Kneat

Kneat Announces Record Revenue for Second Quarter 2023

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SaaS Revenue Growth of 80% Drives Overall Revenue Growth of 45%

LIMERICK, Ireland, Aug. 8, 2023 /CNW/ - **kneat.com, inc.** (TSX: KSI) (OTC: KSIOF) **("Kneat" or the "Company")** a leader in digitizing and automating validation and quality processes, today announced financial results for the three-month period ended June 30, 2023. All dollar amounts are presented in Canadian dollars unless otherwise stated.

- **Second-quarter 2023 total revenue reaches $8.0 million, an increase of 45% year over year**
- **Annual Recurring Revenue (ARR)[1] at June 30, 2023 expands 75% year over year, to $28.4 million**
- **SaaS ARR[1] at June 30, 2023 reaches $28.3 million, an increase of 86% year over year**

"With a record number of strategic wins in the first half of 2023, we are fortifying our revenue base for the next several years. We expect to see strong topline growth over the balance of the year, as we continue to grow into the investments we made over the course of 2022."

-said Eddie Ryan, Chief Executive Officer of Kneat.

Q2 2023 Financial Highlights

- Total revenues increased 45% to $8.0 million for the second quarter of 2023, compared to $5.5 million for the second quarter of 2022.
- SaaS revenue for the second quarter of 2023 grew 80% to $7.0 million, versus $3.9 million for the second quarter of 2022.
- Second-quarter 2023 gross profit was $5.3 million, up 62% from $3.3 million in gross profit for the second quarter of 2022.
- Gross margin in the second quarter of 2023 was 66%, compared to 59% for the second quarter of 2022.
- EBITDA[1] in the second quarter of 2023 was ($3.5) million, compared with ($2.2) million for the second quarter of 2022.
- Adjusted EBITDA[1] in the second quarter of 2023 was ($1.3) million, compared with ($0.7) million for the second quarter of 2022.
- Net loss for the second quarter of 2023 was ($5.4) million, compared with ($3.6) million for the second quarter of 2022.
- Total ARR[1], which includes SaaS license and recurring maintenance fees, was $28.4 million at June 30, 2023, an increase of 75% from $16.3 million at June 30, 2022.
- SaaS ARR[1], the proportion of ARR attributable to SaaS licenses, was $28.3 million at the end of the second quarter of 2023, an increase of 86% from $15.2 million at June 30, 2022.

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[1] ARR and SaaS ARR are supplementary measures. EBITDA and Adjusted EBITDA are non-IFRS measures and are not recognized, defined or standardized measures under IFRS. These measures are defined in the "Supplementary and Non-IFRS Measures" section of this news release.

First Half 2023 Financial Highlights

- Total revenues for the six-month period ended June 30, 2023 increased 49% to $16.0 million, as compared to $10.7 million for the comparable six-month period in 2022.

- SaaS revenue grew 86% to $13.4 million for the six months ended June 30, 2023, versus $7.2 million for the comparable period in 2022.
- Gross profit was $10.7 million, up 63% from $6.6 million in gross profit for the first half of 2022.
- Gross margin for the first half of 2023 was 67%, compared to 61% for the first half of 2022.
- EBITDA[1] for the first half of 2023 was ($4.1) million, compared with ($4.3) million for the first half of 2022.
- Adjusted EBITDA[1] for the first half of 2023 was ($2.4) million, compared with ($0.8) million for the first half of 2022.
- Net loss for the first half of 2023 was ($7.9) million, compared with ($7.1) million for the first half of 2022.

Q2 2023 Business Highlights

- In early April 2023, Kneat announced a three-year Master Service Agreement with a division of one of the top 20 pharmaceutical companies in the world, as ranked by 2021 revenue. The Agreement, which is for elogbook management, demonstrates the appeal of Kneat's applicability for use cases outside of validation as well as the importance of Kneat's partners, one of which introduced Kneat Gx to the company.
- In late April 2023, Kneat signed a Master Services Agreement with one of the top 20 contract development and manufacturing organizations ("CDMO") in the world, as ranked by 2021 revenue. The Agreement, which is initially for computer systems validation and does not expire, affirms Kneat's progress consolidating its leadership in validation for the life science space, particularly with companies in the pharmaceutical supply chain.
- In early June, Kneat announced the appointment of Colum McNamara as its Senior Vice President of Global Operations. Colum is an accomplished business leader, with more than 25 years' experience in information technology. Colum served in varying leadership positions including Customer Success, Technical Support, Network Operations, and overall general management.
- In late June, Kneat secured up to €15 million in secured debt financing from IPF Partners, a leading financing provider focused exclusively on the healthcare sector. Kneat intends to use the financing alongside its own funds from operations for general corporate purposes.
- At the end of June, Kneat announced that it had signed a three-year Master Services Agreement with a division of a leading global pharmaceutical company, effective immediately and allowing the company to scale Kneat across all its business divisions and affiliates.

Kneat's business momentum has continued into the third quarter:

- In July, Kneat announced that it had signed a three-year Master Services Agreement with a top-tier and fully integrated contract development and manufacturing organization ("CDMO") headquartered in Asia. The agreement expands Kneat's presence in Asia and allows the CDMO to scale Kneat across all its validation processes.

"We are pleased with our results year to date. The progress we made in the second quarter goes beyond our rapid revenue growth. It includes shifting more of our services to partners, expanding gross margins year over year, and securing financing to support our transition towards profitability."

-said Hugh Kavanagh, Chief Financial Officer of Kneat.

Quarterly Conference Call

Eddie Ryan, Chief Executive Officer of Kneat, and Hugh Kavanagh, Chief Financial Officer of Kneat, will host a conference call to discuss Kneat's second-quarter results and hold a Q&A session for analysts and investors via webcast on Wednesday, August 9, 2023, at 9:00 a.m. ET.

Interested parties can register for the live webcast via the following link:

Register here

Supplementary and Non-IFRS Financial Measures

The Company uses supplementary financial measures as key performance indicators in its MD&A and other communications. Management uses both IFRS measures and supplementary, non-IFRS financial measures as key performance indicators when planning, monitoring and evaluating the Company's performance.

Annual Recurring Revenue ("ARR")

ARR is used by Kneat to assess the expected recurring annual revenues from the customers that are live on the Kneat Gx platform at the end of the period. ARR is calculated as the licenses delivered to customers at the period end, multiplied by the expected customer retention rate of 100% and multiplied by the agreed annual SaaS license or maintenance fee. Since many of the customer contracts are in currencies other than the Canadian dollar, the Canadian dollar equivalent is calculated using the related period end exchange rate multiplied by the contracted currency amount.

Software-as-a-Service Annual Recurring Revenue ("SaaS ARR")

SaaS ARR is a component of ARR that is used by Kneat to assess the expected recurring revenues exclusively from license subscriptions to the Kneat Gx platform at the end of the period. SaaS ARR is calculated as the SaaS licenses delivered to customers at the period end, multiplied by the expected customer retention rate of 100% and multiplied by the full agreed annual SaaS license fee. Since many of the customer contracts are in currencies other than the Canadian dollar, the Canadian dollar equivalent is calculated using the related period end exchange rate multiplied by the contracted currency amount.

Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA")

EBITDA is calculated as net income (loss) attributable to kneat.com excluding interest income (expense), provision for income taxes, depreciation and amortization. We provide and use this non-IFRS measure of our operating performance to highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. A reconciliation of EBITDA to IFRS financial measures is provided in the financial statements accompanying this press release.

Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA")

Adjusted EBITDA is calculated as net income (loss) attributable to kneat.com excluding interest income (expense), provision for income taxes, depreciation and amortization and stock-based compensation expense. We provide and use this non-IFRS measure of our operating performance to highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures and to inform financial comparisons with other companies. A reconciliation of Adjusted EBITDA to IFRS financial measures is provided in the financial statements accompanying this press release.

About Kneat

Kneat, a Canadian company with operational headquarters in Limerick, Ireland, develops and markets the next-generation Kneat Gx SaaS platform. Multiple business work processes can be configured on the platform from equipment to computer system validation, through to quality document management. Kneat's software allows users to author, review, approve, execute testing online, manage any exceptions, and post-approve final deliverables in a controlled FDA 21 CFR Part 11/ EU Annex 11 compliant platform. Macro and micro report dashboards enable powerful oversight into all systems, projects and processes globally. Customer case studies are reporting productivity improvements in excess of 100% and a higher data integrity and compliance standard. For more information visit www.kneat.com

Cautionary and Forward-Looking Statements

Except for the statements of historical fact contained herein, certain information presented constitutes "forward-looking information" within the meaning of applicable Canadian securities laws. Such forward-looking information includes, but is not limited to, the relationship between Kneat and the customer, Kneat's business development activities, the use and implementation timelines of Kneat's software within the customer's validation processes, the ability and intent of the customer to scale the use of Kneat's software within the customer's organization, our ability to win business from new customers and expand business from existing customers, our expected use of the net proceeds from the IPF Facility and/or any future offering, the anticipated effects of the IPF Facility and/or any future offering on our business and operations, and the compliance of Kneat's platform under regulatory audit and inspection. These and other assumptions, risks and uncertainties may cause Kneat's actual results, performance, achievements and developments to differ materially from the results, performance, achievements or developments expressed or implied by forward-looking statements.

Material risks and uncertainties relating to our business are described under the headings "Cautionary Note Regarding Forward-Looking Statements and Information" and "Risk Factors" in our annual MD&A dated February 22, 2023, under the heading "Risk Factors" in our Annual Information Form dated February 22, 2023 and in our other public documents filed with Canadian securities regulatory authorities, which are available at www.sedar.com. Forward-looking statements are provided to help readers understand management's expectations as at the date of this release and may not be suitable for other purposes. Readers are cautioned not to place undue reliance on forward-looking statements. Kneat assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as expressly required by law. Investors should not assume that any lack of update to a previously issued forward-looking statement constitutes a reaffirmation of that statement. Continued reliance on forward-looking statements is at an investor's own risk.

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Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars)

	Three-month period ended		Six-month period ended	
	June 30, 2023	**June 30, 2022**	**June 30, 2023**	**June 30, 2022**
Revenue				
SaaS License fees	7,017,938	3,889,834	13,405,573	7,188,190
On-premise license fees	-	77,715	436,126	766,133
Maintenance fees	55,063	220,733	206,157	434,226
Professional services and other	966,238	1,359,720	1,956,291	2,359,055
Total Revenue	8,039,239	5,548,002	16,004,147	10,747,604
Cost of Revenue	(2,711,323)	(2,264,887)	(5,302,933)	(4,193,703)
Gross Profit	5,327,916	3,283,115	10,701,214	6,553,901
Gross Margin	66 %	59 %	67 %	61 %
Expenses				
Research and development	(4,224,316)	(2,666,487)	(8,088,001)	(5,175,769)
Sales and marketing	(3,338,280)	(1,703,420)	(6,293,020)	(3,003,290)
General and administrative	(1,709,361)	(1,208,161)	(3,615,243)	(2,341,395)
Total Expenses	(9,271,957)	(5,578,068)	(17,996,264)	(10,520,454)
Operating Loss	**(3,944,041)**	**(2,294,953)**	**(7,295,050)**	**(3,966,553)**
Interest expense	(53,594)	(57,005)	(108,540)	(121,356)
Interest income	2,185	276	4,119	1,026
Foreign exchange loss	(1,403,261)	(1,282,206)	(465,047)	(2,973,265)
Loss before income taxes	(5,398,711)	(3,633,888)	(7,864,518)	(7,060,148)
Income taxes	-	-	(8,550)	-
Net loss for period	(5,398,711)	(3,633,888)	(7,873,068)	(7,060,148)
Other comprehensive (loss) / income				

Foreign currency translation adjustment to presentation currency	910,009	629,590	344,603	1,364,024
Comprehensive loss for the period	(4,488,702)	(3,004,298)	(7,528,465)	(5,696,124)
Loss per share - basic and diluted	$ (0.07)	$ (0.05)	$ (0.10)	$ (0.09)
Weighted Average Number of Common Shares Outstanding				
Basic and diluted	77,720,905	77,380,273	77,704,046	77,228,662
Reconciliation:				
Total loss for the period	**(5,398,711)**	**(3,633,888)**	**(7,873,068)**	**(7,060,148)**
Interest expense	53,594	57,005	108,540	121,356
Interest income	(2,185)	(276)	(4,119)	(1,026)
Income taxes	-	-	8,550	-
Depreciation expense	199,637	212,524	403,253	433,112
Amortization expense	1,678,581	1,145,799	3,242,884	2,206,889
EBITDA Loss	**(3,469,084)**	**(2,218,836)**	**(4,113,960)**	**(4,299,817)**
Adjustments to EBITDA				
Foreign exchange loss (gain)	1,403,261	1,282,206	465,047	2,973,265
Stock-based compensation expense	784,680	232,714	1,274,079	558,318
Adjusted EBITDA Loss	**(1,281,143)**	**(703,916)**	**(2,374,834)**	**(768,234)**

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Unaudited Condensed Interim Consolidated Statements of Financial Position

(expressed in Canadian dollars)

as at

	June 30, 2023	Dec 31, 2022

Assets		
Current assets		
Cash	13,524,050	12,282,478
Accounts receivable	6,992,401	8,914,980
Prepayments	938,626	931,856
	21,455,077	22,129,314
Non-current assets		
Accounts receivable	2,390,962	1,104,624
Property and equipment	7,350,443	7,807,042
Intangible assets	23,047,816	19,364,904
Total assets	**54,244,298**	**50,405,884**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	6,195,804	5,768,054
Contract liabilities	14,682,427	10,617,142
Lease liabilities	517,641	588,472
	21,395,872	16,973,668
Non-current liabilities		
Contract liabilities	252,773	949,224
Lease liabilities	6,128,451	6,503,041
Loan payable and accrued interest	6,717,637	-
Total Liabilities	**34,494,733**	**24,425,933**
Equity		
Shareholders' equity	19,749,565	25,979,951

Total liabilities and equity	**54,244,298**	**50,405,884**

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Unaudited Condensed Interim Consolidated Statement of Cash Flows

(expressed in Canadian dollars)

For the period ended

	6 months June 30, 2023	**6 months June 30, 2022**
Operating activities		
Net loss for the period	(7,873,068)	(7,060,148)
Charges to loss not involving cash:		
Depreciation of property and equipment	403,253	433,112
Share-based compensation expense	1,274,079	558,318
Write off of property and equipment	26,648	362
Interest expense	108,540	121,356
Amortization of the intangible asset	3,242,884	2,206,889
Tax expense	8,550	-
Amortization of deferred contract acquisition costs	-	2,150
Impact of lease termination	(65,910)	-
Other non-cash adjustments		-
Foreign exchange (gain) loss	391,308	2,973,265
Increase/(Decrease) in non-current contract liabilities	(689,913)	17,662
Net change in non-cash working capital related to operations	6,633,799	3,796,757
Net cash provided by operating activities	**3,460,170**	**3,049,723**
Financing activities		
Payment of principal and interest on the loan payable	-	(110,237)

Proceeds from the exercise of stock options	24,000	69,808
Proceeds from the exercise of warrants	-	461,090
Repayment of lease liabilities	(381,334)	(418,729)
Proceeds received from loan financing	7,187,700	-
Issuance costs associated with loan financing	(470,063)	-
Net cash (used)/provided by financing activities	**6,360,303**	**1,932**
Investing activities		
Additions to the intangible asset	(8,460,769)	(5,433,542)
Additions to property and equipment	(79,227)	(153,821)
Collection of research and development tax credits	-	912,191
Net cash used in investing activities	**(8,539,996)**	**(4,675,172)**
Effects of exchange rates on cash	(38,905)	(476,864)
Net change in cash during the year	1,241,572	(2,100,381)
Cash - Beginning of year	12,282,478	21,562,968
Cash - End of year	**13,524,050**	**19,462,587**

SOURCE kneat.com, inc.