

RESEARCH REPORT

IkeGPS (IKE.NZ / IKE.AX)

On track to cash flow breakeven in current quarter

BUY

12 Month Target	NZ\$0.62 A\$0.58
Price	NZ\$0.38 A\$0.35
Implied Return	63%

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Company Data

Recommendation:	BUY
Price Target (NZX)	NZ\$0.62
Price Target (ASX)	A\$0.58
Price NZX (Date 06-12):	\$0.38
Price ASX (Date 06-12)	\$0.35
Expected Return:	63%
NZX Code:	IKE
ASX Code:	IKE
Shares on Issue:	78.45m
Market capitalisation	NZ\$29.97m
12 month price range	NZ\$0.26-\$0.42
Average Volume (3-Month)	52,883

Major Shareholders

Nicola Jane Wilson	12.5%
Scobie Ward	8.8%
Alex Knowles	4.8%
NZVIF Investments Ltd.	4.5%
Accident Compensation Corporation	4.1%

Financial Highlights

NZ\$'000	03/17A	03/18F	03/19F	03/20F
Operating Revenue	5,655	8,598	13,109	18,829
Gross Margin	39.9%	50.0%	60.0%	71.0%
EBITDA	(8,815)	(3,963)	1,233	6,934
Net Income	(10,727)	(5,972)	(718)	5,057



Source: Thomson Reuters Datastream

Update

IkeGPS (IKE.NZ), in a market announcement released positive commentary and continues to perform in FY18 with the Company maintaining it will become operating cash flow breakeven in Q4 based on sales won and shipped YTD. Ike's three product lines were all discussed, with the following key takeaways:

IKE4 (Electrical Utilities, Communication and Engineering)

- The Company's lead product, continues to outperform with 143 and 362 systems shipped in Q3 and ordered YTD respectively. This exceeds recently upgraded volume guidance of 360 systems for FY18 and 70% YoY growth.
- Trials with large enterprise accounts continue to fill the sales pipeline, whilst validating the product against traditional methodology. Trials showed increased efficiencies of up 2x in the field and 5x in the back office.
- IKE4 Analyze, a new offering, providing analysis and reporting services on captured field data is expected to increase revenues by US\$1m p.a. in FY19.

Spike (Signage, Architecture, Engineering and Construction)

- Signage market unit volumes were lower than anticipated recording 440 sales for the period and 1750 YTD; and
- The joint product launch of Spike with Esri (geospatial software) occurring in the current quarter and first sales and first sales expected Q1 FY19.

Smart Measure Pro (Construction and DIY)

- 8800 units shipped YTD with no further sales expected in FY18.

Analysis

Ike has demonstrated its ability to close out a large targeted account this year with IKE4. The contract win with AT&T (IkeGPS_Update_30_10_2017), the world's largest telecommunications company, has helped increase units sales for Q3 and gives us confidence for future on-sell/scalability including growth in recurring software subscription. Moreover, the Company has a well-developed sales pipeline targeting large enterprise accounts, with multiple trials, leasing options and rentals underway. Although short term variability will continue with the closing out of larger contracts, there is significant long term growth potential. Ike's strong service and R&D focus is shown through its customer business solution and technology development appealing more to the end user through offerings such as; IKE4 Analyze and their forecast (FY18Q4) joint Spike product launch with Esri, the global market leader in GIS software.

Forecast change and recommendation

Stronger sales YTD and visibility in the sales pipeline leads us to upgrade our IKE4 unit sales in FY18 from 70-100% growth pcp, representing an increase of Approximately 60 units (NZ\$0.8m). We retain our 45% YoY growth onwards from FY19 and will review this figure on future large enterprise wins. Additionally, we have introduced Ike Analyze into our model generating revenue on a pole by pole basis. Forecasting approx. 80,000 poles for FY19 (US\$1m p.a) and growing at 45% YoY thereafter. Weaker sales in Spike and SMP YTD has resulted in a reduction in our forecast for FY18, representing circa NZ\$0.5m or <6.0% reduction in forecast revenue.

Sales deployments with existing and new enterprise accounts, together with advancing pilot programs with other target accounts supports our investment thesis for Ike. Subscription revenue gaining traction in FY19, with the introduction of IKE4 Analyze, leads us to **increase our price target from NZ\$0.57/A\$0.54 to NZ\$0.62/A\$0.58.**

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IkeGPS (IKE: NZ\$0.38)

Mkt cap \$29.97m

Valuation Ratios

Year ending Mar	2017A	2018E	2019E	2020E	2021E
Reported profit	(10,727)	(5,972)	(718)	5,057	10,332
EPS _{adj} (¢)	(0.17)	(0.09)	(0.01)	0.08	0.16
EPS growth	nmf	nmf	>100%	>100%	104.3%
P/Eratio	-3.1 x	-5.6 x	-46.5 x	6.6 x	3.2 x
Enterprise Value (m)	27,081,097	27,081,097	27,210,280	27,606,131	22,404,840
EV/Sales (x)	3.16 x	4.79 x	3.16 x	2.11 x	1.19 x
EV / EBIT (x)	-2.9 x	-2.5 x	-4.5 x	-35.8 x	4.5 x
EV / EBITDA (x)	-3.4 x	-3.1 x	-6.9 x	22.4 x	3.2 x
DPS (¢)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Franking	100.0%	100.0%	100.0%	100.0%	100.0%
FCFPS	(0.17)	(0.07)	(0.01)	0.08	0.16
P/FCFPS	(2.29)	(5.83)	(49.25)	4.83	2.40

Cashflow (NZ\$'000's)

Year ending Mar	2017A	2018E	2019E	2020E	2021E
NPAT	(10,727)	(5,972)	(718)	5,057	10,332
Dep'n and amort'n	1,972	2,064	2,003	1,921	2,025
Deferred tax benefit	0	0	0	0	0
Share option expenses	307	0	0	0	0
FX gains	135				
Change in Work cap	(632)	917	(581)	(727)	(975)
Operating cashflow	(8,936)	(2,991)	704	6,251	11,382
Investing cashflows					
Capex	(1,306)	(1,200)	(1,200)	(1,200)	(1,200)
Acquisitions/Divestments	0	0	0	0	0
Other	0	0	0	0	0
Free Cash Flow	(10,242)	(4,191)	(496)	5,051	10,182
Equity	7,758	4,012	0	0	0
Dividends paid	0	0	0	0	0
Net cashflow	(2,484)	(179)	(496)	5,051	10,182
Cash at beginning 01/04	5,292	2,730	2,601	2,205	7,406
Cash at end 31/03	2,730	2,601	2,205	7,406	17,788

Divisional Revenue (NZ\$'000's)

Year ending Mar	2017A	2018E	2019E	2020E	2021E
IKE 4	2,604	5,615	9,843	14,565	21,119
Spike	1,304	1,789	2,429	3,427	4,797
Stanley Pro Smart	1,894	1,195	837	837	837
Other					
Group Revenue	5,802	8,598	13,109	18,829	26,754

Profit and loss (NZ\$'000's)

Year ending Mar	2017A	2018E	2019E	2020E	2021E
Operating revenue	5,655	8,598	13,109	18,829	26,754
EBITDA	(8,815)	(3,963)	1,233	6,934	12,209
D & A	(1,972)	(2,064)	(2,003)	(1,921)	(2,025)
EBIT	(10,787)	(6,027)	(770)	5,013	10,184
Net interest income	69	55	52	44	148
NPBT	(10,718)	(5,972)	(718)	5,057	10,332
Tax Expense (benefit)	(9)	0	0	0	0
NPAT (normalized)	(10,727)	(5,972)	(718)	5,057	10,332
Significant Items	0	0	0	0	0
NPAT (Reported)	(10,727)	(5,972)	(718)	5,057	10,332
EBITDA Margin	-155.9%	-46.1%	9.4%	36.8%	45.6%
EBIT Margin	-190.8%	-70.1%	-5.9%	26.6%	38.1%
NPAT Margin	-189.7%	-69.5%	-5.5%	26.9%	38.6%

Balance sheet (NZ\$'000's)

Year ending Mar	2017A	2018E	2019E	2020E	2021E
Cash	2,730	2,601	2,205	7,406	17,788
Receivables	986	1,410	2,150	3,088	4,387
Inventories	2,513	1,500	2,287	3,285	4,667
Other	598	718	861	1,033	1,240
Current assets	6,827	6,228	7,503	14,812	28,083
Net PPE	1,370	1,080	836	619	437
Intangibles	4,048	3,474	2,915	2,411	1,767
Deferred Tax Assets	19	0	0	0	0
Other	0	0	0	0	0
Non-current assets	5,437	4,554	3,751	3,030	2,205
Total assets	12,264	10,783	11,254	17,842	30,287
Trade payables	1,250	650	991	1,423	2,022
Borrowings	0	0	0	0	0
Employee entitlements	228	326	497	714	1,015
Deferred Revenue	150	1,100	1,677	2,409	3,423
Total liabilities	1,628	2,076	3,165	4,546	6,460
NET ASSETS	10,636	8,529	7,811	12,868	23,200

Balance Sheet Ratios

Year ending Mar	2017A	2018E	2019E	2020E	2021E
Net Debt	0.0%	0.0%	0.0%	0.0%	0.0%
NTA per share NZ(\$)	0.19	0.17	0.18	0.28	0.47
Price / NTA (x)	2.0 x	2.3 x	2.2 x	1.4 x	0.8 x
Return on assets	-87.5%	-55.4%	-6.4%	28.3%	34.1%
Return on equity	-100.9%	-70.0%	-9.2%	39.3%	44.5%
P/B (x)	2.3 x	2.9 x	3.1 x	1.9 x	1.1 x

Valuation

Year ending Mar				
Discounted Cash Flow		WACC		11.40%
Beta	1.45	Discount Period		9 years
Cost of Equity	11.40%	DCF/Price Target		\$ 0.62

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Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into three main categories:

Buy: Expected Total Return in excess of 15% over a 1 year period.

Hold: Expected Total Return between 0% and 15% over a 1 year period.

Sell: Expected Total Return less than 0% over a 1 year period.

Analyst Verification

I verify that I, Paul Kaner, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

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