

# Kleos Space S.A.

Australia / New space  
 Australian Securities Exchange  
 Bloomberg: KSS AU  
 ISIN: AU0000015588

Business update

**RATING**  
**PRICE TARGET**  
 Return Potential  
 Risk Rating

**BUY**  
**AUD 1.15**  
 94.9%  
 High

## SATELLITES COMMISSIONING PROCESS UNDERWAY

On 29 January, Kleos provided an update on the progress achieved since the rocket launch of the Scouting Mission (KSM1), its first four-satellite cluster. The satellite commissioning operation, which will end with the KSM1 positioned in its final operational orbit and formation, is underway. The company is currently conducting stage three of five of this highly complex process. As is common in space programmes, the commissioning process raised technical challenges that needed to be resolved. According to management, performing the required resolutions has impacted the initial schedule by some weeks. However, the successful completion of the in-orbit commissioning and useful life of the satellites is unaffected. Once this process is finished, including the commissioning of the other systems involved in the delivery of the geolocated data product, the company will be ready to provide RF data to the first customers. In preparation for the upcoming commercialisation stage, Kleos has strengthened its management team by adding a Chief Revenue Officer and a new Chief Operating Officer and has expanded its pre-order pipeline to more than 160 potential clients (previously: >130). Kleos has appointed distribution agents in additional Latin American countries such as Colombia, Peru, Ecuador and Panama. Through the AUD 19m capital increase completed in December, the company is well funded to prepare two additional four-satellite cluster launches, Polar Vigilance Mission (KSF1) and Polar Patrol Mission (KSF2). KSF1 is on track for launch in mid-2021. Management sees Kleos on course to generate first revenues in Q2/21. Based on the progress achieved, we reiterate our Buy recommendation and our AUD1.15/€0.69 price target.

**Two new executives strengthened the management team as part of its transition from R&D to commercial stage** Mr Heribert Krämer joined Kleos as Chief Operating Officer. He is a seasoned manager with over 25 years of experience who has held senior international leadership positions at companies such as APUS Solutions Sàrl, RBC Investor & Treasury Services SA, ABN AMRO Asset Management NV and Otimo Business Solutions Sàrl. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (€m)	0.00	0.00	0.00	0.00	10.80	22.50
Y-o-y growth	n.a.	n.a.	n.a.	n.a.	n.a.	108.3%
EBIT (€m)	-0.18	-2.19	-3.27	-3.93	1.41	6.76
EBIT margin	n.a.	n.a.	n.a.	n.a.	12.7%	29.6%
Net income (€m)	-0.18	-2.20	-3.50	-4.88	0.97	5.00
EPS (diluted) (€)	-0.01	-0.03	-0.03	-0.04	0.01	0.03
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.26	-4.11	-5.48	-4.01	-4.62	0.93
Net gearing	267.0%	-74.0%	43.8%	-68.7%	-32.4%	-33.9%
Liquid assets (€m)	0.46	4.26	0.29	11.59	4.52	6.93

### RISKS

Risks include, but are not limited to technological risk, execution risk, financing risk, shareholder dilution, and competition risks

### COMPANY PROFILE

Kleos is a "new space" technology specialist aiming to launch and operate nanosatellites in space with the goal to scan the earth for radio frequency (RF) signals for geolocation purposes. The company is a pioneer in applying RF technology from space. The main focus will be generating data for the maritime industry. The company is based in Luxembourg and intends to sell the RF data as a service worldwide to government agencies, intelligence and maritime companies.

### MARKET DATA

As of 02 Feb 2021

Closing Price	AUD 0.59
Shares outstanding	159.60m
Market Capitalisation	AUD 94.17m
52-week Range	AUD 0.16 / 0.88
Avg. Volume (12 Months)	521,852

Multiples	2019	2020E	2021E
P/E	n.a.	n.a.	67.8
EV/Sales	0.0	n.a.	6.4
EV/EBIT	n.a.	n.a.	48.5
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2020

Liquid Assets	€ 0.41m
Current Assets	€ 2.14m
Intangible Assets	€ 0.00m
Total Assets	€ 4.59m
Current Liabilities	€ 3.71m
Shareholders' Equity	€ 0.87m

### SHAREHOLDERS

Magna Parva Ltd.	15.7%
LTL Capital Pty Ltd.	13.3%
Janet Cameron	12.2%
Free Float & others	58.8%



To lead the global commercialisation process, Kleos hired Mr Eric von Eckartsberg as Chief Revenue Officer. He is an experienced sales, business development, and strategy executive with substantial expertise in the defence and intelligence sectors. Mr von Eckartsberg held senior management positions focusing on driving sales growth at new space, analytics and advanced AI companies such as Maxar Corporation, Vricon Inc, RedSeal Networks, and Basis Technology Corp. He will be based in the US.

**Kleos has bolstered its US presence** Given the relevance of the US market for Kleos' business, the company expanded its sales team by hiring Mr Guillermo Gutierrez as product manager and Mr Alex Johnson as sales executive. Kleos additionally established a US engineering office in Denver, Colorado, and hired the first four specialists. They are intended to complement the teams based in the UK and Luxembourg and invigorate the company's innovation. The Colorado region is home to about 280 aerospace businesses.

**Unchanged rating and price target** Following the successful rocket launch and the progress achieved in commissioning the first four-satellite cluster KSM1, as well as in management team and pre-order expansion, we view Kleos as well prepared to enter the upcoming commercialisation stage. The company reported a solid cash position of AUD 17m/€11m at the end of December 2020, which will enable it to implement its business strategy and convert pre-orders into revenues over the next few quarters. Our view of Kleos' business prospects remains positive. We reiterate our Buy recommendation and our AUD1.15/€0.69 price target.



## VALUATION MODEL

Figure 1: DCF model

All figures in EUR '000	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net sales	0	10,800	22,500	33,000	43,400	54,750	65,250	75,750
<b>NOPLAT</b>	<b>-3,930</b>	<b>1,073</b>	<b>4,999</b>	<b>8,431</b>	<b>10,772</b>	<b>13,588</b>	<b>16,360</b>	<b>18,623</b>
+ depreciation & amortisation	180	2,137	4,117	5,767	7,417	7,013	7,219	7,178
Net operating cash flow	-3,750	3,210	9,116	14,198	18,189	20,600	23,579	25,800
- total investments (CAPEX and WC)	-341	-7,568	-8,007	-7,634	-8,779	-8,616	-8,901	-9,769
Capital expenditures	-296	-6,600	-6,600	-6,600	-7,260	-7,260	-7,260	-7,788
Working capital	-45	-968	-1,407	-1,034	-1,519	-1,356	-1,641	-1,981
Free cash flows (FCF)	-4,091	-4,359	1,109	6,563	9,410	11,984	14,678	16,032
<b>PV of FCF's</b>	<b>-4,025</b>	<b>-3,797</b>	<b>855</b>	<b>4,479</b>	<b>5,684</b>	<b>6,407</b>	<b>6,946</b>	<b>6,715</b>

All figures in EUR '000	
PV of FCFs in explicit period	43,069
PV of FCFs in terminal period	59,726
Enterprise value (EV)	102,795
+ Net cash / - net debt	14,827
+ Investments / minority interests	0
Shareholder value	117,623
Diluted number of shares	170,441
<b>Fair value per share in EUR</b>	<b>0.69</b>

**Fair value per share in AUD** 1.15 FX rate: 1 AUD = 0.60 EURO

Cost of equity	13.0%
Pre-tax cost of debt	10.0%
Tax rate	26.0%
After-tax cost of debt	7.4%
Share of equity capital	100.0%
Share of debt capital	0.0%
<b>WACC</b>	<b>13.0%</b>

WACC	Terminal growth rate							
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
10.0%	0.92	0.95	0.98	1.02	1.07	1.12	1.18	
11.0%	0.81	0.83	0.86	0.89	0.92	0.96	1.00	
12.0%	0.72	0.73	0.75	0.78	0.80	0.83	0.86	
13.0%	0.64	0.66	0.67	<b>0.69</b>	0.71	0.73	0.75	
14.0%	0.58	0.59	0.60	0.62	0.63	0.65	0.66	
15.0%	0.53	0.54	0.54	0.56	0.57	0.58	0.59	
16.0%	0.48	0.49	0.50	0.50	0.51	0.52	0.53	

\*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes



## INCOME STATEMENT

All figures in EUR '000	2017	2018	2019	2020E	2021E	2022E
<b>Revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,800</b>	<b>22,500</b>
Government grants	249	828	601	0	294	300
<b>Total revenue and grants</b>	<b>249</b>	<b>828</b>	<b>601</b>	<b>0</b>	<b>11,094</b>	<b>22,800</b>
Cost of goods sold	0	0	0	-370	-1,400	-2,400
<b>Gross profit</b>	<b>249</b>	<b>828</b>	<b>601</b>	<b>-370</b>	<b>9,694</b>	<b>20,400</b>
Operating expenses	-79	-1,210	-1,255	-1,100	-1,200	-1,360
Staff expenses	-203	-1,680	-2,287	-1,700	-4,600	-7,200
Research & development	-149	-114	-196	-500	-220	-700
Other operating expenses	-2	-11	-69	-80	-123	-268
<b>EBITDA</b>	<b>-183</b>	<b>-2,187</b>	<b>-3,206</b>	<b>-3,750</b>	<b>3,551</b>	<b>10,872</b>
Depreciation expenses	0	-6	-61	-180	-2,137	-4,117
<b>Operating income (EBIT)</b>	<b>-183</b>	<b>-2,193</b>	<b>-3,267</b>	<b>-3,930</b>	<b>1,414</b>	<b>6,755</b>
Net financial result	0	-9	-236	-950	-102	-2
<b>Pre-tax income (EBT)</b>	<b>-183</b>	<b>-2,202</b>	<b>-3,503</b>	<b>-4,880</b>	<b>1,312</b>	<b>6,753</b>
Tax result	0	0	0	0	-341	-1,756
<b>Net income / loss</b>	<b>-183</b>	<b>-2,202</b>	<b>-3,503</b>	<b>-4,880</b>	<b>971</b>	<b>4,997</b>
Other comprehensive income (currency related)	0	1	-1	0	0	0
<b>Total comprehensive income</b>	<b>-183</b>	<b>-2,201</b>	<b>-3,505</b>	<b>-4,880</b>	<b>971</b>	<b>4,997</b>
<b>Diluted EPS (in €)</b>	<b>-0.01</b>	<b>-0.03</b>	<b>-0.03</b>	<b>-0.04</b>	<b>0.01</b>	<b>0.03</b>

### Ratios as % of total revenue and grants

Gross margin	n.a.	100.0%	100.0%	n.a.	87.4%	89.5%
EBITDA margin	n.a.	n.a.	n.a.	n.a.	32.0%	47.7%
EBIT margin	n.a.	n.a.	n.a.	n.a.	12.7%	29.6%
Net margin	n.a.	n.a.	n.a.	n.a.	8.8%	21.9%
Tax rate	0.0%	0.0%	0.0%	0.0%	26.0%	26.0%

### Expenses as % of of total revenue and grants

Operating expenses	n.a.	n.a.	208.8%	n.a.	10.8%	6.0%
Staff expenses	n.a.	n.a.	380.7%	n.a.	41.5%	31.6%
Research & development	n.a.	n.a.	32.7%	n.a.	2.0%	3.1%
Depreciation expenses	n.a.	n.a.	10.1%	n.a.	19.3%	18.1%

### Y-Y Growth

Revenues	n.a.	n.a.	n.a.	n.a.	n.a.	108.3%
Government grants	n.a.	232.2%	-27.4%	-100.0%	n.a.	2.1%
Operating expenses	n.a.	1438.8%	3.7%	-12.3%	9.1%	13.3%
Staff expenses	n.a.	728.2%	36.1%	-25.7%	170.6%	56.5%
EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	206.2%
Operating income (EBIT)	n.a.	n.a.	n.a.	n.a.	n.a.	377.6%
Net income/ loss	n.a.	n.a.	n.a.	n.a.	n.a.	414.6%



## BALANCE SHEET

All figures in EUR '000	2017	2018	2019	2020E	2021E	2022E
<b>Assets</b>						
<b>Current assets, total</b>	<b>481</b>	<b>5,327</b>	<b>2,704</b>	<b>13,393</b>	<b>8,130</b>	<b>12,497</b>
Cash and cash equivalents	457	4,264	293	11,593	4,522	6,928
Receivables	0	392	387	0	1,627	3,390
Accrued income (gov. grants)	0	0	0	0	0	0
Other current assets	25	672	2,024	1,800	1,980	2,178
<b>Non-current assets, total</b>	<b>0</b>	<b>1,918</b>	<b>2,478</b>	<b>2,594</b>	<b>7,057</b>	<b>9,541</b>
Property, plant & equipment	0	1,918	2,443	2,559	7,022	9,505
<b>Total assets</b>	<b>481</b>	<b>7,245</b>	<b>5,182</b>	<b>15,988</b>	<b>15,187</b>	<b>22,038</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>652</b>	<b>1,484</b>	<b>2,192</b>	<b>3,741</b>	<b>1,248</b>	<b>1,628</b>
Short-term debt	0	0	1,601	3,174	0	0
Accounts payable	21	729	345	300	959	1,315
Accruals	7	754	203	224	246	271
Other current liabilities	625	1	43	43	43	43
<b>Long-term liabilities, total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long-term debt	0	0	0	0	0	0
<b>Shareholders' equity</b>	<b>-171</b>	<b>5,762</b>	<b>2,990</b>	<b>12,247</b>	<b>13,939</b>	<b>20,409</b>
<b>Total consolidated equity and debt</b>	<b>481</b>	<b>7,245</b>	<b>5,182</b>	<b>15,988</b>	<b>15,187</b>	<b>22,038</b>
<b>Ratios</b>						
Current ratio (x)	0.7	3.6	1.2	3.6	6.5	7.7
Quick ratio (x)	0.7	3.6	1.2	3.6	6.5	7.7
Net debt/(net cash)	-457	-4,264	1,309	-8,419	-4,522	-6,928
Net gearing	267.0%	-74.0%	43.8%	-68.7%	-32.4%	-33.9%
Book value per share (in €)	-0.01	0.09	0.03	0.11	0.09	0.13
Return on equity (ROE)	107.3%	-38.2%	-117.2%	-39.8%	7.0%	24.5%
Equity ratio	n.a.	79.5%	57.7%	76.6%	91.8%	92.6%



## CASH FLOW STATEMENT

All figures in EUR '000	2017	2018	2019	2020E	2021E	2022E
<b>Net income</b>	-183	-2,202	-3,503	-4,880	971	4,997
Depreciation and amortisation	0	6	61	180	2,137	4,117
Tax expense	0	0	0	0	0	0
Changes in working capital	-147	-208	-2,240	587	-1,126	-1,580
Other adjustments	586	-451	738	400	0	0
<b>Operating cash flow</b>	<b>256</b>	<b>-2,854</b>	<b>-4,944</b>	<b>-3,713</b>	<b>1,982</b>	<b>7,534</b>
<b>Net operating cash flow</b>	<b>256</b>	<b>-2,854</b>	<b>-4,944</b>	<b>-3,713</b>	<b>1,982</b>	<b>7,534</b>
CapEx	0	-1,257	-533	-296	-6,600	-6,600
<b>Free cash flow</b>	<b>256</b>	<b>-4,111</b>	<b>-5,477</b>	<b>-4,009</b>	<b>-4,618</b>	<b>934</b>
Other investments and disposals	0	0	0	0	0	0
<b>Cash flow from investing</b>	<b>0</b>	<b>-1,257</b>	<b>-533</b>	<b>-296</b>	<b>-6,600</b>	<b>-6,600</b>
Debt financing, net	0	0	1,255	1,573	-3,174	0
Equity financing, net	201	7,918	251	13,737	721	1,472
<b>Cash flow from financing</b>	<b>201</b>	<b>7,918</b>	<b>1,506</b>	<b>15,310</b>	<b>-2,453</b>	<b>1,472</b>
<b>Net cash flow</b>	<b>457</b>	<b>3,807</b>	<b>-3,971</b>	<b>11,301</b>	<b>-7,071</b>	<b>2,406</b>
Cash, start of the year	0	457	4,264	293	11,593	4,522
<b>Cash, end of the year</b>	<b>457</b>	<b>4,264</b>	<b>293</b>	<b>11,593</b>	<b>4,522</b>	<b>6,928</b>
<b>EBITDA/share (in €)</b>	<b>-0.01</b>	<b>-0.03</b>	<b>-0.03</b>	<b>-0.03</b>	<b>0.02</b>	<b>0.07</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.a.	n.a.	n.a.	n.a.	n.a.	280.2%
Free cash flow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA/share	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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UST-Id.: 251601797

Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 3 February 2021 at 15:46

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**ASSET RECOMMENDATION**

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy <sup>1</sup>	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

<sup>1</sup> The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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**RECOMMENDATION & PRICE TARGET HISTORY**

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	2 May 2019	AUD0.26	BUY	AUD0.43
2	17 October 2019	AUD0.26	BUY	AUD0.46
3	26 October 2020	AUD0.58	BUY	AUD0.75
4	17 November 2020	AUD0.69	BUY	AUD1.15
5	Today	AUD0.59	BUY	AUD1.15

**INVESTMENT HORIZON**

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

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