

Osirium Technologies

H120 results

New business recovering after weak Q2

After a strong order intake in Q1, potential customers delayed placing orders in Q2, resulting in a 25% bookings decline in H120. Revenue increased 36% y-o-y and tight cost control reduced the EBITDA loss over the same period. Osirium has adapted its marketing and customer support to remote working and bookings intake has picked up in Q3, with five new customers signed. We have revised our forecasts to reflect lower bookings in FY20 and FY21; the impact at the EBITDA level is mitigated by tight cost control.

Year end	Revenue (£m)	EBITDA* (£m)	EPS* (p)	DPS (p)	P/E (x)	EV/Sales (x)
12/18	0.96	(1.77)	(18.1)	0.0	N/A	2.3
12/19	1.17	(2.15)	(19.5)	0.0	N/A	1.9
12/20e	1.40	(1.94)	(16.0)	0.0	N/A	1.6
12/21e	1.68	(1.82)	(16.5)	0.0	N/A	1.3

Note: *EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

COVID-19 effect felt from Q2

After a record Q1 for bookings, Osirium found it harder to sign new business in Q2 as COVID-19 restrictions were put in place and potential customers focused on immediate business continuity issues. Despite this, existing customers continued to renew contracts and expand their requirements. Bookings declined 25% y-o-y in H120 (we note H119 included a large three-year renewal), while revenue increased 36%. Operating costs were 6% lower y-o-y, resulting in an EBITDA loss of £0.9m compared to £1.2m for H119. Gross cash at the end of H120 stood at £2.13m before the receipt of a £0.56m R&D tax credit in July.

Improving trading in H2

Post period end, the company has signed several new contracts including police forces, a regional NHS supplier and a university in the UK, as well as the first ever contract in Indonesia and a contract with an IT solutions provider in the Middle East. The company has also expanded its network of resellers and technology partners. We have revised our bookings forecasts for FY20 and FY21, reflecting lower bookings intake in both years and reducing reported revenue forecasts in both years. We also reflect tighter control over costs, resulting in a small reduction in the EBITDA loss in FY20e.

Valuation: Bookings the key driver

Osirium is trading at a discount to peers on an EV/Sales basis. As it is an early-stage company several years from profitability, we have performed a reverse DCF to analyse the assumptions factored into the current share price, using a WACC of 10% and a terminal growth rate of 3%. We estimate that the current share price is discounting average bookings growth of 24% for FY22–29e, break-even EBITDA in FY25, average EBITDA margins of -4.2% for FY22–29e and a terminal EBITDA margin of 35.8%.

Software & comp services

6 October 2020

Price 19.0p

Market cap £4m

Net debt (£m) at end H120 0.3

Shares in issue 19.5m

Free float 91%

Code OSI

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (7.3) (7.3) (41.5)

Rel (local) (9.3) (4.9) (30.9)

52-week high/low 39.0p 17.0p

Business description

UK-based Osirium Technologies designs and supplies subscription-based cybersecurity software. Its PAM platform includes privileged access, task, session and behaviour management. It recently launched a secure process automation solution (PPA) and a privileged endpoint management (PEM) solution.

Next events

FY20 trading update January 2021

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Review of H120 results

Exhibit 1: Half-yearly results highlights

£000s	H119	H120	y-o-y
Bookings	1,030.0	770.0	-25%
Deferred income	1,239.2	1,436.2	16%
SaaS revenues	427.8	555.6	30%
Services revenues	87.6	147.0	68%
Total revenues	515.5	702.6	36%
Operating expenses	(1,710.8)	(1,603.7)	-6%
EBITDA	(1,195.4)	(901.1)	-25%
Depreciation & amortisation	(514.3)	(667.6)	30%
Normalised/reported operating profit	(1,709.6)	(1,568.6)	-8%
Net interest income	(0.4)	(110.9)	31394%
Normalised/reported PBT	(1,710.0)	(1,679.5)	-2%
Tax	334.3	260.7	-22%
Reported net income	(1,375.7)	(1,418.9)	3%
EPS - basic & diluted (p)	(10)	(7)	-30%
Gross cash	889.6	2,128.3	139%
Net cash/(debt)	889.6	(321.5)	N/A

Source: Osirium

Osirium reported a 36% y-o-y increase in revenue in H120. Bookings slowed during Q2 due to COVID-19 restrictions such that deferred revenue only increased 16% y-o-y. Good control over operating costs (down 6% y-o-y) resulted in smaller EBITDA and operating losses compared to H119. The company has not furloughed any staff or received any other forms of government support, instead cutting salaries across the board by 80% to manage cash during the pandemic.

Net finance costs increased, reflecting the convertible bond issued in H219. Gross cash stood at £2.1m at the end of H120 (down from £3.9m at the end of FY19), and taking account of the £2.4m convertible, net debt was £0.3m at the end of H120. The company generated a £0.9m cash outflow from operations and spent a further £0.8m in capex, mainly capitalised development costs. Post period end, the company received an R&D tax credit of £0.56m.

Order intake slowed in Q2, picking up again in H2

Osirium saw strong order inflow in Q1, with orders ahead of management expectations until early April and five new customers signed up. In Q2, as COVID-19 restrictions took effect, order intake slowed significantly. Overall for H120, orders declined 25% y-o-y. In H119, the company signed a major three-year deal – stripping out orders from this customer in both periods, bookings were comfortably ahead y-o-y.

Although new business was tougher to sign as prospective customers deferred IT project-related decisions in favour of immediate business continuity, the company notes that all contracts coming up for renewal in H120 were renewed and the majority of existing customers booked more this year than last.

Since the end of H1, the company has signed new contracts with several customers in the UK, including a group of major police forces, a regional NHS provider and a university. The company signed its first contract in Indonesia, with an IT and services consultancy provider, and also signed up an IT solutions provider in the Middle East.

Adapting marketing and support to remote working

Osirium quickly responded to COVID-19 restrictions with all staff working from home and a temporary freeze on recruitment. The restrictions have meant that the company has had to rethink

events, one of its major marketing tools, and shift lead generation online. During H1, it launched the Osirium Customer Network, a forum for existing customers to meet and share best practices and their experiences using Osirium's technology. The company has also hosted online workshops on PAM-related topics, with the first events at full capacity.

Expanding partnerships

The company accelerated efforts to expand its reseller network, adding 13 new partners in H120. The network now covers Benelux, the Nordics, South-Eastern Europe and the Middle East. Post period end, the company signed technology partnerships with AppViewX (cybersecurity and network management), RSA (cybersecurity and digital risk management) and My1Login (identity and access management).

Product updates

Osirium launched new releases of all three products during H1 and also launched PPA Express, a free version of Privileged Process Automation (PPA), as a marketing tool.

Outlook and changes to forecasts

Although management expects an uptick in new business wins in H2 and better revenue growth in FY21, it notes that FY20 revenue may be lower than current market estimates. We have reduced our bookings forecasts for FY20 and FY21, reflecting the delays in decision making while COVID-19 restrictions are in place. This results in a reduction in our reported revenue forecasts for both years. At the same time, we have reduced our operating cost forecasts, reflecting salary reductions this year as well as lower spend on travel and events. Overall, this reduces our EBITDA loss forecast in FY20 and slightly increases it in FY21. We continue to expect that the company will need to seek more funding in FY21 and provisionally model this as an increase in debt.

Exhibit 2: Changes to forecasts

£000s	FY20e				FY21e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Bookings	2,179.0	1,507.1	(30.8%)	-17.0%	2,941.6	2,034.6	(30.8%)	35.0%
Revenues	1,521.5	1,399.2	(8.0%)	19.4%	2,096.2	1,676.2	(20.0%)	19.8%
EBITDA	(2,222.8)	(1,914.0)	(13.9%)	(11.1%)	(1,783.9)	(1,824.3)	2.3%	(4.7%)
EBITDA margin	-146.1%	-136.8%	(6.4%)		-85.1%	-108.8%	27.9%	
Normalised operating profit	(3,775.1)	(3,459.2)	(8.4%)	1.8%	(3,540.4)	(3,588.3)	1.4%	3.7%
Normalised operating margin	-248.1%	-247.2%	0.9%		-168.9%	-214.1%	(45.2%)	
Reported operating profit	(3,775.1)	(3,459.2)	(8.4%)	1.8%	(3,540.4)	(3,588.3)	1.4%	3.7%
Reported operating margin	-248.1%	-247.2%	0.9%		-168.9%	-214.1%	(45.2%)	
Normalised PBT	(3,979.7)	(3,663.8)	(7.9%)	6.1%	(3,745.0)	(3,792.9)	1.3%	3.5%
Reported PBT	(3,979.7)	(3,663.8)	(7.9%)	6.1%	(3,745.0)	(3,792.9)	1.3%	3.5%
Normalised net income	(3,382.7)	(3,114.2)	(7.9%)	10.1%	(3,183.3)	(3,224.0)	1.3%	3.5%
Reported net income	(3,382.7)	(3,114.2)	(7.9%)	10.1%	(3,183.3)	(3,224.0)	1.3%	3.5%
Normalised basic EPS (p)	(17.35)	(15.97)	(7.9%)	(17.9%)	(16.33)	(16.54)	1.3%	3.5%
Normalised diluted EPS (p)	(17.35)	(15.97)	(7.9%)	(17.9%)	(16.33)	(16.54)	1.3%	3.5%
Reported basic EPS (p)	(17.35)	(15.97)	(7.9%)	(17.9%)	(16.33)	(16.54)	1.3%	3.5%
Gross cash	930.7	650.7	(30.1%)		901.3	697.0	(22.7%)	
Net debt/(cash)	1,617.2	1,897.2	17.3%	N/A	4,349.1	5,053.5	16.2%	166.4%

Source: Edison Investment Research

Exhibit 3: Financial summary

	£'000s	2013	2014	2015	2016	2017	2018	2019	2020e	2021e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT										
Revenue		120.0	207.0	290.2	477.6	647.6	957.5	1,171.6	1,399.2	1,676.2
EBITDA		(366.7)	(327.1)	(377.9)	(1,136.7)	(1,609.4)	(1,767.3)	(2,152.1)	(1,914.0)	(1,824.3)
Normalised operating profit		(679.4)	(714.3)	(790.7)	(1,725.6)	(2,296.8)	(2,674.8)	(3,399.7)	(3,459.2)	(3,588.3)
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share-based payments		0.0	(184.3)	(56.4)	(96.9)	0.0	0.0	0.0	0.0	0.0
Reported operating profit		(679.4)	(898.5)	(847.1)	(1,822.5)	(2,296.8)	(2,674.8)	(3,399.7)	(3,459.2)	(3,588.3)
Net Interest		(35.2)	5.7	(9.9)	9.7	4.2	(0.6)	(52.2)	(204.6)	(204.6)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		(714.6)	(708.5)	(800.7)	(1,715.9)	(2,292.6)	(2,675.4)	(3,451.9)	(3,663.8)	(3,792.9)
Profit Before Tax (reported)		(714.6)	(892.8)	(857.1)	(1,812.8)	(2,292.6)	(2,675.4)	(3,451.9)	(3,663.8)	(3,792.9)
Reported tax		137.7	134.1	121.0	453.3	409.4	407.6	622.5	549.6	568.9
Profit After Tax (norm)		(576.9)	(602.1)	(687.6)	(1,286.9)	(1,883.2)	(2,267.8)	(2,829.4)	(3,114.2)	(3,224.0)
Profit After Tax (reported)		(576.9)	(758.7)	(736.0)	(1,359.6)	(1,883.2)	(2,267.8)	(2,829.4)	(3,114.2)	(3,224.0)
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		(576.9)	(602.1)	(687.6)	(1,286.9)	(1,883.2)	(2,267.8)	(2,829.4)	(3,114.2)	(3,224.0)
Net income (reported)		(576.9)	(758.7)	(736.0)	(1,359.6)	(1,883.2)	(2,267.8)	(2,829.4)	(3,114.2)	(3,224.0)
Basic ave. number of shares outstanding (m)		0	1	10	10	10	13	15	19	19
EPS - normalised (p)		N/A	N/A	(6.61)	(12.38)	(18.12)	(18.14)	(19.45)	(15.97)	(16.54)
EPS - normalised fully diluted (p)		N/A	N/A	(6.61)	(12.38)	(18.12)	(18.14)	(19.45)	(15.97)	(16.54)
EPS - basic reported (p)		(296.36)	(144.92)	(7.08)	(13.08)	(18.12)	(18.14)	(19.45)	(15.97)	(16.54)
Dividend (p)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		26.3	72.6	40.2	64.6	35.6	47.9	22.4	19.4	19.8
EBITDA Margin (%)		-305.7	-158.0	-130.2	-238.0	-248.5	-184.6	-183.7	-136.8	-108.8
Normalised Operating Margin		-566.3	-345.0	-272.5	-361.3	-354.7	-279.4	-290.2	-247.2	-214.1
BALANCE SHEET										
Fixed Assets		815.7	805.2	799.7	1,178.8	1,812.1	2,360.2	3,124.4	3,440.8	3,629.8
Intangible Assets		808.6	795.7	793.3	1,134.5	1,731.9	2,307.2	2,936.5	3,321.3	3,578.7
Tangible Assets		7.2	9.5	6.4	44.3	80.2	52.9	187.9	119.5	51.0
Investments & other		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Assets		109.3	269.2	428.1	3,953.7	1,646.4	3,134.6	4,837.3	1,707.5	1,852.4
Stocks		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors		77.2	218.6	154.6	380.9	622.6	748.0	982.4	1,056.8	1,155.5
Cash & cash equivalents		32.2	50.6	273.5	3,572.8	1,023.8	2,386.6	3,854.9	650.7	697.0
Other		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities		(235.2)	(294.2)	(365.0)	(648.5)	(857.7)	(1,170.3)	(1,923.0)	(2,055.3)	(2,444.5)
Creditors		(235.2)	(294.2)	(365.0)	(648.5)	(857.7)	(1,170.3)	(1,889.1)	(2,021.4)	(2,410.6)
Tax and social security		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term borrowings		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0	0.0	(33.9)	(33.9)	(33.9)
Long Term Liabilities		(952.5)	(487.6)	(163.3)	0.0	0.0	0.0	(2,422.4)	(2,591.0)	(5,759.5)
Long term borrowings		(789.0)	(323.7)	0.0	0.0	0.0	0.0	(2,345.4)	(2,547.9)	(5,750.4)
Other long term liabilities		(163.4)	(163.9)	(163.3)	0.0	0.0	0.0	(77.0)	(43.1)	(9.1)
Net Assets		(262.6)	292.6	699.5	4,483.9	2,600.8	4,324.5	3,616.3	502.0	(2,721.9)
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		(262.6)	292.6	699.5	4,483.9	2,600.8	4,324.5	3,616.3	502.0	(2,721.9)
CASH FLOW										
Op Cash Flow before WC and tax		(366.7)	(327.1)	(377.9)	(1,136.7)	(1,609.4)	(1,767.3)	(2,152.1)	(1,914.0)	(1,824.3)
Working capital		66.3	3.8	120.7	226.8	85.5	187.2	633.7	57.8	290.6
Exceptional & other		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax		109.8	48.4	134.6	120.4	291.4	407.6	473.3	549.6	568.9
Net operating cash flow		(190.6)	(274.9)	(122.6)	(789.4)	(1,232.5)	(1,172.5)	(1,045.1)	(1,306.6)	(964.8)
Capex		(412.8)	(376.7)	(407.3)	(968.0)	(1,320.6)	(1,455.7)	(1,852.8)	(1,861.6)	(1,952.9)
Acquisitions/disposals		0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0
Net interest		(35.2)	5.7	(9.9)	9.7	4.2	(0.6)	0.0	0.0	0.0
Equity financing		0.0	639.3	762.8	5,047.1	0.0	3,991.5	1,726.4	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0	0.0	(60.6)	(36.0)	(36.0)
Net Cash Flow		(638.6)	(6.5)	222.9	3,299.3	(2,549.0)	1,362.8	(1,231.7)	(3,204.2)	(2,953.7)
Opening net (cash)/debt		118.3	756.9	273.1	(273.5)	(3,572.8)	(1,023.8)	(2,386.6)	(1,509.5)	1,897.2
FX		0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.0)	0.0
Other non-cash movements		0.0	490.3	323.8	0.0	0.0	(0.0)	354.6	(202.5)	(202.5)
Closing net (cash)/debt		756.9	273.1	(273.5)	(3,572.8)	(1,023.8)	(2,386.6)	(1,509.5)	1,897.2	5,053.5

Source: Osirium, Edison Investment Research

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