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 - 04.12.17 (MIRA.L, TEK.L, SND.L, COR.L, TRAK.L)

Mirada (MIRA.L, 0.825p/£1.1m)
Debt funding provides working capital for recent contract wins (28.11.17)

- Unsecured one-year loan facility of up to £1.7m at 15% that will be used alongside existing facilities for general working capital, including for the implementation of the contracts with ATN International (August) and Digital TV Cable Edmund (October).
- The facility has conditional subscription rights at 1.12p/share and has been provided by Kaptungs Limited, Kronck Business and Minles Corporation. The lenders are already significant Mirada shareholders (29.5%) and the subscription for the full amount would result in them holding an additional 52.2% of the Company (81.7% in total).
- Separately, Amati VCT announced that it had sold its 3.29% stake in Mirada.

Allenby Capital comment: Mirada announced that it was looking to secure additional financing to provide working capital in order to roll out the recent contract wins. The Lenders are already significant shareholders and the facility demonstrates their faith in and commitment to Mirada. The company has shifted to an opex sales model for some customers that combines initial set-up revenue with subscription fees charge on a per device per month basis. This provides much greater revenue visibility and the lifetime value of the contract should exceed the traditional upfront licence fee model but there are working capital implications. During 2017, Mirada has successfully diversified its revenue base although izzi Telecom remains the dominant customer. Management reported the largest ever sales pipeline in September's finals and although sales cycles remain long the current rating (0.9x enterprise value/historic revenue) assumes no growth. The debt position and a potentially dominant shareholder group may dissuade investors.

Allenby Capital acts as Nomad and Broker to Mirada plc.

Tekcapital (TEK.L, 26.5/£11.3m)
Belluscura IPO terminated (01.12.17)

- Belluscura, where Tekcapital owns 47.5%, has announced that due to current market conditions and certain EIS/VCT requirements not being met in the expected timeframe it is unable to proceed with the proposed IPO and associated £7.5m to £10m fundraising.
- As a result, Belluscura will not be purchasing the licences to manufacture and sell the STIC, a handheld pressure monitor for the measurement of compartment pressure, from Stryker Corp.
- Belluscura is actively considering other alternatives.

Allenby Capital comment: Belluscura was established in December 2015 by Tekcapital to provide premium proprietary medical devices at affordable prices by acquiring exclusive licences, then manufacturing and selling devices deemed to be non-core or undervalued by major medical device companies. The initial product portfolio from Stryker is protected by an IP portfolio of 19 issued and pending patents and industrial designs. In May, Belluscura raised c. $1.7m through a Private Placement at a post-money valuation of c. $7.6m, representing a c. $2m uplift from the October 2016 fundraising. This resulted in an $2.9m unrealised gain on revaluation of Tekcapital's investment in H1. Belluscura has a carrying value of $3.7m.

Allenby Capital acts as Nomad and Broker to Tekcapital.
Allenby Capital's research on Tekcapital is available here.

Sanderson plc (SND.L, 77p/£43.9m)
Prelims & acquisition: Anisa expands customer base & product range (28.11.17)

- Meeting with management on the back of FY17 results. Revenue up marginally to £21.3m whereas pre-contracted recurring revenue increased 4% to £11.2m to represent 52% of the total (FY16: 50%) and order intake +12%. Year-end order book was substantially higher at close to £6m but this included a large one-off order. On a more normalised basis, the order book was down slightly y-o-y. Adj. EBIT +£0.2m at £3.9m and cash conversion was a healthy 135% resulting in net cash of £6.2m.
- Digital - Revenue +14% to £7.3m generating an adj. EBIT of £1.2m. The division successfully implemented a major system at Richer Sounds and there is scope for follow on work. There was a large two-year enterprise software deal with an existing customer and an initial pilot with a major fashion brand. Outlook for Digital remains positive.
- Enterprise - Revenue -4% to £14.3m but adj. EBIT fell only £0.1m to £2.7m. Within this, Manufacturing was flat in revenue at £6.5m but EBIT increased £0.2m to £1.1m. Wholesale Distribution & Logistics (WDL) fell 7% to £7.8m against a tough comparative period and EBIT dropped £0.3m to £1.6m. Outlook better following the WDL restructuring and improved order book.
- On November 24th, SND announced the acquisition of Anisa Communications for up to £12.0m. The consideration is complex but the initial cash outlay is £2.1m plus £3.4m in shares with a potential further £1.8m (cash or shares) by year end. Anisa provides integrated SCM and ERP software to c. 250 customers and also has a data centre that SND to offer to the enlarged customer base. Anisa had FY16 revenue of £10m with 50% recurring and the company was well known to management.

Allenby Capital comment: FY results in line with October’s trading statement that maintained a fairly cautious outlook. The Anisa acquisition offers a good strategic fit and moves the company a long way forward in its plan of £30m in revenue and £4-5m in profit. As well as increasing the customer base, there is definite cross sell opportunities. The pension deficit position at £6.2m has improved and otherwise the balance sheet is in good shape. The shares, trading on an FY18 PER of 11.4x and yielding 4%, are towards the bottom end of the sector.

IDE Group Holdings (formerly Coretx plc) (IDE.L, 29.5p/£59.2m)
Meeting with management: Mid market opportunity (29.11.17)

- IDE Group is a Managed Service Provider offering a broad portfolio of IT services and cloud based solutions to the mid-market through a buy-and-build strategy. This encompasses cloud and hosting; network and connectivity; managed services; comms; cyber security (PACT); and hardware/software procurement, deployment and lifecycle management (CITADEL).

- Growth by acquisition can throw up unexpected issues and it is fair to say that the first two acquisitions, Selection and C4L in 2016, failed to perform as initially expected and management has invested in staff, sought to improve customer relations and increase efficiency. 365ITMS has performed in line with expectations since acquisition.
- PACT and CITADEL were homegrown and since opening in June, PACT (Protecting Against Cyber Threats) had secured 12 new customers by October and there is considerable scope for cross-selling to other customers given the general growth in demand for cyber security. Management is targeting profitability at PACT by the end of H1 2018 with 30 customers by the end of 2018.
- CITADEL has a new 20,000 sq ft IL3 certified facility in Dartford. In January, IDE announced two large contracts with both due to run throughout 2017. One of these was delayed to H2 but was also materially increased in size.
- In H1 (June), revenue grew 54% (19% on a pro forma basis) to £29.6m with gross profit of £11.3m (+40% reported, +4% pro forma) and adj. EBITDA of £2.4m (+59% reported, +16% pro forma). 34 new logo customers were secured. Total indebtedness of £9.4m was an £3m increase over H1 FY16 reflecting the acquisition of 365ITMS (£3.7m) and the increase in capex around the investment in CITADEL and PACT (£1.2m) offset by operating cashflow of £2.0m and a £3.0m placing.
- Management's 2019 targets include: 12-15% EBITDA margin, >80% recurring revenue, 30 customers generating >£500k pa, 60% direct revenue, 50% Cloud-based revenue and 90% operating cash flow/EBITDA conversion. Acquisitions will continue to feature.
- Name changed to IDE Group on 30th November following the Court decision that the CORETX brand infringed an pre-existing trademark.

Allenby Capital comment: IDE Group is a reasonably substantial IT services provider to the mid-market with >550 employees across six locations and >1300 customers. The current business is focused on the South of England and is relatively light in the Public Sector. It has developed a good partnership with Atos but indirect sales are quite low. As such, there is scope to grow in several directions and scale would provide the opportunity for operating margin leverage. Management reports a positive outlook for the strategic divisions and a pipeline of qualified opportunities of c. 600 (September). The debt will put off some potential investors and MXC Capital's 5% warrant on the enlarged share capital represents something of a burden to using paper to fund acquisitions. Shares are trading on an EV/Sales of 1.0x FY17 and 0.9x FY18 and a PER of 26.8x FY17 and 18.4x FY18.

Trakm8 Holdings plc (TRAK.L, 107p/£38.4m)
Interims: Investment in telematics; demand drivers supportive (28.11.17)

- Revenue +12% to £14.8m with recurring revenue +17% to £5.5m. Adj. operating profit increased 78% to £1.0m and cash generated from operating activities was £3.6m (H1 FY17: £0.1m). This included a £1.6m R&D tax credit. £1.8m of development spend was capitalised. Net debt reduced to £2.3m (FY17: £3.9m).
- The revenue growth included +29% in the core telematics business (Solutions) to £12.5m and a 35% decline in the contract electronic manufacturing (CEM) division (Products) to £2.3m as part of the planned exit. TRAK invested c. £1.2m in engineering, sales and marketing resource in H1.
- There were a number of new telematic contract wins as well as extensions and the installed base was c. 217k (FY17: 190k). This includes churn of 10% to 15% in the fleet management business and 40% to 50% in insurance. TRAK has c. 2,400 Fleet and Optimisation customers and c. 10 Insurance and Automotive customers.
- Outlook - management expects H2 to be stronger as usual and is confident of achieving market expectations. Hitting forecasts is less about securing new customers and more about the roll out with existing users. This provides better visibility though the outcome is ultimately dependent on end user demand.

Allenby Capital comment: Focusing on the telematics business and away from hardware sales to other telematics companies and contract electronic manufacturing has hit headline numbers in the short term but should provide access to higher margin revenue going forward. TRAK has invested in engineering and sales and marketing and this is generating new sales and expanded the sales pipeline. This investment has not helped the cash generation of the business and H1 was buoyed by neutral working capital and a £1.6m tax credit that included some catch up. Demand drivers remain positive - increased safety obligations, improve efficiency, regulatory and legal compliance, reduction in claim risk, connected car requirements - and there is value in TRAK's installed base in spite of the ongoing issue of churn amongst insurance end users. Shares are trading on an EV/Sales of 1.3x FY18, falling to 1.1x FY19 and a PER of 14.9x and 10.7x.

not rely on this document being impartial and information may be known to Allenby Capital Limited or persons connected with it which is not reflected in this material. Allenby Capital Limited has a policy in relation to the management of the firm's conflicts of interest which is available upon request.

Allenby Capital Limited shall not be liable for any direct or indirect damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and only for distribution to professional and institutional investors, i.e. persons having professional experience in investments who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom (such persons who do not have professional experience in matters relating to investments should not rely on this material), or persons who have been categorised by Allenby Capital Limited as Professional Clients or Eligible Counterparties. It is not intended for Retail Clients. Retail investors should seek professional, independent advice before investing.

This document is being supplied to you solely for your information and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose. The material in this document is not intended for distribution or use outside the European Economic Area except in the circumstances mentioned below to recipients in the United States. This material is not directed at you if Allenby Capital Limited is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you and persons into whose possession this material comes should inform themselves about, and observe, any such restrictions. The cost of Allenby Capital's research product on individual companies is paid for by our research clients.

Allenby Capital Limited may distribute research in reliance on Rule 15a-6(a)(2) of the Securities and Exchange Act 1934 to persons that are major US Institutional investors, however, transactions in any securities must be effected through a US registered broker-dealer. Any failure to comply with this restriction may constitute a violation of the relevant country's laws for which Allenby Capital Limited does not accept responsibility.

By accepting this document you agree that you have read the above disclaimer and to be bound by the foregoing limitations / restrictions.

RESEARCH RECOMMENDATION DISCLOSURE

David Johnson is the author of this research recommendation. David is employed by Allenby Capital Limited as an Equity Analyst.

Tel: 020-3394-2977

Email: d.johnson@allenbycapital.com

Unless otherwise stated the share prices used in this publication are taken at the close of business for the day prior to the date of publication.

* denotes that Allenby Capital acts as an Adviser to the Company

Information on research methodologies, definitions of research recommendations, and disclosure in relation to interests or conflicts of interests can be found at www.allenbycapital.com

Allenby Capital

5 St Helen's Place London EC3A 6AB

+44 (0)20 3328 5656

www.allenbycapital.com