zeus

29 May 2024
For FCA purposes this is a Marketing Communication

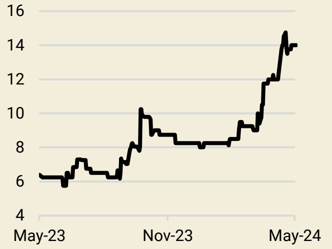
Corero Network Security

CNS LN - Software & Computer Services

Initiation: Securing momentum

Price	14.0p
Market Cap	£71.2m
Shares in Issue	508.8m
12m Trading Range	6p – 15p
Free Float	22.1%
Next Event	AGM – 20 June 2024

Price performance (p)



Source: FactSet

Financial forecasts

Yr end Dec ($'m)	2023A	2024E	2025E	2026E
Revenue	22.3	25.4	28.8	32.6
yoy growth (%)	*11.1*	*13.8*	*13.4*	*13.0*
Adj. EBITDA	2.2	2.7	4.0	5.2
EBIT	(0.0)	0.7	1.9	2.9
PBT	(0.2)	0.7	1.9	2.9
EPS (cent) diluted	(0.03)	0.14	0.37	0.57
EPS (p) diluted	(0.03)	0.11	0.29	0.44
Net cash/(debt)	5.2	7.0	9.1	12.6
P/E	n/a	128.8	48.8	31.5
EV/Sales	3.9	3.3	2.9	2.4
EV/ARR	5.5	4.6	3.9	3.2
EV/EBITDA	39.4	30.8	20.5	15.2

Source: Audited accounts and Zeus estimates

Corero Network Security is a broker client of Zeus

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Corero provides best-of-breed DDoS protection software in the rapidly growing cyber security market. The company offers superior products with low total cost of ownership and flexible deployment options, in our view. We believe Corero's advanced product suite could be leveraged with a recently appointed CEO, with a strong sales track record, and a recently signed alliance with security software market leader, Akamai, to drive revenue outperformance. This could translate into stronger earnings outperformance due to high operational gearing that is not reflected in consensus estimates. We conservatively forecast Adjusted EBITDA more than doubles from 2023 to 2026. We use a higher growth peer group and Rule of 40 analysis to value the business at 17.6p and 17.5p, respectively. However, this does not reflect Corero's potential to outperform expectations and its long-term margin potential. Therefore, we provide a Blue Sky scenario, which indicates a value of 21.2p.

Large, high growth market: Corero estimates its addressable market is valued at $2bn and Mordor Intelligence expects DDoS security software market growth to accelerate to 14.0% CAGR 2024-2029, as the number of DDoS attacks rise.

Superior products: The company is well positioned to continue taking market share with its highly automated, high-speed technology, which lowers total cost of ownership, can be flexibly deployed at different network points, and is more effective against the growing trend towards short duration attacks.

Complementary, sales-driven CEO: Carl Herberger, appointed CEO in Jan-24, has a strong track record in sales to leverage Corero's historic product-led approach. He has already expanded the direct sales team and initiated an aggressive competitor replacement program, targeting renewals business. Corero's increased focus on sales is already yielding results. The company recently replaced a competitor in a major contract win and has signed $8m of contracts in 1Q24.

Akamai alliance: Corero provides the missing component (on-premise) in Akamai's DDoS security software deployment options (cloud). Akamai is a $14bn market cap company with vast marketing and sales resources and its sales force is incentivised to increase share of customer wallets, partly by cross-selling Corero's products. As a result, the alliance has doubled the number of deals in its pipeline in Q1 2024 and increased average deal size. Closing a number of significant deals in the pipeline could drive earnings upside.

High operating leverage and revenue visibility: We conservatively estimate Corero's software business model has the potential to deliver 30% drop-through in 2024, including raised levels of investment. Consensus forecasts assume only 13% drop-through. If drop-through is 30% then consensus Adjusted EBITDA would be 19% higher at $3.1m rather than $2.6m in 2024. Corero also has high visibility into the 2024 consensus revenue needed to drive this outperformance, which we estimate to be over 77%.

Conservative forecasts and valuation: We forecast revenue grows 13% CAGR 2023-26 and EBITDA margins rise from 9.8% to 16.0% over the same period. Based on Rule of 40 and peer group analysis, we value Corero at 17.5p and 17.6p, respectively. We believe Corero is well positioned to outperform these expectations, given conservative consensus assumptions, new sales approaches and rising momentum behind the Akamai alliance. Given Corero's software business model, we believe Adjusted EBITDA margin should eventually reach 30%, almost double the highest assumption in our forecasts. Based on our Blue Sky forecasts we value Corero's shares at 21.2p and believe it could see trade buyer interest at that level of outperformance.

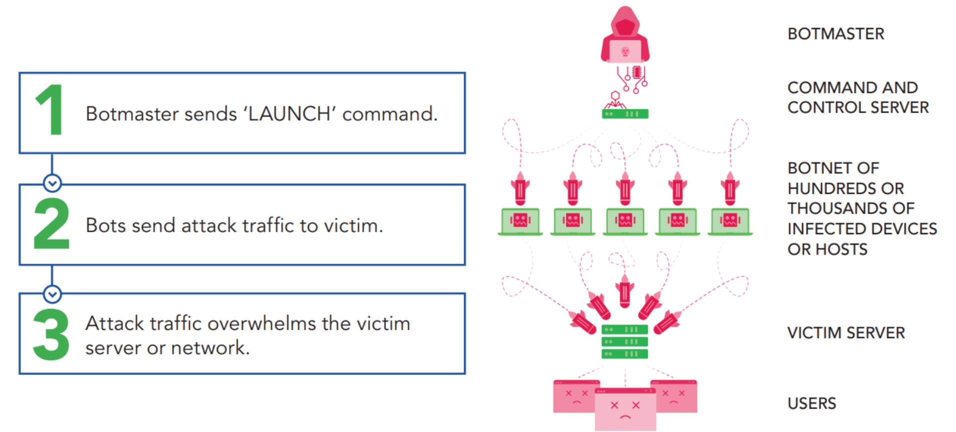
Company overview

Corero Network Security is a cyber security software provider focused on Distributed Denial of Service (DDoS) protection and mitigation security software. The company sells its software as a service (SaaS/ PaaS) or through upfront licenses. We estimate 70% of 2023 revenue was recurring and the company currently has 77% visibility of consensus 2024 revenue. Corero derives most of its revenue from the US (2023: 71%) and has global partners and partnerships with Akamai, Juniper, Ingecom, GTT, TechEnabler and RoyaleHosting. Revenue grew 11% in 2023 and we expect growth to accelerate to 14% in 2024, whilst Adjusted EBITDA margins expand from 9.8% to 10.8%. Net cash at the end of 2023 was $5.2m before lease liabilities.

What are DDoS attacks?

A Distributed Denial of Service (DDoS) attack is a form of Denial of Service (DoS) attack that originates from multiple sources. A DoS attack aims to shut down a network or server though overloading it with incoming (HTTP) traffic. This causes the server to slow or shut down, therefore denying access to legitimate users. A DDoS attack comes from multiple computer systems or devices, resulting in much higher traffic volumes and an increased probability of the attack being successful. Attackers are continuing to leverage DDoS attacks as part of their cyber threat arsenal to either disrupt business operations or provide a smokescreen while they attempting to access sensitive corporate information.

Exhibit 1: Example of a DDoS botnet attack



Source: Corero
Note: A botnet refers to a group of computer systems infected with malware that are controlled by a malicious actor

There have been recent examples of increasingly sophisticated DDoS attacks, such as the 2023 DDoS attack during the Super Bowl weekend. Attack volumes between 50-70 million requests per second were detected, making it the largest reported HTTP DDoS attack on record.

What does DDoS software do?

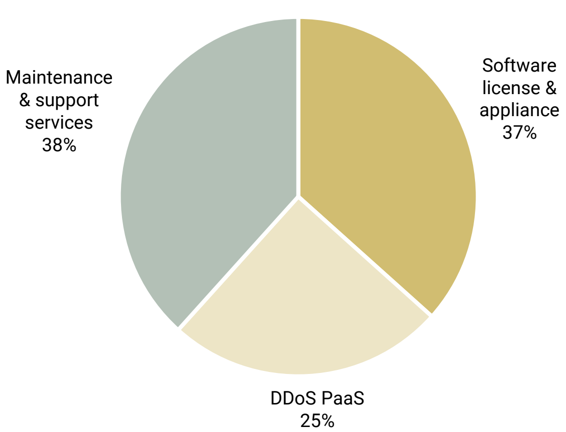
DDoS mitigation providers typically monitor network flow to detect any anomalous incoming traffic to the server or website, known as NetFlow monitoring. Once unusual traffic is identified, it is redirected to specialist scrubbing centres either on premise or in the cloud. Through manual and automatic interventions, these centres will 'scrub' the data by removing any malicious traffic before allowing the remaining clean traffic to be returned to its original destination. The end result is a prevention of a website or client server downtime, allowing for business continuity. However, scrubbing centres can be costly, making the traditional solution used by DDoS protection providers poor value for money. In addition, the detect and redirect method can be ineffective when the DDoS attack is short in duration. The time taken to detect and redirect malicious traffic to scrubbing centres may result in some downtime if the detection is not fast enough.

Corero's products improve both speed and cost by using Deep Packet Inspection (DPI) technology, which analyses each packet in real time, and by applying high levels of automation based on exact match and behavioural heuristics-based rules. This typically results in a cost-performance ratio superior to industry standards.

Revenue model and regional exposures

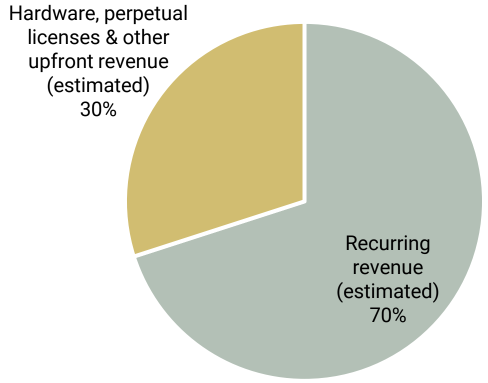
The company sells its software as a service (SaaS/ PaaS) or through an upfront license. We estimate 70% of 2023 revenue is recurring and include annual support, software subscription and DDoS Protection-as-a-Service (DDPaaS) revenue. Maintenance and support service represented the largest share of 2023 revenue at 38% and DDoS PaaS revenue added a further 25% of recurring revenue. The remaining 37% of revenue was from software licenses and appliances, which contribute a minority to recurring revenue. We expect the company's recurring revenue to rise over time to 76% of total revenue by 2026 as subscriptions and support accumulate.

Exhibit 2: Segmental revenue by type, 2023



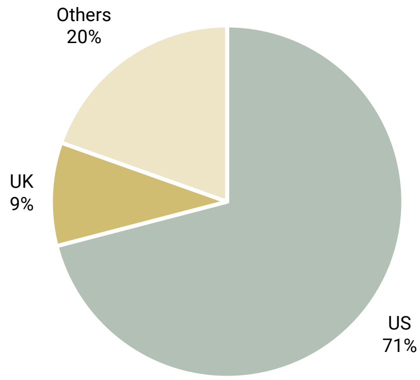
Source: Corero Network Security

Exhibit 3: Recurring and non-recurring revenue breakdown, 2023



Source: Corero Network Security and Zeus

Exhibit 4: Segmental revenue by geography, 2023



Source: Corero Network Security

Corero sells its software solutions to internet service providers, hosting, edge, cloud and SaaS providers, which use Corero's solutions to protect their end customers. The company has global partners and partnerships with Akamai, Juniper, Ingecom, GTT, TechEnabler and RoyaleHosting. Alliance sales are sold as DDoS Protection-as-a-Service (DDPaaS). Corero derives most of its revenue from the US (2023: 71%). The next largest market was the UK at 9%, leaving 20% of revenue from the rest of the world.

Revenue visibility

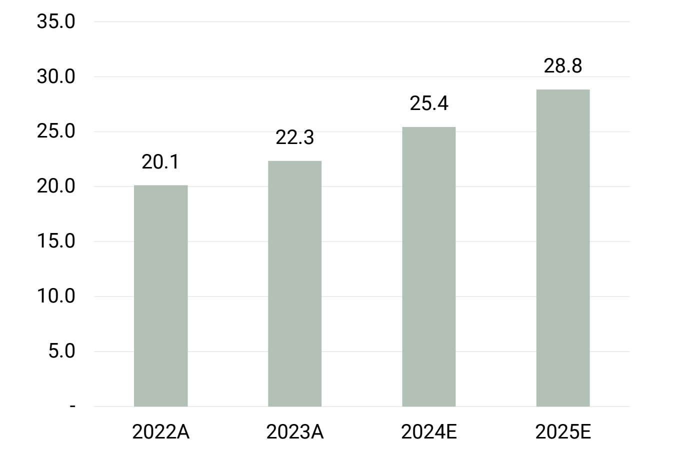
Corero's business model provides high revenue visibility. We estimate over 77% current visibility of 2024 revenues. The company ended 2023 with ARR of $16.9m and has announced $8m of contracts so far this year. Approximately $2m of these contracts were renewals and therefore not incremental to ARR. Of the remaining $6m of contract value, we assume two-thirds is upfront licence deals ($4m) and one-third PaaS or SaaS deals ($2m). Assuming 50% of the value of upfront contracts and one-third of typically three-year subscription contracts are recognised in the current year, then we estimate that about $2.7m of the $6m of new contract value should be recognised this year. Therefore, we estimate the company has visibility into about $19.6m of revenue, representing over 77% of consensus revenue estimate of $25.3m. This estimate may be conservative since the company has a net revenue retention rate (NRR) of over 100% due to product and capacity (gigabyte and seats) upgrades, which should organically increase ARR throughout the year. The company has a 98% renewal rate for customer support contracts.

Financial overview

Revenue grew 11% in 2023 and growth is expected to accelerate to 14% in 2024 as the new CEO implements a more aggressive sales approach and leverages the company's new alliance with Akamai. Revenue grew 10% CAGR 2020-2023, with strong growth in 2021 and slower growth in 2022 due to Covid-driven tech spending and subsequent pullback.

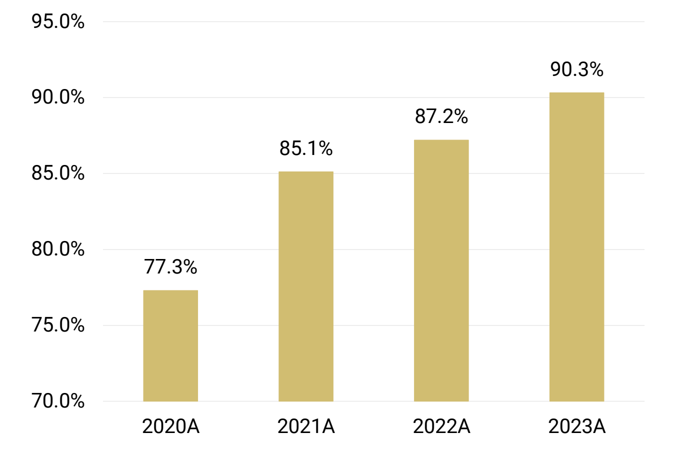
Gross margins rose from 77% in 2020 to 90% in 2023 as the company grew DDoS PaaS sales and its maintenance revenue base. We expect gross margin to plateau near current high levels.

Exhibit 5: Revenue ($m)



Source: Corero Network Security and Zeus estimates

Exhibit 6: Gross margin

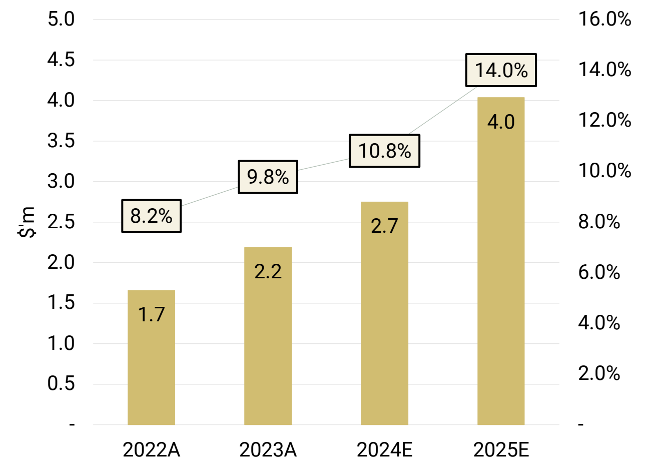


Source: Corero Network Security and Zeus estimates

Adjusted EBITDA margins rose from 8.2% in 2022 to 9.8% in 2023 and we forecast margins rise to 10.8% in 2024 as the company continues to gain scale. As a result, we forecast Adjusted EBITDA almost doubles to $4.0m in 2025 from $2.2m in 2023. We believe Corero's software business model gives it high margin potential and expect Adjusted EBITDA margins to eventually reach 30% in our Blue Sky scenario discussed in the valuation section at the end of this report.

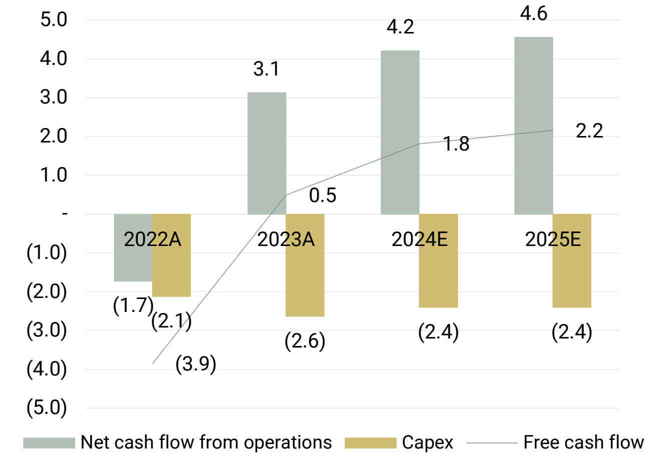
Corero has been reinvesting EBITDA into its product offering, but its core product set is now largely developed so we expect capex to remain flat over the forecast period and fall as percentage of sales from 9.4% in 2024 to 7.4% in 2026. As a result, EBITDA and net cash flow from operations are expected to increasingly drop through to FCF, which we expect to rise from $0.5m in 2023 to $2.2m in 2025. Working capital flows have been net neutral over the last four years to 2023. The company does not hold inventory since manufacturing of appliances is outsourced. Net cash, excluding leases, rose from $4.4m in 2022 to $5.2m in 2023 and we expect it to rise to $7.0m by the end of 2024.

Exhibit 7: EBITDA margin



Source: Corero Network Security and Zeus estimates

Exhibit 8: Net CFO, Capex and FCF ($m)



Source: Corero Network Security and Zeus estimates

Management

Jens Peter Montanana, **Non-Executive Chairman**, is the founder and CEO of Datatec Limited, established in 1986. Between 1989 and 1993 Jens served as managing director and vice-president of US Robotics (UK) Limited, a wholly owned subsidiary of US Robotics Inc., which was acquired by 3Com. In 1993, he co-founded US start-up Xedia Corporation in Boston, an early pioneer of network switching and one of the market leaders in IP bandwidth management, which was subsequently sold to Lucent Corporation in 1999 for $246 million. In 1994, Jens became CEO of Datatec Limited. Datatec Limited listed on the Johannesburg Stock Exchange in 1994 and on AIM in 2006. Jens owns 37% of Corero's outstanding common shares.

Carl Herberger, **Chief Executive Officer and Director**, brings over 25 years of cyber security leadership experience. He has held executive roles at top security firms including Radware, Evolve IP, Allied InfoSecurity, and most recently as Principal Security Consultant and virtual CISO. His insights on cyber threats and security solutions are frequently published in The New York Times, The Wall Street Journal, and The Hill. Carl was awarded Technology Executive of the Year award in 2019 and helped establish the US Air Force's first cyber warfare unit during his time as an intelligence officer.

Chris Goulden, **Chief Financial Officer**, joined Corero in May 2024. Chris has over 15 years' experience in finance and operational roles across international B2B service environments. Chris spent 13 years at CBRE Global Workplace Solutions, a US-listed global Facilities Management and Property Services provider, in a number of senior finance roles. Prior to CBRE, Chris spent 3 years supporting a number of divisions at BNP Paribas. Chris trained at EY and is a fellow of the Association of Chartered Certified Accountants and completed his MBA in 2018.

Ashley Stephenson, **Chief Technology Officer and Director**, was previously CEO of Reva Systems, acquired by ODIN, and Xedia Corporation, acquired by Lucent. He was awarded "CEO of the Year" by the Massachusetts Telecommunications Council for his work at Xedia Corp. Stephenson began his career at IBM Research & Development in the United Kingdom. Stephenson has operating experience spanning the United States, Europe and Asia. He is a graduate of Imperial College, London with a degree in Physics and an Associate of the Royal College of Science. He is the holder of several U.S. patents.

Andrew Miller, **Non-Executive Director**, was appointed a non-executive director on 1 June 2020. Andrew is the CFO of Mycom OSI, a private equity backed network assurance and service experience assurance SaaS company focused on the communication service provider and MSP markets He was until January 2022 the CFO and COO of C5 Capital Limited, an investment firm investing in the secure data ecosystem including cybersecurity, cloud infrastructure, data analytics and space, and CFO of the Haven Group, a cyber security services provider. Andrew was the CFO of Corero form 2010 to 31 May 2020. Prior to joining Corero Andrew was with the Datatec Limited group in a number of roles between 2000. Prior to this, Andrew gained considerable corporate finance experience in London with Standard Bank, West Deutsche Landesbank and Coopers & Lybrand. Andrew trained and qualified as a chartered accountant and has a bachelor's degree in commerce from the University of Natal, South Africa.

Richard Last, **Non-Executive Director**, is a Chairman of the following AIM listed companies: Gamma Communications plc, a provider of voice, data and mobile services for the business market; and Tribal Group plc, a provider of software and services to the education management market. Richard is also a director of a number of private companies. Richard is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA).

Rob Scott, **Non-Executive Director**, is currently the Chief Strategy Officer of Silversky, Inc., a provider of cyber security managed services, alongside serving as the Chairman of AssetPass, a disruptive fintech startup. Rob is also on the Customer Advisory Board of Fortinet, a global leader in cyber security. Prior to Silversky, Rob served as CEO of Cygilant, Inc., a provider of cyber security services; Bradford Networks, a network security company acquired by Fortinet; and Clique Intelligence, a software platform for data sharing and collaboration technologies.

Investment case

Corero has been long recognised in the market for its strong technology and product suite. Then in January 2024, the company appointed a sales-driven CEO, who has expanded and upgraded the company's sales team and implemented a more aggressive sales approach. In addition, the company recently signed an alliance with Akamai that should further leverages Corero's complementary products across Akamai's large customer base. We believe enhanced sales and distribution of Corero's advanced technologies should accelerate revenue growth and increase Corero's share of the rapidly growing DDoS protection software market.

Strong revenue growth should drive leveraged returns, given Corero's high operational gearing. We estimate drop-through to Adjusted EBITDA could reach up to 50%, whilst consensus expectations imply 13% drop-through in 2024. We see the potential for significant earnings upgrades.

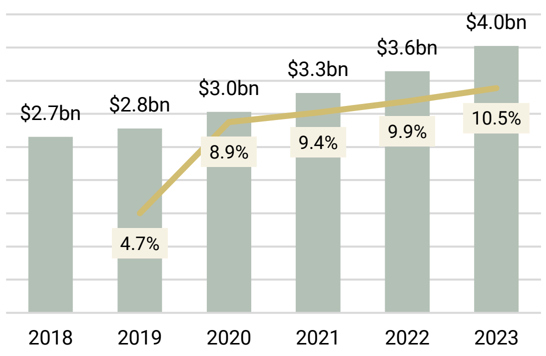
Based on our conservative forecasts and Rule of 40 and peer group valuation methods, we value the company's shares at 17.5p and 17.6p. If the company's new CEO and partnerships drive consistent outperformance over the long-term, as per our Blue Sky scenario, we believe revenues could almost double and Adjusted EBITDA margins could triple, leading us to value shares at 21.2p.

High growth market and share gains

Corero provides best-of-breed DDoS protection software in the rapidly growing cyber security market. The DDoS protection and mitigation security market is large and growing faster every year. Total market revenue in 2023 was valued at $4.0bn, according to Global Market Insights, but Corero estimates about half the total market is directly addressable, resulting in $2bn addressable market. Based on three-year average contract terms, Corero conservatively estimates the addressable renewals market alone is valued at over $500m per annum.

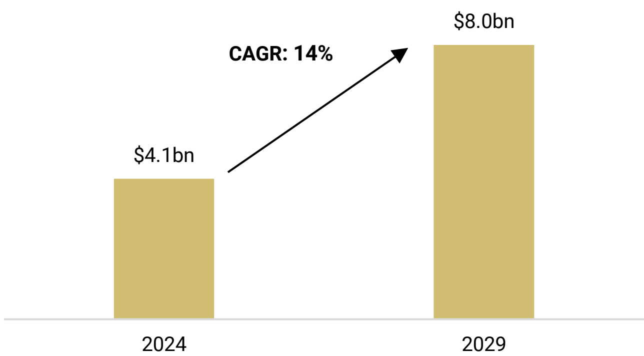
The DDoS protection and mitigation security market growth is accelerating. Market growth rates have risen every year from 8.9% in 2020 to 10.5% in 2023, according to Global Market Insights, and Mordor Intelligence expects market growth to continue accelerating to 14.0% CAGR 2024-2029.

Exhibit 9: DDoS protection and mitigation security market



Source: Global Market Insights

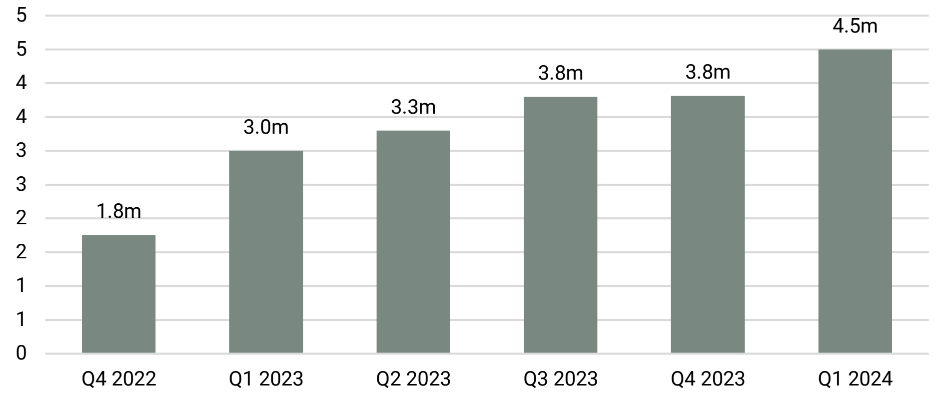
Exhibit 10: DDoS protection & mitigation security market growth



Source: Mordor Intelligence

Market growth is partly driven by the rising number of DDoS attacks experienced by companies. Cloudflare, a provider of security software and services including DDoS protection and mitigation, has observed 72% more network-layer DDoS attacks in the nine months to the end of Q1 2024 compared with the same period a year earlier.

Exhibit 11: Number of observed network-layer DDoS attacks (m)



Source: Cloudflare

Corero aims to take share and grow faster than the market over the next three years, whilst consensus estimates assume revenue growth broadly in line with the market (14% CAGR 2023-26).

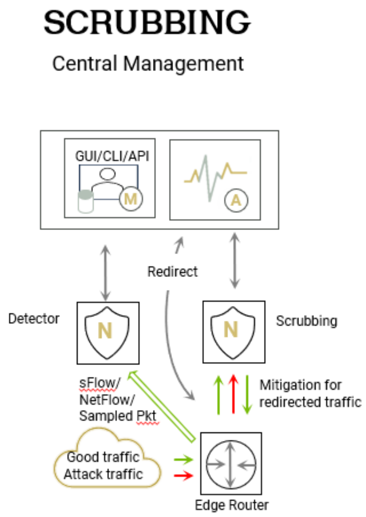
Superior products

The company offers market leading technology with lower total cost of ownership, flexible deployment options and greater effectiveness against the growing trend towards short duration attacks. Corero's key product advantage is the ability to provide automated in-line and data path protection that does not require laborious and expensive scrubbing centres. The company's Deep Packet Inspection (DPI) technology is also more effective against shorter duration attacks than conventional products that depend on analysing traffic patterns over time.

Conventional solutions

Conventional DDoS mitigation offered by competitors typically rely on NetFlow monitoring, which analyses internet traffic patterns and volumes without looking at the actual content of data packets. These mitigation systems then re-direct the internet traffic to specialist scrubbing centres, on-premises or in the cloud, where malicious traffic is removed through a mix of automatic and manual interventions, before the remaining clean traffic is returned to its original destination.

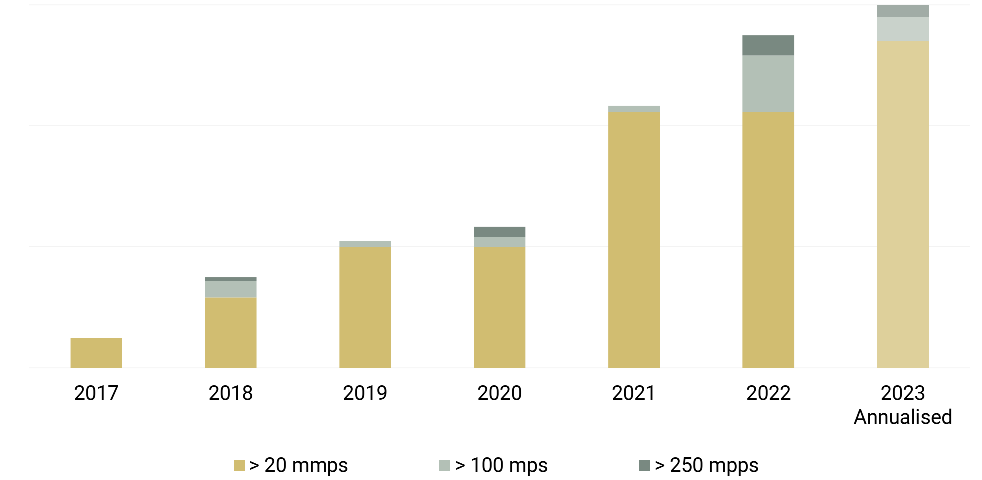
Exhibit 12: Conventional scrubbing approach to DDoS protection



Source: Corero

Detect and redirect systems can result in network latency and downtime, particularly if the length of the DDoS attack is short in duration. This is because short DDoS attacks are harder to detect using traditional methods that rely on identifying patterns over time. Recent research from Akami confirms that short attacks dominate the market and are increasingly common. As shown in the chart below, low-bandwidth attacks represent the vast majority of attacks and their prevalence increased in 2023. Short duration attacks, which are still highly disruptive, are more effectively detected by Corero's Deep Packet Inspection (DPI) technology, which examines each packet to detect malicious activity more quickly.

Exhibit 13: High Packets-per-Second Attacks

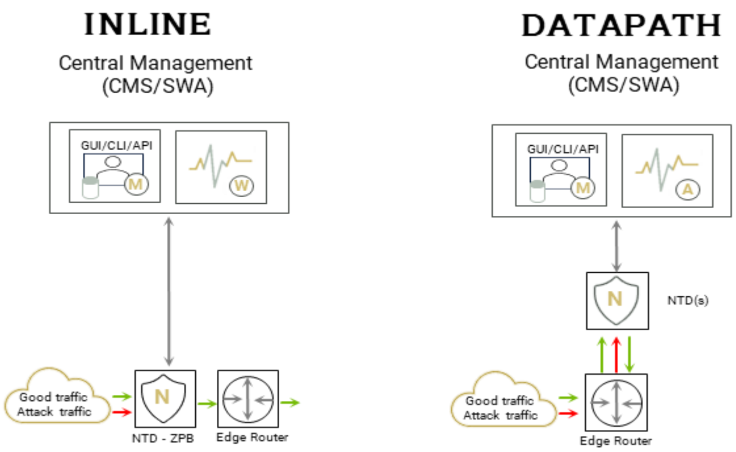


Source: Akamai

Corero's alternative approach

Corero's products are able to process traffic in the data path rather than divert traffic to high-cost scrubbing centres. The company is able to process traffic in the data path since it uses Deep Packet Inspection (DPI) technology to granularly examines the actual content of data packets to pinpoint the exact source or type of attack in real-time, rather than applying only broad filtering and then diverting the traffic to scrubbing centres for further analysis. Corero is able to provide in-line mitigation without slowing network performance. Corero believes its products, supported by patented software architecture, mitigate DDoS attacks faster than any other solutions in the market, processing up to tens of terabits of traffic per second. Another cost saving advantage of Corero's products is high levels of automation. Instead of manual processing in scrubbing centre, Corero applies exact match and behavioural heuristics-based rules to clean traffic. As a result of Corero can offer customers DDoS protection at market leading cost-performance ratios. Total cost of ownership can be half that of competing products.

Exhibit 14: Alternative approaches to DDoS protection



Source: Corero

Corero offers its inline and datapath solutions under the product names SmartWall ONE TDS, TDD and ETD. Corero still offers conventional detect-and-redirect solutions under the name, SmartWall

ETD, for large network customers focused on traditional solutions. SmartWall has a modular architecture that allows easy integration with industry leading routers.

Competitors

Corero's main competitors are Radware and Netscout (Arbour), which both operate NetFlow monitoring based solutions and cannot match the lower total cost of ownership of Corero's inline and datapath solutions. We believe it is unlikely these competitors will introduce and market directly competing DPI-based solutions since both companies operate highly profitable scrubbing centres that would be cannibalised by such solutions. We believe Corero is well positioned to take share in the rapidly growing DDoS protection market.

Radware (NASDAQ: RDWR)

Radware is a US listed leader in cyber security with a market cap of $840m and CY23 revenue of $261m. The Group's core business focuses Denial of Service (DoS) solutions such as DDoS prevention and Bot management. Radware's DDoS protection service, which can operate in the cloud or on-premises, is backed by a globally connected network of 19 scrubbing centres. This provides a competitive advantage against peers who also use the traditional NetFlow monitoring solution, as the large number of connected centres allows for the DDoS attack to be prevented at the closest scrubbing point. This ultimately limits any potential server downtime from a DDoS attack. Zeus believe this advantage only carries merit against traditional peers, however, as the total cost of ownership for such products is significantly higher due to the higher initial cost to support Radware's scrubbing centres and the additional lifetime operating costs customers are required to spent on having an internal team tune the product and tweak customer profiles. This large opex spend is not required under Corero's solution, making total cost of ownership significantly lower than Radware.

In terms of financial performance, Radware's revenue has fallen each year to CY23 end following a peak in CY21 of $286.5m. Between CY23-CY26, revenue is forecasted to grow at a 5.2% CAGR and EBTDA at a 30.3% CAGR, however, EBITDA margins are expected to reach only 12.8% by CY26.

Netscout (NASDAQ: NTCT)

Netscout is also a US listed firm with a market cap of $1.5bn and CY23 revenue of $849m. The Group operates two main divisions; Cybersecurity Solutions and Service Assurance. The Cybersecurity division (c. 26% of revenue) focuses primarily on DDoS solutions through its Arbor product and is a key competitor to Corero. Similar to Radware, Arbor provides in cloud and on-premises DDoS solutions and operates 15 globally connected scrubbing centres, providing a similar advantage mentioned above. Netscout's additional advantage comes from its patented Deep Packet Inspection (DPI) technology that is somewhat comparable to Corero's solution.

Netscout's Abror performance is difficult to obtain due to Netscout only segmenting Cybersecurity in recent years, however, between FY22 and FY23 (March end) Cybersecurity revenue grew only 1% to $235.8m, and forecasts have Group revenue falling in FY25. EBITDA margins for the Group are much stronger, however, with the average margin between FY21-FY24 being 24.3% and this is expected to reach 25.8% by FY26 despite revenue remaining broadly flat from FY24.

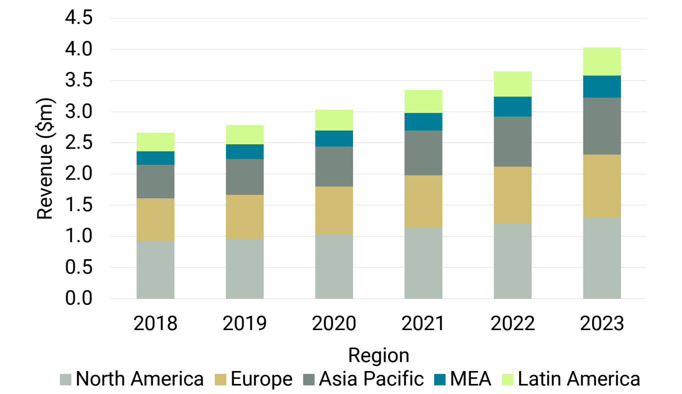
Sales-driven CEO

We believe Corero's compelling product suite, described above, could be leveraged by the recently appointed sales-driven CEO, increased investment in sales and a recently signed alliance with Akamai, to drive revenue outperformance.

Carl Herberger, CEO, has a strong track record at a sales-focused rival, Radware, which complements Corero's historically product-led approach. Prior to Carl's appointment on 1 January 2024, Corero prioritised greenfield customer opportunities i.e. where they did not have a DDoS solution. Carl has added a focus on the renewals market and replacing competitors. The new strategy has already yielded results with the replacement of a competitor in a new $1.8m contract with TierPoint, a leading provider of secure, connected IT platform solutions. Corero conservatively estimates that the renewals market alone is valued at $500m per annum and plans to continue taking share in the market.

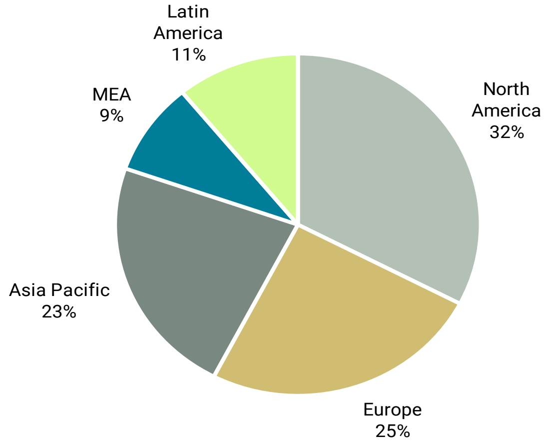
Carl has increased investment in sales. He is adding sales resources in high potential markets – LATAM, ME and APAC. LATAM and APAC are the fastest and third fastest growing markets for DDoS protection and mitigation security, according to data from Global Market Insights. These new markets open 34% of the global DDoS protection and mitigation security market for Corero. In addition, Corero is actively targeting the Middle East, where it believes competitors have recently lost traction with customers that are seeking alternative solutions.

Exhibit 15: DDoS protection and mitigation security market ($m)



Source: Global Market Insights

Exhibit 16: 2023 DDoS protection and mitigation security market breakdown (2023)



Source: Global Market Insights

Akamai and other partnerships

Corero signed a global partnership with Akamai in September 2023 that we believe has the potential to drive significant earnings outperformance in 2024 and 2025. Akamai is a large company that provides Corero with broad market reach. Corero's DDoS technology complements Akamai's product offering, and the company is incentivised to cross-sell Corero's products.

- Akamai is a large player in the security solutions market. In 2023, the company recorded $4bn of revenue, mostly for security software and services, compared to Corero's $22m of total revenue. The pipeline from this new alliance includes tier one customers that Corero would not be able to readily access alone.
- The two companies' products are highly complementary. Akamai provides a cloud-based DDoS solution and uses Corero's products exclusively to provide an on-premise solution to its customers. The trend in the market is towards hybrid solutions to protect against large infrequent attacks with cloud-based protection and on-premises solutions such as Corero's to provide aways-on protection. For many customers, cloud-based protection only is proving to be insufficient. Corero estimates a cloud-only solution may still miss 5% of attacks, which is still important given the implications of operational downtime. Corero enables Akamai to offer customers a comprehensive solution that also helps to close entry points for competitors.
- Akamai is incentivised to sell Corero's products. Akamai is focused on growing revenue per customer and Corero's technology offers strong upselling opportunities. Corero has dedicated significant resources to the alliance and is in constant dialogue with Akamai to develop opportunities. Corero's product is core to Akamai's security offering. Corero has appointed a new head of alliances to support the partnership.

Due to the well-matched and close partnership described above, the alliance is already showing early signs of strong progress. The number of deals in the joint pipeline has doubled in Q1 2024 and the average size of deals in the pipeline is larger than the Corero average deal size. Corero only needs to win a few large deals in its pipeline with Akamai to significantly outperform expectations.

Other partnerships

Alongside Akamai, Corero has additional partnerships with some of the largest network solution providers, which leverage Corero's product suite in partners' platform solutions and across their wide distribution channels. These include global partners and partnerships with Juniper Networks, GTT, Ingecom, TechEnabler and RoyaleHosting. All of these come as a clear testament to the market leading products Corero provides over peers.

- **Juniper Networks** and Corero entered into a global, multi-year resale partnership in 2017 and currently holds 10% of shares in Corero. Juniper Networks is one of the world's largest networking product, solutions and services companies generating revenue in excess of $5.6bn. The partnership combines Corero's SmartWall Threat Defence Director (TDD) software with Junipers own MX and PTX Series routers to create a fully integrated large-scale network-edge DDoS defence solution that offers packet-level monitoring, automated machine analysis and infrastructure-based enforcement across the network edge. Since the partnership announcement, Corero has announced multiple order wins and a further joint partnership alongside Juniper with **Plusnet**, an organisation offering communications and network services to over 25k businesses in Germany.
- **GTT** and Corero formed an alliance in 2017 to supply its customers with its DDoS PaaS solution. GTT is a leading global cloud networking provider to multinational clients, with over 600 points of presence and revenue close to $2bn in 2022. Under the alliance, GTT sells its customers IP transit with DDoS protection powered by Corero's SmartWall ONE solutions.
- **Ingecom Ignition** (part of Exclusive Networks) and Corero formed a partnership in 2021 for the distribution of Corero's product suite across Spain and Portugal. Following the initial success, in March 2024 the two companies agreed to extend the distribution partnership into the Italian market, providing Corero with a platform to offer its market leading DDoS solution further into the Europe.
- **TechEnabler** and Corero announced a distribution partnership agreement in February 2024, providing Corero access to the large Latin American markets. TechEnabler is a prominent Brazilian network solutions distributor in a market where Corero previously had limited exposure. Corero will be able to leverage TechEnabler's extensive network and deploy its SmartWall ONE platform through a revenue-share model, which is already producing results. The Group confirmed a $1m deal at the time of partnership announcement, making it the company's largest ever LatAm contract win.
- **RoyaleHosting** and Corero announced a partnership in May 2024 allowing its 700+ customer base to tailor their security with full integration of Corero's DDoS mitigation features into RoyaleHosting's Shield Panel. RoyaleHosting, founded in 2017, is a leading hosting company specialising in DDoS protection. It is primarily based in the Netherlands, however, the Group is expanding its point of presence into Los Angeles, Singapore, London and Frankfurt, where Corero's solutions will continue to be integrated alongside RoyaleHosting's solutions.

High operating leverage

High revenue growth, driven by the factors above, should translate into stronger earnings growth due to Corero's operationally geared business model. Corero should see incremental sales drop through to EBITDA at an attractive margin close to 60% once the business scales, in our view. The Group has an impressive gross margin of c. 90% with a fixed cost base comprised of wages and some variable marketing costs. As the business grows in the short term, we expect the incremental sales drop-through to be closer to 30% as headcount increases slightly. In the medium term, however, incremental sales drop through should reach closer to 50% - 60% as costs remain fixed and only a small portion of variable service / bonus costs offset this.

The partnership sales with Akamai, mentioned above, could provide above average incremental margin. Corero leverages Akamai's sales and marketing teams and avoids these direct selling costs, whilst product pricing is equal to direct sales prices. Coreo has one senior manager dedicated to partnership sales, so we still think incremental sales could drop through to EBITDA at over 60%, making the partnerships a very attractive proposition to Corero going forward.

Capex, including capitalised development expenditure, is also expected to be fairly steady as revenues see strong growth. We expect capex to be flat at $2.4m from 2024 to 2026 since the company's product suite is well developed.

Forecasts

The high operating leverage in Corero's software business model is not reflected in conservative consensus earnings estimates. Consensus estimates assume revenue grows by $3.1m but that Adjusted EBITDA rise by only $0.4m in 2024, implying only 13% drop-through. If drop-through is more in line with the economics of the business described above, then about 30% of revenue should drop through and Adjusted EBITDA would be $3.1m, 19% above consensus.

Whilst the company's operationally geared software model indicates consensus forecasts are too low, we conservatively forecast revenue and Adjusted EBITDA in line with consensus until after H1 results are released and we have strong visibility into full year results. We conservatively forecast revenue to grow 13.8% in FY24 to $25.4m before reaching $32.6m in FY26, resulting in a 13.4% CAGR FY23-FY26. Based on incremental sales dropping through at less than 40% over the forecast period, we forecast Adjusted EBITDA margins rise from 10.8% in FY24 to 16.0% by FY26.

Exhibit 17: Conservative forecast assumptions

Year to Dec 31 ($m)	FY24e	FY25e	FY26e
Revenue	**25.4**	**28.8**	**32.6**
Growth (%)	*13.8*	*13.4*	*13.0*
EBITDA	**2.7**	**4.0**	**5.2**
Margin (%)	*10.8*	*14.0*	*16.0*

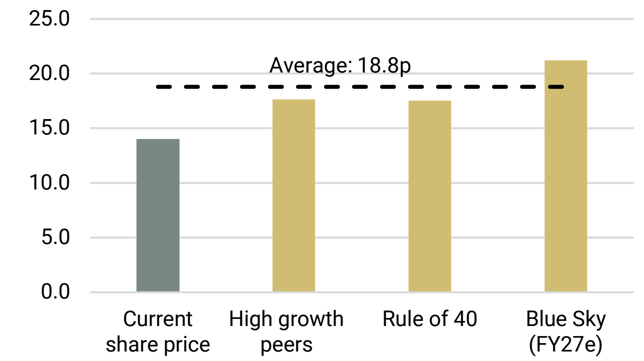
Source: Zeus

Valuation

Zeus uses three valuation methods to arrive at a fair value estimate of 18.8p for Corero, representing a 34% upside to last night's closing price. Our first method takes a relative valuation approach by analysing Global IT Security peers and narrowing down the peer group based on EBITDA margin growth. This method provides us with an implied market value of $114m, which converts to 17.6p per share at the current exchange rate. Our second approach uses the relationship between the Rule of 40 metric and EV/Sales to allow for comparisons of companies with ranges of revenue growth and margins and to provide a method of balancing growth and margin in our valuation. This method provides us with a valuation estimate of 17.5p per share. Our final method looks at the potential earnings upside were Corero to outperform current expectations as it delivers on its sales pipeline and continues to gain momentum with its Akamai partnership. Based on a Blue Sky analysis for FY27e, Zeus believes Corero could be worth 21.2p, the highest of our valuation estimates. The below Exhibit provides a summary of the three methods used.

Whilst not included in our overall valuation estimate, we end this section examining historical takeout multiples and premiums for technology companies over recent history and imply what this could value Corero at, were it to achieve our Blue Sky estimates.

Exhibit 18: Valuation summary (GBp)



Source: FactSet, Zeus

Exhibit 19: Valuation summary

	GBp
High growth peer analysis (EV/EBITDA)	17.6
Rule of 40 (EV/Sales)	17.5
Blue Sky (FY27e)	21.2
Average valuation estimate	**18.8**
Upside (%)	*34.2*

Source: FactSet, Zeus

Peer group analysis

Zeus analysed a list of Global IT Security peers and compared expected performance versus Corero based on sales growth, EBITDA growth and margin expansion. Whilst our analysis indicated Corero is growing its top line broadly in line with the wider peer average in CY25 (Corero: 13.4%, Peer Avg: 12.7%), EBITDA growth is significantly higher for Corero in CY25 (Corero: 47.0% Peer Avg: 16.4%), which is similar for margin expansion. The broader IT Security peer group is shown in the Exhibit below. Following this analysis, Zeus approached the peer group analysis using two methods, discussed next.

Exhibit 20: Global IT Security peers

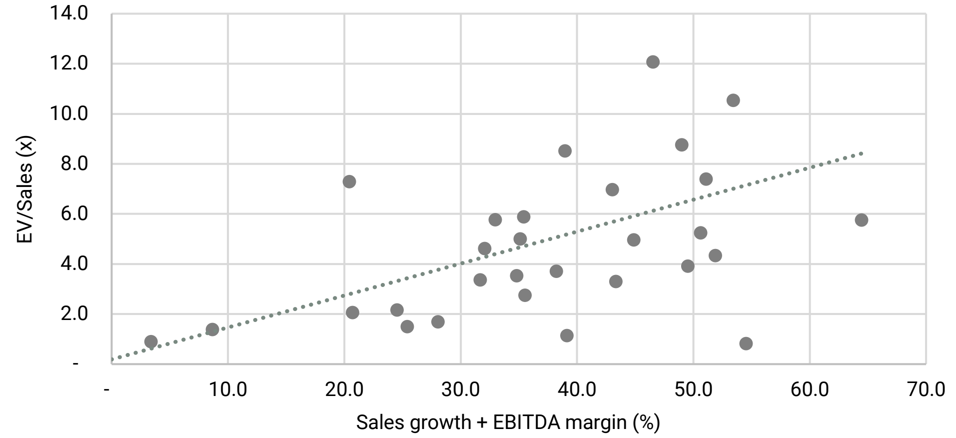
Company	Mkt cap (£m)	EV (£m)	EV/Sales		EV/EBITDA		EBITDA margin (%)	EBITDA growth (%)	Revenue growth (%)
			CY24	CY25	CY24	CY25	CY24	CY25	CY25
Quick Heal Technologies Limited	208.9	188.1	n/a	n/a	n/a	n/a	-	n/a	n/a
Darktrace plc	3,754.5	3,499.7	6.0	4.9	26.7	20.4	22.2	30.7	20.9
Check Point Software Technologies Ltd.	13,678.6	11,324.0	5.5	5.2	12.6	11.9	44.8	6.2	5.5
Varonis Systems, Inc.	3,942.7	3,577.5	8.1	7.2	186.6	97.6	4.5	91.1	12.8
Gen Digital Inc.	12,227.0	18,353.6	6.1	5.8	10.1	9.7	60.2	4.1	3.7
Commvault Systems, Inc.	3,766.0	3,530.1	5.1	4.6	24.2	20.5	20.9	17.7	9.6
PagerDuty, Inc.	1,482.6	1,401.9	3.9	3.4	19.8	15.5	19.0	27.6	13.4
A10 Networks, Inc.	883.2	752.6	3.6	3.4	13.2	11.3	27.6	16.4	8.6
F5, Inc.	7,812.6	7,313.1	3.4	3.3	8.9	8.1	37.4	9.6	3.8
Qualys, Inc.	4,245.1	3,848.5	8.0	7.3	19.3	17.9	42.1	7.8	9.7
CyberArk Software Ltd.	8,176.0	7,540.5	10.3	8.4	84.8	50.2	12.1	69.0	23.1
Zscaler, Inc.	20,179.9	19,221.8	10.7	8.6	46.2	34.9	22.5	32.3	24.5
Tenable Holdings, Inc.	4,079.1	4,002.8	5.6	4.9	28.9	23.3	19.6	24.2	13.8
Cloudflare, Inc.	19,777.9	19,558.6	15.1	11.9	83.0	61.9	18.2	34.0	27.4
Trend Micro Incorporated	4,753.4	3,725.5	2.9	2.7	10.6	9.0	26.2	17.7	6.6
NetScout Systems, Inc.	1,161.5	946.5	1.6	1.5	6.8	6.8	22.5	0.2	3.7
Fortinet, Inc.	36,770.0	35,247.6	7.7	6.8	26.2	22.9	29.7	14.2	13.2
CrowdStrike Holdings, Inc.	66,694.3	64,616.3	20.6	16.3	80.0	59.1	25.9	35.3	26.4
Okta, Inc.	12,821.6	12,111.6	6.4	5.7	32.0	27.5	19.3	16.3	13.1
Palo Alto Networks, Inc.	81,698.4	80,632.9	11.8	10.2	39.1	27.8	31.1	40.6	15.6
Rapid7, Inc.	1,859.1	2,338.1	3.6	3.3	16.7	14.7	21.4	13.3	9.5
OneSpan Inc.	386.0	342.7	1.8	1.7	8.2	7.2	21.9	14.8	3.8
SentinelOne, Inc.	5,285.2	4,576.8	7.5	5.8	n/a	79.0	(1.6)	(654.0)	28.2
Akamai Technologies, Inc.	11,249.7	13,066.9	4.2	3.9	10.0	9.3	41.8	8.0	7.6
SecureWorks Corp.	420.3	372.5	1.5	1.4	41.5	28.8	3.5	44.0	3.9
Alarum Technologies Ltd.	179.1	168.7	4.7	3.8	15.7	11.6	37.3	35.2	25.0
Fastly, Inc.	908.8	982.9	2.3	2.0	56.2	24.5	4.0	130.0	12.5
Telos Corporation	222.9	158.4	1.7	1.2	n/a	47.1	(11.8)	(129.4)	36.6
Identiv, Inc.	76.9	71.6	0.9	0.9	n/a	31.0	(5.7)	(153.2)	0.4
secunet Security Networks Aktiengesellschaft	805.1	786.4	2.3	2.1	14.5	12.8	15.8	13.9	7.8
Exclusive Networks SA	1,604.9	1,762.1	1.1	0.8	9.3	8.3	12.8	12.4	44.6
Median			**5.4**	**4.7**	**19.8**	**20.5**	**21.4**	**16.4**	**12.7**

Source: CapIQ

Rule of 40 based valuation

Our first valuation approach uses the Rule of 40 metric, to regress EV/Sales multiples to sales growth plus EBITDA margins across the broader Global IT Security peers highlighted above. The Rule of 40 metric allows for comparisons of companies with ranges of revenue growth and EBITDA margins without making assumptions on the capital structure or trade-off between sales growth and margin expansion. This provides us with a more balanced method on which to value Corero's low but rapidly expanding margins. The Exhibit below provides the regression analysis based on the 30 companies in the wider peer group.

Exhibit 21: Rule of 40 analysis



Source: CapIQ, Zeus

The resulting regression line provides us with the formula y = 0.1884 + 0.1276x, where y equals the implied EV/Sales multiple implied by the intercept (0.1884) and the slope coefficient (0.1276) multiplied by Corero's Rule of 40 metric. As the table below indicates, based on the Corero's Rule of 40 metric (27.4), the implied EV is $106m, which equals a share price of 17.5p, c. 25% upside to its recent close.

Exhibit 22: Rule of 40 valuation summary

Year to Dec 31 ($m)	**FY25E**
Sales growth (%)	*13.4*
EBITDA margin (%)	*14.0*
Corero's Rule of 40	**27.4**
Slope coefficient (x)	0.13
Corero's Rule of 40	27.4
Intercept	0.19
Implied (EV/Sales)	**3.7x**
Corero sales	28.8
Implied EV	**106.3**
Net (debt) / cash	7.0
Equity value	**113.3**
Shares outstanding (m)	508.8
Implied share price (p)	**17.5**
Upside (%)	*25.0*

Source: CapIQ, Zeus

Refined peer group valuation

Zeus believes the broader Global IT Security peer group may need to be tailored given Corero's higher EBITDA growth and margin expansion but in-line sales growth. This remains true for our current forecasts. However, Zeus can see a situation where Corero outperforms these expectations as it delivers on its sales pipeline and continues to gain momentum with its Akamai partnership. As such, we refine the broader peer group by looking at the growth in forecasted EBITDA margin expansion rates from CY24 and CY25 to determine which companies are growing the EBITDA margin rate faster than 10%. The refined peer group is shown below and includes 8 of the 30 companies within the wider peer group.

Exhibit 23: Refined peer group

Company	Mkt cap (£m)	EV/Sales		EV/EBITDA		*EBITDA margin (%)*	*EBITDA growth (%)*	*Growth in EBITDA growth (%)*	*Revenue growth (%)*
		CY24	CY25	CY24	CY25	*CY24*	*CY25*	*CY24 - 25*	*CY25*
CyberArk Software Ltd.	8,176.0	10.3	8.4	84.8	50.2	12.1	69.0	37.8	22.6
Palo Alto Networks, Inc.	81,698.4	12.2	10.5	39.1	27.8	31.1	40.6	21.7	15.6
PagerDuty, Inc.	1,482.6	3.8	3.3	19.8	15.5	19.0	27.6	12.5	13.4
Varonis Systems, Inc.	3,942.7	8.4	7.5	186.6	97.6	4.5	91.1	69.5	12.8
Fastly, Inc.	908.8	2.2	2.0	56.2	24.5	4.0	130.0	104.3	12.5
Trend Micro Incorporated	4,753.4	2.8	2.6	10.6	9.0	26.2	20.9	13.4	6.6
SecureWorks Corp.	420.3	1.4	1.4	41.5	28.8	3.5	44.0	38.6	3.9
OneSpan Inc.	386.0	1.8	1.7	8.2	7.2	21.9	14.8	10.6	3.8
Median		**3.3**	**3.0**	**40.3**	**26.5**	**15.6**	**42.3**	**29.7**	**12.7**
Corero	**71.2**	**3.3**	**2.9**	**30.8**	**20.5**	**10.8**	**46.9**	**82.2**	**13.4**

Source: CapIQ, Zeus

Whilst we use FY25E as the base year for our valuation metric, we include FY24E as a reference point to indicate how well the refined peer group reflects Corero's growth in profitability. As the Exhibit below highlights, the resulting valuation for both years is very similar. This confirms to us the selected peer group accurately reflects Corero's projected growth and margin profile. Based on our tailored peer group valuation method, Zeus' believes Corero should be worth at least $114m in market value, or 17.6p per share, were it to trade in line with a peer group with similar financial characteristics and end markets.

Exhibit 24: Peer group valuation summary

Year to Dec 31 ($m)	FY24E	FY25E
High growth IT Security peer group median multiple (EV/EBITDA)	40.3x	26.5x
EBITDA	2.7	4.0
EV	**110.8**	**107.0**
Net (debt) / cash	5.2	7.0
Equity value	**115.9**	**114.0**
Shares outstanding (m)	508.8	508.8
Implied share price (p)	**17.9**	**17.6**
Upside (%)	*28.1*	*26.0*

Source: CapIQ, Zeus

Blue Sky scenario

Our final approach looks at a Blue Sky scenario where Zeus believes Corero has the possibility of outperforming our forecasts should the Group execute on its sales pipeline and partnership with Akamai at an accelerated rate or secures large contracts away from competitors. This could be particularly acute within Hyperscaler companies, an area of long-term focus for Corero. We provide our explicit forecasts and Blue Sky scenario assumptions below, along with the outperformance potential.

Zeus believes these forecasts may be conservative given Corero's superior products, which are sold through major partnerships and command market leading positions. Additionally, the new sales driven CEO offers extensive experience with unmatched knowledge of the DDoS industry. As such, Blue Sky scenario forecasts revenue to grow 17.5% across the period with a 50% drop through to EBITDA, resulting in FY25 and FY26 sales and EBITDA of $30.9m / $6.4m and $36.3m / $9.1m, respectively. This is a revenue outperformance of 11.0% in FY26 versus our explicit forecasts and an EBITDA margin outperformance of 920bps in FY26 to 25.2%.

Exhibit 25: Blue Sky scenario

Year to Dec 31 ($m)	FY24e	FY25e	FY26e	FY27e (implicit)
Zeus forecasts				
Revenue	25.4	28.8	32.6	-
Growth (%)	*13.8*	*13.4*	*13.0*	-
EBITDA	**2.7**	**4.0**	**5.2**	**-**
EBITDA margin (%)	*10.8*	*14.0*	*16.0*	-
Incremental sales drop through (%)	*18.0*	*38.0*	*31.0*	-
Blue Sky scenario				
Revenue	26.3	30.9	36.3	42.6
Growth (%)	*17.5*	*17.5*	*17.5*	*17.5*
EBITDA	**4.1**	**6.4**	**9.1**	**12.3**
EBITDA margin (%)	*15.8*	*20.9*	*25.2*	*28.9*
Incremental sales drop through (%)	*50.0*	*50.0*	*50.0*	*50.0*
Outperformance potential				
Revenue (%)	*3.0*	*7.0*	*11.0*	-
EBITDA (%)	*50.0*	*60.0*	*75.0*	-
EBITDA margin	*500bps*	*690bps*	*920bps*	-

Source: Zeus

Zeus believes Corero has the possibility of outperforming our Base Case forecasts, as discussed earlier. The Group's high operating leverage should allow incremental sales to drop through at 50%-60% margin excluding the Akamai partnership. Including this partnership, the incremental sales drop through should be above 60%, in our view. Our Upside Scenario prudently assumes incremental sales drop through of 50% in FY25, resulting in an EBITDA margin of c. 21%. This is in line with the IT Security peer average (21.4%) but significantly ahead of the sales growth average (Corero: 17.5%, peer average: 12.7%) and EBITDA growth (Corero: 55.0%, peer average: 16.4%). Should our upside forecast be met, Zeus believe Corero should trade on a premium to the EV/EBITDA peer average for CY25, in our view.

To arrive at our final valuation approach, Zeus uses implied FY27e forecasts for EBITDA shown above and a forward EV/EBITDA multiple of 15.0x to arrive at an FY27e enterprise value of $185m. We discount this by a 15% cost of capital by 2.5 years to arrive at an enterprise value of $130m at today's worth, or a market value of $137m. Using the current exchange rate, this implies a share price of 21.2p, or c. 50% upside.

Exhibit 26: FY27 Blue Sky valuation

Year to Dec 31 ($m)	FY27E
Revenue	42.6
EBITDA	12.3
EV/EBITDA multiple	15.0x
EV ($m)	**184.7**
Discount factor (%)	*15.0*
Discounted EV ($m)	**130.2**
Net (debt) / cash	7.0
Equity value ($m)	**137.2**
Shares outstanding (m)	508.8
Implied share price (GBp)	**21.2**
Upside (%)	*52.0*

Source: Zeus estimates

Whilst we acknowledge this requires near perfect execution from Corero around contract wins, expanding partnerships and controlling costs to allow for enhanced operational gearing, Zeus believes an EBITDA margin of c. 30% should be achievable in the medium term with incremental sales dropping through at 50% or more. Despite contract win timing being difficult to predict, with a total addressable market of c. $2.0bn and an annual contract renewal market conservatively estimated at $500m, sales of $42m by 2027 does not look insurmountable given its superior products and recent trend in contract wins.

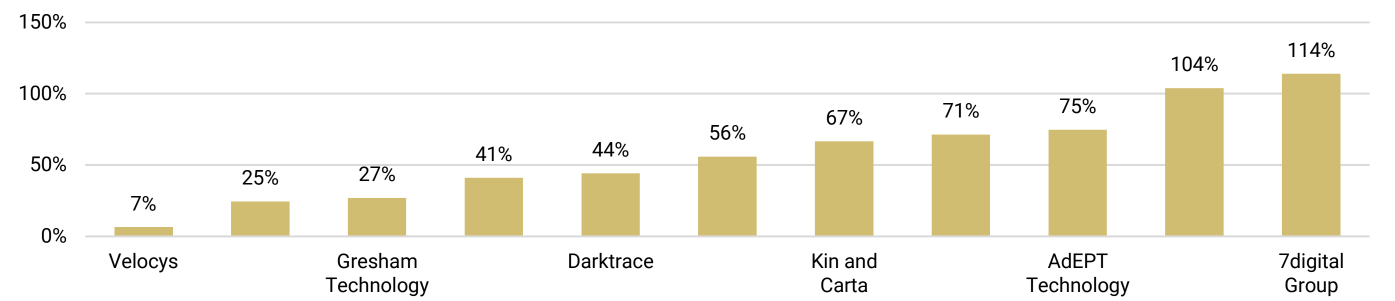
Takeout analysis

As a continuation of the above analysis, Zeus performed a takeout analysis to understand what type of multiples and premiums other software companies within the UK have been acquired by over the last 18 months.

Ultimately, if Corero is able to achieve the Blue Sky assumptions highlighted above, Zeus believes the Group would be an extremely attractive target for trade buyers. Corero sells a portfolio of solutions all covered under one key product, SmartWall ONE, making it a clean acquisition for trade buyers offering a portfolio of security solutions that Corero's product can readily fit in to.

Our takeout analysis, highlighted below, indicates the average takeout premium for technology companies over the last 18 months was 57%. These takeout premiums implied an average EV/EBITDA multiple of 21.3x. If Corero were on track to achieve our FY27e Blue Sky analysis, we believe the Group could be acquired for the same average EV/EBITDA shown in the analysis above, resulting in a market value of $269m, equivalent to a price of 41.6p at today's exchange rate. Discounted back to today at 15% results in an implied share price of 29.6p, implying a premium of 40% to our Blue Sky scenario.

Exhibit 27: Average takeout premium for UK listed tech companies under £1bn



Source: Scheme documents published in the last 18 months as at 25 May 2024

The Numbers

Exhibit 28: Income Statement

Year to 31 Dec ($'m)	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Revenue	**16.9**	**20.9**	**20.1**	**22.3**	**25.4**	**28.8**	**32.6**
Growth (%)	-	*23.8*	*(3.7)*	*11.1*	*13.8*	*13.4*	*13.0*
Cost of sales	(3.8)	(3.1)	(2.6)	(2.2)	(2.5)	(2.9)	(3.3)
Gross profit	**13.0**	**17.8**	**17.5**	**20.2**	**22.9**	**26.0**	**29.3**
Gross margin (%)	*77.3*	*85.1*	*87.2*	*90.3*	*90.0*	*90.0*	*90.0*
R&D expense	(1.6)	(1.5)	(1.7)	(2.0)	(2.2)	(2.4)	(2.6)
SG&A (excl. D&A)	(13.2)	(12.8)	(14.1)	(16.0)	(18.0)	(19.5)	(21.5)
Adjusted EBITDA	**(1.7)**	**3.4**	**1.7**	**2.2**	**2.7**	**4.0**	**5.2**
Adjusted EBITDA margin (%)	*(10.0)*	*16.4*	*8.2*	*9.8*	*10.8*	*14.0*	*16.0*
Adjusting items	0.3	(0.1)	1.0	(0.4)	-	-	-
Reported EBITDA	**(1.4)**	**3.3**	**2.6**	**1.8**	**2.7**	**4.0**	**5.2**
EBITDA margin (%)	*(8.5)*	*16.0*	*13.0*	*7.9*	*10.8*	*14.0*	*16.0*
D&A	(2.3)	(2.2)	(1.9)	(1.8)	(2.1)	(2.2)	(2.3)
Reported EBIT	**(3.7)**	**1.1**	**0.7**	**(0.0)**	**0.7**	**1.9**	**2.9**
Adjusted EBIT margin (%)	*(22.2)*	*5.5*	*3.4*	*(0.1)*	*2.7*	*6.4*	*8.9*
Net interest income / (costs)	(0.3)	0.2	(0.3)	(0.1)	0.0	0.0	0.0
Reported PBT	**(4.0)**	**1.4**	**0.4**	**(0.2)**	**0.7**	**1.9**	**2.9**
Tax (expense) / credit	0.2	0.1	0.2	(0.0)	-	-	-
Effective tax rate (%)	*(6.1)*	*10.9*	*37.1*	*11.1*	-	-	-
(Loss)/profit after taxation	**(3.8)**	**1.5**	**0.6**	**(0.2)**	**0.7**	**1.9**	**2.9**
Basic reported EPS (cents)	(0.76)	0.31	0.11	(0.03)	0.14	0.37	0.58
Diluted reported EPS (cents)	**(0.76)**	**0.30**	**0.11**	**(0.03)**	**0.14**	**0.37**	**0.57**
Diluted reported EPS (p)	**(0.60)**	**0.23**	**0.09**	**(0.03)**	**0.11**	**0.29**	**0.45**

Source: Company, Zeus

Exhibit 29: Balance Sheet

Year to 31 Dec ($'m)	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Goodwill	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Intangible assets	4.7	4.5	4.5	4.8	5.1	5.3	5.4
PPE	1.1	0.8	0.6	0.6	0.8	1.0	1.1
Right of use assets	0.2	0.1	0.1	0.3	0.4	0.5	0.6
Non-current assets	**15.0**	**14.5**	**14.2**	**14.8**	**15.3**	**15.8**	**16.1**
Inventories	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Trade and other receivables	4.4	4.1	6.9	8.4	9.0	10.2	11.4
Cash	10.1	11.2	5.6	5.2	7.0	9.1	12.6
Current assets	**14.6**	**15.3**	**12.7**	**13.7**	**16.1**	**19.4**	**24.2**
Total assets	**29.6**	**29.8**	**26.8**	**28.4**	**31.4**	**35.2**	**40.3**
Trade and other payables	(6.5)	(4.1)	(4.0)	(3.9)	(4.3)	(4.5)	(4.7)
Lease liabilities	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)	(0.4)	(0.5)
Deferred income	(3.4)	(4.7)	(3.3)	(5.0)	(5.8)	(6.6)	(7.6)
Borrowings	(2.1)	(1.4)	(1.0)	-	-	-	-
Current liabilities	**(12.1)**	**(10.3)**	**(8.3)**	**(9.1)**	**(10.3)**	**(11.5)**	**(12.8)**
Trade and other payables	(0.4)	(0.1)	(0.1)	-	-	-	-
Lease liabilities	(0.2)	(0.1)	-	(0.2)	(0.3)	(0.4)	(0.5)
Deferred income	(2.7)	(2.1)	(2.3)	(2.5)	(2.8)	(2.9)	(3.1)
Borrowings	(0.4)	(1.4)	(0.2)	-	-	-	-
Non-current liabilities	**(3.7)**	**(3.7)**	**(2.6)**	**(2.6)**	**(3.1)**	**(3.2)**	**(3.6)**
Total liabilities	**(15.7)**	**(14.0)**	**(11.0)**	**(11.7)**	**(13.4)**	**(14.7)**	**(16.3)**
Net assets	**13.9**	**15.8**	**15.9**	**16.7**	**18.0**	**20.5**	**24.0**
Share capital	6.9	6.9	7.0	7.0	7.0	7.0	7.0
Share premium	82.1	82.1	82.3	82.4	82.6	82.8	82.9
Capital redemption reserve	7.1	7.1	7.1	7.1	7.1	7.1	7.1
Share options reserve	1.0	1.5	1.8	2.0	2.4	2.8	3.2
Foreign exchange translation reserve	(1.4)	(1.5)	(2.6)	(2.0)	(2.0)	(2.0)	(2.0)
Retained earnings	(81.8)	(80.3)	(79.6)	(79.8)	(79.1)	(77.2)	(74.3)
Total equity	**13.9**	**15.8**	**15.9**	**16.7**	**18.0**	**20.5**	**24.0**

Source: Company, Zeus

Exhibit 30: Cash Flow Statement

Year to 31 Dec ($'m)	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Operating profit / (loss)	(3.7)	1.1	0.7	(0.0)	0.7	1.9	2.9
D&A	2.6	2.6	2.3	2.0	2.2	2.3	2.5
Share based payments	0.4	0.5	0.4	0.2	0.4	0.4	0.4
Other non-cash charges	-	-	-	0.0	-	-	-
Decrease/(increase) in inventories	0.0	0.2	(0.0)	0.1	0.0	(0.0)	(0.0)
(Increase)/decrease in trade and other receivables	(1.2)	0.2	(3.9)	(1.2)	0.5	(0.2)	(0.1)
Increase/(decrease) in trade and other payables	6.9	(2.0)	(1.4)	2.0	0.4	0.2	0.2
Cash generated from operating activities	**4.9**	**2.6**	**(1.9)**	**3.1**	**4.2**	**4.6**	**5.9**
Cash taxes (paid)/ received	0.2	0.1	0.2	(0.0)	-	-	-
Net cash generated from operating activities	**5.1**	**2.8**	**(1.7)**	**3.1**	**4.2**	**4.6**	**5.9**
Capitalised development expenditure	(1.4)	(1.8)	(1.7)	(1.8)	(1.8)	(1.8)	(1.8)
Capital expenditure - PPE & intangibles	(1.0)	(0.4)	(0.4)	(0.8)	(0.6)	(0.6)	(0.6)
Finance income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash used in investing activities	**(2.4)**	**(2.2)**	**(2.1)**	**(2.6)**	**(2.4)**	**(2.4)**	**(2.4)**
Net proceeds from issue of ordinary share capital	0.6	2.7	0.2	0.2	0.2	0.2	0.2
Lease repayments	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Finance expense	(0.2)	(0.2)	(0.2)	(0.1)	(0.0)	(0.0)	(0.0)
(Repayment) / drawdown of borrowings	(1.2)	(1.7)	(1.4)	(1.3)	-	-	-
Net cash (used in)/generated from financing activities	**(0.9)**	**0.6**	**(1.4)**	**(1.4)**	**(0.1)**	**(0.1)**	**(0.1)**
(Decrease)/increase in cash and equivalents	**1.8**	**1.2**	**(5.2)**	**(0.8)**	**1.8**	**2.2**	**3.5**
Cash as at the beginning of the year	8.3	10.1	11.2	5.6	5.2	7.0	9.1
Effects of exchange rates on cash and equivalents	(0.0)	(0.2)	(0.3)	0.3	-	-	-
Cash at the end of the year	**10.1**	**11.2**	**5.6**	**5.16**	**7.0**	**9.1**	**12.6**
Free cash flow	**2.7**	**0.6**	**(3.9)**	**0.5**	**1.8**	**2.2**	**3.5**
Cash	**10.1**	**11.2**	**5.6**	**5.2**	**7.0**	**9.1**	**12.6**
Borrowings (excl. leases)	(2.5)	(2.8)	(1.2)	-	-	-	-
Net (debt) / cash (excl. leases)	**7.7**	**8.4**	**4.4**	**5.2**	**7.0**	**9.1**	**12.6**
Lease liabilities	(0.3)	(0.2)	(0.1)	(0.3)	(0.5)	(0.7)	(0.9)
Net (debt) / cash (incl. leases)	**7.4**	**8.3**	**4.4**	**4.8**	**6.5**	**8.4**	**11.7**

Source: Company, Zeus

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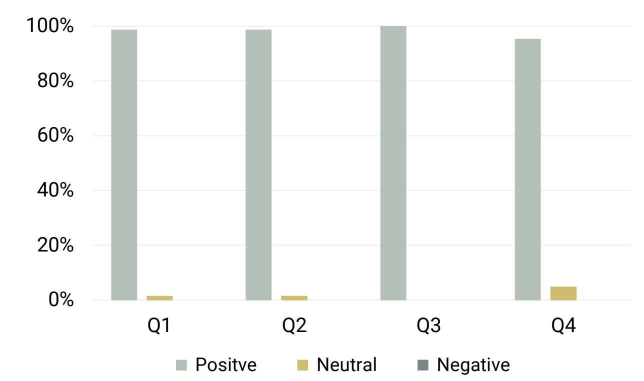

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