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SPEC BUY

Current Price \$0.075

Valuation \$0.28

Ticker: K2F.ASX
Sector: Software

Shares on Issue (m): 175.3
Market Cap (\$m): 13.1
Net Debt / (Cash) (\$m): -4.4
Enterprise Value (\$m): 8.7

52 wk High/Low: 0.195 0.071
12m Av Daily Vol (m): 0.1

Key Metrics

	24F	25F
EV/End ARR (x)	0.9	0.7
EV/EBITDA (x)	neg	4.7
P/E (x)	neg	15.5

Ratios

	23A	24F	25F
ND / Equity	-34.8%	-16.2%	-19.6%
EBITDA Mgn	-13.5%	-5.1%	8.6%
RoA	-13.9%	-9.2%	4.5%
RoE	-15.8%	-13.4%	8.3%

Financials*:

	23A	24F	25F
ARR Beg (\$m)	6.0	7.5	9.8
ARR End (\$m)	7.5	9.8	13.3
Revenue (\$m)	12.8	16.6	21.2
EBITDA (\$m)	-1.7	-0.8	1.8
EBIT (\$m)	-2.6	-1.8	0.9
NPAT (\$m)	-2.1	-1.5	0.8

* Underlying

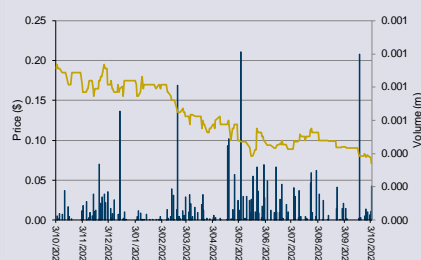
Net Assets (\$m) 12.8 10.2 10.1

Op CF (\$m) -0.6 -0.2 2.5

Per Share Data:

	23A	24F	25F
Norm. EPS (cps)	-1.21	-0.87	0.48
DPS (cps)	0.00	0.00	0.00
Div Yield	0.0%	0.0%	0.0%
NTAPS (cps)	-1.74	-3.32	-3.56
CFPS (cps)	-0.33	-0.10	1.43

Share Price Graph



Please refer to important disclosures from page 4

Wednesday, 4 October 2023

k2fly (K2F)

Holistic solution

Analyst | Ian Christie

Quick Read

We expect intensifying focus on the resource governance issues which K2F's solutions directly address. Establishing a strong foothold with many of the largest global miners validates the software and puts K2F in a solid position to expand its resource governance solution suite across existing clients and to attract new customers.

Key points

Momentum into FY24: K2F generated positive EBITDA in 2H23, albeit small, as contracts won in 1H23 went live and associated consulting and implementation revenue helped drive overall revenue growth of 36% on the 1H. K2F's annual recurring revenue (ARR) climbed from \$6.0M to \$7.5M through the year, and this has subsequently increased to ~\$7.8M post a Roy Hill contract awarded in July. Our overall FY24 revenue forecast of \$16.6M accounts for the revenue run rate going into FY24 and an assumption that further contracts are awarded. We expect gross margins to climb as SaaS revenue increases, and as other expense growth levels off we anticipate, as before, sustainable positive EBITDA from FY25, and potentially as early as 2H24.

Right place, right time: We are confident K2F will continue to grow its recurring revenue base. The acquisition of complementary software and investment in its own software development has resulted in a broad set of first-mover resource governance solutions. These address a more complicated regulatory and ESG reporting regime, which we expect will lead to increased demand for an enterprise-level commercial off the shelf (COTS) solution. The quality of the client list, which sees 7 of the top 10 global miners represented, bears testament to the growing need for a comprehensive governance solution as well as providing strong validation of the software. With the spotlight on a miner's license to operate we expect K2F to roll out more of its solutions to clients to deliver a holistic resource governance template that builds on the traditional narrower focus on mineral resources. The opportunity is large, with K2F indicating today's serviceable obtainable market ARR is \$62M (see page 3).

Balance: K2F is focused on striking a balance between managing growth and managing costs as it progresses towards cash flow and earnings breakeven over the next 6-18 months. The \$2M Maptek working capital facility provides some flexibility, but quarterly cash flows and business updates in coming periods will provide more clarity on progress.

Valuation & recommendation

Our unchanged valuation of \$0.28 relies on forecasts dependent on the pace of new work won and cash conversion over coming quarters. It is well ahead of the current share price, which we do not believe reflects the opportunity. With little to no COTS competition and product validation by many of the world's top miners, we expect K2F to demonstrate continued growth in ARR in coming periods.



K2fly

Equity Research

Ian Christie, CFA

Recommendation	SPEC BUY
Current Price (\$)	0.075
Valuation (\$)	0.280

Sector	Software
Market Cap (\$m)	13.1
Enterprise Value (\$m)	8.7
Date	4 October 2023

Trading Metrics	FY22A	FY23A	FY24F	FY25F
EV / EBITDA (x)	(1.8)	(5.0)	(10.3)	4.7
EV / EBIT (x)	(1.6)	(3.4)	(4.9)	9.6
P/E (x)	(2.6)	(6.2)	(8.6)	15.5
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Per Share Data	FY22A	FY23A	FY24F	FY25F
Reported EPS (cps)	-3.17	-1.27	-1.45	-0.09
Adjusted EPS (cps)	-2.94	-1.21	-0.87	0.48
Div. per share (cps)	0.00	0.00	0.00	0.00
NTA per share (cps)	-0.35	-1.74	-3.32	-3.56
CF per share (cps)	-0.58	-0.33	-0.10	1.43

P&L (\$m)*	FY22A	FY23A	FY24F	FY25F
Revenue	10.0	12.8	16.6	21.2
GP	4.7	6.4	8.8	12.2
GP Margin	47%	50%	53%	58%
Other Income/Expenses	(9.7)	(8.2)	(9.6)	(10.4)
EBITDA	(5.0)	(1.7)	(0.8)	1.8
EBITDA Margin	n/a	n/a	n/a	8.6%
D&A	(0.4)	(0.8)	(0.9)	(0.9)
EBIT	(5.3)	(2.6)	(1.8)	0.9
PBT	(5.4)	(2.7)	(1.8)	0.8
NPAT	(4.3)	(2.1)	(1.5)	0.8
Reported NPAT	(4.6)	(2.2)	(2.5)	(0.2)

* Adjusted for amortisation of acquired software and revaluations of provisions

Cash Flow (\$m)	FY22A	FY23A	FY24F	FY25F
Receipts	12.6	13.5	17.1	21.6
Payments	(13.6)	(14.3)	(17.2)	(19.1)
Other	0.2	0.3	(0.0)	(0.1)
Cash from Operations	(0.8)	(0.6)	(0.2)	2.5
Property, Plant & Equip	(0.1)	(0.0)	(0.2)	(0.2)
Payment for Subsidiary	(0.5)	(0.3)	(0.4)	-
Other (internal software dev)	(2.7)	(2.7)	(1.8)	(1.8)
Cash From Investing	(3.3)	(3.0)	(2.4)	(1.9)
Issue of Shares	5.8	-	-	-
Net Borrowing / Lease Repay	(0.2)	(0.2)	0.8	(0.3)
Dividends / Other	-	-	-	-
Cash From Financing	5.7	(0.2)	0.8	(0.3)
Net Cash Flow	1.5	(3.8)	(1.8)	0.3
Ending Cash	8.3	4.4	2.7	3.0

Balance Sheet (\$m)	FY22A	FY23A	FY24F	FY25F
Cash	8.3	4.4	2.7	3.0
Receivables	1.9	1.9	2.5	3.2
Inventory / Other	-	-	-	-
Current Assets	10.2	6.3	5.2	6.2
Property, Plant & Equip	0.1	0.1	0.2	0.2
Other NC Assets	16.1	16.8	17.0	17.3
Non-Current Assets	16.2	16.9	17.2	17.5
Total Assets	26.4	23.2	22.3	23.6
Payables	2.2	3.1	3.3	3.6
Borrowings	-	-	1.0	1.0
Provisions / Other	10.1	7.4	7.8	8.9
Total Liabilities	12.4	10.5	12.1	13.6
Net Assets	14.0	12.8	10.2	10.1
Ordinary Equity	36.9	37.2	37.2	37.2
Reserves	2.7	3.2	3.2	3.2
Retained Earnings	(25.5)	(27.6)	(30.1)	(30.3)
Total Equity	14.0	12.8	10.2	10.1

Valuation	Calcs.	\$m	\$ps
DCF Valuation:			
Discount Rate / WACC (%)	12.0%		
PV Free Cash Flow (\$m)		45.4	
Less Net Debt / Plus Cash (\$m)		4.4	
Plus Unpaid Cap (\$m)		-	
Equity Value (\$m)		49.8	0.28

The Implied ARR Multiple based on our DCF Valuation:			
Implied multiple based on current ARR of \$7.5M			6.0

Valuation (\$/share)	0.28
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P&L (\$m)*	1H22A	2H22A	1H23A	2H23A
Revenue	4.6	5.4	5.4	7.4
GP	2.1	2.6	2.3	4.1
GP Margin	46%	47%	43%	55%
Other Income/Expenses	(4.3)	(5.4)	(4.2)	(4.0)
EBITDA	(2.2)	(2.8)	(1.8)	0.1
EBITDA Margin	n/a	n/a	n/a	1.6%
D&A	(0.1)	(0.2)	(0.4)	(0.4)
EBIT	(2.3)	(3.0)	(2.3)	(0.3)
PBT	(2.3)	(3.1)	(2.3)	(0.4)
NPAT	(1.2)	(3.1)	(1.9)	(0.2)
Reported NPAT	(1.7)	(2.9)	(2.0)	(0.2)

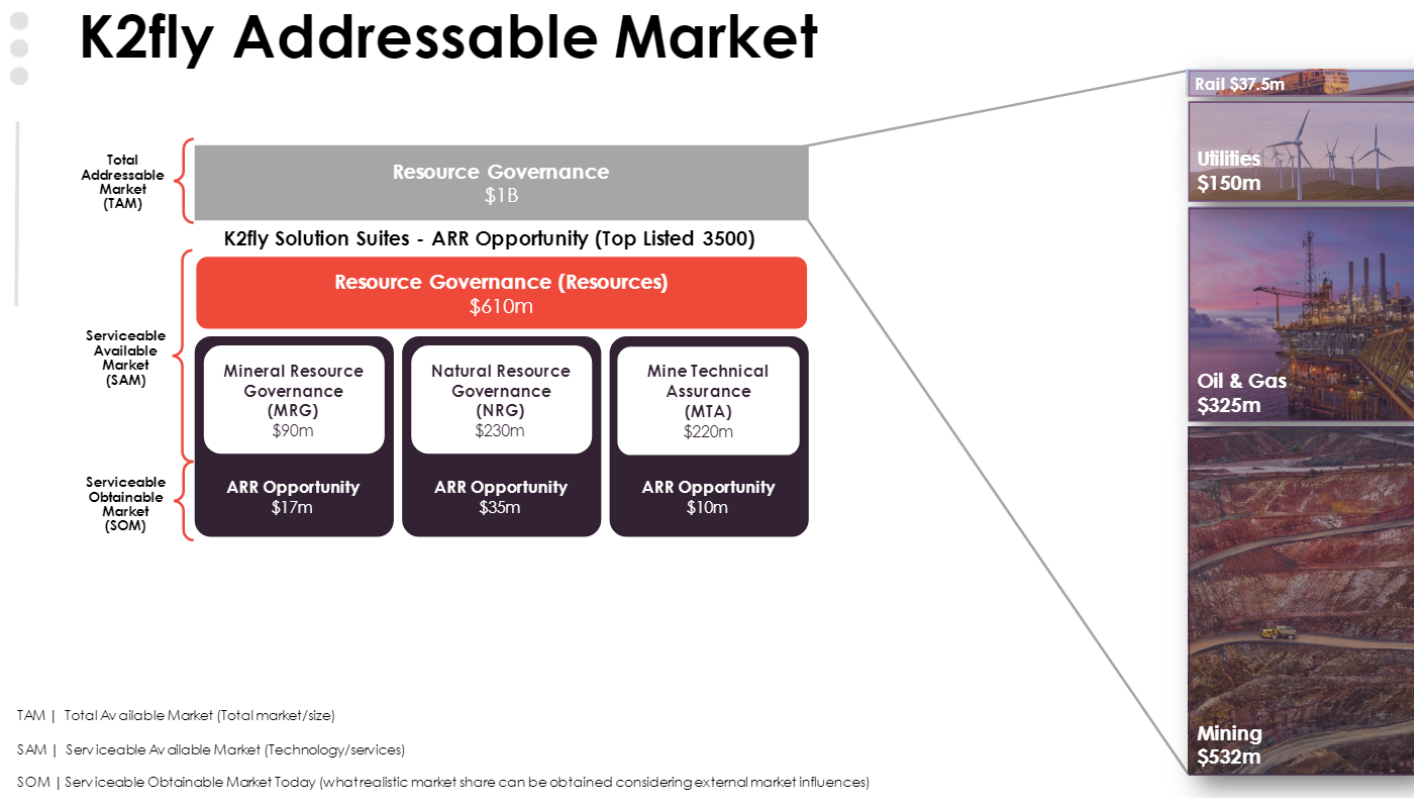
* Adjusted for amortisation of acquired software and revaluations of provisions

Cash Flow (\$m)	1H22A	2H22A	1H23A	2H23A
Receipts	5.4	7.2	5.1	8.4
Payments	(6.7)	(6.8)	(6.6)	(7.7)
Other	0.1	0.1	0.0	0.2
Cash from Operations	(1.3)	0.4	(1.5)	0.9
Property, Plant & Equip	(0.1)	(0.0)	(0.0)	(0.0)
Payment for Subsidiary	(0.5)	(0.0)	(0.1)	(0.2)
Other (internal software dev)	(1.3)	(1.4)	(1.5)	(1.2)
Cash From Investing	(1.9)	(1.5)	(1.7)	(1.4)
Issue of Shares	-	5.8	-	-
Net Borrowing / Lease Repay	(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)	(0.5)
Ending Cash	3.6	8.3	5.0	4.4

Financial Ratios	FY22A	FY23A	FY24F	FY25F
Growth				
Revenue growth (%)	44.0%	28.2%	29.1%	28.1%
EBITDA growth (%)	N/A	N/A	N/A	N/A
NPAT growth (%)	N/A	N/A	N/A	N/A
Profitability Ratios				
EBITDA Margin (%)	-49.7%	-13.5%	-5.1%	8.6%
Return on Assets (%)	-31.8%	-13.9%	-9.2%	4.5%
Return on Equity (%)	-32.9%	-15.8%	-13.4%	8.3%
ROIC (%)	-24.2%	-9.1%	-5.5%	5.8%
Balance Sheet Ratios				
Net Debt (ND) / Equity (%)	-58.9%	-34.8%	-16.2%	-19.6%
ND / ND + Equity (%)	-143.3%	-53.4%	-19.3%	-24.4%
Current Ratio (x)	1.1	0.7	0.5	0.5
Net Interest Cover (x)	-54.0	-21.1	-69.4	-1.1
Cash Flow Ratios				
Free Cash Flow Yield (%)	-13.6%	-8.0%	-6.0%	17.6%
Cash Conversion (x)	0.2	0.3	0.2	1.4

The addressable market

Figure 1: the opportunity



Source: K2F

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