



Please find below our weekly update covering themes that we feel that are of interest to investors and participants in the small and mid-cap TMT sector as well as commentary on recent newsflow. The cost of Allenby Capital's research on individual clients is paid for by our research clients.

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Allenby Capital TMT Update - 08.02.21 - TERN.L, FTC.L

Tern plc* (TERN.L, 8.9p/£29.4m)

Portfolio update: Further progress (04.02.21 & 08.02.21)

- **FundamentalVR (26% holding):** Further contract win with an existing customer, a leading pharmaceutical company, worth \$0.7m for the wider use of its HapticVR. Revenue expected to be recognised this year. The project combines the real-life deployment of devices with virtual digital twins with which clinicians are able to interact with virtual patient tissue. Announced a further contract win with a new client in regenerative medicine worth an initial £0.5m and a further £0.2m over three years.
- **Talking Medicines (23.4% holding):** Launch of PatientMeetRx, its artificial intelligence and natural language processing powered social intelligence service, to provide pharmaceutical companies with insights on patient experience. PatientMeetRx will capture the voice of the patient from millions of conversations over multiple sources, including social media, forums and blogs, mapped to a database of 130,000 regulated global medicines. It will be sold on a subscription basis.
- **Device Authority (56.8% holding and \$4.3m convertible loan):** Tern has provided an additional \$0.3m as a convertible loan, alongside an additional c. \$0.1m from the other shareholders, Alsop Louie Partners and the George Samenuk Trust. This will be used for working capital to facilitate its significant pipeline of opportunities. DA is holding a 'Virtual IoT Security Summit' on 23 and 24 February with a number of expert speakers and strategic partners. Separately, signed a strategic partnership with EPS Global, a provider of integrated circuit programming, and Intrinsic-ID, a leading provider of security IP for embedded systems based on physical unclonable function technology.
- Tern had unaudited cash of £2.1m as at 31 December and has invested c. £0.4m subsequently in portfolio companies. Management believes that its cash resources are sufficient for its current needs, including supporting the progress of its portfolio companies although third party funding for portfolio companies remains part of Tern's strategy.

Allenby Capital comment: Further progress within the portfolio of companies with the follow on order at FundamentalVR and a new customer win and the service launch at Talking Medicines. Device Authority ended FY20 strongly closing five orders and management reports that this momentum has continued into FY21, necessitating the need for additional working capital, and the company continues to build out its partnership network. Tern has reasonable cash on the balance sheet but helping portfolio companies secure third party funding, as evidenced by the recent Wyld Networks' investment, is key to the Tern investment case and increasing its NAV.

* Allenby Capital acts as Nomad and Broker to Tern plc.

Filtronic plc (FTC.L, 7.9p/£16.9m)

Interims: Investing to broaden the customer base (02.02.21)

- Meeting with management on the back of interims that saw revenue down 5% to £7.1m as revenue was impacted by a slowdown in sales to the public safety market and a slower than expected switch by its lead telecoms OEM customer from the Orpheus generation of its 5G E-band XHaul transceiver to the next generation Morpheus platform. This was partly offset by stronger sales in defence and aerospace.
- Reduced travel and furlough payments meant adj. EBITDA remained flat at £0.6m. Cash inflow from operating activities of £0.5m (H1 FY20: £2.8m outflow) and net cash, excluding right of use property leases, flat at £0.4m.
- Richard Gibbs was appointed as CEO in August, bringing considerable sector knowledge, and John Behrendt joined as NED with a background in business growth development across a number of sectors.
- H1 included a two year follow on order with a Tier 1 European defence equipment supplier for advanced radar transmit-receive modules worth c. £4.9m and the adoption of FTC's next generation E-band receiver, Morpheus, by its lead telecoms OEM for 5G XHaul application and production ramped.
- H2 started with a >£1m contract with a new major UK defence customer for the development and supply of battlefield radio communications hardware.
- Broadening the customer base remains a key strategic objective but travel restrictions have made this more challenging. Developing routes to market (appointed GT Partners as a manufacturing representative in North America and looking to add further representatives to its network) and generally raise the Filtronic brand through increased investment in marketing.

Allenby Capital comment: H1 demand from critical communications customers was slower than initially envisaged as public funds/attention were directed to COVID support measures but order flow from FTC's lead customer did start to recover in December and FTC has also started gaining traction for its new Tower Top Amplifier. FTC's customer concentration remains high, however, and hence the new customer win for battlefield hardware is encouraging and the Manufacturing Representative Network makes sense, particularly given ongoing travel restrictions. Once COVID restrictions start to subside, investment in critical communications and telecoms networks (5G) should pick up and there is the potential for new markets as W-band and D-band licences are released as well as the HAPS market.

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The changes initiated by MiFID II has had far reaching implications on both the quantity and continued availability of research on smaller cap companies, including those within the TMT sector. We would therefore remind interested companies that Allenby Capital can offer a "paid for" research service for those corporates that wish to retain an alternative and authoritative source of research that can be accessed freely by the entire investment community. If you would like further information on this service please contact d.johnson@allenbycapital.com.

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David Johnson is the author of this research recommendation. David Johnson is employed by Allenby Capital Limited as an Equity Analyst.

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Allenby Capital

5 St Helen's Place London EC3A 6AB

+44 (0)20 3328 5656

www.allenbycapital.com
