HealthInvestor Index

The start of 2017 has seen the HealthInvestor Index underperform the London market, falling – –0.4% between 31 December 2016 and 3 February 2017. In contrast, the Top 100 listed London stocks index and the Allshare index lifted +0.6% and +0.9% respectively. Notably, the AIM index substantially outperformed the market over the same period (+5.8%). Although possibly caused by volatility inherent in smaller stocks, we note that investment in mining has escalated due to political uncertainty causing renewed interest in physical assets. More than 10% of AIM listed stocks are in the mining sector.

Returning to the HealthInvestor Index, we have made changes to the composition of the index this year. We explained in the February issue that GW pharmaceuticals had de-listed from the London market; with a £2.2 billion market capitalisation, we have accounted for this loss by increasing the weighting of the biggest stock in the index, Smith & Nephew, from 15% to 25%. We have also replaced Lifeline Scientific – recently merged with Shanghai Genext Medical Technology Co – with another small-cap company, Motif Bio (AIM: MTFB). MTFB comes in with £51.2 million market cap. We see good growth potential for this exciting company, which is in phase III development with a novel antibiotic, Iclaprim, for treatment of hospital infections caused by drug resistant bacteria.

The Index leader was EKF Diagnostics (EKF). Shares leapt between December and February – up +59% – beating the Index's next best performer by 26 points. This follows a run of three positive trading updates by the company, the first in October 2016 and latest in January 2017, announcing that performance was continually exceeding market forecasts. Trading was better than expected for each of H116, Q316 and Q416, promising very strong full year revenues at least £1.5 million, above even revised forecasts. Strong organic sales growth in all three point-of-care, plus the central laboratory, business units follows a restructuring of the board to focus on profitability.

A second diagnostics company, Immunodiagnostics (IDH), also did well in the first month of 2017. It came joint second alongside Sareum Holdings* (SAR), both rising +33%. IDH rarely features in either the top or bottom five HealthInvestor Index performers – shares appear to be responding to launch of the ID-iSYS ACTH assay in Europe. This is a new addition to IDS' endocrine hypertension testing portfolio and is fully automated, permitting quick clinical diagnosis of disorders including Cushing's syndrome. The global ACTH market is estimated at

hardman&co

HealthInvestor Index 03.02.17

Listing	Company	Ticker	Share price (p) 31.12.16	Share price (p) 03.02.17	Market cap (£m) 03.02.17	Price change (%)
AIM	Abcam	ABC	767.0	850.0	1,730.6	11
AIM	Advanced Medical Soln	AMS	221.8	200.3	421.5	-10
AIM	Advanced Oncotherapy	AVO	75.5	72.5	52.6	-4
AIM	Allergy Therapeutics	AGY	20.9	25.8	152.8	23
AIM	Alliance Pharma	APH	47.5	49.8	235.1	5
Full	Assura	AGR	57.0	53.4	883.8	-6
AIM	Avacta	AVCT	72.0	70.0	47.9	-3
Full	Bioquell	BQE	140.0	130.5	28.7	-7
Full	BTG	BTG	590.0	539.5	2,077.6	-9
Full	Cambian Group	CMBN	123.8	144.8	266.6	17
AIM	Caretech	CTH	316.0	380.5	243.3	20
Full	Cathay International	CTI	18.3	17.8	65.5	-3
AIM	Circle Holdings	CIRC	19.0	24.0	59.5	26
AIM	Collagen Solutions	COS	6.3	5.5	9.9	-12
Full	Consort Medical	CSRT	1,060.0	991.5	487.9	-6
AIM	Deltex Medical Group	DEMG	3.9	4.1	11.7	6
AIM	Diurnal	DNL	106.5	126.5	66.0	19
AIM	Eco Animal	EAH	505.0	510.0	322.2	1
AIM	EKF Diagnostics	EKF	17.2	27.4	127.1	59
AIM	Emis	EMIS	964.5	888.0	562.2	-8
AIM	E-Therapeutics	ETX	7.6	8.6	23.1	13
AIM	Futura Medical	FUM	56.3	49.3	59.2	-12
AIM	Genedrive	GDR	60.0	60.0	11.2	0
Full	Genus	GNS	1,796.0	1,766.0	1,079.6	-2
AIM	Immunodiagnostics	IDH	210.0	280.0	82.4	33
AIM	Immupharma	IMM	52.0	55.0	67.0	6
Full	IP Group	IPO	178.8	183.9	1,039.4	3
AIM	Ixico	IXI	31.5	36.5	9.7	16
AIM	Kromek Group	KMK	22.5	23.4	35.8	4
AIM	Lidco Group	LID	6.0	6.3	15.3	4
Full	MD Medical Group	MDMG	9.5	10.4	620.9	10
Full	MedicX Fund	MXF	89.8	89.0	358.4	-1
AIM	Motif Bio	MTFB	24.7	26.2	51.2	6
AIM	Omega Diagnostics	ODX	18.3	18.5	20.1	1
AIM	OMG	OMG	49.0	46.5	57.2	-5
Full	Oxford Biomedica	OXB	4.1	4.2	128.5	2
AIM	Premaitha Health	NIPT	8.4	7.8	17.7	-7
Full	Primary Health Properties	PHP	111.3	106.5	637.1	-4
AIM	Proteome Sciences	PRM	5.5	4.8	14.1	-13
AIM	Realm Therapeutics	RLM	30.0	34.0	17.0	13
AIM	ReNeuron	RENE	2.6	2.5	80.2	-3
AIM	Sareum	SAR	0.8	1.0	26.5	33
AIM	Scancell	SCLP	14.8	14.8	38.6	0
AIM	Sinclair Pharma	SPH	33.8	32.5	163.2	-4
Full	Smith & Nephew*	SN.	1,221.0	1,211.0	10,608.9	-1
AIM	Sphere Medical	SPHR	9.3	6.6	9.4	-28
Full	Spire	SPI	337.7	318.0	1,275.4	-6
AIM	Surgical Innovations	SUN	4.3	3.4	16.4	-21
AIM	Tissue Regenix	TRX	20.5	20.0	152.0	-2
AIM	Tristel	TSTL	156.0	161.0	68.2	3
Full	Vectura	VEC	137.1	136.4	924.8	-1
AIM	Venture Life	VLG	51.5	56.0	20.6	9
AIM	Vernalis	VER	34.0	31.5	165.8	-7
AIM	Verona Pharma	VRP	3.1	3.0	75.7	-5

*weighted to 25% in total index valuation

£10 million – £15 million, thus even a small share augurs well for IDH. In addition, the company is a major distributor of Omega Diagnostics* (ODX) recently approved allergy tests, Allersys, and is looking to expand this relationship to a more globally oriented basis.

Turning now to Sareum Holdings* (SAR): shares rose +33% following attainment early in the new year of a $2.0m milestone payment from Sierra Oncology (formerly ProNAi). This is part of the licensing agreement announced September 2016 whereby Sareum and its partner, CRT Pioneer Fund, licensed the Chk1 pre-clinical cancer candidate to Sierra for $7 million upfront, plus a total of $321.5 million potential milestones and high single/low double digit future royalties. Sareum will receive $550,000 of the $2 million payment, which covers transfer of the two phase 1 clinical trials to Sierra, and the company will also be repaid £797,500 of its pre-paid, but unspent, trial costs. This progress validates Sareum's strategy to out-license assets for clinical development, and significantly improves its cash position for investment in other pre-clinical programmes.

Circle Holdings (CIR) seems to be benefiting from the media coverage regarding the current state of the NHS, with its shares rising +26% since the turn of the year. With its series of hospital and clinic service contracts, the group is well positioned to benefit from increased use of out-sourcing by the NHS. Early in February, Circle also sold some surplus land in Manchester for £9 million and will use this for working purposes and for investment in its new hospital/clinic in Birmingham.

Allergy Therapeutics* (AGY) is back among the top performers, rising +24% over the period. Investors have been reassured by a January trading update reporting underlying revenue growth of +18%. This is the result of strong investment in the marketing of its short-course subcutaneous allergy vaccines in Europe. This has resulted in significant market share gains from it competitors whilst operating in a flat market. Use of an aluminium-free adjuvant carrier is an additional competitive advantage. Meanwhile, the market is also reassured that the Phase III trial of Pollinex Quattro in Europe is progressing well and the schedule for the version for the US market has been revised following discussion with the regulator.

This month Sphere Medical (SPHR) was back at the bottom of the index with its shares dropping – 28% since the beginning of the year. The point-of-care monitoring and diagnostic devices company has suffered from prolonged market dissatisfaction due to multiple cash calls and failure to deliver on expectations. Early in January, the company announced that it had agreed a £3m loan facility from Silicon Valley Bank. Loans are unusual in this sector because of the lack of revenues and cashflow to repay them, although Sphere has just launched its next generation Proxima-4 patient-connected blood analyser. The loan suggests that company would have difficulty in raising yet more capital and, if it could, it would be very dilutive to existing shareholders. The loan is a bet that management can get sales traction with the new device. Management estimates that the potential market will increase for this device e.g. the panel of analytes has increased, allowing Proxima use to be extended to paediatric patients weighing greater than 15 kilograms. Evidence of progress in sales during 2017 is required to improve investor sentiment.

It was a surprise to see Surgical Innovations (SUN) back amongst the underperformers (down – 21%) having turned itself around over the last 12 months following the appointment of a new chief executive, which has resulted in a series of positive news announcements, culminating in a good trading update in January. Sales for 2016 were +10%, the group has improved gross margins, and it hit targets of 32%, returning the company to profitability overall. Despite this, the shares have underperformed. A similar situation arose last year, and it needed the company to publish full results and undertake a roadshow to City institutions in March before the shares responded. We are anticipating a similar sequence of events again in March when full results are published and confidence returns.

Proteome Sciences (PRM) continues to be a regular underperformer, this time down a further – 3%, despite the fact that there has not been any news. The company is effectively controlled by the Chairman, who also represents the largest shareholder, Vulpes Fund, with over 18% of the shares. The market has totally lost interest.

In contrast to its outstanding performance in October 2016 (+255%), Futura Medical (FUM) shares have retrenched so far this year, falling – 12% year to date. Newsflow has been positive, with product approvals and subsequent launches through distribution partners – for example, commercialisation of CSD500 in Saudi Arabia. This suggests that the market is waiting to see the sort of sales leverage that can be achieved before re-rating the stock. Also, management signed a licensing agreement for the UK commercialisation of pain relief product, TPR100, in January with a small player, Thornton & Ross, a subsidiary of the German pharma/generic company Stada Arzneimittel. It is possible that the market was disappointed that the company is going down the route of multiple licensing deals with regional players rather than signed two or three deals with major players that would cover most of the world. Full year results are due in March.

Finally, the fifth worst performer was Collagen Solutions* (COS), dropping – 12% since 31 December. Having been a consistent top performer in the last quarter of 2016, the shares seem to be drifting back. Interim results in December confirmed that the management team's strategy to invest in marketing of existing capabilities, and also in R&D to build its pipeline of proprietary finished devices for long-term sustainable growth, was starting to pay off. It is possible that the market can see that further investment might require an increase in capital and is, therefore, biding its time. ■

**Client of Hardman & Co which provides paid-for research*

Dr Martin Hall
mh@hardmanandco.com
020 7929 3399

Dr Dorothea Hill
dmh@hardmanandco.com
020 7148 1433

Dr Gregoire Pave
gp@hardmanandco.com
020 7148 1434

Top five performers	
EKF Diagnostics	59.2%
Immunodiagnostics	33.3%
Sareum	33.3%
Circle Holdings	26.3%
Allergy Therapeutics	23.4%

Bottom five performers	
Collagen Solutions	-12.0%
Futura Medical	-12.4%
Proteome Sciences	-12.7%
Surgical Innovations	-21.2%
Sphere Medical	-28.4%

	31.12.16	03.02.17	
Market capitalisation (£bn)	26.0	25.8	-0.6%
Adjusted market capitalisation (£bn)	18.0	17.9	-0.4%
HI Index	363.2	361.6	-0.4%
FTSE 100 Index	7,142.8	7,188.3	0.6%
FTSE All-share Index	3,873.2	3,907.7	0.9%
FTSE AIM Index	844.4	893.6	5.8%