

BrandShield Systems plc

MARKET DATA

Bloomberg	Ticker	BRSD
Share price	p/shr	23.50
Target	p/shr	37.00
TP upside	%	+57%
Shares out	Million	114.7
Fd shares	Million	114.7
Mkt cap	£m	27.0

PROTECTION BEYOND THE FIREWALL

Y/E Dec (US\$M)	FY19A	FY20E	FY21E	FY22E	FY23E
ARR	1.92	3.28	5.12	8.42	13.71
Revenues	1.77	2.62	4.20	6.77	11.07
EBITDA	(1.39)	(1.80)	(2.56)	(1.50)	0.67
Pre-Tax Profit	(1.50)	(1.80)	(2.57)	(1.50)	0.66
Earnings per share (p)	-	-	-	-	0.42
EV / Sales (x)	12.4	7.8	4.8	2.9	1.8

Source: Tennyson estimates

BrandShield Systems plc is an Israeli-based cybersecurity specialist, whose AI-powered solutions provide comprehensive online brand protection to corporate clients across the world. The company's unique online monitoring solutions target, identify and remove a range of potentially damaging threats to a client's online brand, including social phishing, counterfeit sales, trademark infringement and brand abuse. Unlike traditional endpoint cybersecurity solutions, BrandShield's technology actively searches for these threats outside of companies' firewalls, thereby avoiding complex integration and ensuring shorter sales cycles.

The company has seen rapid revenue growth deploying its SaaS model. BrandShield operates a subscription-based Software-as-a-Service ("SaaS") model, where clients gain access to a suite of its threat intelligence and takedown tools. Since 2017, the company has seen compound annual average revenue growth of over 114%. By the end of 2020, the company's Annualised Revenue Run-Rate ("ARR") had grown to \$3.28 million, supported by record levels of new business. Contract wins in 2020 included Bristol-Myers-Squibb and Pharmaceutical Security Institute. By the end of the year, 77 corporate clients were subscribing to BrandShield solutions with an average spend of over \$40,000 pa.

Threat detection and takedown represents a multi-billion-dollar market opportunity. Market research suggests over 85% of corporations have experienced phishing attacks in the last twelve months, with the damage from an average attack on a large company amounting to over \$1.4 million. With an estimated \$2 trillion of counterfeit goods being sold annually, and e-commerce continuing to grow rapidly in a post-COVID economy, corporate spending on threat intelligence is expected to continue to grow rapidly, reaching over \$12 billion by 2023.

BrandShield is poised to enter a high-growth marketing phase in its development. Having developed in-house a comprehensive suite of threat detection & takedown solutions, we expect the company to focus aggressively on marketing in coming years. After raising £3.2 million (gross) through a reverse takeover of **Two Shields International plc** (TSI) in December 2020, management is in a strong position to accelerate top-line growth, and move beyond the largely word-of-mouth marketing on which it has been hitherto reliant.

We expect the company to grow its ARR by 61% per annum over the next three years. With a beefed-up marketing effort, we forecast ARR to grow from \$3.28 million in 2020 to over \$21.95 million by 2023. Based on its peer group of global cybersecurity SaaS plays, we believe a 2023 revenue multiple of 5x represents fair value. **As a consequence, we are initiating coverage on BrandShield with a 37 pence target price and a BUY recommendation.**

DESCRIPTION

BrandShield is a SaaS provider, whose technology enables corporate clients to detect and remove phishing threats, online brand abuse, trademark infringements and counterfeit sales that occur outside their internal firewalls.

ANALYST

Alan M Howard, CFA
+44 (0) 20 7186 9039
alan.howard@tennysonsecurities.co.uk

SALES

Pav Sanghera
+44 (0) 20 7186 9036
pav.sanghera@tennysonsecurities.co.uk

Guy Wheatley
+44 (0) 20 7186 9034
guy.wheatley@tennysonsecurities.co.uk

Jason Woollard
+44 (0) 20 7186 9035
jason.woollard@tennysonsecurities.co.uk

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BrandShield: AI-Driven Brand Protection

Founded in 2013, BrandShield has developed a comprehensive suite of threat intelligence and cybersecurity products, capable of identifying, analysing and counteracting threats to a client's brands quickly, and with an unmatched success rate. The Company offers software solutions capable of seeking out websites engaged in phishing or fraudulent activity, executive impersonations, the online sale of counterfeit goods, the unauthorised use of branded material, and social phishing sites, among other threats.

External protection from external threats. Traditional cybersecurity has always been centred around neutralising threats to a company's internal systems, such as viruses, malware and spyware. Whilst this industry is both highly developed and populated with very sophisticated products, it does not provide any solution for threats which occur outside of a company's sphere of influence. For instance, if a company's website was hacked, it would be relatively easy to regain control by traditional means. Were a fake website to masquerade as that same company however, the company would be powerless, as they never controlled that website in the first place. BrandShield was created as a defence against these types of threats. Without having to be integrated into a company's systems, the BrandShield platform can track down and eliminate threats which traditional security cannot.

A Self-Improving AI-based threat intelligence platform. Using a combination of AI and Big Data techniques, the BrandShield platform hunts through millions of online datapoints, including search engines, domain names, social media platforms, mobile application platforms, online marketplaces and paid ads. New clients provide BrandShield with a portfolio of brand specific information, including keywords, slogans and brand images. The platform cross-references datapoints against this information, using analysis tools such as content analysis, image recognition and cluster detection to identify where any potential fraudulent usage may be occurring. These instances are prioritised in terms of threat probability, based on the platform's previous experience of correctly identifying threats. Given that BrandShield's algorithms are constantly self-improving, the system becomes both more effective and more accurate over time, and as the Company brings on more clients.

Flexibility and accessibility. BrandShield gives clients access to a streamlined, user-friendly online interface, through which they can receive real-time updates on active threat detection. This interface provides clear and comprehensive information about any threats detected, as well as complete transparency about the platform's continued operations. Once threats are highlighted to clients, they can quickly and simply send a takedown request, which is handled either by automated processes, or by BrandShield's Enforcement Managers, who typically have legal expertise in handling such requests. The fact that this process is clear, simple, and shows the platform's effectiveness in real time means that it encourages a higher level of client engagement. For many SaaS companies, client retention can be difficult, especially if clients lose sight of the continued efficacy of a service. By giving clients continuous evidence of BrandShield's success, the Company has managed to achieve significantly higher client retention than many industry peers.

Management expertise. Collectively, the BrandShield management team and board have over a century of industry relevant experience. Co-founders Yuval Zantkeren and Yoav Keren, currently respectively the CTO and CEO, both have significant experience in industry related organisations. Yuval Zantkeren has 22 years of experience in managing software development & web development, and Yoav Keren was previously the head of the Technology branch of the Israeli military's Information Security Department. Additionally, Chairman Azriel (Uzi) Moscovici is the CEO of Israeli cybersecurity group, Waveguard and a former head of the Israeli Defence Force's Cyber Defence & IT Directorate.

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Financial Forecasts & Valuation

BrandShield has seen consistent growth in both its customer base and its average customer spend over recent years. Our revenue forecasts are based on a number of key assumptions:

- **Customer Growth.** We expect the company to continue to win significant new corporate customers, with overall customer numbers growing from 77 in Q4/20 to 352 in Q4/24, representing an **average annual growth rate of 46%**. This growth will be supported by a step-up in marketing efforts, an acceleration of the sales cycle and further growth in its success in building a direct marketing presence online.
- **Increases in Average Spend.** Individual customer spend depends on both the overall breadth of services the customer wishes to use, but also the number of individual brands for which each customer needs protection. BrandShield serves a range of customers from SMEs to large multinationals, with a customer spend that ranges from \$20,000 to over \$300,000. With an increased weighting towards larger enterprise users, and more multi-brand packages sold to individual customers, we forecast that average customer spend (ARR) will grow from \$42,500 in Q4/20 to \$62,300 in Q4/24, representing **average annual growth of 10%**.
- **Seasonality & Churn.** When looking at new business, we would expect a weighting towards the fourth quarter typical of Software-as-a-Service businesses, although BrandShield recently announced a record start to 2021. In our forecasts, we assume around 50% of new sales (by ARR) is generated in the fourth quarter, in line with the company's experience in recent years. At the same time, our forecasts for churn (which is also seasonal) are set at an annual rate of 12%, in line with the low churn rates that BrandShield has experienced to date.

Below, we show our quarterly revenue model for the FY21-FY24 forecast period:

(\$MM)	Q1/21	Q2/21	Q3/21	Q4/21	FY/ 21E	Q1/22	Q2/22	Q3/22	Q4/22	FY/ 22E	Q1/23	Q2/23	Q3/23	Q4/23	FY/ 23E	FY/ 24E
ARR per customer (\$K)	43.0	44.1	45.2	46.3	46.3	47.5	48.7	49.9	51.1	51.1	52.4	53.7	55.0	56.4	56.4	62.3
No. of Customers	83	89	93	110	110	118	129	136	165	165	176	191	201	243	243	352
ARR b/f New sales (ARR)	3.28	3.56	3.92	4.20	3.28	5.12	5.61	6.27	6.77	5.12	8.42	9.22	10.27	11.07	8.42	13.71
Churn (ARR)	(0.06)	(0.08)	(0.06)	(0.20)	(0.39)	(0.09)	(0.12)	(0.09)	(0.31)	(0.61)	(0.15)	(0.20)	(0.15)	(0.51)	(1.01)	(1.65)
ARR c/f	3.56	3.92	4.20	5.12	5.12	5.61	6.27	6.77	8.42	8.42	9.22	10.27	11.07	13.71	13.71	21.95
Reported Revenues	0.89	0.98	1.05	1.28	4.20	1.40	1.57	1.69	2.11	6.77	2.30	2.57	2.77	3.43	11.07	17.83

Source: Tennyson estimates

- **ARR to grow 61% per annum over forecast period.** We are forecasting that BrandShield will grow its ARR from \$3.28 million in Q4/21 to \$21.95 million by Q4/24, which represents 61% per annum average growth. This translates into 22% per annum growth in reported revenues, which we expect to grow from £2.62 million to £17.83 million over the forecast period.

Below we show our full financial forecasts in more detail. These incorporate a significant increase in the company's cost base due to increased headcount (which we expect will increase from 30 to 55). Nevertheless, we expect the company to break into positive pre-tax profit from 2023E onwards.

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Y/E Dec (US\$M)	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E
Income Statement								
Revenues	0.27	0.97	1.77	2.62	4.20	7.03	11.85	18.81
% growth		267%	82%	48%	60%	67%	69%	59%
Operating Expenses	(0.15)	(0.60)	(0.71)	(1.00)	(1.55)	(2.53)	(4.26)	(6.77)
Gross Profit	0.11	0.38	1.06	1.63	2.64	4.50	7.58	12.04
% margin	42%	39%	60%	62%	63%	64%	64%	64%
Employee costs	(0.78)	(1.58)	(1.90)	(2.62)	(3.76)	(4.19)	(4.61)	(5.07)
Other costs	(0.46)	(1.16)	(0.55)	(0.80)	(1.45)	(1.64)	(1.81)	(1.99)
EBITDA	(1.13)	(2.37)	(1.39)	(1.80)	(2.56)	(1.33)	1.17	4.98
Depreciation	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Operating Profit	(1.13)	(2.37)	(1.40)	(1.80)	(2.57)	(1.34)	1.16	4.98
Net Interest	(0.05)	0.03	(0.10)	0.00	0.00	0.00	0.00	0.00
Pre-Tax Profit	(1.19)	(2.34)	(1.50)	(1.80)	(2.57)	(1.34)	1.16	4.98
Taxation	0	0	0	0	0	0	0	0
Net Income	(1.19)	(2.34)	(1.50)	(1.80)	(2.57)	(1.34)	1.16	4.98
Balance Sheet								
PP&E	0.01	0.03	0.03	0.04	0.06	0.08	0.10	0.12
Financial assets	0.00	0.00	0.00	2.72	2.72	2.72	2.72	2.72
Trade Receivables	0.24	0.37	0.33	0.37	0.40	0.45	0.49	0.54
Trade Payables	(0.07)	(0.10)	(0.25)	(0.41)	(0.66)	(1.05)	(1.69)	(2.67)
Net Working Capital	0.18	0.27	0.09	(0.04)	(0.25)	(0.60)	(1.20)	(2.14)
Cash	1.57	0.25	0.36	3.02	0.78	(0.10)	1.77	7.80
Convertible Debt	0.00	(0.31)	(1.41)	0.00	0.00	0.00	0.00	0.00
Net Debt	1.57	(0.06)	(1.05)	3.02	0.78	(0.10)	1.77	7.80
Royalties payable	(0.09)	(0.27)	(0.34)	(0.36)	(0.38)	(0.39)	(0.41)	(0.43)
Deferred revenue	(0.33)	(0.53)	(0.48)	(0.51)	(0.53)	(0.56)	(0.59)	(0.62)
Other assets/liabilities	(0.37)	(0.61)	(0.81)	(0.90)	(0.99)	(1.08)	(1.16)	(1.25)
Net Assets	0.98	(1.18)	(2.57)	3.97	1.40	0.06	1.23	6.20
Cash Flow Statement								
EBITDA	(1.13)	(2.37)	(1.39)	(1.80)	(2.56)	(1.33)	1.17	4.98
Interest paid	(0.01)	(0.00)	(0.03)	0.00	0.00	0.00	0.00	0.00
Taxes paid	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Change in working cap	0.34	(0.10)	0.18	0.13	0.21	0.35	0.59	0.94
Share payments	0.02	0.13	0.12	0.12	0.12	0.12	0.12	0.12
Other	(0.05)	0.46	0.10	0.00	0.00	0.00	0.00	0.00
Operating cashflow	(0.82)	(1.88)	(1.03)	(1.55)	(2.24)	(0.86)	1.88	6.04
Capital Expenditure	(0.00)	(0.03)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Free Cash Flow	(0.82)	(1.91)	(1.03)	(1.56)	(2.25)	(0.87)	1.87	6.03
Share issues	1.77	0.24	0.00	3.20	0.00	0.00	0.00	0.00
Forex	(0.00)	(0.01)	(0.01)	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.04	0.05	2.43	0.00	0.00	0.00	0.00
Net Cash Flow	0.95	(1.64)	(0.99)	4.07	(2.25)	(0.87)	1.87	6.03

Source: BrandShield; Tennyson estimates

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Looking at the peer group of global cybersecurity names, we can see that BrandShield compares favourably in terms of expected top-line growth over the forecast period. Looking specifically at 2023E multiples, the peer group trades at 5.0 times revenues, and the lower-growth UK benchmark, Avast, trades at 6.2 times. Using a 5 times reported FY23E revenue multiple, this gives an enterprise value for BrandShield of £42.8 million, and allows us to set a 12-month target price of 37p per share, offering investors upside of 68%. **We initiate coverage of Brandshield with a BUY recommendation.**

Stock	Price (LCL)	Mkt Cap (US\$M)	EV / SALES			EV / EBITDA			2019-24 Sales Growth
			2021E	2022E	2023E	2021E	2022E	2023E	
Crowdstrike Holdings Inc	195	38,001	28.7	21.7	15.3	284	172	94	47%
Palo Alto Networks Inc	3.17	30,811	6.9	5.9	5.0	33	24	19	19%
Fortinet Inc	1.74	28,475	8.7	7.6	6.6	31	26	22	16%
Zscaler Inc	1.82	24,681	33.6	25.7	19.9	332	157	87	35%
Splunk Inc	135	21,839	9.0	7.4	5.5	-201	123	37	21%
VeriSign Inc	192	21,720	17.1	16.1	n/a	25	23	n/a	n/a
Check Point Software	1.17	16,003	7.5	7.3	7.1	16	15	15	3%
F5 Networks Inc	200	12,346	4.5	4.2	3.8	13	11	n/a	9%
Juniper Networks Inc	25.0	8,204	1.9	1.9	1.8	10	9	9	2%
Proofpoint Inc	1.28	7,331	6.2	5.3	5.0	36	28	21	7%
Varonis Systems Inc	0.53	5,480	15.1	12.4	9.9	325	132	56	19%
CyberArk Software Ltd	137	5,364	9.6	8.6	7.3	131	123	72	12%
Sailpoint Technologies	53.2	4,895	11.6	10.0	8.4	4861	426	84	n/a
FireEye Inc	19.7	4,702	4.4	4.1	3.8	27	26	21	7%
Tenable Holdings Inc	37.7	3,926	7.2	6.0	5.0	70	49	30	17%
Rapid7 Inc	76.6	4,034	8.5	7.1	6.0	145	87	56	21%
Qualys Inc	100.8	3,951	9.1	8.2	7.5	22	20	18	n/a
Verint Systems Inc	47.3	3,107	3.9	3.7	n/a	15	14	n/a	n/a
Mimecast Ltd	0.43	2,762	5.0	4.5	3.8	20	17	14	n/a
Radware Ltd	27.3	1,258	3.4	3.1	2.9	20	16	17	n/a
A10 Networks Inc	10.3	789	2.7	2.5	n/a	n/a	n/a	n/a	n/a
Mitek Systems Inc	0.15	652	4.9	n/a	n/a	17	n/a	n/a	n/a
Zix Corp	7.88	450	2.7	2.4	n/a	12	10	n/a	n/a
SecureWorks Corp	13.2	162	neg	neg	n/a	5	neg	n/a	n/a
Trend Micro Inc/Japan	55.60	7,198	3.1	2.9	2.8	10	10	9	n/a
Fingerprint Cards AB	0.28	996	6.3	4.7	3.2	75	38	22	n/a
Precise Biometrics AB	1.27	53	4.2	3.8	3.5	32	26	18	n/a
Clavister Holding AB	7.40	47	3.0	2.5	2.0	128	28	13	n/a
F-Secure Oyj	4.01	757	2.6	2.5	2.3	17	15	14	5%
SSH Communications	0.03	125	5.5	4.2	3.5	64	18	14	n/a
Ahnlab Inc	74800	66,410	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fasoo Co Ltd	7580	7,495	n/a	n/a	n/a	n/a	n/a	n/a	n/a
BlackBerry Ltd	13.75	6,207	6.1	5.8	4.9	45	46	32	6%
Absolute Software Corp	0.18	697	6.7	4.4	n/a	21	18	n/a	n/a
Avast PLC	477	6,804	7.1	6.7	6.2	13	12	11	5%
NCC Group PLC	272	1,057	2.7	2.5	n/a	16	14	n/a	n/a
Kape Technologies PLC	283	825	4.4	3.6	n/a	12	10	n/a	n/a
Blancco Technology	2.82	296	5.2	4.8	n/a	21	19	n/a	n/a
Corero Network Security	12.5	86	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Intercede Group PLC	95	75	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Crossword Cybersecurity	332	27	n/a	n/a	n/a	n/a	n/a	n/a	n/a
MEDIAN			6.1	4.8	5.0				19%

Source: Bloomberg estimates

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DISCLAIMER**RECOMMENDATIONS HISTORY****Market index** : FTSE AIM All-Share

Date	Market Index level	Share Price (p)	Target Price (p)	Opinion
22/03/2021	1201	23.5p	37.0p	BUY

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HOLD: The stock is expected to generate absolute price performance of between negative 10% and positive 10% during the next 12 months.

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65 Petty France, London SW1H 9EU | www.tennysonsecurities.co.uk