Research as a Service

CV Check Ltd

FY22 Results Analysis

Sets foundations: FY22 results in-line, forecasts intact

CV Check Ltd (ASX:CV1) is a RegTech company providing workforce compliance monitoring and management technology and services (i.e. 'Know Your People' services). CV1 has released its FY22 results (which were in-line with our forecasts), annual report and results presentation revealing the following key new information: (1) FY22 P&L: $1.1m EBITDA (vs. $0.2m in pcp), $1.5m reported net loss, and $0.3m adjusted net loss*; (2) Revenue by product: 59% criminal history checks, 32% other checks and 9% Software-as-a-Service (SaaS); (3) Composition of Bright People Technologies ('Bright') $5.9m revenue: $4.2m from the legacy 'Enable' platform (54% SaaS/46% transactional) and $1.7m from the 'Cited' workforce compliance offering (11% SaaS/89% transactional); and (4) FY23 roadmap: "*Continuing to Grow and Innovate at Scale*" strategy with significant emphasis on growing SaaS revenue from Cited whilst also delivering enhanced product offerings and technology upgrades focused on automation and biometric identification (to reduce costs of current levels of manual processes and facilitate scalability). Our forecasts are unchanged and incorporate $30.5m FY23 revenue (16% growth with H2 skew), $2.4m EBITDA and $0.2m free cashflow (post $2.3m capitalised development). Nearer term (i.e. for Q1 FY23), we anticipate 8-10% revenue growth (vs. 6% in Q4 FY22), modest operating cashflow and ~$0.6m free cash outflow.

Business model

CV1 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 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). CV1 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).

FY22 result: $1.1m EBITDA from $26.4m revenue

CV1's FY22 results were in-line with our forecasts with key metrics of: (1) $26.4m revenue (up 51% on pcp with 27% organic/24% Bright acquisition split); (2) 63.6% gross margin (up 4.8 points on pcp); (3) $1.1m EBITDA and $3.1m operating cashflow; (4) $0.3m free cashflow; and (5) $12.2m cash (and net cash) balance. Bright delivered $5.9m revenue with 71% from its legacy Enable platform and 29% ($1.7m) from Cited. CV1's FY23 focus lies in significantly growing Cited's SaaS revenues, while concurrently delivering enhanced product offerings and technology upgrades with an emphasis on automation and biometric identity validation to remove manual process inefficiencies and provide scalability. CV1 has also activated its share buy-back which should serve to underpin the share price (with 961k shares bought back to date for $108k [of maximum $2m outlay/~4% issued shares]).

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

Our CV1 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, CV1 is currently trading at a 63% discount to its ASX-listed peers on FY22 EV/Revenue (1.3x vs. 3.7x) including its closest peers [Xref (ASX:XF1) at 3.1x and IntelliHR (ASX:IHR) at 3.3x]. Relative to the US-listed SaV pureplays (First Advantage, Sterling and HireRight), CV1 is trading at a 53% discount to their average 2.9x 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 of automation-related gross/EBITDA margin expansion 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/Sales (x)
06/21a	17.5	0.2	(0.7)	(1.0)	(0.3)	n.m	2.0
06/22a	26.4	1.1	(0.3)	(1.5)	(0.3)	n.m	1.3
06/23f	30.5	2.4	0.8	(0.4)	(0.1)	n.m	1.2
06/24f	37.1	5.2	3.4	2.2	0.5	22.1	0.9

Sources: Company data; RaaS estimates for FY23f and FY24f; *Excludes Bright acquisition related intangible assets amortisation

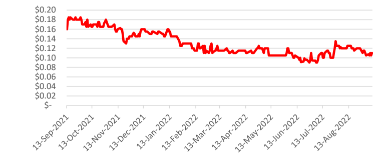
Software & Services

12 September 2022

Share Details

ASX code	CV1
Share price (9-Sep-22)	$0.11
Market capitalisation	$47.7M
Shares on issue (buy-back adj.)	433.3M
Net cash at 30-Jun-22	$12.2M
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
- Evidence of operating leverage (via gross and/or EBITDA margin expansion from automation [e.g. OnCite app, biometrics])
- International opportunities for SaaS offering
- Well positioned for potential M&A

Downside Case

- Lower/slower-than-expected SaaS uptake rate
- Economic downturn leads to reduced demand for pre-employment screening
- Changes to consumer data availability

Catalysts

- Material new contracts for SaaS offering
- Evidence of further gross and/or EBITDA margin improvements and operating leverage
- M&A interest/activity (acquiror or target): per recent acq'n activity and interest at peers (ASX:PYG, KYK, DTC, ELO, AD1)

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FY22 Financial Results Analysis

In this report, we analyse CV1's FY22 financial results, highlight key information from its annual report and results presentation, and reiterate our forecasts (unchanged).

Key figures and operational outcomes

CV1 reported the following **key figures** in its FY22 financial statements:

Exhibit 1: Key figures from FY22 financial statements (in A$m unless otherwise stated)

	FY21a	FY22a	*% chg on pcp*
Revenue	17.5	26.4	*51*
Gross margin (%)	58.8	63.6	*+4.8 pts*
EBITDA	0.2	1.1	*339*
Operating cashflow	1.0	3.1	*193*
Free cashflow (after capex and capitalised development)	0.1	0.3	*114*
NPATA [net profit/(loss) adj. for acq'n related amortisation]*	(0.7)	(0.3)	*(60)*
Reported net profit/(loss) after tax	(1.0)	(1.5)	*49*
Cash/net cash	12.9	12.2	*(5)*
Net current assets (current assets less current liabilities)	10.0	8.4	*(16)*

Source: CV1 FY22 annual report; *i.e. Excludes Bright acquisition related intangible assets amortisation.

Overall, FY22 represented a year of strategic transformation for CV1 as the Bright acquisition made its first full-year contribution (vs. three months in FY21), key product development initiatives were completed (with the addition of real-time compliance monitoring in the 'Cited'-branded SaaS platform and release of the 'OnCite'-branded 'Digital Credential Passport' mobile app), and key executives joined the company (Michael Ivanchenko as CEO in August 2021 and Geoff Hoffmann as Global Sales Director in April 2022). CV1 also benefited from very strong demand for its SaV services attributable the post-COVID surge of staff hiring.

P&L - actuals vs. RaaS forecasts

CV1's FY22 P&L results were **in-line with our forecasts** as set out in the following table.

Exhibit 2: FY22 P&L vs. FY21 and RaaS FY22 forecasts (in A$m unless otherwise stated)

	FY21a	FY22a	*% chg on pcp*	vs. RaaS FY22f
Transactional revenue (SaV via CVCheck & Bright)	16.9	24.0	*42*	23.8
SaaS revenue	0.6	2.4	*322*	2.4
Total sales revenue	**17.5**	**26.4**	***51***	**26.2**
Cost of sales	(7.2)	(9.6)	*33*	(9.5)
Gross margin	**10.3**	**16.8**	***63***	**16.7**
Gross margin (%)	*58.8*	*63.6*	*+4.8 pts*	*63.8*
Operating costs				
- Employment costs	(6.4)	(10.1)	*58*	(10.2)
- Marketing expenses	(1.1)	(2.1)	*83*	(2.2)
- IT/website expenses	(0.6)	(1.4)	*138*	(1.3)
- Other expenses	(1.8)	(1.4)	*(22)*	(1.7)
- Share-based payment expenses	(0.6)	(0.7)	*23*	(0.4)
Total operating costs	**(10.5)**	**(15.7)**	***49***	**(15.8)**
Other income	0.5**	0.0	*(99)*	0.0
EBITDA	**0.2**	**1.1**	***339***	**1.0**
EBITDA margin (%)	*1.4*	*4.0*	*+2.6 pts*	*3.7*
Depreciation	(0.3)	(0.4)	*8*	(0.2)
Amortisation (capitalised development costs)	(0.7)	(0.8)	*16*	(1.0)
Amortisation (Bright intangibles)	(0.3)	(1.2)	*344*	(1.2)
Total D&A	**(1.3)**	**(2.4)**	***83***	**(2.4)**
EBIT	**(1.1)**	**(1.3)**	***25***	**(1.5)**
Net interest	0.0	0.0	*n.m*	0.0
Net profit/(loss) before tax	**(1.0)**	**(1.3)**	***27***	**(1.5)**
Income tax expense	0.0	(0.2)	*n.m*	(0.0)
Net profit/(loss) after tax	**(1.0)**	**(1.5)**	***49***	**(1.5)**
NPATA (net profit/[loss] adj. for acq'n amortisation)*	**(0.7)**	**(0.3)**	***(60)***	**(0.3)**

Sources: CV1 FY22 annual report, RaaS forecasts (first published 15 June 2022); *Excludes Bright acq'n related intangible assets amortisation; **One-off income from COVID-19 related government grant and incentive payments.

Half-year Results: 29% Revenue Growth, 64% GM and $0.4m EBITDA in H2

The following table sets out the half-yearly breakdown of CV1's P&L.

Exhibit 3: Half-year P&L (in A$m unless otherwise stated)

	H1 FY21a	H2 FY21a	FY21a	H1 FY22a	H2 FY22a	FY22a	% chg on pcp (H1)	% chg on pcp (H2)	% chg on pcp (FY)
Transactional revenue (SaV)	7.0	9.9	16.9	11.6	12.3	24.0	*67*	*24*	*42*
SaaS revenue	n.a	0.6	0.6	1.2	1.2	2.4	*n.a*	*112*	*322*
Total sales revenue	**7.0**	**10.5**	**17.5**	**12.8**	**13.6**	**26.4**	***84***	***29***	***51***
Cost of sales	(3.1)	(4.1)	(7.2)	(4.7)	(5.0)	(9.6)	*51*	*20*	*33*
Gross margin	**3.9**	**6.4**	**10.3**	**8.2**	**8.6**	**16.8**	***110***	***35***	***63***
Gross margin (%)	*55.8*	*60.7*	*58.8*	*63.7*	*63.5*	*63.6*	*+7.9 pts*	*+2.8 pts*	*+4.8 pts*
Operating costs									
- Employment costs	(2.7)	(3.7)	(6.4)	(5.0)	(5.1)	(10.1)	*88*	*36*	*58*
- Marketing expenses	(0.5)	(0.7)	(1.1)	(0.8)	(1.3)	(2.1)	*75*	*88*	*83*
- IT/website expenses	(0.2)	(0.3)	(0.6)	(0.6)	(0.8)	(1.4)	*159*	*123*	*138*
- Other expenses	(0.6)	(1.3)	(1.8)	(0.6)	(0.8)	(1.4)	*9*	*(36)*	*(22)*
- Share-based payment expenses	(0.0)	(0.6)	(0.6)	(0.4)*	(0.3)*	(0.7)*	*n.m*	*(41)*	*23*
Total operating costs	**(4.0)**	**(6.6)**	**(10.5)**	**(7.4)**	**(8.3)**	**(15.7)**	***88***	***26***	***49***
Other income	0.7	(0.2)	0.5	0.0	0.0	0.0	*(100)*	*(104)*	*(99)*
EBITDA	**0.6**	**(0.3)**	**0.2**	**0.7**	**0.4**	**1.1**	***23***	***n.m***	***339***
EBITDA margin (%)	*8.3*	*(3.4)*	*1.4*	*6.1*	*2.9*	*4.0*	*-2.2pts*	*+6.3 pts*	*+2.6 pts*
Depreciation and amortisation	(0.6)	(0.7)	(1.3)	(1.3)	(1.1)	(2.4)	*126*	*49*	*83*
EBIT	**0.0**	**(1.1)**	**(1.1)**	**(0.6)**	**(0.7)**	**(1.3)**	***n.m***	***(31)***	***25***
Net interest	0.0	0.0	0.0	0.0	0.0	0.0	*n.m*	*n.m*	*n.m*
Net profit/(loss) before tax	**0.0**	**(1.1)**	**(1.0)**	**(0.6)**	**(0.7)**	**(1.3)**	***n.m***	***(30%)***	***27***
Income tax expense	0.0	0.0	0.0	0.0	(0.1)	(0.2)	*n.m*	*n.m*	*n.m*
Net profit/(loss) after tax	**0.0**	**(1.0)**	**(1.0)**	**(0.6)**	**(0.9)**	**(1.5)**	***n.m***	***(13)***	***49***

Source: CV1 financial statements; *Options valued at $0.3m granted to five staff and included in the FY22 share-based payment expense have not vested and will be cancelled.

$26.4m FY22 revenue: 51% growth with fairly even organic/acquisition split

As set out in the following tables and charts, CV1 has disclosed several revenue metrics which enable its FY22 revenue growth and composition to be considered from **five (5) perspectives**, namely: (1) Organic vs. acquisition-related (Bright); (2) Product line (criminal history checks, other checks/transactions, SaaS); (3) Bright revenue – Cited platform vs. legacy Enable platform; (4) Geographic – Australia vs. New Zealand; and (5) Direct vs. third-party integrations.

Exhibit 4: Revenue composition and growth (in A$m unless otherwise stated)

	H1 FY21a	H2 FY21a	FY21a	H1 FY22a	H2 FY22a	FY22a	% chg on pcp (H1)	% chg on pcp (H2)	% chg on pcp (FY)
Total revenue	7.0	10.5	17.5	12.8	13.6	26.4	*84*	*29*	*51*
1. Revenue - organic vs. acq'n									
Organic (ex-Bright)/CVCheck SaV	7.0	9.1	16.1	9.9*	10.5*	20.5	*42**	*15**	*27*
Bright (acquired 6-Apr-21)	0.0	1.4	1.4	2.9*	3.1*#	5.9#	*n.a*	*119**	*320*
2. Revenue by product line									
Criminal history checks	5.3	5.7	11.0	8.6	6.8	15.4	*63*	*19*	*40*
Other (non-criminal history) checks	1.7	4.2	5.9	3.0	5.5	8.5	*79*	*31*	*45*
SaaS	-	0.6	0.6	1.2	1.2	2.4	*n.a*	*116*	*325*
3. Revenue by geography									
Australia	5.8	9.1	15.0	11.1	12.2	23.3	*91*	*33*	*56*
New Zealand	1.1	1.4	2.5	1.7	1.4	3.1	*51*	*1*	*23*

Sources: CV1 financial statements; *RaaS estimates for half-year split; #Includes estimated nine-month incremental revenue contribution from the Bright acquisition of $4.3m in FY22 (Q1-Q3).

- **Organic vs. acquisition growth:** CV1's 51% FY22 revenue growth was fairly evenly split between organic growth at an estimated 27% and acquisition growth at 24% (reflecting a nine-month incremental contribution from the Bright acquisition). The organic growth was buoyed by the post-COVID surge in demand for pre-employment related SaV services.

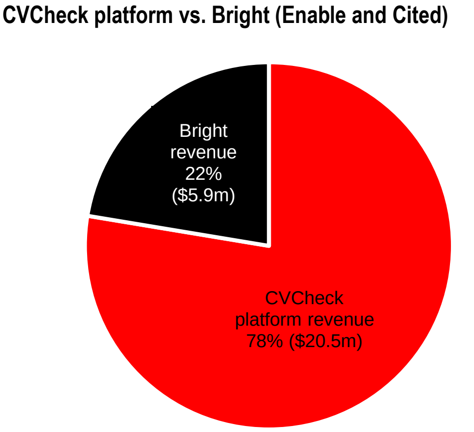
In **H2 FY22**, the 29% year-on-year increase (to $13.6m) comprised estimated organic growth of 15% and acquisition growth of 14% (reflecting a three-month incremental contribution from the Bright acquisition).

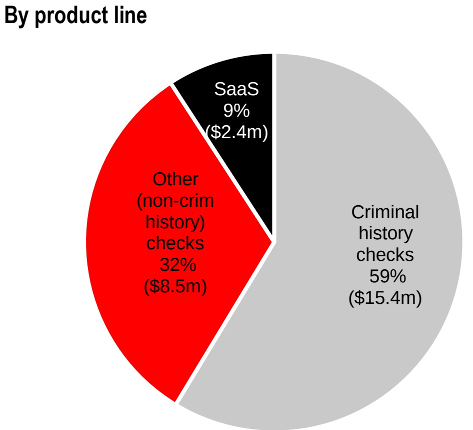
Most recently, the 6% year-on-year revenue growth in **Q4 FY22** (to $6.7m) was entirely organic given Bright made a full Q4 FY21 contribution. As we have previously noted, this was lower than Q3 FY22 revenue of $6.9m (CV1's highest quarterly revenue result to date) attributable to the increasingly demanding SaV comparables and some softening in SaV orders coinciding with the May federal election.

- **Product line revenue**: The diversification of CV1's revenue continued in FY22 as SaaS revenue (via Bright's Enable and Cited platforms) contributed 9% of the total and other checks (i.e. non-criminal history) accounted for 32%. Although revenue from criminal history checks still accounted for the majority (59%) of FY22 revenue, this was significantly lower than its 76%-77% contributions in FY19 and FY20 prior to the Bright acquisition. Nonetheless, the $4.4m year-on-year increase in FY22 criminal history check revenue is noteworthy and highlights the strength of post-COVID hiring and employer demand for the criminal history check products.

  In H2 FY22, the product line mix was 50% criminal history checks, 41% other checks and 9% SaaS.

Exhibit 5: Revenue composition (FY22a)





Source: CV1 FY22 annual report

- **Bright's revenue:** Bright generated $5.9m of revenue in FY22 (up 7% from $5.5m pro-forma revenue in FY21 [with $4.1m pre-CV1's acquisition and $1.4m recorded post-CV1's acquisition]). The majority was transaction based (59% of total or $3.5m) with the remainder from SaaS ($2.4m).

Exhibit 6: Bright FY22 revenue composition (in A$m unless otherwise stated)

	Enable platform	Cited platform	Total
Transactional revenue	1.9	1.5	**3.5**
SaaS revenue	2.2	0.2	**2.4**
Total	**4.2**	**1.7**	**5.9**
% of Bright's revenue	*71*	*29*	
% of CV1's revenue	*16*	*6*	***22***
% of platform total	**Enable platform**	**Cited platform**	
Transactional	*46*	*89*	***59***
SaaS	*54*	*11*	***41***

Source: CV1 FY22 annual report

Enable (Bright's legacy platform and workforce management software suite)[1] was the dominant revenue generating platform in FY22 contributing $4.2m (71% of Bright's total) compared to $1.7m from **Cited** of which 89% was transactional and only $0.2m was from SaaS. We understand that Cited's quarterly revenue was fairly even throughout FY22 (i.e. ~$400k per quarter). Also see **Results presentation: key supplementary information.**

We note that the legacy Enable platform will remain in place and continue to generate revenue in FY23 and FY24 given:

- The Cited platform does not currently incorporate all of the workforce logistics support functionality embedded in Enable. In turn, almost all of Cited's resources industry clients are concurrently utilising Enable under long-term contracts.
- Some of Bright's clients will only require Enable's workforce logistics functionality.

- **Geographic revenue**: Australia accounted for 88% of FY22 revenue. New Zealand's year-on-year growth was marginal in H2 (up 1%) after a very strong 51% increase in H1.
- **Direct vs. third-party integrations:** SaV revenue from third-party integrations[2] doubled to $3.4m in FY22 and accounted for 13% of total revenue.

FY22 cost composition

CV1's FY22 total cost base was $25.3m which incorporates the first full year of the Bright acquisition – and was slightly skewed to H2 (52%). In addition, $2.6m of technology development payments were capitalised.

Cost of sales (38% of costs) / 64% gross margin

FY22 gross margins improved by 4.8 percentage points on the pcp to 63.6%. This primarily reflected the uplift from Bright's high gross margins (~85%) which, in turn, is a function of its SaaS revenue and its transactional revenue skew to higher-margin other (non-criminal history/police) checks and transactions (with a 41%/59% split of SaaS/transactional revenue). Other contributors were the CVCheck platform's increasing proportion of revenue from other (non-criminal history/police) checks and some efficiency gains.

Operating costs ($15.7m / 62% of costs)

CV1's operating cost base was $15.7m in FY22, up from $10.5m in FY21. This primarily reflects inclusion of Bright's post-acquisition cost base for the full year (vs. ~three months in FY21).

The three most notable components were:

- **Employee and director benefits expenses:** Staff expenses are CV1's most significant operating expense and amounted to $10.1m in FY22 (up from $6.4m in FY21) after including the full-year cost of Bright's ~30 FTEs and $350k of one-off expenses for accrued salaries assumed by CV1 as part of the Bright acquisition.

  We understand that CV1 currently has **114 FTEs** following the recruitment of additional staff over the past eight months (primarily in sales and customer service to support the Cited SaaS sales strategy). Employees are primarily located in the Perth head office with smaller numbers in the New Zealand office

[1] The Enable suite provides identity and verification (SaV) services, onboarding and induction, deployment and redeployment (including flight and accommodation logistics for FIFO) and ongoing compliance monitoring and management. It has three product offerings: (1) **Enable Validate**: Ensures on-site personnel are compliant with site access criteria, approved to mobilise, and recognised upon return to site; (2) **Enable Logistics** for complex mobile workforces with multiple sites and roster patterns: Allows real-time bookings for commercial and charter flights, car hire/managed transport, and site or hotel accommodation (large WA resources companies are the key clients for Enable Validate and Enable Logistics); and (3) **Enable Roster Manager for SMEs**: Mobilisation and online travel booking tool.

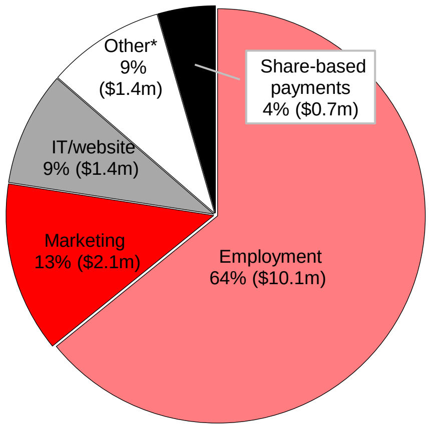
[2] The CVCheck platform is integrated with ~13 human resources information software (HRIS) and applicant tracking system (ATS) platforms. Revenue sharing or commission arrangements are in place with these integration partners.

and ~eight working remotely (in locations around Australia). In addition, CV1 currently engages ~13 contractors across various functions (not included in employee expenses) and an external specialist Australian software development company primarily for ongoing OnCite app enhancements (largely reflected in capitalised development costs).

- **Share-based payments expenses:** FY22 share-based payments expenses amounted to $0.7m (vs. $0.5m in FY21) split between employee options which have now lapsed and will be cancelled ($0.3m), the director performance rights ($0.2m) and the CEO performance shares ($0.2m). Also see **Capital Structure.**

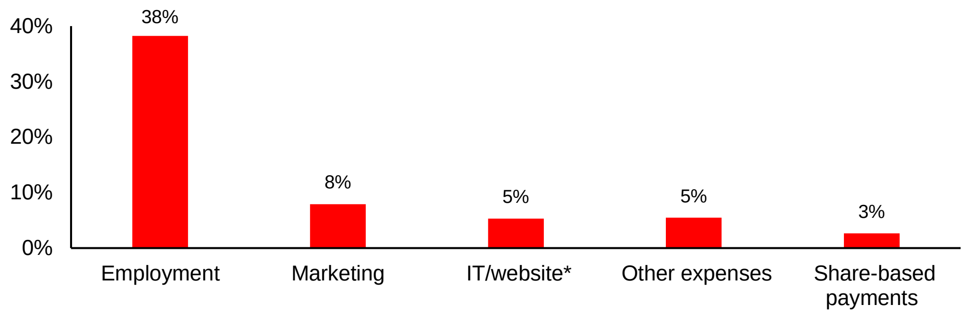
- **Marketing expenses:** Marketing expenses were equivalent to 8% of revenue (slightly higher than 6%-7% of revenue in FY20 and FY21) as CV1 directed increased resources into B2B marketing of the Cited SaaS product, especially in targeted verticals such as health and aged care.

Exhibit 7: Operating cost composition (FY22a)



Source: CV1 FY22 annual report; *Includes expenses such as insurance, travel and communications

Exhibit 8: Operating costs as % of revenue (FY22a)



Source: CV1 FY22 annual report; *Total FY22 IT/website and development costs were $4m ($1.4m expensed and $2.6m capitalised) equating to 15% of revenue

$1.1m EBITDA

CV1 reported $1.1m EBITDA in FY22 (up from $0.2m in FY21) skewed to H1 ($0.7m vs. $0.4m in H2). This included $350k of non-ongoing expenses for accrued salaries assumed by CV1 as part of the Bright acquisition. Adjusting for this, FY22 EBITDA would increase to $1.5m.

EBITDA vs. operating cashflow: CV1's FY22 $3.1m operating cashflow was $2.0m higher than reported EBITDA attributable to the non-cash share-based payments expense ($0.7m), positive working capital movement (net $1.0m), and insurance payments classification ($0.3m in financing cashflows due to premium funding).

Geographic split: NZ again reported positive EBITDA - $1.0m (34% margin), up from $0.5m in FY21 (22% margin). Australian EBITDA was also marginally positive at $65k (noting that it carries the corporate overheads) vs. a $469k loss in FY21.

Other P&L items

- **Depreciation and amortisation (D&A):** CV1 reported a sizeable FY22 D&A expense of $2.4m (up from $1.3m in the pcp) attributable to: (1) The significant capitalisation of website/technology development in recent years including $0.9m in FY21 and $2.6m in FY22 (with 2.5-year straight line amortisation); (2) Bright's $10.1m of identifiable intangible assets upon acquisition (namely IP [software] and customer contracts and relationships which are straight-line amortised over nine years); and (3) Office lease depreciation ($0.3m) following recognition of the new Perth and New Zealand leases as right-of-use assets under AASB 16.
- **Net interest:** FY22 net interest was negligible reflecting a 0.2% effective rate on its $12m cash balance.
- **Tax:** CV1 incurred a $0.2m income tax expense in FY22 reflecting the tax position of the profitable NZ operations (~25% effective rate).

  It also disclosed an **unrecognised deferred tax asset** of $4.4m at 30 June 2022 attributable to carried-forward tax losses for the Australian operations. We anticipate these will be able to be progressively utilised as CV1 starts to generate taxable income in Australia (from FY24 on our forecasts).
- **Net loss and NPATA (Bright acquisition amortisation adjusted):** CV1's reported net loss increased to $1.5m in FY22 (vs. $1.0m in FY21) as the increased D&A more than offset the EBITDA improvement.

  Excluding the sizeable $1.2m amortisation of the Bright acquisition identifiable intangibles (but not the amortisation of CV1's ongoing capitalised development spend), the FY22 net loss was a lesser $0.3m.

Key cashflow statement items

- **Customer cash receipts (includes GST)** of $29.1m were up 71% on the pcp (vs. 51% revenue growth rate).
- **Operating and free cashflow**: The vast majority of CV1's $3.1m net operating cashflow for FY22 was utilised for capitalised development spend and, in turn, free cashflow was $0.3m.

  As we noted in CV Check RaaS Update 29 July 2022, CV1's FY22 operating and free cashflow performance and cash position also compares favourably to its ASX-listed peers.
- **Payments for intangible assets (capitalised development costs - website/tech):** CV1 spent $2.6m on capitalised website/tech development costs in FY22 (up significantly from $0.9m in FY21) attributable to the expanded Bright/CV1 tech stack and the two key FY22 technology projects (real-time compliance monitoring functionality for Cited and the OnCite 'Digital Credential Passport' app).

  Cited SaaS platform development is primarily conducted by internal technology staff, whereas an external specialist Australian software development company has been engaged to build and progressively update the OnCite app.
- **Total net cash outflows**: There was an overall $0.7m net cash outflow in FY22 (reducing the cash balance to $12.2m) which reflected the combination of: (1) $0.3m free cashflow; (2) $0.7m of deferred consideration payments to the Bright vendors; and (3) $0.3m of various other net investing and financing outflows (including $0.3m of office lease rent payments under AASB16).

Balance sheet

We note the following key features of the 30 June 2022 balance sheet:

- **Cash (and net cash) balance:** CV1 is well capitalised with a $12.2m cash balance at 30 June 2022 (vs. $12.9m at 30 June 2021 and $12.2m at 31 December 2021). Even if the full $2m allocated to the buy-back is deployed, CV1 would still retain flexibility to pursue suitable M&A opportunities that may emerge (with a post maximum buy-back ~$10m cash balance, ~$7m-$8m net current assets balance, and the ability to utilise its listed scrip).
- **Net current assets** amounted to $8.4m (or $9.5m adjusting for unearned revenue).
- **Trade and other receivables** were $2.8m (vs. $3.0m at 31 December 2021 and 30 June 2021). CV1's receivables ageing profile has improved following the collection of >30 days aged receivables in Q4. In turn, 86% of receivables were within standard 30-day payment terms at 30 June 2022 (vs. 63% at 30 June 2021).
- **Contract liabilities/unearned revenue**: $1.1m of contract liabilities were reported (up from $0.7m at 30 June 2021). This reflects unearned revenue (advance payments from some clients) and equated to 4% of FY22 revenue.
- **Trade and other payables** (including accrued expenses, GST and PAYG payable) of $4.0m was slightly higher than $3.8m at 30 June 2021 (but $0.9m higher adjusting for the one-off $0.7m deferred Bright vendor consideration payable in the 30 June 2021 balance). All payables are within their 30-day payment terms.
- **Identifiable intangibles** amounted to $11.8m comprising $3.1m of capitalised development costs and the $8.7m carrying value of intangible assets acquired via the Bright acquisition (IP/software and customer contracts and relationships).
- **Goodwill** (unimpaired) of $4.7m comprised: (1) $3.3m relating to the Bright acquisition; and (2) $1.3m for the NZ business (July 2016 acquisition).
- **Plant and equipment** increased to $2.0m as $1.8m of lease (right-of-use) assets and corresponding lease liabilities were recognised for the new Perth office (five-year term) and New Zealand office (three-year term) under AASB 16.

Other Key Information: Results Presentation and Annual Report

Key points from Chairman and CEO reports

The reports from the Chairman and CEO reiterated that CV1's FY23 focus lies in:

- **SaaS revenue growth**:[3] CV1 is targeting significant SaaS revenue growth from its Cited workforce compliance offering (from $1.7m FY22 revenue base/6% of total revenue) following the H2 FY22 release of its real-time monitoring functionality and the OnCite 'Digital Credential Passport' mobile app for workers, and the ongoing recruitment and training of SaaS sales staff.
- **Technology-enabled operating efficiencies and scalability**: Concurrently, CV1 is seeking to extract process and automation-related operational efficiencies and enhance the scalability of its offerings. The OnCite app is a key component of this strategy as information and data collection efficiencies will be progressively realised as Cited clients (existing and future) roll-out the app to their workforces.

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[3] Per Chairman's Report (page 2): "*Looking to FY23, CV1's strategic initiatives continue to lay the groundwork for our Company to achieve further significant growth at scale, with accretive revenue, over the coming year, as our team stays focussed on realising the potential of the monitored compliance product and achieving further efficiencies across the organisation.*"

Per CEO's Report (page 5): "*The work we completed in FY22 has laid the groundwork for CV1 to achieve further significant growth at scale, with accretive revenue, over the coming 12 months and beyond. FY23 is expected to see us realise the growth potential inherent in our monitored compliance product. At the same time, we will be fully focussed on bringing to book the benefits of operational efficiencies and system improvements made possible by our CGI strategy.*"

The planned introduction of biometric identity confirmation is also expected to "*materially advance the end-to-end digital interaction for all customers*" (i.e. on both the Cited and CVCheck platforms).

Results presentation: key supplementary information

The results presentation included the following new supplementary information:

- **Updated strategy and product/technology roadmap for FY23:** CV1 has refined its three-pronged "Consolidate, Grow, Innovate" strategy that was announced in November 2021 to "Continue to Grow and Innovate at Scale" for FY23. More specifically, it confirmed the following initiatives:
  - **Enhanced product offerings/technology roadmap:** Key product and technology plans for FY23 are focused on automation and biometrics to reduce operating costs, facilitate scalability/operating leverage, and demonstrate additional value to existing and prospective clients/effectively compete with offerings from other RegTech and SaV companies, namely:
    - The introduction of biometric identity validation (via OnCite app);
    - Regular OnCite app updates including direct credential entry functionality and automated direct messaging and reminders;
    - Revamp of the CVCheck platform to enhance useability and promote use of the OnCite app; and
    - Regular Cited SaaS platform updates to add further functionality (including check-ins, safety inspections and 'ready to start' checklists).

    CV1 also continues to target Trusted Digital Identity Framework ('TDIF') accreditation with the Federal Government's Digital Transformation Agency ('DTA') in the current half (contingent upon DTA's application response timing).
  - **SaaS sales team expansion:** Additional direct sales resources are continuing to be recruited.
- **New business customer numbers:** >2,500 new business customers used CV1 products in FY22 (primarily SMEs). This grew the business base to >10k customers (which we understand represents all business accounts that have been registered and utilised at some juncture over the past ~eight years). The returning business customer base (i.e. businesses placing repeat orders over the past year) is ~8,000 (and includes ~500 large corporate clients).
- **Cited's FY22 client wins**: In addition to Hireup and Atlas Iron, CV1 named another nine new clients that signed during FY22 representing a combination of new and existing clients (e.g. FlyBuys and ACMA from the CVCheck platform). The following table lists the 26 Cited platform clients that are disclosed.

Exhibit 9: Cited's disclosed clients

Mining/resources	Healthcare/ aged care/NDIS	Utilities	Engineering, construction, manufacturing	Retail	Law and government
Atlas Iron (Hancock Prospecting)	Hireup*	Western Power	thyssenkrupp	Cash Converters	Corrs Chambers Westgarth*
Woodside	Amana Living	Endeavour Energy*	Civmec	FlyBuys*#	Victorian Public Sector Commission*
Pybar Mining Services	Nulsen Group		Adelaide Pergolas	Sydney Tools	Australian Communications and Media Authority (ACMA)*#
Beach Energy*	BaptistCare		LinkForce	The Big Issue	Victorian Department of Premier & Cabinet*
	Auscare Group			Urban Company	Federal Court of Australia*
	Anglicare Tasmania*				

Sources: CV1 announcements and websites; *New Cited client in FY22; #FlyBuys (50% Wesfarmers/50%Coles) and ACMA were existing CVCheck platform clients

We understand that Hireup and Atlas Iron are currently the only Cited clients with contracts based on the **new fee structure** (i.e. an all-in SaaS fee per worker per month) given the contracts for the other new Cited clients were executed earlier in FY22 (i.e. small fixed monthly SaaS licence fee plus pay-as-you-go transactional fees).

- **Significantly upgraded versions of Cited released:** CV1 clarified that it released two substantially upgraded versions/iterations of the Cited platform during FY22:
  - **"Version 2"** (early CY22 release): Added real-time compliance monitoring functionality; and
  - **"Version 3"** (late June 2022 release – early July official launch): Expanded automatic notification functionality to workers (to flag non-compliance and upcoming action items directly to them) and added extra reporting and pricing functionality.

Key Shareholders

As set out in the table below, there has been little movement in key shareholdings over the past year.

Exhibit 10: Key shareholders

	Shareholder	No. of shares	% (Aug-22)	% (Aug-21)	Relationship to CV1
	Fund managers				
1	Australian Ethical Investments (via National Nominees)	49,658,396	11.4	10.5	Per substantial shareholder notice (ASIC Form 604) lodged on 22 April 2022
2	Other funds (via National Nominees, JPMorgan Nominees, CS Third Nominees and HSBC Nominees)	33,586,366	7.7	7.6	
	Subtotal	**83,244,762**	**19.1**	**18.1**	
	Founders				
3	Bev and Steve Carolan	47,284,043	10.9	10.9	Steve Carolan founded CV1. Former Director (to May 2020)
4	Rodney and Gaynor Sherwood	13,909,170	3.2	3.3	Former Exec. Director and CEO (to April 2021)
	Subtotal	**61,193,213**	**14.1**	**14.2**	
	Bright People Technologies Vendors*				
5	Jon Birman	22,197,811	5.1	5.0	Non-Executive Director and Bright vendor
6	Petra Nelson	14,598,540	3.4	3.4	Chief Customer Officer and Bright vendor
7	Declan Hoare	14,598,540	3.4	3.4	Chief Technology Officer (CTO) and Bright vendor
8	John Shaw	10,948,905	2.5	2.5	Bright vendor (no management role at CV1)
9	West Port Management Pty Ltd <Callahan Family A/C>	10,948,905	2.5	2.5	Bright vendor (no management role at CV1)
	Subtotal	**73,292,701**	**16.9**	**16.8**	
	Directors (excl. Jon Birman), CoSec and KMP **				
10	Ivan Gustavino	1,068,127	0.2	0.2	Non-Executive Chairman
11	Oliver Stewart	2,668,000	0.6	0.6	Non-Executive Director
12	Michael & Judith Stewart	5,548,003	1.5	1.5	Parents of Oliver Stewart (Director)
13	Craig Sharp	3,202,817	0.7	0.7	General Counsel and Company Secretary
14	George Cameron-Dow	806,061	0.2	0.2	Non-Executive Director
15	Jason Margach	743,498	0.2	0.0	Chief Financial and Operating Officer (CFOO)
	Subtotal	**14,036,506**	**3.4**	**3.2**	
16	Other shareholders in top 20	39,494,124	9.1	7.7	Seven (7) shareholders with holdings of 0.9%-2.1%
	TOTAL key shareholders	**271,261,306**	**62.6**	**60.0**	

Sources: CV1 FY21 and FY22 Annual Reports, substantial shareholder notices and ASX Appendices 3Y; *Bright vendor consideration shares (72,992,701) are currently subject to a voluntary escrow period expiring on 31 December 2022; **Held directly and/or indirectly

Buy-back And Capital Structure

Buy-back underway

CV1 has also commenced its on-market share buy-back (announced on 28 July 2022). To date, it has bought back 961k shares for $108k (or an average price of $0.112).

The **maximum outlay is $2m** for up to 20m shares which would equate to ~4.2% of issued shares at the latest $0.11 closing price. If the maximum $2m of shares are bought back, we estimate CV1 would still have >$10m cash (and net cash) at 30 June 2023 which, in turn, enables it to retain flexibility to pursue potential M&A opportunities. The buy-back should also provide an underpinning for the share price over the next 12 months.

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Exhibit 11: Share buy-back

Date	Number of shares bought back	Consideration paid	Average buy-back price
22-Aug-2022	150,000	$18,000	$0.12
23-Aug-2022	166,929	$20,031	$0.12
25-Aug-2022	100,000	$12,000	$0.12
30-Aug-2022	50,000	$5,750	$0.115
1-Sep-2022	150,000	$16,500	$0.11
2-Sep-2022	150,000	$15,750	$0.105
5-Sep-2022	24,560	$2,579	$0.105
6-Sep-2022	152,559	$16,019	$0.105
8-Sep-2022	17,000	$1,785	$0.105
Total to date	**961,048**	**$108,414**	**$0.112**

Source: CV1 buy-back announcements

Capital Structure

Shares: Adjusting for the imminent cancellation of 1.0m shares that have been bought back to date, CV1 will have 433.3m shares on issue.

Unlisted securities: Following the impending cancellation of 2.2m unlisted zero exercise price options ('ZEPOs'),[4] there will be 5.0m out-of-the-money options[5] and 6.0m unvested performance rights on issue.[6]

In addition, Michael Ivanchenko (CEO) is eligible to receive 5.0m shares if the requisite performance and vesting requirements are satisfied in FY23 and FY24.[7]

Forecasts – FY23 and FY24

We have maintained our forecasts for FY23 and FY24 (originally published on 15 June 2022) in light of CV1's FY22 results (which were in-line with our forecasts) and our understanding of recent demand for SaV services (together with the latest ANZ Job Ads data for August 2022[8]) and the sales leads and ongoing contract negotiations for the Cited SaaS offering. We note that CV1's key strategic and operational focus is to substantially grow the Cited SaaS platform's subscriber base over the next three years, including via an initial key sales strategy of cross-selling to existing corporate SaV customers in 'compliance heavy' sectors such as health and aged care.

The only minor adjustment is the recognition of a ~$0.2m income tax expense for the New Zealand operation offset by marginal changes to forecast D&A and interest income as set out in the following table.

[4] In FY22, CV1 granted 2,172,160 unlisted ZEPOs to five senior employees under its Employee Incentive Option Plan. These ZEPOs will now be cancelled as the relevant FY22 vesting conditions and performance criteria were not satisfied.

[5] Comprising: (a) 515k vested options with a $0.22 exercise price expiring on 11 May 2023 held by a related party of Rod Sherwood (former Executive Director and CEO); and (b) 4.5m vested options with a $0.37 exercise price expiring on 18 February 2024 held by the joint lead managers of the February 2021 placement.

[6] Requires satisfaction of three (3) vesting conditions by 17 December 2022, namely (a) Share price of ≥ $0.30 based on 10-day VWAP; (b) Inclusion in S&P/ASX Technology Index (XTX); and (c) Continuation of directorship to 17 December 2022. 3.0m performance rights are held by Ivan Gustavino (Chair) and 1.0m by each of George Cameron-Dow, Oliver Stewart and Jon Birman (Non-Executive Directors).

[7] Requires satisfaction of the following vesting conditions by 30 September 2024: (a) FY23 target for 3m performance shares: Share price of $0.40 for three consecutive months during FY23; and (b) FY24 target for 2m performance shares (or 4m if the FY23 target is not achieved): Share price of $0.60 for three consecutive months during FY24.

[8] ANZ Australian job ads for August 2022 (seasonally adjusted) were up 20% on the pcp and up 2% compared to July 2022. ANZ stated that "*the volume of unfilled labour demand suggests the effects of higher inflation, rising rates and global growth risks on the labour market will be lagged*" and that it "*continue*[s] *to expect solid employment growth over the remainder of the year, underpinned by the significant volume of unfilled labour demand*."

Exhibit 12: FY23 and FY24 forecasts – previous vs. current (in A$m unless otherwise stated)

	FY23f previous	FY23f current	*$ chg*	FY24f previous	FY24f current	*$ chg*
Sales revenue	**30.5**	**30.5**	**-**	**37.1**	**37.1**	**-**
Gross margin	20.1	20.1	-	25.4	25.4	-
Gross margin %	*65.9*	*65.8*	-	*68.5*	*68.4*	-
Operating costs	(17.7)	(17.7)	-	(20.2)	(20.2)	-
EBITDA	**2.4**	**2.4**	-	**5.2**	**5.2**	-
Total D&A	(3.0)	(2.9)	*+0.1*	(3.2)	(3.1)	*+0.1*
EBIT	**(0.5)**	**(0.5)**	**-**	**2.0**	**2.1**	***+0.1***
Net interest	0.2	0.3	*+0.1*	0.2	0.3	*+0.1*
Net profit/(loss) before tax	**(0.4)**	**(0.2)**	***+0.2***	**2.2**	**2.4**	***+0.2***
Income tax expense	0.0	(0.2)	***(0.2)***	0.0	(0.2)	***(0.2)***
Net profit/(loss) after tax	**(0.4)**	**(0.4)**	-	**2.2**	**2.2**	-

Source: RaaS forecasts

A summary of our P&L forecasts for FY23 and FY24 together with the FY23 half-year split follow.

Exhibit 13: P&L forecasts (in A$m unless otherwise stated)

	FY22a	FY23f	% chg vs. FY22a	FY24f	% chg vs. FY23f
Transactional revenue (SaV and Bright)	24.0	24.8	*4*	24.7	*0*
SaaS revenue	2.4	5.7	*137*	12.4	*117*
Total sales revenue	**26.4**	**30.5**	***16***	**37.1**	***22***
Cost of sales	(9.6)	(10.5)	*9*	(11.7)	*12*
Gross margin	**16.8**	**20.1**	***20***	**25.4**	***26***
Gross margin (%)	*63.6*	*65.8*	*+2.2 pts*	*68.4*	*+2.6 pts*
Operating costs					
- Employment costs	(10.1)	(12.8)	*27*	(14.9)	*16*
- Marketing expenses	(2.1)	(2.2)	*4*	(2.3)	*7*
- IT/website expenses	(1.4)	(1.4)	*3*	(1.6)	*11*
- Other expenses	(1.4)	(1.2)	*(13)*	(1.4)	*11*
- Share-based payment expenses	(0.7)	0.0	*(100)*	0.0	*-*
Total operating costs	**(15.7)**	**(17.7)**	***13***	**(20.2)**	***14***
Other income	0.0	0.0	*-*	0.0	*-*
EBITDA	**1.1**	**2.4**	***127***	**5.2**	***119***
EBITDA margin (%)	*4.0*	*7.9*	*+3.9 pts*	*14.1*	*+6.2 pts*
Depreciation	(0.4)	(0.4)	*6*	(0.3)	*(16)*
Amortisation (capitalised dev.)	(0.8)	(1.3)	*57*	(1.6)	*23*
Amortisation (Bright intangibles)	(1.2)	(1.2)	*-*	(1.2)	*-*
Total D&A	**(2.4)**	**(2.9)**	***20***	**(3.1)**	***8***
EBIT	**(1.3)**	**(0.5)**	***(63)***	**2.1**	***n.m***
Net interest	0.0	0.3	*n.m*	0.3	*4*
Net profit/(loss) before tax	**(1.3)**	**(0.2)**	***(83)***	**2.4**	***n.m***
Income tax expense	(0.2)	(0.2)	*7*	(0.2)	*10*
Net profit/(loss) after tax	**(1.5)**	**(0.4)**	***(72)***	**2.2**	***n.m***
NPATA (Bright intangibles amort. only)	**(0.3)**	**0.8**	***n.m***	**3.4**	***328***

Sources: CV1 financial statements; RaaS forecasts

Exhibit 14: 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)	11.6	12.3	24.0	12.2	12.6	24.8	*5*	*2*	*4*
SaaS revenue	1.2	1.2	2.4	1.7	3.9	5.7	*46*	*221*	*137*
Total sales revenue	**12.8**	**13.6**	**26.4**	**14.0**	**16.5**	**30.5**	***9***	***22***	***16***
Cost of sales	(4.7)	(5.0)	(9.6)	(5.0)	(5.4)	(10.4)	*8*	*9*	*9*
Gross margin	**8.2**	**8.6**	**16.8**	**8.9**	**11.1**	**20.1**	***9***	***29***	***20***
Gross margin (%)	*63.7*	*63.5*	*63.6*	*63.9*	*67.4*	*65.8*	*+0.2 pts*	*+3.9 pts*	*+2.2 pts*
Operating costs									
- 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)*
Total operating costs	**(7.4)**	**(8.3)**	**(15.7)**	**(8.2)**	**(9.5)**	**(17.7)**	***10***	***15***	***13***
EBITDA	**0.7**	**0.4**	**1.1**	**0.7**	**1.6**	**2.4**	***4***	***356***	***127***
EBITDA margin (%)	*6.1%*	*2.9%*	*4.0%*	*5.2%*	*9.9%*	*7.8%*	*-0.8 pts*	*+7.0pts*	*+3.9 pts*
Depreciation & Amortisation	(1.3)	(1.1)	(2.4)	(1.4)	(1.5)	(2.9)	*7*	*36*	*20*
EBIT	**(0.6)**	**(0.7)**	**(1.3)**	**(0.7)**	**0.1**	**(0.5)**	***11***	***n.m***	***(63)***
Net interest	0.0	0.0	0.0	0.1	0.2	0.3	*n.m*	*n.m*	*n.m*
Net profit/(loss) before tax	**(0.6)**	**(0.7)**	**(1.3)**	**(0.5)**	**0.3**	**(0.3)**	***(11)***	***n.m***	***(83)***
Income tax expense	0.0	(0.1)	(0.2)	(0.1)	(0.1)	(0.2)	*n.m*	*-*	*7*
Net profit/(loss) after tax	**(0.6)**	**(0.9)**	**(1.5)**	**(0.6)**	**0.2**	**(0.4)**	***(1)***	***n.m***	***(72)***

Sources: CV1 financial statements; RaaS forecasts

Our FY23 and FY24 forecasts reflect the following key assumptions:

- **SaaS revenue growth:** (1) Employers with a total of 23,000 workers subscribe to Cited over the course of FY23 (skewed to H2) followed by a further 40,000 in FY24 at an average monthly fee per worker of $15; (2) The existing annual SaaS revenue base of ~$2.5m (plus incremental revenue from the FY22 new client signings) is maintained via renewals/upsell; and (3) $350k pa from the Hireup agreement.

We note that CV1 has disclosed the key revenue assumptions used in its DCF model for Bright's FY22 goodwill impairment testing[9] which provides a benchmark for our Bright/SaaS revenue forecasts, especially for FY23. CV1's DCF model incorporated FY23 expected revenue growth of 39.5% (i.e. to $8.2m) *"based on expectations for SaaS revenue following the launch of the new Cited platform and OnCite app"* followed by lower revenue growth of 20% pa for FY24-FY26 and 15% in FY27. Our FY23 Bright revenue forecast of $9.0m is $0.8m higher than under CV1's DCF model, while our FY24 forecast is materially higher at $15.0m (vs. $9.9m).

Our FY23 SaaS revenue growth is significantly skewed to H2 ($2.7m growth vs. $0.5m growth in H1).

- **Flattish transactional/SaV revenue**: Our FY23 forecasts incorporate SaV revenue of $24.8m (up $0.8m or 4% on FY22) reflecting the tougher year-on-year comparables for the CVCheck platform and our adoption of a cautious view of the employment market reflecting heightened uncertainty regarding the economic outlook, together with the loss of some SaV revenue as existing Cited customers transition to the new SaaS-only pricing model and some CVCheck platform customers migrate to the SaaS offering.

  For FY23 to date, we understand that transactional/SaV revenue is currently tracking at a higher ~7%-8% growth rate. Our FY23 SaV revenue growth is skewed to H1 (5% vs 2% in H2).

- **Improving gross margins:** The increases from 63.6% in FY22 to 65.8% in FY23 and 68.4% in FY24 reflect the increasing proportion of higher-margin Cited SaaS revenue and enhanced workflows and automation in the SaV operations (to the extent they are captured in gross margins rather than operating costs).

- **Operating costs**: The key forecast increase is employee expenses reflecting the addition of ~10 sales and customer service staff and wage inflation in FY23.

  We highlight that there is potential upside to our operating cost forecasts if material operating cost savings from increased automation and efficiencies start to transpire (including via worker uptake of the OnCite app and biometric identification). However, we also flag that any initial gains could be somewhat offset by: (1) Potentially higher expenses (non-capitalised) relating to the roll-out of the various abovementioned technology initiatives; (2) Share-based payment expenses given we suspect CV1 will grant new share-based incentives to key staff in FY23 and possibly FY24 (vs. nil current expenses in our forecasts); and (3) Any incremental costs associated with progressing international SaaS opportunities (e.g. joint-venture establishment costs) and a workforce data insights product. Any slippage in our forecast uptake of the Cited SaaS offering could also serve to counterbalance initial savings.

- **High amortisation expense** reflecting significant recent and forecast capitalised development spend ($2.3m spend is forecast for both FY23 and FY24 reflecting the abovementioned technology roadmap spanning all CV1 platforms) and ongoing amortisation of the acquired Bright identifiable intangible assets.

- **Operating cash flow** of $2.6m in FY23 (which is essentially in-line with FY23f EBITDA of $2.4m) and **free cashflow** of $0.2m after $2.3m of capitalised development spend. In combination with other financing outflows, this feeds into forecast **cash (and net cash)** of $12.1m at 30 June 2023.

Q1 FY23 – RaaS Expectations

We understand that CV1's SaV volumes and revenue have continued to grow at a moderate single-digit rate during July and August 2022 (estimated 7%-8% which is slightly higher than the 6% growth posted in Q4 FY22). In turn, we anticipate that **Q1 FY23 revenue** will increase 8%-10% on the pcp (to ~$6.8m) reflecting this SaV growth and a full-quarter contribution from the new Cited clients that went live in late FY22.

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[9] See Note 14 to the FY22 financial statements.

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Turning to Q1 FY23 **operating cashflows**, we anticipate they will be lower than those posted in Q2-Q4 FY22 ($1.2m, $0.9m and $1.0m respectively) and closer to the Q1 FY22 result ($33k) primarily due to staffing increases (largely in SaaS sales) and recent marketing cost payments. Similarly, we expect heightened payments for recent capitalised development undertaken in Q4 FY22 and Q1 FY23 (including the OnCite app and "Cited Version 3") will result in a **free cash outflow** akin to the pcp (Q1 FY22: $0.6m free cash outflow).

Valuation, Catalysts And Risks

DCF valuation

Using a discounted cashflow methodology, our (unchanged) valuation of CV1 is **$0.26 per share** based on current issued capital (given none of the unlisted securities have vested and/or are in-the-money). We view DCF as the most appropriate methodology for valuing CV1 at this point in its lifecycle as it embarks on its SaaS subscription sales growth strategy. Our DCF valuation implies EV/Revenue multiples of 3.8x for FY22 and 3.3x for FY23, which appear reasonable compared to the peer trading multiples noted below.

Exhibit 15: 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
PV of enterprise	**$100.7m**
Net debt / (cash) - 30 June 2023 (forecast)	($12.1m)
Net valuation - equity	**$112.8m**
No. of shares on issue (adj. for buy-back to date)	433.3m
NPV per share	**$0.26**

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

Peer EV/Revenue trading multiples

CV1 is currently trading at a **discount of 63%** to the average of its ASX-listed peers[10] based on EV/Revenue for FY22 (1.3x vs. 3.7x) The discount relative to its two closest peers, Xref Ltd (ASX:XF1) and IntelliHR Ltd (ASX:IHR), is 57% and 59% respectively.

On FY23f EV/Revenue, CV1 is trading at a **46% discount** to its ASX-listed peers (1.2x vs. 2.2x based on the six companies with available FY23f forecast data).

Relative to the US-listed SaV pureplays,[11] CV1 is trading at a 53% discount to their average 2.9x CY22f EV/Revenue.

Applying the EV/Revenue multiples for CV1's 15 ASX peers, XF1, the three US-listed pureplays and the non-pureplay global peers[12] to CV1 gives a range of enterprise values from $76m-$97m and an equity value of **$0.20-$0.25 per share** on FY22 actuals. We note that our DCF valuation of $0.26 per share is slightly higher than the top of this valuation range. On FY23 forecasts (excluding XF1 comparable), enterprise values range from $66m-$115m for equity values of $0.18-$0.29 per share.

[10] The 15 ASX-listed companies that we consider to be CV1'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.

[11] First Advantage Corp (NASDAQ:FA), Sterling Check Corp (NASDAQ:STER), and HireRight Holdings Corp (NYSE:HRT).

[12] Equifax Inc (NYSE: EFX), Automatic Data Processing Inc (NASDAQ:ADP), Experian plc (LSE: EXPN), and TransUnion (NYSE: TRU).

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Exhibit 16: CV1 valuation scenarios - peer trading multiples

	FY22a*	FY23f
CV1 revenue (A$m)	26.4	30.5
EV/revenue multiple		
ASX peers - average	3.7x	2.2x
Xref Ltd (ASX:XF1)	3.1x	n.a (no forecast data)
US listed pureplay SaV - average	2.9x*	2.7x*
Global peers (inc. pureplays) - average	3.6x*	3.8x*
Enterprise value (EV) - CV1 (A$m)		
Using ASX peers - average	96.8	66.1
Using XF1	83.1	n.a
Using US listed pureplay SaV - average	75.7	81.8
Using global peers (inc. pureplays) - average	96.0	115.2
Equity value/share - CV1		
Using ASX peers - average	$0.25	$0.18
Using XF1	$0.22	n.a
Using US listed pureplay SaV - average	$0.20	$0.22
Using global peers (inc. pureplays) - average	$0.25	$0.29

Sources: RaaS estimates, Refinitiv Eikon; Based on closing prices on 9 September 2022; See Footnotes 10-13 for peer group constituents. *CY22f and CY23f (US fiscal year) for US SaV pureplays and other global peers

Further details regarding CV1's peers and recent peer M&A activity are available in our reports at CV Check RaaS Update 20 July 2022 and CV Check RaaS Initiation Report 15 June 2022.

Key re-rating catalysts

While the buy-back should underpin CV1's share price in FY23, we believe the key catalysts for a share price re-rating and/or upside to our valuation are:

- Securing material new SaaS contracts.
- Evidence of process and automation-related margin enhancements which provide operating leverage (and are not offset by incremental cost increases in other areas as the SaaS growth strategy ramps up).

We also continue to view CV1 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 CV1's ASX-listed 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.

Execution risks - SaaS growth

The key risks to our forecasts and, in turn, our valuation lie in CV1's SaaS sales execution/customer uptake, namely:

- 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 have been signed leading to revenue and cash receipt delays. For instance, the agreement with Hireup 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 CV1's Cited SaaS platform are MyPass Global,[13] Rapid Global,[14] Pegasus[15] and Camms.[16]

- **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).

[13] 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.

[14] Rapid Global is a private Adelaide-based outsourced workforce compliance and management solutions provider.

[15] 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.

[16] 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.

Exhibit 17: Financial Summary

CV Check Ltd					
Profit and Loss (A$m)					
Y/E 30 June	**FY20a**	**FY21a**	**FY22a**	**FY23f**	**FY24f**
Sales Revenue	12.4	17.5	26.4	30.5	37.1
Gross Profit	6.7	10.3	16.8	20.1	25.4
GP margin %	54.6%	58.8%	63.6%	65.8%	68.4%
EBITDA	(0.4)	0.2	1.1	2.4	5.2
Depn	(0.3)	(0.3)	(0.4)	(0.4)	(0.3)
Amort	(0.8)	(1.0)	(2.0)	(2.5)	(2.8)
EBIT	(1.5)	(1.1)	(1.3)	(0.5)	2.1
Interest	(0.0)	0.0	0.0	0.3	0.3
Tax	0.2	0.0	(0.2)	(0.2)	(0.2)
NPAT pre significant items	(1.3)	(1.0)	(1.5)	(0.4)	2.2
Significant items	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	**(1.3)**	**(1.0)**	**(1.5)**	**(0.4)**	**2.2**
NPATA (ex Bright amort)	(1.3)	(0.7)	(0.3)	0.8	3.4
Cash flow (A$m)					
Y/E 30 June	**FY20a**	**FY21a**	**FY22a**	**FY23f**	**FY24f**
EBITDA	(0.4)	0.2	1.1	2.4	5.2
Interest	(0.0)	0.0	0.0	0.3	0.3
Tax pymts / R&D refunds	0.4	0.8	(0.1)	(0.2)	(0.2)
Work cap chgs/share pymts	(0.5)	(0.1)	2.1	0.1	(0.1)
Operating cash flow	(0.5)	1.0	3.1	2.6	5.2
Capex	(0.0)	(0.0)	(0.2)	(0.1)	(0.1)
Cap dev costs	(1.0)	(0.9)	(2.6)	(2.3)	(2.4)
Free cash flow	(1.5)	0.1	0.3	0.2	2.7
Acquisitions	0.0	(1.8)	(0.7)	0.0	0.0
Other	0.1	(0.1)	(0.0)	0.0	0.0
Cash flow pre financing	(1.3)	(1.8)	(0.4)	0.2	2.7
Equity	2.9	9.9	0.0	(0.1)	0.0
Debt	0.0	0.0	(0.3)	(0.3)	(0.3)
Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	1.5	8.2	(0.7)	(0.1)	2.4
Balance sheet (A$m)					
Y/E 30 June	**FY20a**	**FY21a**	**FY22a**	**FY23f**	**FY24f**
Cash	4.6	12.9	12.2	12.1	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	1.2	1.0
Total long term liabilities	*0.1*	*0.0*	*1.5*	*1.2*	*1.0*
Total Liabilities	2.8	6.3	8.3	8.6	8.6
Net Assets	**6.4**	**26.2**	**25.4**	**24.9**	**27.1**
Share capital	27.3	47.2	47.9	47.9	47.9
Retained earnings	(21.1)	(22.1)	(23.3)	(23.8)	(21.6)
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**	**24.9**	**27.1**

Share price (9 Sept 2022)					A$	0.11
Interim (A$m)	**H1 21a**	**H2 21a**	**H1 22a**	**H2 22a**	**H1 23f**	**H2 23f**
Revenue	7.0	10.5	12.8	13.6	14.0	16.5
EBITDA	0.6	(0.3)	0.7	0.4	0.7	1.6
EBIT	0.0	(1.1)	(0.6)	(0.7)	(0.7)	0.1
NPAT (normalised)	0.0	(1.0)	(0.6)	(0.9)	(0.6)	0.2
Minorities	-	-	-	-	-	-
NPAT (reported)	0.0	(1.0)	(0.6)	(0.9)	(0.6)	0.2
EPS (normalised)	0.00	(0.24)	(0.14)	(0.20)	(0.14)	0.04
EPS (reported)	0.00	(0.24)	(0.14)	(0.20)	(0.14)	0.04
Dividend (cps)	-	-	-	-	-	-
Imputation	-	-	-	-	-	-
Operating cash flow	0.9	0.2	1.2	1.8	0.9	1.7
Free Cash flow	0.4	(0.3)	0.1	0.2	(0.1)	0.3
Divisions	**H1 21a**	**H2 21a**	**H1 22a**	**H2 22a**	**H1 23f**	**H2 23f**
SaV - CVCheck Platform	7.0	9.1	9.9	10.5	10.7	11.0
SaaS revenue - Bright	na	0.6	1.2	1.2	1.7	3.9
Bright - Transactional	na	0.8	1.7	1.9	1.6	1.6
Sales revenue	**7.0**	**10.5**	**12.8**	**13.6**	**14.0**	**16.5**
COGS	(3.1)	(4.1)	(4.7)	(5.0)	(5.0)	(5.4)
Gross Profit	3.9	6.4	8.2	8.6	8.9	11.1
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)
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)
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
EBITDA	**0.6**	**(0.3)**	**0.7**	**0.4**	**0.7**	**1.6**
Margins, Leverage, Returns		**FY20a**	**FY21a**	**FY22a**	**FY23f**	**FY24f**
EBITDA margin		(3.0%)	1.4%	4.0%	7.8%	14.0%
EBIT margin		(11.8%)	(6.1%)	(5.1%)	(1.7%)	5.6%
NPAT margin pre sig items		(10.1%)	(5.8%)	(5.7%)	(1.4%)	5.9%
Net Debt/(Cash)		(4.6)	(12.9)	(12.2)	(12.1)	(14.5)
Net debt/EBITDA (x)		nm	nm	nm	nm	nm
ND/ND+Equity (%)		nm	nm	nm	nm	nm
EBIT interest cover (x)		nm	nm	nm	nm	nm
ROA		(17.0%)	(5.1%)	(4.0%)	(1.6%)	6.0%
ROE		(22.3%)	(6.2%)	(5.8%)	(1.7%)	8.4%
ROIC		(19.6%)	(4.7%)	(4.6%)	(2.2%)	7.8%
NTA (per share)		0.01	0.02	0.02	0.02	0.03
Working capital		(0.3)	1.7	0.7	0.6	0.7
WC/Sales (%)		(2.2%)	9.8%	2.6%	1.8%	1.8%
Revenue growth (%)		(1.2%)	41.3%	50.9%	15.6%	21.8%
EBIT growth (%)		nm	nm	nm	nm	nm
Pricing		**FY20a**	**FY21a**	**FY22a**	**FY23f**	**FY24f**
No of shares (y/e)	(m)	292	429	434	433	433
Weighted Av Dil Shares	(m)	289	333	434	433	433
EPS Normalised/Diluted	cps	(0.4)	(0.3)	(0.3)	(0.1)	0.5
EPS growth (norm/dil)		nm	nm	nm	nm	nm
PE (x)		nm	nm	nm	nm	22.1
DPS	cps	-	-	-	-	-
DPS Growth		na	na	na	na	na
Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Dividend imputation		na	na	na	na	na
EV/Revenue (x)		2.2	2.0	1.3	1.2	0.9
EV/EBITDA (x)		nm	141.5	33.4	15.1	6.4
FCF/Share	cps	(0.51)	0.03	0.06	0.05	0.62
Price/FCF share (x)		nm	390	184	221	17.6
Free Cash flow Yield		(4.6%)	0.3%	0.5%	0.5%	5.7%

Source: Company data, RaaS Advisory estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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