

K3 Business Technology

Acquisition

UK visitor attraction software acquisition

Software & comp services

4 July 2016

Price 337p
Market cap £121m

K3 continues to strengthen its position in the visitor attractions and leisure sector with the acquisition of Merac, a UK-based supplier of electronic PoS and management systems, for up to £1.45m in cash. The deal brings a roster of UK customers as well as adding to the company's portfolio of own-IP solutions.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/14	72.0	6.6	18.5	1.25	18.2	0.4
06/15	83.4	7.2	19.1	1.50	17.6	0.4
06/16e	87.5	9.4	23.3	1.65	14.5	0.5
06/17e	95.6	11.9	26.2	1.82	12.9	0.5

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

Net debt (£m) at end H116	10.45
Shares in issue	36.0m
Free float	80.6%
Code	KBT
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



Business description

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

Analysts

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K3 has acquired Merac, a UK-based developer and supplier of electronic point-of-sale (PoS) and management systems for the visitor attractions and leisure sector. Merac's MStore software includes ticketing, hospitality and retail, admission control, bookings, membership management, marketing, stock control, purchasing, customer relationship management and event management. Examples of customers using MStore software include English Heritage (eg, at Stonehenge), Longleat Safari Park and Wookey Hole Caves. K3 is paying £1.27m in initial cash consideration, with a further £175,000 payable in 2017 dependent on performance. The acquisition has been agreed on a debt free/cash free basis.

For the year-ended 31 March 2016, Merac reported revenues of £1.24m and adjusted PBT of £0.33m (26.6% margin), implying a valuation (based on initial consideration) of 1x trailing sales and 3.8x trailing PBT. The company expects the deal to be immediately earnings enhancing. Having recently raised £12.8m (of which £7.9m is being used for the DdD acquisition), K3 is using existing cash reserves to fund the deal. We expect the company to issue a year-end trading update this month, at which point we will review our forecasts.

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