

RESEARCH REPORT

IkeGPS (IKE.NZ / IKE.AX)

IKE4 continues to perform

BUY

12 Month Target	NZ\$0.64 A\$0.60
Price	NZ\$0.50 A\$0.35
Implied Return	27%

Paul Kaner
+61 4 131 58120
p.kaner@lodgepartners.com.au

Company Data

Recommendation:	BUY
Price Target (NZX)	NZ\$0.64
Price Target (ASX)	A\$0.60
Price NZX (Date 06-12):	\$0.50
Price ASX (Date 06-12)	\$0.35
Expected Return:	27%
NZX Code:	IKE
ASX Code:	IKE
Shares on Issue:	78.45m
Market capitalisation	NZ\$39.25m
12 month price range	NZ\$0.26-\$0.50
Average Volume (3-Month)	53,427

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	8,711	13,314	19,141
Gross Margin	39.9%	50.0%	60.0%	71.0%
EBITDA	(8,815)	(4,018)	1,249	7,045
Net Income	(10,727)	(6,027)	(704)	5,167



Source: Thomson Reuters Datastream

Update

In a market update on 10 April 2018, IkeGPS (IKE.NZ/IKE.AX) provided commentary on their Q4 and FY18 headline performance. Pleasingly, Ike slightly exceeded its recently upgraded Q3 unit sales guidance for IKE4. Ike included no financial figures in this update (audited FY18 results due late May) however we expect the Company is trending towards operating cash flow breakeven in Q4. The key takeaways from the announcement were:

IKE4 (Electrical Utilities, Communication and Engineering)

- The Company's leading product (revenue & gross margin) deployed 467 units, inclusive of 46 rentals for FY18. This exceed our recently upgraded 420 forecast (IkeGPS_Update_06_02_2018) by 10 units (excl. rentals).
- Deployment into new large targeted enterprise accounts, Verizon Communications Inc (2nd largest Communications company in the US), and Cox Communications as well as additional follow up sales within AT&T.
- Trained more than 500 AT&T engineers out of a total addressable team of circa 1800.
- Trials and usage reports continue to illustrate efficiencies of up to 2x in the field and 5x in the back office.

Spike (Signage, Architecture, Construction and Transportation)

- Unit volumes maintained at approx.2200 units for FY18 as per Q3 update.
- The partnership and product launch with Esri (geospatial software) to target larger enterprise customers for field asset inspection.

Cash Position

- Closing cash balance of 2.6m for the quarter, further details to be provided with FY18 audited results.

Analysis

Ike has continued its ability to gain traction with large targeted accounts this year through IKE4. Following on with their contract win with AT&T (October, 2017), the Company has had initial deployments within Verizon and Cox Communications, two of the largest telecommunications company's within the U.S. market. This, along with follow up sales in Q4 with AT&T gives us confidence for future on-sell/scalability including growth in recurring software subscription. Strong sales in Q3 - Q4 have put the company in a good position to achieve operating cash flow for Q4. Additionally, the Company enhanced its Spike product through a joint partnership with Esri, the global market leader in GIS software. This integration allows Spike to be used in conjunction with Esri through their Survey 123 and Collector apps, making it easier for field staff to capture and record field asset data. Importantly, this will allow Ike to utilise Esri's dominant position within the GIS market and target larger enterprise accounts within commercial industries such as government transportation departments.

Forecast change and recommendation

Stronger sales in Q4 and YTD leads us to upgrade our IKE4 unit sales slightly for FY18 to 105% growth on pcp, representing an increase of approx. 10 units (NZ\$0.1m). We retain our 45% YoY growth onwards from FY19 and will review this figure on future large enterprise contract wins. It should be noted that the additional upside from IKE4 rental option (46 units) has not been included in our model, and will be reviewed once this revenue model becomes more mature. Strong sales deployments with existing and new enterprise IKE4 accounts, together with the recently formed partnership with Esri will support a similar large enterprise sales model for Spike. Moreover, we anticipate subscription revenue to gain traction in FY19 and supports our investment thesis for Ike, accordingly we maintain a **Buy Recommendation with a price target of NZ\$0.64/A\$0.60.**

IkeGPS (IKE.NZ / IKE.AX)

IKE4 continues to perform

IkeGPS (IKE: NZ\$0.50)

Mkt cap \$39.25m

Valuation Ratios

Year ending Mar	2017A	2018E	2019E	2020E	2021E
Reported profit	(10,727)	(5,804)	(734)	5,141	10,509
EPS_{adj} (¢)	(0.17)	(0.07)	(0.01)	0.07	0.13
EPS growth	nmf	nmf	>100%	>100%	104.4%
P/Eratio	-3.0 x	-6.8 x	-53.5 x	9.7 x	4.8 x
Enterprise Value (m)	36,495,128	36,495,128	36,567,284	36,999,350	31,688,596
EV/Sales (x)	4.26 x	6.45 x	4.47 x	2.78 x	1.66 x
EV / EBIT (x)	-4.0 x	-3.4 x	-6.2 x	-47.0 x	6.2 x
EV / EBITDA (x)	-4.6 x	-4.1 x	-9.7 x	29.6 x	4.5 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)	(0.05)	(0.01)	0.07	0.13
P/FCFPS	(3.01)	(9.49)	(73.72)	7.60	3.78

Cashflow (NZ\$'000's)

Year ending Mar	2017A	2018E	2019E	2020E	2021E
NPAT	(10,727)	(5,804)	(734)	5,141	10,509
Dep'n and amort'n	1,972	2,100	2,035	1,949	2,053
Deferred tax benefit	0	0	0	0	0
Share option expenses	307	0	0	0	0
FX gains	135				
Change in Work cap	(632)	970	(634)	(729)	(977)
Operating cashflow	(8,936)	(2,734)	668	6,361	11,585
Investing cashflows					
Capex	(1,306)	(1,400)	(1,200)	(1,200)	(1,200)
Acquisitions/Divestments	0	0	0	0	0
Other	0	0	0	0	0
Free Cash Flow	(10,242)	(4,134)	(532)	5,161	10,385
Equity	7,758	4,012	0	0	0
Dividends paid	0	0	0	0	0
Net cashflow	(2,484)	(122)	(532)	5,161	10,385
Cash at beginning 01/04	5,292	2,730	2,658	2,226	7,537
Cash at end 31/03	2,730	2,658	2,226	7,537	18,122

Divisional Revenue (NZ\$'000's)

Year ending Mar	2017A	2018E	2019E	2020E	2021E
IKE 4	2,604	5,197	10,048	14,877	21,572
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	8,181	13,314	19,141	27,206

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

Year ending Mar	2017A	2018E	2019E	2020E	2021E
Operating revenue	5,655	8,181	13,314	19,141	27,206
EBITDA	(8,815)	(3,759)	1,249	7,045	12,411
D & A	(1,972)	(2,100)	(2,035)	(1,949)	(2,053)
EBIT	(10,787)	(5,858)	(787)	5,096	10,358
Net interest income	69	55	53	45	151
NPBT	(10,718)	(5,804)	(734)	5,141	10,509
Tax Expense (benefit)	(9)	0	0	0	0
NPAT (normalized)	(10,727)	(5,804)	(734)	5,141	10,509
Significant Items	0	0	0	0	0
NPAT (Reported)	(10,727)	(5,804)	(734)	5,141	10,509
EBITDA Margin	-155.9%	-45.9%	9.4%	36.8%	45.6%
EBIT Margin	-190.8%	-71.6%	-5.9%	26.6%	38.1%
NPAT Margin	-189.7%	-70.9%	-5.5%	26.9%	38.6%

Balance sheet (NZ\$'000's)

Year ending Mar	2017A	2018E	2019E	2020E	2021E
Cash	2,730	2,658	2,226	7,537	18,122
Receivables	986	1,342	2,183	3,139	4,462
Inventories	2,513	1,500	2,441	3,509	4,988
Other	598	718	861	1,033	1,240
Current assets	6,827	6,217	7,711	15,218	28,812
Net PPE	1,370	1,080	836	619	437
Intangibles	4,048	3,638	3,047	2,515	1,843
Deferred Tax Assets	19	0	0	0	0
Other	0	0	0	0	0
Non-current assets	5,437	4,718	3,883	3,134	2,281
Total assets	12,264	10,936	11,594	18,353	31,092
Trade payables	1,250	650	1,058	1,521	2,162
Borrowings	0	0	0	0	0
Employee entitlements	228	310	505	726	1,032
Deferred Revenue	150	1,100	1,790	2,574	3,658
Total liabilities	1,628	2,060	3,353	4,820	6,851
NET ASSETS	10,636	8,697	7,964	13,104	23,613

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	0.14	0.15	0.23	0.40
Price / NTA (x)	2.6 x	3.6 x	3.4 x	2.1 x	1.3 x
Return on assets	-87.5%	-53.1%	-6.3%	28.0%	33.8%
Return on equity	-100.9%	-66.7%	-9.2%	39.2%	44.5%
P/B (x)	3.0 x	4.5 x	4.9 x	3.0 x	1.7 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	\$ 0.64

IkeGPS (IKE.NZ / IKE.AX)

IKE4 continues to perform

Disclaimer

In accordance with section 949A of the Corporations Act 2001, any recipient of the information contained in this document should note that information is general advice in respect of a financial product and not personal advice. Accordingly the recipient should note that: (a) the advice has been prepared without taking into account the recipient's objectives, financial situations or needs; and (b) because of that, the recipient should, before acting on the advice consider the appropriateness of the advice, having regard to the recipient's objectives, financial situation and needs.

Although Lodge Partners Pty Ltd ("Lodge") consider the advice and information contained in the document is accurate and reliable, Lodge has not independently verified information contained in the document which is derived from publicly available sources. Lodge assumes no responsibility for updating any advice or recommendation contained in this document or for correcting any error or admission which may become apparent after the document has been issued. Lodge does not give any warranty as to the accuracy, reliability or completeness of advice or information which is contained in this document. Except in so far as liability under any statute cannot be excluded, Lodge, its employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

General Securities Advice Warning

This report is intended to provide general securities advice. In preparing this advice, Lodge did not take into account the investment objectives, the financial situation and particular needs of any particular person. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a securities adviser, whether the advice is appropriate in light of your particular investment needs, objectives and financial circumstances.

Disclosure of Interests

The company currently is, or in the past 12 months was, a client of Lodge Partner's affiliated company and authorised representative Lodge Corporate Pty Ltd. During this period, Lodge Corporate provided investment banking services to the company. In the past 12 months, Lodge Corporate have received compensation for Investment Banking services from the company. Lodge Corporate intends to seek or expect to receive compensation for Investment Banking services from the company in the next three months.

Lodge directors, consultants and advisers currently hold 358,344 shares in the company and may buy or sell the shares from time to time. Lodge has earned and will continue to earn broking commissions by acting for individual clients that are buying or selling their shares in company.

Explanation of Lodge Partners Recommendation System:

Recommendations are assessments of each Lodge Partners Analyst's view of potential total returns over a 1 year period.

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.

Contact Lodge Partners

Lodge Partners Pty Ltd
ABN: 25 053 432 769 AFSL: 246271
Level 6, 90 Collins Street, Melbourne VIC 3000
T +61 3 9200 7000
lodgepartners.com.au