS revenue which increased 217% on the pcp. SaV revenue declined 15% on the pcp and was down 8% on Q3. This is not unexpected as Kinatico has a stated ambition to move both existing and new customers to subscription services.
- The cash profit for Q4 was \$0.228m, which excludes the cost of the share buyback. Net cash at the end of the period was \$9.9m, after paying \$0.672m in the current share buyback.

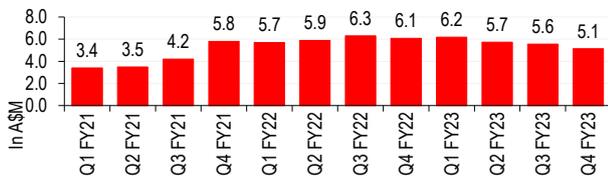
Kinatico’s Q4 revenue was a record for the group and exceeded the previous record set in Q3 FY23. As Exhibit 2 and 3 show, the growth has been in SaaS revenue with a decline in SaV revenue, which has been part of a deliberate strategy to upsell existing clients and new customers to the Cited and Enable simplified real-time workforce compliance monitoring and management solutions. We expect Kinatico to continue to demonstrate growth in SaaS revenue, both from existing and new clients.

Exhibit 1: Quarterly revenue (unaudited in A\$m) – Q4 FY21 to Q4 FY23



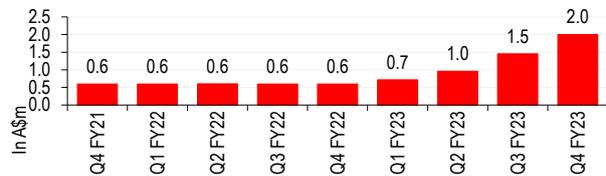
Source: Company reports (as reported)

Exhibit 2: SaV revenue by quarter (in A\$m)



Source: Company reports (as reported)

Exhibit 3: SaaS revenue by quarter (in A\$m)



Source: Company reports (as reported)

DCF Valuation

Our valuation utilises a discounted cash-flow methodology which we consider to be the most appropriate methodology for valuing KYP at this point in its lifecycle as it pursues its SaaS sales growth strategy. Our discount rate of 14.4% includes a beta of 1.7x, which is the five-year rate observed by Refinitiv. We have assumed all options on issue (13.3m) convert and that the share buyback results in 419.6m shares on issue at

June 30. This gives us a DCF valuation of \$0.23/share, which implies an EV/Revenue of 3.6x FY23F and 3.1x FY24f.

Exhibit 4: DCF valuation

Parameters	Outcome
Discount rate / WACC	14.4%
Beta*	1.7x
Terminal growth rate assumption	2.2%
Sum of PV (A\$M)	51.8
PV of terminal value (A\$M)	39.6
PV of enterprise (A\$M)	91.4
Net debt / (cash) – 30 June 2023 (A\$M)	(9.9)
Net valuation – equity (A\$M)	101.1
No. of shares on issue (fully-diluted for options on issue & adjusted for share buyback) (M)	433
NPV per share (A\$)	\$0.23

Sources: RaaS estimates, *Refinitiv's observed beta of 1.71x based on its five-year monthly beta methodology

Peer EV/Revenue Trading Multiples

We have looked at comparable ASX-listed companies, of which there are seven, to consider peer EV/Revenue trading multiples. The company most comparable to Kinatico is XREF (ASX:XF1) which also operates in the reference checking arena. Other comparable regulatory or workforce compliance SaaS operators include Damstra Holdings (ASX:DTC), Knosys (ASX:KNO), K2fly (ASX:K2F) and Wrkr (ASX:WRK). We have included talent engagement group LiveHire and accounting compliance company 8Common for completeness. As set out in the table below, KYP is currently trading at a discount of 20% relative to its ASX-listed peers based on FY22a EV/Revenue respectively. The discount to XF1, its closest ASX peer, is now also at around 20% based on FY22a.

Exhibit 5: KYP discount to ASX-listed peer EV/Revenue trading multiples

Company	ASX code	Enterprise value (A\$M)	EV/Revenue (FY22a) X
8Common Ltd	8CO	19.3	3.76
Damstra Holdings Ltd	DTC	36.5	0.84
K2fly Ltd	K2F	12.8	1.60
Knosys Ltd	KNO	9.7	1.26
LiveHire Ltd	LVH	9.6	2.41
Wrkr Ltd	WRK	20.9	3.99
Xref Ltd	XF1	27.9	1.77
Median		17.8	1.77
Kinatico	KYP	38.7	1.50

Sources: RaaS analysis, Refinitiv; Based on closing prices on 13 July 2023

Exhibit 6: Financial Summary

Kinatico						Share price (13 July 2023)						A\$	0.115				
Profit and Loss (A\$m)						Interim (A\$m)						H122A	H222A	H123A	H223F	H124F	H224F
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	Revenue	12.8	13.6	13.6	14.5	16.0	16.6					
Transactional revenue	16.9	23.9	22.7	21.4	20.4	EBITDA	1.1	0.7	0.6	1.9	2.7	2.9					
SaaS revenue	0.6	2.4	5.4	11.1	18.0	EBIT	(0.2)	(0.4)	(0.8)	0.7	1.5	1.7					
Sales Revenue	17.5	26.4	28.1	32.6	38.4	NPAT (normalised)	(0.2)	(0.5)	(0.8)	0.9	1.2	1.3					
Gross Profit	10.3	16.8	18.2	21.6	25.8	Minorities	-	-	-	-	-	-					
EBITDA underlying	1.5	1.8	2.5	5.6	8.9	NPAT (reported)	(0.6)	(0.9)	(1.0)	0.9	1.2	1.3					
Depn	(0.3)	(0.4)	(0.4)	(0.3)	(0.3)	EPS (normalised)	(0.06)	(0.12)	(0.18)	0.22	0.30	0.31					
Amort	(1.0)	(2.0)	(2.1)	(2.2)	(2.4)	EPS (reported)	(0.14)	(0.20)	(0.23)	0.22	0.30	0.31					
EBIT underlying	0.2	(0.6)	(0.1)	3.2	6.2	Dividend (cps)	-	-	-	-	-	-					
Interest	0.0	0.0	0.2	0.4	0.4	Imputation	-	-	-	-	-	-					
Tax	0.0	(0.2)	0.0	(1.0)	(2.0)	Operating cash flow	1.2	1.8	0.9	2.5	2.0	2.6					
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow	2.4	3.5	3.1	4.5	4.0	4.7					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Divisions	H122A	H222A	H123A	H223F	H124F	H224F					
NPAT pre significant items	0.3	(0.8)	0.1	2.5	4.6	Transactional Revenue	11.6	12.3	11.9	10.8	11.2	10.3					
Significant & non-cash items	(1.3)	(0.7)	(0.2)	0.0	0.0	SaaS Revenue	1.2	1.2	1.7	3.7	4.8	6.3					
NPAT (reported)	(1.0)	(1.5)	(0.1)	2.5	4.6	Sales revenue	12.8	13.6	13.6	14.5	16.0	16.6					
Cash flow (A\$m)						COGS	(4.7)	(5.0)	(4.8)	(5.0)	(5.4)	(5.5)					
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	Gross Profit	8.2	8.6	8.8	9.5	10.6	11.0					
EBITDA	1.5	1.8	2.5	5.6	8.9	GP Margin (%)	63.7	63.5	64.5	65.5	66.0	66.5					
Interest	0.0	0.0	(0.0)	0.4	0.4	Employment	(5.0)	(5.1)	(5.7)	(5.1)	(5.3)	(5.4)					
Tax	0.8	(0.1)	(0.0)	(1.0)	(2.0)	Technology, licence fees	(1.8)	(2.5)	(1.7)	(1.8)	(1.8)	(1.9)					
Working capital changes	(1.4)	1.4	1.0	(0.4)	0.1	Other costs	(0.3)	(0.3)	(0.7)	(0.7)	(0.8)	(0.8)					
Operating cash flow	1.0	3.1	3.4	4.5	7.4	EBITDA (normalised)	1.1	0.7	0.6	1.9	2.7	2.9					
Mtce capex	(0.0)	(0.2)	(0.1)	(0.2)	(0.2)	Margins, Leverage, Returns		FY21A	FY22A	FY23F	FY24F	FY25F					
Free cash flow	1.0	2.8	3.3	4.4	7.2	EBITDA		8.8%	6.8%	8.8%	17.3%	23.3%					
Capitalised Dev. Costs	(0.9)	(2.6)	(4.0)	(4.0)	(4.0)	EBIT		1.3%	(2.3%)	(0.2%)	9.8%	16.2%					
Acquisitions/Disposals	(1.8)	(0.7)	0.0	0.0	0.0	NPAT pre significant items		1.7%	(2.9%)	0.5%	7.8%	12.1%					
Other	0.3	0.3	0.0	0.0	0.0	Net Debt (Cash)		12.9	10.7	9.9	10.0	13.2					
Cash flow pre financing	(1.4)	(0.1)	(0.7)	0.4	3.2	Net debt/EBITDA (x)	(x)	8.4	5.9	4.0	1.8	1.5					
Equity	9.9	0.0	(1.3)	(0.3)	0.0	ND/ND+Equity (%)	(%)	(97.0%)	(72.9%)	(66.1%)	(58.7%)	(71.9%)					
Debt	0.0	(0.3)	(0.1)	0.0	0.0	EBIT interest cover (x)	(x)	(0.1)	n/a	n/a	(0.1)	(0.1)					
Dividends paid	0.0	0.0	0.0	0.0	0.0	ROA		1.1%	(1.8%)	(0.2%)	9.4%	16.5%					
Net cash flow for year	8.6	(0.4)	(2.1)	0.1	3.2	ROE		(6.2%)	(5.8%)	(0.2%)	9.8%	15.8%					
Balance sheet (A\$m)						ROIC		1.9%	(11.5%)	(3.2%)	126.5%	146.1%					
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	Working capital		(0.8)	(0.9)	(1.7)	(1.3)	(1.4)					
Cash	12.9	12.2	9.9	10.0	13.2	WC/Sales (%)		(4.6%)	(3.4%)	(6.1%)	(3.9%)	(3.6%)					
Accounts receivable	3.0	3.0	2.3	2.7	3.2	Revenue growth		41.3%	50.9%	6.4%	16.1%	17.9%					
Inventory	0.0	0.0	0.0	0.0	0.0	EBIT growth pa		n/a	n/a	n/a	nm	95%					
Other current assets	0.4	0.0	0.5	0.5	0.5	Pricing		FY21A	FY22A	FY23F	FY24F	FY25F					
Total current assets	16.3	15.2	12.7	13.2	16.9	No of shares (y/e)	(m)	429	434	416	416	416					
PPE	0.3	2.0	1.7	1.6	1.5	Weighted Av Dil Shares	(m)	429	434	419	416	416					
Intangibles and Goodwill	15.9	16.4	18.6	20.4	22.0	EPS Reported	cps	(0.30)	(0.35)	0.00	0.61	1.11					
Investments	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	0.09	(0.18)	0.03	0.61	1.11					
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)		n/a	n/a	(118.9%)	nm	83%					
Other non current assets	0.0	0.0	0.0	0.0	0.0	DPS	cps	-	-	-	-	-					
Total non current assets	16.2	18.4	20.3	22.0	23.5	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Total Assets	32.5	33.7	32.9	35.2	40.4	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Accounts payable	3.8	3.9	4.0	4.0	4.5	Dividend imputation		0	0	0	0	0					
Short term debt	0.0	0.0	0.0	0.0	0.0	PE (x)		-	-	22,896.4	18.9	10.3					
Tax payable	0.1	0.2	0.2	0.2	0.2	PE market		18.0	18.0	18.0	18.0	18.0					
Other current liabilities	2.4	2.7	2.7	2.7	2.7	Premium/(discount)		(100.0%)	(100.0%)	127102.2%	5.0%	(42.7%)					
Total current liabilities	6.3	6.8	6.9	6.8	7.4	EV/EBITDA		23.7	21.8	15.4	6.7	0.0					
Long term debt	0.0	1.5	0.0	0.0	0.0	FCF/Share	cps	0.0	0.1	(0.2)	0.1	0.8					
Other non current liabs	0.0	0.0	1.3	1.3	1.3	Price/FCF share		407.6	192.6	(65.5)	134.1	14.8					
Total long term liabilities	0.0	1.5	1.3	1.3	1.3	Free Cash flow Yield		0.2%	0.5%	(1.5%)	0.7%	6.8%					
Total Liabilities	6.3	8.3	8.2	8.2	8.7												
Net Assets	26.2	25.4	24.7	27.0	31.7												
Share capital	47.2	47.9	47.1	46.9	46.9												
Accumulated profits/losses	(22.1)	(23.3)	(23.4)	(20.9)	(16.2)												
Reserves	1.1	0.8	1.0	1.0	1.0												
Minorities	0.0	0.0	0.0	0.0	0.0												
Total Shareholder funds	26.2	25.4	24.8	27.0	31.7												

Sources: Company data, RaaS Advisory estimates



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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Effective Date: 6th May 2021

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