

Big Data expert primed for major 'break-out'

28th January 2019

Forget the \$, € or ¥. Today, **data** is the world's #1 currency and the lifeblood of any ambitious organisation wishing gain a competitive edge. Maximising its utility though is easier said than done - since many corporates operate numerous IT systems (incl. legacy), and are being attacked on all fronts by aggressive tech-enabled rivals (eg Amazon, Facebook, FinTech, etc).

So what's the answer? Well increasingly international businesses are turning to Big Data experts, like **Rosslyn Data Tech (RDT)** - who have combined **cutting edge 'data mining', 'analytics' and 'artificial intelligence'** into a **fully integrated suite of cloud based, software applications** (called RAPid). Enabling clients to not only cut costs, comply with regulations and improve cashflows, but also enhance revenues, manage suppliers and create best-in-class supply chains.

Providing the 'elixir' of corporate success

This is **proving to be a winning formula** too. So much so that for the 6 months ending Oct'18, **Rosslyn won a clutch of blue ribbon contracts with tier 1 clients**, including a global defence organisation, a European logistics company, a UK based financial services firm and a speciality metals business. Driving H1'19 turnover up 11% (£3.53m), **annualised recurring revenues (ARR) 12% higher (£5.05m)** and **cashflows towards breakeven**.

Nonetheless this is just the tip. We think the Big Data boom is set to **deliver double digit top line growth** for decades ahead (see 'hype cycle' positioning chart below).

Company Data

EPIC	AIM:RDT
Price (prior close)	7.05p
52 week Hi/Lo	9.0p/4.0p
Market cap	£13.6m
ED valuation / share	12.5p
Sharecount	192.7m
Avg. daily volume	100k

Share Price, p



Source: Web Financial

Description

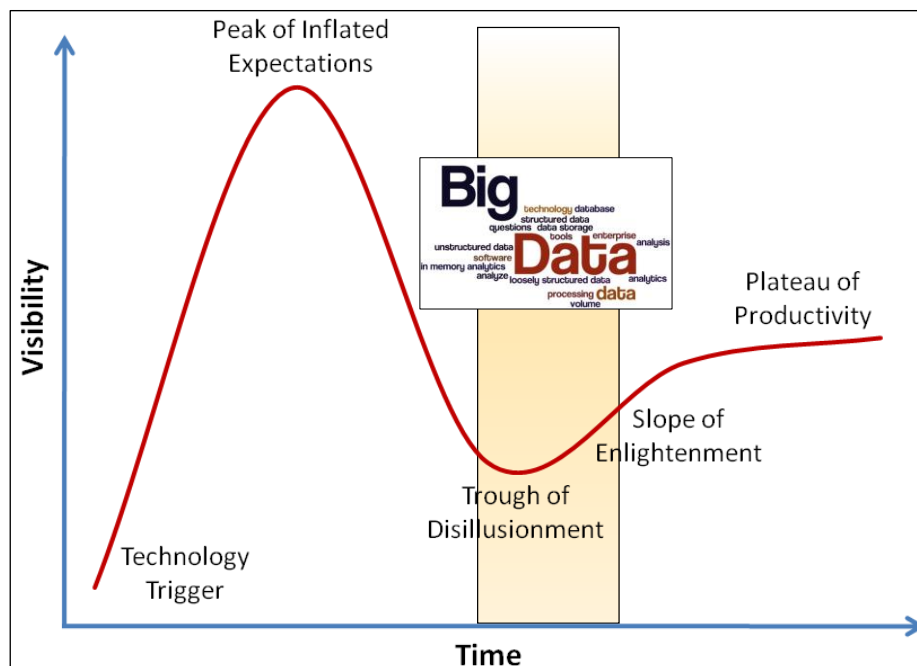
Founded in 2005 and listed on AIM in Apr'14 at 33p raising £10m, Rosslyn Data Tech is a 'Big Data & AI' software developer, whose cloud platform intelligently extracts, aggregates and enriches data from multiple sources. Enabling customers have a single view of all their employees, customers and suppliers for complete & accurate self-service reporting & analysis.

Importantly too, the systems provide clients with **'clear answers' to difficult questions and helps them solve real-world problems**, amid a tsunami of data. 65% of revenues (or £5.05m) are 'recurring, which coupled with **95% retention rates**, provides robust visibility. Average order values are increasing too (H1'19 £85.4k) with headcount at 62. 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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'Big Data & AI' has come of age

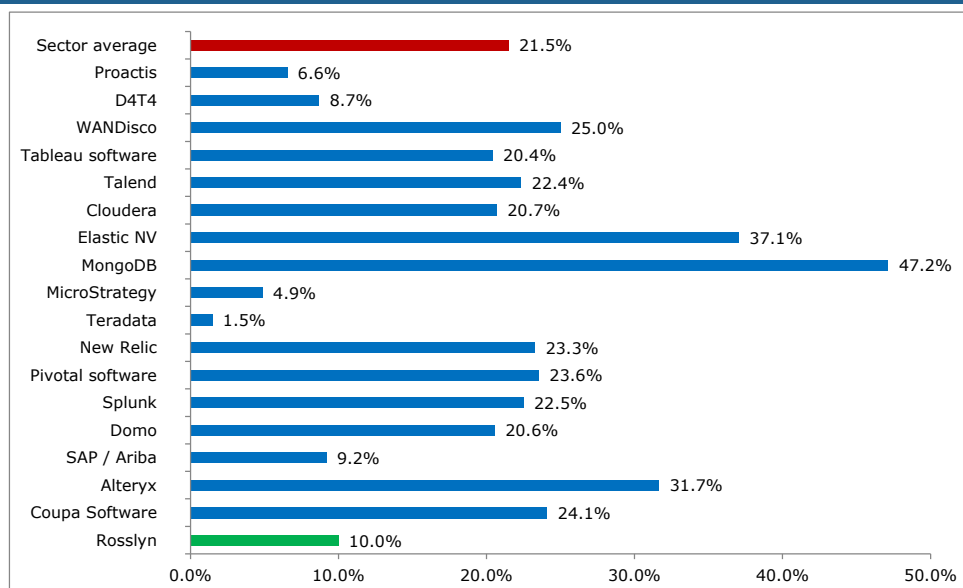


Source: Equity Development

FY19 is proving to be a pivotal year

The beauty being that – due to RDT’s **80%+ gross margins (Est FY19)**, **5% churn and rich EBITDA drop-through rates** – a large chunk of this incremental revenue should fall straight to the bottom line. In fact, thanks to estimated LFL growth (see below) of 16.6% this year (H1 11% vs H2 est 22%) and 10% (prudently set) next, FY20 EBITDA & cashflows should move healthily into the ‘black’. **Heralding a key milestone**, and potentially sparking a positive re-rating to boot.

Current year (CY)+1 revenue growth rates vs Big Data peers



Source: Equity Development

Significant progress being made on all fronts

Likewise, we are encouraged by recent purchases by the biggest shareholder Kestrel Partners, who now own a 21% stake, **alongside November’s upbeat interims**.

Here, **H1’19 gross margins climbed 3.5% to 78.4%** (vs 74.9% LY), whilst the EBITDA loss narrowed to -£213k mirroring **favourable operating leverage** (on sales +11% £3.5m). For FY19, we anticipate turnover will jump 16.6% to £7,500k (vs £6,433k LY) with net debt closing Apr’19 flat at -£700k (vs -£757k Apr’18, -£451k Oct’18), reflecting **tight cost control and working capital management**. Elsewhere most, if not all the heavy lifting has been completed with **£850k pa of savings** realised from the transformational £2.6m acquisition of Integritie in Apr’17.

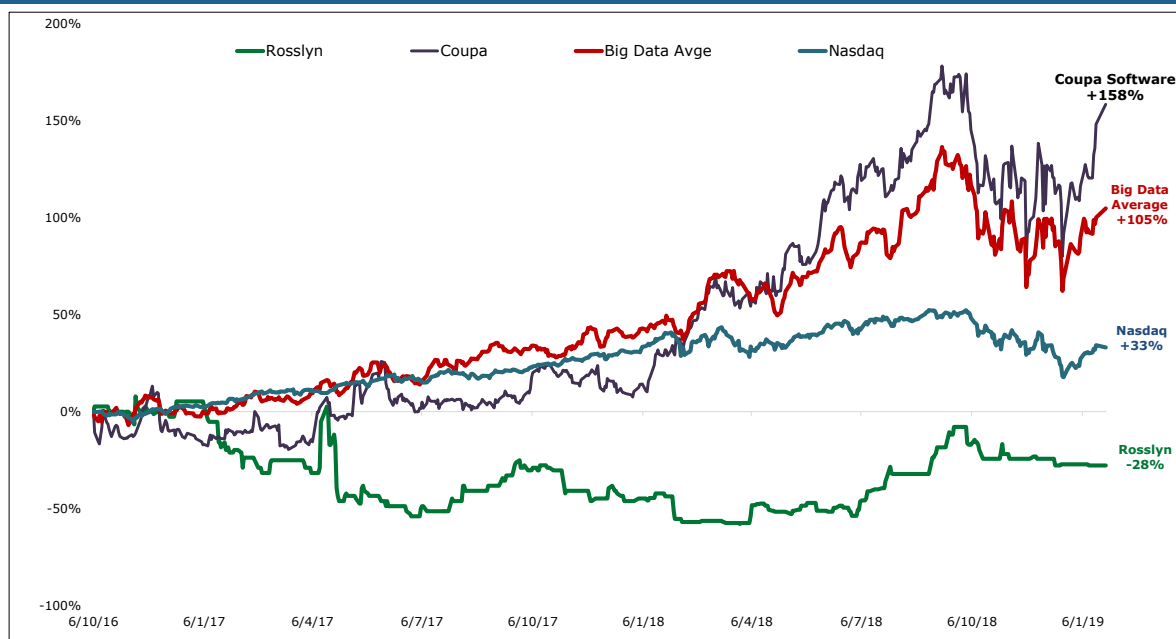
CEO Roger Bullen adding “**We continue to make significant progress**, with the Company being increasingly well positioned to take advantage of the growing number of opportunities coming to us by organisations seeking to significantly reduce the complexity, cost and time of leveraging data to deliver savings, manage compliance and improve business efficiencies.

We have continued to focus on reducing our cost run rate, and our expectation remains that by the end of this financial year, the run rate will be below that of our average monthly revenues.”

Sustainable double digit top line growth

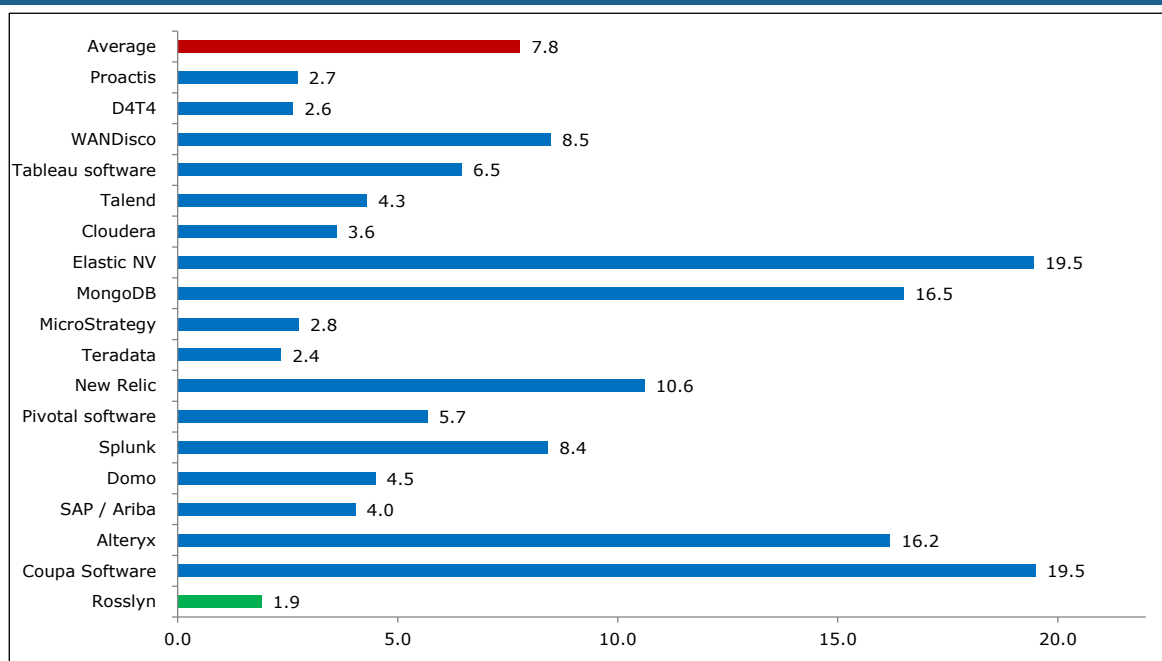
What's more, given that the firm has been pretty much flying under the radar for the last 2.5 years (down -28% vs +105% sector & +33% Nasdaq), the shares have a great deal of catching up to do - **trading at a modest 1.9x CY EV/turnover vs 7.8x for peers** (see below).

Rosslyn shareprice performance vs Big Data sector & Nasdaq



Source: Equity Development

Current year (CY) EV/sales multiples vs 'Big Data' peers



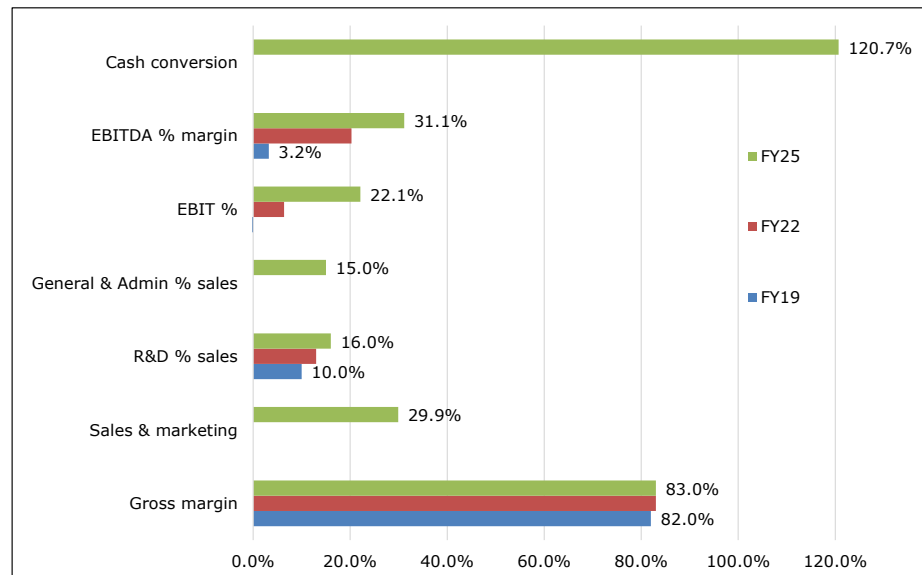
Source: Equity Development

Expanding into highly synergistic areas

The trick to unlocking this value will be continuing to sign new customers, maximising the group's expertise in structured/unstructured data, and expanding its interests outside of 'Supplier Chain Insights', where it is considered to be 'best of breed'. For instance, moving into areas such as compliance, logistics, complaints, workflow management, risk, corporate social responsibility and workforce management. Supported by appropriate investment in product development, sales & marketing and channel distribution, where RDT enjoys partnerships with D&B, Microsoft, IBM, etc.

So where do we end up? Well, in our view there should be no reason why the firm cannot **achieve sustainable 10%-15% pa organic top line growth, 22% EBIT margins and >100% cash conversion** (see below) – ie in sync with the broader software industry. **However we accept that our sales projections are conservative**, compared to IDC's forecasts for the Big Data market of >20% pa (on average) between 2017-22.

Progression of RDT's profit margins and cash conversion



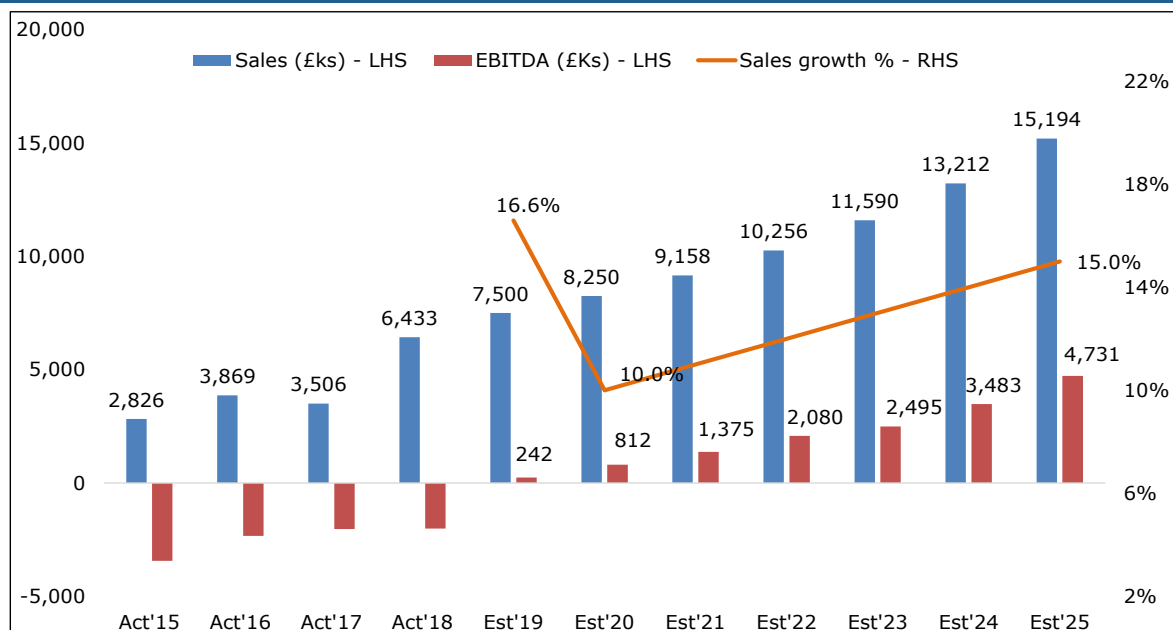
Source: Equity Development

Quality stock trading at a substantial discount to peers

Plus with regards to valuation, employing a 15% discount rate, our DCF analysis calculates **the stock to be worth 12.5p/share**, offering >75% potential upside for risk-tolerant investors.

For FY19 we forecast turnover and EBITDA to come in at £7,500k (Act H1 £3,532k vs Est H2 £3,968k) and £242k (Act H1 -£290k vs Est H2 £532k) respectively, generating a +3.2% margin, and rising to £8,250k and £812k (9.8% margin) 12 months later.

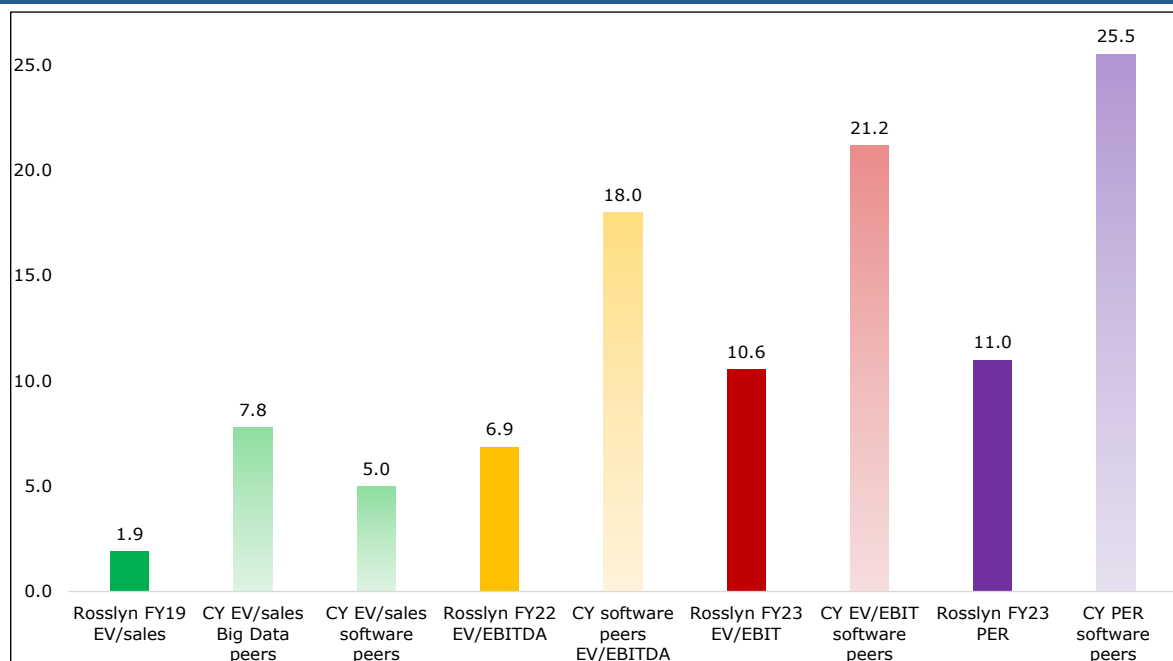
Financial projections



Source: Equity Development

But that's not all. Push the clock forward 3-4 years, and the company would also look extremely cheap (see below) on just about every major benchmark. Implying that RDT is **perhaps the most under-valued business in the Big Data universe.**

Rosslyn valuation multiples vs Big Data peers & software sector

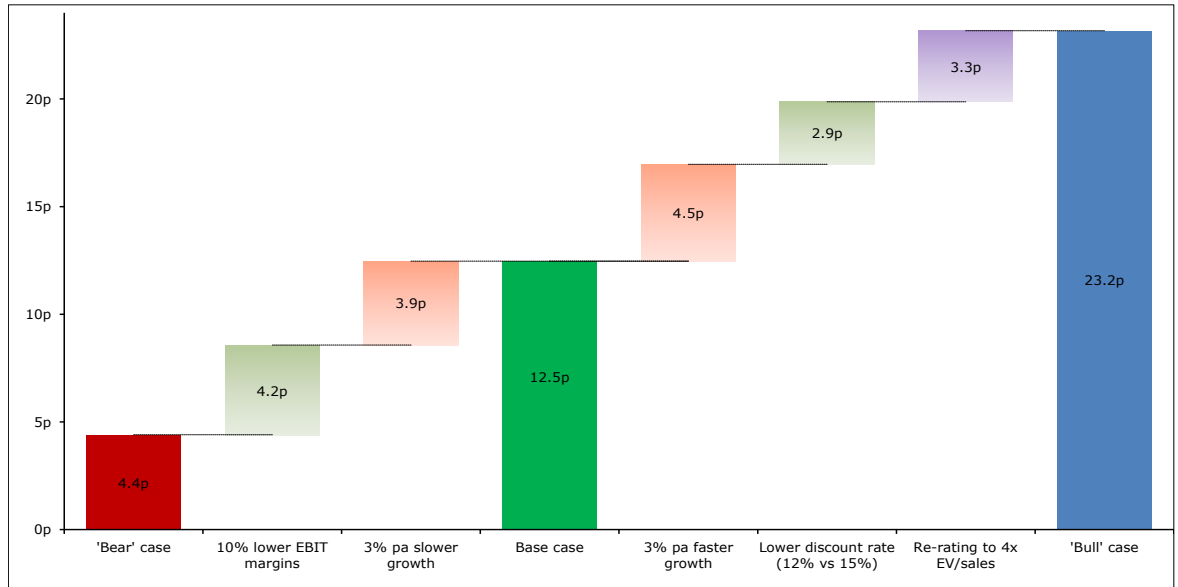


Source: Equity Development

Favourable 'risk vs reward' profile

From a risk perspective too, there appears to be **minimal downside** as indicated by our 'Bear' and 'Bull' case scenarios of 4.4p and 23.2p (see below).

Sensitivity analysis (p/share)

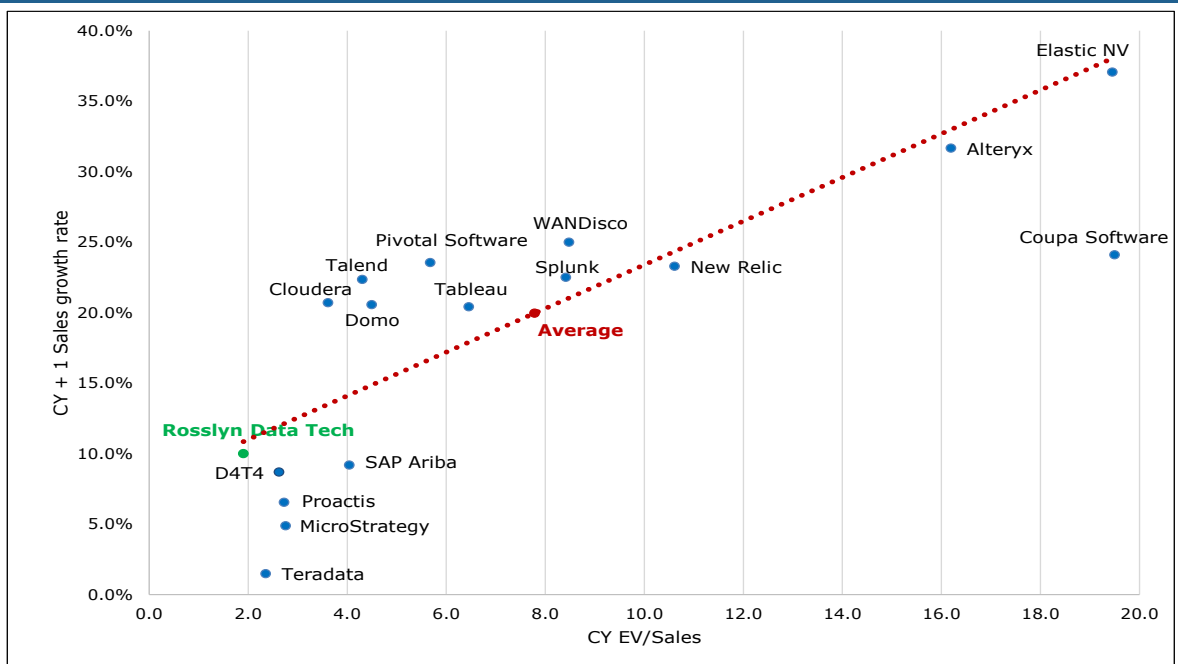


Source: Equity Development.

Possible upwards re-rating as growth accelerates

Shareholders might not have long to wait either, because once the 'penny drops' that growth is accelerating (post IFRS 15 restatement), the stock could trade up sharply (see below chart) in order to close part/all of the gap vs peers.

Current year EV/sales multiples vs CY+1 revenue growth



Source: Equity Development

Fine, but what does the technology do?

Offering 'Big Data with Brains'

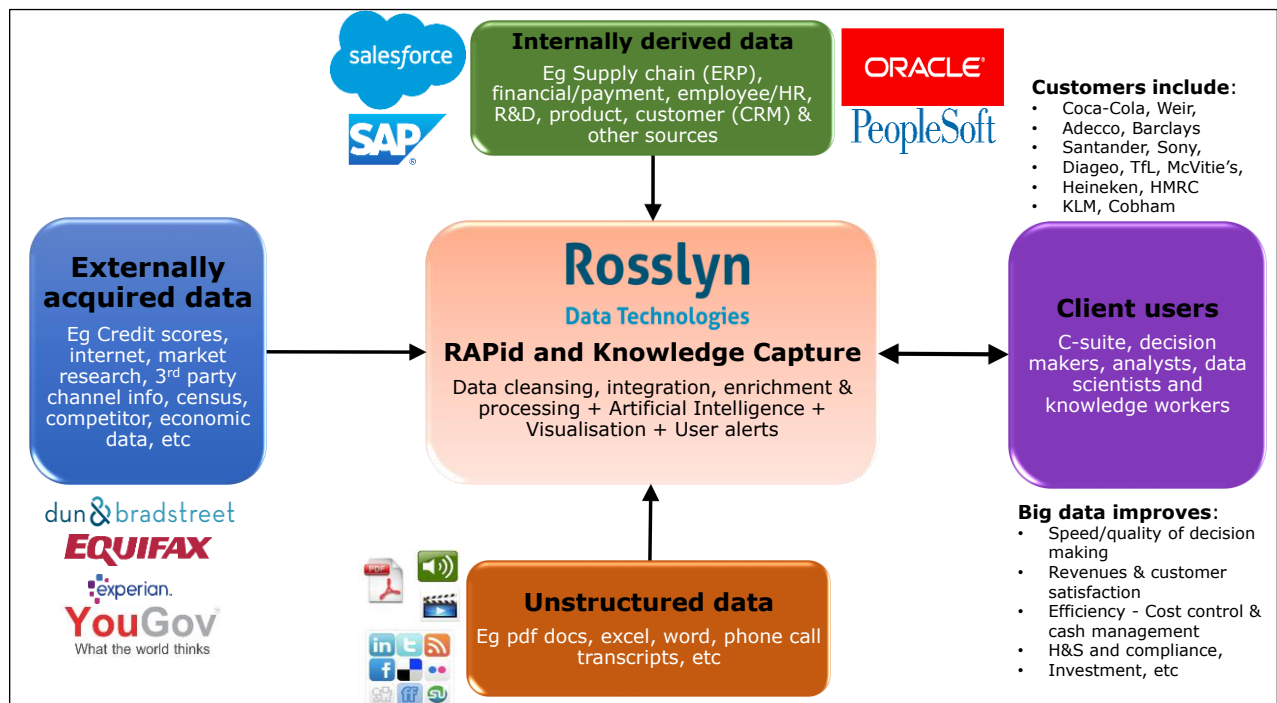
Well, first & foremost we consider **RDT's proprietary software to be one of the leaders in 'spend control & supply chain management'** – as evidenced by the awards it has won, and quality of clients. The technology enables corporates/governments to **rapidly & regularly 'deep dive' on enormous quantities of structured/unstructured data** across their often diverse IT platforms, geographies, languages and internal/external information sources.

In parallel, this architecture is overlaid with **clever machine learning, visualisation, natural language processing & Business Intelligence (BI) functionality**. Allowing users to glean valuable insights about their customers, processes, employees, suppliers, etc (see below).

Importantly, **the software provides clients with 'clear answers' to difficult questions and assists them in solving real-world problems** – ie instead of being simply swamped under a tsunami of data. Previously this 'holistic' view was almost impossible. For example, try downloading a 10Gb file into Excel, and the odds are that it will either crash, or (if it does open) run at glacial speeds.

Setting the 'gold standard' in supply chain analytics

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



Source: Equity Development

RDT's **USPs centre around the company's frequently updated & fast analytics solutions**, which seamlessly integrate with data management, artificial intelligence and presentational tools.

Numerous endorsements by tier 1 clients

Another forte is that implementation periods are typically 1 to 3 months (Professional services at £1,454k accounted for 23% of FY18 sales), stretching from data identification, integration (eg via APIs), cleansing (eg correcting source fields) and enrichment (eg adding 3rd party info sources), right through to analysis (eg AI), visualisation (eg charts, alerts) and business intelligence (BI). Here **blue chip customers include: Diageo, McVities, Bae Systems, Coca-Cola Enterprises, Sony, WEIR, Merck, Serco and TfL** (see below) – providing a strong stamp of approval.

RDT isn't scrimping on R&D either

In terms of **competitive landscape** – RDT's primary rivals are in-house IT departments, 'Spend Analytics' companies (eg Coupa Software, SAP Ariba), and Big Data operators (eg Domo, Birst, Alteryx and Gooddata).

Award-winning platform is used by a host of prestigious names

Education	 Yale University	 University of Pittsburgh	 ASU ARIZONA STATE UNIVERSITY		
Engineering	 Anglo American	 BAE SYSTEMS			
Food and Beverage	 DIAGEO	 McVities			
Manufacturing	 babcock "trusted to deliver"	 COBHAM			
Pharmaceutical	 ALEXION				
Financial & Professional Services	 BARCLAYS	 Santander		 ALLEN & OVERY	
Services	 DeLaRue				
Logistics	 AIRFRANCE KLM TRANSPORTEURS OFFICIELS OFFICIAL CARRIERS	 IAGG INTERNATIONAL AIRLINES GROUP		 MAG The Manchester Airports Group	

Source: Company

Let's not forget that this rapid growth is being achieved during a period of heavy investment. In FY18, RDT spent **£684k on R&D** (or 10.6% of sales), which was all expensed in the period (ie nothing capitalised).

Principally undertaken by RDT's **crack-team of 24 (vs 15 FY17) software engineers**, situated in London, Portsmouth and Chicago. No small commitment, and one which should ultimately pay handsome rewards.

Still work left in order to hit FY19 targets...

CEO Roger Bullen commenting "Our RAPid platform is a recognised and sought-after brand, having **received numerous accolades from industry experts** for its innovative technologies that automatically aggregate, organise and make sense of data and documents in a single user experience. **Development and design has started on the launch of new applications residing on the RAPid platform focused on the adjacent and high growth supply chain market.** Including Supplier Information Management solutions that integrate supplier onboarding, event-driven analytics and robotic process automation. These new capabilities, **powered by AI and machine learning techniques**, will allow clients to more effectively access all the value held within their data stored in diverse ERP systems and unstructured data lakes unified on the RAPid platform.

...albeit the Board have a quiet air of confidence

Our pipeline is healthy and, through the impact of our new solutions and services, we are negotiating contracts with significantly larger values [H1'19 +7% to £85.4k pa] than we have done in the past. Given their size, these contracts are taking longer to negotiate but we have been able to automate many internal processes, reducing the lead-time for delivery and shortening the time to value for our clients, although the Board is working to deliver these contract wins during the current financial year.

The ability to sign these contracts before the year end will have a significant impact on the outcome of our revenues, EBITDA and cash for this year.

We believe **the Company is in an exciting position for the rest of this year and beyond."**

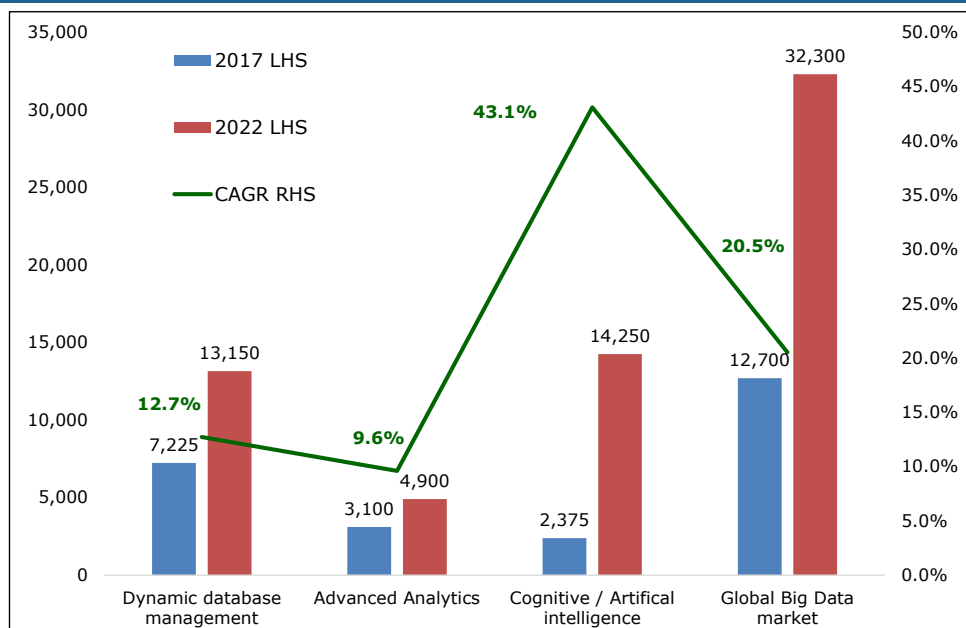
Elsewhere – and as a possible sign of further good news to come – Rosslyn has teamed up with senior IT professors at Liverpool University to investigate ways to leverage its cutting-edge natural language processing and machine learning technologies.

\$12.7bn addressable market expanding at >20% pa

Ok, but how big is the opportunity? According to IDC, sales of **Big Data software are anticipated to soar from \$12.7bn in 2017 to \$32.3bn in 2022, representing a CAGR of 20.5%** (see below) – partly thanks to 43.1% pa from Cognitive / Artificial Intelligence.

Additionally IDC estimates that around 1/3rd of all data by 2020 will be "useful if tagged and analysed". This equates to approx 13,000 exabytes vs 5,000 presently (note: 1 exabyte = 1bn Gbs). While the overall cloud analytics space (source: RDT) was estimated to be worth \$7.5bn in 2015, and is predicted to expand to \$23.1bn by 2020, equivalent to a CAGR of 25.1%.

Global Big Data software market (\$'000s)



Source: IDC, Cloudera & Hortonworks

Fine, but is there anything that could upset the apple-cart?

Industry consolidation is just beginning

Well apart from the usual dangers of a recession, BREXIT, trade tensions (US vs China/EU), tougher competition, etc – **we see little on the immediate horizon for shareholders be unduly concerned about.**

Rather in the medium term, **we suspect there might even be a chance for LFL growth to surprise to the upside**, tracking the buoyant conditions. And with consolidation already underway – re the \$5.2bn all-stock merger between Cloudera & Hortonworks announced 3rd October – then it is not inconceivable that further down the road, RDT could even attract predatory interest. Moreover, there might be flux within Cloudera's enlarged 2,500 customer base - potentially shaking free opportunities to pick up new accounts amid any fallout.

Proven track record of Directors

Lastly it is worth mentioning the management, who in our opinion are not only **investing in the right areas**, but also displaying **disciplined capital management and cost control**.

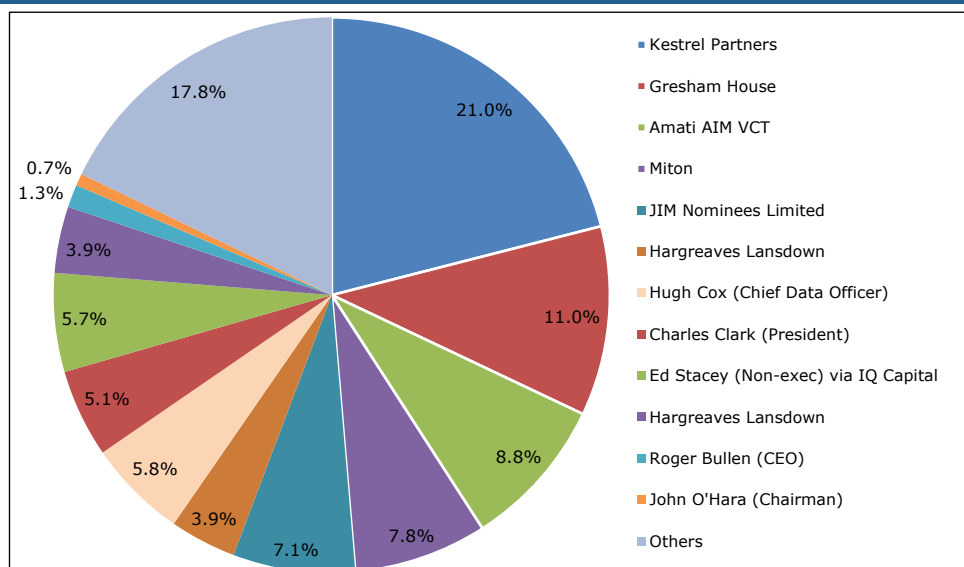
CEO Roger Bullen (CIMA) has more than 20 years of finance, executive and operational leadership experience in technology-based companies, including start-ups, large cap and consulting firms. He previously held senior roles with Navigant Consulting (Head of the International Division) and Sapient as VP International Finance.

Similarly President Charlie Clark (MBA) is an accomplished and well regarded executive – originally co-founding Rosslyn alongside Hugh Cox (MBA), the Chief Data Officer. Charlie has a background of working with fast growing companies and the capital markets. Whereas Hugh is recognized as one of the UK's leading data experts by Information Age. Separately we understand there are plans to appoint a CFO to the Board shortly.

Management have plenty of skin in the game

Moreover, investors should be able to infer a fair degree of reassurance from RDT's register, which is populated by insiders, allied to several respected fund managers (see below).

Stockholders (192.7m shares issued)



Source: Company

Information is the 'elixir' of corporate life...

So what does this all mean? Well, for people looking to ride the coat-tails of hi-tech 'disruptive technology', and are prepared to invest in smallcaps that have the potential to materially outperform, then Rosslyn ticks all the boxes.

Longer term, **we see adjusted EPS climbing to 1.3p by FY25, propelled by a >doubling of turnover from £7.5m in FY19 to £15.2m** (see below) - duly boosting EBIT margins and cash conversion to 22.1% and >100% respectively. This is all organic (eg overseas, adjacent verticals, up/X-selling, etc), with M&A possibilities to boot.

Mr Bullen concluding **"H2'19 has begun well. There have been a number of new contract wins as well as expansion of our current customer portfolio. The firm has been short listed as the preferred vendor in the US, UK and Europe for potential new contracts which cover a number of new exciting verticals and applications for RDT and we look forward to updating shareholders in due course. The contracts incorporate the combined Integritie and RAPid product suite.**

...and Rosslyn has the power to unleash it

*The **R&D team are executing on an exciting schedule of improvements and new technologies**, which we expect to be released into full production during H2'19. Of note, we expect to deliver: simple self-service tools that will enable clients to improve data management capabilities; predictive analytical capabilities; supplier information management capabilities and full contract to cash management capabilities. We expect these tools to improve our customers' risk analytics and compliance reporting capabilities along with information and insights to support their strategic decision making."*

In summary, **multinationals are sitting on an enormous treasure trove of data** that offers huge rewards to those who can connect the dots, and extract the most valuable insights. In essence this is exactly what RDT does – **providing the necessary brains & Big Data software** for clients to win in today's ultra-competitive Information Age.

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%
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							143.3	21.4	11.0	7.1	5.4
EV/Sales	5.1	3.7	4.1	2.2	1.9	1.7	1.6	1.4	1.2	1.1	0.9
EV/EBITDA						17.6	10.4	6.9	5.7	4.1	3.0
EV / EBITA							138.6	21.8	10.6	6.4	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)	7.05										

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.

Key risks

- Although RDT'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.
- Anticipated growth/profitability may take longer than envisaged, 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.



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