Rosslyn Data Technologies

Final pieces of the jigsaw are falling into place

4th June 2021

Unlike FTSE350 stocks, it's amazing how frequently small/microcaps are materially undervalued. Part of the reason is the perceived risk. Although often it is simply because the tide is turning, and investors haven't yet fully grasped the opportunity.

Enter Rosslyn Data Tech. A Big Data Procurement, AI & Customs Management software specialist, that is transitioning into a high growth, profitable & cash generative SaaS firm. Sure it's not quite there yet, but the stars are aligning. Particularly after the appointment of **CEO Paul Watts** in April, who **has literally grabbed the business by the scruff of the neck**.

Leadership personified

Indeed **we caught up with Paul last month**, and **frankly came away more convinced than ever that he is the man for the job**. Not only in the short term to convert RDT's encouraging pipeline into new orders. But also strategically to deliver consistent, double digit LFL ARR growth, alongside tripling revenues over the next 3 years (incl M&A).

Clearly the pandemic hasn't helped. Yet equally, one could argue that with the shares languishing on a 1.7x trailing EV/turnover multiple (vs >5x sector), and clients moving 'full bore' towards all things digital, the upside potential is even greater.

Plus since the £7.3m placing at 5p in May'20, Rosslyn has made significant progress in terms of product development, sales & marketing, cost control and management. Today adding that FY21 **adjusted LBITDA** was "***in line with expectations***" at **-£250k** (+£36k LY) on **turnover of £7.4m** (+4% £7.1m LY) with **net cash closing April 2021 at £5.6m**. Elsewhere, a new Finance Director will be appointed in due course, following news that CFO Ash Mehta has decided to take up an external role on 1st Sept.

Numerous growth drivers

Consequently **we maintain our 10p/share valuation**, albeit acknowledge it could ultimately prove conservative, especially given the below tailwinds:

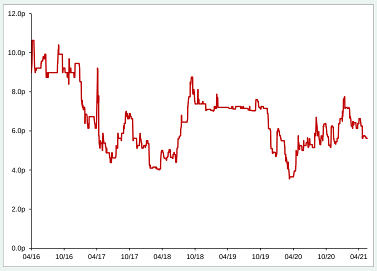
- Buoyant demand for Big Data analytics and AI services.
- Corporates fully automating front/back office processes to improve supply chain efficiency/resilience, profitability, ROIs and product quality/consistency.
- Beneficiary of 'work from anywhere' (re cloud).
- Digitisation of all things physical, 5G networks and IoT.
- Brexit triggering a significant interest in customs/duty handling software.
- New product launches – eg AI, self-service dashboards, predictive analytics, robotic automation, supplier information & master data management.
- Overseas expansion, up/x-selling & channel partners.

Mr Watts commenting "*This past financial year has been one of investment, which has provided us with a solid platform on which we can capitalise and grow as the global economy starts to return to some degree of normality. I am pleased with how the Group has performed in these challenging times and the gains that we have made through investing in our infrastructure. After taking over as CEO* ***I have instigated operational reviews across the business****, with the view to targeting investment for organic growth in the areas where it will deliver the best return, and I am looking forward to the future with confidence*".

Company Data

EPIC	AIM:RDT
Price (previous close)	5.5p
52 weeks Hi / Lo	8.0p / 5.0p
Market cap	£18.6m
ED valuation / share	10.0p
Sharecount	339.1m
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.

Est. 88% (ARR £6.5m) **of FY21 revenues** (£7.4m) **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: Prelims in August 2021

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Resilient FY21 results despite the coronavirus

Financials (£'000s): y/e April	FY19	H1'20	H2'20	Act FY20	H1'21	Est H2'21	Est FY21
Annual Recurring Revenue (ARR)	**5,398**	6,000	**6,300**	**6,300**	6,200		**6,558**
Contract backlog	5,016	5,100	6,300	6,300	5,900		6,319
Annual licence fees	5,437	2,628	2,997	5,625	2,947	3,153	6,100
Professional services	1,528	489	995	1,484	626	674	1,300
Sales	**6,965**	**3,117**	**3,992**	**7,109**	**3,573**	**3,827**	**7,400**
Total % growth	*8.3%*	*-11.7%*	*16.3%*	*2.1%*	*14.6%*	*-4.1%*	*4.1%*
Gross Profit	**5,549**	**2,531**	**3,492**	**6,023**	**2,937**	**3,131**	**6,068**
% margin	*79.7%*	*81.2%*	*87.5%*	*84.7%*	*82.2%*	*81.8%*	*82.0%*
Operating expenses (excl D&A, SBPs)	-5,981	-2,686	-3,301	-5,987	-3,081	-3,237	-6,318
Opex growth	*-11.8%*	*-10.5%*	*8.7%*	*0.1%*	*14.7%*	*-1.9%*	*5.5%*
Adjusted EBITDA (pre SBPs)	**-432**	**-155**	**191**	**36**	**-144**	**-106**	**-250**
Share based payments	-125	-59	-10	-69	-120	-80	-200
Adjusted EBITDA (post SBPs)	**-557**	**-214**	**181**	**-33**	**-264**	**-186**	**-450**
% margin	*-8.0%*	*-6.9%*	*4.5%*	*-0.5%*	*-7.4%*	*-4.9%*	*-6.1%*
Depreciation and R&D amortisation	-42	-18	-42	-60	-7	-13	-20
Adjusted EBIT (post SBPs)	**-599**	**-232**	**139**	**-93**	**-271**	**-199**	**-470**
% margin	*-8.6%*	*-7.4%*	*3.5%*	*-1.3%*	*-7.6%*	*-5.2%*	*-6.4%*
Net interest	-86	-80	-80	-160	-50	-50	-100
Adjusted PBT	**-685**	**-312**	**59**	**-253**	**-321**	**-249**	**-570**
Tax	595	186	130	316	171	129	300
Adjusted earnings	**-90**	**-126**	**189**	**63**	**-150**	**-120**	**-270**
Net cash / (debt) - Ex IFRS16	**373**	**-975**	**-422**	**-422**	**6,173**	**5,800**	**5,800**

Source: Equity Development.

Shares remain materially undervalued

We look forward to the prelims in August, when we hope to hear more about the findings from the operational review, alongside introducing FY22 estimates. Hopefully too providing an excellent launch-pad for possibly substantial price appreciation over the coming years. **Similarly there is even the outside chance the group might be acquired sometime, especially if growth begins to accelerate as envisaged.**

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.

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