

ikeGPS

Transactions Stumble while Subscriptions Surge

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ikeGPS (IKE) reported a subdued 1Q24, with short-term weakness in Platform Transactions partially offset by continued growth in Platform Subscriptions. After +93% growth in FY23, total revenue in 1Q24 fell -18% to NZ\$5.6m, as compared to 1Q23, driven by the significant, but well signalled, temporary slowdown in billable transactions. Transactions by number fell -30% to 77k while revenues sunk -45% against the same quarter last year to NZ\$2.1m. This transaction slowdown reflects temporary delays in fibre network deployments from two of IKE's largest customers. On a positive note, subscription revenue climbed +35% to NZ\$2.5m, with customer growth exceeding our expectations. Group gross margin recovered to 61% in 1Q24 from 54% in 1Q23, however, we consider this entirely from the change in product mix reflecting a higher proportion of Subscription revenues (~84% gross margins) over Platform Transactions (~24% gross margin in 1Q24 versus an average of 32% over the last three years). We retain our FY24 revenue forecast of NZ\$38.8m but recognise this requires a solid second half – boosted by industry tailwinds, continued customer wins, a rebound in transactional revenues and the introduction of the updated PoleForeman product to several of IKE's largest customers. Our blended spot valuation rises +NZ6cps to NZ\$1.21 due mostly to the continued expansion of multiples in the peer group.

NZX Code	IKE	Financials: Mar/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$0.71	Rev (NZ\$m)	31.1	38.9	48.8	60.1	PE	n/a	n/a	n/a	20.4
Spot Valuation	NZ\$1.21 (from 1.15)	NPAT* (NZ\$m)	(7.9)	(4.0)	0.6	5.6	EV/EBIT	n/a	n/a	n/a	18.7
Risk rating	High	EPS* (NZc)	(4.9)	(2.5)	0.4	3.5	EV/EBITDA	n/a	n/a	17.1	8.5
Issued shares	160.0m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	5.4	7.6	7.8	6.0
Market cap	NZ\$114m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	58.1k (NZ\$51k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

The fall in transaction volumes was anticipated, but more than we expected

The temporary slowdown in transaction revenue in 1Q24 was not unexpected, given commentary provided by IKE at its FY23 result that 1Q24 could track behind the run rate seen in 4Q23. We note 1Q24 weakness should be viewed in the context of the +193% year-over-year lift in transactional revenues during FY23. The fall in transaction activity relates to two of IKE's larger customers delaying fibre network deployment due to "the engineering practices of an underlying utility" in one of the locations where these networks are being built. We estimate these two customers accounted for a large proportion, if not all, of the -NZ\$2.3m decline in transactional revenue from 4Q23 to 1Q24, highlighting customer concentration. IKE has signalled that the issue with these customers has been resolved, and we anticipate transactions will recommence with these customers shortly, however, with some drag on the 2Q23 result.

FY24 outlook remains robust – with a number of promising dynamics at play

Despite the temporary downturn in transaction revenue in 1Q24, the outlook for the remainder of FY24 remains robust. To date, IKE has seen no economy-led weakness in fibre network deployment or electricity network hardening work undertaken. IKE expects transaction activity to rebound strongly into the second half of the year as it has streamlined processes with its two largest customers. Further, IKE's subscription business is exhibiting strong momentum. IKE added 15 new enterprise customers in 1Q24, which would equate to +16% annual customer growth if this rate holds. The company has also begun to roll out its next-generation PoleForeman product within its Structural business segment. The new PoleForeman product runs on a "per-seat" subscription model that IKE expects could "generate more than five times the level of subscription revenue per annum per customer... vs the legacy solution". We also consider it possible for IKE's partnership with one of the largest data companies in the world to contribute revenues before the end of FY24, after two and a half years of co-development on AI driven automation.

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

Priced as at 26 Jul 2023	0.71
52 week high / low	1.01 / 0.71
Market capitalisation (NZ\$m)	113.6

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	1.21
EV/sales relative	1.20

DCF valuation summary

Total firm value	179.1
(Net debt)/cash	18.0
Less: Capitalised operating leases	-3.3
Value of equity	193.8

Valuation Ratios	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	6.0	3.0	2.5	2.1	1.7
EV/EBITDA (x)	n/a	n/a	>100x	17.1	8.5
EV/EBIT (x)	n/a	n/a	n/a	>100x	18.7
PE (x)	n/a	n/a	n/a	>100x	20.4
Price/NTA (x)	4.5	5.4	7.6	7.8	6.0
Free cash flow yield (%)	-9.2	-6.9	-5.2	-2.7	1.6
Adj. free cash flow yield (%)	-6.1	-2.4	0.5	4.0	9.0
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

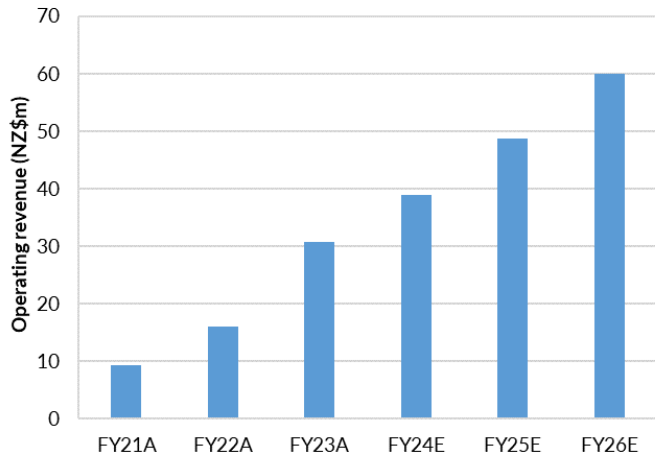
Operating Performance	2022A	2023A	2024E	2025E	2026E
Sale of products revenue (\$m)	6.4	6.5	6.7	7.1	7.4
IKE Platform revenue (\$m)	8.1	22.1	29.3	38.1	47.7
IKE Structural revenue (\$m)	1.1	1.8	2.4	3.2	4.5
Spike revenue (\$m)	0.4	0.4	0.4	0.4	0.3
Other revenues (\$m)	0.1	0.3	0.1	0.1	0.1
Total Revenues (\$m)	16.0	31.1	38.9	48.8	60.1

Sale of products % of revenues	40.2	21.0	17.3	14.5	12.3
IKE Platform % of revenues	50.5	71.9	75.6	78.2	79.5
IKE Structural % of revenues	7.0	6.0	6.2	6.6	7.6
Spike % 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

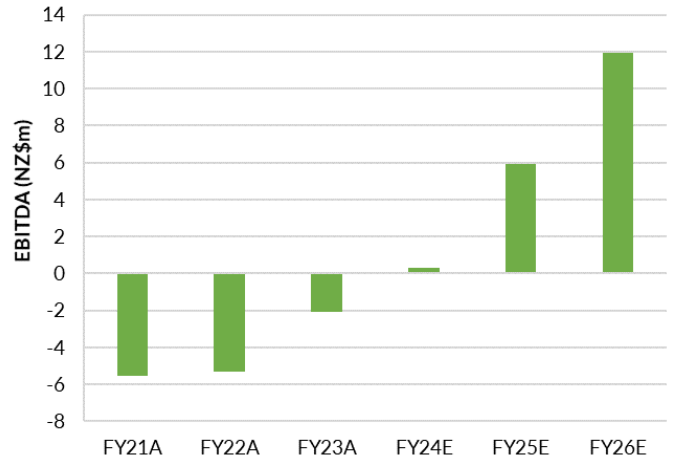
Supplementary information

Figure 1. IKE – Operating revenues (NZ\$m)



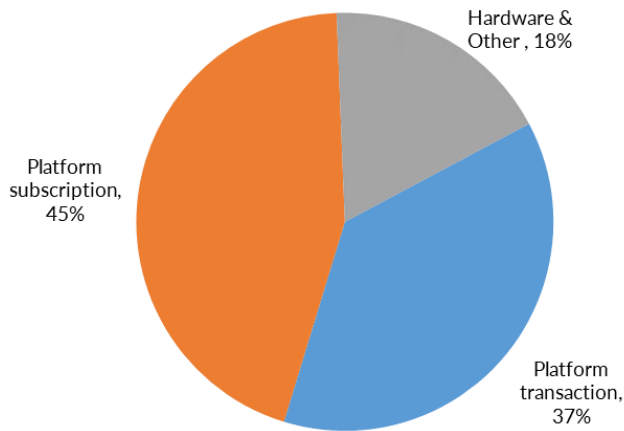
Source: Company, Forsyth Barr analysis

Figure 2. IKE – EBITDA (NZ\$m)



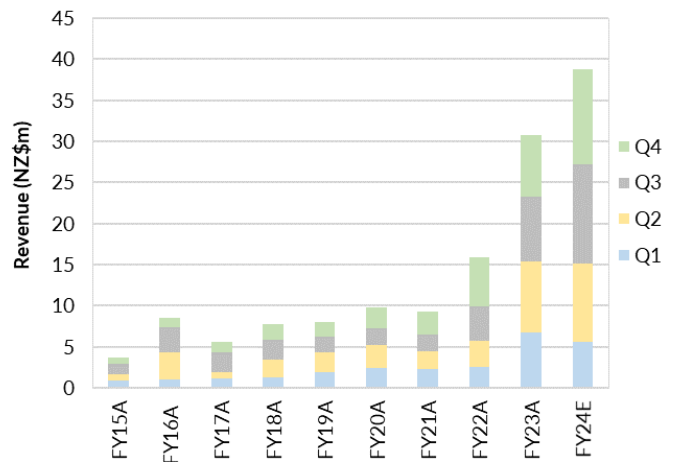
Source: Company, Forsyth Barr analysis

Figure 3. IKE – Revenue breakdown by segment in 1Q24



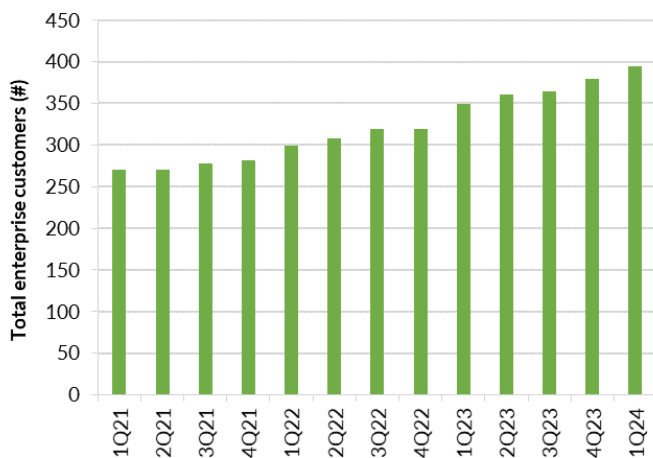
Source: Company, Forsyth Barr analysis

Figure 4. IKE – Quarterly revenues



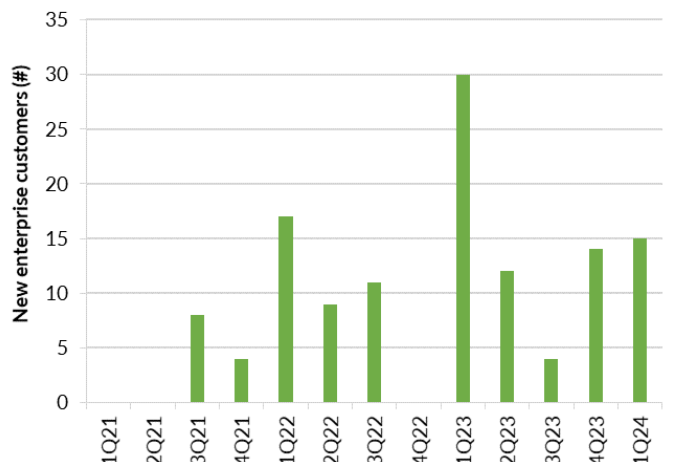
Source: Company, Forsyth Barr analysis

Figure 5. IKE – Number of total enterprise customers



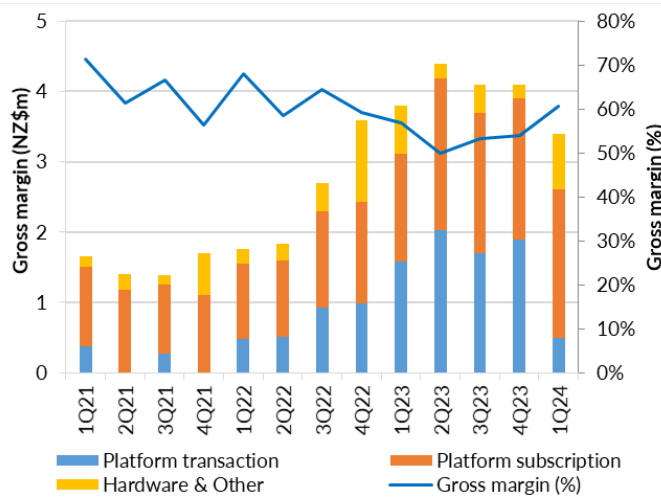
Source: Company, Forsyth Barr analysis

Figure 6. IKE – new enterprise customers by quarter



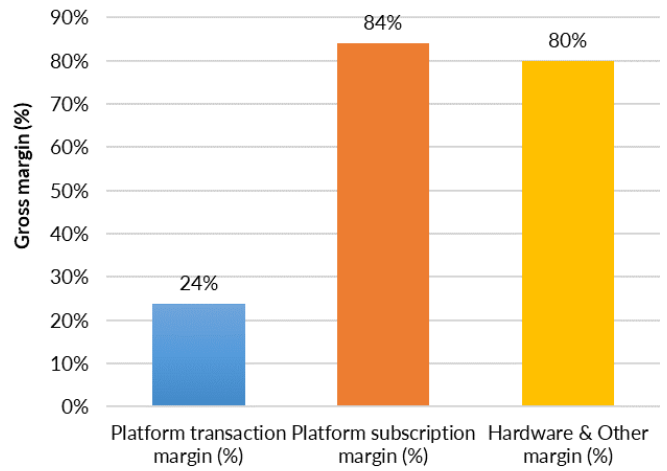
Source: Company, Forsyth Barr analysis

Figure 7. IKE – Quarterly gross margin by segment and margin



Source: Company, Forsyth Barr analysis

Figure 8. IKE – Gross margin by segment 1Q24 (%)



Source: Company, Forsyth Barr analysis

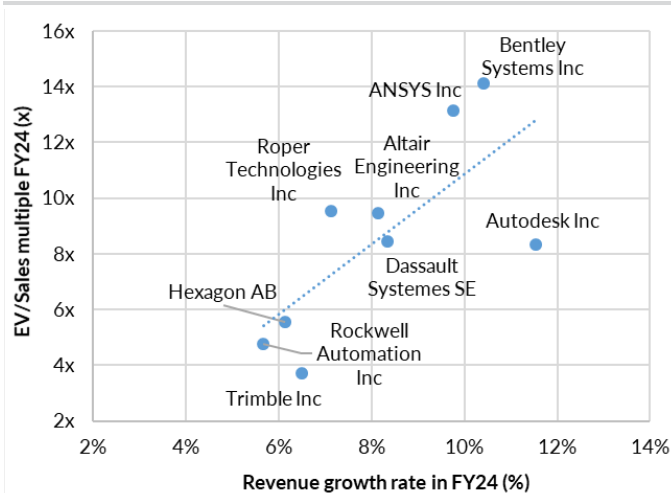
Valuation metrics

Figure 9. 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	\$9,545	74%	5%	32%	48.1x	9.5x	8%
BSY.O	Bentley Systems Inc	USA	\$25,348	75%	25%	23%	43.2x	14.1x	14%
HEXAB.ST	Hexagon AB	Sweden	\$46,777	65%	37%	6%	14.4x	5.4x	19%
TRMB.O	Trimble Inc	USA	\$21,429	56%	20%	15%	15.0x	3.7x	0%
ADSK.OQ	Autodesk Inc	USA	\$72,408	90%	24%	24%	22.1x	8.3x	16%
ANSS.O	ANSYS Inc	USA	\$47,944	87%	35%	21%	28.4x	13.2x	8%
DAST.PA	Dassault Systemes SE	France	\$90,661	77%	34%	20%	22.8x	8.4x	9%
ROK	Rockwell Automation Inc	USA	\$62,394	40%	20%	6%	21.3x	4.8x	11%
ROP	Roper Technologies Inc	USA	\$84,705	70%	40%	10%	23.9x	9.5x	11%
Average of all comps				70%	27%	17%	26.6x	8.5x	11%
IKE.NZ	Ikegps Group Ltd	NZ	\$114	53%	-26%	37%		2.5x	93%

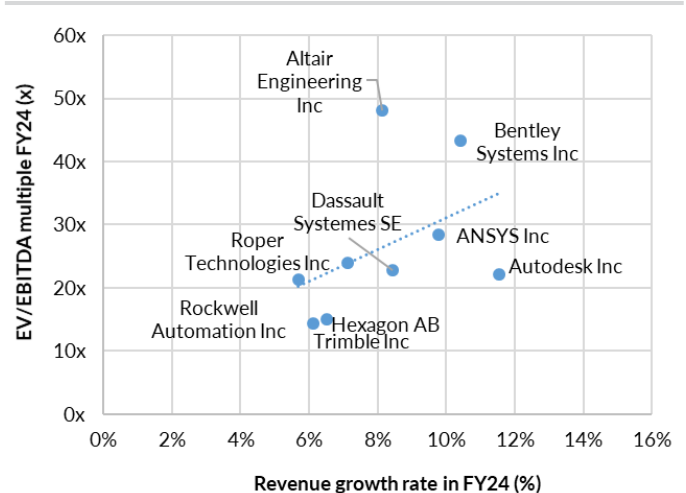
Source: Refinitiv, Forsyth Barr analysis

Figure 10. Sector – EV/Sales multiple (x) vs Revenue growth (%)



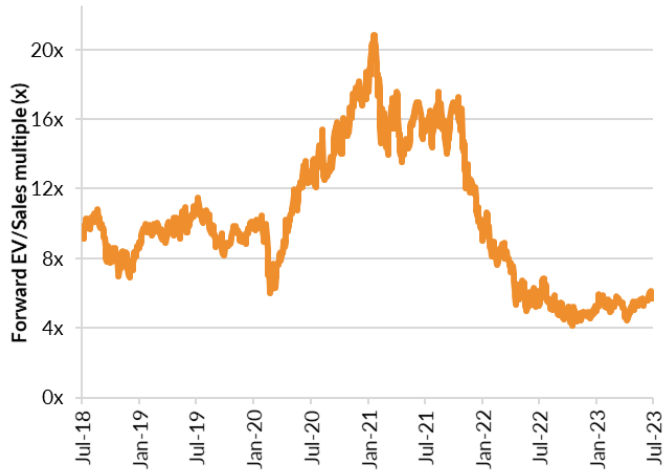
Source: Refinitiv, Forsyth Barr analysis

Figure 11. Sector – EV/EBITDA multiple (x) vs Revenue growth



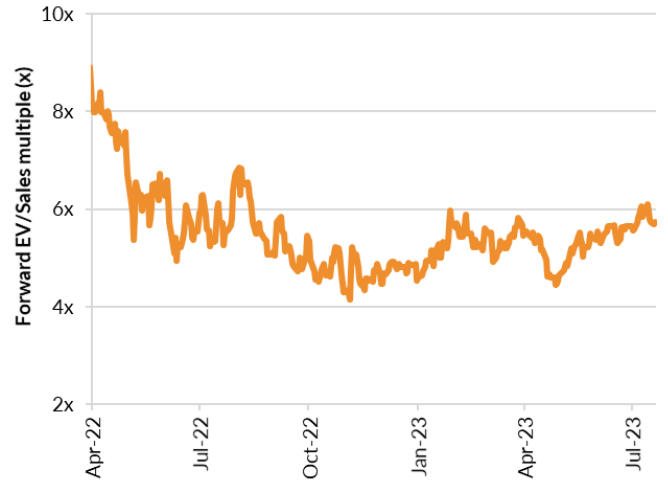
Source: Refinitiv, Forsyth Barr analysis

Figure 12. Nasdaq emerging cloud index (EV/Sales multiple)

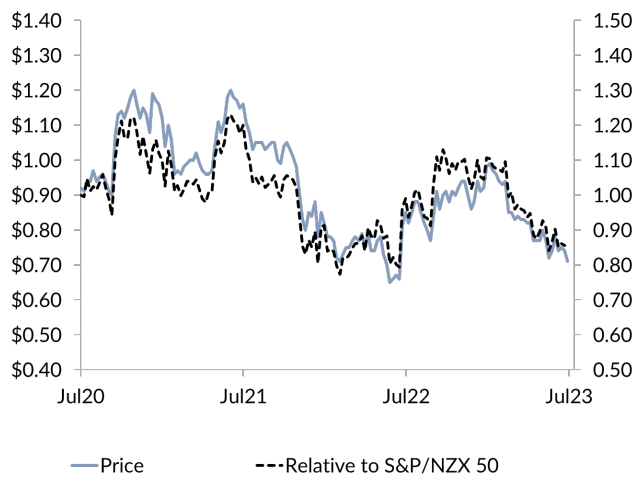


Source: Refinitiv, Forsyth Barr analysis

Figure 13. Nasdaq emerging cloud index (EV/Sales multiple)



Source: Refinitiv, Forsyth Barr analysis

Figure 14. Price performance


Source: Forsyth Barr analysis

Figure 15. 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 16. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2025E
				2024E	2025E	2024E	2025E	2024E	2025E	
(metrics re-weighted to reflect IKE's balance date - March)										
ikeGPS	IKE NZ	NZ\$0.71	NZ\$114	<0x	>75x	>75x	17.1x	<0x	>75x	0.0%
Autodesk Inc	ADSK US	US\$201.57	US\$43,081	27.1x	23.6x	21.0x	18.4x	22.0x	19.1x	0.0%
Altair Engineering Inc - A	ALTR US	US\$71.79	US\$5,794	66.5x	58.6x	44.7x	39.6x	48.4x	41.0x	n/a
Ansys Inc	ANSS US	US\$320.17	US\$27,746	36.1x	32.2x	26.8x	24.3x	28.9x	26.1x	0.0%
Bentley Systems Inc-Class B	BSY US	US\$51.47	US\$16,648	57.5x	49.1x	43.2x	38.0x	45.1x	40.4x	0.2%
Dassault Systemes Se	DSY FP	€39.06	€52,339	32.4x	29.6x	24.0x	21.7x	26.1x	23.6x	0.7%
Hexagon Ab-B Shs	HEXAB SS	€124.80	€337,644	>75x	>50x	>75x	>75x	>75x	>75x	0.1%
Rockwell Automation Inc	ROK US	US\$325.38	US\$37,378	25.9x	23.9x	20.1x	19.0x	22.0x	20.4x	1.6%
Roper Technologies Inc	ROP US	US\$476.41	US\$50,782	28.9x	27.1x	22.8x	21.3x	32.4x	29.4x	0.6%
Trimble Inc	TRMB US	US\$52.07	US\$12,900	19.6x	17.7x	14.0x	12.7x	15.1x	13.5x	n/a
Compco Average:				36.7x	32.7x	27.1x	24.4x	30.0x	26.7x	0.5%
EV = Mkt cap+net debt+lease liabilities+min interests-investments				IKE Relative:		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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