



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 23.04.19 (ECSC.L, MPAY.L, STAR.L, MBT.L, CPX.L)**

### **ECSC Group plc\* (ECSC.L, 92.5p/£8.4m)**

#### **Contract wins: Further Managed Service success (16.04.19)**

- Three further new Managed Service contract wins with two major retailers and a technology services provider. The contracts will generate more than £400k in revenue over three years and increase the Managed Services order book by >15%. Two of the clients were existing Consultancy clients and the third an existing Managed Services client.
- The largest contract is for 24x7x365 cyber security monitoring and breach detection services and utilises ECSC's proprietary Kepler Artificial Intelligence technology, managed from its Security Operation Centres (SOC) in the UK and Australia. The second is for breach detection using its Titania Web Application Firewall (WAF) technology that blocks hacking attacks that pass through traditional firewalls. The third is for expertise and configuration management for a WAF service that is provided by the client's cloud hosting provider.
- No change to forecasts or 170p/share fair value that were maintained on the back of March's finals [here](#).

**Allenby Capital comment:** Contract wins provide both increased revenue visibility and will help to boost gross margins as ECSC's SOC capacity is utilised. The contracts also demonstrate the success of the company in upselling its Consultancy clients with Managed Services and the differentiating IP that ECSC has developed. As previously noted, there is a growing realisation that outsourcing represents the only cost-effective cyber security option for all but the largest organisations. ECSC can offer 24x7x365 coverage through its two SOCs backed by its proprietary IP. This integrated and comprehensive offering coupled with ECSC's substantial experience represents a key differentiator against other companies selling into the mid-market. Our fair value of 170p/share is equivalent to an FY20 EV/Sales of 1.8x and EV/EBITDA of 13.5x.

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

### **Mi-Pay Group plc\* (MPAY.L, 11.75p/£5.4m)**

#### **Contract extension: Largest customer extended (18.04.19)**

- Incremental two-year contract extension with 3 Ireland, Mi-Pay's largest client, to March 2022 on materially the same terms. The client represented c. 31% of FY18 revenue (c. £1m).

- The extension follows Mi-Pay's successful integration with 3 Ireland's new infrastructure in August 2018 that makes Mi-Pay the core digital payment partner and the on-boarding of the pre-pay customers acquired through the O2 Ireland merger. Mi-Pay expects further growth in this account as 3 Ireland's customers naturally migrate to digital payment channels.
- FY18 results are due tomorrow, Wednesday 24th April.
- No change to [forecasts](#) or 17.8p/share FV.

**Allenby Capital comment:** Mi-Pay is an established provider of digital payment and payment fraud managed services to Tier 1 mobile operators and digital content vendors. It has sector-leading levels of payment success and fraud identification and management and indemnifies its customers against fraud. The contract extension with 3 Ireland is encouraging and follows on from February's five-year extension with another significant customer that accounted for c. 12% of group revenue (c. £0.4m) and demonstrates the value that Mi-Pay brings to its customers in increasing revenue, reducing customer churn, protecting against fraud, securing customer data and future proofing their digital strategies. The contract extensions also increase revenue visibility as the company moves into sustainable profitability.

*\* Allenby Capital acts as Nomad and Broker to Mi-Pay Group plc.*

### **Starcom plc\* (STAR.L, 1.275p/£3.7m)**

#### **Placing (18.04.19)**

- Placing of £0.6m at 1.25p/share from new and existing shareholders. The proceeds will be used for working capital for Starcom's product set, including the recently announced Lokies padlock, as well as for increased sales and marketing.
- In addition, the Directors are proposing receive shares and/or options in lieu of unpaid director salaries and future fees as they fall. The details are yet to be finalised and would be subject to shareholder approval.
- Proposed appointment of Martin Blair as a Non Executive Director. He is currently a director of Kape plc, Cakebox Holdings plc and Green Biologics.
- No change to [forecasts](#).

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

### **Mobile Tornado Group plc\* (MBT.L, 5.25p/£18.3m)**

#### **Finals: Success of new Capex model (17.04.19)**

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

**Allenby Capital comment:** Finals from Mobile Tornado (MBT.L), a leading global provider of Push To Talk over Cellular (PoC) solutions, were in line with forecasts and February's trading update with revenue growth (+17.5%) and good cost control resulting in a 49% reduction in adj. EBITDA loss to £0.9m. There was growth both year on year but also H2 over H1 with the success of the new Capex model that bundles hardware and perpetual licences. Recurring revenue was essentially flat. MBT has developed an enterprise-grade platform with a broad and deep set of instant communication applications with competitive advantages in availability, performance, capacity, functionality and price. Technical improvements have expanded the addressable market and management reports numerous engagements with high value Public Safety and Government Agency organisations for the first time as well as new industry verticals that are investigating PoC for worker efficiency applications. The timing associated with these larger deployments are difficult to predict and hence these sit outside our current forecasts. These point to a move into sustained profitability in FY19.

\* Allenby Capital acts as Nomad and Broker to Mobile Tornado Group plc.

## **CAP-XX Ltd\* (CPX.L, 4.35p/£14.1m)**

### **Trading update: Progress on numerous fronts (16.04.19)**

- Appointment of Marco Ranalli to lead CPX's European business strategy for the automotive industry as well as the Internet of Things (IoT). Ranalli was most recently Global Director of Gentherm's Battery System Business Unit and has more than 20 years' experience in the automotive sector. CPX reports success in securing orders for the supply of supercapacitors to Tier-1 automotive component suppliers.
- Management reports continued record interest in its expanded range of supercapacitors around Automotive (non power train), IoT (wireless, track and trace applications) and Smart Meter industries. Some slowing of demand in Wearables and the time to market for developing large cells for vehicle motive power and storage applications has slowed. As a result, CPX has focused on small cell automotive applications.
- Ongoing discussions with a small group of potential licensees. Timing associated with such agreements remain difficult to predict but management believes additional progress will be made in 2019. CPX is also in the process of litigation with two US counterparties around IP infringement.
- No change to [forecasts](#).

**Allenby Capital comment:** Progress on a number of fronts although the negotiating cycle around additional licence agreements to supplement those with Murata, AVG and TDK remains a frustration. The use of small cell supercapacitors for automotive and IoT applications represent very large addressable markets and the launch of the 3V supercapacitor later this year opens up a wide array of new applications. The company remains well capitalised to pursue these different growth avenues as well as funding its IP infringement litigation.

\* Allenby Capital acts as Nomad and Joint Broker to CAP-XX plc.

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### **Allenby Capital "paid for" research services**

*The changes initiated by MiFID II have 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](mailto:d.johnson@allenbycapital.com).*

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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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