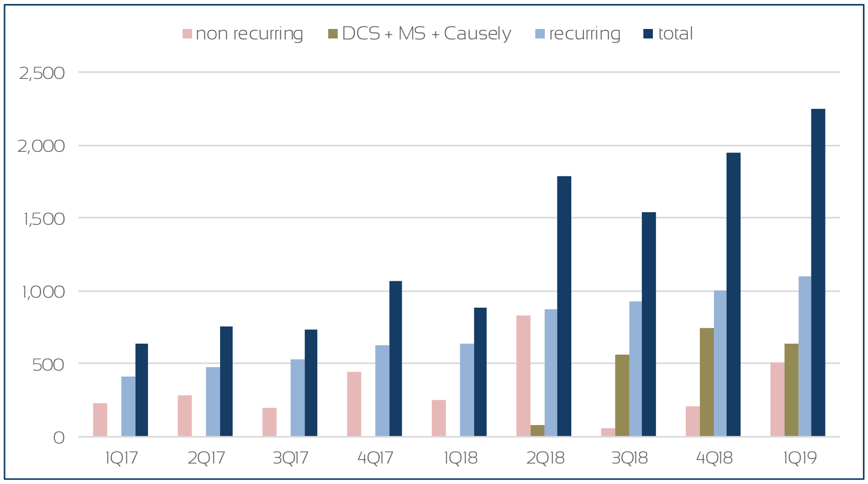
TMT ANALYTICS

Skyfii Limited

Recurring revenues continue to grow between 55% to 85%

In 1Q18 (September quarter) SKF posted another solid set of results with strong recurring revenue growth and a good contribution from Data Consultancy Services (DCS). Recurring revenues amounted to A$ 1.1M in 1Q19, representing 73% year-on-year growth. Revenues from DCS amounted to A$ 638k, down from A$ 746k in the prior quarter (Figure 1).

FIGURE 1: UNINTERRUPTED RECURRING REVENUE GROWTH IN LAST 9 QUARTERS



Source: TMT Analytics, SKF

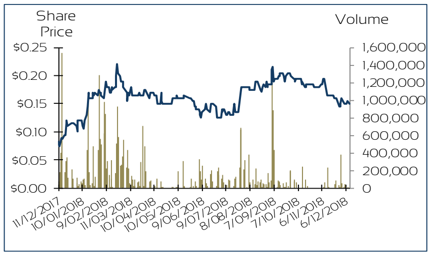
Even though DCS revenues were down 14.5% quarter-on-quarter, which was due to a large project completion in 4Q18, when smoothed over the last three quarters since the Causely acquisition, we can clearly see a solid growth pattern for DCS. Non-recurring revenues from set-up fees for new venues and new customers came in at A$ 512k, i.e. more than double the amount compared to the same quarter last year and 150% higher than 4Q18.

Typically, strong non-recurring revenues point to high levels of new customer and venue set ups, which are a leading indicator for future recurring revenue growth. In other words, Q1 non-recurring revenues suggest a strong uptick in recurring revenues in the next few quarters. SKF added around 500 new, mostly smaller, venues in Q1.

Recurring revenue growth 73% year-on-year

In our view, the key growth metric to watch for SKF is recurring revenue growth. This metric has been tracking very nicely within the 55% to 85% bandwidth in the last few quarters (Figure 2) and forms the backbone

Number of shares (m)	273.3
Number of shares FD (m)	306.3
Market capitalisation (A$ m)	41.0
Free Float (%)	91%
12 month high/low A$	0,205/0,044
Average daily volume (k)	140.2



Flash Note

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$ 0.15

Price target: A$ 0.25

11 December 2018

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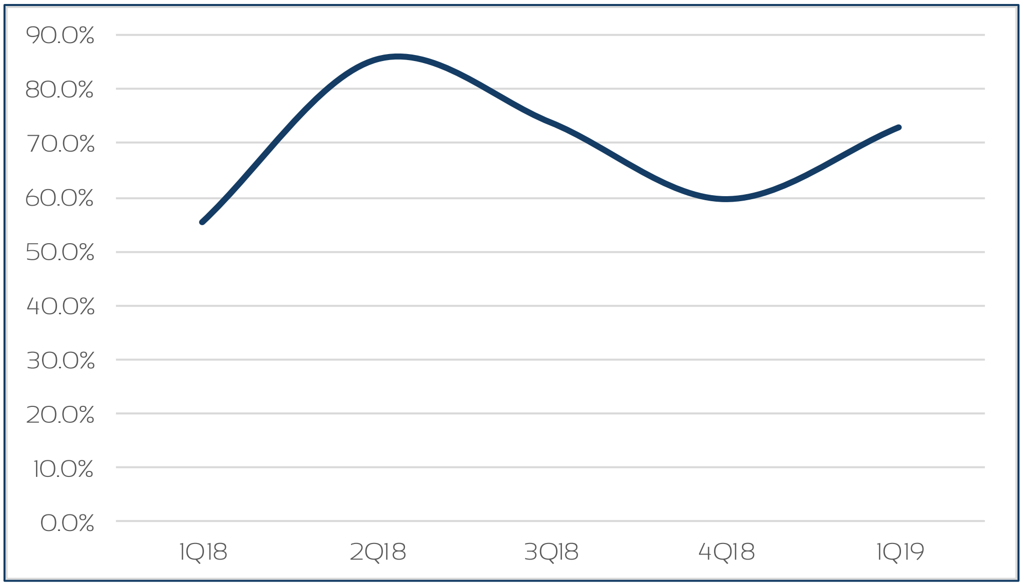
of SKF's revenues, complemented with the lumpier non-recurring revenues and DCS.

FIGURE 2: YEAR-ON-YEAR RECURRING REVENUE GROWTH TRACKING BETWEEN 55% AND 85%



Source: TMT Analytics, SKF

EBITDA positive means room to invest in growth

As we have indicated in earlier research notes, the fact that SKF has become EBITDA positive in 4Q18 means that there is now less pressure on management to bootstrap the company in order to avoid a capital raise to fund operations. Instead, SKF can fine-tune its EBITDA number on a monthly or quarterly basis, remaining in positive territory, but deploying more capital to invest in growth.

As the recently published 4C cash flow statement illustrated, SKF has started to bring on additional staff to drive top line growth, i.e. 5 additional staff in Q1 including in sales and marketing. Furthermore, the company indicated it will gradually bring on more client-facing staff in the course of the financial year. In turn, we expect to see this translated into an acceleration of growth in the latter part of FY19 and in FY20.

Strong growth with existing and new customers

SKF again added an impressive number of new customers to its portfolio, including Kooples (French retailer, 100 venues for IO Connect in a three-year contract), Frigelar (Brazilian white goods retailer, 31 venues for the full IO Platform in a three-year contract) and Dasa Group (Brazilian medical centers, initially 92 out of 161 venues for the full IO Platform in a three-year contract).

Post Q1, in October, SKF signed Habib's (Brazilian QSR chain, 360 venues for IO Connect and IO Insight in a three-year contract) and a large format retail landlord in Australia (18 out of 22 venues initially for WiFi and people counter technology).

In early November SKF signed an initial one-year deal with property investment firm ISPT, which owns commercial and retail towers across Australia. SKF will deploy IO Insights in 32 venues, enabling ISPT to measure and analyze customer volumes, dwell times and frequency of visits.

Additionally, during 1Q19 SKF was able to sign multiple contract renewals and extensions, including Waverley council and Nando's. The latter expanded its agreement with SKF from 120 to 520 venues, which will be a substantial driver of venue growth for SKF in the near to medium term.

We believe such contract extensions signal the strength of SKF's offering and bodes well for other potentially large customers that have started out with a limited number of their venues initially.

Revenue guidance of A$ 4.5M for 1HY19

For the first time, SKF has provided forward looking revenue guidance. The company anticipates revenues for 1HY19 (through December 2018) to exceed A$ 4.5M. We welcome such guidance as we believe it indicates that management is confident about the way in which the company is developing, specifically the role of its recurring revenues within the broader revenue base. Our forecast for 1HY19 revenues is A$ 4.7M.

Ambitious longer term strategy

Looking out longer term, SKF has stated the ambition to become the global leader in Data Analytics and Digital Marketing services in physical environments. Given the level of (fragmented) competition in this space, we believe this is an ambitious strategy; one which will likely require selective acquisitions to complement SKF's autonomous growth.

Buy recommendation reiterated and price target unchanged

Our Buy recommendation and price target of A$ 0.25 per share remain unchanged. We believe reaching EBITDA break even will allow SKF to accelerate its already impressive revenue growth. Going forward we would also expect the company to make targeted acquisitions at reasonable prices, similar to Causely, that strengthen or provide SKF a foothold in a given market.

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TMT Analytics' issues a BUY recommendation in case of an expected total shareholder return (TSR, share price appreciation plus dividend yield) in excess of 25% within the next twelve months, an ACCUMULATE recommendation in case of an expected TSR between 5% and 25%, a HOLD recommendation in case of an expected TSR between -5% and +5% within the next twelve months and a SELL recommendation in case of an expected total return lower than -5% within the next twelve months.