Falanx Group Ltd

Stock Data

Share Price:	1.60p
Market Cap.:	£6.4m
Shares in issue:	400.4m

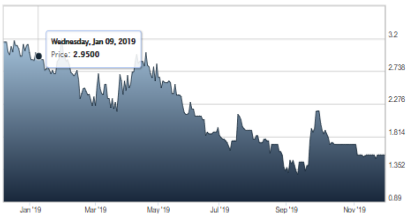
Company Profile

Sector:	Support Services
Ticker:	FLX.L
Exchange:	AIM

Activities

Falanx Group Limited (the 'Group') provides cyber defence, security and global intelligence services to both commercial and government customers.

Share price performance



Source: LSE

Past performance is not an indication of future performance.

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Falanx reported further strong revenue growth for the six months ended September 2019, during which time the Group invested heavily in anticipation of capturing significant new business opportunities available across both the global cyber security and intelligence markets. While this resulted in some overall gross margin slippage for the period, the benefits of new product roll-out and a high level of repeat revenues are expected to be reaped during the Group's traditionally stronger second half. With evidence of this already being delivered amid an expanding sales pipeline and gross margin recovery, the Board continues to focus on driving profitable top-line growth and further cost reduction as it targets cashflow breakeven.

First half Group revenues increased by 21% to £2.64m, of which 80% was said to have been organic. Breaking this down further, a 31% increase was recorded for Falanx Assynt, the Group's geopolitical and strategic intelligence business unit, with sales rising to £0.93 (H1 2018: £0.71m) as a result of an expanding base of recurring revenue contracts; indeed, this contract base grew significantly in September 2019, to some 80% higher than that recorded in April 2019. In September 2019, for example, the Group's monthly recurring revenues rose to £0.29m (September 2018: £0.22m), with overall recurring revenues comprising 56% of the first half total (H1 2018: 53%). Elsewhere, the Cyber business unit sales also increased by 16% to £1.71m (H1 2018: £1.48m).

Group gross margin fell from 36% to 32% primarily due to certain aspects of utilisation and product mix in the Cyber division. Here a decline from 42% to 30% was attributable to investment in new staff, Solar Winds capacity, certain 3rd party costs and revenue mix. Action was taken quickly to optimise processes and certain services with the result that margins have improved in recent months and further gains are anticipated going forward. By contrast, Assynt, increased its gross margin from 25% to 36% as a result of a much stronger revenue performance and contribution from embedded analyst and report revenues.

Falanx's overall underlying operating cost base increased by approximately 18% to £1.77m. Assynt, saw costs increase by approximately £0.17m relating to business development in support of its increase in recurring revenue contracts. Cyber costs increased by £0.20m, although not all this is expected to be seen in the H2 2019 figures; a significant element of this was a result of the expansion of sales and marketing costs, increasing support for anticipated Solar Winds strategic partnership sales, and approximately £70,000 relating to the reallocation of certain costs from central group. Central overheads fell by c.£0.1m to £0.48m reflecting the redeployment of resources into operations and investment programs. Importantly, the Board stated it view that the current operating cost base supports its near-term revenue growth expectations, while retaining a 'cash-cushion' of £0.71m (2018: £0.07m) at the half-year stage. Overall, adjusted EBITDA losses for the six months increased from £0.71m to £0.93m.

Since mid-2018, Falanx Assynt has moved away from spot revenues to more predictable monthly recurring income, which now represents c.95% of its total. During the first half, the division commenced several new, large, long-term contracts, predominantly outside the UK, which in recent months have allowed it to move into sustainable profitability. Meanwhile in Cyber Security, a strong pipeline of opportunities, including much larger potential deals also for monthly recurring revenue services, are said to be progressing well. Having completed the bulk of the planned infrastructure upgrades in support of its Solar Winds programme, together with cost efficiencies secured in the second quarter, the division also appears set to deliver an improved 2H 2019 financial performance and beyond. Having positioned itself to deliver shareholder value against its expanding market opportunity, the Board has stated confidence in its ability to deliver on its growth strategy and continues to view the future with optimism.

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