Company Note

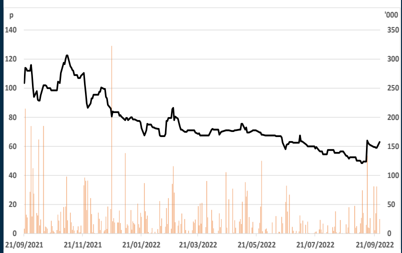
Full Year

27 September 2022

Corporate

Current price	63.0p
Sector	Electronic & Electrical Equipment
Code	TRT.L
AIM	AIM

Share Performance



	1m	3m	12m
TRT.L	+20%	0%	-46%

Source: Thomson Reuters, Allenby Capital

Share Data		
Market Cap (£m)		10.1
Shares in issue (m)		16.4
52 weeks	High	Low
	122.5p	48.5p
Financial year end		June

Source: Company Data, Allenby Capital

Key Shareholders	
CriSeren	10.06%
Seneca	7.81%
P Lobbenberg	6.05%
J Abrahams	4.21%
Harwood Capital	4.12%
Legal & General	3.37%
Gerald Oury	3.08%

Source: Company Data, Allenby Capital

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Transense Technologies plc (TRT.L)

NPV of iTrack cash flows emphasises significant undervaluation

Transense Technologies plc, the developer, manufacturer and licensor of sensor technology and equipment, has announced full year results in line with our forecasts with iTrack royalties moving up to £1.56m, an 88% yoy increase. iTrack revenues will continue to underpin cash generation for the Company for the next 8 years and we have estimated that the discounted future cash flows from iTrack are equivalent to a net present value of 95p per share. This, in our opinion, emphasises the significant current undervaluation of Transense and the attractiveness of a Company which has a proven record of developing and commercialising its proprietary technology.

- **Full year results in line with expectations** – As anticipated, this was a breakout year for the Company, which prior to 2020, under previous management had been a perennial loss maker. Revenues increased by 48% to £2.6m (2021: £1.8m) with all three divisions contributing to the improvement. The majority of the growth continued to be generated by the increasing stream of royalty income from the iTrack licence with ATMS (Bridgestone) with revenue of £1.6m (2021: £0.8m). EBITDA increased substantially from £0.1m in 2021 to £0.5m and a pre-tax profit of £0.3m was reported versus a loss of £0.1m.
- **Secure iTrack revenues to support growth in other divisions** – iTrack royalty income will continue for the next eight years and over this period will provide the Company with a secure revenue stream which will be partly used to develop opportunities in other parts of the business but in particular the Surface Acoustic Wave (SAW) potential.
- **Opportunities for SAW increasing rapidly** - In the past, the cost of developing and marketing the iTrack technology and limited funding opportunities has restricted Transense in fully exploiting SAW, albeit it has a licence agreement with GE (an important reference client) and a joint collaborative agreement with McLaren Applied. Over the past eighteen months this has changed and we are encouraged to see some real progress in the prospect pipeline which has increased from 7 potential customer in 2021 to 24, the latest of which was the recent collaboration agreement with Meggitt, now part of US giant Parker-Hannifin.
- **Forecasts unchanged and Company undervaluation supported by DCF of iTrack** – We are leaving our forecasts for FY23 and FY24 unchanged at this stage and anticipate a significant increase in profits and cash generation in both years and an unusually low risk profile in the current macro-economic environment given the security of iTrack royalty income. We believe that Transense shares are significantly undervalued and our NPV of future cash flows support this proposition before considering the earnings streams from the Translogik probes business and the potentially significant future contributions from SAW. **Consequently, we continue to believe that forecast profits and cash flow can support a share price of 150p**.

Year End: June					
(£'000)	2020A	2021A	2022A	2023E	2024E
REVENUE	603	1,173	2,632	3,586	4,550
ADJ. EBITDA	-681	61	523	1,392	1,945
ADJ. (L)/PBT	-1,265	-157	268	1,171	1,685
ADJ. EPS (p)	-6.7	1.0	5.4	7.9	11.5
NET CASH	1,193	1,046	1,055	1,764	3,188
EV/EBITDA (x)	-	-	17.3	6.0	3.6
PER (x)	-	-	11.8	8.0	5.5
FCF YIELD			2.4%	6.8%	13.8%

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

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

Equity Research

Full year results to 30 June 2022

The results for the twelve months to June 2022 were generated from Transense's three revenue streams: licensing and royalty income from **iTrack,** product sales from **SAW** and **Translogik** and grant income.

EXHIBIT 1: FULL-YEAR FINANCIAL SUMMARY

Year to June	**2022**	*% change*	**2021**
	£000		**£000**
INCOME STATEMENT			
Revenue	**2,632**	*48.4%*	**1,773**
Gross profit	**2,234**	*61.0%*	**1,388**
GP margin	*84.9%*	*8.4%*	*78.3%*
Admin expenses (before D&A and share based charges)	-1,629	*22.1%*	-1,334
as a % of revenues	*61.9%*	*-17.7%*	*75.2%*
Share based payments	-98	-	-41
Other income	16	*-66.7%*	48
EBITDA	**523**	*757.4%*	**61**
EBITDA margin	*19.9%*	*477.6%*	*3.4%*
D&A	-243	*18.0%*	-206
Operating profit/(loss)	**280**		**-145**
Finance income/(expense)	-12	*0.0%*	-12
Pre-tax profit/(loss)	**268**		**-157**
Tax	609	*94.6%*	313
Post tax profit/(loss)	877	*462.2%*	156
Basic EPS (p)	**5.36**	*460.3%*	**0.96**
CASH FLOW			
Cash flow from operating activities	621	*520.6%*	102
Changes in working capital	-284	*-61.0%*	-728
Tax	71	*-81.4%*	381
Net movement in cash flow from operating activities	**408**		**-245**
Cash flow from investing activities	**-100**		**1,184**
Cash flow from financing activities	**-299**	*-72.5%*	**-1,086**
Net movement in cash during the year	**9**		**-147**
Net cash year end	**1,055**	*0.9%*	**1,046**
BALANCE SHEET			
Non-current assets	1,483	*44.3%*	1,028
Cash	1,055	*0.9%*	1,046
Total current assets	2,276	*30.6%*	1,743
Total assets	**3,759**	*35.7%*	**2,771**
Current liabilities	-625	*92.3%*	-325
Non-current liabilities	-42	*-59.6%*	-104
Total liabilities	**-667**	*55.5%*	**-429**
Net assets	**3,092**	*32.0%*	**2,342**
Net current assets	**1,651**	*16.4%*	**1,418**

Source: Transense Technologies plc

Income statement

Revenue increased by 48%, primarily due to growth in iTrack royalty income of 87% to £1.6m (2020: £0.8m) and a 15% increase in Translogik sales to £0.9m (2020: £0.8m). Revenue from SAW also increased by 13% to £0.2m.

Analysis of revenues by half year in Exhibit 2 below, reveal the continued ramp-up in iTrack royalty payments with the year-on-year increase accelerating in H2 to 96%. Probes revenue fell back sequentially in H2 but this seasonality was also apparent in 2021 so we wouldn't read anything negative in the decline. SAW revenues increased strongly in H2 and while still very modest, is encouraging.

EXHIBIT 2: REVENUE SEGMENTATION BY HALF YEAR

Year to June 2022	H1	*% change*	H2	*% change*	Year	*% change*
iTrack	660	*76.5%*	897	*95.9%*	1,557	*87.1%*
Probes	470	*15.2%*	405	*13.8%*	875	*14.5%*
SAW	73	*-36.0%*	127	*101.6%*	200	*13.0%*
Revenue	**1,203**	*34.4%*	**1,429**	*62.8%*	**2,632**	*48.4%*

Source: Transense Technologies plc

The Company's gross profit increased by 61% to £2.2m (2020: £1.4m), again mainly as a result of the increase in iTrack revenues which, given that it represents royalty income, is in effect a 100% gross margin business.

Probe revenues and in turn gross margins, declined sequentially in H2, however, gross margins continued to improve to 55.3% for the year, a feature of both halves and reaching 56.3% in the second half. SAW reported gross profits of £0.2m with gross margins of 96.5%, unchanged on a year earlier.

EXHIBIT 3: GROSS PROFIT AND GROSS MARGIN SEGMENTATION BY HALF YEAR

Year to June 2022	H1	*% change*	H2	*% change*	Year	*% change*
iTrack	660	*76.5%*	897	*95.9%*	1,557	*87.1%*
gross margin	*100.0%*	*0.0%*	*100.0%*	*0.0%*	*100.0%*	*0.0%*
Probes	256	*20.8%*	228	*31.8%*	484	*25.7%*
gross margin	*54.5%*	*4.8%*	*56.3%*	*15.8%*	*55.3%*	*9.8%*
SAW	70	*-35.8%*	123	*98.4%*	193	*12.9%*
gross margin	*95.9%*	*0.3%*	*96.9%*	*-1.6%*	*96.5%*	*-0.1%*
Gross profit	986	*41.9%*	1,248	*80.1%*	2,234	*61.0%*
margin	*82.0%*	*5.5%*	*87.3%*	*10.6%*	*84.9%*	*8.4%*

Source: Transense Technologies plc

Administrative expenses, before share-based payments, depreciation and amortisation rose by 22%, a planned increase primarily reflecting additional headcount and a measured investment in SAW, including a resumption of overseas travel to support the strong potential for this business.

In spite of the rise in overheads, as a percentage of revenues costs declined from 75.2% in FY2021 to 61.9% in 2022. This is not a business with high overheads and consequently operating margin was just short of 11% and is expected to continue to rise strongly as revenues easily outpace the growth in opex.

EBITDA, after share-based charges of £98k, increased substantially, albeit from a modest base, to £523k (2020: £61k) but a considerable improvement from the long history of losses reported prior to the change in management and the iTrack licence deal with Bridgestone two years ago.

Profit before tax was £268k, versus the £157k loss reported in FY2021. The Company enjoyed a tax credit £609k in the financial year, largely representing a deferred tax credit of £598k and has tax losses, subject to agreement by HMRC, of £22.8m which are available for offset against future profits.

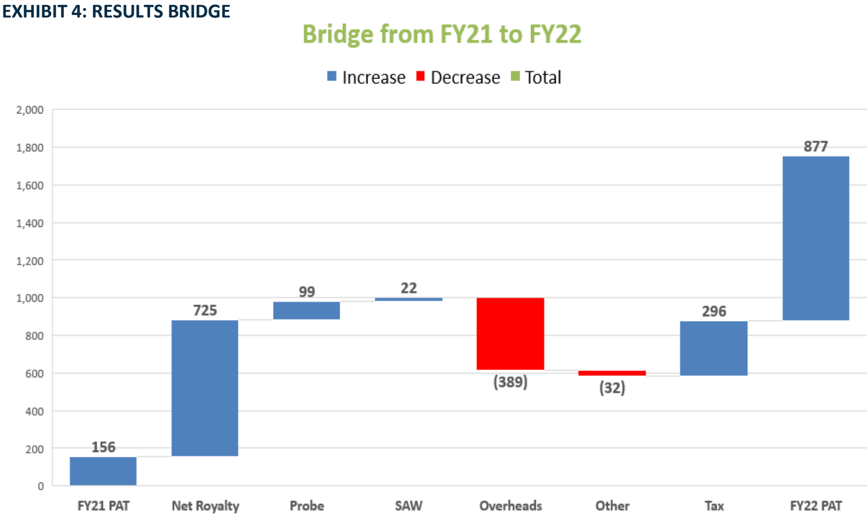
Cash flow and Balance Sheet

Effective working capital management, coupled with the growth in profit, resulted in positive operating cash generation of £408k (FY2021: outflow of £245k) with the Company ending the period with cash of £1.1m, effectively unchanged on the position a year earlier and with no debt. Cash is forecast to rise substantially as a direct consequence of the growing royalty stream generated by iTrack and some of this will be used to finance a share buyback programme which anticipates a proposal to buy back up to £150,000 prior to the AGM on 1st December 2022 and a further £500,000 post the AGM, subject to shareholder approval.

Net assets increased by 33% to £3.1m and net current assets also rose from £1.4m to £1.7m.

The results bridge between FY2021 and FY2022 and the move from loss to profit is shown below.

EXHIBIT 4: RESULTS BRIDGE



Sources: Transense Technologies.

We discuss the operating activities and financial performance of each operating segment in the following pages.

Analysis by operating segment

iTrack – results summary

EXHIBIT 5: iTRACK RESULTS SUMMARY

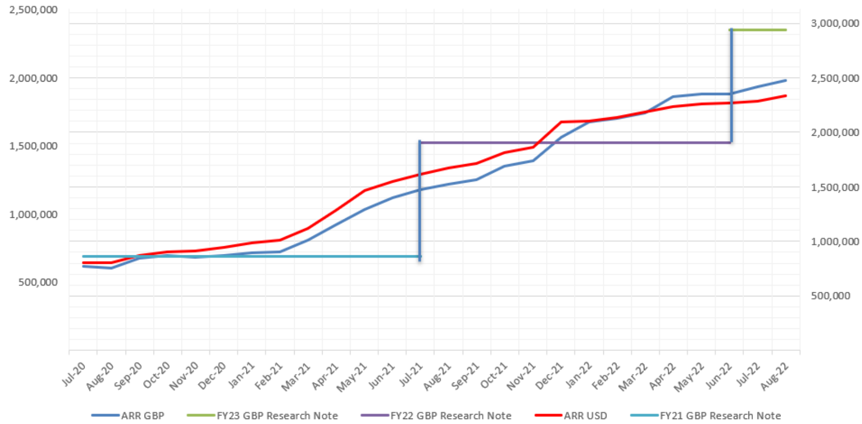
Year to June	2022	% change	2021
Revenue	1,557	*87.1%*	832
Gross profit	1,557	*87.1%*	832
Gross margin	*100.0%*	*0.0%*	*100.0%*
Overheads	-44	*-6.4%*	-47
Operating profit	1,513	*92.7%*	785
Operating profit margin	*97.2%*	*3.0%*	*94.4%*

Source: Transense Technologies plc

Revenue from the iTrack royalty stream rose by 87% as the number of mining trucks incorporating the technology continued to build. Transense receives quarterly royalty payments from the licensee, ATMS, in US dollars and these sums are converted into sterling at the prevailing rate for inclusion in the Income Statement.

Recently, the weakness of sterling has worked in the Company's favour on translation and consequently the Board has made the decision to implement a policy of hedging forward the royalty income by up to one year to take advantage of sterling's current weakness against the dollar.

EXHIBIT 6: ANNUALISED ROYALTY RUN RATE IN £ AND US$



Source: Transense Technologies plc

Bridgestone Corporation Japan, ATMS' parent, continues to indicate that iTrack is a key strategic component of their mobility solutions business and express confidence in the future growth potential for this technology.

With this in mind we have made some assumptions regarding the future potential royalty stream over the remaining eight years of the ATMS licence and offer a sensitivity analysis of the net present value (NPV) of the future discounted cash flows (DCF).

The initial licence agreement and what that infers

To recap, in June 2020, Transense announced that it had granted an exclusive worldwide licence to ATMS, a newly formed wholly owned subsidiary of Bridgestone Corporation

Japan (Bridgestone), covering all current and future iTrack technology for a period of ten years.

Under the licence, ATMS would offer Bridgestone customers its tyre monitoring systems for all off-the-road (OTR) vehicles based upon iTrack technology. In turn, Transense would receive a quarterly royalty payment based upon the number and classification of vehicles upon which the iTrack technology was deployed over a ten-year period, including those trucks trialling the system. At the end of the ten-year period, ATMS would have the option to purchase the iTrack technology for a nominal cash sum.

The royalty is paid in US$ and is based on the number of trucks utilising iTrack depending on the classification and size of trucks. The initial quarterly royalty based upon OTR vehicles utilising the iTrack system at that stage (June 2020) was estimated to be approximately £0.15m ($187,500) or £0.64m ($800,000) per annum at (the then) £/$ exchange rate of c.1.25.

We believe that this was calculated on an installed base of ultra-size mining trucks using the iTrack technology equivalent of around 4% of the market implying an estimated average royalty per truck of $1,400 per annum, or c.£1,200 using the £/$ exchange rate at that time.

This estimate is an average across all truck sizes and the royalty rate reduces according to the size of truck, with smaller trucks attracting a lower level of royalty. However, we believe that well over 90% of truck installations would relate to ultra-size trucks (those with tyre rims over 57 inches) and hence attract the highest royalty.

We understand that the initial level of royalty per truck will be held for the first five years of the licence until June 2025, after which the royalty per truck would fall to 60% of the original level for a period of two years to June 2027 and for the remaining three years would fall to a level commensurate to 40% of the original royalty per truck.

The market opportunity

Our initiation note dated 17 December 2020 which can be accessed here, provided an in-depth analysis of the global market for mining trucks and the opportunity for iTrack in that market.

This estimated that the population of mining trucks in operation at surface mines around the world at that time numbered 49,500+ for trucks with payload ratings of 90 metric tons and above. There were also more than 61,500 trucks in the database factoring in those that were currently inactive.

Current data from The Parker Bay Company[1] indicates that the number has since risen and that the population of mining trucks currently in operation at surface mines around the world now numbers 52,200+ for trucks with payload ratings of 90 metric tons and above and that there are 69,000 trucks in the database factoring in those that are currently inactive.

In addition to the trucks already fitted with iTrack, it is our belief that Bridgestone itself had an installed base equivalent to around 13% of the ultra-size truck market by virtue of its own TPMS solution known as B-TAG. Bridgestone is no longer actively supporting B-TAG and is now steering customers towards the adoption of iTrack.

Together, we believe that the estimated market share of trucks utilising iTrack and B-TAG represent around 17% of the ultra-size mining truck market (iTrack 4%, B-TAG 13%). Ultra-

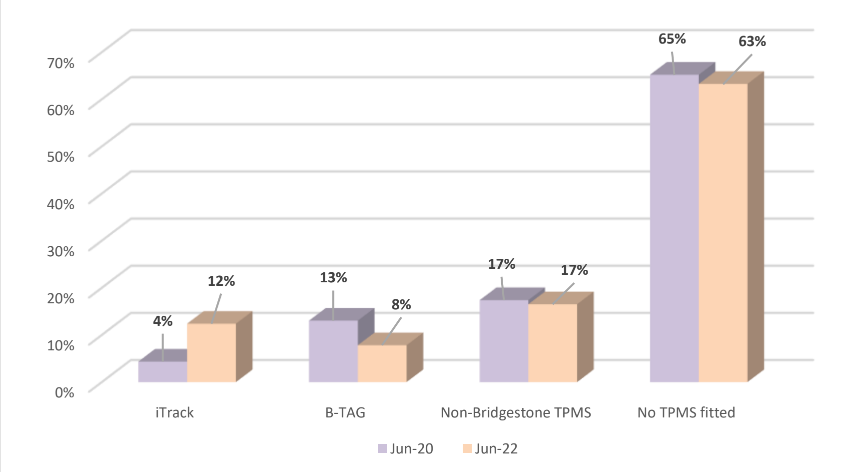
[1] The Parker Bay Company – Mining Trucks

sized trucks, in turn, represent around 25% of total mine haul trucks by number and 35% of the potential TPMS market by value.

Transense has suggested that together, iTrack and B-TAG systems are installed in around half of the ultra-size mining trucks that are currently fitted with a TPMS system meaning that, based on June 2020 data, a further 17% of trucks are currently running non-Bridgestone systems and could be targets for iTrack. These are probably dominated by Michelin which uses its own proprietary TPMS called "MEMS4" and Rimex "Tyresense" product.

Transense is now two years into the licence agreement and the level of royalty income has increased to $2.3m from the initial annualised run rate of $0.8m as of June 2020 and $1.1m at June 21, implying that the installed base of iTrack trucks has increased from 4% to around 12% of ultra-size trucks.

EXHIBIT 7: ESTIMATED DISTRIBUTION OF TPMS IN ULTRA-SIZE MINING TRUCKS (June 20 and June 22)



Source: Transense Technologies plc; Allenby Capital

While some of this growth has undoubtedly been generated by converting the low-hanging fruit that is the B-TAG installed base, we should not underestimate the potential for iTrack to gain market share elsewhere. Of the original installations of iTrack into mining trucks, most were installed prior to the joint collaboration agreement with Bridgestone and implies a receptive market for iTrack growth outside of the Bridgestone alliance.

There are many operators that are currently trialling the technology and although iTrack operates in a competitive market, it should be remembered that nearly two thirds of all active mining trucks around the world currently have no TPMS capability.

Ultra-size mine haul trucks can cost c.$7m and its tyres upwards of US$50,000 each it therefore makes economic sense for mine operators to treat them carefully, to maximise tyre life and eliminate costly damage to them, particularly with fuel costs rising. Correctly inflated tyres last longer, improve fuel consumption, are less likely to fail and require less maintenance, reducing vehicle downtime and improving productivity.

Consequently, we believe that a continuation of the average rate of installations per month is achievable for at least for the next three years, if not more.

Discounted cash flow and net present value

Now that we have two years of data, we believe that it would be useful to make some assumptions about future growth in the installed base, the level of royalties that could be achievable over the period of the licence, the cash flows attributable to this projected growth and finally provide a net present value of those cash flows.

To do so we have made a number of assumptions:

1. That the rate of iTrack installations continues to grow at a rate similar to that of the first two years, to June 2025.

2. The rate of installations then diminishes by round one third to June 2027.

3. The rate of installations diminishes further to around one third of the historic rate until the end of the licence period (June 2030) as the market becomes saturated. The market share at this stage would be equivalent to around 36% of the available ultra-size truck market, which we consider to be reasonable.

4. We have not factored in any growth from the installation of iTrack into smaller mining trucks even though, as we understand, such installations have already been achieved.

5. We are basing our £/$ exchange rate at 1.15 while noting that the current rate at the time of writing has fallen below that level by around 6%.

6. Given the relatively low risk profile, we have discounted future cash flows at a rate of 7.5% to arrive at a net present value (NPV).

7. **Note that these assumptions and the resulting annual royalty income are only projections and should not be considered as forecasts over and above those already provided for FY2023 and FY2024.**

On the above assumptions, our calculation of the NPV of the future discounted cash flows from iTrack installations is £15m or 93.5p per share, 57% higher than the current share price.

This NPV completely ignores any additional royalties from smaller trucks over the licence period, earnings attributable to the albeit modest but strongly growing Translogik division, potential future revenues from SAW or further earnings enhancing share buy backs that would be funded through the iTrack royalty stream.

EXHIBIT 8: DCF AND NPV OF ITRACK OVER THE REMAIN 8 YEARS OF THE LICENCE

	Current royalty rate for 5 years to June 2025			**Reduces to c.60% of original in years 6 & 7**		**Reduces to 40% of original in years 8-10**			
Period	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	
YE June	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	
Average royalty/truck ($)	1,400	1,400	1,400	840	840	560	560	560	
Total royalty ($)	2,837,800	3,509,800	4,181,800	2,761,080	3,013,080	2,109,520	2,210,320	2,311,120	
Royalty income (£)	2,467,652	3,052,000	3,636,348	2,400,939	2,620,070	1,834,365	1,922,017	2,009,670	19,943,061
Discounted cash flows (£)	**2,295,490**	**2,640,995**	**2,927,117**	**1,797,824**	**1,825,032**	**1,188,598**	**1,158,505**	**1,126,826**	**14,960,388**
NPV of DCFs per share (p)									**93.5**

Source: Allenby Capital

The inputs we have chosen are of course highly subjective, therefore we have provided a sensitivity analysis shown in Exhibit 8 below. Assuming inputs on a less favourable scenario (i.e. with £/$ at 1.30 and using a discount rate of 10.0%) the NPV still comes in at 76p per share, still 14% a meaningful increase over the current share price (59.5p) of 28%.

EXHIBIT 9: NPV SENSITIVITY MATRIX

£/$	1.00	1.15	1.30
Discount rate	**pence**	**pence**	**pence**
5.0%	117.7	102.4	90.6
7.5%	107.5	**93.5**	82.7
10.0%	98.6	85.8	75.9

Source: Allenby Capital

In conclusion, it is clear to our view that the market is significantly underestimating the cash flow generation potential of iTrack over the next eight years, its value in today's money and by implication, the valuation of Transense stock in the market.

Translogik Probes

Whereas iTrack offers remote temperature and pressure monitoring systems for off road vehicles, Translogik's modular probe measures tyre tread depth, tyre pressure, as well as reading both RFID (Radio Frequency Identification) tags, patches and tyre pressure sensors.

The product portfolio has been designed principally for fleet management companies in conjunction with the major global tyre manufacturers such as Bridgestone, Goodyear, Continental, Pirelli, fleet management software companies and in the current year, fleet management hardware businesses.

EXHIBIT 10: TRANSLOGIK RESULTS SUMMARY

Years to June	2022	*% change*	2021
	£000		£000
Revenue	875	*14.5%*	764
Gross profit	484	*25.7%*	385
Gross margin	*55.3%*	*9.8%*	*50.4%*
Overheads	-126	*10.5%*	-114
Operating profit	358	*32.1%*	271
Operating profit margin	*40.9%*	*15.3%*	*35.5%*

Source: Transense Technologies plc

In the year to June 2022, revenues increased by 14.5% to £0.875m with gross profit rising by 25.7% to £0.48m. The gross profit margin grew by 490bps to 55.3% from 50.4%, partly as a result of sterling's weakness.

The modular TLGX range which was launched in 2020 has now established itself as the principal system among its customer base and consequently the Company has decided to phase out the TL-G1 which had been available for over 25 years and has been integrated into most of the Company's major customers in global tyre monitoring solutions. This has provided numerous opportunities to up-sell products that have more sophisticated features.

Additionally, the business has expanded beyond its traditional tyre manufacturing client base into the fleet management arena including software developers and manufacturers of complementary hardware products.

The technology has been shown to deliver reduced costs and improved collection of data which helps commercial vehicle fleets comply with safety inspection regulations and manage the significant costs of their tyres more effectively.

As a result we believe there is more revenue and profit growth to come from Translogik as the customer base expands as well as strong cash generation.

Surface Acoustic Wave (SAW)

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

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

EXHIBIT 11: SAW RESULTS SUMMARY

Years to June	2022	*% change*	2021
	£000		£000
Revenue	200	*13.0%*	177
Gross profit	193	*12.9%*	171
Gross margin	*96.5%*	*-0.1%*	*96.6%*
Overheads	-1,142	*24.5%*	-917
Operating profit	-949	*27.2%*	-746

Source: Transense Technologies plc

SAW revenues increased by 13% yoy to £200k and although relatively still small, reported a near doubling of revenue in the second half to £123k.

As a consequence of SAW being responsible for the Company's premises cost (it is the only subsidiary that has a requirement for physical premises and machinery) its operating costs are very high compared to its modest revenue generation hence an operating loss of nearly £1m was reported in the year to June 2022.

Revenue was generated from low volume production of instrumented shafts either for motorsport or for customer evaluation projects, whilst increased headcount was required to manage new business opportunities and technical support which are yet to deliver revenue.

Current agreements

To date, SAW has a licence agreement with GE for the use of SAW sensors in its future military jet engine, the first deliveries of which are scheduled for the back end of 2024.

In September 2021, Transense signed a 5 year agreement with McLaren Applied to develop non-contact torque products for specific motorsport applications.

In September 2022, Transense announced an MoU with Meggitt SA, now part of Parker-Hannifin, whereby Transense will support Meggitt's evaluation of potential market opportunities for future deployment of SAW technology in the aerospace sector. The shared intention would be for Transense to grant a licence covering relevant fields of use to Meggitt at the conclusion of the MoU on or before 31 December 2023.

Future pipeline of opportunities

There is a broad range of potential market applications for SAW technology resulting in the business now focusing on four sectors in which there are applications with clear differentiated benefits. These are Aerospace, Electric Motors & Drives (EMD), Industrial Machinery (IM) and Motorsport (including high performance vehicles.

To illustrate the potential pipeline for each of these segments, management has provided the following table.

EXHIBIT 12: PROGRESS TO DATE ON PIPELINE BY CUSTOMER SEGMENT

Potential customers engaged* as at Sep 22	Aerospace	EMD	IM	Motorsport	Totals
Stage 1 - active enquiry	4	10	4	0	**18**
Stage 2 - in development	1	1	1	0	**3**
Stage 3 - contract under negotiation	1	0	0	0	**1**
Stage 4 - contracted	1	0	0	1	**2**
Totals	**7**	**11**	**5**	**1**	**24**

Source: Transense Technologies plc. ** denotes number of customers included at the highest level of engagement only without duplication.*

Management considers that there is now a healthy and growing pipeline of active customer engagement, where the minimum requirements for an enquiry to be considered active are met. These include pre-qualification that the project is technically feasible and is known to be supported by decision makers and budget holders in the customer organisation.

Management also cautions that there will normally be a significant time lag in progressing enquiries from stage 1 to stage 4 and it is also probable that timescales could be extended, and that some will not mature into revenue.

Nevertheless, the progress made in recent months and the increase in commercial traction provides ample indication of future growth potential, and a number of projects are close to moving from enquiry stage to some form of paid engineering project, which will increase the revenue of this segment with no significant additional costs.

Forecasts and conclusion

Forecasts

Our forecasts remain unchanged and call for a significant increase in both profits and cash generation over the forecast period and a welcome transformation of the Company from a perpetual loss maker to one which enjoys a secure revenue stream of royalty income and cash for the next eight years and a much improved likelihood of success with its SAW technology.

Conclusion

We believe our DCF of future cash flows from iTrack provides a useful indicator of the NPV attributable to this revenue stream over the next eight years.

While DCF's are notorious for being highly subjective and based on a number of assumptions, in which a change in any one could have a material influence on the outcome, the fact that iTrack's cash flows are for a limited length of time with no risk of default does help to mitigate on some of the potential variables and risks normally associated with such an exercise. The sensitivity analysis table should also help investors take their own view.

It is our belief that the DCF exercise indicates that the shares are significantly undervalued and implies no value to the cash flow generated by Translogik or the very significant potential that the SAW technology provides, particularly as we are starting to see the early indications of a growing pipeline of interest from potential customers.

At the current 63p price, the shares are trading on a current year PER of 8.0x earnings falling to 5.5x in FY23. EV/EBITDA stands at 6.0x falling to 3.6x and the free cashflow yield is expected to rise to almost 14% in FY23. In addition, the Price/Earnings to Growth (PEG) ratio is a very low 0.17 for the current year and even lower at 0.12 for FY23. Thus, we believe that all metrics support our undervaluation proposition.

We set previous fair value at 150p and although global markets have since weakened considerably, we believe this valuation remains valid, partly due to the DCF analysis and also the fact that almost 100% of Transense revenue is generated in US$, the strength of which is benefitting the Company on translation and making its products even more competitive in its markets.

Income statement and forecasts

EXHIBIT 13: INCOME STATEMENT AND FORECASTS

	£000	£000	£000	£000	£000
Y/E June	**FY 2020A**	**FY 2021A**	**FY 2022A**	**FY 2023E**	**FY 2024E**
UNDERLYING					
Revenue	603	1,773	2,632	3,586	4,550
Cost of sales	-271	-385	-398	-400	-540
Gross profit	**332**	**1,388**	**2,234**	**3,186**	**4,010**
margin	*55.1%*	*78.3%*	*84.9%*	*88.8%*	*88.1%*
Administrative expenses	-1,131	-1,334	-1,629	-1,709	-1,980
as a % of revenue	*187.6%*	*75.2%*	*61.9%*	*47.7%*	*43.5%*
Other income	118	48	16	0	0
Share based payments	0	-41	-98	-85	-85
Underlying EBITDA	**-681**	**61**	**523**	**1,392**	**1,945**
EBITDA margin	*-112.9%*	*3.4%*	*19.9%*	*38.8%*	*42.7%*
Depreciation	-90	-85	-88	-21	-21
Amortisation	-482	-121	-155	-200	-239
Underlying operating profit/(loss)	**-1,253**	**-145**	**280**	**1,171**	**1,685**
Operating profit margin	*-207.8%*	*-8.2%*	*10.6%*	*32.7%*	*37.0%*
Finance income/(expense)	-12	-12	-12	0	0
Underlying profit/(loss) before tax	**-1,265**	**-157**	**268**	**1,171**	**1,685**
Tax	175	313	609	128	204
Underlying profit/(loss) after tax	-1,090	156	877	1,299	1,889
STATUTORY					
Underlying operating profit/(loss)	-1,253	-145	280	1,171	1,685
Exceptional items	0	0	0	0	1
Statutory operating loss	-1,253	-145	280	1,171	1,685
Finance income/(expense)	-12	-12	-12	0	0
Statutory (loss)/profit before tax	**-1,265**	**-157**	**268**	**1,171**	**1,685**
Tax	175	313	609	128	204
Statutory (loss)/profit after tax	-1,090	156	877	1,299	1,889
Weighted average shares (m)	16.307	16.307	16.366	16.438	16.438
Year-end shares (m)	16.307	16.307	16.438	16.438	16.438
EPS Basic (p)	**(6.68)**	**0.96**	**5.36**	**7.90**	**11.49**
EPS FD (p)	**(6.68)**	**0.96**	**5.22**	**7.90**	**11.49**

Source: Transense Technologies plc; Allenby Capital

Balance sheet and forecasts

EXHIBIT 14: BALANCE SHEET AND FORECASTS

	£000	£000	£000	£000	£000
Y/E June	**FY 2020A**	**FY 2021A**	**FY 2022A**	**FY 2023E**	**FY 2024E**
Non-current assets					
PP&E	290	211	167	235	264
Intangible assets	844	770	671	557	418
Deferred tax	0	47	645	167	100
Total non-current assets	**1,134**	**1,028**	**1,483**	**959**	**782**
Current assets					
Inventories	63	73	88	88	88
Tax	175	60	0	0	0
Receivables	1,677	564	1,133	1,496	2,055
Cash	1,193	1,046	1,055	1,752	3,176
Total current assets	**3,108**	**1,743**	**2,276**	**3,336**	**5,319**
Total assets	**4,242**	**2,771**	**3,759**	**4,295**	**6,101**
Current liabilities					
Payables	-854	-260	-560	-302	-357
Borrowings	-976	0	0	0	0
Lease liabilities	-61	-65	-65	0	0
Tax	0	0	0	-132	-132
Provisions	0	0	0	0	0
Total current liabilities	**-1,891**	**-325**	**-625**	**-434**	**-489**
Non-current liabilities					
Lease liabilities	-168	-104	-42	-32	-31
Total non-current liabilities	**-168**	**-104**	**-42**	**-32**	**-31**
Total liabilities	**-2,059**	**-429**	**-667**	**-466**	**-520**
Net current assets	**1,217**	**1,418**	**1,651**	**2,902**	**4,830**
Net assets	**2,183**	**2,342**	**3,092**	**3,829**	**5,581**

Source: Transense Technologies plc; Allenby Capital

Cash flow and forecasts

EXHIBIT 15: CASH FLOW AND FORECASTS

	£000	£000	£000	£000	£000
Y/E June	**FY 2020A**	**FY 2021A**	**FY 2022A**	**FY 2023E**	**FY 2024E**
Loss from operations	-2,542	156	877	1,171	1,685
Financial income	9	0	0	0	0
Tax	-171	-313	-609	0	0
Loss on disposal of trade & assets	72	0	0	0	0
Depreciation	538	85	88	21	21
Loss on disposal of fixed assets	18	0	0	0	0
Amortisation	504	121	155	200	239
Share based payments	0	41	98	85	85
Unrealised currency gain/(loss)	0	0	0	0	0
Cost of capital restructure	0	0	0	0	0
Operating cash flow before WC	**-1,572**	**102**	**621**	**1,477**	**2,030**
(Increase)/decrease in receivables	*-177*	*-124*	*-569*	*-363*	*-559*
Decrease/(increase) in payables	*477*	*-594*	*300*	*-258*	*55*
Decrease/(increase) in inventories	*-582*	*-10*	*-15*	*0*	*0*
Decrease/(increase) in lease receivables	*0*	*0*	*0*	*-92*	*-92*
Net change in WC	***-282***	***-728***	***-284***	***-713***	***-596***
Cash used in operations	-1,854	-626	337	764	1,434
Tax	-4	381	71	130	200
Net cash used in operations	**-1,858**	**-245**	**408**	**894**	**1,634**
Interest received	8	0	0	0	0
Purchase of PP&E	-764	-6	-44	-36	-50
Purchase of intangible assets	-513	-47	-56	-96	-100
Proceeds from disposal of trade & assets	772	1,237	0	0	0
Net cash used in investing activities	**-497**	**1,184**	**-100**	**-132**	**-150**
Proceeds from issue of shares	0	0	0	0	0
Loans advanced	1,585	0	0	0	0
Warrants exercised	0	0	78	0	0
Loans repaid	-609	-976	0	0	0
Interest paid	-17	-12	-12	-5	0
Payment of lease liabilities	-58	-60	-62	-60	-60
Net cash from financing activities	**901**	**-1,086**	**-299**	**-65**	**-60**
Net change in cash	**-1,454**	**-147**	**9**	**697**	**1,424**
Cash at start of year	2,647	1,193	1,046	1,055	1,752
Cash at end of year	**1,193**	**1,046**	**1,055**	**1,752**	**3,176**

Source: Transense Technologies plc; Allenby Capital

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