



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.

For the purpose of MIFID II, the content of the following email qualifies as “non-substantive material or services consisting of short-term market commentary on the latest economic statistics or company results” and so can be treated as ‘acceptable minor non-monetary benefits’ and not as ‘chargeable research’ per the European Commission’s Delegated Directive of 7.4.2016.

Allenby Capital TMT Update 01.07.19 (TERN.L, ZOO.L, ACC.L)

Tern plc* (TERN.L, 11.25p/£26.6m)

Capital Markets Event: Exposure to global IoT market (24.06.19)

- Capital markets event for the investment company focused on high growth IoT businesses with presentations from Device Authority (application and device security platform) and FundamentalVR (VR haptic surgical simulators), Tern's largest two investments.
- Device Authority (56.8% - NAV £11.7m) is focused on device centric IoT identity and access management (IAM) with its KeyScaler platform that automates the provisioning of device security - authentication, policy management, certificate and key management, monitoring etc. The traditional manual approach for provisioning and managing is unable to cope with the sheer volume of IoT devices that are being deployed. Initial customers include Roche, 3D Systems, Scania, Stryker, WaveLight, Alcon and GCEHealthcare.
- Fundamental VR (34.7% - NAV £1.9m) has developed Fundamental Surgery a VR simulator for surgeons that includes haptic feedback and collects performance data. Partners include the Mayo Clinic, the Royal College of Surgeon, Sana, Harvard Medical School, Cleveland Clinic and the NHS. It is also targeting medical device companies and customers include Baxter, Novartis, Allergan, Orbis and Medtronic.
- Separately, Device Authority announced a partnership with Tech Mahindra, the global IT services business, whereby it will targeting customers in the telecoms, industrial and healthcare sectors. This follows April's partnership with Wipro.
- Wyld Networks, where Tern has a 100% holding, has been awarded a £121k grant from Innovate UK to collaborate on a new mass production manufacturing platform, SmartDrop, for Archipelago Technology Group. Wyld will embed its communications technology that has long range and mesh capabilities into the platform. Alastair Williamson, formerly of Ranplan Group AB, Krone and Lucent, has also been appointed as CEO.

Allenby Capital comment: Tern provides AIM-listed exposure to the rapid growth of the IoT market, the US West Coast ecosystem and the associated potential valuation levels. Tern has focused on the Medical and Manufacturing sectors that offers long term structural growth potential with an emphasis on security, applications enablement and data analytics. It looks to invest in proven UK software companies where it can take a meaningful stake, exert influence and create value through Tern's management involvement.

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

ZOO Digital plc (ZOO.L, 63p/£46.9m)

FY19 results: Development and disruption in OTT market (26.06.19)

- FY19 revenue of \$28.8m was slightly below consensus forecasts that were reduced on the back of April's trading update and up \$0.2m on FY18. Within this, Localisation (Subtitling flat and Dubbing +18%) revenue increased 4% but Digital Packaging (including DVD and Blu-Ray) fell 12%. The revenue performance reflected some contract timing issues as well as the disruption caused by the growth in OTT streaming services that is impacting the legacy DVD and Blu-ray form factors. Increased caution around the phasing of projects from one of its major clients resulted in downgrades to FY20 estimates.
- Adj. EBITDA fell substantially (\$0.4m versus \$2.4m) a function of lower gross margins (32% versus 35%) reflecting the change in business mix and a substantial investment in R&D (+63%) and sales and marketing (+54%). Management estimates that it has \$35m in revenue capacity.
- ZOO is typically acting as an approved/preferred vendor for subtitling and on an ad-hoc engagement basis for more nascent dubbing service. This results in limited revenue visibility. The company's strategy is to become a primary vendor that would provide much greater revenue visibility as well as increased volume of work.

Allenby Capital comment: The OTT market has been undergoing rapid development and disruption with a number of major media producers launching/announcing direct to consumer services (e.g. Disney and TimeWarner) and the intention to discontinue licensing to other OTT providers. Meanwhile existing OTT providers are investing heavily in their own content. There are also new entrants/services (e.g. AppleTV+). As a result, more content with appeal to a broader consumer audience will become available in more and more geographies. Over the medium term, this will increase the addressable market for ZOO Digital and its subtitling and dubbing services that offer considerably greater scalability than traditional providers through its use of a cloud-based service and network of 6,500 freelancers. In the short term, the disruption has impacted project timings.

Access Intelligence plc (ACC.L, 58.0p/£35.4m)

Cessation of coverage (01.07.19)

=====

Allenby Capital "paid for" research services

The changes initiated by MiFID II have 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.

=====

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

David Johnson is the author of this research recommendation. David Johnson 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

5 St Helen's Place London EC3A 6AB

+44 (0)20 3328 5656

www.allenbycapital.com
