

FALANX GROUP TECHNOLOGY

FLX.L

2.9p

Market Cap: £7.6m

SHARE PRICE (p)



12m high/low

7.75p/3p

Source: LSE Data

KEY INFORMATION

Enterprise value	£6.7m
Index/market	AIM
Next news	Interims - November
Gearing	N/A
Interest cover	N/A

**FALANX GROUP IS A RESEARCH CLIENT
OF PROGRESSIVE**

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SolarWinds Partnership update

Quantifying the financial opportunity

Following its recently announced selection by US-based SolarWinds, to be its first and only Threat Monitoring Service Provider (TMSP) in the UK and South Africa, the Group announces its collaboration is now an exclusive partnership. In addition, Falanx has released further information on commercial pricing, quantifying the potential financial benefits of the partnership over the near term. Although we leave estimates unchanged at present, the release underscores the potential for Falanx to capture material benefits from its partnership with SolarWinds through the delivery of managed security services in partnership with SolarWinds TMSPs and also through the opportunity to cross sell its own product and service portfolio to SolarWinds' extensive network of clients. We look forward to further updates.

- Potential Revenue Opportunity** – SolarWinds is a c.\$1bn turnover technology company backed by leading US PE funds with a worldwide presence in the middle to large enterprise market. SolarWinds has partnerships with c 2000 Managed Service Providers in the UK which have an average 50 customers each. Falanx has identified 20% of the c.100,000 client pool (20,000 customers) as having an addressable need or are at a level of sophistication to absorb further cyber services. Conservatively, assuming 10% of clients within that pool (2,000 customers) will seek 'Threat Monitoring' services at an average cost of £2,400 per annum based on the agreed average fee of £200 per month, presents the Group with a potential conservative annual revenue opportunity of £4.8m. Assuming a gross margin of c. 40-50% results in an implied annual potential margin contribution of £1.9m to £2.4m.
- Cross Selling Opportunity** – Beyond the immediate opportunity presented by its TMSP status, the Group will be able to cross sell its own 'Professional Services' into the addressable client pool which presents an equivalent opportunity. To illustrate, conservatively assuming £250 per month in value added services revenue (for instance a limited security assessment per annum) from the identified client pool noted above, Falanx could generate additional revenue of £3m per annum from its full suite of professional services. Assuming a slightly lower margin of between 25%-30% implies £0.8m to £0.9m in potential gross profit to the Group.
- Estimates** – We make no changes to our estimates given the limited impact in FY2019E but concur with the Group that a modest uptake in services in the future would result in a material positive financial impact.

FYE MAR (£M)	2016	2017	2018	2019E	2020E
Revenue	1.8	2.7	3.0	7.1	9.3
Adj EBITDA	(2.3)	(1.2)	(1.6)	0.2	1.0
Fully Adj PBT	(2.6)	(1.7)	(1.7)	0.1	0.9
Fully Adj EPS (p)	(3.8)	(1.5)	(0.6)	0.0	0.3
EV/Sales (x)	3.7	2.4	2.2	0.9	0.7
EV/EBITDA (x)	(2.9)	(5.5)	(4.2)	39.3	6.9
PER (x)	N/A	N/A	N/A	83.5	8.3

Source: Company Information and Progressive Equity Research estimates

Financial Summary: Falanx Group

Year end: March (£m unless shown)

	2016	2017	2018	2019E	2020E
PROFIT & LOSS					
Revenue	1.8	2.7	3.0	7.1	9.3
Adj EBITDA	(2.3)	(1.2)	(1.6)	0.2	1.0
Adj EBIT	(2.3)	(1.3)	(1.7)	0.1	0.9
Reported PBT	(2.6)	(1.7)	(2.5)	(0.3)	0.6
Fully Adj PBT	(2.6)	(1.7)	(1.7)	0.1	0.9
NOPAT	(2.6)	(1.6)	(1.7)	0.1	0.9
Reported EPS (p)	(3.8)	(1.5)	(1.6)	(0.1)	0.2
Fully Adj EPS (p)	(3.8)	(1.5)	(0.6)	0.0	0.3
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(1.9)	(1.3)	(2.1)	0.5	2.0
Free Cash flow	(1.9)	(1.8)	(5.9)	(0.2)	1.4
FCF per share (p)	(2.8)	(1.6)	(3.6)	(0.1)	0.8
Acquisitions	(0.5)	(0.1)	0.0	(0.1)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	2.5	1.8	6.3	0.1	0.0
Net cash flow	0.0	(0.3)	0.5	(0.2)	1.4
Overdrafts / borrowings	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	0.4	0.4	0.9	0.7	2.1
Net (Debt)/Cash	0.4	0.4	0.9	0.7	2.1
NAV AND RETURNS					
Net asset value	0.4	0.8	4.7	4.5	5.1
NAV/share (p)	0.6	0.7	2.9	2.8	3.1
Net Tangible Asset Value	0.1	0.1	0.1	0.2	0.2
NTAV/share (p)	0.1	0.1	0.1	0.1	0.1
Average equity	0.2	0.6	2.8	4.6	4.8
Post-tax ROE (%)	(769.3%)	(266.8%)	3.3%	19.2%	0.0%
METRICS					
Revenue growth		51.1%	10.1%	134.8%	31.5%
Adj EBITDA growth		(47.1%)	30.1%	1,034.1%	466.3%
Adj EBIT growth		(45.8%)	30.8%	1,919.8%	877.2%
Adj PBT growth		(36.1%)	(1.8%)	1,922.3%	877.2%
Adj EPS growth		(60.5%)	(57.6%)	1,937.9%	904.7%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		(46.1%)	(54.8%)	1.3%	9.5%
VALUATION					
EV/Sales (x)	3.7	2.4	2.2	0.9	0.7
EV/EBITDA (x)	(2.9)	(5.5)	(4.2)	39.3	6.9
EV/NOPAT (x)	(2.5)	(4.2)	(4.0)	73.5	7.5
PER (x)	N/A	N/A	N/A	83.5	8.3
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(96.3%)	(54.8%)	(125.5%)	(3.5%)	28.8%

Source: Company information and Progressive Equity Research estimates

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