



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 - 28.09.20 - ECSC.L, MBT.L, PTY.L

ECSC Group plc* (ECSC.L, 69p/£6.9m)

Interims: Growth in recurring revenue, return to profit (23.09.20)

[Note published](#)

Allenby Capital comment: Interims from ECSC Group plc, the UK’s longest-running full service cyber security provider, are in line with August’s trading update with group revenue flat but growth in both Managed Detection and Response (MDR) recurring revenue and Assurance. The partner programme is building well with 120 partners generating >160 sales opportunities and contributing 27% of the new client MDR order book and 7% of Assurance revenue in H1. ECSC has further increased its addressable market through May’s Nebula Cloud launch. ECSC achieved its target of adj. EBITDA breakeven in May and a move into profit and H1 overall saw a small adj. EBITDA profit of £52k (H1 FY19: £184k loss). It remains reasonably capitalised with cash of £1.25m at H1, although this includes £0.8m of CV-19 related government support. Revenue growth has continued in H2 and ECSC remains profitable in a market where spend is expanding given the ever-increasing volume of cyber security threats. Forecasts currently remain under review.

** Allenby Capital acts as Nomad and Broker to ECSC Group plc.*

Mobile Tornado plc* (MBT.L, 4.85p/£18.4m)

Interims and contract win: CV-19 track & trace app deployed (23.09.20)

- Group revenue reduced 13% to £1.3m but within this recurring revenue increased 3% to £1.0m while non-recurring revenue (installation fees, hardware, professional services and capex licence fees) fell 45% to £0.3m. Adj. operating costs fell 11% to £1.5m and adj. EBITDA losses increased 15% to £0.3m. Net cash inflow from operating activities of £0.3m (H1 FY19: £0.5m outflow) and net debt fell £0.7m to £8.2m.
- Sales cycles suffered from the impact of CV-19 with two of MBT's most important markets (South America and Africa) particularly hard hit. This has made it difficult for partners to close out sales leads and progress field trials. Many engagements are with Government departments and public utilities and their focus has been on public health challenges. That said, MBT remains engaged with a number of significant opportunities, including police forces and emergency service providers, and existing customers have gradually increased their usage of MBT's PTT service. New sales partners have been added to cover Peru, Spain, Portugal, Andorra and the UK.
- Separately, MBT announced that Hubbcats, its partner in the Caribbean, has successfully deployed a CV-19 quarantine track and trace program, using MBT's PTT service, in The Bahamas. The app-based quarantine system has been designed to protect residents and critical front-line responders as well as provide safety and assurance to inbound

travellers and utilises MBT's 'talk/locate/alert' functionality and its MDC2000 Dispatch Console to geo-fence around each required location. The initial program will run through to at least February 2021 and it is currently being used by more >3,000 inhabitants and will roll out further as the tourism market is re-opened. MBT receives a per user licence fee.

- Finally, the company has extended its Revolving Loan Facility with InTechnology Plc, MBT's largest shareholder, by 12 months to September 2021. The facility of up to £300k will specifically support the financing of the company's sales pipeline under the capex model where MBT funds the hardware prior to placement with the end customer. The facility is currently undrawn.

Allenby Capital comment: Slipping back into loss in H1, following the inaugural profit in H2 FY19 was a disappointment but not a surprise given the profile of MBT's target customers. That said, MBT is still in discussions with these prospects and it was able to limit losses through cost control and the growth in recurring revenue. MBT's cellular based PTT (Push to Talk) service offers considerable functional and cost benefits over traditional radio-based solutions and MBT is significantly more scalable and robust than competitor PTT offerings. The deployment in The Bahamas represents an interesting application and there is definite scope to deploy similar track and trace programs in other markets.

** Allenby Capital acts as Nomad and Broker to Mobile Tornado plc.*

Parity plc (PTY.L, 8.25p/£8.4m)

Interims: Transformation programme complete (22.09.20)

- Meeting with management on the back of interims (June) that saw net revenue fall 29% to £5.3m. This included the run-off of the low-margin Scottish government contract. The focus on higher margin business is becoming evident with adj. operating margin (as a percentage of net revenue) increasing to 4.6% from 3.3%. Further margin appreciation is expected as Parity continues its shift to strategic high end recruitment and data consultancy. Adj. PBT fell 41% to £0.2m but there was a £1.8m positive swing in net cash to £0.65m. Debtor days remain exceptionally low at 14 days (H1 FY19: 16).
- The transformation programme is effectively complete with annualised gross operating savings of >£4m and no material restructuring charges are expected in H2 (H1 FY20: £0.4m; H1 FY19: £0.7m). After £1.8m of re-investment in transformation (including IT infrastructure, recruitment and marketing), net annualised operating costs have reduced £2.4m. The full benefit of these savings will be seen in FY21.
- CV-19 has had a major impact on its clients, more so in the Private sector, with a sharp downturn in new business opportunities and many existing projects were affected with the lockdown impacting extension rates for contractors in April and May. Management estimates a loss in net revenue of c. £0.3m in H1.
- Wins include new lots on the Scottish Government's Digital & Technology Services Dynamic Purchasing System for high end digital specialists and cyber security specialists and inclusion on the Northern Ireland Cooperation Overseas (NI.CO) Cyber Security Training Services Framework via its partnership with CyberGym for consultancy and recruitment support. PTY has also started work on various permanent roles in international markets.
- Management reports an improvement in market conditions in H2 (extension rates and new placements) and the company expects FY20 adj. PBT will be similar to that achieved in FY19 (£115k) with a significant uplift in FY21. The shift towards remote working has increased demand for digital specialists in fields such as cyber security and emphasised the need for clients to invest in robust data management and security. The bulk of net revenue (79%) is derived from the UK Government's core IT frameworks, GCloud and DOS.

Allenby Capital comment: The new management team at Parity has undertaken a major overhaul of the company over the past 18 months, significantly reducing costs and creating a more flexible operating cost base and focusing on higher margin revenue streams around data, digital transformation and cyber security. Parity has considerable experience and expertise

in the Public Sector and has long been present on the key framework agreements. Investment in digital transformation represents a key area of spending in the Public sector and Parity is well placed to capitalise on the opportunity.

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The changes initiated by MiFID II has had far reaching implications on both the quantity and continued availability of research on smaller cap companies, including those within the TMT sector. We would therefore remind interested companies that Allenby Capital can offer a "paid for" research service for those corporates that wish to retain an alternative and authoritative source of research that can be accessed freely by the entire investment community. If you would like further information on this service please contact d.johnson@allenbycapital.com.

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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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