

ikeGPS

Key Customer Transactional Delays Continue

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 trading update as part of its 2023 ASM, guiding 1H24 revenue lower than the NZ\$15.4m reported in 1H23 and beneath analyst expectations. While declining revenues in 1H24 are consistent with our expectations, the latter part of this commentary suggests downside to our prior 1H24 revenue forecasts. The revenue slowdown is driven by suppressed activity on the transactions side of IKE's business due to "timing delays of engineering programs across three of IKE's largest national infrastructure customers". IKE attributed the -25% sequential fall in 1Q24 revenues to similar delays at its trading update on 26 July 2023. While IKE will provide more on 1H24 at the end of October 2023, we take this opportunity to reduce our FY24 revenue estimate given the 1H24 weakness and the likelihood these customers also impact on 3Q24. We retain our FY25 and FY26 forecasts as the medium-term growth outlook remains positive, with upbeat ASM commentary and confirmation of the relationship with Google for IKE Insight AI data analytics. Our blended spot valuation falls -13% to NZ\$1.05, driven mainly by EV/Sales peer's multiple comparisons.

NZX Code	IKE	Financials: Mar/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$0.68	Rev (NZ\$m)	31.1	28.7	48.8	60.1	PE	n/a	n/a	n/a	20.0
Spot Valuation	NZ\$1.05 (from 1.21)	NPAT* (NZ\$m)	(7.9)	(10.8)	0.4	5.4	EV/EBIT	n/a	n/a	n/a	18.7
Risk rating	High	EPS* (NZc)	(4.9)	(6.7)	0.3	3.4	EV/EBITDA	n/a	n/a	29.7	8.7
Issued shares	160.0m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	5.2	12.1	18.4	11.0
Market cap	NZ\$109m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	51.8k (NZ\$45k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Earnings:** We decrease our FY24 revenue estimate by -26%, flowing through to NPAT loss increasing from -NZ\$4m to -NZ\$10.8m.
- **Spot valuation:** Our blended spot valuation falls by -NZ16 cps to NZ\$1.05.

Large customer delays extend into 2Q24 and 3Q24

IKE's 1Q24 trading update released in July 2023 showed total revenues fell to NZ\$5.6m or down -25% versus 4Q23 and -16% versus 1Q23 – driven by a steep decline in transactions revenue, falling -52% and -45% versus 4Q23 and 1Q23 respectively. IKE's CEO said this was due to "a temporary and well signalled slow down in transaction revenue... due to an underlying utility where two larger IKE customers are building fibre networks". This ASM update is, therefore, disappointing because three customers are now experiencing weakness and the company had previously indicated a solution had been found. Continued delays add uncertainty to 2H24. The company reiterated that these are customer delays rather than losses and that IKE still expects solid revenue contributions from these customers in future periods. We cut our FY24 numbers by assuming both 2Q24 and 3Q24 are similarly impacted to 1Q24, meaning our FY24 revenue estimate falls -26% to NZ\$28.6m. Our estimates require strong momentum returning in 4Q24 without further disruption.

Momentum in subscriptions continues

While transaction activity continues to be delayed, IKE's subscription business steadily improves. As announced in July 2023, IKE added +15 new enterprise subscription customers in 1Q24, continuing the strong customer acquisition trends (+60 customers) seen in FY23, with customer numbers now >400. Subscriptions revenue for 1Q24 was NZ\$2.5m, representing +4.2% sequential growth against 4Q23. On 28 August 2023, the company announced it had secured a major subscription contract with a large US infrastructure customer, generating ~NZ\$1.5m in revenue over 18-24 months.

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

Priced as at 29 Sep 2023	0.68
52 week high / low	1.01 / 0.65
Market capitalisation (NZ\$m)	108.8

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	28.7	48.8	60.1
Normalised EBITDA	(5.3)	(2.1)	(6.7)	3.4	11.7
Depreciation and amortisation	(2.5)	(7.0)	(4.4)	(3.1)	(6.3)
Normalised EBIT	(7.8)	(7.8)	(11.1)	0.3	5.4
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
Normalised NPAT	(7.9)	(7.9)	(10.8)	0.4	5.4
Abnormals/other	0	0	0	0	0
Reported NPAT	(7.9)	(7.9)	(10.8)	0.4	5.4
Normalised EPS (cps)	(4.9)	(4.9)	(6.7)	0.3	3.4
DPS (cps)	0	0	0	0	0

Growth Rates	2022A	2023A	2024E	2025E	2026E
Revenue (%)	56.6	93.9	-7.8	70.3	23.1
EBITDA (%)	n/a	n/a	n/a	n/a	>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)	(6.7)	3.4	11.7
Working capital change	(1.7)	(1.2)	0.2	(1.5)	(2.9)
Interest & tax paid	(0.1)	(0.1)	0.3	0.1	(0.0)
Other	0.5	0.9	0	0	0
Operating cash flow	(6.6)	(2.5)	(6.1)	2.1	8.8
Capital expenditure	(3.6)	(5.1)	(4.8)	(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)	(11.0)	(5.6)	0.3
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)	(11.0)	(5.6)	0.3

Balance Sheet (NZ\$m)	2022A	2023A	2024E	2025E	2026E
Working capital	4.2	5.4	5.2	6.6	9.5
Fixed assets	1.8	2.8	3.1	4.2	5.0
Intangibles	14.1	13.1	13.3	14.6	16.0
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	22.3	26.2	31.2
Net debt/(cash)	(24.4)	(18.0)	(7.0)	(1.4)	(1.7)
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	22.3	20.6	25.9
Minority interests	0	0	0	0	0
Total funding sources	22.1	22.9	22.3	26.2	31.2

* 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	1.10
EV/Sales relative	0.99

DCF valuation summary

Total firm value	171.7
(Net debt)/cash	7.0
Less: Capitalised operating leases	-3.3
Value of equity	175.4

Valuation Ratios	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	5.7	2.8	3.4	2.1	1.7
EV/EBITDA (x)	n/a	n/a	n/a	29.7	8.7
EV/EBIT (x)	n/a	n/a	n/a	>100x	18.7
PE (x)	n/a	n/a	n/a	>100x	20.0
Price/NTA (x)	4.3	5.2	12.1	18.4	11.0
Free cash flow yield (%)	-9.6	-7.2	-10.3	-5.3	0.1
Adj. free cash flow yield (%)	-6.4	-2.5	-5.9	1.7	7.8
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	36.1	n/a	>100x
Interest cover EBITDA (x)	n/a	n/a	21.7	n/a	>100x
Net debt/ND+E (%)	-161.5	-113.5	-45.9	-7.5	-7.0
Net debt/EBITDA (x)	4.6	8.6	1.0	n/a	n/a

Key Ratios	2022A	2023A	2024E	2025E	2026E
Return on assets (%)	-16.1	-17.9	-35.3	1.0	15.2
Return on equity (%)	-19.9	-23.2	-48.3	2.0	21.0
Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	-33.3	-6.8	-23.3	7.0	19.5
EBIT margin (%)	-48.6	-25.0	-38.6	0.6	9.0
Capex to sales (%)	22.3	16.5	16.8	15.5	14.0
Capex to depreciation (%)	360	378	279	9,135	299
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	19.2	38.1	47.8
IKE Structural revenue (\$m)	1.1	1.8	2.3	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	28.7	48.8	60.1
Sale of products % of revenues	40.2	21.0	23.5	14.5	12.3
IKE Platform % of revenues	50.5	71.9	67.2	78.2	79.5
IKE Structural % of revenues	7.0	6.0	8.1	6.6	7.6
Spike % of revenues	2.2	1.2	1.3	0.7	0.6
Sale of products gross margin (%)	72.3	73.4	73.0	73.5	75.0
IKE Platform gross margin (%)	48.8	43.1	41.0	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	53.5	59.9	60.9

Earnings revisions

Following IKE's 1H24 trading update, we reduce our revenue forecasts for FY24 by -26% to NZ\$28.6m, with FY25 and FY26 essentially unchanged. This affects our gross margin assumptions and sees our expected NPAT loss in FY24 expand out from -NZ\$4m to -NZ\$10.8m. On our estimates IKE finishes FY24 with NZ\$7m of cash.

Figure 1. Earnings estimates

	FY24			FY25			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
Operating Revenue	38.8	28.6	-26%	48.8	48.8	+0%	60.0	60.0	+0%
Cost of sales	(16.8)	(13.3)	-21%	(19.4)	(19.5)	+0%	(23.5)	(23.5)	+0%
Gross profit	22.0	15.3	-30%	29.3	29.2	-0%	36.5	36.6	+0%
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)	+0%	(1.2)	(1.2)	+0%	(1.2)	(1.2)	+0%
Sales & marketing expenses	(8.3)	(8.0)	-4%	(9.9)	(9.9)	+0%	(11.1)	(11.1)	+0%
Research & engineering expenses	(9.1)	(9.6)	+5%	(9.8)	(9.8)	+0%	(10.2)	(10.2)	+0%
"Corporate Costs" / General & Admin expenses	(7.7)	(7.7)	+0%	(8.2)	(8.2)	+0%	(8.7)	(8.7)	+0%
Total operating expenses	(26.3)	(26.4)	+0%	(28.9)	(28.9)	+0%	(31.1)	(31.1)	+0%
Finance costs	0.3	0.3	n/a	0.2	0.1	n/a	0.2	0.0	n/a
Profit (loss) before income tax	(4.0)	(10.8)	n/a	0.6	0.4	n/a	5.6	5.5	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	(4.0)	(10.8)	n/a	0.6	0.4	n/a	5.6	5.5	n/a

Source: Forsyth Barr analysis

IKE Insight – partnership with Google

For the first time, IKE publicly announced that it has been working with global technology giant Google for several years to develop its IKE Insight artificial intelligence (AI) product offering. IKE insight utilises Google's street view, drone imagery and other data sources to achieve, "faster network viability assessment and more profitable deployment. Via automated analysis of bulk data for joint-use and overhead network development". The software allows utilities and fibre companies to assess networks at scale by efficiently categorising poles in terms of how challenging it would be to deploy connections onto them.

Figure 2. IKE Insight categorises poles by ease of deployment...



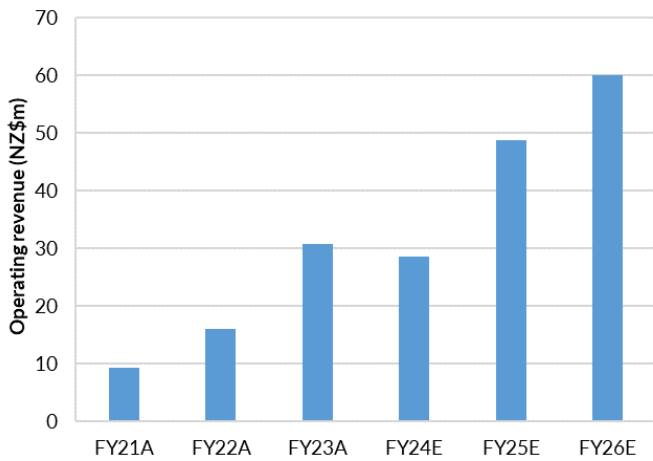
Source: Company, Forsyth Barr analysis

Figure 3. ...and produces a network view of deployment



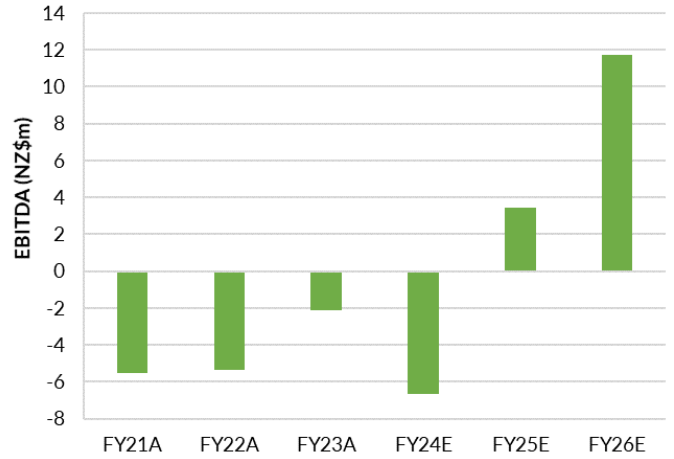
Source: Company, Forsyth Barr analysis

Figure 4. IKE – Operating revenues (NZ\$m)



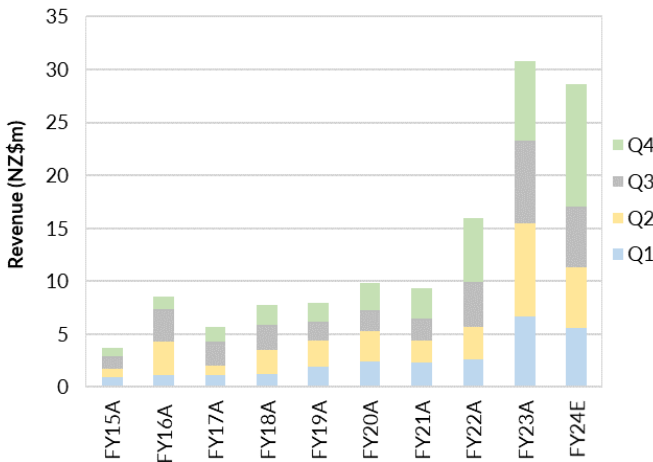
Source: Company, Forsyth Barr analysis

Figure 5. IKE – EBITDA (NZ\$m)



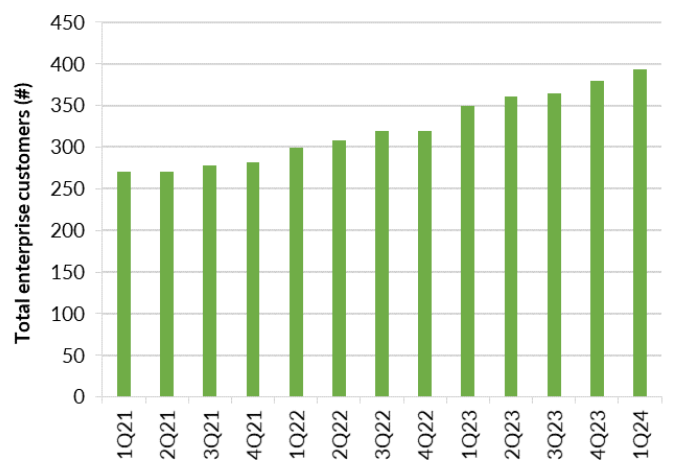
Source: Company, Forsyth Barr analysis

Figure 6. IKE – Reported quarterly revenues and FY24 est.



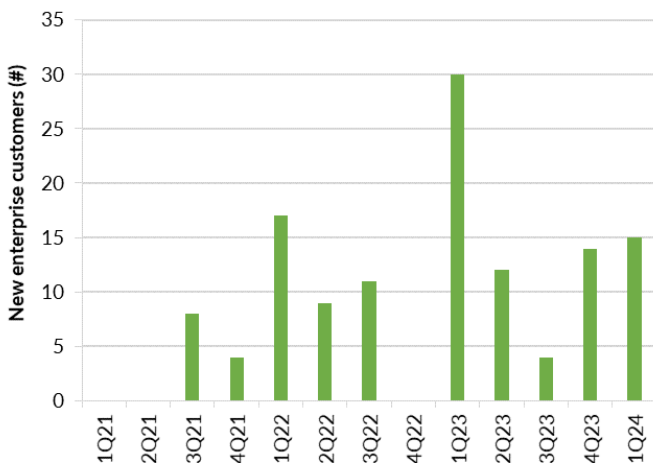
Source: Company, Forsyth Barr analysis

Figure 7. IKE – Total enterprise customers



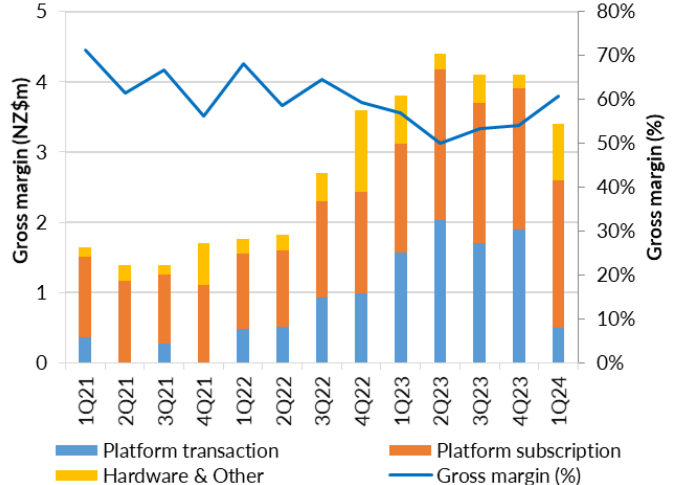
Source: Company, Forsyth Barr analysis

Figure 8. IKE – New enterprise customers by quarter



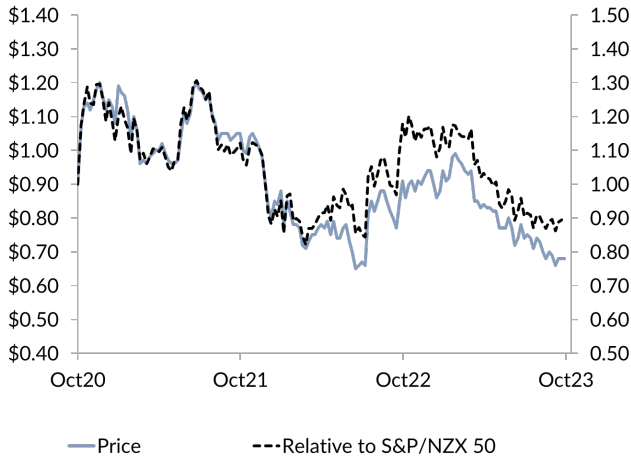
Source: Company, Forsyth Barr analysis

Figure 9. IKE – Quarterly gross margin by segment and margin



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
(metrics re-weighted to reflect IKE's balance date - March)										
				2024E	2025E	2024E	2025E	2024E	2025E	2025E
ikeGPS	IKE NZ	NZ\$0.68	NZ\$109	<0x	>75x	<0x	29.7x	<0x	>75x	0.0%
Autodesk Inc	ADSK US	US\$201.66	US\$43,108	26.5x	23.2x	20.9x	18.5x	21.9x	19.2x	0.0%
Altair Engineering Inc - A	ALTR US	US\$60.72	US\$4,933	56.3x	51.0x	37.6x	31.0x	49.3x	39.8x	n/a
Ansys Inc	ANSS US	US\$295.12	US\$25,614	33.2x	29.6x	25.3x	22.4x	26.7x	23.9x	0.0%
Bentley Systems Inc-Class B	BSY US	US\$48.33	US\$15,709	52.8x	46.1x	40.2x	34.9x	42.4x	37.0x	0.1%
Dassault Systemes Se	DSY FP	€34.39	€46,122	28.4x	26.0x	21.9x	19.6x	24.6x	22.0x	0.8%
Hexagon Ab-B Shs	HEXAB SS	€92.40	€249,986	>75x	>50x	>75x	>75x	>75x	>75x	0.2%
Rockwell Automation Inc	ROK US	US\$279.05	US\$32,052	22.2x	20.2x	17.1x	16.0x	18.8x	17.1x	1.9%
Roper Technologies Inc	ROP US	US\$483.46	US\$51,590	28.9x	27.4x	22.8x	21.2x	32.2x	29.1x	0.6%
Trimble Inc	TRMB US	US\$49.16	US\$12,207	18.1x	16.0x	13.1x	11.9x	14.1x	12.6x	n/a
Compco Average:				33.3x	29.9x	24.9x	21.9x	28.8x	25.1x	0.5%
EV = Mkt cap+net debt+lease liabilities+min interests-investments			IKE Relative:	n/a	n/a	n/a	35%	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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