

K3 BUSINESS TECHNOLOGY GROUP

SOFTWARE AND COMPUTER SERVICES

KBT.L

337p

Market Cap: £106.6m

SHARE PRICE (p)



12m high/low

372p/235p

Source: LSE Data

KEY INFORMATION

Enterprise value	£117.1m
Index/market	FTSE AIM
Next news	FY16 results, Sep 16
Gearing	13%
Interest cover	13.1x

K3 BUSINESS TECHNOLOGY GROUP IS A RESEARCH CLIENT OF PROGRESSIVE

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Another complementary acquisition

Earnings enhancing deal adds niche market IP

Following K3's April 2016 purchase of DdD Retail, the group has announced a further complementary acquisition in the form of Merac, developer of a leading solution for the visitor attractions and leisure sector. Paying an initial £1.27 million in cash, management expects the deal to be immediately earnings enhancing. The deal will increase K3's presence in the sector and is in line with its strategy of seeking acquisitions which accelerate growth and also increase sales of K3-owned intellectual property (IP) - in this case, also bolstering the group's position in an important niche market. The trading update which accompanied the DdD acquisition noted a 'very healthy' pipeline of new deals. We expect K3 to issue a pre-close update for the financial year to the end of June 2016 later in July. Ahead of that, we make no changes to estimates while acknowledging the supportive impact that the acquisition will have on future earnings estimates in the form of increased levels of recurring income and profit.

- Merac provides a fully integrated electronic point-of-sale and Back Office management system for the leisure and tourism sector. Its 'MStore' solution covers a wide range of related areas such as ticketing, hospitality and retail but also offers admission, bookings, membership, marketing, stock control, CRM and event management solutions.
- K3 is paying an initial consideration of £1.27 million in cash with a further payment of up to £175,000 (due in 2017) dependent on performance. In the financial year ended 31 March 2016, Merac reported revenue of £1.24 million and an adjusted profit before tax of £0.33 million (before director pension contributions).
- The acquisition will add to K3's presence in the visitor attractions and leisure sector and will add strong niche market IP to its burgeoning portfolio of wholly-owned IP products. Merac's customer base includes stately homes, national attractions and multi-site theme parks – including Stonehenge, Longleat Safari Park, Castle Howard and Adventure Island.
- K3 completed a placing to raise £13.5 million in April 2016. As well as funding the DdD acquisition, the balance of around £4.9 million provided the ability to conclude more earnings-enhancing deals such as this one, which appears well-priced at c.1x sales, and is a clear fit with the group's strategy.

FYE JUNE (£M)	FY13	FY14	FY15	FY16E	FY17E
Revenue	63.5	72.0	83.4	89.6	95.6
Adjusted EBITDA	7.2	9.8	10.9	13.0	15.8
Adjusted PBT	4.4	6.6	7.2	9.4	11.6
Adjusted EPS (p)	13.9	18.4	19.1	23.6	26.9
EV/Sales	1.8x	1.6x	1.4x	1.3x	1.2x
EV/ Adj. EBITDA	16.3x	11.9x	10.8x	9.0x	7.4x
P/E	24.3x	18.3x	17.6x	14.3x	12.5x

Source: Company Information and Progressive Equity Research estimates

SUMMARY FINANCIALS

Profit & Loss	FY-12A	FY-13A	FY-14A	FY-15A	FY-16E	FY-17E
Revenue	68.0	63.5	72.0	83.4	89.6	95.6
Adj EBITDA	12.9	7.2	9.8	10.9	13.0	15.8
Adj EBITA	11.3	5.1	7.3	8.2	10.2	12.1
Reported PBT	6.0	0.5	1.9	3.7	5.5	8.5
PBT before exceptionals and AAG	10.0	4.4	6.6	7.2	9.4	11.6
Fully adj PBT	10.0	4.4	6.6	7.2	9.4	11.6
NOPAT	9.3	4.4	6.2	7.0	8.4	10.2
Reported EPS (p)	19.8	4.2	8.1	10.1	13.4	18.7
EPS before exceptionals and AAG (p)	29.5	13.9	18.4	19.1	24.0	26.9
Fully adj EPS (p)	29.5	13.9	18.4	19.1	23.6	26.9
Dividend per share (p)	1.0	1.0	1.3	1.5	1.8	1.9
Cash flow & Balance sheet	FY-12A	FY-13A	FY-14A	FY-15A	FY-16E	FY-17E
Operating cash flow	7.3	8.0	5.4	9.6	8.5	12.8
Free Cash flow £m	1.8	1.1	(0.0)	8.4	1.0	4.6
FCF per share p	6.1	3.7	(0.0)	26.1	2.9	12.6
Acquisitions	(7.1)	(1.9)	(0.1)	(6.6)	(8.6)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Shares issued	5.0	2.7	0.3	0.0	13.5	0.0
Net cash flow	(0.5)	2.0	0.1	5.5	5.9	4.6
Overdrafts / borrowings	(17.8)	(14.1)	(14.3)	(13.9)	(13.9)	(13.9)
Cash & equivalents	2.1	0.3	0.6	1.9	7.8	12.3
Net (Debt)/Cash	(15.7)	(13.8)	(13.6)	(12.0)	(6.1)	(1.6)
NAV and returns	FY-12A	FY-13A	FY-14A	FY-15A	FY-16E	FY-17E
Net asset value	46.9	51.1	52.6	53.5	70.9	77.1
NAV/share (p)	164.7	162.6	165.8	169.2	198.4	215.8
Net Tangible Asset Value	(17.9)	(14.5)	(11.4)	(8.9)	3.5	11.1
NTAV/share (p)	(62.8)	(46.2)	(35.9)	(28.1)	9.9	31.1
Average equity	42.1	49.0	51.9	53.1	62.2	74.0
Post-tax ROE (%)	13.6%	2.5%	4.9%	6.1%	7.1%	9.2%
Metrics	FY-12A	FY-13A	FY-14A	FY-15A	FY-16E	FY-17E
Revenue growth		-6.5%	13.3%	16.0%	7.4%	6.6%
Adj EBITDA growth		-44.1%	36.8%	10.3%	19.7%	21.9%
Adj EBIT growth		-55.1%	43.3%	11.6%	25.0%	18.9%
Adj PBT growth		-56.4%	50.9%	9.5%	30.3%	23.6%
Adj EPS growth		-52.9%	32.8%	4.0%	23.3%	13.8%
Dividend growth		0.0%	25.0%	20.0%	16.7%	5.7%
Adj EBIT margins	16.7%	8.0%	10.1%	9.8%	11.4%	12.7%
Valuation	FY-12A	FY-13A	FY-14A	FY-15A	FY-16E	FY-17E
EV/Sales	1.7	1.8	1.6	1.4	1.3	1.2
EV/EBITDA	9.1	16.3	11.9	10.8	9.0	7.4
EV/NOPAT	12.6	26.7	19.0	16.8	13.9	11.5
PER	11.4	24.3	18.3	17.6	14.3	12.5
Dividend yield	0.3%	0.3%	0.4%	0.4%	0.5%	0.5%
FCF yield	1.8%	1.1%	0.0%	7.7%	0.9%	3.7%

Source: Company information, Progressive Equity Research estimates

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