

Pinnacle Technology Group plc

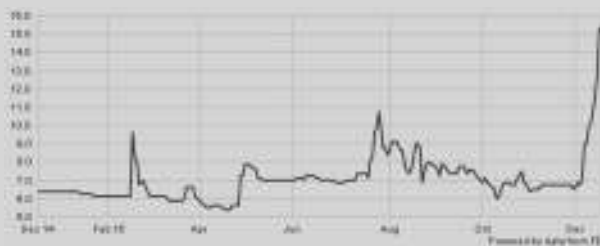
Sales Desk Note - UPDATE

21 December 2015

Key Statistics

Code	: PINN
Listing	: AIM
Sector	: Telecommunications Services
Market Cap	: £10.09m
Share in issue	: 59.18m
Current Price	: 16.75p
12 month High/Low:	: 17.27p/5.25p

Stock Performance



Source: InvestEgate

Financials

£'m	2014	2013	2012	2011
Revenue	8.41	10.14	12.71	8.52
PBT	-1.95	-2.44	-1.12	-0.12
Profit	-1.77	-2.71	-0.9	-0.19

Source: Pinnacle Technology Group Full Year Results

Company description

Pinnacle Technology offers a wide range of Managed IT Services, IT Security, Connectivity, Mobile, Telephony and Infrastructure services. Pinnacle Technology is a value added reseller and integrator that focus on providing the latest cloud and on-premise technologies. These services are provided as an integrated offering to the SME market and more broadly to the mid- market and public sector.

HYBRIDAN LLP

20 Ironmonger Lane, London, EC2V 8EP
Website: www.hybridan.com

William Lynne
Tel: 020 3764 2342
Email: William.lynne@hybridan.com

PINN Interesting

Referring back to our sales note 27 July 2015 – at that time the market cap of Pinnacle was £5.77m it is now £10.1m a gain of around 75%.

There has been a bit of news since then: A Cloud Security Agreement with Baxters (the soup folks): A new sales team to drive O₂ for business: And the appointment of a new Executive Chairman, Gavin Lyons. The latter announcement (RNS 7 Dec 2015) seems to have had the greatest impact on the share price. Presumably as Gavin's previous gig, as CEO of Accumuli, was so successful. Accumuli's shares giving a three-fold return, during his tenure from August 2012 to the takeover by NCC in April 2015.

Of course there will be little if any impact from these news items in the final half year numbers, to the end September 2015; which are due in the third week of February. There are still no forecast numbers in the market either, though this is not so surprising given the huge amount of restructuring that has gone on. Perhaps we can guess that we will see something like the same again for the second half.

What we do know is that there is great momentum within the operation. Nicholas Scallan has cut swathes of cost out of the business and it is now ready to grow again. Nicholas remains with the group and it seems likely that he and Gavin will now be looking at opportunities to grow the top-line both organically and through acquisition.

Even with the improved valuation, the shares are still only trading at a little over one times historic sales. It is good to see some reward for Nicolas' fine reconstruction work, but the growth story of 'new' Pinnacle is still in its infancy.

Consolidated Income Statement for the 6 months period ended 31 March 2015

	6 months to 31 March 2015	6 months to 31 March 2014	Year to 30 September 2014
	£	£	£
Revenue	3,987,548	4,258,556	8,408,366
Cost of sales	-2,744,680	-2,987,488	-5,738,428
Gross profit	1,242,868	1,271,068	2,669,939
Operating expenses	-1,791,846	-2,456,108	-4,606,416
Operating profit/(loss)	-548,978	-1,185,040	-1,936,477
Adjusted EBITDA	-234,352	-269,882	-511,811
Amortisation of Intangible Assets	-155,210	-195,671	-370,699
Depreciation	-105,196	-155,871	-310,849
Exceptional costs	-	-294,849	-280,608
Impairment of intangible assets	-46,857	-261,806	-462,522
Share based payments	-7,363	-6,961	34,767
Embedded fair value in convertible loan	-	-	-
Share of profit from associate	-	-	-34,755
Operating Loss	-548,978	-1,185,040	-1,936,477
Interest receivable	123	615	918
Interest payable	-15,103	-7,269	-13,286
Net Finance expense	-14,980	-6,654	-12,368
Loss before tax	-563,958	-1,191,694	-1,948,845
Taxation	42,434	96,070	174,976
Loss for the period from continuing operations attributable to the equity holders of the parent	-521,524	-1,095,624	-1,773,870
Loss per share			
basic and fully diluted - continuing	(1.29)p	(3.30)p	(4.98)p

Source: Pinnacle Technology Group plc Interim Results

Consolidated Statement of Financial Position as at 31 March 2015

	At 31 March 2015	At 31 March 2014	At 30 September 2014
	£	£	£
Non-current assets			
Intangible assets	790,029	1,367,841	992,096
Investments in Associated Companies	165,300	200,055	165,300
Property, plant and equipment	170,876	298,188	227,568
Total non-current assets	1,126,205	1,866,084	1,384,965
Current assets			
Inventories	33,118	122,495	46,278
Trade and other receivables	1,565,255	1,470,520	1,297,466
Cash and cash equivalents	193,197	575,616	173,240
Total current assets	1,791,570	2,168,631	1,516,983
Total assets	2,917,775	4,034,715	2,901,948
Liabilities			
Short term borrowings	-64,506	-114,475	-143,659
Trade and other payables	-1,602,817	-1,369,927	-1,442,538
Other taxes and social security costs	-172,369	-203,134	-122,942
Accruals and other payables	-584,254	-981,658	-615,599
Total current liabilities	-2,423,946	-2,669,194	-2,324,738
Non-current liabilities			
Long term borrowings	-7,130	-24,245	-17,148
Deferred tax liability	-165,906	-287,246	-208,340
Total liabilities	-2,596,982	-2,980,685	-2,550,226
Net assets	320,793	1,054,030	351,721
Equity			
Share capital	6,949,092	6,862,250	6,862,250
Share premium account	7,171,261	6,757,206	6,774,870
Merger reserve	283,357	283,357	283,357
Other reserve	39,387	73,751	32,024
Fair value adjustment	-1,064,130	-1,064,130	-1,064,130
Retained earnings	-13,058,174	-11,858,404	-12,536,650
Total equity	320,793	1,054,030	351,721

Source: Pinnacle Technology Group plc Interim Results

Consolidated Statement of Cash Flows for the 6 month period ended 31 March 2015

	6 months to 31 March 2015	6 months to 31 March 2014	12 months to 30 September 2014
	£	£	£
Cash flows from operating activities			
Loss before taxation	-563,958	-1,191,694	-1,948,845
<u>Adjustments for:</u>			
Depreciation	105,196	155,871	310,849
Amortisation	155,210	195,671	370,699
Impairment of intangible assets	46,857	261,806	462,522
Share of (profit)/loss from associate	-	-	34,755
Share option charge	7,363	6,961	-34,767
Interest expense	14,980	6,654	12,368
Decrease/(increase) in trade and other receivables	-267,789	449,659	622,713
Decrease/(Increase) in inventories	13,159	-31,273	44,944
Increase/(decrease) in trade payables, accruals and other creditors	173,382	-271,483	-626,791
Net cash flow from operating activities	-315,600	-417,828	-751,554
Cash flows from investing activities			
Purchase of property, plant and equipment	-48,504	-5,185	-58,096
Sale of property, plant and equipment	-	-	-31,352
Interest received	123	615	918
Net cash used in investing activities	-48,381	-4,570	-88,530
Cash flows from financing activities			
Issue of shares	564,470	449,322	449,322
Receipt of invoice discount finance during the year	637,453	953,977	1,901,371
Repayment of invoice discount finance during the year	-632,473	-878,083	-1,827,659
Repayment of convertible loans and bank loans	-2,186	-15,096	-36,436
Expenses paid in connection with share issue	-81,237	-25,825	-8,160
Payment of finance lease liabilities	-13,181	-21,419	-33,484
Interest paid	-15,103	-7,269	-13,286
Net cash from financing activities	457,743	455,607	431,668
Net (decrease)/increase in cash	93,762	33,209	-408,416
Cash at bank and in hand at beginning of period	57,102	465,518	465,518
Cash at bank and in hand at end of period	150,864	498,727	57,102
Comprising:			
Cash at bank and in hand	193,197	575,616	173,240
Bank overdrafts	-42,333	-76,889	-116,137
	150,864	498,727	57,102

Source: Pinnacle Technology Group plc Interim Results

Disclaimer

This document, which does not constitute research, has been issued by Hybridan LLP for information purposes only and should not be construed in any circumstances as an offer to sell or solicitation of any offer to buy any security or other financial instrument, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action. This document has no regard for the specific investment objectives, financial situation or needs of any specific entity and is not a personal recommendation to anyone. Recipients should make their own investment decisions based upon their own financial objectives and financial resources and, if any doubt, should seek advice from an investment advisor.

The information contained in this document is based on materials and sources that are believed to be reliable; however, they have not been independently verified and are not guaranteed as being accurate. This document is not intended to be a complete statement or summary of any securities, markets, reports or developments referred to herein. No representation or warranty, either express or implied, is made or accepted by Hybridan LLP, its members, directors, officers, employees, agents or associated undertakings in relation to the accuracy, completeness or reliability of the information in this document nor should it be relied upon as such.

Any and all opinions expressed are current opinions as of the date appearing on this document only. Any and all opinions expressed are subject to change without notice and Hybridan LLP is under no obligation to update the information contained herein. To the fullest extent permitted by law, none of Hybridan LLP, its members, directors, officers, employees, agents or associated undertakings shall have any liability whatsoever for any direct or indirect or consequential loss or damage (including lost profits) arising in any way from use of all or any part of the information in this document.

This document should not be relied upon as being an independent or impartial view of the subject matter and, for the avoidance of doubt, does not constitute "independent investment research" for the purposes of the Financial Conduct Authority rules. The individuals who prepared this document may be involved in providing other financial services to the company or companies referenced in this document or to other companies who might be said to be competitors of the company or companies referenced in this document. As a result both Hybridan LLP and the individual members, directors, officers and/or employees who prepared this document may have responsibilities that conflict with the interests of the persons who receive this document. Hybridan LLP and/or connected persons may, from time to time, have positions in, make a market in and/or effect transactions in any investment or related investment mentioned herein and may provide financial services to the issuers of such investments.

In the UK, this document is directed at and is for distribution only to persons who (i) fall within Article 19(5) (persons who have professional experience in matters relating to investments) or Article 49(2) (a) to (d) (high net worth companies, unincorporated associations, etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) or (ii) are Professional Clients or Eligible Counterparties (as those terms are defined in the rules of the Financial Conduct Authority) of Hybridan LLP (all such persons referred to in (i) and (ii) together being referred to as "relevant persons"). This document must not be acted on or relied up on by persons who are not relevant persons. For the purposes of clarity, this document is not intended for and should not be relied upon by persons who would be classified as Retail Clients (as defined by the rules of the Financial Conduct Authority).

Neither this document nor any copy of part thereof may be distributed in any other jurisdictions where its distribution may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Distribution of this report in any such other jurisdictions may constitute a violation of UK or US securities law, or the law of any such other jurisdictions.

Hybridan LLP and/or its associated undertakings may from time-to-time provide investment advice or other services to, or solicit such business from, any of the companies referred to in this document. Accordingly, information may be available to Hybridan LLP that is not reflected in this material and Hybridan LLP may have acted upon or used the information prior to or immediately following its publication. In addition, Hybridan LLP, the members, directors, officers and/or employees thereof and/or any connected persons may have an interest in the securities, warrants, futures, options, derivatives or other financial instrument of any of the companies referred to in this document and may from time-to-time add or dispose of such interests.

Neither the whole nor any part of this document may be duplicated in any form or by any means. Neither should this document, or any part thereof, be redistributed or disclosed to anyone without the prior consent of Hybridan LLP.

Hybridan LLP is a limited liability partnership registered in England and Wales, registered number OC325178, and is authorised and regulated by the Financial Conduct Authority and is a member of the London Stock Exchange. Any reference to a partner in relation to Hybridan LLP is to a member of Hybridan LLP or an employee with equivalent standing and qualifications. A list of the members of Hybridan LLP is available for inspection at the registered office, 2 Jardine House, The Harrovia Business Village, Bessborough Road, Harrow, Middlesex HA1 3EX.