

Q2 SaaS revenue increases 145% on the pcg

Kinatico Ltd (ASX:KYP) is a 'Know Your People' regtech company providing workforce compliance monitoring and management technology and services. KYP has reported a 6% year-on-year increase in Q2 FY24 revenue to \$7.1m, and a 145% year-on-year increase in SaaS revenue to \$2.4m. SaaS revenue accounted for 33% of total revenue for the quarter, compared to 14% in Q2 FY23. The acceleration in SaaS revenue seen in Q2 reflected the impact of the new contract wins reported at the company AGM in October. On a half-year basis, Kinatico reported H1 FY24 SaaS revenue of \$4.4m, up 159% on the previous corresponding period (pcp) and total revenue of \$14.3m. The H1 revenue reported compares with our forecast for SaaS revenue of \$4.5m and transactional revenue of \$10m for the same period. NPAT for the half was \$0.4m, compared to a reported net loss of \$1.0m in H1 FY23. The half-year result is a significant lift on the \$0.2m NPAT reported by the company for FY23. Kinatico ended Q2 with \$9.4m cash in hand, including a \$0.3m on term deposit to secure a lease. Our DCF valuation remains unchanged at \$0.25/share, implying an EV/Revenue multiple of 3.6x FY24f.

Business model

Over the past two years, 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 24% of H2 revenue and 28% of Q4 revenue. It again accounted for 33% of revenue in Q1 FY24 and 31% of H1 FY24 revenue. Kinatico has adopted a two-pronged strategy of converting its existing screening and verification (SaV) clients (mostly companies and 80% of these customers are recurring) to SaaS customers. This will shift its customer base from traditional one-time transactions revenue to ongoing set monthly SaaS fees for KYP's end-to-end compliance management solution. Kinatico is focussed on transitioning most of its revenue to SaaS.

SaaS conversion continues to drive total revenue growth

Kinatico released a flash update on January 17 highlighting that Q2 FY24 revenue had increased 6% on the pcg to \$7.1m despite ongoing challenging macro-economic conditions. SaaS revenue made up 33% of the total or \$2.4m, an increase of 145% on the pcg. Transactional revenue, as expected, was \$4.7m in the quarter, a decline of 17%. We expect transactional revenue to continue to decline as Kinatico executes its strategy to convert existing customers to SaaS arrangements and brings on new SaaS customers. Significantly, SaaS revenue in Q2 was boosted by the inclusion of several new, long-term contracts announced by the company at the end of Q1. The result delivered H1 revenue of \$14.3m, in-line with our forecast. SaaS revenue for the half year was \$4.4m, also in line with our estimates. We will await the full half-year accounts to make any adjustments to our forecasts.

DCF valuation of \$0.25/share, fully diluted

Our DCF valuation remains unchanged at \$0.25/share, fully diluted for options on issue. Our DCF methodology incorporates a WACC of 14.4%, a risk-free rate of 4.0%, and a terminal growth rate of 2.2%. This implies EV/Revenue multiples of 3.6x for FY24f and 3.2x for FY25f, compared with the current multiples of 1.0x FY24f and 0.9x FY25f. On a relative basis, KYP is now trading in line with the median EV/Sales multiple of seven ASX-listed peers. This is due to a combination of KYP's share price outperformance and compression of some of the peers.

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

Year end	Revenue	Gross profit	EBITDA adj.	NPAT adj.	NPAT rep.	EPS adj. (c)	EV/Revenue (x)	EV/EBITDA (x)	PER (x)
06/22a	26.4	16.8	1.8	(0.7)	(1.5)	(0.17)	1.5	21.4	n.a
06/23a	27.7	18.2	3.1	0.8	0.2	0.17	1.4	12.8	65.7
06/24f	29.3	19.4	3.7	1.0	1.0	0.25	1.4	10.7	46.8
06/25f	33.2	22.3	5.6	2.2	2.2	0.53	1.2	6.9	21.6

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

Software & Services

23 January 2024

Share Details

ASX code	KYP
Share price (22-Jan)	\$0.115
Market capitalisation	\$48.1M
Shares on issue	418.59M
Net cash at 31-Dec-23	\$9.4M
Free float*	~50%

*Source: Refinitiv

Share Performance (12 months)



Company Interview

RaaS Interview with CEO Michael Ivanchenko:
[Kinatico RaaS 2024 Outlook Interview 23 January 2024](#)

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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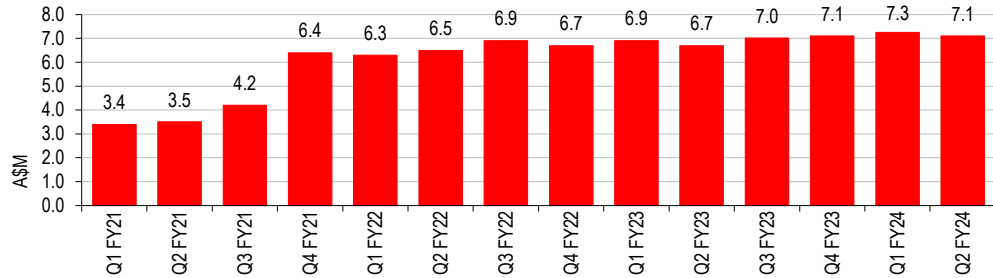
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Q2 FY24 Revenue Discussion

Kinatico has provided a flash update on Q2 FY24 revenue, noting that total revenue increased 6% in the quarter to \$7.1m, up from \$6.7m a year ago. SaaS revenue comprised 33% or \$2.4m of the total, an increase of 145% on the same quarter a year ago and up 17% on Q1FY24 quarter. The result was consistent with our estimates for H1 FY24 for SaaS revenue of \$4.5m and total revenue of \$14.5m.

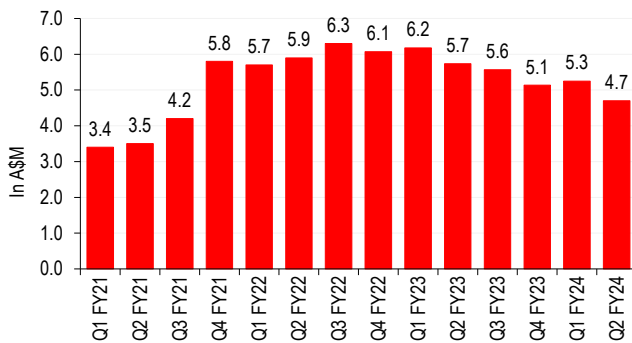
Exhibit 1: Revenue by quarter (in A\$m unless otherwise stated)



Source: Company data, RaaS analysis

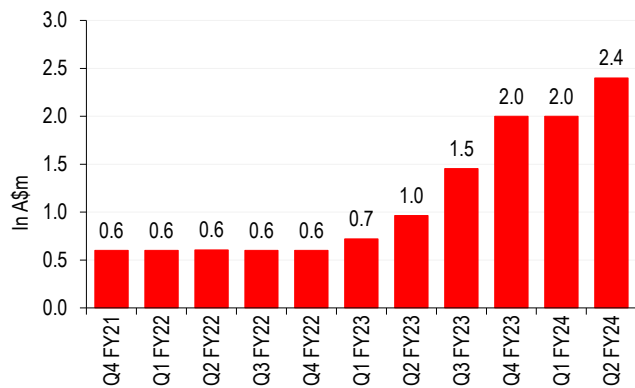
SaV revenue for the quarter was \$4.7m, down 17% year on year, and down 10% on Q1 FY24. We expect this source of revenue to continue to decline over time as a result of the ongoing transition of these customers to SaaS contracts, with our forecast for H1 FY24 at \$10.0m, compared with \$11.9m in H1 FY23 and \$10.7m in H2 FY23.

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



Source: Company data, RaaS analysis

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



Source: Company data, RaaS analysis

H1 FY24 Revenue In Line With Forecasts

Kinatico has reported H1 FY24 revenue of \$14.3m, including \$4.4m or 31% from SaaS revenue. This is in line with our forecast for the half. The result was up 6% on the pcp with SaaS revenue up 159% over the same period. The company reported an expanded NPAT of \$0.4m for the half, a \$1.4m turnaround on the reported net loss of \$1.0m a year ago. Although the result was a little below our forecast, we will wait to see the full accounts for the half before we make any adjustments. Cash at the end of the period was a better-than-expected \$9.4m.

Exhibit 1: H1 FY24 versus H1 FY23, H1 FY22 and RaaS forecasts (in A\$m unless otherwise stated)

Year ending June 30	H1 FY22	H1 FY23	H1 FY24	RaaS fct	% chg H1 FY24 over H1 FY23
SaV revenue	11.6	11.9	9.9	10.0	(16.5)
SaaS revenue	1.2	1.7	4.4	4.5	159.0
Revenue	12.8	13.6	14.3	14.5	6.0
NPAT rep.	(0.6)	(1.0)	0.4	0.6	(136.0)
Cash at period end	12.2	10.2	9.4	9.1	(7.5)

Source: Company data, RaaS estimates

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 14.5% includes a beta of 1.6, which is the five-year rate observed by Refinitiv. We have assumed all options on issue (4.5m) convert. This gives us a DCF valuation of \$0.25/share, which implies an EV/Revenue of 3.6x FY24f and 3.2x FY25f.

Exhibit 5: DCF valuation

Parameters	Outcome
Discount rate / WACC	14.5%
Beta*	1.6
Terminal growth rate assumption	2.2%
Sum of PV (A\$m)	48.4
PV of terminal value (A\$m)	48.2
PV of enterprise (A\$m)	96.7
Net debt / (cash) – 30 June 2023 (A\$m)	(9.4)
Net valuation – equity (A\$m)	106.1
No. of shares on issue (fully-diluted for options on issue) (M)	421
NPV per share (A\$)	\$0.25

Sources: RaaS estimates; *Refinitiv's observed beta of 1.6 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), also a RaaS research client. We have included talent engagement group LiveHire and accounting compliance company 8Common for completeness. As set out in the table below, KYP is now trading in line with its ASX-listed peers based on FY23a EV/Revenue, following a positive re-rating for Kinatico and compression in several of its peers' enterprise values.

Exhibit 6: KYP discount to ASX-listed peer EV/Revenue trading multiples

Company	ASX code	Enterprise value (A\$m)	EV/Revenue (FY23a) X
8Common Ltd	8CO	11.2	1.48
Damstra Holdings Ltd	DTC	58.8	1.99
K2fly Ltd	K2F	15.7	1.17
Knosys Ltd	KNO	5.9	0.59
LiveHire Ltd	LVH	13.2	1.63
Wrkr Ltd	WRK	32.0	4.74
Xref Ltd	XF1	22.7	1.11
Median		15.7	1.48
Kinatico	KYP	40.8	1.46

Sources: RaaS analysis, Refinitiv; Based on closing prices/market capitalisation on 18 January 2024 and FY23a revenue

Exhibit 7: Financial Summary

Kinatico						Share price (22 January 2024)						A\$	0.12
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	H122A	H222A	H123A	H223A	H124F	H224F		
Revenue	16.9	23.9	22.6	19.2	16.3	12.8	13.6	13.6	14.1	14.5	14.7		
Transactional revenue	16.9	23.9	22.6	19.2	16.3	1.1	0.8	0.6	2.5	1.9	1.8		
SaaS revenue	0.6	2.4	5.1	10.1	16.9	(0.2)	(0.3)	(0.8)	1.3	0.8	0.6		
Sales Revenue	17.5	26.4	27.7	29.3	33.2	NPAT (normalised)	(0.2)	(0.5)	(0.8)	1.5	0.6		
Gross Profit	10.3	16.8	18.2	19.4	22.3	Minorities	-	-	-	-	-		
EBITDA underlying	1.5	1.8	3.1	3.7	5.6	NPAT (reported)	(0.6)	(0.9)	(1.0)	1.2	0.6		
Depn	(0.3)	(0.4)	(0.5)	(0.3)	(0.3)	EPS (normalised)	(0.06)	(0.11)	(0.18)	0.36	0.14		
Amort	(1.0)	(2.0)	(2.1)	(2.1)	(2.2)	EPS (reported)	(0.14)	(0.20)	(0.23)	0.28	0.14		
EBIT underlying	0.2	(0.6)	0.5	1.4	3.1	Dividend (cps)	-	-	-	-	-		
Interest	0.0	0.0	0.1	0.1	0.1	Imputation	-	-	-	-	-		
Tax	0.0	(0.2)	0.1	(0.4)	(1.0)	Operating cash flow	1.2	1.8	0.9	2.7	1.3		
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow	2.4	3.5	3.1	4.5	2.9		
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Divisions	H122A	H222A	H123A	H223A	H124F	H224F	
NPAT pre significant items	0.3	(0.7)	0.8	1.0	2.2	Transactional Revenue	11.6	12.3	11.9	10.7	10.0		
Significant & non-cash items	(1.3)	(0.8)	(0.5)	0.0	0.0	SaaS Revenue	1.2	1.2	1.7	3.4	4.5		
NPAT (reported)	(1.0)	(1.5)	0.2	1.0	2.2	Sales revenue	12.8	13.6	13.6	14.1	14.5	14.7	
Cash flow (A\$m)						COGS							
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	Gross Profit	8.2	8.6	8.8	9.4	9.6		
EBITDA	1.5	1.8	3.1	3.7	5.6	GP Margin (%)	63.7	63.5	64.5	66.9	66.0		
Interest	0.0	0.0	0.1	0.1	0.1	Employment	(5.0)	(5.1)	(5.7)	(4.7)	(4.9)		
Tax	0.8	(0.1)	(0.1)	(0.4)	(1.0)	Technology, licence fees	(1.8)	(2.5)	(1.7)	(2.3)	(2.4)		
Working capital changes	(1.4)	1.3	0.5	(0.4)	0.0	Other costs	(0.3)	(0.3)	(0.7)	0.1	(0.3)		
Operating cash flow	1.0	3.1	3.6	3.0	4.7	EBITDA (normalised)	1.1	0.8	0.6	2.5	1.9		
Mtce capex	(0.0)	(0.2)	(0.1)	(0.2)	(0.2)	Margins, Leverage, Returns		FY21A	FY22A	FY23A	FY24F	FY25F	
Free cash flow	1.0	2.8	3.6	2.8	4.5	EBITDA		8.8%	7.0%	11.2%	12.7%	16.7%	
Capitalised Dev. Costs	(0.9)	(2.6)	(3.9)	(3.0)	(3.0)	EBIT		1.3%	(2.1%)	1.7%	4.7%	9.3%	
Acquisitions/Disposals	(1.8)	(0.7)	0.0	0.0	0.0	NPAT pre significant items		1.7%	(2.7%)	2.7%	3.5%	6.7%	
Other	0.3	(0.0)	0.0	0.0	0.0	Net Debt (Cash)		12.9	10.4	8.5	8.1	9.6	
Cash flow pre financing	(1.4)	(0.4)	(0.3)	(0.2)	1.5	Net debt/EBITDA (x)	(x)	8.4	5.6	2.7	2.2	1.7	
Equity	9.9	0.0	(1.3)	(0.3)	0.0	ND/ND+Equity (%)	(%)	(97.0%)	(69.2%)	(52.1%)	(45.9%)	(52.3%)	
Debt	0.0	(0.3)	(0.3)	0.0	0.0	EBIT interest cover (x)	(x)	(0.1)	n/a	0.3	(0.1)	(0.0)	
Dividends paid	0.0	0.0	0.0	0.0	0.0	ROA		1.1%	(1.7%)	1.4%	4.3%	9.2%	
Net cash flow for year	8.6	(0.7)	(1.8)	(0.4)	1.5	ROE		(6.2%)	(5.8%)	0.9%	4.1%	8.3%	
Balance sheet (A\$m)						ROIC							
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F			1.9%	(10.3%)	18.1%	38.4%	63.3%	
Cash	12.9	11.9	9.6	9.2	10.7	Working capital		(0.8)	(0.9)	(1.1)	(0.7)	(0.7)	
Accounts receivable	3.0	3.0	2.4	2.0	2.2	WC/Sales (%)		(4.6%)	(3.4%)	(4.0%)	(2.5%)	(2.2%)	
Inventory	0.0	0.0	0.0	0.0	0.0	Revenue growth		41.3%	50.9%	5.0%	5.6%	13.4%	
Other current assets	0.4	0.0	0.3	0.3	0.3	EBIT growth pa		n/a	n/a	-187%	nm	123%	
Total current assets	16.3	14.9	12.4	11.5	13.3	Pricing		FY21A	FY22A	FY23A	FY24F	FY25F	
PPE	0.3	2.0	1.6	1.5	1.4	No of shares (y/e)	(m)	429	434	420	417	417	
Intangibles and Goodwill	15.9	16.4	18.2	19.1	19.9	Weighted Av Dil Shares	(m)	429	434	430	417	417	
Investments	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(0.30)	(0.35)	0.05	0.25	0.53	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	0.09	(0.17)	0.17	0.25	0.53	
Other non current assets	0.0	0.3	0.3	0.3	0.3	EPS growth (norm/dil)		n/a	n/a	(205.6%)	nm	117%	
Total non current assets	16.2	18.8	20.1	20.9	21.6	DPS	cps	-	-	-	-	-	
Total Assets	32.5	33.7	32.4	32.4	34.9	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Accounts payable	3.8	3.9	3.5	2.7	3.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Short term debt	0.0	0.0	0.0	0.0	0.0	Dividend imputation		0	0	0	0	0	
Tax payable	0.1	0.2	0.1	0.1	0.1	PE (x)		-	-	209.1	46.8	21.6	
Other current liabilities	2.4	2.7	2.9	2.9	2.9	PE market		18.0	18.0	18.0	18.0	18.0	
Total current liabilities	6.3	6.8	6.5	5.7	5.9	Premium/(discount)		(100.0%)	(100.0%)	1061.8%	160.2%	20.0%	
Long term debt	0.0	1.5	1.1	1.1	1.1	EV/EBITDA		23.7	21.4	12.8	10.7	0.0	
Other non current liabs	0.0	0.0	0.0	0.0	0.0	FCF/Share	cps	0.0	0.1	(0.1)	0.0	0.4	
Total long term liabilities	0.0	1.5	1.1	1.1	1.1	Price/FCF share		407.6	192.6	(156.7)	242.7	32.0	
Total Liabilities	6.3	8.3	7.6	6.8	7.0	Free Cash flow Yield		0.2%	0.5%	(0.6%)	(0.4%)	3.1%	
Net Assets	26.2	25.4	24.9	25.6	27.9								
Share capital	47.2	47.9	46.7	46.4	46.4								
Accumulated profits/losses	(22.1)	(23.3)	(23.1)	(22.1)	(19.8)								
Reserves	1.1	0.8	1.3	1.3	1.3								
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder funds	26.2	25.4	24.9	25.6	27.9								

Sources: Company data, RaaS Advisory estimates



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

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AFSL 456663

Effective Date: 6th May 2021

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