Research as a Service

CV Check Ltd

Q4 FY22 Reports Analysis

Another solid cashflow positive quarter, and buy-back

Software & Services

29 July 2022

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 Q4 FY22 reports revealing: (1) For FY22: $29.1m cash receipts (up 71% on pcp and including ~$1.1m aged receivables collections), 64% P&L gross margin (up five percentage points on pcp), $3.1m operating cashflow, $260k free cashflow (post $2.8m capitalised product development spend and capex), $12.2m cash (and net cash); and (2) For Q4: $7.4m cash receipts (up 17% on pcp and surpassing the 6% yoy revenue growth), $1.0m operating cashflow and $53k free cashflow. CV1's cashflow performance also compares favourably to its ASX-listed peers. As expected, CV1 reiterated its FY23 focus on significantly growing SaaS revenue from its workforce compliance offering ('Cited') following the launch of real-time monitoring functionality and the OnCite app. Separately, CV1 announced an on-market share buy-back with a maximum $2m outlay (3.4% of issued shares at latest $0.135 close). This leverages its strong cash position, signals confidence in its business model, and should serve to underpin the share price. Meanwhile, recent M&A activity in CV1's ASX-listed peer group reinforces our view that it is well placed for potential deals. See CV Check RaaS Update 20 July 2022.

Business model

CV1 has two core offerings: (1) Screening and verification (SaV) services via its CVCheck platform (91% FY22 revenues); and (2) A Software-as-a-Service (SaaS) real-time workforce compliance monitoring and management platform (9% FY22 revenues). SaV services generate transactional revenues 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 SaaS pricing to a simple monthly all-in fee per worker of $15-$30 (inclusive of transactional services, minimum 12-month subscription).

Q4 FY22: Solid cashflows conclude strategic transition year

As expected (given the 11 July disclosure), CV1 has released a solid Q4 FY22 cashflow report disclosing the following **new information**: (1) FY22 cash receipts of $29.1m (up 71% on pcp) vs. revenues of $26.4m [up 51% on pcp with est. growth split of 28% organic/23% Bright People Technologies ('Bright') acquisition]; (2) $260k FY22 free cashflow; (3) Q4 cash receipts of $7.4m (up 17% on pcp) vs. $6.7m Q4 revenues (up 6% on pcp – all organic growth); (4) Q4 free cashflow of 53k; and (5) 64% FY22 gross margins (up 5 percentage points on pcp). CV1's FY23 focus lies in significantly growing SaaS revenues, while concurrently extracting process and automation-related efficiencies. In light of the cashflow performance, strong $12.2m cash balance and its view of the business model and share price, CV1 has decided it may deploy **up to $2m to buy-back shares over 12 months** (3.4% of issued shares at $0.135). This would be a sound use for a modest portion of cash while retaining flexibility to pursue M&A.

DCF valuation of $0.26/share or $112m market cap

Our CV1 DCF valuation is $0.26 per share (11.6% WACC). This implies EV/Revenue multiples of 3.8x for FY22 and 3.3x for FY23. As a cross-check, CV1 is currently trading at a 52% discount to its ASX-listed peers on FY22f EV/Revenue (1.8x vs. 3.6x) and a 31% discount to the US-listed SaV pure-plays (2.6x CY22f EV/Revenue). Further, applying revenue multiples implied by Deel Inc's Paygroup (ASX:PYG) acquisition (2.9x ARR/4.3x FY22a revenues) and Accel-KKR's indicative offer for ELMO Software (ASX:ELO) (5.6x FY22a/4.4x FY23 est. revenues) to CV1 gives equity values of $0.20-$0.37 per share. 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 margin enhancements and operating leverage.

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

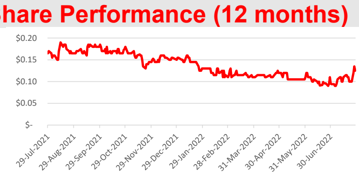
Year end	Revenue	EBITDA reported	NPATA**	NPAT reported	EPS (c)	P/E (x)	EV/Sales (x)
06/21a	17.5	0.2	(0.7)	(1.0)	(0.3)	nm	2.6
06/22f	26.2*	1.0	(0.3)	(1.5)	(0.3)	nm	1.8
06/23f	30.5	2.4	0.8	(0.4)	(0.1)	nm	1.5
06/24f	37.1	5.2	3.4	2.2	0.5	23.4	1.2

Sources: Company data; RaaS estimates for FY22f, FY23f and FY24f; *Unaudited FY22 revenue is $26.4m; **Excludes Bright acquisition amortisation

Share Details

ASX code	CV1
Share price (28-Jul-22)	$0.135
Market capitalisation	$58.6M
Shares on issue	434.2M
Net cash at 30-Jun-22	$12.2M
Free float	~64% / ~79% (excluding founders)

Share Performance (12 months)



Upside Case

- Uptake of industry agnostic, high-margin RegTech SaaS offering exceeds expectations
- International opportunities for SaaS offering
- Well positioned for potential M&A

Downside Case

- Lower-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
- M&A interest/activity (acquiror or target): cf. recent acq'n activity and interest at peers (ASX:PYG, KYK, DTC, ELO)
- Evidence of further margin improvements and operating leverage

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Q4 FY22 Reports – Key Figures And Analysis

Following its recent disclosure of several FY22 unaudited financial metrics in the 'Flash Result' announcement on 11 July 2022 (see CV Check RaaS Update 20 July 2022), CV1 has released its Q4 FY22 cashflow and activities reports. It has also separately announced an on-market share buy-back capped at $2 million over 12 months (see **Share Buy-back: Leverages Cash Position But Retains Flexibility** below).

Overall, we consider the reports to be solid with year-on-year growth reported in all key Q4 metrics (revenues, cash receipts, operating cashflow and free cashflow). Q4 also concluded a year of strategic transformation 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 the 'OnCite'-branded 'Digital Credential Passport' mobile app launch), and key executives joined (Michael Ivanchenko as CEO in August 2021 and Geoff Hoffmann as Global Sales Director in April 2022).

Moreover, CV1's Q4 and FY22 cashflow performance compares favourably to its ASX-listed quarterly reporter peers that have lodged results to date (see **Q4 FY22 Cashflow Reports From ASX-Listed Peer Group** below).

Key FY22 Cashflow Figures

- **Customer cash receipts (includes GST)**: $29.1m (up 71% on the pcp and surpassing the 51% FY22 revenue growth rate).

  The strong increase in cash receipts reflected:

  - Organic and acquisition-related revenues growth (noting there was a nine-month incremental contribution from the Bright acquisition in FY22); and
  - Aged receivables collections of ~$1.1m. We note that trade receivables at 30 June 2021 amounted to $2.8m, of which $1.1m was aged >31 days.

  For H2 FY22, cash receipts amounted to $14.7m, up 48% on the pcp (including a three-month incremental contribution from the Bright acquisition).

- **Operating cashflow:** $3.1m [up from $1.0m in FY21 (per audited accounts)].

  This is $0.5m higher than our $2.6m forecast due to the capitalisation of a higher proportion of product development costs ($2.6m unaudited vs. $2.3m RaaS forecast) and slightly higher than forecast revenues ($26.4m vs $26.2m RaaS forecast).

  The operating cashflow result included two non-recurring items, namely $350k of accrued salaries payments assumed as part of the Bright acquisition and $54k of R&D tax rebates (as CV1 is no longer eligible to claim rebates given its revenues now exceed $20m).

- **Capitalised product development payments (intangible assets):** $2.6m (up from $878k in FY21). This included spend for the OnCite mobile app ('Digital Credential Passport') development and platform functionality enhancements (including Cited's real-time compliance monitoring functionality).

- **Free cashflow**: $260k for FY22 [vs. $121k in FY21 (per audited accounts)]. The vast majority of CV1's operating cashflow was utilised to fund capitalised product development payments (as expected).

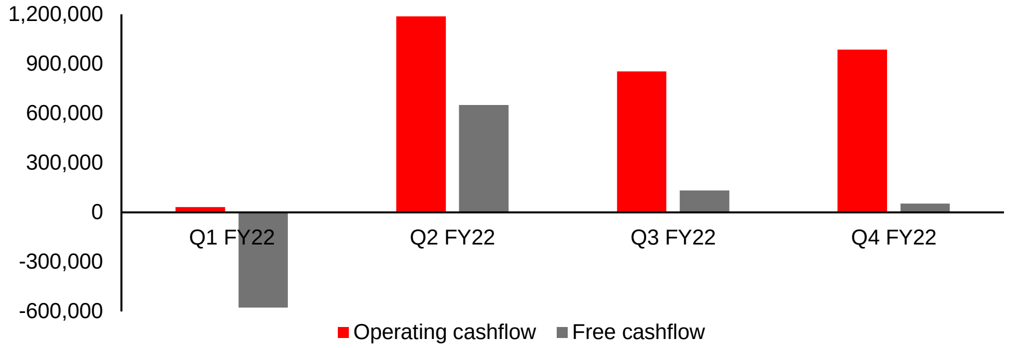
- **Total net cash outflows**: $708k. This reflected the combination of: (1) $260k free cashflow; (2) $662k of deferred consideration payments to the Bright vendors; and (3) $306k of other net investing and financing outflows.

- **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 of utilise its listed scrip).

Key Q4 FY22 Cashflow Figures

- **Q4 FY22 customer cash receipts**: $7.4m (up 17% on the pcp and up 1% on $7.3m in Q3 – but lower than the Q2 record high of $8.3m). The year-on-year growth also exceeded the 6% Q4 revenue growth rate.
- **Operating cashflow:** $986k [up from $179k in in pcp (audited) and $855k in Q3 – but lower than the Q2 record of $1.2m]. This marked CV1's eighth consecutive operating cashflow positive quarter.
- **Free cashflow**: $53k (vs. $55k outflow in the pcp – but below free cashflow of $651k in Q2 and $132k in Q3 attributable to higher capitalised development payments) .
- **Total net cash outflow**: $141k (after the unmarketable parcels buy-back and other net investing and financing outflows).

Exhibit 1: FY22 quarterly operating and free cashflows (unaudited in A$)



Source: CV1 announcements

Exhibit 2: FY22 quarterly cashflow statements (unaudited in A$'000)

	Q1 FY22a	Q2 FY22a	Q3 FY22a	Q4 FY22a	FY22a
Operating activities					
Receipts from customers	6,106	8,259	7,321	7,385	29,071
Product mfg and operating costs	(2,831)	(3,158)**	(3,226)	(2,482)	(11,697)
Advertising and marketing	(314)	(476)	(621)	(678)	(2,089)
Staff costs	(1,913)	(2,624)**	(2,200)	(2,708)	(9,445)
Administration and corporate costs	(568)	(770)	(466)	(511)	(2,315)
Gross operating cashflow	**480**	**1,231**	**808**	**1,006**	**3,525**
Net interest	7	(1)	34	(20)	20
Tax payments (New Zealand)	(104)	(43)	(41)	-	(188)
R&D tax rebate	-	-	54	-	54
Other	(350)#	-	-	-	(350)#
Net operating cashflow	**33**	**1,187**	**855**	**986**	**3,061**
Investing activities					
Capital expenditure	(34)	(27)	(99)	(58)	(218)
Capitalised tech development spend	(575)	(509)	(624)	(875)	(2,583)
Proceeds from rental bond	-	-	287	-	287
Acquisition - Bright	-	(546)	(116)	-	(662)
Net investing cashflow	**(609)**	**(1,082)**	**(552)**	**(933)**	**(3,176)**
Financing activities					
Issue of securities/buy-backs	-	51	-	(36)	15
Repayment of borrowings	-	(137)	-	-	(137)
Other financing cashflows*	(84)	(104)	(111)	(132)	(431)
Net financing cashflow	**(84)**	**(190)**	**(111)**	**(168)**	**(553)**
Exchange rate adjustment	13	(4)	(23)	(26)	(40)
Net change in cash	(647)	(89)	169	(141)	(708)
Net cash at end of period	**12,259**	**12,170**	**12,339**	**12,198**	**12,198**
Free cashflow	**(576)**	**651**	**132**	**53**	**260**

Sources: CV1 quarterly reports, RaaS; *Lease principal repayments and insurance premiums; ** Difference vs. Q2 Appendix 4C due to $507k subsequent reclassification between these line items (per YTD in Q3 and Q4 Appendix 4C); #Bright acquisition-related payment for accrued salaries assumed as part of the acquisition.

FY22 Unaudited P&L Metrics

In addition to the previously disclosed FY22 revenues of $26.4m, CV1 disclosed that its FY22 **gross margin was 64%** (five percentage points higher than the 59% FY21 gross margin and in line with our forecast). The improvement primarily reflected the uplift from Bright's high gross margins (~85%) which, in turn, is a function of its SaaS revenues and its transactional revenues skew to higher-margin other (non-criminal history/police) checks and transactions (with ~40%/60% SaaS/transactional revenues split). Other contributors were the CVCheck platform's increasing proportion of revenues from other (non-criminal history/police) checks and efficiency gains (including some increased process automation).

Turning to **revenues**, as we noted last week (see CV Check RaaS Update 20 July 2022):

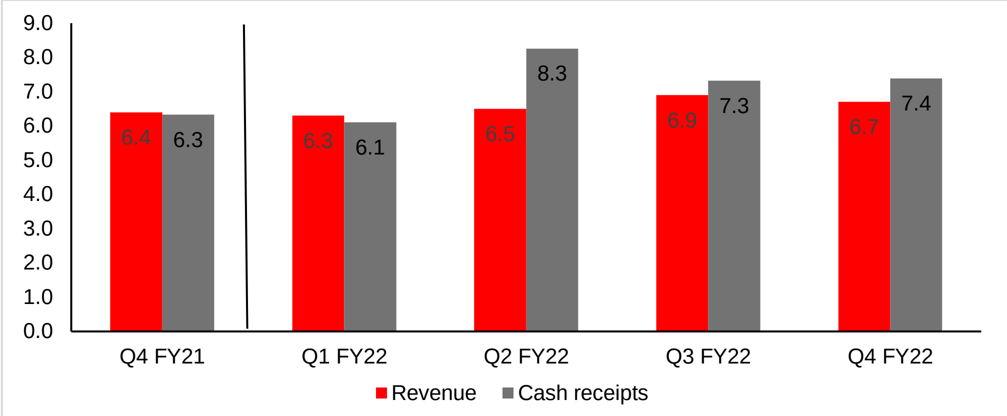
- **Organic vs acquisition growth:** We estimate that the FY22 year-on-year growth of 51% was relatively evenly split between organic growth at 28% and acquisition growth at 23% (reflecting a nine-month incremental contribution from the Bright acquisition). The organic growth was buoyed by the post-COVID resurgence in demand for pre-employment related SaV services.

  For **H2 FY22**, we estimate that the 29% year-on-year increase (to $13.6m) comprised organic growth of 17% and acquisition growth of 12% (reflecting a three-month incremental contribution from the Bright acquisition).

- **SaV vs SaaS revenues**: FY22 SaV revenues were $24.0m (91% of the total) while SaaS revenues accounted for the other $2.4m (9% of total).

- **Q4 FY22 revenues**: $6.7m (up 6% on the pcp). This more modest Q4 increase reflected **organic growth only** in both the SaV and Bright/Cited operations (given Bright made a full Q4 FY21 contribution). However, it was lower than Q3 FY22 revenues 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 federal election in May. We understand that order volumes returned during June (feeding into modest single digit year-on-year growth) and that this trend has continued in July.

Exhibit 3: Quarterly revenues and cash receipts (unaudited in A$m) – Q4 FY21 to Q4 FY22



Source: CV1 announcements

Q4 Activities Report

Other than the cashflow and financial metrics discussed above, CV1's activities report did not contain any 'new' information.

The report commentary served to reiterate that CV1's FY23 focus lies in:

- Significantly growing SaaS revenues from its Cited workforce compliance offering following the launch of real-time monitoring functionality and the OnCite 'Digital Credential Passport' mobile app for workers. In turn, this will facilitate CV1's transition from predominantly transaction-based SaV revenues (91% in FY22) towards high gross margin (~85%) SaaS subscription revenues with its attendant operating leverage.
- Concurrently extracting process and automation-related operational efficiencies. For instance, we anticipate significant information and data collection efficiencies can be realised over the medium-term as the OnCite app is adopted by workers (where their employers are CV1 customers).

Q4 FY22 Cashflow Reports From ASX-Listed Peer Group

The two tables below set out some key Q4 FY22 and FY22 metrics for nine ASX-listed peer companies that lodge quarterly cashflow and activities reports and have reported to date. This highlights that CV1's operating and free cashflow performance in both Q4 and FY22 and cash position compares favourably given:

- Only **three of the nine peers** were operating cashflow positive in Q4 and only two [Xref Ltd (ASX:XF1) and Knosys Ltd (ASX:KNO)] were free cashflow positive.
- Only **one of the nine peers** (namely XF1) was operating cashflow positive in FY22 (and free cashflow positive).
- CV1 had the strongest net cash position ($12.2m at 30 June 2022 - and $10.2m pro-forma if the maximum $2m buy-back cash allocation is deployed).

Exhibit 4: ASX-listed peers - Key Q4 FY22 cashflow metrics (unaudited in A$m)

Company name	ASX code	Revenues	Cash receipts	Operating cashflow	Capex + intangibles (capitalised software/IT)	Free cashflow	Net cash at 30 June 2022
CV Check Ltd	**CV1**	**6.7**	**7.4**	**1.0**	**(0.9)**	**0.1**	**12.2**
Xref Ltd	XF1	4.6	5.5	1.4	(0.5)	0.9	6.7
KYCKR Ltd	KYK	1.1	1.4	(0.9)	0.0	(0.9)	7.5
Damstra Holdings Limited	DTC	8.0	7.3	1.3	(2.5)	(1.2)	0.1
Identitii Ltd	ID8	not disclosed	0.2	(1.7)	0.0	(1.7)	5.1
wrkr Ltd	WRK	not disclosed	1.5	(0.1)	(0.0)	(0.1)	0.7
LiveTiles Ltd	LVT	not disclosed	12.9	(2.3)	(0.1)	(2.3)	7.1
Knosys Ltd	KNO	not disclosed	2.6	0.4	(0.0)	0.4	3.1
LiveHire Ltd	LVH	not disclosed	1.7	(2.1)	(0.0)	(2.2)	7.3
Schrole Group Ltd*	SCL	not disclosed	1.1	(0.3)	(0.5)	(0.8)	3.3

Source: Company ASX announcements; *Q2 FY22 (31 December year-end). SCL is also a RaaS client.

Exhibit 5: ASX-listed peers - Key FY22 cashflow metrics (unaudited in A$m)

Company name	ASX code	Revenues	Cash receipts	Operating cashflow	Capex + intangibles (capitalised software/IT)	Free cashflow	Net cash at 30 June 2022
CV Check Ltd	**CV1**	**26.4**	**29.1**	**3.1**	**(2.8)**	**0.3**	**12.2**
Xref Ltd	XF1	18.6	20.9	4.4	(1.4)	2.9	6.7
KYCKR Ltd	KYK	3.8	5.0	(5.1)	0.0	(5.1)	7.5
Damstra Holdings Limited	DTC	29.3	27.9	(3.6)	(7.9)	(11.4)	0.1
Identitii Ltd	ID8	not disclosed	1.5	(6.0)	(0.5)	(6.5)	5.1
wrkr Ltd	WRK	5.0	4.6	(1.6)	(0.4)	(2.0)	0.7
LiveTiles Ltd	LVT	52.8	56.7	(5.9)	(0.2)	(6.1)	7.1
Knosys Ltd	KNO	not disclosed	9.4	(0.2)	(0.1)	(0.2)	3.1
LiveHire Ltd	LVH	not disclosed	7.7	(7.9)	(0.1)	(7.9)	7.3
Schrole Group Ltd*	SCL	not disclosed	5.0	(1.2)	(1.2)	(2.4)	3.3

Source: Company ASX announcements; *Adjusted to 30 June year-end (vs actual 31 December year-end). SCL is also a RaaS client.

Share Buy-back: Leverages Cash Position But Retains Flexibility

CV1 has also announced an on-market share buy-back with a **maximum outlay of $2m** for up to 20m shares (which would equate to 4.6% of issued shares at $0.10 and 3.4% at the latest $0.135 closing price). The planned buy-back would leverage a modest portion of CV1's sizeable $12.2m cash balance while retaining the flexibility to pursue potential M&A opportunities. Moreover, it signals the board's confidence in the business model and its view of the recent share price trading range (*"CV1's current share price does not accurately reflect the underlying value of the Company's assets and the Share Buy-Back represents an opportunity to enhance the value of the remaining shares on issue …"*).

The following table sets out buy-back scenarios assuming the maximum $2m cash allocation (for up to 20m shares) is deployed. We also note that there is <u>no</u> minimum number of shares that will be purchased.

Exhibit 6: Share buy-back scenario analysis

Average buy-back share price	Maximum number of shares to be purchased (m)	% of issued shares (at 30 June 2022)	Number of shares on issue post buy-back (m)	Maximum cash buy-back outlay (A$m)	Estimated cash balance at 30 June 2023 (A$m)	RaaS DCF valuation (per share)
$0.09	20.0	4.6%	414.2	1.8	10.6	$0.27
$0.10	20.0	4.6%	414.2	2.0	10.4	$0.27
$0.11	18.2	4.2%	416.1	2.0	10.4	$0.26
$0.12	16.7	3.8%	417.6	2.0	10.4	$0.26
$0.13	15.4	3.5%	418.8	2.0	10.4	$0.26
$0.135 (latest close)	**14.8**	**3.4%**	**419.4**	**2.0**	**10.4**	**$0.26**
$0.14	14.3	3.3%	419.9	2.0	10.4	$0.26
$0.15	13.3	3.1%	420.9	2.0	10.4	$0.26

Sources: CV1 buy-back announcements, RaaS analysis.

We consider the buy-back to be a sound proposed use of a modest portion of CV1's cash balance (subject to market conditions) which should also serve to underpin the share price. We also note that our DCF valuation remains unchanged at $0.26 per share other than under the $0.09 and $0.10 average buy-back price scenarios where it increases slightly to $0.27 per share.

The buy-back is within the '10/12 limit' under the Corporations Act (i.e. no shareholder approval is required) and can commence on 22 August 2022 for a period of up to 12 months. The ASX Appendix 3C for the buy-back states: "*The Company will only buy back shares at such times and in such circumstances as are considered beneficial to the Company. The Company reserves the right to suspend or terminate the buy-back at any time*."

CV1 Valuation Scenarios – Peer Trading And Recent M&A Metrics

Peer EV/Revenue Trading Multiples

CV1 is currently trading at a **discount of 52%** to the average of its ASX-listed peers[1] based on EV/Revenue for FY22f (1.8x vs. 3.6x) The discount relative to its two closest peers, Xref Ltd (ASX:XF1) and IntelliHR Ltd (ASX:IHR), is 54% and 51% respectively.

On FY23f EV/Revenue, CV1 is trading at a **33% discount** to its ASX-listed peers (1.5x vs. 2.3x based on the six companies with available FY23f forecast data).

Relative to the US-listed SaV pure-plays,[2] CV1 is trading at a 31% discount to their average 2.6x CY22f EV/Revenue.

Applying the EV/Revenue multiples for CV1's 15 ASX peers, XF1, the three US-listed pure-plays and the non-pureplay global peers[3] to CV1 gives a range of enterprise values from $68m-$101m and an equity value of **$0.18-$0.26 per share** on FY22 forecasts. We note that our DCF valuation of $0.26 per share is at the top of this valuation range. On FY23 forecasts (excluding XF1 comparable), enterprise values range from $70m-$110m for equity values of $0.19-$0.28 per share.

[1] 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 Hldgs 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.

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

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

Exhibit 7: CV1 valuation scenarios - peer trading multiples	FY22f	FY23f
CV1 revenues (A$m)	26.4 (actual unaudited)	30.5
EV/revenue multiple		
ASX peers - average	3.6x	2.3x
Xref Ltd (ASX:XF1)	3.8x (actual unaudited)	na (no forecast data)
US listed pureplay SaV - average	2.6x	2.4x
Global peers (inc. pureplays) - average	3.4x	3.6x
Enterprise value (EV) - CV1 (A$m)		
Using ASX peers - average	93.8	69.8
Using XF1	101.0	na
Using US listed pureplay SaV - average	67.6	72.2
Using global peers (inc. pureplays) - average	90.9	110.4
Equity value/share - CV1		
Using ASX peers - average	$0.24	$0.19
Using XF1	$0.26	na
Using US listed pureplay SaV - average	$0.18	$0.19
Using global peers (inc. pureplays) - average	$0.24	$0.28

Sources: RaaS estimates, Refinitiv Eikon; Based on closing prices on 28 July 2022 for ASX-listed peers and 26 July 2022 for international peers; See Footnotes 1-3 for peer group constituents.

Recent ASX-listed Peer M&A Implied EV/Revenue Multiples

Applying the EV/Revenue multiples implied by Deel Inc's proposed acquisition of **Paygroup Ltd** (ASX:PYG) and Accel-KKR's recent indicative offer for **ELMO Software Ltd** (ASX:ELO) to CV1 gives a range of enterprise values from $77m-$148m and an equity value of **$0.20-$0.37 per share**. We note that our DCF valuation of $0.26 per share lies in the lower half of this range.

KYCKR Ltd (ASX:KYK), which is the subject of a proposed acquisition by Richard White, is also included in the table below. However, the FY22 valuation metrics appear to be an outlier (which may reflect the particular characteristics of this privatisation transaction). The KYK independent expert's report will likely contain additional valuation information based on FY23 budgets.

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

Exhibit 8: CV1 valuation scenarios based on recent ASX-listed peer M&A	PYG proposed acq'n	ELO indicative offer	KYK proposed acq'n
CV1 unaudited FY22 revenues (A$m)	26.4	26.4	26.4
CV1 FY23f revenues (A$m) – RaaS forecast	30.5	30.5	30.5
Implied EV/Revenue multiple			
- FY22 revenues (and basis)	4.3x (actual y/e 31 Mar 2022)	5.6x (consensus forecast)	9.4x (actual unaudited)
- FY23f revenues	na	4.4x	na
- Annualised Recurring Revenues (ARR)	2.9x	na	8.7x
Enterprise value (EV) - CV1 (A$m)			
- Using FY22 EV/Revenue multiple	113.5	147.8	248.2
- Using FY23 EV/Revenue multiple	na	134.4	na
- Using EV/ARR multiple	76.6*	na	216.5**
Equity value/share - CV1			
- Using FY22 EV/Revenue multiple	$0.29	$0.37	$0.60
- Using FY23 EV/Revenue multiple	na	$0.34	na
- Using EV/ARR multiple	$0.20*	na	$0.53

Sources: CV1, company announcements, RaaS estimates, Refinitiv Eikon; *Using CV1 unaudited FY22 revenues (cf. $0.23/share equity value using FY23f revenue). **Using CV1 unaudited FY22 revenues (cf. $0.61/share equity value using FY23f revenues).

DCF Valuation, Catalysts And Risks

Using a discounted cashflow methodology, our 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). This implies EV/Revenue multiples of 3.8x for FY22 and 3.3x for FY23, which appear reasonable compared to the abovementioned peer trading multiples and implied recent M&A metrics. As abovementioned, the planned buy-back does not alter our DCF valuation outcome other than under the $0.09 and $0.10 average buy-back price scenarios where it increases slightly to $0.27 per share.

Exhibit 9: DCF valuation

Parameters	Outcome
Discount rate / WACC*	11.6%
Beta**	1.25x
Terminal growth rate assumption	2.2%
Sum of PV (forecast period)	$40.4m
PV of terminal value	$59.5m
PV of enterprise	**$99.8m**
Net debt / (cash) - 30 June 2022 (actual)	($12.2m)
Net valuation - equity	**$112.1m**
No. of shares on issue	434.2m
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.

Key re-rating catalysts: While the buy-back should underpin the 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 and operating leverage.

Execution risks: 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.
- Ability to expeditiously **recruit** and onboard the requisite **sales staff**.
- **Customer resistance points/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).
- **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).

RaaS
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Exhibit 10: Financial Summary

CV Check Ltd					
Profit and Loss (A$m)					
Y/E 30 June	**FY20a**	**FY21a**	**FY22f***	**FY23f**	**FY24f**
Sales Revenue	12.4	17.5	26.2	30.5	37.1
Gross Profit	6.7	10.3	16.7	20.1	25.4
GP margin %	54.6%	58.8%	63.8%	65.9%	68.5%
EBITDA	(0.4)	0.2	1.0	2.4	5.2
Depn	(0.3)	(0.3)	(0.2)	(0.2)	(0.1)
Amort	(0.8)	(1.0)	(2.2)	(2.8)	(3.1)
EBIT	(1.5)	(1.1)	(1.5)	(0.5)	2.0
Interest	(0.0)	0.0	0.0	0.2	0.2
Tax	0.2	0.0	(0.0)	0.0	0.0
NPAT pre significant items	(1.3)	(1.0)	(1.5)	(0.4)	2.2
Significant items	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	**(1.3)**	**(1.0)**	**(1.5)**	**(0.4)**	**2.2**
NPATA (ex Bright amort)	(1.3)	(0.7)	(0.3)	0.8	3.4
Cash flow (A$m)					
Y/E 30 June	**FY20a**	**FY21a**	**FY22f***	**FY23f**	**FY24f**
EBITDA	(0.4)	0.2	1.0	2.4	5.2
Interest	(0.0)	0.0	0.0	0.2	0.2
Tax	0.4	0.8	(0.1)	(0.1)	(0.1)
Work cap chgs/share pymts	(0.5)	(0.1)	1.7	0.1	(0.2)
Operating cash flow	(0.5)	1.0	2.6	2.5	5.0
Capex	(0.0)	(0.0)	(0.2)	(0.1)	(0.1)
Cap dev costs	(1.0)	(0.9)	(2.3)	(2.3)	(2.4)
Free cash flow	(1.5)	0.1	0.1	0.1	2.6
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)	(0.5)	0.1	2.6
Equity	2.9	9.9	0.0	0.0	0.0
Debt	0.0	0.0	(0.1)	0.0	0.0
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	2.6
Balance sheet (A$m)					
Y/E 30 June	**FY20a**	**FY21a**	**FY22f***	**FY23f**	**FY24f**
Cash	4.6	12.9	12.3	12.4	15.0
Accounts receivable	0.7	2.8	1.9	2.1	2.6
Inventory	0.0	0.0	0.0	0.0	0.0
Other current assets	0.7	0.6	0.7	0.7	0.7
Total current assets	*6.0*	*16.3*	*14.9*	*15.2*	*18.3*
PPE	0.4	0.3	0.3	0.2	0.2
Goodwill	1.4	4.7	4.8	4.8	4.8
Intangibles	1.5	11.2	11.3	10.8	10.1
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*	*16.4*	*15.8*	*15.1*
Total Assets	9.2	32.5	31.3	31.1	33.4
Accounts payable	1.0	1.1	2.0	2.3	2.6
Short term debt	0.0	0.0	0.0	0.0	0.0
Contract liabilities	0.3	0.6	1.0	1.0	1.0
Other current liabilities	1.5	4.6	3.0	2.9	2.7
Total current liabilities	*2.7*	*6.3*	*6.0*	*6.2*	*6.3*
Long term debt	0.0	0.0	0.0	0.0	0.0
Other non current liabs	0.1	0.0	0.2	0.2	0.2
Total long term liabilities	*0.1*	*0.0*	*0.2*	*0.2*	*0.2*
Total Liabilities	2.8	6.3	6.2	6.4	6.5
Net Assets	**6.4**	**26.2**	**25.1**	**24.7**	**26.9**
Share capital	27.3	47.2	47.9	47.9	47.9
Retained earnings	(21.1)	(22.1)	(23.4)	(23.7)	(21.6)
Reserves	0.2	1.1	0.5	0.5	0.5
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**6.4**	**26.2**	**25.1**	**24.7**	**26.9**

Share price (28 July 2022)					**A$**	**0.135**
Interim (A$m)	**H1 20a**	**H2 20a**	**H1 21a**	**H2 21a**	**H1 22a**	**H2 22f***
Revenue	6.6	5.8	7.0	10.5	12.8	13.4
EBITDA	(0.2)	(0.2)	0.6	(0.3)	0.7	0.3
EBIT	(0.9)	(0.6)	0.0	(1.1)	(0.6)	(0.9)
NPAT (normalised)	(0.9)	(0.4)	0.0	(1.0)	(0.6)	(0.9)
Minorities	-	-	-	-	-	-
NPAT (reported)	(0.9)	(0.4)	0.0	(1.0)	(0.6)	(0.9)
EPS (normalised)	(0.30)	(0.13)	0.00	(0.24)	(0.14)	(0.21)
EPS (reported)	(0.30)	(0.13)	0.00	(0.24)	(0.14)	(0.21)
Dividend (cps)	-	-	-	-	-	-
Imputation	-	-	-	-	-	-
Operating cash flow	0.1	(0.6)	0.9	0.2	1.2	1.4
Free Cash flow	(0.4)	(1.1)	0.4	(0.3)	0.1	0.1
Divisions	**H1 20a**	**H2 20a**	**H1 21a**	**H2 21a**	**H1 22a**	**H2 22f***
SaV - CVCheck Platform	6.6	5.8	7.0	9.1	9.9	10.5
SaaS revenue - Cited	na	na	na	0.6	1.2	1.2
Bright/Cited - Transactional	na	na	na	0.8	1.7	1.7
Sales revenue	**6.6**	**5.8**	**7.0**	**10.5**	**12.8**	**13.4**
COGS	(2.9)	(2.7)	(3.1)	(4.1)	(4.7)	(4.9)
Gross Profit	3.7	3.1	3.9	6.4	8.2	8.6
GP margin %	55.5%	53.4%	55.8%	60.7%	63.7%	63.9%
Employment	(2.7)	(2.3)	(2.7)	(3.7)	(5.0)	(5.2)
Marketing	(0.5)	(0.4)	(0.5)	(0.7)	(0.8)	(1.4)
IT	0.0	(0.5)	(0.2)	(0.3)	(0.6)	(0.7)
Other costs	(0.9)	(0.2)	(0.6)	(1.8)	(1.0)	(1.1)
Other income (gov grants)	0.2	0.3	0.6	(0.1)	0.0	0.0
EBITDA	**(0.2)**	**(0.2)**	**0.6**	**(0.3)**	**0.7**	**0.3**
Margins, Leverage, Returns		**FY20a**	**FY21a**	**FY22f***	**FY23f**	**FY24f**
EBITDA margin		(3.0%)	1.4%	3.7%	8.0%	14.0%
EBIT margin		(11.8%)	(6.1%)	(5.8%)	(1.8%)	5.4%
NPAT margin pre sig items		(10.1%)	(5.8%)	(5.8%)	(1.2%)	5.8%
Net Debt/(Cash)		(4.6)	(12.9)	(12.3)	(12.4)	(15.0)
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%)	(4.8%)	(1.7%)	6.2%
ROE		(22.3%)	(6.2%)	(6.0%)	(1.5%)	8.4%
ROIC		(19.6%)	(4.7%)	(5.2%)	(2.2%)	7.3%
NTA (per share)		0.01	0.02	0.02	0.02	0.03
Working capital		(0.3)	1.7	(0.1)	(0.2)	0.0
WC/Sales (%)		(2.2%)	9.8%	(0.4%)	(0.5%)	0.0%
Revenue growth (%)		(1.2%)	41.3%	50.2%	16.0%	21.8%
EBIT growth (%)		nm	nm	nm	nm	nm
Pricing		**FY20a**	**FY21a**	**FY22f***	**FY23f**	**FY24f**
No of shares (y/e)	(m)	292	429	434	434	434
Weighted Av Dil Shares	(m)	289	333	434	434	434
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	27.5
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)		2.8	2.6	1.8	1.5	1.2
EV/EBITDA (x)		nm	185.8	47.2	19.1	8.4
FCF/Share	cps	(0.51)	0.03	0.03	0.03	0.60
Price/FCF share (x)		nm	479	414	472	22.5
Free Cash flow Yield		(3.7%)	0.2%	0.2%	0.2%	4.4%

Source: Company data, RaaS Advisory estimates *CV1 has released some unaudited FY22 figures namely revenue ($26.4m), gross margin (64%) and its cashflow statement (see **Key FY22 Cashflow Figures** above).

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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