



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 - 03.08.20 - BIRD.L, SWG.L, TPX.L**

### **Blackbird plc\* (BIRD.L, 17.5p/£58.8m)**

#### **Contract win: First MENA and Sky wins (30.07.20)**

- Sky News Arabia, the JV between Sky Group and the Abu Dhabi Media Investment Corporation, has selected Blackbird's eponymous platform for remote and collaborative cloud video editing and publishing of digital news content.
- Sky News Arabia is a 24-hour Arabic news channel broadcast across the Middle East and North Africa (MENA) with a free-to-air TV channel, and digital and audio platforms, and delivers analysis of both news from the MENA region and international news. The channel is broadcast to >50m MENA households.
- Blackbird will be used by multi-site production teams to collaboratively and remotely edit and publish news content live to social platforms, including YouTube, for its 1.25m subscribers to view. Blackbird will also be used to repurpose the network's output through the editing and publishing of file-based video content.

**Allenby Capital comment:** News represents one of Blackbird's core target markets and plays to the strengths of the Blackbird offering: speed and codec efficiency that enables editing/publishing from multiple locations. The contract is Blackbird's first in the region following the addition of Arabic as a supported language and Blackbird's first involvement with Sky. The ability to quickly add support for more languages has substantially expanded Blackbird's addressable market and there is definite scope for additional revenue in the region as well as with Sky News Arabia.

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

### **Shearwater plc (SWG.L, 185p/£43.9m)**

#### **Finals: Evidence of cross-selling (29.07.20)**

- FY (March) results from the provider of cybersecurity products and services with reported revenue +41% to £33.0m with the Software and Services divisions each up 41% to £5.5m and £27.5m respectively. FY20 included a £1.7m contribution from Pentest acquired in April 2019 and a full contribution from Brookcourt. On an underlying like-for-like basis, revenue fell 16% - partly reflecting a change in revenue mix with a shift away from high revenue, low margin hardware to low revenue, high margin software as well as a drop in GDPR business at Xcina Consulting (£2.1m).
- The change in business mix resulted in higher gross margins (30.9% vs 28.9), and coupled with the revenue growth and a 17% reduction in overheads to £6.8m resulted in a £4.8m positive swing in adj. EBITDA to £3.4m. Cash at period

end was £3.3m (FY19: £0.6m) with good cash collection as well as the benefit of the delay on VAT payments (£0.3m). Post period, SWG raised an additional £3.75m for further acquisitions and a new £4m, 3-year RCF.

- Phil Higgins, who came in as CEO in April, reorganised the business and discontinued a few smaller business areas. This reorganisation included the creation of Shearwater Shared Services that provides centralised services to the different parts of the business as well as leverage negotiations with suppliers. Shearwater has also introduced a cross-selling program that has resulted in a material number of additional opportunities.
- The impact of CV-19 on Q4 trading has been mixed with softness in consulting tempered by an upsurge in new orders for remote workers and remote security solutions as working from home was encouraged. Going forward, management reports a certain amount of delayed decision making given the increased economic uncertainty. Management also expects larger potential acquisition targets may delay an exit but there may be opportunities with smaller businesses.

**Allenby Capital comment:** The appointment of Phil Higgins, the founder of Brookcourt Solutions and SWG's largest division, resulted in a substantial reorganisation of the company in FY20 that reduced the cost base but also encouraged cross-selling and created a platform where additional acquisitions can be assimilated in the fragmented cybersecurity software and services market. Good cash collection resulted in a much stronger balance sheet and this has been bolstered by April's placing and the new facility. Cybersecurity remains a core area of IT investment and although the immediate outlook remains mixed, there is scope for organic growth in the mid to long term. Trading on a consensus EV/Revenue of 1.3x FY21 and 1.1x FY22 and EV/EBITDA 13.7x and 8.8x as growth returns.

### **The Panoply Holdings plc (TPX.L, 92.5p/£51.3m)**

#### **Prelims: Full service and agility (30.07.20)**

- As trailed in July's pre-close, FY20 (March) revenue increased 43% to £31.5m, normalised adj. EBITDA +62% to £3.4m and adj. EPS of 3.6p (FY19: 0.7p). Cash conversion was 91% and cash at year end fell £1.1m to £4.6m (net debt: £0.4m) and has since risen to £6.8m at Q1. Sales backlog of £15.0m at year end (H1 FY20: £12.8m).
- Strengthened position in Public Sector (64% of revenue; FY19: 56%) helped by the acquisition of FutureGov with multi-disciplinary contracts including NHSx, Food Standards Agency and Camden Council. High levels of repeat business with 70% of customers billed in FY20 also billed in FY19. Total customer base increased 39% to 265.
- FY20 acquisitions of FutureGov (June) and Ameo (March) for a cash consideration of £9.6m with £2.4m from reserves, £2.2m from cash acquired and £5.0m from the new £5m RCF. Further consideration for acquisitions to date is £17.1m that will be paid through an additional 18.5m shares based on the share price at 29th July. Post period end acquisition of Arthurly for an initial £0.4m and a maximum of £1.5m.
- FY21 has started well with £13m of new contracts signed in Q1 and unaudited revenue of £10.1m and adj. EBITDA £1.7m (Q1 FY20: £6.3m and £0.5m on a statutory basis; £9.2m and £1.1m LfL) and net cash of £1.8m.
- Management has provided a series of targets for the next three years: 10% to 15% organic revenue growth; c. 70% of operating profit converting into cash; a progressive dividend policy of c. 15% to 20% of net income; use of cash/shares to add >£35m of revenue through acquisition; and maintain leverage below 1x EBITDA. As a result, the company aims to achieve a run rate of £100m in revenue and £12m to £14m EBITDA by March 2023.

**Allenby Capital comment:** Management believes that it has found a sweet spot in the digital transformation services market - able to provide an end-to-end service offering (including software development, data, AI and automation) unlike smaller players but also more nimble than the traditional IT service providers. This has been achieved through a series of acquisitions and the benefits of the strategy are visible in the multi-disciplinary contracts being secured. Buy and build strategies have obvious execution risks and the cash/shares consideration model with a proportion deferred does create a potential overhang as founders of acquired businesses look to exit. The Public Sector offers a considerable growth opportunity as government looks to drive efficiencies and new ways of transacting. The targets set look challenging yet achievable. Currently trading on a consensus 1.8x FY21 EV/Revenue falling to 1.5x and FY21 14.8x EV/EBITDA (FY22: 12.2x).

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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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