

ikeGPS

Solid 4Q23 Update as FY23 Electrifies

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ikeGPS (IKE) reported a solid 4Q23 and FY23 update for the year ending 31 March 2023. Total FY23 revenues were NZ\$30.8m, representing a +93% increase on the prior year and 4Q23 revenues were NZ\$7.5m, up +23%. As expected, there was some seasonality due to the North American winter, as 4Q23 revenue was -5% behind 3Q23. While IKE's gross margin percentage of ~53% in FY23 was down against 62% in FY22, gross profit for FY23 was ~NZ\$16.4m versus NZ\$9.9m in FY22, representing growth of +66%. With cash of NZ\$18m and no debt, the company's financial position remains strong. We retain our FY24 revenue estimates for NZ\$38.8m (+26% growth), gross profit of NZ\$22m (+34% growth) or 57% gross margin and EBITDA break-even estimate. Our spot valuation methodology now incorporates a blend of discounted cash flow (DCF) and EV/Sales peer-driven multiples, however, this blended spot valuation remains NZ\$1.09.

NZX Code	IKE	Financials: Mar/	22A	23E	24E	25E	Valuation (x)	22A	23E	24E	25E
Share price	NZ\$0.85	Rev (NZ\$m)	16.0	30.9	38.9	48.7	PE	n/a	n/a	n/a	n/a
Spot Valuation	NZ\$1.09 (from 1.09)	NPAT* (NZ\$m)	(7.9)	(5.3)	(3.9)	0.5	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (NZc)	(4.9)	(3.3)	(2.4)	0.3	EV/EBITDA	n/a	n/a	n/a	24.4
Issued shares	160.0m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	5.4	7.1	10.1	10.1
Market cap	NZ\$136m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	107.5k (NZ\$92k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

A solid 4Q23 finishes off a superb FY23

Across IKE's business segments, platform transaction revenues (61% of total) grew +192% over FY23, platform subscriptions revenues (28% of total) rose +57%, and hardware revenues (11% of total) fell -18%. Gross margin for FY23 was ~53% at the group level, split across platform transactions (39% gross margin or NZ\$7.2m), platform subscriptions (88% gross margin or NZ\$7.7m) and hardware (45% gross margin or NZ\$1.5m). Unlike previous quarterly updates, IKE did not disclose new 'closed contracts' for the quarter "due to many customers ... now rolling over their usage of the IKE platform month over month or quarter over quarter vs placing longer dated forward transaction contracts".

Customer wins continue

In 4Q23, IKE secured approximately one new enterprise customer per week, including a large tier-1 electric utility on the US East Coast. This major customer win includes an initial 100 subscription licenses for distribution network design for three years, displacing a competitor with 20 years of tenure. With 379 enterprise customers at the end of the period, +19% over last year, we estimate that IKE has captured ~7% of addressable customers, by number, as compared to ~6% in FY22 and ~5% in FY21.

Outlook remains solid supported by strong industry tailwinds

IKE provided no specific financial targets; however, it expects continued growth in FY24. IKE noted the potential for 1Q24 transaction revenue to be lower than 4Q23 run rate due to specific utility engineering practices, with key clients rolling out a fibre network held up due to state specifics. Macro-market tailwinds in North America remain supportive, driven by multi-year investments into overhead fibre networks and a forecasted US\$300b investment by electric utilities into distribution network capacity and network hardening. IKE's product suite supports these network engineering and capacity activities. The company plans to execute on sizable sales opportunities, expecting healthy growth in FY24 and beyond. IKE is due to report its FY23 results on **30 May 2023**.

ikeGPS Group (IKE)
Market Data (NZ\$)

Priced as at 04 May 2023	0.85
52 week high / low	0.85 / 0.85
Market capitalisation (NZ\$m)	136.0

Key WACC assumptions

Risk free rate	4.50%
Equity beta	1.30
WACC	10.8%
Terminal growth	2.0%

Profit and Loss Account (NZ\$m)	2021A	2022A	2023E	2024E	2025E
Revenue	10.2	16.0	30.9	38.9	48.7
Normalised EBITDA	(5.5)	(5.3)	(1.9)	0.0	4.9
Depreciation and amortisation	(1.9)	(2.5)	(3.5)	(4.1)	(4.5)
Normalised EBIT	(7.4)	(7.8)	(5.4)	(4.0)	0.4
Net interest	(0.1)	(0.1)	0.1	0.2	0.1
Associate income	0	0	0	0	0
Tax	0	0	0	0	0
Minority interests	0	0	0	0	0
Normalised NPAT	(7.5)	(7.9)	(5.3)	(3.9)	0.5
Abnormals/other	0	0	0	0	0
Reported NPAT	(7.5)	(7.9)	(5.3)	(3.9)	0.5
Normalised EPS (cps)	(5.6)	(4.9)	(3.3)	(2.4)	0.3
DPS (cps)	0	0	0	0	0

Growth Rates	2021A	2022A	2023E	2024E	2025E
Revenue (%)	4.0	56.6	92.5	26.1	25.2
EBITDA (%)	n/a	n/a	n/a	n/a	>100
EBIT (%)	n/a	n/a	n/a	n/a	n/a
Normalised NPAT (%)	n/a	n/a	n/a	n/a	n/a
Normalised EPS (%)	n/a	n/a	n/a	n/a	n/a
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a

Cash Flow (NZ\$m)	2021A	2022A	2023E	2024E	2025E
EBITDA	(5.5)	(5.3)	(1.9)	0.0	4.9
Working capital change	(0.9)	(1.7)	0.5	0.1	(0.8)
Interest & tax paid	(0.1)	(0.1)	0.1	0.2	0.1
Other	3.0	0.5	0	0	0
Operating cash flow	(3.5)	(6.6)	(1.3)	0.3	4.2
Capital expenditure	(2.0)	(3.6)	(4.9)	(4.9)	(5.5)
(Acquisitions)/divestments	(4.6)	0	0	0	0
Other	(0.3)	(0.4)	(0.3)	(0.3)	(0.4)
Funding available/(required)	(10.4)	(10.6)	(6.5)	(5.0)	(1.7)
Dividends paid	0	0	0	0	0
Equity raised/(returned)	18.5	23.1	0	0	0
(Increase)/decrease in net debt	8.1	12.5	(6.5)	(5.0)	(1.7)

Balance Sheet (NZ\$m)	2021A	2022A	2023E	2024E	2025E
Working capital	2.5	4.2	3.7	3.6	4.4
Fixed assets	1.1	1.8	2.2	2.7	3.1
Intangibles	13.8	14.1	15.5	16.3	17.2
Right of use asset	0.4	0.2	0.8	0.4	0.3
Other assets	0.6	1.8	0.5	0.5	0.5
Total funds employed	18.4	22.1	22.6	23.5	25.4
Net debt/(cash)	(11.3)	(24.4)	(17.8)	(12.8)	(11.1)
Lease liability	0.2	0	0.8	0.4	0.3
Other liabilities	7.5	7.0	5.2	6.1	5.6
Shareholder's funds	22.0	39.4	34.5	29.8	30.7
Minority interests	0	0	0	0	0
Total funding sources	18.4	22.1	22.6	23.5	25.4

* 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

Spot valuation (NZ\$)

DCF	1.09
EV/Sales relative	1.14
	1.05

DCF valuation summary

Total firm value	169.0
(Net debt)/cash	18.0
Less: Capitalised operating leases	-4.4
Value of equity	182.6

Valuation Ratios	2021A	2022A	2023E	2024E	2025E
EV/Sales (x)	13.8	7.4	3.7	3.1	2.4
EV/EBITDA (x)	n/a	n/a	n/a	>100x	24.4
EV/EBIT (x)	n/a	n/a	n/a	n/a	>100x
PE (x)	n/a	n/a	n/a	n/a	>100x
Price/NTA (x)	13.8	5.4	7.1	10.1	10.1
Free cash flow yield (%)	-4.3	-7.7	-4.8	-3.6	-1.3
Adj. free cash flow yield (%)	-2.8	-5.1	-1.2	0.0	2.8
Gross dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Capital Structure	2021A	2022A	2023E	2024E	2025E
Interest cover EBIT (x)	n/a	n/a	40.0	23.2	n/a
Interest cover EBITDA (x)	n/a	n/a	14.3	n/a	n/a
Net debt/ND+E (%)	-106.0	-161.5	-106.5	-75.8	-57.1
Net debt/EBITDA (x)	2.0	4.6	9.2	n/a	n/a

Key Ratios	2021A	2022A	2023E	2024E	2025E
Return on assets (%)	-24.2	-16.1	-12.6	-10.3	1.0
Return on equity (%)	-34.0	-19.9	-15.4	-13.0	1.7
Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	-54.2	-33.3	-6.3	0.1	10.0
EBIT margin (%)	-72.6	-48.6	-17.6	-10.4	0.9
Capex to sales (%)	19.9	22.3	16.0	12.7	11.4
Capex to depreciation (%)	215	360	432	347	377
Imputation (%)	0	0	0	0	0
Pay-out ratio (%)	0	0	0	0	0

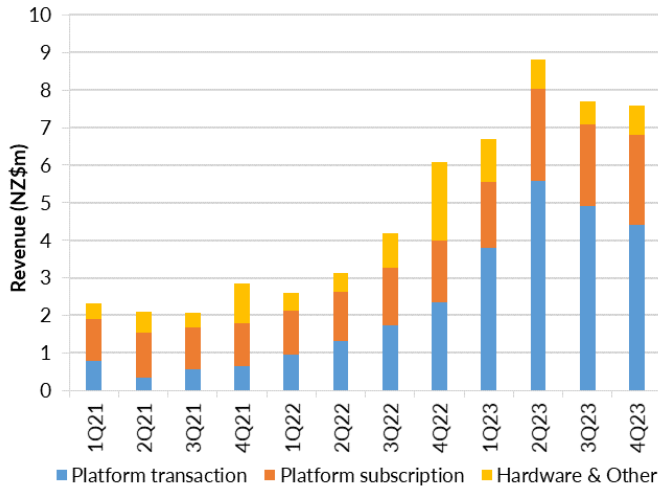
Operating Performance	2021A	2022A	2023E	2024E	2025E
Sale of products revenue (\$m)	4.7	6.4	7.2	7.8	8.5
IKE Platform revenue (\$m)	3.3	8.1	20.8	28.9	37.5
IKE Structural revenue (\$m)	1.0	1.1	1.3	1.7	2.2
Spike revenue (\$m)	0.3	0.4	0.4	0.4	0.4
Other revenues (\$m)	0.9	0.1	0.1	0.1	0.1
Total Revenues (\$m)	10.2	16.0	29.7	38.9	48.7

Sale of products share of revenues (%)	50.9	40.2	24.2	20.2	17.4
IKE Platform share of revenues (%)	35.0	50.5	70.2	74.5	77.1
IKE Structural share of revenues (%)	10.7	7.0	4.3	4.3	4.6
Spike share of revenues (%)	3.4	2.2	1.3	1.1	0.9

Sale of products gross margin (%)	73.4	72.3	72.0	72.0	72.5
IKE Platform gross margin (%)	40.7	48.8	42.0	50.0	54.0
IKE Structural gross margin (%)	100.0	100.0	100.0	100.0	100.0
Spike Gross margin (%)	35.6	51.0	51.0	51.0	51.0
Overall Gross margin (%)	63.5	61.9	51.9	56.6	59.3

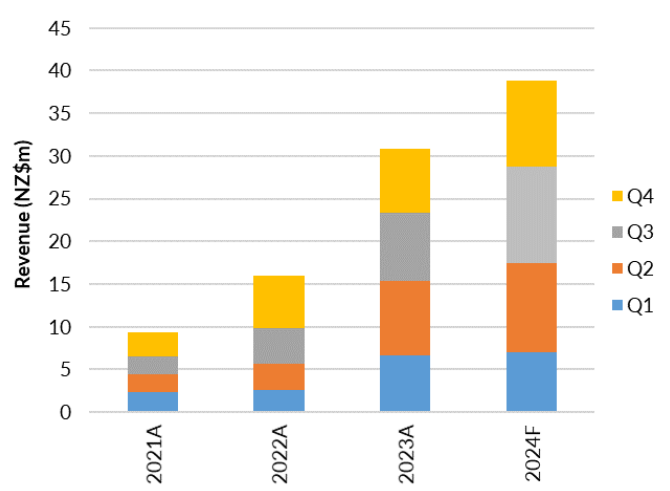
Supplementary information

Figure 1. IKE – Revenue breakdown by segment



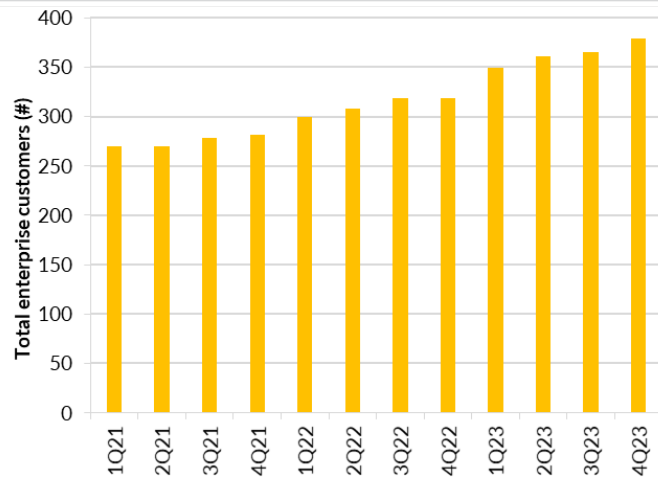
Source: Company, Forsyth Barr analysis

Figure 2. IKE – Reported quarterly revenues and FY24 (NZ\$m)



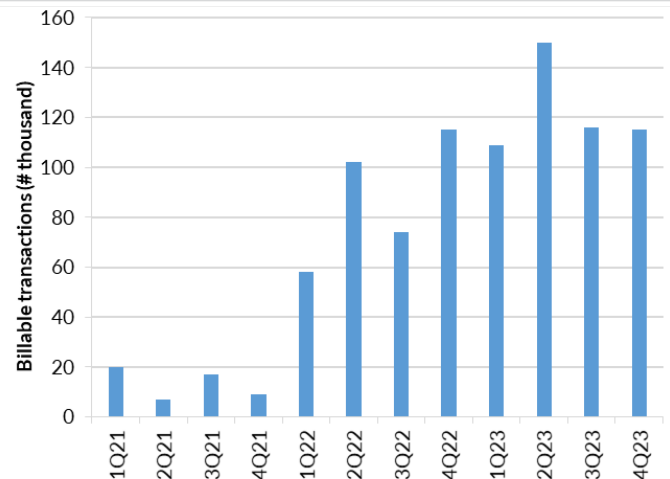
Source: Company, Forsyth Barr analysis

Figure 3. IKE – Number of total enterprise customers



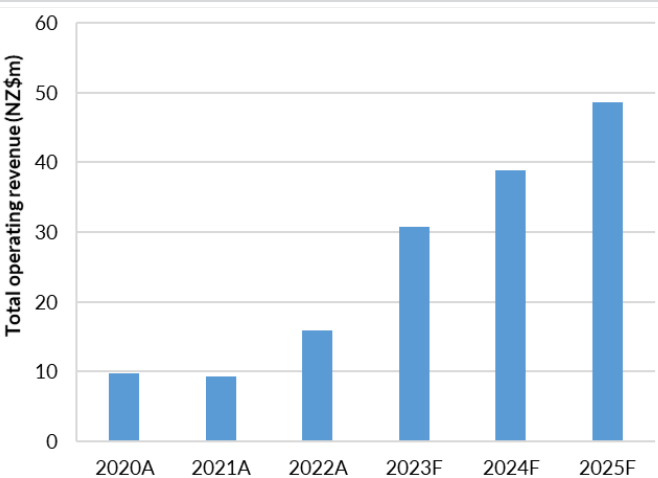
Source: Company, Forsyth Barr analysis

Figure 4. IKE – Number of billable transactions



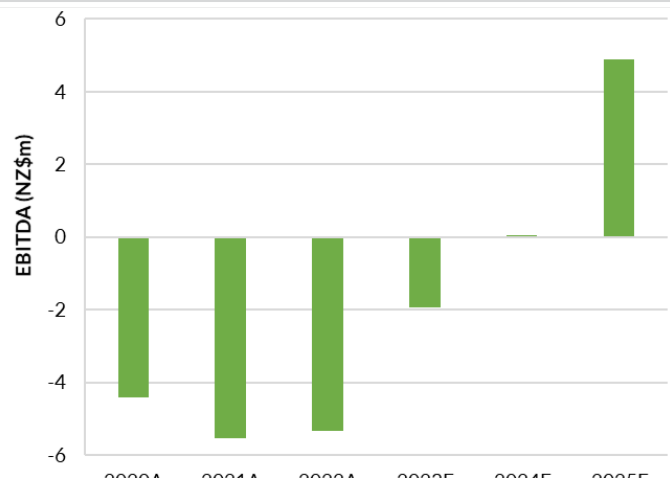
Source: Company, Forsyth Barr analysis

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

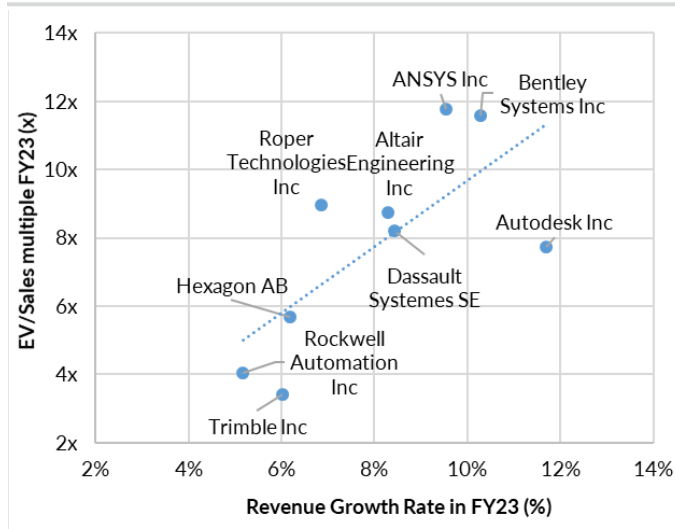
Valuation metrics

Figure 7. IKE – Table of competitor and comparable metrics

Ticker	Company	Head Office	Market Capitalisation (NZ\$m)	Gross profit margin	EBITDA margin	R&D / Sales	EV / EBITDA (x)	EV / Sales (x)	Previous FY revenue growth (%)
ALTR.O	Altair Engineering Inc	USA	\$8,784	74%	5%	32%	42.8x	8.8x	8%
BSY.O	Bentley Systems Inc	USA	\$19,497	75%	25%	23%	33.3x	11.3x	14%
HEXAB.ST	Hexagon AB	Sweden	\$47,830	65%	37%	6%	15.4x	5.7x	19%
TRMB.O	Trimble Inc	USA	\$18,326	56%	20%	15%		3.4x	0%
ADSK.OQ	Autodesk Inc	USA	\$66,583	90%	24%	24%	20.2x	7.7x	16%
ANSS.O	ANSYS Inc	USA	\$43,191	87%	35%	21%	26.0x	11.8x	8%
DAST.PA	Dassault Systemes SE	France	\$87,914	77%	34%	20%	22.5x	8.2x	9%
ROK	Rockwell Automation Inc	USA	\$51,639	40%	20%	6%	18.0x	4.0x	11%
ROP	Roper Technologies Inc	USA	\$79,076	70%	40%	10%	22.5x	9.0x	11%
Average of all comps				70%	27%	17%	25.1%	7.8x	11%
IKE.NZ	Ikegps Group Ltd	NZ	\$136	53%		25%		3.7x	93%

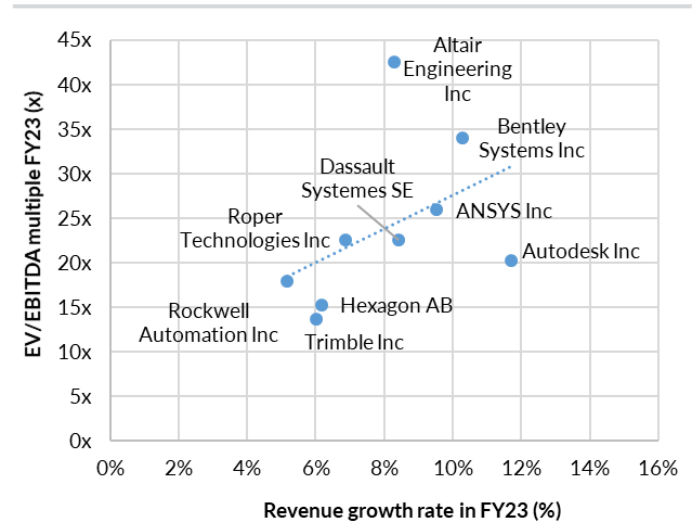
Source: Refinitiv, Forsyth Barr analysis

Figure 8. Sector – EV/Sales multiple (x) v. Revenue growth (%)



Source: Refinitiv, Forsyth Barr analysis

Figure 9. Sector – EV/EBITDA multiple (x) v. revenue growth (%)



Source: Refinitiv, Forsyth Barr analysis

Figure 10. Nasdaq emerging cloud index (EV/Sales multiple)



Source: BVP, Forsyth Barr analysis

Figure 11. Nasdaq emerging cloud index (EV/Sales multiple)



Source: BVP, Forsyth Barr analysis

US electric utility companies: challenges and opportunities

US electric utility companies have faced many challenges recently, including requirements to harden network integrity in the face of climate change, labour and skills shortages, and an ageing workforce. As electricity demand grows and the industry evolves utility companies are expanding their networks and undertaking significant investment to address these concerns.

- **Capital expenditure plans and network hardening:** Utility companies have been ramping up their capex plans to address network hardening needs. The increasing frequency of extreme weather events, such as hurricanes and wildfires, has underscored the importance of a resilient and robust energy infrastructure. Utilities invest in grid modernisation, transmission line improvements, and deployment of advanced technologies like microgrids and energy storage systems to mitigate these risks. These investments are crucial to ensuring the continuous electricity supply and reducing the likelihood of service disruptions during adverse events.
- **Labour and skills shortages:** The electric utility industry is grappling with a shortage of skilled labour, partly due to the retirement of an ageing workforce. With a significant portion of the industry's workers approaching retirement age, companies face a pressing need to replace these experienced professionals. The rapid technological advancements in the sector have further compounded the problem, as utilities require new skill sets to operate and maintain modern systems. To address these challenges, utility companies are investing in workforce development programmes, such as apprenticeships, and partnering with educational institutions to train the next generation of skilled workers. Additionally, they are exploring ways to retain experienced employees through flexible work arrangements and knowledge transfer initiatives.
- **Expanding and adapting networks:** As electricity demand continues to rise, driven by population growth, urbanisation, and the increasing adoption of electric vehicles, utilities need to expand their networks to meet this growing demand. Moreover, the shift towards renewable energy sources and the integration of distributed energy resources (DERs) has necessitated upgrades and expansion of existing networks to accommodate these new technologies. Utility companies are undertaking extensive work, including upgrading and deploying smart grid technologies to enhance their networks' flexibility and reliability.

IkeGPS's role in addressing these issues

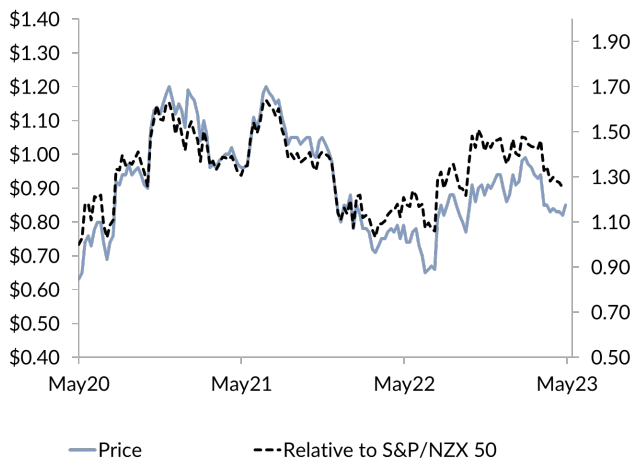
IkeGPS's software offers innovative solutions to help US electric utility companies tackle the challenges outlined above. IkeGPS's software can play a crucial role in helping utilities overcome these challenges by streamlining processes, improving efficiency, and facilitating workforce development. The company's cutting-edge software works in the design, construction, structural testing and maintenance of electric networks, enabling utilities to:

1. **Improve efficiency:** IkeGPS's software allows utilities to automate and optimise various processes, such as data collection, asset management, and network planning. This can lead to increased efficiency and cost savings for utility companies.
2. **Reduce labour requirements:** By leveraging IkeGPS's software, utilities can minimise the need for on-site inspections and manual data collection, thereby reducing the impact of labour shortages.
3. **Enhance safety:** IkeGPS's software enables remote monitoring and assessment of network assets, reducing the need for field workers to access hazardous locations.
4. **Facilitate workforce development:** The intuitive user interface and advanced analytics capabilities of IkeGPS's software can help bridge the skills gap by making it easier for new workers to learn and adapt to the industry's evolving requirements.

IKE's FY23 system initiatives and developments

During FY23, IKE focussed on systems efficiency and brand initiatives to enhance scalability, revenue per employee outcomes, and pricing power. The company implemented a finance system upgrade (Sage Intact), a marketing automation system (Marketo/Adobe), an enhanced CRM (Salesforce), SOC2 compliance for cybersecurity, an HRIS system upgrade (G&A), and a new company-wide training platform (Growth Institute), among other enhancements. These investments should support ongoing growth without linear headcount cost increases. Furthermore, IKE introduced various brand and customer experience initiatives, including launching IKE Wire (a thought leadership channel), the IKE Store, and IKE University (an online learning and certification centre). These efforts have led to outstanding Product NPS and Employee PS scores, enabling value-based price increases on core products.

Figure 12. Price performance



Source: Forsyth Barr analysis

Figure 13. Substantial shareholders

Shareholder	Latest Holding
Wilson Family Trust	17.5%
Scobie Ward	8.3%
TEK Trust	7.2%
K & M Douglas Trust	6.1%

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

Figure 14. 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\$0.85	NZ\$136	<0x	<0x	<0x	>75x	<0x	<0x	0.0%	
Autodesk Inc	ADSK US	US\$193.70	US\$41,603	46.8x	26.2x	32.1x	20.2x	39.1x	21.4x	n/a	
Altair Engineering Inc - A	ALTR US	US\$67.12	US\$5,374	<0x	65.4x	>75x	39.8x	<0x	43.1x	n/a	
Ansys Inc	ANSS US	US\$307.99	US\$26,691	47.3x	34.7x	34.0x	25.6x	41.2x	27.7x	n/a	
Bentley Systems Inc-Class B	BSY US	US\$42.57	US\$13,644	68.6x	48.6x	47.7x	36.0x	65.2x	38.0x	0.4%	
Dassault Systemes Se	DSY FP	€37.16	€49,617	47.2x	31.0x	25.3x	23.1x	35.0x	26.2x	0.6%	
Hexagon Ab-B Shs	HEXAB SS	€117.80	€318,705	>75x	>50x	>75x	>75x	>75x	>75x	0.1%	
Rockwell Automation Inc	ROK US	US\$278.63	US\$32,008	29.2x	22.6x	19.7x	17.6x	23.4x	19.2x	1.7%	
Roper Technologies Inc	ROP US	US\$456.42	US\$48,651	15.0x	27.6x	23.9x	22.0x	34.6x	31.3x	0.6%	
Trimble Inc	TRMB US	US\$47.41	US\$11,746	24.0x	17.2x	17.1x	13.3x	23.0x	14.4x	n/a	
Compco Average:				39.7x	34.2x	28.5x	24.7x	37.4x	27.7x	0.7%	
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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