checkit

The future of intelligent operations

Checkit plc | Half-Year Report 2021

Checkit is the intelligent operations platform for deskless workers.

Checkit connects smart people, smart assets and smart buildings across multiple locations for unprecedented visibility and improved decision-making.

- Digital assistants prompt, guide and capture best practice among frontline teams.
- Sensor networks deliver accurate real-time monitoring of physical assets so staff can focus on their core duties.
- Smart building solutions maximise energy savings, reduce carbon footprint and provide an integrated view of an organisation's real estate portfolio.
- Powerful analytics unite data streams to provide actionable insight.

Contents

Highlights

- Annual recurring revenue (ARR) run rate £6.6m at period end.
- Recurring revenue increased by +31%* to £3.1m (H1 FY21 £2.4m), reflecting the Group's focus on SaaS (Software-as-a-Service) growth.
- Total revenue from continuing operations increased by +13%* to £7.9m (H1 FY21 £7.0m*).
- Operating loss before non-recurring or special items of £(1.7)m (H1 FY21: £(1.5)m), reflecting increased investment in sales, marketing and product development.
- Cash at 31 July 2021 of £8.5m (31 January 2021: £11.5m).
- Acquisition of Tutela Monitoring Systems LLC (Tutela) completed during the period, accelerating the Group's US expansion.
- The Board remains confident about the prospects for the business.

* The prior period's revenue has been normalised to illustrate sales that would have been included in the Group's financial results had Tutela, which was acquired on 4 February 2021, been fully owned by the Group throughout both periods. Excluding the acquisition of Tutela, Group revenue for the comparative period last year was £6.4m

Checkit in numbers

Annual recurring revenue

£6.6m

Annualised exit run rate of recurring revenue during the period

H1 recurring revenue

+31%*

Total revenue from continuing operations

£7.9m

(+13%* compared to H1 FY21)

Operating loss before non-recurring or special items

£(1.7)m

(H1 FY21: £(1.5)m)

Our growth strategy

Kit Kyte
CEO
16 September 2021

"As we emerge from the global pandemic, we are rapidly accelerating our global expansion plans to capitalise on the deskless worker opportunity. The time is right, and the time is now. We will be at the vanguard of the next evolution of digital transformation; we call this the augmented enterprise."

I am pleased to present our H1 FY22 results, my first financial report as CEO. In this report, you'll read about the seismic global potential for intelligent operations to change the world of work for a vast population of hundreds of millions of deskless workers and to bring smart people, smart assets and smart buildings into a single platform. We will be at the vanguard of the next phase of digital transformation, leading a market that analysts value at billions of dollars[1].

This is only the beginning of Checkit's journey towards becoming an industry leading SaaS business. The immediate target is to not only surpass our first-half growth in ARR but also, as we emerge from the global pandemic, to rapidly accelerate our expansion with new and existing clients as we capitalise on the deskless worker opportunity.

Bringing operations out of the dark

Reducing costs; retaining staff; cutting out waste; hitting compliance targets and adapting to changing customer expectations: these are some of the key issues keeping leaders awake at night.

Dig deeper and you'll find that the activity of deskless workers is crucial to addressing these challenges. But there's a problem here. Deskless workers are operating in the dark. Their essential everyday work – providing food, running supply chains, caring for the sick and keeping buildings safe (to give a few examples) – is often lost in a jumble of paperwork, spreadsheets and outdated tech. Deskless workers are digitally disconnected, giving rise to what we call 'dark operations'.

Organisations are exposed to risks they can't see and blind to growth opportunities that go missing. Our expansion strategy centres on our ability to address the global challenge of dark operations.

Customers across food retail, healthcare, hospitality and other industries can realise value from the Checkit platform in as little as one month.

1 Emergence Capital – State of Frontline Technology, May 2021, https://www.youtube.com/watch?v=0vNwmEdIU18.

By digitising manual processes using digital assistants and automating the reporting on essential assets and buildings through advanced sensor networks, the Checkit platform can reduce staff costs by as much as one shift per week, per site. The loss of essential stock, such as food and medicine through wastage, is dramatically reduced whilst further sales opportunities are increased through algorithmically optimised product allocations across sites. Our customers also report maintenance efficiencies, reduced engineer visits and increased uptime.

Checkit improves staff training, engagement and retention. One of our clients onboarded 7,500 staff with the Checkit platform in less than four weeks.

Checkit strengthens compliance reporting and audits with online data to reduce risk.

Above all, Checkit's advanced analytics provides insights for both the mid and senior enterprise leadership level and enables data-driven decision-making. Clients can build more agile and resilient operating models whilst unlocking new sources of cost reduction and improved customer experience.

One powerful platform

Checkit's technology vision unites people, assets and buildings in one enterprise-class platform, creating an end-to-end solution for operational excellence.

Digital assistants prompt, guide and capture essential activity, helping staff to do the right thing at the right time, regardless of their skill level or experience in the job. Evolving sensor technology enables a large proportion of previously manual equipment checks to be automated, liberating employees from repetitive tasks such as fridge and freezer temperature readings. Factor in smart building solutions which monitor and assist with energy utilisation and asset optimisation (e.g. desk occupancy; pipe monitoring; toilet cleanliness) and you have a complete platform with powerful analytics providing a constant stream of actionable insight.

The defining characteristic of the deskless industries we serve is that they never stand still. And nor do we. In the current financial year, we are adding a series of new features to our platform:

Event-Driven Actions enable users of Checkit's monitoring technology to feed sensor alerts from equipment or buildings directly into a corrective workflow for rapid remediation and action by frontline employees. With event-driven actions, the platform delivers a step-by-step workflow direct to frontline staff via their mobile device to guide them through the remedial action they need to take. This ensures a rapid response to preserve stored inventory, repair equipment and maintain safety, as well as creating an audit report of corrective action.

Job Sharing is a tool for collaborative working that increases frontline flexibility while capturing a single record of action taken. It allows multiple staff to collaborate on a single activity. The new feature means a particular set of activities, ranging from laboratory opening procedures, to cleaning and food safety checks, are not only assigned to one individual but can be picked up by colleagues. This will be useful if a task is not completed before a shift handover, or if remote teams want to communicate and divide ad-hoc tasks between them to get work done faster.

Checkit Franchise Edition allows common workflows such as food safety procedures, site inspections, equipment maintenance and opening/closing checks to be stored as templates in an online library. This enables franchisors and other organisations to implement consistent brand standards and safety routines across their entire network of sites and apply benchmarks for measurement against KPIs.

Revenue growth

Over the first half of the year, we have delivered new logo wins across multiple geographies, whilst expanding our global footprint with some of our strategic enterprise accounts. We have quadrupled our pipeline of new business since the start of the year and have advanced engagements with enterprise customers across retail, healthcare, facilities management, franchise and pharmaceutical industries. The conversations we are engaged in reveal a clear and growing appetite to apply comprehensive digital solutions to their operations.

H1 FY22 revenue from continued operations is shown below by business unit (on a normalised basis).

Overall Group revenue grew 13% and recurring revenue by 31% compared to the prior year on a normalised basis. 39% of revenue was recurring, +5% vs H1 FY21 and reflects the shift towards a pure SaaS business model.

ARR saw an increase of £0.9m (+16%) in the half year to close at a run rate of £6.6m, predominantly driven by new subscription contracts going live with customers.

	Six months ended		
	31 July 2021 £m	31 July 2020 £m	Change %
Checkit Connect			
Recurring	**2.9**	2.2	32%
Non-recurring	**0.6**	0.9	(35)%
Total Checkit Connect	**3.5**	3.1	12%
Checkit Connect US			
Recurring	**0.2**	0.2	13%
Non-recurring	**0.7**	0.7	(7)%
Checkit Connect US	**0.9**	0.9	(2)%
Checkit BEMS			
Non-recurring	**3.5**	3.0	19%
Checkit Group			
Recurring	**3.1**	2.4	31%
Non-recurring	**4.8**	4.6	4%
Total revenue	**7.9**	7.0	13%

* The prior period's revenue has been normalised to illustrate sales that would have been included in the Group's financial results had Tutela, which was acquired on 4 February 2021, been fully owned by the Group throughout both periods. Excluding the acquisition of Tutela, Group revenue for the comparative period last year was £6.4m

Checkit Connect grew by 12% to £3.5m (H1 FY21: £3.1m). Recurring revenues accounted for all this growth (+32% on a normalised basis) and reflect the benefits of year-on-year ARR growth realised in the half year.

Increased spending on the Group's sales, marketing and product has reinforced Checkit's value proposition, particularly in the healthcare and food retail industries, where Checkit is seeing early signs of success in terms of pipeline growth and new customer bookings as COVID-19 restrictions ease.

The decline in non-recurring revenue compared to the first half of FY21 is primarily driven by timing and the on-going repositioning towards a subscription-based pricing model adopted across the Group during FY21.

Checkit Connect US has been introduced for FY22 reporting purposes and reflects the performance of the newly created US based business unit incorporating the acquisition in Q1 of Tutela LLC. It should be regarded as a subsegment of Checkit Connect.

While US revenue declined slightly by 2% in the first half, this included 13% growth in recurring revenue, which was driven by new subscriptions. The US market is starting to scale up by recording net new business success in the healthcare sector and through on-going pricing conversions of existing customers into a subscription-based model. The food retail and reviving hospitality sectors are a focus for new business.

Checkit BEMS sales grew by 19% compared to the prior period. This was due to a one-off significant project delivered in Q1. Its revenues are expected to decline in the second half as a result of the Group being more selective in pricing contracts. The Board considers that its traditional projects and maintenance business (which has historically generated low margins) has peaked as a percentage of revenue.

The focus of this business unit will increasingly be on smart building technology through the Checkit Connect platform and when its transformation is complete, it is expected that this business unit will be merged with Checkit Connect.

Operating performance

Gross profit increased from £2.3m to £3.5m representing growth of over 50% compared with the prior period, reflecting the overall increase in recurring revenue as a percentage of total revenues. The Group will restate its reporting of gross profit at the year end to exclude labour costs in line with industry standard practice.

Operating costs (excluding non-recurring or special items) increased by £1.4m to £5.2m. This was the result of increased investment across the business to support its expansion, especially in sales and marketing, as well as the effect of lapping the measures put in place in the first half of last year to reduce costs in response to the COVID-19 pandemic (including a salary reduction programme and furlough scheme participation).

Costs increased from the introduction of the Checkit US business unit, including the acquisition of Tutela LLC. Investment in this business unit resulted in additional costs of £0.6m, in line with the Group's objective to reinvest to accelerate growth in the region.

The business remains committed to investing in product development. In total, £1.5m was invested in the product in H1 FY22 (H1 FY21: £1.0m), of which £0.6m was capitalised.

Overall, operating losses before non-recurring or special items for H1 FY22 were £(1.7)m, an increase of £0.2m compared to H1 FY21 (£(1.5)m).

Cash

Cash at 31 July 2021 closed at £8.5m (vs. £11.5m at 31 January 2021). This reduction in cash was driven by operating losses in the period, as well as an overall investment in business activities of £1.3m. This reflects the acquisition of Tutela for £0.4m (consideration of £0.6m, less cash acquired in the business of £0.2m), as well as the capitalisation of development costs of £0.6m and software costs relating to the digital transformation programme of £0.3m.

Non recurring or special items

Non recurring or special items in the six months to 31 July 2021 related to the amortisation of acquired intangible assets and restructuring and integration costs arising as the Group completes its transformation programme to set itself up for growth.

People

The recruitment of high-calibre individuals has been a highlight of the year to date.

In line with the company's aggressive growth agenda, Checkit's sales and marketing teams doubled in size during the first half of the year. Recent senior appointments include a new Global Vice President of Sales (with a strong SaaS background), supported by a rapidly growing sales team including top-performing enterprise technology partners and strategic account managers with specialism in IoT, retail digitisation and entrepreneurial business development.

The growing geographical reach of Checkit has resulted in an expansion of the US-based team. The US sales team has been bolstered with the addition of specialists in technology for healthcare and quick-service restaurants.

New senior appointments in the Product Engineering team include a new Head of Delivery and a Head of Development Operations, both of whom bring considerable experience in scaling and transforming teams and a wealth of knowledge and experience from product focused SaaS companies.

These new hires bring significant skills and expertise into Checkit. As part of our own digital transformation, we are aligning functional teams and technology to create an even stronger springboard for future growth. In addition, an exciting product roadmap has been developed to evolve our solution in line with the current and future needs of the key industries we serve.

Outlook

Checkit is accelerating out of the COVID-19 crisis. We continue to scale our growth through increased investment in sales and marketing and product development. We believe the world has hit an inflection point in the way in which people work and the pandemic has only increased the urgency and pace of digital adoption by enterprise level customers, who are seeking to solve the challenges faced by their deskless workforce. We believe that Checkit is uniquely positioned to lead a market that is estimated to include 2.7 billion frontline and deskless workers. We are now expanding our global footprint with both existing and new customers as they uncover further benefits and business use cases that can be powered by the Checkit software platform and sensor ecosystem.

We are excited about the future. We are confident that our focus is in the right place and we will continue to invest cash wisely in order to deliver upon our aggressive growth ambitions.

The Board remains confident about the outlook for the current year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited interim results to 31 July 2021

	Unaudited Half year to 31 July 2021 £m	Restated* Unaudited Half year to 31 July 2020 £m	Audited Year to 31 January 2021 £m
Revenue (Note 2)	**7.9**	6.4	13.2
Cost of sales	**(4.4)**	(4.1)	(8.5)
Gross profit	**3.5**	2.3	4.7
Operating expenses			
Net operating expenses (excluding non-recurring or special items)	**(5.2)**	(3.8)	(7.8)
Operating loss before non-recurring or special items	**(1.7)**	(1.5)	(3.1)
Non-recurring or special items (Note 3)	**(1.0)**	(1.2)	(2.2)
Total operating expenses	**(6.2)**	(5.0)	(10.0)
Operating loss	**(2.7)**	(2.7)	(5.3)
Finance income	**—**	—	—
Loss before taxation	**(2.7)**	(2.7)	(5.3)
Taxation (Note 4)	**0.1**	0.1	0.3
Loss from continuing operations	**(2.6)**	(2.6)	(5.0)
Profit from discontinued operations (Note 5)	**—**	0.5	0.6
Loss for the period attributable to equity shareholders	**(2.6)**	(2.1)	(4.4)
Other comprehensive expense			
Exchange differences on translation of foreign operations	**—**	—	—
Total other comprehensive income	**—**	—	—
Total comprehensive expense for the period attributable to equity shareholders	**(2.6)**	(2.1)	(4.4)
Loss per share (Note 7)			
Continuing	**(4.2)p**	(4.3)p	(8.3)p
Discontinued	**—**	0.8p	1.0p

The accompanying notes form an integral part of this consolidated interim financial information.

* See Note 8.

CONSOLIDATED BALANCE SHEET

unaudited at 31 July 2021

	Unaudited 31 July 2021 £m	Restated* Unaudited 31 July 2020 £m	Audited 31 January 2021 £m
Assets			
Non-current assets			
Goodwill arising on acquisition	**4.5**	4.3	4.3
Capitalised development costs	**0.6**	—	—
Other intangible assets	**1.7**	2.3	1.7
Property, plant and equipment	**0.7**	0.9	0.8
Total non-current assets	**7.5**	7.5	6.8
Current assets			
Inventories	**1.4**	1.6	1.1
Trade and other receivables	**3.8**	3.9	4.9
Cash and cash equivalents	**8.5**	13.4	11.5
Total current assets	**13.7**	18.9	17.5
Total assets	**21.2**	26.4	24.3
Current liabilities			
Trade and other payables	**5.3**	5.1	5.6
Lease liabilities	**0.2**	0.4	0.3
Total current liabilities	**5.5**	5.5	5.9
Non-current liabilities			
Long-term provisions	**0.3**	0.2	0.3
Lease liabilities	**0.2**	0.3	0.2
Deferred tax	**0.2**	0.5	0.3
Total non-current liabilities	**0.7**	1.0	0.8
Total liabilities	**6.2**	6.5	6.7
Net assets	**15.0**	19.9	17.6
Equity attributable to equity holders of the parent			
Called-up share capital	**3.1**	3.1	3.1
Share premium	**5.4**	5.4	5.4
Capital redemption reserve	**6.4**	6.4	6.4
Other reserves	**0.1**	0.1	0.1
Retained earnings	**—**	4.9	2.6
Total equity	**15.0**	19.9	17.6

The accompanying notes form an integral part of this consolidated interim financial information.

* See Note 8.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited interim results to 31 July 2021

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares* £m	Other reserves £m	Retained earnings £m	Total £m
At 1 February 2020 (as reported)	3.1	5.4	6.4	(0.7)	—	0.1	14.3
Restatement of intangible assets	—	—	—	—	—	7.1	7.1
At 1 February 2020 (as restated)	3.1	5.4	6.4	(0.7)	—	7.2	21.4
Loss for the period (as reported)	—	—	—	—	—	(1.1)	(1.1)
Restatement of intangible assets	—	—	—	—	—	(1.0)	(1.0)
Total comprehensive income for the period	—	—	—	—	—	(2.1)	(2.1)
Share-based payments	—	—	—	—	0.1	—	0.1
Correction of reserve classification	—	—	—	0.2	—	(0.2)	—
Own shares sold*	—	—	—	0.5	—	—	0.5
Transactions with owners	—	—	—	0.7	0.1	(0.2)	0.6
At 31 July 2020 (as reported)	3.1	5.4	6.4	—	0.1	(1.2)	13.8
Restatement of intangible assets	—	—	—	—	—	6.1	6.1
At 31 July 2020 (as restated)	3.1	5.4	6.4	—	0.1	4.9	19.9
Loss for the period	—	—	—	—	—	(2.3)	(2.3)
Total comprehensive income/(expense) for the period	—	—	—	—	—	(2.3)	(2.3)
At 1 February 2021	3.1	5.4	6.4	—	0.1	2.6	17.6
Loss for the period	—	—	—	—	—	(2.6)	(2.6)
Total comprehensive income for the period	—	—	—	—	—	(2.6)	(2.6)
At 31 July 2021	**3.1**	**5.4**	**6.4**	**—**	**0.1**	**—**	**15.0**

The accompanying notes form an integral part of this consolidated interim financial information.

* The own shares were held by the Elektron Technology 2012 Employee Benefit Trust. All of the own shares were sold by the trust during the prior period, resulting in a gain.

CONSOLIDATED STATEMENT OF CASH FLOWS

unaudited interim results to 31 July 2021

	Unaudited Half year to 31 July 2021 £m	Restated* Unaudited Half year to 31 July 2020 £m	Audited Year to 31 January 2021 £m
Net cash flows from operating activities			
Loss before taxation			
– From continuing operations	**(2.7)**	(2.7)	(5.3)
– From discontinued operations	**—**	0.5	0.6
Adjustments for:			
Depreciation charge	**0.3**	0.4	0.6
Amortisation of other intangibles	**0.8**	0.7	1.3
Gain on the sale of discontinued operations	**—**	(0.5)	(0.5)
Share-based payments	**—**	—	0.1
Operating cash flows before working capital changes	**(1.6)**	(1.6)	(3.2)
Decrease/(increase) in trade and other receivables	**0.9**	0.4	(0.9)
Decrease/(increase) in inventories	**(0.2)**	0.1	0.6
Increase/(decrease) in trade payables	**(0.7)**	—	0.6
Operating cash flows after working capital changes	**(1.6)**	(1.1)	(2.9)
Decrease in provisions	**—**	—	—
Cash (used in)/generated by operations	**(1.6)**	(1.1)	(2.9)
Tax	**—**	—	—
Net cash flows (used in)/generated by operating activities	**(1.6)**	(1.1)	(2.9)
Investing activities			
Interest received on bank deposits	**—**	—	—
Purchase of property, plant and equipment	**(0.2)**	—	(0.3)
Purchase of business (net of cash acquired)	**(0.4)**	—	—
Capitalisation of development costs	**(0.6)**	—	—
Capitalisation of other intangible assets	**(0.3)**	—	—
Disposal of businesses (net of cash sold)	**0.2**	—	0.3
Net cash (used in)/generated by investing activities	**(1.3)**	—	—
Cash flows from financing activities			
Sale of own shares	**—**	0.5	0.5
Repayment of contract lease liabilities	**(0.1)**	(0.3)	(0.4)
Net cash generated by/(used in) financing activities	**(0.1)**	0.2	0.1
Net (decrease)/increase in cash and cash equivalents	**(3.0)**	(0.9)	(2.8)
Cash and cash equivalents at the beginning of the period	**11.5**	14.3	14.3
Cash and cash equivalents at the end of the period	**8.5**	13.4	11.5

The accompanying notes form an integral part of this consolidated interim financial information.

* See Note 8.

1. Accounting policies

The interim financial information has been prepared under international accounting standards in conformity with the requirements of the Companies Act 2006. Full details of accounting policies are included in the annual report for the year ended 31 January 2021. Fixed annual charges are apportioned to the interim period on the basis of time elapsed. Other expenses unless disclosed otherwise are accrued in accordance with the same principles used in the preparation of the annual accounts.

2. Segmental reporting – continuing operations

Revenues

The following table presents the different revenue streams of Checkit:

	Half year to 31 July 2021 £m	Half year to 31 July 2020 £m	Year to 31 January 2021 £m
Recurring revenues from subscription services	**3.1**	2.3	5.1
Installation, maintenance and support	**4.8**	4.1	8.1
Total	**7.9**	6.4	13.2

The Group considers its operations to be in the following geographical regions:

Geographic	**Half year to 31 July 2021 £m**	Half year to 31 July 2020 £m	Year to 31 January 2021 £m
United Kingdom	**7.0**	6.2	12.7
The Americas	**0.9**	0.2	0.5
Total	**7.9**	6.4	13.2

3. Non-recurring or special items

Non-recurring or special items are disclosed separately to improve visibility of the underlying business performance.

Management has defined such items as costs associated with the acquisition of businesses, restructuring, site closure costs and other non-recurring items incurred outside the normal course of business.

	Half year to 31 July 2021 £m	Half year to 31 July 2020 £m	Year to 31 January 2021 £m
Cash items			
Costs of acquisition	**—**	—	0.1
Restructuring and integration costs	**0.3**	0.5	0.8
	0.3	0.5	0.9
Non-cash items			
Amortisation of acquired intangible assets	**0.7**	0.7	1.3
	0.7	0.7	1.3
Total non-recurring or special items	**1.0**	1.2	2.2

4. Taxation

The tax credit on the loss from continuing operations before taxation has been estimated at £0.1m (H1 FY21: £0.1m; FY21: £0.3m). The Group has in excess of £17m of tax losses carried forward.

5. Discontinued operations

During the prior year, the Group sold assets relating to its Elektron Eye Technology business. Consequently, the business continues to be included as discontinued operations.

	Half year to 31 July 2021 £m	Half year to 31 July 2020* £m	Year to 31 January 2021 £m
Revenues	**0.2**	0.3	0.3
Expenses	**(0.2)**	(0.3)	(0.2)
Profit before tax	**—**	—	0.1
Attributable tax	**—**	—	—
Profit after tax	**—**	—	0.1
Gain on disposal on remeasurement to fair value	**—**	—	0.5
Attributable tax to gain on disposal	**—**	—	—
Profit from discontinued operation attributable to equity shareholders	**—**	0.5	0.6
Foreign currency reserve reclassification	**—**	—	—
Other comprehensive income from discontinued operations	**—**	—	—

Elektron Eye Technology

The results of the EET discontinued operation, which have been included in the consolidated statement of comprehensive income, were as follows:

	Half year to 31 July 2021 £m	Restated Half year to 31 July 2020 £m	Year to 31 January 2021 £m
Revenue	**0.2**	0.3	0.3
Expenses	**(0.2)**	(0.3)	(0.2)
Profit before tax	**—**	—	0.1
Attributable tax	**—**	—	—
Profit from discontinued operation before gain on disposal	**—**	—	0.1
Remeasurement of assets to fair value	**—**	—	—
Gain on disposal	**—**	0.5	0.5
Attributable tax to gain	**—**	—	—
Profit from EET discontinued operation	**—**	0.5	0.6

On 1 July 2020 and 13 January 2021, the Group disposed of assets relating to its Elektron Eye Technology business for total net proceeds of £0.9m, payable in 24 monthly instalments. £0.4m remains payable as deferred consideration at the end of the half year to 31 July 2021.

	£m
Consideration	0.9
Assets sold	0.4
Gain on sale	0.5

6. Businesses acquired – Tutela Monitoring Systems LLC

On 4 February 2021, the Group acquired 100% of the equity of Tutela Monitoring Systems LLC ("Tutela"), a US-based business.

Tutela was previously owned by Next Control Systems Limited (now Checkit UK Limited, a subsidiary of the Group), before Next Control Systems Limited was acquired by the Group in May 2019. It was sold to the US management team of Tutela in August 2018.

Tutela, which is based in Florida, provides wireless temperature monitoring systems for all applications and facilities which store sensitive inventory for businesses within the healthcare sector. The Group intends to utilise Tutela as a platform to pursue all industries and verticals targeted by Checkit.

The acquisition serves to accelerate the Group's US expansion plans, providing a footprint and an opportunity to add further scale. The Directors believe that, based on relative population sizes, the US represents an addressable market around five times larger than the UK, and therefore believe the acquisition represents a significant milestone in its growth strategy.

The details of the business combination are as follows:

Fair value of consideration transferred	£m
Amount settled in cash	0.6
Deferred consideration outstanding from 2018 sale	0.1
Other intangibles	0.3
Total non-current assets	0.3
Inventories	0.1
Trade and other receivables	0.1
Cash and cash equivalents	0.2
Total current assets	0.4
Trade and other payables	(0.2)
Total current liabilities	(0.2)
Total non-current liabilities	—
Identifiable net assets	0.5
Goodwill on acquisition	0.2
Consideration settled in cash	0.6
Cash and cash equivalents acquired	0.2
Net cash outflow on acquisition	0.4

Consideration transferred

The acquisition of Tutela was settled in cash amounting to £0.6m. Acquisition related costs amounting to £0.1m were expensed and treated as a non-recurring item. Deferred consideration of £0.1m outstanding from the 2018 sale was discharged on acquisition.

Identifiable net assets

The fair value of the trade and other receivables acquired as part of the business combination amounted to £0.2m, with a gross contractual amount also being £0.2m. As of the acquisition date, the Group expected to collect the full balance of the contractual cash flow.

Separable intangible assets

Two separable intangible assets were identified at acquisition, being the sole distributorship agreement and the acquired customer list.

The sole distributorship agreement represents a re-acquired asset from the 2018 sale, for which a price of $300K was paid at the time. The asset has been valued on the basis of the remaining term of the agreement. The useful life has been set as 1.9 years.

The acquired customer list was valued by assessing a discounted cash flow based on expected customer attrition rates and using a discount factor of 28.8%. The useful life has been estimated at three years.

6. Businesses acquired – Tutela Monitoring Systems LLC continued

Goodwill

Goodwill is primarily related to the core growth expectations, expected future profitability and expected business synergies. Goodwill has been allocated to the Checkit segment and is not expected to be deductible for tax purposes.

Tutela's contribution to the Group results

Tutela US LLC generated a profit of less than £0.1m for the period from 04.02.21 to the reporting date. Revenue for the period to 31 July 2021 was £0.9m.

In the year ended 31 December 2020, Tutela's sales were approximately $2m (£1.46m) with profit before tax of $0.27m (£0.20m) and net assets (including cash) amounting to $0.16m (£0.12m). If the businesses had been consolidated during that period, approximately £1m would have been added to Group sales per annum after eliminating intercompany sales on consolidation.

7. Earnings per share

Earnings per share (EPS) is the amount of post-tax profit attributable to each share (excluding those held by the Company).

Basic EPS measures are calculated as the Group profit for the period attributable to equity shareholders divided by the weighted average number of shares in issue during the period.

Diluted EPS takes into account the dilutive effect of all outstanding share options priced below the market price, in arriving at the number of shares used in its calculation. However, in this case, as set out in IAS 33, the potential ordinary shares cannot be treated as dilutive as their conversion to ordinary shares would decrease loss per share from continuing operations, resulting in basic and diluted measures being the same.

	Key	**31 July 2021 Million**	31 July 2020 Million	31 January 2021 Million
Weighted average number of ordinary shares for the purposes of basic earnings per share	A	**62.4**	60.9	61.5

(Loss)/earnings for the period	Key	**31 July 2021 £m**	31 July 2020 £m	31 January 2021 £m
Loss for the period	B	**(2.6)**	(2.1)	(4.4)
Profit from discontinued operations, net of tax	C	**—**	(0.5)	(0.6)
Continuing loss for the period	D	**(2.6)**	(2.6)	(5.0)
Total non-recurring or special items net of tax		**0.9**	1.1	1.9
Continuing loss adjusted for EPS	E	**(1.7)**	(1.5)	(3.1)

	Key	**31 July 2021**	31 July 2020	31 January 2021
Continuing EPS measures				
Basic and diluted	D/A	**(4.2)p**	(4.3)p	(8.3)p
Adjusted continuing EPS measures				
Basic and diluted	E/A	**(2.7)p**	(2.5)p	(5.2)p
Discontinued EPS measures				
Basic and diluted	(C)/A	**—**	0.8p	1.0p
Total EPS measures				
Basic and diluted	B/A	**(4.2)p**	(3.4)p	(7.3)p

8. Restatement

To align the treatment and valuation of intangible assets and the associated deferred tax liability as at 31 July 2020 with the treatment in the audited accounts as at 31 January 2021, goodwill and intangible assets have been increased by £6.6m and deferred tax liabilities by £0.5m. The impact on the net asset position was an increase of £6.1m at 31 July 2020 as a result of this reclassification.

9. Cautionary statement

This interim financial information has been prepared only for the shareholders of Checkit plc as a whole and its sole purpose and use is to assist shareholders to exercise their governance rights. Checkit plc and its Directors and employees are not responsible for any other purpose or use or to any other person in relation to this report.

The report contains indications of likely future developments and other forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and business segments in which the Group operates. Key risks and their mitigation have not changed materially in the period from those disclosed on pages 32 to 35 of the annual financial statements for the year ended 31 January 2021.

These and other factors could adversely affect the Group's results, strategy and prospects. Forward-looking statements involve risks, uncertainties and assumptions. They relate to events and/or depend on circumstances in the future which could cause actual results and outcomes to differ materially from those currently anticipated. No obligation is assumed to update any forward-looking statements, whether as a result of new information, future events or otherwise.

10. Other information

The financial information in this statement does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The financial information in respect of the year ended 31 January 2021 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The independent auditor's report on those accounts was unqualified and did not contain a statement under Sections 498(2) or 498(3) of the Companies Act 2006.

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Kit Kyte
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Greg Price
Chief Financial Officer

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Simon Greenman
Non-executive Director

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