

Strong demand pushes pipeline up 18% in 6 months

12 January 2021

Like Rome, great SaaS companies aren't built in a day. They take patience, money, 1st class products, & ultra-secure cloud infrastructure, alongside brand recognition & adept sales conversion to create economies of scale and expanding, high margin, recurring revenues.

Big Data Procurement, AI & Customs Management software firm Rosslyn is presently in the final stage of this journey. Having, as a result of its £6.8m (net) oversubscribed placing in May'20, cultivated a **bumper crop of 'ready-to-pick' prospects**.

Task now is to harvest the sales hopper

The \$billion question of course is how will this take? Particularly considering the new Covid strain is spiralling out of control in many parts of Britain. Yet equally for long term investors, a few months either way, is neither here nor there. To us it's a matter of when, not if.

Indeed Rosslyn's **qualified 'sales hopper' climbed 18% in H1'21 – or 39% annualised**. Hence *ceteris paribus*, this should (in theory) deliver **mid-teens % ARR growth** (£6.2m Oct'20 vs £6.0m LY, £6.3m Apr'20) for the foreseeable future.



Source: Internet

Tax does not need to be taxing

No orders were cancelled in H1'21, and H2 has **"begun well"**, after **"a number of new customer wins as well as good levels of upsell"**. Including a **host of bookings for the group's leading 100% cloud-powered Customs software** (re Brexit).

This is an intuitive, simple to learn & quick to implement (<2 hours) **'out-the-box' solution**, which enables UK importers to register with HMRC, complete/file declarations, calculate VAT/duty & report all required information - **at the touch of a button**.

Here the government reckons 215m extra customs declarations will have to be processed each year - involving huge amounts of extra resource unless automated. Plus, there are >200k UK enterprises that have had to start filling out such paperwork from the 1st Jan'21. Meaning that if things go to plan, this revenue stream alone could soon become material.

Company Data

EPIC	AIM:RDT
Price (previous close)	6.5p
52 week Hi/Lo	7.0p / 3.6p
Market cap	£22.0m
ED valuation / share	10.0p
Sharecount	339.1m
Est Apr'21 net cash	£5.8m

Share Price, p



Source: Yahoo

Description

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 **c. 90% retention rates**, provides **robust forward visibility**.

The sales are mostly direct, albeit partnerships are growing in importance. RDT continues to expand outside of the UK (eg US & continental Europe). H1'21 headcount averaged 66 FTEs.

Next news: Y/E trading update May 2021

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'Big Data' platform that is investing for 'Big' growth

Elsewhere several contracts have been signed in Big Data & spend management, where **Rosslyn has further been short listed as the preferred bidder in the US & Europe**, encompassing its entire suite of applications.

That said given their **much larger size/scope** and the ongoing pandemic, these deals are taking longer to be awarded than normal (say 6-9 months). A consistent theme across the whole B2B SaaS space.

Not that these temporary delays unduly affected today's **broadly 'in line' H1'21 results** (see below). Posting **revenues up 14.6% to £3.57m** (£3.11m LY) reflecting the Sept'19 Langdon acquisition, **flat YoY adjusted EBITDA** (pre SBPs) at -£144k vs -£155k LY and **low 4.5% churn**. Moreover there's **plenty of cash** (net £6.1m Oct'21) to continue to invest in top line growth.

Management are pushing all the right buttons

In fact, **we're far more interested in FY22** (& beyond) than this year - & specifically what happens post mass vaccinations, when the world hopefully returns to some semblance of normality. Why?

Resilient H1'21 results despite the coronavirus

Financials (£'000s): y/e April	FY19	H1'20	H2'20	Act FY20	H1'21	Est H2'21	Est FY21	Est FY22
Annual Recurring Revenue (ARR)	5,398	6,000	6,300	6,300	6,200		6,814	7,709
Contract backlog	5,016	5,100	6,300	6,300	5,900		6,485	7,379
Annual licence fees	5,437	2,628	2,997	5,625	2,947	3,153	6,100	7,015
Professional services	1,528	489	995	1,484	626	774	1,400	1,470
Sales	6,965	3,117	3,992	7,109	3,573	3,927	7,500	8,485
Total % growth	8.3%	-11.7%	16.3%	2.1%	14.6%	-1.6%	5.5%	13.1%
Gross Profit	5,549	2,531	3,492	6,023	2,937	3,213	6,150	7,043
% margin	79.7%	81.2%	87.5%	84.7%	82.2%	81.8%	82.0%	83.0%
Operating expenses (excl D&A, SBPs)	-5,981	-2,686	-3,301	-5,987	-3,081	-3,269	-6,350	-6,763
Opex growth	-11.8%	-10.5%	8.7%	0.1%	14.7%	-1.0%	6.1%	119.5%
Adjusted EBITDA (pre SBPs)	-432	-155	191	36	-144	-56	-200	280
Share based payments	-125	-59	-10	-69	-120	-80	-200	-213
Adjusted EBITDA (post SBPs)	-557	-214	181	-33	-264	-136	-400	66
% margin	-8.0%	-6.9%	4.5%	-0.5%	-7.4%	-3.5%	-5.3%	0.8%
Depreciation and R&D amortisation	-42	-18	-42	-60	-30	-30	-60	-68
Adjusted EBIT (post SBPs)	-599	-232	139	-93	-294	-166	-460	-2
% margin	-8.6%	-7.4%	3.5%	-1.3%	-8.2%	-4.2%	-6.1%	0.0%
Net interest	-86	-80	-80	-160	-50	-50	-100	-100
Adjusted PBT	-685	-312	59	-253	-344	-216	-560	-102
Tax	595	186	130	316	171	129	300	300
Adjusted earnings	-90	-126	189	63	-173	-87	-260	198
Net cash / (debt) - Ex IFRS16	373	-975	-422	-422	6,173	5,800	5,800	5,868

Source: Equity Development.

Powerful secular tailwinds

Well apart from pent-up demand (re delayed projects coming back in FY22), there are numerous other forces set to drive Rosslyn for many years ahead. Namely:

1. Buoyant demand for Big Data analytics and AI services.
2. Corporates fully automating front/back office processes to improve supply chain efficiency/resilience, profitability, ROIs and product quality/consistency.
3. Beneficiary of 'work from anywhere' (re cloud).
4. Digitisation of all things physical, 5G networks and IoT.
5. Brexit triggering a significant interest in customs/duty handling software.

6. New product launches – eg AI, self-service dashboards, predictive analytics, robotic automation, supplier information & master data management. Likewise, RDT's unique 'Covid' dashboard could once again prove pivotal in providing clients with vital information about the resilience of their supply chains amidst the 3rd wave of lockdowns.
7. Overseas expansion, up/x-selling & channel partners.

Potentially **supplemented by selective & value accretive M&A** - albeit only where there exist strategic opportunities at compelling price levels.

Accelerated investments are paying off handsomely

Clearly a lot of hard work still needs to be done, although encouragingly most of the heavy lifting with regards to building the technology platform, management team & sales pipeline are now in place.

Accordingly H1'21 overheads ticked up as critical new hires joined (eg CCO Paul Watts), alongside greater R&D spend that is conservatively all expensed (circa 18% FY20 sales at £1.3m pa).

CEO Roger Bullen adding: "**Significant investment in [personnel, has led to] a doubling of sales & marketing headcount...which is already delivering returns and our pipeline has grown to its largest ever (+18% in H1'21).**

We have been short listed as the preferred vendor in the US and Europe for potential new contracts which cover new exciting industry sectors and applications. The contracts typically incorporate the full, combined product suite. However, the uncertainty of coronavirus hangs over all decisions to be made by potential clients.

*The directors are pleased with progress in these extremely testing times, and believe **the Rosslyn platform is emerging as a recognised and well-regarded technology in this large and growing market place, and we expect progress to continue.***

Picking this nicely 'ripe crop' of prospects is the next phase. Here the focus is on securing new accounts in key verticals, together with 'landing & expanding' within existing customers. Simultaneously too, the COO is looking to beef up the group's go-forward partner channel strategy - predominantly through mainland Europe.

Operating leverage to drive margins in due course

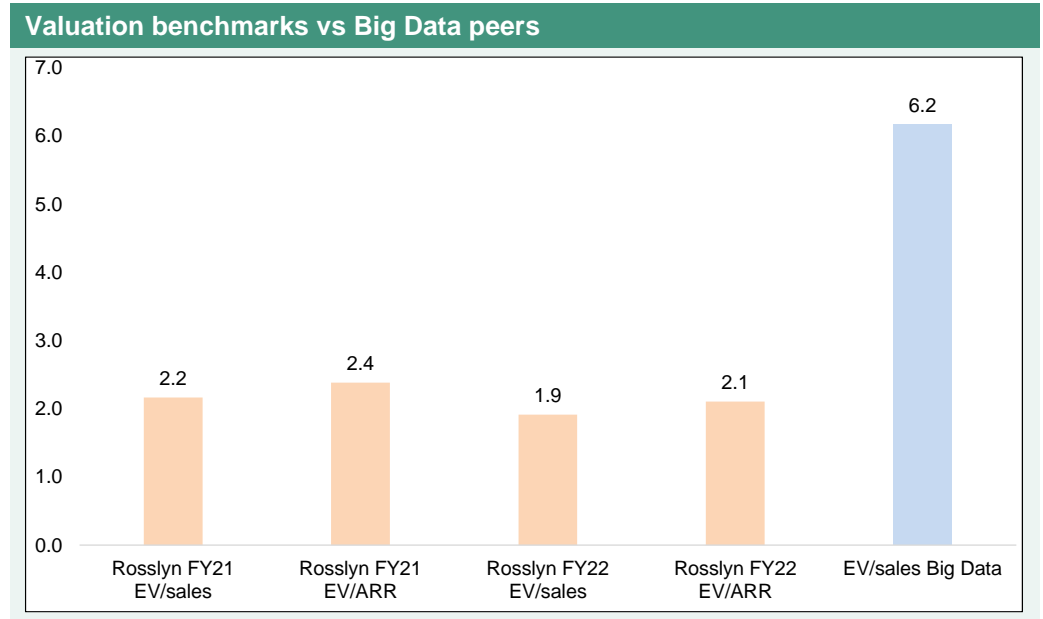
Not that Rosslyn needs too much growth in order to move the profit dial. You see, considering the 85%+ recurring revenues, high retention rates and 82.2% gross margins (+1% vs 81.2% LY, thanks to external cloud savings), **a large chunk of any incremental turnover should drop through to the bottom line.**

What's more, ultimately **the pandemic may prove to be a net positive for the entire SaaS industry.** Particularly for those specialists like RDT focused on Big Data Procurement, predictive analytics & AI, who can generate significant ROIs for their clients in double quick time.

Shares remain attractively priced

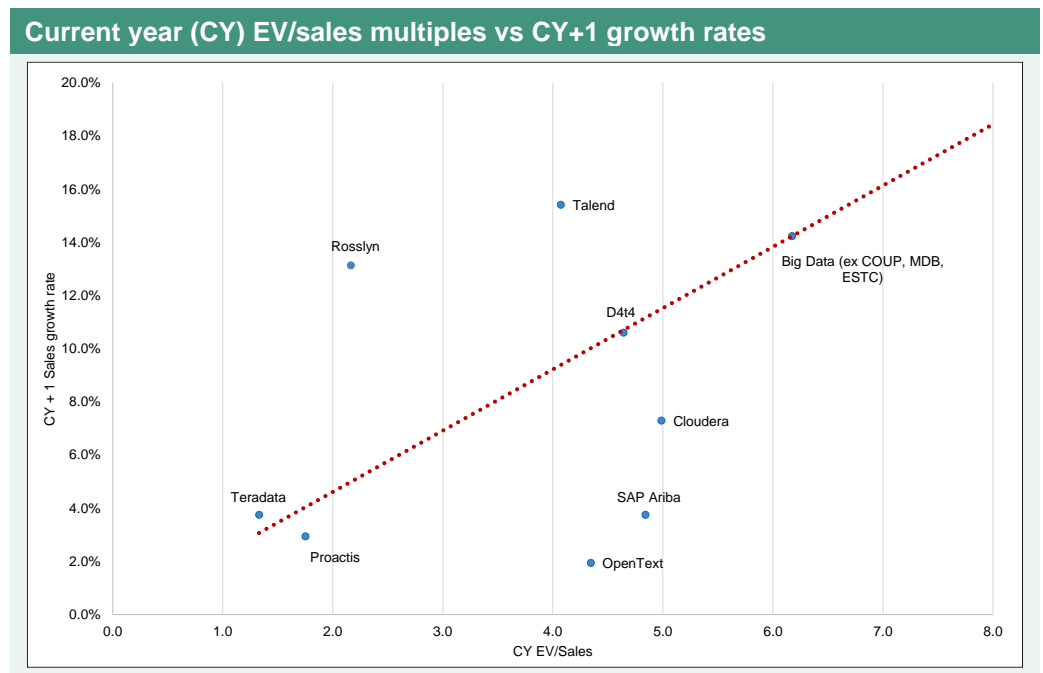
In terms of FY21, we are forecasting a small -£200k EBITDA (pre SBPs) loss on sales of £7.5m (+6% YoY), rising to +£280k and £8.5m (+13%) respectively in FY22, and 13%+ revenue expansion thereafter (see overleaf).

Moreover at 6.5p, we think **the stock not only appears undervalued vs peers** (re 2.2x CY EV/sales vs >6x) - but also trades at a wide discount to our **10p/share valuation.**



Source: Equity Development.

There is even the outside chance the group might be acquired sometime, especially if growth begins to take-off as envisaged. Providing an excellent launch-pad for possibly substantial share price appreciation over the coming years.



Source: Equity Development.

Key risks

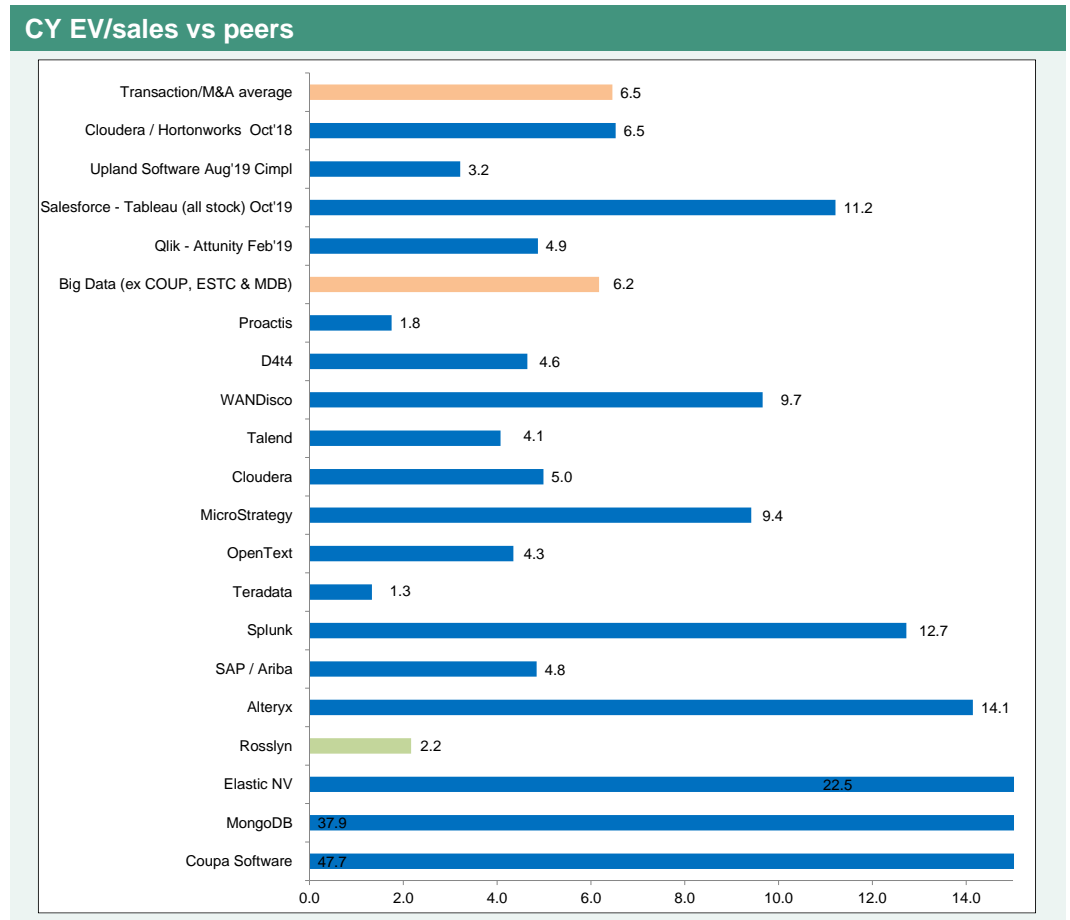
- RDT is signing large multi-year deals with international organisations, where timing is hard to predict – inevitably leading to a degree of lumpiness in the revenues.
- The competitive landscape could intensify. For example major cloud vendors like Amazon, Microsoft & Google already offer native Hadoop 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)

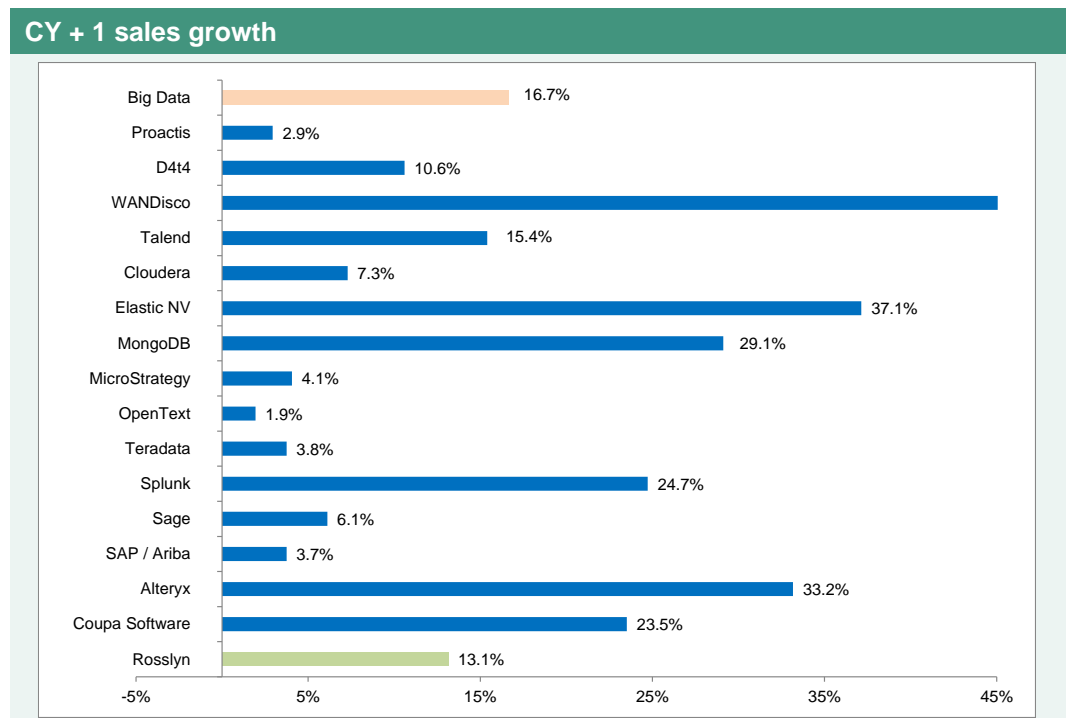
Rosslyn Data Technologies (April yearend)	2018 Act £'000s	2019 Act £'000s	2020 Act £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s	2026 Est £'000s	2027 Est £'000s
Annual recurring revenues (ARR)		5,398	6,300	6,814	7,709	8,732	9,902	11,240	12,771	14,524
Contract backlog		5,016	6,300	6,485	7,379	8,402	9,572	10,910	12,441	14,194
Annual Licence Fees	4,979	5,437	5,625	6,100	7,015	8,067	9,277	10,669	12,269	14,110
Professional services	1,454	1,528	1,484	1,400	1,470	1,544	1,621	1,702	1,787	1,876
Turnover	6,433	6,965	7,109	7,500	8,485	9,611	10,898	12,371	14,056	15,986
% growth	83.5%	8.3%	2.1%	5.5%	13.1%	13.3%	13.4%	13.5%	13.6%	13.7%
Gross Profit	4,895	5,549	6,023	6,150	7,043	8,073	9,154	10,391	11,807	13,428
% margin	76.1%	79.7%	84.7%	82.0%	83.0%	84.0%	84.0%	84.0%	84.0%	84.0%
Opex (ex SBPs, Depr & Amortisation)	-6,711	-5,981	-5,987	-6,350	-6,766	-7,213	-7,694	-8,392	-9,158	-10,001
EBITDA (pre SBPs)	-1,816	-432	36	-200	277	860	1,460	2,000	2,649	3,427
Share based payments (SBPs)	-195	-125	-69	-200	-213	-227	-242	-259	-277	-295
Adjusted EBITDA (post SBPs)	-2,010	-557	-33	-400	64	633	1,218	1,741	2,372	3,132
% Margin	-31.2%	-8.0%	-0.5%	-5.3%	0.8%	6.6%	11.2%	14.1%	16.9%	19.6%
Depreciation and R&D amortisation	-40	-42	-60	-20	-23	-26	-29	-33	-37	-43
Adjusted EBIT (post SBPs & depreciation)	-2,050	-599	-93	-420	41	607	1,188	1,708	2,335	3,089
% Margin	-31.9%	-8.6%	-1.3%	-5.6%	0.5%	6.3%	10.9%	13.8%	16.6%	19.3%
Interest	-101	-86	-160	-100	-100	-75	-50	-25	0	0
Adjusted Profit before Tax	-2,151	-685	-253	-520	-59	532	1,138	1,683	2,335	3,089
Adjusted EPS (p - ex IFRS16)	-0.9p	0.0p	0.0p	-0.1p	0.1p	0.2p	0.4p	0.6p	0.6p	0.7p
EPS growth rate					-208.5%	241.7%	71.1%	36.5%	4.9%	16.4%
Dividend (p)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation benchmarks										
P/E ratio						27.1	15.8	11.6	11.0	9.5
EV/Sales	2.52	2.33	2.28	2.17	1.91	1.69	1.49	1.31	1.16	1.02
EV/ARR		3.01	2.58	2.38	2.11	1.86	1.64	1.44	1.27	1.12
EV/EBITDA (post SBPs)				-40.6	254.7	25.7	13.3	9.3	6.8	5.2
EV / EBITA (post SBPs)						26.7	13.7	9.5	7.0	5.3
EBITDA drop through rates			363.9%	-93.9%	47.1%	50.5%	45.4%	35.5%	37.5%	39.3%
Effective corporate tax rate		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-10.0%	-20.0%
PEG ratio						0.22	0.32	2.24	0.58	
Net cash/(debt) (ex IFRS16)	-757	373	-422	5,800	5,865	6,202	6,949	8,014	8,941	9,941
Sharecount (Ks)	183,820	192,676	192,884	339,843	343,241	346,673	350,140	353,641	357,178	360,750
Diluted sharecount	201,177	209,558	209,767	356,725	360,124	363,556	367,023	370,524	374,061	377,633
Shareprice (p)	6.50p									

Source: Equity Development

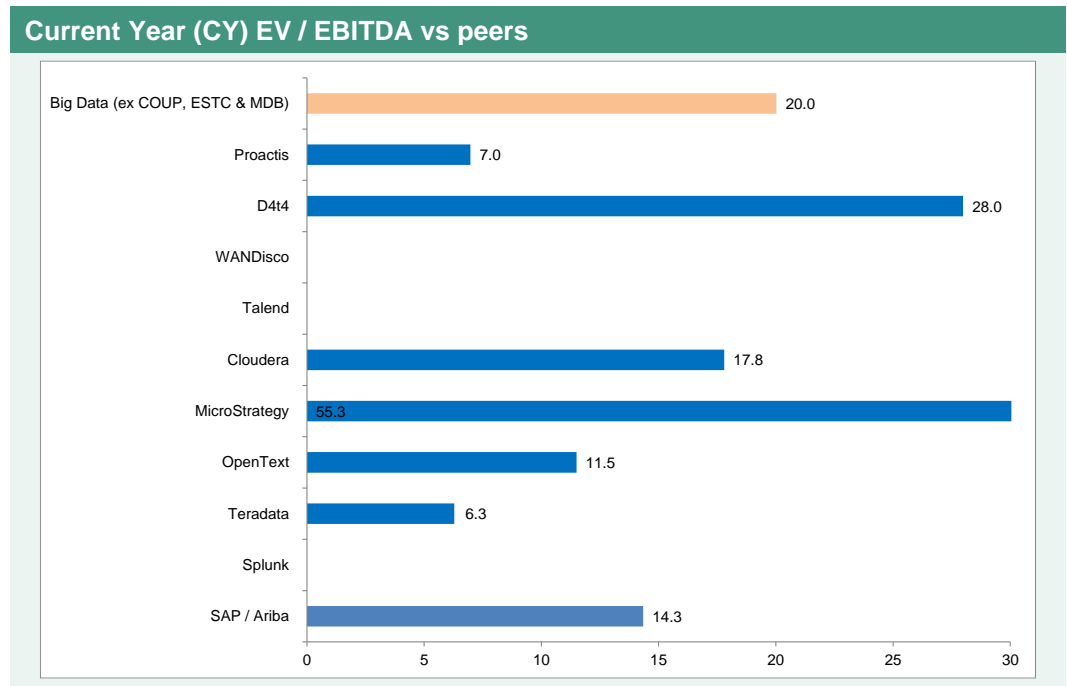
Appendices - sector valuation metrics and KPIs



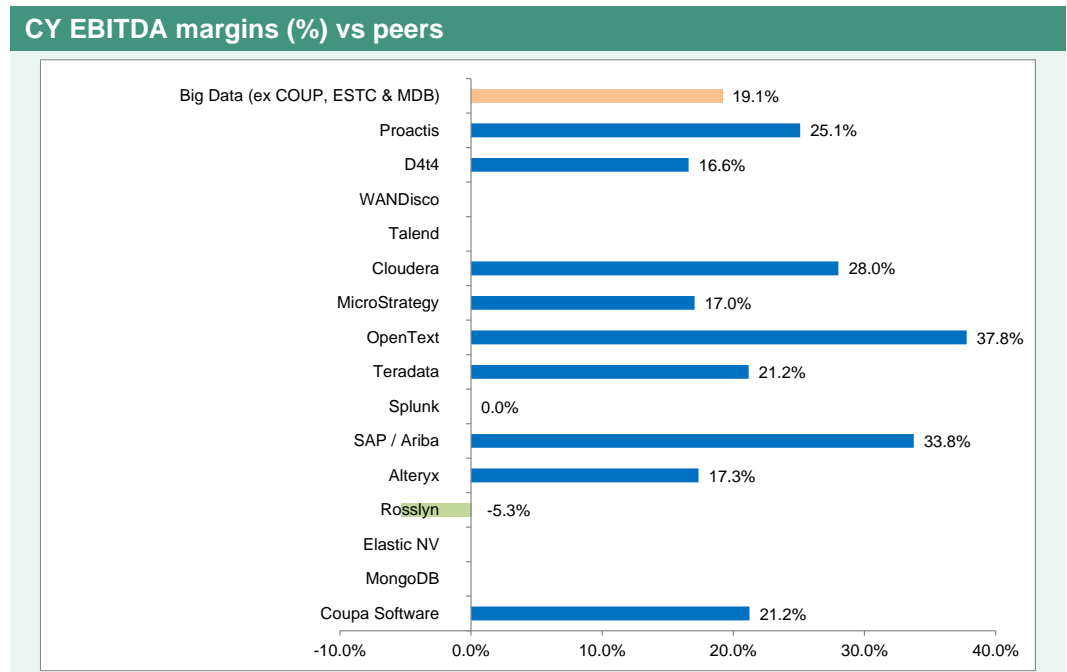
Source: Equity Development



Source: Equity Development



Source: Equity Development



Source: Equity Development. Rosslyn (post SBPs)

Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Rosslyn	6.50p	£22.0	£5.8	£16.2
Coupa Software	\$345	\$24,840	-\$126	\$24,966
Alteryx	\$113	\$8,136	-\$563	\$8,699
SAP / Ariba	€ 106	€ 125,080	-€ 7,410	€ 132,490
Sage	580p	£6,501.8	£185.0	£6,316.8
Splunk	\$165	\$27,225	-\$516	\$27,741
Teradata	\$23.5	\$2,468	-\$14	\$2,482
OpenText	\$44.0	\$11,880	-\$2,228	\$14,108
MicroStrategy	\$490	\$4,704	\$61	\$4,643
MongoDB	\$365	\$21,900	\$17	\$21,883
Elastic NV	\$150	\$13,350	\$312	\$13,038
Cloudera	\$14.3	\$4,533	\$225	\$4,308
Talend	\$41.0	\$1,312	\$17	\$1,295
WANDisco	\$6.95	\$365.7	\$8.2	\$357.5
D4t4	280p	£112.8	£12.1	£100.7
Proactis	47.0p	£44.9	-£44.4	£89.3

Source: Equity Development



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