

KAPE TECHNOLOGIES

SOFTWARE AND COMPUTER SERVICES

KAPE.L

114.5p

Market Cap: £161.5m

SHARE PRICE (p)



12m high/low

135.5p/61p

Source: LSE Data

KEY INFORMATION

Enterprise value	£108.8m
Index/market	AIM
Next news	Trading update, Jan 2019
Gearing	N/A
Interest cover	N/A

KAPE TECHNOLOGIES IS A RESEARCH CLIENT OF PROGRESSIVE

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Acquisition of ZenMate

Complementary deal adds share in the VPN market

The acquisition of ZenMate for €4.8 million increases Kape's share of the VPN (virtual private network) market, extends its footprint in Europe and brings the prospect of revenue and cost synergies. Based in Berlin, ZenMate is a multi-platform security software business with a focus on the provision of VPN solutions; highly complementary to Kape's existing CyberGhost business. A more tactical acquisition compared to previous deals, the purchase presents opportunities to reap the benefits of significant restructuring (relative to a previously loss-making position). The group has the potential to realise synergy benefits through additional sales, a lower cost structure and the application of Kape's skill in efficient online marketing. The Group aims to return ZenMate to profitability in the next quarter and expects the acquisition to be earnings accretive in the first full year of ownership. The deal is funded from Kape's existing cash resources. We are increasing our estimate for FY 2019E Adjusted EBITDA by 3% to reflect our initial view of the impact of ZenMate.

- Kape is acquiring the entire issued share capital of ZenGuard GmbH and ZenMate (together 'ZenMate') from its current owners - who comprise a number of venture capital funds and private investors, including the founders of the business - for a total cash consideration of €4.8 million. It was loss-making in 2017 to the tune of €1.1 million.
- ZenMate has c.50,000 SaaS-based premium consumers with a strong retention rate, continuing Kape's transition to a SaaS model. The enlarged Group has the opportunity to cross-sell and up-sell across both customer bases. We expect Kape to retain ZenMate's branding initially and to reduce costs by migrating ZenMate's infrastructure onto Kape's servers - with no change to the user experience.
- We have adjusted estimates to reflect the acquisition with a small increase to revenues and costs in FY 2018E to reflect two-and-a-half months of ownership but no change to Adjusted EBITDA. We also anticipate restructuring costs of around U\$0.3 million to be incurred in the current year. For FY 2019E, we have assumed that ZenMate adds around U\$2.5 million of revenues and U\$0.5 million of Adjusted EBITDA resulting in increases to those numbers of 4% and 3% respectively.

Overall, we believe the deal represents a clever tactical move, demonstrating the growing potential and value inherent in Kape's expanding geographic and technology footprint.

FYE DEC (\$M)	2015	2016	2017	2018E	2019E
Revenue	84.6	56.5	66.4	61.2	73.6
Adjusted EBITDA	10.1	6.4	8.3	10.2	14.0
Adjusted PBT	8.1	4.8	6.7	9.2	12.5
Adjusted EPS (€)	4.6	2.7	3.8	5.2	7.7
EV/Sales	1.7	2.5	2.2	2.3	2.0
EV/ Adj. EBITDA	14.3	22.4	17.4	14.1	10.3
P/E	32.6	56.0	39.9	29.0	19.7

Source: Company Information and Progressive Equity Research estimates

Financial Summary: Kape Technologies

Year end: December (\$m unless shown)

	2015	2016	2017	2018E	2019E
PROFIT & LOSS					
Revenue	84.6	56.5	66.4	61.2	73.6
Adj EBITDA	10.1	6.4	8.3	10.2	14.0
Adj EBIT	0.7	(3.5)	6.9	8.9	12.3
Reported PBT	(14.7)	(10.0)	(2.9)	7.6	11.9
Fully adj PBT	8.1	4.8	6.7	9.2	12.5
NOPAT	8.2	4.3	6.2	8.3	11.4
Reported EPS (c)	(11.9)	(7.6)	(2.5)	3.7	5.9
Fully adj EPS (c)	4.6	2.7	3.8	5.2	7.7
Dividend per share (c)	0.0	0.0	4.9	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	5.9	5.9	6.5	5.8	12.3
Free Cash flow (U\$m)	1.8	3.0	4.5	2.6	8.7
FCF per share (c)	1.2	2.1	3.1	1.8	6.0
Acquisitions	(0.9)	(1.1)	(5.5)	(20.2)	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)	(24.6)	8.7
Overdrafts / borrowings	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	71.3	72.1	69.5	44.9	53.6
Net (Debt)/Cash	71.3	72.1	69.5	44.9	53.6
NAV AND RETURNS					
Net asset value	91.5	80.6	79.4	77.8	86.3
NAV/share (c)	64.8	57.1	56.3	54.9	61.0
Net Tangible Asset Value	72.3	73.4	67.0	51.1	61.0
NTAV/share (c)	51.1	52.1	47.5	36.1	43.1
Average equity	101.2	86.0	80.0	78.6	82.0
Post-tax ROE (%)	(17.4%)	(12.4%)	(4.5%)	6.8%	10.4%
METRICS					
Revenue growth	19.0%	(33.2%)	17.4%	(7.8%)	20.3%
Adj EBITDA growth	(26.2%)	(36.3%)	28.8%	23.7%	36.7%
Adj EBIT growth	(85.3%)	(600.1%)	(297.6%)	29.4%	38.4%
Adj PBT growth	(10.2%)	(41.5%)	40.2%	37.6%	36.6%
Adj EPS growth	(49.1%)	(41.7%)	40.5%	37.6%	46.8%
Dividend growth	N/A	N/A	N/A	(100.0%)	N/A
Adj EBIT margins	0.8%	(6.1%)	10.3%	14.5%	16.7%
VALUATION					
EV/Sales	1.7	2.5	2.2	2.3	2.0
EV/EBITDA	14.3	22.4	17.4	14.1	10.3
EV/NOPAT	17.4	33.2	23.1	17.4	12.6
PER	32.6	56.0	39.9	29.0	19.7
Dividend yield	N/A	N/A	3.3%	N/A	N/A
FCF yield	0.8%	1.4%	2.0%	1.2%	4.0%

Source: Company information and Progressive Equity Research estimates

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