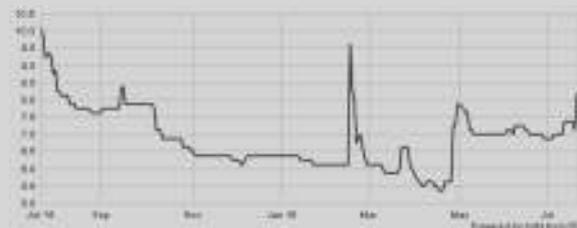


27 July 2015

**Key Statistics**

Code : PINN  
 Listing : AIM  
 Sector : Telecommunications Services  
 Market Cap : £5.77m  
 Share in issue : 59.18m  
 Current Price : 9.75p  
 12 month High/Low: : 11.40p/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, September Y/E

**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.

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**Pinnacle's Pudding**

If the proof of the pudding is in the eating, then it is fair to say that Pinnacle's pudding is not quite out of the oven; but by the time this pudding has been served up and eaten, the share price may well be a multiple of where it is now. So rather than sit at the table, spoon in hand, it might be helpful to have a look around the kitchen and meet the new chef.

Pinnacle's new chef, or rather CEO, Nicholas Scallan, picked up the reins in March 2014. Having initiated and completed a wholesale operational review, he has since been working hard to implement the resultant strategy to turn around Pinnacle's businesses. As with all turnaround situations, the anecdotal evidence of progress comes several quarters before the financial evidence. However the interims to March 2015 – which were published a few weeks ago- are already showing some very promising green shoots.

Revenues for the half came in at £3.99m, down 6% on H1 2014, but the loss for the period was reduced by 52% to £520k; and this included £300k of exceptional costs. Gross margin remained around the same but operating expenses reduced by around 27% (vs H1 2014) to £1.79m.

However there has not been a slash and burn cost cutting exercise. The closure of the Pinnacle Data Centre is nearly completed. This will be a sensible saving, allowing data to be moved to larger and more secure third part centres at the same time as saving costs; which growing benefit is only partially realised in these numbers. Similarly the 'Easynet' agreement has provided a highly secure, scalable and value-added connectivity service whilst also giving cost savings and improved customer services.

Rather than cost cutting there has even been increased investment in sales and marketing to support new client acquisition. This combined with a re-balanced sales model, to encourage cross-selling and up-selling into existing clients, is just beginning to yield fruit.

**By William Lynne** - For disclosures, refer to the Disclosure Section

## Pinnacle's Segments

**Telecommunications: 35.9% Revs:** Offers expert advice, provisioning and support services for all voice communications infrastructure requirements. Its services include: Line infrastructure, numbers and calls: Voice over IP (VoIP) and Unified Communications service solutions; Session Initiated Protocol (SIP) trunking and Unified Communications (UC).

**Cloud & Data Connectivity 27.6% Revs:** Provides customers with superfast broadband internet access, and dedicated connectivity services for internet, point to point and multi-site network requirements

**Mobile Solutions 6.2% Revs:** An exclusive partner of O2. Pinnacle offers businesses competitive pricing, and works to deliver a complete Mobility solution for their workforces.

**IT Security 14.5% Revs:** Working with the world's leading IT security vendors to offer products, deployment, training, support and managed services to help customers address their security challenges.

**IT services 15.7% Revs:** Pinnacle ProCare is an ultimately flexible range of support options enabling companies to design the support arrangement that best meets their business needs. Pinnacle will carry out an extensive audit of customers' IT systems, producing an accurate inventory of equipment and systems, leading to recommendations to save both time and money. Pinnacle runs outsourced IT Helpdesks for clients as well as supporting and managing their IT infrastructures.

Given there has been a complete review of all the businesses it is likely that some of these segments will be more 'core' than others, and some might benefit from M&A both inward and outward. The management have understandably not given any colour on this and it is probably too early to gauge the efficacy of the cross-selling and up-selling initiatives anyway. They have indicated that the move into mobile through the O2 agreement will open up the business to the enormous but underserved SME market.

## Outlook

The new management are doing all the right things and the ship is evidently turning around. They are now addressing the large, growing and lucrative SME market, and Pinnacle is in shape to take advantage of cross-selling and up-selling opportunities as well as winning new business. The recurring revenues are running at a very sticky 88% making for good visibility.

**Pinnacle's Valuation**

There are no forecasts in the market at the moment. Pinnacle is currently valued at a little over half sales. Whichever subsector you want to compare it to, Comms or SaaS, this seems cheap particularly as the heavy lifting of restructuring is a good way down the line, and recurring revenues are around 88%. There are no loans and no net debt and it would not take a huge upturn in sales to nudge them into the black. As usual with a turnaround situation, there is tremendous operational gearing too.

There is perhaps the perception that a further fund raising might be needed but £860k has been raised since the interims in March 2015 (below) which, on a very rough calculation should give it around 12 months runway to get to profitability organically.

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

|  | <b>6 months to<br/>31 March<br/>2015<br/>£</b> | 6 months to<br>31 March<br>2014<br>£ | Year to<br>30 September<br>2014<br>£ |
|--|--|--------------------------------------|--------------------------------------|
| <b>Revenue</b>   | <b>3,987,548</b>                               | 4,258,556                            | 8,408,366                            |
| Cost of sales  | -2,744,680                                     | -2,987,488                           | -5,738,428                           |
| <b>Gross profit</b>  | <b>1,242,868</b>                               | 1,271,068                            | 2,669,939                            |
| Operating expenses   | -1,791,846                                     | -2,456,108                           | -4,606,416                           |
| <b>Operating profit/( loss)</b>  | <b>-548,978</b>                                | -1,185,040                           | -1,936,477                           |
| <b>Adjusted EBITDA</b>   | <b>-234,352</b>                                | -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                              |
| <b>Operating Loss</b>  | <b>-548,978</b>                                | -1,185,040                           | -1,936,477                           |
| Interest receivable  | 123  | 615                                  | 918                                  |
| Interest payable   | -15,103  | -7,269                               | -13,286                              |
| <b>Net Finance expense</b>   | <b>-14,980</b>                                 | -6,654                               | -12,368                              |
| <b>Loss before tax</b>   | <b>-563,958</b>                                | -1,191,694                           | -1,948,845                           |
| Taxation   | 42,434   | 96,070                               | 174,976                              |
| <b>Loss for the period from continuing operations attributable to the equity holders of the parent</b> | <b>-521,524</b>                                | -1,095,624                           | -1,773,870                           |
| <b>Loss per share</b>  |  |                                      |                                      |
| 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

|  | <b>At 31 March<br/>2015</b> | At 31 March<br>2014 | At 30<br>September 2014 |
|--|-----------------------------|---------------------|-------------------------|
|  | <b>£</b>                    | £                   | £                       |
| <b>Non-current assets</b>              |                             |                     |                         |
| Intangible assets                      | 790,029                     | 1,367,841           | 992,096                 |
| Investments in Associated<br>Companies | 165,300                     | 200,055             | 165,300                 |
| Property, plant and equipment          | 170,876                     | 298,188             | 227,568                 |
| <b>Total non-current assets</b>        | <b>1,126,205</b>            | 1,866,084           | 1,384,965               |
| <b>Current assets</b>                  |                             |                     |                         |
| 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                 |
| <b>Total current assets</b>            | <b>1,791,570</b>            | 2,168,631           | 1,516,983               |
| <b>Total assets</b>                    | <b>2,917,775</b>            | 4,034,715           | 2,901,948               |
| <b>Liabilities</b>                     |                             |                     |                         |
| 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                |
| <b>Total current liabilities</b>       | <b>-2,423,946</b>           | -2,669,194          | -2,324,738              |
| <b>Non-current liabilities</b>         |                             |                     |                         |
| Long term borrowings                   | -7,130                      | -24,245             | -17,148                 |
| Deferred tax liability                 | -165,906                    | -287,246            | -208,340                |
| <b>Total liabilities</b>               | <b>-2,596,982</b>           | -2,980,685          | -2,550,226              |
| <b>Net assets</b>                      | <b>320,793</b>              | 1,054,030           | 351,721                 |
| <b>Equity</b>                          |                             |                     |                         |
| 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             |
| <b>Total equity</b>                    | <b>320,793</b>              | 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

|   | <b>6 months to<br/>31 March<br/>2015<br/>£</b> | 6 months to<br>31 March<br>2014<br>£ | 12 months to<br>30 September<br>2014<br>£ |
|---|--|--------------------------------------|---|
| <b>Cash flows from operating activities</b>                         |  |                                      |   |
| Loss before taxation  | <b>-563,958</b>                                | -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                                  |
| <b>Net cash flow from operating activities</b>                      | <b>-315,600</b>                                | -417,828                             | -751,554                                  |
| <b>Cash flows from investing activities</b>                         |  |                                      |   |
| 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                                       |
| <b>Net cash used in investing activities</b>                        | <b>-48,381</b>                                 | -4,570                               | -88,530                                   |
| <b>Cash flows from financing activities</b>                         |  |                                      |   |
| 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                                   |
| <b>Net cash from financing activities</b>                           | <b>457,743</b>                                 | 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                                   |
| <b>Cash at bank and in hand at end of period</b>                    | <b>150,864</b>                                 | 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                              | 57,103                                    |

Source: Pinnacle Technology Group plc Interim Results

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