

Osirium Technologies

FY20 results

Positive bookings trend

Osirium reported revenue growth of 22.5% for FY20 and, as a result of cost-control measures taken to manage the business during the pandemic, reduced the EBITDA loss from £2.15m in FY19 to £1.36m in FY20.

Bookings declined 14% y-o-y, although the company achieved record intake in Q120 and Q420 and has seen positive momentum so far this year, particularly in the healthcare sector. We have revised our forecasts to reflect lower operating costs and the recent fund raise.

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	5.4
12/20	1.43	(1.36)	(12.9)	0.0	N/A	4.4
12/21e	1.68	(1.43)	(11.2)	0.0	N/A	3.8
12/22e	2.04	(1.21)	(9.8)	0.0	N/A	3.1

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

Pandemic hit in Q220/Q320, recovery by Q420

Osirium generated record bookings in Q120, before the pandemic hit and delayed customer decision making in Q2 and Q3. The company responded with remote working, digital marketing and temporary salary cuts, and then saw customer demand rebound in Q4 with a record quarter. Osirium had already made good progress with NHS and emergency services; at the end of 2020, NHS Digital created a fund to help NHS trusts put security in place to prevent ransomware attacks. Osirium adapted its offering to provide a relevant solution and this has resulted in the company signing up a substantial number of trusts in Q121. Despite the pandemic, the company signed up 16 new customers in FY20 and had a contract renewal rate of 99% with existing customers.

Improved cash position supports growth plans

We have revised our forecasts to reflect the lower-than-expected cost base in FY20 and the recent fund raise. We maintain our bookings and revenue forecasts for FY21 and reduce our EBITDA loss forecast from £1.8m to £1.4m. We forecast that the company will have a gross cash position of £0.8m by the end of FY21 and a net debt position of £1.9m (down from our previous £5.1m forecast).

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 5.5x CY sales). 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 9% and a terminal growth rate of 3%. We estimate the current share price is discounting average bookings growth of 21% for FY23–30e, break-even EBITDA in FY25, average EBITDA margins of 11.1% for FY23–30e and a terminal EBITDA margin of 36.5%.

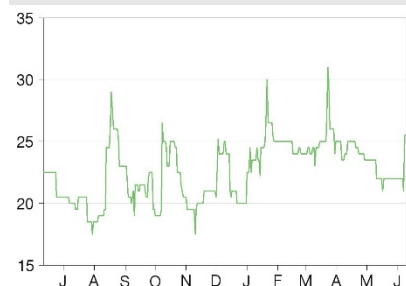
Software & comp services

11 June 2021

Price 25.0p
Market cap £7m

Net debt (£m) at end FY20	1.0
Shares in issue	29.4m
Free float	91%
Code	OSI
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	8.5	4.1	13.3
Rel (local)	8.8	(2.0)	0.1
52-week high/low	31p	17.5p	

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

H121 results	September
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Analyst

Katherine Thompson +44 (0)20 3077 5730

tech@edisongroup.com

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Review of FY20 results

Exhibit 1: FY20 results highlights

£000s	FY20e	FY20a	Difference	y-o-y
Bookings	1,507.1	1,567.0	4.0%	-13.7%
Revenues	1,399.2	1,434.9	2.5%	22.5%
EBITDA	(1,914.0)	(1,363.5)	(28.8%)	(36.6%)
Normalised operating profit	(3,459.2)	(2,872.4)	(17.0%)	(15.5%)
Reported operating profit	(3,459.2)	(2,872.4)	(17.0%)	(15.5%)
Normalised PBT	(3,663.8)	(3,094.7)	(15.5%)	(10.3%)
Reported PBT	(3,663.8)	(3,094.7)	(15.5%)	(10.3%)
Normalised net income	(3,114.2)	(2,504.5)	(19.6%)	(11.5%)
Reported net income	(3,114.2)	(2,504.5)	(19.6%)	(11.5%)
Normalised basic EPS (p)	(15.97)	(12.85)	(19.6%)	(34.0%)
Normalised diluted EPS (p)	(15.97)	(12.85)	(19.6%)	(34.0%)
Reported basic EPS (p)	(15.97)	(12.85)	(19.6%)	(34.0%)
Gross cash	650.7	1,482.4	127.8%	
Net debt/(cash)	1,897.2	1,020.5	(46.2%)	(167.6%)

Source: Osirium Technologies, Edison Investment Research

Osirium reported FY20 revenue and bookings 2.5% and 4.0% ahead of our forecasts, respectively. The EBITDA loss of £1.36m was significantly lower than our £1.91m forecast, as operating costs (excluding depreciation and amortisation) dropped to £1.19m compared to £1.60m in H120. Costs were saved from travel and marketing events as well as staff taking an 80% pay cut for a large part of the year. The company did not furlough any staff nor make any staff redundant. Depreciation and amortisation totalled £1.51m, slightly below our £1.55m forecast. Osirium reported an R&D tax credit of £0.59m for the year, slightly better than our £0.55m forecast, resulting in a net loss of £2.50m for the year, compared to our £3.11m forecast.

Lower than expected operating costs resulted in net debt of £1.02m at year-end compared to our £1.90m forecast.

Bookings intake picked up from Q420

Bookings reached record levels in Q120, before COVID-19 restrictions resulted in delayed decision making from potential customers in Q2 and Q3. Q4 bookings intake rebounded to record levels on the back of a number of contracts won via direct sales and reseller partners. Overall, this resulted in a 14% decline in bookings year-on-year.

Contracts were across range of verticals in the UK including healthcare, telecoms, retail and the emergency services; several were competitive wins, with one displacing an incumbent supplier. The company saw a 28% increase in customer numbers over the year, with 16 new customers, and saw a 99% contract renewal rate from existing customers.

So far in 2021, Osirium has seen a record Q1 and continued strong trading in Q2. The company has benefited from further contract wins in the NHS, taking advantage of NHS Digital funding for privileged access management (PAM) projects (specifically back-up protection) in the wake of ransomware attacks. Osirium developed a special package for this purpose, combining software and services.

During the pandemic, the company switched marketing from industry tradeshows and events to digital. Digital marketing leads represented 65% of sales opportunities in 2020 compared to 25% in 2019.

Fund raise last month strengthens balance sheet

In April/May, the company raised gross funds of £2.17m from the issue of 9.86m shares at 22p per share. We forecast a gross cash position of £0.8m by the end of FY21 and a net debt position of £1.9m when the £2.7m of convertible bonds are taken into account.

Product update

Osirium saw its first revenues from its privileged endpoint management (PEM) product, used by an existing PAM customer in the healthcare sector.

During the year, the company worked on enhancements to its existing product suite. These included:

- clustering across multiples servers, to improve availability and resilience as customers scale operations;
- a new, intuitive, browser-based user experience;
- a new 'just-in-time' approval facility to grant access for a limited period of time;
- rebranding the Privileged Process Automation platform as Osirium Automation and introducing an API to allow tasks to be initiated by external systems;
- launching a free tool for PEM to let prospects assess where local admin accounts have been created and their potential level of risk.

In November 2020, Osirium was granted a patent by the US Patent and Trade Mark office for its 'shadow authentication' technology.

Expanding partnerships

The company accelerated efforts to expand its reseller network, adding 13 new partners in H120 and additional partners in H220, with a current partner count of 30 across the UK, Benelux, the Nordics, Eastern Europe and the Middle East. During FY20, Osirium signed technology partnerships with AppViewX (cybersecurity and network management), RSA (cybersecurity and digital risk management) and My1Login (identity and access management).

Changes to forecasts

We have revised our FY21 forecasts to reflect the lower-than-expected cost base in FY20, some of which was due to a recruitment freeze. We assume salaries revert to their normal level from the start of FY21. We have also reflected the recent fund raise. Our FY21 EBITDA loss forecast reduces from £1.8m to £1.4m and our net debt forecast reduces from £5.1m to £1.9m. We estimate that Osirium will need to raise more money in FY22 and have modelled this as debt.

Exhibit 2: Changes to forecasts

£000s	FY21e	FY21e			FY22e	
	Old	New	Change	y-o-y	New	y-o-y
Bookings	2,034.6	2,034.6	(0.0%)	29.8%	2,543.2	25.0%
Revenues	1,676.2	1,677.5	0.1%	16.9%	2,043.4	21.8%
EBITDA	(1,824.3)	(1,427.9)	(21.7%)	4.7%	(1,205.7)	(15.6%)
EBITDA margin	-108.8%	-85.1%	(21.8%)		-59.0%	
Normalised operating profit	(3,588.3)	(3,221.7)	(10.2%)	12.2%	(3,172.0)	(1.5%)
Reported operating profit	(3,588.3)	(3,221.7)	(10.2%)	12.2%	(3,172.0)	(1.5%)
Normalised PBT	(3,792.9)	(3,432.2)	(9.5%)	10.9%	(3,382.5)	(1.4%)
Reported PBT	(3,792.9)	(3,432.2)	(9.5%)	10.9%	(3,382.5)	(1.4%)
Normalised net income	(3,224.0)	(2,917.3)	(9.5%)	16.5%	(2,875.1)	(1.4%)
Reported net income	(3,224.0)	(2,917.3)	(9.5%)	16.5%	(2,875.1)	(1.4%)
Normalised basic EPS (p)	(16.54)	(11.19)	(32.3%)	(12.9%)	(9.79)	(12.5%)
Normalised diluted EPS (p)	(16.54)	(11.19)	(32.3%)	(12.9%)	(9.79)	(12.5%)
Reported basic EPS (p)	(16.54)	(11.19)	(32.3%)	(12.9%)	(9.79)	(12.5%)
Gross cash	697.0	845.4	21.3%		423.1	
Net debt/(cash)	5,053.5	1,860.0	(63.2%)	82.3%	4,484.8	141.1%

Source: Edison Investment Research

Exhibit 3: Financial summary

	£000s	2016	2017	2018	2019	2020	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue		477.6	647.6	957.5	1,171.6	1,434.9	1,677.5	2,043.4
EBITDA		(1,136.7)	(1,609.4)	(1,767.3)	(2,152.1)	(1,363.5)	(1,427.9)	(1,205.7)
Normalised operating profit		(1,725.6)	(2,296.8)	(2,674.8)	(3,399.7)	(2,872.4)	(3,221.7)	(3,172.0)
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)	(3,221.7)	(3,172.0)
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)	(3,432.2)	(3,382.5)
Profit Before Tax (reported)		(1,812.8)	(2,292.6)	(2,675.4)	(3,451.9)	(3,094.7)	(3,432.2)	(3,382.5)
Reported tax		453.3	409.4	407.6	622.5	590.2	514.8	507.4
Profit After Tax (norm)		(1,286.9)	(1,883.2)	(2,267.8)	(2,829.4)	(2,504.5)	(2,917.3)	(2,875.1)
Profit After Tax (reported)		(1,359.6)	(1,883.2)	(2,267.8)	(2,829.4)	(2,504.5)	(2,917.3)	(2,875.1)
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)	(2,917.3)	(2,875.1)
Net income (reported)		(1,359.6)	(1,883.2)	(2,267.8)	(2,829.4)	(2,504.5)	(2,917.3)	(2,875.1)
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)	(11.19)	(9.79)
EPS - normalised fully diluted (p)		(12.38)	(18.12)	(18.14)	(19.45)	(12.85)	(11.19)	(9.79)
EPS - basic reported (p)		(13.08)	(18.12)	(18.14)	(19.45)	(12.85)	(11.19)	(9.79)
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	16.9	21.8
EBITDA Margin (%)		-238.0	-248.5	-184.6	-183.7	-95.0	-85.1	-59.0
Normalised Operating Margin		-361.3	-354.7	-279.4	-290.2	-200.2	-192.0	-155.2
BALANCE SHEET								
Fixed Assets		1,178.8	1,812.1	2,360.2	3,124.4	3,487.3	3,799.4	3,978.9
Intangible Assets		1,134.5	1,731.9	2,307.2	2,936.5	3,335.5	3,640.2	3,832.4
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	1,850.5	1,518.3
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	1,005.1	1,095.3
Cash & cash equivalents		3,572.8	1,023.8	2,386.6	3,854.9	1,482.4	845.4	423.1
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)	(2,540.2)	(3,070.2)
Creditors		(648.5)	(857.7)	(1,170.3)	(1,889.1)	(2,088.7)	(2,510.2)	(3,040.2)
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)	(4,923.6)
Long term borrowings		0.0	0.0	0.0	(2,345.4)	(2,502.9)	(2,705.4)	(4,907.9)
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	378.5	(2,496.6)
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	378.5	(2,496.6)
CASH FLOW								
Op Cash Flow before WC and tax		(1,136.7)	(1,609.4)	(1,767.3)	(2,152.1)	(1,363.5)	(1,427.9)	(1,205.7)
Working capital		226.8	85.5	187.2	633.7	396.5	234.9	439.8
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	514.8	507.4
Net operating cash flow		(789.4)	(1,232.5)	(1,172.5)	(1,045.1)	(395.7)	(678.1)	(258.6)
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	2,170.0	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)	(637.0)	(2,422.3)
Opening net (cash)/debt		(273.5)	(3,572.8)	(1,023.8)	(2,386.6)	(1,509.5)	1,020.5	1,860.0
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	1,860.0	4,484.8

Source: Osirium Technologies accounts, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia