

Expanding responsibly

K2fly Limited (ASX:K2F) sells enterprise software and services across a range of ESG solutions to the mining sector. ESG is an increasing focus for not only mining companies but other stakeholders including shareholders and the broader community, and in many instances K2F has the only 'off-the-shelf' solutions in the market currently. The recent September quarter saw annualised recurring revenue (ARR) reach \$6.5m, 8% above June 2022 and 59% above the previous corresponding period (pcp). This growth is at the top-end of the small tech peer group by our estimates. First-time contracts have been signed with the likes of BHP, Freeport McMoRan and Sibanye-Stillwater over the past six months, joining Rio Tinto, Fortescue, Roy Hill and Alcoa as clients. Cash at bank at September 2022 was \$6.2m, representing three quarters of funding at current burn rates. The recent placement to fellow mining software provider Maptek has seen the privately-held company become a major shareholder (~13%) and board seat holder and K2F's resource disclosure products being integrated with Maptek's industry leading Vulcan platform. In FY22 K2F delivered revenue growth of 44% and an adjusted EBITDA loss of ~\$3.6m, as the group invested in human resources to take advantage of the ESG opportunity ahead.

Business model

K2F licenses software together with associated consulting and implementation services to large/enterprise mining companies around the world. Key software products address the natural resource governance and ESG issues that mining companies are prioritising and centre around mineral resources and reserves governance (RCubed), community and heritage/land access (Infoscope), mining technical assurance (Sateva), and rehabilitation and tailings management (Decipher). In a number of these areas, K2F's offering is the world's only 'off-the-shelf' solution. 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.

Key opportunity is to land and expand

Most clients begin their journey with K2F using their RCubed reserve and resource disclosure solution. This offers K2F direct access to head office and an avenue to promote its other eight ESG-related solutions over time. Rio Tinto (ASX:RIO) is a good example of the land-and-expand model, signing up for RCubed in November 2019 and now using five of the nine K2F core solutions. Further opportunities exist in expanding into new regions and commodities with current and new clients.

Trading at a premium to peers but products newer to market

K2F's peers are listed small- to mid-cap enterprise software/service providers that are typically loss making with products still gaining market traction. This includes the likes of Prophecy (ASX:PRO), 8Common (ASX:8CO) and SkyFii (ASX:SKF). RPM Global (ASX:RUL) is focused on advisory and selling software to mining companies but is significantly larger and profitable, while EnviroSuite (ASX:EVS) has an ESG slant focusing on measuring variables such as noise and water quality. K2F is trading at an EV/ARR premium to most listed peers, but its products/solutions have generally been on the market for less time.

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	ARR*	Revenue	EBIT rep.*	NPAT rep.	EPS adj.* (c)	EV/Sales (x)	EV/ARR (x)	Net cash
06/20a	2.4	3.0	(1.7)	(1.7)	(0.020)	3.4	4.3	2.9
06/21a	3.4	7.0	(2.0)	(2.1)	(0.016)	3.0	3.0	6.9
06/22a	6.0	10.0	(5.0)	(4.2)	(0.021)	2.5	2.5	8.3

Source: Company data; *Revenue, EBITDA, NPAT and EPS adjusted for one-time, non-cash items and discontinued operations

Software & Services

7th November 2022

Share Details

ASX code	K2F
Share price (4-Nov)	\$0.16
Market capitalisation	\$28.2M
Shares on issue	173.89M
Net cash at 30-Sept-2022	\$6.2M
Free float	~58.55%

Share Performance (12 months)



Upside Case

- New contracts with new mining customers
- New/existing products for existing customers
- Maptek collaboration benefits

Downside Case

- Large customers take software in-house
- Contract renewals at discounted prices
- Loss of key people

Catalysts

- Further contract signings
- New ESG regulation start dates

Comparable Companies (Aust/NZ)

RPM Global (ASX:RUL), EnviroSuite (ASX:EVS), 8Common (ASX:8CO)

Board and Management

Jenny Cutri	Non-Exec. Chair
Pauline Vamos	Non-Exec. Director
Neil Canby	Non-Exec. Director
Peter Johnson	Non-Exec. Director
Brian Miller	Non-Exec. Director
Nic Pollock	CEO
Sara Amir-Ansari	CFO

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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- how we transact with you
- how we are paid, and
- complaint processes

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