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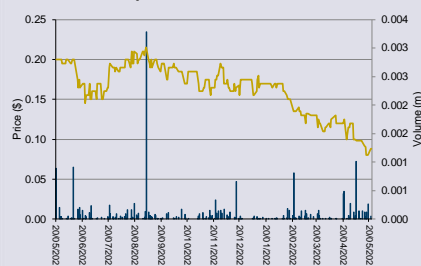
SPEC BUY

Current Price \$0.09

Valuation \$0.28

Ticker:		K2F.ASX	
Sector:		Software	
Shares on Issue (m):		175.3	
Market Cap (\$m):		15.4	
Net Debt / (Cash) (\$m):		-4.1	
Enterprise Value (\$m):		11.3	
52 wk High/Low:		0.215	0.080
12m Av Daily Vol (m):		0.1	
Key Metrics			
	22A	23F	24F
EV/End ARR (x)	1.7	1.4	1.0
EV/EBITDA (x)	neg	neg	neg
P/E (x)	neg	neg	neg
Ratios			
	22A	23F	24F
ND / Equity	-58.9%	-36.3%	-11.3%
EBITDA Mgn	-40.3%	-13.2%	-1.9%
RoA	-32.1%	-17.8%	-10.2%
RoE	-35.5%	-24.2%	-18.6%
Financials*:			
	22A	23F	24F
ARR Beg (\$m)	3.4	6.0	7.6
ARR End (\$m)	6.0	7.6	10.4
Revenue (\$m)	10.0	11.9	14.5
EBITDA (\$m)	-4.0	-1.6	-0.3
EBIT (\$m)	-5.4	-3.4	-2.1
NPAT (\$m)	-4.6	-3.0	-1.9
* Underlying			
Net Assets (\$m)	14.0	11.0	9.1
Op CF (\$m)	-0.8	-0.5	0.6
Per Share Data:			
	22A	23F	24F
Norm. EPS (cps)	-3.17	-1.75	-1.08
DPS (cps)	0.00	0.00	0.00
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	-0.35	-2.93	-4.65
CFPS (cps)	-0.58	-0.27	0.37

Share Price Graph



Please refer to important disclosures at the end of the report (from page 5)

Wednesday, 24 May 2023

K2fly (K2F)

Addressing a need

Analyst | Ian Christie

Quick Read

It is not difficult predicting an increasing focus on the ESG issues which K2F's solutions uniquely address, even if earnings and cash flow during the Company's early growth phase are harder to forecast. The current enterprise value (EV) does not reflect the potential, which we expect will be realised as K2F nears earnings and cash flow inflection.

Key points

Implementation go live: In the 2nd quarter FY23 material new contracts were signed with Rio Tinto, Mineral Resources, ArcelorMittal, and Anglo American. The 3rd quarter saw contract implementation go live, most notably the Ground Disturbance solution at BHP and the Rio Tinto Reconciliation module across 24 reporting sites. Annual Recurring Revenue (ARR) of \$7.0M at the end of 3Q23 was little changed over the three months.

Lumpy cash: We expect a pick-up in operating cash inflows in the June and September quarters to help offset investing cash outflows (which include the capitalised portion of investment in software development) and pencil in a cash balance of ~\$4M at end June. We expect a sustainable EBITDA inflection point toward the back end of FY24 but note that lumpiness in receipts may see a drawdown in cash to low levels on a quarterly reporting basis during the financial year. This will bear watching.

Upward trend: Our forecasts continue to assume TCV and ARR growth, albeit at a slower rate than under our previous assumptions, through to FY26. Beyond this we assume single digit growth rates (as before). With GP margins expected to climb to ~70% over this period and a fixed cost base that will not need to grow at the same pace as revenue, we assume EBITDA margins in the teens by FY25 and in the twenties by FY26 (see page 4). These numbers require the rollover of existing contracts (highly likely) as well as the continued addition of new contracts (where there is higher forecasting risk).

Resource governance: While revenue and earnings may be difficult to forecast, it's not hard to predict a maintained focus by investors, regulators, companies, and the public on the ESG issues which K2F's solutions directly address. Establishing a footprint across many of the largest global miners (see page 3) validates the software and puts K2F in a strong position to sell more solutions across its existing client base (see page 4) as well as attract new customers, particularly given limited competition across K2F's off the shelf solutions.

Recommendation

Our valuation falls to \$0.28 (prior \$0.30) on model adjustments. These rely on forecasts the likelihood of which will be dependent on the pace of new work won and the cash conversion over coming quarters. With little to no commercial off the shelf competition and product validation by many of the world's top miners we expect a rerating as K2F demonstrates it is tracking towards earnings and cash flow breakeven.

K2fly

Equity Research

Ian Christie, CFA

Recommendation	SPEC BUY
Current Price (\$)	0.088
Valuation (\$)	0.280

Sector	Software
Market Cap (\$m)	15.4
Enterprise Value (\$m)	11.3
Date	24 May 2023

Trading Metrics	FY22A	FY23F	FY24F	FY25F
EV / EBITDA (x)	(2.6)	(6.6)	(38.5)	3.8
EV / EBIT (x)	(1.9)	(3.1)	(5.0)	10.7
P/E (x)	(2.8)	(5.0)	(8.1)	17.4
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY22A	FY23F	FY24F	FY25F
Reported EPS (cps)	-3.17	-1.75	-1.08	0.50
Adjusted EPS (cps)	-3.17	-1.75	-1.08	0.50
Div. per share (cps)	0.00	0.00	0.00	0.00
NTA per share (cps)	-0.35	-2.93	-4.65	-4.82
CF per share (cps)	-0.58	-0.27	0.37	2.63

P&L (\$m)*	FY22A	FY23F	FY24F	FY25F
Revenue	10.0	11.9	14.5	20.2
GP	4.7	5.4	8.1	13.1
GP Margin	47%	46%	56%	65%
Other Income/Expenses	(8.7)	(7.0)	(8.4)	(10.4)
EBITDA	(4.0)	(1.6)	(0.3)	2.7
EBITDA Margin	n/a	n/a	n/a	13.5%
D&A	(1.4)	(1.8)	(1.8)	(1.7)
EBIT	(5.4)	(3.4)	(2.1)	1.0
PBT	(5.5)	(3.4)	(2.1)	1.0
NPAT	(4.6)	(3.0)	(1.9)	0.9

* Underlying

Cash Flow (\$m)	FY22A	FY23F	FY24F	FY25F
Receipts	12.6	14.0	16.3	21.8
Payments	(13.6)	(14.4)	(15.7)	(17.2)
Other	0.2	0.0	-	(0.1)
Cash from Operations	(0.8)	(0.5)	0.6	4.5
Property, Plant & Equip	(0.1)	(0.1)	(0.1)	(0.1)
Payment for Subsidiary	(0.5)	(0.5)	(0.7)	-
Other	(2.7)	(3.0)	(2.5)	(2.5)
Cash From Investing	(3.3)	(3.6)	(3.3)	(2.6)
Issue of Shares	5.8	-	-	-
Net Borrowing	(0.2)	(0.3)	(0.4)	(0.4)
Dividends / Other	-	-	-	-
Cash From Financing	5.7	(0.3)	(0.4)	(0.4)
Net Cash Flow	1.5	(4.3)	(3.0)	1.6
Ending Cash	8.3	4.0	1.0	2.7

Balance Sheet (\$m)	FY22A	FY23F	FY24F	FY25F
Cash	8.3	4.0	1.0	2.7
Receivables	1.9	2.0	2.4	3.3
Inventory / Other	-	-	-	-
Current Assets	10.2	6.0	3.4	6.0
Property, Plant & Equip	0.1	0.1	0.1	0.1
Other NC Assets	16.1	17.6	18.7	19.9
Non-Current Assets	16.2	17.7	18.8	20.0
Total Assets	26.4	23.7	22.2	26.0
Payables	2.2	2.8	2.4	2.7
Borrowings	-	-	-	-
Provisions / Other	10.1	9.9	10.7	13.2
Total Liabilities	12.4	12.7	13.1	16.0
Net Assets	14.0	11.0	9.1	10.0
Ordinary Equity	36.9	36.9	36.9	36.9
Reserves	2.7	2.7	2.7	2.7
Retained Earnings	(25.5)	(28.5)	(30.4)	(29.5)
Total Equity	14.0	11.0	9.1	10.0

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	12.0%		
PV Free Cash Flow (\$m)		43.8	
Less Net Debt / Plus Cash (\$m)		5.0	
Plus Unpaid Cap (\$m)		-	
Equity Value (\$m)		48.8	0.28

The Implied ARR Multiple based on our DCF Valuation:			
Implied multiple based on current ARR of \$7M			6.3

Valuation (\$/share)	0.28
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P&L (\$m)*	1H22A	2H22A	1H23A	2H23F
Revenue	4.6	5.4	5.4	6.5
GP	2.1	2.6	2.3	3.1
GP Margin	46%	47%	43%	48%
Other Income/Expenses	(4.3)	(4.4)	(3.5)	(3.5)
EBITDA	(2.2)	(1.9)	(1.2)	(0.4)
EBITDA Margin	n/a	n/a	n/a	n/a
D&A	(0.6)	(0.7)	(0.9)	(0.9)
EBIT	(2.8)	(2.6)	(2.1)	(1.2)
PBT	(2.8)	(2.7)	(2.1)	(1.2)
NPAT	(1.7)	(2.9)	(2.0)	(1.0)

* Underlying

Cash Flow (\$m)	1H22A	2H22A	1H23A	2H23F
Receipts	5.4	7.2	5.1	8.9
Payments	(6.7)	(6.8)	(6.6)	(7.8)
Other	0.1	0.1	0.0	(0.0)
Cash from Operations	(1.3)	0.4	(1.5)	1.0
Property, Plant & Equip	(0.1)	(0.0)	(0.0)	(0.0)
Payment for Subsidiary	(0.5)	(0.0)	(0.1)	(0.4)
Other	(1.3)	(1.4)	(1.5)	(1.5)
Cash From Investing	(1.9)	(1.5)	(1.7)	(1.9)
Issue of Shares	-	5.8	-	-
Net Borrowing	(0.1)	(0.1)	(0.1)	(0.1)
Dividends / Other	-	-	-	-
Cash From Financing	(0.1)	5.7	(0.1)	(0.1)
Net Cash Flow	(3.2)	4.7	(3.3)	(1.0)
Ending Cash	3.6	8.3	5.0	4.0

Financial Ratios	FY22A	FY23F	FY24F	FY25F
Growth				
Revenue growth (%)	44.0%	19.0%	21.8%	39.2%
EBITDA growth (%)	N/A	N/A	N/A	N/A
NPAT growth (%)	N/A	N/A	N/A	N/A
Profitability Ratios				
EBITDA Margin (%)	-40.3%	-13.2%	-1.9%	13.5%
Return on Assets (%)	-32.1%	-17.8%	-10.2%	4.4%
Return on Equity (%)	-35.5%	-24.2%	-18.6%	9.1%
ROIC (%)	-19.9%	-7.9%	-2.6%	8.0%
Balance Sheet Ratios				
Net Debt (ND) / Equity (%)	-58.9%	-36.3%	-11.3%	-26.6%
ND / ND + Equity (%)	-143.3%	-57.0%	-12.7%	-36.2%
Current Ratio (x)	1.1	0.6	0.3	0.4
Net Interest Cover (x)	-54.0			
Cash Flow Ratios				
Free Cash Flow Yield (%)	-11.6%	-6.7%	-0.8%	29.4%
Cash Conversion (x)	0.2	0.3	(2.4)	1.7

Contracts

K2F has been awarded a number of contracts by some of the world's largest mining companies

Figure 1. K2F SaaS Contracts (since acquisition of RCubed in May 2019)

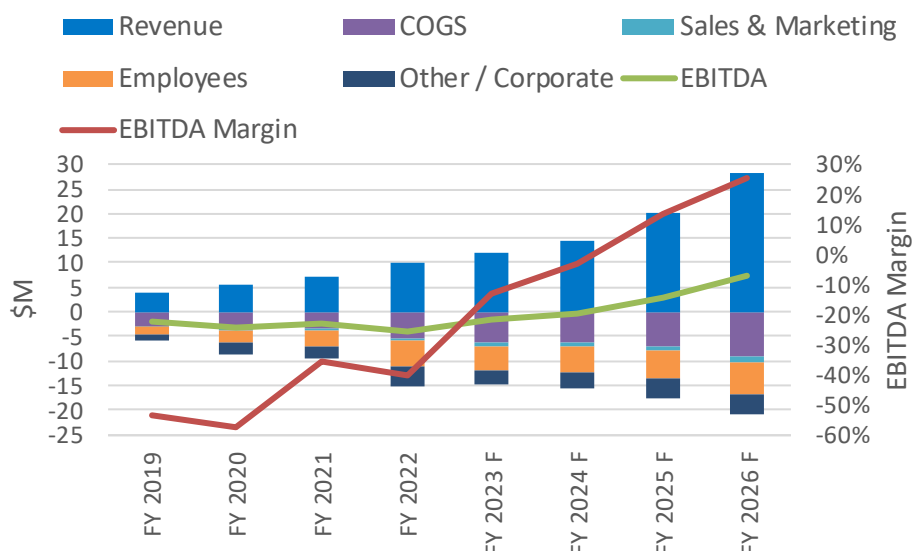
Date	Client	TCV	ARR (Incl. Arg. Est.)*	Value Year 1*	Contract Length	SaaS Solution	Locations
3-Jun-19	Imerys SA	N/A	N/A	\$0.15M	N/A	Resource Governance	80 sites, 25 countries
15-Aug-19	Glencore Canada	N/A	N/A	\$0.25M	Renewable annually	Resource Governance	56 sites, 7 countries
2-Sep-19	Newcrest Mining	\$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	Sibenco	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
9-May-22	BHP	\$2.12M	\$0.62M	\$2.12M	1.0 years	Ground Disturbance	Pilbara Iron Ore operations
28-Sep-22	Fortescue Metals	\$1.20M		\$1.20M	0.5 years	Software development	n/a
30-Sep-22	Imerys	\$0.86M	\$0.12M	\$0.61M	3.0 years	Land Access	15 sites
21-Nov-22	Rio Tinto	\$0.36M	\$0.08M	\$0.21M	3.0 years	Reconciliation	Global operations using RCubed
22-Nov-22	Mineral Resources	\$1.75M	\$0.48M	\$0.80M	3.0 years	Model Manager & Ore Blocker	Iron ore and lithium operations
28-Nov-22	ArcelorMittal	\$1.90M	\$0.33M	\$0.57M	5.0 years	Resource Discl. & Model Mgr	10 mining regions
12-Dec-22	Anglo American	\$1.44M	\$0.38M	\$0.69M	3.0 years	Resource Discl.	All commodities & regions

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

Source: Argonaut, from K2F announcements

Forecasts

Figure 2. Argonaut forecasts through FY26



Source: Argonaut forecasts

We currently forecast EBITDA breakeven toward the latter part of FY24, EBITDA margins in the teens in FY25, and in the twenties in FY26

Opportunities with existing clients

Figure 3. K2F's "Land & Expand" strategy

	K2fly Solution Penetration									
	Land Access	Heritage Management	Ground Disturbance	Tailings Management	Mine Rehabilitation	Resource Disclosure	Mine Reconciliation	Model Manager	Ore Blocker	Mine Geology
RioTinto										
BHP										
Newmont										
SOUTH32										
GLENCORE										
ROYAL DUTCH										
Sibanye Stillwater										
FMG										
Global Aluminum Provider										
AngloAmerican										
ArcelorMittal										

Source: K2F, where shading denotes products currently contracted

K2F has numerous opportunities with existing clients to sell additional solutions

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