

CROSSRIDER

SOFTWARE AND COMPUTER SERVICES

CROS.L

70.8p

Market Cap: £99.9m

SHARE PRICE (p)


12m high/low

86.0p/39.5p

Source: LSE Data

KEY INFORMATION

Enterprise value	£49.2m
Index/market	FTSE AIM
Next news	FY17 finals: Mar '18
Gearing	0
Interest cover	n.a.

CROSSRIDER IS A RESEARCH CLIENT OF PROGRESSIVE
ANALYSTS

Gareth Evans
 +44 (0)20 7781 5301
 gevens@progressive-research.com

Ian Poulter
 +44 (0)20 7781 5307
 ipoulter@progressive-research.com

A strong H2 in line with expectations

Continued successful execution of strategy Revenue up 16%, Adjusted EBITDA up 30%

Crossrider's trading update for year to the end of December 2017 includes revenue and Adjusted EBITDA expectations in line with our estimates. In particular, CyberGhost has continued to perform strongly. The increased level of deferred income reflects Crossrider's ongoing transition towards a SaaS model - and its repositioning as a consumer security software business. Despite making further acquisition payments of U\$7.7 million during the year, the Group ended 2017 with cash of U\$69.4 million – the strategy includes making further acquisitions. Growth in Adjusted EBITDA of over 150% from core activities (excluding the discontinued Web Apps and License business) reflects good organic growth across an increasingly geographically-diverse customer base for Crossrider's core software solutions. We reflect the updates on revenue and the cash position in our FY 2017E estimates and adjust amortisation upwards noting further acquisition costs in H2. The Board says that it is confident of delivering growth in 2018 in line with market expectations.

- The trading update states that revenues for FY 2017E are expected to be around U\$65.8 million (FY 2016: U\$56.5 million) versus our estimate of U\$65.0 million. Adjusted EBITDA is expected to be around U\$8.3 million (2016: \$6.4 million), again in line with our estimate following the anticipated improvement in H2, to around U\$5.4 million (from U\$2.9 million in H1 2017) with a full six months' contribution from CyberGhost.
- The acquisition of CyberGhost expanded Crossrider's position in the growing personal privacy and security market – focussed on protecting users' personal information when browsing the internet.
- In November, Crossrider held a well-attended Capital Markets Day at which the audience heard from a number of impressive presenters who spoke with enthusiasm about their roles within the Crossrider businesses. They showcased significant knowledge about their respective areas and, importantly, their roles in delivering on the Group's strategic goals.
- On the following pages we provide a brief reminder of Crossrider's strategic aims and summarise how we see the Group's businesses providing the pathway for further growth.

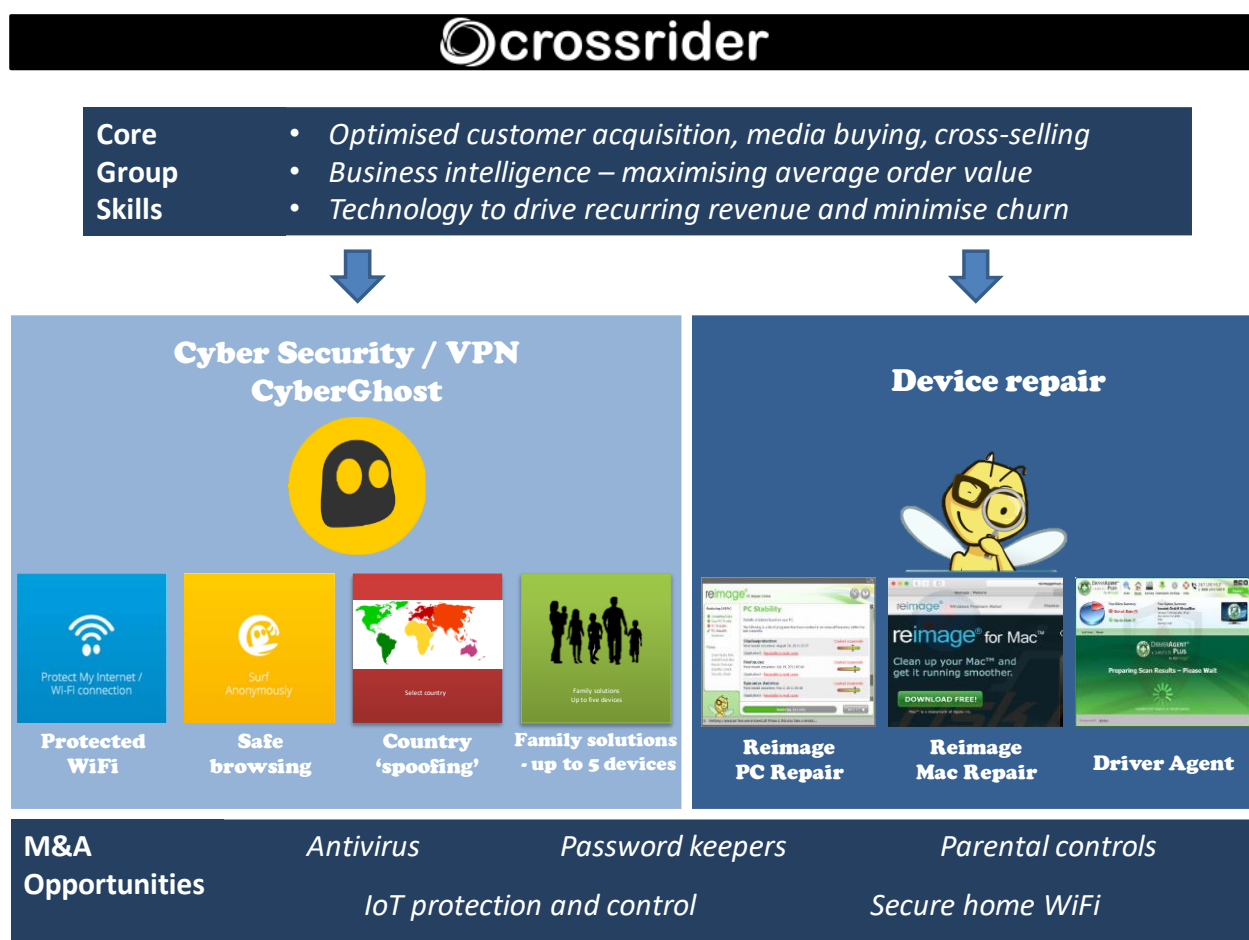
Y/E DEC (U\$M)	FY-14A	FY-15A	FY-16A	FY-17E	FY-18E
Revenue	71.1	84.6	56.5	65.8	79.1
Adjusted EBITDA	13.6	10.1	6.4	8.3	10.1
Adjusted PBT	9.0	8.1	4.8	7.3	9.4
Adjusted EPS (c)	9.1	4.6	2.7	3.9	6.5
EV/Sales	0.7x	0.6x	0.9x	0.7x	0.6x
EV/ Adj. EBITDA	3.6x	4.9x	7.7x	5.9x	4.9x
P/E	10.7x	20.9x	35.9x	24.6x	14.9x

Source: Company Information and Progressive Equity Research estimates

Where Crossrider is, and where it is going

The chart below shows a simple view of where we see Crossrider and its potential areas for growth. In tandem with the SaaS strategy and the M&A opportunities which we outline earlier, the Group looks well positioned to benefit from good organic growth, further acquisitions and attendant synergies. Both cyber security and device repair have organic and acquisitive options for growth, and the former market is likely to provide the next acquisition. Within this range, there are a number of areas in which M&A opportunities reside and we highlight several at the foot of the chart.

Crossrider's business opportunities



Source: Progressive Equity Research

Capital Markets Day

November's Capital Markets Day (CMD) emphasised the significant opportunity in the consumer cybersecurity market and Privacy as a Service (PaaS) as a product realm. Cybersecurity Ventures' Q2 2017 market update had previously noted that it expected the global cybersecurity market to be worth more than U\$120 billion in 2017. This is being driven by massive cyber criminal activity as evidenced by the huge increase in ransomware attacks and malware on mobile devices. Increasing network and WiFi connectivity, combined with the raft of unprotected Internet of Things (IoT) devices, has led to far greater risks to individuals and their personal data.

Presentations during the CMD highlighted the successful post-acquisition integration of CyberGhost. There are three key points which aid the process:

- A sophisticated business information system which enabled all CyberGhost's historical data to be incorporated into Crossrider's database and which allowed the Group to have full transparency across the business in real time.
- A technological 'funnel solution' through which Crossrider can monitor and optimise user flow. That, in turn, increases conversion and user acquisition efficiency.
- Optimisation of processing across the Group – for instance, reducing commission paid - which increases conversion while lowering costs and standardising processes across the different businesses.

Applying, and delivering on, strategy

Crossrider continues to follow a combined organic and acquisitive approach to growth and we expect to see further acquisitions in line with its previously-announced criteria. The Group has substantial funds to invest and management has made it clear that future acquisitions are likely to focus on the cybersecurity market.

Crossrider is continuing its transition towards a SaaS model and 2017 saw its repositioning as a consumer security software business. The acquisition of CyberGhost brought Crossrider more strongly into the cyber security market. We have previously noted the clear potential synergy benefits through additional sales, a lower cost structure and the application of Crossrider's skill in low-cost online marketing of the CyberGhost product. That is a reflection of, *inter alia*, the three key points that we highlight above and represents a template for what it is possible to achieve from further acquisitions over time.

Within that template, the Group will look to apply the same strategy to potential acquisitions that it has successfully applied to CyberGhost – integrating Crossrider's technology and leveraging its digital marketing expertise. CyberGhost was fully integrated into Crossrider's user acquisition platform during the first half of 2017 and it has performed ahead of initial expectations since then, accelerating during the second half of 2017.

Applying Crossrider's strategy



Source: Crossrider

SUMMARY FINANCIALS

PROFIT & LOSS (U\$m)	FY-14A	FY-15A	FY-16	FY-17E	FY-18E
Revenue	71.1	84.6	56.5	65.8	79.1
Adj EBITDA	13.6	10.1	6.4	8.3	10.1
Adj EBIT	4.7	0.7	(3.5)	2.8	6.8
Reported PBT	(11.7)	(14.7)	(10.0)	2.5	6.8
Fully adj PBT	9.0	8.1	4.8	7.3	9.4
NOPAT	13.2	6.5	3.6	5.0	9.0
Reported EPS (c)	(10.5)	(11.9)	(7.6)	1.1	3.5
Fully adj EPS (c)	9.1	4.6	2.7	3.9	6.5
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0

CASH FLOW & BALANCE SHEET (U\$m)	FY-14A	FY-15A	FY-16	FY-17E	FY-18E
Operating cash flow	9.3	5.9	5.9	6.9	9.4
Free Cash flow (U\$m)	6.8	1.8	3.0	4.7	6.5
FCF per share (c)	5.8	1.2	2.1	3.3	4.5
Acquisitions	(9.8)	(0.9)	(1.1)	(7.7)	(1.8)
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	71.4	(5.1)	(1.0)	0.3	0.0
Net cash flow	67.3	(4.7)	0.7	(2.7)	4.7
Overdrafts / borrowings	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	76.0	71.3	72.1	69.4	74.1
Net (Debt)/Cash	76.0	71.3	72.1	69.4	74.1

NAV AND RETURNS	FY-14A	FY-15A	FY-16	FY-17E	FY-18E
Net asset value	110.8	91.5	80.6	82.4	87.5
NAV/share (c)	74.6	64.8	57.1	58.4	62.0
Net Tangible Asset Value	75.0	72.3	73.4	79.2	85.5
NTAV/share (c)	50.5	51.1	52.1	56.2	60.6
Average equity	54.4	101.2	86.0	81.5	84.9
Post-tax ROE (%)	-21.6%	-17.4%	-12.4%	1.9%	6.0%

METRICS	FY-14A	FY-15A	FY-16	FY-17E	FY-18E
Revenue growth	379.0%	19.0%	-33.2%	16.3%	20.2%
Adj EBITDA growth	620.8%	-26.2%	-36.3%	29.2%	22.0%
Adj EBIT growth	-177.7%	-85.3%	n.a.	n.a.	140.4%
Adj PBT growth	-959.9%	-10.2%	-41.5%	52.7%	29.0%
Adj EPS growth	574.4%	-49.1%	-41.7%	46.3%	64.6%
Adj EBIT margins	6.6%	0.8%	-6.1%	4.3%	8.6%

VALUATION	FY-14A	FY-15A	FY-16	FY-17E	FY-18E
EV/Sales	0.7	0.6	0.9	0.7	0.6
EV/EBITDA	3.6	4.9	7.7	5.9	4.9
EV/NOPAT	3.7	7.6	13.6	9.9	5.5
PER	10.7	20.9	35.9	24.6	14.9
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	6.0%	1.2%	2.2%	3.4%	4.7%

Source: Company information, Progressive Equity Research estimates

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