

# Kinatico Ltd (formerly CV Check Ltd)

Q1 FY23 Reports/  
Company Update

## Q1 revenue up 9% + automation via Scantek deal

Kinatico Ltd (ASX:KYP) [formerly CV Check Ltd] is a RegTech company providing workforce compliance monitoring and management technology and services (i.e. 'Know Your People' services). KYP's recent **Q1 FY23 reports** revealed: (1) \$6.9m revenue (up 9% yoy) of which 10% was SaaS revenue (\$720k - up from \$600k in pcp and Q4 FY22); (2) \$7.5m cash receipts; (3) 64% P&L gross margin (flat on pcp); (4) \$233k operating cashflow; (5) \$826k free cash outflow (post \$1.06m capitalised development spend and capex); and (6) \$11.1m cash (and net cash). These key figures were largely in-line with our expectations and our forecasts remain intact. We also highlight three **other recent developments**: (1) White-label agreement with Perth-based Scantek Solutions Pty Ltd ('Scantek') for process automation and biometric identity ('ID') verification services. Integration is under way and the services will be released across KYP's products in late Q2/early Q3 FY23 (with Scantek charging a fee per ID verification). Whilst the arrangement should generate some net cost savings in H2 FY23/FY24, we consider its significance lies in facilitating future SaaS scalability at low incremental cost; (2) New Cited SaaS agreement with Aruma Disability Services ('Aruma') for \$218k pa revenue. KYP's annualised SaaS revenue run-rate is currently ~\$3.2m - and the remainder of FY23 is a key period to establish sales momentum; and (3) KYP has been buying-back shares most trading days (2.2m to date for \$227k [of maximum \$2m/~4% issued shares]).

## Business model

KYP has two core offerings: (1) Screening and verification (SaV) services primarily via its CVCheck platform (91% FY22 revenue); and (2) SaaS (9% FY22 revenue) encompassing real-time workforce compliance monitoring and management delivered via its 'Cited' platform (and accompanying 'OnCite' app), and workforce logistics solutions via its legacy 'Enable' platform. 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 fixed monthly fee (plus transactional fees for SaV and other services). KYP is now moving its Cited SaaS pricing to a simple monthly all-in fee per worker of \$15-\$30 (inclusive of transactional services, minimum 12-month subscription). There is no charge for OnCite app download and use.

## Q1 FY23: \$1m tech development spend + Scantek arrangement

KYP's Q1 results were largely in-line with our expectations with key metrics of: (1) 9% yoy revenue growth primarily driven by higher SaV volumes; (2) \$720k SaaS revenue (up \$120k yoy and qoq); (3) 64% P&L gross margin (flat on pcp); (4) \$233k net operating cashflow; (5) \$826k free cash outflow due to sizeable \$996k capitalised development spend (for OnCite and Cited enhancements); and (6) \$11.1m cash (and net cash). In addition to the ongoing emphasis on growing Cited's SaaS revenue, a key focus for Q2/Q3 is the delivery of automation and biometric ID verification services across KYP's offerings following integration of Scantek's solution. This should facilitate future SaaS scalability and operating leverage.

## DCF valuation of \$0.26/share or \$113m market cap

Our KYP DCF valuation remains unchanged at \$0.26 per share (11.6% WACC). This implies EV/Revenue multiples of 3.8x for FY22 and 3.3x for FY23f. As a cross-check, KYP is currently trading at a 66% discount to its ASX-listed peers on FY22 EV/Revenue (1.0x vs. 3.0x) including its closest peers [Xref (ASX:XF1) at 2.6x and IntelliHR (ASX:IHR) at 3.8x]. Relative to the US-listed SaV pureplays (First Advantage, Sterling and HireRight), KYP is trading at a 61% discount to their average 2.6x CY22f EV/Revenue. While the buy-back should underpin the share price in FY23, key re-rating catalysts are: (1) Securing material new SaaS contracts; and (2) Evidence that automation positions KYP for future scalability and operating leverage.

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

Year end	Revenue	EBITDA reported	NPATA*	NPAT reported	EPS (c)	P/E (x)	EV/Revenue (x)
06/21a	17.5	0.2	(0.7)	(1.0)	(0.3)	n.m	1.4
06/22a	26.4	1.1	(0.3)	(1.5)	(0.3)	n.m	1.0
06/23f	30.5	2.4	0.8	(0.4)	(0.1)	n.m	0.9
06/24f	37.1	5.2	3.4	2.2	0.5	17.8	0.6

Sources: Company data; RaaS estimates for FY23f and FY24f; \*Excludes Bright People Technologies ('Bright') acquisition related intangible assets amortisation

Software & Services

27 October 2022

### Share Details

ASX code	KYP (formerly CV1)
Share price (26-Oct-22)	\$0.089
Market capitalisation	\$38.5M
Shares on issue (buy-back adj.)	432.1M
Net cash at 30-Sep-22	\$11.1M
Free float (including founders/ excluding founders)	~66%/ ~80%

### Share Performance (12 months)



### Upside Case

- Uptake of industry agnostic, high-margin RegTech SaaS offering exceeds expectations
- Process automation = positioning for scalability and operating leverage
- Well positioned for potential M&A
- International opportunities for SaaS offering

### Downside Case

- Lower/slower-than-expected SaaS uptake rate
- Economic downturn leads to reduced demand for pre-employment screening
- Pursuit of planned international expansion leads to higher-than-expected costs/losses
- Changes to consumer data availability

### Catalysts

- Material new contracts for SaaS offering
- Delivery of process automation → positioning for future scalability and operating leverage
- M&A interest/activity (acquirer or target): per recent acq'n activity and interest at peers (including ASX:ELO, LVT, PYG, KYK, DTC)

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## Update – Recent Developments

In this report, we review and analyse recent developments at KYP, namely:

- Q1 FY23 reports (largely in-line with our expectations);
- New and updated information provided in Annual General Meeting ('AGM') related announcements, including the new Cited SaaS agreement with Aruma (\$216k annual revenue);
- White-label agreement with Scantek for process automation and biometric ID verification services (integration in train for late Q2/Q3 FY23 roll-out); and
- Share buy-back progress.

## Q1 FY23 Reports Analysis

KYP recently released its Q1 FY23 cashflow and activities reports. It also disclosed some additional Q1 metrics on slide 12 of its AGM-related presentation (released on 14 October 2022).

The key Q1 figures were largely in-line with our expectations (per page 14-15 of [CV Check RaaS Update 12 September 2022](#)) with moderate year-on-year dollar value increases across revenue, cash receipts and net operating cashflow. Meanwhile, free cash outflow (\$826k) was slightly higher than anticipated reflecting sizeable capitalised development payments for product development projects during the quarter.

Apart from a minor adjustment for ~\$100k of recent share buy-back payments, our forecasts (and DCF valuation) are unchanged following the Q1 reports and our understanding of current demand for SaV services and Cited SaaS offering sales leads. Our FY23 half-yearly P&L forecasts are set out in [Annexure A](#). We flag that:

- The remainder of FY23 is a key period for KYP to establish sales momentum for its Cited SaaS offering (i.e. securing agreements that will generate material annual revenue for KYP either individually or in aggregate into FY24 and, in turn, materially increase SaaS's contribution to total revenue from 10% currently).
- If SaV volumes maintain recent growth rates for the remainder of FY23 (despite the demanding comparables), SaV revenue would exceed our current expectations.

## Q1 FY23 revenue and gross margin

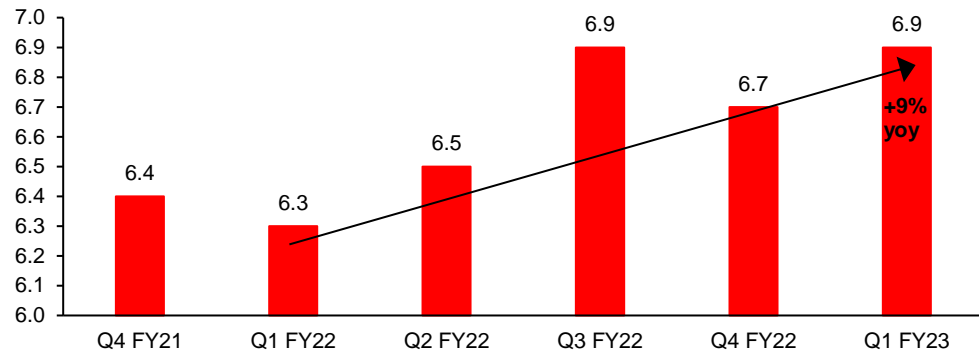
- **Revenue - up 9%:** KYP's Q1 revenue increased 9% (or ~\$600k) on the pcp to \$6.9m which was in-line with our expectations for 8%-10% growth. It was slightly higher than Q4 FY22 revenue (\$6.7m) and matched the Q3 FY22 result (\$6.9m).

Within the total, SaV revenue rose 8% on the pcp (to \$6.2m) and SaaS increased by 23% (to \$720k).

Increased **SaV volumes** were the primary Q1 revenue growth driver (accounting for an estimated \$480k or 80% of the increase) given prices for SaV services remained unchanged while SaaS revenue increased by \$120k on the pcp. The SaV volume growth reflected a combination of organic growth from existing business customers and >300 new business customer sign-ups during Q1 (vs. >500 in the pcp).

We understand that the SaV Q1 year-on-year growth rate has continued into the initial weeks of Q2 FY23. Also see [Annexure B: Australian Employment Market – Latest Data](#) which provides some insight into current demand for KYP's SaV services.

**Exhibit 1: Quarterly revenue (unaudited in A\$m) – Q4 FY21a to Q1 FY23a\***



Source: KYP announcements; \*Quarterly revenue for the six quarters following Bright acquisition completion

- **SaaS revenue (~10% of total):** SaaS revenue (from the Cited and Enable offerings) amounted to \$720k, up ~\$120k relative to both the pcp and Q4 FY22. In turn, SaaS accounted for ~10% of total revenue (vs. ~9% in the pcp and Q4 FY22).

Q1 SaaS growth was primarily attributable to the first full quarter contribution from the Hireup agreement (estimated ~\$85k vs. ~\$15k for two weeks in Q4 FY22).<sup>1</sup> We understand that the remainder was from ~15 new SME client signings for the Cited offering during the quarter (for estimated ~\$220k annual revenue).

On our estimates, the **annualised SaaS revenue run-rate** currently stands at **\$3.2m<sup>2</sup>** (including the Aruma agreement which will be revenue generating from November [see [New Cited SaaS agreement](#)]). Within this run-rate, Enable (Bright’s legacy platform and workforce management software suite) accounts for ~70% (~\$2.2m) while the remaining ~30% (\$1.0m) is from Cited.

- **Revenue from integrations (~16% of total):** SaV revenue from integrations with third-party platforms<sup>3</sup> increased by 61% (\$400k) on the pcp to \$1.08m.
- **64% gross margin:** Q1 gross margin was 64% which was unchanged relative to the pcp (and FY22). This reflected KYP’s revenue composition (90% SaV/10% higher-margin [~85%] SaaS) which was essentially unmoved.

**Key Q1 FY23 cashflow figures**

- **Customer cash receipts** were \$7.5m for the quarter (up 23% on the pcp) and were effectively in-line with Q1’s \$6.9m revenue (plus GST).
- **Operating cash payments** (excluding interest and tax) totalled \$7.2m, up 29% on the pcp and 14% on Q4.

<sup>1</sup> The Hireup agreement is expected to generate revenue of at least \$350k per annum via fixed monthly SaaS subscription fees (i.e. “all-in” pricing inclusive of SaV transactions) for use of Cited by a portion of Hireup’s carers/workers. Hireup is Australia’s largest National Disability Insurance Scheme (NDIS) registered online platform for people with disability and/or their families to find, hire and manage support workers.

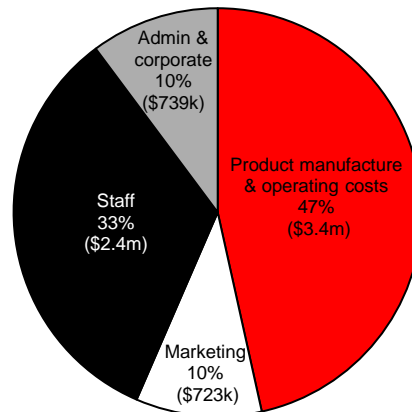
<sup>2</sup> i.e. \$2.4m FY22 SaaS revenue (assuming 100% client retention rate), \$350k from Hireup, \$216k from Aruma and est. \$220k from the ~15 new SME clients secured in Q1 FY23.

<sup>3</sup> The CVCheck SaV platform is integrated with ~13 human resources information software (HRIS) and applicant tracking system (ATS) platforms. Revenue sharing or commission arrangements are in place with these integration partners.

**Exhibit 2: Operating cash payments (excluding interest and tax) (in A\$'000)**

	Q1 FY22a	Q4 FY22a	Q1 FY23a	% chg (YoY)	% chg (QoQ)	Comments
Product mfg and operating costs	(2,831)	(2,482)	(3,373)	19	36	
Advertising and marketing	(314)	(678)	(723)	130	7	↑ on pcp reflected B2B marketing campaigns in Q4/Q1 for Cited SaaS offering.
Staff costs	(1,913)	(2,708)	(2,414)	26	(11)	<ul style="list-style-type: none"> <li>↑ on pcp reflected additional head count and \$100k for sales staff training. KYP employed 114 FTEs in Q1 (vs. ~100 in pcp).</li> <li>Additional staff hires in Q1 included ~three in sales to support the SaaS sales strategy (for a total of 16 in sales).</li> <li>QoQ ↓ primarily due to an additional pay cycle in Q4.</li> </ul>
Administration and corporate costs	(568)	(511)	(739)	30	45	
<b>Operating cash payments</b>	<b>(5,626)</b>	<b>(6,379)</b>	<b>(7,249)</b>	<b>29</b>	<b>14</b>	
<b>Op cash pymts (excl product mfr)</b>	<b>(2,795)</b>	<b>(3,897)</b>	<b>(3,876)</b>	<b>39</b>	<b>(1)</b>	

Sources: KYP quarterly reports, RaaS.

**Exhibit 3: Operating cash payments composition (Q1 FY23a)**


Source: KYP Q1 FY23 Appendix 4C

Turning to interest and income tax: (1) Interest received was negligible in Q1 (\$11k) but will increase from Q2 as we understand that a significant portion of KYP's \$11m cash balance has been placed into higher-yielding term deposits post quarter-end; and (2) \$39k income tax was paid for the profitable New Zealand operation.

- **\$233k net operating cashflow:** KYP reported positive net operating cashflow of \$233k (up from \$33k in the pcp which included a \$350k one-off Bright acquisition-related outflow<sup>4</sup>). This was largely in-line with our expectations and lower than operating cashflow posted in Q2-Q4 FY22 (of \$1.19m, \$855k and \$986k respectively). Q1 marked KYP's ninth consecutive positive net operating cashflow quarter.

Using the pre-AASB 16 classification of office lease payments (i.e. classifying all payments as operating outflows) and including premium-funded insurance payments in operating outflows (rather than financing), KYP's Q1 net operating cashflow would be \$79k lower at ~\$154k.

- **Capitalised product development payments (intangible assets):** KYP made \$996k of capitalised product development payments in Q1 (up 73% from \$575k in the pcp and 14% higher than the \$875k outlay in Q4 FY22). The Q1 payments primarily relate to development work undertaken in both Q4 and Q1 for the OnCite app (including the addition of direct document capture and credential entry functionality for the

<sup>4</sup> For accrued salaries assumed by KYP as part of the Bright acquisition. Adjusting for these one-off payments, Q1 FY22 operating cashflow was \$383k.

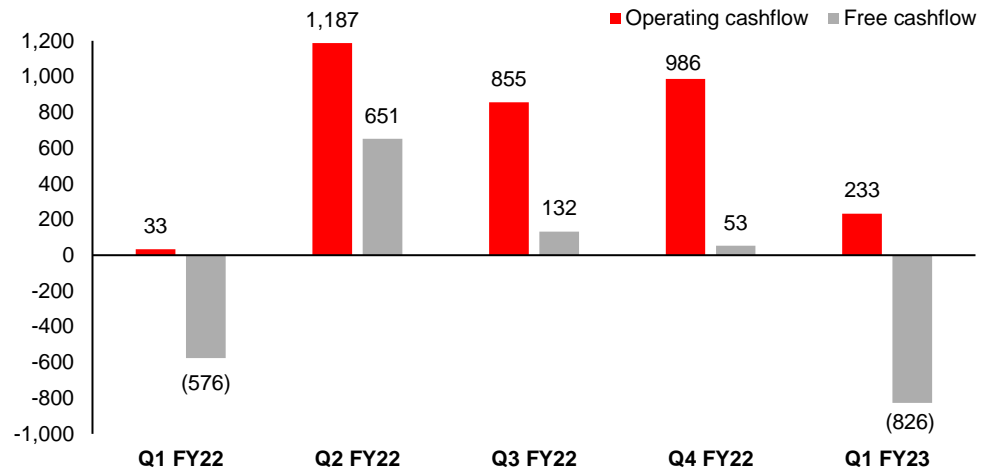
impending release of “OnCite Version 2”) and Cited (including “Cited Version 3” which was launched in early July, and ongoing platform feature enhancements).

Our FY23 forecasts incorporate \$2.3m of capitalised development spend reflecting our current expectation that average spend over Q2-Q4 will be lower than Q1 (noting that KYP is implementing significant process automation and biometric ID validation functionality via its agreement with Scantek rather than internal development).

- **Free cash outflow:** KYP’s free cash outflow of \$826k in Q1 FY23 was ~\$200k higher than our expectations (for ~\$600k) and the \$576k outflow in the pcp. It also marked a reversal from the free cashflows reported in the previous three quarters (Q2 FY22: \$651k, Q3 FY22: \$132k and Q4 FY22: \$53k).

For FY23, we are forecasting \$0.2m free cashflow as the vast majority of KYP’s operating cashflow (\$2.6m forecast) is utilised to fund capitalised product development payments.

**Exhibit 4: Quarterly operating and free cashflows (in A\$’000) – Q1 FY22a to Q1 FY23a**



Source: KYP announcements.

- **Total net cash outflow:** In total, there was a \$1.1m outflow in Q1 reflecting a combination of: (1) The \$826k free cash outflow; (2) Share buy-back payments of \$167k (see [Buy-back continues](#)); and (3) \$79k of other net financing outflows (for office leases and premium-funded insurance payments).
- **Cash (and net cash) balance:** KYP remains well capitalised with a \$11.1m cash balance at 30 September 2022 (down from \$12.2m at 30 June 2022). If all of the remaining \$1.8m allocated to the share buy-back is deployed, KYP would still retain flexibility to pursue suitable M&A opportunities that may emerge (with a post maximum buy-back ~\$10m cash balance [based on \$0.2m FY23f free cashflow], ~\$7m-\$8m net current assets balance, and the ability to utilise its listed scrip).

**Exhibit 5: Quarterly cashflow statements - Q1 FY22a to Q1 FY23a (in A\$'000)**

	Q1 FY22a	Q2 FY22a	Q3 FY22a	Q4 FY22a	Q1 FY23a	% chg (YoY)	% chg (QoQ)
<b>Operating activities</b>							
Receipts from customers	6,106	8,259	7,321	7,385	7,532	23	2
Product mfg and operating costs	(2,831)	(3,158)#	(3,226)	(2,482)	(3,373)	19	36
Advertising and marketing	(314)	(476)	(621)	(678)	(723)	130	7
Staff costs	(1,913)	(2,624)#	(2,200)	(2,708)	(2,414)	26	(11)
Administration and corporate costs	(568)	(770)	(466)	(511)	(739)	30	45
<b>Gross operating cashflow</b>	<b>480</b>	<b>1,231</b>	<b>808</b>	<b>1,006</b>	<b>283</b>	<b>(41)</b>	<b>(72)</b>
Net interest <sup>1</sup>	7	(1)	34	(20)	(11)	<i>n.m</i>	(45)
Tax payments (New Zealand)	(104)	(43)	(41)	-	(39)	(63)	<i>n.m</i>
R&D tax rebate	-	-	54	-	-	-	-
Other	(350)**	-	-	-	-	(100)	-
<b>Net operating cashflow (per App 4C)</b>	<b>33</b>	<b>1,187</b>	<b>855</b>	<b>986</b>	<b>233</b>	<b>606</b>	<b>(76)</b>
<b>Net operating cashflow (adjusted)*</b>	<b>299</b>	<b>1,083</b>	<b>744</b>	<b>854</b>	<b>154</b>	<b>(48)</b>	<b>(82)</b>
<b>Investing activities</b>							
Capital expenditure	(34)	(27)	(99)	(58)	(63)	85	9
Capitalised tech development spend	(575)	(509)	(624)	(875)	(996)	73	14
Proceeds from rental bond	-	-	287	-	-	-	-
Acquisition - Bright	-	(546)	(116)	-	-	-	-
<b>Net investing cashflow</b>	<b>(609)</b>	<b>(1,082)</b>	<b>(552)</b>	<b>(933)</b>	<b>(1,059)</b>	<b>74</b>	<b>14</b>
<b>Financing activities</b>							
Issue of securities/buy-backs	-	51	-	(36)	(167)	-	364
Repayment of borrowings	-	-	-	-	-	-	-
Office lease costs <sup>2</sup>	(84)	(104)	(30)	(47)	(52)	(38)	11
Business insurance premiums <sup>3</sup>	-	(137)	(81)	(85)	(27)	<i>n.m</i>	(68)
<b>Net financing cashflow</b>	<b>(84)</b>	<b>(190)</b>	<b>(111)</b>	<b>(168)</b>	<b>(246)</b>	<b>193</b>	<b>46</b>
Exchange rate adjustment	13	(4)	(23)	(26)	(39)	(400)	50
Net change in cash	(647)	(89)	169	(141)	(1,111)	72	688
<b>Net cash at end of period</b>	<b>12,259</b>	<b>12,170</b>	<b>12,339</b>	<b>12,198</b>	<b>11,087</b>	<b>(10)</b>	<b>(9)</b>
<b>Free cashflow</b>	<b>(576)</b>	<b>651</b>	<b>132</b>	<b>53</b>	<b>(826)</b>	<b>53</b>	<b><i>n.m</i></b>

Sources: KYP quarterly reports, RaaS. <sup>1</sup> Reflects interest income and AASB 16 lease interest payments; <sup>2</sup> Lease principal repayments (per AASB 16); <sup>3</sup> Classified as a financing activity due to premium funding arrangement.

\***Adjusted net operating cashflow** classifies all office lease payments as operating outflows (pre-AASB 16 accounting treatment), includes premium-funded insurance payments, and excludes Q1 FY22's one-off payment; \*\*Bright acquisition-related payment for accrued salaries assumed as part of the acquisition; #Difference vs. Q2 Appendix 4C due to \$507k subsequent reclassification between these line items (per YTD in Q3 and Q4 Appendix 4C).

## AGM Related Announcements – New and Updated Information

KYP released AGM-related announcements on 10, 13 and 14 October 2022. The following information from the announcements (and our subsequent discussions with management) is either new or updated:

### New Cited SaaS agreement - Aruma

KYP entered into a Cited SaaS agreement with Aruma (an existing CVCheck platform/SaV client) during Q1. Aruma provides disability services throughout the eastern states to ~5,300 customers and has ~5,700 staff (per its FY21 annual report). We note that:

- KYP will derive \$218k of revenue pa via fixed monthly SaaS fees (inclusive of relevant SaV transactions) commencing in November 2022. We estimate the incremental annual revenue will be ~\$180k (i.e. SaaS fees less existing SaV revenue).
- We understand that Cited will be utilised for part of Aruma's ~5,700 workforce and that the implied monthly fee per worker is within KYP's targeted range (\$15-\$25/month).
- The agreement is for an initial three-year term.

## FY23 strategy

KYP re-iterated that its FY23 strategy is to “Continue to Grow and Innovate at Scale” (per FY22 results presentation dated 1 September 2022) via the following activities and product developments:

- **Sales growth:** Realising sales from its investment in sales enablement (sales staff and processes).

In addition to the focus on Cited SaaS sales, we understand the CVCheck direct sales team is starting to offer **subscription arrangements** for SaV services to its larger corporate and white-label CVCheck platform customers (e.g. rolling six or 12-month contracts with appropriate order volume caps vs. the uncontracted arrangements that are currently in place for many of these customers [i.e. ad-hoc orders and pay-as-you-order arrangements]). If some of the ~500 larger corporate customers transition to these arrangements, it would expand KYP’s revenue mix to include more valuable SaV subscriptions (albeit revenue and gross margins for these customers would likely remain around existing levels [est. 70%-75% margins for two+ checks per candidate]).

- **Automation and biometrics:** Process automation and biometric ID verification to increase efficiencies and reduce cost structure. See [Scantek Agreement: Automation and biometric ID verification](#) below.

- **OnCite app updates:** Release upgraded versions of the OnCite app. We understand that:

- The release of “OnCite Version 2” is imminent. This version will enable workers to directly capture/upload documents and add details of credentials/records into the app (vs. the current document capture/credential entry process via the Cited website or web app, and read-only worker credentials/records in “OnCite Version 1”).
- “OnCite Version 3” will incorporate automated processes (optical character recognition [‘OCR’] and automatic classification of ID documents) and biometrics for ID verification. It will be released following the Scantek integration which is currently expected to be completed later this quarter.
- Other features to be included in upcoming versions include automated messaging and reminders that are sent directly to workers.
- New streamlined user experience across products. “OnCite Version 3” will be integrated into the CVCheck platform processes so it can also be utilised by this customer base and its job applicants/workers for the provision of SaV services.

- Progressing its Trusted Digital Identity Framework (‘TDIF’) accreditation application with the Federal Government’s Digital Transformation Agency (‘DTA’).<sup>5</sup>

## International expansion plans

KYP stated that its plans to expand into international markets are currently being formulated:<sup>6</sup> *“The Company is ... formulating a global expansion strategy which is targeting the sale of its growing suite of RegTech solutions into overseas markets”* and *“our ever-expanding suite of RegTech solutions [is] able to be transplanted into offshore jurisdictions.”*

In order to ensure any new international market entry is cost-effective (given the SaV services that feed into the Cited offering would be jurisdiction specific), we anticipate KYP is/will be exploring licensing/reseller arrangements with local SaV (or similar) providers, joint-venture type arrangements with local SaV providers

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<sup>5</sup> See <https://www.digitalidentity.gov.au/tdif>. An identity provider can create, maintain or manage information about a person’s identity, and offer identity-based services.

<sup>6</sup> As we have previously noted: (1) We suspect that KYP will assess opportunities in the UK market (which could also act as a beachhead into European markets), as well as underserved and/or underpenetrated markets for RegTech/workforce software; and (2) We currently anticipate that the North American market is a secondary opportunity and that an initial assessment of opportunities in Canada (in light of its mining/resources industry) would be more likely than the US.

(rather than establishing and managing its own offshore offices independent of existing local providers), or acquisitions of small-medium-sized existing local SaV providers.

Based on our discussions, KYP appears cognisant that international expansion could divert attention and resources away from its key current focus of growing the Cited SaaS platform in the Australasian market. In turn, we suspect the implementation of its plans (or part thereof) could be deferred until Australasian SaaS sales gain further traction.

### **New company name (Kinatico) and ASX code (KYP)**

The new Kinatico company name is designed to “*better reflect its now diverse – and still growing – product suite, which deliver much more than just background checks on CVs*” and “*to better distinguish between the Company as an aggregator of RegTech and our product brands: CVCheck, Cited, OnCite and Enable*”. It is a combination of letters from the following words: kinetic (**kin**), data (**at**), insights (**i**), and company (**co**). The new KYP ASX code is the acronym for ‘**Know Your People**’.

### **Scantek Agreement: Automation and Biometric ID Verification**

In late September, KYP announced that it had entered into an **alliance (white-label) agreement** with Scantek for the provision of automation services (including OCR and ID document classification) and biometric ID verification across KYP’s product offerings. Further background regarding Scantek is set out [below](#).

The Scantek arrangement will facilitate implementation of KYP’s previously flagged plans to incorporate biometrics into its offerings (since late 2021) and create more efficient processes.

The agreement is for a **five-year term** (with an option for KYP to renew for a further three years).

**Integration** of the agreed services into KYP’s platforms is in train and is currently expected to be completed this quarter (i.e. by 31 December 2022). The new services will progressively be made available to Cited SaaS and CVCheck (SaV) customers with likely late Q2/early Q3 FY23 timing. We understand that no upfront integration/set-up fees are payable (with KYP’s only upfront costs being some internal staff working on the integration in conjunction with Scantek).

Scantek will charge a **fee per ID validation** undertaken for KYP (RaaS estimate: \$2.00-\$2.50 per ID validation). We understand there are no other fees payable under the agreement.

### **Scantek’s automated biometric ID process and functionality**

Some sample screenshots and further information regarding Scantek’s automated process for biometric ID verification are set out below. These processes will be embedded in the OnCite ‘Digital Credential Passport’ app as well as the Cited and CVCheck websites.

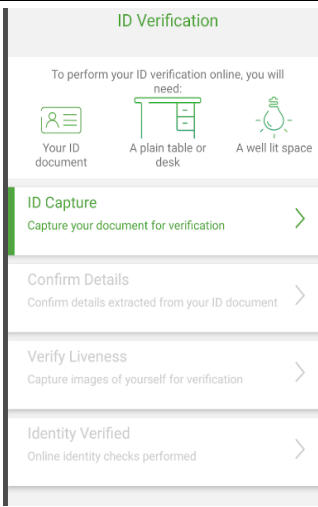

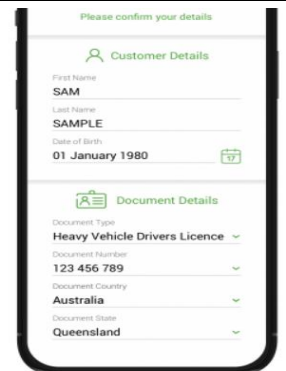
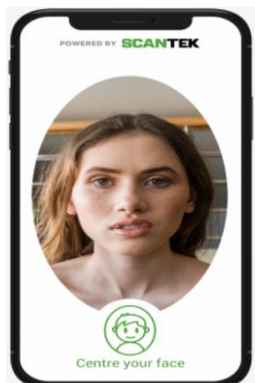
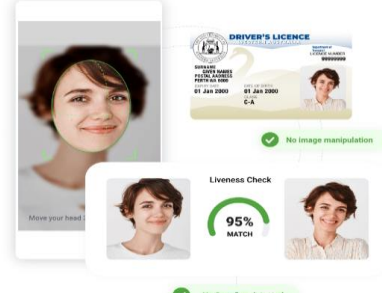
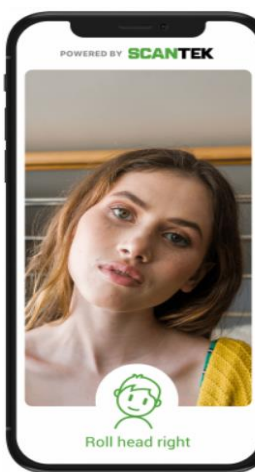
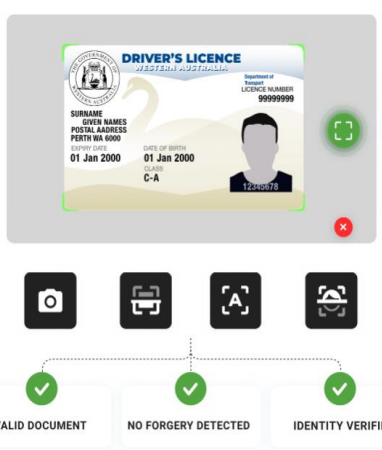
We expect ID verification will be undertaken for the vast majority of KYP’s customers given: (1) It forms part of the Cited SaaS offering (for workers without an existing Cited verified ID); and (2) ID verification is a prerequisite for the majority of SaV services provided by the CVCheck platform (e.g. criminal history checks).

Once a user has a KYP verified digital ID, we expect it will remain valid for the purposes of KYP’s services for several years before reverification is required (noting that the identity of a ‘known applicant’ is also required to be periodically reverified under KYP’s key government agency supply arrangements and accreditations).

If a worker/applicant is unable to complete a biometric ID verification via the OnCite app or the Cited or CVCheck websites, they will be directed to a manual process (akin to the current process).



**Exhibit 6: Scantek's automated process for biometric ID verification – sample app screenshots\***

 <p><b>ID Verification</b></p> <p>To perform your ID verification online, you will need:</p> <ul style="list-style-type: none"> <li>Your ID document</li> <li>A plain table or desk</li> <li>A well lit space</li> </ul> <p><b>ID Capture</b> Capture your document for verification</p> <p><b>Confirm Details</b> Confirm details extracted from your ID document</p> <p><b>Verify Liveness</b> Capture images of yourself for verification</p> <p><b>Identity Verified</b> Online identity checks performed</p> <p>ID verification home screen</p>	 <ul style="list-style-type: none"> <li>• App guides worker/candidate through screen captures of the required primary and secondary identity documents using the device camera.</li> <li>• Algorithms determine the ID type (with thousands of national and international ID types able to be recognised) and check for document tampering.</li> </ul>	 <ul style="list-style-type: none"> <li>• Text and data from the scanned document image(s) is automatically read and extracted within seconds via OCR – followed by user confirmation.</li> <li>• Scantek (rather than KYP) will undertake the ID document verification check(s) via the Federal Government's Document Verification System ('DVS') and provide the result(s).**</li> </ul>
 <p>Biometric facial verification using facial matching to compare a live self-captured photo ('selfie') against the face on the scanned ID document(s). A 'confidence score' on the match is provided.</p> 	 <p>Liveness Check (to check worker/candidate presence) which takes &lt;10 seconds to complete and requires the worker/candidate to follow a set of randomly determined head movements (selected from &gt;6,000 unique combinations).</p>	

Sources: Scantek, KYP, DVS. \*For biometric ID verification process via OnCite app. \*\*Scantek is an authorised gateway provider to the DVS (as is KYP's Bright). After receiving a match request, the DVS checks whether the biographic information on an ID document matches the original record and provides a 'yes' or 'no' result.

We understand that Scantek's automated document capture process will also be utilised by KYP for non-ID document scans (e.g. qualifications, training completion certificates).

## Key benefits

### Exhibit 7: Scantek agreement – key benefits

#### For KYP:

- Automates processes (via ID document recognition and information extraction [using OCR and algorithms] and biometrics) leading to operational efficiencies and cost savings.
- Introduces biometrics (facial recognition) for ID verification (vs. current manual verification of still selfie photos).
- Facilitates scalability/operating leverage (via increased processing capability at minimal incremental cost and with 24-hour availability).
- Demonstrates additional value to existing and prospective customers.
- Ensures KYP's product offerings remain competitive with other RegTech and SaV companies.
- Enables faster implementation and avoids upfront costs (vs. developing these capabilities in-house).
- Supports TDIF accreditation application (as it provides a clearly defined process for stand-alone ID verification).

#### For customers (and their workers/job applicants):

- Improves speed, convenience and user experience relative to KYP's current processes.

Sources: KYP, RaaS

## Revenue and cost implications

- **No changes to forecasts:** At this juncture, our forecasts (and DCF valuation) are unchanged given they already capture some process automation-related cost savings and margin improvements (reflecting our existing expectation that process automation initiatives and biometrics would be implemented in FY23/FY24 based on KYP's previous statements), and we currently expect any incremental revenue upside will be minimal.

Whilst there could be potential upside to our existing expectations, we flag that any additional automation-related cost savings in H2 FY23/FY24 could be largely offset by a combination of: (1) Scantek's fees; (2) Incremental operating costs to progress its international strategy and other new products (such as workforce insights); and (3) Share-based payment expenses given we suspect KYP will grant new share-based incentives to key staff in FY23 and possibly FY24. Any slippage in our revenue growth forecasts (which reflect increasing uptake of the Cited SaaS offering) could also counterbalance any better-than-expected cost savings at the EBITDA and operating cashflow levels.

Our \$2.3m capitalised tech development spend forecasts for both FY23 and FY24 also remain intact given KYP is utilising Scantek to provide process automation and biometric ID verification rather than building (or acquiring) an in-house capability.

- **Significance = scalability/operating leverage for FY25 onwards:** We believe the more significant aspect of the Scantek agreement lies in its expected impact (in combination with other automation and efficiency initiatives) on KYP's ability to scale its SaaS offering at low incremental cost and, in turn, generate increasing margins in FY25 and beyond. Our DCF valuation already incorporates/assumes: (1) SaaS revenue growth at scale; and (2) A significant expansion in margins from FY25 (with EBITDA margins increasing from 14% in FY24f to 20% in FY25f and then progressively to 33-34% in FY29f-FY32f) reflecting an increasing proportion of high-margin SaaS revenue and operating leverage afforded by a relatively fixed operating cost structure.
- **Revenue:** Unless KYP decides to implement price increases for SaV services requiring ID verification (e.g. criminal history checks), we anticipate any incremental revenue from introducing biometric ID verification and process automation will be minimal given:
  - ID verification is a pre-requisite for the majority of SaV services provided via the CVCheck platform (i.e. criminal history checks). Consequently, it is already being undertaken (albeit via non-biometric and more manual processes) and is effectively incorporated in the relevant fees.
  - Worker ID verification is already part of the newer Cited SaaS offering and has been captured in the targeted monthly SaaS pricing (\$15-\$25 per worker).

- Stand-alone ID verification checks are already available via: (1) Cited for \$10 (incl. GST) for customers on 'older' contracts containing a SaV component; and (2) CVCheck NZ for NZ\$46 (incl. GST). The Australian CVCheck platform does not currently have a stand-alone ID verification offering – and if introduced, we suspect it would be priced at ~\$10.

We also note that the SaV market is competitive and CVCheck's current pricing is broadly in-line with other SaV offerings.

- **Cost of sales:** As abovementioned, Scantek will charge a fee per ID verification undertaken (RaaS estimate: \$2.00-\$2.50 per ID verification) which will be reflected in cost of sales. This includes the DVS fees (assuming DVS verification of two to three ID documents at ~50 cents each) plus a Scantek margin. Given KYP already incurs some ID verification-related DVS fees, the incremental cost of sales increase will be lower.
- **Operating costs:** Savings are expected to be derived from the substantial elimination of two significant manual processing components within KYP's current ID verification process (which forms part of the process undertaken prior to submitting national criminal history check requests to the Australian Criminal Intelligence Commission ['ACIC']) namely: (1) Reviewing each ID document to confirm document type and authenticate details; and (2) Checking photo ID documents against the 'selfie' photo provided by the applicant.

Some initial savings are anticipated in H2 FY23 followed by further reductions in FY24 (primarily staff-related costs). We estimate KYP could realise net annualised cost savings (after Scantek fees) of ~\$1.5m by FY25 (and ~\$3.0m in a best-case scenario).

## Scantek - background information

Scantek is a privately owned Perth-based company that was founded in 2012 by Chesley Rafferty (its Managing Director) and Neil Bamber (its Chief Technology Officer) and has ~45 staff.

Scantek provides physical scanning kiosks/hardware and solutions for the hospitality industry (e.g. for venue entry<sup>7</sup>) supported by approvals and arrangements with several state governments.<sup>8</sup> Its physical ID scanner hardware is currently used in >700 locations across Australia including various pubs and clubs, liquor stores, and casinos. Its clients include ALH Group (part of ASX-listed Endeavour Group Ltd), Crown Casino, Star Casino, and Telstra's retail stores (for in-person KYC ID verification purposes).

In February 2022, Scantek was reported to be targeting \$7m-\$10m turnover in 2022 and seeking to raise ~\$6m "to accelerate uptake in new areas such as onboarding and vaccination checks."<sup>9</sup>

We understand that the agreement with KYP is Scantek's first major white-label arrangement and integration of its automation and biometric digital ID verification software and services.

Akin to KYP, Scantek is: (1) An authorised gateway service provider to the DVS; (2) Accredited by ACIC to access the National Police Checking Service for criminal history checks; and (3) Certified as ISO 27001 (information security) compliant.

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<sup>7</sup> See [Physical ID Scanners | Scantek](#).

<sup>8</sup> Scantek is an approved operator of ID scanners for licensed premises in Queensland (see [Approved operators and equipment | Business Queensland](#)) and technology provider to the WA government for its Banned Drinkers Register (see [Banned Drinkers Register | DLGSC](#)).

<sup>9</sup> See <https://www.theaustralian.com.au/business/the-deal-magazine/scanning-technology-set-to-boom-in-age-of-vaccines/news-story/01bc006a7da550182cf56a1843875d60>.

### Competitor biometric ID verification offerings (for pre-employment/HR)

We note that some of KYP's pre-employment SaV competitors have already introduced biometric ID verification services and SaV process automation within their offerings (including via apps). Consequently, the upcoming addition of these services and functionality will enable the CVCheck platform to maintain a highly competitive SaV offering in Australasia.

The table below sets out three current offerings that we have identified in the Australian HR SaV market:

#### Exhibit 8: Biometric ID verification and automation offerings in Australia for pre-employment/HR SaV

Provider and Brand	Website	Comments
National Crime Check: InstaID and InstaID Plus	<a href="https://instaid.plus/">https://instaid.plus/</a>	<ul style="list-style-type: none"> <li>Partnership with Jumio (an AI-powered ID verification provider) announced in May 2021 to integrate biometric technology, OCR, machine learning and liveness detection into its ID verification offering.</li> <li>National Crime Check is owned by Sterling Check Corp (a Nasdaq-listed company and one of the three large global SaV companies).</li> </ul>
Australia Post: DigitalID	<a href="https://www.digitalid.com">https://www.digitalid.com</a>	<ul style="list-style-type: none"> <li>DigitalID forms part of Australia Post's business/ government "Workforce Verification" offering (of ID, police and visa checks via one interface).</li> <li>DigitalID is accredited under the TDIF.</li> <li>Airtasker also has an integration with DigitalID for ID verification of its "taskers".</li> </ul>
Xref Ltd (ASX:XF1): RapidID	<a href="https://www.rapidid.com/">https://www.rapidid.com/</a>	<ul style="list-style-type: none"> <li>RapidID is a real-time online ID and fraud prevention platform which aggregates verification technologies including biometrics. It is used for ID verification purposes in the recruitment sector (in addition to its original applications as a KYC ID verification service for online banking, cryptocurrency and betting platforms).</li> <li>XF1 acquired RapidID in August 2019 for \$1.7m (\$600k cash and \$900k scrip). Post-acquisition, XF1 rebuilt and integrated the RapidID platform with its Xref Marketplace platform.</li> <li>RapidID posted \$3.0m sales revenue and \$455k EBITDA in FY22 (vs. \$2.9m and \$453k in FY21) with the flat result reflecting lower demand for crypto-related ID checks (its key revenue source) in H2 FY22.</li> <li>In May 2022, RapidID was awarded a three-year contract with Coles for ID and ongoing working rights status checks for its staff (with \$0.3m minimum spend in year one).</li> </ul>

Source: Company websites and ASX announcements.

In addition to Scantek, **other suppliers** of biometric ID verification and automation integrations/white-label arrangements for HR-related SaV in Australasia include two international ID technology companies - Jumio (used by National Crime Check) and Yoti (used by a number of pre-employment SaV providers in the UK including First Advantage).

### Buy-back Continues: \$227k To Date (of \$2m max.)

Since its share buy-back commenced on 22 August 2022, KYP has been buying-back shares on most trading days. To date, it has bought back 2.16m shares for \$227k (at average price of \$0.105). The buy-back has accounted for 27% of volume traded since 22 August. A weekly summary is provided in the table below and the daily buy-back data is in Annexure C. Adjusting for the imminent cancellation of 2.16m shares that have been bought back to date, KYP will have 432.1m shares on issue.

The **maximum outlay is \$2m** for up to 20m shares which would equate to 4.6% of shares on issue at the commencement of the buy-back.

#### Exhibit 9: Share buy-back - weekly summary

Date	Number of shares bought back	Consideration paid	Average buy-back price	Total KYP share volume	Shares bought back as % of volume
22-Aug to 26-Aug-22	416,929	\$50,031	\$0.120	622,301	67.0
29-Aug to 2-Sep-22	350,000	\$38,000	\$0.109	2,124,358	16.5
5-Sep to 9-Sep-22	208,973	\$21,986	\$0.105	290,630	71.9
12-Sep to 16-Sep-22	275,000	\$29,875	\$0.109	619,113	44.4
19-Sep to 23-Sep-22	150,000	\$15,112	\$0.101	194,162	77.3
26-Sep to 30-Sep-22	224,972	\$21,472	\$0.095	653,433	34.4
3-Oct to 7-Oct-22	100,000	\$9,800	\$0.098	338,271	29.6
10-Oct to 14-Oct-22	204,749	\$19,596	\$0.096	420,847	48.7
17-Oct to 21-Oct-22	225,000	\$20,925	\$0.093	2,865,668	7.9
<b>TOTAL</b>	<b>2,155,623</b>	<b>\$226,797</b>	<b>\$0.105</b>	<b>8,128,783</b>	<b>26.5</b>

Sources: KYP buy-back announcements, Refinitiv.

## Valuation, Catalysts And Risks

### DCF valuation

Using a discounted cashflow methodology, our (unchanged) valuation of KYP is **\$0.26 per share** based on current issued capital (given none of the unlisted securities have vested and/or are in-the-money).<sup>10</sup> We view DCF as the most appropriate methodology for valuing KYP at this point in its lifecycle as it pursues its SaaS sales growth strategy. Our DCF valuation implies EV/Revenue multiples of 3.8x for FY22a and 3.3x for FY23f, which appear reasonable compared to the peer trading multiples noted below.

Exhibit 10: DCF valuation	
Parameters	Outcome
Discount rate / WACC*	11.6%
Beta**	1.25x
Terminal growth rate assumption	2.2%
Sum of PV (10-year forecast period: FY23-FY32)	\$47.3m
PV of terminal value	\$53.4m
<b>PV of enterprise</b>	<b>\$100.7m</b>
Net debt / (cash) - 30 June 2023 (forecast)	(\$12.0m)
<b>Net valuation - equity</b>	<b>\$112.7m</b>
No. of shares on issue (adj. for buy-back to date)	432.1m
<b>NPV per share</b>	<b>\$0.26</b>

Sources: RaaS estimates, Refinitiv Eikon; \*Discount rate incorporates risk-free rate (Rf) of 3.5% and an equity risk premium of 6.5%; \*\*Vs. Refinitiv's observed beta of 1.5x based on its five-year monthly beta methodology

A **sensitivity analysis** of some key DCF valuation inputs is set out below.

Exhibit 11: DCF valuation sensitivities				
Variable	Current value in DCF	+/-	+/- value change (per share)	% change vs DCF
Discount rate / WACC	11.6%	1%	\$0.03	12
SaaS average monthly fee per worker	\$15	\$2.50	\$0.07	28
FY24f revenue (\$m)	37.1	\$2.5m	\$0.04	16
FY26f revenue (\$m)	50.9	\$5m	\$0.05	21
FY31f revenue (\$m)	80.5	\$5m	\$0.02	8
Gross margin FY26f	74.0%	5 percentage pts	\$0.04	17
Gross margin FY31f	78.5%	5 percentage pts	\$0.02	8
EBITDA margin FY26f	24.0%	5 percentage pts	\$0.03	12

Source: RaaS estimates

### Peer EV/Revenue trading multiples

KYP is currently trading at the following discounts based on FY22a EV/Revenue (and 26 October closing prices):

- **72%** to the average of its ASX-listed peers<sup>11</sup> (1.0x vs. 3.6x).
- **66%** to the average of its ASX-listed peers excluding ELO, PYG and KYK which incorporate takeover premiums (1.0x vs. 3.0x).
- **61%** and **73%** respectively to its two closest peers, Xref Ltd (ASX:XF1) and IntelliHR Ltd (ASX:IHR).

On FY23f EV/Revenue, KYP is trading at a **64% discount** to its ASX-listed peers (0.9x vs. 2.4x based on the five companies with available FY23f forecast data and excluding ELO).

<sup>10</sup> Following the impending cancellation of 2.2m unlisted zero exercise price options (ZEPOs), there will be 5.0m out-of-the-money options and 6.0m unvested performance rights on issue.

<sup>11</sup> The 15 ASX-listed companies that we consider to be KYP's key peers from a valuation perspective are listed here in descending order starting with the closest peers (XF1 and IHR) based on our view of their relative offerings in the HR and workforce technology or RegTech sectors: Xref Ltd (ASX:XF1), IntelliHR Ltd (ASX:IHR), ELMO Software Ltd (ASX:ELO), Readytech Ltd (ASX:RDY), KYCKR Ltd (ASX:KYK)\*, Damstra Holdings Limited (ASX:DTC), Identitii Ltd (ASX:ID8), wrkr Ltd (ASX:WRK), Rightcrowd Ltd (ASX:RCW), Paygroup Ltd (ASX:PYG), LiveTiles Ltd (ASX:LVT), Knosys Ltd (ASX:KNO), LiveHire Ltd (ASX:LVH), AD1 Holdings Ltd (ASX:AD1), Schrole Group Ltd (ASX:SCL) – SCL is also a RaaS client.

\*KYK's securities were suspended on 25 October 2022 following court orders approving the scheme of arrangement with RealWise (controlled by Richard White) and impending removal from the ASX official list.

Relative to the US-listed SaV pureplays,<sup>12</sup> KYP is trading at a **61% discount** to their average 2.6x CY22f EV/Revenue.

Applying the EV/Revenue multiples for KYP's ASX peers (excluding ELO, PYG and KYK), XF1, the three US-listed pureplays and the non-pureplay global peers<sup>13</sup> to KYP gives a range of enterprise values from \$69m-\$102m and an equity value of **\$0.19-\$0.26 per share** on FY22 figures. On FY23 forecasts, enterprise values range from \$75m-\$111m for equity values of \$0.20-\$0.28 per share. We note that our DCF valuation of \$0.26 per share is at the top of these valuation ranges.

<b>Exhibit 12: KYP valuation scenarios - peer trading multiples</b>		
	<b>FY22a*</b>	<b>FY23f</b>
KYP revenue (A\$m)	26.4	30.5
<b>EV/revenue multiple</b>		
ASX peers – average (excluding ELO, PYG, KYK)	3.0x	2.4x
Xref Ltd (ASX:XF1)	2.6x	n.a (no forecast data)
US listed pureplay SaV - average	2.6x*	2.4x*
Global peers (inc. pureplays) - average	3.9x*	3.6x*
<b>Enterprise value (EV) - KYP (A\$m)</b>		
Using ASX peers – average (excluding ELO, PYG, KYK)	80.0	74.6
Using XF1	68.5	n.a
Using US listed pureplay SaV - average	69.2	74.5
Using global peers (inc. pureplays) - average	102.0	110.9
<b>Equity value/share - KYP</b>		
Using ASX peers – average (excluding ELO, PYG, KYK)	\$0.21	\$0.20
Using XF1	\$0.19	n.a
Using US listed pureplay SaV - average	\$0.19	\$0.20
Using global peers (inc. pureplays) - average	\$0.26	\$0.28

Sources: RaaS estimates, Refinitiv Eikon; Based on closing prices on 26 October 2022 for ASX peers and 25 October 2022 for global peers; See Footnotes 11-13 for peer group constituents. \*CY22f and CY23f (US fiscal year) for US SaV pureplays and other global peers

## Key re-rating catalysts

While the buy-back should underpin KYP's share price in FY23, we believe the key catalysts for a share price re-rating are:

- Evidence of SaaS revenue momentum from agreements with new and/or existing SaV customers which are material for KYP's annual revenue either individually or in aggregate.
- Evidence that process automation (via the Scantek agreement and OnCite app uptake) positions KYP for future operating leverage via a relatively fixed cost base.

We also continue to view KYP as both a **potential M&A target and potential acquiror**, especially in the medium-term, given: (1) It operates in fragmented industries (RegTech, HR/workforce tech, SaV) which are conducive to M&A opportunities; (2) The level of recent M&A activity and interest in KYP's peer group; (3) International M&A transactions in the SaV sector in recent years; and (4) It is trading at a substantial EV/Revenue discount to its listed peers notwithstanding it is EBITDA and operating and free cashflow positive.

Our full investment case is set out in [Annexure D](#).

## Key risks

- **Execution risks - SaaS growth:** The key risks to our forecasts and, in turn, our DCF valuation lie in KYP's SaaS sales execution/customer uptake, namely:

<sup>12</sup> First Advantage Corp (NASDAQ:FA), Sterling Check Corp (NASDAQ:STER), and HireRight Holdings Corp (NYSE:HRT).

<sup>13</sup> Equifax Inc (NYSE:EFX), Automatic Data Processing Inc (NASDAQ:ADP), Experian plc (LSE:EXPN), and TransUnion (NYSE:TRU).

- Longer-than-expected **lead times** to secure customers and/or customers agreeing to use Cited for a lower-than-expected portion of their workforce under the new SaaS pricing model (monthly per worker).
- Longer-than-expected **customer go-live/implementation times** once contracts are signed leading to revenue and cash receipt delays. For instance, the Hireup agreement was executed in late February 2022 but only went live and started generating revenue in late June (vs. original April expectation).
- **Customer resistance points and competing offerings:** For instance, whilst Cited is a differentiated multi-service SaaS platform, it is not a complete workforce solutions platform and there is an assortment of competitor offerings in workforce management and compliance. Many potential customers will also have relationships with existing payroll, HRM and/or enterprise resource planning (ERP) software providers, including for software with overlapping functionality (e.g. inductions and training), which could create barriers to uptake or switching. Potential mitigating factors are Cited's integration capabilities with other HR platforms, its price point and model, and its cross-departmental use case (HR, legal, compliance, risk, executive management and governance). Some prospective clients may also have higher-than-expected compliance risk tolerance levels (i.e. not considered to be 'must have' spend).

Turning to more direct competition, four companies which appear to have the closest offerings to KYP's Cited SaaS platform are MyPass Global,<sup>14</sup> Rapid Global,<sup>15</sup> Pegasus<sup>16</sup> and Camms.<sup>17</sup>

- **Economic uncertainty or downturn** leading to reduced business spending in all areas. A mitigating factor is that compliance-related software vendors are typically somewhat insulated from ancillary spend cuts during downturns (i.e. considered to be 'must have' spend).
- **International market entry:** Although we expect KYP will seek cost-effective entry points into international markets for its Cited SaaS offering, international expansion could lead to higher-than-expected costs and diversion of management resources and focus away from growing its SaaS platform in the Australasian market. In light of the recent statements about the formulation of a global expansion strategy (in its recent AGM-related announcements – see [International expansion plans](#)), the associated risks are likely to continue to garner attention from some investors.
- **Ongoing compliance with privacy and data management and security laws** relating to KYP's offerings. In light of several recent high-profile consumer data breaches and the Federal Government's expedited *Privacy Act* reforms,<sup>18</sup> we expect data and security risk management will be an area of heightened focus

<sup>14</sup> MyPass is a Perth-based digital workforce management system designed to streamline safety and compliance in highly regulated industries which includes a skills and credentials passport for workers. Following a capital raising in the December 2021 half, its major shareholders are Allectus Capital Limited (50% UIL Limited/50% Vix Limited and managed by ICM Limited) and Scalare Partners.

<sup>15</sup> Rapid Global is a private Adelaide-based outsourced workforce compliance and management solutions provider.

<sup>16</sup> Pegasus is a worker competency management software and services provider (including induction and learning management, supplier pre-qualification, site access and asset management) based in Newcastle with operations in Australia, UK, Europe and North America. It is owned by private equity backed Avetta, a global provider of supply chain risk management software.

<sup>17</sup> Camms is an Australian-based integrated risk and performance management (strategy, projects, people) provider which offers 'Camms.Risk' within its product suite. Ellerston JAADE Australian Private Assets Fund has a 39% shareholding.

<sup>18</sup> A key proposed change under the *Privacy Legislation Amendment (Enforcement and Other Measures) Bill 2022* (introduced into parliament this week) is to increase the maximum penalty for serious or repeated *Privacy Act* breaches from \$2.2m to the greater of \$50m, 30% of turnover, or three times the value of any benefit from information misuse.

The Attorney-General also stated that the Bill is "in addition to a comprehensive review of the *Privacy Act* by the Attorney-General's Department that will be completed this year, with recommendations expected for further reform."

and scrutiny.<sup>19</sup> KYP is subject to audits under its agreements with government agencies including for compliance in these areas. It is also ISO 27001 (Information Security Management) certified. We understand that KYP's business insurance policy specifically includes cyber liability coverage.<sup>20</sup>

- **Key supplier risk - reliance on Scantek.** Scantek will be a key supplier to KYP reflecting the operational significance of its automation and biometric ID verification services. This gives rise to risks associated with increased reliance on software, systems and data management and security arrangements that are outside KYP's direct control.

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<sup>19</sup> KYP made the following statements regarding data management and security risks in its FY22 annual report (on page 12):  
*"With growth in volume of orders and traffic to the Group's websites, cyber infiltration or attack is a risk. Data security is critical to the Group. ...Although the Group has a range of strategies in place to minimise the threat of any of these attacks, cyber-attacks are becoming more sophisticated and are increasing in frequency, these strategies may not be successful."*

<sup>20</sup> KYP's FY22 insurance premiums (including business insurance, D&O insurance, etc) amounted to \$345k (per Note 5 to the FY22 financial statements).



## Annexure A: Half-year FY23 P&L forecasts

**Exhibit 13: Half-year FY23 P&L forecasts (in A\$m unless otherwise stated)**

	H1 FY22a	H2 FY22a	FY22a	H1 FY23f	H2 FY23f	FY23f	% chg on pcp (H1)	% chg on pcp (H2)	% chg on pcp (FY)
Transactional revenue (SaV)									
- CVCheck platform	9.9	10.5	20.4	10.6	11.0	21.6	7	4	6
- Bright	1.7	1.9	3.5	1.7	1.7	3.3	(1)	(10)	(5)
<b>Total transactional revenue (SaV)</b>	<b>11.6</b>	<b>12.3</b>	<b>24.0</b>	<b>12.3</b>	<b>12.6</b>	<b>24.8</b>	<b>5</b>	<b>2</b>	<b>4</b>
SaaS revenue (Bright)	1.2	1.2	2.4	1.7	3.9	5.7	46	221	137
<b>Total sales revenue</b>	<b>12.8</b>	<b>13.6</b>	<b>26.4</b>	<b>14.0</b>	<b>16.5</b>	<b>30.5</b>	<b>9</b>	<b>22</b>	<b>16</b>
<i>Incl. Bright total revenue</i>	<i>2.9</i>	<i>3.1</i>	<i>5.9</i>	<i>3.4</i>	<i>5.6</i>	<i>9.0</i>	<i>19</i>	<i>82</i>	<i>51</i>
Cost of sales	(4.7)	(5.0)	(9.6)	(5.0)	(5.4)	(10.4)	8	9	9
<b>Gross margin</b>	<b>8.2</b>	<b>8.6</b>	<b>16.8</b>	<b>8.9</b>	<b>11.1</b>	<b>20.1</b>	<b>9</b>	<b>29</b>	<b>20</b>
<i>Gross margin (%)</i>	<i>63.7</i>	<i>63.5</i>	<i>63.6</i>	<i>63.9</i>	<i>67.4</i>	<i>65.8</i>	<i>+0.2 pts</i>	<i>+3.9 pts</i>	<i>+2.2 pts</i>
<b>Operating costs</b>									
- Employment costs	(5.0)	(5.1)	(10.1)	(5.9)	(6.9)	(12.8)	18	36	27
- Marketing expenses	(0.8)	(1.3)	(2.1)	(1.0)	(1.2)	(2.2)	26	(9)	4
- IT/website expenses	(0.6)	(0.8)	(1.4)	(0.7)	(0.8)	(1.4)	8	(1)	3
- Other expenses	(0.6)	(0.8)	(1.4)	(0.6)	(0.7)	(1.2)	(7)	(18)	(13)
- Share-based payment expenses	(0.4)	(0.3)	(0.7)	0.0	0.0	0.0	(100)	(100)	(100)
<b>Total operating costs</b>	<b>(7.4)</b>	<b>(8.3)</b>	<b>(15.7)</b>	<b>(8.2)</b>	<b>(9.5)</b>	<b>(17.7)</b>	<b>10</b>	<b>15</b>	<b>13</b>
<b>EBITDA</b>	<b>0.7</b>	<b>0.4</b>	<b>1.1</b>	<b>0.7</b>	<b>1.6</b>	<b>2.4</b>	<b>4</b>	<b>356</b>	<b>127</b>
<i>EBITDA margin (%)</i>	<i>6.1</i>	<i>2.9</i>	<i>4.0</i>	<i>5.2</i>	<i>9.9</i>	<i>7.8</i>	<i>-0.8 pts</i>	<i>+7.0pts</i>	<i>+3.9 pts</i>
Depreciation and amortisation	(1.3)	(1.1)	(2.4)	(1.4)	(1.5)	(2.9)	7	36	20
<b>EBIT</b>	<b>(0.6)</b>	<b>(0.7)</b>	<b>(1.3)</b>	<b>(0.7)</b>	<b>0.1</b>	<b>(0.5)</b>	<b>11</b>	<b>n.m</b>	<b>(63)</b>
Net interest	0.0	0.0	0.0	0.1	0.2	0.3	n.m	n.m	n.m
<b>Net profit/(loss) before tax</b>	<b>(0.6)</b>	<b>(0.7)</b>	<b>(1.3)</b>	<b>(0.5)</b>	<b>0.3</b>	<b>(0.3)</b>	<b>(11)</b>	<b>n.m</b>	<b>(83)</b>
Income tax expense	0.0	(0.1)	(0.2)	(0.1)	(0.1)	(0.2)	n.m	-	7
<b>Net profit/(loss) after tax</b>	<b>(0.6)</b>	<b>(0.9)</b>	<b>(1.5)</b>	<b>(0.6)</b>	<b>0.2</b>	<b>(0.4)</b>	<b>(1)</b>	<b>n.m</b>	<b>(72)</b>

Sources: KYP financial statements; RaaS forecasts

We note that KYP's FY22 financial statements disclosed the following FY23 revenue growth assumptions that were used in its DCF models for goodwill impairment testing:

- **Bright:** 39.5% growth (i.e. \$2.3m increase to \$8.2m) "based on expectations for SaaS revenue following the launch of the new Cited platform and OnCite app".
- **CVCheck NZ:** 29.4% growth (i.e. \$900k increase to \$3.0m).

Based on KYP's assumptions (and assuming no revenue growth from the CVCheck platform in Australia), total FY23 revenue would increase by **\$3.2m (12%) to \$29.6m**. This compares to our \$30.5m forecast. The difference largely reflects our Bright revenue forecast of \$9.0m which is \$0.8m higher than under KYP's DCF model.

## Annexure B: Australian Employment Market – Latest Data

The most recent statistics for job vacancies and job advertisements provide some insight into the current level of demand for KYP's SaV services given they (together with job mobility<sup>21</sup>) translate into increased SaV services:

- **Job vacancies** (reported quarterly): The ABS reported 470,900 job vacancies (seasonally adjusted) for August 2022, up 40.8% on the pcp (but down 2.1% on the May 2022 record).<sup>22</sup> It commented that the *“the level of job vacancies in August 2022 remained elevated ... The ongoing high level of vacancies reflects organisations across the economy indicating labour shortages and ongoing disruptions to operations, particularly in household goods and services industries.”*
- **Job advertisements:** There are three sources of job advertisements data - ANZ's job ads series, SEEK's Employment Index Report and the National Skills Commission's monthly Internet Vacancy Index:
  - The latest ANZ Australian job ads data for September 2022 recorded 240,000 job ads (seasonally adjusted), up 22.3% on the pcp but down slightly (-0.4%) month-on-month. ANZ stated that the September data *“suggests tightness in the labour market is not yet letting up, which is consistent with other indicators”*.
  - National job ads posted on SEEK in September 2022 increased by 15.5% year-on-year but were lower month-on-month (down 5.2% on August 2022). SEEK noted that the *“unexpected national public holiday had an impact on hiring activity in September ... Since May, there have been small declines in ad numbers, but not enough to call an end to the incredibly tight market. All sectors are still at higher job ad volumes than they were pre-pandemic”*.
  - The National Skills Commission's index for September 2022 reported 282,600 online job ads (seasonally adjusted) representing an increase of 19.7% on the pcp but a 5.9% decline relative to August 2022. It noted that *“the level of recruitment activity nationally remains significantly elevated compared to pre-COVID-19 levels”*.
- **Employed people:** There were a record 13,590,800 employed people in Australia at 30 September 2022, up 5.4% (691k people) on the pcp and flat month-on-month.<sup>23</sup>

We also note that the Australian Government recently announced that the number of places in the FY23 **permanent migration program** will increase from 160,000 to 195,000.

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<sup>21</sup> Job mobility is reported annually by the Australian Bureau of Statistics (ABS). 21% of employed persons (2.8m) started their current job in the year ending February 2022 and this figure (2.8m) can be considered to be somewhat of a proxy for the current size of the Australian pre-employment SaV market.

<sup>22</sup> See [Job Vacancies Survey](#). Vacant jobs are defined as positions which are available for immediate filling and for which recruitment action has been undertaken.

<sup>23</sup> Source: ABS. Employed persons is not a measure of the number of jobs because employed persons can have multiple jobs and jobs can exist in the absence of an employed persons ('vacant jobs').

## Annexure C: Share buy-back daily data

<b>Exhibit 14: Share buy-back – daily basis</b>					
<b>Date</b>	<b>Number of shares bought back</b>	<b>Consideration paid</b>	<b>Average buy-back price</b>	<b>Total share volume</b>	<b>Shares bought back as % of volume</b>
22-Aug-22	150,000	\$18,000	\$0.120	150,365	99.8
23-Aug-22	166,929	\$20,031	\$0.120	166,929	100
24-Aug-22	-	-	-	-	-
25-Aug-22	100,000	\$12,000	\$0.120	120,400	83
26-Aug-22	-	-	-	184,607	-
29-Aug-22	-	-	-	98,744	-
30-Aug-22	50,000	\$5,750	\$0.115	269,260	19
31-Aug-22	-	-	-	-	-
1-Sep-22	150,000	\$16,500	\$0.110	1,011,904	15
2-Sep-22	150,000	\$15,750	\$0.105	744,450	20
5-Sep-22	24,560	\$2,579	\$0.105	25,562	96
6-Sep-22	152,559	\$16,019	\$0.105	181,868	84
7-Sep-22	-	-	-	44,800	-
8-Sep-22	17,000	\$1,785	\$0.105	19,546	87
9-Sep-22	14,854	\$1,603	\$0.108	18,854	79
12-Sep-22	200,000	\$22,000	\$0.110	223,876	89
13-Sep-22	50,000	\$5,250	\$0.105	240,648	21
14-Sep-22	25,000	\$2,625	\$0.105	144,589	17
15-Sep-22	-	-	-	-	-
16-Sep-22	-	-	-	10,000	-
19-Sep-22	-	-	-	23,809	-
20-Sep-22	50,000	\$5,075	\$0.102	60,000	83
21-Sep-22	-	-	-	-	-
23-Sep-22	100,000	\$10,037	\$0.100	110,353	91
26-Sep-22	25,000	\$2,475	\$0.099	191,848	13
27-Sep-22	50,000	\$4,750	\$0.095	106,436	47
28-Sep-22	50,000	\$4,550	\$0.091	137,942	36
29-Sep-22	49,972	\$4,847	\$0.097	167,207	30
30-Sep-22	50,000	\$4,850	\$0.097	50,000	100
3-Oct-22	-	-	-	-	-
4-Oct-22	-	-	-	33,271	-
5-Oct-22	50,000	\$4,900	\$0.098	75,000	67
6-Oct-22	50,000	\$4,900	\$0.098	210,000	24
7-Oct-22	-	-	-	20,000	-
10-Oct-22	50,000	\$4,900	\$0.098	95,100	53
11-Oct-22	-	-	-	24,479	-
12-Oct-22	150,000	\$14,250	\$0.095	165,789	90
13-Oct-22	-	-	-	30,730	-
14-Oct-22	4,749	\$446	\$0.094	104,749	5
17-Oct-22	-	-	-	65,376	-
18-Oct-22	50,000	\$4,650	\$0.093	60,000	83
19-Oct-22	-	-	-	497,219	-
20-Oct-22	75,000	\$7,375	\$0.098	447,000	17
21-Oct-22	100,000	\$8,900	\$0.089	1,796,073	6
<b>TOTAL</b>	<b>2,155,623</b>	<b>\$226,797</b>	<b>\$0.105</b>	<b>8,128,783</b>	<b>27</b>

Sources: KYP buy-back announcements, Refinitiv

## Annexure D: Investment Case

The investment case for KYP reflects the following features and catalysts:

- **Strategic expansion into RegTech/workforce SaaS:** KYP has embarked on a major strategic transition following the integration of the Bright acquisition and appointment of new key management personnel in FY22 (including CEO Michael Ivanchenko). Bright has facilitated KYP's expansion from pre-employment focused SaV services into high-margin SaaS solutions for broad workforce compliance monitoring and management via Bright's 'Cited' offering which is industry and jurisdictionally agnostic and scalable. It has also increased KYP's scale contributing \$5.9m revenue in its first full year (FY22) with estimated ~84% gross margins.
- **Sound financial profile - \$11.1m net cash, operating and free cashflow positive:** KYP is well capitalised with \$11.1m net cash at 30 September 2022. It reported positive EBITDA, operating cashflow and free cashflow in both FY21 and FY22 (and will continue to post positive metrics on our forecasts [including \$2.4m EBITDA, \$2.6m operating cashflow and \$0.2m free cashflow in FY23f]). KYP has just posted its ninth consecutive quarter of positive operating cashflow in Q1 FY23. It is 'self-funding' its sizeable capitalised technology development spend (\$2.6m in FY22 and \$2.3m in FY23f and FY24f) from current operating cashflow. KYP also has a track record of revenue growth and gross margin improvement.
- **SaaS sales growth focus including cross-selling:** Bright's SaaS platforms (Cited and the legacy 'Enable' platform) have a current annualised revenue run-rate of \$3.2m (RaaS estimate) which includes several large resources companies in WA and two disability support services providers (Hireup and Aruma). KYP's key strategic and operational focus is to substantially grow the Cited SaaS platform's subscriber base over the next three years. The new pricing model is a simple monthly all-in fee per worker of \$15-\$30 (inclusive of transactional SaV services, minimum 12-month subscription term). KYP has started actively pursuing those of its ~500 large corporate SaV customers in 'compliance heavy' sectors (e.g. healthcare). There is also a broader opportunity with 3.6m Australian workers with recurring compliance monitoring requirements in its target markets.
- **Operating leverage/Scalability:** KYP has positioned itself to:
  - Transition from predominantly transaction-based SaV revenue (90% currently) towards high-margin SaaS subscription revenue. This should start to enliven operating leverage from FY24/FY25 (following establishment of the base SaaS sales and customer service teams in FY22/FY23).
  - Scale its SaaS offering at low incremental cost following the introduction of process automation and biometric ID verification in late Q2/early Q3 FY23 (via the Scantek agreement) and the release of further upgrades to the 'OnCite'-branded 'Digital Credential Passport' mobile app.
- **Assessing international SaaS opportunities:** KYP is assessing cost-effective international opportunities for the Cited SaaS platform (e.g. licensing, reselling, joint-venture type arrangements, acquisitions).
- **Strong base screening and verification (SaV) business:** KYP is a key player in the pre-employment SaV market with 11.5% market share in Australia and holds a leading position in New Zealand. It offers a broad range of competitively priced checks to a customer base that is now predominantly B2B (~84%), diversified and unconcentrated (no customer >2% revenue) with high repeat order rates (~80%). KYP is also intending to capitalise on its SaV market position via strategies to:
  - Improve customer experience via process automation and biometric ID verification and the OnCite app (from early Q3 FY23) whilst benefiting from associated automation-related net cost reductions.
  - Further reduce the police check skew (59% of KYP FY22 revenue) via multi-check bundling.

- Offer subscription-style contractual arrangements for SaV services to its larger corporate and white-label CVCheck platform customers (e.g. rolling six or 12-month contracts with appropriate order volume caps) which would expand KYP's revenue mix to include more valuable SaV subscriptions.
- **Structural tailwinds:** While KYP's SaV services have benefited from the post-COVID employment market strength, they are also leveraged to broader structural tailwinds of increasing workforce complexity and mobility, compliance requirements, and post on-boarding screening. These drivers could ameliorate some of its leverage to the broader employment cycle and the demanding SaV revenue growth comparables in FY23/F24. Moreover, the Cited SaaS platform is also positioned to capitalise on these structural tailwinds - and compliance SaaS offerings tend to be more insulated in economic downturns.
- **Positioned for M&A – predator or prey:** We view KYP as both a potential target and potential acquirer, especially in the medium-term. KYP operates in fragmented industries (RegTech, HR/workforce tech, SaV) which are conducive to M&A opportunities. Australian-based HR/workforce tech companies have also been the subject of M&A activity and interest (including ASX-listed PYG, KYK, ELO, LVT and DTC in 2022 to date) and private equity investments. There have been a number of international M&A transactions in the SaV sector in recent years, including the US-listings of the three largest SaV players in 2021. As a listed entity with \$11.1m cash, KYP also has the flexibility to consider acquisitions to build scale and/or add functionality its offerings.
- **ESG:** KYP's offerings in RegTech and SaV assist businesses to meet their governance and social (human resource management) requirements and objectives. This could appeal to those investors incorporating ESG factors into their investment filters.

### Exhibit 15: Financial Summary

Kinatico Ltd (formerly CVCheck Ltd)						Share price (26 Oct 2022)						A\$	0.089																																																																																																																																																										
Profit and Loss (A\$m)						Interim (A\$m)						H1 21a	H2 21a	H1 22a	H2 22a	H1 23f	H2 23f																																																																																																																																																						
Y/E 30 June	FY20a	FY21a	FY22a	FY23f	FY24f	Revenue	7.0	10.5	12.8	13.6	14.0	16.5	EBIT DA	0.6	(0.3)	0.7	0.4	0.8	1.6																																																																																																																																																				
Sales Revenue	12.4	17.5	26.4	30.5	37.1	Gross Profit	6.7	10.3	16.8	20.1	25.4	EBIT	0.0	(1.1)	(0.6)	(0.7)	(0.6)	0.1																																																																																																																																																					
GP margin %	54.6%	58.8%	63.6%	65.8%	68.5%	NPAT (normalised)	0.0	(1.0)	(0.6)	(0.9)	(0.6)	0.2	Minorities	-	-	-	-	-	-																																																																																																																																																				
EBIT DA	(0.4)	0.2	1.1	2.4	5.2	NPAT (reported)	0.0	(1.0)	(0.6)	(0.9)	(0.6)	0.2	EPS (normalised)	0.00	(0.24)	(0.14)	(0.20)	(0.13)	0.04																																																																																																																																																				
Depn	(0.3)	(0.3)	(0.4)	(0.4)	(0.3)	EPS (reported)	0.00	(0.24)	(0.14)	(0.20)	(0.13)	0.04	Dividend (cps)	-	-	-	-	-	-																																																																																																																																																				
Amort	(0.8)	(1.0)	(2.0)	(2.5)	(2.8)	Imputation	-	-	-	-	-	-	Operating cash flow	0.9	0.2	1.2	1.8	1.0	1.7																																																																																																																																																				
EBIT	(1.5)	(1.1)	(1.3)	(0.5)	2.1	Free Cash flow	0.4	(0.3)	0.1	0.2	(0.0)	0.3	Divisions	H1 21a	H2 21a	H1 22a	H2 22a	H1 23f	H2 23f																																																																																																																																																				
Interest	(0.0)	0.0	0.0	0.3	0.3	SaV - CVCheck Platform	7.0	9.1	9.9	10.5	10.6	10.9	SaaS revenue - Bright	na	0.6	1.2	1.2	1.7	3.9																																																																																																																																																				
Tax	0.2	0.0	(0.2)	(0.2)	(0.2)	Bright - Transactional	na	0.8	1.7	1.9	1.7	1.7	Sales revenue	7.0	10.5	12.8	13.6	14.0	16.5																																																																																																																																																				
NPAT pre significant items	(1.3)	(1.0)	(1.5)	(0.4)	2.2	COGS	(3.1)	(4.1)	(4.7)	(5.0)	(5.1)	(5.4)	Gross Profit	3.9	6.4	8.2	8.6	9.0	11.1																																																																																																																																																				
Significant items	0.0	0.0	0.0	0.0	0.0	GP margin %	55.8%	60.7%	63.7%	63.5%	63.9%	67.4%	Employment	(2.7)	(3.7)	(5.0)	(5.1)	(5.9)	(6.9)																																																																																																																																																				
NPAT (reported)	(1.3)	(1.0)	(1.5)	(0.4)	2.2	Marketing	(0.5)	(0.7)	(0.8)	(1.3)	(1.0)	(1.2)	IT	(0.2)	(0.3)	(0.6)	(0.8)	(0.7)	(0.8)																																																																																																																																																				
NPATA (ex Bright amort)	(1.3)	(0.7)	(0.3)	0.8	3.4	Other costs	(0.6)	(1.8)	(1.0)	(1.1)	(0.6)	(0.7)	Other income (gov grants)	0.6	(0.1)	0.0	0.0	0.0	0.0																																																																																																																																																				
Cash flow (A\$m)						EBITDA	0.6	(0.3)	0.7	0.4	0.8	1.6	Margins, Leverage, Returns	FY20a	FY21a	FY22a	FY23f	FY24f																																																																																																																																																					
Y/E 30 June	FY20a	FY21a	FY22a	FY23f	FY24f	EBITDA margin	(3.0%)	1.4%	4.0%	7.8%	14.1%	EBIT margin	(11.8%)	(6.1%)	(5.1%)	(1.6%)	5.6%																																																																																																																																																						
EBIT DA	(0.4)	0.2	1.1	2.4	5.2	NPAT margin pre sig items	(10.1%)	(5.8%)	(5.7%)	(1.3%)	5.9%	Net Debt/(Cash)	(4.6)	(12.9)	(12.2)	(12.0)	(14.5)																																																																																																																																																						
Interest	(0.0)	0.0	0.0	0.3	0.3	Net debt/EBIT DA (x)	nm	nm	nm	nm	nm	ND/ND+Equity (%)	nm	nm	nm	nm	nm																																																																																																																																																						
Tax pymts / R&D refunds	0.4	0.8	(0.1)	(0.2)	(0.2)	EBIT interest cover (x)	nm	nm	nm	nm	nm	ROA	(17.0%)	(5.1%)	(4.0%)	(1.5%)	6.1%																																																																																																																																																						
Work cap chgs/share pymts	(0.5)	(0.1)	2.1	0.1	(0.1)	ROA	(17.0%)	(5.1%)	(4.0%)	(1.5%)	6.1%	ROE	(22.3%)	(6.2%)	(5.8%)	(1.6%)	8.5%																																																																																																																																																						
Operating cash flow	(0.5)	1.0	3.1	2.6	5.2	ROIC	(19.6%)	(4.7%)	(4.6%)	(2.0%)	7.9%	NTA (per share)	0.01	0.02	0.02	0.02	0.03																																																																																																																																																						
Capex	(0.0)	(0.0)	(0.2)	(0.1)	(0.1)	Working capital	(0.3)	1.7	0.7	0.6	0.7	WC/Sales (%)	(2.2%)	9.8%	2.6%	1.8%	1.8%																																																																																																																																																						
Cap dev costs	(1.0)	(0.9)	(2.6)	(2.3)	(2.4)	Revenue growth (%)	(1.2%)	41.3%	50.9%	15.6%	21.8%	EBIT growth (%)	nm	nm	nm	nm	nm																																																																																																																																																						
Free cash flow	(1.5)	0.1	0.3	0.2	2.7	Pricing	FY20a	FY21a	FY22a	FY23f	FY24f	No of shares (yle)	(m)	292	429	434	432	432																																																																																																																																																					
Acquisitions	0.0	(1.8)	(0.7)	0.0	0.0	No of shares (yle)	(m)	292	429	434	432	432	Weighted Av Dil Shares	(m)	289	333	434	432	432																																																																																																																																																				
Other	0.1	(0.1)	(0.0)	0.0	0.0	EPS Normalised/Diluted	cps	(0.4)	(0.3)	(0.3)	(0.1)	0.5	EPS growth (norm/dil)	nm	nm	nm	nm	nm																																																																																																																																																					
Cash flow pre financing	(1.3)	(1.8)	(0.4)	0.2	2.7	PE (x)	nm	nm	nm	nm	17.8	DPS	cps	-	-	-	-	-																																																																																																																																																					
Equity	2.9	9.9	0.0	(0.2)	0.0	DPS Growth	na	na	na	na	na	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%																																																																																																																																																						
Other financing (leases)	0.0	0.0	(0.3)	(0.2)	(0.2)	Dividend imputation	na	na	na	na	na	EV/Revenue (x)	1.7	1.4	1.0	0.9	0.6																																																																																																																																																						
Dividends paid	0.0	0.0	0.0	0.0	0.0	EV/EBIT DA (x)	nm	104.3	24.9	11.0	4.6	FCF/Share	cps	(0.51)	0.03	0.06	0.06	0.63																																																																																																																																																					
Net cash flow for year	1.5	8.2	(0.7)	(0.2)	2.5	Price/FCF share (x)	nm	315	149	155	14.2	Free Cash flow Yield	(5.7%)	0.3%	0.7%	0.6%	7.1%																																																																																																																																																						
Balance sheet (A\$m)						Balance sheet (A\$m)																																																																																																																																																																	
Y/E 30 June	FY20a	FY21a	FY22a	FY23f	FY24f	Cash	4.6	12.9	12.2	12.0	14.5	Accounts receivable	0.7	2.8	2.8	3.2	3.6	Inventory	0.0	0.0	0.0	0.0	0.0	Other current assets	0.7	0.6	0.2	0.2	0.2	Total current assets	6.0	16.3	15.2	15.5	18.3	PPE	0.4	0.3	2.0	1.6	1.4	Goodwill	1.4	4.7	4.7	4.7	4.7	Intangibles	1.5	11.2	11.8	11.6	11.2	Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Other non current assets	0.0	0.0	0.0	0.0	0.0	Total non current assets	3.3	16.2	18.4	17.9	17.3	Total Assets	9.2	32.5	33.7	33.4	35.6	Accounts payable	1.0	1.1	2.1	2.6	2.9	Short term debt	0.0	0.0	0.0	0.0	0.0	Contract liabilities	0.3	0.6	1.1	1.1	1.1	Other current liabilities	1.5	4.6	3.6	3.6	3.6	Total current liabilities	2.7	6.3	6.8	7.3	7.6	Long term debt	0.0	0.0	0.0	0.0	0.0	Other non current liabs	0.1	0.0	1.5	1.3	1.1	Total long term liabilities	0.1	0.0	1.5	1.3	1.1	Total Liabilities	2.8	6.3	8.3	8.6	8.7	Net Assets	6.4	26.2	25.4	24.7	26.9	Share capital	27.3	47.2	47.9	47.7	47.7	Retained earnings	(21.1)	(22.1)	(23.3)	(23.7)	(21.5)	Reserves	0.2	1.1	0.8	0.8	0.8	Minorities	0.0	0.0	0.0	0.0	0.0	Total Shareholder funds	6.4	26.2	25.4	24.7	26.9

Source: Company data, RaaS Advisory estimates

# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

**ABN 99 614 783 363**

**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 6<sup>th</sup> May 2021**

### About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License (“AFSL”) number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS’s services and includes such things as

- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

**What Financial Services are we authorised to provide?** RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
  - Securities
- deal on behalf of retail and wholesale clients in relation to
  - Securities

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If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR’s internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren’t satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

### Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorised representatives.



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