

KAPE TECHNOLOGIES

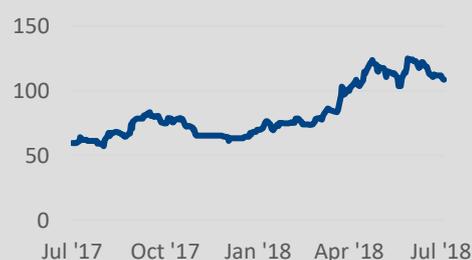
SOFTWARE AND COMPUTER SERVICES

KAPE.L

115.5p

Market Cap: £162.9m

SHARE PRICE (p)



12m high/low

125p/57p

Source: LSE Data

KEY INFORMATION

Enterprise value	£109.9m
Index/market	AIM
Next news	Trading update, Jul '18
Gearing	N/A
Interest cover	N/A

KAPE TECHNOLOGIES IS A RESEARCH CLIENT OF PROGRESSIVE

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Acquisition in malware protection market

Complementary products and synergy opportunities

Kape has announced the acquisition of Intego, a malware protection and cybersecurity SaaS solution, for U\$16 million in cash. Intego is focused on the provision of malware protection, firewall, anti-spam, backup, data protection and parental controls software for Mac. The deal fits directly into Kape's acquisition strategy of accelerating its growth in the cybersecurity market. It provides the Group with the opportunity to realise synergy benefits through additional sales, a lower cost structure and the application of Kape's skill in efficient online user acquisition to Intego's products. In paying 11.4x historical profit before tax, Kape gains 'significant' levels of recurring revenues from subscribers through Intego's strong position in the malware protection market. Management expects the acquisition to be earnings enhancing in the current financial year. Our estimate changes also reflect that as we add U\$0.3 million and U\$1.1 million to EBITDA for FY 2018E and FY2019E respectively. We leave revenues unchanged ahead of the anticipated H1 trading update.

- Intego's website notes that it is the only software provider to focus exclusively on Apple security and has established relationships with partners to help it become a Mac security software market leader. Intego provides products predominantly to consumers with some newer solutions for businesses. It has 150,000 paying users – generated solely from organic sources - with renewal rates above 75%.
- The multiple which Kape is paying for Intego of 11.4x historical PBT has a similar look to that of CyberGhost, which was acquired for up to €9.1 million in 2017 placing it on a multiple of 6x to 9x historical EBITDA (depending on deferred payments). Paying cash for Intego at that multiple versus Kape's 2017 EV/PBT multiple of 21.5x suggests immediate earnings enhancement.
- We have previously noted that CyberGhost represents a useful template for what it is possible to achieve from further acquisitions over time. The potential for significant synergies from the acquisition of Intego lie in the complementary malware protection and security solutions and the user base which both bring significant cross-sell opportunities.
- In our view, the acquisition of Intego represents another solid step in augmenting Kape's growth prospects as it continues to focus its products on being B2C-driven and SaaS enabled.

FYE DEC (\$M)	2015	2016	2017	2018E	2019E
Revenue	84.6	56.5	66.4	74.1	81.4
Adjusted EBITDA	10.1	6.4	8.3	10.4	14.1
Adjusted PBT	8.1	4.8	6.7	9.4	12.7
Adjusted EPS (€)	4.6	2.7	3.8	5.3	7.8
EV/Sales	1.7	2.5	2.2	1.9	1.8
EV/ Adj. EBITDA	14.3	22.4	17.4	13.8	10.2
P/E	32.7	56.1	39.9	28.3	19.4

Source: Company Information and Progressive Equity Research estimates

A strong position in the malware protection market

A U\$16 million acquisition

Kape has announced the acquisition of the entire issued share capital of Neutral Holdings Ltd, trading as Intego. Intego is a Mac and iOS cyber security and malware protection SaaS business. Kape is paying U\$16.0 million from internal cash resources for a business which generated profit before tax of U\$1.4 million in 2017. Intego has 150,000 paying users – generated solely from organic sources - with renewal rates above 75%. That takes Kape's user base to over 1 million with the renewal rate comparing to 69% reported by Kape in 2017. Management expects the acquisition to be earnings enhancing in Kape's current financial year.

Intego is focused on the provision of malware protection, firewall, anti-spam, backup, data protection and parental controls software for Mac. It has both consumer and some newer business products and is headquartered in Seattle.

Intego Home Products



Source: Intego.com

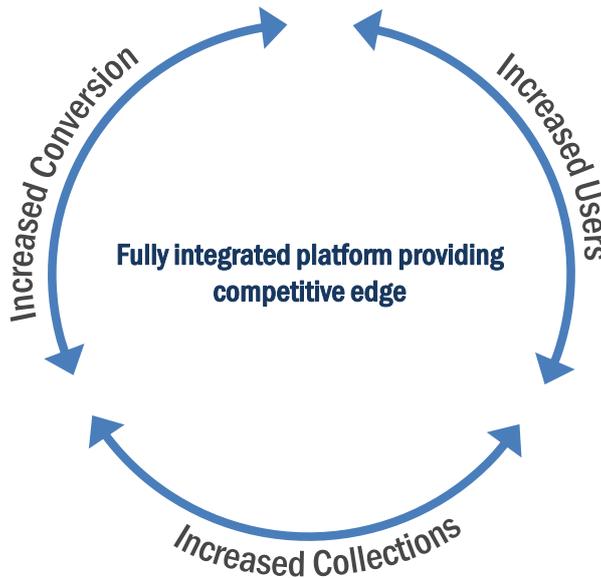
Kape is paying 11.4x historical PBT for Intego. In comparison, it acquired CyberGhost, for up to €9.1 million in 2017 depending on deferred payments. At that higher level of consideration, Kape paid 9x historical EBITDA. Clearly, the Intego deal is earnings enhancing with Kape paying cash for Intego at 11.4x versus Kape's 2017 EV/PBT multiple of 21.5x.

Acquisition in line with stated strategy

Kape continues to follow a combined organic and acquisitive approach to growth and the acquisition of Intego is in line with its previously-announced acquisition criteria. The Group has substantial funds to invest and management had made it clear that acquisitions were likely to focus on the cybersecurity market.

Kape is continuing its transition towards a SaaS model and 2017 saw its repositioning as a consumer security software business. Although Intego has some products which are focused on business customers, we understand that they are a relatively new part of the business and represent a small part of revenues. While these products are not the core reason for acquiring Intego, we assume that Kape could upscale this set of solutions at some stage in the future.

Applying Kape's strategy



Source: Kape technologies

The acquisition of CyberGhost brought Kape more strongly into the cyber security market and the Intego deal immediately gives it expertise and products in the malware protection market. We have previously noted the clear potential synergy benefits through additional sales, a lower cost structure and the application of Kape's skill in low-cost online marketing of the CyberGhost product. That represents a template for what it is possible to achieve from further acquisitions such as Intego.

Within that template, we expect Kape to apply the same strategy to Intego that it has successfully applied to CyberGhost – integrating Kape's technology and leveraging its digital marketing expertise. It's worth noting that CyberGhost was fully integrated into Kape's user acquisition platform during the first half of 2017 and it performed ahead of initial expectations, accelerating during the second half of 2017.

Kape has the opportunity to grow its business by generating cross-selling for Kape's and Intego's solutions across both customer bases. As well as the addition of complementary malware protection and security solutions, the acquisition will allow Kape to use Intego's technology and development skills and expertise to expand into additional complementary software solutions. Here, we see an opportunity to for a combination with Reimage to produce a Windows solution to provide further growth opportunities. There is also a clear opportunity for Kape to upscale Intego's user base which has been originated solely from organic sources.

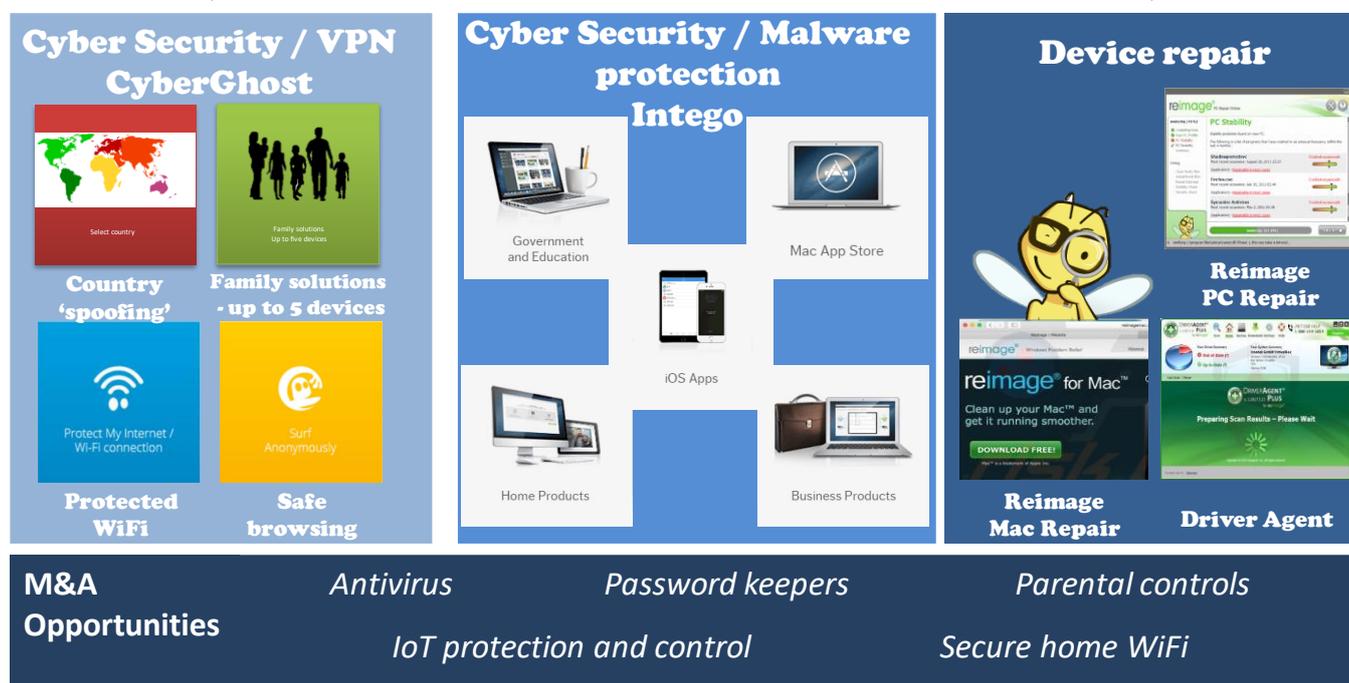
Growth potential

The chart on the following page shows a simple view of where we see Kape and its potential areas for growth. Clearly, the acquisition of Intego caters for several of the M&A opportunities shown at the bottom of the chart. In our view, Kape is well positioned to benefit from good organic growth, further acquisitions and synergies from its completed deals. Both cyber security and device repair have further organic and acquisitive options for growth.

Kape's business opportunities

Core Group Skills

- Optimised customer acquisition, media buying, cross-selling
- Business intelligence – maximising average order value
- Technology to drive recurring revenue and minimise churn



Source: Progressive Equity Research

Estimate changes

We are making some adjustments to our EBITDA estimates to take into account the acquisition of Intego. We have assumed that there will be some costs associated with the integration of Intego into the Group and therefore we add U\$0.3 million and U\$1.1 million to EBITDA for FY 2018E and FY2019E respectively. We are also conscious that Kape provided a trading update in late July 2017, so we leave revenues unchanged in anticipation of possible updates on revenues and margins in the near future.

Estimate changes and new FY 2019E numbers

U\$m unless stated	FY18E			FY19E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	74.1	74.1	0%	81.4	81.4	0%
Adj EBITDA	10.1	10.4	3%	13.0	14.1	8%
Fully adj PBT	9.1	9.4	3%	11.7	12.7	9%
Fully adj EPS (c)	5.2	5.3	3%	7.1	7.8	9%

Source: Progressive Equity Research estimates

Financial Summary: Kape Technologies

Year end: December (\$m unless shown)

PROFIT & LOSS (U\$m)	2015	2016	2017	2018E	2019E
Revenue	84.6	56.5	66.4	74.1	81.4
Adj EBITDA	10.1	6.4	8.3	10.4	14.1
Adj EBIT	0.7	(3.5)	6.9	9.1	12.4
Reported PBT	(14.7)	(10.0)	(2.9)	8.2	12.1
Fully adj PBT	8.1	4.8	6.7	9.4	12.7
NOPAT	8.2	4.3	6.2	8.4	11.6
Reported EPS (c)	(11.9)	(7.6)	(2.5)	3.9	6.0
Fully adj EPS (c)	4.6	2.7	3.8	5.3	7.8
Dividend per share (c)	0.0	0.0	4.9	0.0	0.0
CASH FLOW & BALANCE SHEET (U\$m)	2015	2016	2017	2018E	2019E
Operating cash flow	5.9	5.9	6.5	12.1	14.9
Free Cash flow (U\$m)	1.8	3.0	4.5	8.9	11.3
FCF per share (c)	1.2	2.1	3.1	6.1	7.8
Acquisitions	(0.9)	(1.1)	(5.5)	(16.0)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	(5.1)	(1.0)	0.0	0.0	0.0
Net cash flow	(4.7)	0.7	(2.6)	(14.1)	11.3
Overdrafts / borrowings	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	71.3	72.1	69.5	55.4	66.8
Net (Debt)/Cash	71.3	72.1	69.5	55.4	66.8
NAV AND RETURNS (U\$m)	2015	2016	2017	2018E	2019E
Net asset value	91.5	80.6	79.4	78.1	86.8
NAV/share (c)	64.8	57.1	56.3	55.2	61.4
Net Tangible Asset Value	72.3	73.4	67.0	51.5	61.5
NTAV/share (c)	51.1	52.1	47.5	36.4	43.5
Average equity	101.2	86.0	80.0	78.8	82.5
Post-tax ROE (%)	(17.4%)	(12.4%)	(4.5%)	7.3%	10.5%
METRICS	2015	2016	2017	2018E	2019E
Revenue growth	19.0%	(33.2%)	17.4%	11.7%	9.8%
Adj EBITDA growth	(26.2%)	(36.3%)	28.8%	26.2%	35.3%
Adj EBIT growth	(85.3%)	(600.1%)	(297.6%)	32.4%	36.8%
Adj PBT growth	(10.2%)	(41.5%)	40.2%	41.0%	35.5%
Adj EPS growth	(49.1%)	(41.7%)	40.5%	41.1%	45.5%
Dividend growth	N/A	N/A	N/A	(100.0%)	N/A
Adj EBIT margins	0.8%	(6.1%)	10.3%	12.2%	15.3%
VALUATION	2015	2016	2017	2018E	2019E
EV/Sales	1.7	2.5	2.2	1.9	1.8
EV/EBITDA	14.3	22.4	17.4	13.8	10.2
EV/NOPAT	17.5	33.2	23.1	17.0	12.5
PER	32.7	56.1	39.9	28.3	19.4
Dividend yield	N/A	N/A	3.3%	N/A	N/A
FCF yield	0.8%	1.4%	2.0%	4.0%	5.1%

Source: Company information and Progressive Equity Research estimates

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