

Corporate

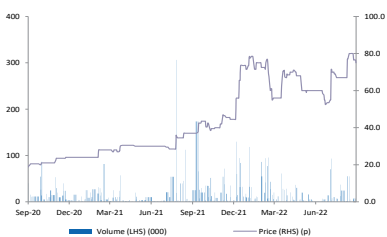
 Current price **72.0p**

 Sector **Media**

 Code **AEO.L**

 Listing **AIM**

Share Performance



% Change	1m	3m	12m
AEO.L	+11.9	+25.0	+102.7

Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **£6.5m**

 Shares in issue (m) **9.24m**

 52 weeks (p) **High** **Low**
80.0 **37.0**

 Financial year end **June**

Source: Company Data, Allenby Capital

Key Shareholders

Mike Hale (Chairman) 20.5%

J Hicking 14.4%

B Geary 7.0%

S Quah (CEO) 5.2%

S Perring 5.1%

Source: Company Data, Allenby Capital

Allenby Research

0203 328 5666

research@allenbycapital.com

www.allenbycapital.com

Aeorema Communications plc (AEO.L)

Repositioned, capitalising on post pandemic growth

Two consecutive sets of strong half-year figures confirm that Aeorema Communications plc (AEO.L) has emerged from the pandemic in very strong shape, operationally and financially. FY22 was particularly impressive. August's trading update signalled a record year to end June, during which the group more than doubled revenue to £12.2m (up 139%) and generated over £0.8m PBT (FY21: £0.2m loss). A genuinely flexible and resilient operating model helped it to capitalise on demand for virtual experiences during the pandemic. With demand for live events restored, AEO has benefited from strong relationships with clients that include iconic global brands. Growth in existing and new accounts is reflected in AEO's largest ever presence at the key Cannes Lions International Festival of Creativity. It now plans to take full advantage of a growing UK and US profile and reputation underpinned by award winning campaigns and invest to support its next phase of growth. AEO has won 70+ global communications awards, including the CN Creative Agency of the Year for the last three years.

- Valuation:** The investment case comprises: (a) revenue underpinned by repeat business from an increasingly diversified, international client base, (b) an ability to attract and retain highly motivated and talented individuals to deliver award winning experiences and (c) a strategy to manage underlying demand for its services in ways that generate incremental returns for shareholders, including progressive distributions.
- Forecasts:** Our FY22e forecast is in-line with recent updates. AEO's account teams continue to attract additional work from existing clients and secure new business. The outlook for further organic growth remains positive and may be boosted by both in-fill acquisitions and material contributions from new sources. We will await further revenue visibility before we add forecasts for FY23, as well as details of planned investment in recruitment, back-office and IT systems to support future phases of growth and planned new initiatives.
- Valuation:** Recent equity performance puts the rating at 10.1x FY22e diluted EPS, with a well-covered 1.6% prospective yield. AEO is on a 'positive trajectory' into 2023 and its inherently flexible business model has proven resilience. The outlook combines a confident revenue outlook, planned investment in business capacity and resource and an enhanced US presence. The group scores well on KPIs including repeat business and client retention, and regularly benchmarks individual project/group margins and returns on capital and confirms strong performance vs industry peers.

Year End: 30 June

(£'000)	2019A	2020A	2021A	2022E
REVENUE	6,765	5,476	5,095	12,200
EBITDA	385	(175)	(188)	865
PBT (PRE-EXCEPTIONALS)	382	(218)	(160)	842
EPS (DIL. & PRE-EXCEPTS) (p)	2.93	(1.95)	(1.48)	5.84
DIVIDEND/SHARE (p)	1.00	1.25	0.00	1.25
NET CASH	2,211	1,721	852	1,510
DIVIDEND YIELD (%)	1.4	1.7	0.0	1.7
PER (x)	24.5	-	-	12.2

Source: Company; Allenby Capital. Allenby Capital acts as Nomad & Broker to Aeorema Communications plc (AEO).

Trading update for year ended 30 June 2022

The trading update (18.08.22) confirmed that momentum built rapidly across both halves of FY22. That showed both how effectively AEO handled the challenges presented by the pandemic, but fundamentally also how well it understands its clients' needs and found ways to deliver their experiences despite interruptions to live events. Aeorema has capitalised on these enhanced relations as the market has recovered.

FY22 performance: impressive growth, building on strong positioning

The key components of the trading update for the year to 30 June 2022 were:

- A record period, trading ahead of management expectations across the financial year
- Revenue (unaudited and projected) up 139% y-o-y to not less than £12.2m (FY21: £5.1m). AEO doesn't disclose specific sources of that material growth, but discussions with management suggest that it reflects a significantly higher profile within its industry and a commitment to - and focus on - the creative and strategic elements of client events. As a result, its clients have been willing to give it more business directly, without competitive pitches.
- Pre-tax profit (unaudited and projected) not less than £0.83m (FY21: £0.16m loss) and year-end cash above £1.65m
- Favourable prospects for the current year and confidence regarding continuation of a positive trajectory into 2023

Where the interim results (discussed below) had hinted at progressive normalisation of underlying markets, the revenue and profit guidance in the FY22 trading updates confirm that AEO built share and retained key clients in both live and virtual spaces. Overall returns should continue to benefit from these complementary activities. Currently demand for traditional live activities is rebuilding fast.

Exhibit 1: Financial overview

Financial Year	Revenue £m	Profit (pre-exceptionals) £m	Comments
2017-18	4.82	0.30	New management, growing revenue and profit
2018-19	6.77	0.39	First full year under new management
2019-20	5.48	(0.18)	On track to deliver record year before COVID struck
2020-21	5.09	(0.16)	Significant investment creates platform for growth
2021-22E	12.20	0.84	Record performance, broader portfolio and international market reach

Source: Company; Allenby Capital

Outlook

The group's strong performance over the last two years has built an operation with complementary revenue streams at scale, a broader service portfolio, and an extended and growing blue-chip client list, underpinned by enhanced international reach via its new US office.

AEO's client list comprises market leaders across a range of industries although these are not disclosed to ensure commercial confidentiality. An inherently flexible approach has helped it to identify ways to help its client secure their own relationships with key B2B audiences until normal service resumed. Aeorema emerged from the pandemic in robust shape, repositioned and enlarged, with broader expertise and an international presence. The outlook is underpinned by its strategic move into consultancy services that should further enhance the scale and quality of future revenue.

It has demonstrated its ability to operate profitably across virtual, hybrid and live event spaces and intends to continue to accumulate expertise in parallel with its clients' requirements.

Interim results to end December 2021

The results for the six months to end December 2021 underlined the strong post pandemic performance. This was AEO's record first half i.e. revenue of £4.91m (H1 FY21: £1.68m) and PBT of £0.26m (H1 2021: £0.29m loss). The interims demonstrated the benefits of a broad skillset over the last two years, and it expects to see continuing demand for live and virtual events.

Other principal drivers include the performance of the new US office. This helps to underpin the revenue and profit growth outlook, drive client growth and build the new business pipeline. First half revenue was only marginally lower than the £5.09m AEO reported for the entire year to end June 2021, and interim profitability was well ahead of FY21's £0.19m pre-exceptional operating loss and £0.16m loss before tax.

Cash at £1.53m at the period end (end Dec 2020: £1.34m) had increased to £1.65m by end June 2022.

Exhibit 2: Summary Interim Results

	Six months to 31 Dec 2021	Six months to 31 Dec 2020	Year to 30 Jun 2021
Continuing Operations			
Revenue	4,909,742	1,677,311	5,094,518
Cost of sales	(3,734,995)	(1,337,873)	(3,912,376)
Gross profit	1,174,747	339,438	1,182,142
Other income	3,743	49,616	61,651
Administrative expenses	(919,366)	(666,985)	(1,431,898)
Operating profit - pre exceptional items	259,124	(277,931)	(188,105)
Exceptional items			50,000
Operating profit - after exceptional items	259,124	(277,931)	(138,105)
Finance income	109	539	489
Finance costs	(3,556)	(10,284)	(22,082)
PBT	255,677	(287,676)	(159,698)
Tax	48,105	40,100	(5,228)
PAT	303,782	(247,576)	(164,926)
Earnings per share			
Basic (p)	3.3	(2.7)	(1.8)
Diluted (p)	2.7	(2.7)	(1.8)

Source: Company

Management is now actively considering investment plans and will add resource to support its growth strategy. We have assumed that this will include IT systems, HR and recruitment over the next 12 to 18 months.

Although remote working will remain a component of a flexible operating model, AEO's ongoing strategy will combine remote and office-based work, regarding the latter as a key hub for community, brainstorming and idea generation, and team engagement. As headcount scales, it will also invest in new office space to facilitate team collaboration.

AEO has strategic plans to leverage its growing profile as a provider of live and virtual experiences, and hybrids of both. This should provide competitive advantages against pure virtual providers for in-person, physical experiences as AEO can draw on broader experience and expertise.

Over the past 18 months, the group has focused on a strategic shift into consultancy services, to help it engage with its clients at a higher, advisory level on their communications strategies. Progress made during the pandemic reflects the strength of

its client relationships. As a strategic adviser, AEO could credibly offer alternatives to live events. It believes that this also helps to lift it above some of the supply chain and distribution problems and inflationary pressures, now cited widely as a source of pressure on profitability.

Another important area of differentiation is AEO's ability to measure the impact of its programmes and provide its clients with data and analytics that enable them to plan, evolve and recalibrate campaigns. The outcome is reflected in an unprecedented demand for its bespoke services from a wide range of blue-chip clients spread across a diverse industry base in the UK and the US.

US office demonstrates commitment to international clients

The New York agency was opened in September 2020 and contributed to FY21 growth. It provides enhanced access to new domestic US clients with a preference for local providers and allows AEO to promote its understanding of US markets. This is a strategic decision that demonstrates commitment to US-based and other international clients.

The group already had decades of experience of delivering experiences to a repeat US client base. It has however confirmed that its new office has added to its complement of US-based clients and anticipates further growth over the next 18 months, which the UK team will support as necessary.

The US team continues to grow in line with client demand in North America and AEO staff are based in New York City. We expect it to grow its team this year.

It also recently established a base in Amsterdam and sees this as an opportunity to expand within the EU. This presence may help it to deal more successfully with those US clients planning events in Europe, such as Cannes Lions.

Acquisition of Eventful in March 2020

AEO added a venue sourcing and luxury events division, Eventful, in March 2020. Eventful's core business operates within the hospitality and travel industry, and it offers venue sourcing and travel incentive services.

This was the group's first acquisition and although the timing adversely skewed the new operation's performance because of COVID, it looks well placed to recover. It has retained existing clients, reports a healthy new business pipeline and an increase in client enquiries for venues. It also adds to potential cross-selling opportunities within the group.

Further acquisitions remain part of AEO's strategic plan. Management confirms that plenty of discussions have taken place with other potential acquisitions but that the right fit/terms have not yet been found.

Recap: Aeorema’s proposition

AEO delivers innovative, engaging communications ‘brand experience’ events that enable its clients to build their profile and relationships with key audience segments. It operates from London, New York and Amsterdam and creates and delivers brand experience events for a blue-chip corporate client list.

The core business, **Cheerful Twentyfirst**, uses the latest technologies, interactive platforms and film capabilities. The group works with its clients to understand what needs to be expressed, by whom, and designs video and digital content that distils the messages and forms closer connections with target audiences. Its client list is largely confidential, but includes long-established, iconic global brands owned by companies that operate in a range of diverse industries: media (traditional and online), legal, consulting, retail, financial services and technology/telecoms. **AEO has won 70+ global communications awards, including the CN Creative Agency of the Year for the last three years.**

AEO underpins its strategic thinking with research to help clients understand their audiences. It aims to provide high-level strategic communications advice that builds lasting value into brand experiences. This incorporates advice on messaging and challenges facing brands, how they dovetail with wider content, campaign management and copywriting.

Events are immersive, whether online or live/in-person, or a hybrid. These seek to engage audiences wherever they are located. AEO selects bespoke solutions for each client to deliver interactive, engaging and thought-provoking experiences that focus on their audiences and true brand impact. Equally significant is AEO’s own custom technologies that ensure that the impact of any campaign can be measured and tracked in ways that facilitate continuous improvement. This is typically done over an extended period, and this helps experiences to evolve as the feedback drives and informs subsequent campaigns. Brand experiences are supported by:

Exhibit 3: Building brand experiences	
Communications	Brand building, content strategy PR & messaging, Copywriting Multi-channel engagement
Production & Events	Production & build Virtual & live events Immersive brand spaces, Experiential activations Global event management
Creative & Branding	Brand strategy Storytelling, event identities Graphic design & application Creative campaigns
Moving Image	Film production, Animation User generated video Event videography Pre-production strategy
Digital Solutions	Online brand spaces Digital platforms, 3D design, AR/VR activations Digital networking solutions
Measurement	Analysis and insights to inform and drive the clients next campaign

Source: Company

Cheerful Twentyfirst has a well-defined account-led approach, to think beyond implementation of specific communications programmes into partnerships with its clients, who increasingly rely on it for strategic advice. Recent additions to the client list operate in diverse sectors globally, including finance, professional services, advertising, IT, gaming, fashion, Fintech, and beverages.

Financial model & strategic overview

The interims confirmed ‘unprecedented demand’ for bespoke services from blue-chip clients across a number of industries. This momentum was maintained into H2 and was reflected in AEO’s FY22 trading update.

Operational flexibility reflected in higher margins

Revenue represents fees charged for the design and implementation of customer experiences. It includes the content of live and virtual events, film production and event management. It does not include the full cost of such events, event hire and other logistics, which are recharged to clients without markup.

Client relationships are not generally on a contractual long-term basis but focus on individual events. They are historically sticky, and revenue is broadly repeatable if performance is satisfactory. That is enhanced by AEO’s ability to verify added value.

AEO withstood challenges over the pandemic period (including cancellation of 92% of projected FY20 revenues) and emerged with greater diversity, a sustainable, complementary revenue base, and a proven resilient business model.

The higher percentage of revenue generated by virtual events and strategic consultancy benefited gross margins i.e. 23% (FY21) vs 15% (FY20 restated) and c. 24% (H1 FY22). Although virtual events consume both more in-house resource to produce content (motion graphics, film and design) and strategic consultancy, face-to-face events generally incur higher levels of direct costs related to audio visual, set and stage, all third-party costs that reduce the gross margin.

Demand for live conferences and events is rebuilding fast. AEO’s clients recognise (verified by its data) the specific benefits they deliver for brand awareness and client interaction. It had capacity to meet demand as B2B events returned to predominantly in-person and will build resources to manage strong demand.

The impact on future margins will be affected by the balance of live and virtual events, with key industries likely to maintain some use of virtual, online communications, as its viability has been proven.

The format also fits a desire to reduce carbon emissions from business travel. Over the past few years, AEO has set out and refined its ESG (Environmental, Social and Governance) policies as a core component of its working practices and in 2020 it launched its CSR (Corporate Social Responsibility) charter.

That matches progressively higher demand from clients for counterparties to provide verifiable credentials in this respect. CSR and sustainability is core to the group ethos. Some clients’ demand for sustainability credentials makes this fundamental to competitive positioning. They increasingly demand a credible explanation of what efforts are being made to limit the environmental impact of any proposed experience.

Employee numbers have grown since FY21 to meet higher demand from new and existing clients and the labour-intensive nature of virtual events. These additional hires covered roles such as project/production managers, project co-ordinators, designers (including digital) and digital solutions managers.

It operates its own virtual event platform (KIT) and built its expertise as a producer of virtual events. That enabled it to absorb a recorded upturn in demand and revenue and it has since delivered virtual events for existing and new clients in industry sectors such as finance, professional services, oil & gas, advertising, IT, fashion, Fintech, technology and beverages.

Forecasts based upon broad industry themes

For reasons of commercial sensitivity, the group does not disclose its client list or provide segmented information as a third party could extract the weighting to particular industries or geographies or draw conclusions regarding the respective underlying margins. Our forecast model makes certain assumptions regarding the scalability of the current business.

There have been two enhancements to the financial model over the last two years.

- The continued growth of the group's strategic consultancy work should improve revenue visibility, as AEO becomes part of the decision-making process, rather than an implementer.
- The virtual/live mix is expected to provide far less seasonal weighting in revenue than was the case pre-COVID.

We see the following growth drivers:

- Continued recovery in demand for live events
- A solid, complementary and readily scalable revenue base provided by the group's established virtual capability
- Additions to UK and international client list and higher work from existing clients
- Opportunities to cross-sell in-house skills, enhanced by direct access to the US market. This should benefit as AEO builds its strategic consultancy
- In-fill acquisitions that build expertise and capacity, and access new clients and geographies. We expect AEO will target entities with attractive skillsets, some of which suffered during the pandemic, and may be receptive to an approach that helps them rebuild. These may improve access to clients in North America or the Middle East, or new industry sectors, such as pharma and automotive

AEO has set out two areas of focus for growth within its current strategy and business model; (a) to increase revenue streams within its operating companies in the UK and US, through recruitment, account management and new business development, and (b) grow the portfolio via acquisitions. It aims to reduce dependence on freelance staff, that are higher cost.

Over the last 18-24 months, AEO has complemented its expertise and profile as a supplier of virtual experiences and a strategic partner for key clients, built expertise in multi-format and virtual events. The latter drew on in-house capability in video communications, broadcast and content production, in line with defined strategic priorities designed to:

- Establish its position as a fully integrated brand experience agency with offices in two key markets
- Become the creative agency of choice for a diverse workforce across EMEA and the US
- Achieve revenue growth by growing existing client accounts and new business in an 80:20 ratio. Leverage existing accounts and key client contacts to develop new business lines within its current account base

Exhibit 4: Summary Income Statement				
Year ended 30 June	2019	2020	2021	2022e
Continuing Operations				
Revenue	6,765,280	5,475,425	5,094,518	12,200,000
Cost of sales	(4,584,117)	(4,651,249)	(3,912,376)	(8,900,000)
Gross profit	2,181,163	824,176	1,182,142	3,300,000
Other income		82,601	61,651	65,000
Administrative expenses	(1,796,680)	(1,081,820)	(1,431,898)	(2,500,000)
Operating profit/(loss) pre-exceptional items	384,483	(175,043)	(188,105)	865,000
Exceptional items			50,000	
Exceptional costs		(23,184)		
Operating profit/(loss) after-exceptional items	384,483	(198,227)	(138,105)	865,000
Finance income	611	556	489	500
Finance costs	(2,850)	(20,253)	(22,082)	(23,500)
Profit before tax	382,244	(217,924)	(159,698)	842,000
Taxation	(86,687)	20,497	(5,228)	(190,000)
Profit from continuing operations	295,557	(197,427)	(164,926)	652,000
Other comprehensive income				
Exchange differences on translation of foreign entities			(11,044)	
Other comprehensive income	0	0	(11,044)	0
Total comprehensive income	295,557	(197,427)	(175,970)	652,000
Basic/diluted EPS from continuing operations				
Basic (p)	3.27	-2.17	-1.79	7.06
Diluted (p)	2.93	-1.95	-1.48	5.84

Source: Company, Allenby Capital

Exhibit 5: Consolidated Statement of Financial Position				
Year ended 30 June	2019	2020	2021	2022e
Non-current assets				
Intangible assets	365,154	573,931	571,431	570,200
Property, plant and equipment	58,071	85,952	103,477	220,000
Right-to-use assets	13,486	379,530	18,995	824,000
Deferred taxation		7,611		25,000
	436,711	1,047,024	693,903	1,639,200
Current assets				
Trade and other receivables	1,612,345	597,497	1,429,064	3,100,000
Cash and cash equivalents	2,211,161	1,721,217	1,101,713	1,700,000
Current tax receivable			10,758	
	3,823,506	2,318,714	2,541,535	4,800,000
Total assets	4,260,217	3,365,738	3,235,438	6,439,200
Current liabilities				
Trade and other payables	2,223,027	1,226,222	1,417,467	2,950,000
Lease liabilities	16,475	85,070	25,912	120,000
Bank loans			54,089	80,000
Current tax payable	74,616	68,490		160,000
Provisions			25,020	40,000
	2,314,118	1,379,782	1,522,488	3,350,000
Non-current liabilities				
Lease liabilities		300,689		753,000
Bank loans			195,911	110,000
Provisions	24,186	25,020		
Deferred taxation	7,529		2,059	
	31,715	325,709	197,970	863,000
Total liabilities	2,345,833	1,705,491	1,720,458	4,213,000
Net assets	1,914,384	1,660,247	1,514,980	2,226,200

Source: Company; Allenby Capital

Exhibit 6: Cash Flow Statement				
Period ended 30 June	2019	2020	2021	2022e
Cash flow from operating activities				
(Loss)/profit before tax	382,244	(217,924)	(159,698)	842,000
Adjustments for:				
Depreciation of property, plant and equipment	21,525	31,871	40,885	60,000
Depreciation of right-of-use assets	80,915	89,392	91,092	90,000
Amortisation of intangible fixed assets		417	2,500	2,500
Loss on disposal of fixed assets	6,179	1,648	769	2,096
Share-based payment	34,261	47,097	30,703	40,132
Interest on lease liabilities	2,851	20,253	16,932	0
Finance income	(611)	(556)	(489)	(250)
Exchange rate differences on translation			(11,044)	11,552
Revaluation of right-to-use asset			(5,311)	
Operating cash flow before movement in working capital	527,364	(27,802)	6,339	1,048,030
Increase/(decrease) in trade and other payables	972,235	(1,075,254)	191,244	630,000
(Increase)/decrease in trade and other receivables	(506,053)	1,014,847	(831,592)	(900,000)
Cash (used in)/generated from operating activities	993,546	(88,209)	(634,009)	778,030
Tax paid	(11,700)	(10,797)	(74,805)	(50,000)
Net cash flow from operating activities	981,846	(99,006)	(708,814)	728,030
Cash flow from investing activities				
Payment for Acquisition of Subsidiary, net of cash acquired		(128,331)		
Finance income	611	556	489	245
Purchase of intangible assets		(10,000)		
Purchase of property, plant & equipment	(48,731)	(61,400)	(59,179)	(90,000)
Disposal of property, plant & equipment				
Repayment of leasing liabilities	(91,000)	(101,258)	(102,000)	(26,100)
Net cash used in investing activities	(139,120)	(300,433)	(160,690)	(115,855)
Cash flow from financing activities				
Bank loans			250,000	
Dividends paid	(67,879)	(90,505)		
Repayment of bank loans				(13,888)
Net cash used in financing activities	(67,879)	(90,505)	250,000	(13,888)
Net increase/(decrease) in cash and cash equivalents	774,847	(489,944)	(619,504)	598,287
Cash and cash equivalents at beginning of period	1,436,314	2,211,161	1,721,217	1,101,713
Cash and cash equivalents at period end	2,211,161	1,721,217	1,101,713	1,700,000

Source: Company: Allenby Capital

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