

Turbo-charging growth prospects

27th May 2020

Success breeds success. Take B2B software developer Rosslyn, who over the past few years has meticulously built a leading Big Data & spend analytics SaaS platform (RAPid), supporting an illustrious roster of 100+ clients (many global multi-nationals). Topped off with the synergistic acquisition of Langdon in Sept'19, & becoming EBITDA positive in FY'20 for the 1st time ever - thanks to increasing ARR (+12% to >£6m vs £5.4m LY) & favourable operational leverage (81% gross margins).

So what happens next? Well more of the same, but perhaps with even faster organic growth. You see despite COVID-19, the industry's long term fundamentals remain intact, with Gartner predicting (albeit pre pandemic) that RDT's core addressable markets will climb 15%-20% CAGR until at least 2025.

Major endorsement of strategy

Moreover at today's General Meeting, shareholders rubber stamped the heavily oversubscribed £7.3m (gross, £6.8m net) placing at 5p. How many businesses can claim to have raised >70% of their marketcap, at a 22% premium to the preceding 20 day average? Indicating both strong institutional support, and substantial upside potential.

Oversubscribed £7.3m placing (£6.8m net proceeds)

Placing Price (per share)	5.0p	Premium
Prior close	4.8p	5.3%
Preceding 20 day average	4.1p	22.0%
Preceding 60 day average	4.0p	23.8%
	000s	Mrkcap (£'ks)
Sharecount before fund raise at 5p	192,916	9,646
Number of placing Shares	146,000	
Enlarged share capital @ 5p	338,916	16,946
Placing Shares as % of the enlarged share capital	43.08%	
Gross proceeds from placing	£7,300	

Source: Internet.

Objective to triple turnover by FY23

Additionally, the company plans to invest the funds to further accelerate the top line, launch new products (eg Master Data Management), bolster the balance sheet & maybe even execute one or two more opportunistic bolt-ons. A proven formula, that aims to **triple revenues over the next 3 years** (incl M&A), whilst maintaining tight cost control and lifting profit margins.

In fact if achieved, assuming an ARR (annualised recurring revenues) of >£18m by April'23 – then we believe the group's valuation would justify a 3x-5x EV/sales multiple – representing £54m-£90m, or 16p-26p/share.

Company Data

EPIC	AIM:RDT
Price	5.2p
52 week Hi/Lo	7.6p/3.5p
Market cap	£17.5m
ED valuation / share	9.5p
Sharecount (post placing)	338.9m
Est proforma net cash (post placing)	£6.0m
Avg. daily volume	500k

Share Price, p



Source: Share Cast

Description

Founded in 2005 and listed on AIM in Apr'14 at 33p raising £10m, Rosslyn Data Tech is a **Big Data & spend analytics SaaS** specialist helping corporates optimise their supply chains, streamline operations and eliminate unnecessary expenditure.

An estimated 79% (ARR £6.0m, or annualised recurring revenues) **of FY20 revenues (£7.1m) are 'recurring in nature**, which coupled with **high retention rates**, provides **robust forward visibility**.

Here the majority of sales are direct, albeit partnerships are growing in importance too. Likewise the business continues to expand outside of the UK, especially in the US & continental Europe. Headcount is around 70.

Next news: FY20 prelims Sept'20

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Management have plenty of skin in the game

Sure there's plenty of hard work beforehand, yet equally we wouldn't bet against the Board - who (including the Chairman, CEO & CFO) stumped up a non-insignificant £171k (see below) in the placing.

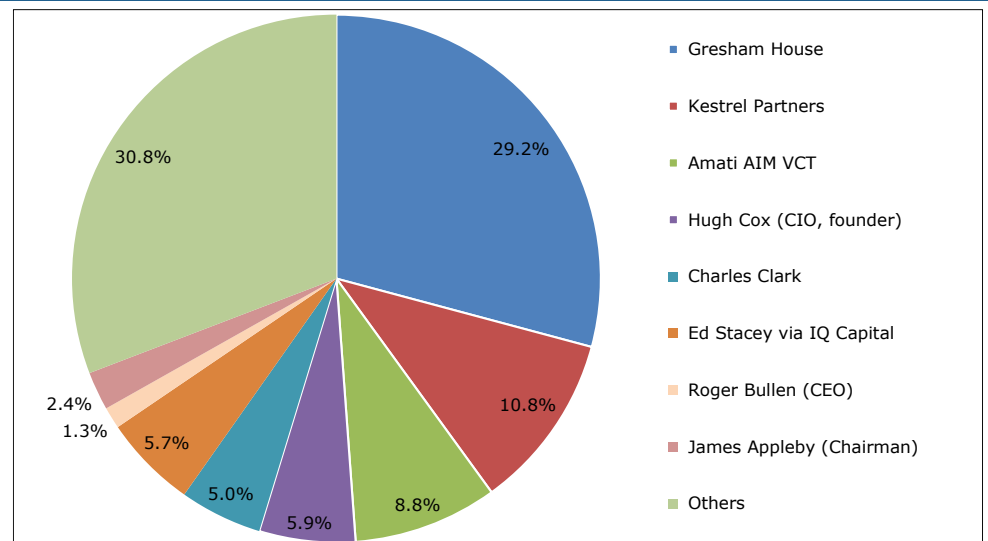
Director participation

Name	Title	Number of shares owned	Number of shares subscribed for	Value of subscription	Resultant holding	% of enlarged share capital
James Appleby	Non-Exec Chairman	4,545,454	2,000,000	£100,000	6,545,454	1.90%
Roger Bullen	CEO	2,559,883	400,000	£20,000	2,959,883	0.90%
Ash Mehta	CFO	-	600,000	£30,000	600,000	0.20%
Hugh Cox	CIO	11,344,784	-	-	11,344,784	3.30%
Ginny Warr	NED	-	-	-	-	0.00%
Bernard Quinn	NED	614,595	420,000	£21,000	1,034,595	0.30%

Source: Company

In terms of professional money, RDT's register is populated by several respected fund managers (see below), with **Gresham House providing a big vote of confidence** recently by increasing its stake from 11.0% in early January to 29.2% as per 19th May.

Major shareholders (192.9m shares issued, pre-placing)



Source: Company

So what about current trading?

Well, regardless of experiencing some yearend disruption related to the pandemic, alongside the strategic decision to curtail low margin 'pass-through' revenues (£0.4m), FY20 turnover came in at between £7.0m-£7.2m (vs £7.0m LY). With gross bank debt (Clydesdale 7.75% plus 3 month LIBOR) closing April at £1.3m (est £0.8m net), and scheduled to be repaid by March 2022.

Better still, we estimate adjusted EBITDA & cashflows were positive in H2'20 (see below), with the former set to rise further in FY21, even after absorbing greater R&D spend (all expensed).

In terms of new business, Rosslyn **signed a 3-year £410k spend analytics contract** with a global rolling stock and rail infrastructure OEM in December. **Two 'Knowledge Capture' agreements** in January, covering a UK general insurer and documentation storage group (worth £0.9m in aggregate). And **a prestigious 5-year €1m spend analytics deal with an international building materials organisation**. The latter involving the aggregation of data from 70 disparate ERP systems located around the world, into a single consolidated reporting & analysis solution with full drill-down capabilities.

Conservative FY21 forecasts & improving margins

Financials (£'000s): y/e April	FY19	H1'20	Est H2'20	Est FY20	Est FY21
Annual Recurring Revenue (ARR)	5,400		6,050	6,050	6,393
Contract backlog	5,100			6,171	6,521
Annual licence fees	5,437	2,573	3,077	5,650	5,763
Professional services	1,528	460	500	960	970
Langdon	0	84	406	490	900
Sales	6,965	3,117	3,983	7,100	7,633
Total % growth	8.3%	-11.7%	16.0%	1.9%	7.5%
% organic growth	8.3%	-14.1%	4.2%	-5.1%	1.9%
Gross Profit	5,549	2,531	3,234	5,765	6,198
% margin	79.7%	81.2%	81.2%	81.2%	81.2%
Operating expenses (excl D&A, SBPs)	-5,981	-2,686	-2,914	-5,600	-5,852
Opex growth	-11.8%	-10.5%	-1.8%	-6.4%	4.5%
Adjusted EBITDA (pre SBPs)	-432	-155	320	165	346
Share based payments	-125	-59	-91	-150	-200
Adjusted EBITDA (post SBPs)	-557	-214	229	15	146
% margin	-8.0%	-6.9%	5.8%	0.2%	1.9%
Depreciation (ex IFRS16)	-30	-18	-22	-40	-43
Amortisation (mostly customer lists)	-1,011	-588	-622	-1,210	-1,255
Adjusted EBIT (post SBPs)	-1,598	-820	-415	-1,235	-1,152
% margin	-22.9%	-26.3%	-10.4%	-17.4%	-15.1%
Net interest	-86	-80	-120	-200	-150
Adjusted PBT	-1,684	-900	-535	-1,435	-1,302
Tax	595	186	14	200	0
Adjusted earnings	-1,089	-714	-521	-1,235	-1,302
Net cash / (debt) - Ex IFRS16	373	-975	-800	-800	5,347

Source: Equity Development. Internally derived R&D is expensed to the P&L as incurred, rather than capitalised.

85% recurring revenues with 81% gross margins

Handling this level of complexity is RAPid's '*pièce de résistance*'. It is one of the few firms able to accurately cleanse, sort, catalogue & capture vast quantities of data from literally 100s of systems globally (leveraging its extensive API libraries). Whilst simultaneously enabling users to interrogate the information in near real-time, using cutting edge AI, smart analytics and visualisation tools. Additionally implementation periods are typically shorter (1 to 3 months) than for many of its direct rivals (eg Coupa Software & SAP Ariba). Whereas Microsoft's/Amazon's 'out-of-the-box' Big Data applications tend to be too generic, and not sufficiently granular to cater for the nuances of specific verticals.

Plus, **the platform is highly scalable**, because once a client's upfront configuration has been completed, the software is essentially identical from an operational/cost perspective, working off a '**1-to-many**' model. The upshot being that as ARR builds, EBITDA margins should expand, and deliver healthy cashflows and shareholder returns. In fact, we see no reason why ultimately the firm can't churn out 14%+ LFLs, augmented by 20% EBIT margins.

Excellent feedback wrt new COVID-19 dashboard

But that's not all. Rosslyn has recently integrated 'supplier onboarding' into the product suite, and launched an innovative **new coronavirus dashboard** (see below), which is refreshed daily to allow customers to assess the possible impact of the disease on their supply chains.

Innovative new COVID19 dashboard

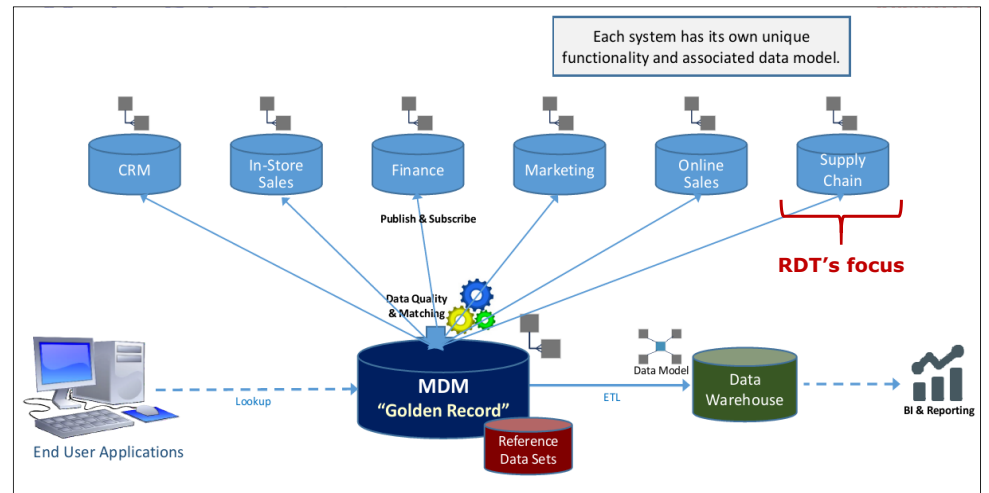


Source: Company

MDM creates a single 'Golden Record'

Another, perhaps even more important development, is **RDT's shift into Supplier Master Data Management (MDM, see below), where its skillset is also perfectly suited.** Here MDM handles all static information (ie non-transactional) - eg customer, vendor, bills of material, inventory, assets, pricing, etc - to ensure consistency & transparency across an entire organisation. The Board hopes to sign its first vendor focused MDM agreement in the next few months, with values possibly more than 2x-3x the size of previous contract averages.

Rosslyn shifts into 'Supplier' Master Data Management



Source: Internet

Langdon serves attractive niche markets

Elsewhere, Langdon offers plenty of opportunities too. Providing specialist data management systems to c.60 customers, allowing them handle all their Import/Export & customs/excise requirements – and generating sales of >£0.8m pa.

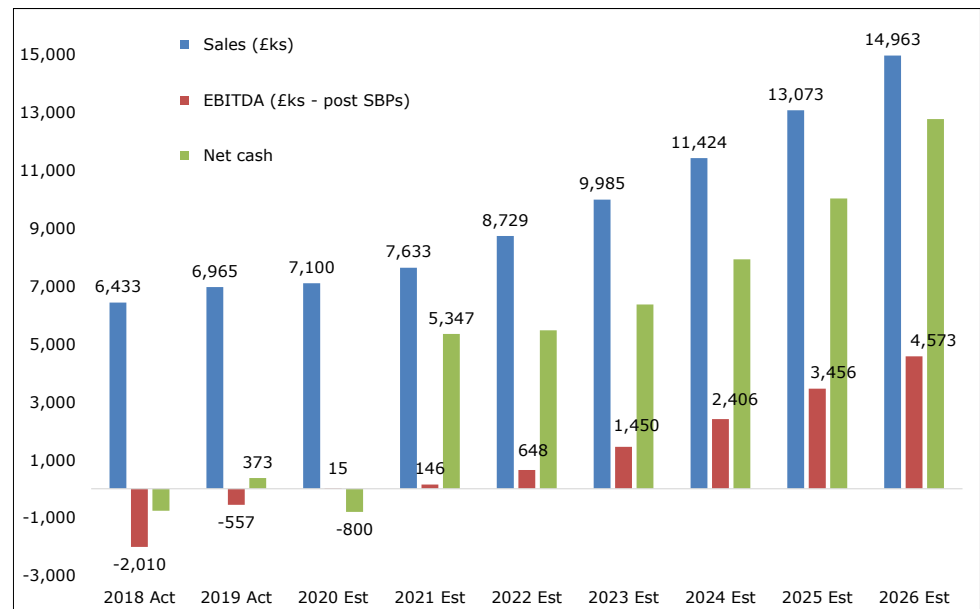
For instance, the software is being upgraded to include the UK's exit from the EU and HMRC's new Customs Declaration standards, which are set to come into force on 30th Sept'20. On top, there is scope to up/x-sell RAPid into its client base, given many have already requested this functionality.

Lastly, the technology roadmap intends to roll out a single user interface for the whole product suite, together with enhanced front end functionality.

Long term opportunity is substantial

Looking ahead, our **forecasts are conservatively pitched** (re COVID19), pencilling in modest LFL sales growth (2%) for FY21 (£7.6m) & flatish (1.6%) EBITDA margins (post SBPs). Given the heavy investment plans (eg R&D, sales, etc), the business should **become cash flow positive in FY22 on sales of £8.7m**, aided by continued tight cost control & favourable operating leverage.

14% LFL sales growth expected from FY22 onwards

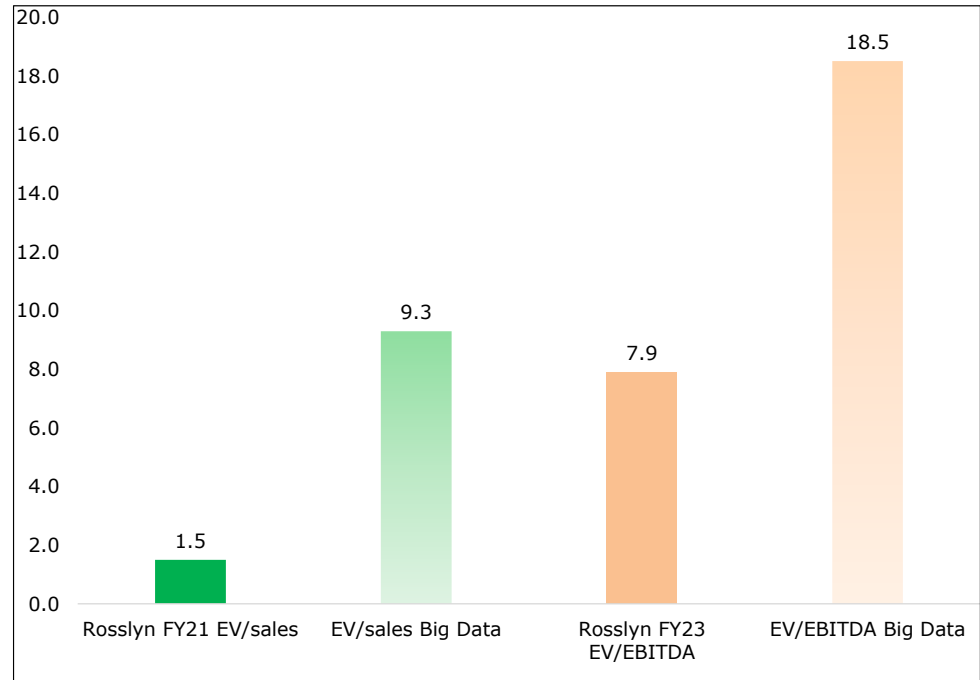


Source: Equity Development

Ok, so how much is the business worth?

Well, in light of RDT's cutting edge technology and attractive expansion, we value the stock at **9.5p/share**, equivalent to c. 4.6x FY21 EV/sales (or 3.9x ex cash). Equally at current levels, we believe the **firm offers compelling value** (see below) for patient risk-tolerant investors.

Valuation benchmarks vs Big Data peers



Source: Equity Development

FY21 shaping up to be pivotal year

Similarly, there is even a chance that **Rosslyn could attract predatory interest** over the next few years, especially considering recent software M&A, involving Brady, Sanderson, EU Supply, Tax Systems and Statpro.

Likewise for ESG investors, **RAPid offers improved efficiency & environmental advantages to the wider community.**

CEO Roger Bullen concluding: *“It is extremely pleasing to see the level of support received from both new and existing investors as part of this heavily oversubscribed fundraising. **The level of demand for the Placing reflects confidence in Rosslyn’s strategy and future growth.** With the Group having reached the EBITDA positive inflection point, and now being properly funded, we are able to accelerate sales to increase EBITDA and operational cashflow in future periods. ”*

Key risks

- RDT is signing large multi-year deals with international organisations, where timing is hard to predict – inevitably leading to a degree of lumpiness in the revenues.
- The competitive landscape could intensify. For example major cloud vendors like Amazon, Microsoft & Google already offer native Hadoop and Big Data services.
- Unforeseen events such as a severe economic downturn could potentially delay client investments.

- Anticipated growth/profitability may take longer than envisaged, cost more or not be fully realised.
- Foreign exchange fluctuations.
- Regulatory and tax changes. Generic risks of retention/recruitment of key staff, etc.
- As with many small cap AIM stocks, daily trading volumes can occasionally decline, particularly during seasonally quieter periods and/or between newsflow.
- Being relatively small, Rosslyn could get squeezed by larger rivals, partners and customers.

Summary projections (£'000s)

Rosslyn Data Technologies (April yearend)	2018 Act £'000s	2019 Act £'000s	2020 Est £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s	2026 Est £'000s	2027 Est £'000s
Annual recurring revenues		5,400	6,050	6,393	7,352	8,455	9,723	11,181	12,859	14,787
Contract backlog		5,100	6,171	6,521	7,499	8,624	9,917	11,405	13,116	15,083
Annual Licence Fees	4,979	5,437	5,650	5,763	6,627	7,622	8,765	10,080	11,591	13,330
Professional services	1,454	1,528	960	970	1,067	1,173	1,291	1,420	1,562	1,718
Langdon	0	0	490	900	1,035	1,190	1,369	1,574	1,810	2,082
Turnover	6,433	6,965	7,100	7,633	8,729	9,985	11,424	13,073	14,963	17,130
% growth	83.5%	8.3%	1.9%	7.5%	14.4%	14.4%	14.4%	14.4%	14.5%	14.5%
Gross Profit	4,895	5,549	5,765	6,198	7,132	8,208	9,448	10,877	12,524	14,423
% margin	76.1%	79.7%	81.2%	81.2%	81.7%	82.2%	82.7%	83.2%	83.7%	84.2%
Opex (ex SBPs, Depr & Amortisation)	-6,711	-5,981	-5,600	-5,852	-6,269	-6,527	-6,795	-7,156	-7,668	-8,454
EBITDA (pre SBPs, IFRS16)	-1,816	-432	165	346	863	1,680	2,652	3,721	4,856	5,969
Share based payments (SBPs)	-195	-125	-150	-200	-214	-230	-246	-264	-283	-304
Adjusted EBITDA (post SBPs)	-2,010	-557	15	146	648	1,450	2,406	3,456	4,573	5,665
% Margin	-31.2%	-8.0%	0.2%	1.9%	7.4%	14.5%	21.1%	26.4%	30.6%	33.1%
Adjusted EBIT (ex IFRS16)	-3,074	-1,610	-1,235	-1,152	-746	-48	795	1,725	2,711	3,662
% Margin	-47.8%	-23.1%	-17.4%	-15.1%	-8.6%	-0.5%	7.0%	13.2%	18.1%	21.4%
Interest	-101	-86	-200	-150	-150	0	0	0	0	0
Adjusted Profit before Tax	-3,175	-1,696	-1,435	-1,302	-896	-48	795	1,725	2,711	3,662
Adjusted EPS (p - ex IFRS16)	-1.5p	-0.6p	-0.6p	-0.4p	-0.3p	0.0p	0.2p	0.4p	0.6p	0.8p
EPS growth rate					-31.9%	-94.7%	-1572.2%	90.9%	55.6%	33.8%
Dividend (p)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation benchmarks										
P/E ratio						-369.9	25.1	13.2	8.5	6.3
EV/Sales	1.8	1.6	1.6	1.5	1.3	1.1	1.0	0.9	0.8	0.7
EV/EBITDA (post SBPs)				78.5	17.7	7.9	4.8	3.3	2.5	2.0
EV / EBITA (post SBPs)						-238.0	14.4	6.6	4.2	3.1
EBITDA drop through rates			423.9%	24.6%	45.8%	63.9%	66.4%	63.7%	59.1%	50.4%
Effective corporate tax rate		0.0%	0.0%	0.0%	0.0%	0.0%	-10.0%	-20.0%	-20.0%	-20.0%
PEG ratio							-0.02	0.14	0.15	0.19
Net cash/(debt)	-757	373	-800	5,347	5,474	6,369	7,929	10,030	12,771	16,091
Sharecount (Ks)	183,820	192,676	194,602	338,916	342,305	345,728	349,185	352,677	356,204	359,766
Diluted sharecount	201,177	209,558	211,485	355,798	359,188	362,611	366,068	369,560	373,087	376,649
Shareprice (p)	5.2p									

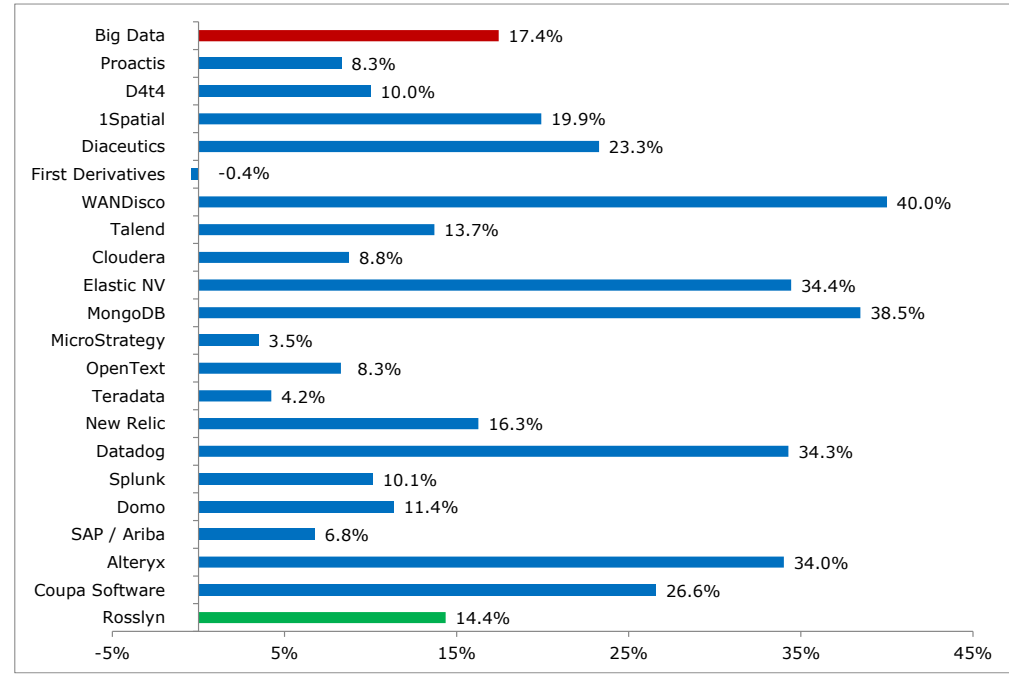
Source: ED estimates, Company historic data.

Note 1: At as 30th April 2019, the Group had carried forward tax losses of £13,762k available to be offset against future profits. Meanwhile the deferred revenue balance was £2,658k (vs FY18 at £2,300.7k).

Note 2: All R&D is presently expensed as incurred - ie not capitalised.

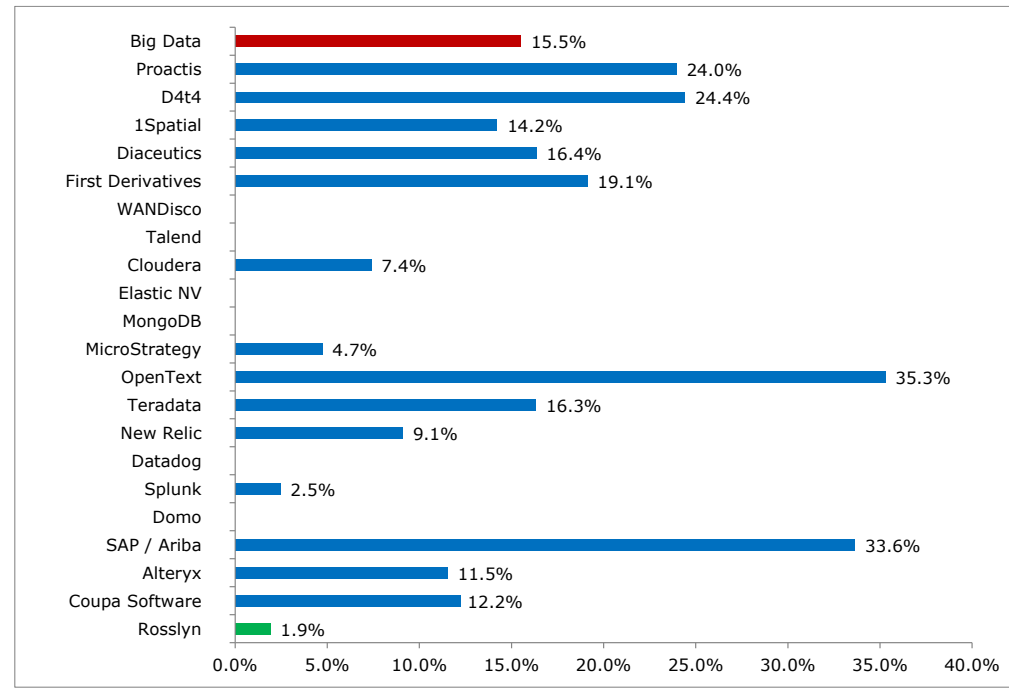
Appendices - sector valuation metrics and KPIs

Current Year + 1 sales growth rates



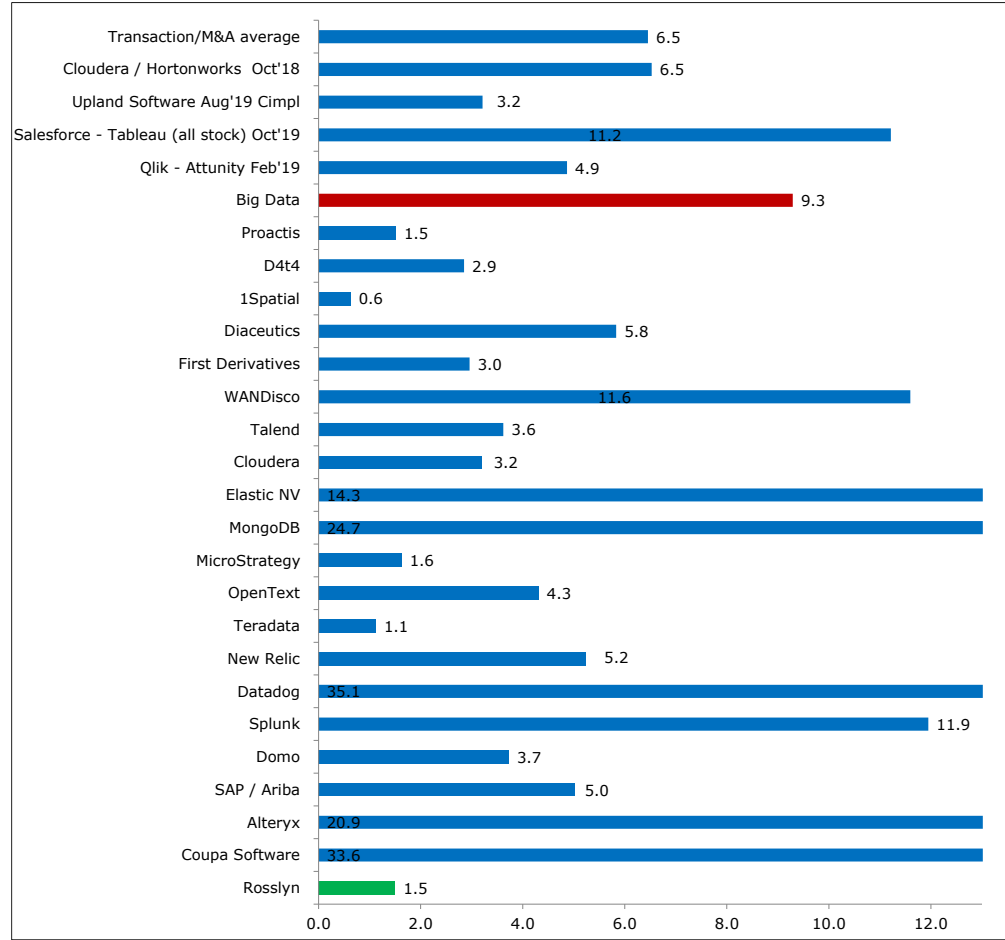
Source: Equity Development : arithmetic average for sector

CY EBITDA margins



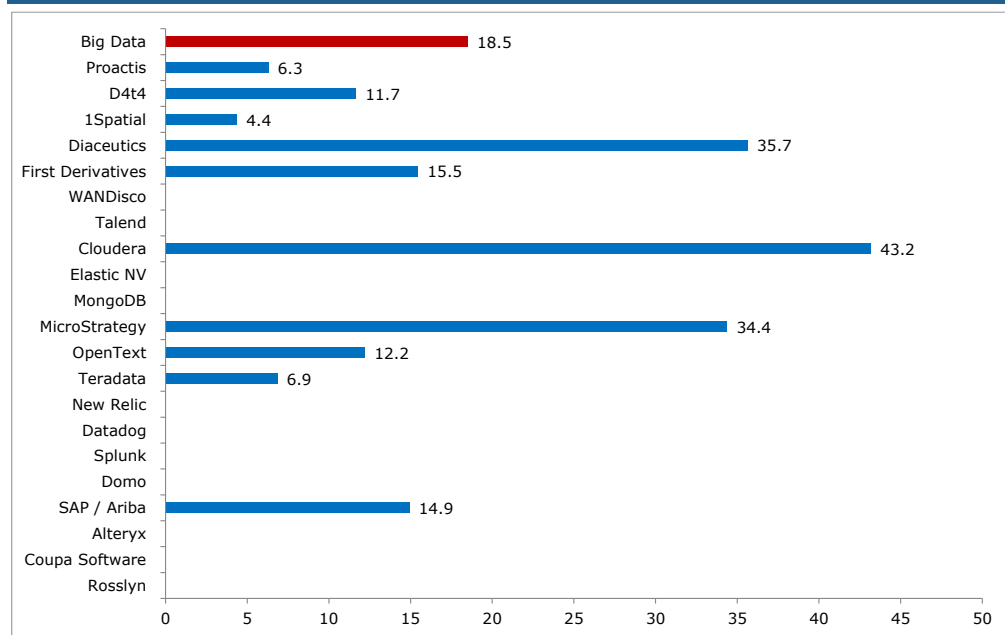
Source: Equity Development, arithmetic average for sector. RDT shown post SBPs

CY EV/sales multiples vs peers



Source: Equity Development : arithmetic average for sector

CY EV/EBITDA multiples vs peers



Source: Equity Development : arithmetic average for sector

Marketing capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Rosslyn	5.15p	£17.5	£6.0	£11.5
Coupa Software	\$225	\$16,425	\$18	\$16,407
Alteryx	\$145	\$9,860	-\$460	\$10,320
SAP / Ariba	€ 110	€ 129,800	-€ 9,917	€ 139,717
Domo	\$25.00	\$688	-\$2	\$690
Splunk	\$180	\$28,800	\$615	\$28,185
Datadog	\$72.00	\$20,520	\$774	\$19,746
New Relic	\$65.0	\$3,851	\$339	\$3,512
Teradata	\$20.0	\$2,160	\$122	\$2,038
OpenText	\$39.0	\$10,569	-\$2,671	\$13,240
MicroStrategy	\$120	\$1,248	\$457	\$791
MongoDB	\$215	\$12,900	\$75	\$12,825
Elastic NV	\$80	\$6,304	\$251	\$6,053
Cloudera	\$9.50	\$2,907	\$169	\$2,738
Talend	\$29.5	\$974	-\$4	\$978
WANDisco	\$6.77	\$343.0	\$18.3	\$324.7
First Derivatives	£24.0	£655.2	-£49.0	£704.2
Diaceutics	150p	£104.4	£11.7	£92.7
1Spatial	19p	£20.9	£5.5	£15.4
D4t4	185p	£74.6	£12.7	£61.9
Proactis	36.0p	£34.4	-£42.1	£76.5

Source: Equity Development



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