



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 04.03.19 (GFIN.L)

Gfinity plc* (GFIN.L, 5.25p/£19.2m)

Interims: Strong H1 performance (04.03.19)

- H1 revenue increased 143% to £4.4m and surpassed the FY18 total by 3% (£4.3m). Within this, Managed Services grew 104% to £3.2m and Owned Content by 387% to £1.2m. There was a £3.7m positive swing in gross profit to £0.5m reflecting a 39% GM in Managed Services (£1.3m) and a substantial reduction in Owned Content losses (£0.8m versus £3.2m). Adj. operating costs were up slightly on H2 FY18 at £4.9m and adj. EBITDA loss reduced 39% to £4.4m.
- Net cash at H1 was £6.4m with a cash outflow from operating activities (£2.8m) more than offset by October's £6m placing. H1 also benefited from a £1.6m positive movement in working capital and a substantial reduction in capex.
- **Managed Services.** During H1, Gfinity hosted a number of events including Halo and Forza events for Microsoft and the second and enlarged season of Formula 1 Esports Series. The relationships with EA, Formula 1 and Microsoft saw an 189% increase in the value of new assignments in H1. Post period end, Gfinity was appointed to host the Call of Duty World League Championship event in May and H2 will also see the inaugural ePremier League based on EA's FIFA 19 game.
- **Owned Content.** H1 saw Elite Series Season 4, the first with Domino's as Presenting Partner, following the multi-year partnership signed last July. Season 4 generated a record viewership of 13.5m and more than 40% of the audience came from the US. There were also >7m views of additional shoulder content. There was also Elite Series Australia Season 2, where Gfinity has a 30% stake. Gfinity continues to innovate in Elite and Season 4 included 2v2 play and a 'draft' for FIFA 19. Elite continues to represent an effective showcase for Gfinity's abilities and this is driving Managed Services engagements.
- **Market growth.** eSports continues to expand and the global market is expected to exceed \$1bn in 2019 with an audience of 450m (+15%) (Source: Newzoo). The industry continues to evolve with demand for entertainment-based content that tells the stories of players and games and there is also a blurring of the distinction between eSports professionals and streamers. The latter is driving demand for new entertainment led competition formats. These drivers play to Gfinity's strengths. More consumer brands are looking to tap into this demographic.

Allenby Capital comment: Strong H1 performance with a substantial growth in Managed Services and Owned Content revenue and improvement in gross profit resulting in a significant reduction in operating losses. In May, Garry Cook was appointed Executive Chairman, Graham Wallace as Global Chief Operating Officer in July and

John Clarke joined the board in September. The new team has placed greater emphasis on the Managed Services business; improved the profitability of the Elite Series; and developed relationships with key partners. On the basis on consensus forecasts, revenue is expected to dip in H2 as Formula 1 is weighted to H1 and the revenue associated with the inaugural ePremier is likely to be relatively limited (FY19 consensus revenue: £7.7m). As a result, H2 losses are expected to increase (FY19 consensus adj. LBITDA: £9.1m). The board reiterated its target of EBITDA breakeven by 2021, with a gross margin of 30% to 40% and an EBITDA margin between 15% and 25%.

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

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David Johnson is the author of this research recommendation. David Johnson is employed by Allenby Capital Limited as an Equity Analyst.

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