

## On track to hit FY20 expectations

12th December 2019

Success in business, investing and life in general revolves around seizing opportunities, whilst equally trying to neutralise any associated risks. As illustrated in yesterday's trading update by Rosslyn.

Here in September, the company acquired the IP, software, assets, client list, contracts and domain names of Langdon Systems Ltd for a mere £48,750 - directly from the administrator. Obviously this type of thing is not for the faint hearted, since it requires having both the guts to act decisively under pressure, along with the skills to implement an effective turnaround (re contract novation & rehiring key employees), for a business that was clearly on its knees.

## Highly synergistic acquisition of Langdon

However undeterred, the Board grasped the nettle and chose to proceed. Attracted by Langdon's blue chip customer base (eg Tesco, Arcadia, etc), niche bulk handling data management systems (particularly Import & Export) and importantly predictable recurring revenues (ARR). Better still Langdon's proprietary solutions are complementary to Rosslyn's own big data software (re RAPid), thus offering incremental top and bottom line synergies.

Ok so 11 weeks on, how are things progressing? Well the good news is that the **integration has gone smoothly**, with the majority of the 60 customers being retained. Hence albeit relatively small, we believe the deal could ultimately prove to be **extremely value and earnings accretive**. Generating at least £400k of incremental ARR – and perhaps a lot more, as new accounts are secured and selective price increases are put through.

## Another significant client endorsement

But that's not all. **Langdon could become another growth platform as well** - since the Board have decided to upgrade its software in order to add extra functionality (eg customs, duties, etc) to cover the UK's exit from the EU (Jan'20), and the corresponding HMRC Customs Declaration (called CDS) requirements, which are scheduled to go live in Sept'20. Plus there is potential too to incorporate Rosslyn's reporting & data analytics expertise into Langdon's product suite, given many clients have already requested this capability.

Elsewhere, Rosslyn has also **just won another major spend analytics contract** (worth £410k over 3 years). This time with a global rail OEM, who manufactures rolling stock and other infrastructure, with initial revenues set for H2'20.

## No change to forecasts or 12p/share valuation

In terms of trading, the board guided that **FY20 results would be more 2<sup>nd</sup> half weighted than usual**, due to the subdued start to FY20, a couple of professional service projects being pushed to the right, and the firm's conscious decision not to renew low margin resale agreements.

### Company Data

EPIC	AIM:RDT
Price (prior close)	5.25p
52 week Hi/Lo	8.25p/5.0p
Market cap	£10.1m
ED valuation / share	12.0p
Sharecount	192.7m
Est. net debt Apr'20	£0.4m
Avg. daily volume	100k

### Share Price, p



Source: Share Cast

### Description

Founded in 2005 and listed on AIM in Apr'14 at 33p raising £10m, Rosslyn Data Tech is a **Big Data & spend control SaaS** specialist helping corporates optimise their supply chains, streamline operations and eliminate unnecessary expenditure.

**An estimated 85% (ARR £6.0m) of FY19 revenues (£7.0m) were 'recurring in nature**, which coupled with **>90% retention rates**, provides **strong forward visibility**.

Here the majority of sales are direct, albeit partnerships are growing in importance too. Likewise the business continues to expand outside of the UK, especially in continental Europe. On average there were 62 staff employed in FY19.

**Next news:** Interims mid January 2020

**Paul Hill (Analyst)**

**0207 065 2690**

[paul.hill@equitydevelopment.co.uk](mailto:paul.hill@equitydevelopment.co.uk)

Nonetheless we understand **the pipeline is healthy**, and **further high margin RAPid contracts are expected to be signed before yearend**. Which when **combined with continued** tight cost control, means **FY20 performance remains in line with expectations**.

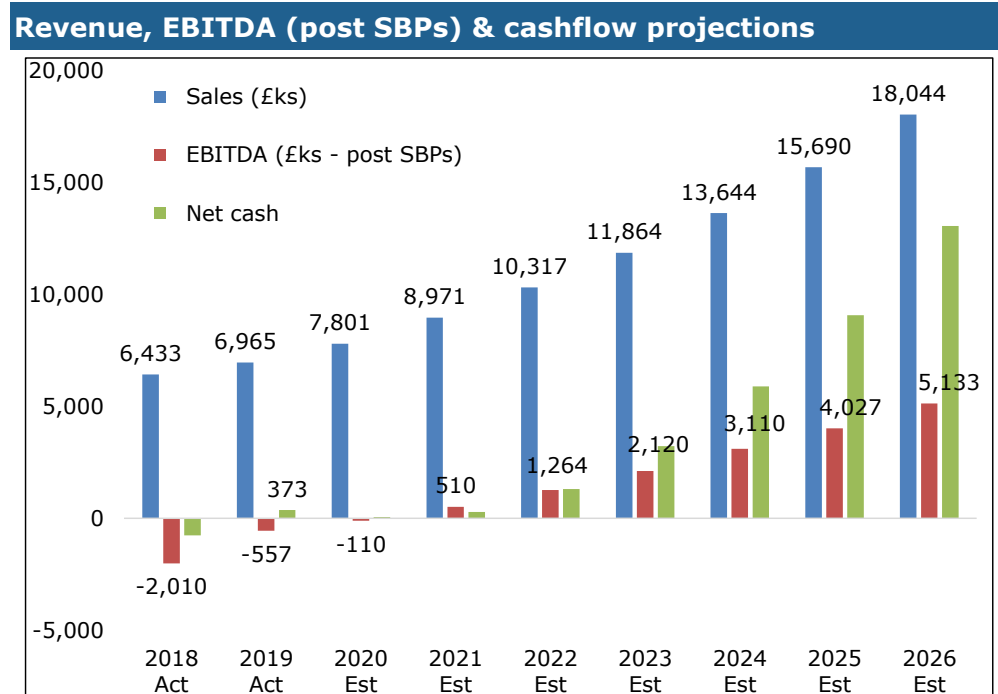
## Healthy pipeline with more contract wins in store

CEO Roger Bullen concluding: **"We continue to focus our attention on building out our client base with sustainable ARR, ensuring that gross margins are in line with our expectations. I am delighted that we continue to win significant contracts with major industry leaders with the RAPid platform demonstrating our domain expertise and knowledge.**

**The Langdon acquisition, although not delivering significant profitability in the first 9-12 months, has an extremely loyal customer base with low churn rates and provides a significant cross-selling opportunity. We expect the ARR achieved from Langdon to increase in H2 as we face Brexit and the new customs declaration system upgrade".**

## Top line set to accelerate 12% LFL this year to £7.8m

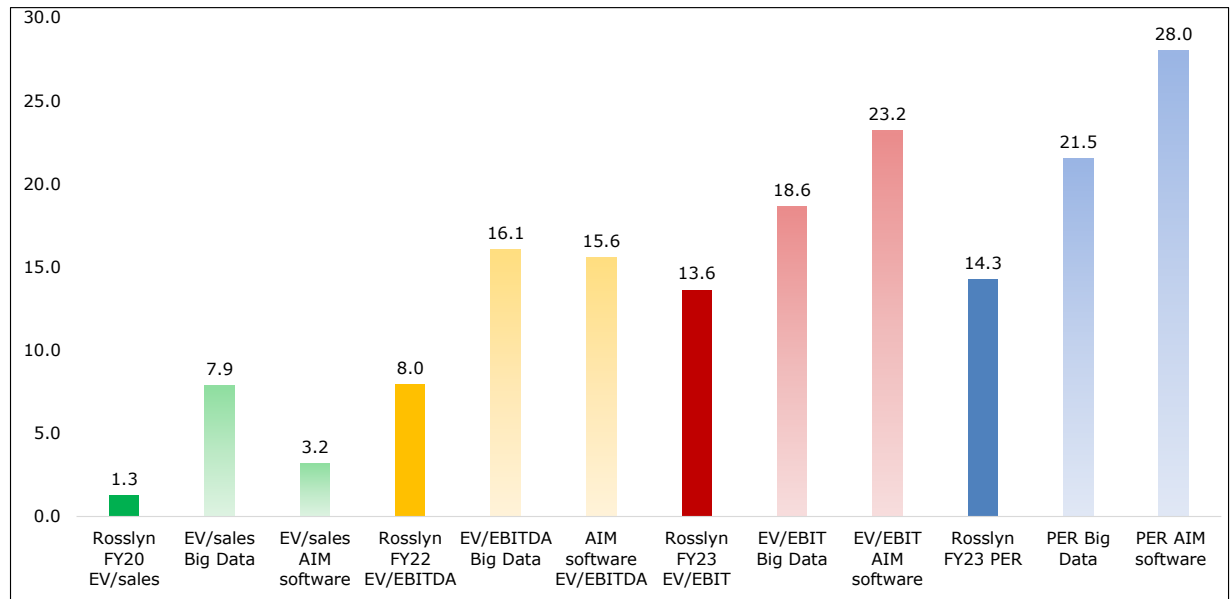
Finally with regards to the numbers, **we have held our FY20 turnover and adjusted EBITDA (post SBPs) forecasts at £7.8m and -£110k** respectively. Thereafter, **revenues should be able to rise by 15% pa LFL** in line with the sector - enabling profitability to improve, reflecting the 80%+ gross margins, positive unit economics and favourable operating leverage.



Source: Equity Development. RDT's year end is April. SBPs = share based payments.

Moreover, coupled with the **strong company specific and industry fundamentals**, we **reiterate our 12.0p/share valuation**, and believe **the stock is materially undervalued** on just about every peer group metric (see below).

### Valuation benchmarks vs 'Big Data' & AIM Software peers

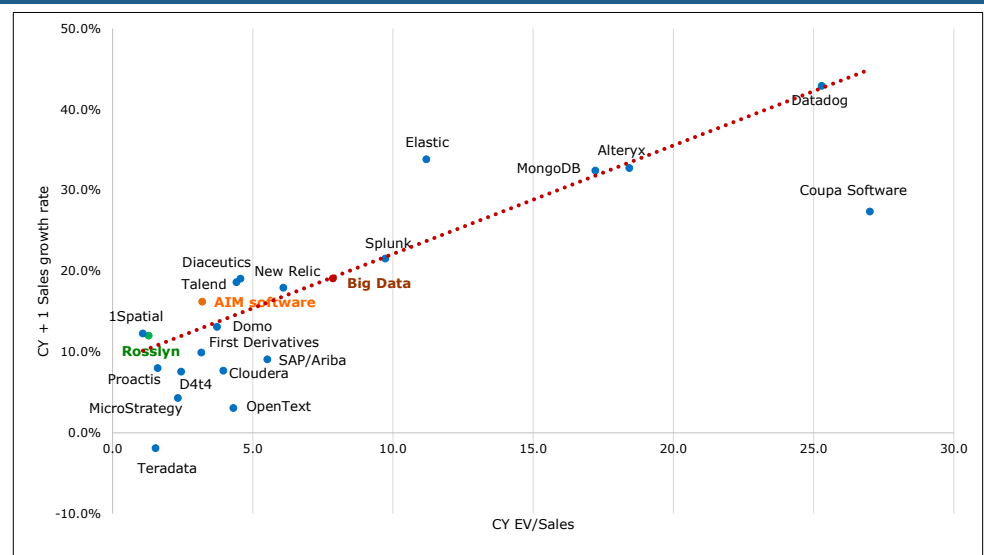


Source: Equity Development

### Possible upwards re-rating

Indeed in due course, **we suspect Rosslyn could even become a takeover target**. For instance, business spend software firm Proactis has recently received predatory interest. While there has been a slew of other AIM stocks that have been acquired this year, namely: Brady, Telford Homes, Premier Technical Services, Accesso, easyHotel, Sanderson, EU Supply, WYG, Tarsus, Manx Telecom, Laura Ashley & Tax Systems.

### Current year (CY) EV/sales multiples vs CY+1 growth rates



Source: Equity Development

## Summary projections (£'000s)

Rosslyn Data Technologies (April yearend)	2018 Act £'000s	2019 Act £'000s	2020 Est £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s	2026 Est £'000s
Annual Licence Fees	4,979	5,437	6,089	7,003	8,053	9,261	10,650	12,248	14,085
Professional services	1,454	1,528	1,711	1,968	2,263	2,603	2,993	3,442	3,958
<b>Turnover</b>	<b>6,433</b>	<b>6,965</b>	<b>7,801</b>	<b>8,971</b>	<b>10,317</b>	<b>11,864</b>	<b>13,644</b>	<b>15,690</b>	<b>18,044</b>
% growth	83.5%	8.3%	12.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
<b>Gross Profit</b>	<b>4,895</b>	<b>5,549</b>	<b>6,254</b>	<b>7,237</b>	<b>8,374</b>	<b>9,689</b>	<b>11,211</b>	<b>12,971</b>	<b>15,007</b>
% margin	76.1%	79.7%	80.2%	80.7%	81.2%	81.7%	82.2%	82.7%	83.2%
Opex (ex SBPs, Depr & Amortisation)	-6,711	-5,981	-6,164	-6,512	-6,878	-7,321	-7,834	-8,657	-9,565
EBITDA (pre SBPs)	-1,816	-432	90	725	1,496	2,368	3,377	4,314	5,442
<b>Adjusted EBITDA (post SBPs)</b>	<b>-2,010</b>	<b>-557</b>	<b>-110</b>	<b>510</b>	<b>1,264</b>	<b>2,120</b>	<b>3,110</b>	<b>4,027</b>	<b>5,133</b>
% Margin	-31.2%	-8.0%	-1.4%	5.7%	12.3%	17.9%	22.8%	25.7%	28.4%
<b>Adjusted EBIT</b>	<b>-3,074</b>	<b>-1,610</b>	<b>-1,215</b>	<b>-680</b>	<b>-18</b>	<b>738</b>	<b>1,620</b>	<b>2,421</b>	<b>3,402</b>
% Margin	-47.8%	-23.1%	-15.6%	-7.6%	-0.2%	6.2%	11.9%	15.4%	18.9%
Interest	-101	-86	-200	-200	-100	0	0	0	0
<b>Adjusted Profit before Tax</b>	<b>-3,175</b>	<b>-1,696</b>	<b>-1,415</b>	<b>-880</b>	<b>-118</b>	<b>738</b>	<b>1,620</b>	<b>2,421</b>	<b>3,402</b>
<b>Adjusted EPS (p)</b>	<b>-1.5</b>	<b>-0.6</b>	<b>-0.7</b>	<b>-0.4</b>	<b>-0.1</b>	<b>0.4</b>	<b>0.7</b>	<b>0.9</b>	<b>1.3</b>
EPS growth rate					-86.7%	-716.8%	95.7%	31.5%	39.1%
<b>Dividend (p)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Valuation benchmarks</b>									
P/E ratio						14.3	7.3	5.5	4.0
EV/Sales	1.6	1.4	1.3	1.1	1.0	0.8	0.7	0.6	0.6
EV/EBITDA (post SBPs)				19.7	8.0	4.7	3.2	2.5	2.0
EV / EBITA (post SBPs)						13.6	6.2	4.2	3.0
EBITDA drop through rates			53.5%	53.0%	56.1%	55.3%	55.6%	44.8%	47.0%
Effective corporate tax rate		0.0%	0.0%	0.0%	0.0%	0.0%	-10.0%	-20.0%	-20.0%
PEG ratio							0.08	0.18	0.10
<b>Net cash/(debt)</b>	<b>-757</b>	<b>373</b>	<b>54</b>	<b>280</b>	<b>1,307</b>	<b>3,225</b>	<b>5,897</b>	<b>9,077</b>	<b>13,067</b>
Sharecount (Ks)	183,820	192,676	194,602	196,548	198,514	200,499	202,504	204,529	206,574
Diluted sharecount	201,177	209,558	211,485	213,431	215,397	217,382	219,387	221,412	223,457
<b>Shareprice (p)</b>	<b>5.25</b>								

Source: ED estimates, Company historic data.

**Note 1:** At as 30<sup>th</sup> April 2019, the Group had carried forward tax losses of £13,762k available to be offset against future profits. Meanwhile the deferred revenue balance was £2,658k (vs FY18 at £2,300.7k).

**Note 2:** All R&D is presently expensed as incurred - ie not capitalised.

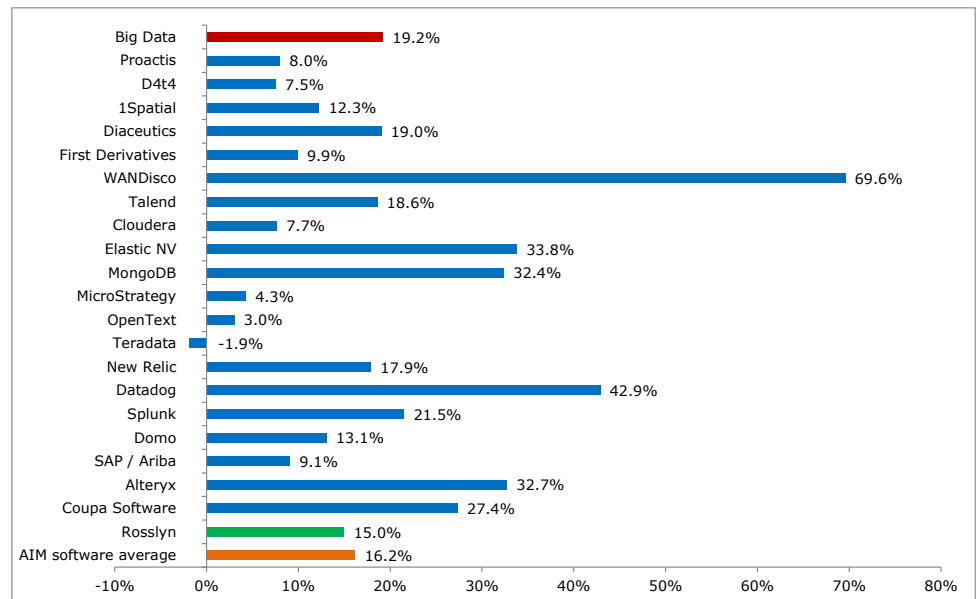
## Key risks

- 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.

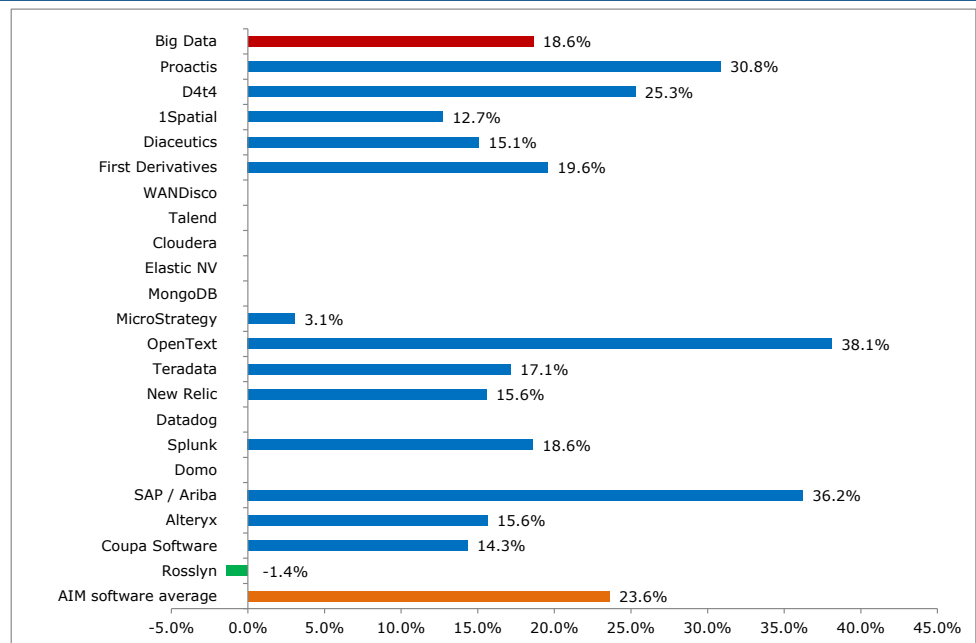
## Appendices - sector valuation metrics and KPIs

### Current Year + 1 sales growth rates



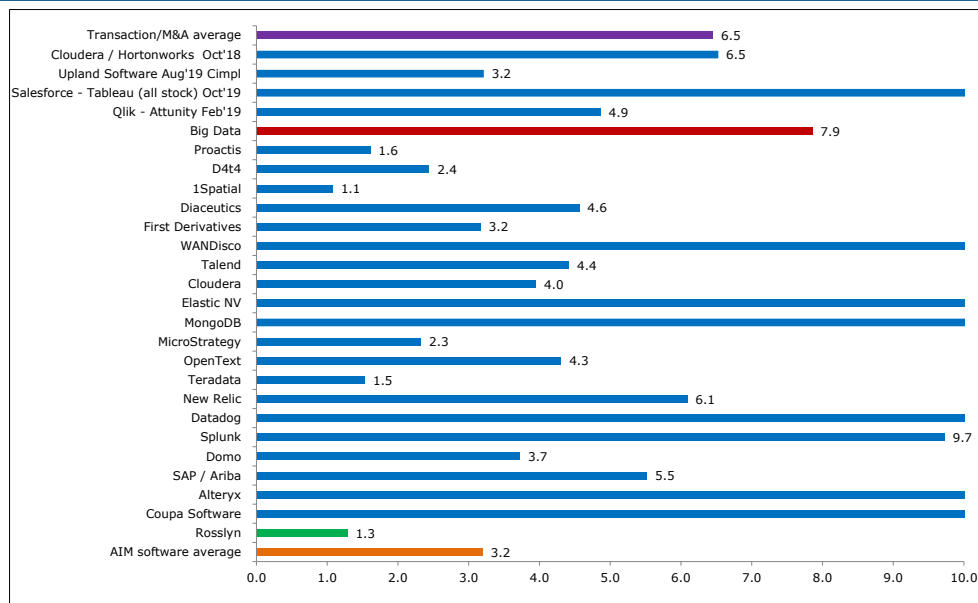
Source: Equity Development : arithmetic average for sector

### CY EBITDA margins



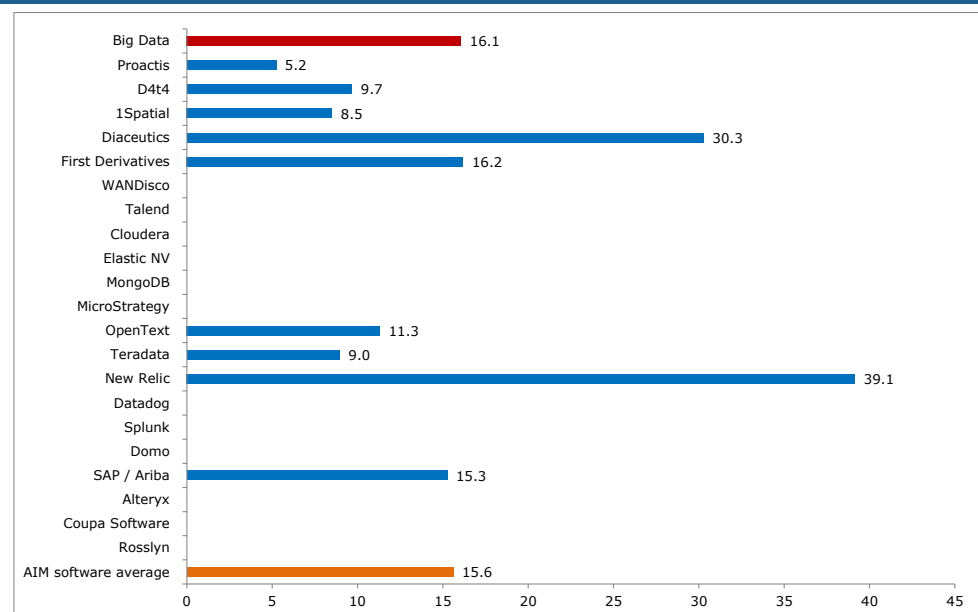
Source: Equity Development, arithmetic average for sector. RDT shown post SBPs

### CY EV/sales multiples vs peers



Source: Equity Development : arithmetic average for sector

### CY EV/EBITDA multiples vs peers



Source: Equity Development : arithmetic average for sector

**Marketing capitalisation of peers**

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Rosslyn	5.25p	£10.1	£0.1	£10.1
Coupa Software	\$144	\$10,368	\$105	\$10,263
Alteryx	\$102	\$7,242	-\$19	\$7,261
SAP / Ariba	€ 120	€ 143,400	-€ 8,110	€ 151,510
Domo	\$24.00	\$660	\$34	\$626
Splunk	\$145	\$22,910	\$58	\$22,852
Datadog	\$34.00	\$9,690	\$788	\$8,902
New Relic	\$68.0	\$3,971	\$370	\$3,601
Teradata	\$25.5	\$2,933	\$49	\$2,884
OpenText	\$42.0	\$11,466	-\$1,257	\$12,723
MicroStrategy	\$151	\$1,555	\$414	\$1,141
MongoDB	\$124	\$7,031	\$178	\$6,853
Elastic NV	\$62	\$4,861	\$260	\$4,601
Cloudera	\$11.00	\$3,135	\$99	\$3,036
Talend	\$36.5	\$1,132	\$40	\$1,092
WANDisco	\$5.41	\$274.4	\$30.7	\$243.7
First Derivatives	£26.5	£694.3	-£73.0	£767.3
Diaceutics	94p	£65.4	£7.9	£57.5
1Spatial	27p	£30.0	£5.3	£24.7
D4t4	200p	£80.1	£15.3	£64.8
Proactis	51p	£48.6	-£37.7	£86.3

Source: Equity Development



## Investor Access

**Hannah Crowe**

Direct: 0207 065 2692

Tel: 0207 065 2690

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

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Equity Development, 15 Eldon Street, London, EC2M 7LD. Contact: [info@equitydevelopment.co.uk](mailto:info@equitydevelopment.co.uk) 0207 065 2690