Kneat

## Kneat Announces Record Revenue for First Quarter 2023

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*Revenue grows 53% and SaaS revenue grows 94% year over year*

**LIMERICK, Ireland, May 9, 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 March 31, 2023. All dollar amounts are presented in Canadian dollars unless otherwise stated.

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**• First-quarter 2023 total revenue reaches $8.0 million, an increase of 53% year over year**

**• Annual Recurring Revenue (ARR)1 at March 31, 2023 doubles year over year, to $26.9 million**

**• SaaS ARR1 at March 31, 2023 reaches $26.3 million, an increase of 113% year over year**

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*"We are pleased with our first-quarter results," said Eddie Ryan, Chief Executive Officer of Kneat. "Teams entrusted with their companies' quality processes are seeing the value Kneat delivers through digitization, in terms of speed, quality, and compliance, and they want to replicate it — for themselves if they're not already using Kneat, or within their own organizations if they are."*

*-said Eddie Ryan, Chief Executive Officer of Kneat.*

**Q1 2023 Highlights**

- Total revenues increased 53% to $8.0 million in the first quarter of 2023, compared to $5.2 million for the first quarter of 2022.
- SaaS revenue for the first quarter of 2023 grew 94% to $6.4 million, versus $3.3 million for the first quarter of 2022.
- First-quarter 2023 gross profit was $5.4 million, up 64% from $3.3 million in gross profit for the first quarter of 2022.
- Gross margin in the first quarter of 2023 was 67%, compared to 63% for the first quarter of 2022, and 63% in the fourth quarter of 2022.
- EBITDA1 in the first quarter of 2023 was ($0.6) million, compared with ($2.1) million for the first quarter of 2022.
- Adjusted EBITDA1 in the first quarter of 2023 was ($1.0) million, compared with ($0.1) million for the first quarter of 2022.
- Net loss for the first quarter of 2023 was ($2.5) million, compared with ($3.4) million for the first quarter of 2022.
- Total ARR1, which includes SaaS license and recurring maintenance fees, was $26.9 million at March 31, 2023, an increase of 100% from $13.4 million at March 31, 2022.
- SaaS ARR1, the proportion of ARR attributable to SaaS licenses, was $26.3 million at the end of the first quarter of 2023, an increase of 113% from $12.4 million at March 31, 2022.
- In January 2023, Kneat closed a three-year MSA with Fresenius Kabi, a leading global healthcare company with more than 40,000 employees. The agreement is for validating production equipment, facilities and utilities across five sites. Fresenius Kabi is an independent subsidiary of Fresenius, a more than 300,000-employee global healthcare group.
- In February 2023, Kneat signed a three-year Master Services Agreement ("MSA") with a global healthcare leader whose product portfolio spans multiple therapeutic divisions from medical devices through to pharmaceuticals. The Agreement is for equipment and computer systems validation at the company, which has over 100,000 employees and more than 80 manufacturing sites worldwide.

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

- 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 mid-April 2023, Kneat hosted its first user conference for European customers, VALIDATE EU, in Dublin, Ireland. The two-day conference, which was sold out, offered 150 validation and quality professionals from around Europe the opportunity to discover and apply validation technologies, regulations, and best practices. 100% of respondents to an attendee survey said they would recommend VALIDATE to their colleagues, and 100% of VALIDATE's sponsors said they would sponsor again. Kneat plans to continue building industry thought leadership and strong relations with a second conference in 2023 scheduled for the fourth quarter in North America.
- 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.

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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.

*"The strong revenue growth Kneat achieved in the first quarter was aided by a stronger sales force supported by a dedicated marketing team, a larger partner community and the continued growth in customer demand. On top of this, we added dozens of R&D team members in the past year to expand our platform's capabilities going forward. With these advantages, we expect to sustain our strong top-line growth, which is among the fastest of any publicly traded SaaS company in Canada today."*

*-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 first-quarter results and hold a Q&A for analysts and investors via webcast on Wednesday, May 10, 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 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.

**Non-GAAP Financial Measures**

*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.

Management believes that EBITDA and Adjusted EBITDA are useful measures of financial performance without the variation caused by the impacts of the items described above because they provide an indication of the Company's ability to seize growth opportunities in a cost-effective manner and finance its ongoing operations. Excluding these items does not imply that they are necessarily non-recurring. These non-GAAP financial measures are not earnings or cash flow measures, or measures of financial condition, recognized by International Financial Reporting Standards (IFRS) and they do not have standardized meanings prescribed by IFRS. Management's method of calculating these financial measures may differ from the methods used by other issuers and, accordingly, the definitions of these non-GAAP financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned that non-GAAP financial measures should not be construed as an alternative to net income determined in accordance with IFRS as indicators of the Company's performance or financial condition, or to cash flows from operating activities as measures of liquidity and cash flows.

**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, 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.

For further information:

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**First Quarter, 2023 Financial Statements**

**kneat.com, inc.**
**Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**
*(expressed in Canadian dollars)*

| | Three-month period ended | |
|---|---|---|
| | **Mar 31, 2023** | **Mar 31, 2022** |
| **Revenue** | | |
| SaaS License fees | 6,387,635 | 3,298,356 |
| On-premise license fees | 436,126 | 688,418 |
| Maintenance fees | 151,094 | 213,494 |
| Professional services and other | 990,053 | 999,334 |
| **Total Revenue** | 7,964,908 | 5,199,602 |
| Cost of Revenue | (2,591,609) | (1,928,815) |
| **Gross Profit** | 5,373,299 | 3,270,787 |
| Gross Margin | 67 % | 63 % |
| **Expenses** | | |
| Research and development | (3,863,685) | (2,509,282) |
| Sales and marketing | (2,954,740) | (1,299,871) |
| General and administrative | (1,905,882) | (1,133,235) |
| **Total Expenses** | (8,724,307) | (4,942,388) |
| **Operating Loss** | **(3,351,008)** | **(1,671,601)** |
| Interest expense | (54,945) | (64,351) |
| Interest income | 1,933 | 750 |
| Foreign exchange gain (loss) | 938,213 | (1,691,058) |
| **Loss before income taxes** | (2,465,807) | (3,426,260) |
| Income taxes | (8,550) | - |
| **Net loss for period** | (2,474,357) | (3,426,260) |
| **Other comprehensive (loss) / income** | | |
| Foreign currency translation adjustment to presentation currency | (565,416) | 734,433 |
| **Comprehensive loss for the period** | (3,039,773) | (2,691,827) |
| **Loss per share - basic and diluted** | $ (0.03) | $ (0.04) |
| **Weighted Average Number of Common Shares Outstanding** | | |
| Basic and diluted | 77,686,689 | 77,045,241 |
| **Reconciliation:** | | |
| Total loss for the period | **(2,474,357)** | **(3,426,260)** |
| Interest expense | 54,945 | 64,351 |
| Interest income | (1,933) | (750) |
| Income taxes | 8,550 | - |
| Depreciation expense | 203,616 | 220,588 |
| Amortization expense | 1,564,303 | 1,061,090 |
| **EBITDA Loss** | **(644,876)** | **(2,080,981)** |
| Adjustments to EBITDA | | |
| Foreign exchange loss (gain) | (938,213) | 1,691,058 |
| Stock-based compensation expense | 489,399 | 325,604 |
| **Adjusted EBITDA Loss** | **(1,093,690)** | **(64,319)** |

**kneat.com, inc.**
**Unaudited Condensed Interim Consolidated Statements of Financial Position**
***(expressed in Canadian dollars)***
**as at**

| | March 31, 2023 | Dec 31, 2022 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 10,608,438 | 12,282,478 |
| Accounts receivable | 12,806,725 | 8,914,980 |
| Prepayments | 1,217,401 | 931,856 |
| | 24,632,564 | 22,129,314 |
| **Non-current assets** | | |
| Accounts receivable | 1,845,598 | 1,104,624 |
| Property and equipment | 7,741,313 | 7,807,042 |
| Intangible assets | 21,539,103 | 19,364,904 |
| **Total assets** | **55,758,578** | **50,405,884** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | 5,834,782 | 5,768,054 |
| Contract liabilities | 18,731,815 | 10,617,142 |
| Lease liabilities | 603,604 | 588,472 |
| | 25,170,201 | 16,973,668 |
| **Non-current liabilities** | | |
| Contract liabilities | 675,657 | 949,224 |
| Lease liabilities | 6,459,143 | 6,503,041 |
| **Total Liabilities** | **32,305,001** | **24,425,933** |
| **Equity** | | |
| Shareholders' equity | 23,453,577 | 25,979,951 |
| **Total liabilities and equity** | **55,758,578** | **50,405,884** |

**kneat.com, inc.**
**Unaudited Condensed Interim Consolidated Statement of Cash Flows**
***(expressed in Canadian dollars)***
For the period ended

| | 3 months March 31, 2023 | 3 months March 31, 2022 |
|---|---|---|
| **Operating activities** | | |
| Net loss for the period | (2,474,357) | (3,426,260) |
| Charges to loss not involving cash: | | |
| Depreciation of property and equipment | 203,616 | 220,588 |
| Share-based compensation expense | 489,399 | 325,604 |
| Interest expense | 54,945 | 64,351 |
| Amortization of the intangible asset | 1,564,303 | 1,061,090 |
| Tax expense | 8,550 | - |
| Amortization of deferred contract acquisition costs | - | 2,135 |
| Write-off of property and equipment | 764 | 370 |
| Foreign exchange (gain) loss | (938,213) | 1,691,058 |
| Increase/(Decrease) in non-current contract liabilities | (274,257) | 28,121 |
| Net change in non-cash working capital related to operations | | |
| | 3,968,242 | 2,564,000 |
| **Net cash provided by operating activities** | **2,602,992** | **2,531,057** |
| **Financing activities** | | |
| Payment of principal and interest on the loan payable | - | (110,237) |
| Proceeds from the exercise of stock options | 24,000 | - |
| Proceeds from the exercise of warrants | - | 461,090 |
| Repayment of lease liabilities | (203,457) | (216,436) |
| **Net cash (used)/provided by financing activities** | **(179,457)** | **134,417** |
| **Investing activities** | | |
| Additions to the intangible asset | (4,099,009) | (2,664,862) |
| Additions to property and equipment | (11,294) | (75,286) |
| **Net cash used in investing activities** | **(4,110,303)** | **(2,740,148)** |
| **Effects of exchange rates on cash** | 12,728 | (501,707) |
| **Net change in cash during the year** | (1,674,040) | (576,381) |
| **Cash - Beginning of year** | 12,282,478 | 21,562,968 |
| **Cash - End of year** | **10,608,438** | **20,986,587** |