



More growth to come

Unith Limited (ASX:UNT) is advancing the commercial rollout of its conversational AI platform, Talking Head. The company has made several strides to advance its Digital Human Platform in recent months, including enhancements to the platform and the winning of multiple new clients.

More customers adopting Talking Head technology

To date, the company's biggest client has been the anonymous 'Big 5' Tech company (one of Facebook, Amazon, Apple, Alphabet and Netflix). UNT has delivered the first Talking Head to the Big 5 company and is working to expand within further departments. In recent months, the company has had significant momentum with further client wins. In July 2023, Unith secured a contract with Xite Holdings (the company that operates international e-lottery product AZBillions) to utilise a Talking Head on its own platform. This industry is a major opportunity for UNT, given its US\$27bn size. UNT capped off a busy few months by winning a public tender to deliver Talking Heads to the Alliance of Public Health, a public health response organisation based in Eastern Europe. We think this deal in particular, is a big deal for the company indicating its future potential in the healthcare market.

UNT's mobile Subscription Division Performing too

It has also been a busy quarter for the company's Mobile Subscription division. It surpassed 100,000 users of its Bedtime Stories and AstroVIP apps across Europe and the Middle East and grew the total number of users by 86% during the quarter. It secured approvals to launch the applications in a further 4 markets, bringing the total number to 17. The company plans to deploy a higher marketing budget during 1HY24 in the hope that it can acquire users in-house, rather than using third-party providers. The company expects it to pay off in 2HY24.

Valuation reiterated

We reiterate our value of the company at A\$65.2m base case and \$103.7m bull case, equating to 8.2c per share and 12.7c per share under UNT's current number of shares on issue. Please see page 7 for the key risks.

Share Price: A\$0.026

ASX: UNT

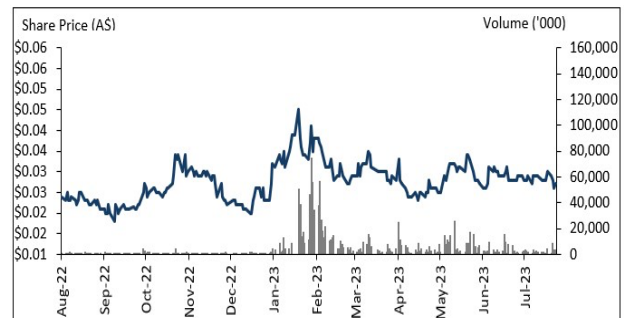
Sector: Technology

23 August 2023

Market Cap. (A\$ m)	22.3
# Shares outstanding (m)	856.2
# Share fully diluted (m)	962.6
Market Cap Full. Dil. (A\$m)	25.0
Free Float	67.3%
12-months high/low (A\$)	0.050/0.018
Avg. daily volume ('1000)	4,857.4
Website	https://unith.ai/

Source: Company, Pitt Street Research

Share price (A\$) and avg. daily volume (k, r.h.s.)



Source: Refinitiv Eikon, Pitt Street Research

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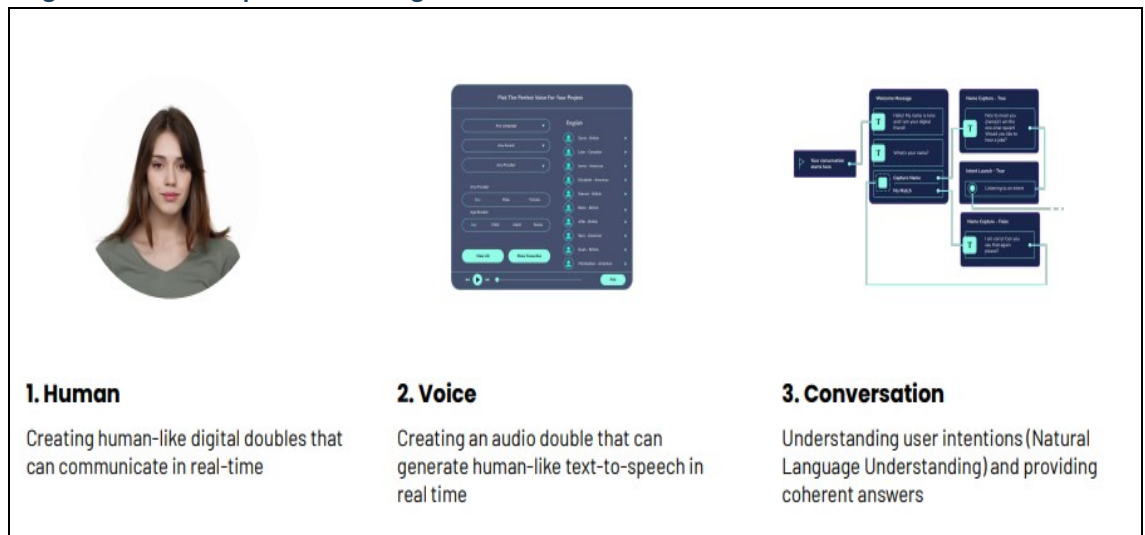


A recap of Unith and its Talking Head platform

The company’s Talking Heads platform enables businesses to create visual avatars and have one on one Facetime-like conversations with their customers in real time.

First, we briefly recap UNT’s and its Talking Heads platform, for the sake of investors new to the story. Our readers may remember we titled our initiation report as ‘making conversational commerce humane’ – indeed, this is the mission of UNT. The company’s Talking Heads platform enables businesses to create visual avatars and have one on one Facetime-like conversations with their customers in real-time. They can generate human-like speech in real time and use NLP (Natural Language Processing) to understand user intentions and provide coherent answers and interactions with consumers. Talking Heads draws on more than 10 years of data analytics extracted from over 180m customer Q&As (Figure 1).

Figure 1: The Three pillars of Talking Heads



Source: Company, Pitt Street Research

What’s in it for customers?

Talking Heads results in a more engaging and immersive experience. For businesses, this means a higher likelihood of customer conversion or retention.

Compared to the available limited competition (Figure 2), Talking Heads results in a more engaging and immersive experience for existing and potential customers and is therefore more likely to leave them satisfied. For businesses, this means a higher likelihood of customer conversion or retention. It will also save businesses hiring multiple employees to cover different regions and navigating the current labour market. It is easy to integrate within all client environments and costs a fraction of the existing competition.



Figure 2: Chatbots are difficult to communicate with



Source: Company, Pitt Street Research

UNT has been on a journey to commercialise the platform and penetrate the global conversational AI market, a market worth US\$6.2bn in 2021 and is expected to reach US\$41.4bn by 2030.

UNT's journey

UNT has been on a journey to commercialise the platform and penetrate the global conversational AI market, a market worth US\$6.2bn in 2021 and expected to reach US\$41.4bn by 2030. There are several potential areas where Talking Heads could be useful in including Health, Entertainment, Aviation, Web 3.0 Infrastructure and media search.

Historically, UNT was focused on the influencer market, aiming to use AI to provide authentic responses to fans. Although this move did not pay dividends as far as the share price concerned, this foundation helped establish its current product and operating model. The company has transformed from a product-centric company in a regulatory industry to a technology based and vertically integrated social commerce business. Talking Head pricing varies, depending on the clients' needs. However, the typical enterprise package will have A\$7,500 as a set up charge and A\$3,000 per month as subscription/license fee. For early deals, management may provide discounts for multiple purchases.

The long-term plan is to make the platform available for mass subscription through technological advancement that facilitates integration across client websites. When the company has a larger market reach, UNT anticipates that Talking Heads will operate with a freemium model. Customers will be able to opt for free trials and use some basic services but will have to pay when they want to put their own voice on it. The company anticipates that the cost will lie in the range of hundreds of dollars per month.



4Q23 was a successful quarter for the company, which delivered on all the development milestones promised to shareholders.

Unith's 4Q23

4Q23 was a successful quarter for the company, which delivered on all the development milestones that were promised to investors in March 2023. It achieved further enhancements to its platform that will increase the utility for its customers. It progressed the integration of its platform with ChatGPT by successfully using larger data sets, such as employee handbooks and product operating manuals, to consistently generate correct answers. It also enhanced the appearance and conduct of Talking Heads figures, which now can generate realistic lip movements and show empathy in conversations. The platform is on track for self-service soft launch by the end of CY23.

The Big Five deal

UNT has been working with a 'Big Five' Tech client (one of Meta, Amazon, Apple, Alphabet or Netflix) since late 2022. The deal, which was to last for two years, provides for UNT to supply three licenses comprising three digital avatars. During 1HY23, the first digital human was delivered to the Big 5 company. The company is now focused on making further product improvements while working to expand to further departments within the organisation.

Although, investors have been indifferent about this deal because the Big Five Tech Company has not been identified, we still think this partnership is crucial for the company. It depicts that conversational AI is likely to address the Big Tech's business challenges both from a commercial and security standpoint. It can also be scaled across multiple languages by providing humanised interactions at scale globally, without the requirement of additional hires. The avatars supplied by UNT are likely to be driven by conversational AI for the purpose of information delivery and for providing humanised interactions in real time across multiple languages. This multi-language interaction will mean the enterprise won't to hire multiple employees to cover different regions. Turning briefly to the cybersecurity angle, if UNT can meet the requirements of a Big Five Tech company, it should be able to meet almost any.

New major contracts

In recent months, UNT has won multiple new contracts that not only indicate that the company and its platform have a major future, but also point to what exactly that future looks like.

- In July, UNT signed a contract with **Xite Holdings**, the operator of international e-lottery product AZBillions to deploy its AI-powered digital humans to the AZBillions platform. UNT will deliver digital humans over 12 months at an initial contract value of \$44k, with the potential to expand the number of licenses over time. These digital humans will provide comprehensive support in various aspects of the platform, including online lottery ticket purchases, customer support and even upselling opportunities. Success in this collaboration could lead to further opportunities for UNT in the e-lottery industry, a market that is worth US\$27bn according to Expert Market Research.
- In August, UNT won a public tender to deliver a Talking Heads avatar to the **Alliance of Public Health (APH)**. The APH is a professional organisation based and operating in Eastern Europe (headquartered in Ukraine) that works with key public organisations, government health ministries and institutions to combat epidemics such as HIV/AIDS and



tuberculosis. The Talking Heads avatar will act as a digital social worker to improve access to public health advice by serving as an online point-of-contact for inbound healthcare enquiries. They will be available 24/7, respond in real-time, be accessible from remote locations with limited internet speeds (due to the low bandwidth requirements for UNT's platform) and thereby reduce the burden on human workers. This contract is for 1 year with an option for a 5-year extension and is valued at US\$111k (~A\$164k). UNT expects the digital social worker to be deployed by June 2024. This deal is a further cornerstone for UNT to expand into the healthcare sector, following last years' deal with South Africa-based digital health company PangeaMed.

- Rounding out UNT's new contracts was one signed with start-up insurance company **Ensureing1**. This is a relatively modest deal at only US\$6.5k (~A\$10k) but could well serve as a foundation for future deals in the sector. UNT will provide a digital human for customer support in Ensureing1's website and platforms, performing tasks on behalf of an insurance agent, increasing productivity and reducing staff costs.

We expect the company to continue to win new customers as it proves itself with existing clients and increases its investment in its sales and marketing that will further expand its pipeline.

A good quarter for the Mobile Subscription Division

UNT's Mobile Subscription division also experienced a positive quarter. Although in the long run, UNT's reliance on this division will reduce, it is an important demonstration of its Talking Head platform. Revenues consist of the deployment of Talking Heads into two entertainment applications, the first of their kind. The first of these is Bedtime Stories (Figure 3), a storytelling application that converts children's books into audio-visual elements. And the second is Astrology VIP (Figure 4), an personalised astrology application.

Figure 3: Bedtime Stories

Figure 4: Astrology VIP



Source: Company



UNT surpassed 100,000 users across these two apps across Europe and the Middle East.

During 4Q23, UNT recorded an 86% increase in the number of newly acquired users compared to the preceding quarter. And it surpassed 100,000 users of these two apps across Europe and the Middle East. The subscription retention rate one month after activation was 70% and there were over 18,000 hours of user interactions. These figures demonstrate strong engagement with UNT's products and depict that conversational AI can be an asset rather than a liability or just a cost-cutting exercise. UNT has secured approvals to launch these products in a further 4 markets (Thailand, Bulgaria, Bahrain and Jordan) thereby increasing the number of markets to 17.

UNT is well positioned for the future

UNT closed the quarter with \$4.3m in cash. Although it burnt \$909,000 during the quarter, this reflected higher marketing spend which will set the company up for further growth in FY24. It has enough cash to last just over 4 quarters at current burn rates. We expect revenues to grow as the company signs up more new customers and upgrades deals with existing customers. We are particularly excited about UNT's 'Big 5' deal and its potential for expansion.

Our valuation of the company is \$70.2m base case and \$108.7m bull case, equating to 8.2c per share and 12.7c per share respectively.

Valuation

We reiterate our valuation of the company (last updated in our 10 March 2023 report) at \$70.2m base case and \$108.7m bull case, equating to 8.2c per share and 12.7c per share respectively (Figure 5). We note that last month's capital raising, increasing the company's shares on issue by over 100m, has reduced the final share price from what it otherwise would be. But for the capital raising, our implied price would be 9.8c in the base case and 15.1c in the bull case.

Figure 5: DCF valuation for UNT

Valuation (A\$m)	Base case	Bull case
Enterprise Value	66.5	105.1
Net debt (cash)	(2.5)	(2.5)
Minority Interest	0	0
Other Investments	1.1	1.1
Equity value	70.2	108.7
Diluted shares (m)	856.2	856.2
Implied price (A\$ cents)	8.2	12.7
Adjusted Current price (A\$) cents	2.6	2.6
<i>Upside (%)</i>	<i>215.4%</i>	<i>388.5%</i>

Key catalysts for the creation of shareholder value

In the immediate term, we see increased customer adoption as biggest potential to increase shareholder value. We also think the current 'Big Five' deal could be a catalyst in itself if this deal is expanded and the identity of the company is unveiled.

We also see the potential for shareholder value as UNT expands into new verticals and continues investing into the Talking Heads platform, to increase its capabilities.



Key risks

We see the following key risks associated with UNT:

- **Commercialisation Risk:** There is a risk that UNT will be unable to achieve sufficient scale in the commercialisation of its products across target customer segments. This could be because the products are not supported by market needs or otherwise not adequately marketed and fail to sell.
- **Competition Risk:** There is the risk that competing companies develop products that are superior to UNT's products or are at least perceived to be superior by consumers. These products could lead to a loss of market share by UNT.
- **Talent risk:** UNT's success, depends to a significant extent, on its ability to attract and retain key employees, particularly technology talent. The loss of key personnel may affect the company's ability to develop its products.
- **Regulatory risk:** There is a risk that regulations (existing regulations and potentially new regulations) may impact UNT's business practices. It may cause customers to reduce their usage of the company's product and/or for potential customers to not be attracted. It may also require increased company resources to be dedicated towards regulatory compliance and away from core operations.
- **Capital risk:** There is the possibility that UNT will need further capital to grow its existing businesses' reach. This will dilute existing shareholders and lead to a lack of confidence by investors that the company can achieve profitability. We note that but for the recent capital raise, which increased the number of shares on issue, our valuation per share would be 11.2c per share base case and 17.1c per share bull case – ceteris paribus.



Appendix I – Analyst certification

Marc Kennis, lead analyst on this report, has been an equities analyst since 1996.

- Marc obtained a Master of Science degree in Economics from Tilburg University, Netherlands, in 1996 and a post-graduate degree in investment analysis in 2001.
- Since 1996, he has worked for a variety of brokers and banks in the Netherlands, including ING and Rabobank, where his focus has been on the technology sector, including the semiconductor sector.
- After moving to Sydney in 2014, he worked for several Sydney-based brokers before setting up TMT Analytics Pty Ltd, an issuer-sponsored equity research firm.
- In July 2016, with Stuart Roberts, Marc co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including technology companies.

Nick Sundich, is an equities research analyst at Pitt Street Research.

- Nick obtained a Bachelor of Commerce/Bachelor of Arts from the University of Sydney in 2018. He has also completed the CFA Investment Foundations program.
- He joined Pitt Street Research in January 2022. Previously he worked for over three years as a financial journalist at Stockhead.
- While at university, he worked for a handful of corporate advisory firms.

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