

Corporate

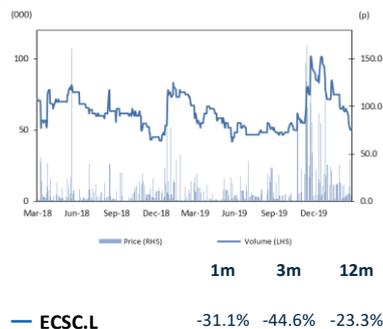
 Current price **77.5p**

 Sector **TMT**

 Code **ECSC.L**

 AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **7.1**

 Shares in issue (m) **9.1**

 52 weeks High **152.5** Low **62.5**

 Financial year end **31 December**

Source: Company Data, Allenby Capital

Key Shareholders

 Ian Mann (CEO) **24.8%**

 Unicorn AIM VCT **15.9%**

 Ravinder Bahra **11.7%**

 Phil Mclear **5.2%**

 Malcolm Hoare **3.3%**

Source: Company Data, Allenby Capital

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ECSC Group plc (ECSC.L)

Return to profit; good Q1 performance

Finals from ECSC Group, the UK's longest running full service cyber security provider, were in line with expectation and January's pre-close update. FY19 revenue of c. £5.9m (+10%) indicates record H2 revenue of £3.3m, up 20% on H2 FY18 and 24% on H1 FY19. Managed Services revenue increased 48% to £2.6m and its higher gross margin benefited group GM (+600bps to 57%). ECSC secured 118 new Consulting Service clients (+24%) both directly and via its new partner programme that has significantly expanded ECSC's sales reach. Consulting clients also represent a core source for Managed Services prospects. FY20 had started well with Managed Service and Consulting contract wins and Q1 revenue +9%. The emergence of COVID-19 has increased the need to cyber security as more organisations move to remote and cloud-based working but it will impact on-site Consulting activity. ECSC can continue to provide its full range of services but we believe it is prudent to suspend forecasts until the situation becomes clearer.

- FY19 revenue performance** – Revenue growth of 9.7% to £5.9m with Managed Services +48.1% to £2.6m (including £0.6m of Incident Response - FY18: £0.2m) and Consulting down 6.4% to £2.9m although H2 saw 10% growth. 118 new clients were secured although 73% of Consulting revenue still came from existing clients (FY18: 78%). The Partner Programme comprised c. 100 resellers by year end and contributed 17% of new clients. The Managed Services order book (new wins and renewals) increased £0.1m to £2.6m.
- Gross margin expands** - The higher utilisation of ECSC's UK and Australian SOCs resulted in Managed Services GM increasing to 68% (FY18: 53%) and group GM to 57% (FY18: 51%). Consulting GM fell 300bps to 54% due to lower revenue and this should recover. There is scope for further group GM expansion as ECSC combines its Kepler AI software with an experienced cyber security team. In spite of increased investment in R&D (13% of revenue; FY18: 8%), there was a £0.6m positive swing in Adj. EBITDA to breakeven. Cash of £0.35m (FY18: £0.6m) plus an £0.5m invoice discounting facility.
- Outlook** – FY20 had started well with the announcement of two major Managed Service contracts with a national charity and a high street retailer earlier this month. The former is the first to originate from ECSC's new partner programme. The contracts are worth >£590k over a three-year period and represent >20% of the current managed services order book. In January, ECSC announced five contracts including renewals, extensions and wins across a range of sectors worth >£750k. Overall Q1 revenue grew c. 9% with Consulting up >15% YoY. The shift to remote and cloud-based working necessitated by COVID-19 has increased the number of cybersecurity threats and will drive demand. Business processes and sales cycles will inevitably be impacted, however.

Year End: December

| (£'000) | 2017A | 2018A | 2019A | 2020E | 2021E |
|---------------|---------|---------|-------|---------------------|-------|
| REVENUE | 3,998 | 5,382 | 5,905 | | |
| ADJ. EBITDA | (2,939) | (635) | 1 | | |
| ADJ. PBT | (3,187) | (1,026) | (639) | | |
| ADJ. EPS (p) | (34.4) | (10.5) | (6.8) | Under review | |
| CASH | 1,531 | 610 | 351 | | |
| EV/EBITDA (x) | NEG | NEG | >100 | | |
| PER (x) | NEG | NEG | NEG | | |

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

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