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The Monthly

August 2018

Feature article:

An explosion of accounting fraud

By Steve Clapham, Hardman & Co Analyst

Hardman & Co Clients

1pm Plc
Abzena
Advanced Oncotherapy
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Plus 500
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Primary Health Properties
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Scancell Holdings
Surface Transforms
The 600 Group
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Titon Holdings
Valirx
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Warpaint

Hardman & Co's analysts have direct experience of uncovering accounting frauds. In this article, Steve Clapham outlines why we might see a surge in them over the next few years. He is engaged by institutions to teach their fund managers and analysts how to identify risks brought about by such frauds. Hardman & Co is pleased to offer this service to private investors.

An explosion of accounting fraud

A huge amount has been written about Carillion and its ineffectual audit but, unfortunately, Carillion could be the tip of the iceberg, and the next few years are likely to see an explosion in the discovery of frauds. After the last long bull market in the 1990s, a series of massive frauds was uncovered – Enron in 2000, WorldCom, Qwest and Global Crossing the following year, Tyco in 2002 and HealthSouth in 2003. In the space of just four years, nearly $0.5tr of market cap evaporated (probably equivalent to $1.5tr today).

Last month's publications

Date	Company	Sector
4 July	**UK Housebuilding Sector in 2Q 2018 '…and beyond (the World Cup)'**	Building & Construction
6 July	**Koovs Plc (KOOV):** The Future is here	General Retailers
13 July	**Allergy Therapeutics (AGY):** Steady performance in a tough market	Life Sciences
13 July	**Burford Capital (BUR):** Positive progress on Petersen	Financials
17 July	**City of London Investment Group (CLIG):** Dividend increase boosts yield	Financials
19 July	**Morses Club (MCL):** Quality Street	Financials
23 July	**International Lithium Corp. (ILC):** Partnered with China's biggest lithium player	Speciality Mining & Metals
25 July	**The 600 Group (SIXH):** Trading healthy, pension buyout, dividend restored	Industrial Engineering
26 July	**Burford Capital (BUR):** No need to appeal these results	Financials
26 July	**Arbuthnot Banking Group (ARBB)**: 1H'18 results: continuing the good work	Financials
30 July	**Avacta (AVCT):** Ground-breaking new drug conjugate platform	Life Sciences

Source: Hardman & Co Research

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An explosion of accounting fraud

Background

A wave of new accounting frauds is likely in this cycle

A huge amount has been written about Carillion and its ineffectual audit but, unfortunately, I believe Carillion could be the tip of the iceberg and that the next few years are likely to see an explosion in the discovery of frauds. After the last long bull market in the 1990s, a series of massive frauds was uncovered – Enron in 2000, WorldCom, Qwest and Global Crossing the following year, Tyco in 2002 and HealthSouth in 2003. In the space of just four years, nearly $0.5tr of market cap evaporated (probably equivalent to $1.5tr today).

Major accounting collapses in last cycle

Year	Company	Size of losses ($bn)
2000	Enron	78
2001	WorldCom/Qwest/Global Crossing	295
2002	Tyco	60
2003	HealthSouth	50

Source: Behind the Balance Sheet, from various sources

Accountants and regulators would probably claim that this could not happen now, thanks to the introduction of new accounting rules and Sarbanes Oxley in the US. Certainly, many of the new accounting practices would prevent a repeat of Enron's accounting shenanigans, but fraudsters will find a way around any rule.

Just look at Valeant, the pharmaceutical giant that was revealed to be manipulating its earnings, where $80bn of value evaporated in nine months in 2015/16, after short-seller Citron Research published a damning report. Valeant was using a technique known as "channel stuffing", while also using a related party to disguise that it was overstating its revenue.

Fortunately, we have more short-sellers today – they publish their findings to smash the target's share price and allow them to bank a profit. These forensic analysts have uncovered many frauds – one recent example was a report that raised major questions about luggage maker Samsonite, forcing its CEO to resign. That this is the main difference in investor protection today is hardly a pat on the back for regulators, nor does it mean that all or even the majority of frauds have been discovered.

Accounting scams probably even more prevalent today than formerly

Accounting scams are as prevalent today, and probably even more so than formerly, for three main reasons:

- First, an unusually long economic cycle has increased the pressure on company executives to maintain a track record of successive quarterly growth in earnings. This extended bull market, which, in 2017, exhibited a stunning lack of volatility, also breeds complacency and a lack of scepticism among investors. With valuations ever higher, company executives are fearful of any earnings disappointment that could cause their share price to collapse.
- Second, the incentives for fraud are much greater than formerly. CEOs, particularly in the US, but also over here, are enjoying unprecedented compensation packages. Faced with the prospect of a multi-million performance

award, executives are hugely incentivised to bump their earnings using accounting tricks.

Meanwhile, brokerage analysts are today far less experienced than they were 20 years ago – they follow many more companies, are lower-paid, and simply don't have the time to investigate dubious accounting; predominantly, their primary focus is to predict the next quarterly earnings number. There is today, therefore, a greater incentive to manipulate EPS, and less chance of being discovered.

One commentator suggested that sell-side analysts don't uncover frauds – we disagree. Paul Morland, a former Hardman & Co analyst, published a sell note on Autonomy when he was working at the company's broker. He cited deferred revenue trends as an indication that revenue recognition was not all it should have been, and he has been cited in the CFO's recent trial. Derek Terrington, Hardman & Co's media analyst, when at Phillips and Drew, exposed Robert Maxwell with his famous note on the company with the recommendation, "Can't Recommend A Purchase". Many years ago, as a conglomerate analyst, I exposed accounting chicanery at Williams Holdings (whose audit fee represented 15% of its auditor's annual revenues) and at BTR, causing the latter's share price to collapse. So we think the sell-side can play an important role, but perhaps less so than formerly.

- Third, the universe of quoted stocks has shrunk by half in the last 20-odd years. Many stocks have been taken over by industry competitors or by private equity, which has been buying up credible companies at the smaller end of the market; incumbent managements are incentivised to sell, as they are rewarded with equity kickers by the new owners.

Bronte Capital's John Hempton, one of the world's top short practitioners, recently said, "there is quite an absurd amount of small-cap fraud". He also sees a lot of large-cap fraud – these companies have premium ratings because they have above-market growth rates; he points out that it's easy enough to produce above-market growth if you are making up the numbers. By definition, this means that a lot of value will be destroyed as such stocks are brought down to earth.

Fraud is a late cycle phenomenon

Source: Twitter

A bear market will eventually follow the current uptrend, leading to frauds being more naturally exposed…

Inevitably, the bull market will end at some point, and we shall have a bear market. There are signs that the US market is already starting to wane, although we may need a recession to induce a major correction. In bear markets, frauds are more naturally exposed – as Warren Buffett pointed out, "it's only when the tide goes out that you learn who has been swimming naked" – and this time, we shall see major casualties.

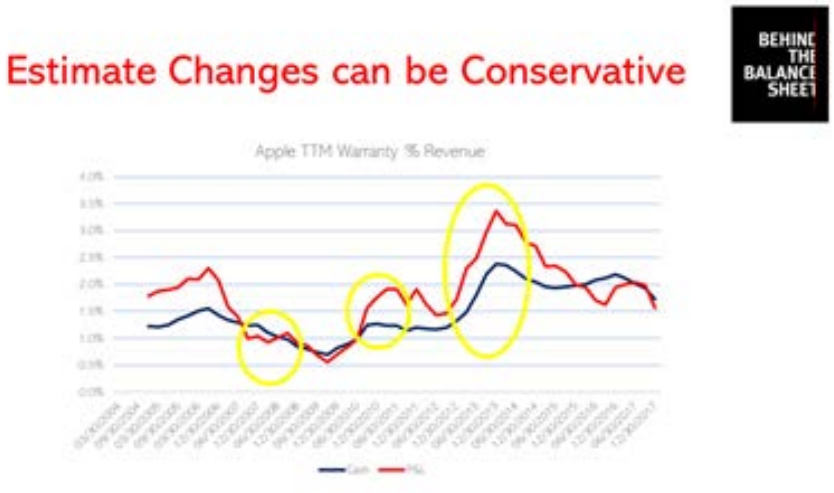
…and some investors are preparing ahead

Some smart investors are already making preparations. One of London's largest hedge funds has hired two forensic accountants. A major long-only institution recently asked me to develop a forensic accounting training course for its global analyst team, which I am now rolling out to my institutional client base. The course has over 100 examples of real-life accounting chicanery and features some household-name companies like Netflix, Vodafone, Tesco and Folli Follie. We are probably early, but it's better to be prepared.

We are considering modifying this course slightly to make it more useful to the private investor and offering it to the Hardman & Co readership base. If you are a private investor, interested in improving your analytical skills and looking to avoid stocks with earnings holes, please get in touch with us by emailing Grace Merrall (gm@hardmanandco.com) to register your interest. The course will be either a one-day course on a Saturday or spread over three evening sessions. There will be a charge for the course, although well below that for equivalent professional training courses.

We show below a sample slide from the course, which illustrates that, sometimes, Finance Directors can be overly conservative. Here we are looking at changes in accounting estimates, and we illustrate how variations in warranty provisions can be used to boost margins and earnings or, in this case, to depress them.

Sample slide from the course



Source: Behind the Balance Sheet

The illustration here is of a comparison of (1) the trailing 12-month ratio of P&L warranty charges to revenue vs. (2) the trailing 12-month ratio of cash spend on warranty costs to revenue. Twice in the last few years, Apple has built up its warranty provisions way in excess of actual spend, possibly because of the introduction of a new product. This depressed margins at the time by up to 1%. More recently, the P&L charge has been below cash spend, flattering earnings.

About the author

Steve Clapham is responsible for analytical coverage of a number of support services clients at Hardman & Co.

He is a founding partner of the Balance Sheet Surgery LLP, which specialises in in-depth investment research and analyst training. Steve has been an investment analyst for the last 25 years, working on the sell side for a number of investment banks covering the transport, utilities and conglomerates sectors. In 2005, he moved to the buy side, where he was a partner at Toscafund Asset Management LLP, and then Head of Research at Altima Partners LLP.

Steve was part of the group of investors that acquired Hardman & Co in late 2012. He holds a degree in Technology and Business Studies, and is a member of the Institute of Chartered Accountants of Scotland.

Company research

Priced at 24 July 2018 (unless otherwise stated).

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**OPM**
Price (p)	43.5
12m High (p)	55.0
12m Low (p)	42.0
Shares (m)	83.8
Mkt Cap (£m)	36.5
EV (£m)	35.6
Free Float*	38%
Market	AIM

**As defined by AIM Rule 26*

Description

1pm is a finance company/broker providing over 16k UK SMEs with a variety of products, including loans, lease, hire purchase, vehicle and invoice finance. Advances range from £1k-£500k. The company distributes directly, via finance brokers and vendor suppliers.

Company information

CEO	Ian Smith
CFO	James Roberts
Chair	John Newman
	+44 1225 474230
	www.1pm.co.uk

Key shareholders

Lombard Odier (17/7/17)	19.91%
Sapia Partners (27/6/18)	13.01%
Ronald Russell (director 27/10/17)	12.40%
Henderson Global (17/7/17)	11.78%
Mike Nolan (director 3/11/17)	6.31%
Charles Stanley (4/9/17)	4.99%

Diary

Early Sep	FY'18 results

Analyst

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1pm plc

Delivering growth, integration and synergy benefits

We reviewed 1pm in detail in "Financing powerhouse: A lunchtime treat", and its January results in "Delivering Value Added Strategy." The 5.3x 2019E P/E and 0.7x P/B seem an anomaly for a profitable, growing company. 1pm has since built significant funding firepower across a diversified range of sources, indicating management expectations of strong demand for its financing solutions and increasing confidence in the business by government, block and retail investors. Reflecting management confidence, on 26 July, 1pm announced a new dividend policy with 30% increases proposed for the year to May 2018 and the same for each year through to 2021. The four-year statement is a tangible sign of confidence.

- **1pm news:** We previously had dividends of 0.6p and 0.8p for FY18 and FY19, respectively. With the announcement above, these have been increased to 0.65p and 0.85p. On 6 July, Sapia Partners announced that its holding had increased to 13% (from 12%). On 23 July, 1pm announced the launch of a direct-to-customer, online, vehicle-finance brokerage offering, capturing customers who arrange finance before deciding which car to buy.
- **Peer news:** On 11 July, Orchard Funding announced an application for a bank licence. We note the costs can be significant and that 1pm has built a broad range of committed financing lines from a diverse group of funders.
- **Market news:** On 6 July, the FLA reported 10% market, asset-backed finance growth May 2018 on May 2017. At the smaller-ticket end (where 1pm competes), the growth was 4%. UK Finance reported a 2.5% contraction in UK business borrowing. 1pm is growing over 30% organically.
- **Valuation:** We detailed the assumptions in our valuation approaches in our initiation note, "Financing powerhouse: A lunchtime treat". The GGM indicates 103p and the DDM 73p (DDM normal payout 81p). The 2019E P/E of 5.3x and P/B of 0.7x appear inconsistent with the group's profitability and growth.
- **Investment summary:** 1pm offers strong earnings growth, in an attractive market, where management is tightly controlling risk. Targets to more than double the market capitalisation appear credible, with triggers to a re-rating being both fundamental (delivery of earnings growth, proof of cross-selling) and sentiment-driven (payback for management actively engaging the investor community). Profitable, growing companies generally trade well above NAV.

Financial summary and valuation

Year-end May (£000)	2015	2016	2017	2018E	2019E
Revenue	5,534	12,554	16,944	29,596	32,946
Cost of sales	-2,503	-4,480	-6,094	-9,849	-10,820
Admin. expenses	-1,394	-4,290	-6,469	-10,834	-11,983
Operating profit	1,637	3,418	4,121	8,619	9,822
Pre-tax profit	1,620	3,346	4,080	7,946	9,048
Adj. EPS (p)	3.7	6.5	6.5	7.9	8.3
Total receivables	24,991	56,061	73,955	150,893	169,000
Eq. to receivables	49%	43%	39%	32%	33%
Shares in issue (m)	36.9	52.5	54.9	86.4	88.5
P/adj. earnings (x)	11.7	6.7	6.7	5.5	5.3
P/B (x)	1.3	1.0	0.8	0.8	0.7
Yield	0.8%	1.1%	1.1%	1.5%	1.9%

Source: Hardman & Co Research

Healthcare Equipment & Services

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**AVO**
Price (p)	53.5
12m High (p)	64.8
12m Low (p)	15.0
Shares (m)	155.6
Mkt Cap (£m)	83.3
EV (£m)	76.3
Free Float*	43%
Market	AIM

**As defined by AIM Rule 26*

Description

Advanced Oncotherapy (AVO) is developing next-generation proton therapy systems for use in radiation treatment of cancers. The first system is expected to be installed in Harley Street, London, during 2019; it will be operated through a JV with Circle Health.

Company information

Exec. Chairman	Michael Sinclair
CEO	Nicolas Serandour
	+44 203 617 8728
	www.advancedoncotherapy.com

Key shareholders

Board & Management	16.0%
Yantai CIPU	29.9%
AB Segulah	12.6%
Brahma AG	6.0%
Peter Gyllenhammar AB	3.4%
MK Trust	3.3%

Diary

Oct'18	Interims
Mar'19	Finals
1H'19	Harley Street ready

Analysts

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Advanced Oncotherapy

Funded for the coming year

AVO's goal is to deliver a more affordable, novel, proton-based radiotherapy system, based on state-of-the-art technology developed originally at the world-renowned CERN. Major technical milestones were achieved in 2017, and the company remains on track with its development plan. Confidence has been boosted greatly by the integration of the first three structures and overcoming the technical challenge of accelerating the proton beam. A distribution agreement for SE Asia and new financing have put AVO on a much firmer footing. Meanwhile, construction of the Harley Street site remains on schedule for completion in 1H'19.

- **Strategy:** To develop a compact and modular proton therapy (PT) system at an affordable price for the payor, financially attractive to the operator, and generating superior patient outcomes. AVO benefits from the technology know-how developed by ADAM, Geneva, and relies on a base of world-class suppliers.

- **Results:** Following completion of the distribution and financing arrangement, AVO published recently its 2017 results and annual report, updating the market on the technical achievements in developing the first linear proton accelerator. New financing arrangements have transformed the balance sheet.

- **Commercialisation agreement:** The exclusive distribution agreement signed with Yantai CIPU, through its Liquid Harmony entity, was of great importance in developing markets in China and the surrounding territories, which represent a major opportunity. Already, 11 potential sites have been identified.

- **Collaboration agreement with RaySearch:** AVO and RaySearch (RS) have entered into a collaboration agreement for the development of the treatment planning system (TPS) for use with the LIGHT machine at Harley Street. The TPS will give users access to the full spectrum of RS functionality.

- **Investment summary:** Demand for PT is increasing worldwide, and the need for a small, flexible, affordable and close-to-patient machine is desirable. AVO has attracted strong partners, and discussions with potential customers have started already. Attention is focused on the construction timetable for the flagship Harley Street site and installation of the first LIGHT system. Resolution of AVO's financing requirements brings further assurance.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	0.0	0.0	0.0	0.0	0.0	6.2
Administration costs	-6.6	-11.2	-12.9	-12.4	-12.6	-12.8
Milestones/upfronts	0.0	0.0	0.0	16.5	0.0	0.0
EBITDA	-6.4	-10.8	-12.6	4.5	-12.1	-12.3
Underlying EBIT	-6.6	-11.2	-12.9	4.1	-12.6	-12.8
Reported EBIT	-8.5	-13.1	-14.5	2.2	-14.6	-15.4
Underlying PBT	-6.7	-11.3	-14.9	1.4	-15.6	-15.8
Statutory PBT	-8.6	-13.2	-16.5	-0.5	-17.7	-18.5
Underlying EPS (p)	-7.1	-13.9	-15.6	2.8	-6.8	-8.3
Statutory EPS (p)	-12.3	-14.4	-18.9	1.6	-7.9	-9.7
Net (debt)/cash	8.0	0.9	-9.2	6.8	-10.7	-30.4
Capital increase	21.1	13.5	0.3	26.2	8.0	8.0

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**AGY**
Price (p)	27.5
12m High (p)	39.5
12m Low (p)	23.0
Shares (m)	636.2
Mkt Cap (£m)	174.9
EV (£m)	152.3
Free Float*	39%
Market	AIM

**As defined by AIM Rule 26*

Description

Allergy Therapeutics (AGY) provides information to professionals related to prevention, diagnosis and treatment of allergic conditions, with a special focus on allergy vaccination. The emphasis is on treating the underlying cause and not just the symptoms.

Company information

CEO	Manuel Llobet
CFO	Nick Wykeman
Chairman	Peter Jensen
	+44 1903 845 820
	www.allergytherapeutics.com

Key shareholders

Directors	0.8%
Abbott Labs	37.8%
Southern Fox	22.2%
Odey	6.9%
Blackrock	4.8%
Invesco	4.5%

Diary (calendar year)

2H'18	Ph.III PQ Birch trial
Sep'18	Finals
Nov'18	AGM

Analysts

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Allergy Therapeutics

Capital increase to support clinical trials

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Its subcutaneous allergy immunotherapies (SCITs), such as Pollinex Quattro (PQ) Grass, continue to gain market share despite being available in the EU only on a 'named-patient' basis. AGY is in the process of gaining full approval for its SCITs in Europe, with ongoing trials of multiple immunotherapies. The most advanced is the Phase III PQ Birch trial, which is due to read out in 3Q'18. The proceeds of this £10.6m capital increase are to be used, primarily, to support clinical development of AGY's pipeline, particularly of PQ Grass and Acarovac MPL.

- **Strategy**: AGY is a fully-integrated pharmaceutical company focused on the treatment of allergies. There are three parts to its strategy: continued development of its European business via investment or opportunistic acquisitions; the US PQ opportunity; and further development of its pipeline.

- **Placing and Subscription:** £10.6m gross was raised via issue of 40m new Ordinary shares @26.5p per share on 19 July 2018, representing ca.6.7% of the previous share capital. The price represented a 0.4% premium to the average mid-market closing price in the 60 trading days up to/including 18 July 2018.

- **PQ Grass:** A Phase III trial of PQ Grass, the immunotherapy for allergic rhinitis in grass allergy, is due to start in 2H'19. The rights issue will allow expansion of the trial to increase the number of patients recruited, to add a vaccinated placebo arm, and to perform an additional project to analyse pollen trends in the US.

- **Acarovac:** A Phase II trial of Acarovac, the MPL house-dust mite immunotherapy, is planned for 2019, once the ongoing Phase I trial is successfully completed. The rights issue will part-fund this trial, with the balance funded by The Centre for the Development of Industrial Technology (CDTI).

- **Investment summary:** AGY is in an exciting period, with a clear vision, gaining market share from competitors, and leading the race to have its products fully approved and regulated as biologicals – first in Europe, then in the US, where the regulators are demanding change. Read-out from the EU Phase III birch and US and EU Phase II grass trials will provide the next major value inflection points.

Financial summary and valuation

Year-end June (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	43.23	48.51	64.14	68.3	76.5	85.7
R&D investment	-3.12	-16.22	-9.30	-17.5	-18.0	-8.0
Underlying EBIT	2.91	-12.34	-2.89	-9.0	-8.8	5.7
Reported EBIT	1.41	-12.53	-2.60	-9.7	-9.5	5.0
Underlying PBT	2.84	-12.45	-2.97	-9.1	-8.9	5.6
Statutory PBT	0.65	-12.21	-2.67	-9.8	-9.6	4.9
Underlying EPS (p)	0.48	-2.36	-0.47	-1.5	-1.4	0.8
Statutory EPS (p)	0.02	-2.29	-0.42	-1.7	-1.5	0.7
Net (debt)/cash	20.14	20.04	18.80	12.2	12.9	16.1
Capital increase	20.08	10.97	0.03	0.3	10.4	0.3
P/E (x)	57.0	-11.7	-58.6	-17.8	-20.3	36.6
EV/sales (x)	3.5	3.1	2.4	2.2	2.0	1.8

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**APH**
Price (p)	94.8
12m High (p)	102.5
12m Low (p)	48.9
Shares (m)	514.2
Mkt Cap (£m)	487.5
EV (£m)	575.7
Free Float*	89%
Market	AIM

**As defined by AIM Rule 26*

Description

Alliance Pharma (APH) acquires, markets and distributes medical and healthcare brands in the UK and Europe (direct sales), and in the RoW (via a distributor network), through a buy-and-build strategy, generating relatively predictable and strong cashflows.

Company information

CEO	Peter Butterfield
CFO	Andrew Franklin
Chairman	David Cook
	+44 1249 466 966
	www.alliancepharmaceuticals.com

Key shareholders

Directors	11.1%
Fidelity	8.8%
MVM Life Sciences	7.9%
Slater Invests.	6.7%
Blackrock	5.0%
GVQ IM	4.6%
Artemis	4.4%

Diary

19 Sep	Interims

Analysts

Martin Hall	020 7194 7632
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Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

Alliance Pharma

2018: a year of international progress

APH is continuing with its buy-and-build strategy, having evolved through 35 acquisitions over a period of 20 years into a profitable, cash-generative, specialty pharma business. The company has a mix of international growth brands – Kelo-cote, MacuShield, Vamousse – and a bedrock of solid, local, low-growth products. A fourth international growth brand in the portfolio, Nizoral, was acquired from J&J on 21 June 2018 in the APAC region. The cash consideration of £60m was funded by a Placing and an increased debt facility. Adding to its growth prospects, Diclectin (now registered as Xonvea®) was approved in the UK in July.

- **Strategy**: Since inauguration, APH has adopted a buy-and-build model, with 35 deals over 20 years, assembling a portfolio of >90 products and establishing a strong track record. It is accelerating growth through investing in multi-market brands, with infrastructure supported by its bedrock products.

- **Trading update:** Underlying sales performance for 1H'18 was slightly better than forecast, at 4%, boosted by acquisitions (+8%). Kelo-Cote was exceptional, with CER growth of 88% (est) to £10.9m (£6.2m) offsetting a softer performance from the bedrock portfolio. Net debt at 30 June was also better, at -£86.3m.

- **Nizoral:** APH acquired the Nizoral brand (medicated anti-dandruff shampoos) from J&J in the APAC region for a cash consideration of $81.2m/£60.0m, increasing sales in this important region 2.6x and adding well-established multi-national distribution partners and new territories (India and Japan).

- **Xonvea (Diclectin):** Adding to the positivity, APH and its partner, Duchesney Inc, received approval for Xonvea (nausea and vomiting of pregnancy) in the UK after a year of dialogue with the MHRA. Launch will take place in autumn 2018. Plans are underway to submit for EMA approval in APH's nine European territories.

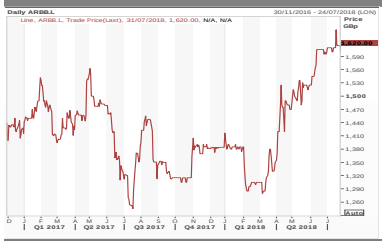
- **Investment summary:** Recent acquisitions look set to boost APH into generating underlying CAGRs of 17% in sales and 10% in EPS over the next three years. On the back of this strong performance, the company is expected to continue with its progressive dividend policy. The shares are trading on a 2018E P/E of 20.4x, falling to 17.9x in 2019E, and carry a prospective dividend yield of 1.5%.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Reported sales	48.3	97.5	101.3	119.7	134.0	144.0
EBITDA (underlying)	13.6	26.7	28.2	33.7	39.5	42.0
Reported pre-tax profit	15.2	22.2	*28.4	**28.9	32.7	35.9
Underlying EPS (p)	4.0	4.0	4.2	4.6	5.3	5.8
Reported EPS (p)	4.7	3.9	6.1	4.7	5.0	5.5
DPS (p)	1.1	1.2	1.3	1.5	1.6	1.8
Net (debt)/cash	-71.5	-76.1	-72.3	-87.7	-71.9	-54.7
Net debt/EBITDA (x)	5.3	2.8	2.6	2.6	1.8	1.3
P/E (x)	23.9	23.8	22.4	20.4	17.9	16.3
EV/sales (x)	11.9	5.9	5.7	4.8	4.3	4.0
EV/EBITDA (x)	42.3	21.5	20.4	17.1	14.6	13.7
Dividend yield	1.2%	1.3%	1.4%	1.5%	1.7%	1.9%

**Includes £5m Sinclair settlement less costs; **Includes £1.5m profit on disposal of Unigreg JV*
Underlying figures exclude exceptional items and share-based costs
Source: Hardman & Co Life Sciences Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**ARBB**
Price (p)	1,615
12m High (p)	1,640
12m Low (p)	1,245
Shares (m)	15.3
Mkt Cap (£m)	247
Loans to deposits (2018E)	80%
Free Float*	42%
Market	AIM

**As defined by AIM Rule 26*

Description

Arbuthnot Banking Group (ABG) has a well-funded and capitalised private bank, and has been growing commercial banking very strongly. It holds an 18.6% stake in Secure Trust Bank (STB) and has ca.£40m to invest in new organic or acquired businesses.

Company information

Chair/CEO	Sir Henry Angest
COO/CEO	Andrew Salmon
Arb. Latham Group FD, Deputy CEO AL	James Cobb

+44 20 7012 2400
www.arbuthnotgroup.com

Key shareholders (co website)

Sir Henry Angest	56.1%
Liontrust	7.5%
Prudential plc	4.0%
R Paston	3.5%

Diary

October	3Q trading statement

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

Arbuthnot Banking Group

Strong 1H'18 results

ABG is delivering the strong profit and franchise growth that had been promised, with underlying 1H'18 profits rising from £3.2m in 1H'17 to £4.2m in 1H'18. We now forecast 2019 adjusted pre-tax profits of £15m (statutory £13m) against £7.6m in 2017 (statutory £7m). Loans and deposits were both up 25% on 1H'17, driving a 25% increase in income. Costs rose 24%, with heavy investment in new business lines, in addition to volume-related cost growth. Impairments fell. The group is well funded (loans £1.1bn vs. deposits £1.5bn), strongly capitalised (Tier 1 ratio over 15%) and clearly attractive to new teams bringing incremental skills.

- **1H'18 results:** We reviewed the results in 1H'18 Continuing the good work. 1H'18 continued the growth and investment of 2017. Loans are well secured, and the 1H'18 impairment charge was just £208k. Private banking security can be both direct on property but also on a wide pool of customers' other assets.

- **Outlook:** In addition to the strong organic growth, ABG should benefit from new teams delivering (i) commercial deposits (started 2H'17), (ii) asset-based lending (first loan May, pipeline £78m) and (iii) a new specialist bridging team, starting 1 August. We have increased 2019 costs by ca.£2m p.a. for these initiatives.

- **Market news**: Secure Trust Bank issued £25m of Tier 2 debt. Close Bros' 18 July trading statement also reported good credit at stable margins in banking and total client assets up 8%. Rathbone's results (25 July) also had few surprises. Brewin Dolphin and Brooks MacDonald shares have been weak over the month.

- **Valuation:** The range of our capital deployed valuation methodologies is now £13.01 (DDM), £22.77 (sum-of-parts) and £26.78 (Gordon Growth Model). We believe the GGM best captures the profitability and growth of the business. The current share price is only around 2019E NAV (1,595p).

- **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been innovative, but also very conservative, in managing risk. Having a profitable, well-funded, well-capitalised and strongly growing bank priced around book value is an anomaly.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018E	2019E
Operating income	34,604	41,450	54,616	66,431	80,300
Total costs	-35,926	-46,111	-54,721	-64,886	-75,429
Cost:income ratio	104%	111%	100%	98%	94%
Total impairments	-1,284	-474	-394	-562	-675
Reported PBT	-2,606	179	6,971	8,926	12,935
Adj. PBT	2,982	4,009	7,623	10,926	14,935
Statutory EPS (p)	86.3	1,127.2	43.9	56.6	79.4
Adj. EPS (p)	13.5	17.1	47.5	67.3	90.1
Loans/deposits	82%	76%	75%	74%	80%
Equity/assets	5.5%	18.5%	12.8%	11.4%	10.4%
P/adj. earnings (x)	119.6	94.4	34.0	24.0	17.9
P/BV (x)	2.00	1.05	1.04	1.04	1.01

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**AVCT**
Price (p)	35.0
12m High (p)	83.3
12m Low (p)	27.0
Shares (m)	69.0
Mkt Cap (£m)	24.1
EV (£m)	8.3
Free Float*	60%
Market	AIM

**As defined by AIM Rule 26*

Description

Avacta (AVCT) is a pre-clinical stage biotechnology company developing biotherapeutics based on its proprietary Affimer protein technology. It benefits from near-term revenues from research and diagnostic reagents.

Company information

CEO	Alastair Smith
CFO	Tony Gardiner
Chairman	Eliot Forster
	+44 1904 217 046
	www.avacta.com

Key shareholders

Directors	6.1%
IP Group	24.8%
Lombard Odier	10.8%
Aviva	9.6%
Ruffer LLP	7.1%
JO Hambro	6.7%

Diary

Oct'18	Finals
Jan'19	AGM
1H'19	PD-L1/LAG-3 drug candidate selection

Analysts

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Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

Avacta

New development partnership with Tufts

AVCT is a pre-clinical biotechnology company and the proprietary owner of Affimer technology. Affimers represent a radical alternative to the established antibody technology, which continues to dominate the drug industry, despite its limitations. The significant technical and commercial benefits of Affimers are being recognised increasingly through corporate and academic interest, ongoing evaluations and deal flow. A co-development partnership has been signed with Bach Biosciences (Tufts) for development of a new type of Affimer drug conjugate (AfDC) that combines Affimer technology with drugs developed at Tufts.

- **Strategy:** AVCT is aiming to commercialise its Affimer technology through licensing for research and diagnostics, and by identifying and developing its own proprietary therapeutic pipeline for partnering. AVCT has sufficient cash resources to identify an Affimer lead to be ready for first-in-man trials in 2020.

- **Major co-development partnership:** AVCT and Bach Biosciences (Boston, PA) have agreed a co-development partnership to advance a new class of Affimer drug conjugate that combines technologies from both parties. The first example to come out of the collaboration will combine PD-L1 and I-DASH inhibitors.

- **New class of therapeutics:** Unlike traditional antibody-drug conjugates (ADCs), the mechanism of action for the AfDC drugs is not to be internalised inside the cancer cells. It has a dual and synergistic effect, with PD-L1 blockade and enhancement of the innate immune response with I-DASH at the tumour site.

- **Risks:** Affimers represent a new disruptive technology, and the potential customer base might take time to recognise their advantages. While all new drug development carries a high risk, AVCT has hit a number of important milestones over the last two years, which have reduced the risk profile greatly.

- **Investment summary:** AVCT has made considerable progress towards its goal of having its own proprietary Affimer-based drugs and growing a profitable reagents business. By itself, the company has identified potential leads and completed both *in vitro* and *in vivo* pharmacokinetic pre-clinical, efficacy and immunogenicity tests. Awareness of the potential of Affimers is also being enhanced through the rising number of collaborative deals being signed.

Financial summary and valuation

Year-end July (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	1.81	2.17	2.74	3.00	3.50	5.40
R&D spend	-0.03	-1.50	-2.60	-3.25	-4.50	-5.50
EBITDA	-2.28	-4.79	-6.66	-7.95	-9.30	-9.20
Underlying EBIT	-2.85	-5.39	-7.60	-9.02	-10.37	-10.27
Reported EBIT	-5.51	-5.66	-7.98	-9.44	-10.84	-10.78
Underlying PBT	-2.83	-5.29	-7.51	-8.98	-10.37	-10.32
Statutory PBT	-5.48	-5.57	-7.89	-9.40	-10.84	-10.84
Underlying EPS (p)	-4.38	-6.46	-8.75	-11.55	-12.92	-12.48
Statutory EPS (p)	-9.72	-6.86	-9.31	-12.17	-13.59	-13.23
Net (debt)/cash	7.33	19.52	13.17	4.50	-5.98	-16.01
Capital increase	0.02	21.05	0.01	0.06	0.00	0.00
EV/sales (x)	16.0	13.4	10.6	9.7	8.3	5.4

Source: Hardman & Co Life Sciences Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**BUR**
Price (p)	1896.0
12m High (p)	1896.0
12m Low (p)	983.0
Shares (m)	208.2
Mkt Cap (£m)	3,419
Total Assets ($m)	1,653
Free Float*	90%
Market	AIM

**As defined by AIM Rule 26*
Price at 26 July 2018

Description

Burford Capital is a leading global finance and professional services firm focusing on law. Its businesses include litigation finance and risk management, asset recovery and a wide range of legal finance and advisory activities.

Company information

CEO	Christopher Bogart
CIO	Jonathan Molot
Chairman	Sir Peter Middleton

+1 (212) 235-6820
www.burfordcapital.com

Key shareholders

Directors	10%
Invesco Perpetual	17.8%
Woodford Investments	10.0%
Old Mutual	5.2%

Diary

5 Dec	Interim dividend payment

Analyst

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Burford Capital

No need to appeal these results

The 2018 interims yet again gave record figures, with headline numbers showing income and profits after tax both up 17%. The stand-out figure, however, was cash generation, which was boosted by the sale of the Teinver claim and came in at $299m. The main driver behind this growth remains the litigation finance business, which accounted for almost 95% of revenue. Revenue in this business rose by 21%, and profit after tax by 23% to $185.4m. New business remained strong, with additions to investments up by 19% on 1H'17, and total commitments increasing 10%. Strong realisations offset some of this, and invested capital grew 7%.

- **Other businesses**: The other business lines suffered from revenue volatility. Asset management did not get a recurrence of performance fees. Both insurance and asset recovery are in a transition phase. Each has the promise of future growth, but is likely to continue to have some revenue volatility for now.
- **Capital:** Although cash generation was very strong, and Burford completed another bond raise, the company has indicated that it is looking at the best way to raise future funds. Partners III is fully invested, and the second half is usually stronger, suggesting balance sheet demands may be stronger in that period.
- **Valuation:** Hardman & Co has raised its 2018 EPS estimates but lowered them for 2019 and 2020. The prospective 2019 P/E of 22.6x is not excessive for a growth company, with a 21.6% RoE giving strong metrics all around.
- **Risks:** The investment portfolio is still diversified, with exposure to over 900 claims, but retains some very large investments, which means revenue may be volatile. As the company matures, we would expect that to decrease, but not to disappear. The Petersen case shows that this volatility is not simply a negative.
- **Investment summary:** Burford has already demonstrated an impressive ability to deliver good returns in a growing market, while investing its capital base. As the invested capital continues to grow, the litigation investment business will continue to produce strong earnings growth.

Financial summary and valuation

Year-end Dec ($m)	2015	2016	2017	2018E	2019E	2020E
Revenue	103.0	163.4	341.2	323.4	361.6	489.6
Operating profit	77.2	124.4	285.1	259.8	286.4	400.5
Reported net income	64.5	108.3	249.3	213.1	232.6	337.6
U/lying net income	64.5	114.2	264.8	224.8	244.3	349.3
Underlying RoE	16.0%	22.1%	35.9%	24.2%	21.6%	25.1%
Underlying EPS ($)	0.32	0.55	1.27	1.08	1.17	1.68
Statutory EPS ($)	0.32	0.53	1.20	1.02	1.12	1.62
DPS ($)	0.08	0.09	0.11	0.13	0.15	0.17
Yield	0.3%	0.3%	0.4%	0.5%	0.5%	0.6%
NAV per share ($)	2.12	2.22	3.19	4.10	5.09	6.71
P/E (x) (underlying)	84.2	48.4	20.9	24.6	22.6	15.8
Price/NAV (x)	12.5	12.0	8.3	6.5	5.2	4.0

Source: Hardman & Co Research

Industrial Engineering

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**CMH**
Price (p)	89
12m High (p)	176
12m Low (p)	55
Shares (m)	8.3
Mkt Cap (£m)	7.4
EV (£m)	16.2
Free Float*	40%
Market	AIM

**As defined by AIM Rule 26*

Description

Chamberlin is a UK-based industrial engineering company operating in two divisions – Foundries and Engineering. Around 75% of sales are exported.

Company information

CEO	Kevin Nolan
CFO	David Roberts
Chairman	Keith Butler-Wheelhouse

+44 1922 707110
www. chamberlin.co.uk

Key shareholders

Rights & Issues IT	12.5%
Miton Capital Partners	12.5%
Janus Henderson	9.9%
Chelverton	6.3%
Thornbridge IM	6.3%
Schroders	4.4%

Diary

Nov '18	Interims

Analyst

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Chamberlin

Trading strong, technical issues largely resolved

Chamberlin remains on track strategically, and the technical problems at the new machine shop are now largely resolved. Prospects are most encouraging, and the group continues to develop its product offering to the automobile turbocharger industry through expansion of its main operational facilities. The shares remain attractively valued against the peer group on most methodologies.

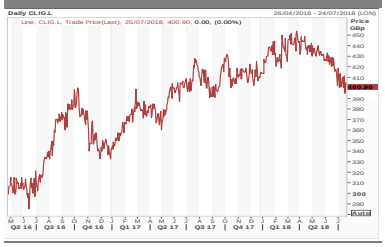
- **AGM statement:** 'Revenues for the first three months of the current financial year are in line with management expectations. Demand at the Walsall foundry continues to be strong, driving increased production volumes.' The company has reaffirmed market estimates, but profitability will be weighted towards 2H.
- **Outlook:** We are maintaining our 2018/19 forecasts. Demand for petrol engine turbocharger components is strong, and new products for machining are also being introduced into the market. The group is well positioned to deliver a further improvement in performance during the year, as margins recover.
- **Risks:** Potential risks include developments with the automotive industry, foreign currency and raw material price fluctuations. From a financial standpoint, we note that the group has a significant pension scheme deficit and, with limited free cashflow, the deficit is likely to remain at a relatively high level.
- **Valuation:** The shares remain lowly valued, trading on calendar 2018E EV/sales and EV/EBITDA of around 0.4x and 5.5x, respectively, compared with sector averages of 1.0x and 7.7x. Our DCF valuation also suggests that the shares are significantly undervalued.
- **Investment summary:** The company has repositioned itself from a traditional engineering company to become a key supplier to the automotive turbocharger sector. The shares offer the opportunity to invest in a cyclical stock with high operational leverage.

Financial summary and valuation

Year-end March (£m)	2017	2018	2019E	2020E
Sales	32.1	37.7	40.8	41.9
Gross profit	6.9	6.9	8.5	8.9
EBITDA	2.0	1.9	3.5	3.9
Underlying EBIT	0.7	0.4	1.6	2.0
Reported EBIT	0.4	0.1	1.6	2.0
Underlying PBT	0.57	0.0	1.3	1.7
Underlying EPS (p)	4.5	-5.5	13.0	16.5
GAAP EPS (p)	-11.7	-10.2	13.0	16.5
Net (debt)/cash	-6.8	-8.9	-8.3	-7.2
P/E (x)	-	-	6.9	5.4
EV/sales (x)	0.47	0.40	0.4	0.4
EV/EBITDA (x)	-	8.2	4.6	4.1

Source: Hardman & Co Research

Financial Services



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**CLIG**
Price (p)	403.0
12m High (p)	454.0
12m Low (p)	362.0
Shares (m)	26.9
Mkt Cap (£m)	108.5
EV (£m)	92.9
Market	LSE

Description

City of London is an investment manager specialising in using closed-end funds to invest in emerging markets.

Company information

CEO	Barry Olliff
CFO	Tracy Rodrigues
Chairman	David Cardale
	+ 44 207 711 1566
	www.citlon.com

Key shareholders

Directors & staff	16.3%
Blackrock	9.9%
Canaccord Genuity Group	7.9%
Eschaton Opportunities Fund Management	4.7%
Polar Capital	4.1%

Diary

17 Sep	Preliminary results
8 Oct	1Q FUM announcement
11 Oct	Ex-div. date for final dividend
22 Oct	AGM

Analyst

Brian Moretta 020 7194 7622

bm@hardmanandco.com

City of London Investment Group

Dividend increase boosts yield

City of London published a trading statement on 17 July covering FY2018. Profits are expected to be almost in line with Hardman & Co forecasts, with PBT of ca.£12.8m slightly lower and earnings of £10.1m slightly ahead. The latter represents an increase of over 10% relative to the previous year. The company also announced an increase of 1p in the final dividend, raising it to 18p, and taking the total for the year to 27p, an 8% increase over the total for FY2017. Dividend cover will be almost 1.5x for the second year in a row, well above the rolling five-year target of 1.2x.

- **Funds under management (FUM)**: Although, in dollar terms, FUM rose 9.5% to $5.1bn over the year, this is down since the 31 March figures. Since then, emerging market equities have been very weak, falling over 10% during the quarter, although July has so far seen a slight recovery.

- **Diversification:** While the EM strategy had a mixed year, the diversification areas all gained assets and maintained outperformance. In aggregate, FUM in these areas almost doubled during the year and now represent 17.6% of FUM, from 9.8% a year ago. The diversification strategy is showing good results.

- **Valuation:** The prospective P/E of 10.4x is at a significant discount to the peer group. The historical yield of 6.7% is very attractive and should, at the very least, provide support for the shares in the current volatile markets.

- **Risks:** Although Emerging Markets can be volatile, City of London has proved to be more robust than some other emerging market fund managers, aided by its good performance and strong client servicing. Further EM volatility may increase the risk of such outflows, however.

- **Investment summary:** Having shown a robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. FY2017 and FY2018 both saw dividend increases and, unless there is significant market disruption, more should follow in the next few years.

Financial summary and valuation

Year-end Jun (£m)	2015	2016	2017	2018E	2019E	2020E
FUM ($bn)	4.20	4.00	4.66	5.11	5.55	6.01
Revenue	25.36	24.41	31.29	33.98	33.63	35.59
Statutory PTP	8.93	7.97	11.59	12.80	12.51	13.56
Statutory EPS (p)	26.4	23.3	36.9	40.6	38.7	42.0
Dividend (p)	24.0	24.0	25.0	27.0	30.0	33.0
P/E (x)	15.3	17.3	10.9	9.9	10.4	9.6
Yield	6.0%	6.0%	6.2%	6.7%	7.4%	8.2%

Source: Hardman & Co Research

Healthcare Equipment & Supply

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**COS**
Price (p)	2.6
12m High (p)	5.1
12m Low (p)	2.0
Shares (m)	325.0
Mkt Cap (£m)	8.5
EV (£m)	4.6
Free Float*	67%
Market	AIM

**As defined by AIM Rule 26*

Description

Collagen Solutions (COS) develops, manufactures and supplies medical-grade collagen biomaterials, tissues and devices. Its products are used in research, *in vitro* diagnostics, medical devices and regenerative medicine. The company performs R&D and provides development partnerships and contract services to a diverse, global, customer base.

Company information

CEO	Jamal Rushdy
CFO	Hilary Spence
Chairman	David Evans

+44 141 648 9100
www.collagensolutions.co.uk

Key shareholders

Directors + management	19.5%
Seneca	13.2%
Calculus Capital	9.4%
Rathbones IM	4.9%
Livingbridge	4.6%
Helium Rising Stars	4.0%

Diary

1H'19	ChondroMimetic CE Mark
22 Aug	AGM

Analysts

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Collagen Solutions

Realigning expectations

COS is a biomaterials company developing and manufacturing medical-grade collagen components for use in medical devices, research and regenerative medicine. A number of investment initiatives have been introduced to accelerate the rate of growth, including global commercial infrastructure and the development of a pipeline of proprietary finished medical devices, the first of which will be ChondroMimetic for repair of small cartilage lesions. Full-year results were disapointing, with a year-on-year decline in sales of 11%; however, the long-term strategy is delivering, with the development business growing 271% in FY'18.

- **Strategy**: Management has embarked on an investment strategy through a series of initiatives to increase the growth opportunities. This strategy is moving COS from a reliable, quality collagen supplier to one that also has proprietary products that will make it profitable at a faster pace.

- **Full-year results:** Sales were disappointing, reaching £3.51m (£3.95m) in the 12 months to March 2018 and representing an 11.2% decline at the reported level. This was, however, negatively affected by customer location – CER sales grew a solid 6%. Underlying EBITDA losses increased to -£1.52m (-£1.21m) in FY'18.

- **New business won:** COS achieved 16 new customers and 14 new contracts for its collagen components in FY'18, leading to a net increase of nine contracts. Moreover, the development business grew 271%, helping to embed COS's technology in partner products, and thus creating value on a long-term basis.

- **ChondroMimetic:** Excellent study data demonstrated real world evidence of the effectiveness of the scaffold. The first licence and distribution contract was signed, in South Korea. In Europe, re-issuance of CE Mark is expected during 1H'19, followed by commercial launch by the end of the 2019 financial year.

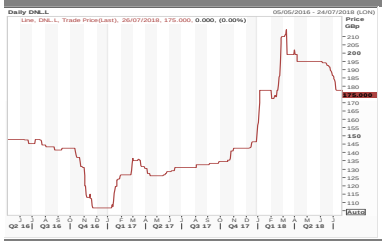
- **Investment summary:** ChondroMimetic, combined with development contracts, fulfils COS's stated strategy to move further up the value chain. Exceptional eight-year clinical outcomes data differentiate ChondroMimetic from competing therapies. To maximise returns, COS needs to conclude commercial arrangements in readiness for a European launch, and to acquire a strong partner capable of undertaking the trials needed for approval in the US.

Financial summary and valuation

Year-end March (£000)	2015	2016	2017	2018	2019E
Sales	973	3,130	3,946	3,505	4,007
Underlying EBITDA	-663	-374	-1,209	-1,517	-808
Underlying EBIT	-793	-721	-1,658	-2,044	-1,360
Underlying PBT	-920	-983	-1,790	-2,428	-1,600
Statutory PBT	-1,102	-866	-1,614	-2,619	-1,668
Underlying EPS (p)	-0.98	-0.64	-1.04	-0.74	-0.49
Statutory EPS (p)	-1.17	-0.57	-0.95	-0.80	-0.51
Cash at 31 March	3,391	2,493	8,978	5,022	1,289
Net (debt)/cash	3,282	2,384	7,072	2,098	-639
Capital increase	5,422	207	6,462	0	0
P/E (x)	-3.8	-5.9	-3.6	-3.5	-5.3
EV/sales (x)	8.6	2.7	2.1	1.3	1.2

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**DNL**
Price (p)	177.0
12m High (p)	216.0
12m Low (p)	130.0
Shares (m)	61.3
Mkt Cap (£m)	108.6
EV (£m)	100.2
Free Float*	19%
Market	AIM

**As defined by AIM Rule 26*

Description

Diurnal (DNL) is a UK-based specialty pharma company targeting patient needs in chronic, potentially life-threatening, endocrine (hormonal) diseases. Alkindi is DNL's first product in the market in Europe for the paediatric population, with first sales started in key countries, while Chronocort is in Phase III trials.

Company information

CEO	Martin Whitaker
CFO	Richard Bungay
Chairman	Peter Allen
	+44 29 2068 2069
	www.diurnal.co.uk

Key shareholders

Directors	3.0%
IP Group	44.1%
Finance Wales	18.8%
Invesco	11.7%
Oceanwood Capital	5.7%

Diary

20 Sep	Full-year results
3Q'18	US Phase III Chronocort
4Q'18	Alkindi US reg. submission

Analysts

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gp@hardmanandco.com

Diurnal Group

US Phase III Chronocort to start soon

DNL is a commercial-stage specialty pharmaceutical company focused on diseases of the endocrine system. Its two lead products target rare conditions where medical needs are currently unmet, with the aim of building a long-term 'Adrenal Franchise'. Following approval from the European Commission, the launch of Alkindi in key European markets through DNL's own commercial infrastructure has started, with Germany the first country. In the meantime, DNL is preparing a US Phase III trial for its second main product, Chronocort, for Adrenal Insufisiency (AI) patients. Phase III [CAH trial] data in Europe are expected to be released at the end of the year.

- **Strategy**: DNL's strategic goal is to create a valuable 'Adrenal Franchise' that can treat patients with chronic cortisol deficiency diseases from birth through to old age. Once Alkindi and Chronocort are established in the EU and the US, the long-term vision is to expand its product offering to other related conditions.

- **Chronocort US Phase III:** In the US, the Phase III trial is due to start in 3Q'18, following FDA approval of the protocol. A Phase II in AI is expected to commence before the end of the year. In the meantime, enrolment into the European Phase III for CAH has been completed, with headline data expected at the end of 2018.

- **Chronocort:** The innovative formulation of hydrocortisone is designed to mimic the natural circadian rhythm of cortisol for CAH and AI patients, currently in Phase III, targeting adults in Europe and patients >16 in the US. The slow-release formulation enables it to be taken twice daily in a "toothbrush" regimen.

- **Risks:** While there is a risk with all drugs in development that they might fail clinical trials or not be approved by the regulators, DNL was considered to have unusually low risk, as its products are formulation variants of well-established drugs. This stance has been validated with the EU approval of Alkindi.

- **Investment summary:** Alkindi, a cortisol replacement therapy designed for babies and children, will be DNL's first product on the market. It will be followed soon by Chronocort for adults. The cortisol replacement market is for conditions that need life-long treatments and has a potential value of $3.5bn. DNL will hit a number of valuation inflection points during 2018 with its upcoming news flow.

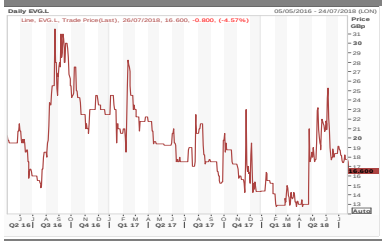
Financial summary and valuation

Year-end June (£m)	*2015	2016	2017	2018E	2019E	2020E
Sales	0.00	0.00	0.00	0.13	3.25	15.60
SG&A	-1.00	-1.99	-3.22	-6.03	-7.59	-9.21
R&D	-2.23	-3.89	-8.34	-10.50	-10.00	-7.00
EBITDA	-2.98	-5.87	-11.54	-16.41	-14.66	-2.18
Underlying EBIT	-2.99	-5.88	-11.55	-16.41	-14.66	-2.18
Reported EBIT	-2.99	-6.99	-12.07	-16.96	-15.23	-2.78
Underlying PBT	-3.02	-5.95	-11.64	-16.45	-14.58	-2.16
Statutory PBT	-3.02	-7.06	-12.16	-17.00	-15.15	-2.76
Underlying EPS (p)	-8.49	-12.48	-17.05	-23.89	-18.43	0.22
Statutory EPS (p)	-8.72	-15.02	-18.04	-24.89	-19.37	-0.76
Net (debt)/cash	6.05	26.88	16.37	16.74	3.79	-0.52
Capital increase	9.25	24.52	0.05	13.74	0.00	0.00

**Year to July*

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**EVG**
Price (p)	17.5
12m High (p)	29.3
12m Low (p)	12.2
Shares (m)	93.3
Mkt Cap (£m)	16.8
EV (£m)	13.2
Free Float*	64%
Market	AIM

**As defined by AIM Rule 26*

Description

Evgen (EVG) is a virtual pharmaceutical company using its proprietary technology, Sulforadex, to create new synthetic and stable variants of the natural product, sulforaphane. The lead product, SFX-01, is now in two Phase II trials.

Company information

CEO	Dr Stephen Franklin
CFO	Richard Moulson
Chairman	Barry Clare
	+44 151 705 3532
	www.evgen.com

Key shareholders

Directors	2.7%
North West Fund	17.4%
Rising Stars	12.8%
AXA	7.1%
South Yorkshire	4.0%
Seneca	3.8%

Diary

2H'18	Full data STEM read-out
2H'18	Full data SAS read-out
Dec'18	Interims

Analysts

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Evgen Pharma

Recruitment completed in the STEM Phase IIa trial

EVG is a virtual pharmaceutical company focused on the development of a synthetic version of a natural product, sulforaphane, which is known to modulate key signalling pathways involved in cellular protection and inflammation. EVG has created new and stable variants of sulforaphane using its proprietary technology, Sulforadex, enabling it to be used as a therapeutic for the first time. SFX-01 is in Phase II trials for both subarachnoid haemorrhage (SAH) and ER+ breast cancer, with read-outs due near the end of 2018. The company has announced that patient recruitment has been completed, with 50 patients being enrolled.

- **Strategy:** EVG is focused on the clinical development of synthetic and stable variants derived from sulforaphane using its proprietary technology, Sulforadex. Lead candidate SFX-01 is undergoing Phase II trials for SAH and resistant breast cancer – both strategic entry portals for other uses in neurology and oncology.

- **Recruitment completed:** EVG, together with medical advisors, has decided that there is already sufficient evidence of safety, tolerability and clinical benefit with SFX-01. The next step will be a placebo-controlled trial using SFX-01 with second-line hormone therapy in patients that have failed on CDK4/6 inhibitors.

- **The STEM trial:** The Phase II trial recruits breast cancer patients who originally responded to hormone treatment but then started to show resistance and disease progression. After one year of dosing, interim data bring confidence in EVG's primary end-point of safety and tolerability. Full data are due at end-2018.

- **Risks:** As with all drug development companies, there is a risk that products will fail in clinical trials. However, sulforaphane has been through a number of encouraging clinical trials, despite its stability and dosing limitations. Therefore, coupled with two potential targets, EVG's risk profile is arguably reduced.

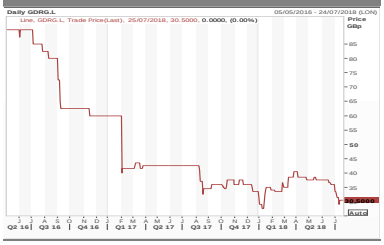
- **Investment summary:** SFX-01 will be entering multi-billion-dollar global markets that are currently unsatisfied. EVG intends to out-license its drugs to the pharma majors for global commercialisation. A recent capital increase has ensured that EVG has sufficient cash to get beyond results from the ongoing trials. The EV of EVG afforded by the market does not reflect adequately the development stage of SFX-01 and the lower-than-usual risk profile.

Financial summary and valuation

Year-end March (£000)	2016	2017	2018	2019E	2020E	2021E
Sales	0	0	0	0	0	0
SG&A	-620	-949	-1,015	-1,056	-1,108	-1,175
R&D	-612	-2,500	-1,900	-2,660	-3,059	-3,212
EBITDA	-1,224	-3,432	-2,894	-3,695	-4,146	-4,366
Underlying EBIT	-1,232	-3,449	-2,915	-3,716	-4,167	-4,387
Reported EBIT	-2,434	-3,658	-3,026	-3,832	-4,290	-4,515
Underlying PBT	-2,015	-3,435	-2,915	-3,712	-4,167	-4,387
Statutory PBT	-3,217	-3,644	-3,026	-3,828	-4,290	-4,515
Underlying EPS (p)	-3.9	-3.9	-3.1	-3.3	-3.7	-3.9
Statutory EPS (p)	-6.3	-4.2	-3.3	-3.4	-3.8	-4.0
Net (debt)/cash	7,126	3,859	3,626	290	-3,298	-7,006
Capital increases	8,565	0	2,115	0	0	0

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**GDR**
Price (p)	30.5
12m High (p)	42.5
12m Low (p)	25.0
Shares (m)	18.8
Mkt Cap (£m)	5.8
EV (£m)	8.1
Free Float*	48%
Market	AIM

**As defined by AIM Rule 26*

Description

Genedrive is a disruptive platform designed to bring the power of central laboratory molecular diagnostics to the point-of-care/need setting in a low-cost device offering fast and accurate results, initially for diagnosis of serious infectious diseases such as hepatitis.

Company information	
CEO	David Budd
CFO	Matthew Fowler
Chairman	Ian Gilham
	+44 161 989 0245
	www.genedriveplc.com

Key shareholders	
Directors	8.2%
Calculus	16.1%
M&G	13.0%
Odey	12.8%
Hargreave Hale	6.9%
River & Merc.	5.6%

Diary	
Oct'18	Finals

Analysts

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genedrive plc

First commercial shipments

genedrive plc (GDR) is a commercial-stage company focused on point-of-care molecular diagnostics. Its Genedrive® molecular diagnostic testing platform is at the forefront of this technology, offering a rapid, low-cost, simple-to-use device with high sensitivity and specificity in infectious disease diagnosis. Rapid analysis of patient samples greatly aids clinical and public health decision-making, with field testing particularly important in emerging markets. GDR has been awarded a £550k grant from the UK's National Institute for Health Research (NIHR) to develop a diagnostic to prevent hearing loss resulting from adverse reactions to gentamicin.

- **Strategy**: Now that the Genedrive technology platform has received CE Marking, the new management team has completely re-focused the company onto the commercialisation pathway for diagnosis of infectious diseases, signing two important commercial agreements with Sysmex, a major global player.

- **Trading update:** GDR reported that diagnostic sales were £1.9m (£2.6m) in fiscal 2018, marginally below our forecast (£2.0m). The expected decline was due to the successful completion of its US Department of Defense contract, which will be lower again in 2019. Cash at 30 June was £3.5m, vs. our forecast of £3.3m.

- **Genedrive sales:** First shipments of Genedrive HCV ID Kits were made in February 2018 to GDR's commercial partner, Sysmex, and further orders and sales have followed. Product registrations are now being sought in 30 countries, which include new extended product stability claims that improve performance.

- **Risks:** The platform technology has been de-risked through the receipt of CE Marking for its first two assays (hepatitis C and tuberculosis). The main risk is commercial, given that it often takes time for new technologies to be adopted. However, partnering with major global and local players reduces this risk.

- **Investment summary:** Genedrive technology ticks all the boxes described for an 'ideal' *in vitro* diagnostic that satisfies the need for powerful molecular diagnostics outside the hospital setting. The hepatitis C market is a global opportunity, which is very large, even in developing countries. With strong partners being signed for different countries, such as the NHS in the UK, and evidence of early sales traction, there is, in our opinion, a valuation anomaly.

Financial summary and valuation

Year-end June (£000)	2015	2016	2017	2018E	2019E	2020E
Sales	4,517	5,063	5,785	4,869	3,447	4,826
Underlying EBIT	-3,858	-5,259	-4,812	-4,664	-3,681	-2,709
Reported EBIT	-4,040	-5,426	-7,292	-4,784	-3,837	-2,927
Underlying PBT	-3,242	-6,330	-5,007	-4,994	-4,146	-3,180
Statutory PBT	-3,424	-6,497	-7,487	-5,114	-4,302	-3,399
Underlying EPS (p)	-28.3	-54.6	-21.4	-21.5	-16.4	-10.1
Statutory EPS (p)	-30.1	-56.2	-34.9	-22.2	-17.1	-11.0
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	903	-3,877	-70	-2,362	-5,175	-6,947
Capital increases	80	0	6,023	0	1,250	0
P/E (x)	-1.3	-0.7	-1.7	-1.7	-2.2	-3.6
EV/sales (x)	2.0	1.8	1.6	1.9	2.7	1.9

Source: Hardman & Co Life Sciences Research

Construction & Materials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**INL**
Price (p)	63.8
12m High (p)	70.60
12m Low (p)	50.75
Shares (m)	204.9
Mkt Cap (£m)	130.7
EV (£m)	198.7
Free Float*	99.0%
Market	AIM

**As defined by AIM Rule 26*

Description

Inland Homes is a brownfield regeneration specialist, housebuilder and mixed-use developer. Its core skills are acquiring largely unconsented sites, principally in southern England, taking them through planning to breaking ground, development and sale.

Company information

Chairman	Terry Roydon
CEO	Stephen Wicks
CFO	Nishith Malde

+44 1494 762 450
www.inlandhomesplc.com

Key shareholders

M H Dixon	7.80%
Janus Henderson	4.95%
P&KS	3.03%
Management	13.96%

Diary

Sep'18	Final results

Analyst

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Inland Homes plc

Inland; Inhomes; Inpartnership; Inregen. & InPRS

Its moniker is an onomatopoeia for its core activity, i.e. the company finds residential 'land', parcels it up, wins planning and then sells it to a ready market. Inland also builds and sells 'homes' in its own right, plus it works in 'partnership' in the public sector, often on land it has supplied. These activities all contribute to Inland's 'regeneration' business – another speciality – as will newbie 'PRS'.

- **16 July**: It would be easier if the company had a longer name, which would remove any equivocality about what it does (okay, syntax-wise, it would be stretched). That said, even scant scrutiny of Inland's July Trading Update for its fiscal year-ending 30 June 2018 puts it all beautifully into context; and the Group will report officially in September.

- **Land:** In the year, it sold 837 plots of consented land (which it had assembled) and this was up 7% annualised; and, of these, 480 plots went to private housebuilders – where market demand was strong – and 357 plots to housing associations (see below).

- **Homes:** Open market house sales had a bumper year, with a 46% increase to 275 units priced in a sweet-spot of affordability at £293,000 (Inland is not in London). Low interest rates and Help to Buy continue as prime benefits and the average unit sales rate per active site, in 2H, was an awesome 1.34.

- **Partnerships:** Completions or 'housing equivalent units' delivered in fiscal 2018 more than doubled to 82 and the Group holds a £100m order book here. This includes the Brooklands College site in Middlesex where Inland concluded its largest transaction to date i.e. £95m in a land and build deal with A2 Dominion i.e. it banked some £30m in cash and then took on a building contract for the balance of £65m.

- **Regeneration/PRS:** In a milestone deal, Inland has made its largest planning application to date on a 30 acre brownfield site in Cheshunt for 1,853 homes and a range of commercial developments. Plus, in May, it formed a strategic relationship with a private rented sector (PRS) focused fund, KCR Residential REIT, and it has already done deals. Now you know what's in a name.

Financial summary and valuation

Year-end June (£m)	2015	2016	2017	2018E	2019E	2020E
Total revenue	114	102	91	131	159	180
Underlying PBT	19.5	15.7	19.6	18.8	22.1	25.5
Underlying EPS (p)	8.56	5.09	7.09	7.60	8.90	10.30
Statutory EPS (p)	14.67	14.01	7.82	7.60	8.90	10.30
Net (debt)/cash	-34.9	-54.6	-68.0	-66.4	-62.4	-55.4
Shares in issue (m)	202.2	201.8	202.0	202.1	204.9	204.9
P/E (x)	7.5	12.5	9.0	8.4	7.3	6.3
DPS (p)	1.00	1.30	1.70	2.20	2.60	3.00
Yield	1.6%	2.0%	2.7%	3.5%	4.1%	4.7%
NAV (p)	44.44	57.66	64.62	69.69	73.74	79.19
EPRA NAV adjust. (p)	43.92	92.34	96.22	103.88	110.79	119.46
EPRA discount	na	31%	34%	38%	42%	46%

Source: Hardman & Co Research

Speciality Mining & Metals

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**ILC**
Price (C$)	0.09
12m High (C$)	0.23
12m Low (C$)	0.07
Shares (FD m)	135.9
Mkt Cap (C$m)	12.2
EV (C$m)	16.8
Market	TSX

Priced at 23 July 2018

Description

International Lithium Corp. (ILC) is advancing three lithium exploration assets. Key issues for investors are the new management, the partnership with Ganfeng Lithium (Ganfeng), funding and the low valuation.

Company information

Chairman/ CEO	John Wisbey
CFO	Maurice Brooks
COO	Anthony Kovacs
	+1 604 449 6520
	www.internationallithium.com

Key shareholders

John Wisbey	19.90%*
Ganfeng Lithium	11.35%*
TNR Gold Corp.	7.04%*
Other directors/mgt.	5.24%*

* incl. convertibles

Diary

Aug'18	2Q results
Nov'18	3Q results
Apr'19	Finals

Analyst

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pm@hardmanandco.com

International Lithium Corp.

Partnered with China's biggest lithium player

The turnaround of ILC has taken its first steps under the stewardship of a new Chairman/CEO appointed in March 2018. At the same time, the company continues to benefit from partnering with China's "lithium major", Ganfeng, which is providing support in terms of technology and capital. ILC's core asset in Argentina, the Mariana lithium salar (brine lake), is centrally located in South America's famous "Lithium Belt", and should take two key steps towards commissioning in the next six to nine months, with i) a Preliminary Economic Assessment this summer, and ii) a Pre-Feasibility Study in early 2019.

- **Strategy:** ILC's goal is to unlock value from its three brine and hard rock lithium projects, as it takes advantage of explosive demand growth for lithium used in batteries for electric vehicles (EVs). The global market share of EVs is expected to grow by a factor greater than 10, from 1% in 2017 to 12%-15% by 2026.

- **Strategic partner:** Ganfeng owns 11.35% of ILC and majority stakes in two of its lithium projects, which is in line with its strategy to ensure sufficient lithium supply in the future. It reiterated its commitment to Mariana in its recent Hong Kong IPO prospectus, with an ambitious target for commissioning in 2021.

- **ILC's core Mariana project (it has three) should "punch above its weight":** Size is far from everything when it comes to lithium salars. A productive salar is dependent on high transmissivity (i.e. rate of flow through the aquifer), specific yield (the ratio of extractable brine) and the uniformity of lithium grades.

- **Risks:** The new Chairman/CEO has resolved operational issues and, aside from the normal risks for a junior miner, his focus now is staying ahead of the funding curve – a further C$3.5m needs to be raised in 2018. A "funding feedback loop" is in play, where continued success should attract a fair valuation for ILC shares.

- **Investment summary:** Our DCF valuation for ILC is C$0.30-C$0.37/share, based on the Mariana project only. Using EV/resources multiples, ILC is valued at less than US$40/t LCE (lithium carbonate equivalent), compared with the average for its small-cap peers above US$45/t. The May 2018 sale of Galaxy Resources' non-core asset, Salar del Hombre Muerto (a lithium brine project with a resource estimate like Mariana), achieved an EV/resource price of US$110/t LCE.

Financial summary and valuation

Year-end Dec (C$m)	2015	2016	2017	2018E	2019E	2020E
Sales	0.000	0.000	0.000	0.000	0.000	0.000
Royalties	0.000	0.000	0.000	0.000	0.000	0.000
Underlying EBIT	-0.631	-0.796	-2.354	-0.720	-0.720	-0.720
Reported EBIT	-0.631	-0.796	-2.354	-0.720	-0.720	-0.720
Underlying PTP	-0.769	-1.033	-2.729	-1.463	-1.240	-1.554
Statutory PTP	-0.769	-1.033	-2.729	-1.463	-1.240	-1.554
Underlying EPS (C$)	-0.01	-0.01	-0.03	-0.01	-0.01	-0.01
Statutory EPS (C$)	-0.01	-0.01	-0.03	-0.01	-0.01	-0.01
Net (debt)/cash	-1.146	-2.932	-4.627	-6.275	-1.451	-13.171
Avg. shares (m)	77.13	83.70	89.33	102.75	193.78	305.4
P/E (x)	n/a	n/a	n/a	n/a	n/a	n/a
EV/sales (x)	n/a	n/a	n/a	n/a	n/a	n/a

Source: Hardman & Co Research

General Retailers

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**KOOV**
Price (p)	18
12m High (p)	57
12m Low (p)	6
Shares (m)	355
Mkt Cap (£m)	64
EV (£m)	44
Free Float*	40%
Market	AIM

**As defined by AIM Rule 26*

Description

Koovs is an online retailer of fashion across India. It has an experienced management team, growing brand awareness and the highest Net Promoter Score (NPS) in its vertical.

Company information	
CEO	Mary Turner
CFO	Rob Pursell
Chairman	Waheed Alli
	+44 20 7151 0170
	www.koovs.com

Key shareholders	
Waheed Alli (Dir.)	12%
Anant Nahata (Dir.)	11%
Michinoko	5%
Ruffer	5%
Hindustan Times Media	14%
Future Group	16%

Diary	
Before end-Sep	Prelims

Analyst

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Koovs plc

Koovs refinanced for the future

Following on from the investment by the Future Group, the subscription for £12m of new shares and the deal with HT Media for £17m-worth of advertising in exchange for shares, Koovs is now well placed to build on the success it has had to date in creating India's leading fashion e-tailer. The cash injection and the support of Future should enable it to resume its growth path and surf the growth of Indian e-commerce.

- **The deal**: Koovs issued 57.9m shares to FLFL at 10p per share and a further 80m to selected investors at 15p per share. The capital raised fulfils the conditions of the HT Media deal, and it will be issued with 42m new shares. FLFL will subscribe within six months for a further 63.5m shares, bringing its stake to 29%.

- **The benefits:** FLFL is a huge, nationwide bricks-and-mortar fashion retailer. It is also a vertically integrated business manufacturing its own brands, as well as selling well-known international labels. With Koovs leveraging FLFL's scale and distribution, its revenue and margins should improve much faster.

- **Valuation:** Conventional valuation metrics are unhelpful. We take our forecast EBITDA for Dec-22, apply a Boohoo /ASOS multiple and discount the value back to today. Even at a 25% discount, the EV comes out at £357m, including the funds to be raised. The current price is a poor indicator of the inherent value.

- **Risks:** Now it is refinanced, we see the two key risks being slower uptake of e-commerce in India than we forecast, and damaging discounting by Koovs' direct and indirect competitors. Koovs also needs to manage the relationship with FLFL successfully to optimise its benefits.

- **Investment summary:** With the money raised and the new partners on board, Koovs becomes an exciting way to play the last big world retail market to move online. The prize, if it gets it right, is a billion-pound company and more. It is likely to be a bumpy, exciting ride, but investors have the reassurance of a highly experienced management team in charge, and the backing of two major Indian corporations straddling both retail and media.

Financial summary and valuation

Year-end March (£m)	2017	2018E	2019E	2020E	2021E	2022E
Visits (m)	79	65	116	166	246	312
Conversion	1.6%	1.4%	1.4%	2.3%	2.8%	3.5%
No. of orders (m)	1.25	0.89	1.62	3.74	6.75	10.93
AOV (£)	14.75	16.37	16.74	19.00	20.58	23.29
GOV	18.5	14.5	27.2	71.1	139.0	254.6
Net sales	12.5	9.6	16.9	44.3	86.6	158.6
Weighted margin	43%	46%	49%	53%	57%	61%
Trading profit	0.3	1.2	3.6	12.1	25.8	70.4
Trading margin	2%	11%	21%	27%	30%	44%
EBITDA	-20.0	-14.4	-19.4	-18.9	-7.8	17.2
No. of shares (m)	175	175	355	419	419	419
EV/sales (x)	1.1	1.5	2.6	1.0	0.5	0.3

Source: Hardman & Co Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	MCL
Price (p)	170.0
12m High (p)	172.3
12m Low (p)	105.5
Shares (m)	129.5
Mkt Cap (£m)	220.2
EV (£m)	199.7
Free Float*	46%
Market	AIM

**As defined by AIM Rule 26*

Description

Morses Club PLC (MCL) is number two in UK home credit. It is growing this business organically and by acquisition, and is developing a range of related products, where it has a competitive advantage.

Company information

Non Ex. Chr.	Stephen Karle
CEO	Paul Smith
CFO	Andy Thomson

Tel: +44 330 045 0719
www. morsesclubplc.com

Key shareholders (28/02/18)

Hay Wain	36.82%
Woodford Inv. Mgt.	8.79%
Miton Asset Mgt.	7.47%
Artemis Inv. Mgt.	6.95%
Majedie Asset Mgt.	5.34%
JO Hambro	5.32%
Blackrock	3.03%

Diary

Late Aug	Trading update
Oct'18	Interim results

Analyst

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mt@hardmanandco.com

Morses Club PLC

Focus on quality

We reviewed MCL's strategic focus on quality in our note, Quality Street, published on 19 July. To properly appreciate the risks and rewards that the Home Collect Credit (HCC) companies offer investors, we need to understand their corporate culture. In the above note, we detailed MCL's focus on quality, giving practical examples of how the group aims to generate sustainable profit growth. Conservatism runs throughout MCL's lending, accounting, agents, customer selection and new product development. We did not change our steady growth forecasts, and our valuation range remains 171p to 197p.

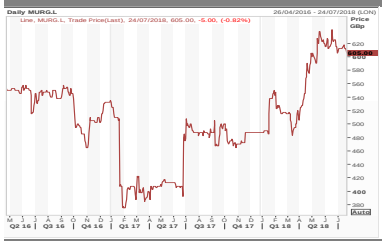
- **Focus on quality:** 70% of customers are now "high-quality" (58% three years ago). MCL was very selective in securing experienced agents and recruiting field managers to optimise the opportunity from the market leader's self-inflicted woes. Online lending start-up losses are a fraction of peers' establishment costs.
- **Impact:** Investors may expect good, sustainable growth for the period 2017-19. The focus on quality may also mitigate regulatory risk, requires modest funding and should carry much less macroeconomic downside risk. Investors wanting high growth, but potentially volatile returns, should look elsewhere
- **Market news:** The big news in non-standard lending was the £1.3bn IPO of Amigo Loans (admitted to LSE Main market 4 July). The guarantor loan business is clearly different from HCC, but it does show that investor appetite remains robust in non-standard lending, and MCL has risen ca.10% since that time.
- **Valuation:** We detailed a range of valuation approaches and sensitivities in our notes, "Building a profitable and sustainable franchise" and "Bringing-home-collect-into-the-21st-century", and updated these in our results note. The range is now 171p (DDM) to 197p (GGM).
- **Investment summary:** MCL is operating in an attractive market. It has a dual-fold strategy that should deliver an improved performance from existing businesses and new growth options. It conservatively manages risk and compliance, especially in new areas. The agent network is the competitive advantage over remote lenders. The valuation has material upside, and we forecast a 4.5% February 2019 dividend yield, with 1.7x cover (adj. earnings).

Financial summary and valuation

Year-end Feb (£000)	2015	2016	2017	2018	2019E*	2020E*
Reported revenue	89.9	90.6	99.6	116.6	119.0	127.2
Total impairments	-22.9	-18.8	-24.3	-30.4	-26.6	-27.6
Total costs	-51.4	-53.4	-56.7	-65.6	-69.2	-74.3
EBITDA	16.5	19.3	19.9	22.1	24.9	27.3
Adjusted PBT	13.0	16.8	17.7	19.2	21.4	23.6
Statutory PBT	58.5	10.4	11.2	16.1	18.2	20.7
Statutory EPS (p)	46.5	6.1	6.6	10.1	11.4	13.0
Adj. EPS (p)	8.1	10.2	10.8	11.7	13.2	14.6
P/adj. earnings (x)	20.9	16.6	15.7	14.5	12.9	10.4
P/BV (x)	2.3	4.0	3.6	3.3	3.3	2.9
P/tangible book	2.6	4.9	4.3	3.8	3.7	3.2
Dividend yield	n/m	n/m	3.8%	4.1%	4.5%	5.0%

*Source: Hardman & Co Research * IFRS 9 basis*

Support Services



Source: Eikon Thompson Reuters

Market data	
EPIC/TKR	**MUR**
Price (p)	610
12m High (p)	610
12m Low (p)	380
Shares (m)	9.0
Mkt Cap (£m)	55.0
EV (£m)	53.0
Free Float*	53%
Market	AIM

**As defined by AIM Rule 26*

Description

Murgitroyd offers a global service to clients on patents, trademarks, etc. It operates from 15 offices worldwide, and over 50% of its revenues are from the USA.

Company information	
CEO	Keith Young
CFO	Keith Young
Chairman	Ian Murgitroyd
	+44 141 307 8400
	www.murgitroyd.com

Key shareholders	
Directors	32.0%
Ian Murgitroyd (director)	26.7%
Lyontrust Inv.	16.9%
Schroder Inv.	9.9%
Mawer Inv.	4.7%
G. E Murgitroyd (director)	4.3%

Diary	
Sep'18	Final results
Oct'18	AGM

Analyst

Mike Foster 020 7194 7633

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Murgitroyd

Results due

Final results are expected, as usual, towards the end of August/beginning of September, and progress on continuing expansion in Support Services is looked for. With a 14% EPS interim rise, the first-half-year results were good, accompanied by a 30% dividend rise. Murgitroyd experienced headwinds from 2014 to 2017, especially on margins, but the resilience coming through at the interims is expected to be built upon in the second-half-year to May 2018. Murgitroyd's markets offer stable growth (with resilience experienced during the last global economic downturn). EPS forecasts should start to benefit from falling US tax rates.

- **Long term**: Recent years' growth has been assisted by broadening support functions, but an important driver is that the underlying market is global, as is Murgitroyd's reach (with 50% in USA). We look for group-wide margins to start to expand again.
- **Costs**: In recent times, Murgitroyd confirmed the investment into business development – as well as focusing down the number of offices. 1H'18 saw it initiate its single-biggest IT investment – a Client Portal – to remain at the cutting edge of client-service and productivity. We shall look at 2H cost ratios.
- **Revenue and divisional trends**: Larger clients' revenues rose, with continuing growth in Support Services, and 1H sales up 4.4%**.** Around 64% of total revenue was generated by Attorney groups, with 36% by Support Services groups.
- **Risks**: The offer of a broad suite of services to a broad customer base, in focused markets, balances out any weakness in individual markets. There are, however, pricing pressures, so the ever-increasing offer of support functions (even including web-based) can add revenue and add to 'stickiness' with large clients.
- **Investment summary**: Between FY13 and FY16, Support Services registered a 10.5% CAGR (raising share of total sales from 29%), but growth at the rest of the group has been modest. After stabilising the margin pressure of recent years, we shall look for a (modest) element of (constant exchange rate) top-line growth returning. Murgitroyd has strong resources for growth.

Financial summary and valuation

Year-end May (£m)	2014	2015	2016	2017	2018E
Sales	38.4	39.8	42.2	44.3	46.0
EBITDA	4.6	4.5	4.6	4.2	4.5
PBT (adj.)	4.2	4.2	4.3	3.9	4.1
EPS (adj.) (p)	33.6	34.8	35.3	28.7	30.8
DPS (p)	13.3	14.8	16.0	17.0	19.0
Net (debt)/cash	-0.4	0.7	2.8	2.2	2.6
Net debt/EBITDA (x)	0.1	cash	cash	cash	cash
P/E (x)	18.1	17.5	17.2	21.3	19.9
EV/Sales (x)	1.4	1.3	1.2	1.2	1.1
EV/EBITDA (x)	11.5	12.0	11.5	12.6	12.0
FCF yield	5.9%	5.3%	7.0%	5.9%	5.0%
Dividend yield	2.2%	2.4%	2.6%	2.8%	3.1%

Our estimates are adjusted to exclude acquisition transaction costs; Source: Hardman & Co Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	NSF
Price (p)	57.6
12m High (p)	80.0
12m Low (p)	52.6
Shares (m)	313
Mkt Cap (£m)	180
EV (£m))	368
Free Float	99%
Market	Main

Description

In the UK non-standard lending market, NSF has the market-leading network in unsecured branch-based lending, and is number two in guarantor loans and number three in home credit.

Company information

CEO	John van Kuffeler
CFO	Nick Teunon
Exec. Dir.	Miles Cresswell-Turner

Tel: +44 20 38699026

www.nonstandardfinance.com

Key shareholders (31 Jan'18)

Invesco	28.5%
Woodford Investment	26.8%
Marathon Asset Mgt.	10.7%
Aberforth Partners	10.2%
Quilter Cheviot AM	3.6%
ToscaFund	3.0%

Diary

2 Aug	Interim results

Analyst

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Non-Standard Finance

Amigo Loans IPO: read across positive for NSF

In our note, Everyday Loans: a heart of gold, we reviewed the heart of the group, Everyday Loans (EL; 80% of 2017 normalised operating profits). We believe it has strong competitive advantages in sales, costs and credit, with material barriers to entry sustaining this. EL has delivered strong profitability, while many lenders in this space are making losses. EL (indeed all of NSF) is aiming for strong growth, economies of scale and risk:reward optimisation – characteristics of the recently floated Amigo Loans, which trades at a significant premium. NSF's 2019E P/E of 9x appears an anomaly with its medium-term growth and profitability outlook.

- **NSF news:** NSF reports interim results on 2 August (our estimates detailed in our 26 June 1H'18 Results Preview note). We forecast that NSF will deliver 46% of FY'18 revenue in 1H'18 and 46% of impairments, but 50% of costs and 49% of finance costs. We estimate 18% of group 2018 PBT in 1H'18 and 82% in 2H'18.
- **Peer news:** Provident Financial reported results on 31 July (too late for this Monthly, but we will review in our next report). It is likely that the key focus will remain on company-specific issues and, in particular, (i) whether it has stabilised the home collect business, and (ii) the impact of compliance in Vanquis.
- **Market news:** Amigo Loans was admitted to the Main Market on 4 July. Its £1.3bn market capitalisation is ca.26x historical statutory earnings (£50.6m to March 2018) and ca.18x adjusted earnings (£72.4m). The prospectus reported an adjusted tangible equity of £195m, with implied price to book of ca.6.5x.
- **Valuation:** We reviewed a range of valuation metrics (and sensitivity to assumptions) in our initiation and results notes, Carpe diem and Strong profit growth path confirmed. Our absolute valuation measures are ca.100p per share. Relative measures are distorted by an unknown IRFS9 adjustment in consensus.
- **Investment summary:** Substantial value should be created as i) competitors have withdrawn, ii) NSF is well capitalised, with significant debt funding, iii) it has positive macroeconomic drivers, and iv) it has an experienced management team delivering technological efficiency without compromising the key F2F model. Targets of 20% loan book growth and 20% RoA for each operating division seem credible, and investors are paying 9x 2019E P/E.

Financial summary and valuation

Year-end Dec (£000)	2016	2017	2018E	2019E
Reported revenue	94,674	119,756	166,098	197,000
Total impairments	-25,705	-28,795	-39,728	-46,208
Total costs	-49,600	-67,706	-85,596	-93,760
EBITDA	19,369	25,181	35,443	50,638
Adj. profit before tax	13,056	13,203	14,424	24,798
Stat. prof. before tax	-9,342	-13,021	-4,196*	11,348*
Pro-forma EPS (p)	3.37	3.44	3.72*	6.42*
DPS (p)	1.20	2.20	2.50	3.15
P/adj. earnings (x)	17.1	16.8	15.5	9.0
P/BV (x)	0.7	0.8	0.8	0.8
P/tangible book (x)	1.8	2.4	2.4	2.3
Yield	2.1%	3.8%	4.3%	5.5%

*Source: Hardman & Co Research, *IFRS9*

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**OXB**
Price (p)	870
12m High (p)	1064
12m Low (p)	378
Shares (m)	65.7
Mkt Cap (£m)	571.7
EV (£m)	556.8
Free Float	63%
Market	LSE

Description

Oxford BioMedica (OXB) is a UK-based biopharmaceutical company specialising in cell and gene therapies developed using lentiviral vectors – gene-delivery vehicles based on virus particles. In addition to vector development and manufacture, OXB has a pipeline of therapeutic candidates and undertakes innovative pre-clinical R&D in gene-medicine.

Company information

CEO	John Dawson
CFO	Stuart Paynter
Chairman	Lorenzo Tallarigo
	+44 1865 783 000
	www.oxfordbiomedica.co.uk

Key shareholders

Directors	0.2%
Vulpes	17.7%
M&G	17.7%
Canaccord Genuity	5.1%
Aviva	3.9%
Hargreaves Lansdown	3.7%

Diary

Aug'18	Interims

Analysts

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Oxford Biomedica

Positive opinion in Europe for partner Novartis

OXB is a specialist advanced-therapy lentivirus vector biopharma company. It offers vector manufacturing and development services, and also has a proprietary drug pipeline. In addition to LentiVector® service contracts, OXB receives royalties on commercial therapies developed by its partners using the LentiVector platform. A partnership deal structure was established with Novartis (NOVN) for Kymriah™ in June 2017, for which OXB is the sole manufacturer of vector. Kymriah made total sales of $28m for NOVN in 1H'18 in the US. In Europe, the therapy is nearing an approval decision, having just received a positive opinion from the EMA's CHMP.

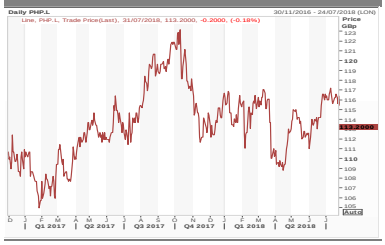
- **Strategy**: OXB has four strategic objectives: delivery of process development (PD) services that embed its technology in partners' commercial products; commercial manufacture of lentiviral vector; out-licensing of proprietary candidates; and investment in R&D and the LentiVector platform.
- **Kymriah:** NOVN's Kymriah, for which OXB manufactures vector, this month received a positive opinion from the European Medicines Agency's (EMA) Committee for Medicinal Products (CHMP) for the blood cancers DLBCL (adults) and B-ALL (patients <26 years old). Kymriah is already licensed in the US for both.
- **CAR-Ts in EU:** Kymriah, along with Gilead's Yescarta, are the first CAR-T (Chimeric Antigen Receptor-T cell) therapies to be recommended for approval in the European Union. EMA guidelines indicate a 67-day window to approval following positive CHMP opinion, so a decision should be reached by October.
- **Risks:** OXB's mid-term sales model and the ability to pay off debt are dependent on successful progress of partners' clinical trials and the commercialisation of LentiVector-enabled products, for receipt of bioprocessing milestones and royalty payments. All gene-therapy candidates are subject to significant clinical risk.
- **Investment summary:** OXB is at a very interesting juncture. Heavy investment in state-of-the-art GMP manufacturing facilities for production of gene-therapy vector has resulted in supply agreements with Novartis, Bioverativ and Axovant, on top of existing partnerships, positioning the group on the road to significant bioprocessing service income, milestones and royalties.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	15.91	27.78	31.49	43.80	58.20	79.30
EBITDA	-11.73	-6.78	-2.63	17.01	15.73	25.51
Underlying EBIT	-13.35	-10.45	-7.00	12.58	10.89	20.20
Reported EBIT	-14.08	-11.32	-5.67	11.52	9.72	18.94
Underlying PBT	-16.25	-15.34	-15.88	8.21	6.83	16.19
Statutory PBT	-16.98	-20.31	-11.76	7.14	5.67	14.92
Underlying EPS (p)	-23.91	-21.00	-21.19	17.94	15.49	31.57
Statutory EPS (p)	-25.33	-29.95	-14.56	16.29	13.72	29.64
Net (debt)/cash	-17.90	-19.05	-22.54	-0.93	-3.12	7.03
Capital increase	0.14	17.50	0.39	19.40	0.10	0.10
P/E (x)	-	-	-	-	-	27.6
EV/sales (x)	-	-	-	-	-	21.8

Source: Hardman & Co Life Sciences Research

Real Estate



Source: Fidessa

Market data	
EPIC/TKR	**PHP**
Price (p)	114
12m High (p)	118
12m Low (p)	105
Shares (m)	730
Mkt Cap (£m)	832
EV (£m)	1455
Market	Main, LSE

Description

PHP is a REIT acquiring and owning modern primary medical properties in the UK, and is expanding into the Republic of Ireland (RoI).

Company information

CEO	Harry Hyman
CFO	Richard Howell
Chairman	Steven Owen
	+44 20 7451 7050
	www.phpgroup.co.uk

Key shareholders

Directors	2.5%
BlackRock	5.5%
Investec Wealth	4.9%
Charles Stanley	4.5%
Unicorn Asset Mgt.	4.2%
Troy	3.9%

Diary

Feb'19	Full-year results
Apr'19	AGM
Jul'19	Interim results

Analyst

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Primary Health Properties

Another set of robust figures

PHP's results, reported on 25 July, showed £1.42bn investment assets and a contracted rent roll of £74.4m (+7.4%). The 2018 £115m equity raise is being deployed, thus rebuilding EPS, albeit on greater shares in issue. PHP's continuing stand-out dividend track record is excellent, as is its refusal to fall into the trap of overpaying for assets. The new supply of primary medical properties has been constrained but is starting to rise, so PHP's development partners (PHP undertakes zero development risk) underpin the growing acquisition pipeline. This is stated at £175m, and our model assumes an acquisition rate of £100m p.a.

- **1H'18 results**: DPS rose 3.1%. Cost of debt fell again (3.86% p.a. vs. 4.09%). Acquisitions are proceeding well, with £48.6m since year-end. Importantly, these are of good 'lot size'. EPRA EPS fell 3.8% as a result of the initial dilution from the oversubscribed £115m March equity raise (total earnings rose 11.0%).
- **Capital deployment**: 2018 to date, £53m of property has been acquired, with £37m in solicitors' hands vs. 10 properties in 2017 for £71.9m. The pipeline is in place and growing, with PHP investing the new equity raised in March. Our LTV end-2020 estimate is 47.2%, giving scope to acquire more, enhancing EPRA EPS.
- **Republic of Ireland (RoI) is a growth driver**: RoI is a growing element for PHP, with its portfolio expansion weighted here. 2% of end-June 2018 assets are in RoI. In 2017, 28% of asset acquisitions were in RoI. 1H'18 saw a further €22.3m. Yields are still nearly 100bps higher in RoI vs. Britain, and with lower debt cost.
- **Risks:** Debt maturity profile has lengthened YoY (5.9 years' average), reducing refinance risk YoY, while also still lowering cost of debt. Were rent growth to remain subdued, DPS growth should remain ca.3%, but cover rebuilds to over 100% under any scenario. Indeed 2018 dividends, cash paid, are fully covered.
- **Investment summary:** PHP is in its 22nd year of stock-market listing and its 22nd year of dividend rises. Investment, including the now fast-growing, higher-yielding market in RoI, added to deployment of equity and ongoing cost optimisation, all underpin good support for dividend growth. On valuation grounds, based on asset and cash flow security, the dividend yield attracts.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Income	67.4	72.5	78.0	84.0	91.0
Finance cost	-32.5	-31.6	-29.8	-27.9	-28.5
Declared profit	43.7	91.9	67.2	73.0	80.0
EPRA PBT (adj. pre-revaluation)	26.7	31.0	37.2	44.5	50.0
EPS reported (p)	7.8	15.3	9.6	9.4	10.0
EPRA EPS (fully-diluted) (p)	4.7	5.1	5.3	5.7	6.2
DPS (p)	5.12	5.25	5.40	5.55	5.70
Net debt	-663.2	-726.6	-709.0	-742.7	-837.8
Dividend yield	4.5%	4.7%	4.8%	4.9%	5.0%
Price/EPRA NAV	1.25	1.13	1.09	1.06	1.01
NAV (p)	83.5	94.7	100.2	103.8	108.1
EPRA NAV (p)	91.1	100.7	104.9	108.1	112.5

NB: 2017, 18E EPRA EPS excl. performance fee, diluted: 5.21p, 5.39p Source: Hardman & Co Research

Food Producers

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**RE.**
Price (p)	324.0
12m High (p)	361.0
12m Low (p)	282.0
Shares Ord (m)	40.5
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	131.2
Mkt Cap Pref (£m)	76.3
EV ($m)	511.6
Free Float	30%
Market	Main

Description

R.E.A. Holdings (REA) is engaged in the operation and further development of palm oil plantations in East Kalimantan, Indonesia. The Group also owns stone quarrying rights and concessions, and coal mining concessions that have been contracted out to third-party operators.

Company information

Managing Director	Carol Gysin
Chairman	David Blackett
	+44 20 7436 7877
	www.rea.co.uk

Key shareholders

Directors	28.55%
M & G Investment Mgt.	14.97%
Alcatel Bell Pension Fund	10.32%
Artemis Investment Mgt.	8.83%
Aberforth Partners	7.30%

Diary

Sep'18	Interim results

Analyst

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R.E.A. Holdings

Trading update

On 25 April, REA announced that REA Kaltim (REAK) had entered into a conditional agreement for the sale of a 95% holding in the PBJ estate to KLK. Expected gross proceeds of $85m are anticipated to evolve at ca.$57m net of repayment of external borrowings and transaction costs. This represents an elegant solution to deleveraging the balance sheet, focusing on a more contiguous plantation area, and freeing up capital for the remaining landbank. On 10 July, REA's shareholders approved the proposed sale in a general meeting.

- **Strategy**: REA saw a significant improvement in cropping in the first five months of the year, reporting a 29.6% increase of own crop, to 263,000mt, compared with 2017. There are indications that the current crop rate will continue into at least August. Should the current harvest rate continue, we would expect to raise our forecasts.
- **Strategy**: REAK, the principal division of REA, has a total landbank of some 110,000ha. Following the PBJ transaction, REA will focus on the development of the company's 10,000ha readily plantable landbank. This should bring the proprietary plantations to ca.50,000ha by 2021 or 2022, when fully developed.
- **Palm oil price:** The average CPO price achieved by the group for the first five months has been 11% lower, at $554/mt FOB net of export levy and duty. The global palm oil price has weakened in the same period compared with 2017, and the CIF Rott price averages at ca.$600/mt in July, against an average $635/mt last month. At this price, palm oil may become attractive in the energy sector.
- **Risks:** Agricultural risk, commodity price risk and country risk are constants of palm oil production. The deleveraging of the balance sheet, to give 2018 projected net debt to equity of 66.5% (76.5%) with the sale of the PBJ estate, will help to reduce funding risk, which is a standard threat to plantation projects.
- **Investment summary:** REA has scope to develop a planted estate of some 50,000ha. We believe the group's financial performance will undergo significant change from 2019. We are assuming some 34,000ha of mature plantations for end-2019, coupled with stronger agricultural production across the estates, and a firmer CPO price. If these factors align as anticipated, then this will mark the point at which the business becomes self-sustaining.

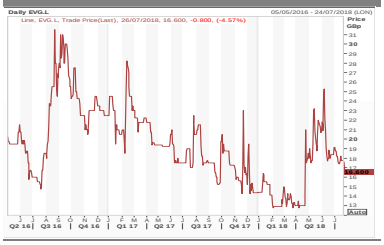
Financial summary and valuation

Year-end Dec ($m)	2015R	2016	2017	2018E	2019E
Sales	90.5	79.3	100.2	119.9	134.4
EBITDA	14.1	16.8	20.7	39.1	44.9
Reported EBIT	-6.6	-5.0	-2.2	15.9	21.5
Pre-tax profit	-12.2	-9.3	-21.9	1.4	10.6
EPS (c)	-59.0	-48.2	-67.0	-23.2	-4.2
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	-196.7	-205.1	-211.7	-178.2	-189.8
P/E (x)	-	-	-	-	-
Planted hectares (ha)	37,097	42,846	44,094	39,974	42,976
EV/planted hectare ($/ha)*	13,790	12,836	12,455	13,694	12,697
CPO production (mt)	161,844	127,697	143,916	183,616	200,079

Source: Hardman & Co Research

**EV/planted ha includes mkt. cap. of the 9% pref. shares and 15% DSN; R = restated*

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**REDX**
Price (p)	8.2
12m High (p)	28.6
12m Low (p)	3.5
Shares (m)	126.5
Mkt Cap (£m)	10.4
EV (£m)	3.4
Free Float*	76%
Market	AIM

**As defined by AIM Rule 26*

Description

Redx Pharma (REDX) is focused on the discovery and development of proprietary, small molecule therapeutics to address areas of high unmet medical need, in cancer and fibrosis. The aim is to develop putative drugs through early trials and then to partner them for late-stage development and commercialisation.

Company information

CEO	Lisa Anson
CFO	Dominic Jackson
Chairman	Iain Ross
	+44 1625 469 900
	www.redxpharma.com

Key shareholders

Directors	0.5%
Jon Moulton	18.2%
Seneca Partners	12.5%
AXA	9.8%
Aviva	8.4%

Diary

2H'18	Submit revised protocol for Phase I with RXC004
Nov'18	Final results

Analysts

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Redx Pharma

Progress with the pipeline

REDX's new management team is focusing its financial resources (ca.£10m) on progressing its lead candidates in oncology and fibrotic disease into the clinic. Although the first patient was treated recently in a Phase I/II proof-of-concept trial with its porcupine inhibitor RXC004, some on-target adverse events (anticipated at higher doses) were observed, which caused management to take the prudent decision to stop patient recruitment and prepare a revised protocol to the MHRA for end-2018. Meanwhile, REDX is continuing to progress its development strategy, with a new CEO now on board and a period-end cash balance of ca.£5.5m.

- **Strategy:** REDX focuses on discovery and early clinical development of small molecule therapeutics in the fields of oncology and fibrotic disease. It aims to bring assets through proof-of-concept clinical trials and then partner them with the drug major(s) for late-stage development and commercialisation.

- **Interims:** REDX reported progress on its R&D pipeline, which is now focused on two key high value-added areas of cancer and fibrotic disease. Management has tightened control on costs, with a lower spend in SG&A and R&D, reducing the annual cash burn by ca.£5m p.a.

- **RXC004 trial:** A decision was made to temporarily suspend the Phase I/IIa trial with RXC004 in light of adverse events in the first patient dosed. Early data suggest a higher exposure and longer half-life in humans that could not have been predicted. A lower dose protocol is expected to be submitted in 2H'18.

- **Risks:** REDX has emerged from a difficult period in much better shape, allowing management to concentrate on bringing the assets to important value inflection points. While all early-stage pharma/biotech companies carry substantial risks, REDX's strategy was validated by the disposal of the BTK programme, for $40m.

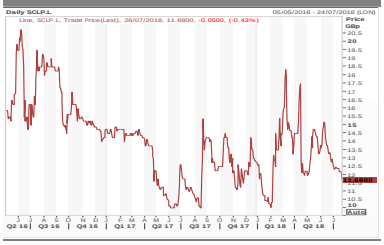
- **Investment summary:** REDX had already started the process of refining its strategy, but recent events have simply accelerated this evolutionary process. The revised business plan focuses cash resources on early clinical development of its drug leads in oncology and fibrotic disease. The commencement of clinical trials represents an important milestone not yet reflected in the valuation.

Financial summary and valuation

Year-end Sep (£000)	2015	2016	2017	2018E	2019E	2020E
Milestones/royalties	0	0	0	0	0	0
Other income	2,648	2,380	1,291	1,000	1,000	1,000
R&D investment	-9,463	-14,315	-13,000	-6,528	-11,078	-11,410
SG&A (corp. cost)	-2,008	-2,212	-5,698	-3,150	-3,276	-3,407
Underlying EBIT	-8,823	-14,147	-17,407	-8,678	-13,354	-13,817
Underlying PBT	-9,112	-14,606	-17,737	-8,648	-13,327	-13,817
Statutory PBT	-8,825	-15,407	1,646	-9,240	-13,547	-14,057
R&D tax credit	650	637	-118	392	665	685
Underlying EPS (p)	-14.6	-17.8	-15.8	-6.5	-8.8	-8.2
Statutory EPS (p)	-14.1	-19.8	1.4	-7.0	-9.0	-8.4
Net (debt)/cash	7,436	3,758	23,806	5,595	2,718	-10,382
Capital increase	13,447	9,296	11,066	0	10,000	0

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**SCLP**
Price (p)	11.7
12m High (p)	19.4
12m Low (p)	9.7
Shares (m)	387.8
Mkt Cap (£m)	45.2
EV (£m)	34.2
Free Float*	81%
Market	AIM

**As defined by AIM Rule 26*

Description

Scancell (SCLP) is a clinical-stage company focused on the discovery and development of two proprietary immunotherapy platforms, ImmunoBody and Moditope, with the potential to be used as therapeutic cancer vaccines.

Company information	
CEO	Dr Cliff Holloway
CSO	Prof. Lindy Durrant
Chairman	Dr John Chiplin
UK HQ	+44 1865 338 069
US Office	+1 858 900 2646
	www.scancell.co.uk

Key shareholders	
Directors	5.0%
Calculus Capital	13.0%
City Financial	5.7%
Legal & General	4.7%
Hygea VCT	3.4%

Diary	
2Q'18	US IND SCIB1 + CPI
4Q'18	SCIB1 Phase II
Sep'18	Finals

Analysts

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Scancell Holdings

Continuing to prepare for SCIB1 combination trial

SCLP is a clinical-stage biotechnology company developing two distinct flexible cancer immunotherapy platforms, each with broad applications: ImmunoBody® is a DNA vaccine that stimulates high-avidity anti-tumour CD8 T-cells for use as a monotherapy or in combination with checkpoint inhibitors (CPIs); Moditope® targets modified antigens and stimulates powerful anti-tumour CD4 T-cell responses for use in advanced and hard-to-treat cancers. The company raised £8.7m of gross new capital by way of a Placing, Subscription and Open offer in order to support and progress its clinical trial programmes.

- **Strategy**: SCLP is developing two proprietary immuno-oncology platforms that target cancer cells directly to produce potent T-cell responses. Both technologies are highly flexible, potentially targeting many types of cancer. The initial aim is to complete proof-of-concept trials in multiple indications.

- **Capital increase:** SCLP completed a capital increase to raise gross new funds of £8.7m (est. £8.0m net) in order to progress its clinical trial programmes. SCLP will start a late-stage melanoma combination study with SCIB1 + checkpoint inhibitor in 4Q'18, and a first-in-man breast clinical trial with Modi-1 in 1H'19.

- **SCIB1 administration:** SCLP has exercised its commercial option with Ichor to use its new TriGrid 2.0 electroporation delivery system for administration of SCIB1, an ImmunoBody vaccine, in combination with a checkpoint inhibitor for the planned Phase II trial in patients with advanced melanoma.

- **Moditope patent:** SCLP has been granted a patent from the European Patent Office for its Moditope immunotherapy platform, effective from 13 June 2018. This endorses Moditope as a new class of cancer vaccine capable of inducing potent immune responses to stress-induced post-translational modifications.

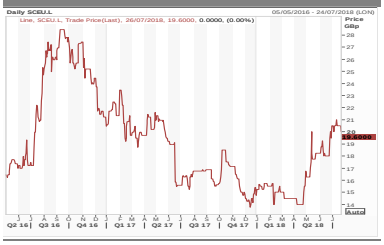
- **Investment summary:** SCLP is trading on an EV of ca.£34m, compared with a cumulative investment of £36m to get the company to where it is today, which is low compared with its relevant peers. SCLP's proprietary technologies are in the 'hot' area of immuno-oncology and targeting markets of significant unmet medical need. Recent deals have demonstrated the price that big pharma is willing to pay for validated assets in the field.

Financial summary and valuation

Year-end April (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	0.00	0.00	0.00	0.0	0.0	0.0
R&D investment	-2.12	-2.01	-2.77	-3.5	-5.9	-7.8
SG&A	-0.75	-1.00	-1.73	-2.0	-2.1	-2.2
Underlying EBIT	-2.87	-3.01	-4.50	-5.5	-8.0	-10.0
Reported EBIT	-2.96	-3.04	-4.55	-5.6	-8.1	-10.1
Underlying PBT	-2.74	-2.99	-4.44	-5.5	-8.0	-10.0
Statutory PBT	-2.83	-3.03	-4.50	-5.5	-8.0	-10.1
Underlying EPS (p)	-1.03	-1.12	-1.34	-1.5	-1.8	-2.2
Statutory EPS (p)	-1.07	-1.14	-1.36	-1.5	-1.8	-2.2
Net (debt)/cash	3.06	6.53	2.67	9.8	3.8	-5.0
Capital increase	0.00	5.79	0.00	11.6	1.2	0.0
P/E (x)	-	-	-	-	-	-

Source: Hardman & Co Life Sciences Research

Automobiles and parts



Source: Eikon Thompson Reuters

Market data

EPIC/TKR	**SCE**
Price (p)	20
12m High (p)	24
12m Low (p)	14
Shares (m)	123
Mkt Cap (£m)	25
EV (£m)	23
Free Float*	86%
Market	AIM

**As defined by AIM Rule 26*

Description

Surface Transforms is 100%-focused on manufacture and sales of carbon ceramic brake discs. It has recently expanded its manufacturing capacity.

Company information

Non-Exec. Chair.	David Bundred
CEO	Dr Kevin Johnson
Finance Director	Michael Cunningham

+44 151 356 2141
www.surfacetransforms.com

Key shareholders

Directors	13.8%
Hargreave Hale	15.4%
Unicorn Asset Mgt.	13.4%
Richard Gledhill (director)	11.8%
Hargreaves Lansdown	5.4%
Barclays Wealth	3.6%
Rathbone	3.1%

Diary

Sep'18	Full-year results

Analyst

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Surface Transforms

Oversubscribed fund raise; trading growth in line

Surface Transforms manufactures and sells carbon-fibre reinforced ceramic brake discs. On 27 June, Surface Transforms raised £1.53m (gross) from placing 9 million new shares at 17p, including to two new institutional investors. Its mid-June trading update was in line with expectations. The modest level of revenue doubled, and we estimate it to double again in FY19. 2020 is anticipated to be the transformative year. We estimate £1m sales in 2020 for OEM 3 and £2m for OEM 5, with other revenue growing well, too. Each has scope for £4m-plus sales by 2021. It is progressing with development for six auto OEMs.

- **A large market at an inflection point:** The company is the only alternative to the current near-monopoly supplier, which is substantially owned by the family behind BMW. It has agreed a 3Q'18 test date with OEM 5 for final track testing, this being the final stage to complete engineering approval.
- **Fund raise and share-based payment details:** Fund raise proceeds will be used for general working capital purposes, and testing and development costs required. Estimates for 2019 onwards now take into account a £0.6m p.a. share-based payment cost (up from £0.3m). There are now ca.5m such options.
- **Capacity allocation model:** OEM production cell 1 is potentially completely allocated to Aston Martin, OEM 3 and OEM 5. OEM 2 and OEM 4 follow in the wake of OEM 3, and will require additional capacity. Once an OEM announces a model, volumes are virtually assured, as models have customer waiting lists.
- **Risks:** Investment comes ahead of firm orders, and ahead of profit. The company has no control over the timeline of auto OEMs' new models. Surface Transforms receives revenue from a number of sources, but is still in cash burn. The larger modern factory has been commissioned – a further major de-risking.
- **Investment case:** This is a large, growing market, 99% supplied by one player – a fact that gives great support to Surface Transforms' prospects. As volumes rise, prices fall, which is the trigger to utilisation on greater volume models. Surface Transforms is progressing with development for six auto OEMs. Current revenue is from a well-established business selling to retrofit and 'near OEMs'.

Financial summary and valuation

Year-end May (£m)	2017	2018E	2019E	2020E	2021E
Sales	0.7	1.4	2.6	7.5	10.9
EBITDA	-2.4	-1.7	-1.2	1.2	2.1
EBITA	-2.5	-2.0	-1.8	0.7	1.5
PBT	-2.5	-2.0	-1.8	0.7	1.5
PAT	-2.2	-1.5	-1.3	1.0	1.9
EPS (adj.) (p)	-2.3	-1.4	-1.1	0.8	1.5
Shareholders' funds	4.0	5.8	4.9	6.0	8.0
Net (debt)/cash	1.5	1.4	0.8	1.0	2.8
P/E (x)	loss	loss	loss	18.0	10.0
EV/sales (x)	27.0	12.8	6.4	2.5	1.7
EV/EBITDA (x)	loss	loss	loss	15.8	9.1
DPS (p)	nil	nil	nil	nil	nil

NB PBT adj. loss £1.3m, FY16A. PBT £4.6m, FY22E. *Source: Hardman & Co Research*

Industrial Engineering

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**SIXH**
Price (p)	18.0
12m High (p)	18.5
12m Low (p)	13.25
Shares (m)	113.1
Mkt Cap (£m)	20.4
EV (£m)	32.0
Free Float*	72.1%
Market	AIM

**As defined by AIM Rule 26*

Description

The 600 Group is a designer and manufacturer of industrial products active in machine tools, components and laser marking. The US represents around 65% of group sales.

Company information

Executive Chairman	Paul Dupee
CFO	Neil Carrick

+44 1924 415000
www. 600group.com

Key shareholders

Haddeo Partners	20.8%
Mr D Grimes (MD of ILS)	6.6%
Mr A Perloff and Maland	5.8%
Miton Group	3.4%
Others	63.4%

Diary

Sep'18	AGM
Dec'18	Interims

Analyst

Paul Singer 020 7194 7622
ps@hardmanandco.com

The 600 Group

Trading healthy, pension buyout, dividend restored

The 600 Group remains competitively well positioned, with a world-class reputation in Machine Tools and Laser Marking. 65% of sales are in the US. Business momentum is healthy, with growth enhanced by new product launches and new market entry. The shares are attractively valued against the peer group on a DCF basis and now offer an appealing yield.

- **2017/18 financials:** The 2017/18 results trading update was positive, with results much as expected, reflecting the healthy operating environment. As previously announced, the buyout of the group's pension was agreed at $266m, with the cash surplus, estimated at $4m-$5m, used to pay down group debt. Order books are healthy, and our 2018/19 forecasts are broadly maintained.

- **Dividend restored:** The group has restored its dividend at 0.5p per share, payable on 28/09/18. This reflects the resolution of the pension scheme, the good operational performance and the favourable commercial outlook. The group's future dividend policy is based upon stability, with growth largely in line with earnings.

- **Prospects:** Growth will be driven primarily organically, with new product developments in both business areas and new geographical market entry continuing. The group is undertaking a UK restructuring programme to reduce capex requirements and further improve margins in the medium term.

- **Competitive position:** The 600 Group has strong global brand recognition with, as a key differentiator, the provision of high-service/customer support. The group is regarded as well positioned within highly competitive and fragmented industries, where barriers to entry are generally low.

- **Investment summary:** The shares offer the opportunity to invest in a de-risked cyclical stock with good operational leverage, enhanced by new product launches and new market entry. Cyclicality has been de-risked through further development of repeat/recurring business and activities in high-margin, economically less sensitive spares/services operations. The group remains in a solid financial position. The risk/reward profile is favourable, and the shares are attractively valued on most methodologies, now offering an appealing yield.

Financial summary and valuation

Year-end March ($m)	2017	2018	2019E	2020E
Sales	58.8	66.0	69.9	74.1
Gross profit	20.5	23.0	24.6	25.9
EBITDA	4.5	4.9	5.6	6.1
Underlying EBIT	3.8	4.2	5.0	5.5
Underlying PTP	2.7	3.1	3.9	4.5
Underlying EPS (c)	2.7	3.2	3.2	3.6
Statutory EPS (c)	2.7	3.7	7.1	3.6
Net (debt)/cash	-17.1	-15.6	-10.1	-7.7
Dividend (p)	0.00	0.50	0.60	0.72
P/E (x)	6.8	7.3	7.4	6.4
Yield		2.8%	3.3%	4.0%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**TRX**
Price (p)	10.5
12m High (p)	16.0
12m Low (p)	5.5
Shares (m)	1,171.6
Mkt Cap (£m)	123.0
EV (£m)	106.6
Free Float*	27%
Market	AIM

**As defined by AIM Rule 26*

Description

Tissue Regenix (TRX) is a medical device company focused on regenerative medicine. Patented decellularisation technologies remove DNA, cells and other material from animal/human tissue and bone, leaving scaffolds that can be used to repair diseased or worn-out body parts. Its products have multiple applications.

Company information

CEO	Steve Couldwell
CFO (interim)	Paul Below
Chairman	John Samuel
	+44 330 430 3052
	www.tissueregenix.com

Key shareholders

Directors	4.3%
Invesco	28.7%
Woodford Inv. Mgt.	26.0%
IP Group	13.7%
Baillie Gifford	4.2%

Diary

Sep'18	Interims

Analysts

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Tissue Regenix

1H'18 preview: organic plus inorganic growth

TRX has a broad portfolio of regenerative medicine products for the biosurgery, orthopaedics, dental and cardiac markets. The company has two proprietary decellularised technology platforms for the repair of tissues and bone. 2017 was a dynamic year for the group, growth being boosted by the acquisition of CellRight Technologies in August, which was borne out by the 2017 full-year results. In anticipation of the 2018 interim numbers, expected in September, we outline our forecasts for reported and *pro forma* sales growth. This monthly piece is an excerpt of the larger report, which is intended as a preview for investors.

- **Strategy:** To build an international regenerative medicine business with a portfolio of products using proprietary dCELL and BioRinse technology platforms, underpinned by compelling clinical outcomes. TRX is looking to expand its global distribution network, via strategic partnerships, to drive sales momentum.

- **Interims preview:** Reported group sales are forecast to grow 273% in 1H'18 to £5.1m (£1.4m), with all three business areas contributing to growth. On a *pro forma* basis, as if CellRight had been acquired on 1 January 2017, the underlying growth rate is forecast to be a very respectable 33%, from £3.9m in 1H'17.

- **EBITDA:** Although the new management team is continuing to focus on controlling costs, a full six months of CellRight costs are included in 1H'18, and the 1H'18 SG&A number includes potential legal fees. Consequently, the EBITDA loss will rise (in 1H'18 only) to an estimated -£4.9m (-£4.8m).

- **CFO:** In July, TRX confirmed the appointment of a new CFO. Gareth Hywel Jones (start date 30 November) will take over from Paul Below, who is the current interim CFO. Mr Jones is joining from Applied Graphene Materials and brings a great deal of experience from UK and US listed businesses, and private equity.

- **Investment summary:** TRX is building commercial momentum through three value drivers: sales of BioSurgery products in the US; expansion of combined CellRight and TRX technologies in Dental, Orthopaedics and Spine; and preparation for the OrthoPure XT launch in the EU in 2018. Early signs of the benefits derived from CellRight are apparent, which should hasten the time to reach sustainable profitability.

Financial summary and valuation

Year-end Dec (£m)	*2016	**2016	2017	2018E	2019E	2020E
Sales	0.82	1.44	5.23	11.28	18.68	25.54
EBITDA	-9.86	-10.55	-8.98	-9.47	-4.25	-0.37
Underlying EBIT	-10.11	-10.85	-9.69	-10.63	-5.43	-1.57
Reported EBIT	-10.24	-11.06	-10.82	-10.73	-5.53	-1.67
Underlying PBT	-9.89	-10.74	-9.64	-10.60	-5.42	-1.59
Statutory PBT	-10.03	-10.95	-10.77	-10.70	-5.52	-1.69
Underlying EPS (p)	-1.26	-1.28	-0.90	-0.84	-0.40	-0.08
Statutory EPS (p)	-1.28	-1.30	-1.02	-0.85	-0.41	-0.09
Net (debt)/cash	19.91	8.17	16.42	5.28	-2.14	-4.68
Capital increase	19.02	0.00	37.99	0.00	0.00	0.00
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	20.4	9.4	5.7	4.2

**Year to January; **11 months to December*
Source: Hardman & Co Life Sciences Research

Construction & Materials

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**TON**
Price (p)	173.0
12m High (p)	217.0
12m Low (p)	129.0
Shares (m)	11.1
Mkt Cap (£m)	19.2
EV (£m)	15.9
Free Float	97%
Market	MAIN

Description

Titon designs, manufactures and supplies a comprehensive range of passive and powered ventilation products; plus, handles, hinges and locking for doors and windows. "The home of domestic ventilation systems and door and window hardware".

Company information

Executive Chairman	Keith Ritchie
Chief Executive	David Ruffell

+44 1206 713 800
www.titonholdings.com

Key shareholders

Rights & Issues IT	11.4%
MI Discretionary UF	7.2%
Chairman	8.8%
Other Directors	7.9%
Founder/NED	15.7%
Family	6.9%

Diary

30 Sep	Year-end
Dec'18	Final results

Analyst

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Titon Holdings Plc

Tight-on experiance

Experian forecasts UK construction output and its origins date back to the 1960s. Titon was founded in 1972. They both know their way around their home market – which is not a banner one right now. But UK GDP growth will average 1.4% through 2020 and growth is growth; while total UK housebuilding volumes will grow at 3.3% p.a. over the period – this is Titon's core domestic sector.

- **Experian plc** is primarily a consumer credit reporting agency which collects and aggregates information on over one billion people worldwide. Its origins date back to the late 1960s in the US (when it was TRW), before it was bought by GUS plc in 1996 and floated on the London Stock Exchange 10 years later.
- **Futures/Titon:** Experian's Construction Futures unit actually dates back to the 1970s, when forecasts of UK construction activity were undertaken by a unit of the long since departed NEDO (National Economic Development Office). For its part, Titon was founded in 1972 (as above) and floated in 1988.
- **Forecasts:** UK GDP is forecast to grow 1.3% in 2018, followed by 1.5% in both 2019 and 2020 (latest IMF forecasts are 1.5% in both 2018 and 2019, but it has no number for 2020). It's not great, but it is positive, and arrives laden with pragmatism. Similarly, the annual inflation rate (i.e. CPI) should flatten to 2.0%.
- **Forecasts 2:** UK construction output is set to dip this year by 2.1% in real terms (+5.2% in 2017), driven by falls in public/commercial build. Not good. Private housing output, however, is forecast to rise 3% this year and next, and by 4% in 2020, with public housebuilding rising 3% next year (after a flat 2018) and 6% in 2020. Housing in the UK is a core sector for Titon's core products and, in 1H, the UK contributed a third of revenue and 36% of Segment Profit.
- **South Korea:** We usually focus on South Korea (which is the largest contributor to Group net profit) but, for balance, choose the UK this time. In any event, the world's 11th largest economy (and 4th in Asia) is set to grow GDP 2.9% in 2018 and 2.8% in 2019, says FocusEconomics. All of this contradicts Titon's recent price fall and penurious rating.

Financial summary and valuation

Year-end Sep (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	22.3	23.7	28.0	28.6	30.2	31.9
EBITDA	2.13	2.33	2.46	2.81	3.04	3.26
Underlying EBIT	1.56	1.77	1.85	2,13	2.29	2.43
Statutory PTP	1.87	2.14	2.49	2.91	3.20	3.50
Underlying EPS (p)	12.6	15.2	16.3	18.0	19.5	21.0
Statutory EPS (p)	12.6	15.2	16.3	18.0	19.5	21.0
Net (debt)/cash	2.9	2.4	3.3	3.7	4.1	4.6
Shares in issue (m)	10.8	10.9	11.1	11.1	11.1	11.1
P/E (x)	13.7	11.4	10.6	9.6	8.9	8.3
EV/EBITDA (x)	7.7	7.2	6.5	5.5	4.9	4.5
DPS (p)	3.00	3.50	4.20	4.90	5.75	6.00
Yield	1.7%	2.0%	2.4%	2.8%	3.3%	3.5%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**VAL**
Price (p)	2.8
12m High (p)	7.8
12m Low (p)	0.9
Shares (m)	455.0
Mkt Cap (£m)	12.7
EV (£m)	12.2
Free Float*	99%
Market	AIM

**As defined by AIM Rule 26*

Description

ValiRx (VAL) is a clinical-stage biopharmaceutical company focused on novel treatments for cancer. It currently has two products in Phase I/II and Phase II clinical trials. Its business model focuses on out-licensing or partnering drug candidates after clinical trials.

Company information

CEO	Dr Satu Vainikka
CFO	Gerry Desler
Chairman	Oliver de Giorgio-Miller
	+44 203 008 4416
	www.valirx.com

Key shareholders

Directors	0.5%

Diary

Sep'18	Interims
2H'18	Read-out VAL201
2H'18	Phase I VAL301

Analysts

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	gp@hardmanandco.com

ValiRx

US patent granted for VAL301

VAL is a clinical-stage biopharmaceutical company focused on the development of therapeutics for the treatment of cancer. The company's two leading assets are in clinical trials: VAL201 (Phase I/II) – a peptide for advanced prostate cancer and potential to treat other hormone-induced indications; and VAL401 (Phase II) – a novel reformulation of risperidone, in trials for lung cancer. Both drugs are targeted at multi-billion-dollar markets that are inadequately served by current drugs. The US PTO has granted the US patent for the pre-clinical product VAL301 for the treatment of endometriosis, with the aim of entering the clinic in 2018-9.

- **Strategy:** VAL operates as a virtual business, outsourcing most of its activities. The core strategy is to develop its therapeutic assets through the clinical pathway and seek a partner/licensing deal to complete the development programme and regulatory submissions to commercialise the products.

- **US patent grant:** The US PTO has granted the patent protecting the therapeutic peptide VAL301 that possesses a specific mode of inhibition on the oestrogen receptor for the treatment of endometriosis. It is a reformulated version of VAL201 which is currently in Phase I/II in advanced prostate cancer.

- **VAL301:** The reformulated version of VAL201 is hypothesised to have a lower side effect potential compared to current standard-of-care (infertility, bone density). VAL301 is currently in late-stage pre-clinical studies and ValiRx aims to complete the pre-clinical work during 2018 and IND to start the clinic in 2018-9.

- **Risks:** New and/or first-in-class drugs carry the risk that they might fail in clinical trials. However, the substantial safety history of the active ingredient in VAL401 and the consistent safety record in the VAL201 trial mitigate these risks. More capital will be needed to further its proprietary assets along the value chain.

- **Investment summary:** VAL appears to be under-appreciated by the market. Reasons for this include the lack of institutional support and a continuing need for more capital to advance its clinical programmes, thereby building value. Given the clinical progress seen to date, the company should be attracting potential commercial partners and/or institutional investors in order to achieve the real value of its assets.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018E	2019E	2020E
Sales	83	0	0	0	0	0
SG&A	-1,645	-1,666	-1,467	-1,511	-1,587	-1,587
R&D	-1,543	-2,375	-1,747	-1,834	-2,201	-2,641
EBITDA	-2,877	-3,939	-2,938	-3,158	-3,600	-4,040
Underlying EBIT	-2,888	-3,949	-2,948	-3,345	-3,788	-4,228
Reported EBIT	-3,029	-3,987	-3,125	-3,345	-3,788	-4,228
Underlying PBT	-2,889	-4,288	-3,398	-3,377	-3,829	-4,286
Statutory PBT	-2,567	-5,569	-3,554	-3,377	-3,829	-4,286
Underlying EPS (p)	-7.7	-6.0	-1.9	-0.7	-0.7	-0.8
Statutory EPS (p)	-6.7	-8.2	-2.0	-0.7	-0.7	-0.8
Net (debt)/cash	232	-734	311	-1,583	-4,968	-8,722
Capital increase	2,681	2,615	3,602	1,051	0	0

Source: Hardman & Co Life Sciences Research

Personal Products

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**W7L**
Price (p)	222.5
12m High (p)	260
12m Low (p)	150.0
Shares (m)	76.7
Mkt Cap (£m)	170.8
EV (£m)	168.8
Free Float*	34.7%
Market	AIM

**As defined by AIM Rule 26*

Description

Warpaint is a UK-based colour cosmetics specialist that sells creative, design-focused and high-quality cosmetics at affordable prices. The company comprises of two divisions: own-brand (W7, Retra and others) and close-out. It has a presence in more than 60 countries worldwide.

Company information

Joint CEO	Sam Bazini
Joint CEO	Eoin Macleod
CFO	Neil Rodol
Chairman	Clive Garston

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www.warpaintlondonplc.com

Key shareholders

Directors*	50.6%
Schroder Inv. Mgt.	10.1%
BlackRock Inv. Mgt.	9.9%
Hargreave Hale	3.1%
J O Hambro Capital Mgt.	2.0%
Columbia Threadneedle	1.8%

**includes shares held by directors' wives*

Diary

Sep'18	Interim results

Analyst

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Warpaint London PLC

Painting a bright future

Warpaint is a UK-based colour cosmetics specialist selling creative, design-focused and high-quality cosmetics at affordable prices (please see our initiation report). Its flagship brand, W7, has established a loyal customer base, and brand awareness is growing rapidly. The company believes that, with Retra Holdings now being well integrated into the group, it is well placed for the next phase of development, namely new product development and increasing market share, both domestically and internationally, particularly in its two key markets, the USA and China. It has never made a loss and has a very healthy profit margin; it is also net debt-free.

- **Strategy**: In the near term, Warpaint will be focusing on continuing to develop the W7 brand and on the integration of Retra, as well as maximising any possible synergies. The company will also concentrate on increasing its product offerings and expanding brand awareness across the globe.
- **Forecasts:** We forecast sales to grow ca.69% to ca.£55m in 2018, given the boost from Retra. On a like-for-like basis, we expect W7 to grow 11.6%. 2H'18 order books for both W7 and Retra are ahead of the previous year. We are expecting a slight increase in the gross margin in FY18, from 38.8% to 39.5%, and to 40% in FY19.
- **Valuation:** The Retra acquisition fits well with the company's growth strategy: it enhances client access and provides cost savings for both sides of the businesses. Our DCF model indicates a share price range between 219.5p and 276.7p. Warpaint also has a highly competitive dividend yield versus the sector.
- **Risks:** For Warpaint to remain successful, some key factors have to be considered: i) the continuing growth in the discount retail sector; ii) the fact that the full effect of the integration of Retra has yet to be analysed; iii) the company's ability to deliver new and innovative products.
- **Investment summary:** Warpaint has made considerable progress in the last six months, since the acquisition of Retra. The company is well positioned to maximise the benefit of the additional assets. It also has a much faster growth rate than the rest of the colour cosmetics sector, and has a very attractive RoE. Warpaint offers the opportunity to invest in the fast-growing colour cosmetics sector, with a highly experienced management team.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Sales	22.5	32.5	55.1	62.3	69.4
EBITDA (adj.)	6.3	8.0	13.2	15.4	17.4
Operating profit (adj.)	6.2	7.3	10.7	13.0	14.9
PBT (adj.)*	6.1	7.7	12.7	15.1	17.1
Adj. basic EPS (p)*	7.9	9.7	13.9	16.5	18.5
DPS (p)	1.5	4.0	5.5	6.6	7.9
P/E (x)*	28.3	23.0	16.0	13.5	12.0
EV/EBITDA (x)	26.9	21.2	12.8	10.9	9.7
Dividend yield	0.7%	1.8%	2.5%	3.0%	3.6%
RoE	-	20.0%	19.6%	21.2%	21.5%

**excludes amortisation of intangible assets*
Source: Hardman & Co Research

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The fact that we are commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

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