

First BHP contract adds sugar to the quarterly

K2fly Ltd (ASX:K2F) has announced its first contract with BHP, a one-year total contract value (TCV) of \$2.1m to use its ground disturbance solution for BHP's Pilbara iron ore division. With ARR of \$620k, a three-year contract would represent a TCV closer to \$3.4m by our estimates and equal the largest contract ever signed by K2F. Since the December half-year K2F's ARR has increased 20% (to \$5.8m) with the signing of contracts with South32 (Decipher), Freeport McMoRan (RCubed) and now BHP to exceed our June-2022 forecast of \$5.4m. This is a significant contract as history says more modules are likely to be adopted by BHP (Rio now uses five of K2F's nine modules). The other key event over the March quarter was a placement to Maptek, a hardware/software solutions provider to the global mining industry. Maptek becomes the largest shareholder (13.2%) with board representation, and should offer significant collaboration opportunities. This collaboration, together with the additional funding for new product development and sales, supports our medium-term growth assumptions. Our valuation remains unchanged at \$0.55/share, with recent contracts supporting current medium-term estimates.

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.

First BHP contract announced post quarterly

K2F has announced its first contract with BHP, a one-year \$2.1m TCV (~\$3.4m three-year equivalent) to use the ground disturbance solution for its iron ore operations in the Pilbara. Given the \$1.5m implementation fee we would expect this contract will be renewed on a longer-term basis. The importance of this contract cannot be underestimated, with Rio as an example now using five of K2F's nine solutions following an initial contract for the RCubed solution in November 2019. The opportunity to expand business with the global majors stems from both modules, regions and commodities.

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

Our DCF valuation remains \$0.55/share incorporating accelerated revenues growth assumptions enabled by the recent capital raise and new shareholder (Maptek). The DCF incorporates a WACC of 10.4%, CAGR revenues growth in the forecast period of 43%, 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 ~4.7x YTD FY22, particularly considering half of the group's solutions have been held for less than two years.

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

Year end	TCV*	Revenues	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	2.1
06/22e	20.5	10.5	(3.0)	(1.5)	(0.003)	nm	2.3
06/23e	39.2	16.7	0.9	0.4	0.009	22.7	1.3
06/24e	52.5	22.5	4.7	3.0	0.025	8.4	1.4

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

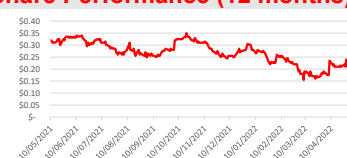
Software & Services

10th May 2022

Share Details

ASX code	K2F
Share price (9-May)	\$0.20
Market capitalisation	\$36.9M
Shares on issue	175.5M
Net cash est.	\$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
- Failure 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 capital raising completed on 19 April 2022 include:

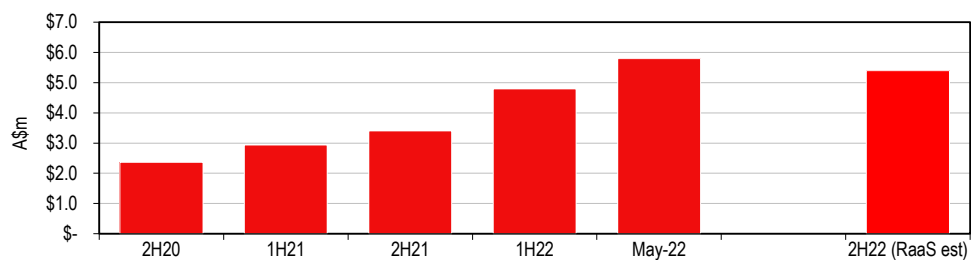
- \$6.2m raise (~\$5.8m net) resulting in post-raise net cash of ~\$7.7m pre-transaction costs;
- Raise price of \$0.18/share, a 4.1% premium to the 15-day VWAP;
- The funds will be used for product development and working capital to deliver on growth expectations;
- Supported by existing institutional 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.

Recent Contract Wins

Since the interim result K2F has announced the following contracts :

- Freeport McMoRan signed a contract for the Mineral Resource Governance solution RCubed. The three-year TCV is \$768k with recurring revenue of \$200k per annum, with RCubed usually the first product adopted by major miners (announced 14 March 2022).
- South32 expanded its use of K2F's Dams and Tailings solution, rolling out additional modules across its six mine sites. The TCV is \$781k with ARR of \$180k per annum (announced 10 March 2022).
- BHP has signed its first K2F solution contracting for the Ground Disturbance solution for an initial one-year term. TCV is \$2.1m with the initial ARR \$620k. A typical three-year contract would see this TCV closer to \$3.4m, equal to the group's highest-ever contract signing. We expect BHP enter further modules medium-term, with Rio as an example now using five of the group's nine solutions. Note that the BHP contract reflected in May-22 in the Exhibit 1 below exceeds our current forecast for H2 FY22.

Exhibit 1: K2F ARR history



Source: Company announcements, RaaS estimate for 2H FY22

Exhibit 2: K2F Financial Summary

K2fly Limited (ASX:K2F)						Share price (9 May 2022)						AS	0.210
Profit and Loss (A\$m)						Interim (A\$m)		H120A	H220A	H121A	H221A	H122A	H222F
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	Divisionals	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	
Cash flow (A\$m)						Consulting/other	2.3	2.1	2.3	2.1	2.7	2.2	
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)								
Acquisitions/Disposals	(0.1)	(0.4)	(1.0)	(0.8)	(1.1)	EBITDA	(0.9)	(0.7)	(0.6)	(1.0)	(1.9)	(0.3)	
Other	0.1	0.1	0.0	0.0	0.0	EBITDA margin %	(37.8%)	(31.9%)	(24.4%)	(48.9%)	(71.5%)	(14.9%)	
Cash flow pre financing	(0.7)	(3.0)	(4.3)	(2.5)	0.7								
Equity	2.9	7.9	5.9	0.0	0.0	Margins, Leverage, Returns		FY20A	FY21A	FY22F	FY23F	FY24F	
Other	0.2	0.6	0.0	0.0	0.0	EBITDA margin %		(27.4%)	(22.5%)	-16.9%	14.3%	28.5%	
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(30.6%)	(29.4%)	-28.7%	5.6%	21.0%	
Net cash flow for year	2.4	5.4	1.5	(2.5)	0.7	NPAT margin (pre significant items)		(30.8%)	(29.6%)	-14.4%	2.1%	13.2%	
Balance sheet (A\$m)						Net Debt (Cash)	-	2.85	-	6.86	-	6.03	-
Y/E 30 Jun	FY20A	FY21A	FY22F	FY23F	FY24F	Net debt/EBITDA (x)	(x)	nm	nm	nm	nm	nm	
Cash	2.9	6.9	8.5	6.1	6.8	ND/ND+Equity (%)	(%)	nm	nm	nm	nm	nm	
Accounts receivable	1.2	2.2	2.3	3.7	4.9	EBIT interest cover (x)	(x)	nm	nm	nm	nm	nm	
Inventory	0.0	0.0	0.0	0.0	0.0	ROA			(14.7%)	(11.8%)	3.0%	12.2%	
Other current assets	0.1	0.0	0.0	0.0	0.0	ROE		(224.9%)	(24.7%)	(8.7%)	1.8%	11.7%	
Total current assets	4.1	9.1	10.8	9.7	11.7								
PPE	0.0	0.1	0.2	0.3	0.4	NTA (per share)							
Capitalised Software	0.3	5.7	6.8	8.0	8.5	Working capital		0.2	0.5	0.0	1.6	2.2	
Goodwill	0.7	7.3	7.3	7.3	7.3	WC/Sales (%)		3.5%	7.1%	0.0%	9.6%	9.6%	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Revenue growth		47.9%	24.2%	50.3%	59.6%	34.8%	
Other non current assets	0.1	0.2	3.4	8.7	15.2	EBIT growth pa		nm	n/a	n/a	(130.9%)	409.4%	
Total non current assets	1.2	13.3	17.8	24.3	31.5	Pricing		FY20A	FY21A	FY22F	FY23F	FY24F	
Total Assets	5.4	22.3	28.5	34.0	43.2	No of shares (y/e)	(m)	82	105	145	176	178	
Accounts payable	1.0	1.7	2.3	2.1	2.8	Weighted Av Dil Shares	(m)	82	105	145	176	178	
Provisions	0.9	2.2	1.7	1.7	1.7								
Borrowings	0.1	0.0	0.0	0.0	0.0	EPS Reported	A\$ cps	(0.0408)	(0.0247)	(0.0031)	0.0092	0.0251	
Deferred revenue	1.3	2.1	2.8	5.4	7.8	EPS Normalised/Diluted	A\$ cps	(0.0201)	(0.0161)	(0.0031)	0.0092	0.0251	
Total current liabilities	3.3	6.0	6.9	9.2	12.3	EPS growth (norm/dil)		n/a	-20%	-81%	-396%	172%	
Provisions	0.5	3.1	2.6	1.8	0.7	DPS	cps	0.000	0.000	0.000	0.000	0.000	
Deferred liabilities	0.0	1.3	1.7	3.3	4.7	DPS Growth		n/a	n/a	n/a	na	na	
Total long term liabilities	0.5	4.3	4.3	5.1	5.4	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Total Liabilities	3.8	10.3	11.2	14.3	17.7	Dividend imputation		0	0	0	0	0	
Net Assets	1.6	12.0	17.4	19.8	25.5	PE (x)	-	10.5	-	13.0	-	67.2	
						PE market		18.0	18.0	18.0	18.0	18.0	
Share capital	18.2	30.9	38.0	39.9	42.5	Premium/(discount)		(158.1%)	(172.3%)	(473.6%)	26.4%	(53.6%)	
Reserves	1.2	2.0	2.0	2.0	2.0	EV/EBITDA (x)		(9.3)	(15.0)	(12.4)	13.0	0.0	
Accumulated losses	(17.9)	(20.9)	(22.6)	(22.1)	(19.0)	FCF/Share	A cps	(0.010)	(0.031)	(0.029)	(0.014)	0.004	
Other	0.0	0.0	0.0	0.0	0.0	Price/FCF share		(21.7)	(6.7)	(7.1)	(15.2)	53.5	
Total Shareholder funds	1.5	12.0	17.4	19.8	25.5	Free Cash flow Yield		(2.1%)	(8.9%)	(11.6%)	(6.6%)	1.9%	

Source: Company data for actuals, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

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