

Corero Network Security



Parsing the Akamai deal

11th October 2023

Corero signed a global partnership with Akamai in September. This agreement is strategically significant for both parties and will enable Akamai to expand into the on-premises and hybrid DDoS markets which it does not currently address. Corero's SmartWall ONE solution will be rebranded Prolexic On-Prem (powered by Corero) and sold globally. This agreement reinforces our positive view on Corero and we see fair value around 14p+.

Distributed delivery. Akamai (Nasdaq: AKAM, \$16bn market cap) is a distributed edge and cloud platform that ensures timely, secure delivery of content to internet users. Its platform, Akamai Connected Cloud, is a global network with a group of geographically distributed servers that ensures the rapid delivery of internet content by caching content close to users. Akamai has successfully expanded into the adjacent cyber market by offering cloud based security solutions for websites and applications. Akamai has a cloud-based Distributed Denial of Service (DDoS) mitigation product to protect its customers from cyber attacks under the Prolexic brand.

Linode. Akamai acquired Linode, a cloud infrastructure provider, in 2022 for \$900m. Linode has a long-standing relationship with Corero having been a customer for Corero's solutions.

Prolexic. Akamai acquired Prolexic in 2014 for its traffic inspection capability and custom mitigation controls to stop DDoS attacks. Akamai has a large market share in cloud based DDoS, (estimated at 25%), but until now has had no presence in on-premises DDoS solutions. With the total addressable market between on-premises and cloud based solutions split roughly 50/50, Akamai sees an opportunity in providing on-premises solutions alongside its existing cloud based solutions, as well as the emerging hybrid market which utilises both cloud and on-premises DDoS protection.

Strategic partnership. Akamai is focused on growing its security business (46% of Q2 revenues). The Corero partnership will enable it to fulfil demand from its customers by reselling Corero's SmartWall ONE solution as Prolexic On-Prem (powered by Corero). We believe Corero was selected for this partnership following a **highly competitive process with the product being assessed on factors including the level of automation, accuracy and flexible network configuration.**

Impact. We anticipate the global partnership agreement will begin generating revenues in Q4E. Akamai security products are sold on a recurring as-a-service basis and we expect this agreement to operate on a similar basis with revenues shared between both parties. Selling on an annualised recurring basis will mean that any new business will build over time and we expect this agreement to contribute materially to the outlook for FY24E.

Momentum. Strong trading continues in Q3 with significant wins of over \$2m of orders amongst others. These include customers in the US, the Caribbean (with global operations) and S. Asia. We continue to see fair value at 14p per share, or a T+1 EV/sales ratio of 3.7x leaving considerable capacity for a re-rating.

Forecasts & Ratios						
Y/E Dec, \$'m	2019A	2020A	2021A	2022A	2023E	2024E
Group revenue	9.7	16.9	20.9	20.1	22.1	24.3
EBITDA	-3.2	-1.4	3.3	2.6	1.0	1.5
PBT	-6.6	-4.0	1.4	0.4	-1.0	-0.5
Adjusted EPS (p)	-1.6	-0.8	0.3	0.1	-0.2	-0.1
EV/Sales (x)	4.1	2.4	1.9	2.0	1.8	1.6
EV/EBITDA(x)	nm	nm	11.9	15.2	40.0	27.2

Source: Company Accounts, Equity Development forecasts

Company Data

EPIC	CNS
Price (last close)	8.2p
52 weeks Hi/Lo	11.5p/5.75p
Market cap	£41m
ED Fair Value / share	14p

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.

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INCOME STATEMENT						
Y/E Dec, \$k	2019A	2020A	2021A	2022A	2023E	2024E
Consolidated Revenue	9,714	16,877	20,895	20,121	22,133	24,346
Growth yoy	-	73.7%	23.8%	-3.7%	10.0%	10.0%
Cost of sales	-1,842	-3,832	-3,112	-2,576	-2,656	-2,678
Gross profit	7,872	13,045	17,783	17,545	19,477	21,668
Gross margin (%)	81.0	77.3	85.1	87.2	88.0	89.0
R&D	-1,423	-1,562	-1,546	-1,743	-2,000	-2,000
Operating expenses	-9,609	-	-	-	-	-
		12,911	12,904	13,183	16,481	18,208
EBITDA	-3,160	-1,428	3,333	2,619	996	1,461
EBITDA margin (%)	-32.5	-8.5	16.0	13.0	4.5	6.0
Depreciation (ex.DPaaS)	-515	-633	-697	-579	-575	-575
Amortisation of intangibles	-2,526	-1,684	-1,495	-1,364	-1,400	-1,400
EBIT	-6,201	-3,745	1,141	676	-979	-514
Other income	0	0	637	0	0	0
Net interest	-360	-285	-405	-272	-54	0
Profit before tax	-6,561	-4,030	1,373	404	-1,033	-514
Tax charge	0	246	149	150	0	0
Profit after tax	-6,561	-3,784	1,522	554	-1,033	-514
Basic EPS (p)	-1.6	-0.8	0.3	0.1	-0.2	-0.1
Average shares (m)	406.5	494.85	494.85	495.90	495.90	495.90
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Source: Company Accounts, Equity Development estimates

CASH FLOW						
Y/E Dec, \$k	2019A	2020A	2021A	2022A	2023E	2024E
EBIT	-6,201	-3,745	1,141	676	-979	-514
Depreciation	515	633	697	579	575	575
Amortisation of acquired intangibles	13	6	5	2	2	0
Amortisation of capitalised development	2,638	1,933	1,872	1,732	1,732	1,732
Working capital	2,219	5,710	-1,601	-5,254	1,795	690
Share based payments	265	359	522	386	400	425
Other including exceptional costs	0	0	0	0	0	0
Operating Cash Flow	-551	4,896	2,636	-1,879	3,525	2,908
Net Interest	-281	-190	-237	-151	-54	0
Tax	0	246	149	150	0	0
Cash flow pre-capex and investment	-832	4,952	2,548	-1,880	3,471	2,908
Investment in intangible assets	-6	-8	0	0	0	0
Capitalised development expenditure	-1,360	-1,410	-1,754	-1,704	-1,700	-1,700
Net capex	-579	-1,015	-421	-420	-450	-500
Acquisitions/disposals	0	0	0	0	0	0
Financing/other	3,028	-686	842	-1,240	-1,208	-237
Dividends	0	0	0	0	0	0
FX & other	44	-14	-154	-311	0	0
Net Cash Flow	295	1,819	1,061	-5,555	113	471
Closing Net Cash/(Debt) pre-IFRS 16	5,384	7,662	8,424	4,438	5,759	6,230

Source: Company Accounts, Equity Development estimates

BALANCE SHEET

Y/E Dec, \$k	2019A	2020A	2021A	2022A	2023E	2024E
Fixed Assets						
Goodwill	8,991	8,991	8,991	8,991	8,991	8,991
Acquired intangible assets	7	9	4	2	0	0
Capitalised development expenditure	5,169	4,646	4,528	4,500	4,800	5,100
Tangible assets	652	1,099	796	604	479	404
Leased right of use assets	357	237	145	62	50	50
Trade & other receivables	307	694	859	1,571	1,571	1,571
Total Fixed Assets	15,483	15,676	15,323	15,730	15,891	16,116
Current assets						
Inventories	63	98	57	164	214	264
Trade and other receivables	2,572	3,714	3,206	5,294	5,044	6,044
Cash	8,321	10,140	11,201	5,646	5,759	6,230
Total Current Assets	10,956	13,952	14,464	11,104	11,017	12,538
Current liabilities						
Trade payables	-2,008	-6,461	-4,068	-3,956	-5,551	-7,291
Lease liabilities	-112	-86	-94	-78	-78	-78
Deferred income	-2,800	-3,444	-4,677	-3,323	-4,000	-4,500
Borrowings	-1,149	-2,073	-1,421	-971	0	0
Total Current Liabilities	-6,069	-12,064	-10,260	-8,328	-9,629	-11,869
Net Current assets	4,887	1,888	4,204	2,776	1,388	669
Long term liabilities						
Trade & other payables	-139	-402	-143	-100	-100	-100
Lease liabilities	-257	-171	-78	0	0	0
Deferred income	-1,096	-2,705	-2,147	-2,285	-2,500	-2,750
Borrowing facility	-1,788	-405	-1,356	-237	0	0
Total Long Term Liabilities	-3,280	-3,683	-3,724	-2,622	-2,600	-2,850
Net Assets	17,090	13,881	15,803	15,884	14,679	13,935

Source: Company Accounts, Equity Development estimates



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