

## Responsibly landing and expanding

K2fly Limited (ASX:K2F) is a technology company providing enterprise grade software and consulting/implementation services, predominantly to the resources sector, and more particularly across key aspects of Environmental, Social and Governance (ESG) functions. The group currently has a suite of 9 solutions across four proprietary technologies which it delivers under a Software-as-a-Service (SaaS) recurring revenue model. Infoscope (acquired July 2017) is a Land Management System providing complete visibility on all activities related to a company's land holdings. RCubed (acquired May 2019) provides Mineral Resources & Reserves Governance and supports all codes and stock markets. SATEVA (acquired November 2020) is a Resource Technical Assurance solution set. Decipher (acquired March 2021) is a cloud-based Monitoring & Compliance solution for tailings management and rehabilitation. These products and acquisitions have and will continue to increase SaaS revenues as a percentage of total (38% in FY21, up from 21% in FY20) while offering significant opportunities to sell existing and new products to existing customers. In anticipation of growth opportunities K2F raised \$7.25m (at \$0.29/share) in April 2021 and has materially increased software development spend.

### Business model

K2F licenses Software together with associated consulting & implementation services to large/enterprise mining companies around the world. Key software products centre around mineral resources & reserves governance (RCubed), community & heritage/land access (Infoscope), mining technical assurance (SATEVA) and dams and tailings management (Decipher). New contracts usually involve an implementation fee and then monthly recurring license payments (SaaS fees). Contract durations are typically between 3-5 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.

### The size and duration of contracts continue to increase

Over the last few years, the average contract size of K2F per half year has progressively increased, an indication of the increasing acceptance, size of the customer and increasing product portfolio offering. Q4FY21 Annualised Recurring Revenue (ARR) and Total Contract Value (TCV) as a result increased ~50% on the PCP with further growth expected Q1FY22. The last three contract announcements have each surpassed the previous biggest deal. The Roy Hill deal in Q4 FY21 was for A\$2.44m in total contract value (TCV), the Sibanye-Stillwater deal announced in Q1 FY22 had a TCV of A\$2.85m over 5 years while the recently announced Ground Disturbance deal with Rio Tinto has a TCV of \$3.44m over five years. K2F can now count 5 of the world's top 10 gold miners by production volume and three of Australia's four largest 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.

### Small SaaS players on the road to breakeven are key peers

We see peers to K2F as <\$100m market cap SaaS players selling to "enterprise" customers. Most of these players have had a relative short corporate life, are loss making but progressing to breakeven as the product(s) become better known. These companies 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 sales cycle but sticky customer base once secured. Peers includes telematics provider to GM dealers Connexion Telematics (ASX: CXZ), knowledge management software provider Knosys (ASX: KNO), public WiFi analytics provider Skyfii (ASX: SKF) and expense management software provider 8Common (ASX: 8CO). EV/sales for reported FY21 metrics across this peer groups ranges from 2.3x (CXZ) to 10.4x (8CO), with K2F currently mid-range at 4.7x.

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

Year end	Revenue (A\$m)	EBIT (A\$m)	NPAT Adj. (A\$m)	EPS adj (A\$m)	EV/Sales (x)
06/18a	2.5	(2.7)	(3.0)	(0.050)	12.8
06/19a	3.8	(2.0)	(1.9)	(0.031)	10.1
06/20a	5.6	(1.6)	(1.6)	(0.019)	6.5
06//21a	7.0	(1.9)	(1.9)	(0.015)	4.7

Source: Company data \*EBIT and NPAT adj for one-time, non-cash items

## Software & Services

6 October 2021

### Share details

ASX Code	K2F
Share price (5 Oct 21)	\$0.32
Market Capitalisation	\$44.2M
Shares on issue	138.0M
Free float	54.4%

### 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

### Catalysts/upcoming events

- Further contract announcements & renewals
- New product launches
- 1HFY22 result

### Comparable companies (Aust/NZ)

Connexion Telematics (ASX: CXZ) Knosys (ASX: KNO); Skyfii (ASX: SKF); Urbanise (ASX: UBN); 8Common (ASX: 8CO)

### Board of Directors

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

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# 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: 6<sup>th</sup> May 2021**

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

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  - Securities
- deal on behalf of retail and wholesale clients in relation to
  - Securities

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Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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