TIE Kinetix

H122 results review

Preparing for accelerating growth

Software & comp services

TIE Kinetix's H122 results showed that as it transitions to a 100% software as a service (SaaS) business model, the company is incurring costs this year to significantly accelerate growth in SaaS revenues from next year. After a net loss this year, we expect the company to quickly return to profit in FY23 with the EBITDA margin further increasing to 20% in FY25. TIE Kinetix is focused on 100% digitalisation of document streams in the supply chain and will therefore benefit from the expected high growth in the market for e-invoicing.

Year end	Revenue (€m)	EBITDA* (€m)	EPS* (€)	DPS (€)	EV/Sales (x)	P/E (x)
09/20	15.6	2.3	(0.04)	0.00	1.3	N/A
09/21	14.9	1.5	0.11	0.00	1.9	230.7
09/22e	14.6	(0.2)	(0.71)	0.50	1.8	N/A
09/23e	16.6	1.9	0.14	0.50	1.7	132.6

Note: *EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Temporary pressure from investments

In line with TIE Kinetix's strategy to invest in accelerating SaaS revenue growth, related costs put temporary pressure on profitability, with reported EBITDA in H122 at break-even versus €1.6m in H121. Revenues in H122 declined 3% y-o-y to €7.2m due to the announced reclassification of consultancy revenues to SaaS revenues and the decline in licence and maintenance revenues. As described in our initiation report, TIE Kinetix is fully focusing on its SaaS revenues and these continued strong growth of 14% to €5.4m in the first half, with the company benefiting from ongoing high market demand for its FLOW software platform, which allows its customers to fully digitalise their document streams in the supply chain.

Preparing for accelerating growth and higher margins

Since last October, TIE Kinetix has been fully focused on 100% SaaS and this year's investments (eg in marketing and sales) should result in a significant acceleration of SaaS revenue growth towards 15–20% in FY23 and to more than 20% by FY25 (versus 12–15% over the past few years). TIE Kinetix is well positioned to benefit from the expected strong growth in the e-invoicing market. M&A could add to this growth with the company's focus on Germany and, at a later stage, France. After the anticipated slightly negative EBITDA in FY22 (pressured by the mentioned investments), we expect EBITDA to improve in FY23 due to the lower level of investments, while the company is on schedule to lift the overall EBITDA margin towards 20% by 2025, largely driven by efficiency gains and scale benefits from the higher usage of its FLOW software platform.

Valuation: Ample upside to fair value

We value TIE Kinetix using DCF and peer multiples. The company is trading on EV/sales of 1.8x in FY22e compared to an average of 3.2x for European peers and 7.4x for US peers. The combination of our adjusted estimates and changed assumptions for our DCF (higher risk-free rate) delivers a fair value of €25 per share (previously €26).

18 May 2022

Price	**€18.90**
Market cap	**€37m**

Net cash (€m) at 31 March 2022	9.5
Shares in issue	1.7m
Free float	30%
Code	TIE
Primary exchange	Euronext Amsterdam
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	3.8	(10.0)	(19.2)
Rel (local)	6.4	(3.8)	(19.2)
52-week high/low		€24.40	€15.80

Business description

TIE Kinetix is a Dutch IT software company delivering SaaS solutions to companies, governmental institutions and their suppliers, to help them exchange business documents electronically and simplify supply chain processes.

Next events

Q322 update	3 August 2022

Analyst

Johan van den Hooven +44 (0)20 3077 5700

tech@edisongroup.com

Edison profile page

TIE Kinetix is a research client of Edison Investment Research Limited

H122 results: Continued high growth in SaaS revenues

TIE Kinetix provides solutions for digitalising the supply chains of its customers via its in-house developed software platform FLOW Partner Automation, which converts documents into a digital format that can be easily distributed. TIE Kinetix's H122 results (for the period ending 31 March 2022) showed a decline of 3.4% y-o-y in revenues, largely due to the announced reclassification of consultancy revenues to SaaS revenues and the expected decline in maintenance and licence revenues. As announced on 2 February 2022, TIE Kinetix will reclassify consultancy revenues to software-as-a-service (SaaS) revenues in FY22 (in compliance with IFRS 15). This has a direct impact on the consultancy revenues (-26% y-o-y in H1), but will only gradually contribute to SaaS revenues as these are spread out over 36 months. As expected, the legacy licence products showed a further decline, particularly in the United States where the market is lagging behind in switching to SaaS. As a result of the lower licence income, the related maintenance and service revenues also showed a sharp decline of 38% y-o-y and now only represent 8% of total revenues.

More importantly, SaaS revenues increased 14% y-o-y to €5.4m and now represent 75% of total revenues. This perfectly fits the company's strategy, which is focused on 100% SaaS. We estimate that 2–3% of this revenue growth came from the reclassification of the consultancy revenues to SaaS revenues and therefore the underlying SaaS revenue growth was a strong 11–12%.

Exhibit 1: TIE Kinetix divisional revenue developments

(€m)	H121	H122	Change
SaaS	**4.7**	**5.4**	**14%**
Maintenance	1.0	0.6	-38%
Consultancy	1.5	1.1	-26%
Licences	0.2	0.1	-68%
Total revenues	7.4	7.2	-3%

Source: TIE Kinetix

As announced at its capital markets day (CMD) on 2 March 2022, TIE Kinetix aims to accelerate growth in SaaS revenues to >20% pa by investing heavily in sales and marketing. The associated costs will put pressure on results in FY22, with the revenue acceleration becoming increasingly visible in FY23. Reported EBITDA declined from €1.6m in H121 to break-even, because of €0.3m lower revenues, €0.3m higher cost of sales, €0.5m higher opex and the absence of the COVID-19 related subsidy in the United States of €0.5m in H121. As announced at its CMD, the higher costs will result in a net loss for the year and in H122 the company reported a net loss of €0.7m.

Exhibit 2: TIE Kinetix H122 results

€m	H121	H122	Change
Sales	7.4	7.2	-3%
EBITDA normalised	**1.2**	**0.0**	**-97%**
EBITDA margin	**16%**	**0%**	
Depreciation	(0.9)	(0.8)	-8%
EBIT normalised	0.3	(0.7)	
EBIT margin	4%	-10%	
Restructuring and other one-offs	0.5	0.0	
EBIT reported	0.8	(0.7)	
Financial income and expenses	0.1	0.0	
Pre-tax income	0.9	(0.8)	
Taxes	(0.1)	0.0	
Net profit/(loss)	0.9	(0.7)	
Net profit adjusted	**0.4**	**(0.7)**	
Shares outstanding, average m	1.6	1.7	5%
EPS reported, €	0.53	(0.43)	
EPS normalised, €	0.25	(0.43)	

Source: TIE Kinetix, Edison Investment Research

The company's financial position remains sound with net cash of €9.5m, up from €9.2m in FY21, whereby the negative cash flow of operations of €0.5m, due to the net loss, and the higher capex were compensated for by the proceeds of the conversion of warrants during the first half (proceeds of €1.6m). There are still 67k warrants outstanding that can be converted to shares before the end of 2023 at a fixed price of €7 per share, potentially delivering €0.5m additional cash.

For the first time, TIE Kinetix paid a dividend per share of €0.50 (on 29 April). Shareholders representing 65% of the total shares outstanding chose a stock dividend, resulting in 34k new shares during the first half and reducing the total cash component of the dividend to €0.3m.

Good progress with strategy

From October 2021 (which is the start of the current financial year), TIE Kinetix has been fully focusing on 100% SaaS by digitalising the document streams of its customers in their supply chain. This year, investments will be made to accelerate revenue growth from FY23. After having centralised its back office (eg marketing, billing and finance), the company is currently centralising the front office including customer implementation and set up. Mappings to connect suppliers now takes place centrally in the Netherlands and the company developed a web shop in this country (which also will be rolled out to its other regions). These actions might take two to three years to be fully realised, with efficiency gains gradually becoming visible.

The company has divided its sales into customer success teams and new business teams:

- Customer success: TIE Kinetix aims to optimise the use of its FLOW platform by increasing the user options and expanding the number of suppliers of its existing customers. These increased efforts will most likely lead to additional revenues in FY22.
- New business is targeted via direct sales and indirect sales. The company successfully recruited 20 salespeople in H122, bringing the total number of staff to 124. These new recruits should start to deliver new business revenue from 2023, once they have completed training (two to three months) at the FLOW academy, as the sales cycle for new business can take five to nine months. For indirect sales, TIE Kinetix has focused its channel activity on Microsoft and Oracle (TIE Kinetix has been nominated as Oracle's strategic partner for supply chain digitalisation). In addition, the company partners with local players such as Syspro, Sage and Exact. Also here, new business will take some time to build up given the sales cycle. We expect first revenues from H222.

We believe the current efforts in marketing and sales will fuel an acceleration in SaaS revenue growth in FY23 towards 15–20% with >20% growth by FY25.

New estimates: Higher revenues, lower EBITDA in FY22

TIE Kinetix has not provided specific guidance for FY22 but in its press release commented that EBITDA is on plan for the year. Given that EBITDA was break-even in the first half and that the new hirings will weigh on costs for the full year, we assume the EBITDA for FY22 will be slightly negative. At its CMD, management commented to expect a net loss in FY22 due to the investments and that it expects to quickly return to net profit in FY23, driven by accelerating revenue growth in SaaS and lower expenses when compared to FY22. In order to cope with the current inflation, TIE Kinetix has increased its hourly rates by 5% and subscription rates by 7.2% effective per April 2022.

The orderbook (gross sales value) was up 5% y-o-y, which is a good performance given the strong comparison base with last year when the market recovered from the COVID-19 pandemic. Because realising new business takes time (training staff and sales cycle), we assume that the company's order book will show a gradual increase with a clear acceleration during FY23. All the current efforts and investments in sales and marketing should lead to the company realising its targets for FY25: an accelerating SaaS revenue growth to >20% pa and an EBITDA margin of 20%.

We have slightly raised our revenue estimates as the decline in consultancy revenues was lower than we had anticipated. We still expect 15% growth in SaaS revenues in FY22, with an increasing contribution from the customer success teams, but have lowered somewhat our optimistic estimate for FY23 from 20% to 18% as the contribution of new business might kick-in more gradually than we anticipated. We estimate further accelerating growth to 20% SaaS revenues growth in FY24 and higher for FY25. As the decline in revenues from licences and maintenance is expected to come to a halt in FY22, the stronger growth in SaaS revenues will weigh much more on group revenues, resulting in our estimated revenue growth of 14% in FY23, 18% in FY24 and 21% in FY25.

We have lowered our FY22 EBITDA estimate somewhat as the hired staff during the first half will fully weigh on costs in the second half, resulting in a negative EBITDA in the second half after break-even in the first half. For FY23, we still expect a recovery in EBITDA as the additional investments in FY22 will not re-occur in full force, although we are now a bit more conservative with a margin of 11.2% versus 13.8% previously. For FY24, we leave our EBITDA estimate unchanged with the full benefit of higher revenue growth and further efficiency gains. TIE Kinetix for instance sublet part of the space in its head office in the Netherlands from 1 April 2022 and the lease of its building in Germany was terminated on 31 December, while the lease of its US building will terminate in summer 2022. TIE Kinetix will be fully working remotely in Germany and the US. We estimate total savings of the lower rent/lease at about €0.2m. Our estimates still anticipate a CAGR in overall revenues of 12% in FY21–25 and an EBITDA CAGR of 34%.

Exhibit 3: Change in estimates

€m	FY22e			FY23e			FY24e		
	Old	New	Change	Old	New	Change	Old	New	Change
Sales	14.4	14.6	1.4%	16.5	16.6	1.2%	19.2	19.7	2.2%
EBITDA normalised	0.2	(0.2)	N/A	2.3	1.9	-17.7%	3.5	3.5	0.0%
EBITDA margin	1.5%	-1.3%		13.8%	11.2%		18.4%	18.0%	
EBIT reported	(1.4)	(1.8)	28.6%	0.7	0.3	-57.1%	2.0	2.0	0.0%
EBIT margin	4.3%	1.8%		14.8%	14.2%		0.0%	0.0%	
Net profit	(1.0)	(1.3)	30.2%	0.6	0.3	-51.4%	1.6	1.6	0.0%
Net profit adjusted	(1.0)	91.3)	30.2%	0.6	0.3	-51.4%	1.6	1.6	0.0%
EPS reported (€)	(0.55)	(0.71)	30.2%	0.29	0.14	-51.4%	0.76	0.76	0.0%

Source: Edison Investment Research

Valuation offers upside

TIE Kinetix is entirely focused on SaaS solutions; the resulting increase in more predictable recurring revenues should underpin its valuation. For the valuation of TIE Kinetix we look at peer multiples and discounted cash flow. Please refer to our initiation note for more details.

For our DCF, we have made only one change in our assumptions, which is to raise the risk-free rate from 2.5% to 3.0%. In combination with our adjusted estimates, this delivers a fair value of €25 per share (versus €26 previously).

The company is trading at an EV/sales multiple of 1.8x in FY22e compared to an average of 3.2x for European peers and 7.4x for US peers. There might be several reasons for explaining the lower valuation when compared to peers, such as the smaller size, the below-average profitability, the low liquidity in the shares, the recent track record and the lower share of SaaS revenues. If the company manages to tackle several or even all these factors, its valuation might tend towards those of its international peers.

Exhibit 4: Financial summary

€m	FY20	FY21	FY22e	FY23e	FY24e	FY25e
Year end 30 September	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue (reported)	15.6	14.9	14.6	16.6	19.7	23.8
Gross Profit	9.4	9.1	8.4	10.0	12.1	15.2
EBITDA normalised	2.3	1.5	(0.2)	1.9	3.5	4.7
EBITDA reported	2.3	1.9	(0.2)	1.9	3.5	4.7
Depreciation & Amortisation	(1.9)	(1.7)	(1.6)	(1.6)	(1.5)	(1.5)
EBIT normalised	0.4	(0.2)	(1.8)	0.3	2.0	3.2
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals (Edison definition)	(0.3)	0.5	0.0	0.0	0.0	0.0
EBIT reported	0.1	0.2	(-1.8)	0.3	2.0	3.2
Net Interest	(0.0)	0.3	0.1	0.1	0.1	0.1
Results of associates	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	0.1	0.5	(1.7)	0.4	2.1	3.3
Reported tax	(0.2)	0.1	0.4	(0.1)	(0.5)	(0.8)
Profit After Tax (norm)	0.2	0.2	(1.3)	0.3	1.6	2.5
Profit After Tax	(0.1)	0.6	(1.3)	0.3	1.6	2.5
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations	6.6	0.0	0.0	0.0	0.0	0.0
Net income (normalised)	(0.1)	0.2	(1.3)	0.3	1.6	2.5
Net income (reported)	6.5	0.6	(1.3)	0.3	1.6	2.5
Average number of shares (m)	1.6	1.6	1.8	2.0	2.1	2.1
EPS normalised (€)	(0.04)	0.11	(0.71)	0.14	0.76	1.20
EPS reported (€)	4.01	0.38	(0.71)	0.14	0.76	1.20
DPS (€)	0.00	0.00	0.50	0.50	0.50	0.60
Revenue growth	1.7%	-4.5%	-1.4%	13.7%	18.1%	21.0%
Gross Margin	60.5%	61.3%	57.3%	59.8%	61.8%	63.8%
Normalised EBITDA Margin	14.8%	9.8%	-1.3%	11.2%	18.0%	20.0%
Normalised Operating Margin	2.7%	-1.4%	-12.3%	1.8%	10.2%	13.5%
Reported EBIT margin	0.8%	1.7%	-12.3%	1.8%	10.2%	13.5%
BALANCE SHEET						
Fixed Assets	6.7	6.5	6.3	6.1	6.0	5.9
Intangible Assets	5.3	4.9	4.7	4.5	4.4	4.3
Tangible Assets	1.0	0.8	0.8	0.8	0.8	0.8
Investments & other	0.4	0.7	0.7	0.7	0.7	0.7
Current Assets	11.3	12.2	12.9	14.3	16.6	20.1
Stocks	0.0	0.0	0.0	0.0	0.0	0.0
Debtors	1.5	1.4	1.4	1.6	1.8	2.2
Other current assets	3.9	0.8	0.8	0.9	1.1	1.3
Cash & cash equivalents	5.9	9.9	10.7	11.8	13.7	16.7
Current Liabilities	6.8	6.3	6.7	7.3	7.8	9.6
Creditors	0.9	0.8	0.8	0.9	1.1	1.3
Other current liabilities	5.6	5.1	5.5	6.0	6.3	6.9
Short term borrowings	0.4	0.4	0.4	0.4	0.4	0.4
Long Term Liabilities	1.3	1.1	1.1	1.1	1.1	1.1
Long term borrowings	0.6	0.4	0.4	0.4	0.4	0.4
Other long term liabilities	0.7	0.8	0.8	0.8	0.8	0.8
Shareholders' equity	9.9	11.2	11.4	12.0	13.6	15.3
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Balance sheet total	18.0	18.7	19.2	20.4	22.5	26.1
CASH FLOW						
Op Cash Flow before WC and tax	2.3	2.3	(0.2)	1.9	3.5	4.7
Working capital	0.5	(0.4)	0.5	0.3	0.1	0.2
Tax	(0.1)	(0.1)	0.0	0.0	(0.1)	(0.2)
Net interest	(0.0)	0.2	0.1	0.1	0.1	0.1
Net operating cash flow	2.7	1.9	0.4	2.2	3.5	5.7
Capex	(1.0)	(0.9)	(1.5)	(1.4)	(1.4)	(1.5)
Acquisitions/disposals	2.2	3.0	0.0	0.0	0.0	0.0
Equity financing	0.0	0.2	2.2	1.2	0.7	0.7
Dividends	0.0	0.0	(0.3)	(1.0)	(1.0)	(1.0)
Other	(1.1)	0.1	0.0	0.0	0.1	(0.9)
Net Cash Flow	2.8	4.3	0.8	1.1	1.9	3.0
Opening net debt/(cash)	(2.0)	(4.9)	(9.2)	(10.0)	(11.0)	(12.9)
Closing net debt/(cash)	(4.9)	(9.2)	(10.0)	(11.0)	(12.9)	(15.9)

Source: Company accounts, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by TIE Kinetix and prepared and issued by Edison, in consideration of a fee payable by TIE Kinetix. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia