



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 - 22.06.20 - BIRD.L, BBSN.L, CML.L, ECK.L**

### **Blackbird plc\* (BIRD.L, 15.0p/£50.4m)**

#### **Contract wins: Increased esports penetration (17.06.20 & 22.06.20)**

- Riot Games has selected Blackbird's eponymous cloud-based editor for remote fast turnaround video production.
- Riot is a leading developer of video games but also runs a number of major esports tournament, particularly around its League of Legends, the most played PC game globally. Riot's video production team will use Blackbird remotely to frame-accurately edit video content from its live streamed esports tournament and events. Once created, this content will be published to Riot's social channels including Twitter, Facebook, YouTube and Twitch.
- Separately (22.06.20), VENN (Video game Entertainment and News Network), a new 24/7 TV network targeting the gaming, pop culture and esports audiences, will use Blackbird for ultra-fast and efficient remote video production delivered to its network and social channels (including Twitter, Facebook, YouTube and Twitch). The three-year deal was brokered by Blackbird's new US systems integrator partner, ASG.
- VENN, announced in September 2019 having raised \$17m in seed funding from a variety of games and esports funds and executives, was created by two experienced video games/esports executives and will blend video games and esports content with other forms of popular culture, such as reality shows, documentaries and game shows.
- No commercial terms were disclosed.

**Allenby Capital comment:** Further good contract newsflow. Blackbird has already had success in the esports market, having secured Gfinity (GFIN.L) as a customer a number of years ago. Blackbird is able to deliver high quality content rapidly to in spite of the current need for remote working. The contract with Riot Games offers considerable upside potential as Riot continues to invest in its esports offering. It should also be noted that Riot Games is a subsidiary of Tencent, the Chinese multinational conglomerate and the largest games publisher in the world.

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

### **Brave Bison Group plc\* (BBSN.L, 1.375p/£8.4m)**

#### **AGM update and successful influencer campaign (17.06.20 & 22.06.20)**

- Management provided a brief update at last week's AGM. In line with other digital businesses, BBSN has seen a reduction in advertising rates (CPM) across all social platforms during the pandemic although there has been a uptick in content consumption.

- The JAPAC region has also seen a softening since the beginning of the year due to CV-19 but BBSN continues to work with new and existing clients on branded content and influencer marketing. BBSN continues to review its overheads in line with performance and there have been significant reductions in discretionary spending, lease and staff costs. As such, the business is leaner and well placed for the expected recovery in H2 and in the run up to the delayed Olympics.
- Management will continue to review acquisitions as they believe that the current market turmoil will present opportunities, similar to the recent The Hook asset purchase. The integration of The Hook has gone well and BBSN is creating content for its different channels.
- Separately, BBSN recently teamed up with the Internet Watch Foundation (IWF) and the Marie Collins Foundation (MCF) to raise awareness of their child sexual abuse education campaign, "Something's Not Right". The campaign with comedian Arron Crascall and football YouTuber EmanSV2 has driven more than 8.5m user impressions and 5.4m views on Instagram - significantly higher than expected and nearly four times the average Instagram engagement rate.
- Forecasts are currently under review.

**Allenby Capital comment:** Digital advertising spend has grown substantially over the past few years but the CV-19 pandemic has resulted in a dramatic reduction. For example, Tremor International (TRMR.L), formerly Taptica/RhythmOne, reported H1 revenue is expected to be 27-29% lower than expected and Q2 revenue (Apr-June) down c. 11% on Q1, in spite of some recovery in May and a further significant improvement evident in June. BBSN has reduced costs, covers all the major social media platforms (Facebook, YouTube, SnapChat, TikTok and Instagram) and with its JAPAC exposure, should benefit as the region comes out of lockdown earlier. It also has cash on the balance sheet (£4.2m at FY19) that provides scope for additional M&A activity. The IWF/MCF campaign demonstrates BBSN's expertise.

*\* Allenby Capital acts as Nomad and Broker to Brave Bison plc.*

## **CML Microsystems plc (CML.L, 258p/£44.2m)**

### **Management meeting: 5G spend benefit (16.06.20)**

- Meeting with management on the back of the recent finals (March). Revenue declined 6% to £26.4m but there was a small improvement H2 over H1. Within this, Communications (57%) fell 1% with good demand in Public Safety for chips/chipsets for radios and industrial Storage (43%) down 11% although spending around 5G and security products for German EPOS machines held up. Management would expect the two divisions to return to the more normal 50/50 split as Storage recovers from the memory cycle.
- Gross margin at 74% (FY19: 72%) benefited from higher prices on lower volumes and product mix and management this would revert to 72%. Operating costs of £18.8m (+4%) included some restructuring (closure of Sheffield R&D) and M&A costs (£0.7m).
- Net cash of £8.5m (FY19: £12.8m) reflected record R&D spend (£8.5m), the acquisition of Plextek RFI (£1.3m) and dividend payments (£1.3m). There was also a £1.9m increase in working capital as although inventories came down, there was an expansion in trade debtors reflecting a stronger end to the year.
- Management reported limited CV-19 disruption as it was able to cover any supply chain issues with existing stock and no staff were furloughed. CML continues to secure design wins although absolute numbers were down the value associated with each win was up. Given the long product lifecycles and the stickiness of CML's products (CML is a single source supplier to its customers), this provides long term revenue streams. That said, actual market consumption can vary and hence management has cut the dividend (4.0p vs 7.8p in FY19).

**Allenby Capital comment:** FY20 was a difficult year with extended raw material supply issues and the US/China trade war at the start of the year and CV-19 at the end. These mask the strategic changes management has undertaken to broaden and augment its sales reach and the expansion of CML's product expertise including the acquisition of Plextek RFI into RF,

Microwave and Millimetre-wave. The ongoing design wins and growth in the order book going into FY21 is encouraging and the business remains well capitalised.

**Eckoh plc (ECK.L, 61.5p/£156.2m)**

**Finals: Encouraging growth in the US (16.06.20)**

- Finals (March) in line with market expectations and April's trading update with revenue +16% to £33.2m, gross profit +9% to £26.3m, adj. operating profit +53% to £4.7m and net cash +£3.3m to £11.6m. UK revenue increased 6% to £20.5m driven by new business deployed and transactional volumes and the US by 32% to \$16.1m with growth in Secure Payments and Coral offset the planned decline in hardware-based Support. The Coral licence sales impacted US GM by 300bps.
- Total business contracted (new business from new clients, new business from existing clients as well as renewals) increased 10% to £35.9m although new business contracted (new business contracted excluding renewals) fell 18% to £18.6m. FY19 was a tough comparator that included its largest single US contract to date (\$7.4m). Demand in its US Secure Payments business is being driven by increasing regulation governing payments and data security with the prospect of significant fines as well as brand damage for corporates that do not comply.
- High levels of recurring revenue (75% of group revenue) and strength of the customer base that now includes 10 Fortune 250 companies means management believes it is well placed to manage the impact of CV-19. US revenue is 100% underpinned by fixed fees and although UK transaction volumes were impacted in March to May, contractual commitments meant revenue was not proportionately impacted. That said, a number of prospects that were expected to close by year end have slipped into FY21.

**Allenby Capital comment:** Solid FY20 performance with growth at the top and bottom line and good cash conversion. FY21 has started reasonably, given the CV-19 backdrop, with revenue and profits comparable to FY20. The remote working occasioned by CV-19 will potentially accelerate the structural dynamics playing out in the payments industry - a larger proportion of remote working agents will require a more rigorous approach to data and payment security and a faster adoption of emerging engagement technologies such as conversational bots working in tandem with human agents. Eckoh is well positioned to capitalise on this opportunity given its proven experience, balance sheet and product suite that includes a portfolio of patent protected IP.

=====

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

*The changes initiated by MiFID II has 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).*

=====

**DISCLAIMER**

Allenby Capital Limited ("Allenby") is incorporated in England no. 6706681; is authorised and regulated by the Financial Conduct Authority ("FCA") (FRN: 489795) and is a member of the London Stock Exchange. This communication is for information only it should not be regarded as an offer or solicitation to buy the securities or other instruments mentioned in it. It is a marketing communication and non-independent research, and has not been prepared in accordance with the legal requirements designed to promote the independence of investment research, and is not subject to any prohibition on

dealing ahead of the dissemination of investment research. The cost of Allenby research product on independent companies is paid for by research clients.

This communication is for the use of intended recipients only and only for distribution to investment professionals as that term is defined in article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. Its contents are not directed at, may not be suitable for and should not be relied upon by anyone who is not an investment professional including retail clients. Any such persons should seek professional advice before investing. For the purposes of this communication Allenby is not acting for you, will not treat you as a client, will not be responsible for providing you with the protections afforded to clients, and is not advising you on the relevant transaction or stock. This communication or any part of it do not form the basis of and should not be relied upon in connection with any contract.

Allenby uses reasonable efforts to obtain information from sources which it believes to be reliable. The communication has been prepared without any substantive analysis undertaken into the companies concerned or their securities, and it has not been independently verified. No representation or warranty, express or implied is made, or responsibility of any kind accepted by Allenby its directors or employees as to the accuracy or completeness of any information in this communication. Opinions expressed are our current opinions as of the date appearing on this material only and are subject to change without notice. There is no regular update series for research issued by Allenby.

No recommendation is being made to you; the securities referred to may not be suitable for you and this communication should not be relied upon in substitution for the exercise of independent judgement. Neither past performance or forecasts are a reliable indication of future performance and investors may realise losses on any investment. Allenby shall not be liable for any direct or indirect damages including lost profits arising from the information contained in this communication.

Allenby and any company or persons connected with it, including its officers, directors and employees may have a position or holding in any investment mentioned in this document or a related investment and may from time to time dispose of any such security or instrument. Allenby may have been a manager in the underwriting or placement of securities in this communication within the last 12 months, or have received compensation for investment services from such companies within the last 12 months, or expect to receive or may intend to seek compensation for investment services from such companies within the next 3 months. Accordingly, recipients should not rely on this communication as being impartial and information may be known to Allenby or persons connected with it which is not reflected in this communication. Allenby has a policy in relation to management of conflicts of interest which is available upon request.

This communication is supplied to you solely for your information and may not be reproduced or redistributed to any other person or published in whole or part for any purpose. It is not intended for distribution or use outside the European Economic Area except in circumstances mentioned below in relation to the United States. This communication is not directed to you if Allenby is prohibited or restricted by any legislation or registration in any jurisdiction from making it available to you and persons into whose possession this communication comes should inform themselves and observe any such restrictions.

Allenby may distribute research in reliance on Rule 15a-6(a)(2) of the Securities and Exchange Act 1934 to persons that are major US institutional investors, however, transactions in any securities must be effected through a US registered broker-dealer. Any failure to comply with this restriction may constitute a violation of the relevant country's laws for which Allenby does not accept liability.

By accepting this communication, you agree that you have read the above disclaimer and to be bound by the foregoing limitations and restrictions.

**Research recommendation disclosure**

David Johnson is the author of this research recommendation. David Johnson is employed by Allenby Capital Limited as an Equity Analyst.

Unless otherwise stated the share prices used in this publication are taken at the close of business for the day prior to the date of publication. Information on research methodologies, definitions of research recommendations, and disclosure in relation to interests or conflicts of interests can be found at [www.allenbycapital.com](http://www.allenbycapital.com).

**Allenby Capital**

**5 St Helen's Place London EC3A 6AB**

**+44 (0)20 3328 5656**

[www.allenbycapital.com](http://www.allenbycapital.com)

---