

# KAPE TECHNOLOGIES

## SOFTWARE AND COMPUTER SERVICES

30 October 2020

### KAPE.L

161p

Market Cap: £334.3m

#### SHARE PRICE (p)



12m high/low

225p/76p

Source: LSE Data

#### KEY DATA

Net (Debt)/Cash	\$(25.6)m (at 30/06/20)
Enterprise value	£354m
Index/market	AIM
Next news	Trading update, Jan '21
Shares in Issue (m)	208.3
Chairman	Don Elgie
Chief Executive	Ido Erlichman
Finance Director	Moran Laufer

#### COMPANY DESCRIPTION

Kape is a cybersecurity company focused on digital privacy and protection

[www.kape.com](http://www.kape.com)

KAPE TECHNOLOGIES IS A RESEARCH CLIENT OF  
PROGRESSIVE

#### ANALYSTS

##### Gareth Evans

+44 (0) 20 7781 5301

gevans@progressive-research.com



##### Ian Poulter

+44 (0) 20 7781 5307

ipoulter@progressive-research.com



[www.progressive-research.com](http://www.progressive-research.com)

## From strength to strength

### Fundraise provides future M&A firepower

Kape has announced that it has raised gross proceeds of \$115.5 million through a significantly oversubscribed placing and retail offer of 59.2 million shares at 150p and will use \$72 million of the proceeds to buy out the two major vendors of PIA, the transformational deal which the Group completed at the end of 2019. The remaining \$43.5 million will be used to strengthen the Group's balance sheet as it looks to select further acquisitions. There is an additional tax-related cash benefit of around \$50 million over 15 years that is now available to Kape following this change to the PIA deal structure. This seems an intelligent way of removing any potential share overhang while also adding further to the group's M&A firepower. Kape will cancel the shares which it acquires from the vendors and will not issue the vast majority of the deferred shares. With trading still robust and guidance unchanged, we make no alteration to our underlying business assumptions. Our EPS estimates reflect the changes to the shares in issue, both existing and prospective.

- The Company's majority shareholder, Unikmind, has subscribed for shares worth \$55.7 million and, following Admission, will hold approximately 65% of the enlarged share capital. The Company's directors participated in the Placing in the amount of \$175,000 in aggregate. Other employees subscribed for 295,000 Placing Shares in aggregate.
- In a brief update on trading, Kape states that trading during Q3 2020 was at the upper end of management's expectations with user growth in the Privacy division reaching a run rate of 14% during the quarter. The integration of PIA is still expected to be completed by the end of 2020.
- Guidance for FY 20E is reiterated: revenues for the year are expected to be between US\$120-123 million, with adjusted EBITDA expected to be US\$35-38 million.
- The announcement states that current market conditions potentially present a number of acquisition opportunities which the capital raise will allow Kape to fully exploit. The extra firepower now available suggests to us that we could see another reasonably sizeable deal at some stage.

With trading continuing to be well on track for the full year, we believe that this agreement enhances Kape's ability to take further advantage of the current business environment through executing on its acquisition strategy.

FYE DEC (\$M)	2018	2019	2020E	2021E	2022E
Revenue	52.1	66.1	120.8	135.9	146.8
Adjusted EBITDA	10.4	14.6	36.2	41.5	44.6
Adjusted PBT	8.2	10.6	30.9	36.4	40.2
Adjusted Dil EPS (c)	5.0	6.4	14.2	15.8	17.5
EV/Sales	8.8x	7.0x	3.8x	3.4x	3.1x
EV/ Adj. EBITDA	44.4x	31.6x	12.7x	11.1x	10.3x
P/E	42.0x	32.6x	14.7x	13.2x	11.9x

Source: Company Information and Progressive Equity Research estimates

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

## Transaction data

### Then...

In December 2019, Kape acquired Private Internet Access from its co-founders and shareholders Andrew Lee and Steve DeProspero, for a total consideration of c.US\$130.1 million and an enterprise value of US\$162.3 million which was to be satisfied by a combination of c. US\$85 million cash and c. 42,701,548 new Kape ordinary shares. This was to be paid in three phases. The co-founders each received 5.25 million shares each on completion, with 10.5 million each to be issued on the first anniversary of completion and 3.5 million each to be issued on the second anniversary of completion. The balance of 4.2 million Consideration Shares were issued to four senior executives of LTMI, with similar phasing.

Mr Lee joined Kape with Ted Kim, LTMI's CEO, joining the Kape board as a non-executive director and he remains with the business following the agreement (see below) to lead Kape's North America operations in an executive capacity. Andrew Lee agreed to provide consulting services to Kape for a period of three years following completion through a separate services company.

### ...and now

Kape has reached an agreement with the PIA Founders to purchase their initial consideration shares and their right to receive their deferred consideration shares, for a total consideration of approximately \$72 million.

A number of LTMI employees received some of the consideration shares - they retain those and remain with Kape, having already integrated well into the Group. Relevant to this agreement, Kape issued 10,500,726 new ordinary shares to the PIA Founders, with a further 27,994,720 Ordinary Shares in aggregate to be issued to them over a two year period from closing. Once repurchased, the Founders' Initial Consideration Shares will be placed into treasury. Aside from a proportion being retained to fulfil future employee share option exercises, the remainder will be cancelled.

As part of the arrangements, the consultancy services arrangement with Andrew Lee will be paid in full and terminated. Ted Kim will step down as a Non-Executive Director of Kape upon completion of the repurchase but will remain with the company to head its operations in the US.

## Taxation

The change in the purchase arrangements increase Kape's tax base in the acquired PIA assets, potentially to their full book value, and Kape expects to realise tax savings of approximately \$50 million. These expected tax savings are expected to be realised over 15 years, producing a positive cashflow impact for Kape of approximately \$3.3 million per annum. There is a c. \$1.9 million tax expense benefit to the adjusted profit line commencing in FY 20E.

At the time of the PIA Acquisition, the Company recognised a deferred tax liability of c.\$25.8m, which will now be cancelled and recorded as exceptional tax income in the Company's P&L, which is expected to reduce yearly tax expenses and increase net profit by \$25.8m. The change to the tax structure will result in the creation of a deferred tax liability over the 15-year amortisation period.

## Estimate changes

Our estimates change to reflect the issue of new shares and the cancellation of the vast majority of the deferred consideration shares as well as the effect of the tax benefit which will now accrue. We also make small adjustments to our interest assumptions and include the effect of the end of Andrew Lee's consultancy agreement. The combined result is a modest uptick in some adjusted metrics. There is an improvement in the picture for net cash which results from the execution of the capital raise and the repurchase agreement. Those numbers can be seen in the table on the following page.

Estimate changes									
U\$m unless stated	FY 2020E			FY 2021E			FY 2021E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	120.8	120.8	0%	135.9	135.9	0%	146.8	146.8	0%
Adj EBITDA	36.2	36.2	0%	40.8	41.5	2%	43.8	44.6	2%
Fully adj PBT	30.9	30.9	0%	35.3	36.4	3%	37.3	40.2	8%
Fully adj. dil. EPS (c)	13.5	14.2	5%	15.8	15.8	0%	16.6	17.5	5%

Source: Progressive Equity Research estimates

**Financial Summary: Kape Technologies**
**Year end: December (\$m unless shown)**

	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
<b>PROFIT &amp; LOSS</b>					
Revenue	52.1	66.1	120.8	135.9	146.8
Adj EBITDA	10.4	14.6	36.2	41.5	44.6
Adj EBIT	8.3	11.9	33.1	38.1	41.2
Reported PBT	3.3	2.8	12.9	18.1	21.6
Fully adj PBT	8.2	10.6	30.9	36.4	40.2
NOPAT	7.7	11.1	31.0	35.6	38.5
Reported Dil EPS (c)	(0.3)	1.3	19.4	8.0	9.5
Fully adj Dil EPS (c)	5.0	6.4	14.2	15.8	17.5
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	3.2	(1.7)	22.1	29.6	36.1
Free Cash flow (\$m)	(0.4)	(5.4)	16.0	24.0	27.3
FCF per share (c)	(0.2)	(3.6)	7.9	11.2	12.7
Acquisitions	(21.2)	(64.3)	(77.0)	(15.0)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.0	0.0	115.0	0.0	0.0
Net cash flow	(29.1)	(70.9)	54.0	9.0	27.3
Overdrafts / borrowings	0.0	(40.2)	(35.2)	(28.5)	(21.8)
Cash & equivalents	40.4	8.2	57.2	59.5	80.2
Net (Debt)/Cash	40.4	(32.0)	22.0	31.0	58.4
<b>NAV AND RETURNS</b>					
Net asset value	73.0	155.0	299.4	316.5	337.0
NAV/share (c)	51.3	99.2	143.7	152.0	161.8
Net Tangible Asset Value	36.7	(87.1)	56.3	69.5	107.3
NTAV/share (c)	25.8	(55.7)	27.0	33.3	51.5
Average equity	76.2	114.0	227.2	308.0	326.8
Post-tax ROE (%)	(0.7%)	1.8%	6.0%	5.6%	6.3%
<b>METRICS</b>					
Revenue growth	2.9%	26.9%	82.8%	12.6%	8.0%
Adj EBITDA growth	28.3%	40.3%	148.7%	14.5%	7.6%
Adj EBIT growth	24.1%	43.5%	178.2%	15.0%	8.1%
Adj PBT growth	24.8%	28.1%	192.0%	18.0%	10.3%
Adj EPS growth	33.5%	28.8%	121.4%	11.7%	10.5%
Dividend growth	(100.0%)	N/A	N/A	N/A	N/A
Adj EBIT margins	15.9%	18.0%	27.4%	28.0%	28.0%
<b>VALUATION</b>					
EV/Sales	8.8	7.0	3.8	3.4	3.1
EV/EBITDA	44.4	31.6	12.7	11.1	10.3
EV/NOPAT	59.7	41.6	14.9	12.9	12.0
PER	42.0	32.6	14.7	13.2	11.9
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(0.1%)	(1.7%)	3.8%	5.4%	6.1%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

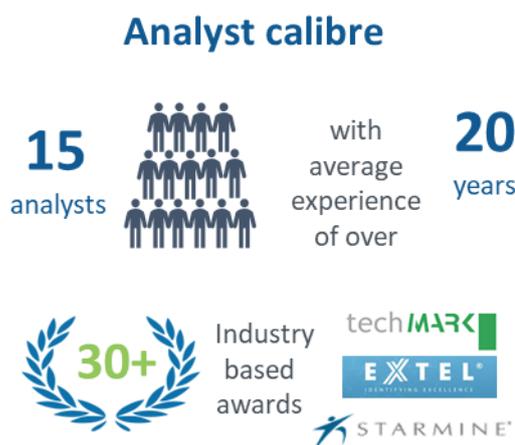
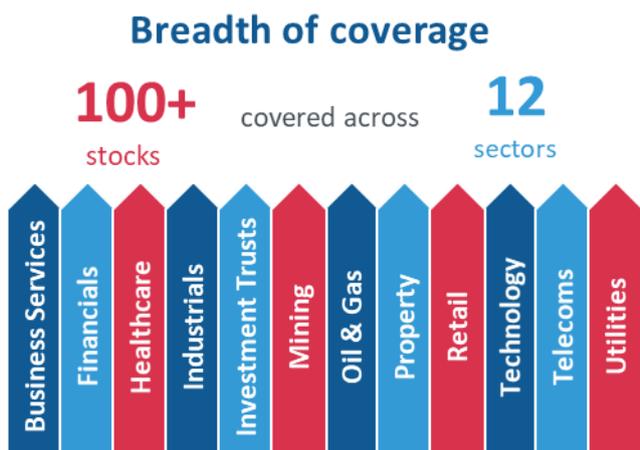
Copyright 2020 Progressive Equity Research Limited (“PERL”). All rights reserved. Progressive’s research is commissioned by the subject company under contract and is freely available to the public and all institutional investors. Progressive does not offer investors the ability to trade securities. Our publications should not, therefore, be considered an inducement under MiFID II regulations. PERL provides professional equity research services, and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by PERL for publication in the United Kingdom only. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of PERL at the time of publication, and any estimates are those of PERL and not of the companies concerned unless specifically sourced otherwise. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this report. However, PERL’s directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.



To arrange a meeting with the management team, or for further information about Progressive, please contact:

Emily Ritchie  
+44 (0) 20 7781 5311  
eritchie@progressive-research.com