

## Corporate

 Current price **72.50p**

 Sector **TMT**

 Code **ECSC.L**

 AIM **AIM**

### Share Performance


 ECSC.L **+3.6%** **-12.1%** **-21.6%**

Source: Thomson Reuters, Allenby Capital

### Share Data

 Market Cap (£m) **6.6**

 Shares in issue (m) **9.1**

52 weeks High Low

**125** **62.5**

 Financial year end **31 December**

Source: Company Data, Allenby Capital

### Key Shareholders

 Ian Mann **24.7%**

 Unicorn Asset Management **15.9%**

 Ravinder Bahra **11.7%**

 Phil Mclear **5.2%**

 Malcom Hoare **3.3%**

Source: Company Data, Allenby Capital

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## ECSC Group plc (ECSC.L)

### Managed Services boosts margin; positive start to H2

Interim results from ECSC Group, the UK's longest running full service cyber security provider, demonstrated further growth in the higher margin Managed Services division but a decline in Consulting. As a result, whilst revenue was flat at £2.6m, gross profit increased 18% to £1.4m and adj. EBITDA loss reduced £0.3m to £0.2m. The outlook is more positive. Management reports a return to growth in Consulting in H2 with the division benefiting from its new partner programme. July saw record sales (£618k), record consulting bookings to-date in Q3, a strong Q4 outlook and ECSC has returned to profit. Consulting projects tend to start small and also represent the key source for Managed Services prospects. Whilst the start to H2 is encouraging and FY19 forecasts remain unchanged, we reduce our revenue growth assumptions for FY20 to 20% (from 26%) to reflect the wider UK outlook. This results in EBITDA reducing £0.3m to £0.7m. Fair value moves to 155p/share (from 170p), equivalent to an FY20 EV/Sales of 1.8x.

- Managed Services** – H1 revenue increased 63% to £1.2m and the order book by £0.2m to £2.7m. The increased utilisation of ECSC's two SOC's resulted in gross margin increasing significantly to 69% (H1 FY18: 41%, FY18: 53%). The SOC's are backed by ECSC's continued investment in its proprietary Kepler AI software that sifts through huge volumes of data logs to identify, assess and alert critical security events to its SOC teams for analysis and reporting to clients.
- Consulting** – Revenue fell 23% to £1.2m and gross margin to 47% (H1 FY18: 57%) reflecting lower utilisation rates although billing rates have remained robust. Consulting repeat revenue remained stable at 77% (H1 FY18: 78%) and 59 new clients were secured in H1, an increase of 18% on FY18. The new Partner Programme is developing well with 66 partners in place, generating more than 50 sales opportunities, 17% of new client wins in H1 and 4% of Consulting revenue. Cyber security testing represents the majority of Consulting revenue and is typically the initial engagement with ECSC. Through its 'land and expand' strategy, additional services are provided and many mid-market companies ultimately conclude outsourcing represents the only cost-effective option.
- Outlook** – Cyber security remains an attractive growth market given the proliferation of attacks and increasing levels of regulation. H1 was notable for the first fines by the UK's Information Commissioners' Office under the new GDPR regulations (British Airways at £183m and Marriott International at £99m). ECSC has developed an integrated and comprehensive offering coupled with substantial experience that sets it apart from other companies selling into the mid-market. We expect ECSC to be profitable in H2 and continue to take market share in FY20, albeit at a slower revenue growth rate.

### Year End: 31 December

(£'000)	2017A	2018A	2019E	2020E (New)	2020E (Old)
REVENUE	3,998	5,382	6,140	7,357	7,736
ADJ. EBITDA	(2,939)	(635)	216	743	1,020
ADJ. PBT	(3,187)	(1,026)	(414)	163	660
ADJ. EPS (p)	(34.4)	(10.5)	(3.8)	2.2	7.2
CASH	1,531	610	427	690	1,063
EV/EBITDA (x)	NEG	NEG	28.6	8.0	
PER (x)	NEG	NEG	NEG	33.1	

Allenby Capital acts as Nomad &amp; Broker to ECSC Group plc (ECSC.L).

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