

ikeGPS

1H24 Trading Update – Transactional Delays

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ikeGPS' (IKE) 1H24 trading update showed a weak result, with revenue declining -32% versus 1H23 to NZ\$10.5m. The decline was driven by a significant slowdown in transactional activity from key customers. While expected, the magnitude of disruption (with a -60% fall in transactions revenue) surprised. Management reiterated that, *'these long-term customers are not lost and have communicated that they expect transaction volumes will resume. The multi-year outlook for use of IKE platform is robust'*. In contrast, the subscription side of the business extended its strong momentum in 1H24. We reduce our FY24 revenue estimates given 1H24 weakness will also impact 2H24 and recognise a range of outcomes is possible. However, we retain our FY25 and FY26 forecasts at this stage as the medium-term growth outlook remains positive, customer wins continue, and the relationship with Google for IKE Insight AI data analytics has been confirmed as already producing revenues. Our blended spot valuation falls -NZ4cps to NZ\$0.96.

NZX Code	IKE	Financials: Mar/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$0.61	Rev (NZ\$m)	31.1	24.2	48.8	60.1	PE	n/a	n/a	n/a	18.0
Spot Valuation	NZ\$0.96 (from 1.00)	NPAT* (NZ\$m)	(7.9)	(12.6)	0.4	5.4	EV/EBIT	n/a	n/a	n/a	16.8
Risk rating	High	EPS* (NZc)	(4.9)	(7.9)	0.2	3.4	EV/EBITDA	n/a	n/a	26.9	7.9
Issued shares	160.0m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	4.7	12.9	21.7	11.6
Market cap	NZ\$97.6m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	51.5k (NZ\$44k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Earnings:** Our FY24 revenue estimate decreases -16%, meaning our NPAT loss increases from -NZ\$10.8m to -NZ\$12.6m.
- **Spot valuation:** Our blended spot valuation falls by -NZ4cps to NZ\$0.96.

Large customer delays extend into 3Q24 and possibly 4Q24 – adding uncertainty

Forecasting when IKE's three major customers (who we estimate account for most of the decline in transactional revenues) return to transactional activity is extremely difficult and there is a wide range of potential outcomes. Continued delays add uncertainty to 2H24, leading us to cut our FY24 numbers further. We now assume that 3Q24 is impacted more than initially expected and that 4Q24 is also impacted, albeit not to the same extent. These changes see our FY24 revenue estimate fall -16% to NZ\$24.4m. Disappointingly, this follows the -26% FY24 revenue cut we put through on 2 October 2023. Our estimates assume strong momentum returning in 4Q24 and flowing into FY25 as key customers have signalled a 'return-to-normal' in transaction volumes.

Subscriptions generating consistent growth

Amidst the downturn in transaction volumes, IKE's subscription business continues to achieve consistent growth. IKE is still winning ~1 new customer per week and now has 408 enterprise customers (+31 in 1H24). Customer growth helped subscription revenue rise +24% to NZ\$5.1m during the period. As subscription revenues are at much higher margins, a shift in the sales mix allowed IKE's gross margin percentage to expand +6% from 1H23 to 59%. IKE is expected to release a full set of 1H24 results on 29 November 2023.

Rising interest rates necessitate a change to WACC inputs

Given recent interest rate movements, we have increased our risk-free rate input assumption to ~5.25%, up ~+75bps from ~4.5%. Our WACC for IKE increases by ~+58bp to 11.42%, reducing our blended spot valuation -NZ5cps to NZ\$1.00 before today's earnings downgrades. Earnings downgrades decrease the blended spot valuation -NZ4cps to NZ\$0.96, meaning the net impact of valuation changes since our last published report is -NZ9cps.

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

Priced as at 25 Oct 2023	0.61
52 week high / low	1.01 / 0.60
Market capitalisation (NZ\$m)	97.6

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	24.2	48.8	60.1
Normalised EBITDA	(5.3)	(2.1)	(8.6)	3.4	11.6
Depreciation and amortisation	(2.5)	(7.0)	(4.3)	(3.1)	(6.2)
Normalised EBIT	(7.8)	(7.8)	(12.9)	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)	(12.6)	0.4	5.4
Abnormals/other	0	0	0	0	0
Reported NPAT	(7.9)	(7.9)	(12.6)	0.4	5.4
Normalised EPS (cps)	(4.9)	(4.9)	(7.9)	0.2	3.4
DPS (cps)	0	0	0	0	0

Growth Rates	2022A	2023A	2024E	2025E	2026E
Revenue (%)	56.6	93.9	-22.2	>100	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)	(8.6)	3.4	11.6
Working capital change	(1.7)	(1.2)	0.7	(1.3)	(3.5)
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)	(7.6)	2.2	8.1
Capital expenditure	(3.6)	(5.1)	(4.1)	(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)	(11.8)	(5.5)	(0.4)
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)	(11.8)	(5.5)	(0.4)

Balance Sheet (NZ\$m)	2022A	2023A	2024E	2025E	2026E
Working capital	4.2	5.4	4.7	6.0	9.5
Fixed assets	1.8	2.8	2.9	4.0	4.9
Intangibles	14.1	13.1	12.9	14.3	15.7
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	21.2	25.0	30.8
Net debt/(cash)	(24.4)	(18.0)	(6.3)	(0.8)	(0.3)
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	20.4	18.8	24.1
Minority interests	0	0	0	0	0
Total funding sources	22.1	22.9	21.2	25.0	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	0.96
EV/Sales relative	1.00
	0.92

DCF valuation summary

Total firm value	171.4
(Net debt)/cash	6.3
Less: Capitalised operating leases	-2.9
Value of equity	174.7

Valuation Ratios	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	5.0	2.5	3.5	1.9	1.5
EV/EBITDA (x)	n/a	n/a	n/a	26.9	7.9
EV/EBIT (x)	n/a	n/a	n/a	>100x	16.8
PE (x)	n/a	n/a	n/a	>100x	18.0
Price/NTA (x)	3.8	4.7	12.9	21.7	11.6
Free cash flow yield (%)	-10.7	-8.0	-12.2	-5.8	-0.6
Adj. free cash flow yield (%)	-7.1	-2.8	-8.1	2.0	8.0
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	42.1	n/a	>100x
Interest cover EBITDA (x)	n/a	n/a	28.1	n/a	>100x
Net debt/ND+E (%)	-161.5	-113.5	-44.3	-4.3	-1.4
Net debt/EBITDA (x)	4.6	8.6	0.7	n/a	n/a

Key Ratios	2022A	2023A	2024E	2025E	2026E
Return on assets (%)	-16.1	-17.9	-44.1	1.1	16.0
Return on equity (%)	-19.9	-23.2	-61.9	2.1	22.5
Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	-33.3	-6.8	-35.7	6.9	19.3
EBIT margin (%)	-48.6	-25.0	-53.5	0.6	9.0
Capex to sales (%)	22.3	16.5	16.8	15.5	14.0
Capex to depreciation (%)	360	378	242	9,135	306
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	14.7	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	24.2	48.8	60.1

Sale of products % of revenues	40.2	21.0	27.8	14.5	12.3
IKE Platform % of revenues	50.5	71.9	61.1	78.2	79.5
IKE Structural % of revenues	7.0	6.0	9.6	6.6	7.6
Spike % of revenues	2.2	1.2	1.5	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	55.9	59.9	60.9

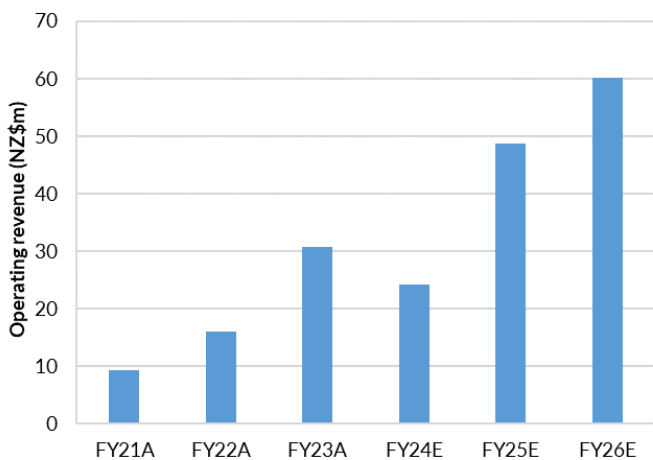
Earnings revisions

Figure 1. Earnings estimates

	FY24			FY25			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
Operating Revenue	28.6	24.1	-16%	48.8	48.8	+0%	60.0	60.0	+0%
Cost of sales	(13.3)	(10.6)	-20%	(19.5)	(19.5)	+0%	(23.5)	(23.5)	+0%
Gross profit	15.3	13.5	-12%	29.2	29.2	+0%	36.6	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	(8.0)	(8.0)	+0%	(9.9)	(9.9)	+0%	(11.1)	(11.1)	+0%
Research & engineering expenses	(9.6)	(9.6)	+0%	(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	(26.4)	(26.4)	+0%	(28.9)	(28.9)	+0%	(31.1)	(31.1)	+0%
Finance costs	0.3	0.3	+0%	0.1	0.1	+0%	(0.0)	(0.0)	+0%
Profit (loss) before income tax	(10.8)	(12.6)	-17%	0.4	0.4	+0%	5.4	5.4	+0%
Income tax	0.0	0.0	+0%	0.0	0.0	+0%	0.0	0.0	+0%
Net Profit (Loss) for the Year	(10.8)	(12.6)	-17%	0.4	0.4	+0%	5.4	5.4	+0%

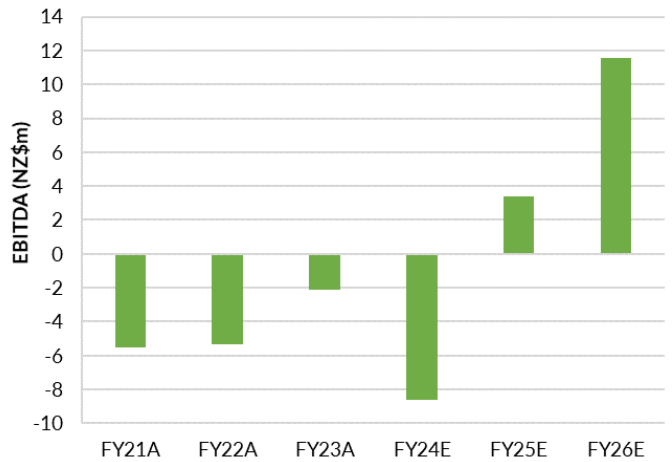
Source: Forsyth Barr analysis

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



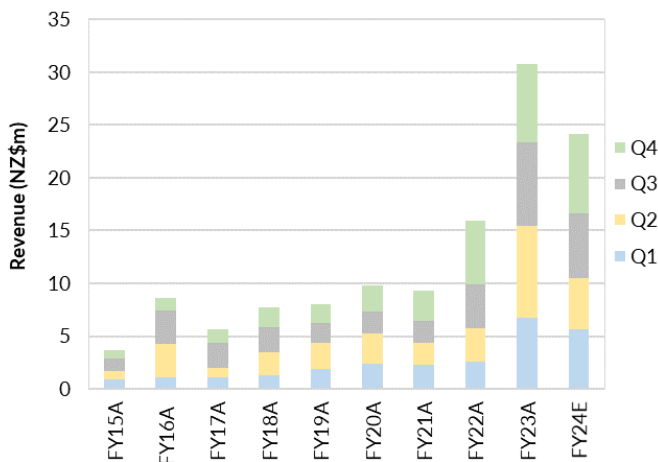
Source: Company, Forsyth Barr analysis

Figure 3. IKE – EBITDA (NZ\$m)



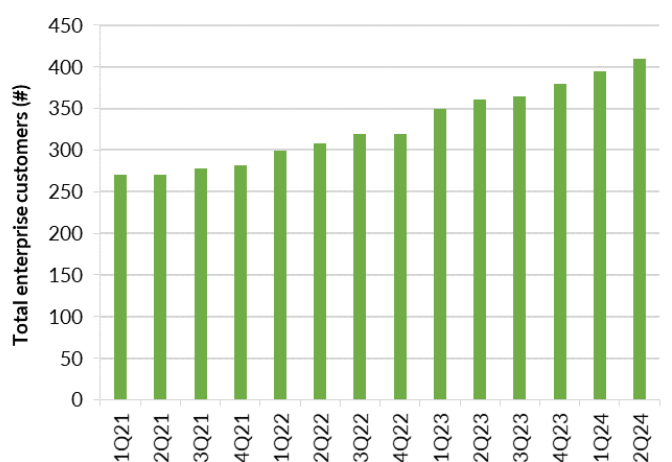
Source: Company, Forsyth Barr analysis

Figure 4. IKE – Reported quarterly revenues and FY24 est.



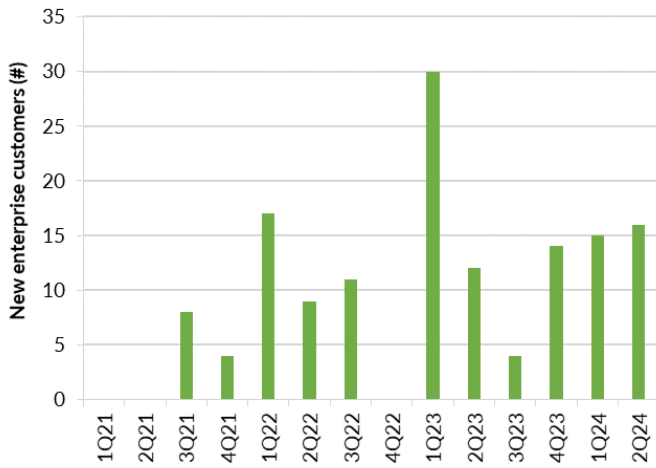
Source: Company, Forsyth Barr analysis

Figure 5. IKE – Total enterprise customers



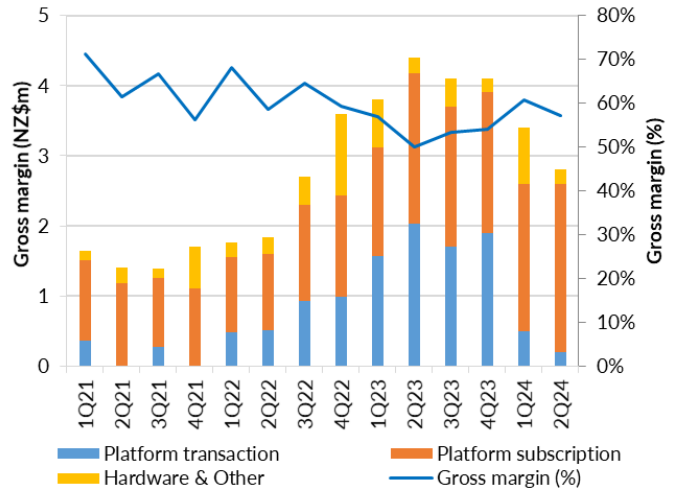
Source: Company, Forsyth Barr analysis

Figure 6. IKE – New enterprise customers by quarter



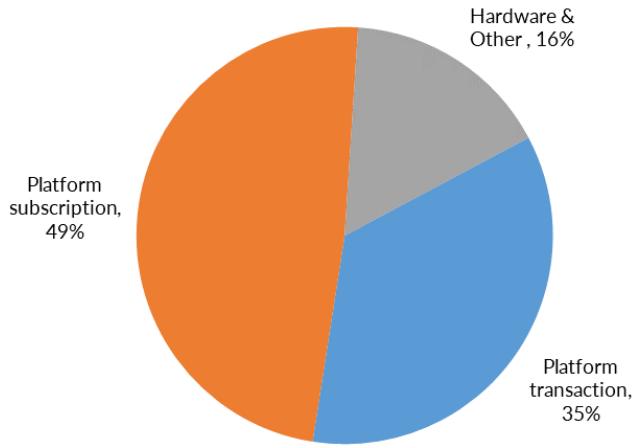
Source: Company, Forsyth Barr analysis

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



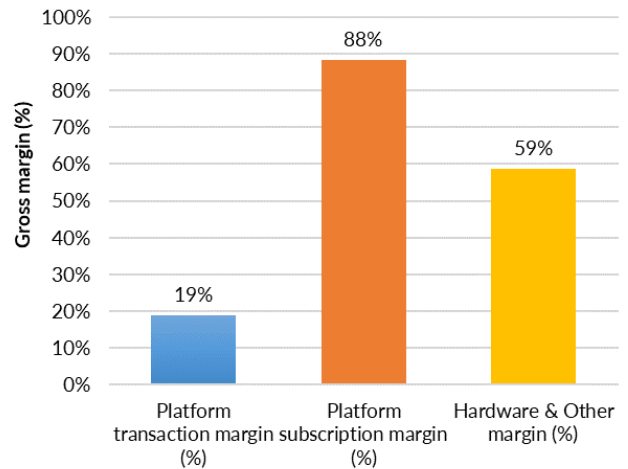
Source: Company, Forsyth Barr analysis

Figure 8. IKE – Revenue breakdown by segment in 1H24



Source: Company, Forsyth Barr analysis

Figure 9. IKE – Gross margin by segment 1H24 (%)



Source: Company, Forsyth Barr analysis

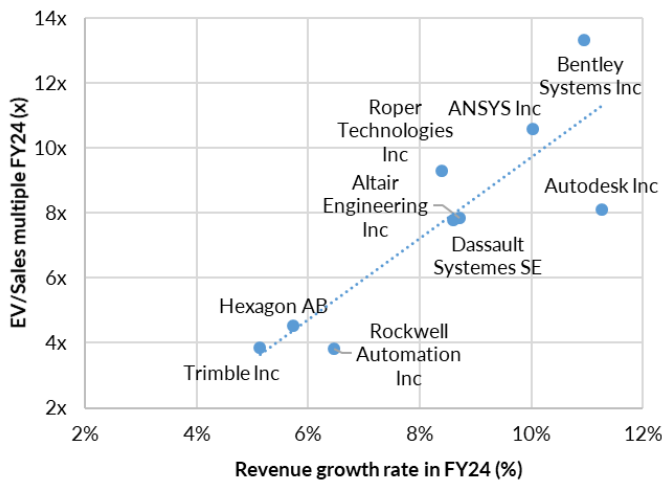
Valuation metrics

Figure 10. 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	USA	\$8,482	74%	5%	32%	39.1x	7.9x	8%
BSY.O	Bentley Systems Inc	USA	\$25,382	75%	25%	23%	39.6x	13.3x	14%
HEXAB.ST	Hexagon AB	Sweden	\$37,552	65%	37%	6%	12.6x	4.5x	19%
TRMB.O	Trimble Inc	USA	\$20,594	56%	20%	15%	15.1x	3.9x	0%
ADSK.OQ	Autodesk Inc	USA	\$75,026	90%	24%	24%	21.6x	8.1x	16%
ANSS.O	ANSYS Inc	USA	\$41,198	87%	35%	21%	23.7x	10.6x	8%
DAST.PA	Dassault Systemes	France	\$85,368	77%	34%	20%	21.1x	7.8x	9%
ROK	Rockwell Automation	USA	\$52,271	40%	20%	6%	16.9x	3.8x	11%
ROP	Roper Technologies	USA	\$88,143	70%	40%	10%	23.3x	9.3x	11%
Average of all comps				70%	27%	17%	23.7%	7.7x	11%
IKE.NZ	Ikegps Group Ltd	NZ	\$98	53%	-26%	37%		4.2x	93%

Source: Refinitiv, Forsyth Barr analysis

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



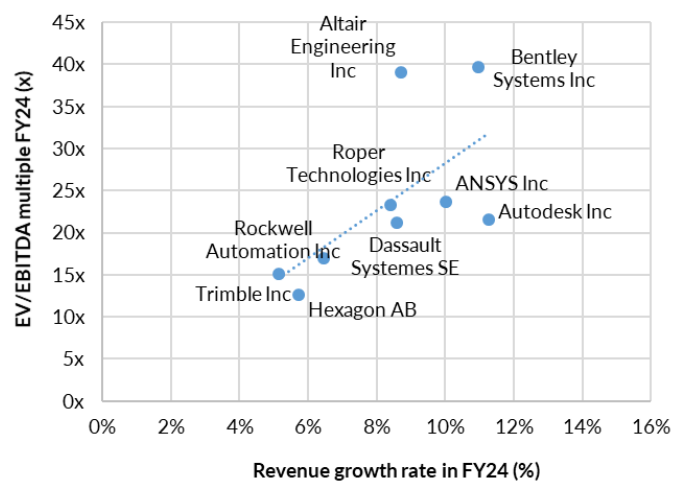
Source: Refinitiv, Forsyth Barr analysis

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



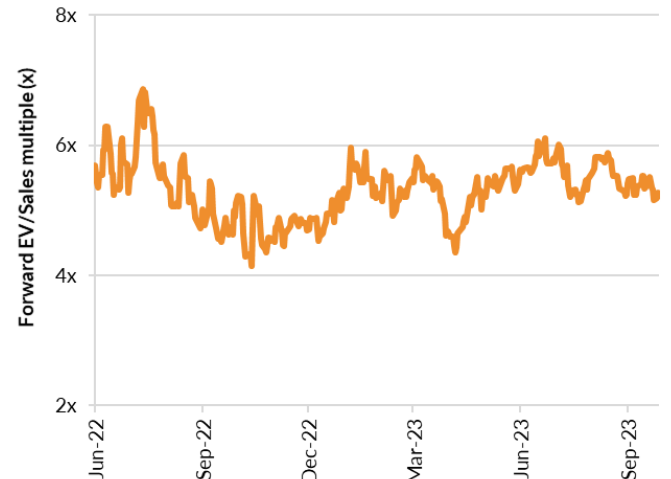
Source: Refinitiv, Forsyth Barr analysis

Figure 12. Sector – EV/EBITDA multiple (x) vs Revenue growth



Source: Refinitiv, Forsyth Barr analysis

Figure 14. Nasdaq emerging cloud index (EV/Sales multiple)



Source: Refinitiv, Forsyth Barr analysis

Updated PoleForeman structural product now in the cloud

IKE's updated PoleForeman software has officially been re-launched. It is expected to see a substantial increase in recurring subscription revenue, relative to the old desktop version of PoleForeman. The new software has been adapted and designed with input from a key customer council (Fig. 15) to maximise product utilisation and will now be cloud-based (see Figure 1). PoleForeman is IKE's structural testing software for utility assets, helping network companies withstand extreme weather conditions such as wind and ice load cases.

Figure 15. Key customer council that helped design the revisions in PoleForeman



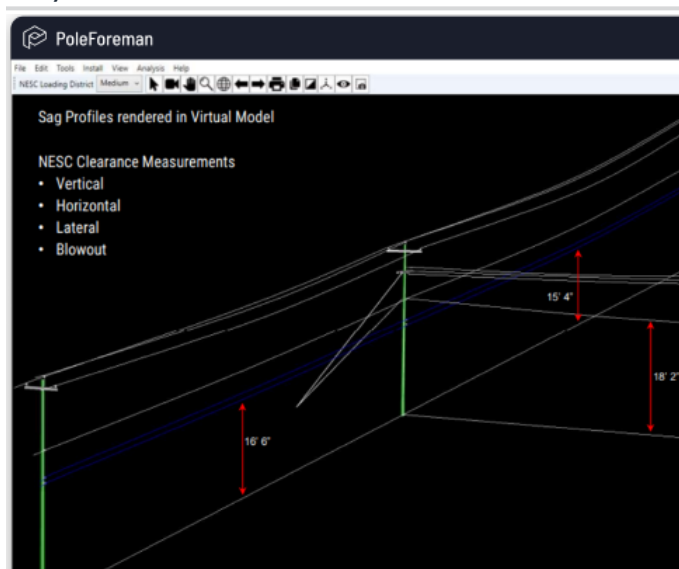
Source: Company

IKE's PoleForeman software has been utilised by utility companies and engineering firms seeking reliable and compliant overhead power distribution line design solutions. The newest version aims to take this several steps further and integrate the software into IKE Office. The software has a 22-year history assisting with compliance to National Electrical Safety Code (NESC) standards. The cloud-based software now features capabilities such as multiple-pole analysis and enhanced 3D graphics. Additionally, the secure code base and a self-administered database admin portal should provide a higher level of robustness to better meet the demands of the industry.

PoleForeman already has market credibility given that seven of the ten largest investor-owned electric utilities in the US use the desktop version of the software already and will likely transition to the new offering. We hold this confidence because these companies sat on the customer council in designing the new product. We envisage ongoing recurring subscription revenues could increase by 2x to 5x from the previous version over time as customers transition.

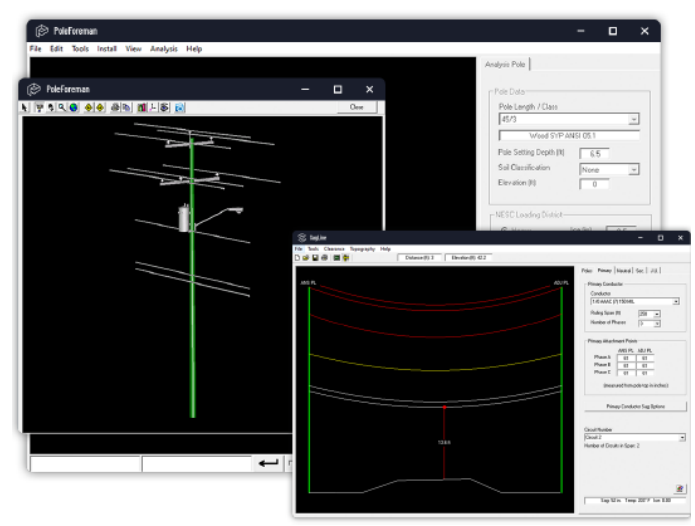
In an era where fibre is being rolled out and the need for storm-hardened infrastructure add complexity and urgency to utility management, tools like PoleForeman are increasingly valuable for utilities and their engineering partners.

Figure 16. IKE's new PoleForeman includes multi-pole analysis...



Source: Company

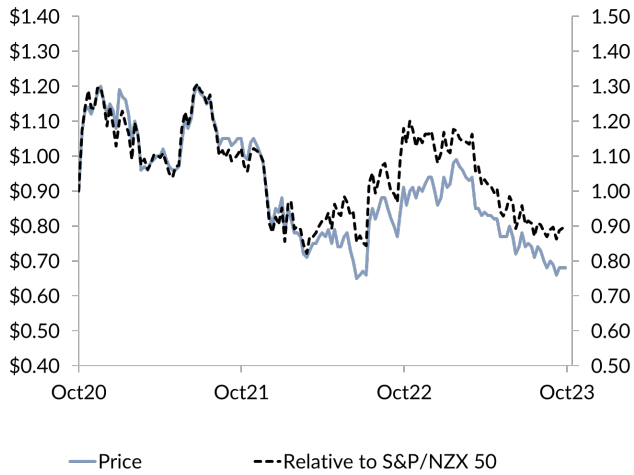
Figure 17. and additional wire sag analysis



Source: Company

For more information see <https://ikegps.com/ike-structural/>

Figure 18. Price performance



Source: Forsyth Barr analysis

Figure 19. 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 20. 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 2025E
				2024E	2025E	2024E	2025E	2024E	2025E	
ikeGPS	IKE NZ	NZ\$0.61	NZ\$98	<0x	<0x	<0x	>75x	<0x	<0x	0.0%
Autodesk Inc	ADSK US	US\$205.04	US\$43,830	26.9x	23.6x	22.2x	19.6x	22.4x	19.9x	0.0%
Altair Engineering Inc - A	ALTR US	US\$61.00	US\$4,955	56.6x	51.2x	37.8x	31.1x	49.5x	39.9x	n/a
Ansys Inc	ANSS US	US\$277.31	US\$24,068	31.2x	27.8x	23.8x	21.1x	25.0x	22.5x	0.0%
Bentley Systems Inc-Class B	BSY US	US\$50.27	US\$16,340	54.9x	47.8x	41.7x	36.1x	44.0x	38.3x	0.1%
Dassault Systemes Se	DSY FP	€34.98	€46,763	28.8x	26.4x	21.6x	19.3x	23.8x	22.0x	0.8%
Hexagon Ab-B Shs	HEXAB SS	€93.96	€254,207	>75x	>50x	>75x	>75x	>75x	>75x	0.2%
Rockwell Automation Inc	ROK US	US\$265.86	US\$30,537	21.1x	19.4x	16.4x	15.4x	18.2x	16.6x	1.9%
Roper Technologies Inc	ROP US	US\$482.55	US\$51,493	28.8x	27.1x	22.6x	20.9x	32.0x	28.7x	0.6%
Trimble Inc	TRMB US	US\$48.45	US\$12,031	17.9x	16.0x	13.0x	11.9x	14.0x	12.8x	n/a
Compco Average:				33.3x	29.9x	24.9x	21.9x	28.6x	25.1x	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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