

ikeGPS

Solid Momentum Shown in 1H23

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ikeGPS (IKE) 1H23 result saw revenues grow +170% on the prior period to NZ\$15.4m, as recently pre-released. This solid result shows good momentum in the core business, with rising customer numbers and transactional revenues displaying exceptional progress. Gross margin was NZ\$8.2m, being +128% above that seen in 1H22. Gross margin as a percentage of revenues fell to 53%, down from 63% in 1H22, driven principally by product mix changes and new customer success for IKE Analyze, which is at lower margins. An operating profit of +NZ\$1.1m included several one-offs. Operating expenses were +5% higher compared to our estimates, reflecting NZDUSD movements. Cash flow from operations over 1H23 was positive +NZ\$0.9m, aided by tight control of working capital and improved operating leverage, further strengthening the balance sheet. Once adjusting for movements in working capital, we see that normalised operating cash flow remains negative and consider IKE a year away from operating cash flow break-even. IKE is in a strong financial position with NZ\$25.5m in cash and no debt. We retain our FY23 revenue estimates of NZ\$29.7m. Our spot valuation lifts +3cps to NZ\$1.07.

NZX Code	IKE	Financials: Mar/	22A	23E	24E	25E	Valuation (x)	22A	23E	24E	25E
Share price	NZ\$0.95	NPAT* (NZ\$m)	(7.9)	(5.9)	(4.1)	0.4	PE	n/a	n/a	n/a	n/a
Spot Valuation	NZ\$1.07 (from 1.04)	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	25.1	31.0	n/a	EV/EBITDA	n/a	n/a	n/a	27.6
Issued shares	159.3m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	6.3	8.1	11.8	12.0
Market cap	NZ\$151m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	38.3k (NZ\$32k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

Core business firing

IKE's 1H23 displayed good operational progress, with customer numbers rising and utilisation from existing customers growing strongly. Several new and important tier-1 enterprise groups have been on-boarded in the first half. The factors contributing to a robust first-half result included:

1. New customer wins (with enterprise customers +17% over the prior period to 361).
2. Utilisation within existing customers saw transactional revenue of NZ\$9.5m (+332% vs the prior period).
3. A weak NZDUSD with IKE undertaking no hedging, giving forex gains of +NZ\$2.2m (from cash sitting in AUD and USD).
4. The fair value of assets grew +NZ\$2.7m (Visual Globe earn-out now not likely to be paid of NZ\$2.3m and forex options NZ\$0.4m).
5. Movements in working capital with receivables falling -NZ\$1.1m and payables growing +NZ\$1.3m over the six months.
6. 1H23 likely saw some catch-up of work programmes delayed due to COVID-19 lockdowns over the previous year.

FY23 revenue estimates retained but we now include the earn-out in bottom line estimates

While global economic conditions are weakening and there are signs of a slowdown in the US economy, we believe IKE's revenue story is based on customer numbers and utilisation uplifts. We forecast FY23 revenues of NZ\$29.7m. 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. We envisage forex movements partially reversing in the 2H23 and include this in our 2H23 assumptions. We now also include the benefit of the NZ\$2.3m earn-out payment no longer expected to be paid into our FY23 earnings estimates, which sees our revised forecast NPAT loss of -NZ\$5.9m for FY23.

ikeGPS Group (IKE)

Market Data (NZ\$)						Spot valuation (NZ\$)					
Priced as at 29 Nov 2022						0.95					
52 week high / low						0.97 / 0.65					
Market capitalisation (NZ\$m)						151.3					
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						4.50%					
Equity beta						1.30					
WACC						10.8%					
Terminal growth						2.0%					
Total firm value						150					
(Net debt)/cash						26					
Less: Capitalised operating leases						(4)					
Value of equity						171					
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	27.6
Normalised EBITDA	(5.5)	(5.3)	(2.4)	0.0	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)	(5.9)	(4.0)	0.4	Price/NTA (x)	15.9	6.3	8.1	11.8	12.0
Net interest	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	Free cash flow yield (%)	-3.7	-6.7	-3.9	-4.1	-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)	(5.9)	(4.1)	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	21.2
Reported NPAT	(7.5)	(7.9)	(5.9)	(4.1)	0.4	Interest cover EBITDA (x)	n/a	n/a	n/a	0.8	>100x
Normalised EPS (cps)	(5.6)	(4.9)	(3.7)	(2.5)	0.2	Net debt/ND+E (%)	-108.6	-176.5	-115.2	-66.5	-47.1
DPS (cps)	0	0	0	0	0	Net debt/EBITDA (x)	2.0	4.6	7.6	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	-13.8	-10.5	1.1
EBITDA (%)	n/a	n/a	n/a	n/a	>100	Return on equity (%)	-34.4	-20.6	-17.3	-14.0	1.3
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	-8.0	0.0	10.0
Normalised EPS (%)	n/a	n/a	n/a	n/a	n/a	EBIT margin (%)	-79.8	-48.8	-19.8	-10.4	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)	(2.4)	0.0	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	(1.3)	(1.0)	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)	(1.1)	(1.3)	3.8	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)	(6.2)	(6.6)	(2.1)	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	5.2	5.6	6.1
(Increase)/decrease in net debt	8.1	12.5	(6.2)	(6.6)	(2.1)	IKE Platform gross margin (\$m)	1.3	3.9	8.7	14.5	20.3
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	5.2	Sale of products gross margin (%)	73%	72%	72%	72%	73%
Fixed assets	1.1	1.8	2.2	2.6	3.1	IKE Platform gross margin (%)	41%	49%	42%	50%	54%
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 (%)	0.1	0.2	0.2	0.2	0.2
Other assets	0.4	0.5	0.5	0.5	0.5	Total Gross margin (\$m)	5.9	9.9	15.4	22.0	28.9
Total funds employed	18.2	20.8	21.7	24.0	26.2	Sale of products gross margin (%)	73%	72%	72%	72%	73%
Net debt/(cash)	(11.3)	(24.4)	(18.2)	(11.6)	(9.5)	IKE Platform gross margin (%)	41%	49%	42%	50%	54%
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	5.2	6.1	5.6	Spike Gross margin (%)	36%	51%	51%	51%	51%
Shareholder's funds	21.8	38.2	34.0	29.0	29.8	Overall Gross margin (%)	64%	62%	52%	57%	59%
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

1H23 result summary

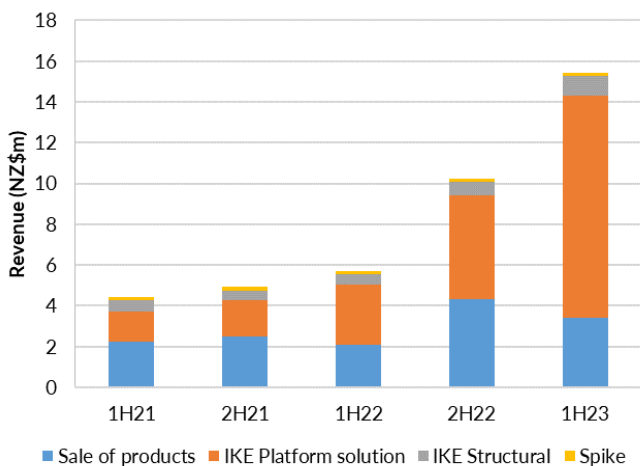
IKE's 1H23 pre-released revenue number, at NZ\$15.4m, was up +170% on 1H22, with solid growth in IKE's core platform solution, contributing ~71% of total group revenue. Gross profit was in line with our expectations at NZ\$8.2m, +128% from the prior comparable period, as gross margins fell from 63% in 1H22 to 53% in 1H23. Expenses came in +5% ahead of our expectations and up +30% from 1H22 due to NZD movements, inflation impacts and an increase in staff numbers. Driving IKE into a 1H profit were significant one-off gains, notably a +NZ\$2.3m realised gain from no longer expecting to pay the earn-out associated with the Visual Globe acquisition and +NZ\$2.2m in unrealised gains from cash held in USD due to the NZDUSD rate fall from 0.693 on 31 March to 0.559 on 30 September (-19%). IKE's NZ\$1.1m 1H23 profit is up from a 1H22 loss of -NZ\$6.2m and a -NZ\$1.6m loss in 2H22. IKE maintained its fortress balance sheet with cash increasing +NZ\$1.1m to NZ\$25.5m due to positive cash flow from operations (+NZ\$0.9m), helped by tight working capital controls.

Figure 1. Result summary (NZ\$m)

	1H22	1H23	Change (%)
Operating revenue	5.715	15.417	+170%
Cost of sales	(2.130)	(7.248)	240%
Gross profit	3.585	8.169	+128%
Other income	0.004	0.196	
Foreign exchange (losses)/gains	0.005	2.239	
Revaluation of contingent consideration	(0.412)	2.723	
Total other income, gains and losses	(0.403)	5.158	
Support costs	(0.204)	(0.512)	+151%
Sales and marketing expenses	(3.182)	(3.902)	+23%
Research and engineering expenses	(2.369)	(3.798)	+60%
Corporate costs	(3.614)	(4.002)	+11%
Expenses	(9.369)	(12.214)	+30%
Operating profit (loss)	(6.187)	1.113	
Net finance (expense)/income	(0.028)	(0.005)	
Net profit (loss) before income tax	(6.215)	1.108	
Income tax (expense)/credit	0.000	0.000	
Profit (loss) attributable to owners of ikeGPS Group	(6.215)	1.108	

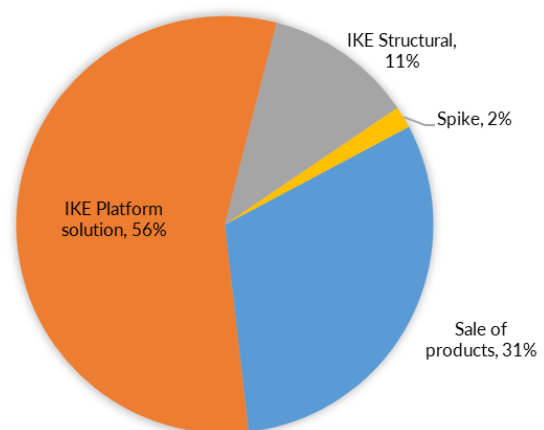
Source: Company data, Forsyth Barr analysis

Figure 2. IKE – Revenue by solution



Source: Company data, Forsyth Barr analysis

Figure 3. IKE – Gross profit by solution (1H23)



Source: Company data, Forsyth Barr analysis

Earnings and valuation revisions

We retain our FY23 revenue estimates of NZ\$29.7m, FY24 of NZ\$38.8m, and FY25 at NZ\$48.7m. We envisage that product mix changes in 1H23 continue to contribute to lower gross margins. We also envisage forex movements partially reversing in 2H23. Since balance date the NZDUSD rate has risen +11% from 0.559 to 0.620. Additionally, we now include the benefit of the previously expected NZ\$2.3m earn-out payments (from the acquisition of Visual Globe) into our FY23 numbers, which are now unlikely to be paid. These factors combined see a revised forecast NPAT loss of -NZ\$5.9m in FY23 versus our prior loss estimate of -NZ\$7.9m.

We flow the lower gross margin assumptions into our 2H23, FY24 and FY25 estimates, which sees our gross profit estimates fall marginally. We increase operating costs in FY24 and lower them in FY25. This mix of inputs sees our NPAT loss estimates in FY23 fall, rise in FY24 and remain similar in FY25. See Figure 4 below.

We continue to give the company five financial objectives/milestones for the coming years:

- Monthly EBITDA breakeven sometime late in FY23
- EBITDA breakeven in FY24
- NPAT breakeven in FY25
- Net cash flow breakeven in FY26 (excluding acquisitions)
- Maintenance of a fortress balance sheet throughout

Figure 4. Earnings revisions

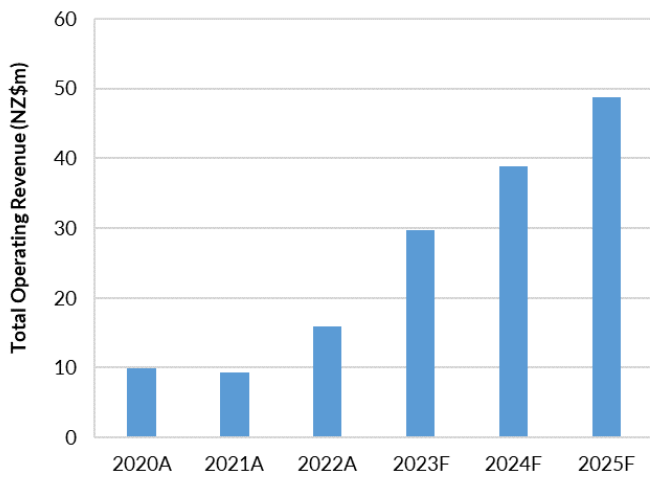
NZ\$m	FY23E			FY24E			FY25E		
	Old	New	Change	Old	New	Change	Old	New	Change
Operating Revenue	29.7	29.7	+0%	38.8	38.8	+0%	48.7	48.7	+0%
Cost of sales	(13.6)	(14.3)	+5%	(16.2)	(16.9)	+4%	(19.3)	(19.8)	+2%
Gross profit	16.1	15.4	-4%	22.6	22.0	-3%	29.3	28.9	-2%
Total other income, gains and losses	0.1	3.5		0.1	0.1		0.1	0.1	
General & Admin expenses ("Corporate Costs")	(8.3)	(8.3)	+0%	(8.6)	(8.6)	+0%	(9.1)	(9.1)	+0%
Sales & marketing expenses	(7.7)	(7.7)	+0%	(8.4)	(8.4)	+0%	(10.3)	(9.9)	-4%
Research & Engineering expenses	(7.6)	(7.7)	+2%	(8.0)	(8.0)	+0%	(8.8)	(8.4)	-5%
Other operating expenses ("Support costs")	(0.5)	(1.0)	+102%	(0.6)	(1.1)	+79%	(0.6)	(1.1)	+74%
Finance costs	(0.0)	(0.0)	+0%	(0.0)	(0.0)	+0%	(0.0)	(0.0)	+0%
Total expenses	(24.1)	(24.7)	+3%	(25.6)	(26.1)	+2%	(29.0)	(28.5)	-2%
Profit (loss) before income tax	(7.9)	(5.9)		(2.9)	(4.1)		0.4	0.4	
Income tax	0.0	0.0		0.0	0.0		0.0	0.0	
Net Profit (Loss) for the Year	(7.9)	(5.9)	+34%	(2.9)	(4.1)	-28%	0.4	0.4	-6%

Source: Company data, Forsyth Barr analysis

Closed contracts helpful but not definitive guidance

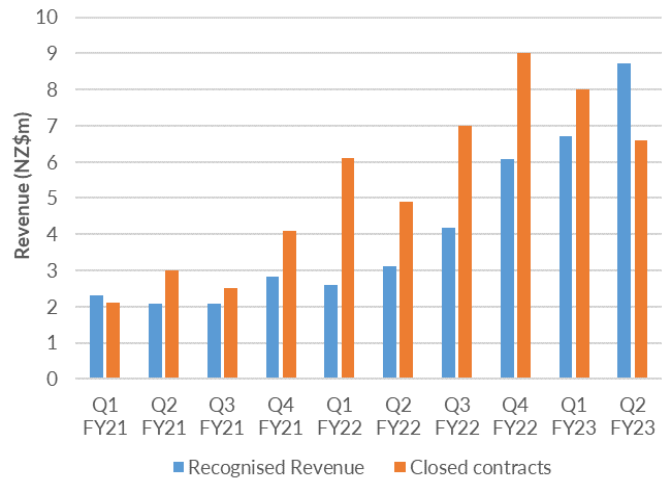
IKE's assessment of 'closed contracts' might suggest NZ\$28.8m of full-year revenues, given an approximate nine-month correlation between the timing of signed contracts and subsequent timing to recognise revenue. See Figure 6 below. The closed contract line can be used indicatively for revenues as it reflects customers rolling over contracts plus new business, including increased utilisation by current customers. It will, however, not be a straight line, nor-perfect predictor. We anticipate that there will be quarterly fluctuations, with 2Q23 reflecting some seasonal impact through the US summer holidays and the timing of annual subscription renewals. Regarding forward-looking indicators, most of the revenue being closed is recurring or reoccurring, reflecting repeatable business from which IKE can grow via new business and increased utilisation with current customers. Based on this, we anticipate closed contracts to trend upwards on an annualised basis. Taking these details into account, at this stage, we remain comfortable with our NZ\$29.7m FY23 revenue forecast.

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



Source: Company data, Forsyth Barr analysis

Figure 6. QoQ closed contracts & recognised revenues (NZ\$m)



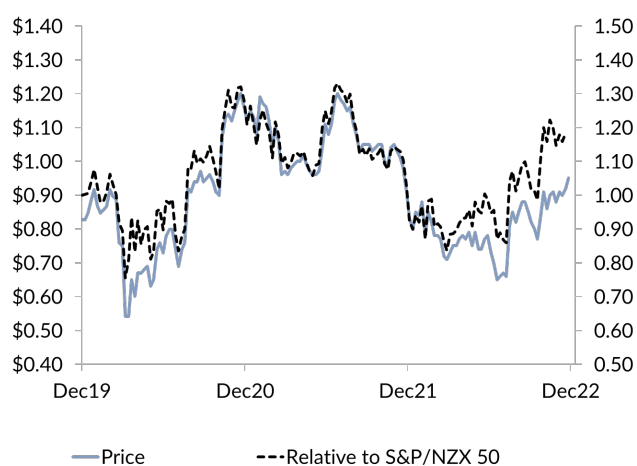
Source: Company data, Forsyth Barr analysis

Valuation lifts marginally

Adjustments in our medium and longer term earnings estimates and cash flow sees our discounted cash flow (DCF) valuation lift +3cps to NZ\$1.07.

Our FY23 operating revenues estimate is NZ\$29.7m. Using a blended multiple of peers, we believe a fair trading range of 5.5x to 6.5x EV/Sales multiple is applicable. Given this range, this translates into between NZ\$1.16 and NZ\$1.34 per share for IKE, using fully diluted shares on issue. This includes a value for cash on the balance sheet and our assessment of the capitalised value of leases. Our EV/Sales driven spot valuation is NZ\$1.25 and represents a ~6x EV/Sales multiple on FY23 trading revenues after adjustments. With more established peers trading on a median ~8.0x current year EV/Sales, if IKE were subject to a takeover approach, we would consider a multiple higher than 7.5x EV/Sales on our FY23 numbers as possible – reflecting a takeover price above NZ\$1.53.

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
				2023E	2024E	2023E	2024E	2023E	2024E	
ikeGPS	IKE NZ	NZ\$0.95	NZ\$151	<0x	<0x	<0x	>75x	<0x	<0x	0.0%
Autodesk Inc	ADSK US	US\$197.67	US\$42,649	29.5x	26.3x	22.8x	20.5x	24.1x	21.7x	0.0%
Altair Engineering Inc - A	ALTR US	US\$46.64	US\$3,737	60.1x	50.6x	38.4x	32.0x	42.8x	41.2x	n/a
Ansys Inc	ANSS US	US\$243.53	US\$21,214	31.0x	28.3x	23.4x	21.4x	25.0x	22.8x	0.0%
Aveva Group Plc	AVV LN	£31.75	£9,590	36.1x	32.2x	28.6x	24.6x	38.1x	33.7x	1.3%
Bentley Systems Inc-Class B	BSY US	US\$38.31	US\$12,199	45.3x	41.8x	37.2x	33.0x	40.2x	37.2x	0.2%
Dassault Systemes Se	DSY FP	€35.53	€47,411	31.1x	28.8x	22.6x	20.4x	25.0x	24.2x	0.6%
Hexagon Ab-B Shs	HEXAB SS	€120.55	€326,145	>75x	>50x	>75x	>75x	>75x	>75x	0.1%
Rockwell Automation Inc	ROK US	US\$262.47	US\$30,143	28.6x	23.5x	19.5x	18.2x	23.1x	20.0x	1.9%
Roper Technologies Inc	ROP US	US\$427.59	US\$45,347	29.6x	27.1x	22.6x	20.5x	32.4x	29.3x	0.6%
Trimble Inc	TRMB US	US\$57.63	US\$14,212	21.3x	19.3x	16.7x	15.4x	18.7x	17.4x	n/a
Compco Average:				34.7x	30.9x	25.8x	22.9x	29.9x	27.5x	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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