



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 - 04.06.18 (FBT.L, MWE.L, SND.L, REDS.L)**

### **Forbidden Technologies plc\* (FBT.L, 5.4p/£9.7m)**

#### **Placing: Considerable firepower (04.06.18)**

- Oversubscribed placing to raise £5.75m at 5p/share with existing and new institutional and other investors. This includes a £750k subscription from Directors and the family of the Directors. The placing is in two tranches with the £4.1m subject to GM (25.06).
- The proceeds will be used to resource larger infrastructure contracts, further strengthen the commercial team, open up the Blackbird platform via API interfaces, invest in its IP portfolio and strengthen the balance sheet.
- FY18 has started well with sales growth of 80% for the year to end April. The company under Ian McDonough, who joined the company last September, has focused on selling Blackbird as part of the core media infrastructure requirements of its clients in a number of targeted verticals. Recurring revenue from infrastructure sales has increased from 28% of invoiced sales in 2016 to more than 50% YTD. Invoiced sales have increased 150%, live sport is up 100% and broadcast post production +28%. Deferred income increased 35% as 30th April against FY17.

**Allenby Capital comment:** The conditional placing provides the company with considerable firepower to capitalise on the opportunity for its Blackbird cloud video platform. The company's codec has been specifically designed for manipulating video in the cloud. As a result, it has a number of advantages over competing technologies. Trading in FY18 has been encouraging with growth in infrastructure sales in its targeted markets.

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

### **MTI Wireless Edge plc\* (MWE.L, 26.1p/£14m)**

#### **Merger: further progress made (30.05.18)**

- As part of the process for the proposed merger with the MTI Computers & Software Services (1982) (MTIC), an application has been filed with the Israeli court requesting the court to order the convening of EGMs of the shareholders of each company.

- MWE has uploaded to its website additional information and documents relating to the transaction including a valuation report on MTI and MTIC, the relationship agreement between the company and Mokrijei Aya, a summary of the tax implications of the merger, details of the shareholdings prior to and following the merger and a summary of the shareholders' agreement entered into between Mokirei Aya, Zvi Borovitz and Jacques and Rina Beer.
- MTIC also announced its Q1 results where MWE's results are consolidated. MTIC's revenue decreased 5% to \$7.8m and PBT was down 46% to \$0.2m. EPS increased 11% to \$0.027, mainly a function of a large tax credit. Cash flow from operations increased 44% to \$1.8m and net cash increased 54% to \$5.4m. The order backlog increased 14% to \$16m.

**Allenby Capital comment:** The proposed merger with MTIC, MWE's largest shareholder, offers a number of benefits - increasing MWE's revenue by c. 30%, broaden the product set, align shareholder interests, eliminate one set of stock market listing fees and should increase liquidity as non-controlling shareholders would hold a larger proportion of shares. The two companies also operate in complementary spaces in the military and communications markets.

*\* Allenby Capital acts as Nomad and Broker to MTI Wireless Edge plc  
Allenby Capital's coverage on MTI Wireless Edge plc is available [here](#)*

### **Sanderson plc (SND.L, 106p/£63.7m)**

#### **Meeting with management: On track for the full year (29.05.18)**

- Meeting with management on the back of interims that were slightly ahead of their expectations. Revenue increased 34% to £14.6m, and by 1.6% on a lfl basis (excluding November's Anisa acquisition). Digital Retail revenue +20% to £4.2m and sales orders included Richer Sounds, Thorntons, Beaverbrooks The Jewellers and Scotts of Stow. Enterprise, enhanced by the Anisa acquisition, increased 41% to £10.4m.
- Pre-contracted recurring revenue increased 53% to £8.2m and lfl recurring revenue +11% to £6.0m, improving forward visibility. Digital Retail order book +307% to £3.4m and Enterprise +169% to £5.2m. Total order book increased 16% to £3.2m.
- Adj. operating profit +34% to £2.1m, lfl +12% to £1.7m. The majority of development spend continues to be expensed as incurred. Basic adj. EPS +14% to 1.25p.
- Operating profit cash conversion of 102% and cash, excluding the Anisa term loan of £4.1m at 2% above LIBOR, was £5.1m. Pension deficit reduced £2m to £6.1m. Interim DPS +14% to 1.2p/share.

**Allenby Capital comment:** The Anisa acquisition substantially strengthened the Enterprise division that comprises manufacturing, wholesale distribution and supply chain logistics. There is scope to grow this business as Anisa's recent revenue profile has been more weighted towards recurring and incremental than new customers. SND will continue to look at further acquisitions. The organic outlook across both divisions remains reasonably positive as although much of the High Street is struggling, this is driving the need for investment in technology to deliver more sales through all channels as cost effectively as possible. This is benefiting SND's Digital Retail and the Wholesale Distribution and Supply Chain Logistics parts of Enterprise. SND is now tending to deal with larger retailers and this can extend sales cycles but there is a good base of recurring revenue and a substantial order book. Shares are trading on a consensus FY18 of 16.6x EPS and 15.6x FY19 and yielding 2.7% and 2.9%.

### **RedstoneConnect plc (REDS.L, 117p/£24.4m)**

#### **Disposal and prelims: Focus on smart buildings and agile workspaces (29.05.18)**

- Conditionally agreed to sell Comunica Holdings and Commensus, its Systems Integration and Managed Services divisions, to Excel I.T. Services for a total consideration of £21.6m in cash (£19.6m on completion). In addition, intercompany loans of c. £1.4m owed by the Company to the Sale Group are being waived.
- In FY18, the Sale Group generated pro forma revenue of c. £41.6m (+8.6%) and adj. pro forma EBITDA (pre central costs) of c. £3.0m (+4.6%). By contrast, the Software division had revenue £5.3m (+231%) and adj. EBITDA of £1.9m (FY17: £0.3m). This included a partial contribution from A+K, a systems integrator focused on the meeting room management and audio-visual market, that was acquired in May 2017. Overall adj. EBITDA increased 59.6% to £3.2m.
- As a result of the disposal, REDS will focus on its Software Division that provides software to improve building-user experience, utilisation and efficiency with its Connect software platform and OneSpace occupancy management software. The sale proceeds will be used to add functionality to the existing suite, acquisitions and sales and marketing capability.

**Allenby Capital comment:** The proposed disposal of the lower margin Systems Integration and Managed Services divisions look a good outcome given that the two businesses were acquired for an aggregate consideration of £11.9m. The additional funds will be used to invest in its smart building and agile workplace market offerings. This represents a considerable growth market as building operators look to occupant well-being and space optimisation as well as monitoring and managing energy use. Redstone has secured several high profile customers (UBM, Hermes and a large unnamed financial services company) plus an OEM contract with a hardware manufacture worth >£2m. A number of pilots with major international companies are also underway. The pricing model for these will be a monthly fee per desk/room. That said, there is still scope for licensed based agreements.

## **DISCLAIMER**

This document is issued by Allenby Capital Limited (Incorporated in England No.6706681), which is authorised and regulated by the Financial Conduct Authority (“FCA”) for designated investment business, (Reg No. 489795) and is a member of the London Stock Exchange.

This document is for information only and should not be regarded as an offer or solicitation to buy the securities or other instruments mentioned in it. It or any part of it do not form the basis of and should not be relied upon in connection with any contract. For the purposes of this communication you are a corporate finance contact of Allenby Capital and not a client. As a corporate finance contact Allenby Capital is not acting for you and will not be responsible for providing protections afforded to clients of the Firm or advice on the relevant transaction.

Allenby Capital Limited uses reasonable efforts to obtain information from sources which it believes to be reliable but the contents of this document have been prepared without any substantive analysis being undertaken into the companies concerned or their securities and it has not been independently verified. No representation or warranty, either express or implied, is made nor responsibility of any kind is accepted by Allenby Capital Limited, its directors or employees either as to the accuracy or completeness of any information stated in this document. This document is a marketing communication and has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Opinions expressed are our current opinions as of the date appearing on this material only. The information and opinions are provided for the benefit of Allenby Capital Limited clients as at the date of this document and are subject to change without notice. There is no regular update series for research issued by Allenby Capital Limited.

No personal recommendation is being made to you; the securities referred to may not be suitable for you and should not be relied upon in substitution for the exercise of independent judgement. Neither past performance nor forecasts are a reliable indication of future performance and investors may realise losses on any investments.

Allenby Capital Limited and any company or persons connected with it (including its officers, directors and employees) may have a position of holding in any investment mentioned in this document or a related investment and may from time to time dispose of any such securities or instrument. Allenby Capital Limited may have been a manager in the underwriting or placement of securities to the issuers of securities mentioned in this document within the last 12 months, or have received compensation for investment banking services from such companies within the last 12 months, or expect to receive or may intend to seek compensation for investment banking services from such companies within the next 3 months. Accordingly recipients of this document should 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](mailto: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](http://www.allenbycapital.com)

**Allenby Capital**

**5 St Helen's Place London EC3A 6AB**

**+44 (0)20 3328 5656**

[www.allenbycapital.com](http://www.allenbycapital.com)

---