

ikeGPS

FY24 Result Held Back, On Pole for FY25

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ikeGPS (IKE) reported a soft FY24 result, which was well signalled to the market. Revenue fell -31% from FY23 due to a major slowdown in Transactions, and operating expenses were elevated relative to our expectations despite cost out initiatives implemented in 2H24. While disappointing, FY25 should be a significantly improved period for IKE. Management has guided to >50% Subscriptions revenue growth in FY25, led by customer wins and the successful launch of IKE's next-generation PoleForeman software. Additionally, it appears the outlook for Transactions has improved, with IKE cautiously optimistic it will return to growth. IKE is well positioned for the future with: (1) a new base from which it can generate sustainable revenue growth, (2) improved business quality due to the shift in the product mix towards higher margin and more predictable Subscriptions revenues, and (3) supportive industry dynamics. On our revised forecasts, we expect IKE to achieve its cash flow breakeven goal without needing external capital. Our blended spot valuation rises +5% to NZ\$0.83.

NZX Code	IKE	Financials: Mar/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	NZ\$0.45	Rev (NZ\$m)	21.5	28.4	35.6	43.9	PE	n/a	n/a	n/a	37.9
Spot Valuation	NZ\$0.83 (from 0.79)	NPAT* (NZ\$m)	(15.0)	(8.8)	(3.9)	1.9	EV/EBIT	n/a	n/a	n/a	34.7
Risk rating	High	EPS* (NZc)	(9.4)	(5.5)	(2.4)	1.2	EV/EBITDA	n/a	n/a	60.5	9.2
Issued shares	160.0m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	9.7	48.6	n/a	n/a
Market cap	NZ\$71.2m	Imputation (%)	100	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	21.7k (NZ\$12k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Earnings:** Our operating EBITDA estimates fall by -NZ\$2.4m, -NZ\$4.0m and -NZ\$4.4m in FY25, FY26 and FY27 respectively.
- **Blended spot valuation:** Our blended spot valuation rises +4cps to NZ\$0.83, as gross margins improve medium term.

Revenue, as expected, fell significantly due to Transactions weakness

Total revenue fell -31% to NZ\$21.1m in FY24, but this followed the +93% increase seen in FY23. Transactions revenue drove the decline, dropping -61% to NZ\$7.3m as volumes from several key customers paused. Transactions revenue had ballooned +191% in FY23 due to outsized activity from these customers. While Transaction revenue appears suppressed relative to FY23, the overall trend remains constructive, with a +45% revenue CAGR since FY21. Subscriptions revenue grew by a solid +21% in FY24. Group margins expanded due to the product mix as the quality of revenues improves with higher Subscription revenues.

Operating expenses above our estimates

Total operating expenses of NZ\$28.7m in FY24 exceeded our forecast of NZ\$25.0m due to elevated sales and marketing costs, and heavy ongoing investment into R&D. We had expected some reduction from the cost-down programme IKE announced in 1H24, which included reducing staff in back office and service positions, as well as reducing contractor costs. While these cost savings were not immediately apparent in the FY24 result, the delayed impact may materialise in the FY25 results.

Outlook positive and our confidence in the revenue outlook grows

Despite depressed total revenue in FY24, the outlook for IKE has turned positive. Management has guided towards >+50% Subscription revenue growth in FY25 due to the ongoing success and growth prospects of its core subscription-based products: IKE Office Pro and IKE PoleForeman. Transaction revenue is also expected to grow, albeit with a wider range of potential growth outcomes. We are confident that the sales cycle is now turning positive and IKE can return to growth in FY25.

ikeGPS Group (IKE)

Market Data (NZ\$)						Spot valuation (NZ\$)					0.83
Priced as at 30 May 2024					0.45	DCF					0.81
52 week high / low					0.82 / 0.40	EV/Sales relative					0.84
Market capitalisation (NZ\$m)					72.0						
Key WACC assumptions						DCF valuation summary					
Risk free rate					5.00%	Total firm value					123.2
Equity beta					1.30	(Net debt)/cash					10.2
WACC					11.5%	Less: Capitalised operating leases					-3.0
Terminal growth					2.0%	Value of equity					130.4
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Revenue	2023A	2024A	2025E	2026E	2027E	2023A	2024A	2025E	2026E	2027E	
Revenue	31.1	21.5	28.4	35.6	43.9	EV/Sales (x)	1.7	2.8	2.4	2.0	1.6
Normalised EBITDA	(2.1)	(10.7)	(4.3)	1.1	7.4	EV/EBITDA (x)	n/a	n/a	n/a	61.2	9.4
Depreciation and amortisation	(3.6)	(4.6)	(4.6)	(5.0)	(5.4)	EV/EBIT (x)	n/a	n/a	n/a	n/a	35.1
Normalised EBIT	(7.8)	(15.2)	(8.9)	(3.9)	2.0	PE (x)	n/a	n/a	n/a	n/a	38.3
Net interest	(0.1)	0.2	0.1	(0.0)	(0.1)	Price/NTA (x)	3.5	9.8	49.1	n/a	98.7
Associate income	0	0	0	0	0	Free cash flow yield (%)	-10.9	-12.2	-9.4	-4.0	0.7
Tax	0.0	0	0	0	0	Adj. free cash flow yield (%)	-3.7	-6.9	-3.9	1.7	6.6
Minority interests	0	0	0	0	0	Gross dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Normalised NPAT	(7.9)	(15.0)	(8.8)	(3.9)	1.9	Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Abnormals/other	0	0	0	0	0						
Reported NPAT	(7.9)	(15.0)	(8.8)	(3.9)	1.9	Capital Structure					
Normalised EPS (cps)	(4.9)	(9.4)	(5.5)	(2.4)	1.2	2023A	2024A	2025E	2026E	2027E	
DPS (cps)	0	0	0	0	0	Interest cover EBIT (x)	n/a	76.6	99.7	n/a	24.3
						Interest cover EBITDA (x)	n/a	53.7	48.2	41.2	91.2
						Net debt/ND+E (%)	-113.5	-100.6	-39.4	-22.2	-28.0
						Net debt/EBITDA (x)	8.6	1.0	0.9	n/a	n/a
Growth Rates						Key Ratios					
2023A	2024A	2025E	2026E	2027E		2023A	2024A	2025E	2026E	2027E	
Revenue (%)	93.9	-30.7	31.7	25.6	23.4	Return on assets (%)	-17.9	-42.2	-32.6	-16.3	7.5
EBITDA (%)	n/a	n/a	n/a	n/a	>100	Return on equity (%)	-23.2	-73.7	-62.4	-43.1	15.5
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 (%)	-6.8	-49.6	-15.2	3.2	16.8
Normalised EPS (%)	n/a	n/a	n/a	n/a	n/a	EBIT margin (%)	-25.0	-70.8	-31.5	-10.9	4.5
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a	Capex to sales (%)	16.5	17.8	13.8	11.5	9.7
						Capex to depreciation (%)	378	248	229	216	206
						Imputation (%)	0	100	0	0	0
						Pay-out ratio (%)	0	0	0	0	0
Cash Flow (NZ\$m)						Operating Performance					
2023A	2024A	2025E	2026E	2027E		2023A	2024A	2025E	2026E	2027E	
EBITDA	(2.1)	(10.7)	(4.3)	1.1	7.4	Subscriptions revenue	8.8	10.7	17.0	23.4	30.6
Working capital change	(1.2)	(0.4)	1.8	0.5	(2.2)	Transactions revenue	18.7	7.3	8.1	9.3	10.7
Interest & tax paid	(0.1)	0.2	0.1	(0.0)	(0.1)	Hardware revenue	3.3	3.1	2.9	2.6	2.3
Other	0.9	6.2	0	0	0	Total Revenues	30.8	21.1	28.0	35.3	43.6
Operating cash flow	(2.5)	(4.6)	(2.5)	1.6	5.1	Subscriptions gross profit	7.7	9.2	14.8	20.4	26.8
Capital expenditure	(5.1)	(3.8)	(3.9)	(4.1)	(4.3)	Transactions gross profit	7.2	1.8	2.8	3.3	3.9
(Acquisitions)/divestments	0	0	0	0	0	Hardware gross profit	1.4	1.7	1.6	1.5	1.4
Other	0.1	0.2	0.2	0.1	0.1	Total gross profit	16.3	12.7	19.3	25.2	32.1
Funding available/(required)	(7.5)	(8.3)	(6.2)	(2.4)	1.0	Subscriptions gross margin (%)	87.5	86.1	87.1	87.3	87.6
Dividends paid	0	0	0	0	0	Transactions gross margin (%)	38.4	23.9	35.0	36.0	37.0
Equity raised/(returned)	0	0	0	0	0	Hardware gross margin (%)	43.9	56.0	56.0	57.0	58.0
(Increase)/decrease in net debt	(7.5)	(8.3)	(6.2)	(2.4)	1.0	Total gross margin (%)	53.1	60.1	68.8	71.6	73.6
Balance Sheet (NZ\$m)											
2023A	2024A	2025E	2026E	2027E							
Working capital	5.4	5.8	4.0	3.5	5.7						
Fixed assets	2.8	2.9	2.9	2.8	2.7						
Intangibles	13.1	13.1	12.7	12.1	11.4						
Right of use asset	0	1.2	1.0	0.8	0.8						
Other assets	1.6	1.7	0.9	0.9	0.9						
Total funds employed	22.9	24.6	21.5	20.2	21.6						
Net debt/(cash)	(18.0)	(10.2)	(4.0)	(1.6)	(2.7)						
Lease liability	0	1.0	1.0	0.8	0.8						
Other liabilities	7.0	13.4	10.3	12.0	11.2						
Shareholder's funds	33.9	20.4	14.2	9.1	12.2						
Minority interests	0	0	0	0	0						
Total funding sources	22.9	24.6	21.5	20.2	21.6						

* 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

FY24 results summary

IKE reported a weak FY24 result. Total revenue fell -31% versus FY23 to NZ\$21.1m, with Subscriptions revenue growth of +21% unable to offset a significant -61% decline in Transactions revenue. The decline in gross profit (-21%) was less pronounced, as the shift in the product mix towards higher-margin Subscription revenue resulted in gross margin expansion from ~53% in FY23 to ~60% in FY24. However, operating expenses were elevated relative to our expectations. This was despite the cost-down programme implemented in 2H24, where IKE expected to drive ~NZ\$4m of annual cost savings. This saw NPAT losses expand by more than anticipated to NZ\$15.0m.

Key points:

- **Subscriptions:** Revenue growth has been driven by the ongoing growth of the IKE Office Pro subscription product, which has seen a >30% sales CAGR and ~95% customer retention over the past three years. Additionally, IKE's next-generation PoleForeman product has brought in over NZ\$12m of total contract value (TCV) since its launch in 3Q24.
- **Transactions:** Management attributed the fall in FY24 revenue to outsized activity from certain customers in FY23, which caused revenue to balloon +191% in that period. Transaction revenue has grown at ~+45% CAGR over the past three years and was still +15% ahead of FY22 in FY24.
- **Hardware:** Revenue declined by -27%, driven by a -21% fall in hardware sales and partially offset by an +80% increase in other service revenue.
- **Operating expenses:** Operating expenses came in at NZ\$27.8m, +NZ\$0.7m higher than FY23 and +15% above our forecast. Sales and marketing expenses increased by +26%, research and engineering expenses fell by 10%, and other operating expenses rose by +22%.

Figure 1. FY24 results summary (NZ\$m)

	FY23 Actual	FY24 Actual	Change
Operating revenues	30.8	21.1	-31%
Cost of sales	(14.4)	(8.4)	-42%
Gross profit	16.3	12.7	-22%
Other income	3.9	0.8	-80%
'Support costs'/Other operating expenses	(1.1)	(1.3)	+22%
Sales & marketing expenses	(8.1)	(10.2)	+26%
Research & engineering expenses	(11.4)	(10.3)	-10%
'Corporate Costs'/General & Admin expenses	(7.4)	(6.9)	-7%
Total operating expenses	(28.0)	(28.7)	+3%
Operating profit (loss)	(7.8)	(15.2)	(0.2)
Finance costs	(0.1)	0.2	n/a
Profit before income tax	(7.9)	(15.0)	n/a
Income tax	(0.0)	-	n/a
Net Profit (Loss) for the Year	(7.9)	(15.0)	n/a
Basic and diluted loss per share	(5.0)	(9.2)	n/a

Source: Company, Forsyth Barr analysis

Earnings revisions

IKE's operating expenses were significantly higher than we had anticipated in FY24, with sales and marketing costs in particular surprising to the upside. We adjust our estimates accordingly, with total operating expenses increasing by >20% across FY25, FY26 and FY27. Partially offsetting these impacts, we now have improved visibility into the growth drivers of IKE's revenue in the near term, and we assume a stronger top-line in FY26 and FY27. IKE disclosed revenue from IKE PoleForeman and IKE Insight in FY24. We expect PoleForeman and Insight to drive significant growth for IKE's Subscription segment, alongside the continued growth of its core IKE Office Pro product. IKE has also changed its segment reporting, providing increased clarity around gross margins. As a result, our gross margin profile improves materially over our medium-term forecast horizon. Nevertheless, our operating EBITDA estimates fall by -NZ\$2.4m, -NZ\$4.0m and -NZ\$4.4m in FY25, FY26 and FY27 respectively.

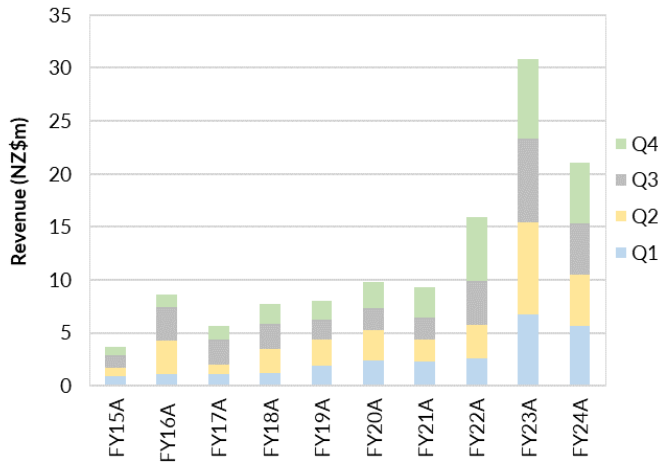
We continue to believe that IKE has sufficient capital on hand (sitting on NZ\$10.2m cash, with no debt) to get to cash flow breakeven. Our forecasts assume IKE reaches breakeven at the EBITDA line in FY26 and at the NPAT line in FY27.

Figure 2. Earnings revisions

	FY25			FY26			FY27		
	Old	New	Change	Old	New	Change	Old	New	Change
Operating Revenue	28.4	28.0	-1%	34.8	35.3	+1%	42.2	43.6	+3%
Cost of sales	(9.3)	(8.7)	-6%	(10.5)	(10.0)	-5%	(12.4)	(11.5)	-7%
Gross profit	19.1	19.3	+1%	24.3	25.2	+4%	29.8	32.1	+8%
Total other income	0.1	0.4	n/a	0.1	0.4	n/a	0.1	0.4	n/a
'Support costs'/Other operating expenses	(1.2)	(1.4)	+17%	(1.2)	(1.4)	+17%	(1.3)	(1.5)	+17%
Sales & marketing expenses	(7.1)	(10.9)	+54%	(7.3)	(11.5)	+57%	(7.2)	(12.0)	+67%
Research & engineering expenses	(9.1)	(10.1)	+11%	(9.1)	(10.2)	+13%	(8.4)	(10.5)	+24%
'Corporate Costs'/General & Admin expenses	(6.6)	(6.2)	-7%	(6.8)	(6.4)	-7%	(7.1)	(6.6)	-7%
Total operating expenses	(23.9)	(28.6)	+20%	(24.3)	(29.5)	+21%	(23.8)	(30.5)	+28%
Operating profit (loss)	(4.8)	(9.3)	n/a	(0.1)	(4.2)	n/a	6.0	1.6	n/a
Finance costs	0.2	0.1	n/a	0.1	(0.0)	n/a	0.1	(0.1)	n/a
Profit (loss) before income tax	(4.7)	(8.8)	n/a	0.0	(3.9)	n/a	6.1	1.9	n/a
Income tax	0.0	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a
Net Profit (Loss) for the Year	(4.7)	(8.8)	n/a	0.0	(3.9)	n/a	6.1	1.9	n/a
Operating EBITDA (\$m)	(1.9)	(4.3)	n/a	5.1	1.1	n/a	11.8	7.4	n/a

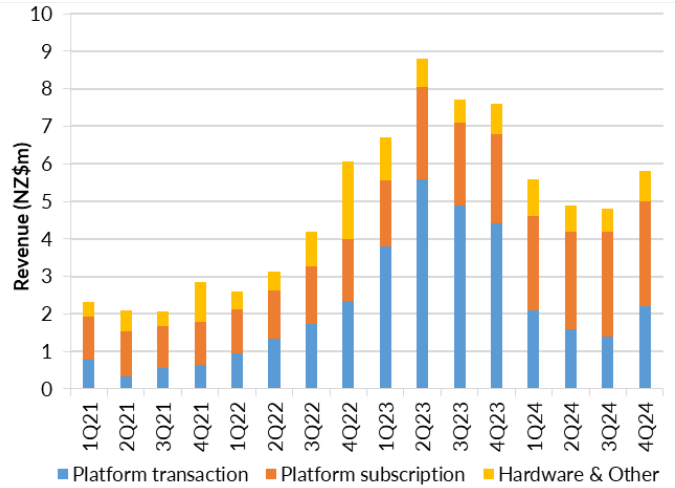
Source: Forsyth Barr analysis

Figure 3. IKE – quarterly revenues



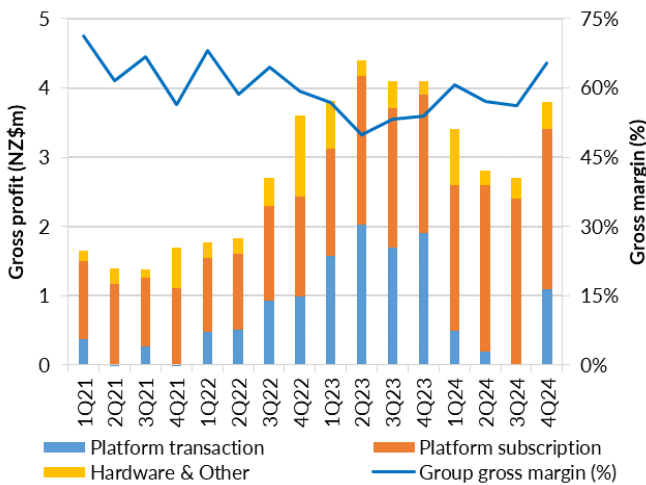
Source: Company, Forsyth Barr analysis

Figure 4. IKE – quarterly revenue by segment



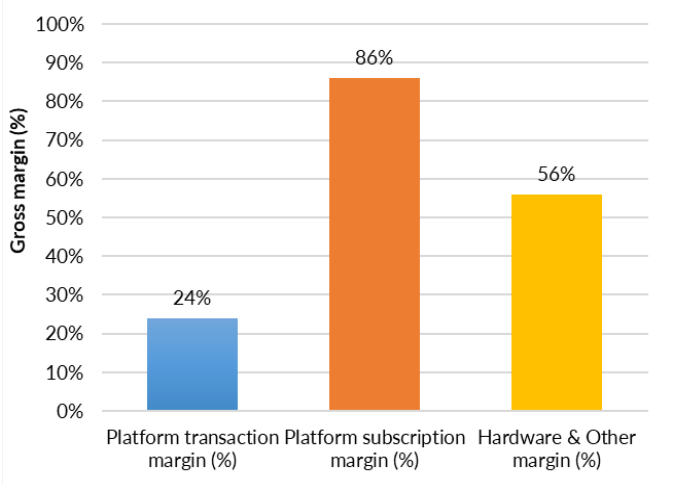
Source: Company, Forsyth Barr analysis

Figure 5. IKE – quarterly gross profit by segment



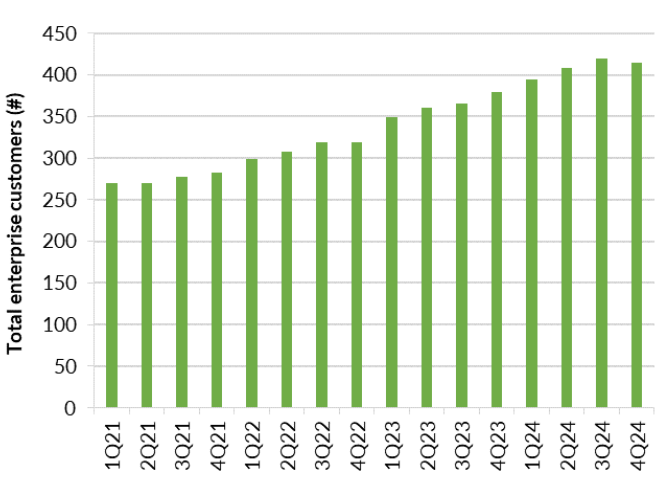
Source: Company, Forsyth Barr analysis

Figure 6. IKE – gross margin by segment FY24 (%)



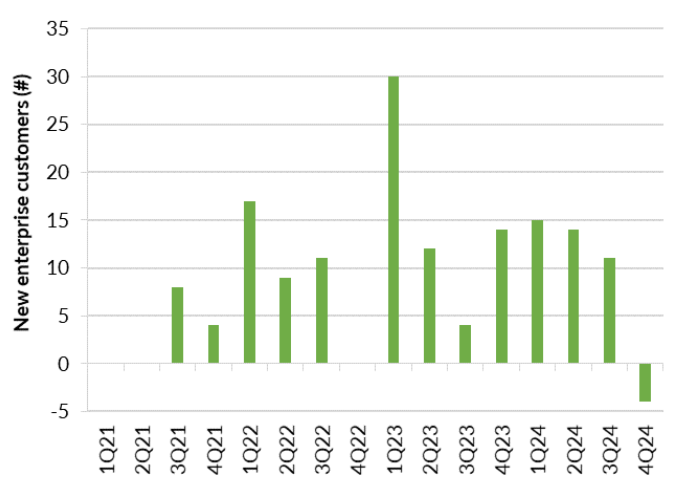
Source: Company, Forsyth Barr analysis

Figure 7. IKE – total enterprise customers by quarter



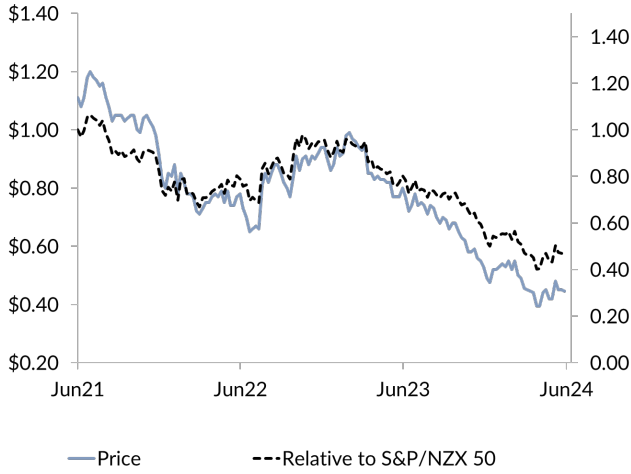
Source: Company, Forsyth Barr analysis

Figure 8. IKE – net enterprise customer growth by quarter



Source: Company, 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%

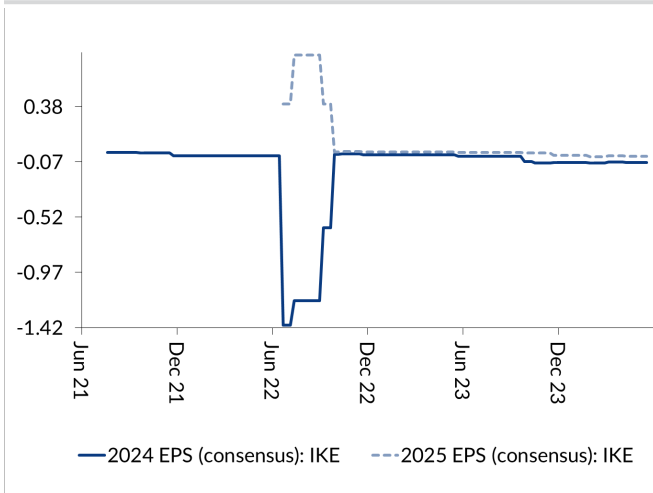
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 11. International valuation comparisons

Company (metrics re-weighted to reflect IKE's balance date - March)	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2026E	
				2025E	2026E	2025E	2026E	2025E	2026E		
ikeGPS	IKE NZ	NZ\$0.45	NZ\$71	<0x	<0x	<0x	60.5x	<0x	<0x	0.0%	
Autodesk Inc	ADSK US	US\$214.89	US\$45,968	26.2x	23.2x	22.0x	19.3x	21.4x	19.8x	0.0%	
Altair Engineering Inc - A	ALTR US	US\$92.90	US\$7,714	72.4x	64.6x	50.4x	42.4x	52.4x	43.5x	n/a	
Ansys Inc	ANSS US	US\$331.11	US\$28,906	34.3x	30.8x	26.5x	24.1x	27.4x	24.7x	0.0%	
Bentley Systems Inc-Class B	BSY US	US\$53.29	US\$17,590	49.6x	43.7x	38.8x	34.1x	40.3x	35.1x	0.5%	
Dassault Systemes Se	DSY FP	€38.88	€52,050	29.0x	26.4x	21.7x	19.7x	24.2x	23.2x	0.8%	
Hexagon Ab-B Shs	HEXAB SS	€117.65	€318,299	>75x	>50x	>75x	>75x	>75x	>75x	0.2%	
Rockwell Automation Inc	ROK US	US\$264.18	US\$30,117	24.0x	20.8x	17.7x	16.1x	19.5x	18.0x	2.0%	
Roper Technologies Inc	ROP US	US\$544.66	US\$58,303	29.3x	26.6x	23.1x	21.1x	32.2x	28.9x	0.6%	
Trimble Inc	TRMB US	US\$56.80	US\$13,871	20.3x	18.0x	17.3x	16.2x	18.7x	17.6x	n/a	
Compcpo Average:				35.6x	31.8x	27.2x	24.1x	29.5x	26.3x	0.6%	
EV = Mkt cap+net debt+lease liabilities+min interests-investments				IKE Relative:		n/a	n/a	151%	n/a	n/a	-100%

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

Figure 12. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

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