

## One to Watch

# Unith

## Meeting with CEO Idan Schmorak and Chairman Sytze Voulon

25<sup>th</sup> September 2023

Venn Brown sat down with Idan Schmorak (CEO) and Sytze Voulon<sup>1</sup> (Chairman) from Unith to discuss the current state of the business and what the future holds.

### Thanks for meeting with us today, Idan and Sytze. To start with, can you give us a brief overview of Unith?

Unith is a leading conversational AI<sup>2</sup> company. Using proprietary machine learning tools, we create AI-powered interactive digital humans that provide a responsive, screen-based interface that businesses can provide their customers or employees.

For example, a bank could have a teller, or a cosmetics brand could have a host to communicate with clientele or employees. An obvious application is healthcare; the platform can communicate with patients before or after surgery or deliver crucial information about taking a specific medicine or preventing a specific disease. There are countless use cases, but essentially, we provide a platform that enables our clients to provide their customers, patients or employees with a digital interface through which they can interact with a conversational AI with a human face specifically trained to help them in that particular situation. And the face and voice, including accent, tone and cadence, can be based on a specific person or entirely synthetic.

The second part of the business is a legacy B2C [business to consumer] division, which now develops simple AI-driven apps. The apps are monetised through mobile operators, active in over 36 countries [not Australia], and available in several languages. One of the services is a bedtime story service where kids get a bedtime story from a digital grandparent, which you can also

## Unith

### ASX:UNT

Sector	Communication Services
Date	25th September 2023
Share price	\$0.025
52-week range	\$0.02 / \$0.05
Market cap	\$22.5m
Free float	72%
Dividend	-
Yield	-

Year end 30 June	FY20	FY21	FY22	FY23
Revenue	\$7.8m	\$7.0m	\$5.4m	\$4.0m
EBITDA	-\$0.4m	-\$1.0m	-\$0.9m	-\$2.3m
EBIT	-\$1.0m	-\$1.6m	-\$1.6m	-\$3.2m
Net profit	-\$0.9m	-\$4.5m	-\$3.2m	-\$0.7m
Earnings per share	-\$0.01	-\$0.01	-\$0.00	-\$0.00
Operating cash flow	-\$1.8m	-\$1.2m	\$0.0m	-\$1.3m
Free cash flow	-\$1.8m	-\$1.2m	\$0.0m	-\$1.3m
Cash & equiv	\$1.9m	\$3.1m	\$2.2m	\$4.3m
Net debt	\$3.6m	-\$1.0m	-\$1.0m	-\$3.3m
Net debt / EBITDA	-	-	-	-
Dividend per share	-	-	-	-
P/E	-	-	-	-
EV/EBIT	-	-	-	-
ROA	-7.2%	-45.6%	-43.1%	-6.1%
ROE	-33.8%	-85.5%	-67.4%	-7.9%

### 3-year Price Chart



### Analysts

Andrew Wilkinson      awilkinson@vennbrown.com

<sup>1</sup> Unless otherwise specified, all comments are from Idan Schmorak

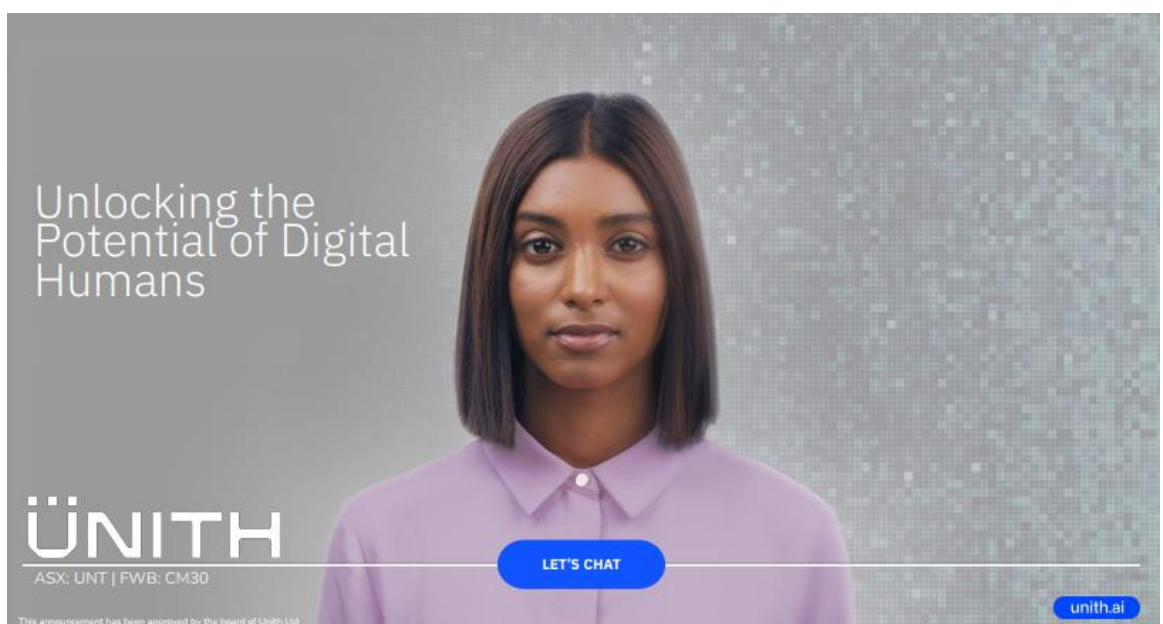
<sup>2</sup> Conversational AI is a type of AI that can simulate human conversation using speech or text. It uses natural language processing and machine learning to understand and respond to human inputs. Some examples of conversational AI are chatbots and voice assistants.

personalise. If I want to have a bedtime story, for example, how wonderful is it if someone's real grandma reads them a story. We can make a talking head out of her. In the evenings, mom or dad can say, "Hey, grandma's here," and they get their iPad. And again, it's interactive.

We also have an app called AI History, where you can have a conversation with famous people from history, including Albert Einstein, Julius Caesar or Marilyn Monroe.

We have just launched our digital human solution on our website<sup>3</sup>, which is connected to ChatGPT and GPT itself. A key differentiator we provide is that our digital human interface can operate using a closed data set. You simply upload the information, and your digital human becomes your domain expert.

Figure 1: Unith puts a human face to conversational AI



Source: Unith

**The main point of differentiation, say from a chatbot, which most people are now very familiar with, is visualisation, so how important do clients find the visualisation?**

To answer your question more directly, who needs a face? The industries that need a face are those that struggle to maintain users' attention. That's why one of our first customers uses the platform for staff onboarding. That's why we are now working with partners in insurance, where the compliance part is very important but also very boring. The digital human can simplify and process the information and then communicate it to customers without requiring human interaction.

The other area is healthcare. Healthcare is a field where you have a lot of elderly people and sick people who need information, but they can't always use a chatbot. There is an inherent barrier to using a chatbot. A digital human is the intermediary between a human and a chatbot.

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<sup>3</sup> <https://www.unith.ai>

Who needs a face? I think it's important that the face is there. It offers real personalisation. There are applications in many industries, in the medical space, nursing homes, and education. The dynamic is very different when there is a face instead of just a square of text or chatbot. It's someone talking and really engaging with you.

**You mentioned uploading your own information, so you've got an underlying large language model that can then be enhanced and refined by users providing their own proprietary data?**

Correct. You bring us your database, we'll import it, and it will then be enabled with our digital human. The core Unith IP<sup>4</sup> is the synthetic faces, the synthetic humans, and it's all done in real time. The digital humans aren't providing pre-recorded responses but instead use AI to engage and respond to users in real time.

**You've mentioned healthcare, education and onboarding. What other use cases are you currently solving?**

They are the most obvious ones, but there are many more. Once we have a client, especially a department of a large company, we then look to expand into their other departments. For example, we signed on the finance departments of one of the big five tech companies as a client last September. We do staff onboarding for those departments and will leverage that relationship to grow into their other departments. Once a company is a client and they can see how the technology works, how strong the engagement is and how much users like it, it's much easier to expand into other departments.

We're also working in public health and intend to grow further into that space. We also just landed a customer in the e-lottery that uses our digital humans for customer support.

**Who are your competitors, and what is the substitution you're also competing against?**

Firstly, we do not compete directly with the chatbot. That's the beauty of it. Our clients are companies that do not have an efficient onboarding or customer service process. For example, the onboarding on an eSIM<sup>5</sup> device or something like that. Our solution works well in situations involving a process rather than a simple question/answer scenario. As such, we're not in direct competition with a chatbot.

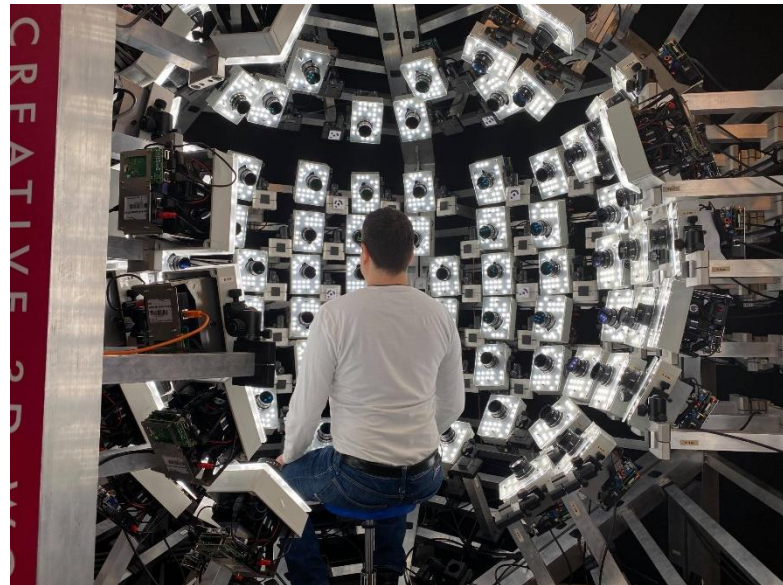
We are looking at a few competitors that have come into this industry. Some are creating digital humans and some are creating avatars. Companies such as Soul Machines and Uneeq, are creating digital humans but are doing so with 3D scanning technology, which is far more expensive. These companies charge setup fees in the tens and hundreds of thousands of dollars compared to our setup fees, which are in the single thousands of dollars. And despite our lower setup fees, it's still very profitable for us due to the technology we use.

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<sup>4</sup> IP = intellectual property

<sup>5</sup> An eSIM (embedded SIM) is a digital version of a physical SIM card. It identifies your device virtually in order to establish a network connection. eSIMs are software-programmable and are built into more recent handsets so you don't need to buy a new SIM card if you want to switch wireless carriers or phones. Tablets, smart watches, drones, and even automobiles employ eSIMs.

Figure 2: Full 3D scanning costs tens or hundreds of thousands of dollars



Source: Unith

#### **What is your revenue model?**

It's a straightforward business model. We are a SaaS platform, a software-as-a-service platform. You onboard with us, there is a setup fee and an ongoing subscription fee, which are a fraction of our competitors' fees.

We can't disclose the full details for commercial reasons, but the setup fee is less than US\$10,000. The ongoing subscription is priced per human, which is also less than US\$10,000 per year. We charge by usage, how many digital humans or applications are used, and how much processing power is needed to support the usage. That could be based on the number of users or several other factors.

#### **What is Unith's competitive advantage?**

Our competitive advantage is the technology that I just mentioned, our IP. The technology we invented allows us to be a market leader because it has low bandwidth and server usage. Until today, companies that tried to achieve this had very high entry costs. For example, the setup fee of one of the biggest players in the market is US\$100,000 to US\$150,000. This is because, in order to create a digital human, they clone you. You need to go to a studio to be 3D scanned, just like they do in the movies. Once you're scanned, you then need to be recreated in 3D. The difference doesn't end there, though. Once they have your digital clone, it must run on a very powerful cloud computer to support the conversation functionality. This requires a much higher initial and ongoing cost and a much higher investment of time to just get set up.

Our technology is based on machine learning and not in graphic processing, which allows us to synthesise video. We can manipulate video in real-time and do this at a fraction of the cost of other operators. Despite only recently launching, we are the cost leader in this space and have already acquired many clients.

Some companies are doing something similar to us but are more business-to-consumer (B2C). Their products allow users to create their own avatars for communication, but there are no direct competitors at the same price point. Competitors will come with time, but we have the early mover advantage, which in this industry is a real advantage.

**AI is the hot topic of the time, with some very large 50-pound gorillas in the space, along with thousands of well-funded startups. What's your strategy for remaining competitive?**

Firstly, it's important to differentiate between the particular players. It's a huge and growing space, but it's not like we're all competing in a single AI market with a winner-take-all outcome. Think of Open.AI and ChatGPT. They're not a competitor because they have a completely different business model. They license their underlying technology to everybody so it would be a huge change in direction and business model for them to start competing with us.

To your question, if a huge player decides to enter our particular market space, then yes, their size and capital are advantageous because they have a million engineers and near endless funds. That said, we have experience in that market and a client base. We might be an acquisition target, but we are still making giant steps. We're building expertise in our IP and with our clientele. That's something that we see in the market. We're not covering our eyes or ignoring it. It's an identified risk.

We're confident that the market's total value is enormous enough that there will be more than just one player.

**How long does it take to set up the system for a new client?**

Today, it takes between three and four meetings, but it depends on the client's availability. We plan to fully automate onboarding, so we won't need to meet with clients at all. One of the reasons our product is cheaper than some competitors is because our avatars are generated from a single picture of someone and not a full 3D body scan.

[Figure 3: Unith can create life-like interactive digital humans from a single photo](#)



Source: Unith

The three meetings we do now are mostly to get the conversational part working well because once you give us your data set, we can start building the conversational components. We are working to completely automate this process, but once the conversation is done, there are always iterations because of the customisation options. Things like how the client speaks, their language, accent, and voice, so sometimes we need to make changes. It's all synthetic. We're not simply playing recorded responses to a pre-defined list of questions.



We can produce a digital clone of a person or generate something new. All we need is a single picture and a 30-minute recording of your voice reading a few sentences, and then you have a digital version of yourself.

**In terms of marketing acceptance, has that gone along the lines that you expected, or better or worse?**

It has been better than we expected, no doubt partially due to the growing appetite for AI meant the market came to us. We see the clients now that a year ago needed us to explain why AI is good for them. Now they explain to us what they want to do with the product. We're seeing more interest and more inbound leads, and the biggest opportunities we have come to us.

**What do you see as your biggest opportunities for growth?**

We have significant growth opportunities across all three of our revenue streams. Our main revenue stream is enterprise sales, which is basically what we do today, but as we expand the technology, it will open us to new use cases. We're attracting clients in several other spaces, including healthcare and insurtech (insurance technology).

The most likely revenue opportunities in the near term are with our existing clientele and expanding those relationships. We recently released the first demo digital humans for broader use on our website. This is already bringing inbound inquiries, which we look to convert into clients.

Education is another area with massive potential. We mentioned education before, but it's one we haven't yet tapped into, but everyone is speaking to us about, especially e-learning. Current e-learning solutions are boring, but the demand for e-learning is huge. E-learning nowadays is the name of the game for professional education. Many professions require Continual Professional Development (CPD) to maintain qualifications. This requires a certain number of hours of education and training each year. Suppose it can be done remotely, and you don't have to go to a classroom. In that case, our system can provide a remote but interactive experience. Not only can our system help deliver the content but it can also be used to test and access students' understanding of the material.

[Voulon – chairman] I see the education piece all the time because of the other businesses I'm involved in. The businesses I'm involved in do a lot of education, and I can see the opportunity our platform offers.

[Voulon] We were sitting in an investor briefing today, and one of the attendees was an HSQE<sup>6</sup> guy, and he said, "I have to update my people on HSQE. This is fantastic. I can see a trillion opportunities". He sees the opportunity instantly. Not everybody likes to read. Some people are better auditory learners. People have different learning styles, and we can provide interactive visual learning.

[Sytze] We can fill the gap; no one else is doing this in e-learning. There is a massive opportunity in the space, and all we need is one customer to launch with, to prove the technology and use case and then others will follow.

[Sytze] Healthcare is another huge market because it requires information flow. You go to the hospital, and if you have questions, they give you a little brochure or send you a link on your

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<sup>6</sup> HSQE = health, safety, quality and environment

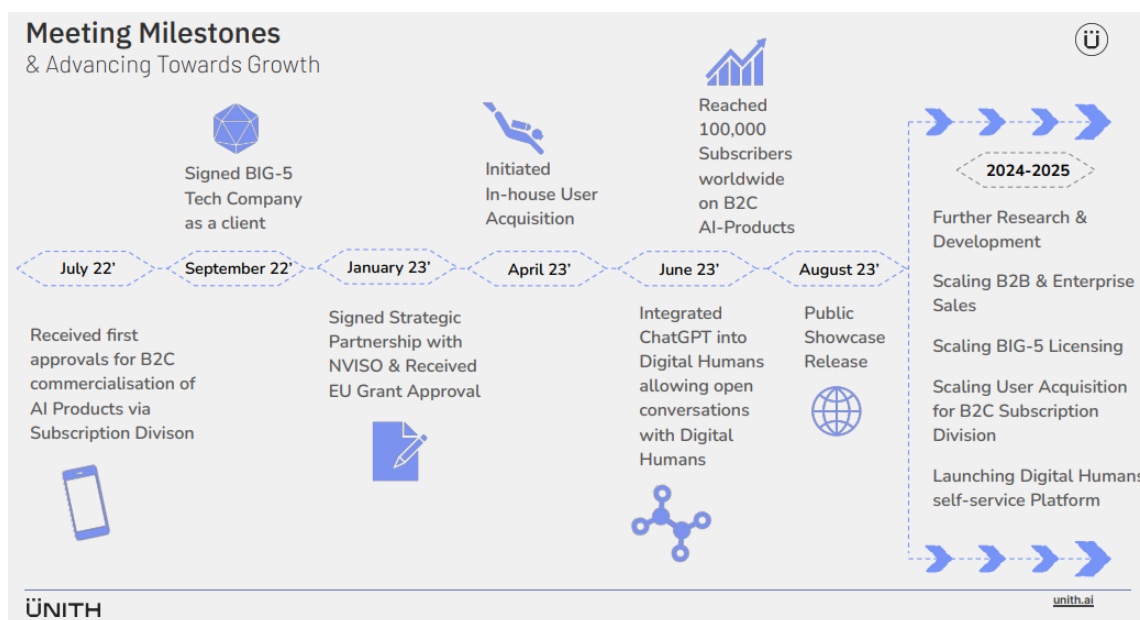
phone to read on your own. Instead, we're offering an interactive digital nurse who talks to you through your particular case and answers your questions. Patients can ask, "Hey, I'm going to this operation in two days' time. What is my pre-surgery preparation?"

#### When did you start selling the platform?

We [Schmorak and Voulon] joined this company separately in September 2021. We basically took a vision, built a team, and developed the technology. We had the first proof of concept a quarter after joining, which was the basis of the first capital raise and enough to start selling.

We closed the first meaningful client in September last year, and they are already live. We have attracted some other smaller clients and are now at a stage where the technology is scalable and ready for broader commercialisation.

**Figure 4: Despite rapidly achieving several major milestones, Unith sees huge opportunities ahead**



Source: Unith

There is no doubt we're in a massively growing market. And the explosion of AI, supercharged by the uptake of ChatGPT, has seen our pipeline grow exponentially. A year ago, we needed to explain to clients what generative AI is and how it could help their business. Since ChatGPT launched, this is no longer the case, and our sales cycle has shortened noticeably.

#### What are the customer engagement rates of your main digital human product?

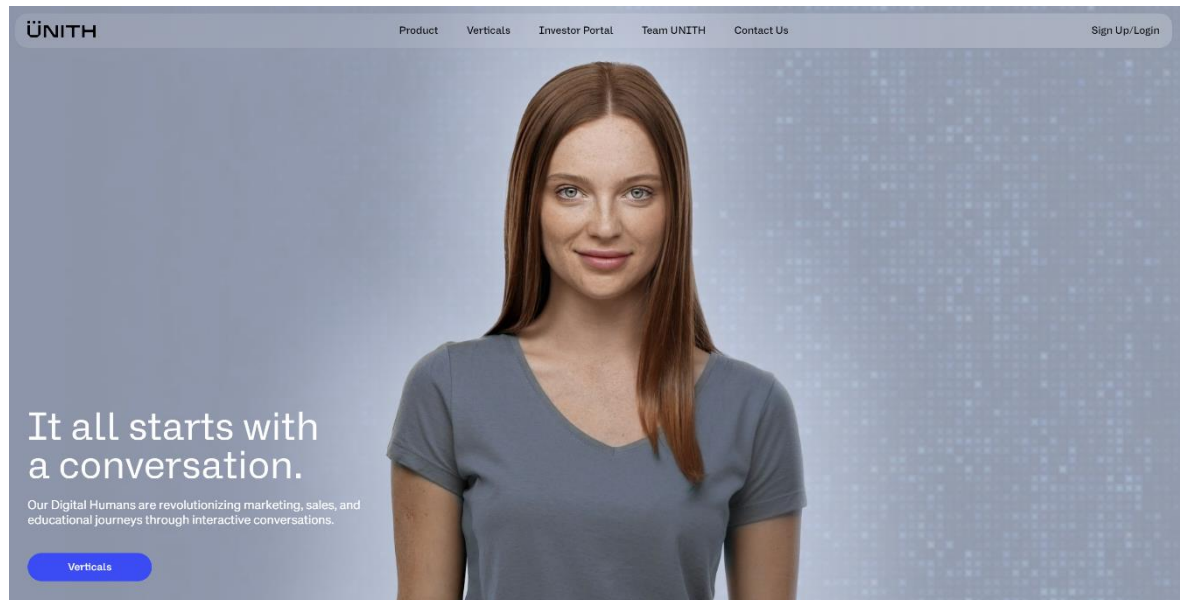
It's growing exponentially. As we improve the product, the conversation is more engaging. If you try one of the demo digital humans on the website<sup>7</sup>, you'll see she keeps asking you questions. You ask her questions, and then she replies, asking for feedback. We keep improving the AI; making it more engaging and more interactive. It's a machine-learning

<sup>7</sup> <https://www.unith.ai>

product. We learn, the machine learns. It becomes better and better, and the usage rates are pretty high.

The nicest thing is that this also benefits the B2C products. Churn rates were really high before, but now we can see users returning to the products and paying for them.

[Figure 5: User can converse with a digital human for free on Unith's website](#)



Source: Unith

### **Do you have an idea of your total addressable market?**

We are at the intersection of generative AI, which by 2032 is estimated to be a \$2 trillion market and conversational AI, which at the same time is now estimated to reach around \$170 billion. It really is huge, almost an unfathomably large market.

In just the 11 months since ChatGPT launched<sup>8</sup>, the openness, acceptance and applications for broad AI usage have changed enormously. Obviously, our market isn't that entire space, but we are tapping into a huge market. Even if we only take 1% or 2%, it still brings you huge numbers.

Our development hasn't stopped. What we have now isn't our only product. We intend to do so much more because we are a cross-market platform. We are not exclusively targeting a single vertical. The path to success is owning a vertical, winning it, and then continuing to the next one, but in essence, this platform is cross-sector. It allows us to really address a huge market.

### **You briefly mentioned your business-to-consumer division. Can you provide more information about it?**

We have a legacy B2C division with three consumer products: 'Bedtime Stories', 'AI History' and 'Astrology VIP'. These all use our speaking avatar technology. Bedtime Stories is a storytelling program that turns children's books into an audio-video experience with a real-

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<sup>8</sup> ChatGPT launched for public use in November 2022.



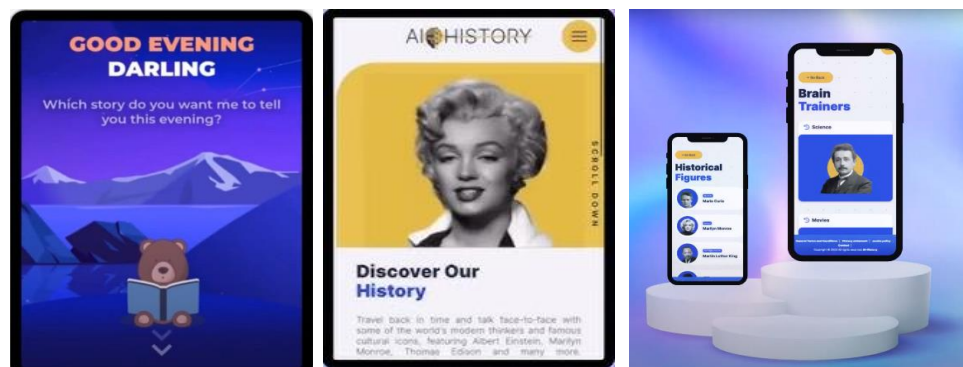
life-looking digital human reading the stories. It can be customised so kids can have a parent or grandparent reading them a story. This division is profitable and generates around \$4 million in annual revenue.

Since taking over the business, we've changed how the division and products work. They are all AI-based, and the result is that they now have a much higher usage rate. People use these products for hours, and we can acquire users much more efficiently.

Before I took it over, it was a shrinking division. Now, it has solid growth prospects. The growth prospects materialise in the ability to attract users in a way that we never saw before. In the June quarter, we surpassed 100,000 new users. In July alone, we acquired another 100,000 new users.

The products typically cost between \$5 and \$10, sometimes \$20, depending on the territory. They're active in 36 countries and eight languages, and we sell through 22 partners.

**Figure 6: Unith's legacy business continues growing its profitability**



Source: ABN Newswire, Unith

### What is the three-to-five-year vision for Unith?

Keep delivering technical milestones. Keep building credibility. What we are doing, and we've been doing since September 2021, is building credibility first as a value player in the industry and second as a tech player.

Last November, we rebranded to Unith and we are now recognised worldwide as an AI player in the industry. We will just keep on improving the software and achieving commercialisation milestones.

As we improve the software, it opens us up to new markets and new customers. We are also more scalable; over time, we will finalise the software development and then focus on making the product fully scalable and sellable. Then, we execute mass commercialisation across the three different revenue streams. We expect this will bring strong growth numbers.

We have the B2B<sup>9</sup> enterprise sales that we're doing today. We have a partnership strategy in which we could work with digitisation partners that would connect to our service via API and then connect their own chatbots to our digital humans to do their own implementation. They then sell this digitisation to their customers, so that's the second revenue stream. And finally,

<sup>9</sup> B2B = business to business

we will also have a self-service platform in which businesses could go and onboard themselves and create their own digital humans.

**What's the biggest risk that you face to achieving those goals?**

First, regulations around AI might be a risk, but we mitigate the risk by remaining close to the regulation process and staying within the regulation as it evolves.

Another risk, of course, is from competitors or bigger players trying to tap into this and develop it themselves. We protect our business with great security, great talent, and great IP. The machine learning algorithms are proprietary and not easy to replicate. Also, the datasets they sit on are very specific and not easy to access.

The third risk is, of course, always market risk but we are getting great traction, our pipeline is growing, and overall, businesses globally are moving closer towards the products we make rather than further away. Plus, we have a smart, agile team, as we've already demonstrated, given the speed with which we got to market. We intend to remain lightweight and agile so we can quickly adapt to changing market conditions.

Our strategy is to always remain close to our customers and the market. Make sure we can duplicate the successes and then continue to scale. If it doesn't work, we move on to the next one. We have a very clear process, and we have very clear key metrics against which we work.

**What do you think is the most misunderstood part of the business?**

The fact that we're conversational AI. A lot of companies in this market today can create digital humans that look better than ours, but they don't communicate. We create ones you can speak with, creating a very different and compelling value proposition from anybody else in the ecosystem.

We provide a conversational platform; we don't just make digital avatars. I think that's the most misunderstood thing. I think the second misunderstood thing is how big this market will be in the future. Our current clients are the early adopters, but we're also seeing increased interest from bigger organisations.

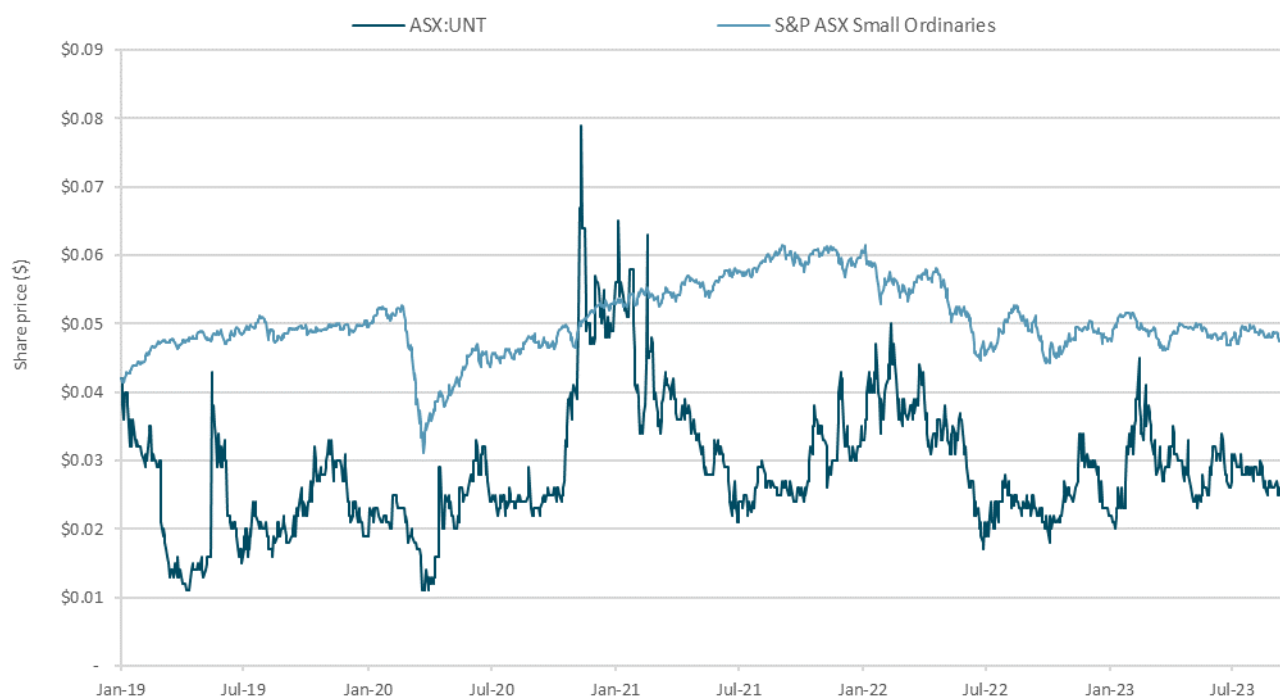
**One final question: what do you wish investors knew or understood better about Unith?**

How deep the technology is, how dedicated the team is, and how big the potential is. So often, we leave meetings with investors and fund managers with more questions and ideas than we entered with. It gives us more confirmation that the technology is strong.

We recently had an ex-Microsoft CTO for startups in Singapore join Unith's board. He was also an executive at Google and Dolby. Before he joined, our team did a tech review with him. After the tech review, he submitted a report to the board stating that the technology is unique and has strong IP. He ended up joining the board afterwards. This was a very strong stamp of approval for us.

Strong technology, strong team, huge market opportunity, and hopefully a huge company when we next meet.

## Share price performance



Source: S&P Global

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