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.

For the purpose of MIFID II, the content of the following email qualifies as "non-substantive material or services consisting of short term market commentary on the latest economic statistics or company results" and so can be treated as 'acceptable minor non-monetary benefits' and not as 'chargeable research' per the European Commission's Delegated Directive of 7.4.2016.

TMT UPDATE - 19.03.18 (MWE.L, FBT.L, BBSN.L, KAPE.L)

MTI Wireless Ltd plc* (MWE.L, 30.5p/£16.4m)
Potential merger offers a number of benefits (14.03.18)

- Preliminary merger discussions with MTI Computers and Services (MTIC), MWE's largest shareholder with 52.5%. MTIC has two core divisions - the distribution of radio frequency and microwave components, sub-assemblies and assemblies in Israel and Russia and system engineering in the tethered balloon industry. MTIC is currently listed on the Tel Aviv stock exchange but this would stop if the merger was to proceed.
- The proposed transaction is still being discussed and would be subject to various regulatory and corporate approvals and independent third-party valuations are being undertaken to determine the number of consideration shares to be issued to MTIC shareholders.
- The combination would increase MWE's revenue by c. 30%, broaden the product set, align shareholder interests, eliminate one set of fees associated with a stock market listing and should increase liquidity as non-controlling shareholders would hold a larger proportion of the shares of the enlarged group.

Allenby Capital comment: The proposed combination offers a number of potential benefits with increased revenue, a broader product/customer set, cost synergies with a single listing and a simplified capital structure. The two companies also operate in complementary spaces in the military market. The discussions are at an early stage, however, and would require various forms of regulatory and corporate approvals in both the UK and Israel and forecasts remain unchanged at this point.

** Allenby Capital acts as Nomad and Broker to MTI Wireless plc*
Allenby Capital's research on MTI Wireless plc is available [here]

Forbidden Technologies plc* (FBT.L, 4.0p/£7.2m)
Finals: Difficult 2017, more positive outlook for 2018 (15.03.18)

- Revenue fell 2% to £0.8m with invoiced sales falling 29% to £0.7m and deferred revenue down 46% to £0.1m. The latter was impacted by the full provision of £80k relating to continued uncertainty around a contract with Atos. Recurring infrastructure sales increased from 28% to 48% of group revenue - in line with the company's new strategy. Operational spend reduced 1% to £2.7m and the EBITDA loss increased 5% to £1.8m. Net cash at year end of £1.8m.

- FY17 substantially impacted by February's departure of the CEO, who was also Head of Sales, and the hiatus before the appointment of Ian McDonough as CEO in September and Rachel Darcy as Head of Sales in July. The sales team has been restructured and the sales effort has been focused on recurring infrastructure sales of Forbidden's Blackbird codec and associated production and publishing tools.
- FY18 has started better with double digit growth in invoiced sales in Q1 and FBT has opportunities in live sports, eSports, news and post production. It is also in discussions with multi-channel networks and social media publishers that are often building their media supply chains from scratch. Blackbird can been deployed as an end to end SaaS suite.

Allenby Capital comment: A difficult 2017 with sales momentum stalling with the departure of the CEO in February. That said, there was some progress in the North American sports market with a minimum two year deal through long term partner Deltatre, increased business at Madison Square Garden, a paid for pilot with a major North American broadcaster and sports franchise and success in eSports with Gfinity plc. The new CEO has made changes to sales and marketing, its US commercial presence and product management. As a result, Blackbird is being positioned as an infrastructure sale rather than project-based. The sales cycle is likely to be longer but the revenue per client substantially higher and the company can build a base of recurring subscription revenue. Early success is reflected in the increased percentage of invoiced sales from recurring infrastructure sales and growth in Q1. Cash has been depleted but management believes that there is sufficient funds for at least twelve months.

** Allenby Capital acts as Nomad and Broker to Forbidden Technologies plc*

Brave Bison plc* (BBSN.L, 0.85p/£4.9m)
Appointment of Allenby Capital as Nomad and Broker (14.03.18)

- Appointment of Allenby Capital as Nomad and Broker by Brave Bison, the independent digital media and social video broadcaster.
- Launch of new web site, www.bravebison.io, that includes a show reel of Brave Bison's latest work.
- FY17 results due on 21st March. In December's trading update the company reported that it expects Net Revenues of c. £9.1m (ahead of market expectations of £8.8m) and an adj. EBITDA loss of £0.9m (in line; FY16: £1.9m) that included a £0.4m FX loss. Net cash of £4.1m (30th November) and management believes it is funded to reach profitability.

Allenby Capital comment: 2017 saw substantial management upheaval at Brave Bison and the distraction of the potential combination with Zinc Media before the arrival of Claire Hungate as CEO in September and Paul Campbell-White as CFO in October. This team is experienced in the media sector and worked together previously at Warner Bros. Television Production UK. The shape of the business also changed during 2017 with the company exiting lower margin business and FY17 revenue is down c. 49% on FY16 that also benefited from Euro 2016. In spite of the upheaval, BBSN won and renewed its deals with Shell and All Nippon Airways and renewed its agreement with the English Football League. The company has also invested further in its APAC operations and opened its own broadcast facility.

** Allenby Capital acts as Nomad and Broker to Brave Bison plc*

Kape Technologies (formerly Crossrider) plc (KAPE.L, 82p/£116.3m)
Prelims: Transition to own product sales and upsell opportunity (13.03.18)

- Revenue +17.4% to $66.4m and adj. EBITDA +29% to $8.3m with EBITDA margin improving 120bps to 12.5%. Underlying adj. EBITDA (excluding Web Apps and Licenses) increased 172% to $6.2m. This is slightly above and in line with January's trading update, respectively.
- Adj. cash from operations of $7.6m, representing 92% of adj. EBITDA (FY16: 123%). Year end cash of $69.5m (FY16: $72.1m), after $7.4m of acquisition related spend (CyberGhost) and the board is proposing a special dividend of $7m, equivalent to 3.55p/share.
- Integration of CyberGhost (Virtual Private Network software) now complete including Kape's user acquisition platform and it has performed ahead of management expectations, contributing $1.5m of net profit.
- 21% growth in paying users to 887k (now >900k), 82% growth in premium subscriptions to 260k and management expects $8m of recurring income from existing users in 2018. Subscription retention rate of 69%. Management expressed confidence in achieving FY18 expectations ($74.1m revenue and $10.1m adj. EBITDA). Acquisitions in the fragmented cyber security market will feature on top of this.

Allenby Capital comment: A good set of numbers as the company moved up the value chain to distribute its own consumer cyber security products rather than third party products. The shift in business offers higher margins and the potential for recurring revenue. The company has a proven digital distribution and online marketing platform and management plans to ramp up marketing spend to c. $3m per month on customer acquisition. Once acquired, Kape will look to retain and upsell customers with a range of products through a process of buy and build in the fragmented cyber security space. Valuation is heavily skewed by the substantial cash pile but stripping this out, the EV/EBITDA rating (7.7x FY18) is not demanding.

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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.

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