

ikeGPS

Powering Up During 3Q23

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IKE reported a solid nine month result for the period ending 31 December 2022, with YTD revenue of NZ\$23.3m, a +134% increase on the prior period. The company's 3Q23 revenue stood at NZ\$7.9m, up +88% and in line with our NZ\$7.8m estimate, driven by strong recurring subscription and transaction revenue of NZ\$7.2m, a +121% increase. The company recorded new closed contracts worth NZ\$7.3m in Q323. The year-to-date gross margin was NZ\$12.3m or 53% of revenue. Total cash was NZ\$20.6m and IKE has no debt. The CEO noted that the company is executing significant sales opportunities and expects a healthy run rate of new contracts to close in 4Q23 and beyond, fuelled by industry tailwinds across North America. We retain our FY23 revenue estimate of NZ\$29.7m, representing growth of +86% on FY22. Our DCF-driven spot valuation rises to NZ\$1.09 from NZ\$1.07.

NZX Code	IKE	Financials: Mar/	22A	23E	24E	25E	Valuation (x)	22A	23E	24E	25E
Share price	NZ\$1.01	NPAT* (NZ\$m)	(7.9)	(5.9)	(4.1)	0.4	PE	n/a	n/a	n/a	n/a
Spot Valuation	NZ\$1.09 (from 1.07)	EPS* (NZc)	(4.9)	(3.7)	(2.5)	0.2	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS growth* (%)	12.4	25.2	31.0	n/a	EV/EBITDA	n/a	n/a	n/a	29.6
Issued shares	159.5m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	6.7	8.7	12.6	12.7
Market cap	NZ\$161m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	41.4k (NZ\$35k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

Operationally showing good progress

IKE's 3Q23 saw revenue of ~NZ\$7.9m (+88% versus prior period), in line with our expectations. New contracts closed in the quarter were NZ\$7.3m, up on the low NZ\$6.6m in 2Q23 but below the peak of NZ\$9.0m achieved in 4Q22 (see Figure 1). For FY23 to date, gross margin was ~NZ\$12.3m, +98% versus prior period, a gross margin percentage of ~53%. IKE's CEO said, "We have achieved significant revenue and gross margin growth and are materially ahead of all internal stretch targets", and, "operating leverage is evident via the scalability of our software products and our disciplined approach to operating expenses". The company is benefitting from the tailwinds of a multi-year investment building overhead fibre networks, 5G infrastructure, repairing storm damage and the investment by electric utilities into network capacity and hardening. IKE has 365 enterprise customers, +4 in the quarter. On the outlook, management said IKE is "executing on sizable sales opportunities and expect a healthy run rate of new contracts to close in the Q4 FY23 period and beyond".

Strong balance sheet was maintained but the cash position deteriorated over the quarter

IKE had NZ\$20.6m in cash at the end of 3Q23. This has fallen NZ\$4.9m in the three months from NZ\$25.5m at HY23. The majority of this move results from movements in the NZDAUD and NZDUSD as the balance sheet cash is held in these foreign currencies. However, some of the cash movement is due to a normalisation of working capital to more typical levels. We do not consider the 3Q23 fall in cash as reflective of quarterly performance and retain our view that it has an appropriate level of net cash. We estimate that FY23 cash will fall further to NZ\$18.1m by 31 March 2023. Our forecasts suggest that this cash will be sufficient until the company achieves our estimate of net cash flow break-even in FY26, not considering acquisitions.

Peer multiples bouncing hard

The Nasdaq Emerging Cloud Index median EV/Sales multiple has risen +40% from its recent lows, now sitting at ~5.7x EV/Sales (see Figures 3 and 4). Global sector optimism has been helped by hopes that the US Federal Reserve may soon move to pause its hiking of interest rates. The sector is sensitive to movements in interest rates, given the long-duration nature of growth and cash flows. This recent optimism has flowed down to IKE's peer group and seen our market-based EV/Sales multiple driven valuation rise +7% since our last update, from NZ\$1.25 to NZ\$1.34 and +33% ahead of the current share price.

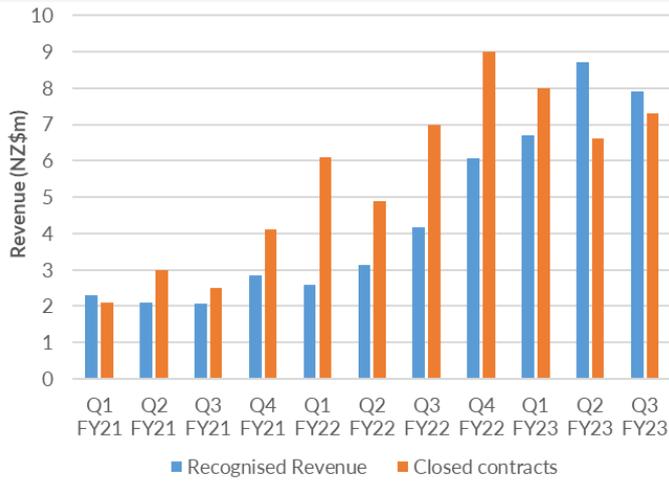
ikeGPS Group (IKE)

Market Data (NZ\$)						Spot valuation (NZ\$)					
Priced as at 07 Feb 2023					1.01	DCF				1.09	
52 week high / low					1.01 / 0.65	EV/Sales relative				1.34	
Market capitalisation (NZ\$m)					161.1						
Carbon and ESG (CESG)**						Key WACC assumptions					
CESG rating					n/a	Risk free rate				4.50%	
CESG score					n/a	Equity beta				1.30	
Sector average CESG score					n/a	WACC				10.8%	
NZ average CESG score					n/a	Terminal growth				2.0%	
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Sales revenue	2021A	2022A	2023E	2024E	2025E	EV/EBITDA (x)	2021A	2022A	2023E	2024E	2025E
Normalised EBITDA	9.3	16.0	29.7	38.8	48.7	EV/EBIT (x)	n/a	n/a	n/a	>100x	29.6
Depreciation and amortisation	(5.5)	(5.3)	(2.4)	0.0	4.9	PE (x)	n/a	n/a	n/a	n/a	>100x
Normalised EBIT	(1.9)	(2.5)	(3.5)	(4.1)	(4.4)	Price/NTA (x)	n/a	n/a	n/a	n/a	>100x
Net interest	(7.4)	(7.8)	(5.9)	(4.0)	0.4	Free cash flow yield (%)	16.9	6.7	8.7	12.6	12.7
Associate income	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	Net dividend yield (%)	-3.5	-6.3	-3.6	-3.9	-1.1
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	Capital Structure					
Normalised NPAT	(7.5)	(7.9)	(5.9)	(4.1)	0.4	Interest cover EBIT (x)	2021A	2022A	2023E	2024E	2025E
Abnormals/other	0	0	0	0	0	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	21.2
Reported NPAT	(7.5)	(7.9)	(5.9)	(4.1)	0.4	Net debt/ND+E (%)	n/a	n/a	n/a	0.8	>100x
Normalised EPS (cps)	(5.6)	(4.9)	(3.7)	(2.5)	0.2	Net debt/EBITDA (x)	-108.6	-176.5	-115.2	-66.5	-47.1
DPS (cps)	0	0	0	0	0	Key Ratios					
Growth Rates						Return on assets (%)	2021A	2022A	2023E	2024E	2025E
Revenue (%)	2021A	2022A	2023E	2024E	2025E	Return on equity (%)	-24.4	-16.6	-13.8	-10.5	1.1
EBITDA (%)	-5.2	71.2	85.9	30.9	25.3	Return on funds employed (%)	-34.4	-20.6	-17.3	-14.0	1.3
EBIT (%)	n/a	n/a	n/a	n/a	>100	EBITDA margin (%)	0.0	0.0	0.0	0.0	0.0
Normalised NPAT (%)	n/a	n/a	n/a	n/a	n/a	EBIT margin (%)	-59.5	-33.4	-8.0	0.0	10.0
Normalised EPS (%)	n/a	n/a	n/a	n/a	n/a	Capex to sales (%)	-79.8	-48.8	-19.8	-10.4	0.9
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a	Capex to depreciation (%)	21.8	22.4	16.0	12.7	11.4
Cash Flow (NZ\$m)						Imputation (%)	215	360	418	349	379
EBITDA	2021A	2022A	2023E	2024E	2025E	Pay-out ratio (%)	0	0	0	0	0
Working capital change	(5.5)	(5.3)	(2.4)	0.0	4.9	Operating Performance					
Interest & tax paid	(0.9)	(1.7)	1.3	(1.3)	(1.0)	Sale of products revenue (\$m)	2021A	2022A	2023E	2024E	2025E
Other	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	IKE Platform revenue (\$m)	4.7	6.4	7.2	7.8	8.5
Operating cash flow	3.0	0.5	0	0	0	IKE Structural revenue (\$m)	3.3	8.1	20.8	28.9	37.5
Capital expenditure	(3.5)	(6.6)	(1.1)	(1.3)	3.8	Spike revenue (\$m)	1.0	1.1	1.3	1.7	2.2
(Acquisitions)/divestments	(2.0)	(3.6)	(4.7)	(4.9)	(5.5)	Other revenues (\$m)	0.3	0.4	0.4	0.4	0.4
Other	(4.6)	0	0	0	0	Total Revenues (\$m)	10.2	16.0	29.7	38.9	48.7
Funding available/(required)	(0.3)	(0.4)	(0.3)	(0.3)	(0.4)	Sale of products share of revenues (%)	51%	40%	24%	20%	17%
Dividends paid	(10.4)	(10.6)	(6.2)	(6.6)	(2.1)	IKE Platform share of revenues (%)	35%	50%	70%	74%	77%
Equity raised/(returned)	0	0	0	0	0	IKE Structural share of revenues (%)	11%	7%	4%	4%	5%
(Increase)/decrease in net debt	18.5	23.1	0	0	0	Spike share of revenues (%)	3%	2%	1%	1%	1%
Balance Sheet (NZ\$m)						Sale of products gross margin (\$m)	3.5	4.6	5.2	5.6	6.1
Working capital	2021A	2022A	2023E	2024E	2025E	IKE Platform gross margin (\$m)	1.3	3.9	8.7	14.5	20.3
Fixed assets	2.5	4.2	2.9	4.2	5.2	IKE Structural gross margin (\$m)	1.0	1.1	1.3	1.7	2.2
Intangibles	1.1	1.8	2.2	2.6	3.1	Spike gross margin (\$m)	0.1	0.2	0.2	0.2	0.2
Right of use asset	13.8	14.1	15.3	16.2	17.1	Total Gross margin (\$m)	5.9	9.9	15.4	22.0	28.9
Other assets	0.4	0.2	0.8	0.4	0.3	Sale of products gross margin (%)	73%	72%	72%	72%	73%
Other assets	0.4	0.5	0.5	0.5	0.5	IKE Platform gross margin (%)	41%	49%	42%	50%	54%
Total funds employed	18.2	20.8	21.7	24.0	26.2	IKE Structural gross margin (%)	100%	100%	100%	100%	100%
Net debt/(cash)	(11.3)	(24.4)	(18.2)	(11.6)	(9.5)	Spike Gross margin (%)	36%	51%	51%	51%	51%
Lease liability	0.2	0	0.8	0.4	0.3	Overall Gross margin (%)	64%	62%	52%	57%	59%
Other liabilities	7.5	7.0	5.2	6.1	5.6						
Shareholder's funds	21.8	38.2	34.0	29.0	29.8						
Minority interests	0	0	0	0	0						
Total funding sources	18.2	20.8	21.7	24.0	26.2						

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend** Information on Forsyth Barr's Carbon and ESG (CESG) ratings can be found at www.forsythbarr.co.nz/corporate-news-events/cesg-report

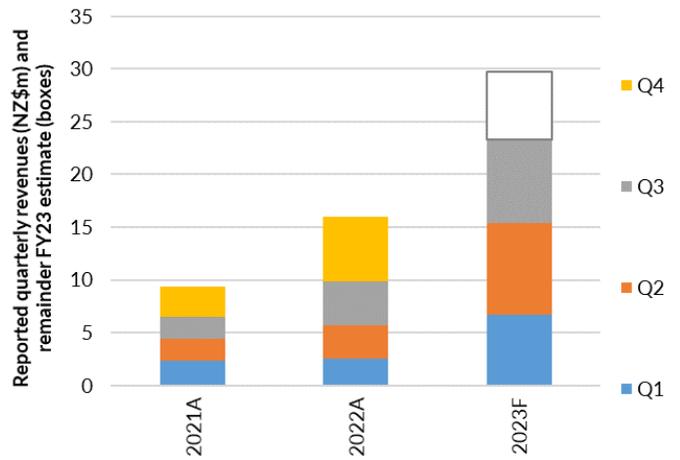
Supplementary information

Figure 1. QoQ closed contracts & recognised revenues(NZ\$m)



Source: Company, Forsyth Barr Analysis

Figure 2. IKE – Reported quarterly revenues and remainder of FY23 estimates (NZ\$m)



Source: Company, Forsyth Barr Analysis

Figure 3. Nasdaq emerging cloud index (EV/Sales multiple)



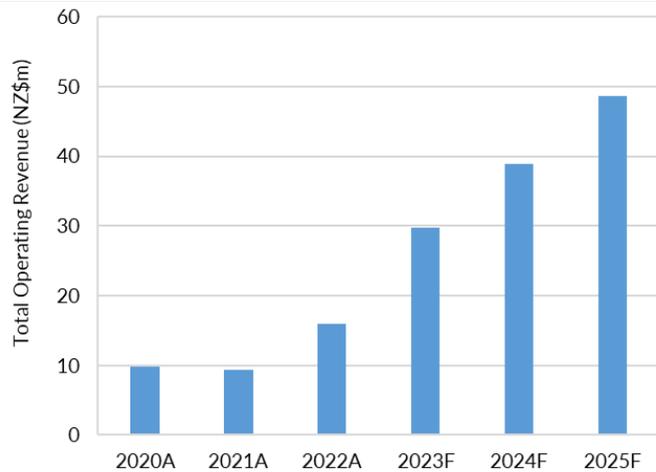
Source: BVP, Forsyth Barr analysis

Figure 4. Nasdaq emerging cloud index (EV/Sales multiple)



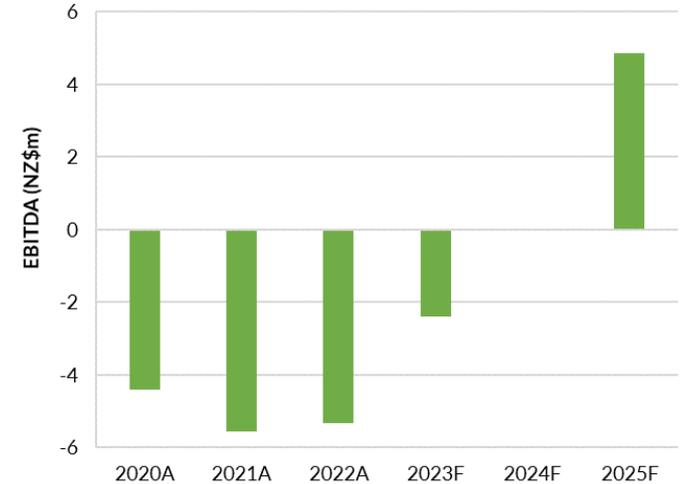
Source: BVP, Forsyth Barr analysis

Figure 5. IKE – Historical and forecast revenues (NZ\$m)



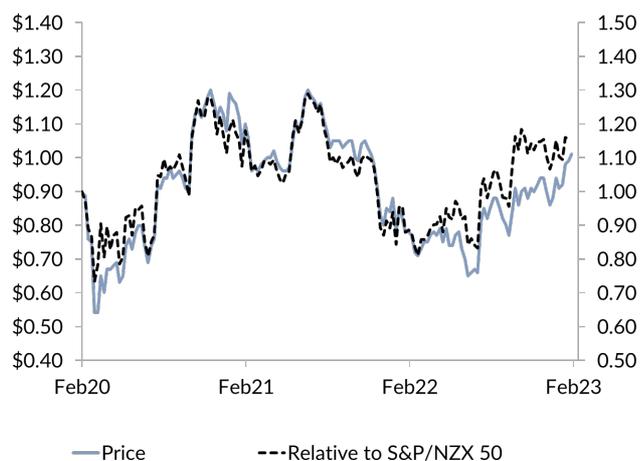
Source: Company, Forsyth Barr Analysis

Figure 6. IKE – Historical and forecast EBITDA (NZ\$m)



Source: Company, Forsyth Barr Analysis

Figure 7. Price performance



Source: Forsyth Barr analysis

Figure 8. Substantial shareholders

Shareholder	Latest Holding
Wilson Family Trust	17.5%
K & M Douglas Trust	8.7%
Scobie Ward	8.3%
TEK Trust	7.2%

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

Figure 9. 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\$1.01	NZ\$161	<0x	<0x	<0x	>75x	<0x	<0x	0.0%	
Autodesk Inc	ADSK US	US\$218.19	US\$47,102	32.5x	29.1x	25.0x	22.6x	26.5x	23.9x	0.0%	
Altair Engineering Inc - A	ALTR US	US\$57.22	US\$4,586	74.0x	63.0x	47.2x	39.5x	52.7x	51.2x	n/a	
Ansys Inc	ANSS US	US\$272.19	US\$23,745	34.6x	31.6x	26.2x	23.9x	27.9x	25.5x	0.0%	
Aveva Group Plc	AVV LN	£32.19	£9,769	35.2x	32.3x	30.8x	25.6x	42.5x	39.5x	1.2%	
Bentley Systems Inc-Class B	BSY US	US\$40.91	US\$13,029	48.5x	45.0x	39.5x	34.9x	42.0x	37.6x	0.2%	
Dassault Systemes Se	DSY FP	€38.11	€50,878	48.5x	32.4x	26.2x	23.4x	36.5x	27.5x	0.6%	
Hexagon Ab-B Shs	HEXAB SS	€124.00	€335,479	>75x	>50x	>75x	>75x	>75x	>75x	0.1%	
Rockwell Automation Inc	ROK US	US\$286.77	US\$32,916	30.6x	24.4x	20.6x	18.8x	24.4x	20.6x	1.7%	
Roper Technologies Inc	ROP US	US\$426.73	US\$45,256	14.1x	26.0x	23.0x	21.0x	32.8x	29.8x	0.6%	
Trimble Inc	TRMB US	US\$59.09	US\$14,576	21.9x	20.0x	17.1x	15.9x	18.6x	17.5x	n/a	
Compco Average:				37.8x	33.8x	28.4x	25.1x	33.8x	30.3x	0.6%	
EV = Mkt cap+net debt+lease liabilities+min interests-investments				IKE Relative:		n/a	n/a	n/a	n/a	n/a	-100%

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

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