

Corporate

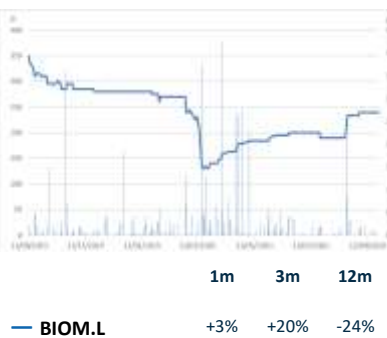
 Current price **240p**

 Sector **Chemicals**

 Code **BIOM.L**

 AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **6.7**

 Shares in issue (m) **2.8**

 52 weeks High **315p** Low **130p**

 Financial year end **December**

Source: Company Data, Allenby Capital

Key Shareholders

 Mr V Pereira **21.46%**

 Mr JM Rushton-Turner **13.03%**

 Directors **3.36%**

Source: Company Data, Allenby Capital

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Biome Technologies plc (BIOM.L)

Strong growth in Bioplastics and £1.1m fund raise

Interim results show that the Bioplastics division is continuing to gain momentum with important new contracts signed, particularly with US-based customers. Existing Group KPIs have been adjusted and extended and are effective through to 2023. If achieved they suggest that the Bioplastics division and the Group would become EBITDA positive by the end of the period. To fund increased spend in the division, the Group is proposing to raise approximately £1.1m (gross) which will be used to accelerate the current project runway, invest in additional manufacturing, boost sales and marketing and support working capital demands. The cyclical Stanelco RF division (RF) continues to suffer from overcapacity in the global fibre optic market and will remain subdued.

- Group results reflect strong momentum in Bioplastics but a weak RF division.** Group revenues in H1 fell by 26% to £2.5m reflecting strong growth of over 70% in the Bioplastics division but a significant fall in revenues from the RF division where weak market fundamentals are inhibiting growth prospects. The loss before tax was £0.8m (H1 2019: loss £0.5m).
- Encouraging strong growth continues in Bioplastics.** The Bioplastics division continued to show strong momentum with revenue growth of over 70% coming from existing and new customers, primarily in the US market. Revenues reached £2.2m in the first half, including £87k of grant income compared to £1.4m in H1 2019 which included grant income of £207k. The outlook for the division remains very encouraging.
- Cyclical downturn impacts the RF division.** Revenues peaked in 2018 at £7m but since then there has been increasing evidence of global overcapacity in the fibre optic cable market which has been aggravated by the impact of COVID-19 on 5G deployment as well as geopolitical tensions.
- The Board has introduced adjusted and extended KPIs through to 2023.** These KPIs look for yoy growth of 40% from Bioplastics and the achievement of divisional EBITDA margins of between 10% and 12.5% within the 2022/23 KPI period. Achievement of these targets would in our opinion result in a positive EBITDA for the division of between £0.2m and £1m, depending on which year the EBITDA target is reached.
- Proposed £1.1m fund raise to support continued Bioplastics growth.** Without the historic cash generation of the RF division, the Group needs to raise capital from external sources. Although it had around £1.1m of cash on the balance sheet at the end of June and is forecast to still have around £0.5m by the year end, in order to develop the business at the current accelerating rate, the Board has considered it appropriate to raise £1.1m gross of further capital at this time via a placing and subscription.

Year End: December

(£'000)	2018 A	2019 A	2020 E	2021 E
REVENUE (pre grant income)	8,459	6,957	6,100	8,600
UNDERLYING EBITDA	628	(492)	(950)	(618)
UNDERLYING (L)/PBT	302	(887)	(1,300)	(968)
NET CASH	2,614	2,126	*1,501	408

*reflects £1.1m proposed gross fund raise in September 2020

Source: Biome Technologies plc; Allenby. Allenby Capital acts as NOMAD and broker to Biome Technologies plc.

Please refer to the last page of this communication for all required disclosures and risk warnings.

KPIs adjusted and extended

Original KPIs to FY2020

In 2017 the Board of Biome introduced a series of high-level KPI's designed to inform shareholders of the scale of the Board's ambitions for the Group for the three years to FY2020. These were:

- 1 Compound revenue growth of 25% per annum across the Group and 40% compound revenue growth in the Bioplastics division.** *(In 2019 neither the Group nor the Bioplastics division met this target although the Bioplastics division exceeded this level of growth within the year).*
- 2 Diversify the Group's turnover by product and market to ensure that no one product or end customer contributes more than 15% of revenues by 2020.** *(In 2019 only two customers had more than 15% of Group reported revenues, one in each of the Bioplastics and Stanelco RF divisions, with each accounting for approximately 17% of Group revenues).*
- 3 Increase investment in the Group's next generation of products by spending significantly more per annum on average than the £0.3m per annum average spend over the previous strategic objective cycle.** *(The Group met this target in 2019 with £1.0m spent in the year of which £0.4m was spent on developing its near-term product pipeline plus an additional £0.6m on its medium-term Industrial Biotechnology programme (funded in part by £0.4m of government grants).*

Given the impact of the COVID-19 virus, the Board considered resetting the KPI time horizon to a four-year period (rather than the current three years) which would cover the period to the end of 2021.

Adjusted and extended KPIs to 2022/23...

However, it has since been decided that the KPIs for the 2018 –2020 objective cycle will now be adjusted and extended to 2022/23 reflecting the continued progress of the Bioplastics division and of course, the headwinds facing the Stanelco RF division.

The adjusted and extended KPIs are as follows:

- 1 Continued annual 40% revenue growth in the Bioplastics division.**
- 2 Bioplastics division's profitable revenue growth to achieve a 10%-12.5% EBITDA margin by the end of the KPI period.**
- 3 Continued diversification of the Group's turnover by product and market to ensure that no single product or end customer contributes more than 15% of revenues by 2020.**
- 4 Continued investment in the Group's next generation of products by spending significantly more per annum on average than the £0.3m per annum average spend over the previous strategic objective cycle.**

...including Bioplastic EBITDA margin targets

These adjusted KPIs are essentially the same as the previous iteration save for the introduction of an EBITDA margin target for the end of the KPI period. The revenue growth targets are based on the Bioplastics revenues before any grant income. We show the potential impact of these KPIs on the Bioplastic division's revenue and EBITDA in our Projections section on page 8.

Fund raise

Bioplastics previously partially funded through cash generated by RF

In prior years, the cash generated from the RF division helped to fund the development of the Bioplastics division. However, with the highly cyclical fibre optic market now entering a down cycle this business is expected to run at a modest loss or at best breakeven.

£1.1m cash at half year – still anticipate £0.5m cash by year end excluding fund raise

Biome ended the half year with £1.1m of cash on the balance sheet and we have forecast that it will still have around £0.5m of cash at the year end. However, to maintain the momentum within Bioplastics at the current accelerating rate the Board has considered it appropriate to raise additional funds at this time.

Proposed fund raise of £1.1m (gross), to be used in funding growth within Bioplastics...

Therefore, the Group is proposing to raise £1.1m gross to help fund the Bioplastics division for the next 12 months. The proceeds are to be used to fund the accelerating growth being achieved (particularly in the US market) through increased investment in sales, technical and logistics support and to fund the acquisition of raw materials, stock and debtors as volumes increase.

... but not for RF

It is important to note that in our view proceeds will not be utilised to shore up the RF division as its cost base has been cut to a level where the business can run at around breakeven, and in any event there are signs of the order book filling modestly to the benefit of H2 and 2021.

Post fund raise, we anticipate a cash balance at Dec 2021 of c.£0.4m

Our model forecasts that post the fund raise the Group would end the financial year to December 2021 with around £0.4m of cash and no debt.

Further funding would then be required

Further funding would then be necessary to continue to support growth through 2022 and beyond and this could come from either a partial recovery in demand in the RF division, conventional bank support or shareholders, but on the back of strong Bioplastic fundamentals.

Participation by Board and major shareholders

The Board has and major shareholders have participated in the fund raise.

Interim results summary

EXHIBIT 1: HALF YEAR INCOME SUMMARY

	H1 2020	H1 2019	H2 2019	2019
	£000	£000	£000	£000
Revenue	2,500	3,398	3,559	6,957
Gross profit	754	1,508	1,516	3,024
<i>margin</i>	30.2%	44.4%	42.6%	43.5%
Grant income	87	207	229	436
Admin expenses	-1,668	-2,210	-2,270	-4,480
<i>as a % of revenue</i>	66.7%	65.0%	63.8%	64.4%
Finance charges	-19	-	-9	-9
Investment revenue	2	3	3	6
FX gains/(losses)	23	8	-8	-
Loss before tax	-821	-484	-539	-1,023

Source: Biome Technologies

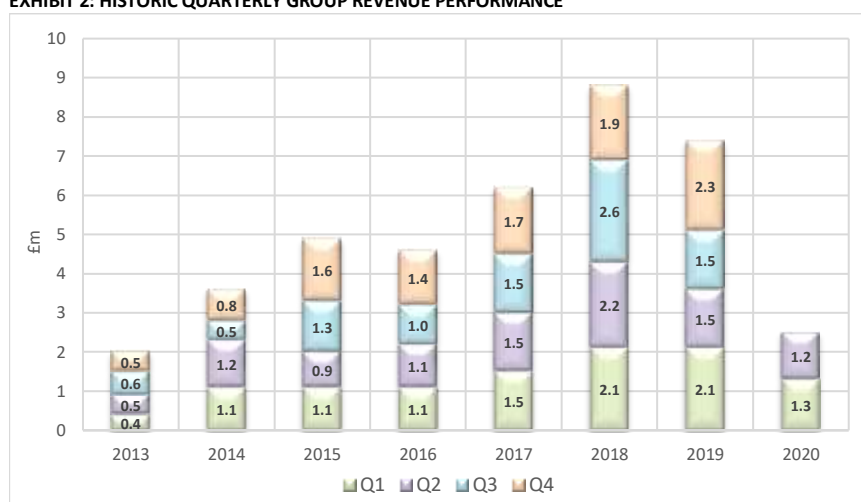
Strong H1 held back by weak RF performance

Despite the global economic upheavals caused by COVID-19, Biome reported a strong performance in the six months to June 2020. Group revenues were £2.5m (before grant income) compared to £3.4m in H1 2019, the reduction being solely attributable to the decline in revenues from the cyclical Stanelco RF division (RF). The RF division was severely impacted by the weak global market for fibre optic cable and the impact of COVID-19 on the deployment of 5G, resulting in divisional revenues falling from £2.2m in H1 2019 to just £0.4m.

Bioplastics grew revenues by over 70%

By contrast, the Bioplastics division continued its strong growth, delivering a more than 70% increase in revenues to £2.1m, a figure which excludes grant income of £87k (2019: £207k) and in so doing is now the principal revenue generator for the Group.

EXHIBIT 2: HISTORIC QUARTERLY GROUP REVENUE PERFORMANCE



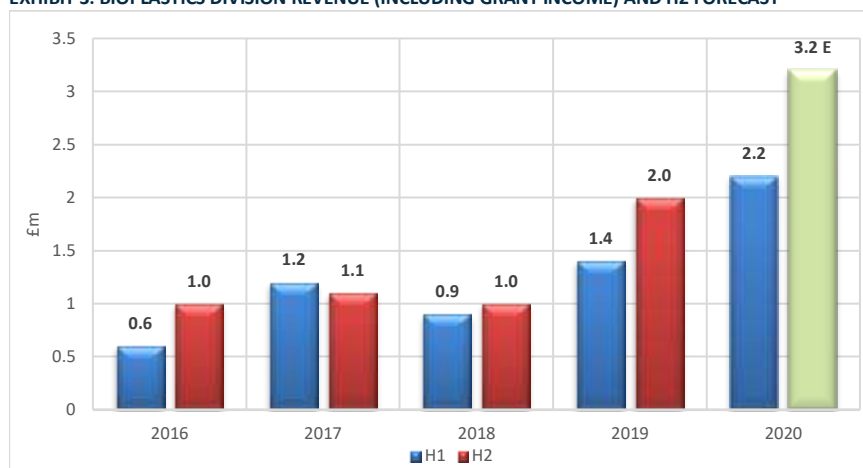
Source: Biome Technologies plc

Cash at period end of £1.1m

The Group's cash position at the end of the period was £1.1m (December 2019: £2.2m) reflecting the first half losses and the increase in working capital requirements in the Bioplastics division.

Bioplastics division

EXHIBIT 3: BIOPLASTICS DIVISION REVENUE (INCLUDING GRANT INCOME) AND H2 FORECAST



Source: Biome Technologies plc; Allenby Capital

Clear signs of increasing interest and adoption from customers

Despite the COVID-19 impact on global businesses and supply chain constraints, the Bioplastics division continues to go from strength to strength with clear signs of the increasing adoption or growing interest in the substitution of conventional plastics with the Group's compostable material.

Divisional revenues up 71%

Excluding the effect of grant income, revenues grew by over 70% yoy to £2.1m against a comparative of £1.2m. First half growth was supported by higher sales of outer packaging for the US coffee market and by growing revenues for rigid ring materials for the coffee pod market.

Growing list of potential new clients

As well as generating business from existing customers the Group is experiencing an expanding list of potential new clients in the US together with a recently announced order worth \$0.6m from an existing major client which represented the largest single order to date for its heat-stable and compostable bioplastic for coffee pod applications. Deliveries under this order are due to be completed in the current financial year and provide support for our financial forecasts for the division in 2020.

EXHIBIT 4: KEY BIOPLASTIC PROJECTS LAUNCHED IN 2019/20

Project	Application	Status
Cutlery	A new material for disposable cutlery for a customer in the US market but with broader applicability (contract)	Revenues began to accelerate in late 2019, paused during the US COVID-19 restaurant shutdowns but are now regaining traction
Coffee pod	A new material for a coffee pod in the US market that is heat stable (contract)	Revenues started in Q3 2019 as anticipated and are now consistently ahead of Board's earlier expectations
Nutrition pod	A new material for a single serve nutrition pod being manufactured in Switzerland and launched in the US market	Revenues started in Q2 2019 and were expected to step-up in 2020. Closure of US gyms due to COVID-19 has stopped progress in the last 6 months. Customer refocusing to online sales
Film	Existing materials deployed in a number of plastic film products for a US customer (manufactured in Germany)	Revenues started in Q2 2019 and have made consistent progress with a broader set of customers

Source: Biome Technologies plc

In addition, the division has received a number of high-quality projects/products with significant revenue potential which have come through the development cycle and are now likely to be key contributors to the Group's revenue stream in 2021.

EXHIBIT 5: KEY BIOPLASTIC PROJECTS FOR 2021 AND BEYOND

Project	Application
Existing customer growth	Continued growth of existing customers with existing products (flexible film in both industrial and particularly home compostable formats) in the North American market
Filtration mesh	Growth with a second customer in material that has been proven with an existing customer over the last three years. Implementation underway (the customer is already a user of Biome's film products)
Coffee pod material	Continued growth of a heat stable material for coffee pods in the US launched end 2019 and gaining momentum
Packaging film	Several new customer projects that are conversions of flexible packaging to compostable formats (six in the North American market)

Source: Biome Technologies plc

Substitution of petro-chemical derived plastics to new bio-based products being led by US Plastics Pact with ambitious targets over next 5 years

Global initiatives that are changing the plastics landscape for good

The global market for bioplastics is predicted to grow by around 25% CAGR over the next 5 years¹. Supporting this growth is an increasing momentum amongst packaging companies and brand owners worldwide towards the adoption of recyclable and compostable plastic.

In the US, this has manifested itself in initiatives such as the US Plastics Pact with a target to recycle or compost 50% of all plastic packaging by 2025 and also targets the recycling of bio-based content of plastic packaging to be 30% by 2025.

In the UK, a consortium of companies that account for some 80% of all consumer packaging have formed the UK Plastics Pact which targets 100% of plastic packaging to be reusable, recyclable, or compostable by 2025. In addition, the UK has mandated universal food waste collection by 2023 – thus developing a route for compostables.

These and other worldwide initiatives have permanently turned the tide of the indiscriminate usage of plastic that cannot be recycled or composted. The world of plastic packaging is changing and it is changing to the advantage of Biome Technologies and other producers of alternative bio-based plastics.

This is becoming increasingly evident within the Company as the division continues to gain momentum. The Board has a clear growth trajectory of Bioplastics in 2021 that's rests primarily on substantial extensions of positions with existing customers. Existing customers are growing their own sales and their portfolio of compostable product lines. Furthermore, the development pipeline continues to strengthen as both mid-size and larger brands approach the Company to undertake new development projects.

STRATEGIC END-CUSTOMERS (USA)

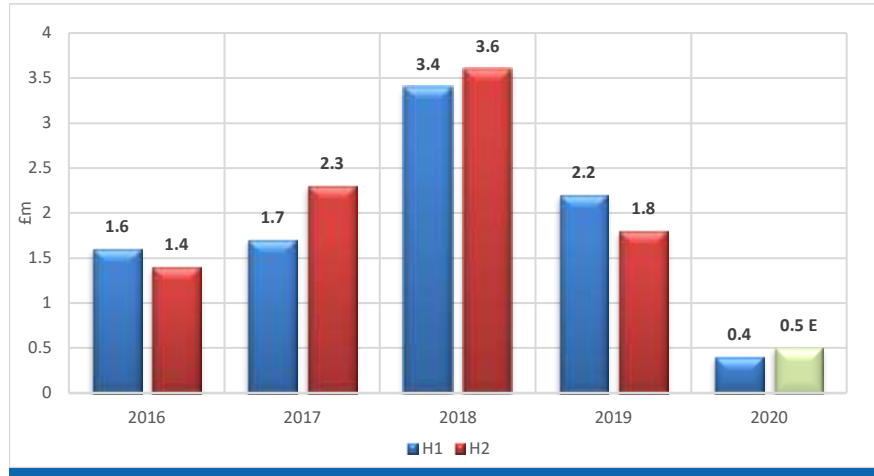
	2019	2020
Film	2	7
Rigid	1	2
Mesh	1	2
Total	4	11

Source: Biome Technologies plc

¹ Hasso von Pogrell, MD European Bioplastics, BIOPLASTICS MARKET-GROWTH, TRENDS AND FORECAST (2019-2024). Mordor Intelligence

Stanelco RF division

EXHIBIT 6: RF DIVISION REVENUES AND H2 FORECAST



Source: Biome Technologies plc; Allenby Capital

Continues to be impacted by overcapacity in fibre optic cable and COVID-19

Revenues from the RF division continued to be impacted by the overcapacity for fibre optic cable caused in part by the cyclical nature of the sector and the delay in the global deployment of 5G technology caused by COVID-19 and aggravated further by geopolitical influences.

These factors have led to the temporary shutdown of several manufacturing facilities at RF’s customers, with a consequential reduction in the requirement for RF to provide equipment, spares and service support.

Longer term outlook is positive but expect continued short-term weakness

The expectation is that in the long term, the fibre optic cable market will benefit from the pandemic through the enhanced pace of global digitisation required to meet the demands of, for example, increased home working and the 5G roll-out. However, the reality is that in the short term, demand is likely to remain weak.

Although the division’s order book has seen some recent improvement, significant further momentum would be required to return the division to meaningful cash generation.

At the peak of the cycle the RF division was highly profitable and cash generative reporting revenues of £7m in 2018. Since then the cycle has turned and we are only anticipating an outturn of £0.9m for the year, which is likely to result in a small EBITDA loss, reflecting the fact that overheads have been cut considerably.

RF will not be a cash drain on the Group

We do not anticipate RF being a cash drain on the Group, partly because of the cost reductions that have already taken place and have positioned the business to run pretty much at breakeven at current revenue levels but also as the order book continues a very modest recovery and alternative uses of the division’s radio frequency technology are developed.

Projections based on the achievement of new KPIs

Forecasts for 2020 and 2021...

...and projections for 2022 and 2023 based on the achievement of Group KPIs

What the adjusted and extended KPIs could mean for Bioplastics

In the table below we summarise the reported revenue growth for the Group in 2019 together with our forecasts for 2020 and 2021.

We then offer projections for 2022 and 2023 based on the assumption that the 40% yoy revenue growth rate and EBITDA margin KPIs for Bioplastics are achieved. We would emphasise that these are **NOT** forecasts. The KPIs target an EBITDA margin range for Bioplastics in a time range of 2022 to 2023 without being specific on which of those years it could be achieved. Therefore, we have factored in the margin target for both years to illustrate its effect.

For EBITDA, we offer two differing scenarios in line with the adjusted EBITDA margin KPI targets (i.e. one assuming a margin of 10% and another assuming a margin of 12.5%). In both cases Biome achieves a positive EBITDA for the Group as a whole.

EXHIBIT 7: ILLUSTRATION OF REVENUE GROWTH AND EBITDA IN BIOPLASTICS OVER NEW KPI PERIOD							
	2019	2020E	2021E	2022E	2022E	2023E	2023E
	£000	£000	£000	£000	£000	£000	£000
Revenue							
Bioplastics	2,991	5,200	7,400	10,640	10,640	14,896	14,896
Grant income	436	210	200	0	0	0	0
Total Bioplastics	3,427	5,410	7,600	10,640	10,640	14,896	14,896
RF	3,966	900	1,200	1,200	1,200	1,200	1,200
Revenue total	7,393	6,310	8,800	11,840	11,840	16,096	16,096
EBITDA							
Bioplastics	-645	-69	218	1,066	1,330	1,492	1,865
margin	-21.6%	-1.3%	2.9%	10.0%	12.5%	10.0%	12.5%
RF	914	-206	-93	-93	-93	-93	-93
Central overheads	-759	-675	-743	-765	-765	-800	-800
EBITDA total	-490	-950	-618	208	472	599	972

Source: Biome Technologies; Allenby Capital

Exhibit 7 illustrates that if KPI targets for revenue growth and EBITDA margin are achieved for the year to December 2022 then Bioplastics revenues could reach £10.6m with an EBITDA of between £1.1m and £1.3m. Furthermore, the KPI targets for 2023, if met, would result in divisional revenues of nearly £15m and an EBITDA of between £1.5m and £1.9m.

Assuming zero revenue growth for RF over our 2021 forecasts, achievement of the Group's Bioplastics revenue and EBITDA KPIs would result in a positive EBITDA for the Group as a whole in 2022 of between £0.2m to £0.5m and for 2023 of between £0.6m and £1.0m.

Our forecasts for central overheads are derived from the Group's intended reallocation of overheads to reflect the ongoing costs of each division more fairly. Segmental information had previously treated shared costs e.g. site rent, as central costs. In future it is intended that these costs will be reallocated to the business' divisions on a proportionate basis.

Central costs have been assumed by us to decline in line with the general reduction in costs anticipated in 2020. Thereafter we have forecast a modest increase in 2021 which continues through our projection period.

INCOME STATEMENT AND FORECASTS

EXHIBIT 8: INCOME STATEMENT

Y/E December	£000 FY 2018A	£000 FY 2019	£000 FY 2020E	£000 FY 2021E
UNDERLYING				
Bioplastics division	1,499	2,991	5,200	7,400
RF division	6,960	3,966	900	1,200
Revenue	8,459	6,957	6,100	8,600
Cost of Sales	(4,042)	(3,933)	(4,260)	(6,165)
Gross Profit	4,417	3,024	1,840	2,435
<i>Gross Profit margin</i>	<i>52.2%</i>	<i>43.5%</i>	<i>30.2%</i>	<i>28.3%</i>
Other operating income	391	436	210	200
Overheads	(4,180)	(3,950)	(3,000)	(3,253)
<i>As a % of sales</i>	<i>49.4%</i>	<i>56.8%</i>	<i>49.2%</i>	<i>37.8%</i>
Underlying EBITDA	628	(490)	(950)	(618)
<i>margin</i>	<i>7.4%</i>	<i>-7.1%</i>	<i>-15.6%</i>	<i>-7.2%</i>
Depreciation	(57)	(77)	(50)	(50)
Amortisation	(290)	(317)	(300)	(300)
Underlying Operating profit/(loss)	281	(884)	(1,300)	(968)
<i>margin</i>	<i>3.3%</i>	<i>-12.7%</i>	<i>-21.3%</i>	<i>-11.3%</i>
Investment revenue	4	6	-	-
FX	17	-	-	-
Finance charges	-	(9)	-	-
Underlying Profit/(loss) before tax	302	(887)	(1,300)	(968)
Tax	59	146	100	100
Underlying Profit/(loss) after tax	361	(741)	(1,200)	(868)
STATUTORY				
Underlying Operating profit/(loss)	281	(884)	(1,300)	(968)
Share based charges	(218)	(136)	(100)	(100)
Statutory Operating profit/(loss)	63	(1,020)	(1,400)	(1,068)
Investment revenue	4	6	-	-
Finance charges	-	(9)	-	-
FX gains/(loss)	17	-	-	-
Statutory Profit/(loss) before tax	84	(1,023)	(1,400)	(1,068)
Tax	59	146	100	100
Statutory Profit/(loss) after tax	143	(877)	(1,300)	(968)

Source: Biome Technologies plc; Allenby Capital

CASH FLOW AND FORECASTS

EXHIBIT 9: CASH FLOW

Y/E December	£000 FY 2018A	£000 FY 2019	£000 FY 2020E	£000 FY 2021E
Operating cash flow:				
Operating profit/(loss)	63	(1,020)	(1,400)	(1,068)
Depreciation	57	77	50	50
Amortisation	290	317	300	300
Share-based payment	218	136	100	100
FX	16	9	-	-
Operating cash flow pre changes in working cap & provisions	644	(481)	(950)	(618)
<i>Decrease/(increase) in inventories</i>	<i>(158)</i>	<i>400</i>	<i>150</i>	<i>(150)</i>
<i>Decrease/(increase) in trade receivables</i>	<i>521</i>	<i>(1,087)</i>	<i>(300)</i>	<i>(400)</i>
<i>Increase (decrease) in trade and other payables</i>	<i>(277)</i>	<i>(405)</i>	<i>(400)</i>	<i>200</i>
Net movement in working capital	86	(1,092)	(550)	(350)
Corporation tax	-	205	150	150
Interest paid	-	(2)	-	-
Net cash inflow/(outflow) from operating activities	730	(1,370)	(1,350)	(818)
Investing Activities:				
Interest received	4	6	-	-
Investment in intangible assets	(293)	(282)	(250)	(250)
Purchase of PP&E	(120)	(27)	(25)	(25)
Net cash inflow/(outflow) from investing activities	(409)	(303)	(275)	(275)
Financing Activities:				
Proceeds from issue of shares (net)	-	1,196	1,000	-
Proceeds from leasing activities	-	-	-	-
Repayment of obligations under leasing activities	-	(11)	-	-
Net cash inflow/(outflow) from financing activities	-	1,185	1,000	-
Total net increase/(decrease) in cash and cash equivalents	321	(488)	(625)	(1,093)
Cash and cash equivalents at start of period	2,293	2,614	2,126	1,501
Cash and cash equivalents at end of period	2,614	2,126	1,501	408

Source: Biome Technologies plc; Allenby Capital

BALANCE SHEET AND FORECASTS

EXHIBIT 10: BALANCE SHEET				
	£000	£000	£000	£000
Y/E December	FY 2018A	FY 2019A	FY 2020E	FY 2021E
Assets				
Non-current assets				
Other intangibles	918	883	833	783
PP&E	185	653	628	603
Total non-current assets	1,103	1,536	1,461	1,386
Current assets				
Inventories	955	555	355	555
Trade and other receivables	873	1,885	1,650	1,651
Cash and Cash equivalents	2,614	2,126	1,501	408
Total current assets	4,442	4,566	3,556	2,614
Total Assets	5,545	6,102	5,017	4,000
Liabilities				
Current liabilities				
Trade and other payables	(1,792)	(1,381)	(981)	(1,181)
Lease liabilities	-	(76)	(38)	-
Total current liabilities	(1,792)	(1,457)	(1,019)	(1,181)
Non-current liabilities				
Lease liabilities	-	(438)	(400)	(400)
Total non-current liabilities	-	(438)	(400)	(400)
Total liabilities	(1,792)	(1,895)	(1,419)	(1,581)
Net Assets	3,753	4,207	3,598	2,419
Net current assets	2,650	3,109	2,537	1,433
Balance Sheet Ratios				
	£000	£000	£000	£000
Y/E December	FY 2018A	FY 2019A	FY 2020E	FY 2021E
Long-term financial debts	-	-	-	-
Short term financial debts	-	-	-	-
Gross (debt)	-	-	-	-
Cash and cash equivalents	2,614	2,126	1,501	408
Net cash	2,614	2,126	1,501	408
Acid test (Current Assets less inventory / Current Liabilities)	1.95	2.75	3.09	1.74

Source: Biome Technologies plc; Allenby Capital

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