



Riding the wave of a \$1.3tn market

Unith Limited (ASX:UNT) is a company at the forefront of the rise of AI technologies. Its Talking Heads platform has digital avatars that are capable of one-on-one conversations with human beings. By providing a better experience for consumers than today's generation of text-only chatbots that are only trained to answer a handful of queries, businesses that adopt Talking Heads have a lower likelihood of customer attrition.

Part of a seismic technological shift

Bloomberg Intelligence forecasted earlier this year that the generative AI market would grow to US\$1.3tn over the next decade. The largest driver of the growth to \$1.3tn would be generative AI infrastructure (\$247bn by 2032) and this is where Unith fits in. AI technology will be able to deliver outcomes for adoptees and end users that otherwise would not be possible. Unith's platform can stand out from other solutions because it adds a personalised touch to a business' interactions with their customers.

Delivering growth in the short-term too

Unith has had a busy few months signing several deals including with the Alliance of Public Health, Ensuring and Xite Holdings. It has also continued its collaboration with the (currently anonymous) Big 5 Tech company. During the last quarter, it recorded a 24.5% increase in revenue (quarter-on-quarter) from its B2C AI-subscription products, as well as 337k new users. We expect these numbers to continue to increase over the coming quarters. One key catalyst for future growth will be the launch of a self-service platform, which is expected by the end of CY23.

UNT worth 8.2-12.7c per share

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\$0.021

ASX: UNT

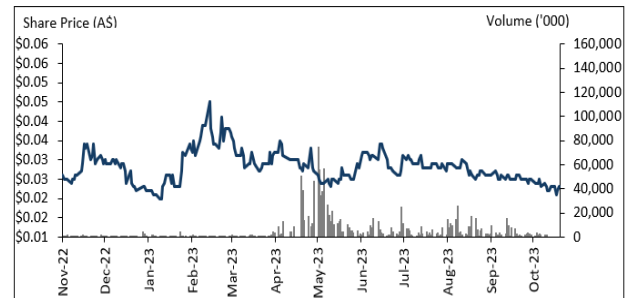
Sector: Technology

24 October 2023

Market Cap. (A\$ m)	18.0
# Shares outstanding (m)	856.2
# Share fully diluted (m)	962.6
Market Cap Full. Dil. (A\$m)	20.2
Free Float	67.3%
12-months high/low (A\$)	0.050/0.018
Avg. daily volume ('1000)	4,923.4
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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Table of Contents

Reintroduction to Unith (ASX:UNT)	3
<i>UNT's market opportunity</i>	<i>4</i>
A solid start to FY24 with more momentum to come	6
<i>Key catalysts for the next 12 months</i>	<i>6</i>
Valuation	7
<i>Key risks.....</i>	<i>7</i>
Appendix I – Analyst certification	8
General Advice Warning, Disclaimer & Disclosures	9

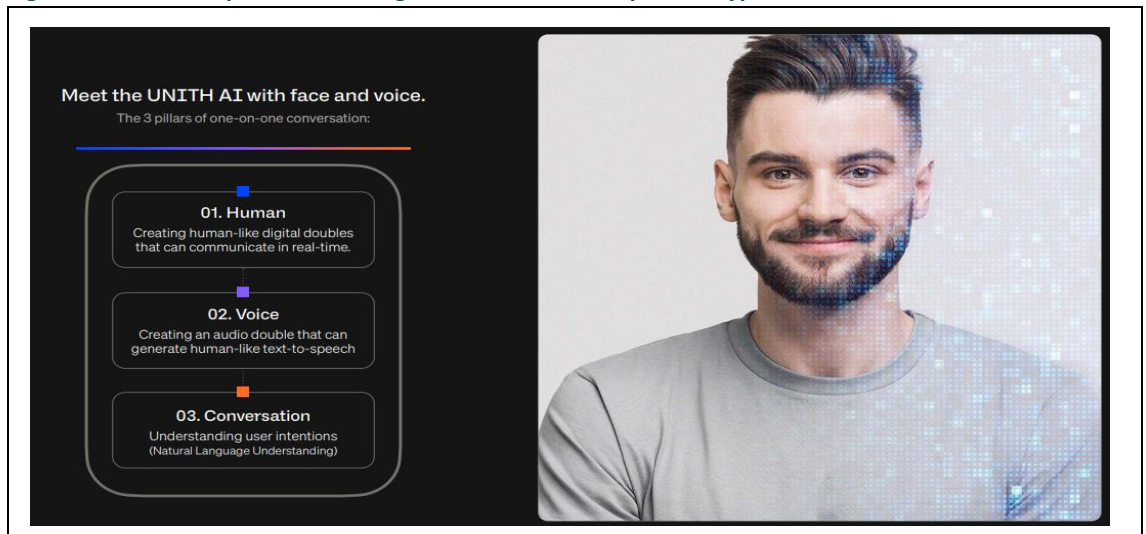


Reintroduction to Unith (ASX:UNT)

Avatars 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 customers.

Unith is an ASX-listed technology company that is commercializing the Talking Heads platform enables businesses to create visual avatars and have one on one Facetime-like conversations with their customers in real-time. The avatars 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. The typical Talking Heads avatar appears just like a real human (Figure 1).

Figure 1: The Three pillars of Talking Heads and an example of a typical avatar



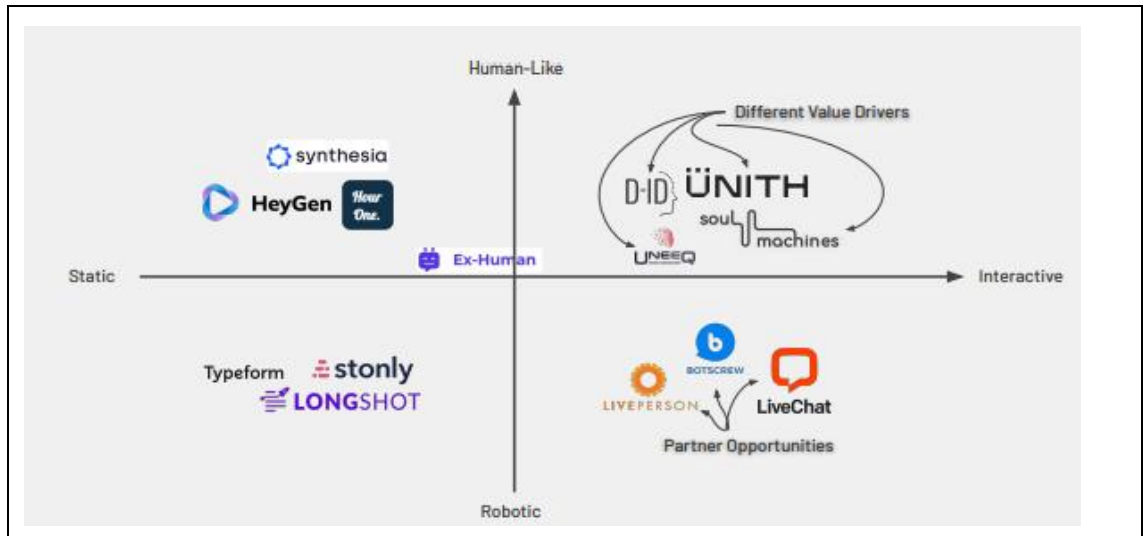
Source: Company

The biggest competition for Talking Heads is automated chatbots (Figure 2). Anyone who has used a chatbot for a business would understand that these can be frustrating to deal with and leave users' queries unsatisfied. A negative interaction such as this can lead to existing and potential customers taking their business elsewhere.

An experience with Talking Heads, however, will be more engaging, immersive and helpful to customers, thereby not just reducing the risk that customers will 'drop off' but will also leave them satisfied and likely to convert or retain.



Figure 2: Unith’s competitive landscape



Source: Company

Talking Heads deliver other benefits for the customers too. It is easy to integrate within all client environments and costs a fraction of the existing competition. And it will also save businesses hiring multiple employees to cover different regions and navigating the current labour market. Each Talking Head avatar can speak over 60 languages, are customizable and personable, scalable with low bandwidth and can receive end user’s feedback.

UNT’s market opportunity

UNT has a substantial opportunity ahead of it, in the form of a market that is growing substantially. A June 2023 report by Bloomberg Intelligence (BI) suggests that the generative AI market will reach \$1.3tn over the next 10 years, up from just \$40bn in 2022. This is because of the influx and use of AI products such as Google’s Bard and OpenAI’s ChatGPT. The report also estimated that generative AI products could add about \$280bn of new software revenue, driven not just by AI-generated language tools but products like specialised assistants and copilots that accelerate coding. If this growth eventuated, the impact of generative AI would expand from less than 1% of total IT hardware, software services, ad spending, and gaming market spending to 10% by 2032.

The largest driver of the growth to \$1.3tn would be generative AI infrastructure (\$247bn by 2032) and this is where Unith fits in. ChatGPT may enhance existing chatbots, but they do not provide a humanized experience in the way that a Talking Head avatar would. And as we noted above, this could be the difference as to whether potential or existing customers are converted or not. They would be more likely to bring their business that provided a positive experience that was helpful and immersive as opposed to one that provided a negative experience, along the lines of the experiences that today’s chatbots provide.

The generative AI market will reach \$1.3tn over the next 10 years, up from just \$40bn in 2022.



Unith's commercialisation journey

Unith is in the early stages of commercialisation of the Talking Head platform. Currently, its business model is to commercialise on an individual client basis. In September 2022, it signed a Big-5 Tech Company as a client (one of Meta, Apple, Amazon, Alphabet or Microsoft) as a client. Another notable deal was sealed in August 2023, with the Alliance for Public Health, to launch a digital human social worker in 14 Eurasian countries that the Alliance serves. When deployed in mid-2024, it will act as an online point-of-contact for inbound healthcare enquiries.

Other partnerships signed in recent months include with:

- Insurtech company Ensuring, to develop a digital human insurance agent
- Medtech company Respire, to provide a digital human on their website.
- E-lottery operator Xite Holdings, to customise multi-lingual digital humans for their online global lotteries platform, AZBillions, and
- Hologram technology company Holoconnects, to sell Talking Heads alongside their offering.

Unith's 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.

Unith has made and will continue to make improvements to the platform. The most important step in the last 12 months has been the integration of ChatGPT technology into the platform. This technology will be key to providing the insights that the customers of Unith's customers are seeking. The next major development milestone is the launch of a self-service platform, a step anticipated to occur by the end of CY23. This will allow unprecedented access to Unith's digital humans and drive its pipeline of clients.



A solid start to FY24 with more momentum to come

Unith has begun FY24 with positive momentum. The company released its results for the September quarter (1Q24) last week in which it delivered a 24.5% increase in revenue (quarter-on-quarter) from its B2C AI-subscription products driven by in-house user acquisition activities. Over the quarter, 337k users were acquired and the 500k milestone was achieved in the second week of October. The Xite, Respi, Holoconnects and APH deals highlighted above were completed.

Other operational highlights during the quarter included:

- Continuing the work with the Big-5 Tech client to deliver further digital humans and expand the engagement to other departments and geographies within the organisation,
- The expansion of its B2C subscription business to Kenya, launching AI History with Kenyan telecom Safaricom (NSE:SCOM), making the 18th market it is available in,
- The improvement of the Digital Human generating engine, providing life-like reactions on real-time conversations ahead of the Self-Service Platform soft launch in the current quarter.
- Receiving a A\$120k grant following the achievement of milestones with its NVISO and BonsAPP, and
- Showcasing three digital humans publically on the company's website to demonstrate the technology to potential customers and the public.

Unith recorded an operating cash outflow of \$1.2m due to higher marketing spend and fine-tuning of the self-service platform for Talking Heads. The company anticipates greater margins and revenue to occur across the rest of FY24, making up for the previous quarter's outflow. It closed the period with \$2.7m in cash on hand.

Key catalysts for the next 12 months

We see the following catalysts that could lead to a re-rating of the company:

- Increased customer adoption, through the signing of new deals and upgrading of existing partnerships.
- Revenues from partnerships signed in the last 12 months begin to be reflected in the company's top line
- The unveiling of the identity of the 'Big 5' Tech company Unith is working with,
- Continued user growth in the B2C subscription division,
- Continued investment by the company into the Talking Heads platform, to increase its capabilities.

We expect the company's higher marketing spending during the previous quarter to pay off during the coming months.



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 3). 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 3: Our 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	2.1	2.1
<i>Upside (%)</i>	<i>290.5%</i>	<i>404.8%</i>

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.



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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