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 22.10.18 (GFIN.L, CPX.L, CCT.L, NET.L)

Gfinity plc* (GFIN.L, 8.15p/£23.5m)

Proposed placing and trading update: further strong growth (22.10.18)

- Proposed placing and subscription to raise £6m at 8p/share from new and existing investors as well as directors. The funds will be used to build greater scale around the commercial team (£1.1m); develop its esports platform (£0.8m); further develop the UK Elite Series (£0.8m); invest in the marketing and growth of its 'Tribe' community (£0.8m); and general working capital (£2.3m).
- Results for FY18 (June) are expected towards the end of November. FY18 revenue was up c. 82% to £4.3m with growth from both managed services and Gfinity's owned and operated properties and included contributions from Formula 1 and Facebook, as well as existing clients. The results do not include any revenue from the sponsorship agreement signed with Domino's for the Elite Series.
- Operating results improved during FY18 with Adj. LBITDA reducing to £5.2m in H2 from £7.4m in H1 (FY17: £5.1m). Cash at year end was £3.7m and currently stands at around £2m (pre-placing).
- Gfinity is targeting EBITDA break-even in the next few years. Revenue growth is expected from both managed services (service fees and content revenue) and owned and operated properties. Opex is expected to stabilise £10m to £12m p.a. and the company is targeting a long-term gross margin of 30% to 40% and an Adj. EBITDA margin of 15% to 25%.

Allenby Capital comment: esports represents a large and rapidly expanding market and Gfinity is a proven operator in the space. It has close working relationships with a number of the key publishers and is now working with two of the largest sports rights holders (Formula 1 and The Premier League) as well as major brands. The agreement with F1 was expanded in April for the second season and Gfinity is the operator for the inaugural ePremier League tournament that will commence in January with the participation of all 20 Premier League clubs. Gfinity has also built its own successful tournament, the Elite Series, that is unique in its structure of providing amateur players with the opportunity to become professionals through the Challenger Series and subsequent draft. The fourth season starts this week and has Domino's as the presenting partner. The tournament can be viewed on Facebook that secured the exclusive global streaming rights in March. Gfinity has demonstrated that it can also licence the format with the successful Australian Elite Series.

** Allenby Capital acts as Nomad and joint Broker to Gfinity plc.*

CAP-XX plc* (CPX.L, 11.15p/£33.5m)
Finals: Positive outlook for licensing and own product sales (17.10.18)
[Note published]

Allenby Capital comment: FY18 results from CAP-XX, the leading supercapacitor designer and manufacturer, were in line June’s trading update with revenue +18% to A$4.9m and adj. LBITDA increasing A$0.4m to A$1.6m. There was a notable improvement in the top and bottom line during H2 and FY19 has started well with October’s TDK licence agreement. Management has reported total enquiries, if converted to orders, would amount to annualised revenue of $20m, including >$2m of design wins covering >70 projects (cylindrical and automotive; small IoT and Thinline; and the new 3V supercapacitors). The 3V product family, due for launch mid-2019, opens a potentially huge market as supercapacitors can address the shortcomings of Li-ion coin cell batteries. Licensing negotiations are ongoing with numerous parties for applications in multiple sectors. These are complex in nature and hence difficult to predict but the recent TDK agreement is encouraging. Year-end net cash of A$1.9m should benefit from the receipt of the A$1.6m R&D tax rebate in H1. Forecasts reflect a more conservative view on the timing of licences partly offset by further growth in own Product volumes.

** Allenby Capital acts as Nomad and Joint Broker to CAP-XX plc*
Allenby Capital's coverage on CAP-XX plc is available [here]

The Character Group plc* (CCT.L, 508p/£107.4m)
Investment extends European reach (18.10.18)

- Acquired a 55% stake in OVG-PROXY A/S, a Danish incorporated toy distributor based in Copenhagen. PROXY sources and secures exclusive rights to toy products and then markets and sells them to retailers in the Nordic region. CCT has been a supplier to Proxy for a number of years.
- The consideration of up to DKK27.5m (c. £3.3m) comprises an upfront cash payment of DKK2.5m (c. £0.3m) with further earnouts based on the EBIT performance for FY18, FY19 and FY20. Part of the deferred consideration will be satisfied through shares in CCT (150,000). The transaction is expected to be earnings' enhancing in FY19. The other 45% of PROXY is owned by PROXY's CEO and CFO.
- PROXY had revenue of DKK150.5m (c. £17.9m) in FY17 (December) and an adj. LBIT of DKK9.5m (c. £1.1m). The losses sustained were principally attributable for PROXY's now discontinued kitchen and household products division and significant adverse FX movements. Toys represented the bulk of revenue and that division has been growing and profitable.
- The investment will extend CCT's European reach and should provide a more compelling marketing/distribution proposition for toy companies and brand owners seeking UK and EU market access. It should also accelerate growth of CCT's non-UK sales of its own developed product ranges. PROXY will benefit from CCT's Far East infrastructure for sourcing and quality assurance and its in-house marketing and distribution capability.
- Forecast impact - FY19 (August) revenue increases to £125.1m from £117.1m; Adj. EBITDA to £15.8m (£14.9m); Adj. PBT to £13.5m (£12.8m) and Adj. EPS to 52.0p (50.5p). DPS remains unchanged at 27.0p. Fair value increases to 596p (from 580p) - a PER of 11.5x.

Allenby Capital comment: The investment offers a low-risk expansion strategy for CCT, secures the relationship with its current Nordic distributor and strengthens its service offering to toy companies and brands. The two companies also have a number of toy companies in common. The structure of the transaction is measured with a small upfront cash payment (CCT had net cash of £14.3m at H1) and a performance-related deferred consideration that includes some shares in CCT. As a result, the interests of the PROXY and CCT shareholders are aligned now and going forward. The investment follows September's positive trading update with a return to growth in H2 after the problems that beset the toy industry in 2017. CCT has benefited from its focus on price competitive products and not being aligned to any particular film franchises.

** Allenby Capital acts as joint Broker to The Character Group plc.*
Allenby Capital's coverage on The Character Group plc is available [here]

Netcall plc* (NET.L, 61p/£87.2m)
Prelims - Low-code investment programme (16.10.18)

- FY18 revenue +32% to £21.9m with MatsSoft, acquired in August 2017, contributing £5.2m (up 19% on a comparable business). The core Liberty business also returned to growth +3% to £16.7m. Within this, Liberty cloud revenue increased 30% to £1.4m. Recurring revenue represented 71% of the total.
- Adj. EBITDA increased 21% to £5.4m with the EBITDA margin falling 3ppt to 28%. Adj. EPS increased 5% to 2.04p. Net debt was £4.3m (FY17 net cash: £11.0m) following the acquisition (£11.7m) and dividends (£3.1m).
- Management has embarked on an increased investment programme in MatsSoft with £2m in FY19 and a further £2m in FY20 around staff and marketing in order to capitalise on the opportunity for Low-code. This will impact profitability for the next two years and will be funded through the more stable Loberty customer engagement platform.
- Netcall has secured its first MatsSoft sales into existing customer base but Low-code opens up a substantially larger market as organisations look to get applications up and running as quickly as possible.

Allenby Capital comment: Good performance at the top and bottom line with the initial contribution from MatsSoft. Low-code represents a substantial revenue opportunity but the investment in marketing and delivery capability will impact FY19 and FY20 performance with FY19 adj. EBITDA expected to drop to £4.5m before returning to £5.4m in FY20. The investment programme will also impact the dividend with guidance of a 25% payout ratio suggesting an FY19 DPS of 0.3p/share (FY18: 0.5p/share). This makes sense given the market opportunity but there needs to be ongoing evidence of commercial traction given the current PER rating of 49.4x FY19 and 37.7x FY20.

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