

AGM trading update

K3 has confirmed that FY13 continues to be a year of investment, both for product development and managed services, and that while the short-term trading environment remains tough, there is a strong pipeline. Although FY13 forecasts still require several key deals to be signed, delivery to our unchanged forecasts should drive meaningful upside to the share price.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/11	52.8	8.7	27.0	0.75	5.6	0.5
06/12	68.0	10.1	29.7	1.00	5.1	0.7
06/13e	74.9	10.8	30.4	1.05	5.0	0.7
06/14e	77.3	12.5	35.1	1.10	4.3	0.7

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

K3's AGM trading statement confirmed that the company continues to invest in Microsoft Dynamics AX for retail product development and to develop the managed services business, with the expectation that this investment will start to generate returns in 2013. The short-term trading environment remains tough, with customers reluctant to spend. Although the pipeline remains strong, K3 comments that there are still a number of deals to be signed in order to meet market expectations for FY13.

K3 is trading on very depressed multiples (5.0x FY13e EPS and 4.3x FY14e EPS) at a significant discount to the UK software sector. The share price appears to be factoring in a revenue shortfall, although calculating the impact of a 10% revenue shortfall at a gross margin of 58% would only result in a P/E of 8.3x for FY13, still at a discount to the sector. Key triggers for share price appreciation would be newsflow around deal signings, evidence that debt is being repaid, improving margins in Microsoft UK and customer wins in managed services.

Technology

5 December 2012

Price 151.5p

Market cap £43m

Shares in issue 28.48m

Free float 49.2%

Code KBT

Primary exchange AIM

Other exchanges N/A

Share price performance



Business description

K3 provides Microsoft- and Sage-based ERP solutions and managed services to SMEs in the retail, distribution and manufacturing sectors.

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