

Thorney Technologies Ltd

ABN 66 096 782 188

7 April 2020

Dear fellow TEK shareholder,

Chairman's Update

As I write this update, the US share market has just recorded an overnight jump of 7%, once again highlighting the intense volatility we have been witnessing on global markets in recent times.

These gyrations will continue for as long as investors feel the uncertainty that comes from the impact of the unprecedented global health and economic crisis that is Covid-19. As they do so, markets will continue to respond in the extreme – overly enthusiastically to any real glimmer of hope and overly pessimistically to any negative news.

Technology shares around the world – from the FANG stocks (Facebook, Amazon, Netflix, Google) to the smallest startups – have been hit hard by this volatile uncertainty. Of course there have been some winners. Who has not heard of Zoom by now?

TEK has not been immune to the global sell off. At the end of March, TEK's Net Tangible Assets per share (NTA) stood at 26.1 cents compared to 33.2 cents a month earlier.

The March NTA also reflects the impact of an assessment of the underlying value of TEK's unlisted investments, and whilst it is inherently more difficult to assess value of the unlisted investments compared to their listed peers, we seek to be prudent in our approach to valuation methodologies. A comprehensive assessment of the carrying value will be undertaken at 30 June 2020.

My family company owns around 23.8% of TEK and I am acutely aware that my fellow shareholders are feeling the disappointment and stress that comes from negative movements in NTA. In recognition of this, Thorney will forgo all performance fees earned by the investment manager for the half year ended December 31, 2019.

Notwithstanding the impact on TEK's NTA in the short term, I have every confidence that in the medium to long term, TEK will revert to our established track record of delivering superior investment returns and NTA growth.

In fact I think that in many ways the tech sector may be better placed to bounce back from the economic impacts of Covid-19 more quickly than parts of the "old" economy. Even after they are lifted, the restrictions that most countries around the world have imposed on their people and economies will accelerate many of the new technology trends that were evident before the pandemic. And these extraordinary times themselves will give birth to new technology heroes.

Nevertheless, while the macro tech trend will continue, by their nature, many companies in the tech space are introducing new or varied technologies which bring with them a level of risk not always seen with long established companies. While it is inevitable that this will lead to some failures as companies go through their business life cycle and come up against unforeseen events like Covid-19, TEK is proud of its track record of picking many more successes than failures.

We will continue to maintain our discipline, staying in touch with our existing and potential portfolio companies, analysing their financial and managerial ability to weather the storm and stress testing our models under various scenarios.

Many companies, not just in the tech sector, will need injections of cash to survive the current economic downturn. As was the case during the Global Financial Crisis when Australian companies reportedly raised some \$100 billion, we are seeing companies moving from necessity, prudence or even opportunity, to shore up their balance sheets and provide them with staying power to go the distance. I expect many billions of dollars to be raised this time around as well.

Some of TEK's portfolio companies have already moved to strengthen their financial positions. Call recording software company Dubber Corporation (DUB) raised fresh capital to enhance its balance sheet. Webjet (WEB) whose revenues have been hit hard by the massive drop in domestic and international travel bookings, undertook a major capital raise with the aim of ensuring it can both survive the downturn and recover quickly when travel begins to pick up again. TEK has participated in these and other raisings.

Other TEK holdings such as Afterpay (APT) and Zip Co (Z1P) have seen extreme volatility in their share price and we have taken the opportunity to be both buyers and sellers of that stock depending on daily price movements. We continue to believe in their long term growth potential.

While TEK has stepped up both its trading and equity raising participation investment activities in recent weeks, this does not mean we are calling the bottom of the market. There will be more volatility ahead and we will continue to be both prudent and opportunistic in our approach.

In order for TEK to maximise its ability to do so, my private company Thorney Investment Group has offered to inject funds into TEK in the form of a loan on arms-length commercial terms. Such a loan would of course need to be approved by TEK's independent directors and if this occurs I will provide further details in my next update.

In my last update I mentioned three TEK holdings which have opportunities directly related to Covid-19. They were Micro-X (MX1) which has been receiving strong orders for its portable chest X-ray machines, Genetic Signatures (GSS) which has been rising on the back of its Covid-19 detection kits and the stem cell biotech company Mesoblast (MSB).

Mesoblast has recently announced that it plans to undertake trials of its stem cells as a possible treatment or even a cure for Covid-19. This week the US Food and Drug Administration (FDA) gave MSB approval to use one of its stem cell products in the compassionate treatment of certain severely ill Covid-19 patients.

Things are moving quickly and we look forward to MSB providing more details on its upcoming trials and compassionate treatment outcomes. Whilst validation is required, if it emerges that MSB's cells are indeed a potential cure for Covid-19 it could be a game changer not only for MSB but for the way the whole world deals with the virus.

The opportunity in front of MSB and other companies with potentially relevant products or services to assist in the fight against Covid-19 is an example of the Chinese Hanzi character for the word "crisis" which is a combination of the words "danger" and "opportunity"

As I told TOP shareholders last week, this is indeed a dangerous time, but it is also a time of great opportunity. Thorney cut its teeth and established its reputation in the years that followed the 1987 share market crash. We cemented that reputation after the collapses in 2000 and 2008. We have been investing in tech for more than two decades and believe nothing will stop the ongoing technology revolution sweeping the world.

It is impossible to predict exactly when the inevitable recovery will begin or what it will look like. The world is fighting a war against two enemies - one of them is an invisible virus and the other is its economic consequences. The latter may prove even more devastating than the virus itself.

As a result I have been encouraging all TEK's investee companies to ensure that they respond swiftly and decisively to the current environment in a way that results in long-term productivity improvements and value creation well after this crisis has passed.

Right now it is especially critical for C-suite executives in the tech space to be rigorously efficient in the conservation and allocation of their cash. Survival is paramount. Start-up companies without significant cash flow are especially exposed. There will be casualties but I believe the TEK portfolio is better placed than many to not only survive for the long term, but to prosper.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Alex Waislitz', with a long horizontal flourish extending to the right.

Alex Waislitz
Chairman