Allenby CAPITAL

Company Note

Initiation

8 February 2023

Alpha Growth plc (ALGW.L)

Fast growing specialist asset management

Alpha Growth plc (ALGW.L) is a specialist life insurance linked longevity asset manager with UK, US and Bermuda based operations. Longevity assets are an investment class whose performance is uncorrelated to economic trends, stocks, bonds or other traditional approaches. They are structured to deliver steady investment returns even in currently volatile global markets.

Group revenues are derived from annual fees for (a) management of associated assets within funds and (b) the creation and administration of investment products within life assurance wrappers for institutional and retail customers. ALGW has grown total assets under management and administration from US$10m in January 2020 to c. US$700m. That includes both directly managed fund management assets (AUM) and assets under administration (AUA) within owned insurance operations. Acquisitions are core growth strategy and the group expects to access further growth from an identified pipeline, part of a defined strategy to grow AUM/AUA to US$2bn by 2025 and unlock substantial markets only accessible to regulated entities. This will be enhanced by investment in marketing and product development, with the benefits visible during the current year (FY23).

- **Acquisition driven growth** In December the group closed two purchases: Old Mutual International (Guernsey) Ltd (OMI) and Havelet Assignment Company Limited. These, plus investment in additional marketing resource and the Dec 2022 launch of a new product for retail clients (Interval Fund) should add significantly to revenue growth on a rolling 12-month basis, the initial part of which is reflected in our FY23e forecasts.

- **Financials** Revenue represents stable, visible asset management fees levied on core AUM, plus profitable insurance and insurance linked entities which market longevity asset related products to professional and retail clients. AUM should benefit from sales of such investments, long term commitments capable of delivering annual management fees and a high-quality revenue stream.

- **Valuation** The shares appear materially behind events. They are only marginally up during a two-year period which saw a 70x increase in AUM and strong progress against the strategic plan. We put fair value well above (arguably a multiple of) the current price based solely on what's been achieved so far. ALGW now operates four profitable, regulated businesses, all competitively positioned, and expects to secure further acquisitions from a pipeline of opportunities under review. It's an operationally geared business that won't need equivalent increases in costs to service growth, so net margins and cashflows should accelerate. AUM growth will generate reproducible, inherently 'sticky' revenues from multiple sources, underpinned by planned organic growth initiatives. This strength is not reflected in the share price. Acquisitions, inherently tricky to predict, are not in our forecasts but are highly likely. AUM growth should translate into a step change in margins and EPS, matched by parallel growth in the share price.

Year End: December				
(£m)	**August 2020**	**16 months 2021**	**2022E**	**2023E**
REVENUE	0.08	2.65	4.15	6.00
EBITDA	(0.57)	(1.31)	(0.09)	0.70
Adjusted (underlying) PBT*	(0.57)	(1.29)	(0.17)	0.68
Adj. (underlying) EPS (p)	(0.30)	(0.47)	(0.14)	0.14
PER (x)	NA	NA	NA	19.0
EV/Revenues (x)	139	4.3	2.7	1.9

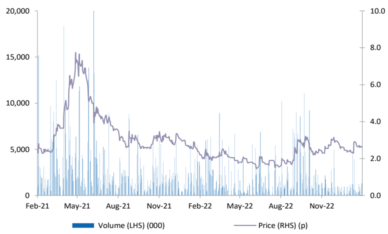
Source: Allenby Capital. Allenby Capital acts as Broker and Financial Adviser to Alpha Growth plc (ALGW.L)
* FY22 is 16 months   Adjusted PBT excludes one-ff profit on acquisition

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

Corporate

Current price	**2.50p**
Sector	**Financials - Investment Banking & Brokerage**
Code	**ALGW.L**
Listing	**LSE Main Market**

Share Performance



% Change	**1m**	**3m**	**12m**
ALGW.L	+4.2	+2.0	+8.7

Source: Thomson Reuters, Allenby Capital

Share Data		
Market Cap (£m)		**10.8**
Shares in issue (m)		**431.89m**
52 weeks (p)	High	Low
	3.20	**1.45**
Financial year end		**December**

Source: Company Data, Allenby Capital

Key Shareholders	
Mark Ward	20.8%
R Rawlins	4.1%

Source: Company Data, Allenby Capital

Allenby Research

0203 328 5666

research@allenbycapital.com

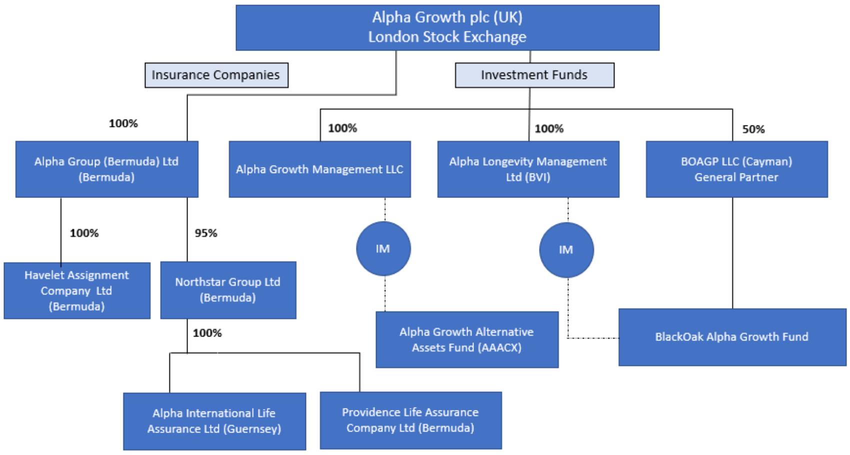
www.allenbycapital.com

Equity Research

Summary - Fast growing insurance linked asset manager

Alpha Growth plc is a fast-growing life insurance linked longevity asset manager, with offices in the UK, US and Bermuda. Its two business divisions are longevity asset-based fund management and life insurance. Both take advantage of core strengths in actuarial and financial analysis, structuring, and management, and drive growth in the value of assets under management and administration (AUM/AUA). Underlying gross assets have increased from US$10m in January 2020 to c. US$700m currently. The group's revenues are derived from percentage-based fees on the value of assets managed and commissions from sales of investment and life insurance products.

Exhibit 1: Alpha Growth – group structure



Source: Company

Primary Growth Strategies

Alpha's insurance companies offer wealth management products and services to institutions, ultra-high net worth individuals and family offices, and its funds provide exposure to insurance linked longevity assets, such as life and structured settlements.

Its aims is to grow both its insurance and associated fund management businesses and it plans to continue to seek acquisitions from a reported strong pipeline of acquisition targets. This will accelerate growth in AUA within its insurance operations. It is in active discussions with potential targets and expects further progress over the next 12 months. The insurance operation will also grow its existing and acquired entities organically as it develops and writes new policies and agrees additional distribution channels.

Alpha is operationally geared with low overheads. As its business scales, it expects future opportunities to increase in size and generate material increases in AUM/AUA, but only add minimally to operational costs. The cost of developing new life insurance products and fund marketing may add expense but each addition should still quite quickly benefit net margin, cash flow and profitability.

The interval fund broadens investor access to the group's longevity asset funds and adds a further source of potential AUM growth. Alpha became the investment manager of this fund (Alpha Alternative Assets Fund) in September 2022 and received SEC approval for its new strategy in December. It now offers significantly lower investment entry requirements and will target retail investors. Its CRM platform has been upgraded to service this business at low cost.

Life Insurance Business

Alpha's life insurance activities focus on insurance-linked wealth management, specifically private placement life insurance and annuities. The acquisition of Providence Life Assurance Company (Bermuda) Ltd (PLAC) in 2021 was the cornerstone to the initial build of the insurance business and enhanced Alpha's wealth management services. PLAC is a segregated account life insurance company, that specialises in distribution of life insurance and annuities to UHNWI clients and institutional investors.

The insurance company charges a fee for the administration and insurance costs of the policy. The base charge for policy asset administration equates to a range between 30bps and 50bps on average. Additional fees are earned for other services relating to the complexity of the private placement life and variable annuity as well as offering the potential for one off commissions for new products.

PLAC administers c. US$300m of assets within segregated accounts for institutions and ultra-high net worth individuals. Alpha International Life Assurance Company (Guernsey) Ltd (AILAC), formerly OMIG (acquired in 2022), administers c. £230m in assets for approximately 3,750 policyholders via insurance linked savings and investment products. In combination, the group's insurance companies are able to service the complete wealth pyramid.

Exhibit 2: Insurance division structure

Providence Life Assurance Company (Bermuda) Ltd (PLAC)	PLAC is headquartered in Bermuda and is a segregated account company. It focuses on two primary lines of business: - Private Placement Life Insurance (PPLI) - Private Placement Variable Annuities (PPVA) PPLI and PPVA are types of US life insurance policies that allow for a cash component to be invested to produce greater returns on the basis that: - Income and capital gains tax is deferred on growth on investments contained within the policy These gains can be accessed on an income tax deferred basis during the insured's lifetime - Alternatively, the gains can be passed to beneficiaries as part of an income tax free benefit upon the insured's death These are complex products only available to sophisticated investors. Policies can be structured to include a balanced portfolio of investments including stocks, bonds, private equity and other asset classes.
Alpha International Life Assurance Company (Guernsey) Ltd (AILAC)	AILAC (formerly OMIG), is a general account life insurance company licensed by the Guernsey Financial Services Commission under the Insurance Business (Bailiwick of Guernsey) Law 2002, to conduct long-term insurance business. Its principal business is provision of insurance linked savings and investment products to international clients in Europe, UK, Middle East, and Asia. It offers its policyholders over 26 investment funds sub-advised by investment advisers. AILAC acts as adviser and receives a fee for this role. Alpha's strategy is to expand the investment options within both the longevity asset sector and insurance linked wealth management sector, to enable investors to choose their preferred strategy to match their investment objectives. As this strategy grows, the insurance segment will be supported by the group's fund management activities.

Source: Company

Fund management: strategic focus on longevity assets

The group's fund management strategies focus on the generation of current income and long-term capital appreciation via investment in longevity assets. These derive returns from the ageing, mortality and actuarial analysis of an individual or group of individuals and provide:

- Diversification away from major market-drivers: Interest rates, equity risk, and macroeconomic influences.
- Return profiles that can be managed to provide steady, predictable cash flows and growth.

Longevity assets are traditionally defined as life contingent as their duration depends on an individual's life expectancy. Returns pivot on (a) the continued ageing of the US and global population and (b) individual life expectancies within the 70+ age demographic.

Valuations are based on actuarial analysis and reflect life expectancies and population trends, both largely immune to market swings and economic events. **As a result, returns from this asset class are fundamentally uncorrelated with more traditional investment such as stocks, bonds and property.**

Examples of longevity assets

The asset class is derived from life insurance products underpinned by actuarial analysis. Life insurance and annuity policies are the most common forms of life contingent assets. Offered by insurance companies, they incorporate life and structured settlements. Returns are primarily based on the life expectancy of the insured (on actuarial projections of mortality and longevity rates) rather than the economic cycle risk of stocks and bonds or economic risks.

Longevity assets include complementary offerings in which the product, service or specific project relies on the volume and characteristics of an ageing consumer. Examples include reverse home mortgages, geriatric care specific facilities and pharmaceutical royalties. Returns on securities are related to their activity (private debt, public debt securities, LLC and limited partnership equity interests) and driven by consumer ageing metrics.

The segment aged 65 and over is projected to grow by >2.8% (annualised) over the next five years to 2027 (IBISWorld), the highest rate (outside of the past decade) in the last 50 years. This is a key driver for each longevity-based asset class and should both generate opportunities for investment and attract more capital to the sector.

The group manages two funds currently.

Exhibit 3: Alpha Funds

BlackOak Alpha Growth Fund LP (BOAGF)	This is a private fund focused on investment in individual life settlements, managed by Alpha Longevity Management Ltd. At end of 2022 BOAGF AUM were over US$45m. Alpha expects net returns to increase significantly as BOAGF's portfolio matures over the next 12 to 24 months, and for that to be matched by parallel fund inflows and revenue from performance related fees.
Alpha Alternative Assets Fund (AAAF)	Launched in September 2022, AAAF is a US SEC registered interval fund designed to address demand for alternatives. The investment adviser, Alpha Growth Management LLC (AGM), has relevant experience of life insurance, longevity-based and financial asset management.

Source: Company

Competitive positioning

The group has acquired regulated entities in industry segments with significant barriers to entry, which will enable the product categories and clients which it has identified as high growth opportunities. BlackOak Alpha Growth Fund (BOAGF) and Alpha Alternative Assets Fund (AAAF) cater to both high net worth and broader retail audiences.

Any successful longevity-based strategy combines expertise, deal flow relationships, structuring, and actuarial analysis that delivers diversified exposure within the asset class.

Longevity assets are typically accessible in limited forms and have generally been regarded as an expert investment restricted to institutional or sophisticated/qualified investors. An individual investor would struggle to build a portfolio with the necessary scale and diversification to achieve actuarial confidence in estimated returns.

Alpha’s funds and its managers can identify and access sources of quality deal flow and have the expertise to structure specific investments that provide security, reporting and investment return efficiency.

Much of the AAAF portfolio comprises securities with underlying life and structured settlements—private equity, private debt and hybrids—sourced from independent, experienced issuers of life and structured settlements. Alpha’s fund’s managers work with these entities to acquire suitable securities.

US Life Settlements

The group is an industry leader within the growing US Life Settlements sector. The BlackOak Alpha Growth Fund (BOAGF) was created in 2019 to provide investors with an opportunity to benefit from this expertise and the uncorrelated returns achievable.

BOAGF has increased AUM from US$10m to more than US$45m since 2020 and during that period received multiple awards for its returns from the Barclay Hedge Performance rankings. It has grown organically and generated positive returns in 40 out of the past 41 months. After 36 months, BOAGF had produced a net of fees total return of 24.98% or approximately 8.33% per annum return for investors.

As an asset manager, BOAGF generates revenues by charging a percentage fee based on the assets managed.

Exhibit 4: US Life Settlements – market size and group fee structure

US$3bn Estimated annual volume of the US Life Settlements market*	10.1% Expected CAGR 2019-2028*	Alpha fee structure 1.5% Management Fee 60/40 with partner	Alpha fee structure 20% Performance Fee above 7% hurdle

Source: Company. *Conning Research

Life Settlements

A life settlement - also senior settlement - involves the sale of an existing life insurance policy to a third party (person or entity other than the company that issued the policy) for more than the policy's cash surrender value, but less than the net death benefit.

Life settlements are regarded as illiquid investments because they are traded on a secondary market through life settlement agents, rather than on an organised exchange. Alpha gains exposure to life settlement contracts via investment in structured products (private debt, public debt securities, LLC and limited partnerships, equity interests) tied to a portfolio/pool of life settlement contracts. These assets are only suitable for 'patient capital' but they have historically produced equity-like returns over the long term with bond-like risk.

This business purchases existing life insurance contracts for a sum above their cash surrender value but below the ultimate net benefits payable. The price paid reflects an actuarial judgment regarding the insured person's life expectancy. The buyer becomes the beneficiary under the policy, responsible for paying the ongoing premiums.

Exhibit 5: Life settlement elements

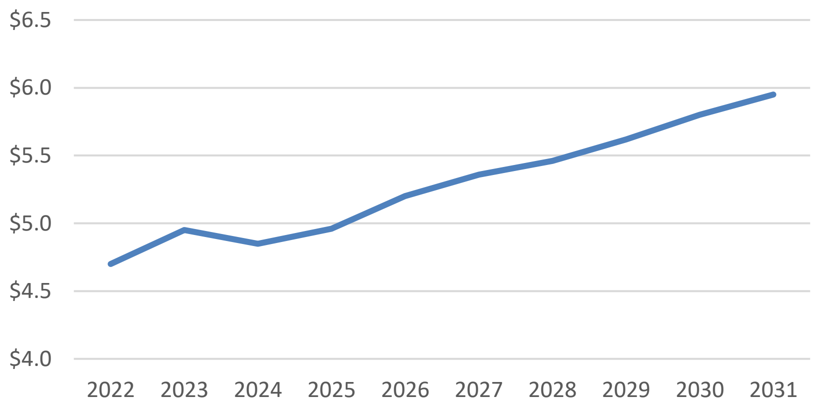
Life settlement	The sale by the policy holder of a specific type of US life insurance policy. A third-party purchaser typically pays above the policy's cash surrender value, but below the defined death benefit. Group purchases are made by BOAGF. It continues to pay premiums and is entitled to the death benefit upon the insured's death.
Benefit for the seller	A seller motivated by an urgent need for cash can generate a lump sum above the policy's surrender value via its sale to a third party. The seller may need to cover medical bills or generate funds for long-term care. This provides the Fund with an ESG element.
Benefit for BOAGF	Profit on such transactions is equivalent to the policy's death benefit value less purchase price paid and cumulative premium payments.
Investment case	Life settlements are an opportunity to invest in an asset class which is not correlated to stock or housing markets, so providing a way to hedge against market turbulence. Over a multi-year period Alpha expects average returns to exceed 10% pa.

Source: Company

To illustrate potential returns, a policyholder sells a life insurance policy with a US$1m death benefit value to BOAGF for US$0.2m. BOAGF funds regular premium payments until A's death, hypothetically six years after the transaction is completed. Net profit is US$0.54m; US$1m in death benefits less US$0.46m in disbursements, including US$0.26m of premiums.

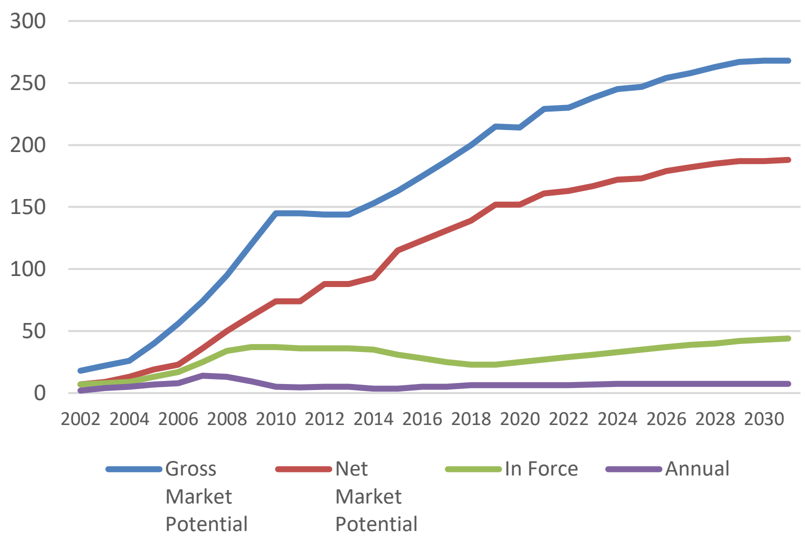
The charts below set out an illustration of projected potential growth from this market according to industry research.

Exhibit 6: Annual US Life Settlement Volume ($ billions, one health criterion)



Source: Conning Research

Exhibit 7: Face Value Projection Summary – Key Forecasts ($ billions, one health criterion)



Source: Conning US Life settlement Market Development and Forecast

A structured settlement is a payment agreement or annuity designed to compensate a successful plaintiff in a lawsuit (typically personal injury or product liability). It allows a claimant to receive all or a portion of a personal injury, wrongful death, or workers' compensation settlement in a series of income tax-free periodic payments. The plaintiff substitutes the award of a lump sum payment with monthly payments over either a fixed term e.g. 10, 20 or 30 years, or for the remainder of their life.

The purchaser of a fixed term or lifetime structured settlement must therefore make an actuarial judgment regarding that person’s life expectancy versus the most likely early termination date.

The fund gains exposure to structured settlements by investing in structured products (private debt, public debt securities and/or LLC, limited partnerships equity interests) that are tied to a portfolio / pool of structured settlements. It can take positions in longevity assets as a broadly defined class, which can be opportunistic where the overlay of an actuarial analysis can be made on the underlying assets of the security that meets the fund’s objectives.

The fund is not limited to the above strategies and asset classes. It has formulated an intentional mix to provide an effective approach to the longevity assets market that balances the qualities, risks, and rewards of each.

Financials

The group's most recent results covered the sixteen-month period to end December 2021, a period during which operations were still in relatively early stages of building AUM/AUA scale.

A reported £1.67m loss (FY20 £0.57m loss), essentially reflected administrative and listing costs, one-off charges related to options, acquisition integration costs and adjustments to an acquired entity's reinsurance revenues.

Exhibit 8: Income Statement

Financial year ended December	August 2020	16 months Dec 2021	Dec 2022e	Dec 2023e
Revenue from owned insurance companies		2,290,948	3,800,000	5,500,000
Revenue from contracts with clients	81,592	354,224	350,000	500,000
Total Revenue	**81,592**	**2,645,172**	**4,150,000**	**6,000,000**
Cost of sales	(81,592)	(1,892,257)	(2,600,000)	(2,800,000)
Gross Profit	**0**	**752,915**	**1,550,000**	**3,200,000**
Operating expenses	(567,200)	(2,060,888)	(1,650,000)	(2,500,000)
Employee share options		(407,000)	(200,000)	(300,000)
Operating profit	**(567,200)**	**(1,307,973)**	**(100,000)**	**700,000**
Investment income and movements in Deferred Acquisition Cost (DAC)	0	27,355	15,000	15,000
Investment expense	0	(8,306)	(80,000)	(40,000)
Profit on acquisition*			3,400,000	0
Pre-tax Profit	**(567,200)**	**(1,288,924)**	**3,235,000**	**675,000**
Tax	0	29,620	0	(15,000)
Profit After Tax	**(567,200)**	**(1,259,304)**	**3,235,000**	**660,000**
Attributable to:				
Owners of the Company	(567,200)	(1,654,811)	3,221,500	587,500
Non-controlling interests	0	395,507	13,500	72,500
	(567,200)	**(1,259,304)**	**3,235,000**	**660,000**
Basic EPS	**(0.30p)**	**(0.47p)**	**0.8p**	**0.14p**
Underlying pre-tax profit (excl. one-off profit on acquisition)	**(567,200)**	**(1,288,924)**	**(165,000)**	**675,000**
Underlying EPS	**(0.30p)**	**(0.47p)**	**(0.04p)**	**0.14p**

Source: Company; Allenby forecasts *Up-front profit booked on purchase of legacy insurance portfolios

The acquisition of a 95% stake in Northstar Group (Bermuda) Limited in March 2021, plus subscriptions into BOAGF, drove significant growth in revenue during FY22 and will have moved the group towards breakeven on an operating profits basis. This was Alpha's first significant strategic investment. It incorporated life assurer Providence Life and Assurance Company (PLAC) (Northstar's subsidiary) and over US$280m of reported gross assets as well as facilitating working alongside Northstar's former owner who has brought further expertise.

In December, Alpha completed its acquisition, announced in March 2022, of Old Mutual International (Guernsey) Ltd (OMIG), confirming receipt of regulatory approval from both the Guernsey Financial Services Commission and the South African regulator. OMIG has since been renamed Alpha International Life Assurance Company (Guernsey) Ltd (AILAC). The group will receive full revenue and EBIT contribution from 1 August 2022 and has a European-based platform for further acquisitions.

AILAC provides insurance wrapped savings products to a broad retail base via independent distributors and insurance sales networks. It is a Guernsey based, Category 1 international life insurer, with approx. 3,785 long-term life insurance contracts in force as at end 2021.

The transaction value was c. US$4.4m and included all operations and c. US$275m of AUM at end November 2022. That brings group AUM between US$600m and USD$700m, enhancing a platform from which Alpha can offer life insurance-based wealth management products and life insurance linked funds, originated both by the group and its partners, to a broad base of European based UHNWI, family offices and institutions.

The directors of Alpha subsidiary Providence Life Assurance Company (Bermuda) Ltd, will join AILAC's board subject to regulatory approvals.

Latest acquisition: Havelet, December 2022
Alpha recently completed its acquisition of Havelet Assignment Company Limited (Havelet), a Barbados based financial services company specialising in settlement assignments. The acquisition enhances the group's access to assets under administration and is a complementary fit with Providence Life.

Havelet is cash flow positive and generates a c. 52% net margin, from administration of c. US$9m in assigned settlements. No shares were issued by Alpha which agreed to pay a nominal sum for outstanding shares and 10% of net fees generated on assets under administration, for a limited time period.

Havelet's clients, established over the past ten years, can customise deferral and payment terms; receive lump sum distributions; and select beneficiaries through annuities purchased and managed by Havelet, typically ranging from 10 to 20 years depending upon the age of the claimant and the settlement type.

As the settlement obligation is invested on a pre-tax basis and grows on a tax-deferred basis, there is a much larger capital base than if the settlement were received directly by the claimant, taxed, and then invested. This results in potential for a higher after-tax sum to be received by the claimant. Havelet is not subject to withholding tax on dividends pursuant to Barbados-US taxation arrangements.

These annuities will be capable of being issued by Providence, thereby increasing the cross-selling opportunities across the Alpha group of companies. Annuities are structured as a source of long-term independent revenue for both Havelet and Providence.

Forecasts and Outlook
On what we regard as relatively conservative growth assumptions (no further purchases) Alpha is on track to generate £0.70m PTP this year (FY23). An operationally geared financial model should help it scale rapidly without equivalent increases in expenses.

Acquisitions are a core driver of the group's growth strategy, and the target defined by its strategic plan is underpinned by an identified pipeline of prospective additions. We believe that investors should anticipate further transactions over the next few years as the group scales up rapidly towards its $2bn AUM/AUA target.

Our forecasts don't build in any further acquisitions as their scale and timing is inherently unpredictable. They are however fundamental to an appreciation of the group's intrinsic value and Alpha has indicated that it expects to secure larger acquisitions as it builds its asset base.

The latest acquisitions will make their first full 12 month contribution in FY23, but we have only added modestly to their historic performance and see considerable scope to grow these operations. These are profitable, high potential growth businesses.

Those small increases in contributions from the current operations will be sufficient, we believe, to absorb an underlying increase in overheads. The strategy incorporates plans to grow the enlarged business organically and our projections include expenses such as recruitment, and investment in additional marketing resources and new product development.

Target asset base of US$2bn by 2025

To recap, Alpha has set out a defined target - its '2B plan' - to grow AUA to US$2bn by 2025. It is currently at c. US$700m post acquisitions and organic growth, a 70-fold increase from the US$10m in January 2020. A strategic base of regulated entities in sectors with material barriers to entry, provides the group with a platform from which it expects to generate visible, sticky, recurring revenues and growing cashflows. It will also support plans for further acquisitions and organic investment.

The recent addition of Havelet was in part a strategic refinement. It reflects a renewed appreciation of the prospects for core fund management and insurance segments. Alpha plans to focus on an aggressive expansion of these two segments, a stronger, simpler proposition from which it can derive substantial value over the next two to three years. These activities underpin potential for better returns and lower operational overheads.

This refocus on two core areas is expected to concentrate resources and management time most effectively and improve shareholder returns. These activities will drive growth as Alpha pursues its buy and build strategy, underpinned by the new, complementary and innovative strategies it offers to its clients.

The 'buy' strategy is supported by an established acquisition methodology and a strong pipeline identified as a source of potentially material AUA and AUM growth. Alpha does not anticipate that it wll need to raise additional equity to secure its current acquisition targets and has demonstrated that there are willing sellers for these types of businesses. These typically consist of operations, some of which are substantial (up to c US$1bn assets) but no longer regarded as core to their growth strategies. Group's such as Alpha can purchase these legacy insurance portfolios, for nominal sums which allows to book an upfront profit (recorded as 'profit on bargain purchase' in the accounts), then receive ongoing fees for management of the underlying assets.

AUM should also grow organically as Alpha markets its strategies to institutions, family offices and high net worth individuals. The interval fund enables it to engage with a wider investor audience via a new product with lower financial entry commitments. The benefits will apply to both Alpha's insurance and fund management segments and we see this as a key driver of future AUM growth.

Valuation

Recent transactions have strengthened the group's competitive positioning and established a base of four profitable businesses. Each is regulated, has specialist expertise and permitted access to substantial based of institutional and retail investors.

In our view the shares do not reflect either the substantial progress made over the past two years, or the enhanced earning potential, which we expect to become transparent as it moves towards its goal of $2bn of AUM by 2025.

We see this as an ideal timing to invest in an ambitious, fast growing asset management business with a differentiated offer.

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