

Corero Network Security PLC

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Corero Network Security is turning things around

It's about two years since Corero Network Security PLC (LON:CNS), a specialist in cyber-threat blocking, changed tack after suffering order delays.

In common with a number of software companies, it is moving away from the "one licence per user" model, with its lumpy revenues, to an "as a service" (AaS) model, which traditionally results in an initial hit to revenues, as there are no more big up-front payments when a new customer signs up or an existing one renews.

WATCH: Juniper deal opens big market for Corero, says CEO Stephenson
On the plus side, an AaS model is generally regarded as being better for recurring revenues.

The argument goes that because AaS customers stump up on a pay-as-you-go basis, the monthly bite-sized payments are less likely to make a customer's chief financial officer have a fit than an annual or bi-annual big licence renewal.

Legacy product revenue on the decline - as expected

It is early days, still, but trading in the first half of 2018 confirmed the expected pattern, with recurring revenue forming 47.7% of the total, compared to 40.7% in the first half of 2017.

Group revenue rose to US\$5.0m from US\$4.8m the year before, with the flagship SmartWall software responsible for almost all of the increase, with an 11.9% year-on-year increase to sales of US\$4.9m.

The network security services provider reported an underlying earnings (EBITDA) loss for the period of US\$1.4m, 50% narrower than the US\$2.9m loss reported a year ago.

Adjusted operating costs for the group were also lower, down 18% on the year-ago period to US\$5.3m, with Corero ending the first half with net cash of US\$5m compared to US\$5.1m previously.

In its outlook, Corero said its pipeline of new business opportunities in the second half was growing, adding that it expected revenues for the year to be in line with market expectations with "significantly reduced losses".

The firm also said that its partnership agreement with Juniper Networks (NYSE:JNPR), which it signed this week, was expected to "materially contribute" to revenue growth in 2019.

READ: Corero Network Security jumps after networking products titan Juniper Networks adds SmartWall to its products list Growing the top line is vital

As the above figures demonstrate, Corero is still in the loss-making stage where revenue growth is deemed more important than profits.

Crank the revenue up high enough, and the profits will follow.

Price: 5.7

Market Cap: £28.21 m

1 Year Share Price Graph



January 2019 July 2019 January 2020

Share Information

Code: CNS

Listing: AIM

52 week High Low
10.9 2.35

Sector: Software & services

Website: www.corero.com

Company Synopsis:

Corero Network Security is a leader in real-time, high-performance Distributed Denial of Service ("DDoS") defence solutions.

action@proactiveinvestors.com

In that regard, average new customer order intake value of \$0.35m, unchanged from the first half of 2017, kept the pot boiling but might have been a source of disappointment in some quarters.

Corero is hopeful that the deal with network equipment giant Juniper, which will sell Corero's SmartWall DDoS protection software and services alongside its own products and services, will prove the breakthrough the company needs.

"We anticipate our go-to-market partner relationships will deliver incremental revenue in H2 2018. The partnership with Juniper Networks is expected to materially contribute to revenues in 2019 as the relationship expands and their worldwide sales team is engaged," chief executive, Ashley Stephenson, told investors.

Another day, another cyber-crime

The stream of contract wins reflects a growing realisation of the threat posed by cyber-crime and the commercial opportunities the threat presents for a company such as Corero, which specialises in combating it.

The recent contract awards, plus others, have underlined Corero's market leadership in the field of preventing distributed denial of service attacks, where one or more malevolent agencies bombard a company's website or network with requests, with the intention of causing a kind of cyber gridlock.

Such attacks can be highly damaging financially, not to mention reputation-wise, so companies are keen to be bang up to date on providing the latest protection.

"The demand from digital enterprises for real-time DDoS mitigation solutions is being driven by the increasing number and severity of DDoS attacks and the growing awareness of the threat of cyber-attacks brought about by high profile attacks such as the crippling DDoS attack on Dyn in 2016 and recent WannaCry ransomware attacks," said Andrew Lloyd, president and executive vice president of sales & marketing at Corero.

"In addition, new cyber security regulatory requirements such as the European Network Information Security (NIS) Directive, General Data Protection Regulation and the revised Payment Services Directive (PSD2) are requiring companies invest in appropriate cyber security defences," he added.

Corero's chief executive, Ashley Stephenson, sees hundreds of further opportunities for new business.

The UK's National Crime Agency (NCA) warned in 2016 that businesses and law enforcement agencies were losing the "cyber arms race" with online criminals, as the technical capabilities of criminal syndicates outpaced those of security services.

The report, published in July 2016, found 2.46m incidents of cyber-crime in 2015, including 700,000 cases of fraud.

Following the report, the government announced it planned to spend £1.9bn over the following five years on cyber-defences.

The NCA found that the accelerating pace of technology and criminal cyber-capability development currently outpaced the UK's collective response.

More recently, UK defence giant BAE Systems PLC (LON:BA.) claimed that the average cost of a cyber-attack was at least £330,000. The figure was arrived at after it had surveyed 100 bosses that lead businesses that each employ more than 1,000 people.

"Businesses need to ensure they have the right people, process and tools in place, so when a major incident occurs they are equipped to understand, contain and remediate," said Julian Cracknell, managing director for UK Services at BAE.

Far better, of course, to prevent the major incident in the first place and this is what Corero is all about.

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