

Kinatico Ltd

Making inroads into government with SaaS deals

Kinatico Ltd (ASX:KYP) is a 'Know Your People' regtech company providing workforce compliance monitoring and management technology and services. KYP has reported a 5% year-on-year increase in Q1 FY24 revenue to \$7.25m, and a 176% year-on-year increase in SaaS revenue to \$2.02m. SaaS revenue accounted for 28% of total revenue for the quarter, compared to 11% in Q1 FY23. The company also noted that it saw a 10% increase in SaaS customers in Q1 over Q4 FY23. Kinatico highlighted in its annual general meeting presentation that it had secured three new contract wins which collectively had a total minimum contract value of \$1.94m. Being new, rather than existing transactional, clients, we expect to see a greater impact from these contract wins in Q2 FY24. The Q1 performance appears to be tracking in line with our H1 FY24 forecasts which include SaaS revenue of \$4.5m and transactional revenue of \$10.0m. Our base case DCF valuation remains unchanged at \$0.25/share, implying an EV/Revenue multiple of 3.6x FY24f.

Business model

Over the past 21 months, Kinatico has focussed its business on the generation of SaaS revenue from the provision of simplified real-time workforce compliance monitoring and management. SaaS revenue accounted for 18% of FY23 revenue including 24% of H2 revenue and 28% of Q4 revenue. It again accounted for 28% of revenue in Q1 FY24. Kinatico has adopted a two-pronged strategy of converting its existing screening and verification (SaV) clients (mostly company and 80% of these customers are recurring) to SaaS customers. This will shift its customer base from traditional one-time transactions revenue to ongoing set monthly SaaS fees for KYP's end-to-end compliance management solution. Kinatico is focussed on transitioning most of its revenue to SaaS.

SaaS focus plan is working

Kinatico provided an update on Q1 FY24 revenue and new contract wins at its annual general meeting on October 26. The company noted that it was moving beyond healthcare, energy and industrials with three significant contract wins that combined deliver total minimum contract value of \$1.94m, and on an annualised basis, will bring in \$0.78m over the next two years. Specifically, these contracts are with Chisholm Institute (TAFE) for three years at a minimum spend of \$0.6m across the life of the contract, Victoria Families Fairness and Housing for three years with a minimum spend of \$0.54m, and Victoria Builders Association for two years with a minimum spend of \$0.8m. Significantly, these were all new contracts which have shown minimally in Q1 and will flow into Q2 revenue. We see these contracts as underpinning the growth in SaaS revenue that we have included in our forecasts for FY24 and FY25, in which we expect to see SaaS revenue of \$10.1m and \$16.9m respectively in those two financial years.

DCF valuation of \$0.25/share, fully diluted

Our DCF valuation remains unchanged at \$0.25/share, fully diluted for options on issue. Our DCF methodology incorporates a WACC of 14.4%, a risk-free rate of 4.0%, and a terminal growth rate of 2.2%. This implies EV/Revenue multiples of 3.6x for FY24f and 3.2x for FY25f, compared with the current multiples of 1.0x FY24f and 0.9x FY25f. On a relative basis, KYP is trading at a 60% discount to seven ASX-listed peers. Its nearest ASX peer, Xref (ASX:XF1) is trading at a 34% premium to Kinatico, even though XF1 is still lossmaking. In the past six months, KYP has reduced the discount to its peers and we expect this to continue as the company demonstrates continued growth in SaaS clients, secures material new contracts, and delivers sustained positive free cash flow and operating profit.

Historical earnings and RaaS' estimates (in A\$m unless otherwise stated)									
Year end	Revenue	Gross profit	EBITDA adj.	NPAT adj.	NPAT rep.	EPS adj.	EV/Revenue (x)	EV/EBITDA (x)	PER (x)
06/22a	26.4	16.8	1.8	(0.7)	(1.5)	(0.17)	1.1	16.0	n.a
06/23a	27.7	18.2	3.1	0.8	0.2	0.17	1.1	9.7	52.6
06/24f	29.3	19.4	3.7	1.0	1.0	0.25	1.0	8.1	37.5
06/25f	33.2	22.3	5.6	2.2	2.2	0.53	0.9	5.2	17.3

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

H1 FY24 Result Analysis

Software & Services

30 October 2023

Share Details

ASX code	KYP
Share price (27 Oct)	\$0.092
Market capitalisation	\$38.5M
Shares on issue	418.59M
Net cash at 30-Jun-23	\$9.6M
Free float*	~50%

*Source: Refinitiv

Share Performance (12-months)



Company Interview

RaaS Interview with CEO Michael Ivanchenko:
[Kinatico RaaS Interview 5 September 2023](#)

Upside Case

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

Downside Case

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

Catalysts

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

Company Contact

Michael Ivanchenko (CEO) +61 408 712 795
michaelivanchenko@kinatico.com

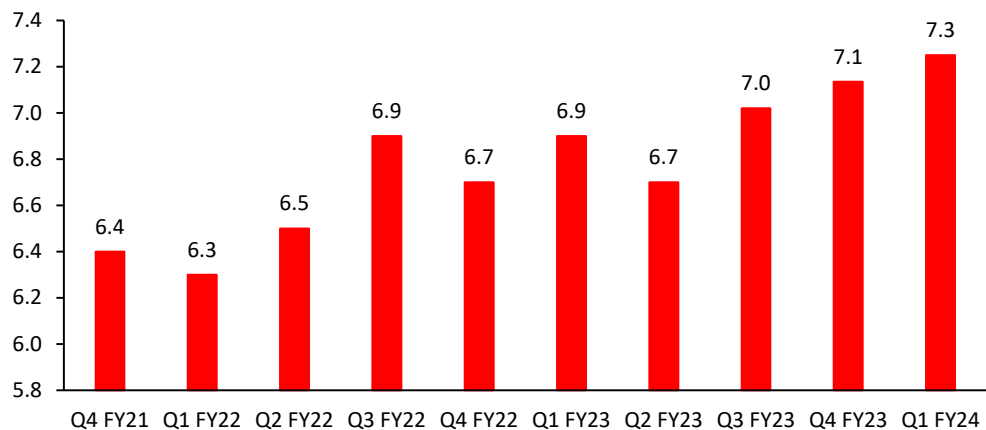
RaaS Contact

Finola Burke +61 414 354 712
finola.burke@raasgroup.com

Q1 FY24 Revenue Discussion

Kinatico provided an update on Q1 FY24 revenue at its October 26 annual general meeting, noting that total revenue increased 5% in the quarter to \$7.25m, up from \$6.92m a year ago. SaaS revenue comprised 28% or \$2.02m of the total, an increase of 176% on the same quarter a year ago and up 1% on the June quarter. The company noted that it saw a 10% increase in SaaS customers in Q1 over Q4 FY23. Several new customers, including the new contract wins announced with Chisholm, Victoria Families Fairness and Housing, and the Victorian Builders Association contributed minimally to revenue in Q1 and are expected to more fully impact Q2. We are forecasting H1 FY24 SaaS revenue of \$4.5m and the Q1 result appears consistent with our forecast.

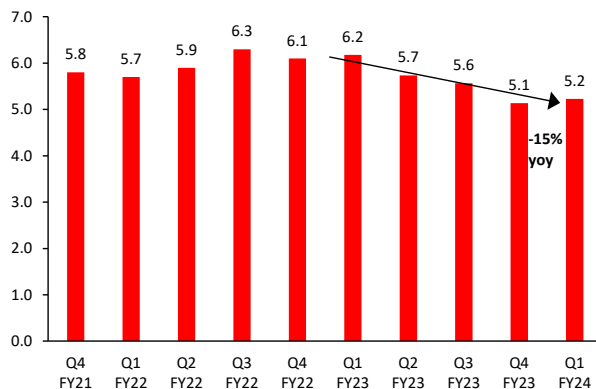
Exhibit 1: Revenue by quarter (in A\$m unless otherwise stated)



Source: Company data, RaaS analysis

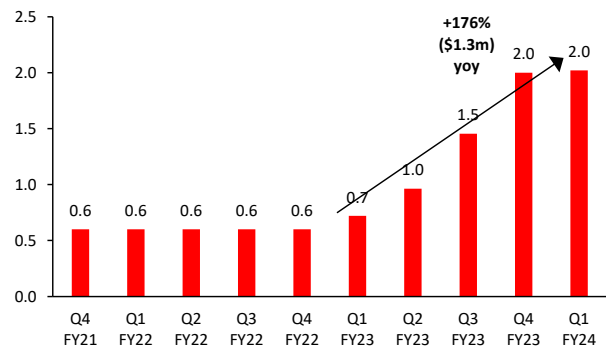
SaV revenue for the quarter was \$5.2m, down 15% year on year, but up slightly on Q4 FY23, which is consistent with the trend that we saw in Q1 FY23. We expect this source of revenue to continue to decline over time as a result of the ongoing transition of these customers to SaaS contracts, with our forecast for H1 FY24 at \$10.0m, compared with \$11.9m in H1 FY23 and \$10.7m in H2 FY23.

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



Source: Company data, RaaS analysis

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



Source: Company data, RaaS analysis

DCF Valuation

Our valuation utilises a discounted cash-flow methodology which we consider to be the most appropriate methodology for valuing KYP at this point in its lifecycle as it pursues its SaaS sales growth strategy. Our discount rate of 14.5% includes a beta of 1.6, which is the five-year rate observed by Refinitiv. We have assumed all options on issue (4.5m) convert. This gives us a DCF valuation of \$0.25/share, which implies an EV/Revenue of 3.6x FY24f and 3.2x FY25f.

Exhibit 4: DCF valuation

Parameters	Outcome
Discount rate / WACC	14.5%
Beta*	1.6
Terminal growth rate assumption	2.2%
Sum of PV (A\$M)	48.4
PV of terminal value (A\$M)	48.2
PV of enterprise (A\$M)	96.7
Net debt / (cash) – 30 June 2023 (A\$M)	(9.6)
Net valuation – equity (A\$M)	106.3
No. of shares on issue (fully-diluted for options on issue) (M)	421
NPV per share (A\$)	\$0.25

Sources: RaaS estimates, *Refinitiv's observed beta of 1.6 based on its five-year monthly beta methodology

Peer EV/Revenue Trading Multiples

We have looked at comparable ASX-listed companies, of which there are seven, to consider peer EV/Revenue trading multiples. The company most comparable to Kinatico is XREF (ASX:XF1) which also operates in the reference checking arena. Other comparable regulatory or workforce compliance SaaS operators include Damstra Holdings (ASX:DTC), Knosys (ASX:KNO), K2fly (ASX:K2F) and Wrkr (ASX:WRK), also a RaaS research client. We have included talent engagement group LiveHire and accounting compliance company 8Common for completeness. As set out in the table below, KYP is currently trading at a discount of 60% relative to its ASX-listed peers based on FY23a EV/Revenue. The discount to XF1, its closest ASX peer, is now at around 34% based on FY23a.

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

Company	ASX code	Enterprise value (A\$M)	EV/Revenue (FY23a) X
8Common Ltd	8CO	13.7	1.8
Damstra Holdings Ltd	DTC	74.2	2.5
K2fly Ltd	K2F	7.0	0.5
Knosys Ltd	KNO	5.9	0.6
LiveHire Ltd	LVH	14.3	1.8
Wrkr Ltd	WRK	29.5	4.4
Xref Ltd	XF1	30.1	1.4
Median		14.3	1.8

Kinatico	KYP	30.1	1.1
----------	-----	------	-----

Sources: RaaS analysis, Refinitiv; Based on closing prices/market capitalisation on 27 October 2023 and FY23a revenue

Exhibit 6: Financial Summary

Kinatico						Share price (27 October 2023)					A\$	0.09
Profit and Loss (A\$m)						Interim (A\$m)						
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	H122A	H222A	H123A	H223A	H124F	H224F	
Revenue	16.9	23.9	22.6	19.2	16.3	12.8	13.6	13.6	14.1	14.5	14.7	
Transactional revenue	16.9	23.9	22.6	19.2	16.3	1.1	0.8	0.6	2.5	1.9	1.8	
SaaS revenue	0.6	2.4	5.1	10.1	16.9	(0.2)	(0.3)	(0.8)	1.3	0.8	0.6	
Sales Revenue	17.5	26.4	27.7	29.3	33.2	(0.2)	(0.5)	(0.8)	1.5	0.6	0.4	
Gross Profit	10.3	16.8	18.2	19.4	22.3	-	-	-	-	-	-	
EBITDA underlying	1.5	1.8	3.1	3.7	5.6	(0.6)	(0.9)	(1.0)	1.2	0.6	0.4	
Depn	(0.3)	(0.4)	(0.5)	(0.3)	(0.3)	(0.06)	(0.11)	(0.18)	0.36	0.14	0.11	
Amort	(1.0)	(2.0)	(2.1)	(2.1)	(2.2)	(0.14)	(0.20)	(0.23)	0.28	0.14	0.11	
EBIT underlying	0.2	(0.6)	0.5	1.4	3.1	-	-	-	-	-	-	
Interest	0.0	0.0	0.1	0.1	0.1	-	-	-	-	-	-	
Tax	0.0	(0.2)	0.1	(0.4)	(1.0)	1.2	1.8	0.9	2.7	1.3	1.7	
Minorities	0.0	0.0	0.0	0.0	0.0	2.4	3.5	3.1	4.5	2.9	3.2	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Divisions						
NPAT pre significant items	0.3	(0.7)	0.8	1.0	2.2	H122A	H222A	H123A	H223A	H124F	H224F	
Significant & non-cash items	(1.3)	(0.8)	(0.5)	0.0	0.0	11.6	12.3	11.9	10.7	10.0	9.2	
NPAT (reported)	(1.0)	(1.5)	0.2	1.0	2.2	SaaS Revenue	1.2	1.2	1.7	3.4	4.5	5.6
Cash flow (A\$m)						Sales revenue	12.8	13.6	13.6	14.1	14.5	14.7
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	COGS	(4.7)	(5.0)	(4.8)	(4.7)	(4.9)	(4.9)
EBITDA	1.5	1.8	3.1	3.7	5.6	Gross Profit	8.2	8.6	8.8	9.4	9.6	9.8
Interest	0.0	0.0	0.1	0.1	0.1	GP Margin (%)	63.7	63.5	64.5	66.9	66.0	66.5
Tax	0.8	(0.1)	(0.1)	(0.4)	(1.0)	Employment	(5.0)	(5.1)	(5.7)	(4.7)	(4.9)	(5.2)
Working capital changes	(1.4)	1.3	0.5	(0.4)	0.0	Technology, licence fees	(1.8)	(2.5)	(1.7)	(2.3)	(2.4)	(2.5)
Operating cash flow	1.0	3.1	3.6	3.0	4.7	Other costs	(0.3)	(0.3)	(0.7)	0.1	(0.3)	(0.3)
Mtce capex	(0.0)	(0.2)	(0.1)	(0.2)	(0.2)	EBITDA (normalised)	1.1	0.8	0.6	2.5	1.9	1.8
Free cash flow	1.0	2.8	3.6	2.8	4.5	Margins, Leverage, Returns						
Capitalised Dev. Costs	(0.9)	(2.6)	(3.9)	(3.0)	(3.0)	FY21A	FY22A	FY23A	FY24F	FY25F		
Acquisitions/Disposals	(1.8)	(0.7)	0.0	0.0	0.0	EBITDA	8.8%	7.0%	11.2%	12.7%	16.7%	
Other	0.3	(0.0)	0.0	0.0	0.0	EBIT	1.3%	(2.1%)	1.7%	4.7%	9.3%	
Cash flow pre financing	(1.4)	(0.4)	(0.3)	(0.2)	1.5	NPAT pre significant items	1.7%	(2.7%)	2.7%	3.5%	6.7%	
Equity	9.9	0.0	(1.3)	(0.3)	0.0	Net Debt (Cash)	12.9	10.4	8.5	8.1	9.6	
Debt	0.0	(0.3)	(0.3)	0.0	0.0	Net debt/EBITDA (x)	(x)	8.4	5.6	2.7	2.2	1.7
Dividends paid	0.0	0.0	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	(97.0%)	(69.2%)	(52.1%)	(45.9%)	(52.3%)
Net cash flow for year	8.6	(0.7)	(1.8)	(0.4)	1.5	EBIT interest cover (x)	(x)	(0.1)	n/a	0.3	(0.1)	(0.0)
Balance sheet (A\$m)						ROA	1.1%	(1.7%)	1.4%	4.3%	9.2%	
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	ROE	(6.2%)	(5.8%)	0.9%	4.1%	8.3%	
Cash	12.9	11.9	9.6	9.2	10.7	ROIC	1.9%	(10.3%)	18.1%	38.4%	63.3%	
Accounts receivable	3.0	3.0	2.4	2.0	2.2	Working capital	(0.8)	(0.9)	(1.1)	(0.7)	(0.7)	
Inventory	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)	(4.6%)	(3.4%)	(4.0%)	(2.5%)	(2.2%)	
Other current assets	0.4	0.0	0.3	0.3	0.3	Revenue growth	41.3%	50.9%	5.0%	5.6%	13.4%	
Total current assets	16.3	14.9	12.4	11.5	13.3	EBIT growth pa	n/a	n/a	-187%	nm	123%	
PPE	0.3	2.0	1.6	1.5	1.4	Pricing						
Intangibles and Goodwill	15.9	16.4	18.2	19.1	19.9	No of shares (y/e)	(m)	429	434	420	417	417
Investments	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	429	434	430	417	417
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(0.30)	(0.35)	0.05	0.25	0.53
Other non current assets	0.0	0.3	0.3	0.3	0.3	EPS Normalised/Diluted	cps	0.09	(0.17)	0.17	0.25	0.53
Total non current assets	16.2	18.8	20.1	20.9	21.6	EPS growth (norm/dil)		n/a	n/a	(205.6%)	nm	117%
Total Assets	32.5	33.7	32.4	32.4	34.9	DPS	cps	-	-	-	-	-
Accounts payable	3.8	3.9	3.5	2.7	3.0	DPS Growth		n/a	n/a	n/a	n/a	n/a
Short term debt	0.0	0.0	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Tax payable	0.1	0.2	0.1	0.1	0.1	Dividend imputation		0	0	0	0	0
Other current liabilities	2.4	2.7	2.9	2.9	2.9	PE (x)		-	-	167.3	37.5	17.3
Total current liabilities	6.3	6.8	6.5	5.7	5.9	PE market		18.0	18.0	18.0	18.0	18.0
Long term debt	0.0	1.5	1.1	1.1	1.1	Premium/(discount)		(100.0%)	(100.0%)	829.5%	108.1%	(4.0%)
Other non current liabs	0.0	0.0	0.0	0.0	0.0	EV/EBITDA		17.3	16.0	9.7	8.1	0.0
Total long term liabilities	0.0	1.5	1.1	1.1	1.1	FCF/Share	cps	0.0	0.1	(0.1)	0.0	0.4
Total Liabilities	6.3	8.3	7.6	6.8	7.0	Price/FCF share		326.1	154.1	(125.4)	194.2	25.6
Net Assets	26.2	25.4	24.9	25.6	27.9	Free Cash flow Yield		0.3%	0.6%	(0.8%)	(0.5%)	3.9%
Share capital	47.2	47.9	46.7	46.4	46.4							
Accumulated profits/losses	(22.1)	(23.3)	(23.1)	(22.1)	(19.8)							
Reserves	1.1	0.8	1.3	1.3	1.3							
Minorities	0.0	0.0	0.0	0.0	0.0							
Total Shareholder funds	26.2	25.4	24.9	25.6	27.9							

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: 6th 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

Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

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; Email: 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.

DISCLAIMERS and DISCLOSURES

This report has been commissioned by Kinatico Ltd and prepared and issued by RaaS Advisory Pty Ltd. RaaS Advisory has been paid a fee to prepare this report. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise.

The science of climate change is common knowledge and its impacts may damage the global economy. Mitigating climate change may also disrupt the global economy. Investors need to make their own assessments and we disclaim any liability for the impact of either climate change or mitigating strategies on any investment we recommend.

Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable.

Copyright 2023 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.