

# ikeGPS

## Solid AGM Update Driven By Customer & USD Tailwinds

**JAMES LINDSAY**

 James.Lindsay@forsythbarr.co.nz  
 +64 9 368 0145

At its AGM on Friday, 30 September 2022, ikeGPS (IKE) updated the market on progress and provided revenue expectations for 1H23 (to the end of September 2022). Management forecasts revenue of NZ\$14.7m to NZ\$15.0m. An uplift in utilisation within existing customers aided this impressive update, with solid momentum on new customer wins and the tailwind of a very weak NZD/USD cross-rate. The midpoint of this guidance is +4% ahead of our prior estimate of NZ\$14.3m. After today's announcement, we lift our expectations for FY23 revenue from NZ\$27.8m to NZ\$29.0m, driven mainly by the company's signed contract backlog providing headroom for a strong Q3 in FY23. IKE trades on ~3.9x EV/Sales on our new FY23 estimates, and given its growth rates relative to peers, we consider 5.5x to 7.0x EV/Sales as justified. We lift our spot DCF valuation to NZ\$1.10, from NZ\$1.07, representing ~5.4x EV/Sales or +31% above the current share price.

NZX Code	IKE	Financials: Mar/	22A	23E	24E	25E	Valuation (x)	22A	23E	24E	25E
Share price	NZ\$0.84	NPAT* (NZ\$m)	(7.9)	(6.6)	(2.5)	0.5	PE	n/a	n/a	n/a	n/a
Spot Valuation	NZ\$1.10 (from 1.07)	EPS* (NZc)	(4.9)	(4.2)	(1.6)	0.3	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	Medium	EPS growth* (%)	12.4	15.6	62.6	n/a	EV/EBITDA	n/a	n/a	75.2	24.0
Issued shares	159.3m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	5.6	8.7	11.0	11.8
Market cap	NZ\$134m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	35.7k (NZ\$30k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

### Good customer momentum driving an extremely solid 1H23

IKE's AGM update showed strong momentum with customers utilisation and new wins. As previously announced, 1Q23 was +162% versus 1Q22, and the AGM shows that 1H23 growth is likely up between +157% and +163% versus 1H22, providing a high level of confidence in FY23. We consider that 1H23 would likely have seen some catch-up of work programmes delayed due to COVID-19 lockdowns over the previous year. Further, 2H23 growth will be cycling a much stronger 2H22, so growth rates are likely to slow. Given commentary about increasing penetration across its existing customer base, we believe the product's stickiness is also rising.

### The tailwind of a weak NZD/USD providing benefits to revenue growth

Since balance date, the NZD/USD cross rate has fallen materially. As of 31 March 2022, the NZD/USD cross rate was 0.69 and has since fallen to 0.57, an ~18% fall. IKE generates the vast majority (~99%) of its revenues in USD and does not undertake currency hedging, and as such this NZD/USD move will benefit revenues in the short-term. With ~72% of staff residing in the US, an estimated two-thirds of costs in USD and the fact IKE remains cash-flow negative, there is an offset against the revenue benefit.

### Earnings revisions and valuation update

As the business has grown its transactional revenues, we anticipate a degree of seasonality to appear in 4Q23 revenues. The North American winter, within IKE's 2H23, is likely to experience a degree of lower volumes relative to 1H23, given that snow and poor weather slow the number of utility power pole visits. We forecast these elements into our numbers and IKE's update increases our confidence in our assumptions; as such we now estimate FY23 revenue growth of +82% to NZ\$29.0m. Our spot DCF valuation is now NZ\$1.10, +3% from prior estimates, driven by the sales uplift and a faster break-even point.

**ikeGPS Group (IKE)**

<b>Market Data (NZ\$)</b>						<b>Spot valuation (NZ\$)</b>					
Priced as at 30 Sep 2022						0.84					
52 week high / low						1.07 / 0.65					
Market capitalisation (NZ\$m)						133.8					
<b>Key WACC assumptions</b>						<b>DCF valuation summary (NZ\$m)</b>					
Risk free rate						4.00%					
Equity beta						1.30					
WACC						10.5%					
Terminal growth						2.0%					
Total firm value						155					
(Net debt)/cash						24					
Less: Capitalised operating leases						(5)					
Value of equity						175					
<b>Profit and Loss Account (NZ\$m)</b>						<b>Valuation Ratios</b>					
	2021A	2022A	2023E	2024E	2025E		2021A	2022A	2023E	2024E	2025E
Sales revenue	9.3	16.0	29.0	38.3	48.2	EV/EBITDA (x)	n/a	n/a	n/a	75.2	24.0
<b>Normalised EBITDA</b>	<b>(5.5)</b>	<b>(5.3)</b>	<b>(3.1)</b>	<b>1.6</b>	<b>4.9</b>	EV/EBIT (x)	n/a	n/a	n/a	n/a	>100x
Depreciation and amortisation	(1.9)	(2.5)	(3.5)	(4.0)	(4.4)	PE (x)	n/a	n/a	n/a	n/a	>100x
<b>Normalised EBIT</b>	<b>(7.4)</b>	<b>(7.8)</b>	<b>(6.6)</b>	<b>(2.5)</b>	<b>0.5</b>	Price/NTA (x)	14.1	5.6	8.7	11.0	11.8
Net interest	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	Free cash flow yield (%)	-4.2	-7.6	-6.0	-3.0	-1.2
Associate income	0	0	0	0	0	Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Tax	0	0	0	0	0	Gross dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Minority interests	0	0	0	0	0	<b>Capital Structure</b>					
<b>Normalised NPAT</b>	<b>(7.5)</b>	<b>(7.9)</b>	<b>(6.6)</b>	<b>(2.5)</b>	<b>0.5</b>	2021A	2022A	2023E	2024E	2025E	
Abnormals/other	0	0	0	0	0	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	27.1
<b>Reported NPAT</b>	<b>(7.5)</b>	<b>(7.9)</b>	<b>(6.6)</b>	<b>(2.5)</b>	<b>0.5</b>	Interest cover EBITDA (x)	n/a	n/a	n/a	82.9	>100x
Normalised EPS (cps)	(5.6)	(4.9)	(4.2)	(1.6)	0.3	Net debt/ND+E (%)	-108.6	-176.5	-110.3	-71.1	-52.7
DPS (cps)	0	0	0	0	0	Net debt/EBITDA (x)	2.0	4.6	5.1	n/a	n/a
<b>Growth Rates</b>						<b>Key Ratios</b>					
	2021A	2022A	2023E	2024E	2025E		2021A	2022A	2023E	2024E	2025E
Revenue (%)	-5.2	71.2	81.9	31.8	25.9	Return on assets (%)	-24.4	-16.6	-16.0	-6.3	1.3
EBITDA (%)	n/a	n/a	n/a	n/a	>100	Return on equity (%)	-34.4	-20.6	-21.7	-8.8	1.8
EBIT (%)	n/a	n/a	n/a	n/a	n/a	Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
Normalised NPAT (%)	n/a	n/a	n/a	n/a	n/a	EBITDA margin (%)	-59.5	-33.4	-10.8	4.1	10.3
Normalised EPS (%)	n/a	n/a	n/a	n/a	n/a	EBIT margin (%)	-79.8	-48.8	-22.8	-6.4	1.1
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a	Capex to sales (%)	21.8	22.4	16.0	12.7	11.4
<b>Cash Flow (NZ\$m)</b>						<b>Operating Performance</b>					
	2021A	2022A	2023E	2024E	2025E		2021A	2022A	2023E	2024E	2025E
<b>EBITDA</b>	<b>(5.5)</b>	<b>(5.3)</b>	<b>(3.1)</b>	<b>1.6</b>	<b>4.9</b>	Sale of products revenue (\$m)	4.7	6.4	7.2	7.8	8.5
Working capital change	(0.9)	(1.7)	(0.2)	(0.7)	(1.0)	IKE Platform revenue (\$m)	3.3	8.1	20.2	28.4	37.0
Interest & tax paid	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	IKE Structural revenue (\$m)	1.0	1.1	1.3	1.7	2.2
Other	3.0	0.5	0	0	0	Spike revenue (\$m)	0.3	0.4	0.4	0.4	0.4
<b>Operating cash flow</b>	<b>(3.5)</b>	<b>(6.6)</b>	<b>(3.3)</b>	<b>0.9</b>	<b>3.9</b>	Other revenues (\$m)	0.9	0.1	0.1	0.1	0.1
Capital expenditure	(2.0)	(3.6)	(4.6)	(4.9)	(5.5)	<b>Total Revenues (\$m)</b>	<b>10.2</b>	<b>16.0</b>	<b>29.1</b>	<b>38.4</b>	<b>48.3</b>
(Acquisitions)/divestments	(4.6)	0	0	0	0	Sale of products share of revenues (%)	51%	40%	25%	20%	18%
Other	(0.3)	(0.4)	(0.3)	(0.3)	(0.4)	IKE Platform share of revenues (%)	35%	50%	70%	74%	77%
<b>Funding available/(required)</b>	<b>(10.4)</b>	<b>(10.6)</b>	<b>(8.3)</b>	<b>(4.3)</b>	<b>(1.9)</b>	IKE Structural share of revenues (%)	11%	7%	4%	4%	5%
Dividends paid	0	0	0	0	0	Spike share of revenues (%)	3%	2%	1%	1%	1%
Equity raised/(returned)	18.5	23.1	0	0	0	Sale of products gross margin (\$m)	3.5	4.6	5.3	5.7	6.2
<b>(Increase)/decrease in net debt</b>	<b>8.1</b>	<b>12.5</b>	<b>(8.3)</b>	<b>(4.3)</b>	<b>(1.9)</b>	IKE Platform gross margin (\$m)	1.3	3.9	10.5	15.6	21.1
<b>Balance Sheet (NZ\$m)</b>						<b>Total Gross margin (\$m)</b>					
	2021A	2022A	2023E	2024E	2025E		2021A	2022A	2023E	2024E	2025E
Working capital	2.5	4.2	4.4	5.1	6.1	Sale of products gross margin (%)	73%	72%	73%	73%	74%
Fixed assets	1.1	1.8	2.2	2.6	3.0	IKE Platform gross margin (%)	41%	49%	52%	55%	57%
Intangibles	13.8	14.1	15.3	16.1	17.0	IKE Structural gross margin (%)	100%	100%	100%	100%	100%
Right of use asset	0.4	0.2	0.8	0.4	0.3	Spike gross margin (%)	36%	51%	51%	51%	51%
Other assets	0.4	0.5	0.5	0.5	0.5	<b>Overall Gross margin (%)</b>	<b>64%</b>	<b>62%</b>	<b>59%</b>	<b>61%</b>	<b>62%</b>
<b>Total funds employed</b>	<b>18.2</b>	<b>20.8</b>	<b>23.1</b>	<b>24.7</b>	<b>26.9</b>						
Net debt/(cash)	(11.3)	(24.4)	(16.0)	(11.7)	(9.8)						
Lease liability	0.2	0	0.8	0.4	0.3						
Other liabilities	7.5	7.0	7.8	7.8	8.0						
Shareholder's funds	21.8	38.2	30.6	28.2	28.4						
Minority interests	0	0	0	0	0						
<b>Total funding sources</b>	<b>18.2</b>	<b>20.8</b>	<b>23.1</b>	<b>24.7</b>	<b>26.9</b>						

\* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

## Earnings revisions

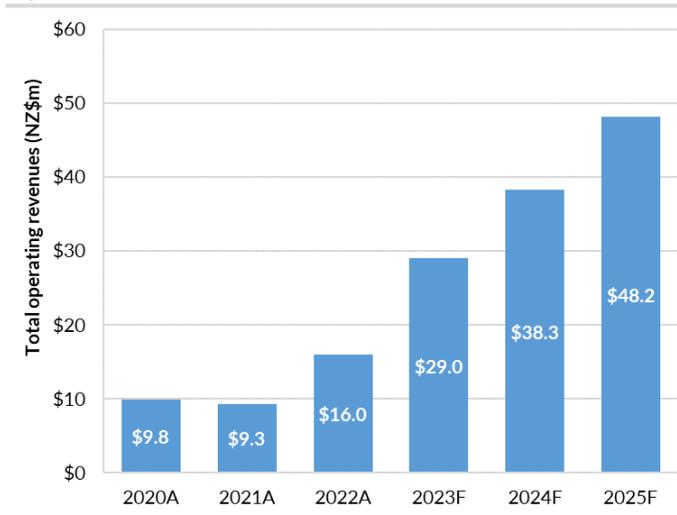
We revise our estimates given the strong AGM update. Our FY23 revenue estimates rise +4% to NZ\$29.0m, FY24 +2% to NZ\$38.3m and FY25 +2% to NZ\$48.2m. We lift the gross profit line but to a lesser extent, as we envisage the company reinvesting into the network for future growth. We modestly increase operating costs, for similar reasons. The net effect is we now see a modest lowering of our NPAT loss estimates in FY23 and FY24.

Figure 1. Earnings revisions

	FY23E			FY24E			FY25E		
	Old NZ\$m	New NZ\$m	Change	Old NZ\$m	New NZ\$m	Change	Old NZ\$m	New NZ\$m	Change
<b>Operating revenue</b>	27.8	29.0	+4%	37.5	38.3	+2%	47.4	48.2	+2%
Cost of sales	(11.0)	(11.8)	8%	(14.6)	(15.1)	3%	(17.9)	(18.4)	3%
<b>Gross profit</b>	16.8	17.2	+2%	22.9	23.2	+1%	29.5	29.8	+1%
Other income	0.1	0.1	-	0.1	0.1	-	0.1	0.1	-
General & Admin expences ("Corporate Costs")	(8.2)	(8.3)	+1%	(8.6)	(8.7)	+1%	(9.1)	(9.2)	+1%
Sales & marketing expenses	(7.5)	(7.6)	+1%	(8.2)	(8.3)	+1%	(10.4)	(10.5)	+1%
Research & Engineering expenses	(7.5)	(7.6)	+1%	(8.1)	(8.1)	+1%	(9.0)	(9.0)	+0%
Other operating expenses ("Support costs")	(0.5)	(0.5)	+0%	(0.6)	(0.6)	+0%	(0.6)	(0.6)	+0%
Finance costs	(0.0)	(0.0)	+0%	(0.0)	(0.0)	+0%	(0.0)	(0.0)	+0%
<b>Total expenses</b>	<b>(23.8)</b>	<b>(23.9)</b>	<b>+0%</b>	<b>(25.5)</b>	<b>(25.7)</b>	<b>+1%</b>	<b>(29.2)</b>	<b>(29.3)</b>	<b>+0%</b>
Profit before income tax	(7.0)	(6.6)	-	(2.6)	(2.5)	-	0.3	0.5	-
Income tax	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
<b>Net Profit (Loss) for the Year</b>	<b>(7.0)</b>	<b>(6.6)</b>	<b>+6%</b>	<b>(2.6)</b>	<b>(2.5)</b>	<b>+5%</b>	<b>0.3</b>	<b>0.5</b>	<b>+59%</b>

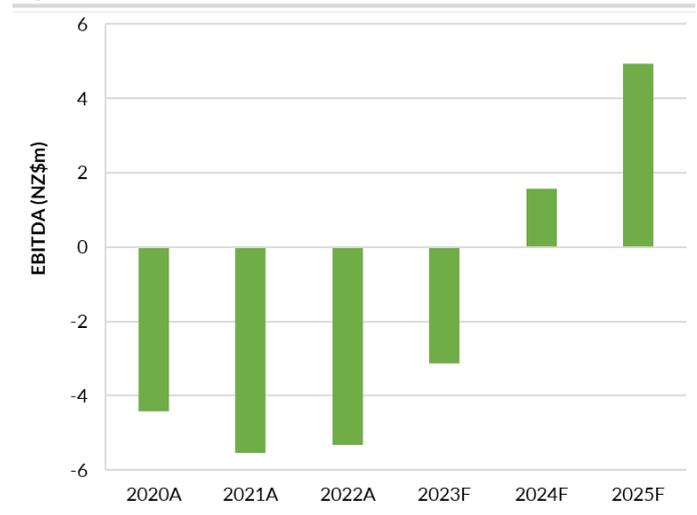
Source: Company data, Forsyth Barr analysis

Figure 2. IKE – historical and forecast revenues



Source: Company data, Forsyth Barr analysis

Figure 3. IKE – historical and forecast EBITDA



Source: Company data, Forsyth Barr analysis

**Figure 4. Price performance**


Source: Forsyth Barr analysis

**Figure 5. Substantial shareholders**

Shareholder	Latest Holding
Wilson Family Trust	17.5%
K & M Douglas Trust	8.7%
Scobie Ward	8.3%

Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 6. International valuation comparisons**

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2024E
				2023E	2024E	2023E	2024E	2023E	2024E	
ikeGPS	IKE NZ	NZ\$0.84	NZ\$134	<0x	<0x	<0x	>75x	<0x	<0x	0.0%
Autodesk Inc	ADSK US	US\$188.45	US\$40,668	27.6x	23.4x	21.6x	18.6x	22.8x	19.7x	0.0%
Altair Engineering Inc - A	ALTR US	US\$45.00	US\$3,598	58.4x	48.7x	35.2x	28.3x	35.1x	30.8x	n/a
Ansys Inc	ANSS US	US\$226.34	US\$19,707	28.6x	25.9x	21.8x	19.9x	23.0x	20.7x	0.0%
Aveva Group Plc	AVV LN	£31.45	£9,498	36.9x	31.3x	26.9x	23.6x	36.9x	30.7x	1.3%
Bentley Systems Inc-Class B	BSY US	US\$31.17	US\$9,926	36.6x	33.8x	30.8x	26.8x	33.1x	29.6x	0.3%
Dassault Systemes Se	DSY FP	€34.24	€45,682	30.6x	28.5x	21.8x	19.7x	26.2x	24.4x	0.7%
Hexagon Ab-B Shs	HEXAB SS	€100.75	€272,577	>75x	>50x	>75x	>75x	>75x	>75x	0.1%
Rockwell Automation Inc	ROK US	US\$215.36	US\$24,849	21.2x	18.9x	17.1x	15.4x	18.8x	16.4x	2.2%
Roper Technologies Inc	ROP US	US\$366.21	US\$38,821	26.6x	25.0x	20.1x	18.3x	28.7x	26.0x	0.7%
Trimble Inc	TRMB US	US\$54.99	US\$13,614	19.4x	17.2x	15.0x	13.6x	16.5x	15.7x	n/a
<b>Compco Average:</b>				<b>31.8x</b>	<b>28.1x</b>	<b>23.4x</b>	<b>20.5x</b>	<b>26.8x</b>	<b>23.8x</b>	<b>0.7%</b>
<b>IKE Relative:</b>				<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>-100%</b>

EV = Mkt cap+net debt+lease liabilities+min interests-investments

Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (ABA) companies fiscal year end

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