

Corero Network Security



Confirmed double digit growth in ARR

17th January 2024

Corero's trading update points to double digit ARR growth and a significant beat to our FY23E EBITDA forecast. We have upgraded our full year numbers to reflect this strong bottom line performance. The new Akamai partnership has already brought two new customers to the Group and we expect to see continued momentum from this route to market. We have left our FY24E forecasts unchanged for now, but see capacity for meaningful upside as this year progresses. We continue to see fair value at 14p, with the potential to rise.

17% ARR growth. Corero closed the year with annualised recurring revenue (ARR) of \$16.9m (+17% YoY). ARR now recovers around 85% of the group's total cost base and, everything else equal, continued growth of the magnitude seen last year would place Corero within a whisker of recovering its total cost base on a 100% basis with ARR alone by the end of FY24E. ARR growth is the primary driver of value for the share price, in our view.

Sales +11%. Group revenue is expected to be approximately \$22.3m (+11% YoY). ARR growth has been stronger than sales growth because a number of major deals were closed in Q4E which contributed meaningfully to ARR growth but only a fraction of their value was recognised in revenues.

Big beat on EBITDA. We had a conservative projection for EBITDA in FY23E of \$1.0m. This forecast reflected a degree of expansionary investment going into the business which produced a lower earnings' base relative to FY22A. Actual EBITDA for the year is expected to be in the range of \$1.9-2.3m, so a 100% beat to our forecast is possible. We attribute this beat to a mix of slightly higher revenues falling through to the bottom line (\$0.2m) and lower costs in elsewhere (\$0.8m).

All debt repaid. Corero repaid the last of its bank term loan last year (\$1.2m). The Group is now debt free and closed the year with net cash of \$5.2m (+18% YoY). This improvement in cash balance confirms the business is now net cash positive and self-sustaining which greatly enhances the investment proposition.

Forecasts unchanged. We expect continued growth in ARR from new customers wins, particularly as the pipeline of new business from Akamai alone is promising, and costs should be relatively fixed from this point on. Leaving our FY24E forecasts unchanged for now, and until we receive confirmation of trading, makes our EBITDA forecast of \$1.5m look knowingly conservative.

Momentum. With a new CEO, Carl Herberger, onboard and an excellent pipeline of new business, we see plenty of capacity for upside risk to our FY24E forecasts. The business is self-sustaining and, in our view, undervalued on an EV/sales ratio of 1.8x this year.

Company Data

EPIC	CNS
Price (last close)	8.0p
52 weeks Hi/Lo	11.5p/5.75p
Market cap	£40m
ED Fair Value / share	14.0p

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.

Forecasts & Ratios

Y/E Dec, \$'m	2019A	2020A	2021A	2022A	2023E	2024E
Group revenue	9.7	16.9	20.9	20.1	22.3	24.3
EBITDA	-3.2	-1.4	3.3	2.6	2.0	1.5
PBT	-6.6	-4.0	1.4	0.4	0.0	-0.5
Adjusted EPS (p)	-1.6	-0.8	0.3	0.1	0.0	-0.1
EV/Sales (x)	4.1	2.4	1.9	2.0	2.0	1.8
EV/EBITDA(x)	nm	nm	11.9	15.2	22.1	30.1

Source: Company Accounts, Equity Development forecasts

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REVENUE ANALYSIS

Y/E Dec, \$k	2019A	2020A	2021A	2022A	2023E	2024E
SmartWall software and appliances	3,738	8,446	10,337	8,107	9,080	9,988
% sales	38.5	50.0	49.5	40.3	40.7	40.7
SmartWall maintenance, services & 'as-a-service'	5,926	8,431	10,558	12,014	13,215	14,537
% sales	61.0	50.0	50.5	59.7	59.3	59.3
Legacy maintenance and support services	50	0	0	0	0	0
% sales	0.5	0.0	0.0	0.0	0.0	0.0
Total revenue	9,714	16,877	20,895	20,121	22,295	24,525

Source: Company Accounts, Equity Development estimates

INCOME STATEMENT

Y/E Dec, \$k	2019A	2020A	2021A	2022A	2023E	2024E
Consolidated Revenue	9,714	16,877	20,895	20,121	22,295	24,525
Growth yoy	-	73.7%	23.8%	-3.7%	10.8%	10.0%
Cost of sales	-1,842	-3,832	-3,112	-2,576	-2,675	-2,698
Gross profit	7,872	13,045	17,783	17,545	19,620	21,827
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	-15,613	-18,356
EBITDA	-3,160	-1,428	3,333	2,619	2,007	1,471
EBITDA margin (%)	-32.5	-8.5	16.0	13.0	9.0	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	32	-504
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	-23	-504
Tax charge	0	246	149	150	0	0
Profit after tax	-6,561	-3,784	1,522	554	-23	-504
Basic EPS (p)	-1.6	-0.8	0.3	0.1	0.0	-0.1
Average shares (m)	406.57	494.85	494.85	495.90	495.90	495.90

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	32	-504
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	274	704
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	3,015	2,933
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	2,960	2,933
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	-398	496
Closing Net Cash/(Debt) pre-IFRS 16	5,384	7,662	8,424	4,438	5,248	5,744

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	6,494	7,494
Cash	8,321	10,140	11,201	5,646	5,248	5,744
Total Current Assets	10,956	13,952	14,464	11,104	11,956	13,502
Current liabilities						
Trade payables	-2,008	-6,461	-4,068	-3,956	-5,480	-7,234
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	-9,558	-11,812
Net Current assets	4,887	1,888	4,204	2,776	2,398	1,690
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	15,689	14,956

Source: Company Accounts, Equity Development estimates

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