Research as a Service

K2fly Limited

Initiation Report

Set to fly higher on ESG tailwinds

Software & Services

15th November 2021

K2fly Ltd (ASX:K2F) is an enterprise software and services provider across a range of environment, social and corporate governance (ESG) solutions for the mining industry. The group currently has nine solutions on the market which include resource and reserves reporting, land management and tailings management. The combination of acquiring niche software with existing users, continuous improvement of product features, and utilising a five-person-strong internal sales team to sell products into both existing and new users has seen an acceleration in both the number and size of contracts in recent quarters. The RCubed resource and reserve solution provides K2F with exceptional access to the head offices of large global miners, delivering an ideal platform from which to "land and expand". Rio Tinto (ASX:RIO), for example, is now using five of K2F's nine products on the market. The last two contract announcements have been records in terms of total contract value (TCV) and position the group for an acceleration in revenue growth in FY22. We initiate coverage with a base case valuation of $0.56/share or $78m market cap.

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 dams and tailings management (Decipher). New contracts typically involve an implementation fee and then annual recurring license payments (SaaS fees). Contract durations are typically between 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.

Contract size and breadth of use by existing customers is key

Over the past few years, K2F's average contract size has progressively increased per half year, an indication of the increasing acceptance, size of the customer and expanding product portfolio offering. The recent tailings contract announcement with Sibanye-Stillwater was the company's largest with a TCV of A$2.85m over five years but was quickly eclipsed by the subsequent ground disturbance contract with Rio Tinto with a TCV of $3.44m over five years. K2F now counts five of the world's 10 largest gold miners by production volume and three of the four largest Australian iron ore miners as customers. With most of these clients typically using just one of the group's products, there is significant opportunity to cross-sell new and existing solutions, further increasing contract size and duration.

Valuation of $0.56/share or $78m market cap

We have selected the DCF methodology to value K2F given the early stages of product development and market penetration relative to our selected peers. The resulting valuation is $0.56/share which incorporates a WACC of 10.4%, CAGR revenue growth in the forecast period of 35%, medium term growth of 12%, SaaS reaching 80% of total revenues (from 38%) and gross margins peaking at 70% (from 53%). This valuation does imply 10x FY21 EV/sales or almost twice the current peer average, but we would highlight K2F is well behind peers in terms of listed history, product availability and SaaS/Services mix.

Historical earnings and RaaS estimates

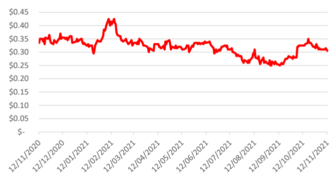
Year end	TCV* (A$m)	Revenue (A$m)	Adj EBITDA (A$m)	Adj NPAT (A$m)	EPS (adj) (c)	P/E (x)	EV/Sales (x)
06/21a	9.9	7.0	(2.0)	(2.1)	(0.016)	nm	3.2
06/22e	21.5	11.2	(0.9)	(0.9)	0.002	nm	3.2
06/23e	37.0	16.6	2.2	1.2	0.018	17.5	2.4
06/24e	48.1	21.5	5.4	3.3	0.033	9.3	1.8

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

Share Details

ASX code	K2F
Share price (12 Nov)	$0.31
Market capitalisation	$43.1M
Shares on issue	138.0M
Net cash at 30 Sep 2021	$5.6M
Free float	54.36%

Share Performance (12 months)



Upside case

- New contracts with new mining customers
- New/existing products with existing clients
- Product development/acquisitions

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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K2fly Limited

K2fly Limited (ASX:K2F) began life as a consultant and reseller, and only entered the SaaS space with the purchase of RCubed in May 2019. K2F SaaS as a percentage of total sales has increased from 13% in 1HFY20 to 42% in 2HFY21, and we forecast this to reach 80% by FY25. Our nominated listed peers currently have a SaaS mix closer to 80%/20% and have generally been listed on the ASX since 2014. This and the current tailwinds from increased ESG requirements/responsibilities should be considered when comparing valuations and the near-term growth rates of K2F relative to peers.

Investment case

K2F is at an early stage in terms of market share with strong ESG tailwinds and is well supported on valuation metrics relative to peers. Consider the following:

- The backlash from key stakeholders and resulting consequences from the likes of Juukan Gorge (Rio Tinto) and the Brumadinho disaster (Vale) highlight just what a focus ESG has become. K2F provides niche solutions for companies to manage the risk and governance around such issues;
- Many of the regulations around key ESG issues are still in development and/or just being implemented, providing K2F an early seat at the regulatory table. The Global Industry Standard on Tailings Management (GISTM), for example, will be implemented in August 2023, with companies positioning for such regulations now and K2F via Decipher having a solution in the market;
- The acquisition of RCubed (Resource and Reserves reporting) and subsequent roll-out to ~17 tier-one companies to-date provides K2F with a relationship at head office to expand product coverage, and highlights how quickly a product can gain traction when there are regulatory requirements;
- When thinking of expansion opportunities K2F now has nine solutions, many of which are applicable across multiple commodities, countries and sites. Most contracts are currently single site, single commodity within one region, offering K2F significant expansion opportunities. RIO is now utilising 5 of the 9 K2F solutions, but still generally focused on iron ore in the Pilbara;
- Oil and gas and non-conventional energy (fracking and wind farms, for example) are also natural markets for K2F solutions given their vast land usage and overlap with heritage and community. Entry to these sectors is likely to come via acquisition, providing an immediate customer base and sector expertise;
- Management has shown strong financial discipline in acquiring software IP and people at sensible prices with reasonable performance targets ahead of a regulatory inflection point. Product penetration has then been followed by additional spend to enhance the software solution and cement the product's position in the market;
- We forecast a significant mix shift from SaaS/consulting from 38%/62% in FY21 to 80%/20% by FY25, resulting in an improvement in gross margin from 53% to ~70%.

DCF Valuation $0.56/share (market cap of $78m)

We have sense checked our $0.56cps DCF valuation against peer EV/sales multiples:

- Implies 10x FY21 EV/sales against an average peer multiple of 6.3x. 8Common (ASX:8CO) is the only peer trading at a similar multiple as revenues from a recent Australian Government contract win will not drop until FY22;
- Based on our numbers K2F will be trading well under 6.3x EV/sales by FY23 (2.3x);
- With most peers listing in 2014, and K2F essentially entering the SaaS space in 2019 we think K2F revenues 2-3 years forward are more comparable to the peer group today.

Background and Strategy

K2F entered the ESG software space via the acquisition of Infoscope in July 2017. This was the beginning of a long-term strategy to provide comprehensive solutions for resources companies to manage their environmental, social and corporate governance (ESG) responsibilities. Including Infoscope the group has now made four acquisitions which have all had similar traits:

- Acquired before a regulatory inflection point;
- Modest acquisition price;
- Reasonable performance earn-out targets;
- Subsequent spend to improve the product offering;
- Managed to grow ARR significantly within a short period post acquisition; and
- "Blue Ocean" solutions which refers to limited competition outside of in-house solutions.

A summary of the key acquisition details is presented in the table below.

Exhibit 1: Summary of K2F acquisitions

Product	Date	Purchase price (A$)	Sales at acquisition	Earn-out details	Comments
Infoscope	July 2017	$625k + $275k scrip	~$1.5m	350k options, 25c exercise price	
RCubed	May 2019	$450k + $1.2m earn-out	~$0.2m	$0.7m Yr1, $1.2m Yr2, $1.7m Yr3	Achieved in 9 months
Sateva	Nov 2020	$2m scrip + earn-out	~$2.1m	18% of invoices to Jun 24	
Decipher	March 2021	$3.7m scrip + earn-out	~$0.4m	22% of invoices to Mar 25 in scrip	Out of CSBP(WES)

Source: Company announcements

There are a number of similarities and product overlap/leverage opportunities across the K2F solutions including:

- Agnostic to platforms;
- Use of spatial data;
- Aims to take people out of mine sites (remote recording and monitoring);
- Provide a single source of truth;
- Breakdown silos within large organisations across ESG requirements;
- Provides workflows to keep processes moving; and
- Operationalise ESG outcomes via operational systems.

Infoscope

The business was acquired by K2F in July 2017 and was the group's key asset up until May 2019. Current Infoscope products are:

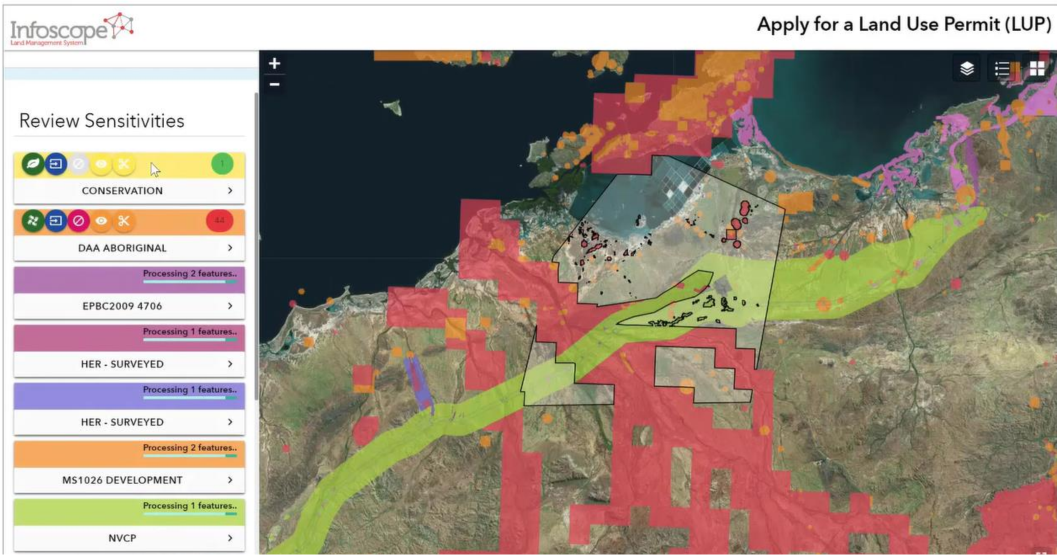
- Community and heritage;
- Land access and monitoring; and
- Ground disturbance.

Key features of these products include:

- Single, spatially integrated solution;
- Breaks down the silos of land management, obligations and compliance;
- Auto triggered workflows, actions and watchlists;
- Fully integrated API with other GIS systems such as ESRI and Google Earth; and
- Fully integrated with ERP (e.g. SAP).

The exhibit below shows a screen grab from the community and heritage software solution.

Exhibit 2: Community and Heritage dashboard



Source: Infoscope video

RCubed

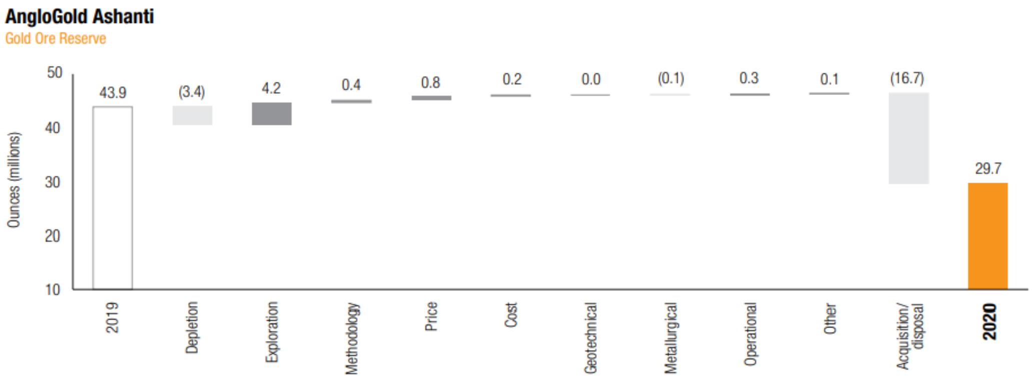
A mineral resources and reserves governance solution acquired in May 2019. All publicly listed mineral resource companies are subject to accounting standards reporting and exchange requirements with regards to the rigour and transparency around mineral inventory capture, validation and reporting. RCubed provides a single source of truth with workflow and information controls for these functions. The initial purchase price was $450k together with performance incentives based on revenue targets over a three-year period. At the time of acquisition RCubed had three clients: Teck Resources, Anglo Gold Ashanti and Impala Platinum. The year-three revenue targets were achieved within 13 months, resulting in the payment of all incentives totalling $1.2m over FY21a and FY22f. Key features of the product include:

- Secure, scalable cloud-based solution;
- Provides a full audit trail from data capture to reporting;
- Adheres to the global CRIRSCO standard, (examples include JORC, NI43-101 and SAMREC) together with the NYSE required SK-1300 compliance reporting requirements; and
- Supports the reporting requirement of all stock exchanges, namely the resource intensive ASX, JSE, NYSE, TSX and LSE.

https://vimeo.com/373087870

The table below is an exert from Anglo Gold Ashanti's 2020 Mineral Resource & Ore Reserve report which uses RCubed for data capture and reporting. The ~170-page document utilises the complete RCubed solutions.

Exhibit 3: Gold Ore Reserve reporting example



Source: Anglo Gold Ashanti – 2020 Mineral Resource and Ore Reserve report

Sateva

A resource technical assurance solution developed for the mining, resources and rail industries acquired in October 2020 for $2m in scrip and a deferred consideration based on 18% of invoiced revenue to June 2024. The solution counts Rio Tinto, Roy Hill and Fortescue Metals Group (ASX:FMG) as end users and delivered its first "full suite" contract with Roy Hill for a five-year term in May 2021. The business has three key products:

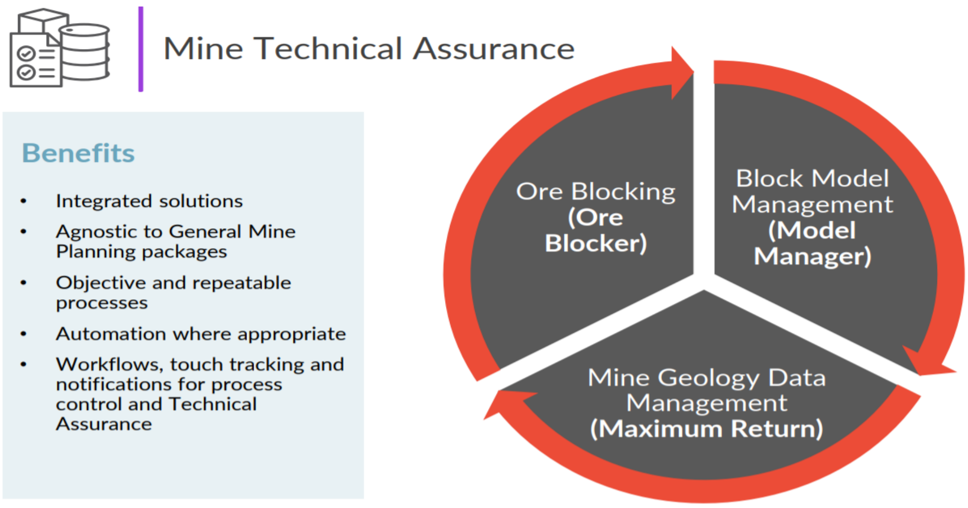
- Automated ore blocking;
- Mine geology data management; and
- Block Model Management.

Key features of the products include.

- Offers a repeatable process with configurable constraints for geologists to optimise blasts in 3D;
- Run multiple scenario analysis;
- Provides a 3D visual of the ore block; and
- Data management with a direct line of sight from the block model to the annual report.

https://k2fly.com/solutions/automated-ore-blocking/

Exhibit 4: Sateva product summary



Source: Sateva presentation

Decipher

Decipher is a solution for progressive mine rehabilitation and closure, and proactive tailings facility monitoring (TFS). Born out of Wesfarmers' (ASX:WES) CSBP subsidiary in 2016, K2F issued WES 11.4m shares (@$0.327c) for a consideration of $3.7m, together with performance shares capped at 5.345m and based on 22% of the invoices written to March 2025. The business has two key products:

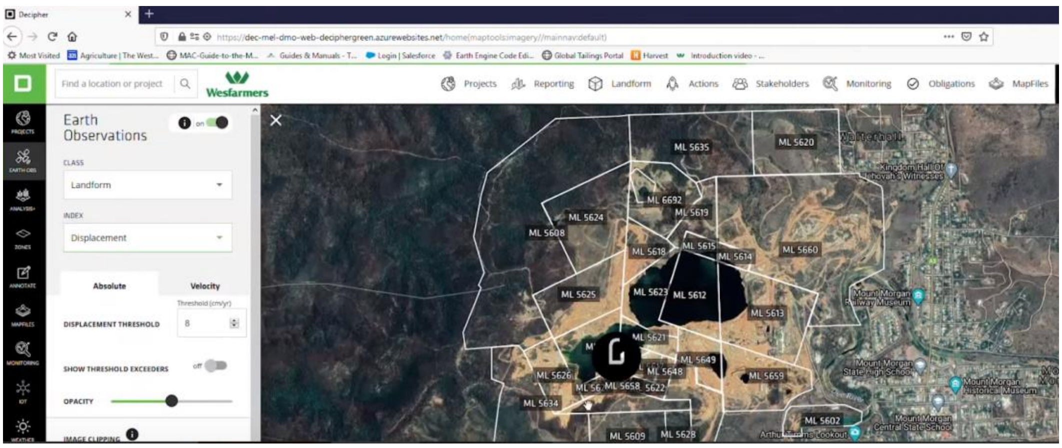
- Dams and tailings management; and
- Mine geology data management.

Key features of the products include:

- 15 modules including Earth observations, landform and erosion, rehabilitation planning, IoT and LiDAR, environmental monitoring and sampling, and tenements;
- Delivered via secure cloud accessible from nearly any device;
- Integrates with Google Earth, ESRI, Weather Company and CSBP Soil & Plant Lab;
- Offers remote safety monitoring, saving time in the number of kilometres travelled; and
- Tools to collate data consistently with prompts for the 77 auditable requirements across 15 topics under the new GISTM standard.

The products are well positioned to provide a reporting and management solution for new the new Global Industry Tailings Standard (GISTM) which was released in November 2020 and has been signed up to by al 28 members of the ICMM (5 of which are currently clients of K2F).

Exhibit 5: Dams and tailings dashboard



Source: Decipher video

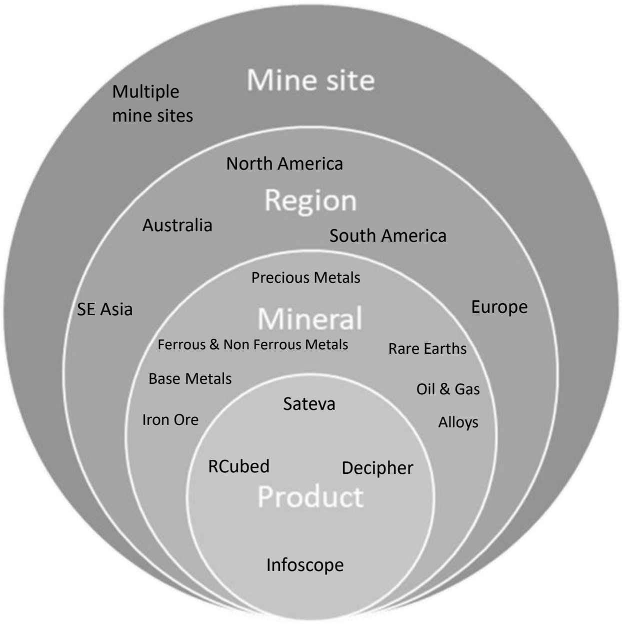
The Market Opportunity

The RCubed Resources and Reserves solution has provided K2F with exceptional access to the corporate/head offices of major resource companies globally, providing the perfect platform to "land and expand" product offerings with these organisations. Ultimately most K2F solutions have application across:

- Multiple commodity types;
- Multiple geographies; and
- Multiple sites within each geography and commodity.

Measuring this as a Total Addressable Market (TAM) is difficult and somewhat academic given the current sales base. K2F management have estimated at TAM around $530m, but irrespective the opportunity can be summarised by the chart below.

Exhibit 6: The true potential of K2F product markets



Source: RaaS Advisory

Management has previously stated a medium-term target for annualised recurring revenue (ARR) of A$20m, and to achieve this it will require:

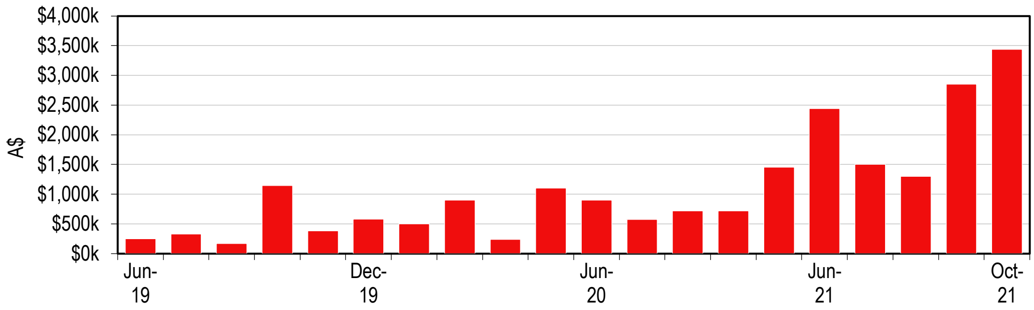
- The retention of existing clients;
- Addition of new clients; and
- Doing more business with existing clients.

To these points K2F has:

- Made its first "full suite" sale of Sateva products to Roy Hill across technical assurance in May 2021;
- RIO using five of the group's nine product solutions following the signing of a five-year contract for the Infoscope ground disturbance solution, adding to resource inventory and reconciliation, dams and tailings, community and heritage, and mine geology data management in October 2021;
- Delivered Q1FY22 cash receipts growth of 36%, a quarterly record; and
- Signed the group's largest single contract in both TCV and ARR terms with RIO post the September 2021 quarter.

The chart below highlights the consistent increase in the size of the deals being signed by K2F over the past 24 months as measured by the TCV.

Exhibit 7: K2F individual contract announcement history (A$TCV)



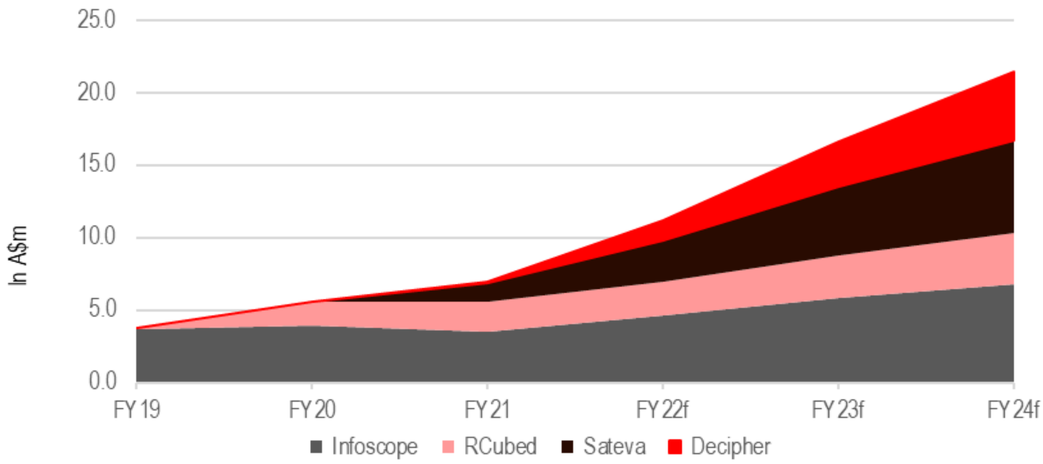
Source: Company announcements

Infoscope and RCubed have been in the stable the longest, with RCubed recently benefitting from new NYSE reporting regulations which came into play in January 2021.

Sateva will contribute for a full year in FY22, as will Decipher, which is also positioned to benefit from the GISTM requirements to be implemented in August 2023.

The chart below looks at our estimates for how the four products are forecast to contribute to group revenues through to FY24.

Exhibit 8: Revenue contribution by solution



Source: RaaS estimates

ESG's Growing Focus

ESG is a capital markets term which encapsulates the sustainability of a company's business model in terms of how its products and services contribute to "sustainable development", and how a company can minimise a negative impact.

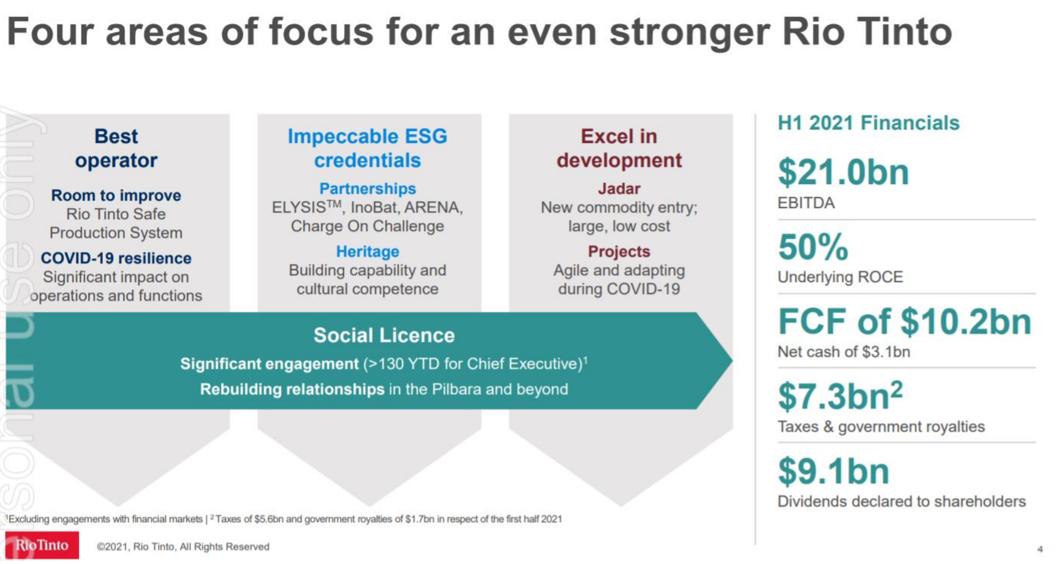
Environmental refers to how production and consumption impacts on the environment in terms of resource depletion, waste, pollution, reforestation and biodiversity to name a few.

Social refers to the responsibilities companies have for their employees as well as the impact on the community/societies in which they operate, and incorporate working conditions, health and safety.

Governance refers to the control mechanisms and transparency around issues such as tax, executive renumeration, shareholder voting and general internal controls.

You only have to look at the annual reports and results presentations of major listed mining companies (or listen to your children) to see how ESG is becoming more front of mind globally. In the 2021 RIO half-year results presentation slides the first page addresses ESG credentials and the group's "social license" as a focus for improvement. On September 30 RIO published its first "First Communities and Social Performance" report.

Exhibit 9: Page 1 of RIO's 2021 half-year results presentation



Source: Rio Tinto 2021 half-year results presentation

Broader industry surveys such as the EY Top 10 business risks for mining & metals detailed below further supports the shift in sector focus to ESG and associated issues.

Exhibit 10: EY Top 10 business risks survey – mining & metals

Source: K2F Q1FY22 update presentation

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Key International Industry Bodies

CRIRSCO – Committee for Mineral Reserves International Reporting Standards

CRIRSCO was established in 1994 and evolved to become a rigorously constituted committee governed by its terms of reference and organisational status. Members represent countries/regions including Australia, Brazil, Canada, Chile, Colombia, Europe, India, Indonesia, Kazakhstan, Mongolia, Russia, South Africa, Turkey and the USA.

The aim of CRIRSCO is to contribute to learning and maintaining trust of investors and other stakeholders by promoting high standards of reporting of mineral deposit estimates (for both resources and reserves) and of exploration progress/results.

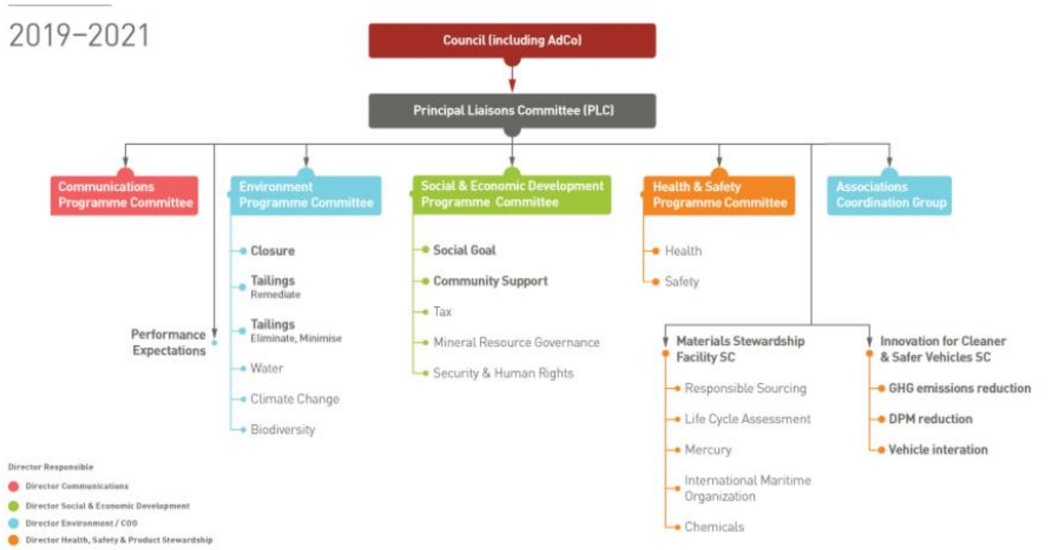
CRIRSCO work closely with regional bodies such as JORC (Australasia), NI 43-101 (North America) and SAMREC (South Africa) to ensure consistency.

ICMM – International Council on Mining & Metals

An international organisation dedicated to a safe, fair and sustainable mining and metals industry. There are currently 28 member companies across 50 countries and >650 sites (including BHP and Rio Tinto), all required to adhere to ICMM's mining principles, which incorporate comprehensive ESG requirements, robust site-level validation of performance expectations, and credible assurance of corporate sustainability reporting with annual disclosure.

ICMM is responsible for the development of the Global Industry Standard on Tailings Management (GITSM), which specifies measures to prevent catastrophic failure of tailings facilities and to implement best practice in planning, design, construction, operation, maintenance, monitoring, closure and post-closure activities. The standard has six topic areas encompassing 15 principles and 77 auditable requirements. Compliance for "extreme or very high" potential consequences must be met by August 2023, and all other facilities by August 2025.

Exhibit 11: ICMM governance structure



Source: ICMM website

Key K2fly Financials

Total Contract Value (TCV)

TCV is one of management's critical KPIs and is the addition of the total value of all contracts at a point in time. TCV includes both implementation and SaaS software revenues and provides medium-term revenue visibility. Forecasting TCV is the current base plus new contract estimates less the depletion of existing contracts.

Annualised Recurring Revenue (ARR)

ARR is another important KPI and measures the annual recurring or SaaS-style fees at a point in time. Implementation and consulting fees are not included in this calculation as a result.

Revenue

We approach K2F revenue forecasts from a number of angles:

- **Reported contract details**. Following its ESG roots K2F discloses consistent and detailed information regarding its contract wins. We use this information to piece together expected implementation and ARR revenues by contract by solution.
- **New contract forecasts**. We use recent half-year trends and any known upcoming regulatory changes to forecast likely contract volumes for each business.
- **Stable consulting revenues.** While implementation is one-off in nature, it is typically part of any new contract and therefore somewhat recurring in nature. There are also some recurring elements to the consulting activities, and as a result we have this revenue stream relatively stable each year, as has been the case historically.

Key revenue assumptions are listed in the table below:

Exhibit 12: K2F revenue summary (In A$m unless otherwise stated)

Revenue stream	2020a	2021a	2022f	2023f	2024f
TCV	6.9	9.9	21.5	37.0	48.1
ARR	2.3	3.4	5.5	7.5	9.5
Total revenue	**5.6**	**7.0**	**11.2**	**16.6**	**21.5**
Infoscope	3.9	3.5	4.7	5.8	6.8
RCubed *	1.7	2.1	2.3	2.9	3.6
Sateva	0.0	1.3	2.8	4.7	6.4
Decipher	0.0	0.1	1.4	3.1	4.7

Source: Company announcements and RaaS estimates *RCubed RaaS estimate FY21

Gross profit margin

Our gross profit assumptions vary significantly depending on the revenue stream, and are summarised below:

- **SaaS**. We assume a GP% of 80% after the COGS of commissions, third-party software and cloud storage fees are considered.
- **Implementation and consulting**. We assume a GP% of 30% after the COGS of the labour costs associated with consulting and implementing are considered.

From a reported GP% of 53% in FY21, as SaaS revenue grows as a percentage of total revenue, we forecast the GP% to reach 70% by FY25.

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Operating Costs

On the back of product development and associated marketing we expect continued investment in the cost base in FY22 and FY23, before a flattening in FY24. Key assumptions for each line item are listed below:

- **Employees**. We have forecast a 40% increase in employee cost in FY22, and 13% growth in FY23;
- **Other**. In general, we have assumed consultants, admin and marketing costs grow at 10% over the forecast period.

Exhibit 13: K2F forecast P&L summary (in A$m unless otherwise stated)

Line item	2020a	2021a	2022f	2023f	2024f
Sales	**5.60**	**6.95**	**11.16**	**16.60**	**21.45**
Consulting/other	4.38	4.34	4.56	4.79	5.03
SaaS	1.22	2.61	6.60	11.81	16.42
Gross profit	2.30	3.68	6.88	11.12	14.90
GP%	**41%**	**53%**	**62%**	**67%**	**69%**
Operating costs	3.84	5.25	6.52	7.40	7.92
EBITDA	-1.53	-1.56	0.36	3.72	6.97
D&A	0.09	0.36	1.13	1.34	1.44
EBIT	**-1.62**	**-1.93**	**-0.78**	**2.38**	**5.54**
Interest expense/(income)	0.01	0.02	-0.05	-0.05	-0.06
Tax expense	0.00	0.00	0.00	1.13	2.11
NPAT	-1.63	-1.94	-0.73	1.30	3.49
NPATA	**-1.54**	**-1.58**	**0.41**	**2.64**	**4.92**

Source: Company announcement and RaaS estimates

Other Financial Commentary

Cash flow

Capitalised software. K2F accelerated spending on new software development in the form of capitalised software in 2HFY21 and we expect this spend to continue into FY23.

Vendor incentive payments. The second performance installment payment for RCubed ($550k) will be paid in FY2022, as will 18% of all invoices for new contracts associated with Sateva products out to March 2024.

The latest 4C reveals a record for cash receipts (36% above the PCP), an acceleration in staff and admin spend, and continued intellectual property spend (software development). The relatively stable "cost of services and commissions" is an indication of improving gross margins due to product mix (software vs consulting).

Exhibit 14: K2F quarterly cash flow summary (in A$m unless otherwise stated)

Line item ($'000)	Q1FY21a	Q2FY21a	Q3FY21a	Q4FY21a	Q1FY22a
Cash receipts	**1,995**	**1,670**	**1,427**	**2,029**	**2,720**
Outgoings	**1,712**	**2,411**	**1,882**	**2,765**	**2,879**
Cost of services sold/commissions	808	904	801	1,011	991
Staff and admin	820	1,393	967	1,461	1,829
Marketing/R&D/Other	84	114	114	293	59
R&D rebate/Govt grants	95	61	0	0	0
Net cash from operating activities	**378**	**-680**	**-455**	**-736**	**-159**
Equity issues	0	644	0	6,781	0
Other	163	477	43	28	321
Intellectual property	0	0	527	628	747
Net cash from investing activities	**-163**	**167**	**-570**	**6,125**	**-1,068**
Cash at the end of the period	**3,110**	**2,561**	**1,522**	**6,904**	**5,665**

Source: Company announcements

Balance sheet

Capitalised software. The acquisition of Decipher bought with it significant capitalised software as most of the group's products remained under development at the time of acquisition. This began to be amortised in 2HFY21.

Goodwill. Similarly, the acquisition of Decipher and Sateva and associated performance targets resulted in goodwill on acquisition increasing from $0.7m to $7.3m in FY21.

Net cash position. Following the net $7.4m raised from equity and option issues in FY21 K2F ended FY21 with net cash of $6.9m. The net cash position at September 30 was $5.6m.

Shares on issue

We have assumed enough sales in Decipher products are achieved for WES to earn 100% of its 5.45m shares, and have them progressively issued out to FY24

Outside of WES performance shares there are ~10m options which as at June 30, 2021 had a weighted exercise price of $0.28c and contracted life of 739 days.

Peer Comparisons

We see peers to K2F as <$100m market cap SaaS players selling to "enterprise" or large customers. Most of these players have had a relatively short corporate life, are loss making but progressing to breakeven as their product(s) become better known, and are very small relative to their customers. These companies typically have net cash positions and are still somewhat reliant on equity markets for funding. The enterprise/large cap nature of clients often implies a long lead-time in sales, but a sticky customer base once secured. All these companies earn a mixture of SaaS and "services" revenue.

Like K2F, many have recently made bolt-on acquisitions to strengthen their product offering and open-up cross-sell opportunities with new customers.

Connexion (CXZ:ASX). Listed in 2014, CXZ provides fleet management software to automotive dealers for the recording and monitoring of courtesy car rental programmes. CXZ's only customer at present is General Motors (GM), with the contract to support the OnTRAC program recently extended by five years.

CXZ continues to target other automakers that operate similar courtesy car programmes with a "white label" product.

The FY21 SaaS/Services mix was 95%/5%, with all revenue derived from the US.

SkiFii (SKF:ASX). Listed in 2014, SKF has a software solution that integrates with Public WiFi hardware and utilises this infrastructure to report on people movements across these spaces, the "gathering and visualisation of data". The product can also be used to message and market to people while they are in these public places.

Revenue is derived from a SaaS fee depending on which modules are selected and depending on the scale of the public WiFi network/public area the software reports on.

SKF recently acquired Crowdvision, a US and UK based AI computer vision & video analytics company focused on airports, stadiums, transportation hubs and large-scale resorts/hotels.

The FY21 SaaS/Services mix was 70%/30%, with Australia 60% of revenue, the US 20% and ROW 20%.

Urbanise (UBN:ASX). Listed in 2014, UBN offers SaaS software solutions for "tier-2" strata and facilities management clients. Its strata management product provides reporting, accounting, budgeting, document management and invoicing surrounding strata body funds.

The company's facilities management software provides solutions for maintenance, safety and supplier compliance, contract management and workforce management.

The FY21 SaaS/Services mix was 80%/20% with 77% of revenue from Australia, 20% from the Middle East and 3% from Africa.

Knosys (KNO:ASX). Listed in 2015, KNO is an enterprise information and knowledge management SaaS software provider that counts ANZ Bank as a foundation and core customer.

KNO has been in acquisition mode of late, acquiring intelligent intranet software provider GreenOrbit and library management software provider LIBERO to complement its core offering.

The FY21 SaaS/Services mix was 80%/20% and all revenue was derived from APAC.

8Common (8CO:ASX). Listed in 2014, 8CO delivers enterprise-grade financial transaction processing for government entities and large enterprise businesses. Its flagship Expense8 platform is a provider of end-to-end travel expense management software, card application and management.

The group has >160k platform users across customers including Woolworths and Amcor, and >150 state and federal government agencies. In July 2021 8CO was awarded a "whole of government" federal government expense contract, adding significantly to the existing departments currently under contract.

The FY21 SaaS/Services mix was 68%/32% and all revenue was derived from APAC.

Exhibit 15 below summarises some key financial variables for the FY21 financial year (there is not enough consensus data to provide meaningful FY22 forecasts.

Exhibit 15: Peer group financial comparison

Company Name	Ticker	Share price (cps)	Mkt cap (A$m)	Net cash (A$m)	Adj EBITDA (A$m)	FY21 revenue (A$m)	Working capital/sales	EV/revenue (x)	R&D*/ sales (x)	EV/ARR
Urbanise	UBN	1.24	69	-7.8	-0.8	11.5	-4%	6.0	8%	5.8
SkiFi	SKF	0.11	39	-8.5	3.4	15.8	17%	2.5	14%	2.2
Knosys	KNO	0.17	36	-6.5	-0.2	4.6	28%	7.9	1%	3.7
8Common	8CO	0.21	47	-7.0	-0.5	3.5	-27%	13.3	17%	13.2
Connexion	CXZ	0.01	12	-3.2	1.1	6.1	17%	2.0	3%	1.9
AVERAGE								**6.3**	**9%**	**5.4**
K2fly	**K2F**	**0.31**	**43**	**-6.9**	**-1.6**	**7.0**	**3%**	**5.2**	**16%**	**10.7**

Sources: Company financials, Refinitiv Eikon, Prices at 12 November 2021   * P&L and capitalised software

Looking at K2F relative to the peer group we would highlight the following:

- Most peers listed in 2014, while K2F effectively pivoted into software in May 2019 via the RCubed acquisition, followed by Sateva and Decipher;
- Despite this K2F is trading at a 20% discount to the peer average on an EV/sales basis;
- K2F had an above-average spend on software R&D in FY21, which is set to accelerate in FY22; and
- K2F has similar levels of cash relative to market cap.

DCF Valuation

Based on our earnings assumptions which have been outlined through this note our valuation for K2F using a DCF methodology is A$0.56/share, fully diluted.

We would highlight the following as being key drivers/assumptions of this valuation:

- A discount rate of 10.4% incorporating a beta of 1.2x, risk-free rate of 2.0% and market risk premium of 7.0%;
- Medium-term growth beyond the forecast period (FY27-FY31) of 12%;
- Terminal growth rate of 2.2%;
- Revenue of $25m by FY25, split 80% SaaS and 20% consulting/implementation;
- Gross margins peaking at 70%;
- Working capital to sales remain at 7%;
- Elevated software development spend until FY24; and
- No acquisition assumptions.

Exhibit 16: K2F Base Case DCF valuation

Parameters	Outcome
Discount rate /WACC	10.4%
Beta	1.2x
Terminal growth rate assumption	2.2%
Sum of PV ($m)	27.8
PV of terminal value ($m)	43.0
PV of enterprise ($m)	70.8
Debt (cash) ($m)	(6.9)
Net value – shareholder ($m)	77.7
No. of shares on issue (m)	139
NPV ($/share)	**$0.56**

Source: RaaS estimates

Sensitivities

From our base case valuation, we highlight the following as key sensitivities

Exhibit 17: K2F quarterly cash flow summary (in A$m unless otherwise stated)

Variable	Current	+/-	+/- value	% Chg	Comment
WACC	10%	1%	0.09	16%	Key sensitivity given low
FY26 revenue ($m)	28.0	1.0m	0.06	11%	3.5% change in forecast
MT Gross margin	70%	1%	0.02	4%	1.5% change
MT growth	12%	1%	0.01	2%	Modest impact

Source: RaaS estimates

SWOT Analysis

We see the strengths and opportunities for K2F outweighing weakness and threats, with our SWOT analysis summarised below.

Exhibit 18: Strengths, Weaknesses, Opportunities, Threats

Strengths	Opportunities
Growing investor focus in K2F's core (ESG) product offering	Develop new products for new ESG regulations/reporting
Niche enough to avoid large player competition	Sell existing products to new customers
Multiple solutions across the ESG space	Sell new products to existing clients
Well-funded for expansion	Acquire complementary software to accelerate market penetration
Experienced management team	
Financially focused	

Weaknesses	Threats
Some products are early stage	Software blamed for an ESG oversight
Small market cap limits investor interest	Major miners take ESG function/software in-house
Long sales cycle as dealing with large companies	Key man risk across key knowledge areas

Source: RaaS analysis

Board and Management

Directors

Mr Brian Miller, Executive Director. Over 30 years' experience in the IT sector, holding Board directorships with UK and Australian IT companies and brings an extensive network of contacts, opportunities and experience in asset intensive sectors.

Mr Neil Canby, Non-Executive Director. Neil has extensive history of senior roles across a variety of industries including energy and utilities with responsibilities ranging from business development, project and operational delivery and commercial and financial management.

Mr James Deacon, Non-Executive Director. A veteran of the technology sector currently providing advisory services to the management teams of large Australian private and public sector organisations. James has held senior positions at Information Services Group (ISG), Horizon Power, UnisysWest and US Airways.

Ms Jenny Cutri, Non-Executive Chair. A highly experienced legal practitioner and compliance specialist with over 25 years' experience in both public and private sectors. Jenny was previously Assistant State Manager, Listing Compliance at ASX in Perth for 7 years and has held several senior positions with ASIC.

Management

Mr Nic Pollock, Chief Executive Officer. Over 25 years in enterprise software businesses and professional services, with more than 20 years in global, APAC and regional senior leadership roles across Asset Intensive, Global Supply Chains, Financial Services and Mining. Nic has experience in ASX, TSX, private and PE firms as well as a Post Grad Certifications in Corporate Sustainability studies in Resources.

Ms Sara Amir-Ansari, Chief Financial Officer. Sara is a chartered accountant with 20 years' experience in asset intensive and service-based industries across ASX, private and Government owned enterprises.

Mr Mark Forster, Chief Development Officer. Founder and Managing Director of SATEVA Mark has significant experience in the design, construction & implementation of large complex systems for mining organisations.

Mr David Glynn, Sales Director. David has over 25 years in enterprise software having worked in multiple global roles, including 16 years at IBM managing enterprise software sales teams. David has an MBA from Bond University.

Mr John Jessop, Chief Product Officer. John has 25 years' experience across a variety of technical mining industry software. Following the acquisition of Karjeni, a metallurgical data management business he founded, John became VP of Global Mining Solutions at Mincom. John holds a Bachelor of Science in Geophysics.

Mr Basil Lenzo, Head of Customer Success. Basil has over 25 years' experience in the technology sector in key areas of enterprise software and system integrations in Australia and the Americas.

Mr Heath Arvidson, Chief Geoscientist. Heath has over 30 years' experience in reconciliation, Resource & Mining Geology, Mine Value Chain Reconciliation, and Mining & Reserves Reporting across a variety of commodities.

Exhibit 19: K2F Financial Summary

K2fly Limited (ASX:K2F)					
Profit and Loss (A$m)					
Y/E 30 Jun	**FY20A**	**FY21A**	**FY22F**	**FY23F**	**FY24F**
Revenue	5.6	7.0	11.2	16.6	21.5
Gross profit	2.3	3.7	6.9	11.1	14.9
GP margin %	41.1%	53.0%	61.6%	67.0%	69.5%
EBITDA	(1.5)	(1.6)	0.4	3.7	7.0
Depn	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Amort	(0.1)	(0.4)	(1.1)	(1.3)	(1.4)
EBIT	(1.7)	(2.0)	(0.9)	2.2	5.4
Interest expense	(0.0)	(0.0)	0.1	0.1	0.1
Tax	0.0	0.0	0.0	(1.1)	(2.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPAT pre significant items	**(1.7)**	**(2.1)**	**(0.9)**	**1.2**	**3.3**
Adjustments	(1.7)	(0.9)	0.0	0.0	0.0
NPAT (reported)	**(3.4)**	**(3.0)**	**(0.9)**	**1.2**	**3.3**
Cash flow (A$m)					
Y/E 30 Jun	**FY20A**	**FY21A**	**FY22F**	**FY23F**	**FY24F**
Adj EBITDA	(1.6)	(1.6)	0.3	3.6	6.9
Interest	0.0	(0.0)	0.1	0.1	0.1
Tax	0.2	0.1	0.4	(0.3)	(2.1)
Working capital/other	0.8	(0.1)	(0.2)	(0.4)	(0.4)
Operating cash flow	**(0.6)**	**(1.6)**	**0.5**	**2.9**	**4.4**
Mtce capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)
Free cash flow	(0.6)	(1.7)	0.5	2.9	4.4
Capitaised Software	0.0	(1.1)	(2.2)	(1.8)	(0.8)
Acquisitions/Disposals	(0.1)	(0.4)	(1.1)	(0.9)	(1.1)
Other	0.1	0.1	0.0	0.0	0.0
Cash flow pre financing	(0.7)	(3.0)	(2.8)	0.2	2.4
Equity	2.9	7.9	0.0	0.0	0.0
Other	0.2	0.6	0.0	0.0	0.0
Net Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	2.4	5.4	(2.8)	0.2	2.4
Balance sheet (A$m)					
Y/E 30 Jun	**FY20A**	**FY21A**	**FY22F**	**FY23F**	**FY24F**
Cash	2.9	6.9	4.0	4.2	6.5
Accounts receivable	1.2	2.2	3.2	5.1	6.8
Inventory	0.0	0.0	0.0	0.0	0.0
Other current assets	0.1	0.0	0.0	0.0	0.0
Total current assets	*4.1*	*9.1*	*7.2*	*9.3*	*13.3*
PPE	0.0	0.1	0.1	0.1	0.2
Capitalised Software	0.3	5.7	6.7	7.2	6.5
Goodwill	0.7	7.3	7.3	7.3	7.3
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other non current assets	0.1	0.2	2.4	6.6	12.1
Total non current assets	*1.2*	*13.3*	*16.6*	*21.3*	*26.1*
Total Assets	5.4	22.3	23.7	30.5	39.4
Accounts payable	1.0	1.7	2.4	3.9	5.3
Provisions	0.9	2.2	1.7	1.7	1.7
Borrowings	0.1	0.0	0.0	0.0	0.0
Deferred revenue	1.3	2.1	3.0	4.9	6.5
Total current liabilities	*3.3*	*6.0*	*7.2*	*10.6*	*13.6*
Provisions	0.5	3.1	2.6	1.7	0.6
Deferred liabilities	0.0	1.3	1.8	3.0	4.0
Total long term liabilities	*0.5*	*4.3*	*4.4*	*4.7*	*4.5*
Total Liabilities	3.8	10.3	11.6	15.3	18.1
Net Assets	**1.6**	**12.0**	**12.1**	**15.3**	**21.3**
Share capital	18.2	30.9	31.8	33.7	36.3
Reserves	1.2	2.0	2.0	2.0	2.0
Accumulated losses	(17.9)	(20.9)	(21.6)	(20.4)	(16.9)
Other	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**1.5**	**12.0**	**12.1**	**15.3**	**21.3**

Share price (12 November 2021)					A$	0.310
Interim (A$m)	**H120A**	**H220A**	**H121A**	**H221A**	**H122F**	**H222F**
Revenue	2.7	2.9	3.4	3.5	4.9	6.3
EBITDA	(0.9)	(0.4)	(0.3)	(0.8)	(0.4)	0.8
EBIT	(0.9)	(0.4)	(0.4)	(1.1)	(1.0)	0.2
NPATA (normalised)	(0.9)	(0.4)	(0.3)	(0.8)	(0.4)	0.8
Adjustments	(1.0)	(0.7)	(0.4)	(0.5)	0.0	0.0
NPAT (reported)	(1.8)	(1.2)	(0.7)	(1.4)	(0.4)	0.8
EPS (adjusted)	(0.011)	(0.005)	(0.003)	(0.008)	(0.003)	0.005
Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000
Imputation	0.0	0.0	0.0	0.0	0.0	0.0
Operating cash flow	na	na	na	na	na	na
Free Cash flow	na	na	na	na	na	na
Divisionals	**H120A**	**H220A**	**H121A**	**H221A**	**H122F**	**H222F**
Revenue	**2.7**	**2.9**	**3.4**	**3.5**	**4.9**	**6.3**
SaaS	0.4	0.9	1.1	1.5	2.5	4.1
Consulting/other	2.3	2.1	2.3	2.1	2.4	2.2
Gross profit	1.0	1.3	1.8	1.9	2.8	4.1
Gross Profit Margin %	38.6%	43.4%	53.0%	52.9%	57.8%	64.6%
Admin & corporate	1.1	1.3	1.5	1.9	2.3	2.3
Directors & employees	0.2	0.1	0.2	0.4	0.4	0.5
Other	0.6	0.5	0.6	0.7	0.7	0.8
Total costs (ex SBP/one-off	**1.9**	**1.9**	**2.4**	**2.9**	**3.4**	**3.5**
EBITDA	**(0.9)**	**(0.7)**	**(0.6)**	**(1.0)**	**(0.6)**	**0.5**
EBITDA margin %	(37.8%)	(31.9%)	(24.4%)	(48.9%)	(24.8%)	25.0%
Margins, Leverage, Returns		**FY20A**	**FY21A**	**FY22F**	**FY23F**	**FY24F**
EBITDA margin %		(27.4%)	(22.5%)	3.2%	22.4%	32.5%
EBIT margin %		(30.6%)	(29.4%)	-8.2%	13.5%	25.1%
NPAT margin (pre significant items)		(30.8%)	(29.6%)	-7.8%	6.9%	15.6%
Net Debt (Cash)		- 2.85	- 6.86	- 3.97	- 4.10	- 6.40
Net debt/EBITDA (x)	(x)	nm	nm	nm	nm	nm
ND/ND+Equity (%)	(%)	nm	nm	nm	nm	nm
EBIT interest cover (x)	(x)	nm	nm	nm	nm	nm
ROA			(14.7%)	(4.0%)	8.2%	15.4%
ROE		(224.9%)	(24.7%)	(7.1%)	7.5%	15.7%
NTA (per share)						
Working capital		0.2	0.5	0.7	1.2	1.6
WC/Sales (%)		**3.5%**	**7.1%**	**6.5%**	**7.0%**	**7.3%**
Revenue growth		47.9%	24.2%	60.5%	48.7%	29.2%
EBIT growth pa		nm	n/a	n/a	(344.2%)	141.1%
Pricing		**FY20A**	**FY21A**	**FY22F**	**FY23F**	**FY24F**
No of shares (y/e)	(m)	82	105	139	141	143
Weighted Av Dil Shares	(m)	82	105	139	141	143
EPS Reported	A$ cps	(0.0408)	(0.0247)	0.0019	0.0177	0.0333
EPS Normalised/Diluted	A$ cps	(0.0201)	(0.0161)	0.0019	0.0177	0.0333
EPS growth (norm/dil)		n/a	-20%	-112%	827%	88%
DPS	cps	0.000	0.000	0.000	0.000	0.000
DPS Growth		n/a	n/a	n/a	na	na
Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Dividend imputation		0	0	0	0	0
PE (x)		- 15.4	- 19.2	162.3	17.5	9.3
PE market		18.0	18.0	18.0	18.0	18.0
Premium/(discount)		(185.8%)	(206.8%)	801.5%	(2.7%)	(48.3%)
EV/EBITDA (x)		(14.6)	(23.2)	110.0	10.6	0.0
FCF/Share	A cps	(0.010)	(0.031)	(0.021)	0.001	0.016
Price/FCF share		(32.1)	(9.9)	(14.9)	320.3	19.3
Free Cash flow Yield		(1.8%)	(7.7%)	(6.7%)	0.3%	5.3%

Source: Company data for actuals, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

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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