

# Osirium Technologies

H1 results

## Accelerating customer wins

Osirium has seen demand improve during H121, with a 19% increase in bookings year-on-year and 31 new customers signed up. While average contract values were lower than in FY20, these new customers present an upsell and cross-sell opportunity for Osirium. The company continues to develop its partner channel, which should increase the international opportunity. Increasing awareness of the security risks inherent in remote working and recent high-profile ransomware attacks are driving demand for privileged access security software, resulting in greenfield opportunities for Osirium.

| Year end | Revenue (£m) | EBITDA* (£m) | EPS* (p) | DPS (p) | P/E (x) | EV/sales (x) |
|----------|--------------|--------------|----------|---------|---------|--------------|
| 12/19    | 1.17         | (2.15)       | (19.5)   | 0.0     | N/A     | 6.4          |
| 12/20    | 1.43         | (1.36)       | (12.9)   | 0.0     | N/A     | 5.2          |
| 12/21e   | 1.60         | (1.51)       | (10.9)   | 0.0     | N/A     | 4.7          |
| 12/22e   | 1.90         | (1.35)       | (9.7)    | 0.0     | N/A     | 3.9          |

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

## Rebound in order activity

While there is still some uncertainty due to the pandemic, Osirium saw a further improvement in bookings in H121, with orders up 19% y-o-y and 15% compared to H220. Revenue increased 5% y-o-y to £0.74m and deferred income was 17% higher year-on-year. Higher revenue combined with lower costs resulted in a reduction in the EBITDA loss from £0.90m in H120 to £0.76m in H121. The company closed H121 with a gross cash position of £1.74m and a net debt position of £0.86m, with a £0.59m R&D tax credit boosting gross cash as at the end of July to £2.03m.

## Bookings and revenue forecasts trimmed

Despite record customer acquisition, due to the lower average contract value in H121, we have trimmed our bookings forecasts for H221 and FY22. This results in bookings growth of 20% for FY21 (down from 25%) and 25% for FY22 (unchanged). To hit our FY21 bookings forecast requires only 6% sequential growth in H221 compared to H121. This feeds through into lower revenue forecasts for both years. Our EBITDA loss forecasts widen from £1.43m to £1.51m in FY21 and from £1.21m to £1.35m in FY22.

## Valuation: Bookings growth the key driver

Osirium is trading at a discount to peers on an EV/sales basis (the UK software sector is trading at 5.7x CY sales). As it is an early-stage company several years from profitability, we have performed a reverse discounted cash flow (DCF) to analyse the assumptions factored into the current share price, using a WACC of 9% and a terminal growth rate of 3%. We estimate the current share price is discounting average bookings growth of 23% for FY23–30e, break-even EBITDA in FY25, average EBITDA margins of 10.1% for FY23–30e and a terminal EBITDA margin of 36%.

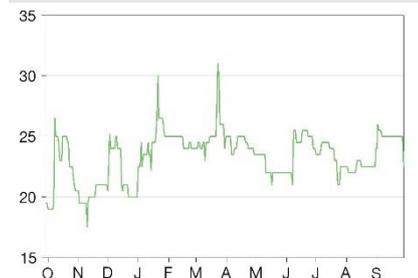
## Software & comp services

**29 September 2021**

**Price** **22.5p**  
**Market cap** **£7m**

|                           |       |
|---------------------------|-------|
| Net debt (£m) at end H121 | 0.9   |
| Shares in issue           | 29.4m |
| Free float                | 91%   |
| Code                      | OSI   |
| Primary exchange          | AIM   |
| Secondary exchange        | N/A   |

## Share price performance



|                  |     |       |        |
|------------------|-----|-------|--------|
| %                | 1m  | 3m    | 12m    |
| Abs              | 0.0 | (6.3) | 0.0    |
| Rel (local)      | 2.1 | (6.3) | (17.9) |
| 52-week high/low |     | 31p   | 18p    |

## Business description

UK-based Osirium Technologies designs and supplies subscription-based cybersecurity software. Its product portfolio includes privileged access management (incorporating privileged access, task, session and behaviour management), secure process automation and privileged endpoint management software.

## Next events

|                     |              |
|---------------------|--------------|
| FY21 trading update | January 2022 |
|---------------------|--------------|

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## Review of H121 results

| <b>Exhibit 1: H121 results highlights</b> |              |              |              |
|---|--------------|--------------|--------------|
| <b>£k</b>                                 | <b>H120</b>  | <b>H121</b>  | <b>y-o-y</b> |
| <b>Bookings</b>                           | <b>770</b>   | <b>913</b>   | <b>19%</b>   |
| Deferred income                           | 1,436        | 1,677        | 17%          |
| SaaS revenues                             | 556          | 620          | 12%          |
| Services revenues                         | 147          | 116          | -21%         |
| <b>Total revenues</b>                     | <b>703</b>   | <b>737</b>   | <b>5%</b>    |
| Operating expenses                        | (1,604)      | (1,493)      | -7%          |
| <b>EBITDA</b>                             | <b>(901)</b> | <b>(756)</b> | <b>-16%</b>  |
| Depreciation & amortisation               | (668)        | (764)        | 14%          |
| Normalised/reported operating profit      | (1,569)      | (1,520)      | -3%          |
| Net interest income                       | (111)        | (92)         | -17%         |
| Normalised/reported PBT                   | (1,680)      | (1,611)      | -4%          |
| Tax                                       | 261          | 292          | 12%          |
| Normalised/reported net income            | (1,419)      | (1,319)      | -7%          |
| EPS - basic & diluted (p)                 | (8)          | (5)          | -29%         |
| Gross cash                                | 2,128        | 1,737        | -18%         |
| Net cash/(debt)                           | (322)        | (862)        | 168%         |

Source: Osirium Technologies

Osirium generated 19% y-o-y growth in bookings in H121. The company signed up 31 new customers (including many NHS trusts) and renewed 99% of contracts that were up for renewal in the period. Post period end, the company has signed up its 100th customer. As well as strength in the NHS, where Osirium has designed packages that take advantage of targeted funding for ransomware protection, the company is seeing an increased pipeline of opportunities from financial services and education.

The company reported revenue of £737k in H121, up 5% y-o-y, and reduced operating expenses (pre-depreciation and amortisation) by 7%, resulting in a 16% reduction in the EBITDA loss year-on-year. Amortisation increased in H121 versus H120 reflecting a higher level of capitalisation of development costs in FY20 compared to FY19. The company capitalised £0.90m of development costs in H121 (H120: £0.78m). The company raised net proceeds of £1.93m from a fundraise in April, which resulted in a lower net finance cost compared to H120. Reflecting the higher share count from the fund-raising in H121, EPS was -5p compared to -8p in H120. The company closed H121 with a gross cash balance of £1.74m and a net debt position of £0.86m (given its £2.6m in convertible loan debt). In July, the company received a £0.59m R&D tax credit resulting in an end-July gross cash position of £2.03m.

## Business update

### Expansion of partner network

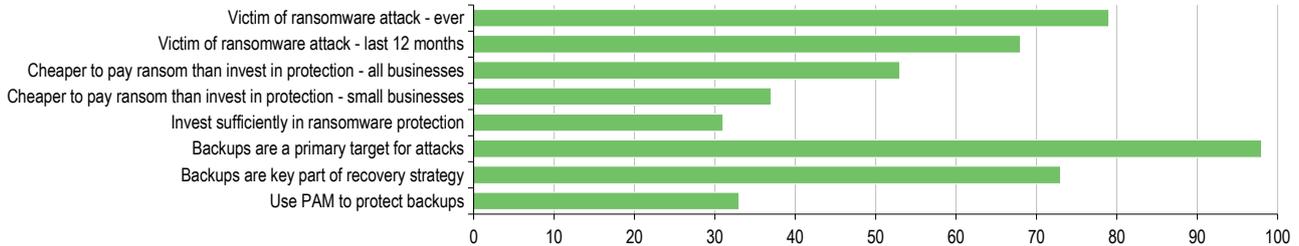
The company has signed a number of new partners during H121 and is working with a new UK distributor. While the UK is still Osirium's main market, the company has signed contracts via partners in Asia-Pacific, Turkey and continental Europe. The company is also developing more technology alliances to open up more market opportunities and to become more tightly embedded in customer environments.

### Ransomware index highlights the scale of the problem

Osirium commissioned a survey of 1,001 IT managers in July/August to assess their attitude to ransomware attacks. Exhibit 2 shows their responses to a series of questions designed to uncover

their experiences with and understanding of ransomware. More than two-thirds have been victims of ransomware attacks in the last year, but only a third use privileged access management (PAM) to secure back-ups. Just under a third believe they invest enough in protection, highlighting the scale of the opportunity for Osirium.

**Exhibit 2: Percentage of survey respondents in agreement**



Source: Osirium Technologies

## High-growth PAM market sees more M&A

Market researcher KuppingerCole estimates that the PAM market in 2020 was worth c \$2.2bn and expects it to grow to \$5.4bn by 2025 (CAGR 20%). The pandemic has accelerated remote working, but this brings with it extra security concerns. Combined with the increase in ransomware, there is a growing understanding of the need to use PAM software. The company is seeing mainly greenfield opportunities.

The market has continued to see consolidation in H121, with Thoma Bravo selling Centrify to TPG Capital in January. TPG then acquired Thycotic, with plans to combine the two.

## Product development update

Osirium has developed packages for customers to suit their needs, in particular the back-up protection packages it designed for NHS trusts. Other areas of product development include security assertion markup language (SAML) single sign-on capability, which supports integration with identity providers, and a new desktop client tool that combines the latest features from the web-based interface. The company has also made improvements to its privileged process automation (PPA) solution including the introduction of authentication tools such as Kerberos for Windows devices. The company is currently bundling PPA with PAM solutions to improve cross-selling opportunities.

## Outlook and changes to estimates

The company noted that trading momentum has continued into H221 and it continues to focus on customer relationships, particularly in the healthcare sector, identifying cross-selling opportunities with existing customers and increasing its reach through the partner network. Despite COVID-19, the long-term outlook is unchanged, with growing demand for privileged access security.

We have revised our forecasts to reflect a lower rate of bookings growth in H221, so our full year bookings growth forecast reduces from 25% to 20%. This results in lower revenue in both H221 and FY22 and we have also slightly reduced amortisation in both years. We estimate that Osirium will need to raise more money in FY22 and have modelled this as debt.

**Exhibit 3: Changes to forecasts**

| £'k                       | FY21e     |           | Change  | y-o-y   | FY22e     |           | Change  | y-o-y   |
|---------------------------|-----------|-----------|---------|---------|-----------|-----------|---------|---------|
|                           | Old       | New       |         |         | Old       | New       |         |         |
| Bookings                  | 2,034.6   | 1,880.5   | (7.6%)  | 20.0%   | 2,543.2   | 2,350.6   | (7.6%)  | 25.0%   |
| Revenues                  | 1,677.5   | 1,595.6   | (4.9%)  | 11.2%   | 2,043.4   | 1,903.9   | (6.8%)  | 19.3%   |
| EBITDA                    | (1,427.9) | (1,509.8) | 5.7%    | 10.7%   | (1,205.7) | (1,345.2) | 11.6%   | (10.9%) |
| EBITDA margin             | -85.1%    | -94.6%    | 11.2%   |         | -59.0%    | -70.7%    | 19.7%   |         |
| Reported operating profit | (3,221.7) | (3,135.6) | (2.7%)  | 9.2%    | (3,172.0) | (3,131.5) | (1.3%)  | (0.1%)  |
| Reported operating margin | -192.0%   | -196.5%   | (4.5%)  |         | -155.2%   | -164.5%   | (9.2%)  |         |
| Reported PBT              | (3,432.2) | (3,346.1) | (2.5%)  | 8.1%    | (3,382.5) | (3,342.0) | (1.2%)  | (0.1%)  |
| Reported net income       | (2,917.3) | (2,844.2) | (2.5%)  | 13.6%   | (2,875.1) | (2,840.7) | (1.2%)  | (0.1%)  |
| Reported basic EPS (p)    | (11.19)   | (10.91)   | (2.5%)  | (15.1%) | (9.79)    | (9.68)    | (1.2%)  | (11.3%) |
| Gross cash                | 845.4     | 454.2     | (46.3%) |         | 423.1     | 147.4     | (65.2%) |         |
| Net debt/(cash)           | 1,860.0   | 2,251.1   | 21.0%   | 120.6%  | 4,484.8   | 5,060.5   | 12.8%   | 124.8%  |

Source: Edison Investment Research

**Exhibit 4: Financial summary**

|  | £'k | 2016      | 2017      | 2018      | 2019      | 2020      | 2021e     | 2022e     |
|--|-----|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Year end 31 December                           |     | IFRS      |
| <b>INCOME STATEMENT</b>                        |     |           |           |           |           |           |           |           |
| Revenue  |     | 477.6     | 647.6     | 957.5     | 1,171.6   | 1,434.9   | 1,595.6   | 1,903.9   |
| EBITDA   |     | (1,136.7) | (1,609.4) | (1,767.3) | (2,152.1) | (1,363.5) | (1,509.8) | (1,345.2) |
| Normalised operating profit                    |     | (1,725.6) | (2,296.8) | (2,674.8) | (3,399.7) | (2,872.4) | (3,135.6) | (3,131.5) |
| Amortisation of acquired intangibles           |     | 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       |
| Share-based payments                           |     | (96.9)    | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| Reported operating profit                      |     | (1,822.5) | (2,296.8) | (2,674.8) | (3,399.7) | (2,872.4) | (3,135.6) | (3,131.5) |
| Net Interest                                   |     | 9.7       | 4.2       | (0.6)     | (52.2)    | (222.3)   | (210.5)   | (210.5)   |
| Joint ventures & associates (post tax)         |     | 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       |
| Profit Before Tax (norm)                       |     | (1,715.9) | (2,292.6) | (2,675.4) | (3,451.9) | (3,094.7) | (3,346.1) | (3,342.0) |
| Profit Before Tax (reported)                   |     | (1,812.8) | (2,292.6) | (2,675.4) | (3,451.9) | (3,094.7) | (3,346.1) | (3,342.0) |
| Reported tax                                   |     | 453.3     | 409.4     | 407.6     | 622.5     | 590.2     | 501.9     | 501.3     |
| Profit After Tax (norm)                        |     | (1,286.9) | (1,883.2) | (2,267.8) | (2,829.4) | (2,504.5) | (2,844.2) | (2,840.7) |
| Profit After Tax (reported)                    |     | (1,359.6) | (1,883.2) | (2,267.8) | (2,829.4) | (2,504.5) | (2,844.2) | (2,840.7) |
| Minority interests                             |     | 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       |
| Net income (normalised)                        |     | (1,286.9) | (1,883.2) | (2,267.8) | (2,829.4) | (2,504.5) | (2,844.2) | (2,840.7) |
| Net income (reported)                          |     | (1,359.6) | (1,883.2) | (2,267.8) | (2,829.4) | (2,504.5) | (2,844.2) | (2,840.7) |
| Basic average number of shares outstanding (m) |     | 10        | 10        | 13        | 15        | 19        | 26        | 29        |
| EPS - normalised (p)                           |     | (12.38)   | (18.12)   | (18.14)   | (19.45)   | (12.85)   | (10.91)   | (9.68)    |
| EPS - normalised fully diluted (p)             |     | (12.38)   | (18.12)   | (18.14)   | (19.45)   | (12.85)   | (10.91)   | (9.68)    |
| EPS - basic reported (p)                       |     | (13.08)   | (18.12)   | (18.14)   | (19.45)   | (12.85)   | (10.91)   | (9.68)    |
| Dividend (p)                                   |     | 0.00      | 0.00      | 0.00      | 0.00      | 0.00      | 0.00      | 0.00      |
| Revenue growth (%)                             |     | 64.6      | 35.6      | 47.9      | 22.4      | 22.5      | 11.2      | 19.3      |
| EBITDA Margin (%)                              |     | -238.0    | -248.5    | -184.6    | -183.7    | -95.0     | -94.6     | -70.7     |
| Normalised Operating Margin                    |     | -361.3    | -354.7    | -279.4    | -290.2    | -200.2    | -196.5    | -164.5    |
| <b>BALANCE SHEET</b>                           |     |           |           |           |           |           |           |           |
| Fixed Assets                                   |     | 1,178.8   | 1,812.1   | 2,360.2   | 3,124.4   | 3,487.3   | 3,967.4   | 4,326.9   |
| Intangible Assets                              |     | 1,134.5   | 1,731.9   | 2,307.2   | 2,936.5   | 3,335.5   | 3,808.3   | 4,180.5   |
| Tangible Assets                                |     | 44.3      | 80.2      | 52.9      | 187.9     | 151.9     | 159.1     | 146.4     |
| Investments & other                            |     | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| Current Assets                                 |     | 3,953.7   | 1,646.4   | 3,134.6   | 4,837.3   | 2,300.8   | 1,439.1   | 1,208.3   |
| Stocks   |     | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| Debtors  |     | 380.9     | 622.6     | 748.0     | 982.4     | 818.4     | 984.9     | 1,060.9   |
| Cash & cash equivalents                        |     | 3,572.8   | 1,023.8   | 2,386.6   | 3,854.9   | 1,482.4   | 454.2     | 147.4     |
| Other  |     | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| Current Liabilities                            |     | (648.5)   | (857.7)   | (1,170.3) | (1,923.0) | (2,143.7) | (2,468.0) | (2,944.9) |
| Creditors                                      |     | (648.5)   | (857.7)   | (1,170.3) | (1,889.1) | (2,088.7) | (2,438.1) | (2,914.9) |
| Tax and social security                        |     | 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       |
| Other  |     | 0.0       | 0.0       | 0.0       | (33.9)    | (55.0)    | (30.0)    | (30.0)    |
| Long Term Liabilities                          |     | 0.0       | 0.0       | 0.0       | (2,422.4) | (2,518.6) | (2,731.1) | (5,223.6) |
| Long term borrowings                           |     | 0.0       | 0.0       | 0.0       | (2,345.4) | (2,502.9) | (2,705.4) | (5,207.9) |
| Other long term liabilities                    |     | 0.0       | 0.0       | 0.0       | (77.0)    | (15.8)    | (25.8)    | (15.8)    |
| Net Assets                                     |     | 4,483.9   | 2,600.8   | 4,324.5   | 3,616.3   | 1,125.8   | 207.3     | (2,633.3) |
| Minority interests                             |     | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| Shareholders' equity                           |     | 4,483.9   | 2,600.8   | 4,324.5   | 3,616.3   | 1,125.8   | 207.3     | (2,633.3) |
| <b>CASH FLOW</b>                               |     |           |           |           |           |           |           |           |
| Op Cash Flow before WC and tax                 |     | (1,136.7) | (1,609.4) | (1,767.3) | (2,152.1) | (1,363.5) | (1,509.8) | (1,345.2) |
| Working capital                                |     | 226.8     | 85.5      | 187.2     | 633.7     | 396.5     | 182.9     | 400.8     |
| Exceptional & other                            |     | 0.0       | 0.0       | 0.0       | 0.0       | 14.0      | 0.0       | 0.0       |
| Tax  |     | 120.4     | 291.4     | 407.6     | 473.3     | 557.3     | 501.9     | 501.3     |
| Net operating cash flow                        |     | (789.4)   | (1,232.5) | (1,172.5) | (1,045.1) | (395.7)   | (825.0)   | (443.1)   |
| Capex  |     | (968.0)   | (1,320.6) | (1,455.7) | (1,852.8) | (1,875.1) | (2,065.9) | (2,125.8) |
| Acquisitions/disposals                         |     | 0.0       | 0.0       | 0.0       | 0.4       | 3.3       | 0.0       | 0.0       |
| Net interest                                   |     | 9.7       | 4.2       | (0.6)     | 0.0       | (56.5)    | (8.0)     | (8.0)     |
| Equity financing                               |     | 5,047.1   | 0.0       | 3,991.5   | 1,726.4   | 0.0       | 1,925.7   | 0.0       |
| Dividends                                      |     | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| Other  |     | 0.0       | 0.0       | 0.0       | (60.6)    | (48.5)    | (55.0)    | (30.0)    |
| Net Cash Flow                                  |     | 3,299.3   | (2,549.0) | 1,362.8   | (1,231.7) | (2,372.5) | (1,028.1) | (2,606.9) |
| Opening net (cash)/debt                        |     | (273.5)   | (3,572.8) | (1,023.8) | (2,386.6) | (1,509.5) | 1,020.5   | 2,251.1   |
| FX   |     | 0.0       | 0.0       | 0.0       | (0.0)     | (0.0)     | 0.0       | 0.0       |
| Other non-cash movements                       |     | 0.0       | 0.0       | (0.0)     | 354.6     | (157.4)   | (202.5)   | (202.5)   |
| Closing net (cash)/debt                        |     | (3,572.8) | (1,023.8) | (2,386.6) | (1,509.5) | 1,020.5   | 2,251.1   | 5,060.5   |

Source: Osirium Technologies accounts, Edison Investment Research

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