

## In the right place at the right time

22nd September 2020

Timing is everything when it comes to innovation. Too early, and even ground-breaking technology can struggle to gain traction. Too late, and the opportunity might be lost. A tricky balance.

However for Rosslyn Data Tech, we think this **'battle-hardened', cash-rich** (Est Apr'21 net funds of £6.1m) & now **profitable SaaS firm** is ideally placed to benefit from strong secular demand for its cutting-edge & fully integrated Big Data, AI, spend analytics, SMDM (Supplier Master Data Management) & customs/duty handling applications.

Today the company posted **record revenues** (FY20 £7.1m +2.1% LY) & **profits**, aided by the £49k acquisition of Langdon (+£0.9m) in Sept'19, partly offset by the elimination of low margin pass-through contracts (£0.6m). Encouragingly, **EBITDA** (pre SBPs) **was positive for the 1<sup>st</sup> time ever** at £36k (-£432k LY), despite expensing all £1.3m (£0.9m LY) of its R&D costs (18% sales), whilst not capitalising internally created software either. A rare & highly prudent accounting policy in the tech world.

## On track to hit FY21 estimates

In terms of FY21, we understand **YTD trading is in line with expectations** (ED est +£309k EBITDA on turnover up +7.1% to £7.6m), even after experiencing some order delays related to the pandemic. Here we are modelling flat H1 organic sales growth, followed by mid-single digits in H2 & 10%+ from FY22 onwards (see below).

### Summary financials

Financials (£'000s): y/e April	FY19	H1'20	H2'20	Act FY20	Est FY21	Est FY22
<b>Annual Recurring Revenue (ARR)</b>	<b>5,398</b>			<b>6,300</b>	<b>7,000</b>	<b>7,988</b>
Contract backlog	5,016			6,300	7,000	7,988
Annual licence fees	5,437	2,573	2,532	5,105	6,258	7,197
Professional services	1,528	460	661	1,121	1,355	1,490
Langdon		84	799	883		
<b>Sales</b>	<b>6,965</b>	<b>3,117</b>	<b>3,992</b>	<b>7,109</b>	<b>7,613</b>	<b>8,687</b>
Total % growth	8.3%	-11.7%	16.3%	2.1%	7.1%	14.1%
<b>Gross Profit</b>	<b>5,549</b>	<b>2,531</b>	<b>3,492</b>	<b>6,023</b>	<b>6,450</b>	<b>7,360</b>
% margin	79.7%	81.2%	87.5%	84.7%	84.7%	84.7%
Operating expenses (excl D&A, SBPs)	-5,981	-2,686	-3,301	-5,987	-6,141	-6,569
Opex growth	-11.8%	-10.5%	8.3%	0.1%	2.6%	7.0%
<b>Adjusted EBITDA (pre SBPs)</b>	<b>-432</b>	<b>-155</b>	<b>191</b>	<b>36</b>	<b>309</b>	<b>791</b>
Share based payments	-125	-59	-10	-69	-200	-214
<b>Adjusted EBITDA (post SBPs)</b>	<b>-557</b>	<b>-214</b>	<b>181</b>	<b>-33</b>	<b>109</b>	<b>576</b>
% margin	-8.0%	-6.9%	4.5%	-0.5%	1.4%	6.6%
Depreciation (ex IFRS16)	-30	-18	-42	-60	-64	-73
Amortisation (mostly customer lists)	0	0	0	0	0	0
<b>Adjusted EBIT (post SBPs)</b>	<b>-587</b>	<b>-232</b>	<b>139</b>	<b>-93</b>	<b>45</b>	<b>503</b>
% margin	-8.4%	-7.4%	3.5%	-1.3%	0.6%	5.8%
Net interest	-86	-80	-80	-160	-40	0
<b>Adjusted PBT</b>	<b>-673</b>	<b>-312</b>	<b>59</b>	<b>-253</b>	<b>5</b>	<b>503</b>
Tax	595	186	14	200	0	0
<b>Adjusted earnings</b>	<b>-78</b>	<b>-126</b>	<b>73</b>	<b>-53</b>	<b>5</b>	<b>503</b>
<b>Net cash / (debt) - Ex IFRS16</b>	<b>373</b>	<b>-975</b>	<b>-422</b>	<b>-422</b>	<b>6,100</b>	<b>6,310</b>

Source: Equity Development

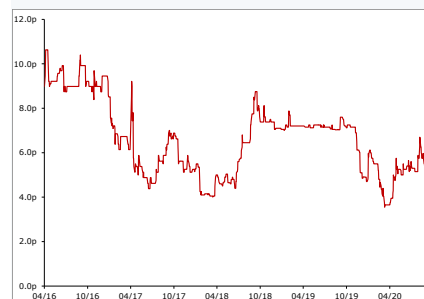
## So what to expect over the medium term?

Well from a macro perspective, **the sector is being propelled** by the **digitisation/virtualisation of all things physical, 5G networks and IoT**, alongside continued **buoyant demand for data analytics, AI & cloud services**.

### Company Data

EPIC	<b>AIM:RDT</b>
Price (previous close)	5.5p
52 weeks Hi/Lo	7.6p/3.6p
Market cap	£18.6m
ED valuation / share	10.0p
Sharecount	338.9m
Est Apr'21 net cash	£6.1m
Avg. daily volume	500k

### Share Price, p



Source: Share Cast

### Description

Founded in 2005 and listed on AIM in Apr'14 at 33p raising £10m, Rosslyn Data Tech is a **Big Data & spend analytics SaaS** specialist helping corporates optimise their supply chains, streamline operations and eliminate unnecessary expenditure.

**88.6%** (ARR £6.3m) of **FY20 revenues** (£7.1m) were **'recurring in nature'**, which coupled with **90%+ retention rates**, provides **robust forward visibility**.

Here the majority of sales are direct, albeit partnerships are growing in importance too. Likewise the business continues to expand outside of the UK, especially in the US & continental Europe. Headcount was 63 FTEs as at Apr'20.

**Next news:** AGM October 2020

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Meanwhile as a result of the coronavirus, **interest in RDT’s popular spend analytics & Covid dashboard modules** has also risen, thanks to corporates looking to cut costs & re-engineer their global supply chains (eg reshoring).

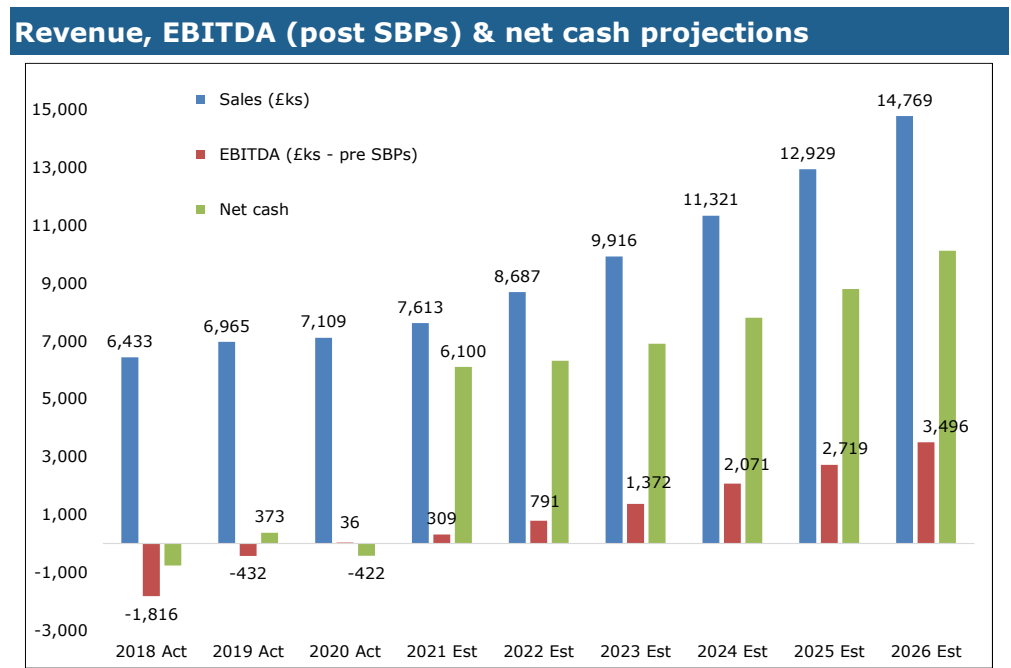
Similarly, the company’s leading **customs management software is seeing client activity levels climb “significantly”**, as customers prepare for Brexit in <4 months’ time. In fact even if import/export duty rates are negligible between the UK & EU, the amount of extra bureaucracy, red-tape and associated documentation will likely explode.

### 85% gross margins propelling profits higher

But that’s not all. The company has a **slate of new products coming down the pipe** – the latest being its ‘supplier information & master data management’ applications. For which the 1<sup>st</sup> order has been signed - delivering an accurate, single version of the truth - or a “Golden Record” across the entire organisation.

With regards to KPIs, **88% of turnover is recurring in nature** (FY20 ARR +16.7% to £6.3m, and backlog +26% to £6.3m) with **churn <10% & falling**. Together providing **robust forward visibility**, with new contract wins &/or client expansions incrementally adding to the top line.

The beauty of course being that when combined with **84.7% gross margins** (79.7% LY) & **disciplined cost control** (FY20 overheads were flat at £6.0m), this translates into improving profitability & cashflows (see below).



Source: Equity Development. RDT’s year end is April. SBPs = share based payments.

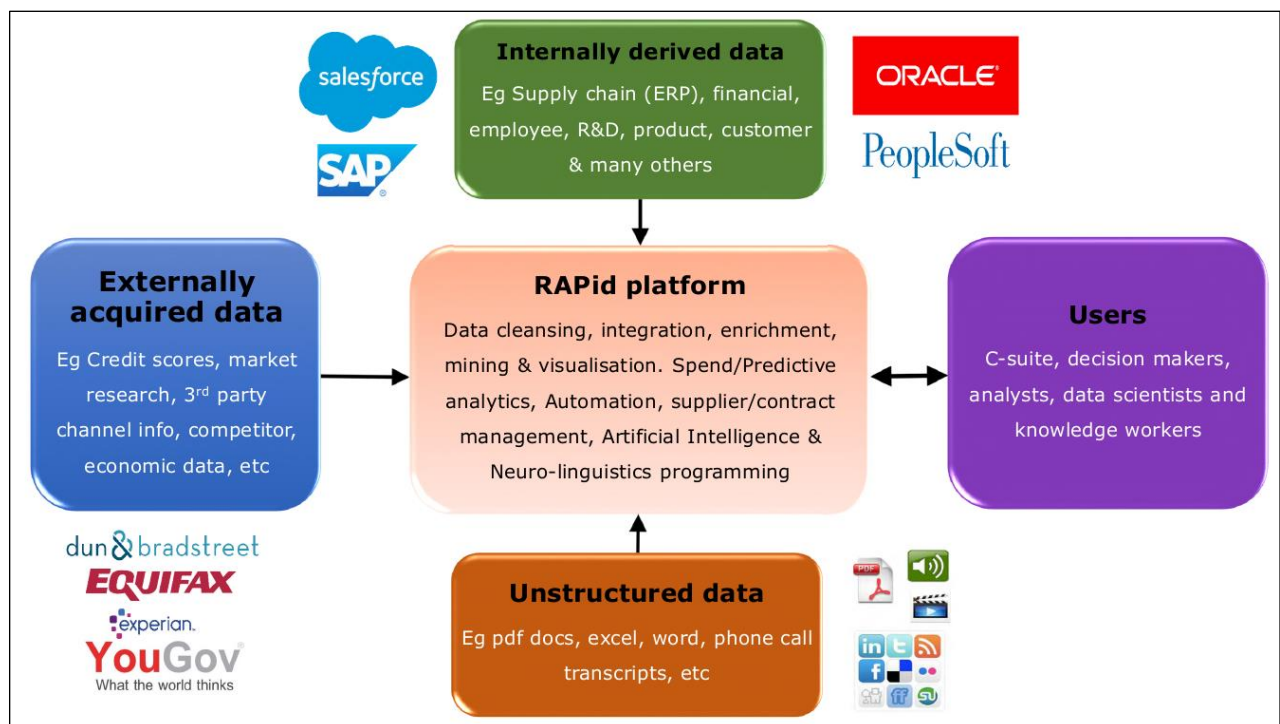
### Rock solid balance sheet and cashflow positive

Elsewhere, after successfully raising a net £6.8m in May at 5p/share (or 22% premium to the prior 20 day volume weighted average), the Board has ample capital to aggressively pursue its target of **tripling revenues to >£20m by Apr’23**. Beginning with the recent appointment of industry expert Paul Watts as Chief Customer Officer, alongside doubling the sales team.

Sure this structure may take a few months to fully bed down, yet **Rossllyn is already seeing a pickup in bidding activity** (re RFPs/RFIs) that bodes well for the future. With contract momentum forecast to accelerate as the year progresses.

Hardly surprising really, given **RDT's RAPid system has been road-tested to design, build & operate some of the world's most complicated cloud-based corporate data-lakes** (see below). Plus the near 'real-time' platform allows both 'read & write' capability of static data (eg for ERP masterfiles), whilst implementations tend to be shorter (1 to 3 months) in length than for many of its rivals.

### Enormous quantities of information are flooding into cloud based 'data lakes'



Source: Equity Development

## Buoyant pipeline set to drive robust H2'21

CEO Roger Bullen commenting: "**Despite COVID-19 the demand for our core products continues to grow and our healthy pipeline demonstrates that we are on the right path.** Innovation and improvements in the product will continue to generate interest and I believe will enable us to have a **successful 2020/21.**"

*If anything the impact of COVID-19 on the business has been to highlight the importance of data quality and accessibility and its relevance in determining the resilience of the supply chain. [And] in recent weeks **we have started to see increased activity in the form on RFPs and RFIs from prospective clients.***

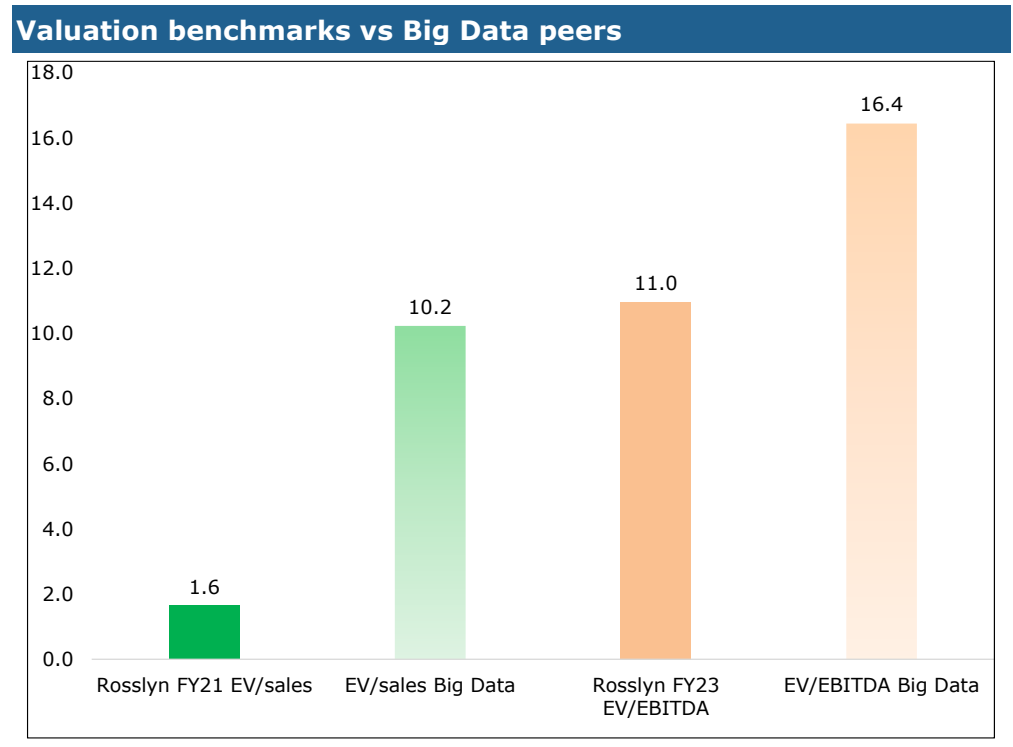
**[Additionally] more clients are now discussing the criticality of improving the underlying data that is used by our Spend Analytics solution.** We see this as extremely positive as it will enable us to interact with the heart of most organisations' ERP and finance systems. With our capability to read and write to and from these ERP systems to the RAPid platform **we would expect our average client lifecycle to increase and our already low churn rate to decrease further."**

## Valuation increased to 10p/share

Putting all this together, **we have bumped up our valuation from 9.5p to 10p/share**, reflecting the improved gross margins.

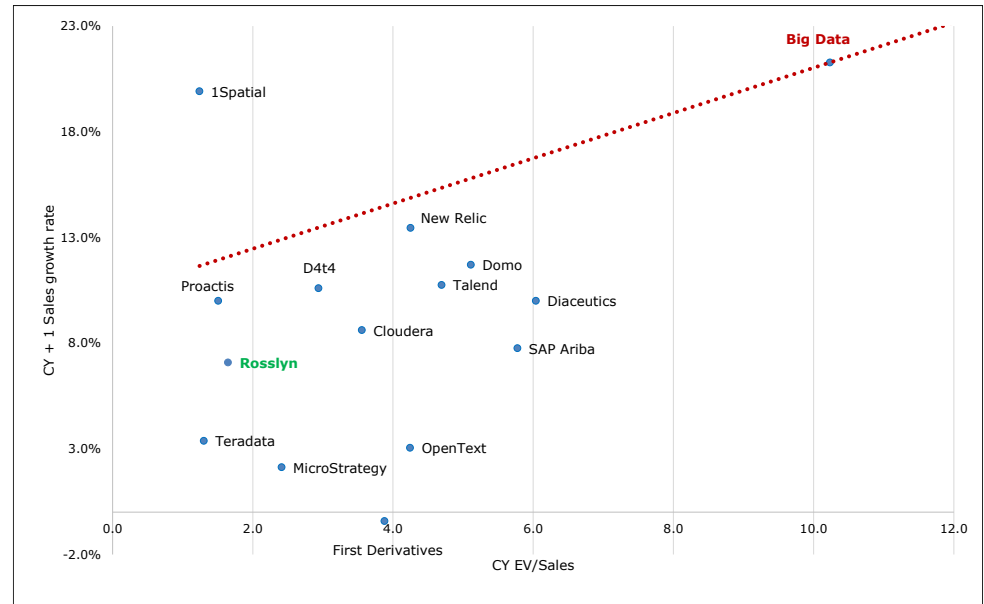
Moreover at 5.5p, we think **Rosslyn not only trades on a modest 1.6x CY EV/sales** (vs peers >5x: see below), but is also targeting double digit top line growth from FY22 onwards, generates 84.7% gross margins, 40%+ EBITDA drop through rates and 88% recurring revenues – with healthy visibility (<10% churn) & >£6m of net cash.

All told, providing a **solid launch-pad for possibly substantial share price appreciation** over the coming years.



Source: Equity Development

### Current year (CY) EV/sales multiples vs CY+1 growth rates



Source: Equity Development

### Key risks

- 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.
- Anticipated growth/profitability may take longer than envisaged, cost more or not be fully realised.
- Foreign exchange fluctuations.
- Regulatory and tax changes. 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.
- Being relatively small, Rosslyn could get squeezed by larger rivals, partners and customers.

**Summary projections (£'000s)**

Rosslyn Data Technologies (April yearend)	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s	2026 Est £'000s	2027 Est £'000s
<b>Annual recurring revenues (ARR)</b>		<b>5,398</b>	<b>6,300</b>	<b>7,000</b>	<b>7,988</b>	<b>9,117</b>	<b>10,410</b>	<b>11,888</b>	<b>13,580</b>	<b>15,517</b>
Contract backlog		5,016	6,300	7,000	7,988	9,117	10,410	11,888	13,580	15,517
Annual Licence Fees	4,979	5,437	5,105	6,258	7,197	8,276	9,518	10,946	12,587	14,475
Professional services Langdon	1,454	1,528	1,121 883	1,355	1,490	1,639	1,803	1,983	2,182	2,400
<b>Turnover</b>	<b>6,433</b>	<b>6,965</b>	<b>7,109</b>	<b>7,613</b>	<b>8,687</b>	<b>9,916</b>	<b>11,321</b>	<b>12,929</b>	<b>14,769</b>	<b>16,875</b>
% growth	83.5%	8.3%	2.1%	7.1%	14.1%	14.1%	14.2%	14.2%	14.2%	14.3%
<b>Gross Profit</b>	<b>4,895</b>	<b>5,549</b>	<b>6,023</b>	<b>6,450</b>	<b>7,360</b>	<b>8,401</b>	<b>9,591</b>	<b>10,954</b>	<b>12,513</b>	<b>14,297</b>
% margin	76.1%	79.7%	84.7%	84.7%	84.7%	84.7%	84.7%	84.7%	84.7%	84.7%
Opex (ex SBPs, Depr & Amortisation)	-6,711	-5,981	-5,987	-6,141	-6,569	-7,029	-7,521	-8,234	-9,017	-9,875
<b>EBITDA (pre SBPs)</b>	<b>-1,816</b>	<b>-432</b>	<b>36</b>	<b>309</b>	<b>791</b>	<b>1,372</b>	<b>2,071</b>	<b>2,719</b>	<b>3,496</b>	<b>4,423</b>
Share based payments (SBPs)	-195	-125	-69	-200	-214	-229	-245	-263	-282	-302
<b>Adjusted EBITDA (post SBPs)</b>	<b>-2,010</b>	<b>-557</b>	<b>-33</b>	<b>109</b>	<b>576</b>	<b>1,143</b>	<b>1,825</b>	<b>2,456</b>	<b>3,214</b>	<b>4,121</b>
% Margin	-31.2%	-8.0%	-0.5%	1.4%	6.6%	11.5%	16.1%	19.0%	21.8%	24.4%
<b>Adjusted EBIT (post SBPs)</b>	<b>-2,050</b>	<b>-599</b>	<b>-93</b>	<b>45</b>	<b>503</b>	<b>1,059</b>	<b>1,729</b>	<b>2,347</b>	<b>3,090</b>	<b>3,978</b>
% Margin	-31.9%	-8.6%	-1.3%	0.6%	5.8%	10.7%	15.3%	18.2%	20.9%	23.6%
Interest	-101	-86	-160	-40	0	0	0	0	0	0
<b>Adjusted Profit before Tax</b>	<b>-2,151</b>	<b>-685</b>	<b>-253</b>	<b>5</b>	<b>503</b>	<b>1,059</b>	<b>1,729</b>	<b>2,347</b>	<b>3,090</b>	<b>3,978</b>
<b>Adjusted EPS (p - ex IFRS16)</b>	<b>-0.9p</b>	<b>0.0p</b>	<b>0.0p</b>	<b>0.0p</b>	<b>0.1p</b>	<b>0.3p</b>	<b>0.4p</b>	<b>0.5p</b>	<b>0.7p</b>	<b>0.9p</b>
EPS growth rate					10107.4%	108.4%	45.5%	19.5%	30.3%	27.5%
<b>Dividend (p)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Valuation benchmarks</b>										
P/E ratio						18.0	12.3	10.3	7.9	6.2
EV/Sales	1.95	1.80	1.76	1.65	1.44	1.26	1.11	0.97	0.85	0.74
EV/ARR		2.32	1.99	1.79	1.57	1.38	1.20	1.05	0.92	0.81
EV/EBITDA (post SBPs)				114.9	21.8	11.0	6.9	5.1	3.9	3.0
EV / EBITA (post SBPs)						11.8	7.3	5.3	4.1	3.2
EBITDA drop through rates			363.9%	28.2%	43.5%	46.1%	48.5%	39.3%	41.2%	43.0%
Effective corporate tax rate		0.0%	0.0%	0.0%	0.0%	0.0%	-10.0%	-20.0%	-20.0%	-20.0%
PEG ratio							0.27	0.53	0.26	0.23
<b>Net cash/(debt) (ex IFRS16)</b>	<b>-757</b>	<b>373</b>	<b>-422</b>	<b>6,100</b>	<b>6,310</b>	<b>6,904</b>	<b>7,800</b>	<b>8,791</b>	<b>10,116</b>	<b>11,853</b>
Sharecount (Ks)	183,820	192,676	192,884	338,916	342,305	345,728	349,185	352,677	356,204	359,766
Diluted sharecount	201,177	209,558	209,767	355,798	359,188	362,611	366,068	369,560	373,087	376,649
<b>Shareprice (p)</b>	<b>5.50p</b>									

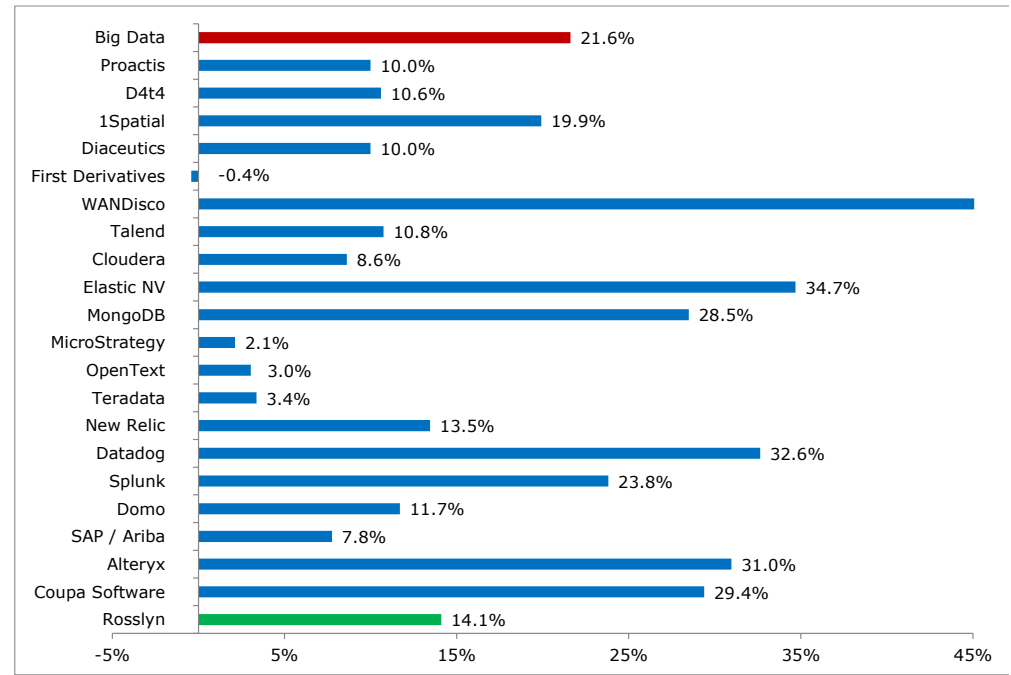
Source: ED estimates, Company historic data.

**Note 1:** At as 30<sup>th</sup> April 2019, the Group had carried forward tax losses of £13,762k available to be offset against future profits. Meanwhile the deferred revenue balance was £2,658k (vs FY18 at £2,300.7k).

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

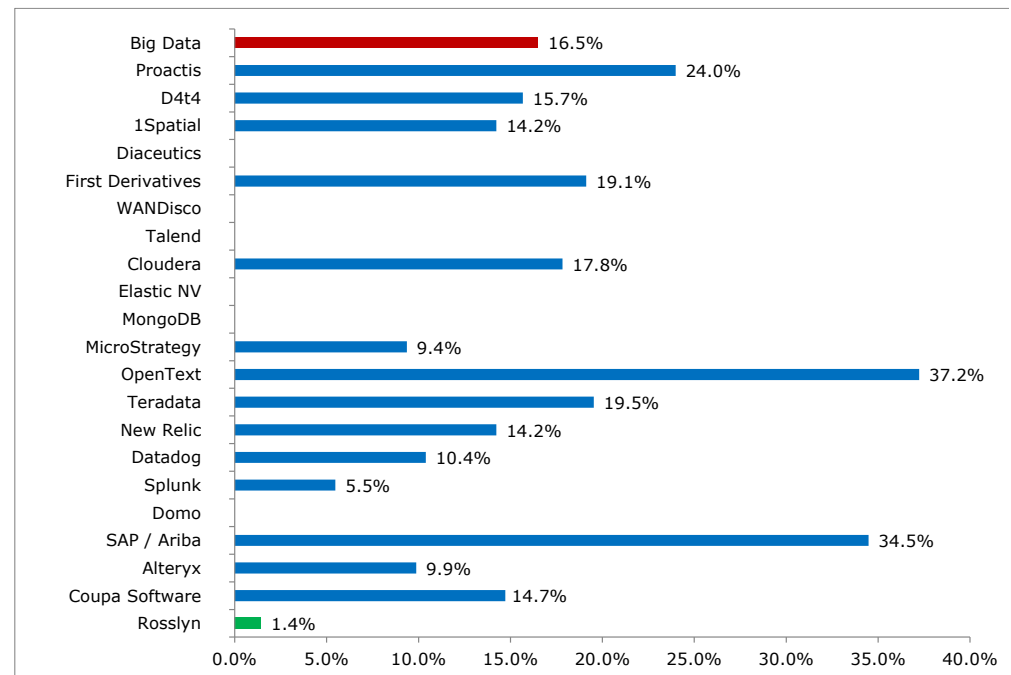
## Appendices - sector valuation metrics and KPIs

### Current Year + 1 sales growth rates



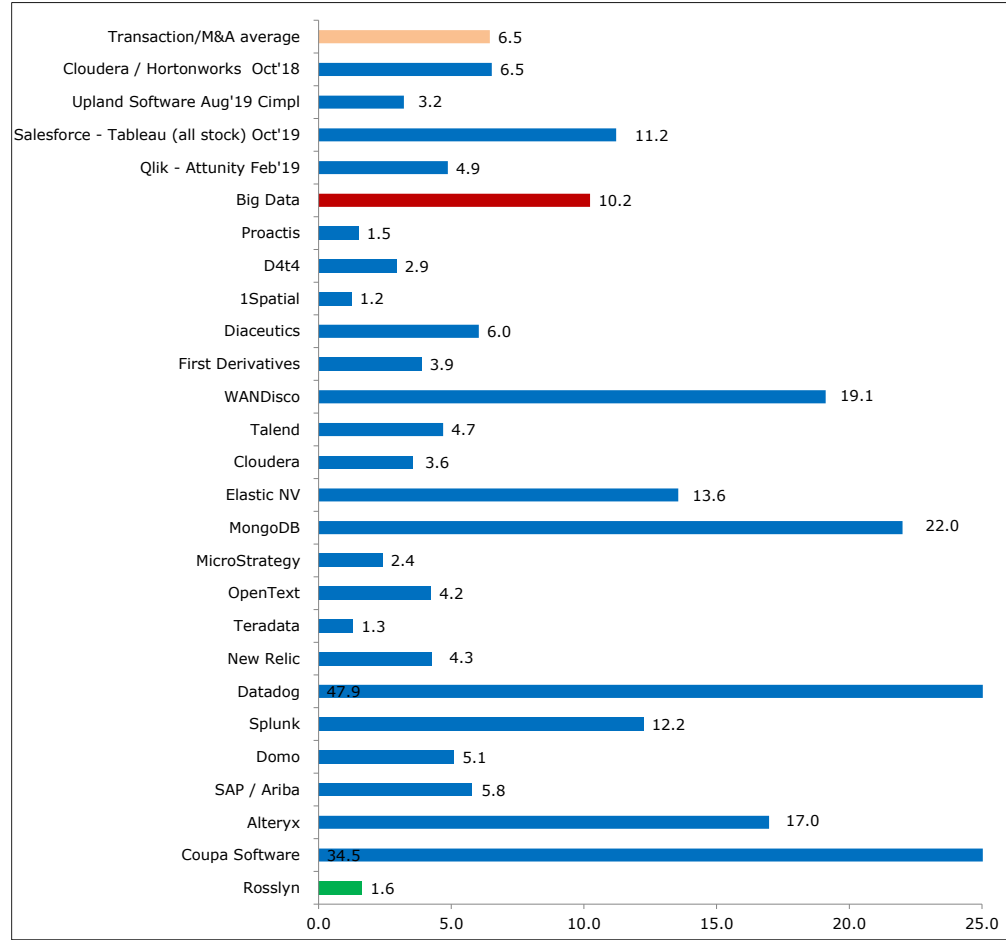
Source: Equity Development : arithmetic average for sector

### CY EBITDA margins



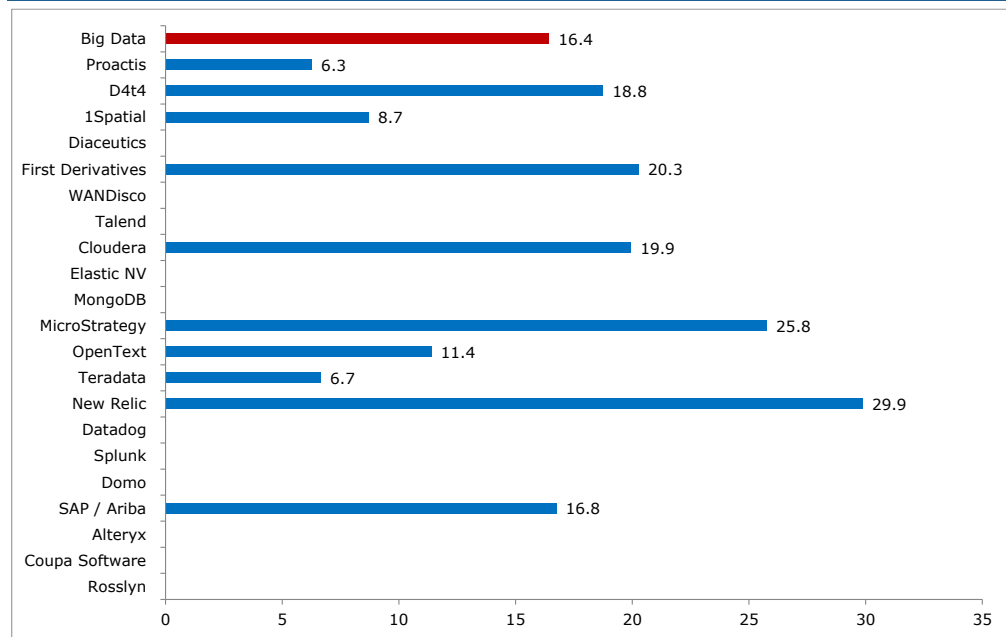
Source: Equity Development, arithmetic average for sector. RDT shown post SBPs

### 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



### Marketing capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Rosslyn	5.50p	£18.6	£6.1	£12.5
Coupa Software	\$242	\$16,940	\$45	\$16,895
Alteryx	\$105	\$7,350	-\$544	\$7,894
SAP / Ariba	€ 130	€ 153,400	-€ 9,832	€ 163,232
Domo	\$36.0	\$1,044	-\$4	\$1,048
Splunk	\$174	\$28,710	-\$441	\$29,151
Datadog	\$85.0	\$28,220	\$906	\$27,314
New Relic	\$54.0	\$3,240	\$396	\$2,844
Teradata	\$22.0	\$2,310	-\$42	\$2,352
OpenText	\$42.0	\$11,550	-\$1,823	\$13,373
MicroStrategy	\$158	\$1,580	\$446	\$1,134
MongoDB	\$205	\$12,300	\$21	\$12,279
Elastic NV	\$101	\$7,959	\$301	\$7,658
Cloudera	\$10.5	\$3,255	\$243	\$3,012
Talend	\$41.0	\$1,320	\$11	\$1,309
WANDisco	\$5.22	\$268.0	\$25.3	\$242.7
First Derivatives	£32.0	£873.6	-£49.4	£923.0
Diaceutics	114p	£95.9	£23.4	£72.5
1Spatial	31.0p	£34.4	£3.9	£30.5
D4t4	190p	£76.6	£12.8	£63.8
Proactis	32.0p	£30.6	-£43.6	£74.2

Source: Equity Development



## Investor Access

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