



1 February 2022

## Technology



Source: Refinitiv

## Market data

EPIC/TKR	CYAN.L
Price (p)	20.0
12m High (p)	29.9
12m Low (p)	1.55
Shares (m)	219.98
Mkt. cap (£m)	44.0
EV (£m)	42.5
Free Float*	70%
Country of listing	UK
Market	AIM

\*As defined by AIM Rule 26

## Description

CyanConnode is a leading global vendor of intelligent communications solutions, bringing together narrowband RF mesh and cellular technologies, and the Internet of Things (IoT), to create a highly scalable platform for transmission, collection and analysis of data. The company is headquartered in Cambridge, UK, with offices in India and Sweden. To date, it has spent in excess of \$50m on developing its technology platform, on which more than 2.1m endpoints have been delivered globally. At the end of March 2021, total headcount stood at 54 employees, of which 11, or 20%, were women.

## Company information

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## CYANCONNODE

## 3Q22 update: smart meter showtime in India

CyanConnode shipped 455,000 modules and 3,100 gateways in the first nine months, compared with 481,000 for the whole of FY21. 9M22 revenue came in at £6.8m, up 100% from a year earlier. £5.9m cash was received from customers, while inventory was increased to address component shortages, resulting in a £1.1m net cash position at end-December 2021 (a further £0.4m was received just after the period end). The Indian smart meter rollout is set to accelerate, with ongoing tenders for 37.4m meters due to be awarded this calendar year. This is a potentially enormous revenue opportunity, even assuming a modest contract win success rate for CyanConnode. Our DCF-implied fair equity value for CyanConnode is £89.9m.

- **On track to meet FY22 forecasts:** Management has reiterated that it is on track to meet its guidance for FY22 (to end-March), which requires the company to grow entirely organically YoY by 44%. Our estimate is for a tenfold increase in revenue between 2020 and 2024, with profitability in the coming year.
- **Critical year ahead in India:** After extensive delays in the Indian smart meter procurement, a step change has taken place, driven by government initiatives. Currently, tenders are out for some 37.4m smart meters, a figure expected to grow over the next six months, with decisions due by the end of calendar 2022.
- **Significant developments:** A January 2022 communication from the Indian Ministry of Power sets out the need for bidders to have proven end-to-end and fully interoperable solutions with 99.5% success rates. CyanConnode's platform has met these criteria across its many existing deployments in India.
- **Conservative guidance:** Management indicates that it could secure up to 15% of tendered volumes across the 250m meters that comprise the Indian programme in total, equating to potential substantial total programme revenue to CyanConnode. The hardware element may be upfront, with software and maintenance deferred.
- **Investment summary:** Some major accomplishments by CyanConnode have remained in the background; for example, uninterrupted supply of modules at a time of significant global disruption from silicon shortages. The management team has been further strengthened, and the competitive position remains, in our view, particularly strong. Our DCF-implied fair equity value for CyanConnode is £89.9m (£0.41 per share), vs. the current market capitalisation of £44.0m.

## Financial summary and valuation

Year-end Mar (£m)	Mar20*	2021	2022E	2023E	2024E
Revenue	2.45	6.44	9.28	18.83	24.46
Reported EBITDA	-5.46	-2.18	-1.00	2.71	4.67
EBITDA margin	-223%	-34%	-11%	14%	19%
Adjusted EBIT	-5.69	-2.69	-1.28	2.46	4.50
Adjusted pre-tax profit	-5.70	-2.73	-1.26	2.48	4.53
Net income	-5.13	-2.06	-0.56	2.29	3.99
EPS (p)	-2.96	-1.18	-0.25	1.04	1.81
EV/revenue (x)	17.3	6.6	4.6	2.3	1.7
EV/EBITDA (x)	-7.8	-19.5	-42.4	15.7	9.1
P/E (x)	-6.7	-16.9	-78.8	19.3	11.0

\*15 months to Mar20 (due to year-end change); Source: Hardman &amp; Co Research

## Investment highlights

CyanConnode has confirmed that its financial performance for the first nine months of FY22 (the fiscal year end is 31 March 2022) has been consistent with the company's guidance and, in turn, with market estimates. This is an impressive outturn, given that the YoY revenue growth rate embedded in the guidance is over 40%. This follows revenue growth of 260% in FY21. The primary driver here is clear – the Indian smart meter replacement programme, which is targeting the replacement of some 250m meters, is now approaching full swing, with 37m meters out for tender currently and further tenders pending. The potential win rate for CyanConnode is, of course, difficult to predict, given the complexity of these very large tenders, with several moving parts and protagonists.

Nonetheless, it is worth contextualising the opportunity for CyanConnode in relatively simple terms. For this fiscal year, we are forecasting revenue of £9.3m, rising to £18.8m in FY23. Assuming a 15% win rate (which could prove to be an overly conservative assumption), the current tenders, in aggregate, have a potential intelligent module contract value (over five to 10 years) of well over \$100m. These tenders account for only 15% of the total programme. Assuming a 15% win rate across the entire programme of 250m meters, this equates to total revenue to CyanConnode in the range of \$700m to \$1bn over the next 10 years. Any upside to the 15% figure may exert a disproportionately positive impact on the company's financial outlook. In our view, these metrics need to be considered alongside the current market capitalisation of c.\$59m (£44m), which may be seen as diminutive compared with the scale of the opportunity going forward for the company.

### *On track to meet FY22 estimates*

Against market opportunities that offer substantial potential but have been characterised by delays and complexity, CyanConnode's conservative approach is enabling the company to meet its financial guidance. Revenue for the first nine months was £6.8m, double the outturn for the same period in FY21. FY22 guidance and, in turn, our estimates remain based, primarily, on existing contracts, for which deliveries are progressing on time, despite component shortages and other supply chain interruptions. We discuss below some of the measures being taken by management to mitigate supply chain risks.

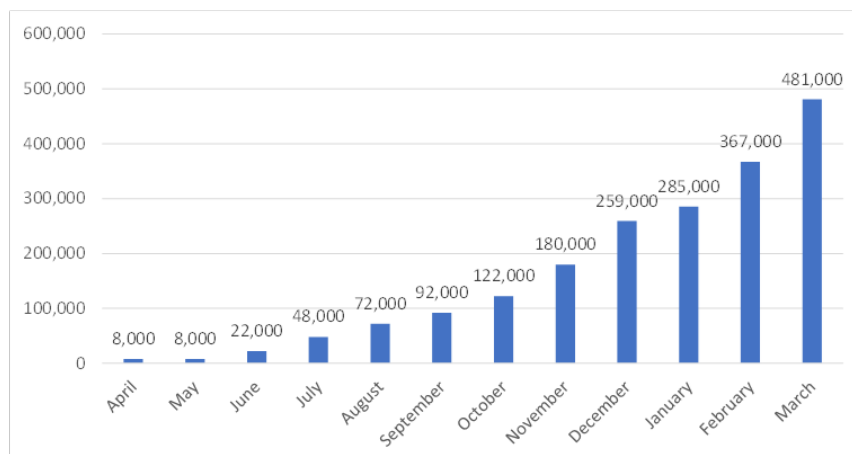
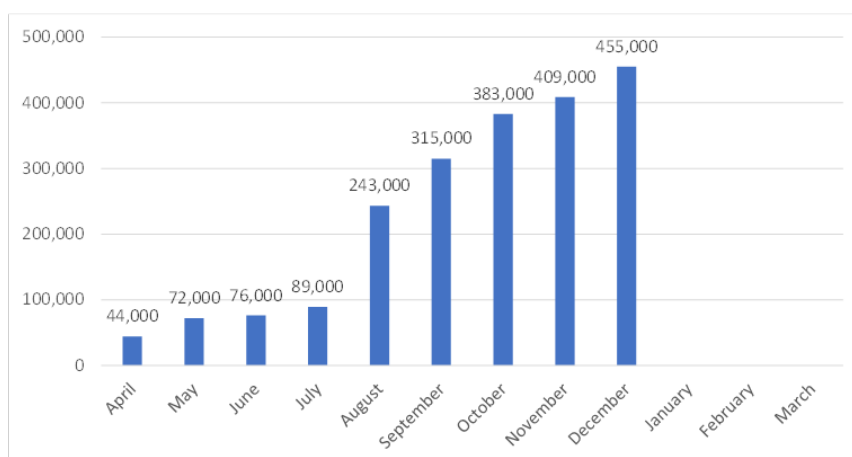
### CyanConnode: forecast summary

Year-end March (£m)	15M Mar 2020	2021	2022E	2023E	2024E
Revenue	2.45	6.44	9.28	18.83	24.46
yoy growth	-	163%	44%	103%	30%
EBITDA	-5.46	-2.18	-1.00	2.71	4.67
EBITDA margin	-223%	-34%	-11%	14%	19%
Adj. EBIT	-5.69	-2.69	-1.28	2.46	4.50
Adj. EBIT margin	-232%	-42%	-14%	13%	18%
Adj. Pre-tax profit	-5.70	-2.73	-1.26	2.48	4.53
Adj. Pre-tax margin	-233%	-42%	-14%	13%	19%
Net income	-5.13	-2.06	-0.56	2.29	3.99
Net margin	-209%	-32%	-6%	12%	16%
EPS (p)	-2.96	-1.18	-0.25	1.04	1.81

Source: Hardman & Co Research

### *Strong YoY growth in shipments*

As set out in the charts below, the number of modules delivered in the first nine months of FY22 was 455,000, which compares with 259,000 over the same period last year and 481,000 for FY21.

**CyanConnode: module shipments FY22 YTD and FY21**
**FY21**

**FY22 YTD**


Source: Hardman & Co Research

### Supply chain initiatives and cashflow

Substantial management effort has gone into ensuring supply chain continuity in the face of global silicon shortages that have led to product shortages across industry verticals. Lead times on silicon supply are currently 12 months plus. The company has added component suppliers, where new relationships mean that initial payment terms typically require upfront payments in the early stages, in contrast to the 45 to 90 payment terms previously offered by existing longstanding suppliers. Even the latter terms are subject to some compression, due to a step change in the volumes now required by CyanConnode from existing suppliers.

Combined with the inventory build-up required to meet existing orders, there was a cash outflow in 3Q22, resulting in a period-end net cash position of £1.1m (with a further £0.4m received shortly after the end of December 2021), compared with £1.7m at the end of September 2021. This is after cash collections of £5.9m in the period. Trade debtors related to Indian contracts at the end of 3Q21 stood at £5.5m, of which at least £3m is expected to come in during 4Q. The mix of shipments is relevant here, as payments for gateways (typically one per 250 modules) are usually based on delivery and implementation milestones being achieved, whereas meter modules are invoiced as shipped. Gateways are a larger element towards the end of

a phase of a contract, and this has been the case in the last quarter: 3,100 gateways were delivered in the first nine months of FY22, compared with only 200 in the same period last year.

### *Revenue expected to double in FY23*

For FY23, the expected revenue increase based on our unchanged estimates is £9.5m. That equates to winning only c.1.7m of the 37.4m meter modules out for tender at present, i.e. less than 5%. Our calculation includes only the hardware element of the modules, which would be paid for following delivery. The value of orders currently being deployed by CyanConnode in India is c.INR1.8bn (c.£19m). The majority of the revenue for these orders is expected to be recognised over two years. In August 2021, CyanConnode announced a major new order in India, for 152,000 smart meter modules, plus associated gateways, software licences and maintenance for a full AMI deployment. The customer utility is in Northern India, marking a new region for CyanConnode for the Indian rollout.

### *Indian smart meter programme gaining momentum*

It is well understood that the Indian smart meter programme, which was originally announced in 2019, has taken longer than anticipated to gain momentum. Political factors played a role when certain regions changed parties, and it undoubtedly took a while for technology vendors unable to deliver on requirements to be exposed. However, after a build-up of activity over several years, it is now showtime in India, with contract decisions on at least 37.4m meters expected to be announced during calendar 2022. As noted above, the revenue opportunity for intelligent modules alone is very substantial indeed.

The Indian government acknowledges that previous efforts to turn around the power distribution sector have not delivered sufficient impact. In recent months, the Indian government has introduced a series of initiatives seeking to encourage intensification of activity levels, especially with respect to the smart meter programme. The focus is on delivered results – some INR3.03tn has been allocated to help the distribution companies (Discoms) to “reform, perform and transform into modern Discoms”.

### *Focus now solely on proven technology vendors*

A communication from the Indian Ministry of Power, dated 10 January 2022, has, in our view, significantly strengthened CyanConnode's market position. The communication includes the following important points:

- ▶ Under the revamped scheme, the first phase requires almost 100m smart meters to be installed and commissioned by December 2023.
- ▶ To date, 3.3m have been installed across the country. The early evidence is that the financial benefits to the Discoms are substantial; for example, a 20% uplift in collection rates in the state of Bihar following the implementation of prepaid meters.
- ▶ Various issues have been exposed with respect to some installations that have taken place so far. These include communications failures with meters, difficulties in integrating with legacy billing systems at the Discoms, lack of compatibility between head-end software systems and meters from multiple manufacturers, and the requirement for manual intervention to connect and disconnect some system components.
- ▶ The proposed solutions of bidders will be assessed by pre-qualification committees, with all current and live bids to be put on hold until March 2022, pending setup of the test schemes and pre-qualification arrangements. Where

bidders fail to meet the requirements, their solutions will be excluded from government funding provisions to the Discoms.

These are critical observations, which lead the Ministry to conclude that bids will only be considered from vendors that have proven their ability to deliver end-to-end prepaid solutions that are fully interoperable, with seamless connectivity and a success rate (i.e. service level agreement, SLA) of at least 99.5%. These are highly demanding parameters, which CyanConnode fulfils. We are unaware of other providers that currently meet these criteria, but all will become clear on this front as the contract awards come through during calendar 2022.

#### Indian Ministry of Power: extract from January 2022 communication

3. In this connection, to avoid delays in implementation of Smart metering projects on scale, it has been decided that:
  - a. Only those bidders would be considered and evaluated in the Bids that have effectively demonstrated an end-to-end prepaid Smart Metering solution. This may be provided for in bid documents.
  - b. The demonstration should be able to satisfy, *inter alia* amongst others the following:
    - i. Interoperability across various types of meters
    - ii. Seamless connectivity between Smart meter and HES; HES and MDM; and, MDM and any billing solution with prepaid facility.
    - iii. Automatic disconnection on exhaustion of consumer credit and automatic reconnection on recharge without human intervention with a success rate of 99.5%. REC shall also widely disseminate the requirement of this pre-qualification and invite potential bidders to demonstrate their prepaid AMI solutions.

Source: Indian Ministry of Power

The Discoms themselves are also getting more savvy about the differing platforms. We have written previously about the Discoms, highlighting the issues that have been experienced with certain vendors' platforms. The conclusion reached by one Discom was that much more testing was required for the unproven platforms, in conjunction with other parts of the infrastructure. These concerns and viewpoints undoubtedly helped to trigger the updated requirements from the Ministry of Power with respect to the procurement criteria. CyanConnode's status as a vendor of a platform that has not only been validated, but successfully deployed at scale, should represent a substantial advantage.

#### SLAs are a central battleground

Our understanding is that the 15% upper threshold for management's range of its market share of the Indian programme is predicated on the estimated proportion of utility end-user premises where cellular smart meter modules will not provide adequate coverage. However, the SLAs offered by CyanConnode's technology are far ahead, at over 99.5%, compared with 85% to 95% for cellular technologies. The importance of this differential has been magnified by the current wave of tender specifications, which generally specify SLAs in excess of 95%, or, in some cases, over 99%. This factor, together with the stated preference to focus on procuring from indigenous Indian companies, would seem to leave CyanConnode with a relatively benign competitive landscape.

However, CyanConnode's hybrid modules are inevitably more expensive than standalone cellular modules, and price will unavoidably be a factor, given the immense scale of the rollout and the evolving funding models. It remains to be seen, therefore, how the trade-off between price and performance will play out, in both the short term and over the longer term.

### *Strong performance on key deliverables to date*

In CyanConnode's favour, the measured outcomes of the c.700,000 meters installed on its platform to date have been highly positive. Almost 2 terabytes of data is already flowing through the CyanConnode platform annually in India, with more than 2.5bn units of billing data points collected by the system. The Discoms are afforded substantially improved visibility into their platforms and the sources of losses, which can be progressively reduced. Across India today, the AT&C losses are calculated to be around 23%, comprising around 11% technical losses and around 12% commercial losses. The implementation of smart meters not only directly improves commercial losses, through enhanced collection, for example, but there are indirect benefits in terms of technical losses – this would include improved visibility of loads on the system, in turn permitting more efficient load balancing across the distribution infrastructure. We expect the data to become more granular over time and remain a key focus for the Indian Ministry of Power, as it seeks to understand the efficacy of the outcome being delivered by the immense smart meter programme.

#### **CyanConnode: performance of installed meters in India to date**

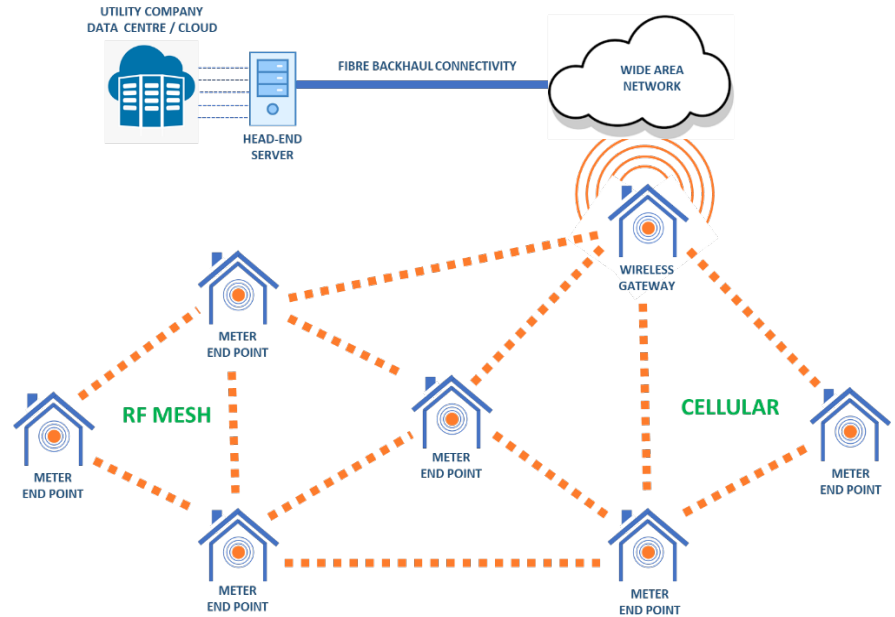
<b>CyanConnode Leading Green Transformation of Indian Power Sector</b>		
1	Total Consumers Connected to CyanConnode IoT Platform in India	700000
2	Amount of Data (KB) per Meter per Day through CC IoT Platform	7
3	Amount of Data (GB) per Month through CC IoT Platform	147
4	<b>Amount of Data (GB) per Year through CC IoT Platform</b>	<b>1764</b>
5	Number of Billing Units or KWH used per month per meter	300
6	Total Number of Billing Units used per month (Million Units)	210
7	<b>Total Number of Billing Units used per Year (Million Units)</b>	<b>2520</b>
8	<b>Carbon Emissions Saved per Year through CC IoT Platform (Million Pounds)</b>	<b>264.7</b>
	a) Smart Meters helping reduction in consumption	3%
	b) Smart Meters helping reduction in generation on a/c of loss reduction	8%
	c) CO <sub>2</sub> Generated with 1 Unit of Electricity Generation (In Pounds)	0.85
	Reference: <a href="https://www.eia.gov/tools/faqs/faq.php?id=74&amp;t=11">https://www.eia.gov/tools/faqs/faq.php?id=74&amp;t=11</a>	

Source: Company data

### *CyanConnode offers an end-to-end solution*

CyanConnode has engaged with the opportunity in a systematic manner, allowing its industry-leading technical performance and high levels of availability and uptime to show through. Along the way, it released modules able to handle all communications protocols, whether RF, cellular GPRS or fixed powerline. This is all delivered as part of an end-to-end platform incorporating gateways (which communicate data gathered from hundreds of local meters) and head-end software, which is the recipient of the data streams and integrates with the utilities' own information technology systems. The utilities are looking for reliable and resilient platforms that will require limited maintenance and deliver high levels of uptime, even in rural areas, where quality of mobile network infrastructure may be relatively patchy.

### CyanConnode: Omnimesh platform basic architecture



Source: Hardman & Co Research

### *Evolving prime contractor landscape*

Perhaps unsurprisingly, given the sheer scale of the revenue opportunity, the entities that are vying for prime contractor roles on the smart meter rollouts in India are evolving. Joining the meter manufacturers are two primary categories of participant.

- 1) First, the **EPCs** (engineering, procurement and construction companies) are engaging as prime contractors. These are typically well-funded specialist project management companies with extensive resources to execute on complex infrastructure projects. They will become the single contracting point for contractual arrangements, which is potentially attractive to the Discoms, which are coming under intense government pressure to accelerate their progress.
- 2) Secondly, **infrastructure funds** are being drawn in by the emphasis on opex funding models (DBFOOT), whereby the metering infrastructure is funded by these entities and rented to the Discoms for a period of time, before being transferred to the utilities on pre-agreed terms. In this scenario, CyanConnode may sell directly to the utilities, which appreciate the critical role that CyanConnode's advanced metering infrastructure (AMI) platform provides.

The meter manufacturers continue to play a major role, and some of these entities are now part of much larger organisations; for example, following Schneider Electric's 2020 acquisition of Larsen & Toubro's electrical and automation business. In fact, as a way of scaling its presence, CyanConnode is in discussions with a select group of existing meter manufacturer partners to license its technology. The royalty streams could scale rapidly as the rollout progresses.



In general, there appears to be appreciation that, as a small technology vendor, CyanConnode cannot sustain a fully deferred revenue model at this juncture, resulting in agreement to pay a significant proportion upfront, at least the hardware element. Maintenance and support revenue streams are likely to be deferred across all delivery models.

Our conclusion from these expanding routes to market is that CyanConnode has opportunities to capture substantial share of the opportunity across these partners, which should be reflected in strong revenue growth and growth in margins, especially if the technology licensing model becomes a material component of revenue.

#### CyanConnode: evolving routes to market

<b>Direct</b>	Direct bidding is not something that CyanConnode has been in a position to do in the past, but if SPVs are established with infrastructure funds, then this becomes an option. Meter manufacturers would also supply the SPV alongside CyanConnode.
<b>Meter Manufacturers</b>	The primary go-to-market for CyanConnode to date has been supply agreements with the meter manufacturers, which in turn embed the intelligent modules into their equipment. This model will persist as other models gain traction.
<b>EPCs</b>	The EPCs (engineering, procurement and construction companies) are engaging as prime contractors. These are typically well-funded specialist project management companies with extensive resources to execute on complex infrastructure projects.
<b>Licensing</b>	CyanConnode is evaluating opportunities to grant manufacturing licences to meter manufacturing companies (likely to be existing partners such as Schneider Electric and Genus Power Infrastructure). Revenue scalability via this model should be high.

Source: Hardman & Co Research

#### CyanConnode is strategically well-positioned

In the table below, we set out some of the key factors that we believe are relevant when considering CyanConnode's prospects of capturing a significant share of the Indian smart meter opportunity. These include the depth and scalability of the technology platform, the fact that the technology is compatible with all meter manufacturers in India, the reference deployments, the strength of the company's partnerships and the quality of the management team.

The move to create a vertical global sales and business development function, led by Anil Daulani, who recently returned to CyanConnode, appears to be a well-considered move. While the focus is understandably on India at present, given the sheer scale of activity in that country, there are smart meter rollouts under way in several other countries where CyanConnode has been awarded contracts. Africa and Asia will, in our view, remain the key regions of growth for the company, as governments tackle the constraints on growth imposed by inadequate power generation and distribution infrastructure.



## CyanConnode: strong positioning for the Indian opportunity

RF Mesh technology advantages relevant to India	Alongside the company's reputation for technical excellence, the starting point for the strong interest is the highly resilient RF-based mesh solution that Omnimesh offers, reducing outages and costly maintenance visits in rural areas, where cellular coverage is thin and unreliable.
Compatible with all smart meter manufacturers	CyanConnode's smart meter modules are compatible with all Indian meter manufacturers. This is helpful given the depth of concerns on the part of the Indian government with respect to sourcing of critical infrastructure in a way that leaves the country open to attack from hacking.
Memorandum of Understanding (MOU) with Intellismart	The MOU with Intellismart, set up to support the Indian utilities with the financing, procurement and deployment of smart metering infrastructure, in our view, seeks to leverage CyanConnode's track record of successful implementations when the pressure to accelerate progress is intensifying.
Service level agreements (SLAs) of 99% and above	Unproven vendors are starting to flounder in India – we believe this is one of the reasons for the growing focus from the state-sponsored entities on CyanConnode, which is demonstrating its ability to deliver exceptionally high availability (SLAs of over 99%) and substantial improvements in billing efficiency in the projects being deployed currently.
Highly respected management team in India	CyanConnode has assembled a high-profile and exceptionally experienced management team for its Indian business, and new global roles are being created. Most recently, the company re-hired Anil Daulani (former MD of India) as President of Global Sales and Business Development.

Source: Hardman & Co Research

## Valuation

Our approach to understanding the potential valuation of CyanConnode centres on a DCF analysis. Our assumptions are set out in their entirety in the table below, and are relatively conservative, particularly the WACC of 10.9% and the medium-term revenue profile, given the international pipeline of opportunities.

The analysis produces an implied fair enterprise value of £88.4m and an implied fair equity value of £89.9m (equating to £0.41 per share). These valuation outcomes are materially higher than the current enterprise value of £42.5m and market capitalisation of £44.0m.

### CyanConnode: Hardman & Co DCF analysis

**Key inputs**

Terminal FCF growth rate	3.0%
Long-term sustainable EBIT margin	28.0%
Long-term tax rate on EBIT	20.0%
<b>WACC</b>	<b>10.9%</b>

Y/end March, £m	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Terminal value
<b>Revenue</b>	<b>9.3</b>	<b>18.8</b>	<b>24.5</b>	<b>31.1</b>	<b>38.8</b>	<b>46.6</b>	<b>52.2</b>	<b>54.8</b>	<b>57.5</b>	
yoy growth	44.2%	102.8%	29.9%	27.0%	25.0%	20.0%	12.0%	5.0%	5.0%	
EBIT margin	-13.8%	13.1%	22.0%	23.5%	25.0%	26.0%	27.0%	28.0%	30.0%	
<b>EBIT</b>	<b>-1.3</b>	<b>2.5</b>	<b>4.5</b>	<b>7.3</b>	<b>9.7</b>	<b>12.1</b>	<b>14.1</b>	<b>15.3</b>	<b>17.3</b>	
Depreciation & amortisation	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	
<b>Adj. EBITDA</b>	<b>-0.7</b>	<b>3.0</b>	<b>5.1</b>	<b>7.9</b>	<b>10.3</b>	<b>12.7</b>	<b>14.7</b>	<b>16.0</b>	<b>17.9</b>	
Tax rate	0.0%	8.0%	12.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	
Tax on EBIT	0.0	-0.2	-0.5	-1.5	-1.9	-2.4	-2.8	-3.1	-3.5	
Change in net working capital	-0.5	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	
<b>Cashflow from operations</b>	<b>-1.2</b>	<b>2.1</b>	<b>3.8</b>	<b>5.7</b>	<b>7.7</b>	<b>9.6</b>	<b>11.2</b>	<b>12.2</b>	<b>13.8</b>	
Capex	-0.2	-0.2	-0.3	-0.3	-0.4	-0.5	-0.6	-0.7	-0.9	
<b>Unlevered free cashflow</b>	<b>-1.4</b>	<b>1.9</b>	<b>3.5</b>	<b>5.4</b>	<b>7.3</b>	<b>9.1</b>	<b>10.6</b>	<b>11.5</b>	<b>12.9</b>	<b>145.8</b>
Year	1	2	3	4	5	6	7	8	9	10
Discount factor	1.11	1.23	1.36	1.51	1.68	1.86	2.06	2.29	2.54	2.54
<b>Present value</b>	<b>-1.3</b>	<b>1.5</b>	<b>2.6</b>	<b>3.6</b>	<b>4.3</b>	<b>4.9</b>	<b>5.1</b>	<b>5.0</b>	<b>5.1</b>	<b>57.5</b>

Note: based on medium-term assumptions from 2024E

<b>Implied valuation metrics</b>	<b>£m</b>
Sum of nine-year cashflow	30.9
Terminal value	57.5
Value of the firm	88.4
Net funds	1.5
<b>Total equity value</b>	<b>89.9</b>
No. of shares in issue (m)	220.0
<b>Fair value share price (£)</b>	<b>0.41</b>

Source: Hardman & Co Research estimates

## Profit and loss

### CyanConnode: profit and loss summary

Year-end Mar (£000)	12M Dec 2017	12M Dec 2018	15M Mar 2020	2021	2022E	2023E	2024E
<b>Revenue</b>	<b>1,171</b>	<b>4,465</b>	<b>2,451</b>	<b>6,437</b>	<b>9,282</b>	<b>18,827</b>	<b>24,461</b>
Cost of sales	-674	-1,724	-1,081	-3,334	-5,105	-10,731	-14,187
<b>Gross profit</b>	<b>497</b>	<b>2,741</b>	<b>1,370</b>	<b>3,103</b>	<b>4,177</b>	<b>8,096</b>	<b>10,274</b>
<b>Gross margin</b>	<b>42%</b>	<b>61%</b>	<b>56%</b>	<b>49%</b>	<b>45%</b>	<b>43%</b>	<b>42%</b>
Operating expenses	-11,161	-8,589	-6,827	-5,284	-5,178	-5,385	-5,601
<b>EBITDA</b>	<b>-10,664</b>	<b>-5,848</b>	<b>-5,457</b>	<b>-2,181</b>	<b>-1,001</b>	<b>2,710</b>	<b>4,673</b>
Share-based payments	-689	-445	-267	-80	-300	-320	-400
Stock impairment	-55	-578	-4	-108	0	0	0
Foreign exchange losses	-52	-16	-267	15	0	0	0
<b>Adjusted EBITDA</b>	<b>-9,868</b>	<b>-4,809</b>	<b>-4,919</b>	<b>-2,008</b>	<b>-701</b>	<b>3,030</b>	<b>5,073</b>
EBITDA margin	-911%	-131%	-223%	-34%	-11%	14%	19%
Depreciation & amortisation	-489	-472	-772	-627	-576	-570	-570
EBIT	-11,153	-6,320	-6,229	-2,808	-1,577	2,140	4,103
<b>Adjusted EBIT</b>	<b>-10,357</b>	<b>-5,281</b>	<b>-5,691</b>	<b>-2,685</b>	<b>-1,277</b>	<b>2,460</b>	<b>4,503</b>
Adjusted EBIT margin	-884%	-118%	-232%	-42%	-14%	13%	18%
Investment income	16	13	17	1	2	2	3
Net finance income	-6	-2	-30	-50	20	22	26
<b>Adjusted PBT</b>	<b>-10,347</b>	<b>-5,270</b>	<b>-5,704</b>	<b>-2,734</b>	<b>-1,255</b>	<b>2,484</b>	<b>4,532</b>
Taxation/tax credit	1,402	927	576	677	697	-199	-544
Effective tax rate	-14%	-18%	-10%	-25%	-56%	8%	12%
<b>Net income</b>	<b>-8,945</b>	<b>-4,343</b>	<b>-5,128</b>	<b>-2,057</b>	<b>-558</b>	<b>2,285</b>	<b>3,988</b>
EPS (basic, p)	-10.18	-3.71	-2.96	-1.18	-0.25	1.04	1.81
EPS (diluted, p)	-10.18	-3.71	-2.96	-1.18	-0.25	1.04	1.81
Average shares in issue (basic, m)	95.740	116.976	173.048	174.755	219.984	219.984	219.984
Average shares in issue (dil., m)	95.740	116.976	173.048	174.755	219.984	219.984	219.984

Source: Hardman & Co Research

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(Disclaimer Version 8 – Effective from August 2018)

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