

# ikeGPS

## Subscriptions Power On as Transactions Dim

**JAMES LINDSAY**

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

**WILL TWISS**

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

ikeGPS (IKE) released a weak 3Q24 market update, with positive trends in new customer growth and subscriptions overshadowed by a deepening slowdown in transactional activity. Key positives included: (1) continued momentum in IKE's subscription business, with revenue increasing +27% versus 3Q23 to NZ\$2.8m and +11 net enterprise customers added in the period, and (2) several major subscription contracts signed in 3Q24, which IKE expects to provide a significant revenue uplift in future periods. However, overall trading in 3Q24 was soft, with total revenues falling -39% from 3Q23 to NZ\$4.8m, driven by a -71% drop in transactions revenue as delays drag on at three major customers. While IKE remains positive on the outlook for these customers, and 3Q24 could represent the bottom for transaction volumes, we make material cuts to our medium-term transactions forecasts, reflecting reduced confidence in a sharp rebound in transactional revenues. IKE's net cash has increased from NZ\$8.0m to NZ\$11.0m after the 3Q24 balance date. Our blended spot valuation falls -11cps to NZ\$0.79, with weaker revenues partially offset by cost-out measures and a re-rating in peer multiples.

NZX Code	IKE	Financials: Mar/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$0.54	Rev (NZ\$m)	31.1	20.7	29.8	38.5	PE	n/a	n/a	n/a	n/a
Spot Valuation	NZ\$0.79 (from 0.90)	NPAT* (NZ\$m)	(7.9)	(12.5)	(4.7)	0.3	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (NZc)	(4.9)	(7.8)	(2.9)	0.2	EV/EBITDA	n/a	n/a	n/a	14.1
Issued shares	160.0m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	4.1	10.9	n/a	46.3
Market cap	NZ\$86.4m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	35.6k (NZ\$28k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

### What's changed?

- **Estimates:** FY24/ FY25/ FY26 NPAT falls by -NZ\$0.5m/-NZ\$2.1m/-NZ\$2.0m respectively
- **Spot valuation:** Our blended spot valuation falls -13% to NZ\$0.79.

### Subscriptions the key positive

While growth in IKE's subscription business has thus far been unable to counteract the dramatic transactions slowdown in FY24, the underlying trends in subscriptions are constructive. Subscription revenues have risen +24% in FY24 YTD, and the roll-out of IKE's next-generation PoleForeman platform provides significant scope for further acceleration. In 3Q24 IKE signed a NZ\$3.7m multi-year subscription contract with one of the ten largest investor-owned utilities in the US, which will see the company transition from IKE's legacy platform to the new IKE PoleForeman platform. IKE expects the deal to increase recurring revenue from this customer from <NZ\$70k p.a. to NZ\$700k p.a., demonstrating the upsell opportunity of the new product. Attention now turns to other 'Product Council' members who helped redesign the PoleForeman product and the other ~120 users of the legacy desktop version of the software. Subscription revenues have a structurally higher margin (87% gross margin YTD in FY24) than transaction revenues (14% gross margin YTD in FY24), improving group profitability as the revenue mix from subscriptions grows, see Figure 7.

### Cost out programme implemented

IKE has taken measures to 'maintain the time frame towards both EBITDA and cash positive operations'. During 3Q24 IKE laid off ~19% of its global workforce, representing ~14% of total employee costs, and reduced spending on contractors. These measures will generate ~NZ\$4m of annual cost savings beginning in 4Q23, partially offset by -NZ\$0.5m of one-off redundancy costs incurred during 3Q24. We now forecast IKE to achieve EBITDA and operating cash flow breakeven in FY26 (previously FY25), although believe breakeven on both measures will be attainable on a run-rate basis sometime during 2H25.

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

Priced as at 08 Feb 2024	0.54
52 week high / low	1.01 / 0.46
Market capitalisation (NZ\$m)	86.4

**Key WACC assumptions**

Risk free rate	5.25%
Equity beta	1.30
WACC	11.7%
Terminal growth	2.0%

**Profit and Loss Account (NZ\$m)**

	2022A	2023A	2024E	2025E	2026E
Revenue	16.0	31.1	20.7	29.8	38.5
<b>Normalised EBITDA</b>	<b>(5.3)</b>	<b>(2.1)</b>	<b>(8.5)</b>	<b>(1.9)</b>	<b>5.6</b>
Depreciation and amortisation	(2.5)	(3.6)	(4.3)	(2.9)	(5.3)
<b>Normalised EBIT</b>	<b>(7.8)</b>	<b>(7.8)</b>	<b>(12.8)</b>	<b>(4.8)</b>	<b>0.4</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>(12.5)</b>	<b>(4.7)</b>	<b>0.3</b>
Abnormals/other	0	0	0	0	0
<b>Reported NPAT</b>	<b>(7.9)</b>	<b>(7.9)</b>	<b>(12.5)</b>	<b>(4.7)</b>	<b>0.3</b>
Normalised EPS (cps)	(4.9)	(4.9)	(7.8)	(2.9)	0.2
DPS (cps)	0	0	0	0	0

**Growth Rates**

	2022A	2023A	2024E	2025E	2026E
Revenue (%)	56.6	93.9	-33.4	43.8	29.4
EBITDA (%)	n/a	n/a	n/a	n/a	n/a
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>(8.5)</b>	<b>(1.9)</b>	<b>5.6</b>
Working capital change	(1.7)	(1.2)	0.9	0.5	(1.5)
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>(7.3)</b>	<b>(1.3)</b>	<b>4.2</b>
Capital expenditure	(3.6)	(5.1)	(3.6)	(4.6)	(5.4)
(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>(11.0)</b>	<b>(6.0)</b>	<b>(1.3)</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>(11.0)</b>	<b>(6.0)</b>	<b>(1.3)</b>

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

	2022A	2023A	2024E	2025E	2026E
Working capital	4.2	5.4	4.5	4.0	5.5
Fixed assets	1.8	2.8	2.7	2.8	3.0
Intangibles	14.1	13.1	12.6	12.5	12.4
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>20.5</b>	<b>20.0</b>	<b>21.6</b>
Net debt/(cash)	(24.4)	(18.0)	(7.1)	(1.1)	0.2
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	20.5	14.0	14.3
Minority interests	0	0	0	0	0
<b>Total funding sources</b>	<b>22.1</b>	<b>22.9</b>	<b>20.5</b>	<b>20.0</b>	<b>21.6</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	0.71
EV/sales relative	0.87

**DCF valuation summary**

Total firm value	108.9
(Net debt)/cash	7.1
Less: Capitalised operating leases	-3.0
Value of equity	112.9

**Valuation Ratios**

	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	4.3	2.1	3.5	2.7	2.1
EV/EBITDA (x)	n/a	n/a	n/a	n/a	14.1
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)	3.4	4.1	10.9	54.9	47.0
Free cash flow yield (%)	-12.1	-9.1	-12.9	-7.1	-1.7
Adj. free cash flow yield (%)	-8.0	-3.1	-8.7	-1.7	4.5
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	41.7	44.1	36.0
Interest cover EBITDA (x)	n/a	n/a	27.8	17.2	>100x
Net debt/ND+E (%)	-161.5	-113.5	-52.3	-8.5	1.7
Net debt/EBITDA (x)	4.6	8.6	0.8	0.6	0.0

**Key Ratios**

	2022A	2023A	2024E	2025E	2026E
Return on assets (%)	-16.1	-17.9	-43.7	-20.9	1.5
Return on equity (%)	-19.9	-23.2	-60.9	-33.3	2.4
Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	-33.3	-6.8	-41.3	-6.3	14.6
EBIT margin (%)	-48.6	-25.0	-61.9	-16.1	0.9
Capex to sales (%)	22.3	16.5	17.3	15.5	14.0
Capex to depreciation (%)	360	378	217	5,567	247
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	11.8	17.7	24.2
IKE Structural revenue (\$m)	1.1	1.8	2.4	4.3	6.0
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>20.7</b>	<b>29.8</b>	<b>38.5</b>
Sale of products % of revenues	40.2	21.0	31.8	24.6	20.6
IKE Platform % of revenues	50.5	71.9	55.3	59.6	62.8
IKE Structural % of revenues	7.0	6.0	11.2	14.5	15.7
Spike % of revenues	2.2	1.2	1.7	1.2	0.9
Sale of products gross margin (%)	72.3	73.4	73.0	73.5	75.0
IKE Platform gross margin (%)	48.8	43.1	46.0	54.5	55.5
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>60.9</b>	<b>65.9</b>	<b>66.6</b>

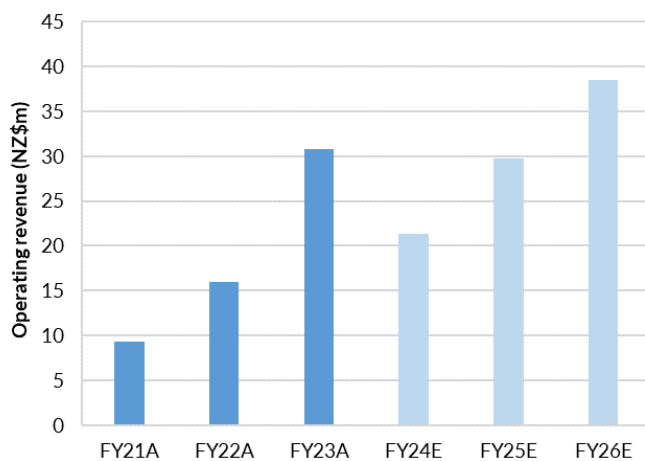
## Earnings revisions

Figure 1. Earnings revisions (NZ\$m)

	FY24			FY25			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
<b>Operating Revenue</b>	<b>22.9</b>	<b>21.3</b>	<b>-7%</b>	<b>35.8</b>	<b>29.7</b>	<b>-17%</b>	<b>44.3</b>	<b>38.5</b>	<b>-13%</b>
Cost of sales	(9.0)	(8.3)	-7%	(13.0)	(10.1)	-22%	(15.5)	(12.9)	-17%
Gross profit	13.8	13.0	-6%	22.9	19.6	-15%	28.8	25.6	-11%
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)	(7.5)	-2%	(7.3)	(7.4)	+1%	(8.1)	(8.1)	-0%
Research & engineering expenses	(9.4)	(9.2)	-2%	(9.4)	(9.2)	-2%	(9.4)	(9.2)	-2%
"Corporate Costs"/General & Admin expenses	(7.4)	(7.4)	-0%	(7.6)	(6.6)	-13%	(7.8)	(6.8)	-13%
Total operating expenses	(26.2)	(25.8)	-1%	(25.4)	(24.4)	-4%	(26.4)	(25.3)	-4%
<b>Operating profit (loss)</b>	<b>(12.3)</b>	<b>(12.8)</b>	<b>n/a</b>	<b>(2.6)</b>	<b>(4.8)</b>	<b>n/a</b>	<b>2.3</b>	<b>0.4</b>	<b>-84%</b>
Finance costs	0.3	0.3	n/a	0.1	0.1	n/a	0.0	(0.0)	n/a
<b>Profit (loss) before income tax</b>	<b>(12.0)</b>	<b>(12.5)</b>	<b>n/a</b>	<b>(2.5)</b>	<b>(4.7)</b>	<b>n/a</b>	<b>2.3</b>	<b>0.3</b>	<b>-85%</b>
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>(12.5)</b>	<b>n/a</b>	<b>(2.5)</b>	<b>(4.7)</b>	<b>n/a</b>	<b>2.3</b>	<b>0.3</b>	<b>-85%</b>
<b>Reconciliation Operating profit (loss) to EBITDA</b>									
NPAT (\$m)	(12.0)	(12.5)	n/a	(2.5)	(4.7)	n/a	2.3	0.3	-85%
add back Income tax paid (\$m)	0.0	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a
add back Finance costs paid (\$m)	(0.3)	(0.3)	n/a	(0.1)	(0.1)	n/a	(0.0)	0.0	n/a
add back Depreciation (\$m)	1.6	1.5	-1%	0.0	0.0	n/a	2.3	2.2	-7%
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	2.8	-2%	3.2	3.1	-3%
remove adjustments (\$m)	0.0	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a
<b>Operating EBITDA (\$m)</b>	<b>(8.0)</b>	<b>(8.5)</b>	<b>n/a</b>	<b>0.4</b>	<b>(1.9)</b>	<b>n/a</b>	<b>7.9</b>	<b>5.6</b>	<b>-29%</b>

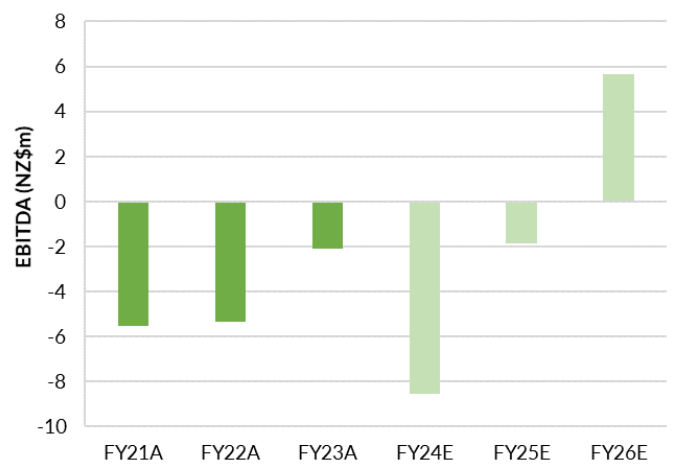
Source: Forsyth Barr analysis

Figure 2. IKE – Operating revenues (NZ\$m)



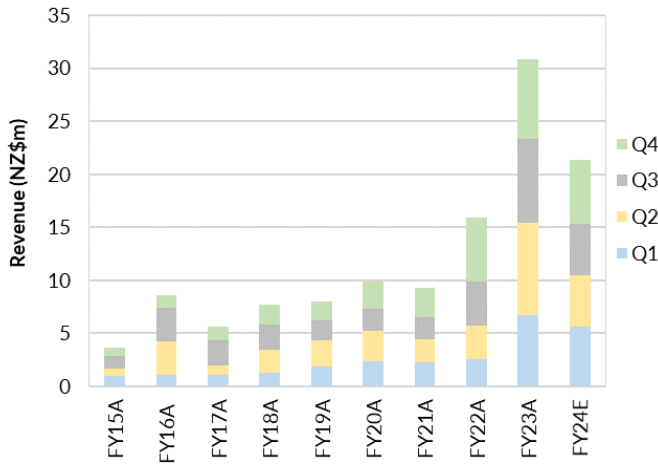
Source: Company data, Forsyth Barr analysis

Figure 3. IKE – EBITDA (NZ\$m)



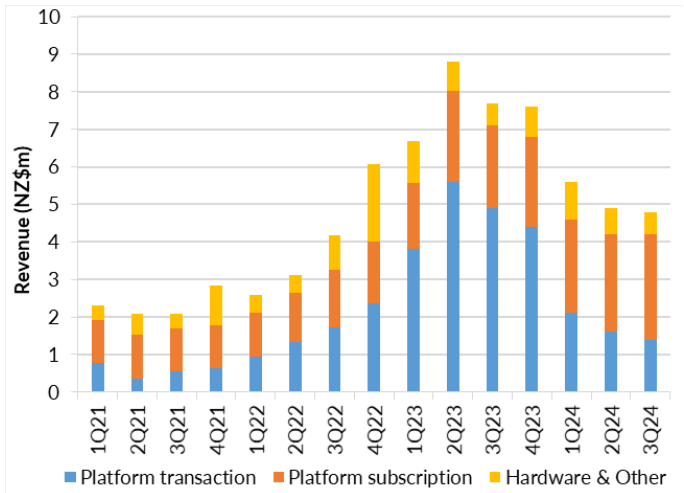
Source: Company data, Forsyth Barr analysis

**Figure 4. IKE – Quarterly revenue including 4Q24 estimate**



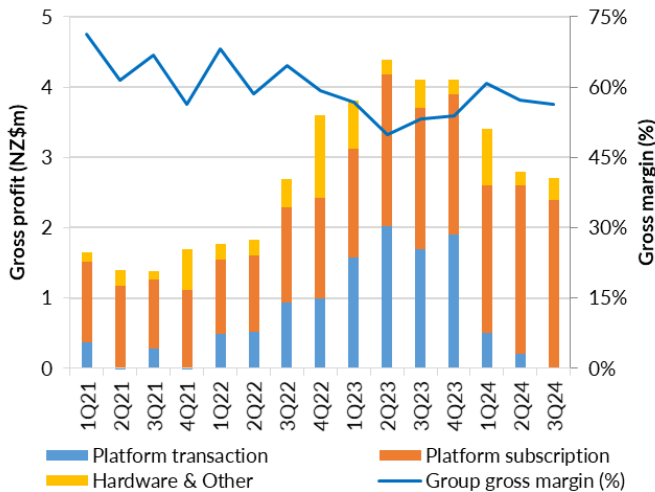
Source: Company, Forsyth Barr Analysis

**Figure 5. IKE – Quarterly revenue by segment**



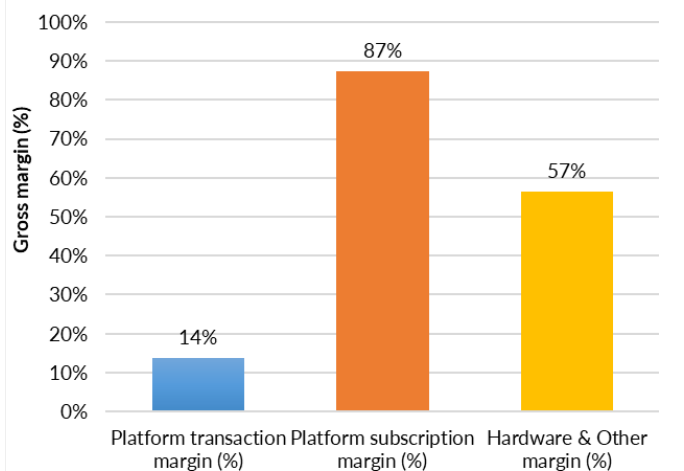
Source: Company, Forsyth Barr Analysis

**Figure 6. IKE – Quarterly gross profit by segment**



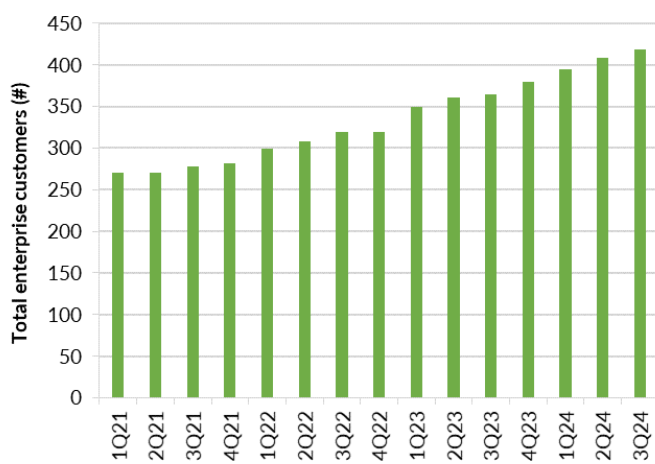
Source: BVP, Forsyth Barr analysis

**Figure 7. IKE – Gross margin by segment YTD 3Q24 (%)**



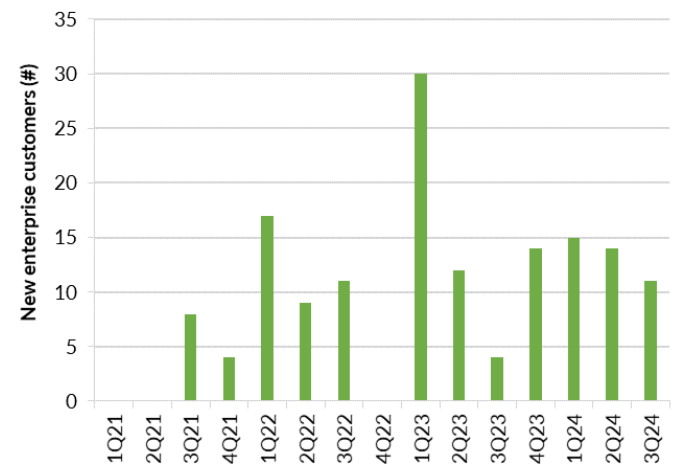
Source: BVP, Forsyth Barr analysis

**Figure 8. IKE – Total enterprise customers by quarter**



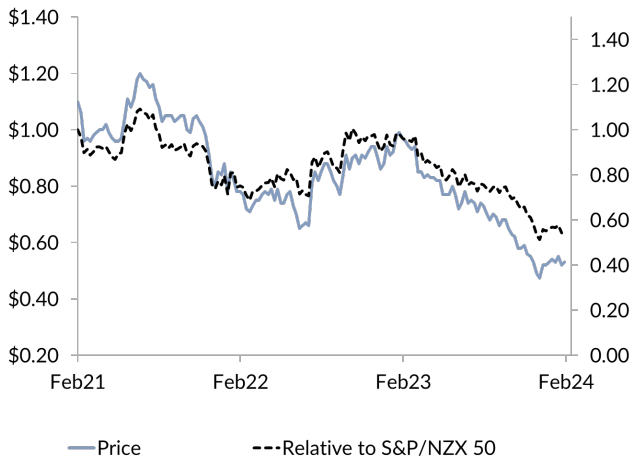
Source: Company, Forsyth Barr Analysis

**Figure 9. IKE – Net enterprise customer growth by quarter**



Source: Company, Forsyth Barr Analysis

**Figure 10. Price performance**



Source: Forsyth Barr analysis

**Figure 11. 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 12. International valuation comparisons**

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld
				2024E	2025E	2024E	2025E	2024E	2025E	2025E
ikeGPS	IKE NZ	NZ\$0.54	NZ\$86	<0x	<0x	<0x	<0x	<0x	<0x	0.0%
Autodesk Inc	ADSK US	US\$256.45	US\$54,859	33.8x	30.8x	26.8x	26.0x	28.0x	25.6x	0.0%
Altair Engineering Inc - A	ALTR US	US\$87.66	US\$7,158	>75x	73.4x	54.4x	44.8x	60.2x	53.7x	n/a
Ansys Inc	ANSS US	US\$335.25	US\$29,139	38.2x	34.3x	29.4x	26.0x	30.5x	27.6x	0.0%
Bentley Systems Inc-Class B	BSY US	US\$51.50	US\$16,789	56.5x	50.3x	42.6x	37.3x	44.9x	39.9x	0.2%
Dassault Systemes Se	DSY FP	€42.13	€56,366	47.6x	31.7x	29.3x	24.3x	40.8x	28.0x	0.6%
Hexagon Ab-B Shs	HEXAB SS	€117.45	€317,758	>75x	>50x	>75x	>75x	>75x	>75x	0.1%
Rockwell Automation Inc	ROK US	US\$268.01	US\$30,712	21.9x	20.6x	16.8x	16.4x	19.3x	17.7x	1.9%
Roper Technologies Inc	ROP US	US\$549.62	US\$58,712	39.3x	29.8x	25.4x	23.2x	36.0x	32.0x	0.6%
Trimble Inc	TRMB US	US\$52.59	US\$13,083	19.8x	18.9x	15.9x	15.2x	17.1x	16.4x	n/a
<b>Compco Average:</b>				<b>36.7x</b>	<b>36.2x</b>	<b>30.1x</b>	<b>26.6x</b>	<b>34.6x</b>	<b>30.1x</b>	<b>0.5%</b>
<b>IKE Relative:</b>				<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>-100%</b>

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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