

Osirium Technologies

FY18 results

Moving beyond PAM

Osirium reported FY18 revenues and operating loss slightly ahead of our forecasts. Although bookings intake was lower than expected in H218, the increase in proofs of concept underway and the number of customers using PxM Express support accelerating bookings growth in FY19. By broadening the product offering with the recently launched secure IT process automation solution, Opus, and the soon to be launched endpoint privilege management (EPM) solution, Osirium is growing its addressable market and creating upsell opportunities for its 'land and expand' strategy.

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	12.5
12/18	0.95	(1.77)	(18.1)	0.0	N/A	8.5
12/19e	1.40	(1.68)	(16.8)	0.0	N/A	5.8
12/20e	2.07	(1.27)	(15.7)	0.0	N/A	3.9

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

FY18 revenue growth outpaced bookings growth

FY18 revenue of £0.95m (+48% y-o-y) was slightly ahead of our forecast, as was the EBIT loss of £2.67m. Bookings growth of 34% undershot our 50% forecast; growth in the pipeline and proofs of concept underway support faster growth in FY19. We have revised our forecasts to reflect the cost base in FY18 and higher capitalised development costs in FY19 and FY20. We are forecasting a net debt position of £33k by the end of FY19 and note that the company is considering a fundraise later this year to strengthen the balance sheet and accelerate growth.

Strategy on track

Osirium's strategy to drive growth is focused on its commitment to innovation, its customer focus and market expansion. Over the course of 2018, Osirium expanded its customer base to include new verticals and continued upselling to existing customers. Today it has announced a three-year contract renewal with its largest customer which increases the number of devices secured by 50%. The recently announced launch of Opus builds on Osirium's innovative privileged task automation solution and the company is soon to launch an EPM solution in conjunction with RazorSecure. Both products widen Osirium's addressable market and provide additional upsell opportunities with existing customers.

Valuation: Bookings key to upside

After recent weakness in the share price, Osirium is trading 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 the share price is discounting average annual bookings growth of 22% for FY22–28, break-even EBITDA in FY23, average EBITDA margins of 12.0% for FY22–28 and a terminal EBITDA margin of 35%. In our view, bookings growth will be the key driver of share price performance.

Software & comp services

17 May 2019

Price 77.5p
Market cap £11m

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



%	1m	3m	12m
Abs	(17.6)	(35.7)	(48.8)
Rel (local)	(16.3)	(36.9)	(46.1)
52-week high/low		151.5p	77.5p

Business description

UK-based Osirium Technologies designs and supplies subscription-based cyber security 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 trading update July

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Review of FY18 results

Exhibit 1: FY18 results highlights					
£'k	FY17a	FY18e	FY18a	Diff	y-o-y
Bookings	876.3	1,314.5	1,177.3	(10.4%)	34.3%
Revenues	647.6	922.6	957.5	3.8%	47.9%
EBITDA	(1,609.4)	(1,995.5)	(1,767.3)	(11.4%)	9.8%
EBITDA margin	-248.5%	-216.3%	-184.6%	(14.7%)	
Normalised operating profit	(2,296.8)	(2,759.0)	(2,674.8)	(3.1%)	16.5%
Normalised operating profit margin	-354.7%	-299.1%	-279.4%	19.7%	
Reported operating profit	(2,296.8)	(2,759.0)	(2,674.8)	(3.1%)	16.5%
Reported operating margin	-354.7%	-299.1%	-279.4%	19.7%	
Normalised PBT	(2,292.6)	(2,757.0)	(2,675.4)	(3.0%)	16.7%
Reported PBT	(2,292.6)	(2,757.0)	(2,675.4)	(3.0%)	16.7%
Normalised net income	(1,883.2)	(2,343.5)	(2,267.8)	(3.2%)	20.4%
Reported net income	(1,883.2)	(2,343.5)	(2,267.8)	(3.2%)	20.4%
Normalised basic EPS (p)	(18.12)	(18.38)	(18.14)	(1.3%)	0.1%
Normalised diluted EPS (p)	(18.12)	(18.38)	(18.14)	(1.3%)	0.1%
Reported basic EPS (p)	(18.12)	(18.38)	(18.14)	(1.3%)	0.1%
Net debt/(cash)	(1,023.8)	(2,494.9)	(2,386.6)	(4.3%)	133.1%

Source: Osirium, Edison Investment Research

Osirium saw revenue growth of 48% in FY18, with revenues coming in slightly ahead of our forecast. In total, 87% of revenues came from annual subscription licence fees and the remaining 13% from services. Total staff costs were 4% lower than we forecast and a higher capitalisation of development costs (£1.44m versus our £1.35m and £1.25m in FY17) meant net staff costs were £195k lower than forecast, resulting in EBITDA 11% ahead of our forecast.

Bookings growth was 34% y-o-y, with H1 y-o-y growth of 37% and H2 growth of 32%. This was lower than our estimate of 50% bookings growth for the year. Deferred revenue stood at £725k at the end of FY18, up from £505k at the end of FY17.

Amortisation of capitalised development costs was higher than forecast due to higher spend in the year, resulting in a reported operating loss £84k better than our forecast. The company expects to claim for an R&D tax credit of £408k for the year.

Net cash at year end was £2.4m, slightly below our forecast.

Business update

Product development: Opus launched, EPM solution imminent

On 1 May, Osirium launched a new secure process automation solution, **Opus** ([Opus: taking the work out of IT security](#), 8 May), which builds on its privileged task automation solution. Several customers are piloting the technology and the company expects to sign up its first paying customer in the next quarter. The new technology widens Osirium's addressable market, as it can be used with other password vaults and does not depend on the customer using Osirium's PxM platform. Osirium will sell Opus on a subscription basis, either standalone or alongside its PxM platform.

Last year, Osirium announced a strategic technology partnership with RazorSecure to jointly deliver cybersecurity solutions specifically for the critical national infrastructure (CNI), transport and industrial Internet of Things markets. RazorSecure develops machine-learning based **EPM** software, which builds a baseline of 'normal' activity to define what processes and applications are expected and how they are likely to use resources, therefore making it easier to identify rogue behaviour. RazorSecure's technology is used in CNI, particularly in the rail network, where it is able

to detect intrusion and generate automated responses on systems that are not always connected. RazorSecure is adapting its EPM software for use by Osirium, which will start to resell it as part of its PxM platform by the end of Q219. EPM functionality has been requested by customers and this relationship brings it to Osirium's product range faster than if Osirium were to develop it in-house.

Broadening the customer base geographically and by industry

Osirium signed up 14 new customers during 2018 and made an additional 12 upsells and renewals. The total number of customers using Osirium's technology stood at 59 at the end of FY18, of which 15 were using PxM Express, Osirium's free product. The company lost one customer in 2018, worth £6.5k. Through the course of 2018, Osirium added customers in new verticals, including energy, manufacturing, travel and transport services and added new customers in sectors where it already had a presence (financial services, retail, NHS). Since the year end, the company announced it has signed up a UK IT service provider to the public sector and its first customer in North America.

Today, the company has announced that its largest customer, a leading global asset manager, has signed a three-year contract extension for use of the full PxM platform and has increased the number of devices secured from 3,000 to 4,500. The renewed contract will contribute revenues from this year and will be recognised over the three-year contract period.

Osirium saw as many companies entering into a PoC in Q119 as in the whole of 2018. Although Osirium's PxM Express offers a simple and free way for customers to trial the product, it is also seeing companies bypassing it and going straight to PoC. Management views the number of PoCs underway as a key lead indicator of future sales – the obvious interest from the customer combined with close interaction with Osirium during the PoC results in a high level of conversion to signed contracts. The company saw its unweighted pipeline increase significantly over 2018, up from 145 prospects worth £1.9m at the end of FY17 to 300 prospects worth £3.3m by the end of FY18.

Additions to the management team

The company has made some changes to its management team. A new marketing director, Chris Heslop, joined in H218. Since the year end, the company has made two hires: sales director Stuart McGregor and customer services director Barry Scott. Both recent hires have experience in the PAM market: Stuart worked at Bomgar as sales director for UK and Northern Europe and Barry at Centrifly as EMEA CTO.

Outlook and changes to forecasts

The company expects to see further growth in both subscription and services revenues in FY19. Demand for its technology is supported by a growing awareness of the need to protect privileged accounts, with drivers including high profile cyber-attacks, GDPR, the continued growth in IT outsourcing and use of the cloud, and the growing number of connected devices (Internet of Things).

Trading in the first four months of FY19 has been in line with management expectations. The company may carry out a fundraise later this year to strengthen the balance sheet and accelerate sales growth.

We have revised our forecasts to reflect FY18 results. We assume that capitalised development costs rise each year reflecting increased development spend as products such as Opus and EPM are introduced.

Exhibit 2: Changes to forecasts

£'k	FY19e		Change	y-o-y	FY20e		Change	y-o-y
	Old	New			Old	New		
Bookings	1,840.3	1,883.7	2.4%	60.0%	2,484.4	2,543.0	2.4%	35.0%
Revenues	1,406.7	1,404.2	(0.2%)	46.7%	1,957.9	2,072.8	5.9%	47.6%
EBITDA	(1,816.0)	(1,679.7)	(7.5%)	(5.0%)	(1,432.6)	(1,273.8)	(11.1%)	(24.2%)
EBITDA margin	-129.1%	-119.6%	(7.3%)		-73.2%	-61.5%	(16.0%)	
Normalised operating profit	(2,775.8)	(2,677.3)	(3.5%)	0.1%	(2,581.6)	(2,500.2)	(3.1%)	(6.6%)
Normalised operating profit margin	-197.3%	-190.7%	6.7%		-131.8%	-120.6%	11.2%	
Reported operating profit	(2,775.8)	(2,677.3)	(3.5%)	0.1%	(2,581.6)	(2,500.2)	(3.1%)	(6.6%)
Reported operating margin	-197.3%	-190.7%	6.7%		-131.8%	-120.6%	11.2%	
Normalised PBT	(2,774.8)	(2,677.3)	(3.5%)	0.1%	(2,581.6)	(2,500.2)	(3.1%)	(6.6%)
Reported PBT	(2,774.8)	(2,677.3)	(3.5%)	0.1%	(2,581.6)	(2,500.2)	(3.1%)	(6.6%)
Normalised net income	(2,358.6)	(2,275.7)	(3.5%)	0.3%	(2,194.3)	(2,125.2)	(3.1%)	(6.6%)
Reported net income	(2,358.6)	(2,275.7)	(3.5%)	0.3%	(2,194.3)	(2,125.2)	(3.1%)	(6.6%)
Normalised basic EPS (p)	(17.42)	(16.79)	(3.6%)	(7.4%)	(16.21)	(15.68)	(3.3%)	(6.6%)
Normalised diluted EPS (p)	(17.42)	(16.79)	(3.6%)	(7.4%)	(16.21)	(15.68)	(3.3%)	(6.6%)
Reported basic EPS (p)	(17.42)	(16.79)	(3.6%)	(7.4%)	(16.21)	(15.68)	(3.3%)	(6.6%)
Net debt/(cash)	(28.1)	33.2	N/A	N/A	1,972.6	2,275.1	15.3%	6750.1%

Source: Edison Investment Research

Exhibit 3: Financial summary

	£'k	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	1,404.2	2,072.8
EBITDA		(366.7)	(327.1)	(377.9)	(1,136.7)	(1,609.4)	(1,767.3)	(1,679.7)	(1,273.8)
Normalised operating profit		(679.4)	(714.3)	(790.7)	(1,725.6)	(2,296.8)	(2,674.8)	(2,677.3)	(2,500.2)
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)	(2,677.3)	(2,500.2)
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)	(2,677.3)	(2,500.2)
Profit Before Tax (reported)		(714.6)	(892.8)	(857.1)	(1,812.8)	(2,292.6)	(2,675.4)	(2,677.3)	(2,500.2)
Reported tax		137.7	134.1	121.0	453.3	409.4	407.6	401.6	375.0
Profit After Tax (norm)		(576.9)	(602.1)	(687.6)	(1,286.9)	(1,883.2)	(2,267.8)	(2,275.7)	(2,125.2)
Profit After Tax (reported)		(576.9)	(758.7)	(736.0)	(1,359.6)	(1,883.2)	(2,267.8)	(2,275.7)	(2,125.2)
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)	(2,275.7)	(2,125.2)
Net income (reported)		(576.9)	(758.7)	(736.0)	(1,359.6)	(1,883.2)	(2,267.8)	(2,275.7)	(2,125.2)
Basic ave. 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)	(16.79)	(15.68)
EPS - normalised fully diluted (p)		N/A	N/A	(6.61)	(12.38)	(18.12)	(18.14)	(16.79)	(15.68)
EPS - basic reported (p)		(296.36)	(144.92)	(7.08)	(13.08)	(18.12)	(18.14)	(16.79)	(15.68)
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	46.7	47.6
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Normalised Operating Margin		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
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	836.5	(1,185.6)
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	869.7	1,089.5
Cash & cash equivalents		32.2	50.6	273.5	3,572.8	1,023.8	2,386.6	(33.2)	(2,275.1)
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)	(1,711.4)	(2,224.7)
Creditors		(235.2)	(294.2)	(365.0)	(648.5)	(857.7)	(1,170.3)	(1,711.4)	(2,224.7)
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	2,048.8	(76.4)
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	2,048.8	(76.4)
CASH FLOW									
Op Cash Flow before WC and tax		(366.7)	(327.1)	(377.9)	(1,136.7)	(1,609.4)	(1,767.3)	(1,679.7)	(1,273.8)
Working capital		66.3	3.8	120.7	226.8	85.5	187.2	419.4	293.6
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	401.6	375.0
Net operating cash flow		(190.6)	(274.9)	(122.6)	(789.4)	(1,232.5)	(1,172.5)	(858.7)	(605.2)
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	(2,419.8)	(2,241.8)
Opening net (cash)/debt		118.3	756.9	273.1	(273.5)	(3,572.8)	(1,023.8)	(2,386.6)	33.2
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)	33.2	2,275.1

Source: Company data, Edison Investment Research

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