

#### Stock Data

Share Price: 1.45p  
Market Cap.: £5.8m  
Shares in issue: 400.4m

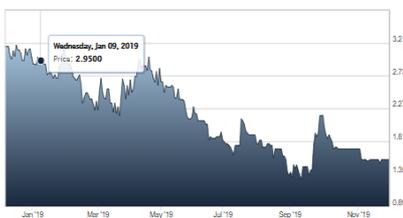
#### Company Profile

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 Group Ltd

Falanx has sold its serverless stream processing platform, Furnace ('Furnace'), to a team led by Falanx's Chief Strategy Officer and Founder, John Blamire. As part of the sale, John Blamire has resigned from the Board with immediate effect. Following the sale, Falanx will continue to benefit from Furnace technology through licensing and support agreements. As such, this transaction is seen benefitting shareholders through reduced Group cash expenditure while also ensuring they continue to participate materially from any increase in Furnace's future value. Significantly, it frees Falanx to concentrate on its core operations which are now trading in their traditionally stronger second half. With evidence of improved confidence already being felt amid an expanding sales pipeline and gross margin recovery, the Board's focus remains on driving profitable top-line growth and further cost reduction (of which today's disposal forms part), as it targets cashflow breakeven.

Whilst Falanx's Board retains a positive long-term view for Furnace's potential market opportunity, it nevertheless determined that this pre-revenue and loss-making operation was no longer core to the Group's wider cyber services business plan. Within its interim accounts to 30 September 2019, Falanx capitalised R&D costs of c.£1.2m relating to Furnace together with goodwill on the balance sheet of c.£400k. For the first eight months of the current financial year, Furnace made a loss of £193,000 and received capital investment of £218,000.

The sale of the business and assets of Furnace to Furnace Technologies Limited (a company controlled by John Blamire and Daniel Waite) has been priced at £1.1m, which is to be funded by way of an unsecured loan note, plus the issue and allotment to Falanx of 20% of the shares in Furnace Technologies Limited. The loan note has a five-year term and carries a 5% coupon. Furthermore, in the event that Furnace is sold during the five years following its initial sale, Falanx will receive an additional 20% of the proceeds of a sale in the first 12 months, amortising down to zero over the remaining four years. Falanx also benefits from certain accelerated loan repayment arrangements in the event of a sale or change of control in Furnace. This implies reclassification of Falanx's current R&D and other intangibles to investments.

As such, the sale of Furnace will reduce Falanx's cash expenditure requirements whilst providing mechanisms to protect not only its investment to date but to ensure that it continues to benefit materially from any prospective value enhancement. Certain external contractors will also be transferring into the new business with immediate effect.

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 H1 2018/19, 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. Today's Furnace sale eliminates certain future funding liabilities while focusing management on these core operations. Here, a strong pipeline of opportunities, including much larger potential service deals which could potentially result in significant new monthly recurring revenues, are said to be progressing well. Having completed the bulk of its planned infrastructure upgrades in support of its Solar Winds programme, together with cost efficiencies that have been secured, the division is positioned to deliver an improved financial performance in 2H 2019/20 and beyond. Having positioned itself to deliver shareholder value while servicing its expanding market opportunity, the Board appears confident in its ability to deliver on its growth strategy and continues to view the future with optimism.

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