

CV Check Limited (CV1.ASX)

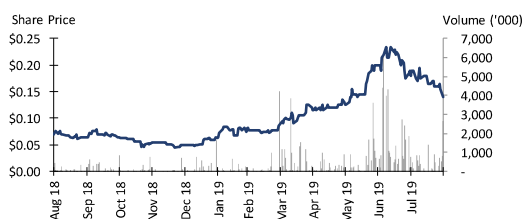
Excellent Cost Control

Disclosures

The analyst does not own CV1 securities.
 Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) do not own CV1 securities.
 Cranport Pty Ltd owns 1,029,375 shares in CV1.
 Refer to disclosures at end of report for details.
Foster Stockbroking acted as Joint Lead Manager to the placement of 19.1M CV1 shares at \$0.16 per share to raise \$3.1M in August 2019. Foster Stockbroking received fees for this service.

Recommendation	Spec Buy
Previous	Spec Buy
Risk	Very High
Price Target (A\$)	N/A
Previous (A\$)	N/A
Share Price (A\$)	\$ 0.14
ASX Code	CV1
52 week low - high (A\$)	0.044-0.235
Valuation (A\$)	N/A
Valuation Methodology	N/A
Capital structure	
Shares on Issue (M)	292.1
Options (M)	12.5
Undiluted Market Cap, A\$M	40.9
Net Cash/(Debt), A\$M, est.	6.1
EV (A\$m)	34.8
12mth Av Daily Volume ('000)	403
Shareholders	
Beverley Carolan and Steven Carolan	16.2%
Bernard Stephens	6.5%
Board	
Ivan Gustavino	Chairman
Rod Sherwood	Chief Executive Officer
Steve Carolan	Non-Executive Director
Reina Nicholls	Non-Executive Director
George Cameron-Dow	Non-Executive Director

Share Price Graph



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Talking Point mostly discusses stocks for which Foster Stockbroking does not provide formal research coverage. It combines both a market view and basic research analysis. The aim is to offer clients additional investment ideas that lie outside the firm's universe of formally covered stocks.

Event:

- **FY19a result.**

Analysis:

- **CV1 reported its FY19a result on 30 August**, showing improvement on FY18a. The result was broadly within our expectations.
- **Revenue flat YoY as the company courted enterprise revenue:** revenue for FY19a was \$12.3M, contracting mildly by 1% from FY18a, and slightly below our expectations. The company targeted business customer revenue during the year, which essentially offset the reduction in non-recurring individual customer revenue.
- **Excellent execution on cost control:** FY19a operating costs improved 10% on FY18a, with the company demonstrating improvement in cost of sales (7% YoY), employee expenses 8%, and marketing expenses (47%). Reduced marketing expenses for individual customers in particular was a positive result from the business customer strategy pivot.
- **Heading to profit breakeven:** Cost control enabled FY19a EBITDA to improve significantly to -\$0.5M from -\$1.9M in FY18a. Similarly, FY19a loss of \$1.1M was an improvement on the loss of \$2.5M incurred in FY18a.
- **Delivered on positive operating cash flow in FY19a:** as previously announced, the company delivered three successive quarters of positive operating cash flow in Q2 to Q4 of FY19a. CV1 generated \$246k operating cash flow for FY19a, a reversal on the \$1.8M used in operating activities in FY18a.
- **Cash of \$3.1M at June 2019 and no debt.** The company recently successfully completed a placement of 19.1M shares to raise \$3M. We estimate the company has \$6M cash and no debt after the placement.
- **The company has not provided guidance for FY20e.**

Earnings and Valuation:

- **We do not forecast earnings or derive a valuation for CV1 at this stage.** We await progress on its enterprise focus and product bundling strategy, as well as customary metrics such as users, ARPU, and churn rate.

Recommendation:

- We continue to recommend CV1 as a **Speculative Buy**. We hold the view that should CV1 continue to show traction in the enterprise market and expand ARPU and margin, its equity valuation could significantly exceed its current market capitalisation.
- **Catalysts for the stock** include: 1) continued client wins in the enterprise and SME space, with a focus on increasing enterprise customer numbers and recurring revenue; 2) higher LCV driven by higher ARPU from increased product suite; 3) margin expansion through product bundling to enterprise customers; and 4) inorganic growth.