



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.

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Allenby Capital TMT Update - 21.09.20 - TERN.L, CNS.L, EYE.L

Tern plc* (TERN.L, 8.0p/£24.1m)

Interims: Encouraging growth in portfolio companies (21.09.20)

- Net assets increased £1m during H1 to £19.9m (+£2.4m on H1 FY19), equivalent to 7.0p/share (FY19: 7.0p, H1 FY19: 6.9p). The increase was mainly a function (£0.7m) on an exchange rate gain on the revaluation of the investment in Device Authority. This gain also fed through the P&L and resulted in a £0.8m positive swing in PBT to £0.1m. Operating costs increased 6% to £0.7m, reflecting the addition to the investment management team in 2019.
- H1 net cash was £0.8m (FY19: £1.0m), a function of March's £0.8m raise and £0.1m on the sale of the stake in Seal Software where Tern doubled its money. £0.5m was re-invested into portfolio companies. £1.5m was raised post period end. Management expects to make at least one new investment in H2.
- Revenue in the principal companies (Device Authority, FVRVS, Wyld Networks and InVMA) increased 62% (FY19: 27%), in spite of the CV-19 disruption and headcount by 7% (H1 FY19: 9%).
- **Device Authority:** Demand for remote working and technologies has reinforced the need for secure devices and in early 2020 DA developed its hardware security module (HSM) Access Controller to help enterprises secure critical HSM infrastructure. In March, DA announced the launch of KeyScaler as a Service hosted on Microsoft Azure. As at H1, the value of Tern's shareholding had increased £1.1m to £13.8m, primarily due to FX.
- **FVRVS (Fundamental VR):** Continues to work with customers to complete the simulations to deliver medical device and pharma-based products. In April, it announced @HomeVR, a new education modality for the Fundamental Surgery platform. In June, all of the orthopaedic education simulations available on the platform were reviewed and accredited by the American Academy of Orthopaedic Surgeons and by the Royal College of Surgeons in England in July.
- **Wyld Networks:** In May, Wyld secured £0.4m of external convertible loan note investment to support its growing pipeline of opportunities in mobile mesh networks and wireless IoT connectivity. Tern also made an additional £0.3m convertible loan. In May, Wyld announced that it had signed an agreement with Highland Health Ventures to test and deploy its mesh technology in certain care homes in Scotland and is due to commence in a care home in Inverness. The patented solution connects smartphones directly to other smartphones, without the need for WiFi or cellular connectivity. It has also signed an agreement with a global satellite operator to co-develop, test and co-market a LoraWAN direct to satellite solution with an initial £0.1m purchase order received in September.
- **InVMA:** New CEO, Peter Stephens, recently appointed and a £0.25m investment from Tern and the Future Fund. In January, InVMA announced an initial order commitment worth £817k over a two-year period to provide its AssetMinder SaaS IIoT solution to a global supplier to the industrial and construction sectors. In June it announced a partnership with Senseye, a software company using machine-learning algorithms for predictive maintenance.

Allenby Capital comment: Encouraging commercial progress in the portfolio companies of the IoT focused investment company. Following July's fundraise, the company is well placed to provide further support to the existing portfolio but also make new investments. Investment in IoT continues to grow given the acceleration towards a contactless digital work and business environment. Tern expects to make at least one new investment during H2 in the IoT healthcare and industrial sectors and is focused on achieving at least one further syndicated investment event by the end of Q1 2021.

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

Corero Network Security (CNS.L, 8.25p/£40.8m)

Interims: New customer wins indicate momentum (17.09.20)

- Meeting with management on the back of the interim results (15.09.20) that demonstrated encouraging performance against KPIs - revenue +48% to \$6.2m, order intake +58% to \$7.9m (including \$3.5m of follow-on orders (H1 FY19: \$2.1m)), recurring revenue at 61% (including \$1.2m of DDoS Protection as a Service (DDPaaS)) and annualised recurring revenue of \$8.8m. CNS added 18 new customers in H1 (H1 FY19: 6), including five through its Juniper partnership (H1 FY19: 1).
- Gross margins fell 400bps to 75%, a function of sales mix and adj. operating expenses increased \$0.7m to \$5.9m, reflecting increased investment in sales and marketing. As a result, adj. EBITDA loss reduced \$0.7m to \$1.1m. CNS continues to invest in its product set and \$0.7m was capitalised (H1 FY19: \$0.8m). Capex of \$0.6m included upfront spend around the DDPaaS offering. Net cash reduced \$2.1m during H1 to \$3.3m.
- New management team appointed in April - Lionel Chmielewsky as CEO, Neil Pritchard as Group FD and Ashley Stephenson moved to CTO. Lionel has more than 30 years' experience in the networking and telecommunications industries, most recently as CEO of Cambridge Broadband Networks Limited, a wireless access solutions companies, and previously had roles at Comverse IP Communications, Proxim Wireless and Alcatel. Neil was previously FD at CML Microsystems (CML.L) and also held roles at Continental AG, Delta Plc and Synthomer Plc.
- Strategic growth priorities include: increasing CNS's international presence, leveraging existing sales partnerships, amplifying its service offering, and increasing relationships with global and tier 1 accounts.
- Demand for DDoS solutions remains strong given the ongoing growth in cybersecurity spend and the increased internet usage and remote working driven by CV-19 restrictions. The number of DDoS attacks continues to rise and management believes it has a differentiated offering - fastest attack mitigation, no requirement for additional network infrastructure, highly scalable and available in either a capex or opex model.

Allenby Capital comment: Encouraging H1 performance for the provider of DDoS cybersecurity defence solutions for telcos, hosting providers (co-lo, MSP and MSSP), and enterprises. The company's SmartWall product has a number of functional advantages over its larger competitors but historically CNS has struggled to gain real commercial traction. The number of new customers secured, including those in partnership with Juniper, as well as additional spend from existing customers indicates momentum. The increase in remote working as well as the proliferation of internet connected devices and investment in 5G driving network capacity is facilitating DDoS attacks and CNS provides a product/service that helps to address the threat.

Eagle Eye Solutions Group plc (EYE.L, 288p/£86.9m)

Finals: Strong growth in AIR volumes (15.09.20)

- FY20 (June) in line with July's update with revenue +21% to £20.4m and, within this, recurring subscription and transaction revenue was +24% to £14.9m. Gross margin nudged up to 94% and good operating cost control resulted in a £2.6m improvement in adj. EBITDA to £3.3m.

- £2.7m positive swing in net cash to £1.5m with a c. £2.2m benefit from CV-19 related cash management measures and working capital management. Some of this will unwind in FY21 but management remains confident that it has sufficient headroom given its £5m facility.
- AIR volumes increased 140% to 2.1bn, much of this related to the new Sainsbury's Nectar programme, but the platform was well able to cope following the migration to the Google Cloud Platform. Flagship contracts during FY20 with The Warehouse Group in New Zealand and Southeastern Grocers in the USA has broadened EYE's international footprint. Other wins include Pret a Mangr, TGI Fridays, Mowgli Street Food and London Theatres Direct. The company has also demonstrated the ability to onboard clients much faster and improved speed and responsiveness by 30%.
- Contract extensions with Sainsbury's, ASDA and JD Sports in the UK. Unsurprisingly, the lockdowns associated with CV-19 resulted in a significant drop in volumes as customers switched off promotions. These recovered quickly in retail but are recovering more slowly in Food and Beverage - management estimates a 10% revenue impact on FY20. Brand and Audience partner revenue did increase 26% to £0.8m and EYE has expanded its base of hospitality venues by 1,000 to 7,000 by the end of FY20.
- Separately (18.09.20), EYE announced that the AIR platform is being used by Pret A Manger as part of its new coffee subscription service, YouPret Barista, where subscribers get up to five drinks per day for a fixed monthly fee. The voucher creation and redemption process is a function of the integration of the AIR platform and Pret's Oracle MICROS Symphony PoS system.

Allenby Capital comment: Good FY performance given the disruption in the final quarter. Although CV-19 is likely to delay some corporate decision-making and impact leisure and non-grocery retail clients going forward, EYE expects revenue to grow from existing clients to continue to grow in FY21 as retailers and retailers look to digital loyalty and promotions programmes to drive omnichannel revenue and adapt to the new commercial reality. The new Pret subscription service represents a good example. Shares are trading on an EV/Revenue of 2.85x consensus in FY21 falling to 2.5x in FY22 and EV/EBITDA of 18.0x and 13.9x respectively.

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