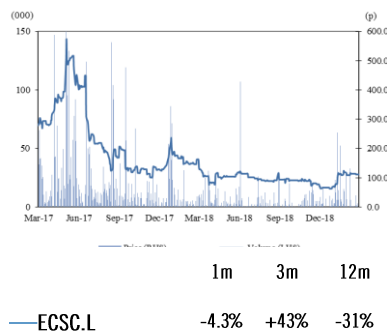


CORPORATE

Current price	112.5p
Sector	TMT
Code	ECSC.L
Listing	AIM

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

Market cap. (£m)	10.2
Shares in issue (m)	9.1
52 weeks	High Low
	167.5p 87.5p
Financial year end	31 December

Source: Company Data, Allenby Capital

Key Shareholders

Ian Mann	24.8%
Unicorn Asset Management	15.9%
Ravinder Bahra	11.8%
Phil Mclear	5.2%
Malcolm Hoare	3.3%
Artemis Inv. Management	3.2%
Lucy Sharp	2.7%

Source: Argus Vickers

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ECSC GROUP PLC (ECSC.L)

*Better utilisation drives gross margin*

FY18 performance in line with forecast and January's pre-close statement for ECSC, the UK's longest running full service cyber security provider (Consultancy, Managed Services and Incident Response). There was 35% organic revenue growth to £5.4m as ECSC continues to take market share while adj. EBITDA losses reduced £2.3m to £0.6m (ACLE: £0.7m) - ECSC returned to profit in Q4. This substantial reduction in losses reflected the combination of increased revenue, higher gross margin from increased capacity utilisation and 2018's cost control programme. The Consulting division saw a good mix of new and repeat business and some of these clients fed into new Managed Services business. The new Partner Programme, launched in Q4, provides additional routes to market. The outlook is positive as cyber security remains high on the corporate agenda and forecasts for FY19 remain unchanged – indicating a return to sustained profit. Although the share price has moved up 41% since [our initiation](#) in January, it still fails to reflect ECSC's current operations or the growth potential and we maintain our fair value of 170p/share, equivalent to an FY20 EV/Sales of 1.8x, an EV/EBITDA of 13.5x.

- **Positive outlook.** Cyber security demand continues to expand rapidly given the proliferation of attacks and increasing levels of regulation. There is also a growing realisation that outsourcing represents the only cost-effective option for all but the largest organisations. ECSC can offer 24x7x365 coverage through its two Security Operation Centres backed by its proprietary Kepler AI technology. This integrated and comprehensive offering coupled with ECSC's substantial experience represents a key differentiator against other companies selling into the mid-market. The Partner Programme will allow VARs to sell some ECSC services direct and refer more complex projects to ECSC.
- **FY18 performance.** Consulting revenue +27% to £3.1m. Of this, 67% constituted repeat business and there were 95 new customers. Cyber security testing is the largest component of this and represents a gateway for upselling Consulting and also Managed Services. The latter division saw 56% revenue growth (recurring +46%) to £1.7m and the Order Book stood at £2.5m. Managed Services gross margin increased significantly (53% vs 33%) with increased capacity utilisation and there is scope for further expansion. Better utilisation of Consulting resource resulted in GM hitting a sustainable 57% (FY17: 50%). As a result, group gross profit increased 67% to £2.7m. Management reduced the operating cost base by 23% to £4.2m and adj. operating loss reduced £2.2m to £1.0m. Year-end cash was £650k.

EXHIBIT 1: SUMMARY OF FINANCIALS

Year End: December (£000)	2017A	2018A	2019E	2020E
REVENUE	4,115	5,382	6,461	7,736
ADJUSTED EBITDA	(2,915)	(635)	241	1,020
ADJUSTED PBT	(3,163)	(1,026)	(159)	660
ADJUSTED EPS (p)	(34.2)	(11.4)	(1.1)	7.2
NET CASH	1,536	650	1,016	1,669
EV/REVENUE (x)	2.2	1.8	1.4	1.1
EV/EBITDA (x)	NEG	NEG	38.3	8.4
PER (x)	NEG	NEG	NEG	15.6

Source: Company; Allenby Capital. \*Adjusted PBT, EBITDA and EPS exclude one-off charges and share based charges

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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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