

ikeGPS

Operating Leverage Emerges on Stellar Topline

JAMES LINDSAY

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

WILL TWISS

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

ikeGPS (IKE) reported a stellar FY23, with operating revenues growing +93% to NZ\$30.8m. Due to a less favourable product mix in FY23 the gross margin percentage fell -9% to ~53%, meaning gross profit was NZ\$16.3m, in line with our estimate. Nevertheless, gross profit growth at +65% outpaced operating expenses growth of +44% in the period, demonstrating operating leverage and product scalability. EBITDA for FY23 was -NZ\$2.1m against the -NZ\$5.3m in loss the prior year. IKE's investment into R&D accelerated in FY23, rising by +94% to NZ\$11.4m, partially resulting from an IKE Insight impairment of -NZ\$3.0m. This was why IKE's reported NPAT (-NZ\$7.9m) loss was larger than our expectations. The result also included a +NZ\$3.6m positive FX gain from cash held offshore. The company's financial position remains strong, with net cash of NZ\$18m. We retain the view that IKE breaks even at the EBITDA level during FY24 (at +NZ\$0.3m) on operating revenue of NZ\$38.8m (+26% on FY23) and a gross margin of ~57%. Our FY24 assumptions also include (1) +9% customer growth, (2) onboarding the new large enterprise customers won, and (3) a continued uplift in existing customer utilisation. Further out, our revenue expectations remain largely unchanged while our earnings estimates see modest uplifts, in dollar terms, in FY25 and FY26. Our blended spot valuation rises +NZ6cps to NZ\$1.15.

NZX Code	IKE	Financials: Mar/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$0.79	Rev (NZ\$m)	31.1	38.9	48.8	60.1	PE	n/a	n/a	n/a	22.6
Spot Valuation	NZ\$1.15 (from 1.09)	NPAT* (NZ\$m)	(7.9)	(4.0)	0.6	5.6	EV/EBIT	n/a	n/a	n/a	21.0
Risk rating	High	EPS* (NZc)	(4.9)	(2.5)	0.4	3.5	EV/EBITDA	n/a	n/a	19.3	9.6
Issued shares	160.0m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	6.1	8.4	8.7	6.7
Market cap	NZ\$126m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	60.1k (NZ\$52k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

Utility growth continues backed by industry tailwinds

IKE serves some of North America's most significant infrastructure and engineering organisations. Its target market comprises approximately 3,200 electric utilities, 200 telecommunications companies, and over 2,000 engineering service providers. With 379 enterprise accounts today, or ~7% of potential customers, IKE has a substantial long-term growth runway. IKE's product potential is linked to several macro-market tailwinds, further strengthening the company's growth prospects. The expected surge in investment into fibre and 5G infrastructure, further electrification of the economy and the need for general network hardening and maintenance (partly driven by historical underinvestment and climate change) by electric utilities, presents significant opportunities for IKE. The company's product suite supports these network engineering activities, driving customer productivity and value, especially with labour shortages and inflationary wage pressures continuing as a supporting tailwind.

Outlook looks solid but 1Q24 transactional revenues could be lower than 4Q23

The company anticipates continued growth in FY24, albeit with the potential for 1Q24 transactional revenue to be below the 4Q23 run rate due to delays in regulatory approvals for work at specific utilities. Regarding the sales pipeline, IKE noted during 4Q23 that one new enterprise customer was won per week, indicating positive momentum for the year ahead. One significant customer win included an initial 100 subscription licenses for distribution network design for three years from one of the largest tier-1 electric utilities operating on the East Coast of the US. IKE emphasised execution on sizable sales opportunities and expressed optimism for robust growth in FY24 and beyond. Moving into FY24, the company's focus will remain on four core themes: (1) delivering on the back of signed contracts, (2) closing and recognising revenue from new contracts, (3) building out sales and delivery capabilities, and (4) enhancing the software products' automation and analytics capabilities to deliver more productivity and value to customers.

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

Priced as at 30 May 2023	0.79
52 week high / low	1.01 / 0.65
Market capitalisation (NZ\$m)	126.4

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	38.9	48.8	60.1
Normalised EBITDA	(5.3)	(2.1)	0.3	5.9	11.9
Depreciation and amortisation	(2.5)	(7.0)	(4.6)	(5.5)	(6.5)
Normalised EBIT	(7.8)	(7.8)	(4.3)	0.4	5.4
Net interest	(0.1)	(0.1)	0.3	0.2	0.2
Associate income	0	0	0	0	0
Tax	0	0.0	0	0	0
Minority interests	0	0	0	0	0
Normalised NPAT	(7.9)	(7.9)	(4.0)	0.6	5.6
Abnormals/other	0	0	0	0	0
Reported NPAT	(7.9)	(7.9)	(4.0)	0.6	5.6
Normalised EPS (cps)	(4.9)	(4.9)	(2.5)	0.4	3.5
DPS (cps)	0	0	0	0	0

Growth Rates	2022A	2023A	2024E	2025E	2026E
Revenue (%)	56.6	93.9	25.0	25.6	23.0
EBITDA (%)	n/a	n/a	n/a	>100	>100
EBIT (%)	n/a	n/a	n/a	n/a	>100
Normalised NPAT (%)	n/a	n/a	n/a	n/a	>100
Normalised EPS (%)	n/a	n/a	n/a	n/a	>100
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a

Cash Flow (NZ\$m)	2022A	2023A	2024E	2025E	2026E
EBITDA	(5.3)	(2.1)	0.3	5.9	11.9
Working capital change	(1.7)	(1.2)	0.2	(1.3)	(1.6)
Interest & tax paid	(0.1)	(0.1)	0.3	0.2	0.2
Other	0.5	0.9	0	0	0
Operating cash flow	(6.6)	(2.5)	0.8	4.8	10.5
Capital expenditure	(3.6)	(5.1)	(6.5)	(7.6)	(8.4)
(Acquisitions)/divestments	0	0	0	0	0
Other	(0.4)	0.1	0.1	0.1	0.1
Funding available/(required)	(10.6)	(7.5)	(5.6)	(2.7)	2.1
Dividends paid	0	0	0	0	0
Equity raised/(returned)	23.1	0	0	0	0
(Increase)/decrease in net debt	12.5	(7.5)	(5.6)	(2.7)	2.1

Balance Sheet (NZ\$m)	2022A	2023A	2024E	2025E	2026E
Working capital	4.2	5.4	5.2	6.5	8.1
Fixed assets	1.8	2.8	3.7	4.6	5.2
Intangibles	14.1	13.1	14.2	15.5	16.7
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
Total funds employed	22.1	22.9	23.9	27.3	30.8
Net debt/(cash)	(24.4)	(18.0)	(12.4)	(9.7)	(11.8)
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	29.2	30.0	35.6
Minority interests	0	0	0	0	0
Total funding sources	22.1	22.9	23.9	27.3	30.8

* 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	1.15
EV/Sales relative	1.19
	1.10

DCF valuation summary

Total firm value	176.2
(Net debt)/cash	18.0
Less: Capitalised operating leases	-3.3
Value of equity	191.0

Valuation Ratios	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	6.8	3.4	2.9	2.3	1.9
EV/EBITDA (x)	n/a	n/a	>100x	19.3	9.6
EV/EBIT (x)	n/a	n/a	n/a	>100x	21.0
PE (x)	n/a	n/a	n/a	>100x	22.6
Price/NTA (x)	5.0	6.1	8.4	8.7	6.7
Free cash flow yield (%)	-8.3	-6.2	-4.7	-2.4	1.4
Adj. free cash flow yield (%)	-5.5	-2.1	0.5	3.6	8.1
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	13.9	n/a	n/a
Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Net debt/ND+E (%)	-161.5	-113.5	-73.8	-47.9	-49.7
Net debt/EBITDA (x)	4.6	8.6	n/a	n/a	n/a

Key Ratios	2022A	2023A	2024E	2025E	2026E
Return on assets (%)	-16.1	-17.9	-11.1	1.0	11.9
Return on equity (%)	-19.9	-23.2	-13.6	2.0	15.7
Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	-33.3	-6.8	0.8	12.1	19.9
EBIT margin (%)	-48.6	-25.0	-11.0	0.8	9.0
Capex to sales (%)	22.3	16.5	16.8	15.5	14.0
Capex to depreciation (%)	360	378	358	316	282
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	6.7	7.1	7.4
IKE Platform revenue (\$m)	8.1	22.1	29.3	38.1	47.7
IKE Structural revenue (\$m)	1.1	1.8	2.4	3.2	4.5
Spike revenue (\$m)	0.4	0.4	0.4	0.4	0.3
Other revenues (\$m)	0.1	0.3	0.1	0.1	0.1
Total Revenues (\$m)	16.0	31.1	38.9	48.8	60.1
Sale of products share of revenues (%)	40.2	21.0	17.3	14.5	12.3
IKE Platform share of revenues (%)	50.5	71.9	75.6	78.2	79.5
IKE Structural share of revenues (%)	7.0	6.0	6.2	6.6	7.6
Spike share of revenues (%)	2.2	1.2	0.9	0.7	0.6
Sale of products gross margin (%)	72.3	73.4	74.3	74.8	75.0
IKE Platform gross margin (%)	48.8	43.1	49.0	54.0	55.0
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
Overall Gross margin (%)	61.9	53.1	56.6	60.1	60.9

Result comparison and earnings revisions tables

Figure 1. IKE – FY22 & FY23 results comparison

	FY22 Actual	FY23 Actual	Change
Operating revenues	16.0	30.8	+93%
Cost of sales	(6.1)	(14.4)	+138%
Gross profit	9.9	16.3	+65%
Other income	1.8	3.9	n/a
"Support costs"/Other operating expenses	(0.5)	(1.1)	+143%
Sales & marketing expenses	(6.5)	(8.1)	+25%
Research & engineering expenses	(5.8)	(11.4)	+96%
"Corporate Costs"/General & Admin expenses	(6.7)	(7.4)	+10%
Total operating expenses	(19.5)	(28.0)	+44%
Finance costs	(0.1)	(0.1)	+68%
Profit before income tax	(7.9)	(7.9)	+0%
Income tax	-	(0.0)	n/a
Net Profit (Loss) for the Year	(7.9)	(7.9)	+0%
Basic and diluted loss per share	(5.0)	(5.0)	+0%

Source: Company data, Forsyth Barr analysis

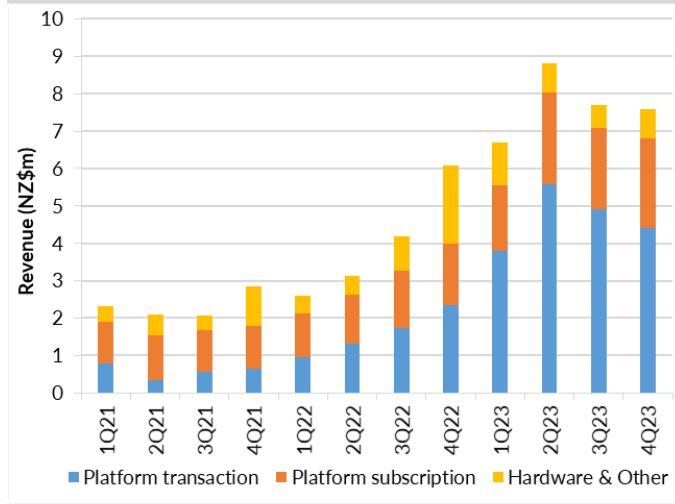
Figure 2. IKE – Earnings revisions (NZ\$m)

	FY24E			FY25E			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
Operating Revenue	38.8	38.8	-0%	48.7	48.8	+0%	59.8	60.0	+0%
Cost of sales	(16.9)	(16.8)	-0%	(19.8)	(19.4)	-2%	(23.9)	(23.5)	-2%
Gross profit	22.0	22.0	-0%	28.9	29.3	+2%	35.9	36.5	+2%
Total other income	0.1	0.1	+0%	0.1	0.1	+0%	0.1	0.1	+0%
"Support costs"/Other operating expenses	(1.1)	(1.1)	+6%	(1.1)	(1.2)	+6%	(1.2)	(1.2)	+6%
Sales & marketing expenses	(8.4)	(8.3)	-0%	(9.9)	(9.9)	+0%	(11.1)	(11.1)	+0%
Research & engineering expenses	(8.0)	(9.1)	+14%	(8.4)	(9.8)	+16%	(10.2)	(10.2)	+0%
"Corporate Costs"/General & Admin expenses	(8.6)	(7.7)	-10%	(9.1)	(8.2)	-10%	(9.7)	(8.7)	-10%
Total operating expenses	(26.0)	(26.3)	+1%	(28.4)	(28.9)	+2%	(32.0)	(31.1)	-3%
Finance costs	0.2	0.4	+137%	0.1	0.3	+163%	0.1	0.2	+156%
Profit (loss) before income tax	(3.9)	(3.9)	+0%	0.5	0.7	+29%	4.0	5.6	+42%
Income tax	0.0	-	n/a	0.0	-	n/a	0.0	-	n/a
Net Profit (Loss) for the Year	(3.9)	(3.9)	+0%	0.5	0.7	+29%	4.0	5.6	+42%

Source: Company data, Forsyth Barr analysis

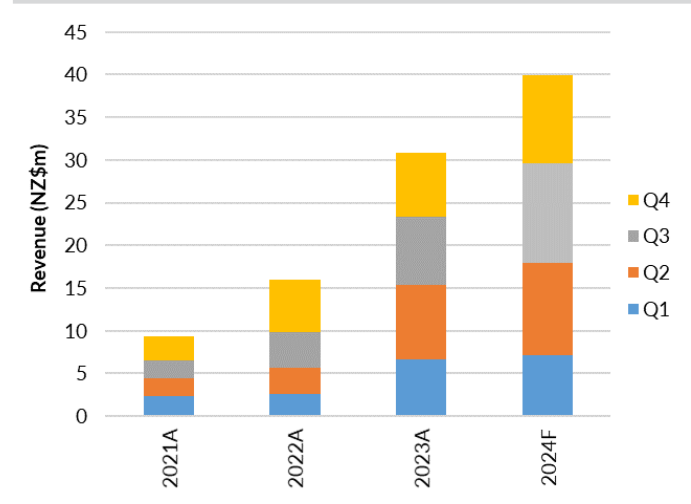
Supplementary information

Figure 3. IKE – Revenue breakdown by segment (NZ\$m)



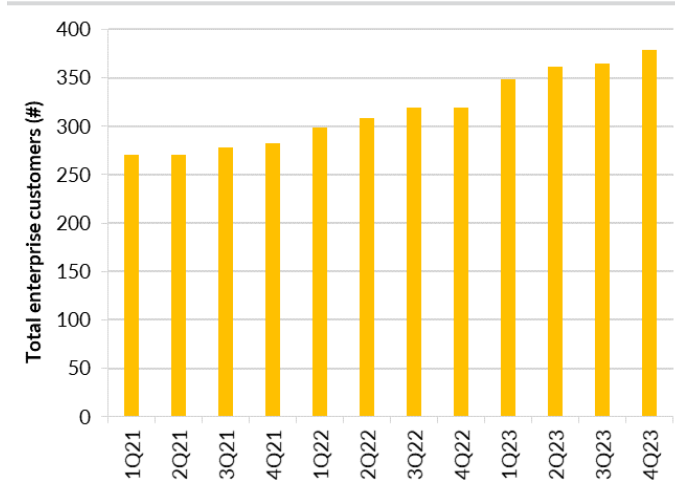
Source: Company, Forsyth Barr analysis

Figure 4. IKE – Reported quarterly revenues and FY24 (NZ\$m)



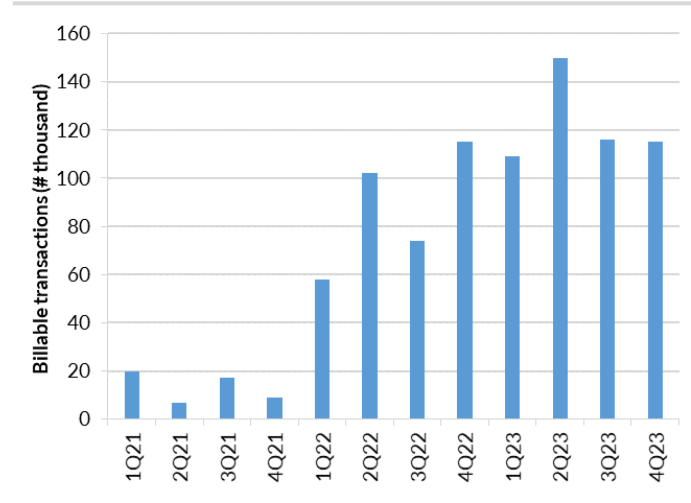
Source: Company data, Forsyth Barr analysis

Figure 5. IKE – Number of total enterprise customers



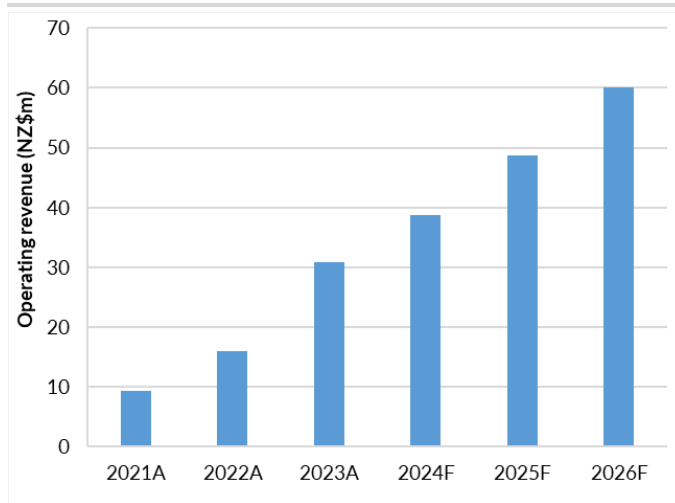
Source: Company data, Forsyth Barr analysis

Figure 6. IKE – Number of billable transactions



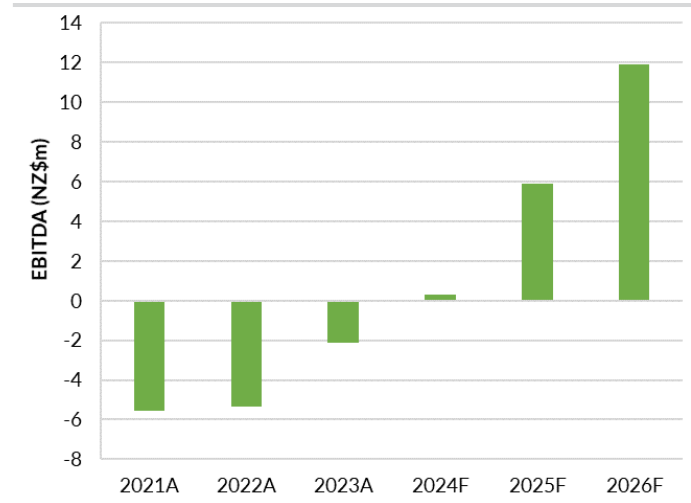
Source: Company data, Forsyth Barr analysis

Figure 7. IKE – Operating revenues (NZ\$m)



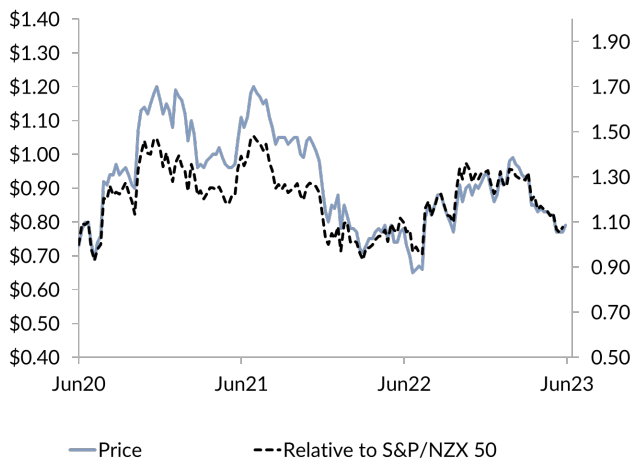
Source: Company data, Forsyth Barr analysis

Figure 8. IKE – EBITDA (NZ\$m)



Source: Company data, Forsyth Barr analysis

Figure 9. Price performance



Source: Forsyth Barr analysis

Figure 10. 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 11. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2025E
				2024E	2025E	2024E	2025E	2024E	2025E	
ikeGPS	IKE NZ	NZ\$0.79	NZ\$126	<0x	>75x	>75x	19.3x	<0x	>75x	0.0%
Autodesk Inc	ADSK US	US\$198.90	US\$42,720	26.7x	23.2x	20.7x	18.1x	21.8x	18.9x	0.0%
Altair Engineering Inc - A	ALTR US	US\$74.52	US\$6,014	69.3x	61.1x	46.4x	41.1x	50.2x	42.5x	n/a
Ansys Inc	ANSS US	US\$319.40	US\$27,680	36.0x	32.2x	26.7x	24.3x	28.8x	26.0x	0.0%
Bentley Systems Inc-Class B	BSY US	US\$47.82	US\$15,467	53.6x	46.0x	40.4x	35.5x	42.2x	37.8x	0.2%
Dassault Systemes Se	DSY FP	€40.72	€54,380	33.9x	31.1x	25.4x	22.9x	28.2x	25.5x	0.7%
Hexagon Ab-B Shs	HEXAB SS	€124.00	€335,479	>75x	>50x	>75x	>75x	>75x	>75x	0.1%
Rockwell Automation Inc	ROK US	US\$286.23	US\$32,881	22.9x	21.1x	17.9x	16.9x	19.5x	17.9x	1.8%
Roper Technologies Inc	ROP US	US\$449.96	US\$47,962	27.6x	25.3x	21.7x	20.3x	30.9x	28.1x	0.7%
Trimble Inc	TRMB US	US\$47.19	US\$11,691	17.6x	15.7x	12.8x	11.6x	13.8x	12.4x	n/a
Compco Average:				36.0x	32.0x	26.5x	23.9x	29.4x	26.1x	0.5%
IKE Relative:				n/a	n/a	n/a	-19%	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

Important information about this publication

Forsyth Barr Limited (“**Forsyth Barr**”) holds a licence issued by the Financial Markets Authority to provide financial advice services. In making this publication available, Forsyth Barr (and not any named analyst personally) is giving any financial advice it may contain. Some information about us and our financial advice services is publicly available. You can find that on our website at www.forsythbarr.co.nz/choosing-a-financial-advice-service. Please note the limitations in relation to distribution generally, and in relation to recipients in Australia in particular, as set out under those headings below.

This publication has been commissioned by ikeGPS (“**Researched Entity**”) and prepared and issued by Forsyth Barr in consideration of a fee payable by the Researched Entity. Forsyth Barr follows a research process (including through the Analyst certification below) designed to ensure that the recommendations and opinions in our research publications are not influenced by this arrangement and the other interests of Forsyth Barr and related parties disclosed below. However, entities may not be willing to continue to pay for research coverage that includes unfavourable views.

Any recommendations or opinions in this publication do not take into account your personal financial situation or investment goals, and may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser.

Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realised. If provided, and unless otherwise stated, the closing price provided is that of the primary exchange for the issuer’s securities or investments.

This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. If there are material inaccuracies or omissions in the information it is likely that our recommendations or opinions would be different. Any analyses or valuations will also typically be based on numerous assumptions (such as the key WACC assumptions); different assumptions may yield materially different results.

Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you.

In giving financial advice, Forsyth Barr is bound by duties under the Financial Markets Conduct Act 2013 (“**FMCA**”) to:

- exercise care, diligence, and skill,
- give priority to the client’s interests, and
- when dealing with retail clients, comply with the Code of Professional Conduct for Financial Advice Services, which includes standards relating to competence, knowledge, skill, ethical behaviour, conduct, and client care.

There are likely to be fees, expenses, or other amounts payable in relation to acting on any recommendations or opinions in this publication. If you are Forsyth Barr client we refer you to the Advice Information Statement for your account for more information.

Analyst certification: The research analyst(s) primarily responsible for the preparation and content of this publication (“**Analysts**”) are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced; and (ii) no part of the Analyst’s compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this publication.

Analyst holdings: The following Analyst(s) have a threshold interest in the financial products referred to in this publication: N/A. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

Other disclosures: Forsyth Barr and its related companies (and their respective directors, officers, agents and employees) (“**Forsyth Barr Group**”) may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) corporate advisory or other services to, the issuer of those financial products (and may receive fees for so acting). Members of the Forsyth Barr Group may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

Corporate advisory engagements: Other than confidential engagements, Forsyth Barr has not within the past 12 months been engaged to provide corporate advisory services to the Researched Entity.

Complaints: Information about Forsyth Barr’s complaints process and our dispute resolution process is available on our website – www.forsythbarr.co.nz.

Disclaimer: Where the FMCA applies, liability for the FMCA duties referred to above cannot by law be excluded. However to the maximum extent permitted by law, Forsyth Barr otherwise excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. The information contained within this publication is published solely for information purposes and is not a solicitation or offer to buy or sell any financial instrument or participate in any trading or investment strategy.

Distribution: This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

Recipients in Australia: This publication is only available to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001 (Cth) (“**wholesale clients**”). In no circumstances may this publication be made available to a “retail client” within the meaning of section 761G. Further, this publication is only available on a limited basis to authorised recipients in Australia. Forsyth Barr is a New Zealand company operating in New Zealand that is regulated by the Financial Markets Authority of New Zealand and NZX. This publication has been prepared in New Zealand in accordance with applicable New Zealand laws, which may differ from Australian laws. Forsyth Barr does not hold an Australian financial services licence. This publication may refer to a securities offer or proposed offer which is not available to investors in Australia, or is only available on a limited basis, such as to professional investors or others who do not require prospectus disclosure under Part 6D.2 of the Corporations Act 2001 (Cth) and are wholesale clients.

Terms of use: Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.