

Corporate

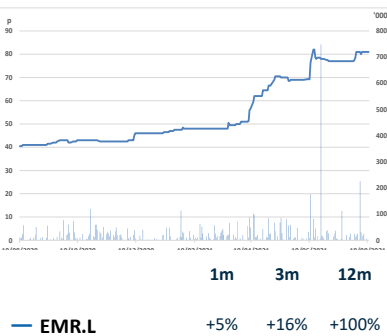
 Current price **81.0p**

 Sector **Support Services**

 Code **EMR.L**

 AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **40.2**

 Shares in issue (m) **49.6**

 52 weeks **High** **Low**
82.0p **40.5p**

 Financial year end **December**

Source: Company Data, Allenby Capital

Key Shareholders

 Anthony Martin (Chair) **28.20%**

 HM van Heijst **13.97%**

 Close Brothers AM **12.08%**

 Hof Hoorneman FM **9.03%**

 Beleggingsclub 't Stockpaert **6.09%**

 The Ramsey Partnership Fund **4.94%**

 Allianz Global Investors **3.22%**

Source: Company Data, Allenby Capital

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Empresaria Group plc (EMR.L)

PBT growth of 67% in H1 and upgrade to forecasts

Empresaria's first half has generated strong growth with adjusted profit before tax rising by 67% year on year (yoy) to £4m. This excellent performance was achieved despite a revenue decline of 5% yoy and a modest increase in net fee income (NFI) due to operational efficiencies achieved in a number of sectors. The Board is encouraged by the strong start to the year and now expects that adjusted profits for the full year will be significantly ahead of the prior year and current market expectations. As a result we are raising our adjusted PBT forecasts by 19% and adjusted EPS by 44%.

- Strong growth achieved in H1** – H1 NFI grew by 0.7% to £28.4m (H1 2020: £28.2m) and 4% in constant currency terms disguising a significant improvement by quarter with Q1 NFI being down 19% yoy and Q2 achieving 30% growth. However, despite only modest NFI growth for the period overall, lower admin costs and interest charges resulted in adjusted PBT being 67% higher yoy at £4.0m (H1 2019: £2.4m).
- Mixed performance by sector** - Given the diversified nature of the Group's activities and geographies, segmental performance was mixed and while some industry verticals reported a modest reduction in NFI, for the most part this was currency related. However, operational efficiencies and other factors combined so that four of the Group's six sectors delivered yoy growth in adjusted operating profit with the other two unchanged.
- Working capital increasing to fund growth** – Adjusted net debt rose by £2.9m in the period to £16.5m as working capital increased to fund the higher activity levels. Consequently, the Group's financial headroom reduced from £17.6m (December 2020) to £12.4m.
- Forecasts raised** – Following Empresaria's mid-May trading update, we increased our adjusted profit before tax forecasts for 2021 by c.10% from £5.2m to £5.7m. Following the strong growth in profits in H1 and the Board's increasing confidence regarding the outcome for the full year we are raising forecasts again moving our adjusted PBT expectations from £5.7m to £6.8m and adjusted EPS from 4.5p to 6.5p, putting the shares on a modest PER of 12.4x current year earnings.
- Well placed to exploit any recovery in demand** – Empresaria has demonstrated its ability to adjust well to changing economic conditions across its diversified portfolio of businesses. Of course, challenges still remain in certain sectors and geographies but we believe the Group is well placed to exploit the improving recruitment outlook and new key appointments concluded in recent months will help support the Group's progress and growth strategy over the short/medium term.

Year End: December

(£m)	2018A	2019A	2020A	2021E
NET FEE INCOME	72.3	74.5	54.0	57.5
ADJ. PBT	11.4	9.3	5.2	6.8
ADJ. FD EPS (p)	12.1	8.5	4.1	6.5
DIVIDEND (p)	2.0	0.0	1.0	1.0
NET DEBT (pre pilot bonds)	17.1	19.1	13.6	17.2
PER (x)	6.7	9.5	19.9	12.4
Yield	2.5%	-	1.2%	1.2%

Source: Empresaria; Allenby Capital. Empresaria is a research client of Allenby Capital.

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

Interim results summary

EXHIBIT 1: FINANCIAL SUMMARY

6 months to June	2021	2020	% change
P&L			
Revenue	129.8	136.1	-4.6%
NFI	28.4	28.2	0.7%
<i>NFI margin</i>	21.9%	20.7%	5.6%
Admin costs	-24.1	-25.2	-4.4%
<i>as a % of NFI</i>	-84.9%	-89.4%	-5.0%
Underlying operating profit	4.3	3.0	43.3%
<i>Operating margin</i>	3.3%	2.2%	50.3%
Interest	-0.3	-0.6	-50.0%
Underlying profit before tax	4.0	2.4	66.7%
Exceptional items:			
Impairment	-0.9	-2.6	-65.4%
Fair value charge	0.0	-0.1	
Amortisation of intangibles	-0.7	-0.9	-22.2%
Statutory (loss)/profit before tax	2.4	-1.2	
Tax	-1.4	-0.2	600.0%
(Loss)/profit for period	1.0	-1.4	
Minority interests	-0.2	0.0	
Net (loss)/profit after minority	0.8	-1.4	
CASH FLOW			
Cash generated from operations before working capital movements	7.8	6.9	13.0%
Working capital movements	-4.1	10.4	
Interest and tax	-1.7	-1.9	-10.5%
Net cash inflow from operating activities	2.0	15.4	-87.0%
Net cash outflow from investing activities	-0.6	-0.4	50.0%
Net cash outflow from financing activities	0.0	-8.3	
Net increase in cash and cash equivalents	1.4	6.7	-79.1%
Cash and cash equivalents at end of period	21.4	25.0	-14.4%
BALANCE SHEET			
Non-current assets	53.6	60.9	-12.0%
Current assets (excluding cash)	49.9	44.6	11.9%
Cash	21.4	25.0	-14.4%
Total current assets	71.3	69.6	2.4%
Total assets	124.9	130.5	-4.3%
Current liabilities	-66.4	-77.4	-14.2%
Non-current liabilities	-17.2	-6.5	164.6%
Total liabilities	-83.6	-83.9	-0.4%
Net assets	41.3	46.6	-11.4%
Net current assets	4.9	-7.8	
Adjusted net debt	16.5	8.9	85.4%

Source: Empresaria

Operational review & outlook

Recovery was evident in the first half results, particularly in Q2 which showed yoy growth of 30% in NFI as compared to a 19% yoy fall in Q1. The majority of Empresaria's operations have demonstrated a good recovery from COVID-19, particularly in the Healthcare sector which had a record first half driven by its participation in COVID vaccination and testing programmes.

Better results from some sectors helped offset weaker results elsewhere, for example in the aviation staffing business which has suffered from the steep decline in travel due to COVID restrictions. The Group has also invested in restructuring and widening its service offering to be well positioned for an upturn in demand.

Management has also seen some significant success in leveraging the offshore recruitment services into its US Healthcare operations as well as utilising these services internally to improve efficiencies and speed of service as well as supporting back office functions.

Towards the end of 2020 the Group restructured its temporary recruitment operations in Germany resulting in a strong first half and significant improvements in profitability.

Empresaria has continued to invest in the future of the business and in the past few months has appointed several highly experienced professionals to regional leadership roles in APAC, UK & Europe and most recently in North America.

The Board reports that it is encouraged by the strong start to 2021 and as a result, profits for the full year are now expected to be significantly ahead of the prior year and current market expectations. Although uncertainties still remain the success achieved to date gives the Board confidence in the ability of the Group to take advantage of market opportunities as they arise.

A summary of our forecast changes can be seen below and in more detail in Exhibits 11,12 and 13 towards the end of this report.

EXHIBIT 2: SUMMARY CHANGES TO FORECASTS

	2021		% change
	OLD	NEW	
	£m	£m	
Revenues	266.0	276.0	3.8%
NFI	55.3	57.5	4.0%
Adjusted PBT	5.7	6.8	19.3%
Adjusted fully diluted EPS (p)	4.5	6.5	44.4%

Source: Allenby

Analysis by sector

Empresaria segments its business into six operating sectors:

Professional: Recruitment across the UK and Asia Pacific offering a range of professional roles including marketing, domestic services, accounting, financial services, technical, HR, secretarial, pilots and recruitment to recruitment services.

IT: Operating in the UK, Europe, Asia and the Americas, offering recruitment solutions across the IT staffing landscape.

Healthcare: Operating in Europe and the US, providing services across the medical and pharmaceutical staffing markets.

Property, Construction & Engineering: Providing staffing solutions in the UK.

Commercial: Operates across Europe and the Americas providing recruitment services for a wide range of industries including automotive, logistics, retail and manufacturing with a wide variety of roles, ranging from office, warehouse and retail.

Offshore Recruitment Services: The sector serves a wide range of industries, delivering offshore recruitment solutions to clients located principally in the UK and USA.

The percentage distribution of NFI by sector in the first half of 2021 and 2020 is shown in Exhibit 2 below:

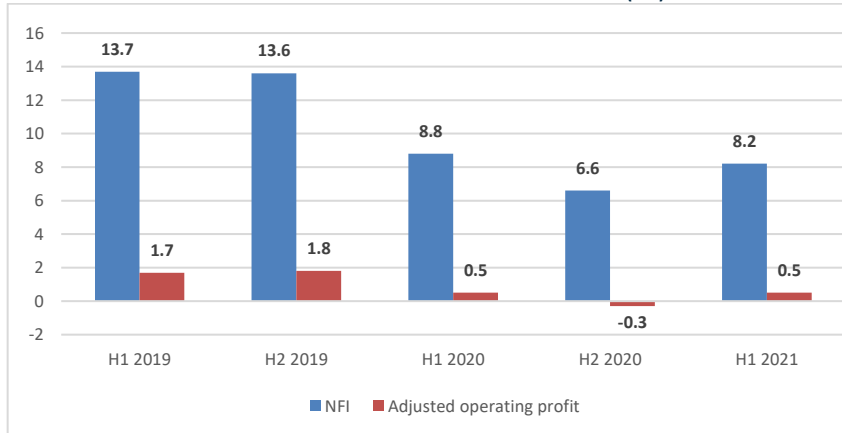
EXHIBIT 3: NFI BY SECTOR



Source: Empresaria Group plc

Professional Sector

EXHIBIT 4: PROFESSIONAL SECTOR - NFI AND ADJUSTED OPERATING PROFIT (£m)



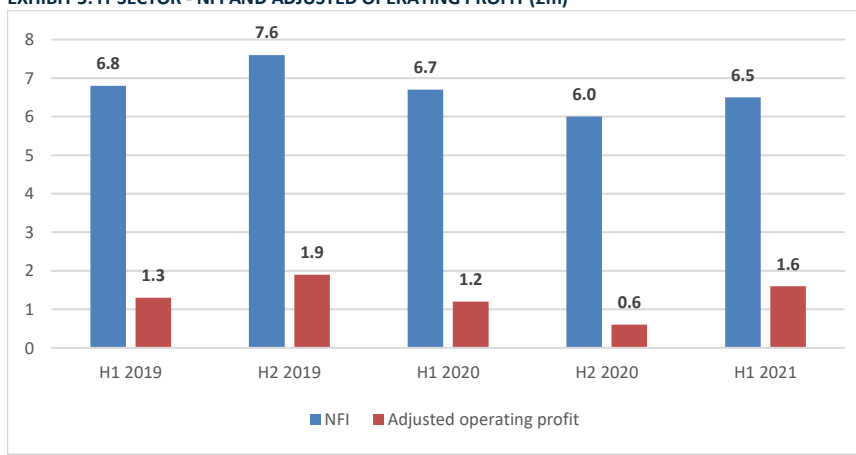
Source: Empresaria Group plc

The sector reported a reduction in revenue of 39% (40% in constant currency) from £35.3m to £21.6m but only a 7% reduction in NFI to £8.2m, while adjusted operating profit was unchanged at £0.5m. In 2019 this sector was the Group's largest by NFI but in 2020 was impacted by the effect that COVID had on its aviation business.

The significant fall in revenue was entirely driven by aviation, with temporary and contract forming most of this business. A recovery from the low point in H2 2020 has been achieved within the sector overall and indeed, excluding the aviation business which is still being severely impacted by restrictions on travel, NFI has shown strong growth. Excluding aviation which saw NFI decline more than 70% yoy, NFI increased by 8% in the first half with a 59% increase in Q2 and strong profit growth reflecting a good performance across the sector.

IT Sector

EXHIBIT 5: IT SECTOR - NFI AND ADJUSTED OPERATING PROFIT (£m)

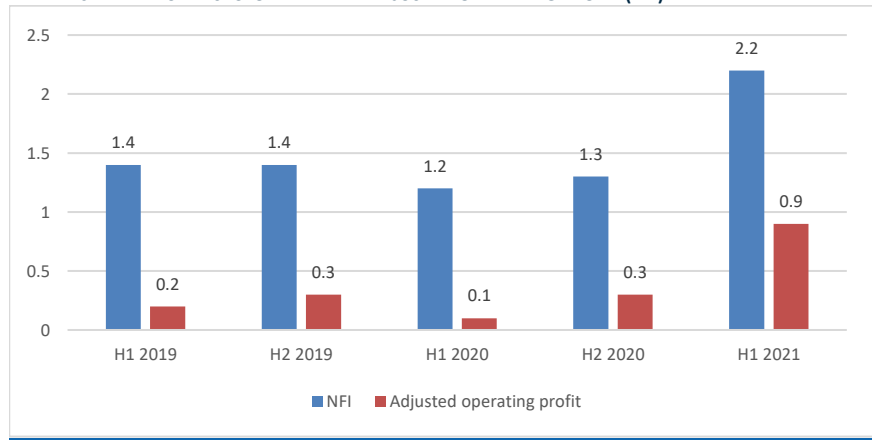


Source: Empresaria Group plc

The IT sector reported a revenue decline of 14% (11% in constant currency) from £22.1m to £18.9m but only a 3% reduction in NFI (2% rise in constant currency) to £6.5m reflecting an improvement in gross margins on temporary and contract work. Again, NFI showed an encouraging recovery in Q2 with a rise of 5% against a strong comparative. The increase in margins, coupled with the benefits arising from some restructuring in the UK, resulted in adjusted operating profit increasing by a reported 33% (45% in constant currency) to £1.6m.

Healthcare Sector

EXHIBIT 6: HEALTHCARE SECTOR - NFI AND ADJUSTED OPERATING PROFIT (£m)



Source: Empresaria Group plc

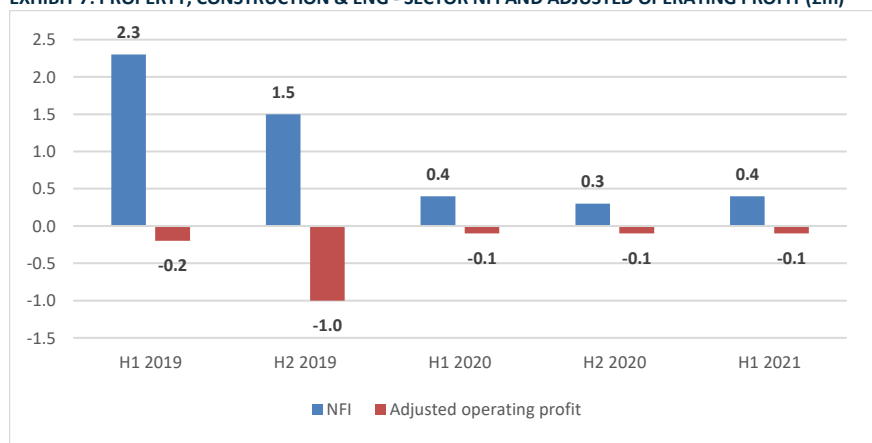
The Healthcare sector reported an exceptionally strong H1 with a revenue increase of 136% (153% in constant currency) from £5.9m to £13.9m and an 83% increase in NFI (100% rise in constant currency) to £2.2m. Adjusted operating profit rose even more impressively by 800% (same in constant currency) from £0.1m to £0.9m.

There is, however, an element of exceptional activity in the half year as the COVID-19 vaccination and testing programmes were identified as a key area of opportunity for the sector. The subsequent investment in delivering these services has been a key driver of the sector’s performance as demand peaked through the first half of 2021.

Due to the utilisation of Empresaria’s offshore recruitment services in India, the improvement in NFI led to a very strong increase in adjusted operating profit to £0.9m. It is likely that this sector will return to more normal levels of activity in the second half as the COVID-19 related levels of activity decline.

Property, Construction & Engineering Sector

EXHIBIT 7: PROPERTY, CONSTRUCTION & ENG - SECTOR NFI AND ADJUSTED OPERATING PROFIT (£m)

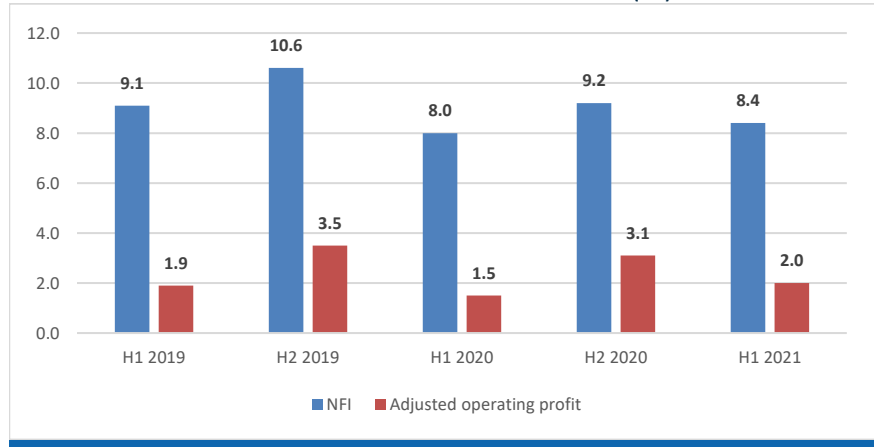


Source: Empresaria Group plc

The Property, Construction & Engineering sector continued to deliver a flat yoy performance reflecting low levels of demand, particularly in the supply of sales staff to the new homes sector which has continued to operate under COVID restrictions which limit demand for staff. Management is seeking to diversify the business to open up additional opportunities while being mindful to position the operation to take advantage of any upturn in demand in the housing sector.

Commercial Sector

EXHIBIT 8: COMMERCIAL SECTOR - NFI AND ADJUSTED OPERATING PROFIT (£m)



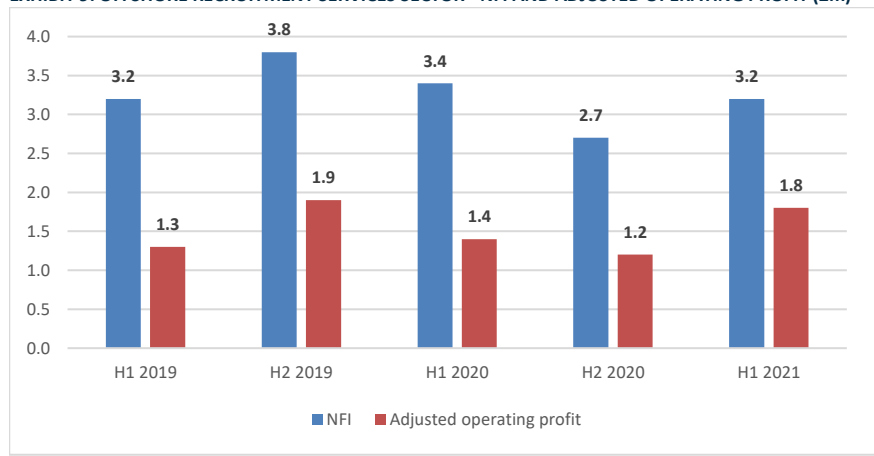
Source: Empresaria Group plc

This sector performed encouragingly in the first half with revenues ahead by 3% (6% in constant currency) from £65.5m to £67.7m. NFI also rose by a similar amount (5% reported and 8% in constant currency) with a strong rise of 17% in Q2.

A good recovery has been seen within the Chilean operations and in temp staffing in Germany and Austria. The logistics business in Germany has, however, reported a decline in NFI against strong comparatives. The Group reports that while demand has remained strong it has become increasingly difficult to fill lower paid roles as the wider economy recovers and there have been increased challenges in attracting candidates into Germany from Eastern Europe. However, reflecting efficiencies gained through restructuring at the end of 2020 adjusted operating profit for the sector rose by 33% to £2m.

Offshore Recruitment Services

EXHIBIT 9: OFFSHORE RECRUITMENT SERVICES SECTOR - NFI AND ADJUSTED OPERATING PROFIT (£m)



Source: Empresaria Group plc

Revenues increased by 10% (21% in constant currency) from £5.8m to £6.4m while NFI declined by 3% (rose 3% in constant currency) to £3.2m due in the main to the exit in January 2021 from the Group’s loss-making Dubai operations which had previously contributed £0.4m in NFI. Excluding these factors, NFI increased and the operation in India, which recovered strongly in the second half of 2020, has continued to grow with high demand from clients in both the UK and the US. Headcount in this business is now at a record high with more than 1,500 employees as at 30 June. This has led to an increase in the adjusted operating profit of this sector to £1.8m (H1 2020: £1.4m).

Forecasts and conclusion

In its Outlook statement the Board noted that: *“We are encouraged by our strong start to 2021 and as a result, profits for the full year are now expected to be significantly ahead of the prior year and current market expectations”.*

Consequently, while remaining mindful of ongoing challenges in some of the Group’s markets and geographies which are still in lockdown, we are raising our forecasts for 2021 although continuing levels of uncertainty preclude us from offering forecasts for 2022 at this time.

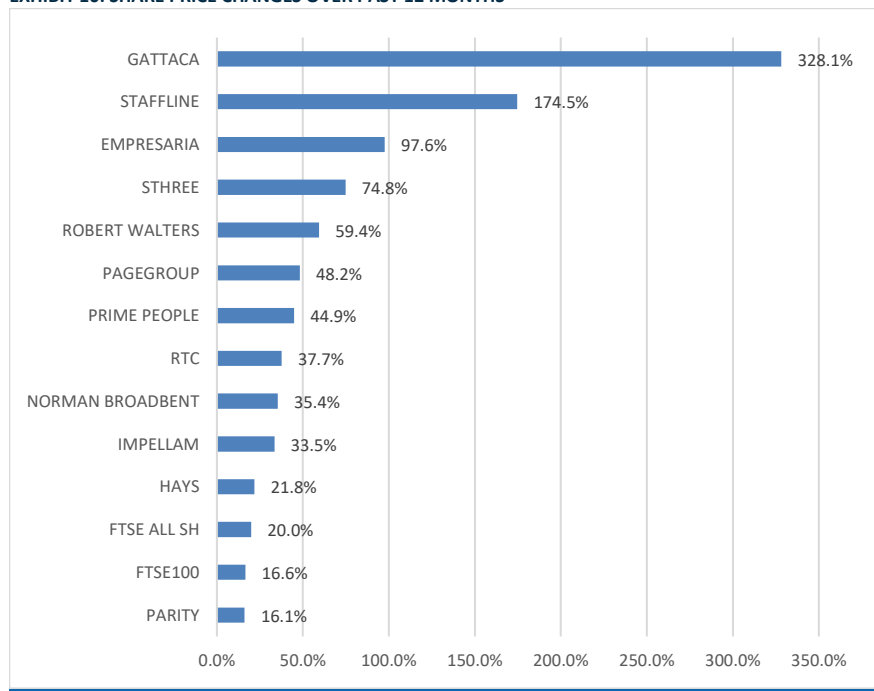
Thus, we are raising NFI expectations by 4% from £55.3m to £57.5m, adjusted pre-tax profit by 19% from £5.7m to £6.8m while adjusted fully diluted EPS rises by 44% from 4.5p to 6.5p reflecting an expected lower incidence of minority charges. Our full forecasts for revenue and profits, cash flow and the balance sheet are shown in Exhibits 11,12 and 13 below.

There is no question that staffing companies in general are seeing an improvement in NFI and profit growth as the impact of COVID-19 on global economies eases. The rate of recovery will of course vary depending upon sectors and geographies and for the latter this is particularly relevant as many countries are still under severe COVID restrictions.

For Empresaria, the significant diversity in its operations acts as a support during adverse economic situations although can act to slow down the overall rate of recovery by the very nature of its diversity.

Share prices of the few staffing companies still quoted have also improved, as shown below. In our opinion, despite showing one of the best performances, Empresaria on a 2021 PER of just 12.4x still offers investors good value in the short/medium term.

EXHIBIT 10: SHARE PRICE CHANGES OVER PAST 12 MONTHS



Source: Fidessa

Profit & Loss and forecasts

EXHIBIT 11: PROFIT AND LOSS				
Year end December	2018A	2019A	2020A	2021E
	£m	£m	£m	£m
ADJUSTED				
Total revenue	366.8	358.0	256.5	276.0
Cost of sales	(294.5)	(283.5)	(202.5)	(218.5)
Net Fee Income	72.3	74.5	54.0	57.5
<i>NFI margin</i>	19.7%	20.8%	21.1%	20.8%
Admin expenses	(59.0)	(56.3)	(40.6)	(42.4)
<i>as a % of revenue</i>	16.1%	15.7%	15.8%	15.4%
Adjusted EBITDA	13.3	18.2	13.4	15.1
<i>Margin</i>	3.6%	5.1%	5.2%	5.5%
Share based charges	-	(0.2)	0.2	(0.4)
Depreciation & software amortisation	(1.0)	(7.6)	(7.4)	(7.0)
Adjusted operating profit	12.3	10.4	6.2	7.7
<i>Margin</i>	3.4%	2.9%	2.4%	2.8%
CONVERSION RATIO				
	17.0%	14.0%	11.5%	13.4%
Finance income	0.2	0.2	0.2	0.1
Finance expense	(1.1)	(1.3)	(1.2)	(1.0)
Adjusted profit before tax	11.4	9.3	5.2	6.8
Tax	(3.9)	(3.4)	(2.4)	(2.7)
Effective rate	34.2%	36.6%	46.2%	39.7%
Adjusted post tax profit	7.5	5.9	2.8	4.1
Minorities	(1.3)	(1.4)	(0.7)	(0.7)
Adjusted net post tax profit	6.2	4.4	2.1	3.4
STATUTORY				
Adjusted operating profit	12.3	10.4	6.2	7.7
Exceptional items	(0.3)	(2.1)	(0.2)	-
Fair value charge on acquisition of non-controlling shares	-	-	(0.3)	-
Impairment of goodwill	-	(2.5)	(1.6)	(0.6)
Impairment of other intangible assets	-	-	(3.4)	(0.3)
Loss on business disposal	-	-	-	-
Amortisation of acquired intangible assets	(1.7)	(1.8)	(1.7)	(1.4)
Statutory operating profit	10.3	4.0	(1.0)	5.4
Finance income	0.2	0.2	0.2	0.1
Finance expense	(1.1)	(1.3)	(1.2)	(1.0)
Statutory profit before tax	9.4	2.9	(2.0)	4.5
Tax	(3.6)	(2.4)	(1.2)	(2.6)
Statutory post tax profit	5.8	0.5	(3.2)	1.9
Minorities	(1.2)	(1.2)	0.1	(0.4)
Statutory net post tax profit	4.6	(0.8)	(3.1)	1.5
WAS	50.6	50.4	50.3	50.3
WAS FD	51.0	51.4	51.6	52.0
Year-end shares	49.0	49.0	49.0	49.0
EPS				
Statutory	9.1	(1.6)	(6.2)	3.0
Adjusted	12.2	8.6	4.2	6.8
Diluted EPS				
Statutory	9.0	(1.6)	(6.0)	2.9
Adjusted	12.1	8.5	4.1	6.5
Interim dividend	0.0	0.0	0.0	0.0
Final dividend	2.0	0.0	1.0	1.0
Total dividend	2.0	0.0	1.0	1.0

Source: Empresaria; Allenby Capital

EXHIBIT 12: BALANCE SHEET

Y/E December	FY 2018A	FY 2019A	FY 2020A	FY 2021E
	£m	£m	£m	£m
Assets				
Non-current assets				
Property, plant & equipment	2.1	2.3	1.6	1.8
Right of use assets	-	10.6	9.0	9.0
Goodwill	37.1	33.5	32.5	31.1
Other intangible assets	17.7	15.5	10.5	10.5
Deferred tax assets	1.5	2.4	2.8	2.8
Non-current assets	58.4	64.3	56.4	55.2
Current assets				
Trade receivables	48.1	45.6	37.0	39.7
Other receivables	9.2	9.6	7.9	8.0
Cash and Cash equivalents	20.1	16.1	19.8	17.8
Cash and Cash equivalents (pilot bonds)	5.3	1.5	1.0	1.0
Current assets	82.7	72.8	65.7	67.2
Total Assets	141.1	137.1	122.1	122.4
Liabilities				
Current liabilities				
Borrowings	(32.0)	(25.2)	(32.2)	(24.0)
Trade payables	(2.2)	(2.1)	(1.6)	(2.3)
Accruals	(19.4)	(20.5)	(16.2)	(15.0)
Pilot bonds	(5.3)	(1.5)	(1.0)	(1.0)
Other payables	(15.0)	(13.6)	(14.6)	(14.6)
Lease liabilities	-	(6.0)	(5.1)	(5.1)
Tax liability	(3.2)	(1.4)	(1.1)	(1.2)
Current liabilities	(77.1)	(70.3)	(71.8)	(63.2)
Non-current liabilities				
Borrowings	(5.2)	(10.0)	(1.2)	(11.0)
Lease liabilities	-	(5.2)	(4.3)	(4.3)
Other creditors	-	-	-	-
Deferred tax liability	(4.2)	(3.6)	(2.4)	(2.4)
Non-current liabilities	(9.4)	(18.8)	(7.9)	(17.7)
Total liabilities	(86.5)	(89.1)	(79.7)	(80.9)
Net Assets	54.6	48.0	42.4	41.5
Total equity & liabilities	141.1	137.1	122.1	122.4
BALANCE SHEET RATIOS				
	FY 2018A	FY 2019A	FY 2020A	FY 2021E
	£m	£m	£m	£m
Long-term financial debts	(5.2)	(10.0)	(1.2)	(11.0)
Short term financial debts	(32.0)	(25.2)	(32.2)	(24.0)
Gross debt	(37.2)	(35.2)	(33.4)	(35.0)
Cash and cash equivalents (excluding pilot bonds)	20.1	16.1	19.8	17.8
Net (debt) / cash	(17.1)	(19.1)	(13.6)	(17.2)
Acid test (Current Assets less inventory / Current Liabilities)	1.1	1.0	0.9	1.1
Equity	54.6	48.0	42.4	41.5
Gearing (Net Debt:Equity)	31.3%	39.8%	32.1%	41.5%
Net debt/trade debtors	-35.6%	-41.9%	-36.8%	-42.6%
Net debt/adj. EBITDA (x)	1.3	1.0	1.0	1.1

Source: Empresaria; Allenby Capital

EXHIBIT 13: CASH FLOW

Y/E December	FY 2018A	FY 2019A	FY 2020A	FY 2021E
	£m	£m	£m	£m
Operating cash flow				
Profit for year	5.8	0.5	-3.2	1.9
Depreciation	1.0	7.6	7.4	7.0
Intangible amortisation	1.7	1.8	1.7	0.0
Taxation expense recognised in income statement	3.6	2.4	1.2	2.7
Exceptional charges	0.3	0.0	0.0	0.0
Impairment of other intangible assets	0.0	0.0	3.4	0.0
Share based payments	0.0	0.2	-0.2	0.4
Net finance costs	0.9	1.1	1.0	0.9
Sub total	13.3	16.1	13.2	12.9
<i>(Increase)/Decrease in trade receivables</i>	<i>-2.2</i>	<i>0.2</i>	<i>10.9</i>	<i>-3.4</i>
<i>(Decrease)/Increase in trade payables</i>	<i>-2.7</i>	<i>-2.0</i>	<i>-5.8</i>	<i>0.7</i>
Net movement in WC	-4.9	-1.8	5.1	-2.7
Cash generated from operations	8.4	14.3	18.3	10.2
Interest paid	-1.0	-1.3	-1.1	-1.0
Income taxes paid	-2.9	-5.6	-3.0	-3.5
Net cash from operating activities	4.5	7.5	14.2	5.7
Cash flows from investing activities				
Acquisition of new subsidiaries	-1.7	-0.2	-0.1	0.0
Disposal of subsidiary	0.1	0.0	0.0	0.0
Purchase of PP&E	-1.5	-1.5	-0.7	-1.3
Finance income	0.2	0.2	0.2	0.2
Net cash used in investing activities	-2.9	-1.5	-0.6	-1.1
Cash flows from financing activities				
Further shares acquired in existing subsidiaries	0.0	-3.5	-1.5	-0.6
Proceeds from bank borrowings/loan	4.0	5.0	1.8	0.0
Increase/(decrease) in borrowings	1.5	-3.6	3.8	0.0
Repayment of loan	-6.4	-0.2	-5.7	-1.5
Payment of obligations under leases	0.0	-6.5	-6.2	-6.2
Increase/(Decrease) in invoice discount facilities	0.1	-2.7	-2.0	2.0
Dividends paid	-0.6	-1.0	0.0	-0.5
Dividends paid to minority shareholders in subsidiaries	-0.4	-0.6	-0.5	-0.5
Net cash from/(used in) financing activities	-2.2	-13.1	-10.5	-7.7
Net increase in cash and cash equivalents	-0.6	-7.1	3.1	-3.1
FX	0.1	-0.7	0.1	1.1
Cash and cash equivalents at beginning of period	25.9	25.4	17.6	20.8
Cash and cash equivalents at end of period	25.4	17.6	20.8	18.8

Source: Empresaria; Allenby Capital

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