

A quarter of records

K2fly Ltd (ASX:K2F) has released its June quarter 4C which has seen records broken across the board. Cash receipts at \$5.4m (+170% on the pc) and operating cashflow +\$1.7m were clear quarterly records. Annualised Recurring Revenues (ARR) reached \$6.0m in June 2022, 76% above FY21 and above our \$5.8m estimate. Relative to our assessed peer group this represents the highest growth rate over FY22. Cash at bank ended at a record \$8.3m, aided by both a recent strategic placement and the seasonally strong Q4 billing cycle. This provides the group with significant runway for product development, with IP spend increasing ~140% over FY21 to \$2.7m or ~25% of estimated revenues. Total Contract Value (TCV) ended the year at \$17.8m and highlights the typical term of contract agreements being ~3x ARR before option periods. K2F has held-up well over the past quarter with a flat share price against an average 19% decline of the peer group. This leaves K2F sitting at the top-end of EV/ARR metrics for FY22 at 4.2x against a peer average of 2.3x but undemanding in absolute terms considering recent growth relative to the peer group.

Business model

K2F licenses software together with associated consulting and implementation services to large/enterprise mining companies around the world. Key software products address the natural resource governance and ESG issues that mining companies are prioritising and centre around mineral resources and reserves governance (RCubed), community and heritage/land access (Infoscope), mining technical assurance (Sateva), and rehabilitation and tailings management (Decipher). In a number of these areas, K2F's offering is the world's only 'off the shelf' solution. New contracts typically involve an implementation fee and then annual recurring licence payments (SaaS fees). Contract durations are typically three-to-five years (average 3.4 years) with a strong probability of renewal as they become embedded in the key work processes of clients. Utilising existing client relationships, K2F is looking to increase the number of software solutions a client purchases through product development and marketing.

Q4 FY22 was a quarter of records

The June quarter 4C has produced several financial records including record cash receipts (\$5.4m or +167% on the pc), record operating cashflow (\$1.7m), record high cash at bank (\$8.3m), record ARR (\$6.0m) and record TCV (\$17.8m). As a result, total operating cash outflows for FY22 were well below FY21 at \$1.0m against \$1.65m. While largely as forecast, the business is in a strong position to exceed many of these records in FY23.

Valuation of \$0.46/share or \$80m market cap

Independent of K2F's quarterly performance, we have revised our risk-free rate assumptions resulting in a reduction in our DCF from \$0.55/share to \$0.46/share. Our DCF incorporates a WACC of 11.3%, CAGR revenues growth over the forecast period of 43%, medium-term growth of 12%, SaaS reaching 80% of total revenues (from 38%) and gross margins peaking at 70% (from 46%). Current EV/ARR metrics are undemanding at ~4.2x FY22, particularly considering half of the group's solutions have been in the market for less than three years. We will revise our forward estimates in detail post the release of K2F's annual result.

Historical earnings and RaaS' estimates (in \$A unless otherwise stated)

| Year end | ARR | Revenues | EBITDA Adj. | NPAT Adj. | EPS Adj. (c) | P/E (x) | EV/ARR (x) |
|----------|------|----------|-------------|-----------|--------------|---------|------------|
| 06/21a | 3.4 | 7.0 | (2.0) | (2.1) | (0.016) | nm | 3.7 |
| 06/22f | 6.0 | 10.2 | (3.2) | (1.6) | (0.004) | nm | 3.4 |
| 06/23f | 8.5 | 16.1 | 0.4 | (0.0) | 0.008 | 24.9 | 2.3 |
| 06/24f | 10.9 | 21.9 | 4.2 | 2.6 | 0.024 | 8.1 | 2.5 |

Source: Company announcements for FY21; RaaS estimates FY22f, FY23f and FY24f; *Annualised Recurring Revenue

Software & Services

25th July 2022

Share Details

| | |
|-----------------------|---------|
| ASX code | K2F |
| Share price (21-Jul) | \$0.19 |
| Market capitalisation | \$33.4M |
| Shares on issue | 175.5M |
| Net cash 30-Jun-22 | \$8.3M |
| Free float | 54.36% |

Share Performance (12 months)



Upside Case

- New contracts with new mining customers
- New/existing products with existing clients
- Acceleration in new clients due to Maptek collaboration

Downside Case

- Large customers take software solutions in-house
- Failure to achieve contract renewals or renew at significantly lower prices
- Loss of key people

Board of Directors

| | |
|---------------|------------------------|
| Jenny Cutri | Non-Executive Chair |
| Neil Canby | Non-Executive Director |
| Peter Johnson | Non-Executive Director |
| James Deacon | Non-Executive Director |
| Brian Miller | Non-Executive Director |

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Key June Quarter Takeaways

Record quarterly cash receipts and operating cashflow

K2F has delivered a record \$5.4m in cash receipts for the June quarter, +170% above the pcq. Q4 is seasonally the highest cash receipts quarter for the year due to the billing cycle (many companies pay in advance), but the result is well above the ARR growth of 76%, implying this performance includes the benefits of implementation fees.

As a result, operating cashflow was also a record at +\$1.73m, with the full-year cash outflow just \$1.0m, down from \$1.65m in FY21.

Cash at bank ended at \$8.3m, providing ample runway for both product development and the sales and marketing required to secure new contracts from both a multi-regional and commodity viewpoint.

Accelerated spend on product development is evident in the 'intellectual property' spend which totalled \$2.7m in FY22 against \$1.2m in FY21. We expect this level of spend to continue into FY24.

| Exhibit 1: K2F quarterly cashflow summary (in A\$m unless otherwise stated) | | | | | |
|--|--------------|----------------|----------------|----------------|--------------|
| Line item (\$'000) | Q4 FY21a | Q1 FY22a | Q2 FY22a | Q3 FY22a | Q4 FY22a |
| Cash receipts | 2,029 | 2,720 | 2,668 | 1,761 | 5,412 |
| % growth on pcq | (7) | 36 | 60 | 23 | 167 |
| Outgoings | 2,765 | 2,879 | 3,971 | 3,175 | 3,754 |
| Cost of services sold/commissions | 1,011 | 991 | 1,283 | 1,089 | 1,209 |
| Staff and admin | 1,461 | 1,829 | 2,554 | 1,911 | 2,482 |
| Marketing/R&D/other | 293 | 59 | 134 | 175 | 63 |
| R&D rebate/govt grants | 0 | 0 | 0 | 0 | 76 |
| Net cash from operating activities | (736) | (159) | (1,303) | (1,414) | 1,734 |
| Equity issues | 6,781 | 0 | 0 | | 5,843 |
| Other | 28 | 321 | 248 | 37 | 22 |
| Intellectual property | 628 | 747 | 562 | 596 | 794 |
| Net cash from investing activities | 6,125 | (1,068) | (810) | (633) | 5,027 |
| Cash at the end of the period | 6,904 | 5,665 | 3,602 | 1,555 | 8,271 |

Source: Company announcements

Recent capital raise

K2F announced a strategic capital raising which was completed on 19 April 2022 with key points including:

- \$6.2m raise (~\$5.8m net of fees);
- Raise price of \$0.18/share, a 4.1% premium to the 15-day VWAP;
- The funds will be used for product development and working capital to deliver on growth expectations;
- Supported by existing institutional shareholders and cornerstoned by new shareholder Maptek, which took up 65% (22.5m shares) and will hold a 13.2% stake;
- Maptek is a hardware and software solutions provider to the global mining industry, specialising in 3D modelling, spatial analysis and design technology. K2F also employs spatial analysis in many of its modules; and
- Maptek has guaranteed it will not exceed a 19.9% shareholding within the next 12 months.

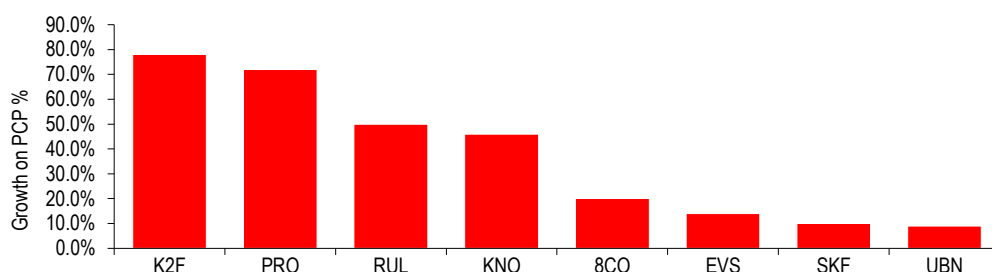
Recent Contract Wins

Since the March quarter 4C K2F has announced the following contracts:

- BHP engaged its first K2F solution contracting the Ground Disturbance software for an initial one-year term. TCV is \$2.1m with the initial ARR \$620k. A typical three-year contract would see this TCV closer to \$3.4m by our estimates, equal to the group's highest-ever contract signing. We expect BHP enter further modules medium-term, with Rio as an example now using five of the group's nine solutions.
- Non-material agreements were also signed with Rio for an additional services agreement, and Asarco, a subsidiary of Grupo Mexico, for a three-year tailings contract.

ARR as a result ended FY22 at \$6.0m, 76% above FY21 and the highest growth rate amongst our assessed peer group.

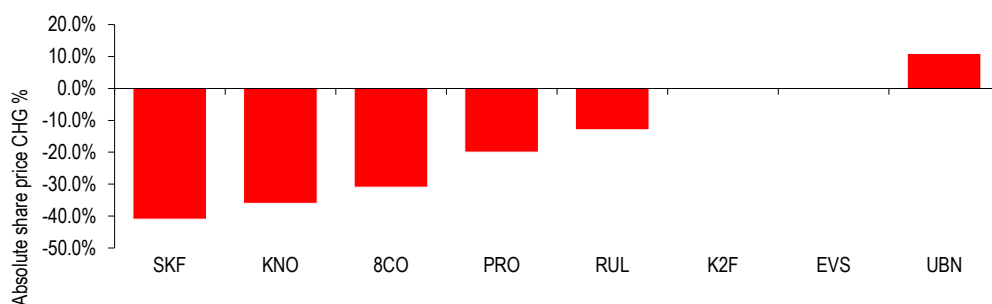
Exhibit 2: ARR growth in FY22 on FY21 – K2F Vs. peer group



Source: Company announcements, RaaS estimates

Over the past quarter K2F has performed relatively well compared to our assessed peer group, with the share price flat against a peer group average of -19%.

Exhibit 3: Absolute share price performance – 31 March to 21 July 2022

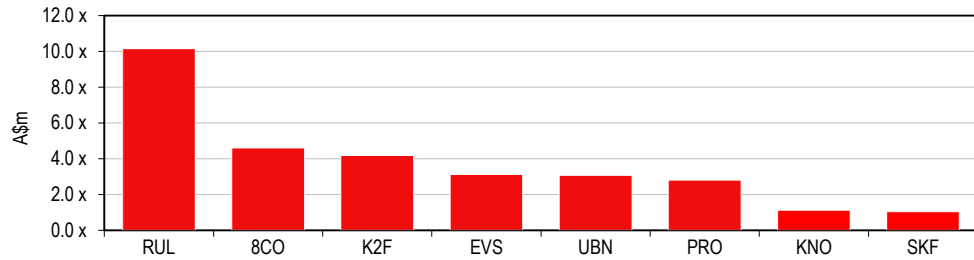


Source: ASX

As a result, K2F now sits at the top-end of our assessed peer group in terms of EV/ARR at 4.2x against an average of 2.3x.

Recent relative growth rates and the fact that most of K2F's software solutions have been in market less than three years in our view justifies this relative rating.

Exhibit 4: EV/ARR at 30 June 2022



Source: Company announcements, RaaS estimates

Exhibit 5: K2F Financial Summary

| K2fly Limited (ASX:K2F) | | | | | | Share price (21 July 2022) | | | | | A\$ | 0.190 | |
|-----------------------------|--------|--------|--------|--------|--------|-------------------------------------|---------|----------|----------|----------|----------|---------|-------|
| Profit and Loss (A\$m) | | | | | | Interim (A\$m) | | H120A | H220A | H121A | H221A | H122A | H222F |
| Y/E 30 Jun | FY20A | FY21A | FY22F | FY23F | FY24F | Revenue | 2.7 | 2.9 | 3.4 | 3.5 | 4.6 | 5.6 | |
| Revenue | 5.6 | 7.0 | 10.2 | 16.1 | 21.9 | EBITDA | (0.9) | (0.7) | (0.6) | (1.0) | (1.9) | (0.5) | |
| Gross profit | 2.3 | 3.7 | 5.3 | 10.1 | 14.7 | EBIT | (0.9) | (0.7) | (0.6) | (1.3) | (2.4) | (1.0) | |
| GP margin % | 41.1% | 53.0% | 52.1% | 62.4% | 67.2% | NPATA (normalised) | (0.9) | (0.7) | (0.6) | (1.0) | (0.8) | (0.1) | |
| EBITDA | (1.5) | (1.6) | (2.0) | 2.0 | 6.0 | Adjustments | (1.0) | (0.7) | (0.4) | (0.5) | (0.4) | 0.0 | |
| Depn | (0.1) | (0.1) | (0.2) | (0.2) | (0.2) | NPAT (reported) | (1.8) | (1.4) | (0.9) | (1.5) | (1.2) | (0.1) | |
| Amort | (0.1) | (0.4) | (1.1) | (1.4) | (1.6) | | | | | | | | |
| EBIT | (1.7) | (2.0) | (3.2) | 0.4 | 4.2 | EPS (adjusted) | (0.011) | (0.008) | (0.005) | (0.010) | (0.006) | (0.000) | |
| Interest expense | (0.0) | (0.0) | (0.0) | (0.0) | 0.0 | Dividend (cps) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | |
| Tax | 0.0 | 0.0 | 1.6 | (0.4) | (1.6) | Imputation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Operating cash flow | na | na | na | na | na | na | |
| Equity accounted assoc | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Free Cash flow | na | na | na | na | na | na | |
| NPAT pre significant item | (1.7) | (2.1) | (1.6) | (0.0) | 2.6 | Divisionals | H120A | H220A | H121A | H221A | H122A | H222F | |
| Adjustments | (1.7) | (0.9) | 0.0 | 0.0 | 0.0 | Revenue | 2.7 | 2.9 | 3.4 | 3.5 | 4.6 | 5.6 | |
| NPAT (reported) | (3.4) | (3.0) | (1.6) | (0.0) | 2.6 | SaaS | 0.4 | 0.9 | 1.1 | 1.5 | 1.9 | 3.4 | |
| Cash flow (A\$m) | | | | | | Consulting/other | 2.3 | 2.1 | 2.3 | 2.1 | 2.7 | 2.2 | |
| Y/E 30 Jun | FY20A | FY21A | FY22F | FY23F | FY24F | | | | | | | | |
| Adj EBITDA | (1.6) | (1.6) | (2.1) | 1.8 | 5.9 | Gross profit | 1.0 | 1.3 | 1.8 | 1.9 | 2.1 | 3.2 | |
| Interest | 0.0 | (0.0) | (0.0) | (0.0) | 0.0 | Gross Profit Margin % | 38.6% | 43.4% | 53.0% | 52.9% | 45.8% | 57.1% | |
| Tax | 0.2 | 0.1 | 0.2 | 0.6 | (1.6) | | | | | | | | |
| Working capital/other | 0.8 | (0.1) | 0.7 | (1.6) | (0.6) | Admin & corporate | 1.1 | 1.3 | 1.5 | 1.9 | 2.7 | 2.5 | |
| Operating cash flow | (0.6) | (1.6) | (1.2) | 0.8 | 3.7 | Directors & employees | 0.2 | 0.1 | 0.2 | 0.4 | 0.4 | 0.5 | |
| Mtce capex | (0.0) | (0.0) | (0.1) | (0.1) | (0.1) | Other | 0.6 | 0.5 | 0.6 | 0.7 | 0.9 | 0.8 | |
| Free cash flow | (0.6) | (1.7) | (1.3) | 0.7 | 3.5 | Total costs (ex SBP/one-c | 1.9 | 1.9 | 2.4 | 2.9 | 4.0 | 3.7 | |
| Capitalised Software | 0.0 | (1.1) | (2.7) | (2.5) | (2.0) | | | | | | | | |
| Acquisitions/Disposals | (0.1) | (0.4) | (0.5) | (0.7) | (1.1) | EBITDA | (0.9) | (0.7) | (0.6) | (1.0) | (1.9) | (0.5) | |
| Other | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | EBITDA margin % | (37.8%) | (31.9%) | (24.4%) | (48.9%) | (71.5%) | (23.1%) | |
| Cash flow pre financing | (0.7) | (3.0) | (4.5) | (2.6) | 0.4 | | | | | | | | |
| Equity | 2.9 | 7.9 | 5.8 | 0.0 | 0.0 | Margins, Leverage, Returns | | FY20A | FY21A | FY22F | FY23F | FY24F | |
| Other | 0.2 | 0.6 | 0.0 | 0.0 | 0.0 | EBITDA margin % | | (27.4%) | (22.5%) | -19.1% | 12.3% | 27.3% | |
| Net Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | EBIT margin % | | (30.6%) | (29.4%) | -31.1% | 2.7% | 19.3% | |
| Net cash flow for year | 2.4 | 5.4 | 1.3 | (2.6) | 0.4 | NPAT margin (pre significant items) | | (30.8%) | (29.6%) | -16.0% | -0.2% | 11.9% | |
| Balance sheet (A\$m) | | | | | | Net Debt (Cash) | | - 2.85 - | 6.86 - | 8.22 - | 5.73 - | 6.15 | |
| Y/E 30 Jun | FY20A | FY21A | FY22F | FY23F | FY24F | Net debt/EBITDA (x) | (x) | nm | nm | nm | nm | nm | |
| Cash | 2.9 | 6.9 | 8.3 | 5.8 | 6.2 | ND/ND+Equity (%) | (%) | nm | nm | nm | nm | nm | |
| Accounts receivable | 1.2 | 2.2 | 2.3 | 3.7 | 4.9 | EBIT interest cover (x) | (x) | nm | nm | nm | nm | nm | |
| Inventory | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | ROA | | | (14.7%) | (12.6%) | 1.4% | 11.2% | |
| Other current assets | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | ROE | | (224.9%) | (24.7%) | (9.5%) | (0.1%) | 10.6% | |
| Total current assets | 4.1 | 9.1 | 10.6 | 9.4 | 11.1 | | | | | | | | |
| PPE | 0.0 | 0.1 | 0.2 | 0.3 | 0.4 | NTA (per share) | | | | | | | |
| Capitalised Software | 0.3 | 5.7 | 7.3 | 8.4 | 8.9 | Working capital | | 0.2 | 0.5 | 0.0 | 1.6 | 2.2 | |
| Goodwill | 0.7 | 7.3 | 7.3 | 7.3 | 7.3 | WC/Sales (%) | | 3.5% | 7.1% | 0.0% | 9.9% | 9.8% | |
| Deferred tax asset | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Revenue growth | | 47.9% | 24.2% | 47.0% | 57.8% | 36.0% | |
| Other non current assets | 0.1 | 0.2 | 2.9 | 7.8 | 14.4 | EBIT growth pa | | nm | n/a | n/a | (113.5%) | 882.8% | |
| Total non current assets | 1.2 | 13.3 | 17.8 | 23.9 | 31.0 | Pricing | | FY20A | FY21A | FY22F | FY23F | FY24F | |
| Total Assets | 5.4 | 22.3 | 28.3 | 33.3 | 42.2 | No of shares (y/e) | (m) | 82 | 105 | 145 | 175 | 178 | |
| Accounts payable | 1.0 | 1.7 | 2.3 | 2.1 | 2.8 | Weighted Av Dil Shares | (m) | 82 | 105 | 145 | 175 | 178 | |
| Provisions | 0.9 | 2.2 | 1.7 | 1.7 | 1.7 | | | | | | | | |
| Borrowings | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | EPS Reported | A\$ cps | (0.0408) | (0.0247) | (0.0040) | 0.0076 | 0.0235 | |
| Deferred revenue | 1.3 | 2.1 | 2.8 | 5.2 | 7.6 | EPS Normalised/Diluted | A\$ cps | (0.0201) | (0.0161) | (0.0040) | 0.0076 | 0.0235 | |
| Total current liabilities | 3.3 | 6.0 | 6.8 | 9.0 | 12.2 | EPS growth (norm/dil) | | n/a | -20% | -75% | -290% | 208% | |
| Provisions | 0.5 | 3.1 | 2.6 | 1.8 | 0.7 | DPS | cps | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | |
| Deferred liabilities | 0.0 | 1.3 | 1.7 | 3.2 | 4.6 | DPS Growth | | n/a | n/a | n/a | na | na | |
| Total long term liabilities | 0.5 | 4.3 | 4.2 | 5.0 | 5.4 | Dividend yield | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| Total Liabilities | 3.8 | 10.3 | 11.1 | 14.0 | 17.5 | Dividend imputation | | 0 | 0 | 0 | 0 | 0 | |
| Net Assets | 1.6 | 12.0 | 17.3 | 19.3 | 24.6 | PE (x) | - | 9.5 | - 11.8 - | 47.3 | 24.9 | 8.1 | |
| | | | | | | PE market | | 18.0 | 18.0 | 18.0 | 18.0 | 18.0 | |
| Share capital | 18.2 | 30.9 | 38.0 | 39.9 | 42.5 | Premium/(discount) | | (152.6%) | (165.4%) | (362.9%) | 38.2% | (55.1%) | |
| Reserves | 1.2 | 2.0 | 2.0 | 2.0 | 2.0 | EV/EBITDA (x) | | (8.3) | (13.2) | (9.9) | 14.0 | 0.0 | |
| Accumulated losses | (17.9) | (20.9) | (22.7) | (22.6) | (19.8) | FCF/Share | A cps | (0.010) | (0.031) | (0.031) | (0.014) | 0.002 | |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Price/FCF share | | (19.7) | (6.1) | (6.1) | (13.4) | 79.0 | |
| Total Shareholder funds | 1.5 | 12.0 | 17.3 | 19.3 | 24.6 | Free Cash flow Yield | | (2.4%) | (9.9%) | (13.4%) | (7.5%) | 1.3% | |

Source: Company data for actuals, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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 - Securities
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The science of climate change is common knowledge and its impacts may damage the global economy. Mitigating climate change may also disrupt the global economy. Investors need to make their own assessments and we disclaim any liability for the impact of either climate change or mitigating strategies on any investment we recommend.

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