

Osirium Technologies

Trading update

A game of two halves

Osirium saw strong order intake in H119, +70% y-o-y and +81% h-o-h. As H1 benefited from the renewal of a large three-year contract, management has guided bookings more cautiously for H219, expecting growth of at least 36% for FY19. We have revised our forecasts down accordingly, but highlight that the recently launched Opus solution could provide upside to our bookings, revenue and EBITDA estimates.

Year end	Revenue (£m)	EBITDA* (£m)	EPS* (p)	DPS (p)	P/E (x)	EV/Sales (x)
12/17	0.65	(1.61)	(18.1)	0.0	N/A	11.3
12/18	0.96	(1.77)	(18.1)	0.0	N/A	7.6
12/19e	1.25	(1.83)	(17.4)	0.0	N/A	5.8
12/20e	1.83	(1.52)	(17.2)	0.0	N/A	4.0

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

Bookings strong in H1; expected to moderate in H2

Osirium's H119 trading update confirmed that it received bookings worth £1.03m in H1, 70% higher than a year ago. As this number included one large three-year renewal with a global asset manager (announced in May), the company has guided to a more conservative bookings intake in H2, expecting total bookings of £1.6m for the year (versus our £1.88m). H119 revenues of £0.52m were 13% higher y-o-y and deferred income at the end of H119 stood at £1.24m, of which £0.46m is expected to be recognised in H2. Net cash at the end of H119 stood at £0.89m; this excludes a £0.47m R&D tax credit due to be received this month. Management has previously suggested it is considering a fund-raise later this year to strengthen the balance sheet and accelerate sales growth.

Estimates revised down but Opus could be wild card

We have revised our bookings forecasts down for FY19 and FY20 and now expect bookings growth of 36% in FY19 and 35% in FY20. We have revised down our revenue and EBITDA forecasts, partially offset by the higher than expected R&D tax credit. We note however, that Osirium's new secure IT process automation solution, Opus, was only launched in May and is yet to have a material impact on bookings. This could provide upside to the conservative H2 bookings guidance and boost H2 revenue and cash. As a lead indicator for new customers, management reiterated that it is seeing an increasing conversion rate of proofs of concept (PoC) to sales, with more PoCs having taken place in H119 than in the whole of 2018.

Valuation: Bookings key to upside

Osirium is trading broadly in line with peers on an EV/Sales basis. We have performed a reverse DCF to analyse the assumptions factored into the current share price, using a WACC of 11% and a terminal growth rate of 3%. We estimate that the share price is discounting average annual bookings growth of 23% for FY21–28, break-even EBITDA in FY23, average EBITDA margins of 9.7% for FY21–28 and a terminal EBITDA margin of 35%. In our view, bookings growth will be the key driver of share price performance.

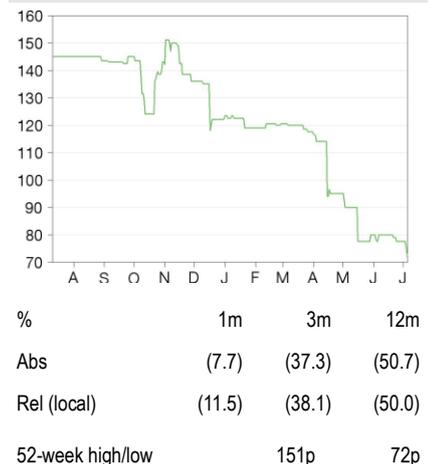
Software & comp services

8 July 2019

Price **71.5p**
Market cap **£10m**

Net cash (£m) at end FY18	2.4
Shares in issue	13.6m
Free float	92%
Code	OSI
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



Business description

UK-based Osirium Technologies designs and supplies subscription-based cybersecurity software. Its PxM platform includes privileged access management, privileged task management, privileged session management and privileged behaviour management and it has recently launched Opus for secure process automation.

Next events

H119 results September 2019

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Changes to forecasts

Exhibit 1: Estimate changes

£'000s	FY19e				FY20e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Bookings	1,883.7	1,601.1	(15.0%)	36.0%	2,543.0	2,161.5	(15.0%)	35.0%
Revenues	1,404.2	1,250.7	(10.9%)	30.6%	2,072.8	1,830.3	(11.7%)	46.3%
EBITDA	(1,679.7)	(1,833.3)	9.1%	3.7%	(1,273.8)	(1,516.2)	19.0%	(17.3%)
EBITDA margin	-119.6%	-146.6%	22.5%		-61.5%	-82.8%	34.8%	
Normalised operating profit	(2,677.3)	(2,830.8)	5.7%	5.8%	(2,500.2)	(2,742.7)	9.7%	(3.1%)
Normalised operating profit margin	-190.7%	-226.3%	(35.7%)		-120.6%	-149.8%	(29.2%)	
Reported operating profit	(2,677.3)	(2,830.8)	5.7%	5.8%	(2,500.2)	(2,742.7)	9.7%	(3.1%)
Reported operating margin	-190.7%	-226.3%	(35.7%)		-120.6%	-149.8%	(29.2%)	
Normalised PBT	(2,677.3)	(2,830.8)	5.7%	5.8%	(2,500.2)	(2,742.7)	9.7%	(3.1%)
Reported PBT	(2,677.3)	(2,830.8)	5.7%	5.8%	(2,500.2)	(2,742.7)	9.7%	(3.1%)
Normalised net income	(2,275.7)	(2,360.9)	3.7%	4.1%	(2,125.2)	(2,331.3)	9.7%	(1.3%)
Reported net income	(2,275.7)	(2,360.9)	3.7%	4.1%	(2,125.2)	(2,331.3)	9.7%	(1.3%)
Normalised basic EPS	(16.79)	(17.42)	3.7%	(4.0%)	(15.68)	(17.20)	9.7%	(1.3%)
Normalised diluted EPS	(16.79)	(17.42)	3.7%	(4.0%)	(15.68)	(17.20)	9.7%	(1.3%)
Reported basic EPS	(16.79)	(17.42)	3.7%	(4.0%)	(15.68)	(17.20)	9.7%	(1.3%)
Net debt/(cash)	33.2	197.0	493.0%	(108.3%)	2,275.1	2,754.7	21.1%	1298.3%

Source: Edison Investment Research

Exhibit 2: Financial summary

	£'000s	2013	2014	2015	2016	2017	2018	2019e	2020e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue		120.0	207.0	290.2	477.6	647.6	957.5	1,250.7	1,830.3
EBITDA		(366.7)	(327.1)	(377.9)	(1,136.7)	(1,609.4)	(1,767.3)	(1,833.3)	(1,516.2)
Normalised operating profit		(679.4)	(714.3)	(790.7)	(1,725.6)	(2,296.8)	(2,674.8)	(2,830.8)	(2,742.7)
Amortisation of acquired intangibles		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
Share-based payments		0.0	(184.3)	(56.4)	(96.9)	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)	(2,830.8)	(2,742.7)
Net Interest		(35.2)	5.7	(9.9)	9.7	4.2	(0.6)	0.0	0.0
Joint ventures & associates (post tax)		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
Profit Before Tax (norm)		(714.6)	(708.5)	(800.7)	(1,715.9)	(2,292.6)	(2,675.4)	(2,830.8)	(2,742.7)
Profit Before Tax (reported)		(714.6)	(892.8)	(857.1)	(1,812.8)	(2,292.6)	(2,675.4)	(2,830.8)	(2,742.7)
Reported tax		137.7	134.1	121.0	453.3	409.4	407.6	469.9	411.4
Profit After Tax (norm)		(576.9)	(602.1)	(687.6)	(1,286.9)	(1,883.2)	(2,267.8)	(2,360.9)	(2,331.3)
Profit After Tax (reported)		(576.9)	(758.7)	(736.0)	(1,359.6)	(1,883.2)	(2,267.8)	(2,360.9)	(2,331.3)
Minority interests		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
Net income (normalised)		(576.9)	(602.1)	(687.6)	(1,286.9)	(1,883.2)	(2,267.8)	(2,360.9)	(2,331.3)
Net income (reported)		(576.9)	(758.7)	(736.0)	(1,359.6)	(1,883.2)	(2,267.8)	(2,360.9)	(2,331.3)
Basic average number of shares outstanding (m)		0	1	10	10	10	13	14	14
EPS - normalised (p)		N/A	N/A	(6.61)	(12.38)	(18.12)	(18.14)	(17.42)	(17.20)
EPS - normalised fully diluted (p)		N/A	N/A	(6.61)	(12.38)	(18.12)	(18.14)	(17.42)	(17.20)
EPS - basic reported (p)		(296.36)	(144.92)	(7.08)	(13.08)	(18.12)	(18.14)	(17.42)	(17.20)
Dividend (p)		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	30.6	46.3
EBITDA Margin (%)		-305.7	-158.0	-130.2	-238.0	-248.5	-184.6	-146.6	-82.8
Normalised Operating Margin		-566.3	-345.0	-272.5	-361.3	-354.7	-279.4	-226.3	-149.8
BALANCE SHEET									
Fixed Assets		815.7	805.2	799.7	1,178.8	1,812.1	2,360.2	2,923.7	3,333.9
Intangible Assets		808.6	795.7	793.3	1,134.5	1,731.9	2,307.2	2,864.6	3,268.6
Tangible Assets		7.2	9.5	6.4	44.3	80.2	52.9	59.1	65.4
Investments & other		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	622.2	(1,744.9)
Stocks		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	819.2	1,009.7
Cash & cash equivalents		32.2	50.6	273.5	3,572.8	1,023.8	2,386.6	(197.0)	(2,754.6)
Other		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)	(1,582.4)	(1,956.8)
Creditors		(235.2)	(294.2)	(365.0)	(648.5)	(857.7)	(1,170.3)	(1,582.4)	(1,956.8)
Tax and social security		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
Other		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long Term Liabilities		(952.5)	(487.6)	(163.3)	0.0	0.0	0.0	0.0	0.0
Long term borrowings		(789.0)	(323.7)	0.0	0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(163.4)	(163.9)	(163.3)	0.0	0.0	0.0	0.0	0.0
Net Assets		(262.6)	292.6	699.5	4,483.9	2,600.8	4,324.5	1,963.5	(367.7)
Minority interests		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	1,963.5	(367.7)
CASH FLOW									
Op Cash Flow before WC and tax		(366.7)	(327.1)	(377.9)	(1,136.7)	(1,609.4)	(1,767.3)	(1,833.3)	(1,516.2)
Working capital		66.3	3.8	120.7	226.8	85.5	187.2	340.9	183.8
Exceptional & other		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	469.9	411.4
Net operating cash flow		(190.6)	(274.9)	(122.6)	(789.4)	(1,232.5)	(1,172.5)	(1,022.4)	(921.1)
Capex		(412.8)	(376.7)	(407.3)	(968.0)	(1,320.6)	(1,455.7)	(1,561.1)	(1,636.6)
Acquisitions/disposals		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net interest		(35.2)	5.7	(9.9)	9.7	4.2	(0.6)	0.0	0.0
Equity financing		0.0	639.3	762.8	5,047.1	0.0	3,991.5	0.0	0.0
Dividends		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	0.0	0.0
Net Cash Flow		(638.6)	(6.5)	222.9	3,299.3	(2,549.0)	1,362.8	(2,583.5)	(2,557.7)
Opening net (cash)/debt		118.3	756.9	273.1	(273.5)	(3,572.8)	(1,023.8)	(2,386.6)	197.0
FX		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	(0.1)	(0.0)	0.0
Closing net (cash)/debt		756.9	273.1	(273.5)	(3,572.8)	(1,023.8)	(2,386.6)	197.0	2,754.7

Source: Osirium, Edison Investment Research

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