

Mining big value from Big Data

17th September 2019

Thriving in today's digital world hinges on accurately & quickly harvesting prescient & actionable insights from literally billions of discreet data points in real-time. Not only to develop new products and enhance revenues, but also build best-in-class logistics & manufacturing networks that can ship items efficiently to 'I-want-it-now' consumers. No wonder therefore that consultants Researchnreports predict the **global Big Data Analytics supply chain software market will mushroom** from \$2.12bn in 2017 to \$7.53bn by 2025, or **17.1% CAGR**.

Enter Rosslyn Data Tech. Its **proprietary cloud platform** (RAPid) enables multinationals to significantly reduce their costs and working capital levels, whilst at the same time lifting sales, productivity and supplier performance. Exactly why a host of blue chip brands (see below) across a range of verticals currently use its cutting edge data mining, predictive analytics and artificial intelligence applications.

Powerful endorsements from many household names



Source: Company

Key cashflow target achieved

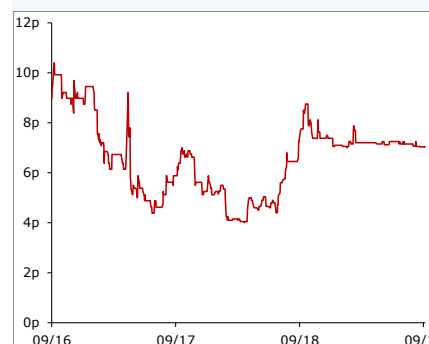
What's more, after successfully delivering savings of £850k pa from its transformational £2.6m acquisition of Integritie (April '17) - **the firm hit another major milestone** in FY19. Delivering **positive operating cashflow** (£220k vs -£3.45m LY) for the first time since IPO, on **turnover up 8.3%** (+11.3% H1 vs 5.3% H2) **to £6.97m** (£6.4m) – split £5.44m Licence Fees (+9.2%) and £1.53m Services (+5.1%)

Likewise, **Annual Recurring Revenues (ARR) ended the period at £5.4m** (ED est) – providing **robust visibility** for FY20 & beyond. In February, **the company secured 3 new deals worth in aggregate >£0.5m**, alongside future 'land & expand' options. **A significant stamp of approval**, especially given the complexity of the geographical, linguistic & data requirements involved. On top, a further large contract was won after the y/e within the science-led sustainable technologies sector.

Company Data

	AIM:RDT
EPIC	
Price (prior close)	7.0p
52 week Hi/Lo	9.0p/7.0p
Market cap	£13.5m
ED valuation / share	12.0p
Sharecount	192.7m
Est. net debt (April 2020)	£0.4m
Avg. daily volume	100k

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 control SaaS** specialist helping corporates optimise their supply chains, streamline operations and eliminate unnecessary expenditure.

An estimated 77% (ARR £5.4m) of FY19 revenues (£7.0m) were 'recurring in nature, which coupled with **>90% retention rates**, provides **strong forward visibility**.

Here the majority of sales are direct, albeit partnerships are growing in importance. Plus the business continues to expand outside of the UK, particularly in continental Europe. On average there were 62 staff employed in FY19 vs 73 FY18.

Next news: AGM 17th October 2019

Paul Hill (Analyst)

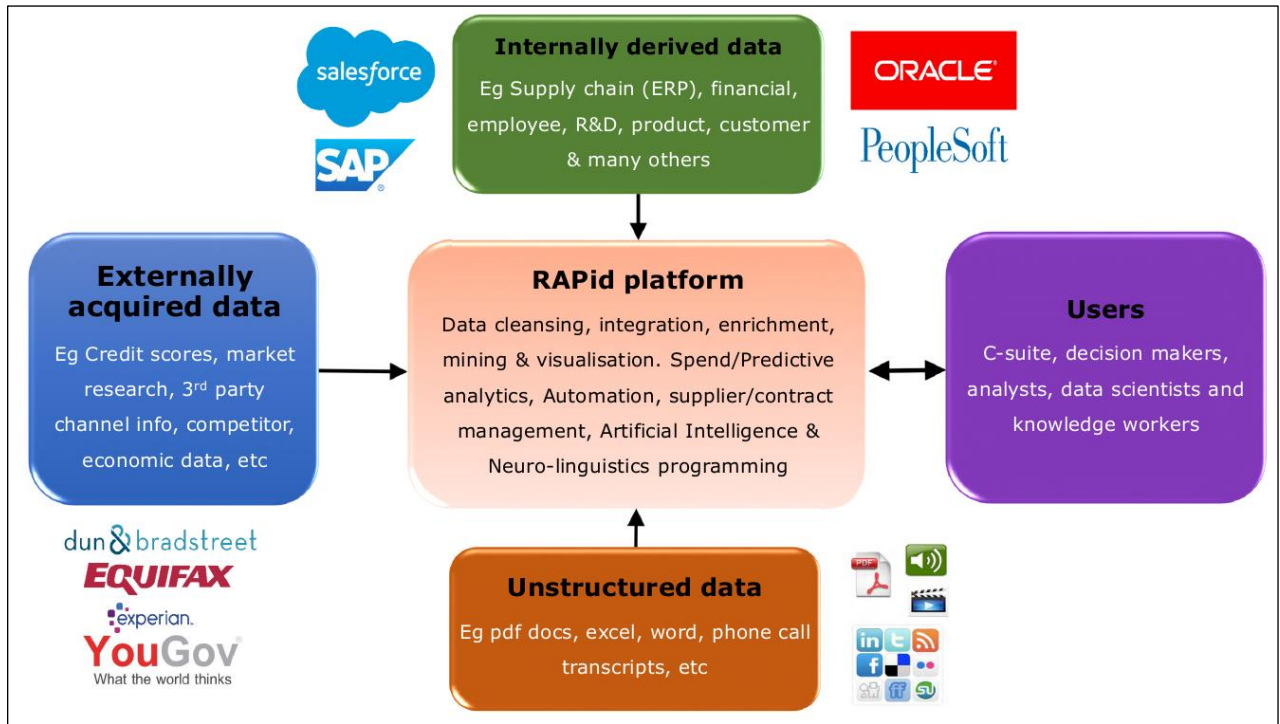
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Setting the 'gold standard' in supply chain analytics

Elsewhere FY19 LBITDA (post SBPs) came in at -£557k vs -£2,010k LY, thanks to **ongoing tight cost/cash control. A major improvement** despite expensing £1.1m (16% of turnover) on R&D, which extended RAPid's functionality (see below) into areas such as supplier information management.

Winner of 2018 "Outstanding Data Management Solution" by Computing Magazine



Source: Equity Development

In fact, one of RAPid's key USPs is the speed, scope and near real-time nature of its analytics solutions, which seamlessly integrate with data management, artificial intelligence and presentational tools. Moreover we understand implementation periods are typically shorter (1 to 3 months) than many of its rivals (eg Coupa Software & SAP Ariba), whilst **Microsoft considers the system to be one of the top cloud-based platforms in its field.**

Buoyant pipeline expected to offset summer lull

That said, it hasn't all been plain sailing. You see, after a relatively quite close to FY19 in terms of bookings, the firm experienced a similarly soft patch over the summer. Here corporates are taking longer to commit to purchases in light of the less certain macro environment (eg Brexit, trade tariffs). Meanwhile the increasing size of RDT's tenders is also elongating sales cycles, simply because of the greater number of signatories.

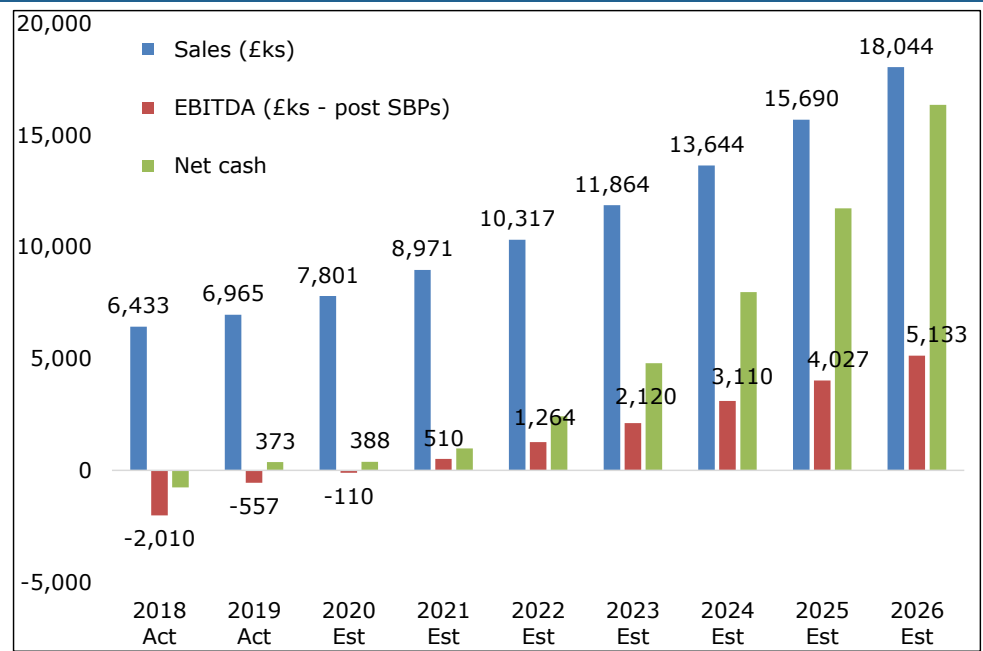
Chairman James Appleby commenting: "*The Group is in discussions regarding contracts with additional high value blue-chip targets which would provide upside. These larger deals take longer to negotiate due to more decision makers being involved in our client organisations. This, coupled with the current global economic and political uncertainty in the UK, therefore mean their execution timings are harder to predict.*"

[Nonetheless] we **expect FY20 to be one in which we generate positive operating cash flow** allowing us to fund further investment into products and sales channels. To this end, **we will continue to manage costs tightly and appropriately in line with the level of new wins.** Elsewhere, Rosslyn is “seeking acquisition opportunities” too.

Top line set to accelerate 12% LFL this year to £7.8m

Bearing all this mind, **we have prudently shaved our FY20 sales forecast to £7.8m** (vs £8.0m before), but held the adjusted LBITDA (post SBPs) flat at -£110k. Thereafter, **we envisage turnover will rise 15% pa LFL** (ie consistent with the sector), thus enabling profits to quickly accelerate thanks to the 80%+ gross margins.

Revenue, EBITDA (post SBPs) & cashflow projections



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

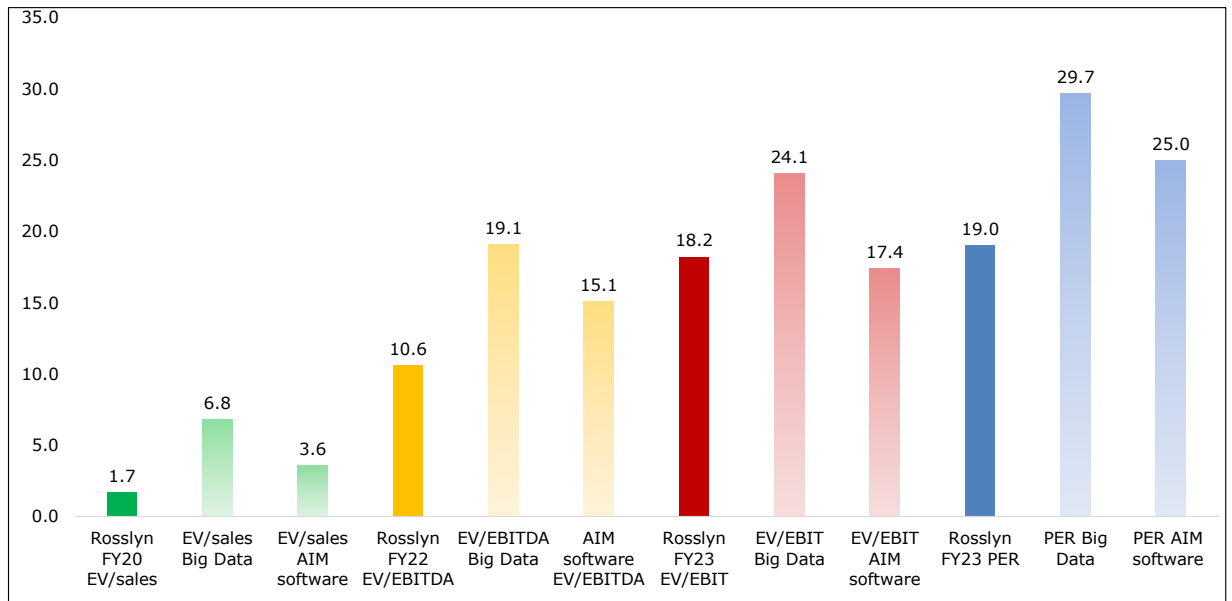
With regards to the balance sheet, **the company closed April 2019 with net funds of £373k** (£2m gross cash) – which, alongside a £1.5m term loan (£1m utilised) from Clydesdale Bank (7.75% + 3 month LIBOR) - should provide sufficient headroom to fund all internal expansion.

CEO Roger Bullen concluding: **“We are confident of continued growth as we engage in numerous large client opportunities that we hope to be able to announce later this year”.**

Reiterate our 12.0p/share valuation

Finally, given the **favourable company specific and industry fundamentals**, we reiterate our 12.0p/share valuation, and believe the stock is far too cheap on just about every peer group metric (see below).

Valuation benchmarks vs 'Big Data' & AIM Software peers

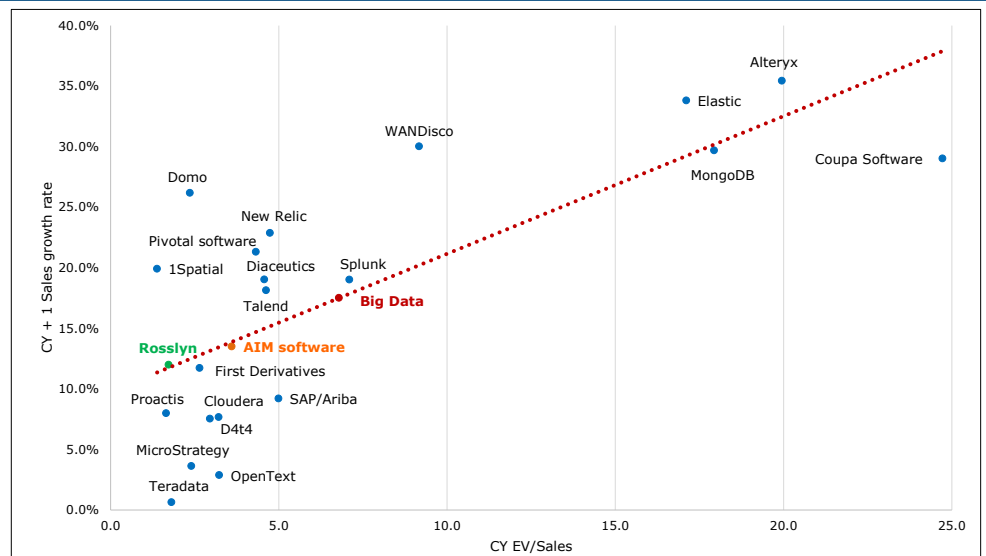


Source: Equity Development

Possible upwards re-rating

Indeed at present levels, **we suspect Rosslyn could ultimately even become a takeover target, in light of the voracious appetite of overseas buyers for UK plc.** For instance, business spend software firm Proactis (AIM:PHD) recently received predatory interest. Whilst there has been a slew of other AIM stocks that have been acquired so far this year, namely: Telford Homes, Premier Technical Services, easyHotel, Sanderson, EU Supply, WYG, Tarsus, Manx Telecom, Laura Ashley & Tax Systems.

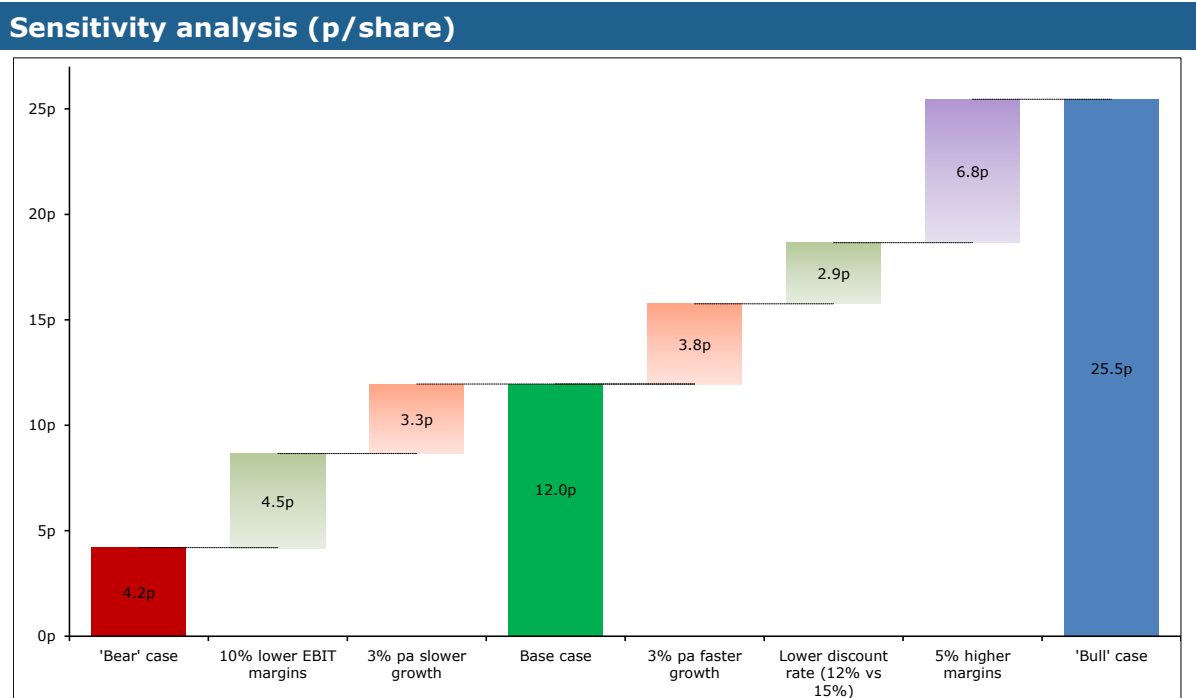
Current year (CY) EV/sales multiples vs CY+1 growth rates



Source: Equity Development

Favourable 'risk vs reward' balance

From a risk perspective too, there seems to be **minimal downside** for the shares as indicated by our 'Bear' and 'Bull' case scenarios of 4.2p and 25.5p (see below).



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.
- Being relatively small, Rosslyn could get squeezed by larger rivals, partners and customers.
- 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)	2018 Act £'000s	2019 Act £'000s	2020 Est £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s	2026 Est £'000s
Annual Licence Fees	4,979	5,437	6,089	7,003	8,053	9,261	10,650	12,248	14,085
Professional services	1,454	1,528	1,711	1,968	2,263	2,603	2,993	3,442	3,958
Turnover	6,433	6,965	7,801	8,971	10,317	11,864	13,644	15,690	18,044
% growth	83.5%	8.3%	12.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Gross Profit	4,895	5,549	6,254	7,237	8,374	9,689	11,211	12,971	15,007
% margin	76.1%	79.7%	80.2%	80.7%	81.2%	81.7%	82.2%	82.7%	83.2%
Opex (ex SBPs, Depr & Amortisation)	-6,711	-5,981	-6,164	-6,512	-6,878	-7,321	-7,834	-8,657	-9,565
EBITDA (pre SBPs)	-1,816	-432	90	725	1,496	2,368	3,377	4,314	5,442
Adjusted EBITDA (post SBPs)	-2,010	-557	-110	510	1,264	2,120	3,110	4,027	5,133
% Margin	-31.2%	-8.0%	-1.4%	5.7%	12.3%	17.9%	22.8%	25.7%	28.4%
Adjusted EBIT	-3,074	-1,610	-1,215	-680	-18	738	1,620	2,421	3,402
% Margin	-47.8%	-23.1%	-15.6%	-7.6%	-0.2%	6.2%	11.9%	15.4%	18.9%
Interest	-101	-86	-200	-200	-100	0	0	0	0
Adjusted Profit before Tax	-3,175	-1,696	-1,415	-880	-118	738	1,620	2,421	3,402
Adjusted EPS (p)	-1.5	-0.6	-0.7	-0.4	-0.1	0.4	0.7	0.9	1.3
EPS growth rate					-86.7%	-716.8%	95.7%	31.5%	39.1%
Dividend (p)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation benchmarks									
P/E ratio						19.0	9.7	7.4	5.3
EV/Sales	2.1	1.9	1.7	1.5	1.3	1.1	1.0	0.9	0.7
EV/EBITDA (post SBPs)				26.3	10.6	6.3	4.3	3.3	2.6
EV / EBITA (post SBPs)						18.2	8.3	5.5	3.9
EBITDA drop through rates			53.5%	53.0%	56.1%	55.3%	55.6%	44.8%	47.0%
Effective corporate tax rate		0.0%	0.0%	0.0%	0.0%	0.0%	-10.0%	-20.0%	-20.0%
PEG ratio							0.10	0.23	0.14
Net cash/(debt)	-757	373	54	280	1,307	3,225	5,897	9,077	13,067
Sharecount (Ks)	183,820	192,676	194,602	196,548	198,514	200,499	202,504	204,529	206,574
Diluted sharecount	201,177	209,558	211,485	213,431	215,397	217,382	219,387	221,412	223,457
Shareprice (p)	7.0								

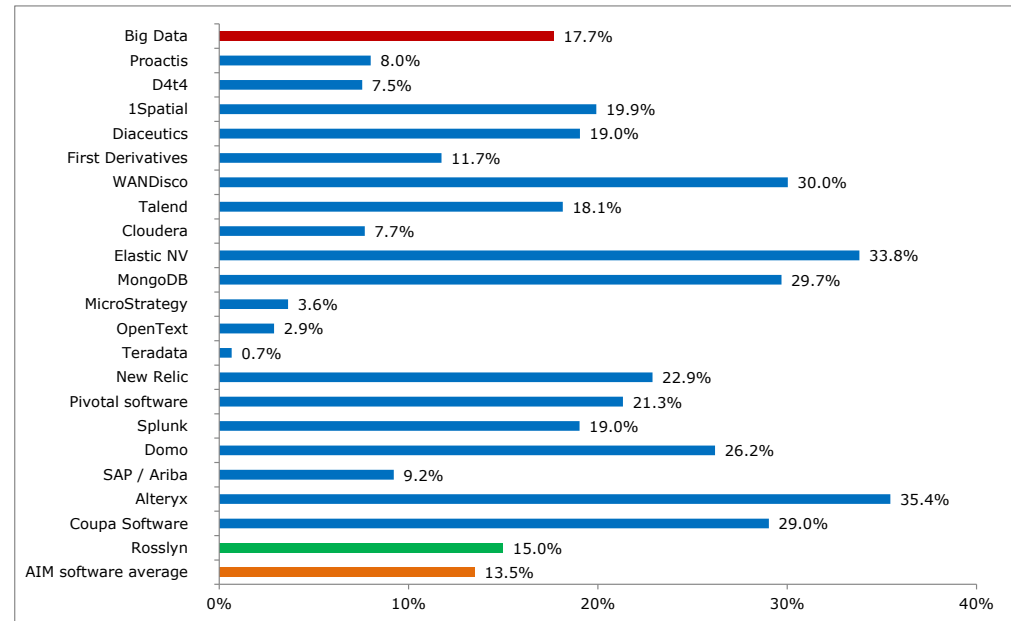
Source: ED estimates, Company historic data.

Note 1: At as 30th 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.

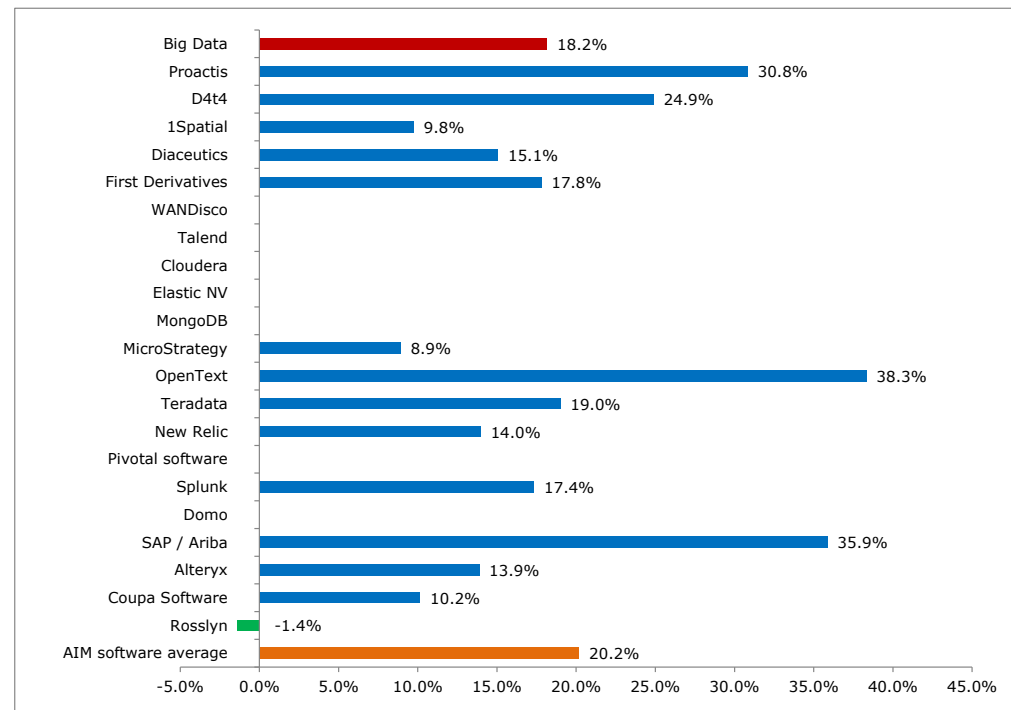
Appendices - sector valuation metrics and KPIs

Current Year + 1 sales growth rates



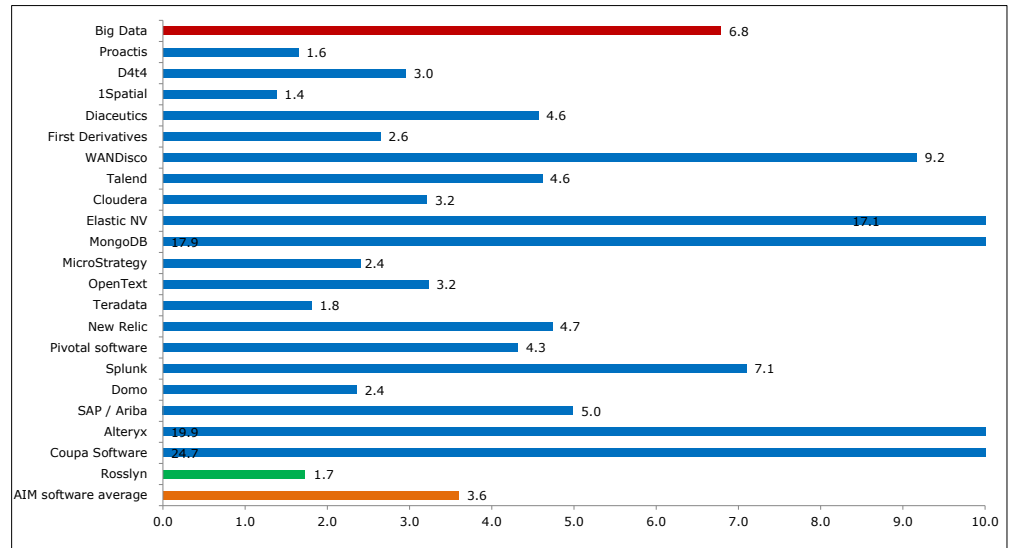
Source: Equity Development : arithmetic average for sector

CY EBITDA margins



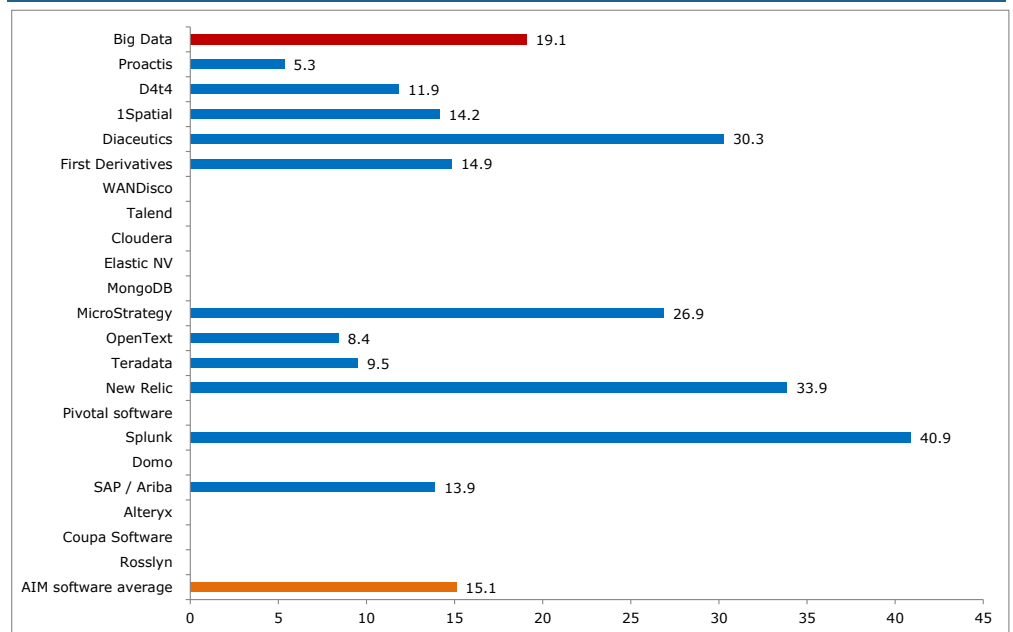
Source: Equity Development, arithmetic average for sector. RDT shown post SBPs

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 debt / (cash) Millions	Enterprise Value (Millions)
Rosslyn	7.0p	£13.5	£0.1	£13.4
Coupa Software	\$133	\$9,310	\$114	\$9,196
Alteryx	\$112	\$7,504	-\$36	\$7,540
SAP / Ariba	€ 106	€ 126,670	-€ 9,329	€ 135,999
Domo	\$17.30	\$476	\$80	\$396
Splunk	\$113	\$17,741	\$1,632	\$16,109
Pivotal software	\$14.90	\$4,127	\$746	\$3,381
New Relic	\$55.0	\$3,212	\$357	\$2,855
Teradata	\$32.3	\$3,682	\$107	\$3,575
OpenText	\$40.5	\$10,935	\$1,674	\$9,261
MicroStrategy	\$145	\$1,494	\$306	\$1,188
MongoDB	\$128	\$7,258	\$192	\$7,066
Elastic NV	\$93	\$7,291	\$260	\$7,031
Cloudera	\$9.00	\$2,565	\$99	\$2,466
Talend	\$37.5	\$1,163	\$17	\$1,146
WANDisco	\$6.89	\$310.0	\$23.0	\$287.0
First Derivatives	£23.2	£606.5	-£47.0	£653.5
Diaceutics	94p	£65.4	£7.9	£57.5
1Spatial	36p	£39.8	£5.8	£34.0
D4t4	227p	£89.2	£11.0	£78.2
Proactis	53p	£50.5	-£37.7	£88.2

Source: Equity Development



Investor Access

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