

# ikeGPS

## Top US Utility Signs on in PoleForeman Deal

**JAMES LINDSAY**

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

**WILL TWISS**

 will.twiss@forsythbarr.co.nz  
 +64 9 368 0129

ikeGPS (IKE) has announced a NZ\$3.7m five-year subscription contract with one of the largest investor-owned utilities in the US. This agreement highlights the value to clients of IKE's newly unveiled IKE PoleForeman platform and represents a significant tenfold up-sell in revenue from this customer. PoleForeman was acquired four years ago, and since then IKE has developed the structural analysis desktop solution to be a modern SaaS offering, allowing full integration within the IKE Office suite. The deal enables over 1,000 engineers to utilise IKE PoleForeman, potentially influencing additional adoption across the utility network's other providers, and highlights an innovative edge in the utility sector. As such, we consider this to have positive network effects. We make minor upward revisions in our estimates over the coming years, reflecting this deal. Our blended spot valuation lifts +7% to NZ\$0.90, but we suggest that under a takeover scenario >NZ\$1.25 is possible.

NZX Code	IKE	Financials: Mar/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$0.52	Rev (NZ\$m)	31.1	22.2	35.9	44.4	PE	n/a	n/a	n/a	35.7
Spot Valuation	NZ\$0.90 (from 0.84)	NPAT* (NZ\$m)	(7.9)	(12.0)	(2.5)	2.3	EV/EBIT	n/a	n/a	n/a	32.7
Risk rating	High	EPS* (NZc)	(4.9)	(7.5)	(1.5)	1.5	EV/EBITDA	n/a	n/a	n/a	9.6
Issued shares	160.0m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	4.0	10.1	23.3	15.2
Market cap	NZ\$83.2m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	38.8k (NZ\$32k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

### What's changed?

- **Estimates:** FY24, FY25, and FY26 revenues lift marginally to NZ\$22.9m, +1% to NZ\$35.8m, and +1% to NZ\$44.3m respectively
- **Spot valuation:** Our blended spot valuation lifts +6cps to NZ\$0.90.

### Pioneering partnership for PoleForeman

IKE's contract with a leading US investor-owned utility company for NZ\$3.7m represents a breakthrough, with the five-year deal supporting the product thesis for IKE's updated PoleForeman structural analysis software. The October 2023 release of the next-generation IKE PoleForeman SaaS product, developed with insights from large industry players (IKE's product council), is set to revolutionise structural analysis in utilities by modelling the effects of wind, snow, wire sag, span clearances, and safety requirements on power poles. With over 1,000 engineers at the utility using IKE PoleForeman, this agreement reinforces the benefit to customers of the software's advanced features and may also see its adoption by various engineering and communication firms within the utility's supply chain, creating a network effect for acquiring additional clients. This deal sees a ten-fold increase in annual subscription revenue from this client compared with the legacy product (from roughly NZ\$70k/p.a. to NZ\$700k/p.a.). The focus now shifts to transitioning the remaining legacy users over to the new product. See [here](#) for more information on PoleForeman.

### Outlook strengthened

Despite the weaknesses in Transactional activity and the recent need to downsize staff headcount, this customer up-sell from the legacy product builds confidence that IKE will continue to see core revenue growth. IKE has been growing customer numbers by around one per week. IKE noted that the new PoleForeman would likely increase annual subscription revenue by +NZ\$6m to +NZ\$7m in the upcoming 12 to 18 months. IKE is tapping into a vast market of over 3,000 North American electric utilities, many of which have yet to standardise a pole-loading analysis solution. We suggest that the collaboration with Google positions IKE at the forefront of AI innovation for software providers to the utility and telecommunications sectors. Progress on the customer and technology front, combined with the weakness in IKE's share price, may see the company as an acquisition target.

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

Priced as at 22 Dec 2023	0.52
52 week high / low	1.01 / 0.46
Market capitalisation (NZ\$m)	83.2

**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)**

	2022A	2023A	2024E	2025E	2026E
Revenue	16.0	31.1	22.2	35.9	44.4
<b>Normalised EBITDA</b>	<b>(5.3)</b>	<b>(2.1)</b>	<b>(8.0)</b>	<b>0.4</b>	<b>7.9</b>
Depreciation and amortisation	(2.5)	(3.6)	(4.3)	(3.0)	(5.6)
<b>Normalised EBIT</b>	<b>(7.8)</b>	<b>(7.8)</b>	<b>(12.3)</b>	<b>(2.6)</b>	<b>2.3</b>
Net interest	(0.1)	(0.1)	0.3	0.1	0.0
Associate income	0	0	0	0	0
Tax	0	0.0	0	0	0
Minority interests	0	0	0	0	0
<b>Normalised NPAT</b>	<b>(7.9)</b>	<b>(7.9)</b>	<b>(12.0)</b>	<b>(2.5)</b>	<b>2.3</b>
Abnormals/other	0	0	0	0	0
<b>Reported NPAT</b>	<b>(7.9)</b>	<b>(7.9)</b>	<b>(12.0)</b>	<b>(2.5)</b>	<b>2.3</b>
Normalised EPS (cps)	(4.9)	(4.9)	(7.5)	(1.5)	1.5
DPS (cps)	0	0	0	0	0

**Growth Rates**

	2022A	2023A	2024E	2025E	2026E
Revenue (%)	56.6	93.9	-28.5	61.4	23.6
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)**

	2022A	2023A	2024E	2025E	2026E
<b>EBITDA</b>	<b>(5.3)</b>	<b>(2.1)</b>	<b>(8.0)</b>	<b>0.4</b>	<b>7.9</b>
Working capital change	(1.7)	(1.2)	0.8	(0.1)	(2.0)
Interest & tax paid	(0.1)	(0.1)	0.3	0.1	0.0
Other	0.5	0.9	0	0	0
<b>Operating cash flow</b>	<b>(6.6)</b>	<b>(2.5)</b>	<b>(6.9)</b>	<b>0.4</b>	<b>5.9</b>
Capital expenditure	(3.6)	(5.1)	(3.8)	(5.6)	(6.2)
(Acquisitions)/divestments	0	0	0	0	0
Other	(0.4)	0.1	(0.1)	(0.1)	(0.1)
<b>Funding available/(required)</b>	<b>(10.6)</b>	<b>(7.5)</b>	<b>(10.9)</b>	<b>(5.2)</b>	<b>(0.4)</b>
Dividends paid	0	0	0	0	0
Equity raised/(returned)	23.1	0	0	0	0
<b>(Increase)/decrease in net debt</b>	<b>12.5</b>	<b>(7.5)</b>	<b>(10.9)</b>	<b>(5.2)</b>	<b>(0.4)</b>

**Balance Sheet (NZ\$m)**

	2022A	2023A	2024E	2025E	2026E
Working capital	4.2	5.4	4.6	4.7	6.7
Fixed assets	1.8	2.8	2.8	3.2	3.5
Intangibles	14.1	13.1	12.8	13.1	13.4
Right of use asset	0.2	0	0.0	0.0	(0.0)
Other assets	1.8	1.6	0.7	0.7	0.7
<b>Total funds employed</b>	<b>22.1</b>	<b>22.9</b>	<b>20.9</b>	<b>21.8</b>	<b>24.4</b>
Net debt/(cash)	(24.4)	(18.0)	(7.2)	(2.0)	(1.6)
Lease liability	0	0	0.0	0.0	(0.0)
Other liabilities	7.0	7.0	7.1	7.1	7.1
Shareholder's funds	39.4	33.9	21.0	16.7	18.9
Minority interests	0	0	0	0	0
<b>Total funding sources</b>	<b>22.1</b>	<b>22.9</b>	<b>20.9</b>	<b>21.8</b>	<b>24.4</b>

\* 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](http://www.forsythbarr.co.nz/corporate-news-events/cesg-report)

**Spot valuation (NZ\$)**

DCF	0.90
EV/Sales relative	0.90

**DCF valuation summary**

Total firm value	139.1
(Net debt)/cash	7.2
Less: Capitalised operating leases	-2.9
Value of equity	143.3

**Valuation Ratios**

	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	4.1	2.0	3.1	2.1	1.7
EV/EBITDA (x)	n/a	n/a	n/a	>100x	9.6
EV/EBIT (x)	n/a	n/a	n/a	n/a	32.7
PE (x)	n/a	n/a	n/a	n/a	35.7
Price/NTA (x)	3.3	4.0	10.1	23.3	15.2
Free cash flow yield (%)	-12.6	-9.4	-13.2	-6.5	-0.7
Adj. free cash flow yield (%)	-8.3	-3.2	-8.6	0.2	6.8
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**

	2022A	2023A	2024E	2025E	2026E
Interest cover EBIT (x)	n/a	n/a	40.1	23.2	n/a
Interest cover EBITDA (x)	n/a	n/a	26.1	n/a	n/a
Net debt/ND+E (%)	-161.5	-113.5	-51.8	-13.3	-9.1
Net debt/EBITDA (x)	4.6	8.6	0.9	n/a	n/a

**Key Ratios**

	2022A	2023A	2024E	2025E	2026E
Return on assets (%)	-16.1	-17.9	-41.3	-10.0	8.3
Return on equity (%)	-19.9	-23.2	-57.1	-14.8	12.3
Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	-33.3	-6.8	-36.1	1.1	17.8
EBIT margin (%)	-48.6	-25.0	-55.4	-7.2	5.2
Capex to sales (%)	22.3	16.5	17.3	15.5	14.0
Capex to depreciation (%)	360	378	231	6,712	262
Imputation (%)	0	0	0	0	0
Pay-out ratio (%)	0	0	0	0	0

**Operating Performance**

	2022A	2023A	2024E	2025E	2026E
Sale of products revenue (\$m)	6.4	6.5	6.8	7.3	7.9
IKE Platform revenue (\$m)	8.1	22.1	13.3	24.2	30.5
IKE Structural revenue (\$m)	1.1	1.8	2.4	4.0	5.5
Spike revenue (\$m)	0.4	0.4	0.4	0.4	0.3
Other revenues (\$m)	0.1	0.3	-0.6	0.1	0.1
<b>Total Revenues (\$m)</b>	<b>16.0</b>	<b>31.1</b>	<b>22.2</b>	<b>35.9</b>	<b>44.4</b>
Sale of products % of revenues	40.2	21.0	29.7	20.4	17.9
IKE Platform % of revenues	50.5	71.9	58.3	67.5	68.9
IKE Structural % of revenues	7.0	6.0	10.5	11.1	12.5
Spike % of revenues	2.2	1.2	1.6	1.0	0.8

**Sale of products gross margin (%)**

	2022A	2023A	2024E	2025E	2026E
Sale of products gross margin (%)	72.3	73.4	73.0	73.5	75.0
IKE Platform gross margin (%)	48.8	43.1	47.0	55.0	56.0
IKE Structural gross margin (%)	100.0	100.0	100.0	100.0	100.0
Spike Gross margin (%)	51.0	62.2	62.2	62.2	62.2
<b>Overall Gross margin (%)</b>	<b>61.9</b>	<b>53.1</b>	<b>60.5</b>	<b>63.8</b>	<b>64.9</b>

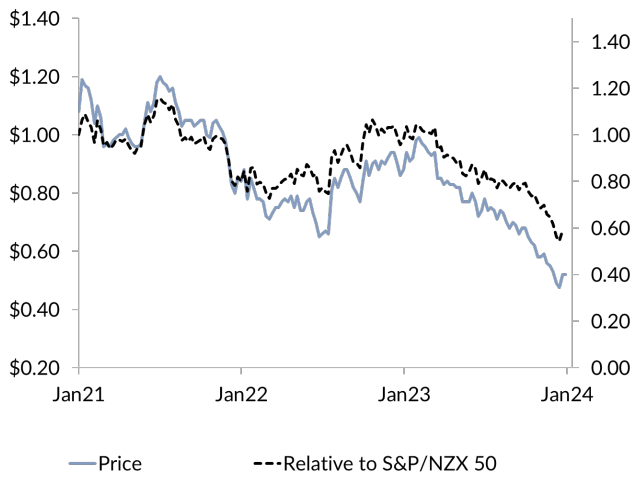
## Earnings revisions

Figure 1. Earnings revisions

	FY24			FY25			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
<b>Operating Revenue</b>	22.8	22.9	+0%	35.3	35.8	+1%	43.7	44.3	+1%
Cost of sales	(9.0)	(9.0)	+1%	(12.7)	(13.0)	+2%	(15.3)	(15.5)	+2%
Gross profit	13.8	13.8	+0%	22.6	22.9	+1%	28.4	28.8	+1%
Total other income	(0.6)	(0.6)	n/a	0.1	0.1	n/a	0.1	0.1	n/a
'Support costs'/Other operating expenses	(1.1)	(1.1)	+0%	(1.2)	(1.2)	+0%	(1.2)	(1.2)	+0%
Sales & marketing expenses	(7.6)	(7.6)	+0%	(7.3)	(7.3)	+0%	(8.1)	(8.1)	-0%
Research & engineering expenses	(9.3)	(9.4)	+0%	(9.3)	(9.4)	+0%	(9.3)	(9.4)	+0%
'Corporate Costs'/General & Admin expenses	(7.4)	(7.4)	+0%	(7.6)	(7.6)	+0%	(7.8)	(7.8)	+0%
Total operating expenses	(26.1)	(26.2)	+0%	(25.4)	(25.4)	+0%	(26.4)	(26.4)	+0%
Operating profit (loss)	(12.3)	(12.3)	+0%	(2.8)	(2.6)	-8%	2.0	2.3	+15%
Finance costs	0.3	0.3	n/a	0.1	0.1	n/a	0.0	0.0	n/a
Profit (loss) before income tax	(12.0)	(12.0)	+0%	(2.7)	(2.5)	n/a	2.0	2.3	+15%
Income tax	0.0	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a
<b>Net Profit (Loss) for the Year</b>	<b>(12.0)</b>	<b>(12.0)</b>	<b>+0%</b>	<b>(2.7)</b>	<b>(2.5)</b>	<b>n/a</b>	<b>2.0</b>	<b>2.3</b>	<b>+15%</b>
<b>Reconciliation Operating NPAT to EBITDA</b>									
NPAT (\$m)	(12.0)	(12.0)	+0%	(2.7)	(2.5)	n/a	2.0	2.3	+15%
add back Income tax paid (\$m)	-	-	n/a	-	-	n/a	-	-	n/a
add back Finance costs paid (\$m)	(0.3)	(0.3)	+0%	(0.1)	(0.1)	-1%	(0.0)	(0.0)	n/a
add back Depreciation (\$m)	1.6	1.6	+0%	-	-	n/a	2.3	2.3	+1%
add back Lease depreciation (\$m)	0.1	0.1	+0%	0.1	0.1	+0%	0.0	0.0	+0%
add back Amortisation (\$m)	2.6	2.6	+0%	2.9	2.9	+0%	3.2	3.2	+0%
remove adjustments (\$m)	-	-	n/a	-	-	n/a	-	-	n/a
Operating EBITDA (\$m)	(8.0)	(8.0)	+0%	0.2	0.4	+127%	7.6	7.9	+4%

Source: Forsyth Barr analysis

**Figure 2. Price performance**



Source: Forsyth Barr analysis

**Figure 3. 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 4. International valuation comparisons**

Company (metrics re-weighted to reflect IKE's balance date - March)	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2025E
				2024E	2025E	2024E	2025E	2024E	2025E	
<b>ikeGPS</b>	<b>IKE NZ</b>	<b>NZ\$0.52</b>	<b>NZ\$83</b>	<b>&lt;0x</b>	<b>&lt;0x</b>	<b>&lt;0x</b>	<b>&gt;75x</b>	<b>&lt;0x</b>	<b>&lt;0x</b>	<b>0.0%</b>
Autodesk Inc	ADSK US	US\$242.29	US\$51,830	31.9x	29.3x	25.4x	24.5x	26.5x	24.2x	0.0%
Altair Engineering Inc - A	ALTR US	US\$74.18	US\$6,058	68.1x	61.0x	45.9x	37.8x	52.5x	46.6x	n/a
Ansys Inc	ANSS US	US\$295.47	US\$25,668	33.6x	30.1x	25.1x	22.8x	26.9x	24.3x	0.0%
Bentley Systems Inc-Class B	BSY US	US\$50.25	US\$16,381	55.3x	49.1x	41.7x	36.5x	43.8x	38.4x	0.1%
Dassault Systemes Se	DSY FP	€44.29	€59,241	36.0x	33.0x	26.7x	24.8x	29.6x	26.8x	0.6%
Hexagon Ab-B Shs	HEXAB SS	€121.95	€329,933	>75x	>50x	>75x	>75x	>75x	>75x	0.1%
Rockwell Automation Inc	ROK US	US\$304.37	US\$34,903	24.5x	22.7x	18.1x	17.4x	20.8x	18.9x	1.7%
Roper Technologies Inc	ROP US	US\$541.55	US\$57,850	32.4x	29.9x	25.4x	23.3x	35.8x	32.1x	0.8%
Trimble Inc	TRMB US	US\$51.77	US\$12,879	19.5x	18.6x	15.7x	14.9x	16.9x	16.1x	n/a
<b>Compcop Average:</b>				<b>37.7x</b>	<b>34.2x</b>	<b>28.0x</b>	<b>25.3x</b>	<b>31.6x</b>	<b>28.4x</b>	<b>0.5%</b>
<b>EV = Mkt cap+net debt+lease liabilities+min interests-investments</b>				<b>IKE Relative:</b>		<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>-100%</b>

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

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