



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 - 05.02.18 (GFIN.L, NWT.L, FTC.L)

Gfinity plc* (GFIN.L, 22.2p/£48.7m)

Hashtag United joins Elite Series (02.02.18)

- Hashtag United will join the third season of the Elite Series, due to start in March. Hashtag United was founded in 2016 by Spencer Owen, a FIFA gamer best known for his Spencer FC YouTube channel. Hashtag is headquartered in London. Spencer FC and Hashtag United have a combined YouTube audience of c. 2.3m and Hashtag has >160k Twitter, 300k Instagram followers and its FIFA team has 1m fans.
- February sees the HaloWC LAN Event at the Gfinity area that will be available on Mixer.com and Twitch.tv. Gfinity continues its twin strategy of

Allenby Capital comment: Gfinity has increased the roster of teams to ten from eight with Season III and the four new teams (Team Vitality, Fnatic, ARES and Hashtag United) enjoy much higher profiles in the esports industry with existing followings across global tournaments in their own rights. Their inclusion represents a major endorsement of Gfinity's innovative tournament and should help to increase audience numbers and thereby make the Series more attractive to potential advertisers, broadcasters and sponsors.

** Allenby Capital acts as Nomad and Joint Broker to Gfinity*

Newmark Security* plc (NWT.L, 1.05p/£4.9m)

H1: Progress in Sateon and Workforce Management (30.01.18)

- H1 FY18 revenue fell 1.2% to £8.2m with the Electronic Division (Grosvenor: Sateon and Janus) +5.9% to £4.0m and Asset Protection (Safetell) -7.6% to £4.2m. Operating losses halved to £0.3m and the cash outflow reduced substantially to £0.7m (H1 FY17: £2.4m). Cash balance of £0.6m (H1 FY17: £1.9m; FY17: £1.4m).
- Safetell: revenue reduction was mainly a function of the run off of the Network Transformation Programme at the Post Office - cash handling equipment sales were down 67.4%. Product revenue excluding cash handling equipment (Eclipse Rising Screens, Fixed Glazing and Secure Panel Systems) increased 56.7%. Services revenue +14%. Trading conditions remain challenging with budget cuts and the cancellation of planned works by several customers. Cost reductions benefited H1 and further cuts have been undertaken in H2.

- Grosvenor: Growth in revenue in the Sateon range (+23% to £1.3m) more than offset the fall in the legacy Janus range (-35% to £665k). Microsoft's end of support for the 32-bit Windows OS that Janus runs on has meant no new Janus system sales. There is an ongoing base with recurring software service agreements that is likely to gradually erode and represents an upgrade opportunity to Sateon. Sateon Advance has been well received with unit sales up 86% in H1 and average revenue per system +21%.
- Workforce Management: H1 revenue +21% to £2.0m. RS series products +32% in the UK and the Linux based IT series +33% including a contract with one of the world's largest steel producers. Ongoing supply agreements for the IT51 Linux based workforce management terminal with Workforce Software and an OEM variant of Sateon Advance is to be supplied to a leading European workforce management provider.
- Revenue in the US +17% to \$0.7m and a Vice President of Sales has been appointed to focus on the US market. Discussions remain ongoing with a tier one human capital management (HCM) provider about an OEM variant of the GT-10 Android based terminal. Negotiations underway with a second tier one potential customer.

Allenby Capital comment: Continued progress in Sateon and Workforce Management somewhat masked by the challenging conditions facing Safetell and the reduction in the legacy Janus business. Management has taken steps to reduce costs and also focus resources on the higher growth areas of the business. The contracts with two workforce management providers and discussions with another HCM provider are encouraging and will provide much greater sales and marketing reach although such deals have long gestation periods. Meanwhile the Sateon access control product set has seen a CAGR of 59% in the three years to 31st October 2017. This is a market where Newmark has considerable experience and the latest family of smart controllers support plug-in expansion modules or 'blades' that minimise cable runs and increase flexibility.

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

Filtronic plc (FTC.L, 10.1p/£19.8m)

Interims: Poor short term revenue visibility mars mid-term growth story (30.01.18)

- Revenue down 40.7% to £12.8m with adj. operating profit halving to £0.9m. Drop reflects the completion of large orders with an OEM for antennas. This reduction was partially offset by strong sales of filter products to telecoms and public safety market customers.
- H2 now expected to be similar to H1 (below previous expectations) however unwind in working capital should result in better cash generation. H1 operating cash flow was £0.4m and net cash was £2.8m. Working cap and capex benefits from use of Chinese CEM.
- Selected by a leading mobile telecoms infrastructure OEM to develop a Massive MIMO antenna product that will offer a 3x capacity increase. Project is customer funded. Complex systems offer better margins than the commodity end of the market that has become dominated by Chinese manufacturers.
- A second multi-year defence contract secured from a tier 1 European defence equipment supplier for another variant of advanced radar transmit-receive module but the production ramp has slipped into H2 following problems in the supply base.
- Approved as a vendor by a top four US MNO to supply 5G Evolution antennas. The strategy to develop MNO customers should help to reduce FTC's exposure to OEMs where revenues have proved lumpy.
- Good demand for filter products for public safety communications. This market offers good margins and has demonstrated good growth over the past few years and there is scope for further growth. High Altitude Pseudo-Satellites (HAPS) also offers growth over the next few years.

Allenby Capital comment: H1 was always going to be a struggle against a tough comparative period that included a large antenna order but FTC managed to remain in profit and cash generative. Visibility on the antenna business remains limited and Filtronic is reducing its reliance on telecoms network infrastructure OEMs with sales to MNOs and other communication markets (including public safety, defence and aerospace and high altitude pseudo-satellites) but that is taking time. Further out there is the prospect of 5G and Filtronic has the necessary skills and experience. In the interim, there is further spend to expand 4G capacity. Assuming a similar H2 performance to H1 would suggest a FY18 EPS of 0.8p, putting FTC on a PER rating of 12.6x - fair given the somewhat patchy recent track record.

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