

Corero Network Security



Parsing the Akamai deal

11th October 2023

Corero signed a global partnership with Akamai in September. This agreement is strategically significant for both parties and will enable Akamai to expand into the on-premises and hybrid DDoS markets which it does not currently address. Corero's SmartWall ONE solution will be rebranded Prolexic On-Prem (powered by Corero) and sold globally. This agreement reinforces our positive view on Corero and we see fair value around 14p+.

Distributed delivery. Akamai (Nasdaq: AKAM, \$16bn market cap) is a distributed edge and cloud platform that ensures timely, secure delivery of content to internet users. Its platform, Akamai Connected Cloud, is a global network with a group of geographically distributed servers that ensures the rapid delivery of internet content by caching content close to users. Akamai has successfully expanded into the adjacent cyber market by offering cloud based security solutions for websites and applications. Akamai has a cloud-based Distributed Denial of Service (DDoS) mitigation product to protect its customers from cyber attacks under the Prolexic brand.

Linode. Akamai acquired Linode, a cloud infrastructure provider, in 2022 for \$900m. Linode has a long-standing relationship with Corero having been a customer for Corero's solutions.

Prolexic. Akamai acquired Prolexic in 2014 for its traffic inspection capability and custom mitigation controls to stop DDoS attacks. Akamai has a large market share in cloud based DDoS, (estimated at 25%), but until now has had no presence in on-premises DDoS solutions. With the total addressable market between on-premises and cloud based solutions split roughly 50/50, Akamai sees an opportunity in providing on-premises solutions alongside its existing cloud based solutions, as well as the emerging hybrid market which utilises both cloud and on-premises DDoS protection.

Strategic partnership. Akamai is focused on growing its security business (46% of Q2 revenues). The Corero partnership will enable it to fulfil demand from its customers by reselling Corero's SmartWall ONE solution as Prolexic On-Prem (powered by Corero). We believe Corero was selected for this partnership following a **highly competitive process with the product being assessed on factors including the level of automation, accuracy and flexible network configuration.**

Impact. We anticipate the global partnership agreement will begin generating revenues in Q4E. Akamai security products are sold on a recurring as-a-service basis and we expect this agreement to operate on a similar basis with revenues shared between both parties. Selling on an annualised recurring basis will mean that any new business will build over time and we expect this agreement to contribute materially to the outlook for FY24E.

Momentum. Strong trading continues in Q3 with significant wins of over \$2m of orders amongst others. These include customers in the US, the Caribbean (with global operations) and S. Asia. We continue to see fair value at 14p per share, or a T+1 EV/sales ratio of 3.7x leaving considerable capacity for a re-rating.

| Forecasts & Ratios | | | | | | |
|--------------------|-------|-------|-------|-------|-------|-------|
| Y/E Dec, \$'m | 2019A | 2020A | 2021A | 2022A | 2023E | 2024E |
| Group revenue | 9.7 | 16.9 | 20.9 | 20.1 | 22.1 | 24.3 |
| EBITDA | -3.2 | -1.4 | 3.3 | 2.6 | 1.0 | 1.5 |
| PBT | -6.6 | -4.0 | 1.4 | 0.4 | -1.0 | -0.5 |
| Adjusted EPS (p) | -1.6 | -0.8 | 0.3 | 0.1 | -0.2 | -0.1 |
| EV/Sales (x) | 4.1 | 2.4 | 1.9 | 2.0 | 1.8 | 1.6 |
| EV/EBITDA(x) | nm | nm | 11.9 | 15.2 | 40.0 | 27.2 |

Source: Company Accounts, Equity Development forecasts

Company Data

| | |
|-----------------------|-------------|
| EPIC | CNS |
| Price (last close) | 8.05p |
| 52 weeks Hi/Lo | 11.5p/5.75p |
| Market cap | £40m |
| ED Fair Value / share | 14p |

Share Price, p



Source: ADVFN

Description

Corero Network Security provides DDoS protection solutions, specialising in automatic detection and protection with network visibility, analytics and reporting tools. .

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| INCOME STATEMENT | | | | | | |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Y/E Dec, \$k | 2019A | 2020A | 2021A | 2022A | 2023E | 2024E |
| Consolidated Revenue | 9,714 | 16,877 | 20,895 | 20,121 | 22,133 | 24,346 |
| Growth yoy | - | 73.7% | 23.8% | -3.7% | 10.0% | 10.0% |
| Cost of sales | -1,842 | -3,832 | -3,112 | -2,576 | -2,656 | -2,678 |
| Gross profit | 7,872 | 13,045 | 17,783 | 17,545 | 19,477 | 21,668 |
| Gross margin (%) | 81.0 | 77.3 | 85.1 | 87.2 | 88.0 | 89.0 |
| R&D | -1,423 | -1,562 | -1,546 | -1,743 | -2,000 | -2,000 |
| Operating expenses | -9,609 | - | - | - | - | - |
| | | 12,911 | 12,904 | 13,183 | 16,481 | 18,208 |
| EBITDA | -3,160 | -1,428 | 3,333 | 2,619 | 996 | 1,461 |
| EBITDA margin (%) | -32.5 | -8.5 | 16.0 | 13.0 | 4.5 | 6.0 |
| Depreciation (ex.DPaaS) | -515 | -633 | -697 | -579 | -575 | -575 |
| Amortisation of intangibles | -2,526 | -1,684 | -1,495 | -1,364 | -1,400 | -1,400 |
| EBIT | -6,201 | -3,745 | 1,141 | 676 | -979 | -514 |
| Other income | 0 | 0 | 637 | 0 | 0 | 0 |
| Net interest | -360 | -285 | -405 | -272 | -54 | 0 |
| Profit before tax | -6,561 | -4,030 | 1,373 | 404 | -1,033 | -514 |
| Tax charge | 0 | 246 | 149 | 150 | 0 | 0 |
| Profit after tax | -6,561 | -3,784 | 1,522 | 554 | -1,033 | -514 |
| Basic EPS (p) | -1.6 | -0.8 | 0.3 | 0.1 | -0.2 | -0.1 |
| Average shares (m) | 406.5 | 494.85 | 494.85 | 495.90 | 495.90 | 495.90 |
| | 7 | | | | | |

Source: Company Accounts, Equity Development estimates

| CASH FLOW | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Y/E Dec, \$k | 2019A | 2020A | 2021A | 2022A | 2023E | 2024E |
| EBIT | -6,201 | -3,745 | 1,141 | 676 | -979 | -514 |
| Depreciation | 515 | 633 | 697 | 579 | 575 | 575 |
| Amortisation of acquired intangibles | 13 | 6 | 5 | 2 | 2 | 0 |
| Amortisation of capitalised development | 2,638 | 1,933 | 1,872 | 1,732 | 1,732 | 1,732 |
| Working capital | 2,219 | 5,710 | -1,601 | -5,254 | 1,795 | 690 |
| Share based payments | 265 | 359 | 522 | 386 | 400 | 425 |
| Other including exceptional costs | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Cash Flow | -551 | 4,896 | 2,636 | -1,879 | 3,525 | 2,908 |
| Net Interest | -281 | -190 | -237 | -151 | -54 | 0 |
| Tax | 0 | 246 | 149 | 150 | 0 | 0 |
| Cash flow pre-capex and investment | -832 | 4,952 | 2,548 | -1,880 | 3,471 | 2,908 |
| Investment in intangible assets | -6 | -8 | 0 | 0 | 0 | 0 |
| Capitalised development expenditure | -1,360 | -1,410 | -1,754 | -1,704 | -1,700 | -1,700 |
| Net capex | -579 | -1,015 | -421 | -420 | -450 | -500 |
| Acquisitions/disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing/other | 3,028 | -686 | 842 | -1,240 | -1,208 | -237 |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 |
| FX & other | 44 | -14 | -154 | -311 | 0 | 0 |
| Net Cash Flow | 295 | 1,819 | 1,061 | -5,555 | 113 | 471 |
| Closing Net Cash/(Debt) pre-IFRS 16 | 5,384 | 7,662 | 8,424 | 4,438 | 5,759 | 6,230 |

Source: Company Accounts, Equity Development estimates

| BALANCE SHEET | | | | | | |
|-------------------------------------|---------------|----------------|----------------|---------------|---------------|----------------|
| Y/E Dec, \$k | 2019A | 2020A | 2021A | 2022A | 2023E | 2024E |
| Fixed Assets | | | | | | |
| Goodwill | 8,991 | 8,991 | 8,991 | 8,991 | 8,991 | 8,991 |
| Acquired intangible assets | 7 | 9 | 4 | 2 | 0 | 0 |
| Capitalised development expenditure | 5,169 | 4,646 | 4,528 | 4,500 | 4,800 | 5,100 |
| Tangible assets | 652 | 1,099 | 796 | 604 | 479 | 404 |
| Leased right of use assets | 357 | 237 | 145 | 62 | 50 | 50 |
| Trade & other receivables | 307 | 694 | 859 | 1,571 | 1,571 | 1,571 |
| Total Fixed Assets | 15,483 | 15,676 | 15,323 | 15,730 | 15,891 | 16,116 |
| Current assets | | | | | | |
| Inventories | 63 | 98 | 57 | 164 | 214 | 264 |
| Trade and other receivables | 2,572 | 3,714 | 3,206 | 5,294 | 5,044 | 6,044 |
| Cash | 8,321 | 10,140 | 11,201 | 5,646 | 5,759 | 6,230 |
| Total Current Assets | 10,956 | 13,952 | 14,464 | 11,104 | 11,017 | 12,538 |
| Current liabilities | | | | | | |
| Trade payables | -2,008 | -6,461 | -4,068 | -3,956 | -5,551 | -7,291 |
| Lease liabilities | -112 | -86 | -94 | -78 | -78 | -78 |
| Deferred income | -2,800 | -3,444 | -4,677 | -3,323 | -4,000 | -4,500 |
| Borrowings | -1,149 | -2,073 | -1,421 | -971 | 0 | 0 |
| Total Current Liabilities | -6,069 | -12,064 | -10,260 | -8,328 | -9,629 | -11,869 |
| Net Current assets | 4,887 | 1,888 | 4,204 | 2,776 | 1,388 | 669 |
| Long term liabilities | | | | | | |
| Trade & other payables | -139 | -402 | -143 | -100 | -100 | -100 |
| Lease liabilities | -257 | -171 | -78 | 0 | 0 | 0 |
| Deferred income | -1,096 | -2,705 | -2,147 | -2,285 | -2,500 | -2,750 |
| Borrowing facility | -1,788 | -405 | -1,356 | -237 | 0 | 0 |
| Total Long Term Liabilities | -3,280 | -3,683 | -3,724 | -2,622 | -2,600 | -2,850 |
| Net Assets | 17,090 | 13,881 | 15,803 | 15,884 | 14,679 | 13,935 |

Source: Company Accounts, Equity Development estimates



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