

Corero Network Security



25th April 2024

Excellent momentum in new orders

Corero has already secured over \$8m of orders in the first four months of FY24E. This level of momentum in orders not only supports our double-digit % growth forecasts, but also validates the Group's go-to-market strategy. The share price is only just beginning to wake up to the progress made in bringing the business model to maturity, in our view. Trading at the top of its 12 months price range, the stock's forward rating of only 2.7x EV/Sales in FY24E continues to support our fair value assessment of 14p price/share.

Recent wins. Corero has secured \$8m of orders from both existing and new customers in the first four months of FY24E. The group reported a 17% YoY growth rate in annualised recurring revenue (ARR) last year. The reported level of new order momentum to April is consistent with our double digit forecast growth rate in FY24E and beyond.

9x` 8% renewal rates

Delivering on the strategy. Corero has a coherent strategy of generating incremental business from new customer mandates, expanding its global partnerships to increase overseas revenues, upselling its installed customer base and maintaining a strong renewals profile. Corero has recently reported an outstanding **contract renewals rate of 98%**, maintaining a double-digit % growth rate is made substantially easier when there is negligible drag on growth from customer churn.

Highlights. Corero signed an expansion and renewal contract with a US SaaS provider worth \$2m over three years in April. This was one of the company's largest single transactions to date. The increased scope of work reflects Corero's expansion alongside its customer as it expands internationally requiring greater infrastructure protection against DDoS attacks as it grows.

New partnership and services. New partnerships are instrumental to Corero's strategy. A new partnership with TierPoint, a provider of connected data centre solutions, was announced in April. TierPoint has 40 data centres across the US and offers a consultative approach to customer hosting and security needs including protection against DDoS attacks. Corero also recently launched a new DDoS hybrid cloud backup service in conjunction with new partner Akamai.

Strong gross margins

Debt free. We are forecasting +13% growth in revenues in FY24E to \$25.3m (unchanged), With gross margins high at 90%, the drop through rate of incremental revenues to earnings means that EBITDA margins should reach double digits this year. The stock is free cash flow positive with a forecast FCF margin of 6.7% in FY24E. Net cash balances will continue to grow as a function of this free cash flow growth (+33% to \$6.9m in FY24E). **The stock has both defensive and growth qualities which should support a higher rating going forward and we reiterate our fair value of 14p price/share.**

Company Data

EPIC	CNS
Price (last close)	12.0p
52 weeks Hi/Lo	12.0p/5.75p
Market cap	£59.5m
ED Fair Value / share	14.0p

Share Price, p



Source: ADVFN

Description

Corero Network Security provides DDoS protection solutions, specialising in automatic detection and protection with network visibility, analytics and reporting tools.

Forecasts & Ratios

Y/E Dec, \$'m	2020A	2021A	2022A	2023A	2024E	2025E
Group revenue	16.9	20.9	20.1	22.3	25.3	28.6
EBITDA	-1.4	3.3	2.6	1.8	2.5	2.9
PBT	-4.0	1.4	0.4	-0.2	0.6	1.0
Adjusted EPS (p)	-0.8	0.3	0.1	0.0	0.1	0.2
EV/Sales (x)	4.1	3.3	3.4	3.1	2.7	2.4
EV/EBITDA (x)	nm	20.8	26.4	39.4	27.4	23.6

Source: Company Accounts, Equity Development estimates

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REVENUE ANALYSIS

Y/E Dec, \$k	2019A	2020A	2021A	2022A	2023A	2024E	2025E
SmartWall One™ software and appliances	3,738	8,446	10,337	8,107	8,186	9,005	9,906
% sales	38.5	50.0	49.5	40.3	36.6	35.6	34.6
SmartWall One™ maintenance, services & 'as-a-service'	5,926	8,431	10,558	12,014	14,163	16,287	18,729
% sales	61.0	50.0	50.5	59.7	63.4	64.4	65.4
Legacy maintenance and support services	50	0	0	0	0	0	1
% sales	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Total revenue	9,714	16,877	20,895	20,121	22,349	25,292	28,636

Source: Company Accounts, Equity Development estimates

INCOME STATEMENT

Y/E Dec, \$k	2019A	2020A	2021A	2022A	2023A	2024E	2025E
Consolidated Revenue	9,714	16,877	20,895	20,121	22,349	25,292	28,636
Growth yoy	-	73.7%	23.8%	-3.7%	11.1%	13.2%	13.2%
Cost of sales	-1,842	-3,832	-3,112	-2,576	-2,164	-2,529	-2,864
Gross profit	7,872	13,045	17,783	17,545	20,185	22,763	25,772
Gross margin (%)	81.0	77.3	85.1	87.2	90.3	90.0	90.0
R&D	-1,423	-1,562	-1,546	-1,743	-1,920	-2,000	-2,000
Operating expenses	-9,609	-12,911	-12,904	-13,183	-16,508	-18,234	-20,837
EBITDA	-3,160	-1,428	3,333	2,619	1,757	2,529	2,935
EBITDA margin (%)	-32.5	-8.5	16.0	13.0	7.9	10.0	10.3
Depreciation (ex.DPaaS)	-515	-633	-697	-579	-539	-575	-575
Amortisation of intangibles	-2,526	-1,684	-1,495	-1,364	-1,234	-1,400	-1,400
EBIT	-6,201	-3,745	1,141	676	-16	554	960
Other income	0	0	637	0	0	0	0
Net interest	-360	-285	-405	-272	-137	0	0
Profit before tax	-6,561	-4,030	1,373	404	-153	554	960
Tax charge	0	246	149	150	-17	0	0
Profit after tax	-6,561	-3,784	1,522	554	-170	554	960
Basic EPS (p)	-1.6	-0.8	0.3	0.1	0.0	0.1	0.2
Average shares (m)	406.57	494.85	494.85	495.90	495.90	495.90	495.90

Source: Company Accounts, Equity Development estimates

CASH FLOW							
Y/E Dec, \$k	2019	2020	2021	2022	2023	2024	2025
	A	A	A	A	A	E	E
EBIT	-6,201	-3,745	1,141	676	-16	554	960
Depreciation	515	633	697	579	539	575	575
Amortisation of acquired intangibles	13	6	5	2	2	0	0
Amortisation of capitalised development	2,638	1,933	1,872	1,732	1,504	1,732	1,732
Working capital	2,219	5,710	-1,601	-5,254	1,296	680	0
Share based payments	265	359	522	386	230	425	425
Other including exceptional costs	0	0	0	0	30	0	0
Operating Cash Flow	-551	4,896	2,636	-1,879	3,585	3,966	3,692
Net Interest	-281	-190	-237	-151	-34	0	0
Tax	0	246	149	150	-17	0	0
Cash flow pre-capex and investment	-832	4,952	2,548	-1,880	3,534	3,966	3,692
Investment in intangible assets	-6	-8	0	0	0	0	0
Capitalised development expenditure	-1,360	-1,410	-1,754	-1,704	-1,823	-1,750	-1,750
Net capex	-579	-1,015	-421	-420	-813	-500	-500
Acquisitions/disposals	0	0	0	0	0	0	0
Financing/other	3,028	-686	842	-1,240	-1,277	0	0
Dividends	0	0	0	0	0	0	0
FX & other	44	-14	-154	-311	-107	0	0
Net Cash Flow	295	1,819	1,061	-5,555	-486	1,716	1,442
Closing Net Cash/(Debt) pre-IFRS 16	5,384	7,662	8,424	4,438	5,160	6,876	8,318

Source: Company Accounts, Equity Development estimates

BALANCE SHEET							
Y/E Dec, \$k	2019A	2020A	2021A	2022A	2023A	2024E	2025E
Fixed Assets							
Goodwill	8,991	8,991	8,991	8,991	8,991	8,991	8,991
Acquired intangible assets	7	9	4	2	0	0	0
Capitalised development expenditure	5,169	4,646	4,528	4,500	4,820	5,170	5,520
Tangible assets	652	1,099	796	604	633	558	483
Leased right of use assets	357	237	145	62	309	250	200
Trade & other receivables	307	694	859	0	0	0	0
Total Fixed Assets	15,483	15,676	15,323	14,159	14,753	14,969	15,194
Current assets							
Inventories	63	98	57	164	96	146	146
Trade and other receivables	2,572	3,714	3,206	6,865	8,427	9,427	9,427
Cash	8,321	10,140	11,201	5,646	5,160	6,876	8,318
Total Current Assets	10,956	13,952	14,464	12,675	13,683	16,449	17,891
Current liabilities							
Trade payables	-2,008	-6,461	-4,068	-3,956	-3,902	-5,632	-5,632
Lease liabilities	-112	-86	-94	-78	-164	-164	-164
Deferred income	-2,800	-3,444	-4,677	-3,323	-4,992	-4,500	-4,500
Borrowings	-1,149	-2,073	-1,421	-971	0	0	0
Total Current Liabilities	-6,069	-12,064	-10,260	-8,328	-9,058	-10,296	-10,296
Net Current assets	4,887	1,888	4,204	4,347	4,625	6,153	7,595
Long term liabilities							
Trade & other payables	-139	-402	-143	-100	0	0	0
Lease liabilities	-257	-171	-78	0	-151	0	0
Deferred income	-1,096	-2,705	-2,147	-2,285	-2,491	-2,750	-2,750
Borrowing facility	-1,788	-405	-1,356	-237	0	0	0
Total Long Term Liabilities	-3,280	-3,683	-3,724	-2,622	-2,642	-2,750	-2,750
Net Assets	17,090	13,881	15,803	15,884	16,736	18,372	20,039

Source: Company Accounts, Equity Development estimates



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