



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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TMT UPDATE - 29.01.18 (CCT.L, EYE.L, FST.L)

The Character Group plc* (CCT.L, 449p/£94.9m)

London Toy Fair: Awards won (24.01.18)

- Character Group secured two awards from the Toy Retailers Association at last week's annual The London Toy Fair, the UK's largest dedicated trade show.
- *Laser X Dual Pack*, manufactured by NSI International Inc, was voted Best Electronic Toy and *The Original Stretch Armstrong*, manufactured under licence from Hasbro, was voted Best Action Toy. Each of these toys had been selected as Dream Toys in November.
- *Laser X* has sold well since its launch last July and Character will add to the range this year with the *Laser X Battling Tower* and the *Laser X Long Range Blaster*. CCT has similarly expanded the *Stretch* range with *Vac Man* and *Stretch Monster* and *Stretch X-Ray* (from August).
- Character was showcasing its full range of 2018 products with a number of ranges due to launch this year - *Soft 'N Slo Squishies* (February), *Cake Pop Cuties* (January), *PooPeez* (Easter) and *Pokémon* (July) as well as extensions for its evergreen brands including *Peppa Pig* and *Little Live Pets*.

Allenby Capital comment: The London Toy Fair provides buyers from chains and independents the first sight of CCT's full 2018 range and management reports positive feedback and bears out their confidence in the current portfolio. Q4 2017 was challenging for many toy suppliers with the travails of Toys R Us and a dip in demand in November. CCT exited the Christmas period with virtually no excess stocks to deal with in-house and with its major retailers having experienced a clean sell-through of CCT products. This, coupled with the strong 2018 portfolio, means CCT should secure greater shelf space with its major customers. That said, we still expect a dip in H1 revenue before returning to growth in H2 and FY19. Forecasts and fair value of 580p per share, equivalent to a FY18 PER of 13.9x and 4.0x yield, remain unchanged.

* Allenby Capital acts as Joint Broker to The Character Group plc
Allenby Capital's research on The Character Group plc is available [here](#)

Eagle Eye Solutions Group plc (EYE.L, 212p/£54.0m)

H1 pre-close: Much to do in H2 (23.01.18)

- Revenue increased c. 28% to £6.5m in line with management expectation with redemption volumes increasing +228% to 82.8m with Sainsbury's going live in H2. Revenue from subscription fees and

transactions over the network accounted for 75% of the revenue (H1 FY17: 66%) - £4.8m from £3.4m. Cash position of £0.8m was better than management expectation (FY17: £3.7m) with unutilised facilities of £3.0m.

- Loblaw scheduled to launch the largest digital loyalty programme in Canada on February 1st, enabled by the Eagle Eye AIR platform. PC Optimum will combine two loyalty programs (8m and 11m members respectively) and link digital and analogue channels to one card, app and currency. Revenue will shift from initial implementation fees to recurring transaction fees.
- New H1 customers included Boparan, M&Co and Greene King. Renewals with Greggs, Mitchells and Butlers and Pizza Express.

Allenby Capital comment: Reasonable progress on a number of fronts with new customers, renewals and Loblaw on track to go live next month. That said, H1 FY18 revenue increased only 8% over H2 FY17 in spite of the substantial increase in redemption volumes and the H1's +28% YoY revenue growth contrasts with FY17's +71%. This reflects the shift from initial implementation to recurring subscription and transaction fees - upfront was down slightly in H1. The transaction fees offer an attractive profile as retailers expand programmes (and Loblaw is an important addition) but EYE needs to secure £9.4m in H2 to hit consensus forecast. At the same time, potential investors will focus on the balance sheet. Cash outflow appears to be increasing - H1 FY18 £2.9m; H2 FY17 £2.1m; H1 FY17 £1.5m.

Frontier Smart Technologies plc (FST.L, 176p/£71.5m)

FY pre-close: Good growth but modest expectations for FY18 (25.01.18)

- FY revenue and EBITDA expected to be in line with expectation with revenue up c. 28% to c. £41.2m (+23% constant currency) and underlying EBITDA +£1.2m to c. £1.9m. Net cash of £2.9m (FY16: £0.7m). Improvement in EBITDA driven by growth in established Radio business and first material revenue in Smart Audio division.
- Management expects modest growth in revenue and EBITDA in FY18. Radio likely to plateau following the completion of Norway's FM switch-off and Smart Audio remains at an early stage. FST has secured numerous design wins for its Minuet platform with 20 models released to date and first voice-enabled design wins - expected mass production in H1.
- R&D spend will likely increase as FST finalises the development of its SmartSDK, its voice-enabled streaming software, and enable to address the three major eco-systems (Google, Amazon and Apple).
- Separately announced design wins with Altec Lansing, Memorex and Spectra Merchandising for seven voice enabled devices with Google Assistant and Chromecast built in.

Allenby Capital comment: Reasonable FY17 performance but the modest outlook statement was not sufficient to support the share price that had appreciated >150% over the past year to peak are more than 200p. In spite of the pullback, the shares are still trading on an FY18 EV/EBITDA of 32.7x. This assumes considerable growth in the Smart Audio division. Smart speakers and the broader category of voice assistants saw massive growth in 2017 in the US and this is expected to be replicated in multiple other geographies. FST has long term relationships with a host of consumer audio brands and voice interfaces are likely to dominate going forward. That said, the popularity of Amazon Echo and Google Home and likely success of the new Apple HomePod is currently crowding out the other players.

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