

Double thumbs up for new bank facility

9th April 2019

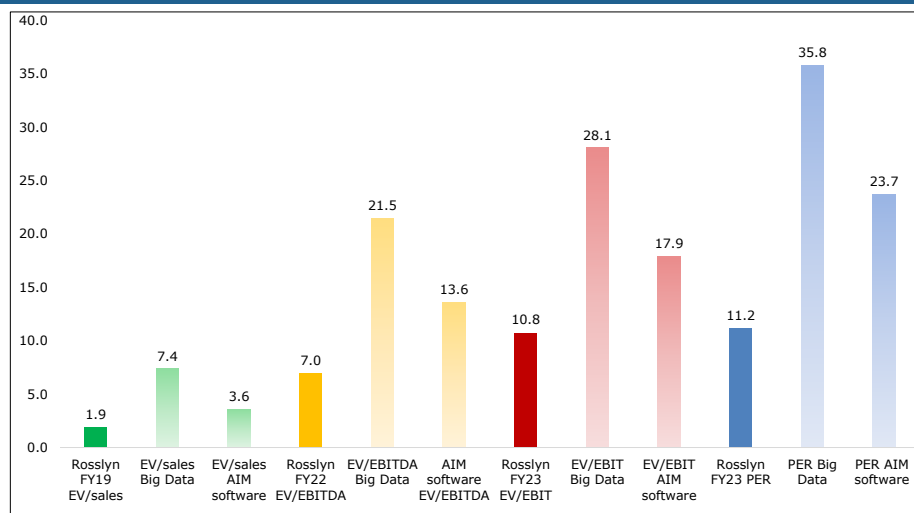
Refinancing loans can be a tricky exercise at the best of times, especially given today's the political impasse at Westminster. Therefore, it was very encouraging to hear this morning that **Rosslyn Data Tech had managed to replace its existing £0.75m debt with a new 3 year, £1.5m secured facility from Clydesdale Bank on equivalent terms** (ie interest charged to be at 7.75% plus 3 month LIBOR).

We think this is both a **positive step forward to accelerate growth and a major endorsement of RDT's future prospects**. Particularly since the company should **shortly become cashflow positive**, and continues to **win blue chip clients** (eg KLM, Diageo, BAe Systems, etc), who benefit from its proprietary big data, analytics and AI platform (RAPid).

No change to our forecasts or 12.5p/share valuation

In terms of the numbers, **we have held our estimates, reiterate RDT's 12.5p/share valuation** and look forward to the pre-close trading update in May. What's more, given the rebound in Big Data stocks during the past 3 months, **the firm continues to look materially undervalued on a relative and absolute basis** (see below).

Valuation benchmarks vs 'Big Data' & AIM Software peers



Source: Equity Development

Recurring revenues >£6m pa (or 80% of FY19 sales)

CEO Roger Bullen commenting: "*I am delighted that we have been able to replace our existing debt with a facility from Clydesdale Bank, which I believe demonstrates confidence in Rosslyn as a maturing business as it prepares for future growth. The refinancing of the Integritie Debt and conclusion of outstanding earn-out provisions now ends all financing arrangements with the vendors of Integritie. The Rosslyn business continues to perform and I look forward to releasing a trading update in May*".

Company Data

	AIM:RDT
EPIC	
Price (prior close)	7.20p
52 week Hi/Lo	9.0p/4.0p
Market cap	£13.9m
ED valuation / share	12.5p
Sharecount	192.7m
Est. net debt (April 2019)	£700k
Avg. daily volume	100k

Share Price, p



Source: Web Financial

Description

Founded in 2005 and listed on AIM in Apr'14 at 33p raising £10m, **Rosslyn Data Tech is a supply-chain & spend analytics, 'Big Data & AI' software developer**, whose **cloud platform** (RAPid) intelligently extracts, aggregates and enriches data from multiple sources. Enabling clients to not only cut costs (eg BOMs), reduce working capital & comply with regulations, but also enhance revenues (eg end-user demand forecasting), optimise supplier performance and improve efficiencies, productivity & cashflows.

80% (or £6m) of FY19 revenues are 'recurring, which coupled with c. **95% retention rates**, provides strong visibility. Average order values are increasing too (H1'19 £85.4k) with headcount at 62. Approx 88% of sales is invoiced from the UK, with the rest derived from the US.

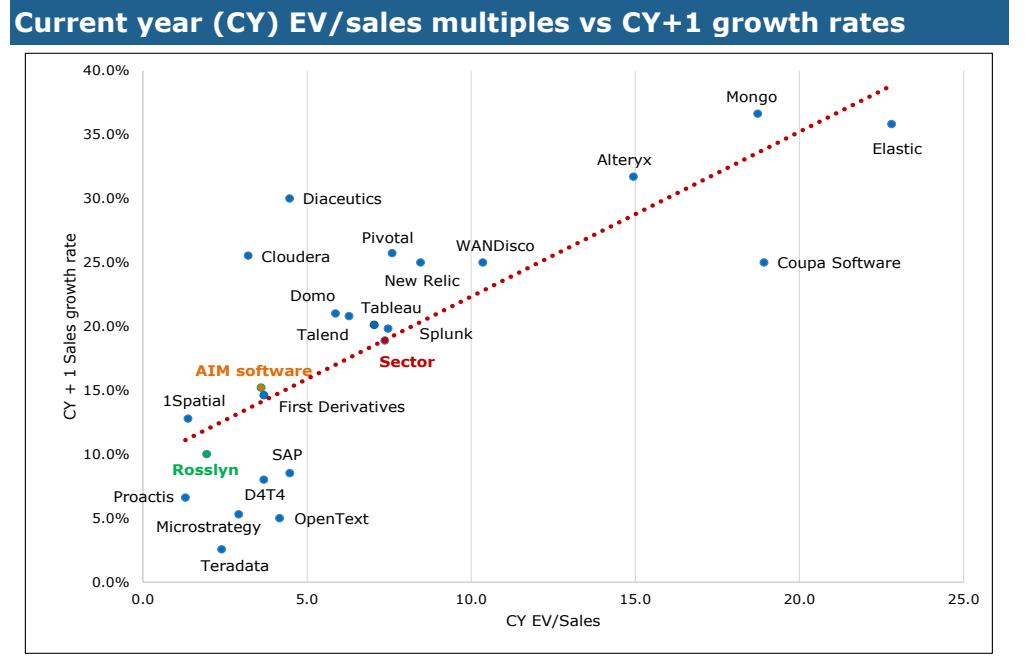
Next news: Trading update May 2019

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One of most undervalued firms in the Big Data universe



Source: Equity Development

Key risks

- Although Rosslyn’s auditors, Grant Thornton, have confirmed the FY18 financial statements are “true and fair”, they have highlighted that there is a “material uncertainty related to the going concern” (Re Note 2). We accept this as a possible risk, albeit believe the business will become cashflow positive in FY20 and so if required, should be able to raise extra capital at commercial rates.
- RDT is signing large multi-year deals with international organisations, where timing is hard to predict – inevitably leading to a degree of lumpiness in the revenues.
- The competitive landscape could intensify. For example major cloud vendors like Amazon, Microsoft & Google already offer native Hadoop and Big Data services.
- Unforeseen events such as a severe economic downturn, could potentially delay client investments.
- Growth/profitability may take longer than thought, cost more or not be fully realised.
- Foreign exchange. However, this is not a significant concern at the moment with c. 88% of sales currently invoiced from the UK (vs 12% US).
- Regulatory and tax changes.
- Being relatively small, Rosslyn could get squeezed by larger rivals, partners and customers.
- Generic risks of retention/recruitment of key staff, etc.

As with many small cap AIM stocks, daily trading volumes can occasionally decline, particularly during seasonally quieter periods and/or between newsflow.

Summary projections (£'000s)

Rosslyn Data Technologies (April yearend)	2015 Act £'000s	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Est £'000s	2020 Est £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s
			Restated	IFRS 15							
Turnover	2,826	3,869	3,506	6,433	7,500	8,250	9,158	10,256	11,590	13,212	15,194
% growth	36.8%	36.9%	-9.4%	83.5%	16.6%	10.0%	11.0%	12.0%	13.0%	14.0%	15.0%
Gross Profit	2,384	3,388	2,855	4,895	6,150	6,848	7,601	8,513	9,619	10,966	12,611
% margin	84.3%	87.6%	81.4%	76.1%	82.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%
Adj. EBITDA (post SBPs)	-3,424	-2,331	-2,022	-2,010	242	812	1,375	2,080	2,495	3,483	4,731
% Margin	-121.2%	-60.2%	-57.7%	-31.2%	3.2%	9.8%	15.0%	20.3%	21.5%	26.4%	31.1%
Adj. EBIT	-3,507	-2,386	-2,060	-3,074	-800	-334	103	655	1,353	2,237	3,358
% Margin	-124.1%	-61.7%	-58.8%	-47.8%	-10.7%	-4.1%	1.1%	6.4%	11.7%	16.9%	22.1%
Interest	29	11	15	-101	-66	-56	-6	0	0	0	0
Adj. Profit before Tax	-3,478	-2,375	-2,045	-3,175	-866	-391	97	655	1,353	2,237	3,358
Adjusted EPS (p)	-4.3	-2.8	-2.5	-1.5	-0.4	-0.2	0.0	0.3	0.6	1.0	1.3
EPS growth rate								571.1%	94.3%	55.1%	32.1%
Dividend (p)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted cash conversion										131.4%	120.7%
Valuation benchmarks											
P/E ratio							146.4	21.8	11.2	7.2	5.5
EV/Sales	5.2	3.8	4.2	2.3	1.9	1.8	1.6	1.4	1.3	1.1	1.0
EV/EBITDA						17.9	10.6	7.0	5.8	4.2	3.1
EV / EBITA							141.4	22.2	10.8	6.5	4.3
Adjusted tax rate					0.0%	0.0%	0.0%	0.0%	-5.0%	-10.0%	-20.0%
EBITDA drop through rates						76.0%	62.1%	64.1%	31.1%	60.9%	63.0%
PEG ratio								0.04	0.12	0.13	0.17
Net cash/(debt)	4,713	1,859	285	-757	-700	-394	476	1,975	3,718	6,167	9,261
Sharecount (Ks)	75,422	75,766	75,766	183,820	192,676	194,602	196,548	198,514	200,499	202,504	204,529
Diluted sharecount			79,486	201,177	210,033	211,959	213,905	215,871	217,856	219,861	221,886
Shareprice (p)	7.20										

Source: ED estimates, Company historic data.

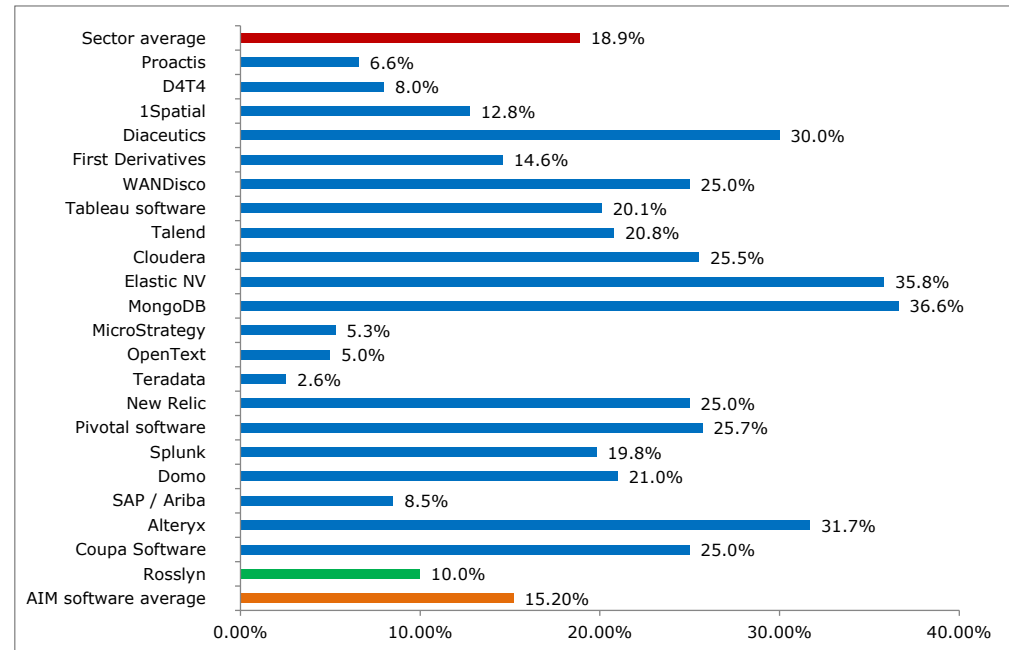
Note 1: At as 30th April 2018, the Group had carried forward tax losses of £12,095k available to be offset against future profits. Meanwhile the deferred revenue balance was £2,300.7k (vs FY17 restated at £1,024.7k).

Note 2: All R&D is presently expensed as incurred - ie not capitalised.

Note 3: Approx £863k of loans (Oct'18) are due to be repaid within the next 12 months, with the majority by the end of May'19.

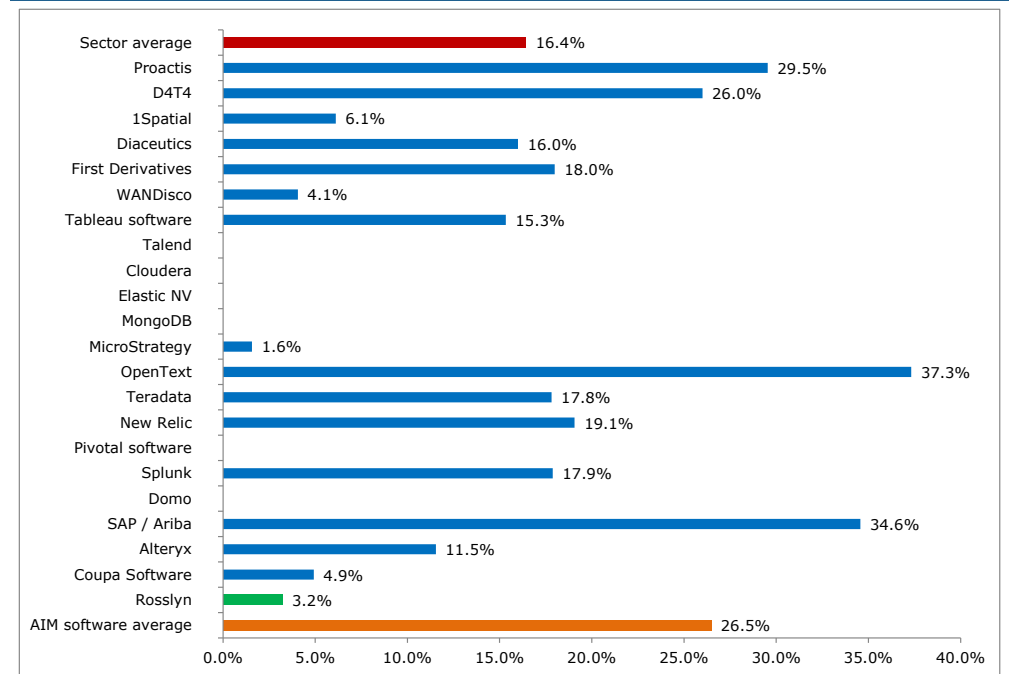
Appendices - sector valuation metrics and KPIs

Current Year + 1 sales growth rates



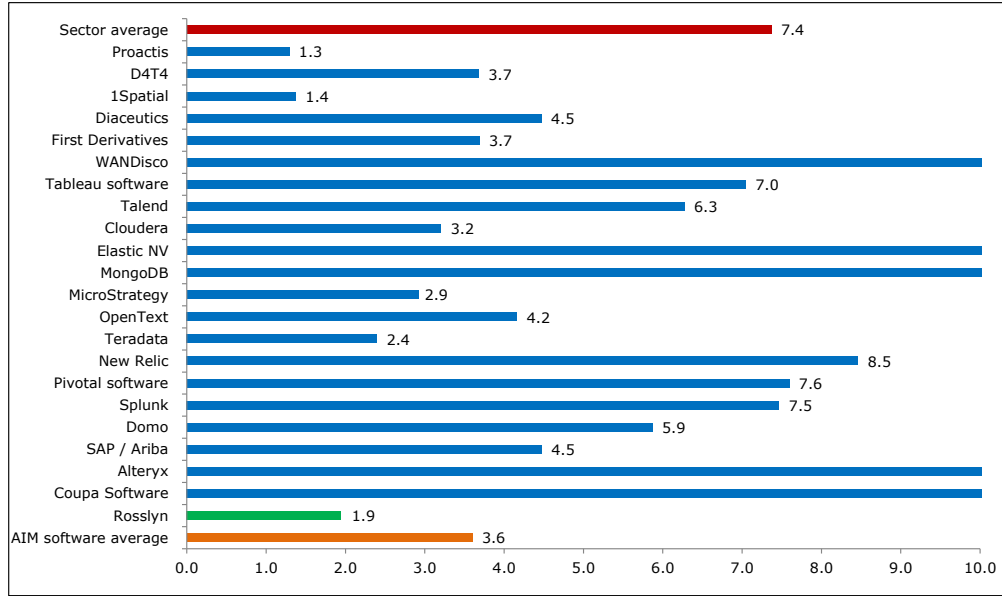
Source: Equity Development : arithmetic average for sector

CY EBITDA margins



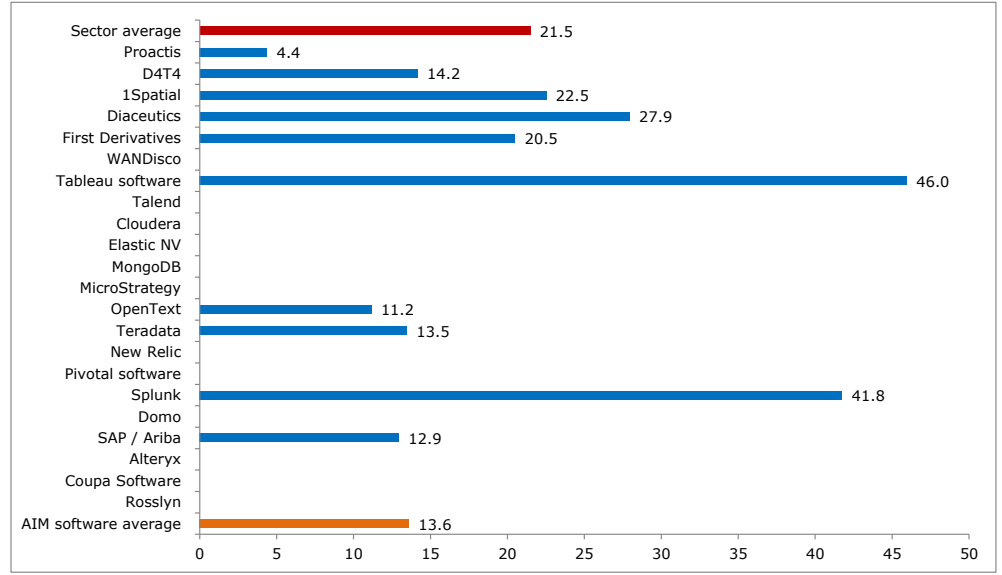
Source: Equity Development, arithmetic average for sector

CY EV/sales multiples vs peers



Source: Equity Development : arithmetic average for sector

CY EV/EBITDA multiples vs peers



Source: Equity Development : arithmetic average for sector



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