Optimize performance, everywhere.

checkit

Checkit plc | Half-Year Report 2020

Checkit optimizes the performance of people, processes and physical assets in large and complex organisations. We are in the business of digital transformation for healthcare, retail, life sciences, facilities management, catering, education, manufacturing, hospitality and commercial property.

Checkit's clients include the NHS, BP, Waitrose, Sodexo and Center Parcs. Our technologies generate approximately 6.5bn data points per year from thousands of sensors and digital checks.

Checkit is headquartered in Cambridge, UK, with its operations centre in Fleet, UK. The Company currently has 170 employees.

Contents

Highlights

- Performance remains encouraging despite the impact of COVID-19
- H1 FY21 revenues increased 2.3% to £6.4m (H1 FY20: £6.2m) on a normalised basis*
- Operating loss before exceptional items almost halved to £(1.5)m (H1 FY20: £(2.9)m)
- Investment in new product development (NPD) and product maintenance continued with £1.0m spent in H1 FY21 (H1 FY20: £1.2m)
- Elektron Eye Technology (EET) assets were sold in July 2020 for £0.9m payable over 24 months
- Cash position at 31 July 2020 of £13.4m (31 January 2020: £14.3m; 31 July 2019: £1.5m)
- Board changes include the appointment of Aylsa Muir, who will succeed Andy Weatherstone as CFO in September
- Although managing through the current economic uncertainty remains a priority , the Board remains confident about the outlook and has therefore reinstated financial guidance

* Normalised results illustrate results that would have been included in the Group's financial results had Checkit UK Limited (CUK), which was acquired on 14 May 2019, been owned by the Group throughout both periods.

** On a normalised basis.

H1 FY21 revenues increased 2.3%

£6.4m

(H1 FY20: £6.2m**)

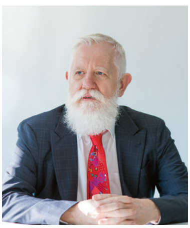
Operating loss before exceptional items almost halved

£(1.5)m

(H1 FY20: £(2.9)m)

Under Control in uncertain times

"We are confident that our focus is in the right place, and that we are setting ourselves up not only to navigate through uncertainty, but to ensure we continue to execute against the company strategic objectives."



Keith Daley
Executive Chairman
16 September 2020

Introduction

In the first half Checkit coped well with the difficult macroeconomic situation caused by the COVID-19 crisis. Although there was disruption to customer installation projects, revenue grew by 2% on a normalised basis compared to the prior year and the business easily transitioned to home working. Operating performance was slightly better than the Board's expectations as a result of careful cost control and support from the Government's Coronavirus Job Retention Scheme subsidy. Importantly, Checkit was able to maintain its investment in new product development during this period.

Financial commentary

The table below shows the reported results for the six months to 31 July 2020 with movements compared to the prior year.

The interim results for the six months ended 31 July 2019 included approximately 2.5 months of Checkit UK Ltd (CUK) performance. To assist with like-for-like analysis a normalised comparison of the prior year (including 6 months of CUK) has also been provided.

	31 July 2020 £m	31 July 2019 £m	31 July 2019 (normalised) £m
Revenue from continued operations	**6.4**	3.2	6.2
Operating losses from continued operations	**(1.5)**	(2.9)	(2.5)
Exceptional items	**(0.5)**	(0.2)	(0.2)
Operating losses including exceptional items	**(2.0)**	(3.1)	(2.7)

Revenue

H1 revenue from continued operations is shown below by segment (on a normalised basis). Definitions of the BEMS and Connect segments may be found in the Operations section below.

	Quarter ended		Quarter ended		Six months ended		
	30 April 2020 £m	30 April 2019 £m	**31 July 2020 £m**	31 July 2019 £m	**31 July 2020 £m**	31 July 2019 £m	Change %
Checkit Connect							
Recurring	1.1	1.0	**1.2**	0.9	**2.3**	1.9	+23.4%
Non-recurring	0.7	0.5	**0.4**	0.5	**1.1**	1.0	+0.6%
Total Checkit Connect	1.8	1.5	**1.6**	1.4	**3.4**	2.9	+15.1%
Checkit BEMS							
Non-recurring	1.7	1.6	**1.3**	1.7	**3.0**	3.3	(9.2)%
Total revenue	3.5	3.1	**2.9**	3.1	**6.4**	6.2	+2.3%

Overall revenue grew 2.3% on a normalised basis.

Checkit Connect grew 15.1% to £3.4m (H1 FY20: £2.9m). Recurring revenues accounted for almost all of this growth (+23.4% on normalised basis) and were driven by price increases and the rollout of a large customer contract.

The growth was partially offset by Q2 service and payment holidays, with an approximate monthly revenue of £15k granted to certain customers in the hospitality sector in response to the COVID-19 crisis. Services are expected to return to normal during Q3.

Checkit BEMS revenue declined as the business segment was the most impacted by the COVID-19 crisis given the on-site nature of BEMS installations.

Operating loss

Operating loss before exceptional items for H1 FY21 was £(1.5)m significantly reducing vs H1 FY20 (£(2.9)m). This improvement was a result of the business executing its subscription pricing strategy and measures put in place to reduce costs through the COVID-19 crisis (notably the salary reduction programme and furlough scheme participation) alongside a focus on improving efficiency in line with strategic imperatives.

As planned the business expects to continue running at an operating loss in the short term as we remain committed to continuing essential investment in product, sales and marketing. £1.0m was invested in the product during H1 FY21 (H1 FY20: £1.2m) demonstrating this ongoing commitment.

Given that the longer-term economic picture is still difficult to assess, the Board has taken the decision to fully amortise its capitalised development costs incurred during H1 FY21. This amounted to £0.5m of additional amortisation charge.

Cash

Cash at 31 July 2020 exceeded expectations and closed at £13.4m (vs £14.3m at 31 January 2020). This improved position was helped by H1 cash-saving initiatives, a strong focus on working capital and a £0.5m receipt from the sale of shares previously held by the Employee Benefit Trust.

Exceptional items

An expense of £(0.5)m is included in the income statement to 31 July 2020 for costs specifically related to the organisational restructure and amounts related to the Transitional Services Agreement (TSA) following the sale of Bulgin in September 2019. The TSA will end in H2 although further investment in transformation in the short term is expected as the business remains committed to setting itself up for future growth and integration of the CUK business.

Elektron Eye Technology (EET)

In July 2020 Checkit disposed of EET's Henson visual screener business for a consideration of £0.9m payable in monthly instalments over two years. The £0.8m remaining payable is reflected as deferred consideration in the balance sheet at 31 July 2020.

EET is presented as a discontinued operation along with adjusted comparatives as appropriate.

Employee Benefit Trust (EBT)

A decision was taken by the Board to commence a winding-up of the EBT following the sale of the remaining shares for £0.5m (as announced on 9 July 2020).

Sales and marketing

Whilst the COVID-19 pandemic has significantly impacted some previously targeted customer sectors, notably leisure and hospitality, we continue to work with our major Tier 1 clients.

We have increased our focus on the healthcare sector. As part of the COVID-19 emergency response, Checkit donated monitoring equipment to the new Nightingale hospitals. This has helped to promote both our products and brand within the sector and to senior NHS leaders.

As we embed our new pricing structure, our sales are moving from ad-hoc agreements with individual hospital departments to contracts covering entire hospitals and trusts. This gives us greater exposure to senior level representatives as well as unlocking economies of scale.

To broaden the adoption of our full solutions suite, we are conducting tailored pilots within specific healthcare settings to demonstrate the added value of Connected Workflow Management alongside the more established use of Connected Automated Monitoring.

Outside healthcare we are starting to see the market reawaken and existing customers and prospects are showing interest in resuming discussions that were paused as a result of the COVID-19 crisis. Given the current situation it remains difficult to initiate discussions with new prospects.

We hold daily cross-functional meetings to share information, identify priorities and ensure all parts of the business are up to date with the latest developments. This is reducing silo working and promoting a better understanding of our products and markets across the business.

In May 2020, we rebranded our product suite to Connected Automated Monitoring (CAM) and Connected Automated Monitoring+ (CAM+, formerly Tutela); Connected Workflow Management (CWM); and Connected Building Management (CBM, formerly Axon). We are working with customers across sectors and industries to identify practical applications of CWM and demonstrate how these products work together. This is reinforcing our core identity as a Software as a Service (SaaS) business rather than being based around hardware.

Product development

Our product development programme continues to support our go-to-market and operational strategies. We are:

- continuing to innovate and respond to customer feedback in our areas of core strength and differentiation;
- creating value from data;
- creating features that support our applications' focus for the "new normal";
- increasing our reach through internationalisation; and
- improving efficiencies that benefit our internal operations and customers.

Core product innovation

We have continued to strengthen our CWM platform. CWM provides directed workflow and integrated tracking to staff and management to enable them to more efficiently perform their roles. It combines data on the role, location, assets, conditions (e.g. temperature) and time (delays and dates) into easy-to-use apps for deskless workers – all logged, audited and reported in KPI dashboards.

During 2020, CWM has been further boosted by making workflows collaborative, combining the structure of processes with the real-time interactions that are more usually associated with social applications. Teams can share work seamlessly, with instant feedback and visibility between distributed or remote users. This capability opens the door to expanded adoption of our apps as more workers can join in with workflows. In this way, we are enabling new use cases and collaborations online.

Following customer feedback, we have extended our Checkpoints feature, which links workflows with assets or locations, to add more flexibility. This means we can better support work that is triggered by asset and location type. It unlocks a range of other related capabilities, including label printing and scanning to easily match items – including batches, samples or trays – to associated workflows.

The existing mobile CWM solution is now being extended to a cloud capability, opening direct links between office or remote staff and operational teams. This also provides a solution for iPhone and iPad users. Whether using the mobile or cloud apps, users will now be able to work together in a fully interactive way.

Creating value from data

Our platform features a data lake and data pipelines that funnel and process the data from CWM and our sensors. We have exploited this to develop a recommendation engine. This analyses data from CWM, identifies missed sales opportunities and recommends a product mix to optimize availability for subsequent periods. This functionality is already being used by a major retailer.

Supporting applications for the "new normal"

Our product roadmap is enabling applications which, based on our analysis, will increase in demand as the world adapts to COVID-19 and its aftermath. These include:

- food-to-go and takeaway operations, where supporting large-scale franchise operations brings specific needs; and
- medical applications including the storage and transport of temperature sensitive materials and associated workflows. This involves both our wireless monitoring technology as well as CWM processes.

Internationalisation

We continue to prepare our products for international expansion. Language packs are being added in support of international opportunities. Accreditations have been achieved for the US market and are pending for Australia and New Zealand.

Improving efficiencies

We have completed the first phase of making our CAM solution installable and manageable through set-up wizards that can be used on a mobile device. This opens the way to reduced support costs, more self-serve installation and expands the potential for third party installation and maintenance of Checkit hardware globally.

Development and production capacity

The in-house development team continues to be expanded through direct recruitment and the integration of the development team from CUK. This process has included cross-training to work with the leading-edge serverless technologies used to build the Checkit platform. The business intelligence team has been increased, reflecting the strategic importance of data to our customers.

Hardware production has been successfully separated from Bulgin through migration of manufacturing to a third party based in the UK, an existing supplier whose role has been expanded. Throughout this period, quality, output volumes and costs have met targets.

Operations

The Operations team delivered a full service throughout lockdown, providing 24-hour alarm monitoring and technical support services to customers in the healthcare, life sciences, food retail, logistics, facilities management and manufacturing sectors.

During lockdown, we took the opportunity to reorganise our Group operations in line with the Company's strategic direction. This was a critical move to enhance the service element of our proposition and to ensure a standardised and customer-focused operating model, suitable for a SaaS growth business.

As a result, we established two new operational units: Checkit Connect and Checkit BEMS. In doing so, we aligned the skills and strengths that exist across Group operations and created clear performance indicators to ensure future success.

Checkit Connect

Checkit Connect is the Group operational unit that is central to the SaaS business model. This team has been established to standardise and optimize customer experience across all of our recurring services (CAM, CAM+, CBM and CWM).

Led by the Chief Operating Officer (COO), this team is focused on continuous operational improvement and first-class customer experience. It will work closely with the product and sales teams to ensure seamless customer transitions and an agile approach to designing services.

The operational unit also incorporates a refreshed Customer Success function. Reporting to the COO, the Head of Customer Success will be responsible for monitoring customer satisfaction and championing the voice of the customer. The team will work closely with key customers and gather important insights, which can be used to shape our product roadmap and improve customer experience.

Checkit BEMS

Checkit BEMS is a new operational profit centre delivering one-off revenue from the installation and maintenance of Building Energy Management Systems (BEMS) for both new and existing customers.

This operational business unit will be headed up by the Checkit BEMS Managing Director, who will be responsible for running our team of highly skilled engineers delivering a first-class Checkit customer experience.

The BEMS business unit continues to play a critical strategic role in introducing customers to the potential value of Checkit connected business solutions, whilst maintaining focus on timely and professional engineering services. It has a key role in generating cash flows to allow increased investment in new product development for the Group.

In H2, we will focus on embedding the new structure, establishing KPIs and aligning working practices. Innovation, integration and collaborative working will remain at the core of our operational values. To that end, the COO and BEMS MD will work closely together to learn more about our customers and markets.

This is an exciting time for the operations team; as we set ourselves up for future success and whatever challenges the rest of this year brings, we are confident we will come out stronger and better together.

The Checkit operational hub will continue to be based in Fleet, Hampshire.

Checkit people

The management of our people took a big step forward with the introduction of a human resources information system in the first quarter. We now have a SaaS platform that we can use to improve the efficiency of HR processes, drive greater employee engagement and gain improved data insights.

The COVID-19 crisis presented a challenging time for our employees as they adapted to new ways of working. There were challenges associated with being on site, furlough arrangements for up to 30% of employees and reduced pay schemes for those who continued to work. All colleagues rose to the challenges that the new world presented with a professional and enthusiastic attitude. The introduction of new technology enabled us to hold our first ever 100% virtual all-employee communication meeting.

We continue to ensure we have the right people in the right roles throughout the organisation. Twenty-eight roles were filled in the first half of the year. It is pleasing that four of these roles were filled internally.

In July we launched an all-employee EMI Share Option scheme, which was taken up by 88% of the workforce. The scheme provides an effective way to engage with and motivate employees.

Outlook

The COVID-19 crisis has changed the way businesses work. The new working world will require a greater investment in technology to deal with:

- the fragmentation and dispersal of workforces as a result of remote working;
- the degradation of processes over time without the support of a system like Checkit;
- an even greater need to save costs;
- an increasing focus on risk control and compliance; and
- a reduction in travel.

We believe that Checkit has the technological solutions to these challenges. In the short term we are well funded and our route to profitability is on track despite the recent disruption.

We recognise the requirement to hold the organisation steady through the current economic uncertainty caused by COVID-19. Investing cash wisely and continuing the cautious approach shown in the first half throughout the remainder of the year will be key to ensuring we maintain momentum in the second half. We are excited about the future. We are confident that our focus is in the right place, and that we are setting ourselves up not only to navigate through uncertainty, but to ensure we continue to execute against the company strategic objectives.

Although managing through the current economic uncertainty remains a priority, the Board remains confident about the outlook and has therefore reinstated financial guidance.

Keith Daley
Chairman
16 September 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited interim results to 31 July 2020

	Unaudited Half year to 31 July 2020 £m	Restated* Unaudited Half year to 31 July 2019 £m	Audited Year to 31 January 2020 £m
Revenue (Note 2)	**6.4**	3.2	9.8
Cost of sales	**(4.1)**	(2.5)	(7.2)
Gross profit	**2.3**	0.7	2.6
Operating expenses			
Net operating expenses (excluding non-recurring or special items)	**(3.8)**	(3.6)	(7.8)
Operating loss before non-recurring or special items	**(1.5)**	(2.9)	(5.2)
Non-recurring or special items (Note 3)	**(0.5)**	(0.2)	(11.3)
Total operating expenses	**(4.3)**	(3.8)	(19.1)
Operating loss	**(2.0)**	(3.1)	(16.5)
Finance income	**—**	—	0.1
Loss before taxation	**(2.0)**	(3.1)	(16.4)
Taxation (Note 4)	**—**	—	0.7
Loss from continuing operations	**(2.0)**	(3.1)	(15.7)
Profit from discontinued operations (Note 5)	**0.9**	1.4	89.4
(Loss)/profit for the period attributable to equity shareholders	**(1.1)**	(1.7)	73.7
Other comprehensive expense			
Exchange differences on translation of foreign operations	**—**	0.5	0.7
Reclassification of exchange differences to income statement for discontinued items	**—**	—	1.5
Total other comprehensive income	**—**	0.5	2.2
Total comprehensive (expense)/income for the period attributable to equity shareholders	**(1.1)**	(1.2)	75.9
(Loss)/earnings per share (Note 7)			
Continuing	**(3.2)p**	(1.7)p	(9.8)p
Discontinued	**1.4p**	0.7p	55.6p

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

* See Note 5.

CONSOLIDATED BALANCE SHEET

unaudited at 31 July 2020

	Unaudited 31 July 2020 £m	Restated* Unaudited 31 July 2019 £m	Audited 31 January 2020 £m
Assets			
Non-current assets			
Capitalised development costs	**—**	2.5	—
Goodwill arising on acquisition	**—**	5.3	—
Other intangible assets	**—**	2.8	—
Property, plant and equipment	**0.9**	1.3	1.2
Deferred tax asset	**—**	—	—
Total non-current assets	**0.9**	11.9	1.2
Current assets			
Inventories	**1.6**	2.2	1.7
Trade and other receivables	**3.1**	3.2	3.4
Deferred consideration	**0.8**	—	—
Asset held for sale	**—**	4.8	—
Cash and cash equivalents	**13.4**	1.5	14.3
Total current assets	**18.9**	11.7	19.4
Total assets	**19.8**	23.6	20.6
Current liabilities			
Trade and other payables	**5.1**	6.7	5.1
Lease liabilities	**0.4**	0.5	0.5
Current tax payable	**—**	0.1	—
Total current liabilities	**5.5**	7.3	5.6
Non-current liabilities			
Long-term provisions	**0.2**	0.2	0.3
Lease liabilities	**0.3**	0.5	0.4
Deferred tax	**—**	0.4	—
Total non-current liabilities	**0.5**	1.1	0.7
Total liabilities	**6.0**	8.4	6.3
Net assets	**13.8**	15.2	14.3
Equity attributable to equity holders of the parent			
Called-up share capital	**3.1**	9.3	3.1
Share premium	**5.4**	5.4	5.4
Merger reserve	**—**	1.1	—
Capital redemption reserve	**6.4**	0.2	6.4
Own shares	**—**	(1.8)	(0.7)
Other reserves	**—**	0.8	—
Translation reserve	**—**	(1.7)	—
Retained earnings	**(1.1)**	1.9	0.1
Total equity	**13.8**	15.2	14.3

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 2020

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Own shares £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Total £m
Balances as at 1 February 2019	9.3	5.4	1.1	0.2	(1.9)	0.8	(2.2)	3.6	16.3
Loss for the period	—	—	—	—	—	—	—	(1.7)	(1.7)
Currency translation differences on foreign currency net investments	—	—	—	—	—	—	0.5	—	0.5
Total comprehensive income/(expense) for the period	—	—	—	—	—	—	0.5	(1.7)	(1.2)
Share based payments	—	—	—	—	0.1	—	—	—	0.1
Transactions with owners	—	—	—	—	0.1	—	—	—	0.1
At 31 July 2019	9.3	5.4	1.1	0.2	(1.8)	0.8	(1.7)	1.9	15.2
Profit for the period	—	—	—	—	—	—	—	75.4	75.4
Recycled translation reserve	—	—	—	—	—	—	1.5	—	1.5
Currency translation differences on foreign currency net investments	—	—	—	—	—	—	0.2	—	0.2
Total comprehensive income/(expense) for the period	—	—	—	—	—	—	1.7	75.4	77.1
Correction to classification	—	—	—	—	(1.5)	1.5	—	—	—
Merger reserve realised	—	—	(1.1)	—	—	—	—	1.1	—
Own shares sold	—	—	—	—	2.6	—	—	—	2.6
Share options and incentives exercised	—	—	—	—	—	(2.3)	—	2.3	—
Repurchase and cancellation of shares	(6.2)	—	—	6.2	—	—	—	(80.6)	(80.6)
Transactions with owners	(6.2)	—	(1.1)	6.2	1.1	(0.8)	—	(77.2)	(78.0)
At 1 February 2020	3.1	5.4	—	6.4	(0.7)	—	—	0.1	14.3
Loss for the period	—	—	—	—	—	—	—	(1.1)	(1.1)
Total comprehensive income for the period	—	—	—	—	—	—	—	(1.1)	(1.1)
Gain on sale of own shares*	—	—	—	—	—	—	—	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)	0.6
At 31 July 2020	**3.1**	**5.4**	**—**	**6.4**	**—**	**—**	**—**	**(1.1)**	**13.8**

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 period, resulting in a gain.

CONSOLIDATED STATEMENT OF CASH FLOWS

unaudited interim results to 31 July 2020

	Unaudited Half year to 31 July 2020 £m	Restated Unaudited Half year to 31 July 2019 £m	Audited Year to 31 January 2020 £m
Net cash flows from operating activities			
(Loss)/profit before taxation			
– From continuing operations	**(2.0)**	(3.1)	(16.4)
– From discontinued operations	**0.9**	1.9	89.9
Adjustments for:			
Depreciation charge	**0.4**	0.9	1.3
Amortisation of capitalised development costs and other intangibles	**0.5**	0.8	2.3
Impairment of intangible assets and goodwill	**—**	—	9.9
Loss on disposal of tangible fixed assets	**—**	—	0.1
Gain on the sale of discontinued operations	**(0.9)**	—	(85.3)
Finance income	**—**	—	(0.1)
Operating cash flows before working capital changes	**(1.1)**	0.5	1.7
Decrease/(increase) in trade and other receivables	**0.4**	(0.5)	(0.9)
Decrease/(increase) in inventories	**0.1**	(0.1)	0.1
Increase/(decrease) in trade payables	**—**	2.5	(0.1)
Operating cash flows after working capital changes	**(0.6)**	2.4	0.8
Decrease in provisions	**—**	(0.4)	(0.1)
Cash (used in)/generated by operations	**(0.6)**	2.0	0.7
Tax paid	**—**	(0.3)	(0.5)
Net cash flows (used in)/generated by operating activities	**(0.6)**	1.7	0.2
Investing activities			
Interest received on bank deposits	**—**	—	0.1
Purchase of property, plant and equipment	**—**	(0.2)	(0.3)
Purchase of business (net of cash acquired)	**—**	(8.8)	(8.8)
Capitalisation of development costs	**(0.5)**	(0.7)	(1.3)
Disposal of businesses (net of cash sold)	**—**	—	93.0
Net cash (used in)/generated by investing activities	**(0.5)**	(9.7)	82.7
Cash flows from financing activities			
Repurchase and cancellation of shares*	**0.5**	—	(77.9)
Repayment of contract lease liabilities	**(0.3)**	(0.6)	(0.8)
Net cash generated by/(used in) financing activities	**0.2**	(0.6)	(78.7)
Net (decrease)/increase in cash and cash equivalents	**(0.9)**	(8.6)	4.2
Cash and cash equivalents at the beginning of the period	**14.3**	10.1	10.1
Cash and cash equivalents at the end of the period	**13.4**	1.5	14.3

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

* This includes amounts of £2.7m repaid by the Employment Benefit Trust in the year ended 31 January 2020 and £0.5m in the six months ended 31 July 2020.

1. Accounting policies

The interim financial information has been prepared on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union. Full details of accounting policies are included in the Annual Report for the year ended 31 January 2020. 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.

The Group has not applied IAS 34 "Interim Financial Reporting", which is not mandatory for UK groups, in the preparation of these interim financial statements.

2. Segmental reporting – continuing operations

Revenues

Geographic	**Half year to 31 July 2020 £m**	Half year to 31 July 2019 £m	Year to 31 January 2020 £m
United Kingdom	**6.2**	3.1	9.6
The Americas	**0.2**	0.1	0.2
Total	**6.4**	3.2	9.8

Revenues of £0.2m have been correctly reclassified from The Americas to United Kingdom in respect of the year ended 31 January 2020.

During the period the Group has reorganised its operations into two segments in line with the Company's strategic direction and revenues for these segments are presented below:

Product segment	**Half year to 31 July 2020 £m**	Half year to 31 July 2019 £m	Year to 31 January 2020 £m
Checkit Connect	**3.4**	1.7	4.7
Checkit BEMS	**3.0**	1.5	5.1
Total	**6.4**	3.2	9.8

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 2020 £m	Half year to 31 July 2019 £m	Year to 31 January 2020 £m
Cash items			
Costs of acquisition	**—**	0.2	0.2
Restructuring costs and integration of Checkit UK	**0.5**	—	0.5
	0.5	0.2	0.7
Non-cash items			
Revision to development costs amortisation period	**—**	—	0.3
Impairment of development costs	**—**	—	2.0
Amortisation of acquired intangible assets	**—**	—	1.0
Impairment of goodwill and acquired intangible assets	**—**	—	7.3
	—	—	10.6
Total non-recurring or special items	**0.5**	0.2	11.3

4. Taxation

The tax charge on the loss from continuing operations before taxation has been estimated at £nil (H1 FY20: £nil; FY20: credit £0.7m). The Group has in excess of £11m of tax losses carried forward.

5. Discontinued operations

Discontinued operations in the prior full year results comprised Bulgin, whose sale was completed on 24 September 2019, and Elektron Eye Technology, the majority of which was sold in the current financial year on 1 July 2020. The prior year balances for the period ended 31 July 2019 have been restated to reflect EET as a discontinued item.

	Half year to 31 July 2020 £m	Half year to 31 July 2019* £m	Year to 31 January 2020 £m
Revenues	**0.3**	16.4	21.3
Expenses	**(0.3)**	(12.2)	(15.7)
Profit before tax	**—**	4.2	5.6
Attributable tax	**—**	(0.5)	(0.5)
Profit after tax	**—**	3.7	5.1
Committed costs of disposal incurred prior to completion – Bulgin	**—**	(2.3)	—
Loss on remeasurement to fair value	**—**	—	(1.0)
Profit on disposal	**0.9**	—	85.3
Attributable tax to gain on disposal	**—**	—	—
Profit from discontinued operation attributable to equity shareholders	**0.9**	1.4	89.4
Foreign currency reserve reclassification	**—**	—	1.5
Other comprehensive income from discontinued operations	**—**	—	1.5

* Restated to include EET as a discontinued item.

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 2020 £m	Half year to 31 July 2019 £m	Year to 31 January 2020 £m
Revenue	**0.3**	1.2	1.9
Expenses	**(0.3)**	(1.1)	(1.9)
Profit before tax	**—**	0.1	—
Attributable tax	**—**	—	—
Profit from discontinued operation before gain on disposal	**—**	0.1	—
Remeasurement of assets to fair value	**—**	—	(1.0)
Gain on disposal	**0.9**	—	—
Attributable tax to gain	**—**	—	—
Profit from EET discontinued operation	**0.9**	0.1	(1.0)

During the period, EET generated £0.3m (H1 FY19: £0.1m; FY19: less than £0.1m) of the Group's net operating cash flows, paid less than £0.1m (H1 FY19 and FY19: less than £0.1m) in respect of investing activities and paid £0.1m (H1 FY19: less than £0.1m; FY19: less than £0.1m) in respect of financing activities.

On 1 July 2020 the Group sold EET's business and assets relating to Henson field of vision screeners for a total consideration of £875,000, payable in 24 monthly instalments, the first of which was received on completion.

5. Discontinued operations continued
Elektron Eye Technology continued

	£m
Consideration	0.9
Assets sold	—
Gain on sale	0.9

Bulgin
The results of the Bulgin discontinued operation, sold in September 2019, which have been included in the consolidated statement of comprehensive income, were as follows:

	Half year to 31 July 2020 £m	Half year to 31 July 2019 £m	Year to 31 January 2020 £m
Revenue	**—**	15.2	19.4
Expenses	**—**	(11.1)	(13.8)
Profit before tax	**—**	4.1	5.6
Attributable tax	**—**	(0.5)	(0.5)
Profit from discontinued operation before gain on disposal	**—**	3.6	5.1
Committed costs of disposal incurred prior to completion of sale	**—**	(2.3)	—
Gain on disposal	**—**	—	85.3
Profit from Bulgin discontinued operation	**—**	1.3	90.4
Foreign currency reserve reclassification	**—**	—	1.5
Other comprehensive income from Bulgin discontinued operation	**—**	—	1.5

6. Businesses acquired – Checkit UK Limited
In the prior financial year, the Group acquired 100% of the equity of Next Control Systems Limited (renamed Checkit UK Limited, CUK), a UK-based business. The results for the comparative periods of the six months ended 31 July 2019 and year ended 31 January 2020 do not include a full period of results for Checkit UK and only incorporate results from the date of acquisition, being 14 May 2019.

Checkit UK generated a profit of £0.2m and £0.7m on sales of £2.6m and £8.5m for the period from 14 May 2019 to 31 July 2019 and 14 May 2019 to 31 January 2020 respectively. If Checkit UK had been acquired on 1 February 2019 revenues would have been £3.0m and profits £0.4m higher for both comparative periods.

7. Earnings per share
Earnings per share (EPS) is the amount of post-tax profit attributable to each share (excluding those held in the Employee Benefit Trust or 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 2020 Million**	31 July 2019 Million	31 January 2020 Million
Weighted average number of ordinary shares for the purposes of basic earnings per share	A	**60.9**	178.3	161.0

7. Earnings per share continued

(Loss)/earnings for the period	Key	**31 July 2020 £m**	31 July 2019 £m	31 January 2020 £m
(Loss)/earnings for the period	B	**(1.1)**	(1.7)	73.7
Profit from discontinued operations, net of tax	C	**(0.9)**	(1.4)	(89.4)
Continuing loss for the period	D	**(2.0)**	(3.1)	(15.7)
Total non-recurring or special items included in profit before tax		**0.5**	0.2	11.3
Total non-recurring or special items in taxation		**—**	—	(0.7)
Continuing loss adjusted for EPS	E	**(1.5)**	(2.9)	(5.1)

	Key	**31 July 2020**	31 July 2019	31 January 2020
Continuing EPS measures				
Basic and diluted	D/A	**(3.2)p**	(1.7)p	(9.8)p
Adjusted continuing EPS measures				
Basic and diluted	E/A	**(2.5)p**	(1.6)p	(3.2)p
Discontinued EPS measures				
Basic and diluted	(C)	**1.4p**	0.7p	55.6p
Total EPS measures				
Basic and diluted	B/A	**(1.8)p**	(1.0)p	45.8p

8. Restatement

To align the disclosure of payments in advance received from customers in respect of installation projects as at 31 July 2019 with the treatment in the audited accounts as at 31 January 2020 inventory and trade and other payables have each been increased by £0.2m. There is no overall impact on the net asset position 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 25 to 29 of the annual financial statements for the year ended 31 January 2020.

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 2020 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The independent auditor's report on those accounts did not contain a statement under Sections 498(2) or 498(3) of the Companies Act 2006 but did contain a qualified opinion. The basis of the qualified opinion is set out below:

The Group has fully impaired its intangible assets as at 31 January 2020. The charge recognised included impairment of goodwill of £4.3m and customer relationships of £3.0m related to the acquisition of Checkit UK Limited (formerly Next Control Systems Limited) in May 2019, impairment of capitalised development costs relating to continuing operations of £2.0m and impairment of certain capitalised development costs of £0.4m which are part of the Elektron Eye Technology disposal group. Management has determined that the impact of COVID-19 should be incorporated into the measurement of assets and liabilities at the reporting date and given the level of uncertainty concluded that no reliable long-term projections supporting the asset base could be prepared. Based on the application of the principles of the Financial Reporting Standard IAS 10 "Events After the Reporting Period", we consider that the economic impact of COVID-19 is a non-adjusting post balance sheet event for the Group. As a result, the carrying value of intangibles recognised in its financial statements at 31 January 2020 should not be adjusted for the economic impact of COVID-19 which occurred after the balance sheet date. We were not provided with an impairment analysis which did not include the impact of COVID-19. Consequently, we were unable to determine the extent of impairment that may have been necessary and whether any adjustment to the impairment charge and carrying value were necessary.

The Board's decision to impair the intangible assets was based on the economic uncertainty created by COVID-19 making the preparation of reliable long-term value in use cash forecasts impossible. The Board maintains that (after the impairment) the net asset position as presented in the financial statements sets out a realistic view of the business as at that date.

Keith Daley
Executive Chairman

Andy Weatherstone
Chief Financial Officer

Rachel Neaman
Non-executive Director

John Wilson
Non-executive Director

Sara Coate
Group Company Secretary and Solicitor

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