

Upgrading Otello

Proposed changes to the Board of Directors
and Nomination Committee of Otello
Corporation ASA

VOTE FOR the new independent Board candidates and
Nomination Committee

www.upgradingotello.com

August 2020

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Why is Sand Grove proposing changes to the Board?



Otello's share price performance has been poor by any measure



We believe that the existing Board has failed to take timely action to remedy the increasing disconnect between fair value and market value and that going forward the Board does not have the strategic vision to create value for shareholders



The fair value of Otello can only be achieved through a comprehensive review of the businesses by Board members that have the necessary time and experience



In our view, neither André Christensen nor Birgit Midtbust meet these requirements



Randy Freeman and Kathryn Baker are able to act as independent full-time Board members and bring a wealth of relevant expertise that will unlock value within Otello

Otello shareholders have patiently waited for value to be realised from Otello's assets

As a long-term shareholder since early 2016, we have concluded that the Board needs to change in order for this to happen

Sand Grove's proposals are the change that is needed



We believe that existing Board members lack enough relevant experience

- Otello is a complicated combination of businesses. Realising the inherent value of each business is a time-consuming challenge that requires specific experience and expertise.
- We believe that the Board members we are seeking to replace do not have enough relevant experience for this challenge and that they are not committing the appropriate amount of time to Otello.
 - Chairperson André Christensen is a full-time Founder and CEO of a US media start-up.
 - Birgit Midtbust is a full-time lawyer in private practice.
- The Nomination Committee is responsible for the current make-up of the Board. Going forward we believe it is important that the skills of Board members are matched to Otello's needs. We are therefore proposing a new Nomination Committee **that is majority independent of Sand Grove** to support the Board going forward.

The existing Board has failed to unlock value

- The Board's inexperience with strategic processes is evidenced by the lack of conclusive actions or progress made on any corporate action, such as the previously communicated IPO of Bemobi which has been under discussion since the end of 2017.¹
- As a result, Otello continues to trade at a steep discount (62-77%) to its potential sum-of-the-parts value.²
- Otello needs a Board that is open to all strategic options and one that can execute on them.

The proposed independent Board candidates will create value for all shareholders

- Randy Freeman and Kathryn Baker (the candidates proposed by Sand Grove) have a wealth of experience in working with, investing in & delivering value from companies where fair value is being underestimated by the market.
- The proposed candidates are both independent of Sand Grove and are able to dedicate more of their time to Otello than the directors we are seeking to replace.
- We expect that they will work alongside the rest of the Board and Otello management to formulate a strategy to unlock fair value, whilst simultaneously ensuring continuity of the existing progress made at AdColony and continuing to execute the planned IPO of Bemobi.
 - Randy Freeman and Kathryn Baker both have substantial experience in evaluating IPOs and will immediately add value to the ongoing Bemobi IPO process.

¹ As per company transcripts, the discussions with founding shareholders of Bemobi began in 2017, prior to the restructuring of the earn-out agreement and subsequent IPO announcement in 2018.

² Otello share price as of 31.07.2020 compared to Sand Grove sum-of-the-parts analysis valuation base/upside cases, as described on page 7.

Otello's share price performance is disappointing by any measure



Throughout the period in question¹, the Otello Board has overseen a period of significant underperformance. The Nomination Committee has remained unchanged over the entire period and have been net sellers of shares over the last 12 months.

Sand Grove has been a long-term, supportive shareholder since early 2016. The Board has little skin in the game, contrary to the recommendation of Otello's Principles of Corporate Governance.²

Relative share price performance - following the sale of the Opera browser business in 2016



126% under-performance over the period³

Existing Nomination Committee selling shares⁴

Sand Grove discloses 5.0% shareholding

Sand Grove discloses 12.8%, then 15.3% shareholding

Sand Grove discloses 20.1% shareholding

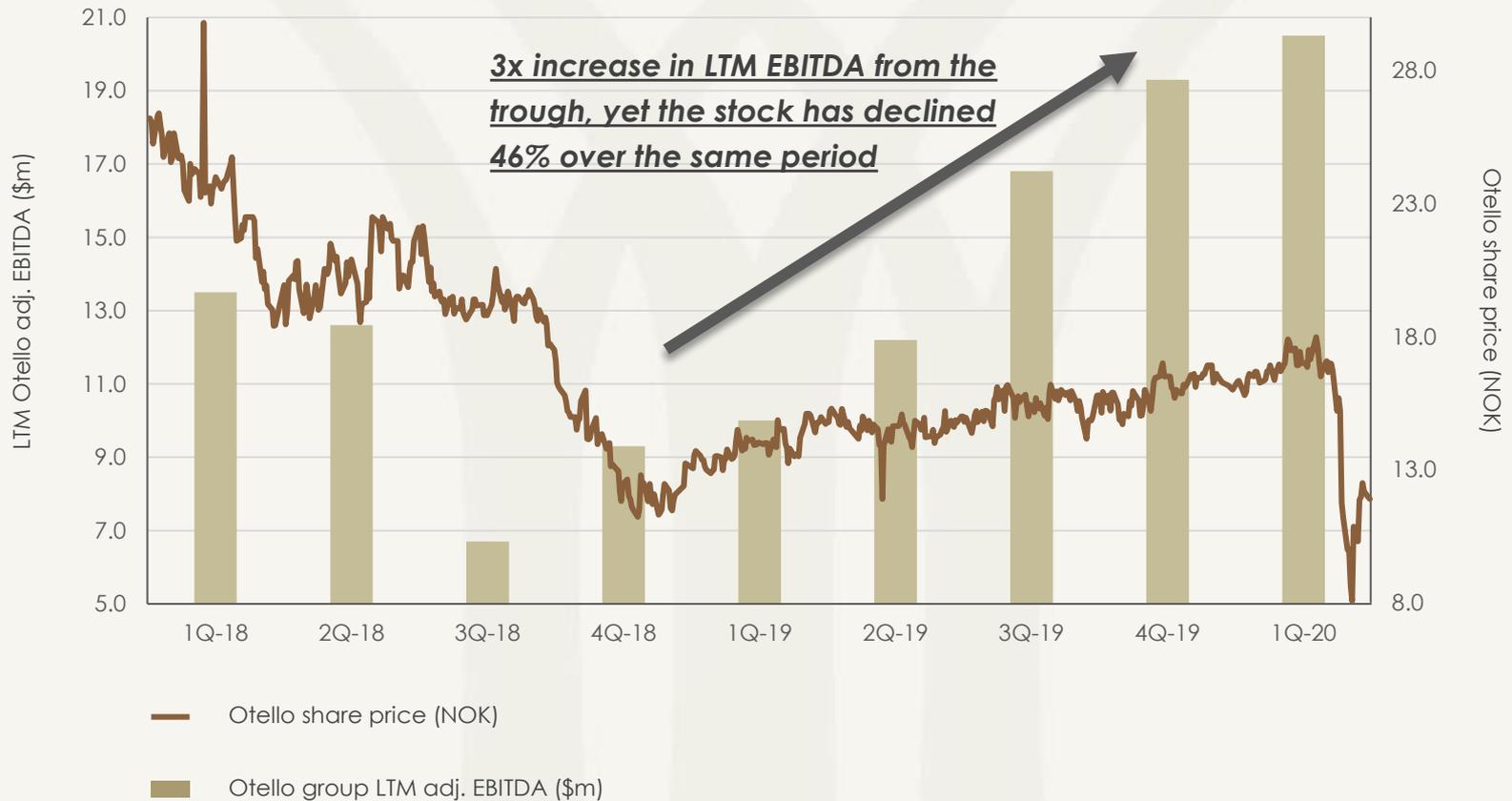
Sand Grove discloses 25.4% shareholding

¹ The time period reflects the full years in operation after the sale of the Opera browser business during 2016. ² André Christensen holds 24,341 shares which were granted as compensation for his service on the Board, as per Oslo Bors notice 16.09.2019. Principles of Corporate Governance as per Otello website. ³ Rebased value of SX8E Index at 31.07.2020 less rebased value of Otello at the same date. ⁴ Underlying information available on Bloomberg HDS. Sources: Bloomberg, reported company information. Data as at 31.07.2020.

Otello's share price does not reflect business fundamentals



The management team led by CEO Lars Boilesen have executed a turnaround strategy that is showing positive results, but the Board has failed to capitalise on this. As a result, Otello shares continue to trade at a steep discount to fair value.



Otello trades at a deep discount to fair value



The current Board has allowed Otello to trade at a deeply discounted valuation. Otello needs a new Board with the right skills & level of engagement to unlock the upside for shareholders.

| | Base Case | | | Upside Case | | |
|----------------------------|-------------------|------------|-------------|-------------------|------------|-------------|
| | | \$m | NOK | | \$m | NOK |
| | Valuation method | EV | /shr | Valuation method | EV | /shr |
| Bemobi | 15.0x 2020 EBITDA | 299 | 19.2 | 20.0x 2020 EBITDA | 398 | 25.7 |
| AdColony | 1.00x 2020 sales | 201 | 12.9 | 2.00x 2020 sales | 402 | 25.9 |
| Vewd | | 55 | 3.5 | 20.0x 2019 EBIT | 83 | 5.3 |
| Central costs ² | | (10) | (0.6) | | (10) | (0.6) |
| Group EV | | 545 | 35.0 | | 873 | 56.3 |
| Net cash / (debt) | | 5 | 0.3 | | 5 | 0.3 |
| Bemobi minorities | | (33) | (2.2) | | (45) | (2.9) |
| Equity value | | 516 | 33.2 | | 833 | 53.8 |

2.7x upside on base case assumptions¹

Approach to valuation

- Sand Grove believes it is appropriate to value Bemobi, AdColony and Vewd separately given their different prospects.
- Given the intended but as yet unexecuted IPO strategy, we believe it is reasonable to compare Bemobi to publicly listed online media businesses, e-commerce platforms, gaming content providers and Brazilian technology companies. In our view, these businesses typically trade between (and often in excess of) 15-20x 1-year forward EBITDA.
 - **This value can only be extracted by a Board who have the necessary skills and time to dedicate to the project.**
- The mobile advertising market has seen significant amounts of M&A and we believe it is important to consider the strategic value of AdColony as one of the largest independent mobile advertising providers and the only one with a focus on brand advertising. We believe that the most relevant precedent transactions have taken place at valuations around 2x run-rate or forward revenues. This valuation also excludes any potential upside from tax losses.
- We value Vewd at a minimum of the price offered for Otello's stake by Mercury in 2018 plus interest, plus the value of the loan from Otello to Vewd including accrued interest. We believe there is upside if a buyer acquired the business at current fair value.

¹ As compared to Otello share price on 31.07.20. ² DNB research estimates 08.05.2020. Sources: Sand Grove analysis. AdColony guidance (compared to 2019) of +10% revenue, flat operating expenses and gross margin as per slide 39 of 2Q 2020 results presentation. Bemobi guidance (compared to 2019) of +5% adjusted EBITDA as per slide 40 of 2Q 2020 results presentation. Bemobi USD/BRL FX rates assumed to be 3.95 during 2019, 4.98 during 2020. Underlying information sourced exclusively from public company filings; no inside information has been used.

Share price performance necessitates Board changes



Otello's share price performance has been very disappointing for shareholders. We are proposing new, more experienced and better equipped candidates to join the Board to unlock value.

- We are pleased with how Otello management have been operating the business and are excited about the future for both AdColony and Bemobi. We are supportive of the existing Otello management team.
 - We believe that the refocused business model at AdColony will allow it to return to consistent profitability and cash flow generation.
 - The management team have also led Bemobi through a continuous period of profitable organic growth and they have found attractive inorganic growth opportunities that are strengthening the investment case.
- Despite all the progress that has been made within the businesses, Otello shares have materially underperformed benchmark indices.
- Given the share price underperformance, the Board has a duty to explore any actions which could create shareholder value.
- Otello needs a Board that can evaluate and determine strategies to unlock shareholder value. In our view, the current Board is incapable of doing so.
- We are therefore proposing to elect a new independent Chairperson, a new independent Board member and a new Nomination Committee. **We believe that our proposed candidates have the necessary relevant experience to deliver substantial value to all Otello shareholders, in contrast to the poor track record of the Board members that we seek to replace.**



Randel (Randy) Freeman, CFA – Proposed independent Chairperson of the Board

- Randy has over 30 years of investment and operational experience.
- Throughout his career, he has focused on catalyst driven situations where shareholder value can be unlocked by corporate activity and strategic reviews.
- He has extensive corporate engagement experience with a view to unlocking value for shareholders in complex situations.
- Randy has further relevant experience in M&A, equity capital markets and litigation scenarios.
- He has been involved in all non-investment aspects of numerous asset management organisations, including risk management, compliance, human resources, marketing and investor relations functions.
- Randy has undertaken a significant amount of work assessing the Otello opportunity and has purchased shares in the company demonstrating his conviction of the potential for shareholder value creation in the context of a refreshed Board.



Kathryn Baker – Proposed independent Board member

- Kathryn has a track record of proven success in working through a Board position to achieve greater shareholder value and build strong companies.
- She has significant experience in working with companies in all phases of their development: including growth, pre-IPO, IPO, and restructuring.
- Kathryn also has a strong track record of helping companies with international expansion strategies.
- She is skilled at finding creative business solutions and identifying strategic opportunities.
- Overall Kathryn has extensive experience to draw upon from 20 years of Board representations, serving on a wide range of Nordic and European Boards, of which 9 as Chairperson.
- She has 15 years of private equity experience (McKinsey & Co, Morgan Stanley).

Proposed changes to the Nomination Committee



- The Nomination Committee is responsible for the current make-up of the Board and therefore we are also proposing a new, **majority independent** Committee to support the Board going forward.
- Rebalanced Nomination Committee with representation of long term shareholders who are committed to Otello and independent professionals who have the relevant experience to evaluate Board candidates.
 - Introducing independent professionals to the Nomination Committee to broaden selection process.
 - All existing Nomination Committee members have been selling down their holdings in Otello.¹

Simon Davies – Proposed Chairperson – Shareholder

- CIO of Sand Grove Capital Management LLP – 24 years of investing experience.

Ann Lise Meyer – Proposed member – Independent professional

- Respected Norwegian based professional with significant management / Board level experience.

Dag Erik Rasmussen – Proposed member – Independent professional

- Partner at Wikborg Rein Advokatfirma AS and head of the firm's Capital Markets practice with significant board level experience.

¹ Underlying information available on Bloomberg HDS.



| | <u>Proposed Board</u> | <u>Existing Board</u> |
|---|-------------------------------------|-------------------------------------|
| ▪ A Board that is <u>fully engaged</u> and has the <u>time to support</u> management in setting and achieving strategic targets | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| ▪ A Board that is <u>motivated to deliver value</u> for shareholders | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| ▪ A Board with the <u>ability and experience</u> to evaluate strategic actions to unlock value <u>in complicated situations</u> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| ▪ An experienced and professional Board that is able to <u>take difficult decisions</u> as required | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| ▪ A Board with a <u>large and global network</u> of contacts that they can leverage to help deliver shareholder value | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| ▪ <u>Majority independent Board</u> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |

VOTE FOR the election of Randy Freeman, Kathryn Baker and the new Nomination Committee

Contact Details:

Proxy Solicitor: Georgeson

anthony.kluk@georgeson.com / cas.sydorowitz@georgeson.com / dror.elkayam@georgeson.com

T +44 207 019 7032 / T +44 207 019 7002 / T +44 779 094 3805

Public relations contact: Gambit Hill & Knowlton

Henrik.Halvorsen@hkstrategies.com

T: +47 2204 8200 / M: +47 9015 8385

Website: upgradingotello.com



SAND GROVE

CAPITAL MANAGEMENT