

## K3 BUSINESS TECHNOLOGY GROUP

### SOFTWARE AND COMPUTER SERVICES

**KBT.L**

237p

Market Cap: £75.2m

#### SHARE PRICE (p)



12m high/low

266p / 208p

**Source: LSE Data**

#### KEY INFORMATION

Enterprise value	£88.7m
Index/market	FTSE AIM
Next news	FY15 Results, Sept 15
Gearing	18%
Interest cover	14.0x

**K3 BUSINESS TECHNOLOGY GROUP IS A RESEARCH CLIENT OF PROGRESSIVE**

#### ANALYSTS

Gareth Evans  
 +44 (0) 7349 5156  
 gevens@progressive-research.com

Ian Poulter  
 +44 (0) 7349 5156  
 ipoulter@progressive-research.com

### FY15 pre-close trading update broadly in line

K3 has issued a pre-close trading update for the financial year to the end of June 2015 which notes continued progress in the second half of the year. The update confirms further advances with K3's intellectual property (K3 IP) growth strategy. Full year results are expected to be broadly in line with market expectations although the announcement notes that performance has continued to be affected by the slow Dutch retail and fashion markets and by euro weakness against sterling. The reduction in net debt to £12.1 million at the end of June 2015 (June 2014: £13.6 million) is a welcome improvement and considerably better than our estimate of £15.0 million. We make no changes to estimates apart from adjusting FY15E net debt.

- The trading update notes 'significant interest' in K3 IP with further progress in the development of global channel partners. This is a key component in the Group's strategy to expand sales of new and existing K3 products.
- In May 2015, K3 announced that it has formed an alliance with UXC Eclipse, a leading provider of intelligent business solutions to the enterprise and mid-market, to drive business value for fashion enterprises with Microsoft Dynamics.
- Subsequent to the financial year end, K3 announced that the 'most valuable of the NFL franchises' had chosen ax|is fashion as part of its Dynamics AX upgrade from 2009 to 2012.
- K3 continues to benefit from its existing scale and critical mass. The group's managed services and hosted offerings provide high-value recurring revenue and the trading update reiterates the point that hosting revenues have also grown significantly over the period.
- The encouraging net debt number includes the cash payment of £1.75m for the acquisition of hosting business, Willow Starcom, in April 2015.
- We made modest upgrades to our forecasts in April to reflect the Willow Starcom deal. Aside from adjusting FY15E net debt to reflect the figure in the trading update, we make no further changes today but note the comments on the Dutch markets and euro exchange rate.

FYE JUNE	FY12	FY13A	FY14A	FY15E	FY16E
Revenue	68.0	63.5	72.0	81.7	92.1
Adjusted EBITDA	12.9	7.3	9.9	11.6	13.8
Adjusted PBT	10.0	4.4	6.6	8.1	10.2
Adjusted EPS	24.4	13.9	18.4	20.5	25.7
EV/Sales	1.3x	1.4x	1.2x	1.1x	1.0x
EV/ Adj. EBITDA	6.9x	12.2x	9.0x	7.6x	6.4x
P/E	9.7x	17.1x	12.9x	11.6x	9.2x

**Source: Company Information and Progressive Equity Research estimates**

## FINANCIAL SUMMARY

Year ended Jun	FY-12	FY-13	FY-14	FY-15	FY-16
	£m	£m	£m	£m	£m
<b>Profit &amp; Loss</b>	<b>Act</b>	<b>Act</b>	<b>Act</b>	<b>Est</b>	<b>Est</b>
Revenue £m	68.0	63.5	72.0	81.7	92.1
Adj EBITDA £m	12.9	7.3	9.9	11.6	13.8
Adj EBIT £m	11.4	5.2	7.3	8.9	11.1
Reported PBT	6.0	0.5	1.9	4.9	7.1
PBT before exceptionals and AAG	10.0	4.4	6.6	8.1	10.2
Fully adj PBT	10.1	4.4	6.6	8.1	10.2
NOPAT £m	8.0	3.6	5.1	6.2	7.8
Reported EPS	19.8	4.2	8.1	12.3	17.8
EPS before exceptionals and AAG	24.3	10.4	20.8	20.4	25.6
Fully adj EPS	24.4	13.9	18.4	20.5	25.7
Dividend per share p	1.00	1.00	1.25	1.50	1.75
<b>Cash flow &amp; Balance sheet</b>					
Operating cash flow	7.3	8.0	6.3	10.2	9.6
Free Cash flow £m	3.6	3.9	2.3	4.9	4.2
FCF per share p	12.4	13.2	7.4	15.5	13.2
Capex	-3.2	-4.6	-4.5	-4.0	-4.0
Acquisitions	-7.1	-1.9	-0.1	-1.8	0.0
Net cash flow	-5.4	-0.8	0.0	1.5	2.4
Shares issued	5.0	2.7	0.3	0.0	0.0
Net cash	-15.7	-13.8	-13.6	-12.1	-9.7

<b>Metrics</b>	<b>FY-12</b>	<b>FY-13</b>	<b>FY-14</b>	<b>FY-15</b>	<b>FY-16</b>
Revenue growth	28.7%	-6.5%	13.3%	13.5%	12.8%
Adj EBITDA growth	22.4%	-43.9%	35.8%	17.9%	18.4%
Adj EBIT growth	18.4%	-54.7%	41.9%	21.8%	24.0%
Adj PBT growth	15.7%	-56.0%	49.1%	22.7%	25.3%
Adj EPS growth	7.2%	-43.2%	32.8%	11.2%	25.3%
Dividend growth	33.3%	0.0%	25.0%	20.0%	16.7%
Adj EBIT margins	16.8%	8.1%	10.2%	10.9%	12.0%
Operating cash conversion	56%	110%	63%	63%	91%
Capex/Depreciation	206%	219%	176%	148%	148%

<b>Valuation</b>	<b>FY-12</b>	<b>FY-13</b>	<b>FY-14</b>	<b>FY-15</b>	<b>FY-16</b>
EV/sales	1.3	1.4	1.2	1.1	1.0
EV/EBITDA	6.9	12.2	9.0	7.6	6.4
EV/NOPAT	11.1	24.5	17.3	14.2	11.4
PER	9.7	17.1	12.9	11.6	9.2
Dividend yield	0.4%	0.4%	0.5%	0.6%	0.7%
FCF yield	5.2%	5.6%	3.1%	6.5%	5.6%

Source: K3 information, Progressive Equity Research estimates

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