



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.*

## **Allenby Capital TMT Update - 01.06.20 (ECSC.L)**

### **ECSC Group plc\* (ECSC.L, 70.5p/£7.0m)**

#### **New Managed Service launch and trading update (27.05.20)**

- Launch of the Nebula Cloud cyber security breach detection service. This takes ECSC's existing 24/7/365 managed service, that uses ECSC's proprietary Kepler AI technology, and introduces cloud-based service options. This increases ECSC's addressable market as it will offer a lower cost of entry and is designed for the wider reseller base, initially through its existing ECSC Partner Programme but also through the Distribution Channel later this year.
- Nebula Cloud enables users to collect, store, and use Artificial Intelligence to analyse IT system logs and generate 24/7 alerts to potential cyber security breaches. This system, when combined with the ECSC mature Security Operations Centres, expert management, and incident response gives a fully functioning Security Orchestration, Automation and Response (SOAR) service. The service will be made available in three variants.
- Q1 trading update: There has been no reduction in expected Managed Services recurring revenue and the order book has grown to £2.7m (FY19: £2.6m) through new wins and contract renewals. 43 new clients have been secured so far this year. Reduction in Consulting bookings since the start of April. Management anticipated this slowdown and has taken various actions, including making use of the UK and Australian government employment support programmes.
- Given the reduced revenue, management has been focused on reducing costs and ECSC was break even on an adj. EBITDA basis. Following April's placing (£0.5m) and short-term UK government CV-19 related delayed tax payments (£0.5m), cash as at 22nd May was £1.2m. The bank facility of £0.5m remains unused.
- ECSC's AGM is scheduled for June 30th.
- Forecasts are currently under review.

**Allenby Capital comment:** Managed Services provides ECSC with considerably greater revenue visibility and gross margin progression as the capacity at its UK and Australian security operations centres (SOCs) is utilised. The company has also been successful in building up its Partner Programme in order to expand its sales and marketing reach. The majority of partner sales have been for Consulting Services and the Nebula Cloud service should facilitate indirect Managed Services sales. The cloud model also expands ECSC's addressable market as there is a lower upfront cost and ongoing subscriptions are also set at lower price points than ECSC's traditional Managed Service offering. ECSC undertook early cost reduction measures in the face of CV-19 and successfully returned to a break even position in April, in spite of lower Consulting revenue. It also strengthened its balance sheet and is taking advantage of government support measures. Cyber security remains a core area of IT spend and ECSC is well positioned to capitalise.

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

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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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