

Added funding and a potential suitor to boot

K2fly Ltd (ASX:K2F) has announced a \$6.2m capital raise. This transaction establishes a foundation for accelerated growth, and the ability to fund continued product development and working capital requirements to support this growth. The placement price of \$0.18/share represented a 4.1% premium to the 15-day VWAP but more importantly was placed with Maptek, a hardware/software solutions provider to the global mining industry with revenues of ~\$120m. Maptek becomes the largest shareholder (13.2%) with board representation and should be seen as a potential long-term suitor notwithstanding that they have guaranteed not to exceed a 19.9% holding for 12 months. Operationally, Maptek offers significant collaboration opportunities. Since the December half-year K2F's ARR has increased 8% (to \$5.2m) with the signing of contracts with South32 and Freeport McMoRan and is well on track to achieve our \$5.4m June 2022 forecast. Incorporating the capital raise, our DCF valuation has been revised to \$96m or \$0.55/share from \$72m or \$0.52/share. A forecast acceleration in revenues more than offsets equity dilution and additional product development costs in the form of capitalised software spend.

Business model

K2F licenses software together with associated consulting and implementation services to large/enterprise mining companies around the world. Key software products centre around mineral resources and reserves governance (RCubed), community and heritage/land access (Infoscope), mining technical assurance (Sateva), and rehabilitation and tailings management (Decipher). 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.

Extended cash runway and a possible long-term suitor

The \$6.2m capital raise (\$5.8m net) should provide K2F with ample cash runway to execute growth ambitions across its suite of products, targeted regions and commodities. The raise was supported by existing institutional shareholders, management and, most importantly, Maptek, which is a hardware/software provider to the global mining industry with revenues of ~\$120m and a speciality across 3D modelling, spatial analysis and design technology. Maptek not only offers the potential for collaboration across accounts and product offerings but could be seen as a long-term suitor.

Valuation of \$0.55/share or \$96m market cap

Our DCF valuation has been revised up to \$0.55/share (from \$0.52/share) on accelerated revenue growth assumptions enabled by the raise. This more than offsets the increased shares on issue (-\$0.07/share) and higher product development spend (-\$0.02/share). The DCF incorporates a WACC of 10.4%, CAGR revenue growth in the forecast period of 43% (up from 35%), 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 ~5.6x March 2022 as the group's products are <two years on the market.

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

Year end	TCV*	Revenue	Adj. EBITDA	Adj. NPAT	EPS (adj.) (c)	P/E (x)	EV/Sales (x)
06/21a	9.9	7.0	(2.0)	(2.1)	(0.016)	nm	2.2
06/22e	20.5	10.5	(3.0)	(1.5)	(0.003)	nm	2.4
06/23e	39.2	16.7	0.9	0.4	0.009	23.8	1.4
06/24e	52.5	22.5	4.7	3.0	0.025	8.8	1.5

Source: Company announcements for FY21; RaaS estimates FY22e, FY23e and FY24e; *Total Contract Value

Software & Services

12th April 2022

Share Details

ASX code	K2F
Share price	\$0.22
Market capitalisation*	\$38.6M
Shares on issue*	175.5M
Net cash post raise *	\$7.7M
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
- Fail to achieve contract renewals or renew at significantly lower prices
- Loss of key people

Board of Directors

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

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Capital Raise Summary

The key takeaways from the recently announced capital raise include:

- \$6.2m raise (~\$5.8m net) resulting in post raise net cash of ~\$7.7m pre transaction costs;
- 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 who will 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.

Earnings revisions

Our FY22 earnings revisions are unchanged, with key revisions coming in the FY23-FY25 forecast period. In summary:

- Since the interim result K2F have signed Freeport McMoRan to its RCubed product and South32 to its tailings product. The ARR as a result is now \$5.2m, up from \$4.8m in December 2021 and on track to hit our June 2022 estimate of \$5.4m. Our medium-term labour cost assumptions were increased following the half-year results to capture the tight IT labour market.
- Our take on the capital raise is it has the potential to accelerate revenue growth from both a marketing and implementation viewpoint. As a result, we have increased our revenue assumptions by 5%-11% between FY23 and FY25.
- We have increased the share count 25% on the back the capital raise, split over FY22 (5.8m) and FY23 (28.7m).
- We have increased our product development costs in the form of capitalised software as the group looks to cement its marketing leading ESG position.
- From an EPS perspective the earnings leverage from higher revenue assumptions more than offsets the equity dilution and higher software development spending.

Exhibit 1: Key K2F earnings changes

Variable (A\$000')	FY2022	FY2023	FY2024	FY2025
Revenue				
Old	10.5	15.9	20.8	24.4
New	10.5	16.7	22.5	27.0
%CHG	0.0%	4.6%	8.2%	10.6%
EBIT				
Old	-2.9	0.6	3.8	6.1
New	-2.9	1.1	4.9	7.7
%CHG	0.0%	84.4%	28.0%	26.2%
NPAT				
Old	-0.3	1.4	3.8	5.7
New	-0.3	1.8	4.6	7.1
%CHG	0.0%	24.1%	22.1%	24.7%
EPS				
Old	-0.002	0.010	0.026	0.039
New	-0.002	0.010	0.026	0.040
%CHG	-4.0%	-0.4%	-1.6%	0.6%
Capitalised software				
Old	2.2	1.8	1.2	0.0
New	2.2	2.5	2.0	1.5
%CHG	0%	39%	67%	nm

Source: RaaS estimates

Exhibit 2: K2F forecast P&L summary (A\$m unless otherwise stated)

Line item	2020a	2021a	2022f	2023f	2024f
Sales	5.60	6.95	10.45	16.68	22.49
Consulting/other	4.38	4.34	4.91	5.16	5.42
SaaS	1.22	2.61	5.54	11.52	17.07
Gross profit	2.30	3.68	5.50	10.51	15.18
GP%	41%	53%	53%	63%	67%
Operating costs	3.84	5.25	7.27	8.13	8.76
EBITDA	-1.53	-1.56	-1.77	2.38	6.41
D&A	0.09	0.36	1.05	1.27	1.50
EBIT	-1.62	-1.93	-2.82	1.11	4.91
Interest expense/(income)	0.01	0.02	0.03	0.03	0.00
Tax expense	0.00	0.00	-1.52	0.55	1.75
NPAT	-1.63	-1.94	-1.33	0.54	3.16
NPATA	-1.54	-1.58	-0.27	1.81	4.66

Source: Company announcements and RaaS estimates

DCF Valuation

As a result of the earnings changes our DCF valuation has been revised up from \$0.52cps to \$0.55cps with key changes detailed below:

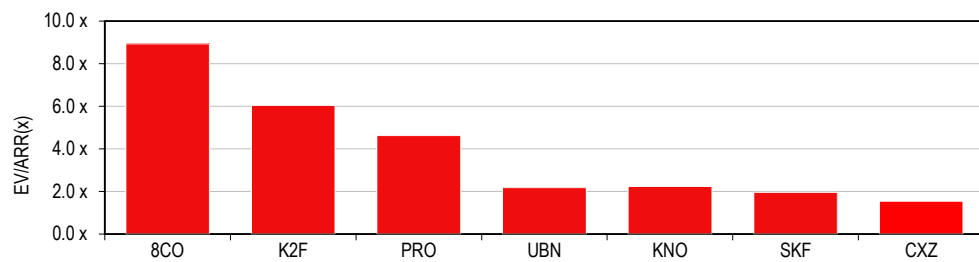
- Increase in shares on issue of 34.48m or 25%, which after adjusting for the raised cash dilutes valuation by \$0.07/share or 14%;
- Increase in revenue assumptions by between 5% and 11% over the forecast period;
- Higher EPS assumptions from FY25;
- Unchanged WACC of 10.4%.

Longer-term assumptions remain intact including medium-term growth beyond the forecast period of 12%, terminal growth of 2.2%, long-term GP% margins of 70%, a SaaS/consulting mix of 80%/20%.

K2F is trading at the top-end of peer EV/ARR metrics for December 2021, but we would note:

- Most peers listed in 2014 with products already in market. K2F effectively pivoted into software in May 2019 via the RCubed acquisition, followed by Sateva and Decipher. Comparing near-term multiples must be overlaid with years in the market/market penetration as a result; and
- While 8CO has the highest multiple as at December 2021, the ARR does not include a major government contract which will progressively boost ARR by at least ~150% into FY24.

Exhibit 3: December 2021 EV/ARR multiples of K2F relative to peers



Source: Company announcements and RaaS estimates

Exhibit 4: K2F Financial Summary

K2fly Limited (ASX:K2F)						Share price (11 April 2022)						A\$	0.220
Profit and Loss (A\$m)						Interim (A\$m)						H120A	
Y/E 30 Jun	FY20A	FY21A	FY22F	FY23F	FY24F	Revenue	2.7	2.9	3.4	3.5	4.6	5.9	
Revenue	5.6	7.0	10.5	16.7	22.5	EBITDA	(0.9)	(0.7)	(0.6)	(1.0)	(1.9)	(0.3)	
Gross profit	2.3	3.7	5.5	10.5	15.2	EBIT	(0.9)	(0.7)	(0.6)	(1.3)	(2.4)	(0.9)	
GP margin %	41.1%	53.0%	52.7%	63.0%	67.5%	NPATA (normalised)	(0.9)	(0.7)	(0.6)	(1.0)	(0.8)	0.1	
EBITDA	(1.5)	(1.6)	(1.8)	2.4	6.4	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)	(1.3)	(1.5)								
EBIT	(1.7)	(2.0)	(3.0)	0.9	4.7	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	1.5	(0.5)	(1.7)	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 items	(1.7)	(2.1)	(1.5)	0.4	3.0	Divisonals	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	5.9	
NPAT (reported)	(3.4)	(3.0)	(1.5)	0.4	3.0	SaaS	0.4	0.9	1.1	1.5	1.9	3.6	
						Consulting/other	2.3	2.1	2.3	2.1	2.7	2.2	
Cash flow (A\$m)													
Y/E 30 Jun	FY20A	FY21A	FY22F	FY23F	FY24F								
Adj EBITDA	(1.6)	(1.6)	(1.9)	2.2	6.3	Gross profit	1.0	1.3	1.8	1.9	2.1	3.4	
Interest	0.0	(0.0)	(0.0)	(0.0)	0.0	Gross Profit Margin %	38.6%	43.4%	53.0%	52.9%	45.8%	58.0%	
Tax	0.2	0.1	0.4	0.3	(1.7)								
Working capital/other	0.8	(0.1)	0.5	(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)	(1.0)	0.9	4.0	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)	(1.1)	0.8	3.8	Total costs (ex SBP/one-off)	1.9	1.9	2.4	2.9	4.0	3.7	
Capitalised Software	0.0	(1.1)	(2.2)	(2.5)	(2.0)	EBITDA	(0.9)	(0.7)	(0.6)	(1.0)	(1.9)	(0.3)	
Acquisitions/Disposals	(0.1)	(0.4)	(1.0)	(0.8)	(1.1)	EBITDA margin %	(37.8%)	(31.9%)	(24.4%)	(48.9%)	(71.5%)	(14.9%)	
Other	0.1	0.1	0.0	0.0	0.0								
Cash flow pre financing	(0.7)	(3.0)	(4.3)	(2.5)	0.7	Margins, Leverage, Returns		FY20A	FY21A	FY22F	FY23F	FY24F	
Equity	2.9	7.9	5.9	0.0	0.0	EBITDA margin %		(27.4%)	(22.5%)	-16.9%	14.3%	28.5%	
Other	0.2	0.6	0.0	0.0	0.0	EBIT margin %		(30.6%)	(29.4%)	-28.7%	5.6%	21.0%	
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	NPAT margin (pre significant items)		(30.8%)	(29.6%)	-14.4%	2.1%	13.2%	
Net cash flow for year	2.4	5.4	1.5	(2.5)	0.7	Net Debt (Cash)	-	2.85	-	6.86	-	6.03	-
Balance sheet (A\$m)						Net debt/EBITDA (x)	(x)	nm	nm	nm	nm	nm	
Y/E 30 Jun	FY20A	FY21A	FY22F	FY23F	FY24F	ND/ND+Equity (%)	(%)	nm	nm	nm	nm	nm	
Cash	2.9	6.9	8.5	6.1	6.8	EBIT interest cover (x)	(x)	nm	nm	nm	nm	nm	
Accounts receivable	1.2	2.2	2.3	3.7	4.9	ROA			(14.7%)	(11.8%)	3.0%	12.2%	
Inventory	0.0	0.0	0.0	0.0	0.0	ROE		(224.9%)	(24.7%)	(8.7%)	1.8%	11.7%	
Other current assets	0.1	0.0	0.0	0.0	0.0								
Total current assets	4.1	9.1	10.8	9.7	11.7	NTA (per share)							
PPE	0.0	0.1	0.2	0.3	0.4	Working capital		0.2	0.5	0.0	1.6	2.2	
Capitalised Software	0.3	5.7	6.8	8.0	8.5	WC/Sales (%)		3.5%	7.1%	0.0%	9.6%	9.6%	
Goodwill	0.7	7.3	7.3	7.3	7.3	Revenue growth		47.9%	24.2%	50.3%	59.6%	34.8%	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EBIT growth pa		nm	n/a	n/a	(130.9%)	409.4%	
Other non current assets	0.1	0.2	3.4	8.7	15.2	Pricing		FY20A	FY21A	FY22F	FY23F	FY24F	
Total non current assets	1.2	13.3	17.8	24.3	31.5	No of shares (y/e)	(m)	82	105	145	176	178	
Total Assets	5.4	22.3	28.5	34.0	43.2	Weighted Av Dil Shares	(m)	82	105	145	176	178	
Accounts payable	1.0	1.7	2.3	2.1	2.8	EPS Reported	A\$ cps	(0.0408)	(0.0247)	(0.0031)	0.0092	0.0251	
Provisions	0.9	2.2	1.7	1.7	1.7	EPS Normalised/Diluted	A\$ cps	(0.0201)	(0.0161)	(0.0031)	0.0092	0.0251	
Borrowings	0.1	0.0	0.0	0.0	0.0	EPS growth (norm/dil)		n/a	-20%	-81%	-396%	172%	
Deferred revenue	1.3	2.1	2.8	5.4	7.8	DPS	cps	0.000	0.000	0.000	0.000	0.000	
Total current liabilities	3.3	6.0	6.9	9.2	12.3	DPS Growth		n/a	n/a	n/a	na	na	
Provisions	0.5	3.1	2.6	1.8	0.7	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Deferred liabilities	0.0	1.3	1.7	3.3	4.7	Dividend imputation		0	0	0	0	0	
Total long term liabilities	0.5	4.3	4.3	5.1	5.4	PE (x)	-	11.0	-	13.6	-	70.5	23.8
Total Liabilities	3.8	10.3	11.2	14.3	17.7	PE market		18.0	18.0	18.0	18.0	18.0	
Net Assets	1.6	12.0	17.4	19.8	25.5	Premium/(discount)		(160.9%)	(175.8%)	(491.4%)	32.4%	(51.4%)	
Share capital	18.2	30.9	38.0	39.9	42.5	EV/EBITDA (x)		(9.9)	(16.0)	(13.2)	13.7	0.0	
Reserves	1.2	2.0	2.0	2.0	2.0	FCF/Share	A cps	(0.010)	(0.031)	(0.029)	(0.014)	0.004	
Accumulated losses	(17.9)	(20.9)	(22.6)	(22.1)	(19.0)	Price/FCF share		(22.8)	(7.0)	(7.5)	(15.9)	56.1	
Other	0.0	0.0	0.0	0.0	0.0	Free Cash flow Yield		(2.0%)	(8.5%)	(11.0%)	(6.3%)	1.8%	
Total Shareholder funds	1.5	12.0	17.4	19.8	25.5								

Source: Company data for actuals, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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ABN 92 168 734 530

AFSL 456663

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