

ikeGPS

Exceptional Momentum Continues in 1H23

JAMES LINDSAY

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

ikeGPS (IKE) updated the market with 1H23 revenues of NZ\$15.4m. This was above the NZ\$14.7m to NZ\$15.0m guidance the company provided at its ASM in September 2022. The first half revenue performance represents exceptional revenue growth of +170% on 1H22, driven by 1) new customer growth, 2) improvements in utilisation within existing customers and, 3) currency movements. We consider that 1H23 likely saw some catch-up of work programmes delayed due to COVID-19 lockdowns over the previous year. Cash flow for 1H23 was positive +NZ\$1.1m, which was aided by tight control of working capital and operating leverage, further strengthening the balance sheet. 1H23 operating margin grew to NZ\$8.2m, representing a gross margin of 53%. This margin performance was below our expectations and we surmise this is due to a change in product mix and new customer success for IKE Analyze, but at lower margins. With ~72% of staff residing in the US NZD-denominated costs have risen, from movements in the NZD against the USD, offsetting the revenue benefit. We upgrade our FY23 revenue estimates by a further +2% to NZ\$29.7m. Our spot valuation remains at NZ\$1.10.

NZX Code	IKE	Financials: Mar/	22A	23E	24E	25E	Valuation (x)	22A	23E	24E	25E
Share price	NZ\$0.91	NPAT* (NZ\$m)	(7.9)	(7.9)	(2.9)	0.4	PE	n/a	n/a	n/a	n/a
Spot Valuation	NZ\$1.10 (from 1.10)	EPS* (NZc)	(4.9)	(5.0)	(1.8)	0.3	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	Medium	EPS growth* (%)	12.4	-0.7	63.1	n/a	EV/EBITDA	n/a	n/a	n/a	26.6
Issued shares	159.3m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	6.0	10.4	14.1	15.4
Market cap	NZ\$145m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	34.1k (NZ\$28k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What has changed?

- **Revenue estimates:** FY23 estimates rise +2% from NZ\$29.1m to NZ\$29.7m, FY24 +1% to NZ\$38.8m and FY25 +1% to NZ\$48.7m.
- **Cash flow:** Cash flow for 1H23 was positive with an improvement in working capital. IKE now has NZ\$25.5m in net cash.
- **Gross Margin:** We lower our FY23 gross margin estimates from 59% to 54%, driven principally by product mix changes.

1H23 growth bodes well for FY23 given uplift in customer utilisation

The factors contributing to a robust first-half revenue result of 1) new customer wins (with enterprise customers +17% pcp), 2) improvements in utilisation within existing customers (platform transactional revenue +309%), and 3) a weak NZD/USD cross rate all bode well for 2H23. As of 31 March 2022, the NZD/USD cross rate was ~0.69 and has since fallen to ~0.57, an ~18% fall. However, 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 lower volumes relative to 1H23, given that snow and poor weather slow the number of utility power pole visits. Further, 2H23 growth will be cycling a much stronger 2H22, so growth rates will be lower.

Earnings revisions and update

Our updated FY23 revenue estimates would represent an +86% uplift over FY22. Our spot valuation remains at NZ\$1.10, with the positive of higher revenue held back by lower margins in the short term. Our EV/Sales peer comparison derived valuation falls from NZ\$1.22 to NZ\$1.20, with our higher revenue number countered by a fall in peer multiples. IKE trades on 4.2x EV/Sales on new FY23 numbers. Despite peers selling off with recent global market weakness, we consider 5.0x to 6.5x EV/Sales as more appropriate.

ikeGPS Group (IKE)

Market Data (NZ\$)						Spot valuation (NZ\$)					
Priced as at 18 Oct 2022						0.91					
52 week high / low						1.07 / 0.65					
Market capitalisation (NZ\$m)						145.0					
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						4.00%					
Equity beta						1.30					
WACC						10.5%					
Terminal growth						2.0%					
Total firm value						156					
(Net debt)/cash						24					
Less: Capitalised operating leases						(5)					
Value of equity						176					
Profit and Loss Account (NZ\$m)						Valuation Ratios					
	2021A	2022A	2023E	2024E	2025E		2021A	2022A	2023E	2024E	2025E
Sales revenue	9.3	16.0	29.7	38.8	48.7	EV/EBITDA (x)	n/a	n/a	n/a	>100x	26.6
Normalised EBITDA	(5.5)	(5.3)	(4.4)	1.2	4.9	EV/EBIT (x)	n/a	n/a	n/a	n/a	>100x
Depreciation and amortisation	(1.9)	(2.5)	(3.5)	(4.1)	(4.4)	PE (x)	n/a	n/a	n/a	n/a	>100x
Normalised EBIT	(7.4)	(7.8)	(7.9)	(2.9)	0.4	Price/NTA (x)	15.3	6.0	10.4	14.1	15.4
Net interest	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	Free cash flow yield (%)	-3.8	-7.0	-5.5	-3.5	-1.1
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	Capital Structure					
Normalised NPAT	(7.5)	(7.9)	(7.9)	(2.9)	0.4	2021A	2022A	2023E	2024E	2025E	
Abnormals/other	0	0	0	0	0	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	22.5
Reported NPAT	(7.5)	(7.9)	(7.9)	(2.9)	0.4	Interest cover EBITDA (x)	n/a	n/a	n/a	60.7	>100x
Normalised EPS (cps)	(5.6)	(4.9)	(5.0)	(1.8)	0.3	Net debt/ND+E (%)	-108.6	-176.5	-122.2	-68.2	-49.2
DPS (cps)	0	0	0	0	0	Net debt/EBITDA (x)	2.0	4.6	3.7	n/a	n/a
Growth Rates						Key Ratios					
	2021A	2022A	2023E	2024E	2025E		2021A	2022A	2023E	2024E	2025E
Revenue (%)	-5.2	71.2	85.9	30.9	25.3	Return on assets (%)	-24.4	-16.6	-19.6	-7.8	1.2
EBITDA (%)	n/a	n/a	n/a	n/a	>100	Return on equity (%)	-34.4	-20.6	-27.0	-11.0	1.6
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	-14.9	3.0	10.0
Normalised EPS (%)	n/a	n/a	n/a	n/a	n/a	EBIT margin (%)	-79.8	-48.8	-26.6	-7.5	0.9
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
Cash Flow (NZ\$m)						Operating Performance					
	2021A	2022A	2023E	2024E	2025E		2021A	2022A	2023E	2024E	2025E
EBITDA	(5.5)	(5.3)	(4.4)	1.2	4.9	Sale of products revenue (\$m)	4.7	6.4	7.2	7.8	8.5
Working capital change	(0.9)	(1.7)	1.3	(1.2)	(0.9)	IKE Platform revenue (\$m)	3.3	8.1	20.8	28.9	37.5
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
Operating cash flow	(3.5)	(6.6)	(3.2)	(0.1)	3.9	Other revenues (\$m)	0.9	0.1	0.1	0.1	0.1
Capital expenditure	(2.0)	(3.6)	(4.7)	(4.9)	(5.5)	Total Revenues (\$m)	10.2	16.0	29.7	38.9	48.7
(Acquisitions)/divestments	(4.6)	0	0	0	0	Sale of products share of revenues (%)	51%	40%	24%	20%	17%
Other	(0.3)	(0.4)	(0.3)	(0.3)	(0.4)	IKE Platform share of revenues (%)	35%	50%	70%	74%	77%
Funding available/(required)	(10.4)	(10.6)	(8.2)	(5.4)	(2.0)	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
(Increase)/decrease in net debt	8.1	12.5	(8.2)	(5.4)	(2.0)	IKE Platform gross margin (\$m)	1.3	3.9	9.4	15.0	20.6
						IKE Structural gross margin (\$m)	1.0	1.1	1.3	1.7	2.2
Balance Sheet (NZ\$m)						Total Gross margin (\$m)					
	2021A	2022A	2023E	2024E	2025E		2021A	2022A	2023E	2024E	2025E
Working capital	2.5	4.2	2.9	4.2	5.1	Sale of products gross margin (%)	73%	72%	73%	73%	74%
Fixed assets	1.1	1.8	2.2	2.6	3.1	IKE Platform gross margin (%)	41%	49%	45%	52%	55%
Intangibles	13.8	14.1	15.3	16.2	17.1	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	Total Gross margin (\$m)	5.9	9.9	16.1	22.6	29.3
Total funds employed	18.2	20.8	21.7	23.9	26.1	Sale of products gross margin (%)	73%	72%	73%	73%	74%
Net debt/(cash)	(11.3)	(24.4)	(16.1)	(10.7)	(8.8)	IKE Platform gross margin (%)	41%	49%	45%	52%	55%
Lease liability	0.2	0	0.8	0.4	0.3	IKE Structural gross margin (%)	100%	100%	100%	100%	100%
Other liabilities	7.5	7.0	7.8	7.8	8.0	Spike gross margin (%)	36%	51%	51%	51%	51%
Shareholder's funds	21.8	38.2	29.3	26.5	26.6	Total Gross margin (%)	64%	62%	54%	58%	60%
Minority interests	0	0	0	0	0						
Total funding sources	18.2	20.8	21.7	23.9	26.1						

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

1H23 update drives earnings revisions

Earnings revisions

Given the solid 1H23 update, we revise our FY23 revenue estimates by +2% to NZ\$29.7m, FY24 by +1% to NZ\$38.8m, and FY25 by +1% to NZ\$48.7m. We surmise that product mix changes have contributed to the lower gross margins, and flowing this through to our 2H23 estimates see our gross profit estimates fall. We make further but marginal increases to operating costs which increases our NPAT loss estimates in FY23 and FY24. See Figure 1 below.

We see the company targeting five key financial milestones over the coming years:

1. Monthly EBITDA breakeven sometime late in FY23
2. EBITDA breakeven in FY24
3. NPAT breakeven in FY25
4. Net cash flow breakeven in FY26 (excluding acquisitions)
5. Maintenance of a fortress balance sheet throughout

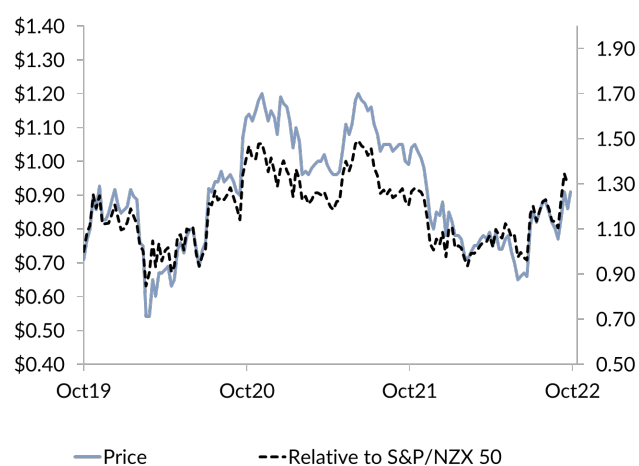
Figure 1. Earnings revisions (NZ\$m)

	FY23E			FY24E			FY25E		
	Old	New	Change	Old	New	Change	Old	New	Change
Operating Revenue	29.0	29.7	+2%	38.3	38.8	+1%	48.2	48.7	+1%
Cost of sales	(11.8)	(13.6)	+15%	(15.1)	(16.2)	+7%	(18.4)	(19.3)	+5%
Gross profit	17.2	16.1	-7%	23.2	22.6	-2%	29.8	29.3	-2%
Other income	0.1	0.1		0.1	0.1		0.1	0.1	
General & Admin expenses ("Corporate Costs")	(8.3)	(8.3)	-0%	(8.7)	(8.6)	-0%	(9.2)	(9.1)	-0%
Sales & marketing expenses	(7.6)	(7.7)	+2%	(8.3)	(8.4)	+0%	(10.5)	(10.3)	-2%
Research & Engineering expenses	(7.6)	(7.6)	+0%	(8.1)	(8.0)	-1%	(9.0)	(8.8)	-2%
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%
Total expenses	(23.9)	(24.0)	+1%	(25.7)	(25.6)	-0%	(29.3)	(28.9)	-1%
Profit before income tax	(6.6)	(7.9)		(2.5)	(2.9)		0.5	0.4	
Income tax	0.0	0.0		0.0	0.0		0.0	0.0	
Net Profit (Loss) for the Year	(6.6)	(7.9)	-16%	(2.5)	(2.9)	-15%	0.5	0.4	-18%

Source: Company data, Forsyth Barr analysis

IKE's 1H23 performance update can be found here:

<https://www.i-search.nzx.com/blobs/IKE000000/539713/IKE000000-381376.pdf>

Figure 2. Price performance


Source: Forsyth Barr analysis

Figure 3. 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 4. 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\$0.91	NZ\$145	<0x	<0x	<0x	>75x	<0x	<0x	0.0%
Autodesk Inc	ADSK US	US\$198.70	US\$42,891	29.1x	24.7x	22.8x	19.6x	24.0x	20.7x	0.0%
Altair Engineering Inc - A	ALTR US	US\$45.35	US\$3,626	59.7x	50.4x	35.5x	28.6x	35.4x	31.1x	n/a
Ansys Inc	ANSS US	US\$211.80	US\$18,441	26.8x	24.3x	20.5x	18.6x	21.5x	19.5x	0.0%
Aveva Group Plc	AVV LN	£31.46	£9,501	36.1x	31.0x	26.7x	23.3x	36.4x	30.3x	1.3%
Bentley Systems Inc-Class B	BSY US	US\$32.51	US\$10,353	38.4x	35.1x	31.9x	27.9x	34.4x	30.6x	0.3%
Dassault Systemes Se	DSY FP	€34.56	€46,122	30.9x	28.6x	21.6x	19.8x	26.1x	24.2x	0.7%
Hexagon Ab-B Shs	HEXAB SS	€104.85	€283,669	>75x	>50x	>75x	>75x	>75x	>75x	0.1%
Rockwell Automation Inc	ROK US	US\$230.71	US\$26,632	22.7x	20.3x	18.1x	16.4x	20.2x	17.8x	2.1%
Roper Technologies Inc	ROP US	US\$370.94	US\$39,323	26.7x	24.7x	20.2x	18.4x	29.0x	26.1x	0.7%
Trimble Inc	TRMB US	US\$54.50	US\$13,497	19.3x	17.2x	14.9x	13.5x	16.4x	15.7x	n/a
Compco Average:				32.2x	28.5x	23.6x	20.7x	27.1x	24.0x	0.6%
IKE Relative:				n/a	n/a	n/a	n/a	n/a	n/a	-100%

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

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

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