Kneat Announces Record Revenue for Fourth Quarter and Full Year 2023

LIMERICK, Ireland, February 21, 2024 – 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- and twelve-month periods ended December 31, 2023. All dollar amounts are presented in Canadian dollars unless otherwise stated.

- Annual Recurring Revenue (ARR)[1] at December 31, 2023, reaches $37.4 million, an increase of 55% year over year, and 19% from $31.4 million at September 30, 2023
- Total revenue reaches $9.8 million in quarter four, an increase of 35% year over year
- SaaS revenue growth of 58% drives gross margin to 72% in quarter four
- Fourth-quarter gross profit grew 53% year over year to $7.0 million from $4.6 million

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"Kneat embarks on 2024 stronger than ever, after another year of solid execution. In 2023, we grew closer to customers, expanded the functionality of our software platform, strengthened the infrastructure supporting it, and continued to pursue excellence as a company. We are developing a world-class organization behind a world-class platform, built to deliver value to regulated industries for years to come."

-said Eddie Ryan, Chief Executive Officer of Kneat.

Q4 2023 Highlights

- Total revenues increased 35% to $9.8 million in the fourth quarter of 2023, compared to $7.3 million for the fourth quarter of 2022.
- SaaS revenue for the fourth quarter of 2023 grew 58% to $8.9 million, versus $5.7 million for the fourth quarter of 2022.
- Fourth-quarter 2023 gross profit was $7.0 million, up 53% from $4.6 million in gross profit for the fourth quarter of 2022.
- Gross margin in the fourth quarter of 2023 was 72%, compared to 63% for the fourth quarter of 2022, and 65% for the third quarter of 2023.
- EBITDA[1] in the fourth quarter of 2023 was ($0.1) million, compared with $2.2 million for the fourth quarter of 2022.

[1] ARR, SaaS ARR and NRR 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.

- Adjusted EBITDA[1] in the fourth quarter of 2023 was ($0.4) million, compared with ($1.3) million for the fourth quarter of 2022.
- Total ARR[1], which includes SaaS license and recurring maintenance fees, was $37.4 million at December 31, 2023, an increase of 55% from $24.2 million at December 31, 2022, and 19% higher than $31.4 million at September 30, 2023.
- SaaS ARR[1], the proportion of ARR attributable to SaaS licenses, was $37.3 million at December 31, 2023, an increase of 57% from $23.7 million at December 31, 2022.
- In October 2023, Kneat hosted its annual conference, VALIDATE, for North America in Miami, Florida. As this premier industry event focused exclusively on validation, VALIDATE 2023 convened quality control professionals from around the world to share validation technologies, regulations, and best practices. Presenters from across the industry represented Merck, Sanofi, Eli Lilly and Fujirebio Diagnostics, among others.
- In November 2023, Kneat announced the win of a global manufacturer of consumer health and wellness products headquartered in the United States, which selected Kneat to digitize its equipment Commissioning and Qualification process. With more than 20,000 employees and 25 global sites, the company will begin implementation at the lead pilot site immediately with go-live expected in Q1 2024.

Full Year 2023 Highlights

- Total revenues for the full year 2023 increased 44% to $34.2 million, compared to $23.7 million for 2022.
- SaaS revenue grew 73%, reaching $30.1 million for the full year 2023, versus $17.3 million for 2022.
- Full-year 2023 gross profit was $23.2 million, an increase of 58% compared to $14.7 million for the full year 2022.
- Gross margin for the full year 2023 was 68%, compared to 62% for all of 2022.
- EBITDA[1] for the full year 2023 was ($5.6) million, compared with ($3.2) million for all of 2022.
- Adjusted EBITDA[1] for the full year 2023 was ($3.3) million, compared with ($2.9) million for all of 2022.
- Over the course of 2023, Kneat added eight large strategic customers: three global healthcare companies; two contract distribution and manufacturing organizations; two pharmaceutical companies; and a global consumer healthcare company.
- Net Revenue Retention Rate (NRR)[1], which reflects the expansion of ARR by customers on the platform at the start of 2023 over the course of the year, was 138% for the year ended December 31, 2023.

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Strategic Business Developments

- In June 2023, Kneat added an accomplished global business executive, Colum McNamara, as Senior Vice President of Global Operations. Colum leads a single, customer-focused global operations and services team comprised of Consultancy Services, Strategic Partnerships, Kneat Academy, Customer Success, and Support.
- Also in June of 2023, Kneat secured up to €15 million in secured debt financing from IPF Partners, a leading financing provider focused exclusively on the healthcare sector. The agreement enables greater financial flexibility for Kneat as it continues to build out the next-gen platform for Validation Lifecycle Management.
- Kneat was again recognized in Deloitte's Fast 50, which ranks the 50 fastest-growing technology companies across Ireland.

Kneat's business momentum continues into 2024:

- In January 2024, Kneat announced that it signed a three-year Master Services Agreement with a global manufacturer of consumer health and wellness products. Headquartered in Europe, with over 35,000 employees and operations in more than 50 countries, the company's goal is to digitize and harmonize their equipment and computer systems validation processes across their North America, European and the Asia-Pacific manufacturing sites. Implementation is ongoing at lead sites in the UK and the US, with initial go-live expected in Q2 2024.
- In February 2024, Kneat completed an equity financing through an agreement with a syndicate of investment dealers led by Cormark Securities for aggregate gross proceeds of approximately $20 million in exchange for 6,153,880 common shares from the treasury of the Company.

"2023 was a pivotal year for Kneat. After significantly increasing the size of our team in 2022, we grew into these investments over the course of this past year, and it's paying off: in the fourth quarter of 2023, gross profit increased at nearly twice the rate of operating expenses. As we continue to grow our SaaS revenue, invest at a more measured pace, and develop efficiencies as we scale, we expect 2024 to be a year of material progress toward 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 fourth-quarter and full-year 2023 results and hold a Q&A session for analysts and investors via webcast on February 22, 2024, 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.

Net Revenue Retention Rate ("NRR")

We believe that our Net Revenue Retention Rate is a key measure to provide insight into the long-term value of our customers and our ability to retain and expand revenue from our customer base over time. Our Net Revenue Retention Rate is calculated over a trailing twelve-month period by considering the cohort of customers on our platform as of the beginning of the period and dividing the ARR attributable to this group of customers at the end of the period by the ARR at the beginning of the period. By implication, this ratio excludes any ARR from new customers acquired during the period but includes revenue changes for this cohort base of customers during the period being measured. This measure provides insight into customer expansions, downgrades, and churn, and illustrates the level of scaling by those customers.

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, foreign exchange gain or loss 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 21, 2024, under the heading "Risk Factors" in our Annual Information Form dated February 21, 2024 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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Consolidated Statements of Loss and Comprehensive Loss
(expressed in Canadian dollars)

	Three-month period ended		Twelve-month period ended	
	Dec 31, 2023	Dec 31, 2022	Dec 31, 2023	Dec 31, 2022
REVENUE	9,813,999	7,250,039	34,223,408	23,749,201
Cost of Revenue	(2,788,828)	(2,672,903)	(11,015,485)	(9,094,688)
Gross Profit	7,025,171	4,577,136	23,207,923	14,654,513
Gross margin %	72%	63%	68%	62%
EXPENSES				
Research and development	3,838,691	3,048,724	15,763,663	10,992,499
Sales and marketing	4,383,678	3,417,343	13,796,377	8,516,347
General and administrative	1,864,700	1,391,846	7,181,784	4,920,103
Operating Loss	**(3,061,898)**	**(3,280,777)**	**(13,533,901)**	**(9,774,436)**
Interest expense	629,794	53,857	1,081,853	228,586
Interest income	(621)	(1,057)	(6,635)	(2,752)
Foreign exchange gain	(1,083,675)	(3,809,107)	(545,776)	(868,693)
Gain/(Loss) on ordinary activities before taxation	(2,607,396)	475,530	(14,063,343)	(9,131,577)
Income tax expense	47,342	16,611	55,891	16,611
Total gain (loss) for the period	(2,654,738)	458,919	(14,119,234)	(9,148,188)
Other comprehensive income (loss)				
Foreign currency translation adjustment to presentation currency	750,382	(2,161,857)	(263,950)	(817,378)
Total comprehensive income (loss)	(1,904,356)	(1,702,938)	(14,383,184)	(9,965,566)
Gain / (Loss) per share - basic and diluted	$ (0.03)	$ 0.01	$ (0.18)	$ (0.12)
Weighted Average Number of Common Shares Outstanding				
Basic and diluted	78,093,350	77,504,920	77,833,268	77,444,009
Reconciliation:				
Total gain (loss) for the period	**(2,654,738)**	**458,919**	**(14,119,234)**	**(9,148,188)**
Interest expense	629,794	53,857	1,081,853	228,586
Interest income	(621)	(1,057)	(6,635)	(2,752)
Income taxes	47,342	16,611	55,891	16,611
Depreciation expense	192,038	243,750	786,085	900,295
Amortization expense	1,713,136	1,418,625	6,610,930	4,795,508
EBITDA Gain (Loss)	**(73,049)**	**2,190,705**	**(5,591,110)**	**(3,209,940)**
Adjustments to EBITDA				
Foreign exchange loss (gain)	(1,083,675)	(3,809,107)	(545,776)	(868,693)
Stock-based compensation expense	802,499	337,218	2,871,727	1,142,824
Adjusted EBITDA Gain (Loss)	**(354,225)**	**(1,281,184)**	**(3,265,159)**	**(2,935,809)**

Consolidated Statements of Financial Position

(expressed in Canadian dollars)

as at December 31,

	2023	2022
Assets		
Current assets		
Cash	15,252,526	12,282,478
Accounts receivable	11,601,558	8,914,980
Prepayments	1,138,382	931,856
	27,992,466	22,129,314
Non-current assets		
Accounts receivable	1,650,795	1,104,624
Property and equipment	7,209,953	7,807,042
Intangible assets	27,642,752	19,364,904
Total assets	64,495,966	50,405,884
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	7,874,332	5,768,054
Contract liabilities	13,647,071	10,617,142
Lease liabilities	535,832	588,472
	22,057,235	16,973,668
Non-current liabilities		
Contract liabilities	41,084	949,224
Lease liabilities	5,976,380	6,503,041
Loan payable and accrued interest	21,657,423	-
Total liabilities	49,732,122	24,425,933
Shareholders' equity	14,763,844	25,979,951
Total liabilities and equity	64,495,966	50,405,884

kneat.com, inc.
Consolidated Statements of Cash Flows
(expressed in Canadian dollars)
For the years ended December 31,

	2023	2022
Operating activities		
Net loss for the period	(14,119,234)	(9,148,188)
Charges to loss not involving cash:		
Depreciation of property and equipment	786,085	900,295
Share-based compensation expense	2,871,727	1,142,824
Interest expense	1,081,853	228,586
Tax expense	55,891	-
Amortization of the intangible asset	6,610,930	4,795,508
Amortization of loan issuance costs	61,164	-
Amortization of deferred contract acquisition costs	-	3,939
Write-off of property and equipment, excluding lease	26,721	359
Impact of lease termination	(67,600)	94,769
Other non-cash adjustments	-	(120,100)
Foreign exchange gain	(545,776)	(845,999)
Increase/(Decrease) in non-current contract liabilities	(905,846)	878,945
Net change in non-cash operating working capital related to operation	2,868,609	5,063,150
Net cash provided by operating activities	(1,275,476)	2,994,088
Financing activities		
Payment of principal and interest on the loan payable	(630,410)	(110,237)
Proceeds from the exercise of stock options	295,350	154,758
Proceeds from the exercise of warrants	-	461,090
Repayment of lease liabilities	(752,802)	(889,525)
Proceeds received from loan financing	21,978,000	-
Issuance costs associated with loan financing	(624,596)	-
Net cash (used)/provided by financing activities	20,265,542	(383,914)
Investing activities		
Additions to the intangible asset	(16,977,274)	(12,484,492)
Collection of research and development tax credits	1,185,720	904,566
Additions to property and equipment	(181,358)	(331,715)
Net cash used in investing activities	(15,972,912)	(11,911,641)
Effects of exchange rates on cash	(47,106)	20,977
Net change in cash during the year	2,970,048	(9,280,490)
Cash - Beginning of year	12,282,478	21,562,968
Cash - End of year	**15,252,526**	**12,282,478**