

Kape Technologies

Improved trading, strategic transition complete

Kape's trading update confirms good progress. Driven by the core App distribution business, EBITDA has increased by 48% to \$4.3m. The disposal of the non-core Media division, following hot on the heels of the Intego acquisition essentially completes Kape's transition into a wholly focused consumer cybersecurity business. We leave our underlying profit forecasts broadly unchanged (34% EBITDA growth between FY18e and FY19e). While the disposal trims 7% from our FY19 EPS forecasts, we believe that the group's performance and rating should benefit from the being 100% focused on consumer cybersecurity.

Year end	Revenue (\$m)	EBITDA* (\$m)	PBT* (\$m)	EPS* (c)	EV/EBITDA (x)	P/E (x)
12/16	56.5	6.4	4.8	2.9	27.7	43.4
12/17	66.4	8.3	7.5	5.0	21.5	25.3
12/18e	59.5	10.2	8.7	5.4	17.4	23.4
12/19e	69.7	13.7	11.8	7.2	13.0	17.5

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

Core App Distribution on track

App Distribution revenues grew 14% y-o-y to \$26m in H118, primarily driven by CyberGhost, which performed strongly organically and was also consolidated for the full period. The initiative to focus Reimage on more profitable subscription customers is going well, with 40% of sales subscription-based. This shift from one time licenses to recurring subscriptions suppresses revenue but as subscription customers are more profitable this is compensated by higher margins. We modestly raise our FY18e organic profit forecast but leave FY19e unchanged (see Exhibit 1).

Disposal of Media completes strategic transition

Kape has also announced the sale of its Media business to Ecom online. The price is not disclosed but proceeds will be based on a 50% profit share over the next five years. Based on our segment forecast, we estimate the total consideration will be c \$1m. The disposal completes the company's transition to focus exclusively on the consumer cyber security market.

Improving financial profile

The combination of the Media disposal, CyberGhost growth, Intego acquisition and the ramp of Reimage's subscription sales is driving big improvements in revenue mix. We estimate subscriptions now account for c 62% of pro-forma revenues. The disposal of Media also lifts our FY19e EBITDA margin forecast by 3.5pp to 19.6%.

Increasingly well positioned

With the sale of Media, Kape has essentially completed its strategic transition and is now exclusively focused on consumer cybersecurity. The acquisition of Intego, rising subscription revenues and margins highlight the potential benefits of this strategy for shareholders. In a fragmented market and with cash on the balance sheet, we see scope for Kape to make further value creating deals and to enhance its strategic position further. On our revised forecasts, stripping out \$52m cash on the balance sheet, Kape trades at just 15.5x FY19e EPS.

Trading statement

Software & comp services

27 July 2018

Price 126p

Market cap £179m

\$1.32:£1

Net cash (\$m) at end-FY17 69.5

Shares in issue 141.9m

Free float 27%

Code KAPE

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 9.2 20.4 98.5

Rel (local) 7.8 16.7 92.2

52-week high/low 130p 59p

Business description

Kape Technologies specialises in the online distribution of consumer cyber security software. It markets four proprietary products: PC repair and maintenance (Reimage and Reimage for MAC), PC driver repair software (DriverAgent) and a virtual private network (CyberGhost).

Next events

H118 results 24 September 2018

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Exhibit 1: Reconciling the impact of media disposal on FY18 and FY19 estimates

(\$000s)	FY18e				FY19e			
	Previous (inc. Intego)	Organic adjustment	Media disposal	New	Previous (inc. Intego)	Organic adjustment	Media disposal	New
Revenue								
App distribution	62,468	(3,000)		59,468	73,185	(3,500)		69,685
Media	13,414		(13,414)	0	11,402		(11,402)	0
Total	75,882	(3,000)	(13,414)	59,468	84,587	(3,500)	(11,402)	69,685
Segmental gross profit								
App distribution	26,846	200		27,046	34,599			34,599
Media	3,622		(3,622)	0	3,078		(3,078)	0
Total	30,467	200	(3,622)	27,046	37,678	0	(3,078)	34,599
Operating costs	(19,825)	0	3,000	(16,825)	(23,209)		2,300	(20,909)
EBITDA	10,643	200	(622)	10,221	14,469	0	(778)	13,691
Margin (%)	14.0			17.2	17.1			19.6
Source: Edison Investment Research								

Exhibit 2: Financial summary

	\$000s	2015	2016	2017	2018e	2019e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		84,635	56,532	66,383	59,468	69,685
Cost of Sales		(58,111)	(37,277)	(42,366)	(32,422)	(35,086)
Gross Profit		26,524	19,255	24,017	27,046	34,599
EBITDA		10,064	6,413	8,261	10,221	13,691
Operating Profit (before amort. and except.)		9,016	5,034	6,946	8,701	11,801
Amortisation of acquired intangibles		(8,322)	(8,505)	(5,130)	(700)	(700)
Exceptionals		(11,089)	(5,545)	(899)	0	0
Share-based payments		(3,407)	(716)	(3,516)	(500)	(600)
Reported operating profit		(13,802)	(9,732)	(2,599)	7,501	10,501
Net Interest		(855)	(328)	(255)	(14)	(35)
Joint ventures & associates (post tax)		(38)	47	(40)	0	0
Exceptionals		0	0	858	0	0
Profit Before Tax (norm)		8,123	4,753	7,509	8,687	11,766
Profit Before Tax (reported)		(14,695)	(10,013)	(2,036)	7,487	10,466
Reported tax		(2,902)	(665)	(467)	(973)	(1,413)
Profit After Tax (norm)		7,421	4,088	7,042	7,714	10,353
Profit After Tax (reported)		(17,597)	(10,678)	(2,503)	6,514	9,053
Minority interests		0	0	0	(80)	(80)
Discontinued operations		0	0	0	0	0
Net income (normalised)		7,421	4,088	7,042	7,634	10,273
Net income (reported)		(17,597)	(10,678)	(2,503)	6,434	8,973
Average Number of Shares Outstanding (m)		148	141	142	142	143
EPS - normalised (c)		5.02	2.90	4.98	5.37	7.19
EPS - diluted normalised (c)		5.02	2.90	4.85	5.23	7.01
EPS - basic reported (c)		(11.91)	(7.57)	(1.77)	4.53	6.28
Dividend per share (c)		0.00	0.00	4.93	0.00	0.00
Revenue growth (%)		19.0	(33.2)	17.4	(10.4)	17.2
Gross Margin (%)		31.3	34.1	36.2	45.1	49.7
EBITDA Margin (%)		11.9	11.3	12.4	17.2	19.6
Normalised Operating Margin		10.7	8.9	10.5	14.6	16.9
BALANCE SHEET						
Fixed Assets		21,785	8,729	13,312	26,980	26,782
Intangible Assets		19,254	7,113	12,350	25,950	25,528
Tangible Assets		1,003	591	815	883	1,107
Investments & other		1,528	1,025	147	147	147
Current Assets		87,616	80,014	82,430	65,548	76,714
Stocks		0	0	65	65	65
Debtors		16,280	7,950	11,071	8,146	8,362
Cash & cash equivalents		71,336	72,064	69,502	52,024	60,109
Other		0	0	1,792	5,312	8,178
Current Liabilities		(16,721)	(7,339)	(15,028)	(14,000)	(16,108)
Creditors		(15,316)	(7,096)	(10,094)	(7,981)	(8,331)
Tax and social security		0	0	0	0	0
Short term borrowings		0	0	0	0	0
Other		(1,405)	(243)	(4,934)	(6,019)	(7,777)
Long Term Liabilities		(1,170)	(851)	(1,342)	(1,342)	(349)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(1,170)	(851)	(1,342)	(1,342)	(349)
Net Assets		91,510	80,553	79,372	77,186	87,038
Minority interests		0	0	977	977	977
Shareholders' equity		91,510	80,553	80,349	78,163	88,015
CASH FLOW						
Op Cash Flow before WC and tax		10,064	6,413	8,261	10,221	13,691
Working capital		(2,197)	613	(1,392)	(754)	(1,096)
Exceptional & other		(1,297)	(823)	(624)	0	0
Tax		(1,826)	(904)	(109)	(973)	(1,413)
Net operating cash flow		4,744	5,299	6,136	8,494	11,181
Capex		(1,813)	(1,678)	(2,020)	(2,088)	(2,192)
Acquisitions/disposals		(1,402)	(1,439)	(5,337)	(16,870)	(870)
Net interest		(660)	(281)	156	(14)	(35)
Equity financing		(5,131)	(995)	(1,477)	0	0
Dividends		0	0	0	(7,000)	0
Other		0	0	0	0	0
Net Cash Flow		(4,262)	906	(2,542)	(17,478)	8,084
Opening net debt/(cash)		(76,041)	(71,336)	(72,064)	(69,502)	(52,024)
FX		(443)	(178)	(20)	0	0
Other non-cash movements		0	0	0	0	0
Closing net debt/(cash)		(71,336)	(72,064)	(69,502)	(52,024)	(60,109)

Source: Edison Investment Research, company accounts

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