



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.

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Allenby Capital TMT Update - 26.05.20 (CPX.L, GFIN.L, MWE.L, NWT.L, MIRA.L)

CAP-XX Ltd* (CPX.L, 3.1p/£10.1m)

Trading update: FY20 impacted by CV-19, Murata project delayed (19.05.20)

- FY20 (June) revenue expected to grow 15% to c. \$3.7m (ACLe: A\$4.5m). The shortfall is a function of a slowdown in H2 in shipments of supercapacitors as some customers delayed delivery dates and some disruption to CAP-XX's own manufacturing output due to COVID-19. The softness seems to be customer rather than industry specific. Management had also expected some additional licence revenue (including from Ioxus). A\$3.7m implies H2 revenue of A\$1.9m (H2 FY19: A\$1.6m; H1 FY20: A\$1.8m).
- Order book for the current CPX products (i.e. not the new Murata lines) more than double the level at the same point last year. Demand across multiple sectors: medical, security and telecoms.
- **Ioxus patent infringement:** CPX remains confident of winning but no longer expects any significant financial return following the sale of Ioxus assets. Management believes a successful ruling will help in other patent infringement litigation/licensing and demonstrates that CPX will defend its IP.
- **Murata project:** first shipment of the production assets acquired from Murata is being installed in the new Sydney facility. Second and third shipments have left Murata and are in transit. One is on the water, the final is at Kobe port and is awaiting a ship. Due to COVID-19 disruption to shipping schedules, there is likely to be a delay of up to three months to the project. This also reflects the restrictions on the movement of people in/out of Australia/Japan. CPX has set up remote engineering support around the installation and commissioning of the former Murata production line.
- CPX has started sales of Murata's outstanding finished stock that was acquired as part of the transaction. Management reports good engagement with Murata customers. These are reporting varying levels of stock and hence some are pushing out delivery times.
- Adj. EBITDA loss expected to be c. A\$2.0m (FY19: loss A\$1.6m, ACLe: loss A\$1.4m). This reflects the lower than expected revenue and higher legal costs from the Ioxus patent infringement case. Cash of A\$4.4m (May 8th) and management expects to receive an R&D tax payment of A\$3.3m in Q4. FY20 year end cash likely to be c. A\$2.5m (ACLe: A\$2.1m). This reflects the slippage in the Murata project and the delayed spend will fall into FY21. CPX remains confident that it has sufficient funds to integrate the ex-Murata customers and manufacturing assets.
- Forecasts withdrawn.

Allenby Capital comment: The three-month delay to the project to relocate and recommission the Murata manufacturing assets acquired at the end of last year will not come as a huge surprise given the disruption caused to international travel by COVID-19. Although the transport of goods has not been restricted, the volume of available shipping has been

significantly reduced. There have also been challenges in securing other materials for the fit out of the new facility in Sydney and management has had to work closely with the equipment manufacturers and Murata in order to develop remote engineering support. That said, the asset purchase remains a unique opportunity to transform CAP-XX's profitability by increasing revenue and gross margin at the product level for a minimal capital outlay. COVID-19 has also impacted product sales in Q4 but the outlook for supercapacitors remains positive across multiple sectors.

** Allenby Capital acts as Nomad and Broker to CAP-XX Ltd.*

Gfinity plc* (GFIN.L, 1.675p/£12.0m)

Contract win: Multi-year agreement with Formula 1 (19.05.20)

- Extended and expanded its relationship with F1 to deliver the main elements of the F1 Esports Series in 2020 and 2021, and the 2022 qualifying events. This includes Challenger Series qualifying events, Pro Draft live shows and the Pro Series. In addition, the previously announced F1 Esports Virtual Grand Prix Series has been extended to June of this year.
- Gfinity will deliver a dedicated account management team responsible for the delivery of all elements of the programme; a full league operations team responsible for writing all rules and governing the drivers participating in the tournament; and provide the use of 'Race Control', Gfinity's proprietary in-race adjudication system. The Gfinity Arena in London will also be the main venue for live broadcasts.
- The Virtual Grand Prix Series has replaced each live F1 Grand Prix that has been postponed. The first race, the Virtual Bahrain Grand Prix took place on Sunday 22 March 2020, with four subsequent Virtual Grand Prix in Vietnam, China, the Netherlands and Spain, and three F1 Esports Challenge Driver events. Audience numbers across multiple channels have remained good.
- Separately (26/05/20), announced the creation of Gfinity Digital Media and the launch of a new ecommerce platform ('Stealth Optional, Purchase Mandatory') and Gfinity Plus, a web-based rewards programme. Gfinity Digital Media has three direct revenue streams: web site takeovers and programmatic advertising; e-commerce; and content creation and community build projects. The division will be headed by Tala Musa, who is responsible for Gfinity's web and social channels.
- Forecasts currently under review.

Allenby Capital comment: The largest contract in Gfinity's history, the extension and expansion of the relationship with F1 in a multi-year contract represents an important endorsement of the service that Gfinity has been providing since 2017 but also F1's commitment to esports. The events run by Gfinity, before and during the current lockdown, have drawn a growing and significantly younger audience than F1's traditional output. F1 recognises that it needs to engage with this younger demographic if it is to remain relevant going forward. This is an issue common to many other sports rights holders, particularly in the current absence of live events, and there is increased investment in esports. Although some of this enthusiasm will likely moderate once live events resume, we believe esports will continue to run in parallel and complement traditional sports. It is also notable that non-endemic brands and broadcasters are also embracing the genre. Gfinity is well positioned to capitalise on the opportunity. The launch of the other initiatives demonstrates Gfinity's strategy of revenue diversification and driving value from what it owns and creates.

** Allenby Capital acts as Nomad and Broker to Gfinity plc.*

MTI Wireless Edge Ltd* (MWE.L, 38.5p/£33.8m)

Expansion in China market (21.05.20)

- Subsidiary Mottech Water Solutions is to acquire its JV partner's 40% stake in Mottech China that established in 2017. As a result, Mottech China will become a fully owned subsidiary. China is Mottech's fastest growing market with the

JV targeting municipalities and large-scale agricultural organisations that are seeking to manage their water resources and adapt to climate change.

- MTI was already consolidating 100% of the results of Mottech China and hence the acquisition is not expected to have a material impact.
- No change to [forecasts](#).

Allenby Capital comment: China represents a major growth opportunity for MTI's Mottech division. It is also notable that China is emerging from the CV-19 pandemic as evidenced by the contracts secured at the end of April for delivery this year.

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

Newmark Security plc* (NWT.L, 1.05p/£4.9m)

FY trading update: Further progress in Grosvenor; signs of improvement at Safetell (20.05.20)

- H2 FY20 (April) trading broadly in line with management expectation with the company only experiencing a CV-19 related slowdown from the beginning of April. The slowdown was experienced more in the UK than its US operations. As a result, FY20 revenue is expected to be marginally lower than FY19 (£19.6m). No view yet on the impact of CV-19 on operating profit.
- **Grosvenor** continued with strong growth in Human Capital Management (HCM) and steady progression in Access Control. There was further growth in its US HCM revenue and it launched the GT Clocks website for the US market. Legacy Access Control sales remained stable while Janus C4, its latest platform, continued to gain traction. In February, Ultimate Software, one of Grosvenor's US customers, announced a merger with Kronos Inc, that manufactures its own timeclock hardware. As a result, management anticipates that its GT-10 will be replaced over time. Discussions with other major US-based HCM providers are ongoing.
- **Safetell** responded favourably to the newly launched product lines following its strategic review and new customers and projects were secured. The momentum in revenue was impacted by CV-19 although there was increased demand in the supply and installation of hygiene screens and night-pay hatches that enable retail transactions that conform to social distancing rules.

Allenby Capital comment: Further progress in the Grosvenor division and there were signs of improvement at Safetell before the onset of the CV-19 restrictions with a number of projects being placed on hold. Once lockdown restrictions are reduced, there is good growth potential around Newmark's product set that include contactless HCM and advanced door portals.

** Allenby Capital acts as Nomad and Broker to Newmark Security plc.*

Mirada plc* (MIRA.L, 95.0p/£8.5m)

Loan extension (21.05.20)

- Extension to the term of its revolving credit facility for up to €1.3m by 12 months and now expires 30 November 2021 although it retains the option to repay earlier. Currently €1.1m is drawn.
- The facility is provided by Leasa Spain, which is owned by Ernesto Luis Tinajero Flores (Mr Tinajero). Mr Tinajero, through his indirect holding in Kaptungs, has an 87.2% holding in Mirada.
- Forecasts are currently under review.

** Allenby Capital acts as Nomad and Broker to Mirada plc.*

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