



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 17.09.18 (ECSC.L, CCT.L, FBT.L, TERN.L, MIRA.L)**

### **ECSC Group plc\* (ECSC.L, 95p/£8.6m)**

#### **Interims: Further market share gains (11.09.18)**

#### **[Note published](#)**

**Allenby Capital comment:** ECSC Group, an established and proven cyber security service provider via Consultancy and Managed Services, has reported interim results with organic revenue growth of 43% to £2.6m and a substantial reduction in adj. LBITDA to £0.5m (H1 FY17 LBITDA: £1.5m). There was an encouraging performance across both main divisions and the company continues to take share in a growth market. ECSC has invested in its technology and service capability to offer a full suite of cyber and information security services - a key differentiator in a fragmented market. Ian Mann, founder and previously CEO, who had moved to an executive director role, has returned to CEO but retains direct responsibility for the sales team. Net cash was a comfortable £0.95m.

*\* Allenby Capital acts as Nomad and Broker to ECSC Group plc.  
Allenby Capital's coverage on ECSC Group plc is available [here](#)*

### **The Character Group plc\* (CCT.L, 529p/£111.8m)**

#### **Pre-close trading update: Record UK sales (14.09.18)**

- Return to growth in H2 with Character's UK domestic business delivering record sales. As a result, FY18 trading will comfortably meet market expectations (ACLe: adj. PBT of £11.1m, EPS 43.6p).
- Management reports strong performance from its established in-house developed lines (e.g. *Peppa Pig*, *Stretch* and *Teletubbies*), exclusive distributed lines (e.g. *Little Live Pets* and *Mashems*) and new ranges (such as *Pokemon*, *Treasure X* and *Doorables Disney Collection*). This has been supplemented by its portfolio of 'craze' lines, keenly priced impulse purchases, such as *Soft 'n Slo Squishies*, *Cakepop Cuties* and *Cra.Z.Slimy*).
- Positive outlook for FY19 with positive listings and strong demand from customers as the company enters the important Christmas season.
- No change to forecasts.
- FY results are expected on 29th November.

**Allenby Capital comment:** Positive FY trading statement from the UK's leading independent toy company after the problems that beset the industry in 2017 with the collapse of Toys R Us and the generally difficult retail environment. The company entered FY18 with what management described as its strongest ever product line up with a balance between its 'ever-green' brands and new products, some developed in-house, and this has been borne out by the return to growth. CCT has benefited from its focus on price competitive products (including 'craze' lines) and not being aligned to any particular film franchises. Last September, the company announced that it had been appointed the master toy distributor for the Pokemon brand in the UK and Ireland. As the initial products (figures, plush and role play) were only launched this summer, Pokemon has had only limited impact on FY18. We believe the brand has considerable long term potential and growth to be maintained in FY19. Our fair value of 580p, equivalent to an 11.5x FY19 PER and a 4.7% yield, remains unchanged.

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

### **Forbidden Technologies plc\* (FBT.L, 5.25p/£15.5m)**

#### **Interim results: Revenue growth and positive outlook (12.09.18)**

- Invoiced sales increased 37.7% to £489k and reported revenue by 19.3% to £377k. Deferred revenue increased by 72.6% to £252k during H1 and contracted orders by 65.7% to £396k. Operating costs increased 8.3% to £1,289k and hence EBITDA loss increased 3.8% to £965k. Period end net cash was £6.2m following June's £5.4m (net) raise.
- During H1 a new six-figure deal was signed with TownNews.com in the US, a key market, where FBT will provide production infrastructure to Meredith Corporation's 17 regional news networks. FBT expanded its presence in the US eSports industry for live and post-event edit and production and launched in Japan with a preliminary collaboration with the Tier-1 telecoms company. FBT is also migrating its products to JavaScript and introducing AI to automate the generation of metadata.
- Post period end, a pilot with a North American broadcaster and sports right holder was completed; the first customer in the localisation space was secured; the large New York-based regional sports network renewed its contract and the company reports multiple discussions with OEMs about integrating FBT's ultra-light video codec.
- Separately (14.09.18), it announced the launch of its editing platforms Ascent and Forte in JavaScript. This enables Blackbird to be used in browsers without additional configuration or the installation of plugins or applications. It also announced the Mac version of the Blackbird Edge, so data can be ingested from a wide variety of Apple devices.

**Allenby Capital comment:** The return to growth at the top line is encouraging, including a record level of invoiced sales, albeit from a small base. Under CEO Ian McDonough, who joined last August, the company has focused on licensing its Blackbird cloud video software as part of the core media infrastructure for companies and generating SaaS-based repeatable revenue. These enterprise contracts are much larger than FBT's historic revenue model but sales cycles remain long. The company remains comfortably capitalised. Forbidden continues to move its Blackbird technology forward in order to expand its addressable market. The company is also benefiting from the ongoing shift to cloud computing and at the IBC trade show Forbidden has been showcasing the Blackbird Azure workflow used by Deltatre on the Microsoft stand.

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

## **Tern plc\* (TERN.L, 18.6p/£44m)**

### **Interims and further loan to Device Authority (14.09.18)**

- Net assets increased 28.7% to £13.9m but NAV/share fell to 6.2p (H1 FY17: 9.0p) reflecting the raise of £3.1m during H1. Tern also retired a convertible loan note facility and net cash was £1.5m (H1 FY17: nil). £1.5m was invested including a new medical VR IoT investment, FVRVS, and follow on investments into Device Authority and InVMA.
- Year on year revenue at the principal portfolio companies increased 126% between 2016 and 2017 and is expected to increase a further 12% in 2018. This partly reflects a revenue reduction at flexiOPS due to the receipt of the final EU grants. Excluding this, the growth increases to 50%. Employee numbers at the principal portfolio companies increased 55% in 2017 and is expected to grow a further 12% this year.
- Separately (14.09.18) Tern has provided a further convertible secured loan of \$525k to Device Authority Limited, the IoT security company, where Tern has a 56.8% holding. The debt, \$0.7m in total, is repayable on 28th December 2018. Following this investment, Tern's convertible loan note stands at \$1.7m.
- The loan note accrues an interest coupon of 5% p.a. and is convertible automatically on completion of an equity fundraising in DA of at least \$2.5m that is completed before 28th December 2018. If a qualifying fundraising doesn't take place before December but there is an exit, the note holders can either receive 300% of the principal or convert into Class A Preference Shares at 3.7p/share. The debt providers have also been issued with 2.6 warrants for each \$1 of loan notes provided and can be exercised at 3.7p/share.
- All existing loan notes have been extended to 28th December 2018.

**Allenby Capital comment:** Tern has focused its investment activities on building a portfolio of IoT companies in the UK that will represent attractive candidates for IPO or trade sale. The stated objective is to hold twelve investments by the end of 2019. Device Authority, that represents the majority of the portfolio's current value, has developed KeyScaler that addresses the challenge of Identity and Access Management for the Internet of Things (IoT) without human intervention. The explosion in the volume of IoT devices has created number of challenges for traditional manual IT security products. KeyScaler offers automated device provisioning, credential management and policy-driven data encryption. In July, it announced a jointly developed product with Thales for the authentication of IoT devices and data confidentiality and integrity in healthcare. This integrates KeyScaler with the Thales nShield Connect hardware security module (HSM).

*\* Allenby Capital acts as Nomad and Broker to Tern plc*

## **Mirada plc\* (MIRA.L, 0.9p/£2.0m)**

### **Placing and loan conversion strengthens balance sheet (17.09.18)**

- Conditionally raised £3m at 1p/share with its largest shareholder, Kaptungs Ltd, and also entered into a £3m loan capitalisation with Kaptungs through the issue of 300m shares at 1p/share. This represents a 48% premium to the closing price on September 14th.
- The subscription and capitalisation are related party transactions due to Ernesto Tinajero (through his interest in Kaptungs) being a substantial shareholder in Mirada and his holding would increase to 87.2% post these transactions. Tinajero is also a member of a concert party that would have 89.0% of Mirada, assuming the transactions are approved.
- The funding is subject to a GM to be held on October 4th.

**Allenby Capital comment:** The proposed transactions would substantially strengthen Mirada's balance sheet as the company continues its transition from a capex to an opex subscriber-based SaaS model for its set top box

and looks to increase its customer base. This latter model provides the scope to recurring revenue streams and also expands its addressable market as it reduces customer set-up fees but it does have working capital requirements. Ernesto Tinajero has been a long term supporter of the business and also comes from the industry having previously been majority, Chairman and CEO of Group Cable TV SA de CV (Cablecom), Mexico's third largest operator, and a customer of Mirada. Cablecom was acquired Televisa and its izzi Telecom division is Mirada's largest customer.

*\* Allenby Capital acts as Nomad and Broker to Mirada plc*

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