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 18.03.19 (ECSC.L, FBT.L, STAR.L, MWE.L)

ECSC Group plc* (ECSC.L, 110p/£10.0m)
Finals: Better utilisation drives gross margin (13.03.19)
Note published

Allenby Capital comment: 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.

** Allenby Capital acts as Nomad and Broker to ECSC Group plc.*

Forbidden Technologies plc* (FBT.L, 7.25p/£21.0m)
Finals: Growth in North America (12.03.19)

- Revenue +15% to £0.9m, invoiced sales +34% to £1.0m, deferred revenue +57% to £230k and the contracted order book +40% to £0.3m. Operational spend, including capex, increased 11.3% to £3.0m and EBITDA loss increased 8.1% to £2.0m. Year-end cash was £5.0m (FY17: £1.8m) following June's oversubscribed £5.4m (net) placing.
- In line with the company's strategy, recurring infrastructure sales increased to 53% of invoice sales (FY17: 48%) and North America has doubled to represent 25% of total invoiced sales. Contract wins include a six-figure deal with TownNews and a contract with Peloton, the global fitness company.
- Post period end, Forbidden signed an expansion to its IMG Media to rapidly clip, edit and publish live sports video content. This represented FBT's first multi-year agreement with IMG. Forbidden has also established the Blackbird Production Partnership for post-production houses to resell Blackbird.

- During the year, Forbidden started to transition Blackbird over to JavaScript. This will enable access and use of Blackbird on any device and makes it easier to for adoption by OEMs. Forbidden has also invested in its commercial team, particularly in North America.

Allenby Capital comment: Signs of progress against the strategy set out by Ian McDonagh, who joined as CEO in 2017. North America is the largest and most developed addressable market for Blackbird, Forbidden's patented cloud video platform that enables the rapid editing and distribution of video. The contracts with TownNews and IMG represent strong endorsements of Blackbird as distributing content quickly and efficiently is central to their businesses. Forbidden continues to move the product set forward and the move to JavaScript makes it easier to integrate Blackbird into OEM software products. This will provide many more routes to market. Commercialisation is still at an early stage but following last June's placing, the company is well capitalised.

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

Starcom plc* (STAR.L, 1.3p/£2.8m)
Finals: Positive newsflow for 2019 (18.03.19)
Note published

Allenby Capital comment: Starcom, the developer of wireless solutions for the remote tracking, monitoring and protection of assets and people, has announced FY results in line with January's trading update. A combination of increased revenue and higher gross margin resulted in a $0.2m reduction in adj. EBITDA loss to $8k and the company was breakeven in H2. 2018 saw progress commercially and in the product set and newsflow post period end has been encouraging with contracts for the existing products (Helios, Kylos and Tetis) and the forthcoming Watchlock Lokie has generated considerable levels of interest. As a result, further higher margin revenue growth should result in Starcom moving into sustainable adj. EBITDA profit in FY19. The balance sheet remains tight, however, although the situation has improved somewhat with the receipt part of the funds from the North Africa contract announced last November.

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

MTI Wireless Edge Ltd* (MWE.L, 21p/£11.5m)
Finals: Diversified growth opportunities (13.03.19)
Note published

Allenby Capital comment: Final results from MTI Wireless Edge, the technology group focused on communication and radio frequency solutions, were in line with expectations with reported revenue growth of 35% to $35.5m and operating profit +82% to $2.9m. FY18 was dominated by the merger with MTI Computers Software and Services (1982) (MTIC) and revenue and operating profit growth for the combined business was 2% and 21% respectively on a like-for-like basis. The MTIC merger has brought numerous benefits – increasing revenue by a third, broadening the product set, diversifying the business and eliminating secondary listing fees and some cost savings were evident in Q4. The outlook is positive across all four divisions with scope for operating margin expansion as revenue grows. FY19 forecasts unchanged. Our fair value of 38p/share, equivalent to an FY19 PER of 14.6x falling to 12.7x in FY20, represents a 90% upside to the current price. The current price is also offering a yield of 7.5% in FY19.

** Allenby Capital acts as Nomad and Joint Broker to MTI Wireless Edge Ltd.*

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The changes initiated by MiFID II has had far reaching implications on both the quantity and continued availability of research on smaller cap companies, including those within the TMT sector. We would therefore remind interested companies that Allenby Capital can offer a "paid for" research service for those corporates that wish to retain an alternative and authoritative source of research that can be accessed freely by the entire investment community. If you would like further information on this service please contact d.johnson@allenbycapital.com.

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Research recommendation disclosure

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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