

New business from Wicom takeover

And multiple other new contract wins in recent weeks

SKF announced it has won new, recurring business for its I/O SaaS platform, worth more than A\$ 750k, from a major shopping center group. The services will be rolled out across 22 malls, initially across Europe and the US.

First business from recently acquired Wicom Wireless acquisition

SKF's new customer was a client of Wicom Wireless', which was recently acquired by SKF. Following the acquisition in July, SKF has been able to upsell its IO platform to this new customer, including IO Connect ((data portal where data is collected in-venue with Wi-Fi connectivity) and IO Insights (venue performance measurement through data analytics based on visitor data). Additionally, SKF will provide Data Consultancy Services (DCS) to this shopping center group, which includes project-based analytics around venue and visitor data. Please see our initiating research report on SKF for a full description of SKF's product offering [HERE](#).

Deal worth more than A\$ 250k per year, but likely to become higher

While the value of the initial roll out of IO services across the 22 malls and DCS is worth a minimum of A\$ 250k per year, we expect that the annual deal value can become substantially higher on the back of more data consultancy projects in particular. DCS are one-off projects that can be worth anywhere between A\$ 10k and A\$ 250k per project and generally come out of a client's marketing budget. As SKF proves its value running initial consultancy projects for this new customer, we expect the company will be able to expand its consultancy services along the way.

Clear opportunity for IO Engage upsell to consumer brand tenants

Further upsell opportunities are expected to emerge through the gradual roll out of IO Engage, i.e. SKF's Digital Marketing services for retail venues that are powered by actual visitor- and Wi-Fi-data generated at these venues allowing them to run their own marketing campaigns. Individual digital marketing campaigns are typically run by SKF on a per-venue basis and are priced around A\$ 10k on average. Skyfii generates a fixed revenue from engage as well as variable revenue based on the number of emails and text messages sent.

Monthly recurring revenues per venue around A\$ 800 per month

SKF hasn't disclosed financial details about this deal, other than that the initial contract value is more than 3 times the purchase price of Wicom Wireless, which was A\$ 247k (paid in scrip). However, assuming DCS account for 10% of revenues in this deal, we estimate the monthly recurring

	(A\$ M)		FY16A	FY17A	FY18E	FY19E
Number of shares (m)	245.7	Revenues	3.3	4.1	5.8	10.0
Number of shares FD (m)	271.0	EBITDA	-1.9	-3.8	-3.6	-1.1
Market capitalisation (A\$ m)	16.0	NPAT	-5.4	-4.9	-4.3	-1.1
Free Float (%)	92%	EPS FD	-0.038	-0.023	-0.016	-0.004
12 month high/low A\$	0,125/0,044	EV/EBITDA	N/A	N/A	N/A	N/A
Average daily volume (tr)	81	EV/Sales	2.2	3.4	2.3	1.4

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Skyfii Ltd.

(ASX:SKF)

Information Technology

Australia

Risk: High

Skyfii is an Australia-based, global technology company, which has developed a software platform that captures, analyses and visualizes location-based data within physical spaces. In addition, the platform provides actionable insights to its clients, which solve real business challenges and also provides a marketing platform to allow real time, contextual and targeted engagement with customers within these physical spaces.

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BUY

Current price: A\$ 0.065

Price target: A\$ 0.14

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revenues per venue at approximately A\$ 815, or approximately A\$ 18k per month in total across 22 malls.

Given the 3x revenue uplift from this all-scrip-based acquisition of Wicom, we expect SKF will likely be looking for similar acquisition opportunities going forward.

Three-year contract renewal with GPT group

SKF also recently announced in September it has renewed its contract with GPT group for three more years. GPT was one of SKF's first customers in 2015 and will now source all three IO services from SKF (IO Connect, IO Insight and IO Engage). Furthermore, the company will be providing DCS services to GPT Group's 18 retail and commercial properties as well. We believe this contract renewal provides substantial validation of SKF's offering to other real estate groups.

Another Australian property group customer with Aventus win

On 31 October SKF announced it had secured a contract with Aventus Property Group, a specialised property fund manager with 22 large format retail centres in NSW, QLD, Vic, SA and WA. SKF will be rolling out IO Connect and IO Insight across 4 sites initially and could potentially expand into some of Aventus' other venues. SKF is further solidifying its position among Australian shopping centers through this deal.

SKF breaks into UK shopping centre vertical

In September SKF announced a contract win with Lexicon Shopping Centre in the UK for the provision of IO Connect, IO Insight and IO Engage. This marks SKF's first deal in the UK shopping center vertical. SKF is already active in the UK Education vertical through its deal with Durham University and in Quick Serve retail through its deal with a premier UK food chain.

The initial deal with Lexicon will be for 12 months and should pave the way for more Retail deals in the UK.

First deal in groceries retail vertical

In addition to the UK shopping center vertical, SKF has also secured its first deal in the groceries retail vertical through a deal with one of Italy's largest supermarket chains (announced late October). SKF will be providing this new customer with IO Connect and IO Insights across 285 of its supermarkets in Italy in a five-year deal. SKF will be replacing an incumbent analytics solution, which indicates a strong preference to use IO Insights on the part of this supermarket customer, given the inherent costs to replace the existing hardware infrastructure.

While this deal includes IO Connect and IO Insights only, we believe there will be opportunities for SKF in the future to potentially upsell its IO Engage and Data Consultancy Services.

Overall, we believe the Lexicon and the Italian supermarket deals clearly illustrate SKF's potential in new market verticals across Europe and globally.

Q1 recurring revenues up 55% y-o-y and strong outlook

In its 4C Report announcement for the September quarter, SKF indicated it grew its recurring revenues by 55% compared to 1QFY17, while non-recurring revenues grew by 11% y-o-y.

Recurring revenues were up 1.6% compared with the previous quarter mainly due to a delay in deployment at some customers from Q1 into Q2.

Strong recurring revenue outlook

We believe the recurring revenue growth trend throughout the past 5 quarters (Figure 1) is very encouraging and illustrates the scalability of SKF's business model. Early indications from SKF for q-o-q recurring revenue growth in Q2 (current quarter) are very encouraging at 35% in the quarter even though this will include a catch-up effect of Q1 pushouts.

At 35% q-o-q recurring revenue growth, we estimate Q2 recurring revenues would amount to A\$ 860k. Assuming SKF can generate non-recurring revenues in Q2 equal to the average non-recurring revenues achieved in the last 5 quarters of A\$240k (excluding the exceptionally high non-recurring revenues of A\$447k in 4Q17), total revenue (recurring plus non-recurring) for the quarter would amount to approximately A\$ 1.1M, i.e. similar to 4Q17 but mostly driven by recurring revenues.

We note, however, that non-recurring revenues in 1Q18 were down 44% q-o-q, which illustrates the lumpy nature of consultancy services in general.

As DCS ramp up in the current financial year, we expect to see a clear uptick in non-recurring revenues as well, while we expect revenues from IO Engage to kick in towards the end of FY17/18. The latter will be a partial function of user registrations.

Total user registrations have reached 11.7M per the end of Q1, up 18% sequentially from 9.9M in Q4, with total customer visits now totalling 166M per quarter.

FIGURE 1: QUARTERLY DEVELOPMENT OF RECURRING AND NON-RECURRING REVENUE



Source: Skyfii, TMT Analytics

SKF executing on growth strategy: Reiterating our BUY rating

At the current, very modest, EV/Sales multiples of 2.3x and 1.4x our FY18 and FY19 estimates respectively, we believe SKF is substantially undervalued given its high growth profile. The company's high recurring revenue growth rate appears to be totally disregarded by the market.

Therefore, we reiterate our Buy rating and price target of A\$ 0.14 per share.

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