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SPEC BUY

Current Price \$0.21

Valuation \$0.36

Ticker: K2F.ASX
Sector: Software

Shares on Issue (m): 172.7
Market Cap (\$m): 36.3
Net Debt / (Cash) (\$m): -7.4
Enterprise Value (\$m): 28.9

52 wk High/Low: 0.350 0.155
12m Av Daily Vol (m): 0.2

Key Metrics

	22F	23F	24F
EV/End ARR (x)	5.2	3.2	2.0
EV/EBITDA (x)	neg	neg	33.0
P/E (x)	neg	neg	neg

Ratios

	22F	23F	24F
ND / Equity	-55.1%	-45.3%	-35.4%
EBITDA Mgn	-39.0%	-17.2%	4.1%
RoA	-32.7%	-23.4%	-2.3%
RoE	-27.5%	-20.4%	-2.4%

Financials*

	22F	23F	24F
ARR Beg (\$m)	3.4	5.6	8.9
ARR End (\$m)	5.6	8.9	14.3
Revenue (\$m)	10.0	14.4	21.4
EBITDA (\$m)	-3.9	-2.5	0.9
EBIT (\$m)	-5.1	-3.7	-0.4
NPAT (\$m)	-3.6	-2.6	-0.3

* Underlying

Net Assets (\$m) 14.2 11.6 11.3

Op CF (\$m) -2.6 -1.3 0.0

Per Share Data:

	22F	23F	24F
Norm. EPS (cps)	-2.32	-1.53	-0.16
DPS (cps)	0.00	0.00	0.00
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	0.65	-0.33	0.13
CFPS (cps)	-1.65	-0.73	-0.01

Share Price Graph



Please refer to important disclosures at the end of the report (from page 4)

Wednesday, 20 April 2022

K2fly (K2F)

Strategic investor

Analyst | Ian Christie

Quick Read

The recently completed \$6.2M capital raise allows K2F to focus on growing its recurring revenue and to benefit from the experience of the incoming strategic investor, Maptek. Strengthening ESG tailwinds puts K2F in a solid position for continued growth.

Key points

Maptek investment: K2F recently completed a \$6.2M (pre costs) capital raise at \$0.18 per share. The Placement included a \$4.1M strategic investment by Maptek, which is now a 13% shareholder in K2F. Maptek is a well-known global provider of mine planning and geological modelling software, generating annual revenues in excess of \$120M. Its Chairman, Peter Johnson, will join the K2F Board as a non-executive Director.

Benefits: The raise and strengthened balance sheet will allow K2F to focus on growing its recurring SaaS revenue, a model that requires upfront investment in development and client acquisition. Cash was \$3.6M at end 2Q22 and fell further in 3Q22 (given indicative cash post raise of ~\$7.7M). The inflationary environment has no doubt added to near-term costs, although we note it also provides K2F with some justification to raise its pricing. More broadly, Maptek's Peter Johnson will add experience and value to Board deliberations, and we see good potential for collaboration across the two businesses.

Strong demand: K2F is in a solid position. The inventory management solution gave it initial access to global miners. Now, as ESG expectations become more demanding, regulations more stringent, and reporting more prescriptive, it puts K2F in a strong position to sell its other solutions across its existing client base. The signing in recent quarters of longer term, higher value contracts (see page 3) with existing clients continues to validate software that has a strong ESG bent and limited competition.

Forecasts: We have revised numbers in the light of a lower GP margin and higher than anticipated expenses in the interim numbers. While some were one-off (such as \$307k in recruitment fees), our cost estimates are higher taking into account the "war for talent" and associated cost pressures. It increases our forecast FY22 EBITDA loss to \$3.9M (from a prior forecast loss of \$2.0M). Longer-term cost increases are offset by higher revenue forecasts; we still assume K2F penetrates 15% of the addressable market over 5 years, but now use \$200M as the addressable base (up from \$160M) as per more recent K2F presentations. As before, we still assume breakeven EBITDA and cash flow during FY24.

Recommendation

Our blended valuation falls to \$0.36 (prior \$0.41). The drop mostly reflects equity capital raised at a large discount to our prior valuation and partly a lower ARR multiple of 8x (prior 10x) after falls amongst SaaS peers. The DCF component of our valuation, where our 12% discount rate reflects forecasting uncertainty, is little changed at \$0.44.

K2fly

Equity Research

Ian Christie, CFA

Recommendation	SPEC BUY
Current Price (\$)	0.210
Valuation (\$)	0.360

Sector	Software
Market Cap (\$m)	36.3
Enterprise Value (\$m)	28.9
Date	20 April 2022

Trading Metrics	FY22F	FY23F	FY24F	FY25F
EV / EBITDA (x)	(7.4)	(11.6)	33.0	5.0
EV / EBIT (x)	(5.6)	(7.7)	(77.4)	6.4
P/E (x)	(9.0)	(13.8)	(131.5)	11.4
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY22F	FY23F	FY24F	FY25F
Reported EPS (cps)	-2.32	-1.53	-0.16	1.84
Adjusted EPS (cps)	-2.32	-1.53	-0.16	1.84
Div. per share (cps)	0.00	0.00	0.00	0.00
NTA per share (cps)	0.65	-0.33	0.13	2.58
CF per share (cps)	-1.65	-0.73	-0.01	2.31

P&L (\$m)*	FY22F	FY23F	FY24F	FY25F
Revenue	10.0	14.4	21.4	29.6
GP	4.9	8.0	12.6	18.5
GP Margin	49%	55%	59%	63%
Other Income/Expenses	(8.8)	(10.5)	(11.8)	(12.7)
EBITDA	(3.9)	(2.5)	0.9	5.8
D&A	(1.3)	(1.3)	(1.2)	(1.2)
EBIT	(5.1)	(3.7)	(0.4)	4.6
PBT	(5.2)	(3.8)	(0.4)	4.5
NPAT	(3.6)	(2.6)	(0.3)	3.2

* Underlying

Cash Flow (\$m)	FY22F	FY23F	FY24F	FY25F
Receipts	9.6	14.2	20.0	28.8
Payments	(13.8)	(16.6)	(20.1)	(23.4)
Other	1.7	1.1	0.1	(1.4)
Cash from Operations	(2.6)	(1.3)	(0.0)	4.0
Property, Plant & Equip	(0.1)	(0.1)	(0.1)	(0.1)
Payment for Subsidiary	(0.9)	(1.2)	(1.1)	-
Other	(1.3)	-	-	-
Cash From Investing	(2.4)	(1.3)	(1.2)	(0.1)
Issue of Shares	5.9	-	-	-
Net Borrowing	-	-	-	-
Dividends / Other	-	-	-	-
Cash From Financing	5.9	-	-	-
Net Cash Flow	0.9	(2.6)	(1.2)	3.9
Ending Cash	7.8	5.3	4.0	7.9

Balance Sheet (\$m)	FY22F	FY23F	FY24F	FY25F
Cash	7.8	5.3	4.0	7.9
Receivables	2.5	3.6	5.3	7.3
Inventory / Other	-	-	-	-
Current Assets	10.3	8.8	9.3	15.2
Property, Plant & Equip	0.1	0.1	0.1	0.1
Other NC Assets	13.4	12.4	11.3	10.3
Non-Current Assets	13.5	12.5	11.4	10.3
Total Assets	23.8	21.3	20.7	25.5
Payables	1.9	2.4	2.8	3.3
Borrowings	-	-	-	-
Provisions / Other	7.6	7.3	6.5	7.7
Total Liabilities	9.6	9.7	9.3	11.0
Net Assets	14.2	11.6	11.3	14.5
Ordinary Equity	36.7	36.7	36.7	36.7
Reserves	2.0	2.0	2.0	2.0
Retained Earnings	(24.5)	(27.1)	(27.4)	(24.2)
Total Equity	14.2	11.6	11.3	14.5

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	12.0%		
PV Free Cash Flow (\$m)		67.9	
Less Net Debt / Plus Cash (\$m)		7.4	
Plus Unpaid Cap (\$m)		-	
Equity Value (\$m)		75.2	0.44

Capitalisation Valuation:			
Mar '22 ARR multiple	8.0	49.0	0.28

Valuation (\$/share)	0.36
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P&L (\$m)*	1H21A	2H21A	1H22A	2H22F
Revenue	3.4	3.5	4.6	5.4
GP	1.8	1.9	2.1	2.8
GP Margin	53%	53%	46%	52%
Other Income/Expenses	(2.7)	(3.4)	(4.3)	(4.5)
EBITDA	(0.9)	(1.5)	(2.2)	(1.7)
D&A	(0.1)	(0.4)	(0.6)	(0.6)
EBIT	(1.1)	(1.9)	(2.8)	(2.3)
PBT	(1.1)	(1.9)	(2.8)	(2.3)
NPAT	(1.1)	(1.9)	(1.7)	(1.9)

* Underlying

Cash Flow (\$m)	1H21A	2H21A	1H22A	2H22F
Receipts	3.7	3.5	5.4	4.2
Payments	(4.2)	(4.5)	(6.7)	(7.1)
Other	0.2	(0.1)	0.1	1.6
Cash from Operations	(0.4)	(1.2)	(1.3)	(1.3)
Property, Plant & Equip	(0.0)	(0.0)	(0.1)	(0.1)
Payment for Subsidiary	(0.5)	(1.2)	(0.5)	(0.4)
Other	-	-	(1.3)	-
Cash From Investing	(0.5)	(1.2)	(1.9)	(0.5)
Issue of Shares	0.6	6.8	-	5.9
Net Borrowing	(0.0)	(0.0)	(0.1)	0.1
Dividends / Other	-	-	-	-
Cash From Financing	0.6	6.7	(0.1)	5.9
Net Cash Flow	(0.3)	4.3	(3.2)	4.2
Ending Cash	2.6	6.9	3.6	7.8

Financial Ratios	FY22F	FY23F	FY24F	FY25F
Growth				
Revenue growth (%)	43.1%	45.0%	48.0%	38.6%
EBITDA growth (%)	N/A	N/A	N/A	561.7%
NPAT growth (%)	N/A	N/A	N/A	N/A
Profitability Ratios				
EBITDA Margin (%)	-39.0%	-17.2%	4.1%	19.6%
Return on Assets (%)	-32.7%	-23.4%	-2.3%	26.5%
Return on Equity (%)	-27.5%	-20.4%	-2.4%	24.6%
ROIC (%)	-20.4%	-13.5%	3.5%	27.8%
Balance Sheet Ratios				
Net Debt (ND) / Equity (%)	-55.1%	-45.3%	-35.4%	-54.5%
ND / ND + Equity (%)	-122.6%	-82.8%	-54.8%	-119.6%
Current Ratio (x)	1.7	1.2	1.1	1.5
Net Interest Cover (x)	-256.7	-187.1	-18.7	227.6
Cash Flow Ratios				
Free Cash Flow Yield (%)	-11.1%	-7.1%	-3.4%	10.7%
Cash Conversion (x)	0.7	0.5	(0.0)	0.7



K2F SaaS Contracts (since May 2019)

Date	Client	TCV	ARR (Incl. Arg. Est.)*	Value Year 1*	Contract Length	SaaS Solution	Locations
3-Jun-19	Imerys SA	N/A	N/A	\$0.15M	N/A	Resource Governance	80 sites, 25 countries
15-Aug-19	Glencore Canada	N/A	N/A	\$0.25M	Renewable annually	Resource Governance	56 sites, 7 countries
2-Sep-19	Newcrest Mining	\$0.33M	\$0.08M	\$0.15M	3.0 years	Resource Governance	7 sites, 3 countries
25-Oct-19	Nexa Resources	N/A	N/A	\$0.17M	Renewable annually	Resource Governance	12 sites globally
19-Nov-19	Rio Tinto	\$1.45M	\$0.24M	\$0.49M	5.0 years	Resource Governance	20 sites globally
13-Dec-19	Teck Resources	\$0.38M	\$0.10M	\$0.18M	3.0 years	Resource Governance	13+ sites globally
18-Dec-19	Westgold	\$0.58M	\$0.10M	\$0.18M	5.0 years	Land Management	3 production hubs in WA
24-Jan-20	Gold Fields Australia	\$0.58M	\$0.10M	\$0.18M	5.0 years	Resource Governance	Global operations & major projects
12-Mar-20	Newmont	\$0.90M	\$0.23M	\$0.44M	3.0 years	Resource Governance	12 operating mines
16-Mar-20	AngloGold Ashanti	\$0.24M	\$0.06M	\$0.12M	3.0 years	Resource Governance	Global operations
20-Apr-20	Sibelco	N/A	N/A	N/A	3.0 years	Resource Governance	60 sites globally
21-Apr-20	Kinross Gold	\$1.10M	\$0.18M	\$0.38M	5.0 years	Resource Governance	8 operating mines & 1 project
15-Jun-20	South32	\$0.88M	\$0.15M	\$0.28M	5.0 years	Resource Governance	19 sites globally
6-Jul-20	Orano SA (was Areva)	\$0.30M	\$0.05M	\$0.10M	5.0 years	Resource Governance	
25-Jan-21	Alcoa	\$0.57M	\$0.10M	\$0.17M	5.0 years	Resource Governance	6 sites globally
4-Feb-21	Rio Tinto	\$0.72M	\$0.18M	\$0.36M	3.0 years	Heritage Management	Iron ore operations
8-Mar-21	Coeur Mining	\$0.72M	\$0.12M	\$0.24M	5.0 years	Resource Governance	5 operating sites
18-May-21	Fortescue Metals	\$1.46M	\$0.49M	\$0.49M	3.0 years	Land Management	Pilbara and international
24-May-21	Roy Hill	\$2.44M	\$0.41M	\$0.80M	5.0 years	Technical Assurance	Pilbara
6-Aug-21	Alcoa	\$1.50M	\$0.22M	\$0.44M	5.0 years	Dams & Tailings	7 sites globally
17-Sep-21	Newmont	\$1.30M	\$0.26M	\$0.26M	5.0 years	Resource Governance	Contract extension
20-Sep-21	Sibanye Stillwater	\$2.85M	\$0.48M	\$0.95M	5.0 years	Tailings	38 tailing facilities globally
5-Oct-21	Rio Tinto	\$3.44M	\$0.62M	\$0.34M	5.0 years	Ground Disturbance	Pilbara Iron Ore operations
10-Nov-21	Glencore Canada	\$0.44M	\$0.13M	\$0.18M	3.0 years	Resource Governance	56 sites, 7 countries
10-Mar-22	South32	\$0.78M	\$0.18M	\$0.42M	3.0 years	Dams & Tailings	6 mine sites
14-Mar-22	Freeport-McMoRan	\$0.77M	\$0.20M	\$0.37M	3.0 years	Resource Governance	12 global operations

* In certain cases, Argonaut estimates for ARR and Value Year 1 (which includes implementation fees)

Source: Argonaut from K2F

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Argonaut acted as Financial Adviser and Lead Manager to the Placement that raised 6.2M in April 2022 and received fees commensurate with this service. Argonaut acted as Lead Manager to the Placement that raised \$7.25M in April 2021 and received fees commensurate with this service. Argonaut holds or controls 2,265,625 K2F Options exercisable at \$0.435 on or before 10 March 2024.

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