



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 - 15.02.21 - CPX.L, STAR.L, LSAI.L

CAP-XX Ltd* (CPX.L, 10.0p/£44.2m)

H1 update: Revenue growth and positive order book update (09.02.21)

[Note published](#)

Allenby Capital comment: The interim trading update from CAP-XX Ltd, the leading designer and manufacturer of prismatic and cylindrical supercapacitors, demonstrates good levels of overall revenue growth with strong growth in Product sales offset by lower Licence Fees and Royalties revenue, as anticipated. The Murata production lines went live at CAP-XX's new facility during H1. Commercial production has started and is being ramped up. This represents a step change in CAP-XX's manufacturing capacity and enables it to address the record level of sales enquiries - the current order book is >100% this point last year. H1 EBITDA loss is expected to be c. A\$1m (H1 FY20: A\$0.8m), including Murata project expenses. CAP-XX has also become an approved supplier to a global smart phone manufacturer and has started a similar process with a global tier-1 automotive component supplier. Interims are scheduled for 25th February and we reintroduce FY21 forecasts.

** Allenby Capital acts as Nomad and Broker to CAP-XX Ltd.*

Starcom plc* (STAR.L, 0.85p/£3.0m)

FY update: SaaS revenue provides some visibility (10.02.21)

- FY revenue expected to be c. \$5m (FY19: \$6.8m) reflecting the impact of COVID-19 on the Company. SaaS revenue from its connected devices increased 9% to \$2.2m and although hardware sales were down c. 40% at \$2.8m, sales of the newer and higher margin products - Kylos, Tetis and Lokies - represented 40% of hardware sales. The second production batch of Lokies, its next generation electronic lock, has been well received.
- Gross margin of 33% (FY19: 41%) reflected costs of amortisation that are relatively fixed and high logistics and shipment costs as a result of the pandemic. Although the Company reduced operating costs by c. 10%, the lower revenue and gross margin resulted in a c. \$0.6m negative swing in adj. EBITDA to a loss of c. \$350k. FY20 results will also include appropriate provisions in respect of delays in payments by a small number of customers.
- R&D spend was only reduced by a small amount and Starcom has continued to maintain and further develop its strategic alliances and pipeline of potential projects e.g. Zero Motorcycles and is in discussions

with two potential customers who provide vaccine logistics services, given the need to monitor the temperature and other conditions of vaccines whilst in transit.

- Starcom has secured a low-cost long-term bank loan as well as government grants to mitigate the effects of the pandemic.

Allenby Capital comment: FY20 has been difficult year for the provider of wireless, IoT based solutions for the remote tracking, monitoring and protection of assets, with a number of customer projects delayed. Starcom has moved quickly to reduce costs, secure additional financing and maintain its client base and pipeline. The SaaS revenue stream provides some visibility, the Lokies padlock has been well received, and the company is working on a number of potentially interesting projects.

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

Location Sciences Group plc* (LSAI.L, 0.525p/£3.1m)

FY update: Challenging year, growth in Data & Insights (11.02.21)

- FY revenue expected to be c. £1.1m, down c. 12%, reflecting the ongoing impact of COVID-19 on the location-based advertising industry. Revenue for Verify down 36% to £0.3m while Data & Insights revenue increased 6% to £0.7m. Management has substantially reduced opex in response (down 41% to c. £1.5m). As a result, EBITDA loss reduced 55% to £0.8m. Year end cash of c. £1.1m and management believes that this should be sufficient until 2022.
- Verify revenue has been impacted by the significantly reduced advertising spend caused by the pandemic. The anticipated uplift in Q4 did not materialise and there has been no improvement so far in 2021 given the impact on sectors such as retail and QSR. The outlook remains poor with mainstream media agencies now focused on media delivery rather than adopting new technologies.
- Management is successfully enlarging and broadening its Data & Insights customer base, including the supply of COVID-19 related data to NHS England and the Scientific Pandemic Influenza Group on Modelling (SPI-M). LSAI has also developed a new product for the financial services industry that it expects to launch on the Bloomberg Enterprise Access point in the next few months.
- Launched GeoProtect, its Verify Audience, in the US in June that enables brands, agencies and suppliers to check the validity of location-based derived audience segments. Two initial customer wins, InMarket and The Spoken Thought (trading as Mira). Both contracts have growth potential but are facing pandemic related headwinds. The potential defamation action against LSAI following its identification of data manipulation has not transpired.
- Given the need for a leaner business structure, two NEDs stepped down with immediate effect. The company is also undertaking a review of the business given the trading challenges it faces, particularly at Verify.

Allenby Capital comment: The pandemic, and the associated travel restrictions and reduction in location-based advertising, has had a substantial impact on the company and halted the early momentum seen in its verification business. Embracing transparency, that has the side effect of limiting the scale of media delivery, has fallen down the priority list for many in the industry. In response, management has substantially reduced the cost base in order to conserve cash. The performance in the Data & Insights business is more encouraging with the prospect of its first product for the financial services industry in the next few months.

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

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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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Allenby Capital

5 St Helen's Place London EC3A 6AB

+44 (0)20 3328 5656

www.allenbycapital.com
