Allenby CAPITAL

Company Note

Interims

17 February 2021

Corporate

Current price	**54.5p**
Sector	**Electronic & Electrical Equipment**
Code	**TRT.L**
AIM	**AIM**

Share Performance

	1m	3m	12m
TRT.L	+2%	+2%	-22%

Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m)		**8.9**
Shares in issue (m)		**16.31**
52 weeks	High	Low
	80.0p	**42.5p**
Financial year end		**June**

Source: Company Data, Allenby Capital

Key Shareholders

CriSeren	9.40%
Seneca	7.67%
P Lobbenberg	5.94%
Legal & General	3.31%
Harwood Capital	3.13%
Gerald Oury	3.03%
Directors	1.35%

Source: Company Data, Allenby Capital

Ian Jermin

0203 328 5664

i.jermin@allenbycapital.com

www.allenbycapital.com

Transense Technologies plc (TRT.L)

Revenues up threefold and positive EBITDA

Transense Technologies plc, the developer, manufacturer and licensor of sensor technology and equipment, has reported strong growth from its continuing activities for H1 2020/21. The results are essentially the first to be announced since the transformational change to the business model brought about by the exclusive licensing and transfer of its iTrack technology to ATMS (a subsidiary of Bridgestone) in June 2020. A strong performance from the other divisions (SAW and Translogik) have combined to produce an encouraging start to the financial year and we are reflecting this in an initial modest increase to our earnings forecast for FY2021. We continue to anticipate further strong growth from all three revenue streams in FY2022 and 2023 the forecasts for which, due to COVID and Brexit uncertainties, remain unchanged at this stage.

- **Encouraging revenue progress** – Transense announced revenues of £895k (H1 2019: £271k) a more than threefold increase over the comparative period, although a substantial part of that increase was due to the maiden inclusion of iTrack royalty of £374k. Excluding this contribution, revenues from the other divisions still grew at a very commendable 94%.
- **Positive EBITDA achieved** – Now free of the costs and overheads associated with the development and commercialisation of the iTrack technology and a modest amount of grant income, the Company was able to post a positive EBITDA of £56k (H1 2019: loss £261k). The successful licensing of iTrack and its transfer to licensee ATMS/Bridgestone has enabled management to switch focus to exploit the IP embedded within its other two divisions, SAW and Translogik, where the Board sees strong potential for future sales growth and licensing opportunities.
- **Capital reduction approved by shareholders** – The capital reduction and cancellation of the share premium account became effective on 28 January 2021. We see this as a sign of management confidence in the business going forward allowing the Board to facilitate future distributions to shareholders in the form of dividends and/or share buy backs. The Company has also filed 7-month accounts at Companies House (see page 6).
- **Forecasts for FY2021 raised** – With encouraging progress being made in SAW and Translogik, together with growth in the iTrack installed base, we have sufficient confidence to raise our expectations for FY2021 while still maintaining prudency. Thus, the revenue forecast is increased by 19% to £1,816k from £1,527k, EBITDA by 42% to £47k from £33k and profit after tax to £31k, due to higher R&D tax credits, against a loss of £75k. Clearly, these numbers are still modest but this is just the start of the Company's growth trajectory and we have a very firm conviction that Transense will be posting significant growth in earnings in the years ahead.

Year End: June (£'000)	2019A	2020A	2021E	2022E	2023E
REVENUE	596	603	1,816	2,268	3,236
ADJ. EBITDA	(701)	(681)	47	582	1,392
ADJ. (L)/PBT	(1,124)	(1,265)	(171)	357	1,171
ADJ. EPS (p)	(6.38)	(6.68)	0.19	2.56	7.55
NET CASH	2,647	1,193	1,054	1,111	2,047
EV/EBITDA (x)	-	-	-	13.4	4.9
PER (x)	-	-	-	21.2	7.2

Source: Transense; Allenby. Allenby Capital acts as Nomad and Broker to Transense Technologies plc (TRT.L).

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

Equity Research

Interim results to 31 December 2020

Revenue generated from three divisions: iTrack, SAW and Translogik

The results for the six months to December 2020 were generated from Transense's three revenue streams: licensing and royalty income from **iTrack,** product sales from **SAW** and **Translogik** and grant income. Revenue increased by 230% substantially due to the inclusion of iTrack royalty income of £370k (H1 2019: nil) in the period. Without this, the revenue increase is a still very respectable 94%.

Financial summary

EXHIBIT 1: INTERIM FINANCIAL SUMMARY

Six months to December	2020	% chge	2019
	£000		£000
INCOME STATEMENT			
Revenue	**895**	*230.3%*	**271**
Gross profit	**695**	*299.4%*	**174**
GP margin	*77.7%*	*20.9%*	*64.2%*
Admin expenses (before D&A and share based payments)	-665	-	-435
as a % of revenues	*74.3%*	-	*160.5%*
Share based payments	-22	-	0
Other income	48	*-59.3%*	118
EBITDA	**56**	**-**	**-143**
EBITDA margin	*6.3%*	-	*-52.8%*
D&A	-103	*-75.9%*	-427
Operating profit/(loss)	-47	*-91.8%*	-570
Finance income/(expense)	-6	-	0
Pre-tax profit/(loss)	**-53**	**-**	**-570**
Tax	101	-	0
Post-tax profit/(loss)	**48**	**-**	**-570**
CASH FLOW			
Cash flow from operating activities	78		-763
Changes in working capital	-511	*-5.9%*	-543
Tax	176		0
Net movement in cash flow from operating activities	-335	*-38.3%*	-543
Cash flow from investing activities	1,204		-599
Cash flow from financing activities	-1,012		-4
Net movement in cash during the year	**-143**		**-1,146**
Net cash year end	**1,050**	*-30.9%*	**1,519**
BALANCE SHEET			
Non-current assets	1,063	*-45.3%*	1,942
Current assets	1,614	*-50.1%*	3,237
Net assets	**2,677**	*-48.3%*	**5,179**
Current liabilities	-288	*-79.4%*	-1,399
Non-current liabilities	-136	*-33.3%*	-204
Net liabilities	**-424**	*-73.5%*	**-1,603**
Net assets	**2,253**	*-37.0%*	**3,576**
Net current assets	**1,326**	*-27.9%*	**1,838**

Source: Transense

Note: for a more in-depth analysis of the Transense business, please see our initiation research which can be found on the Allenby Capital website using the following link:

http://www.allenbycapital.com/research/research-TRAN.html

Analysis by division

The Board now reviews segmental information on a new basis as set out below. There are no direct comparatives for this information as a consequence of this change in circumstances.

EXHIBIT 2: HALF YEAR REVENUE AND GROSS PROFIT BY DIVISION

6 months to December 2020	iTrack	SAW	Translogik
	£000	£000	£000
Revenue	374	114	408
Gross profit	374	109	212
Gross profit margin	*100.0%*	*95.6%*	*52.0%*

Source: Transense

iTrack

A royalty income model

Following the transfer of iTrack to ATMS in June 2020, the business model for this activity now comprises royalty income, with an associated elimination of overheads. Thus revenue equates to profit and cash flow.

Installed base increased by 15%

In the six months to December 2020, the iTrack installed base increased by more than 15% despite some adverse effects from the global pandemic, generating royalty income of £0.37m (FY20 H1: £Nil). This would imply the user base increasing from an initial 500 ultra-size mine trucks as at end June 2020 to 575 at end December, although this is dependent upon the classification of vehicles.

It is possible that a few iTrack systems were installed on smaller sized trucks which would probably attract a lower royalty. Thus, going forward it will not be possible for us to estimate the quantum of the installed base with any meaningful accuracy.

Royalty income 23% ahead to £374k but impacted by translation from $ to £

Royalty income of £374k was 23% ahead of the initial six-month estimate provided by the Company in June 2020 of £300k, probably due to the inclusion of some retrospective royalty income post the transfer of the business to ATMS in June 2020. It is worth remembering that royalty payments from ATMS are made in US$ and therefore the relative strength of sterling over the period has had an adverse impact on translation of the royalty income stream.

Future royalty income visibility is high and will become increasingly predictable over time

The Board noted that the stream of future royalty income can be forecast with reasonable certainty and will become increasingly predictable over time as the rate of growth becomes more firmly established. As a consequence, it will look at the possibility of entering into forward foreign exchange contracts with a view to smoothing out such currency movements in future periods and locking in income at what it considers to be attractive rates.

Background

A tyre pressure monitoring system that has been developed over the past several years

iTrack is a tyre pressure monitoring system (TPMS) developed by Transense over the past several years. In June 2020, Transense announced that it had granted an exclusive worldwide licence to ATMS, a newly-formed wholly owned subsidiary of Bridgestone Corporation Japan (Bridgestone), covering all current and future iTrack technology for a period of ten years.

Licensed and transferred to ATMS in June 2020

The operational business and trading assets relating to the iTrack system were transferred to ATMS and under the licence agreement ATMS will offer Bridgestone customers the iTrack TPMS for all off-the-road (OTR) vehicles based upon the iTrack technology. In return, Transense receives a quarterly royalty payment based upon the number and classification of vehicles upon which the iTrack technology is deployed over a ten-year period, including those trucks trialling the system.

At the end of the ten-year period, ATMS will have the option to purchase the iTrack technology for a nominal cash sum. The initial quarterly royalty based upon OTR vehicles utilising the iTrack system at that stage was estimated to be approximately £150k or £600k per annum.

Royalty income growth encouraging but still very early days…

These are early days in the expected roll-out strategy of iTrack by ATMS and half year royalty receipts, while showing an increase of 23% against the initial six-month estimate noted above, were impacted by adverse FX movement against the US$.

… and with clear indications that further momentum will be realised in H2 and future years

The roll-out of iTrack by ATMS is gathering pace and its marketing strategy is currently focused on selling into major global accounts and encouraging Bridgestone's mining customers to upgrade from its own proprietary TPMS solution known as B-TAG. This is partly being achieved through offering customers trials of iTrack, for which Transense still receives royalties. Management reports that revenue visibility is good and there are clear indications that further momentum is building which will be realised in the second half of this year and subsequent financial years.

SAW

SAW revenues increased to £114k with a further £48k of grant income received

In the six months to December 2020, revenues from SAW increased to £114k and further grant income was received amounting to £48k. A substantial element of this revenue was generated from motor sport which is a seasonal business and where the Company has identified opportunities to generate increasing revenues. Management notes that there are further business development initiatives underway for off-road recreational vehicles, which are expected to advance further in coming months.

Background

The development and marketing of two types of SAW sensors…

SAW develops, markets and licenses patent-protected sensor systems for measuring torque, temperature and pressure, wirelessly and without the need for batteries, using Surface Acoustic Wave (SAW) technology. As no batteries or wires are required, the sensors can be used in applications that traditional sensors cannot, such as on rotating shafts or in environments where access to the sensors is difficult or potentially hazardous.

…one for measuring torque and temperature and the other, pressure and temperature

Transense has developed two distinct sensors, one measures torque and temperature and the other pressure and temperature, together with the requisite electronics to interrogate and read them. These sensors are being developed in conjunction with several international partners targeting sensor applications in the automotive, aerospace, industrial and marine market segments.

Licence agreement with GE for perpetual royalty payments to Transense for each unit utilising the technology

In July 2016, GE signed a licencing agreement with Transense for the use of its SAW technology in certain specific torque applications. The agreement, which was non-exclusive, was followed by an announcement in February 2019 that GE Aviation's T901-GE-900 engine had been selected by the U.S. Army for the Engineering and Manufacturing Development (EMD) phase of the Improved Turbine Engine Program (ITEP).

A massive potential market from the US Army but also for aircraft in overseas military forces

The T901 engine incorporates a Transense SAW sensor and the US Army intends to replace the more than 6,000 engines installed in their current fleet of Boeing AH-64 Apaches and Sikorsky UH-60 Black Hawks. The wider market for the T901 includes replacement engines for these aircraft in military forces outside of the USA as well as other military and commercial vertical take-off aircraft opportunities globally. GE will pay a perpetual sales royalty to Transense in respect of each unit using the technology.

During 2020, the ITEP successfully completed each of three Critical Design Review (CDR) events and by completing the CDR, ITEP is positioned to execute the first engine to test (FETT) no later than the fourth quarter of the US fiscal year 2021. Production is expected to commence in 2024, reaching full scale volumes by 2026.

Numerous other opportunities for SAW in other markets globally…

Aside from the work with GE, there are numerous potential applications for the Transense SAW technology in sectors such as aerospace, automotive and industrial. However, recent management time was heavily focused on commercialising iTrack and following the transaction with Bridgestone in June 2020 the new management team is now refocusing on SAW and the interrogation of the multiple opportunities applicable to the technology.

…SAWCAP established to help identify such opportunities

To identify, facilitate and accelerate these opportunities in December 2020, Transense established a Commercial Advisory Panel of prominent industry experts ("SAWCAP"). The aim of SAWCAP is to assist with the development and delivery of commercial strategy, focusing on industry sectors and prospective business partners, licensees and customers which are likely to be receptive to SAW technology.

Early-stage engagement with potential partners provides management with confidence

The Board is currently evaluating identified opportunities for the SAW business which is focused on performance optimisation, condition monitoring and predictive maintenance across a range of sectors, and encouragingly, there is some early-stage engagement with potential partners. Consequently management is optimistic that SAW technology can generate significant value over the medium term, whilst maintaining a cautious approach to investment and expenditure until prospects of future success are more visible.

Translogik

Revenues increase by 71% to £408k

In the six months to December 2020, revenues from Translogik increased by 71% to £408k supported by the introduction of the new modular TLGX series described below. Around half of the division's revenues were generated from customers outside Europe and sales were made to three of the world's leading tyre producers. Sales of the new product range have commenced well, and the increasing level of enquiries supports the Board's optimism for continuing success.

Background

Tyre probes…

Translogik's product portfolio focuses on probes that measure tyre tread depth and pressure, as well as temperature data collection tools for truck and bus tyre inspections, RFID (Radio Frequency Identification) tags, patches and UHF readers.

…designed principally for fleet management software companies

The product range has been designed principally for fleet management companies in conjunction with major global tyre manufacturers and fleet management software companies and is compatible with the tyre management systems of the world's leading tyre producers.

The current product range includes the TL-G1 Tyre Probe which Translogik has been selling for over 25 years and the new modular TLGX series 1 through 4, with models 3 and 4 incorporating RFID readers and 4 being the most recent introduction which also includes the ability to read TPMS sensors.

A global business with sales to over 40 countries

As far as we are aware Translogik probes are the global market leaders and have more probes integrated within the major tyre manufacturers than any of its competitors. It is also a global business with sales to over 40 countries and with Asia pacific probably accounting for around 50% of sales.

Capital reduction & 7-month results summary

At the Annual general Meeting of the Company held on 17 December 2020, shareholders approved a Capital Reduction as set out in the Company's circular dated 23 November 2020. These proposals were approved by the High Court on 26 January 2021 and became effective on 28 January 2021.

Distributable reserves of £525k at 31 Jan and cash of £1,318k

In order to be able to utilise the Company's distributable reserves, the Company was required to file unaudited accounts for the seven months ended 31 January 2021 at Companies House, which are summarised below. Accordingly, the Company now has distributable reserves amounting to £525k and at 31 January 2021 had cash of £1,318k.

EXHIBIT 3: SEVEN-MONTH AND SIX-MONTH RESULTS SUMMARY

	7 months to Jan 21 £000	6 months to Dec 20 £000
INCOME STATEMENT		
Revenue	1,005	895
Gross profit	778	695
Gross margin	*77.4%*	*77.7%*
Admin expenses	-891	-790
as a % of revenue	*88.7%*	*88.3%*
Operating loss	-113	-95
Finance	-7	-6
Other income	48	48
Pre-tax profit/(loss)	**-72**	**-53**
Tax	119	101
Post tax profit	**47**	**48**
BALANCE SHEET		
Non-current assets	1,055	1,063
Current assets (excluding cash)	344	564
Cash	1,318	1,050
Total assets	**2,717**	**2,677**
Current liabilities	-356	-288
Non-current liabilities	-140	-136
Total liabilities	**-496**	**-424**
Net assets	**2,221**	**2,253**
Net current assets	**1,306**	**1,326**
CAPITAL & RESERVES		
Share capital	1,631	5,451
Share premium	0	2,591
Share based payments	65	63
Retained earnings/(accumulated loss)	525	-5,852
Shareholders' funds	**2,221**	**2,253**

Source: Transense

Forecasts and assumptions by division

Forecasts for FY2021 raised but 2022 and 2023 currently unchanged at this time due to COVID and Brexit uncertainties

FY2021 forecasts raised

Given the positive growth in the businesses during the first half and the encouraging outlook for the remainder of the year we are increasing our forecasts for FY2021 while still maintaining an element of prudency. At this stage, due to the ongoing uncertainties created by COVID and Brexit we are conservatively maintaining our forecasts for FY2022 and 2023 but will revisit them when the outlook becomes clearer. Our changes, by division, are shown in the table below.

EXHIBIT 4: CHANGES TO FY2021 FORECASTS BY DIVISION

	iTrack		SAW		Translogik	
	OLD	NEW	OLD	NEW	OLD	NEW
	£000	£000	£000	£000	£000	£000
Revenue	765	860	207	150	555	806
Gross profit	765	860	181	141	333	412
margin	*100.0%*	*100.0%*	*87.4%*	*94.0%*	*60.0%*	*51.1%*

Source: Allenby

Prudent approach to forecasts

Three-year forecasts

We believe the following three-year forecasts to be based on very prudent assumptions and therefore our conviction remains high that these projections are not only achievable but are capable of being exceeded.

iTrack

EXHIBIT 5: ITRACK FORECASTS

	2020A	2021E	*growth*	2022E	*growth*	2023E	*growth*
	£000	£000		£000		£000	
Revenue	-	860	-	1,375	*79.7%*	2,254	*63.9%*
Gross profit	-	860	-	1,375	*79.7%*	2,254	*63.9%*
Margin	-	*100.0%*	-	*100.0%*		*100.0%*	

Source: Allenby

Royalty revenue forecasts raised by 12%

In the half-year period, the installed base of OTR vehicles incorporating iTrack increased by 15% although some of the benefits of this growth were diluted by adverse FX movements as the pound strengthened against the US dollar by c.9%. Our forecast for the current financial year has been raised by 12% from £765k to £860k and of course, being solely royalty revenues, this equates to a 100% margin income stream.

Royalty growth driven by new customers and replacement of Bridgestone's own B-TAG system

Our three-year forecasts are based on the growth in the deployment of the iTrack system by licensee ATMS. In part this is expected to be achieved through sales to new customers but also from current users of Bridgestone's own B-TAG system who are being encouraged by ATMS to upgrade to the more effective and superior iTrack technology. Thus, we are forecasting the iTrack royalty income stream to rise from the initial indications of c.£600,000 per annum as at June 2020, to £2.3m by end 2023, a forecast which we regard as conservative.

Transense Chairman also sits on the Board of ATMS

We also take significant comfort from the fact that the Transense Chairman sits on the Board of ATMS in a non-executive capacity and thus has a front row seat in relation to the progress of the iTrack installation pipeline and in consequence the desire for its customers to switch to iTrack.

SAW

EXHIBIT 6: SAW FORECASTS

	2020A	2021E	growth	2022E	growth	2023E	growth
	£000	£000		£000		£000	
Revenue	93	150	*61.3%*	282	*88.0%*	310	*9.9%*
Gross profit	83	141	*69.9%*	253	*79.4%*	279	*10.3%*
Margin	*89.2%*	*94.0%*	*5.4%*	*89.7%*	*-4.6%*	*90.0%*	*0.3%*

Source: Allenby

Short term revenue visibility less clear but technology has a wide market to address

Short-term revenue visibility for SAW is less clear than for iTrack although we would propose that the potential for licensing the technology is equally as good, if not greater. The technology has a far wider market to address than that enjoyed by iTrack which in the short term at any rate is pretty much focused on ultra-size OTR mining trucks.

In the reported period, SAW revenues increased to £114k and the Company also received the final instalment of grant income from the Lloyd's Register Foundation project amounting to £48k and the Board, supported by SAWCAP, continues to explore other grant funded opportunities. Whilst SAW activities delivered a negative £250k contribution towards the Company's results, management continues to support the current level of technical and commercial overhead.

GE license ensures strong royalty for many year to come, starting in 2023/4

Even though earlier management focus had been on the commercial opportunities for iTrack, SAW achieved a landmark licence deal with GE which will begin to produce royalty income from 2023/4 onwards and represents an annuity revenue stream for Transense that is likely to be generated over many years, if not decades, to come.

Filling short term revenue gap a management priority

Filling the short-term revenue gap is now the primary focus of management and although we believe there are several ongoing discussions with potential licensees that have real potential for bridging that gap our forecasts are very conservative and we believe have a good prospect of being upgraded over the next six to twelve months.

These are early days for SAW and for the current year we are now expecting revenue to fall short of our earlier forecast by around £50k while still representing good growth over the £93k reported for FY2020.

Translogik

EXHIBIT 7: TRANSLOGIK FORECASTS

	2020A	2021E	growth	2022E	growth	2023E	growth
	£000	£000		£000		£000	
Revenue	510	806	*58.0%*	611	*10.1%*	672	*10.0%*
Gross profit	249	412	*65.5%*	366	*9.9%*	403	*10.1%*
margin	*48.8%*	*51.1%*	*4.7%*	*59.9%*	*-0.2%*	*60.0%*	*0.1%*

Source: Allenby

Translogik was already generating a modest level of revenue and a positive contribution to the Company but which again had probably been held back from its real potential by the diversion of management time needed to develop and secure the iTrack licensing deal with Bridgestone.

Revenue and GP forecasts raised

In the first half, Translogik probe revenues increased by 71% to £406k generating a net contribution of £170k to results and while we are raising our forecasts for this division for FY2021 we are currently maintaining those for FY2022 and 2023 given the uncertainties surrounding COVID and Brexit. We will revisit these forecasts when the level of uncertainty reduces.

Cash flow

Much reduced net cash outflow

Transense reported a total net cash outflow of £143k for the six months to December 2020 (December 2019: outflow of £1,146k) and it is worth highlighting a number of components responsible for this outturn.

The Company generated a positive operating cash flow of £78k before movements in working capital compared to an outflow of £763k in the comparative period. This was substantially due to a strong turnaround from an operating loss of £1,190k to a profit of £48k.

High working capital outflow a one-off

There was a noticeable reduction in payables of £628k which contributed to a net working capital outflow of £589k compared to an inflow of £220k in the comparative period. This was principally a result of legacy liabilities on the iTrack business and should not be repeated in H2 or future years.

In terms of investing activities there was a net cash inflow of £1,204k compared to an outflow of £599k in H1 2019 due in part to significantly lower capex and the receipt of £1,236k from the disposal of trade and assets relating to iTrack.

In addition, there was a cash outflow from financing activities of £1,012k compared to £4k in the comparative period, primarily reflecting the repayment of loans to Bridgestone of £976k.

Net cash at the period end of £1,050k but at end-Jan had risen to £1,318k

Net cash at the half year was £1,050k but as shown in the seven-month filing at Companies House, cash as at 31 January 2021 had risen to £1,318k following quarterly royalty payments from ATMS which were received in January 2021 and R&D tax credits. However, our forecast for year-end cash remains unchanged at just over £1m.

Summary

Technology validated by several global corporations

The efficacy of Transense's various technologies has been validated over the past several years by numerous globally respected organisations such as Bridgestone (iTrack and Translogik), Goodyear (Translogik), General Electric (SAW), McLaren (SAW) and previously through the sale of the IntelliSAW division to US-based Emerson.

We therefore see no reason to remain anything but very confident that Transense will continue to add value for shareholders even though the current share price, in our opinion, significantly undervalues the Company.

£20m+ of tax losses available to set against future profits

In the last set of Company accounts we note that Transense had over £20m of available tax losses from which it can offset future profits. We therefore do not anticipate Transense paying mainstream corporation tax for the foreseeable future.

New market opportunities for SAW and Translogik…

The coming years will see a commercial revitalisation of the SAW platform which is, with the help of the recently established SAWCAP, expected to open up new opportunities and markets for the technology while Translogik, albeit a more modest opportunity, will continue to increase its positive contribution to Transense results.

…significantly supported by strong and accelerating royalty income from iTrack

On top of this of course is the significant future royalty income stream from the ATMS iTrack licence which over the next ten years will provide an important and increasing revenue annuity and strong cash generation for the Company which we believe will be applied in funding further selective research and development and returns to shareholders.

Change in capital structure to facilitate distributions to shareholders

In this respect, we are encouraged by the fact that the Board has changed the Company's capital structure to facilitate the payment of future dividend distributions and share buy backs. This indicates very clearly management's confidence in the future performance of Transense.

Outlook

The Board states that it has every confidence that iTrack will continue to achieve increased market penetration and deliver royalty income at or above its current expectations.

With regard to SAW technology, commercial prospects have been revitalised after strengthening the management team and enlisting the support of key opinion leaders through the SAWCAP initiative. While noting that it may take some time to determine the true value potential of this technology, the Board is encouraged by the early progress that is being made. Finally, the Translogik probe range continues to gain traction and is showing further potential for healthy revenue growth.

Positive outlook statement from management

Accordingly, management considers that the *"outlook for Transense is positive, and prospects for the Company and its shareholders are more favourable than at any time in the Company's history"*.

We would make the observation that Transense is still at an early stage of its development and investors will need some patience before the full potential of its various revenue streams are realised. Nevertheless, we believe forecasts to be prudently based and that now is an excellent time to invest in Transense while the share price is attractively low.

Income statement and forecasts

EXHIBIT 8: INCOME STATEMENT AND FORECASTS

	£000	£000	£000	£000	£000
Y/E June	**FY 2019A**	**FY 2020A**	**FY 2021E**	**FY 2022E**	**FY 2023E**
UNDERLYING					
Revenue	**596**	**603**	**1,816**	**2,268**	**3,236**
Cost of sales	-221	-271	-403	-274	-300
Gross profit	**375**	**332**	**1,413**	**1,994**	**2,936**
margin	*62.9%*	*55.1%*	*77.8%*	*87.9%*	*90.7%*
Administrative expenses	-1,155	-1,131	-1,370	-1,412	-1,544
as a % of revenue	*193.8%*	*187.6%*	*75.4%*	*62.3%*	*47.7%*
Other income	79	118	48	0	0
Share based payments	0	0	-44	0	0
Underlying EBITDA	**-701**	**-681**	**47**	**582**	**1,392**
EBITDA margin	*-117.6%*	*-112.9%*	*2.6%*	*25.7%*	*43.0%*
Depreciation	-41	-90	-90	-25	-21
Amortisation	-384	-482	-128	-200	-200
Underlying operating profit/(loss)	**-1,126**	**-1,253**	**-171**	**357**	**1,171**
Operating profit margin	*-188.9%*	*-207.8%*	*-9.4%*	*15.7%*	*36.2%*
Finance income/(expense)	2	-12	0	0	0
Underlying profit/(loss) before tax	**-1,124**	**-1,265**	**-171**	**357**	**1,171**
Tax	283	175	202	60	60
Underlying profit/(loss) after tax	**-841**	**-1,090**	**31**	**417**	**1,231**
STATUTORY					
Underlying operating profit/(loss)	-1,126	-1,253	-171	357	1,171
Exceptional items	0	0	0	0	0
Statutory operating loss	-1,126	-1,253	-171	357	1,171
Finance income/(expense)	2	-12	0	0	0
Statutory (loss)/profit before tax	-1,124	-1,265	-171	357	1,171
Tax	283	175	202	60	60
Statutory (loss)/profit after tax	**-841**	**-1,090**	**31**	**417**	**1,231**
Weighted average shares (m)	13.185	16.307	16.307	16.307	16.307
Year-end shares (m)	16.307	16.307	16.307	16.307	16.307
EPS Basic (p)	**(6.38)**	**(6.68)**	**0.19**	**2.56**	**7.55**
EPS FD (p)	**(6.38)**	**(6.68)**	**0.19**	**2.56**	**7.55**

Source: Transense; Allenby

Balance sheet and forecasts

EXHIBIT 9: BALANCE SHEET AND FORECASTS

	£000	£000	£000	£000	£000
Y/E June	**FY 2019A**	**FY 2020A**	**FY 2021E**	**FY 2022E**	**FY 2023E**
Non-current assets					
PP&E	529	290	259	228	197
Intangible assets	946	844	792	740	688
Total non-current assets	**1,475**	**1,134**	**1,051**	**968**	**885**
Current assets					
Inventories	566	63	63	63	63
Tax	0	175	0	0	0
Receivables	789	1,677	288	632	900
Cash	2,647	1,193	1,054	1,111	2,047
Total current assets	**4,002**	**3,108**	**1,405**	**1,806**	**3,010**
Total assets	**5,477**	**4,242**	**2,456**	**2,774**	**3,895**
Current liabilities					
Payables	-604	-854	-72	-87	-97
Borrowings	0	-976	0	0	0
Lease liabilities	0	-61	0	0	0
Tax	-55	0	-30	-35	-40
Provisions	-70	0	0	0	0
Total current liabilities	**-729**	**-1,891**	**-102**	**-122**	**-137**
Non-current liabilities					
Lease liabilities	0	-168	-195	-132	-65
Total non-current liabilities	**0**	**-168**	**-195**	**-132**	**-65**
Total liabilities	**-729**	**-2,059**	**-297**	**-254**	**-202**
Net current assets	**3,273**	**1,217**	**1,303**	**1,684**	**2,873**
Net assets	**4,748**	**2,183**	**2,159**	**2,520**	**3,693**
EQUITY					
Share capital	5,451	5,451	1,631	1,631	1,631
Share premium	2,591	2,591	0	0	0
Reserves	-3,294	-5,859	528	889	2,062
Total capital	**4,748**	**2,183**	**2,159**	**2,520**	**3,693**

BALANCE SHEET RATIOS

	£000	£000	£000	£000	£000
Y/E June	**FY 2019A**	**FY 2020A**	**FY 2021E**	**FY 2022E**	**FY 2023E**
Long-term financial debts	-	-	-	-	-
Short term financial debts	-	(976)	-	-	-
Gross (debt)	-	(976)	-	-	-
Cash and cash equivalents	2,647	1,193	1,054	1,111	2,047
Net (debt) / cash	2,647	217	1,054	1,111	2,047
Acid test (Current Assets less inventory / Current Liabilities)	4.71	1.61	13.16	14.29	21.51

Source: Transense; Allenby

Cash flow and forecasts

EXHIBIT 10: CASH FLOW AND FORECASTS

	£000	£000	£000	£000	£000
Y/E June	**FY 2019A**	**FY 2020A**	**FY 2021E**	**FY 2022E**	**FY 2023E**
Loss from operations	-1,465	-2,542	-171	357	1,171
Financial income	-2	9	0	0	0
Tax	-266	-171	-202	0	0
Loss on disposal of trade & assets	0	72	0	0	0
Depreciation	369	538	90	25	21
Loss on disposal of fixed assets	0	18	0	0	0
Amortisation	396	504	128	200	200
Share based payments	0	0	44	0	0
Unrealised currency gain/(loss)	0	0	0	0	0
Cost of capital restructure	0	0	0	0	0
Operating cash flow before WC	**-968**	**-1,572**	**-111**	**582**	**1,392**
(Increase)/decrease in receivables	*-91*	*-177*	*-156*	*-344*	*-268*
Decrease/(increase) in payables	*247*	*477*	*-100*	*15*	*11*
Decrease/(increase) in inventories	*119*	*-582*	*0*	*0*	*0*
Decrease/(increase) in lease receivables	*0*	*0*	*-60*	*-64*	*-67*
Net change in WC	***275***	***-282***	***-316***	***-393***	***-324***
Cash used in operations	-693	-1,854	-427	189	1,068
Tax	266	-4	220	60	60
Net cash used in operations	**-427**	**-1,858**	**-207**	**249**	**1,128**
Interest received	2	8	0	0	0
Purchase of PP&E	-424	-764	-36	-36	-36
Purchase of intangible assets	-433	-513	-96	-96	-96
Proceeds from disposal of trade & assets	0	772	1,236	0	0
Net cash used in investing activities	**-855**	**-497**	**1,104**	**-132**	**-132**
Proceeds from issue of shares	2,335	0	0	0	0
Loans advanced	0	1,585	0	0	0
Loans repaid	0	-609	-976	0	0
Interest paid	0	-17	0	0	0
Payment of lease liabilities	0	-58	-60	-60	-60
Net cash from financing activities	**2,335**	**901**	**-1,036**	**-60**	**-60**
Net change in cash	**1,053**	**-1,454**	**-139**	**57**	**936**
Cash at start of year	1,592	2,647	1,193	1,054	1,111
FX	2	0	0	0	0
Cash at end of year	**2,647**	**1,193**	**1,054**	**1,111**	**2,047**

Source: Transense; Allenby

Disclaimer

Allenby Capital Limited ("Allenby") is incorporated in England no. 6706681; is authorised and regulated by the Financial Conduct Authority ("FCA") (FRN: 489795) and is a member of the London Stock Exchange. This communication is for information only it should not be regarded as an offer or solicitation to buy the securities or other instruments mentioned in it. It is a marketing communication and non-independent research, and has not been prepared in accordance with the legal requirements designed to promote the independence of investment research, and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The cost of Allenby research product on independent companies is paid for by research clients.

This communication is for the use of intended recipients only and only for distribution to investment professionals as that term is defined in article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. Its contents are not directed at, may not be suitable for and should not be relied upon by anyone who is not an investment professional including retail clients. Any such persons should seek professional advice before investing. For the purposes of this communication Allenby is not acting for you, will not treat you as a client, will not be responsible for providing you with the protections afforded to clients, and is not advising you on the relevant transaction or stock. This communication or any part of it do not form the basis of and should not be relied upon in connection with any contract.

Allenby uses reasonable efforts to obtain information from sources which it believes to be reliable. The communication has been prepared without any substantive analysis undertaken into the companies concerned or their securities, and it has not been independently verified. No representation or warranty, express or implied is made, or responsibility of any kind accepted by Allenby its directors or employees as to the accuracy or completeness of any information in this communication. Opinions expressed are our current opinions as of the date appearing on this material only and are subject to change without notice. There is no regular update series for research issued by Allenby.

No recommendation is being made to you; the securities referred to may not be suitable for you and this communication should not be relied upon in substitution for the exercise of independent judgement. Neither past performance or forecasts are a reliable indication of future performance and investors may realise losses on any investment. Allenby shall not be liable for any direct or indirect damages including lost profits arising from the information contained in this communication.

Allenby and any company or persons connected with it, including its officers, directors and employees may have a position or holding in any investment mentioned in this document or a related investment and may from time to time dispose of any such security or instrument. Allenby may have been a manager in the underwriting or placement of securities in this communication within the last 12 months, or have received compensation for investment services from such companies within the last 12 months, or expect to receive or may intend to seek compensation for investment services from such companies within the next 3 months. Accordingly, recipients should not rely on this communication as being impartial and information may be known to Allenby or persons connected with it which is not reflected in this communication. Allenby has a policy in relation to management of conflicts of interest which is available upon request.

This communication is supplied to you solely for your information and may not be reproduced or redistributed to any other person or published in whole or part for any purpose. It is not intended for distribution or use outside the European Economic Area except in circumstances mentioned below in relation to the United States. This communication is not directed to you if Allenby is prohibited or restricted by any legislation or registration in any jurisdiction from making it available to you and persons into whose possession this communication comes should inform themselves and observe any such restrictions.

Allenby may distribute research in reliance on Rule 15a-6(a)(2) of the Securities and Exchange Act 1934 to persons that are major US institutional investors, however, transactions in any securities must be effected through a US registered broker-dealer. Any failure to comply with this restriction may constitute a violation of the relevant country's laws for which Allenby does not accept liability.
By accepting this communication, you agree that you have read the above disclaimer and to be bound by the foregoing limitations and restrictions.

Research Recommendation Disclosure

Ian Jermin is the author of this research recommendation and is employed by Allenby Capital Limited as an Equity Analyst. Unless otherwise stated the share prices used in this publication are taken at the close of business for the day prior to the date of publication. Information on research methodologies, definitions of research recommendations, and disclosure in relation to interests or conflicts of interests can be found at www.allenbycapital.com. Allenby Capital acts as Nomad and Broker to Transense Technologies plc.

Allenby Capital, 5 St Helen's Place London EC3A 6AB, +44 (0)20 3328 5656, www.allenbycapital.com