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(NASDAQ: RMNI)

Price	\$2.40
52 Week Range	(\$2.01 - \$5.65)
Price Target	\$4.75
Market Cap (mil)	\$215.00
Shares out (mil)	89.36
3-Mo Avg Vol	543,845
Cash per share	\$1.43
Total Debt (mil)	\$74.00

Revenues (thousands) \$

Yr Dec	2023E		2024E		2025E	
	Actual	Curr	Prev	Curr	Prev	
Mar	105,512A	106,567E	—	111,895E	—	
Jun	106,421A	108,549E	107,485E	113,977E	—	
Sep	107,453A	109,602E	107,068E	115,082E	—	
Dec	109,707E	111,901E	—	117,496E	—	
YEAR	429,093E	436,620E	433,022E	458,451E	—	

Adj. EBITDA (thousands) \$

Yr Dec	2023E		2024E		2025E	
	Actual	Curr	Prev	Curr	Prev	
Mar	15,993A	11,939E	11,004E	13,396E	—	
Jun	15,509A	12,510E	11,491E	14,012E	—	
Sep	17,249A	14,003E	12,222E	15,588E	—	
Dec	14,719E	14,950E	14,413E	16,602E	—	
YEAR	63,470E	53,400E	49,130E	59,598E	—	



Rimini Street, Inc.

Buy

Price Target Change

Volatility: 5

Estimate Change

Sales Execution Was Better-Than-Expected; Valuation of 3x EV/EBITDA Suggests Oversold

- RMNI's valuation implies 3x EV/EBITDA based on our 2024 adjusted EBITDA estimate adjusting for \$128 million of cash and \$74 million of debt.
- This valuation reflects catastrophe ahead with the ORCL litigation; we see some headwinds but nothing of that magnitude to warrant this steep discount.
- RMNI posted 3Q:23 revenue of \$107.5 million, which implies 5.4% year-over-year growth and was in line with our estimate.
- As a result of lower-than-expected operating expenses, adjusted EBITDA during 3Q:23 was \$17.3 million which was higher than our \$13.2 million estimate.
- We believe driving more profit and cash flow in the short-term, given the litigation overhang, would drive a recovery in the stock.
- Sales execution continues to be the biggest challenge for RMNI and the overhang of a recent court ruling in favor of ORCL, which has since been stayed and will be appealed, creates new obstacles to business development.
- Bookings were better than we expected and showed improvement mainly in its SAP offering; the backlog grew 3.2%, year over year and this is the second consecutive quarter of backlog growth and results in solid near-term revenue visibility.
- We increase our 2024 adjusted EBITDA estimate to \$53 million (from \$49 million) on just under 2% revenue growth.
- Introduce our 2025 estimates that imply 5% revenue growth and adjusted EBITDA of almost \$60 million.
- We maintain our Buy rating and increase our price target to \$4.75 (from \$4.50), which implies an EV/EBITDA multiple of 7x applied to our 2024 estimate.

RMNI's 3Q:23 results topped our estimates. The company posted 3Q:23 revenue of \$107.5 million, which implies 5.4% year-over-year growth and was in line with our estimate. Year-over-year revenue growth from U.S. and international customers was 4.4% and 6.6%, respectively. Overall gross margin expanded 120 basis points to 62.7% compared to the prior-year quarter. That, along with \$2 million lower-than-expected sales and marketing costs, resulted in better-than-expected adjusted EBITDA of \$17.3 million, \$4.1 million higher than our estimate. We believe the lower than expected operating expenses are the result of fewer trade show and sales events during the quarter.

Business development was much improved during the seasonally important September quarter. Annual contract expirations for SAP are seasonally strong during the September quarter and therefore it is one of the most important periods to RMNI for business development. Two years ago, execution on new SAP contracts was depressed. One of the main reasons was many of the sellers were fairly new and poorly trained on messaging. Last year sales execution improved for SAP contracting, but prospective customers were delaying decisions due to concerns over the economy and the impact on their business. During 3Q:23, RMNI added 70 net new customers and ended September with 3,090. Management said new billings for SAP were up 60%, year over year, and it also is beginning to see stronger demand for Salesforce and security services. During the quarter, ORCL billings were down 9%, year over year. It is unclear if the drop in ORCL billings is related to the overhang from the litigation or that RMNI sellers were too focused on SAP and therefore put less emphasis on ORCL during the quarter.

With a win rate that is consistently 25-30%, management believes the more pipeline it can respond to, the faster it can re-accelerate revenue growth. As RMNI was awarded

19 new contracts with a total contract value of at least \$1 million, the company ended 3Q:23 with a backlog of \$550 million, which was up 3.2%, year over year. We note this is the second consecutive quarter backlog increased, year over year, after four consecutive quarters of declines. To capitalize on its growing pipeline, the company's goal is to get to 90 sales people by year-end, from over 70 today. However, we expect getting to 90 could take an extra quarter or two. The lack of experienced sales people in the last two years meant the company could not respond to many of the medium-sized deals, and with some recent hires, management said it is now more active in the market.

Litigation uncertainty will continue to be an overhang on the stock, in our view. Recently, the court ruled in favor of ORCL and issued a permanent injunction that was then put on an administrative stay. If RMNI fails in its appeal, the company would have to cease its use of automated tools for efficiency in its PeopleSoft offering, post a permanent file on its website outlining a court-mandated list of "false and misleading" statements they have made in the past, and cease the use of any court-deemed "false and misleading" phrases in any sales capacity which we believe would be a headwind to Oracle-related sales.

RMNI has accrued for \$6.9 million after estimating ORCL's attorneys' fees relating to *Rimini I* litigation. The company still owes ORCL for reasonable attorneys fees. ORCL's deadline to file its proposed bill of attorneys' fees is November 24. After, RMNI will have 60 days to respond. Furthermore, we expect ORCL to seek legal fees for part of the *Rimini II* litigation. We expect in each case, ORCL will submit much larger totals for its attorney fees that creates headline risk for RMNI shares. But we expect there will be much negotiation on what is reasonable.

We argue driving more profit/cash flow would help drive a recovery in the stock. With the aforementioned overhang related to the most recent court ruling that will be appealed by RMNI and was stayed in court, we believe double-digit revenue growth in 2024 is unlikely no matter the sales and marketing budget. The company has posted significantly better-than-expected adjusted EBITDA in each of the last two quarters. Instead of aggressively hiring salespeople that would otherwise weigh on profit/cash flow, we argue less aggressive sales and marketing investment over the next several quarters would maximize shareholder value. We argue this would result in a higher stock price for this beaten-down stock, as well as result in a stronger balance sheet. Then when the market environment and litigation results are more clear, management can make more aggressive strategic investments.

We increase our estimates. We had modeled just 1% revenue growth for 2024 that reflects major challenges to bookings as a result of the ruling on the ORCL litigation. Based on the stronger-than-expected bookings we increase our 2024 revenue and adjusted EBITDA estimates to \$437 million (from \$433 million) and to \$53 million (from \$49 million), respectively.

We maintain our Buy rating and increase our target to \$4.75. RMNI has considerable overhangs with the court rulings that are being appealed. However, trading at an implied valuation of 3x EV/EBITDA, with solid cash flow, we argue the sell off is overdone. We do not see a catastrophic event for the ORCL litigation. RMNI may need to change its PeopleSoft processes that put pressure on the gross margin (reflected in our estimates), but this is a very small percentage of its business. Attorney's fees of even \$50 million, which is much higher than we estimate, could be replenished from 18 months of projected free cash flow. Our price target is based on an EV/EBITDA multiple of 7x to our 2024 estimate.

Risks to achievement of target price:

Poor Sales Execution - If the company is unable to improve its sales execution, which includes creating a larger pipeline or improving its win rate, our revenue estimates could prove to be too aggressive.

Litigation with Oracle - As previously mentioned RMNI is involved in multiple lawsuits with ORCL. These court cases have and could continue to result in substantial payments of additional damages or injunctions that could have a material adverse impact on RMNI. The court rulings could put RMNI in a competitive disadvantage.

Customer concerns over litigation - Many prospective customers have expressed concern regarding the ongoing litigation and in some cases have been subpoenaed or required to give deposition on the communications with ORCL. We believe this could lead to reluctance by customers to switch from ORCL support to RMNI.

Liquidity and dilution - Legal expenses are weighing on profitability. Furthermore, if RMNI is required to pay additional damages to ORCL, the company may need to raise capital that could dilute shareholders.

Attract and retain talent - Top-line growth is dependent on RMNI's ability to find qualified sales people and train them. In addition, recruiting and retaining consultants with ORCL and SAP experience is critical.

SAP support extension - SAP has already delayed the deadline to upgrade customers software systems. Should SAP reverse course and continue to support legacy SAP or extend the timeline of its support services, SAP users may feel less pressured to switch to RMNI.

Company description:

Rimini Street, Inc. (<http://www.riministreet.com>) provides enterprise software products and services for various industries. The company offers third-party support for Oracle and SAP software products. It sells its solutions primarily through direct sales organizations in North America, Latin America, Europe, Africa, the Middle East, Asia, and the Asia-Pacific. The company was founded in 2005 and is headquartered in Las Vegas, Nevada.

Management:

Seth Ravin is CEO and Chairman of RMNI and founded the company in 2005 with a mission to redefine enterprise software support using innovative, next-generation support services delivered at more than a 50 percent savings in fees compared to a software vendor's annual support program. RMNI currently offers support services for Oracle, SAP, IBM, Microsoft, and other enterprise software. Previously, Mr. Ravin was an executive at PeopleSoft, where he most recently served as VP of Customer Sales. Mr. Ravin also served as vice president of customer sales for Saba Software, Inc., worked in Russia on defense conversion programs, and worked in Washington, D.C. assisting the Clinton Administration with Congressional passage of the GATT global trade agreement in 1994. Mr. Ravin holds a Bachelor of Science in Business Administration from the University of Southern California.

Michael Perica serves as EVP and CFO of RMNI and has over 25 years of experience in financial leadership roles and capital markets. He served as CFO of the \$1.4B Energy Systems Global business unit at Enersys (ENS - NC) after ENS' \$750 million acquisition of Alpha Technologies which Mr. Perica was the CFO of at the time. Additionally, he also was CFO of Channell Commercial Corporation, an outdoor enclosure and wire management solution company. Prior to his various CFO roles, Mr. Perica spent roughly 12 years on Wall Street at various investment banks, capping off his capital markets career at SVP and Head of Research at Brean Capital. Mr. Perica holds his bachelor's in business administration from Central Michigan University and an MBA from the Marshall School of Business at the University of Southern California in Los Angeles.

Table 1. Rimini Street Income Statement
(\$ in 000s)

	2021A	MarA	JunA	SeptA	DecA	2022A	MarA	JunA	SeptA	Dec	2023E	Mar	Jun	Sept	Dec	2024E	2025E
Revenue	\$374,430	\$97,910	\$101,200	\$101,931	\$108,621	\$409,662	\$105,512	\$106,421	\$107,453	\$109,707	\$429,093	\$106,567	\$108,549	\$109,602	\$111,901	\$436,620	\$458,451
Cost of revenue	136,464	37,207	37,344	39,271	38,563	152,385	39,343	39,348	40,110	42,786	161,587	41,561	42,334	42,745	43,642	170,282	178,796
Gross Profit	237,966	60,703	63,856	62,660	70,058	257,277	66,169	67,073	67,343	66,921	267,506	65,006	66,215	66,857	68,260	266,338	279,655
Gross margin	63.6%	62.0%	63.1%	61.5%	64.5%	62.8%	62.7%	63.0%	62.7%	61.0%	62.3%	61.0%	61.0%	61.0%	61.0%	61.0%	61.0%
Sales and marketing	128,496	31,700	36,205	35,934	39,181	143,020	34,479	37,284	35,593	36,752	144,108	37,298	37,992	37,265	37,375	149,931	155,135
General and administrative	64,565	19,951	18,862	18,454	18,100	75,367	18,227	18,865	18,384	18,650	74,126	18,969	19,213	19,290	19,135	76,607	79,062
Litigation costs and recoveries	18,132	3,110	3,101	6,237	12,817	25,265	2,719	629	2,127	2,000	7,475	2,000	2,000	2,000	2,000	8,000	8,000
Other Charges					5,538	5,538	59										
Operating income	26,773	5,942	5,688	2,035	(5,578)	8,087	10,685	10,295	11,239	9,519	41,797	6,739	7,010	8,303	9,750	31,800	37,458
Operating margin	7.2%	6.1%	5.6%	2.0%	-5.1%	2.0%	10.1%	9.7%	10.5%	8.7%	9.7%	6.3%	6.5%	7.6%	8.7%	7.3%	8.2%
Other income	(7,338)	(599)	(2,576)	(2,496)	1,388	(4,283)	(811)	(1,107)	(423)	(423)	(2,764)	(423)	(423)	(423)	(423)	(1,692)	(1,692)
Income before taxes	19,435	5,343	3,112	(461)	(4,190)	3,804	9,874	9,188	10,816	9,096	39,033	6,316	6,587	7,880	9,327	30,108	35,766
Income taxes (benefit)	(55,784)	2,256	3,002	(56)	1,082	6,284	4,235	4,920	4,015	2,365	15,535	1,642	1,713	2,049	2,425	7,828	9,299
Tax rate	NM	42.2%	NM	NM	NM	NM	42.9%	53.5%	37.1%	26.0%	39.8%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
Net income	75,219	3,087	110	(405)	(5,272)	(2,480)	5,639	4,268	6,801	6,731	23,498	4,673	4,874	5,831	6,902	22,280	26,467
Preferred dividends	(17,922)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income to common holders	57,297	3,087	110	(405)	(5,272)	(2,480)	5,639	4,268	6,801	6,731	23,439	4,673	4,874	5,831	6,902	22,280	26,467
EPS	\$0.67	\$0.03	\$0.00	(\$0.00)	(\$0.06)	(\$0.03)	\$0.06	\$0.05	\$0.08	\$0.07	\$0.26	\$0.05	\$0.05	\$0.06	\$0.08	\$0.25	\$0.29
Average shares outstanding	85,261	88,485	89,339	87,965	88,355	88,536	89,061	89,274	89,357	89,757	89,362	90,157	90,557	90,957	91,357	90,757	92,357
Selected Data:																	
YoY change in total revenue	14.6%	11.4%	10.5%	6.6%	9.4%	9.4%	7.8%	5.2%	5.4%	1.0%	4.7%	1.0%	2.0%	2.0%	2.0%	1.8%	5.0%
EBITDA (plus stock comp)	\$39,280	\$9,570	\$9,492	\$5,127	-\$2,703	\$21,486	\$13,274	\$14,880	\$15,122	\$12,719	\$55,995	\$9,939	\$10,510	\$12,003	\$12,950	\$45,400	\$51,598
Adjusted EBITDA	\$57,412	\$12,889	\$12,593	\$11,364	\$15,652	\$46,751	\$15,993	\$15,509	\$17,249	\$14,719	\$63,470	\$11,939	\$12,510	\$14,003	\$14,950	\$53,400	\$59,598
S&M as a % of sales	34.3%	32.4%	35.8%	35.3%	36.1%	34.9%	32.7%	35.0%	33.1%	33.5%	33.6%	35.0%	35.0%	34.0%	33.4%	34.3%	33.8%
G&A as a % of sales	17.2%	20.4%	18.6%	18.1%	16.7%	18.4%	17.3%	17.7%	17.1%	17.0%	17.3%	17.8%	17.7%	17.6%	17.1%	17.5%	17.2%

Source: Company reports and Alliance Global Partners estimates

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [BUY]	119	79.33	53	44.54
HOLD [NEUTRAL]	24	16.00	6	25.00
SELL [SELL]	1	0.67	0	0
NOT RATED [NR]	6	4.00	2	33.33
UNDER REVIEW [UR]	0	0.00	0	0

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Buy: Expected to materially outperform sector average over 12 months and indicates total return of at least 10% over the next 12 months.

Neutral: Returns expected to be in line with sector average over 12 months and indicates total return between negative 10% and 10% over the next 12 months.

Sell: Returns expected to be materially below sector average over 12 months and indicates total price decline of at least 10% over the next 12 months.

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Under Review: The rating will be updated soon pending information disclosed from a near-term news event.

Volatility Index

1 (Low): Little to no sharp movement in stock price in a 12 month period

2 (Low to medium): Modest changes in stock price in a 12 month period

3 (Medium): Average fluctuation in stock price in a 12 month period

4 (Medium to High): Higher than average changes in stock price in a 12 month period

5 (High): Extremely sharp movements in stock price in a 12 month period

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