Please find below our weekly update covering themes that we feel that are of interest to investors and participants in the small and mid-cap TMT sector as well as commentary on recent newsflow. The cost of Allenby Capital's research on individual clients is paid for by our research clients.

For the purpose of MIFID II, the content of the following email qualifies as "non-substantive material or services consisting of short term market commentary on the latest economic statistics or company results" and so can be treated as 'acceptable minor non-monetary benefits' and not as 'chargeable research' per the European Commission's Delegated Directive of 7.4.2016.

Allenby Capital TMT Update 27.08.19 (MWE.L, BIRD.L, MPAY.L, STAR.L, CCT.L)

MTI Wireless Edge Ltd* (MWE.L, 22.2p/£19.4m)
Interims: Diversified growth and positive outlook (21.08.19)
Note published

Allenby Capital comment: Interim results from MTI Wireless Edge, the technology group focused on communications and radio frequency solutions, were in line with expectation and demonstrate the value of the company's diversified strategy and the benefit of 2018's merger with MTI Computers Software and Services (1982). Group revenue increased 12% to $19.1m and operating profit by 41% to $1.5m. Within this, there was particularly strong growth in the Distribution & Professional Consulting Services division. Cash flow from operations increased 22% to $2.6m and H1 cash was $5.7m, supporting the progressive dividend policy. Management reports a positive outlook across all three divisions and we make no change to forecasts. Given sterling's weakness, the shares are now yielding an attractive 7.5% in FY19 and 9.3% in FY20 and trading on an EV/EBITDA of 4.2x in FY19 and 3.6x FY20. Our fair value of 38p/share represents a prospective PER of 13.3x in FY19 and 11.6x in FY20 and a 72% upside to the current price.

** Allenby Capital acts as Nomad and Joint Broker to MTI Wireless Edge Ltd.*

Blackbird plc* (BIRD.L, 10.8p/£31.2m)
Inclusion in Google's Cloud Partner Pavilion at IBC (21.08.19)

- Blackbird has been selected to participate in the Google Cloud Partner Pavilion at IBC 2019, the major European media, entertainment and technology conference and exhibition, and will be demonstrating its cloud video platform on Google's cloud.

Allenby Capital comment: IBC is one of the two major global broadcast media shows and the inclusion of Blackbird on the Google stand is a significant endorsement of Blackbird's cloud platform. Google is looking to build its cloud revenues in the media industry and challenge Amazon and Microsoft and is providing sales and marketing support for its cloud partners.

** Allenby Capital acts as Nomad and Broker to Blackbird plc.*

Mi-Pay Group plc* (MPAY.L, 8p/£3.7m)
H1 trading update: broadly in line but uncertainty over existing client (12.08.19)

- H1 trading broadly in line with management expectations with a 15% increase in fully managed payment transactions to £58.1m and successfully indemnifying £29.2m of payments for fraud (+70%). This resulted in revenue increasing £0.1m to £1.7m and with gross margins maintained at 63%, the company was EBITDA breakeven (H1 FY18: £0.1m loss). Two major contracts were renewed in H1 that accounted for 43% of FY18 revenue.
- New business growth is now expected to be slower than previously anticipated - a function of uncertainties in the e-commerce payment market around the adoption of Payment Services Directive (PSD2) that has now been delayed by 18 months and the current economic climate.
- Separately management expects that one of MPAY's longstanding customers is likely to consolidate the payment and fraud management services to another provider as a result of a rationalisation exercise. This client accounted for £0.5m of revenue in FY18 and has continued at the same level in FY19 to date.
- Forecasts placed under review. Interims scheduled for 25th September.

Allenby Capital comment: Disappointing update that whilst H1 trading has been in line the outlook is much less certain. The second Payment Services Directive (PSD2) that aims to open up banking but also requires stronger identity checks (Strong Consumer Authentication) for transactions over €30 was scheduled to come into effect in September 2019 and had created considerable disruption in the payments industry as providers looked to ready themselves. This has now been delayed by 18 months but the disruption has lengthened sales cycles. The expected loss of a longstanding customer is also a frustration although management will adjust budgets and spending accordingly.

** Allenby Capital acts as Nomad and Broker to Mi-Pay Group plc.*

Starcom plc* (STAR.L, 1.25p/£4.3m)
Interims: Solid H1; progress on strategic products (13.08.19)

- H1 revenue flat at $3.1m; gross margin increased 100bps to 41%, operating costs reduced $0.1m and there was a $0.1m positive swing in EBITDA to $75k. SaaS revenue increased slightly to $900k (H1 FY18: $890k). Net cash of $461k (FY18: $89k) following April's $0.6m (gross) fund raising.
- **Lokies**, Starcom's new smart keyless padlock that includes a number of innovative features, was launched in April and the company reports positive feedback from clients and prospective clients.
- Ongoing work with major companies in the container monitoring market (e.g. Cargo Signal, Arviem AG and WIMC) around **Tetis**, the second product central to Starcom's growth strategy. Percentage of revenue from the traditional and lower margin Helios tracker product continues to reduce.
- Good growth for the **Helios Hybrid** with a contract worth c. $0.4m signed for delivery in H2 and initial orders for the integrated Helios units for Zero Motorcycles have been received.
- New orders have been received for the **Kylos Air** from CubeMonk in the US following February's initial order and first orders for the **Kylos Forever** from Israel Chemicals Ltd.
- Outlook - management expects growth in H2 and forecasts remain unchanged.

Allenby Capital comment: Solid H1 performance with progress on a number of fronts with the company's next generation asset tracking, monitoring and protection products. Lokies represents a considerable revenue opportunity as an intelligent alternative to current padlocks. It enables remote over the air connectivity that removes the need for a key and has a extendable shackle that can detect any attempts to breach the lock. Tetis is a more established products but is showing evidence of commercial traction.

** Allenby Capital acts as Nomad and Joint Broker to Starcom plc.*

Character Group (The) plc* (CCT.L, 425p/£90.8m)
Implications of proposed Entertainment One acquisition (23.08.19)

- The proposed acquisition of Entertainment One (ETO.L) by Hasbro has significant medium term implications for Character Group (CCT.L). As set out in the statement, Hasbro expects to move 'a significant portion of eOne's toy business in-house'. As such, it seems likely that CCT will lose the Peppa Pig and Ben & Holly licences where it has exclusive rights in the UK. CCT has been producing Peppa Pig merchandise for 15 years and it has consistently been CCT's largest brand. It accounted for 26% of revenue by brand in H1 FY19, 21% in FY18 and 23% in FY17 and FY16. Ben & Holly products have been produced for seven years and represents c. 1% of revenue.
- The ETO statement indicates that the savings are not expected until 2022 and this fits with the fact that CCT's current licence with ETO runs to December 2020. As such, the acquisition should not have any impact on our forecasts for FY19 and FY20 and FY21 will also benefit from Peppa sales during the key Xmas trading period. Management also has 18 months to secure/develop other pre-school brands to fill the gap.
- CCT's management team is very experienced and has successfully developed a portfolio of third party brands and in-house developed products across Core Brands and Trend Lines. It has mitigated the loss of rights in the past as well as changes in the popularity of particular brands. CCT continues to add to its portfolio with own-developed, in-house ranges and via collaboration and distribution agreements, e.g. GooJitsu, Stretch Armstrong variants and Pokémon.
- CCT has developed long term relationships with a range of retailers as a proven supplier of popular products with the necessary agility to capitalise on trends. Its 2019 portfolio was well received at the international toy fairs (CCT won Supplier of the Year and Craze of the Year at London) and is well represented in this year's catalogues. As such, CCT is an attractive partner for rights holders.

Allenby Capital comment: A setback for the company, as reflected in the c. 20% fall in the share price. That said, FY19 and FY20 forecasts remain unchanged and FY21 will benefit from the key Xmas selling period. Management is very experienced in developing successful toy lines with rights holders (including Peppa Pig) and has developed long term relationships with retailers. The CCT investment case is also underpinned by the balance sheet strength (net cash of £19.8m and £33.5m of net assets as at H1) and the company's progressive dividend policy. The announcement does introduce uncertainty for FY21 and beyond and hence we reduce our fair value to 550p/share from 640p/share, equivalent to a FY20 PER of 10.0x.

** Allenby Capital acts as Joint Broker to Character Group (The) plc.*

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David Johnson is the author of this research recommendation. David Johnson is employed by Allenby Capital Limited as an Equity Analyst.

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