



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.

TMT UPDATE - 13.11.17 (MWE.L, NWT.L, CCT.L, EYE.L, CROS.L)

MTI Wireless Edge Ltd (MWE.L, 31p/£16.0m)

Contract win and Q3 results: Further military contract (13.09.17 & 09.11.17)

- New contract, worth c. \$1m, for the development and manufacturing of military antennas that are being integrated into a disposable application. MTI started to work with this customer in September 2016 and this represents the fourth contract to date totalling >\$2m, with c. \$0.5m recognised in revenue. As the system is deployed over the next two to three years, management expects to receive significantly larger orders in the future.
- 9m PBT increased 54% to \$1.2m on revenue +11.5% to \$19.6m. Within this, revenue in the Antennas division increased 19.9% to \$10.0m and by 4.0% to \$9.6m in Water Solutions (Mottech). EPS increased 47% to 1.63 cents. Cash flow from operations was \$1.7m (9m FY16: \$1.5m) and period end cash was \$5.4m (FY16: \$4.4m). Shareholder equity of \$19.6m (FY16: \$18.9m), equivalent to 27.9p/share.
- Operating profit at Mottech declined 10.2% to \$1.2m for the 9m but the division performed strongly in Q3 (\$3.4m revenue) and delivered robust operating profit margins (13.9% versus 11.4% in H1, 13.4% in FY16).
- As previously announced (25.10.17), greater than expected costs were incurred in Q3 in relation to a military antenna project. As a result, the division made a Q3 loss of \$0.2m although the 9m loss was substantially reduced (\$43k loss versus \$305k). The military project is expected to be profitable once completed.

Allenby Capital comment: Good performance across both divisions for the nine months, albeit with the cost overrun on one military contract impacting Q3. The outlook across the two divisions is positive. In Antennas, there is a healthy order book in the military division and a good pipeline of opportunities. In commercial, there is increasing interest in Broadband Wireless Access around 80 GHz and dual band (PTP backhaul) and RFID. MTI addresses the ongoing challenges facing mobile network operators around network capacity with antennae for small cell peer-to-peer backhaul and cellular offload to carrier WiFi. In Mottech, the company is seeing the benefit of investing in sales and marketing (new sales offices, extended distribution agreements and more VARs). The IRRInet suite is widely deployed and proven to help reduce water and power usage as well as improving crop yield. China represents a considerable growth opportunity and MTI established a JV (Mottech China) with Omega Technologies, an existing third party sales representative, in China in June.

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

Allenby Capital's research on MTI Wireless Edge is available [here](#).

Newmark Security Plc (NWT.L, 0.175p/£4.1m)

Grosvenor tie up with WorkForce Software: Route to market (13.11.17)

- Grosvenor Technology, Newmark's security and attendance solutions subsidiary, will supply WorkForce Software, a leading provider of cloud-based workforce management software, with its IT51 Linux based workforce management terminal. In addition, Grosvenor will provide WorkForce with a range of remote support tools on an 'as a service' basis.

- The IT51, that will be marketed as the WorkForce 5000, includes a ten-inch touch screen that makes it easier for employees to access schedules, review time and attendance, and receive messages on the terminal.

Allenby Capital comment: Grosvenor has been working with WorkForce Management for more than three years and the agreement provides an important route to market for the IT51 terminal. Grosvenor is able to support WorkForce given its direct presence in the US and EMEA and it already provides remote support for end user installations in the Far East and APAC. It has also developed management tools in order to diagnose faults and recover hardware remotely and remote biometric template management. These tools are helping Grosvenor to grow its recurring revenue.

Allenby Capital acts as Nomad and Broker to Newmark Security plc.

The Character Group plc (CCT.L, 398p/£84.2m)

Products feature in influential Xmas guides (08.11.17)

- Two Character Options' products (*Stretch Armstrong* and *Laser X*) included in the highly regarded '**Dream Toys dream dozen**' from the Toy Retailer Association. The list is based on the opinions of large chain retailers, small multiples and independent retailers across the UK and provides good insight on what children want for Xmas.
- Character Options also had products in a number of other Toy Retailer Association categories such as creative toys, pre-school and games with *Little Live Pets Ladybug*, *Little Live Pets My Dream Kitten* and *Soundmoovz*.

Allenby Capital comment: Character Options has been a regular contributor to the Dream Toys dream dozen list and this attests to management's expertise and experience in identifying successful products. As previously noted, Character Options' products - *Laser X* and *soundmoovz* - featured in Harrods top 10 Christmas gifts list for 2017 and *soundmoovz* was also identified by Argos as one of its top 10 toy predictions for this Christmas. These lists are influential both reflecting and driving demand as parents struggle to work out what to buy for Xmas. The outlook for this Xmas remains relatively uncertain given the travails at Toys R Us in the US and Canada that resulted in forecast reductions in September and October although the company expects cash flow to remain positive and it has reiterated its commitment to a progressive dividend policy and ongoing share buyback programme.

Allenby Capital acts as Broker to The Character Group.

Allenby Capital's research on The Character Group is available [here](#).

Eagle Eye plc (EYE.L,222.5p/£56.6m)

Trading update: performance against 'win, transact, deepen' strategy (09.11.17)

- Q1 trading update confirmed revenue of £3.1m (+36%) and in line with previous guidance. Revenue from client subscription fees and network transactions represented 72% of total revenue (FY17: 68%). Net cash of £1.7m was ahead of management expectation. Redemption volumes increased 50% over Q4 to 32.6m primarily driven by Sainsbury's that initially went live in Q4. In Q4 all newly created instore coupons included barcodes issued and redeemed by the Eagle Eye AIR platform and this was extended in Q1 to the online channel.
- On November 8th, Loblaws announced that it will be merging two of its loyalty programs into PC Optimum that will link analogue and digital channels through one card, app and currency. AIR is central to the PC Optimum platform and has been integrated with Loblaws' channels and systems and will enable issuance and redemption of coupons through all channels. PC Optimum is scheduled to go live on 1st February.
- Five year contract signed with Scottish fashion retailer M&Co to digitise its current customer reward programme and introduce a new gift offering. Further penetration of the UK food and beverage market through a contract with Greene King for its Season Ticket programme and digital promotions. Also signed a contract with Google for 'Visa

tap & win' whereby new Visa and Android Pay users who tap to pay will earn chances to win instant prizes. Renewals with Greggs and Mitchells and Butler.

Allenby Capital comment: Solid Q1 update with the momentum of FY17 continuing into FY18 with a mixture of new wins, increased volumes and renewals. Sainsbury's issues much larger volumes of vouchers than Asda and Q1 redemptions were ahead of previous management guidance. Loblaws is also on track and represents a significant deployment in its own right as well a beachhead into the rest of the North American market. Net cash of £1.7m may be ahead of management expectation but still represents a Q1 burn of £2.0m and with the company not expected to be profitable in FY18 or FY19, questions persist about the strength of the balance sheet, particularly as Eagle Eye is dealing with large retailers and F&B companies.

Crossrider plc (CROS.L,75p/£106.4m)

CMD: Ongoing transition to software subscriptions (10.11.17)

- Capital Markets Day running through the company's core software products (Reimage, CyberGhost and DriverAgent Plus) as Crossrider transitions towards its own software suite away from third party product sales via digital advertising platforms.
- Much of the event was focused on CyberGhost, the SaaS Virtual Private Network (VPN) service provider, that was acquired in March. CyberGhost enables end users to protect their personal information when browsing the Internet by encrypting communications between the computer and ISP and website as well as masking the user's IP address. The business is benefiting from Crossrider's experience in media buying with more than 30% of new monthly revenue now coming from that source.
- CyberGhost is supported by Reimage, patented technology for remote software repair for both Mac and PC, and DriverAgent, a device driver search and update service that was acquired in October 2016.
- In September's interims, the company reported 4.9% revenue growth to \$30.1m that included a 16% increase in App Distribution to \$21.1m whereas the Media division dropped \$0.2m to \$7.3m. Adj. EBITDA decreased \$0.6m to \$2.9m and H1 net cash was \$68.7m.

Allenby Capital comment: The VPN market offers considerable growth as consumers look to protect their privacy whilst browsing the internet via PC and mobile. The software suite also increases revenue visibility as the products are offered on a subscription service. Meanwhile the company has a proven track record in driving software sales through the use of media buying. Management will look to bolster the suite through bolt on acquisitions and Crossrider benefits from a strong balance sheet. That said, the consumer software market remains very competitive and there is a danger that the functionality could be bundled into the operating system, browser or mobile device. Trading on a FY17 PER of 23.8x and 18.2x FY18.

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