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 - 02.10.23 - SKL.L, MWE.L, CPX.L, SEEN.L

Skillcast Group plc* (SKL.L, 20.0p/£17.9m)
Interims: Growth continues, post IPO investment phase nearing completion (27.09.23)
Note published

Allenby Capital comment: Skillcast has delivered another set of solid numbers. Interims for the 6m period ended June 2023 illustrated top line growth accompanied by continued balance sheet strength. Revenues of £5.2m were up 15% on the prior year period and driven by the key Subscriptions business, up 23% to £3.9m. The Subscriptions recurring revenues now account for 75% of Group revenues (70% at June 2022). In line with prior guidance, the headcount has continued to increase as the IPO funds are deployed. This increase in the cost base has kept the company in losses but with the expansion plans now essentially complete we expect a swing back into EBITDA profitability in H2 2023 and into 2024. The balance sheet remains strong with a period end net cash position of £7.6m or 8.5p per share. We make some minor adjustments to our 2023 numbers (EBITDA loss increased by £150k) but maintain our 2024 and 2025 expectations

** Allenby Capital acts as Nomad and broker to Skillcast Group plc.*

MTI Wireless Ltd* (MWE.L, 44.0p/£38.9m)
Update: 5G backhaul contract wins (27.09.23)

- Antenna division has received orders from the Indian divisions of two large OEMs worth c. $0.6m for its 5G backhaul antenna solutions. These are existing customers, and the antennas are to be delivered by the end of 2023.
- MTI has been chosen to replace the antennas of a competitor that failed to meet the end customers' requirements, reflecting MTI's functional advantages. As such, this represents a potentially significant opportunity to capture a larger share of the customers' spend and the wider Indian 5G backhaul market.
- MTI reports demand for 5G backhaul solutions from other territories and the company offers the widest range of products and works closely with the leading OEMs.
- No change to forecasts or 90p/share fair value.

Allenby Capital comment: India has been identified by MTI as the most significantly initial market for its 5G backhaul solutions as network operators look to roll out 5G cellular networks. Given the volume of antennas involved, OEMs will typically look to source products from multiple suppliers. The fact that two existing OEM customers have opted to replace a competitor product with MTI represents a significant endorsement of MTI's product set. As such, MTI is gaining greater market share with these customers and there is potential to gain additional share with these and other OEMs and in other territories. MTI already supplies seven of the top ten OEMs with its technologies. No change to forecasts but this serves to underpin further our growth assumptions for FY23 and going forward.

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

CAP-XX Ltd* (CPX.L, 1.475p/£7.8m)
Finals: Greater sales and marketing focus (29.09.23)

- Revenue down 35% to A$3.6m, with Product sales of A$3.3m and Licence Fees & Royalties of A$0.3m. The 35% decline in Product Sales followed the 44% growth in the FY22 and reflected worldwide supply chain issues in the capacitor market (particularly cylindrical cans), overstocking from previous years by distributors and customers, and a lack of short-term confidence in the electronic component market.
- Looking forward, the current level of committed orders totals $1.4m, up 75%. These are predominantly for customer delivery during Q4 CY23 as customers move away from 12-month blanket orders. The overstocking issues appear to be easing and there is increasing indications that demand and market confidence is beginning to return.
- Gross margin (43%) broadly in line with FY22 (45%) and adj. EBITDA loss increased A$0.8m to A$1.3m, primarily reflecting the costs associated with the change in CEO (A$0.9m). This was partly offset by lower legal expenses (A$1.5m vs A$2.5m). Cash reserves of A$2.6m (FY22: A$1.6m), following June's £2.7m (gross) capital raise. CPX expects to receive an R&D tax rebate by the end of CY23 of A$2.1m. A$1.0m of this has been effectively drawn down already against the revolving line of credit secured by the rebate.
- Lars Stegmann, brought in as CEO four months ago, has considerable international sales and marketing experience. CAP-XX has also expanded its distribution network - Digikey was added in April and discussions with other Tier 1 and Tier 2 distributors are ongoing and Tier 3 and Tier 4 distributors will be added. The direct sales force is being expanded to ensure greater reach and depth. These are being engaged on a commission basis to help conserve cash. Marketing activity has also been stepped up.
- Product range expansion is ongoing. The DMH production line is expected to deliver samples in Q4 and volume ramp early in CY24. Several customers are in the latter stages of sampling the very thin supercap (0.4mm) with potential for high-volume applications. The long awaited 3V supercap can now be produced in volume and is being evaluated by several large volume customers. And development work on the cylindrical surface mount device (SMD) is nearing completion with production trials underway.
- We are temporarily withdrawing our forecasts pending completion of a sales pipeline analysis.

Allenby Capital comment: The appointment of Lars Stegmann as CEO has brought a much greater focus on sales and marketing for the developer and manufacturer of supercapacitors. At the same time, demand and market confidence for electrical components in general and supercapacitors in particular appear to be recovering. CAP-XX has a breadth and depth of product offering and numerous competitive advantages (including thinness, power density, energy density and reliability) that make its products suitable for a much wider range of applications, including IoT. The ongoing patent infringement litigation against Maxwell represents something of a distraction to the investment case and still requires resolution. Overall, however, CAP-XX is well placed to achieve significant revenue growth and move to a positive EBITDA.

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

SEEEN plc* (SEEN.L, 6p/£5.6m)
Interims: Technology business continues to grow (29.09.23)

- Higher margin technology revenue increased to 40% of Group H1FY22. Recurring technology revenue grew 143% YoY to $85k. However, Group revenue declined 40% YoY to $1.1m, in-line with the Company's strategy to terminate CSP (Creator Service Partner) business which does not have technology upsell potential or is low margin. Additionally, the loss of all Russian advertising revenue since the start of the Ukraine invasion weighed on Group revenue.

- Gross margins increased to 24.6% (from 14.4% in H1 22), benefitting from a greater mix of higher margin technology revenue along with better profitability from the SEEEN's CSP business. This resulted in gross profit increasing marginally to $0.3m in the period and translated to adjusted EBITDA loss declining to $0.3m ($0.4m loss in H1 22). SEEEN ended the period with a net cash position of $2.1m with no debt.
- The Company stated that it was on track to broadly meet market expectations for FY23 adj. EBITDA (loss of c. $0.5m), as the revenue mix continues to evolve towards higher margin technology sales. Additionally, it stated that it has a strong customer pipeline, driven by new technology products and salespeople.

Allenby Capital comment: SEEEN continued to make progress commercialising its Creator Suite Technology product in H1. The Company's strategy of focusing on its higher margin technology business and better quality CSP business was evident as gross profit increased and adj. EBITDA loss narrowed, against a backdrop of falling revenue. Continued strong demand for its Technology products along with a strong balance sheet, puts SEEEN in a strong position for H2.

** Allenby Capital acts as Nomad and Joint Broker to SEEEN plc.*

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David Johnson is the author of this research and 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 and disclosure in relation to interests or conflicts of interests can be found at www.allenbycapital.com.

Allenby Capital

5 St Helen's Place London EC3A 6AB

+44 (0)20 3328 5656

www.allenbycapital.com