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# The Monthly

## June 2018

Feature article:

## Technology; Cloud, Data & Blockchain

*By Milan Radia, Hardman & Co Analyst*

**Hardman Clients**

1pm Plc
Abzena
Advanced Oncotherapy
Allergy Therapeutics
Alliance Pharma
Arbuthnot Banking
Avacta
BigDish Ventures
Bionomics Ltd
Burford Capital
Chamberlin
City of London Investment Group
Civitas Social Housing
Collagen Solutions
Diurnal
Evgen Pharma
Gateley (Holdings)
Genedrive
Haydale Graphene
Incanthera
Inland Homes
International Lithium
Koovs Plc
Morses Club
Murgitroyd
NatureBank
Non-Standard Finance
Obtala
Oxford BioMedica
Plus 500
Premaitha Health
Primary Health Properties
R.E.A. Holdings
Redx Pharma
Scancell Holdings
Surface Transforms
The 600 Group
Tissue Regenix
Titon Holdings
Valirx
Warpaint

**Hardman & Co recently welcomed Milan Radia to our roster of established, industry expert analysts. Milan has 25 years of equity market experience at major investment banks and in asset management, and has worked on many high-profile successful IPOs. In 2017, he was ranked the No.1 earnings estimator in the UK for his sector in the Thomson Starmine Awards. Milan has also been techMARK Analyst of the Year and achieved top three Institutional Investor sector rankings for his coverage of the software and telecoms sectors. In our lead article this month he gives an insight into his thinking on some key themes in the sector.**

**The technology sector is in the midst of a period of immense change and progress. For a number of years, rapid innovation has been changing the way that we live, work and communicate. This brief commentary touches on a few areas: i) the migration of enterprise software to the Cloud; ii) the data explosion and the emergence of data-centric new technologies; iii) Blockchain, which has enormous potential as a system of record across many segments; and, iv) some perspectives on ongoing M&A in the technology sector. Certainly, from an investment perspective, it is an exciting time but, as ever, stock selection will be key.**

**Last month's publications**

| Date | Company | Sector |
|---|---|---|
| 14 May | **Non- Standard Finance (NSF):** Everyday Loans: a heart of gold | Financials |
| 14 May | **Titon Holdings Plc (TON):** Justice and favour | Construction & Materials |
| 15 May | **Redx Pharma (REDX):** Clinical and corporate update | Life Sciences |
| 16 May | **Morses Club (MCL):** FY18: carefully controlled, sustainable growth | Financials |
| 21 May | **Allergy Therapeutics (AGY):** Opening the door to registration | Life Sciences |
| 23 May | **R.E.A. Holdings (RE.):** An elegant solution | Food Producers |
| 30 May | **Bionomics Ltd (BNO):** Third Phase II trial of BNC210 begins | Life Sciences |
| 31 May | **Avacta (AVCT):** In vivo expression of Affimers | Life Sciences |
| 31 May | **Gateley (Holdings) Plc (GTLY):** Fiscal 2018 trading update and acquisition | Business support services |

*Source: Hardman & Co Research*

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# Technology; Cloud, Data & Blockchain

## Introduction

*A period of immense change and progress*

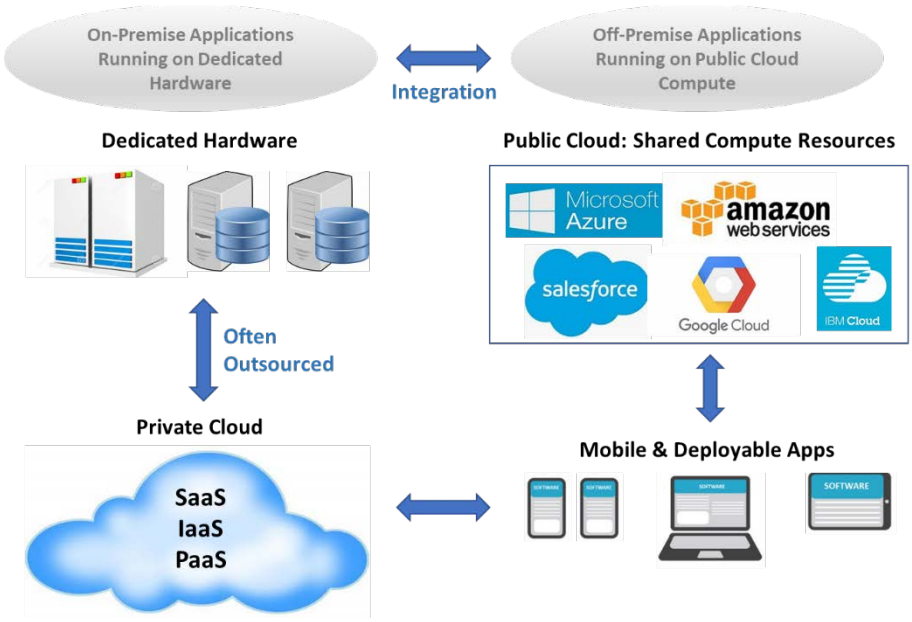
The technology sector is in the midst of a period of immense change and progress. For a number of years, rapid innovation has been changing the way that we live, work and communicate. These developments remain in their relative infancy, with new data-centric technologies, such as artificial intelligence and machine learning, yet to make their mark. No industry or vertical will be exempt from the impact of these developments.

This brief commentary touches on a few areas: i) the migration of enterprise software to the Cloud; ii) the data explosion and the emergence of data-centric new technologies; iii) Blockchain, which has enormous potential as a system of record across many segments; and, iv) some perspectives on ongoing M&A in the technology sector. Certainly, from an investment perspective, it is an exciting time but, as ever, stock selection will be key.

*The benefits of the Cloud are now well understood…*

There is limited debate today as to whether Cloud-based delivery of software applications has merit. The efficiency and productivity benefits are well understood, while security concerns have faded in the absence of breaches at the major Cloud platforms. Indeed, there are swathes of highly-adopted major enterprise applications that are available either only on the Cloud (Salesforce, Concur expenses, Success Factors HR, etc.) or where the Cloud versions are rapidly gaining in popularity due to the utility benefits versus on-premise versions – Microsoft's Office 365 falls nicely into this category.

**The shift to hybrid Cloud**




*Source: Hardman & Co Research*

Software vendors have traditionally thrived on complexity and from embedding as much depth as possible in their products. They are now being forced to change their approach as the move to the Cloud is, in many respects, inconsistent with the notion of entrenchment through interfaces and complexity. Most software providers are deploying their Cloud products on the main Cloud platforms, leading the latter to become enormous businesses in their own right. Amazon Web Services' Public Cloud annualised Cloud revenue in 1Q'18 was almost $22bn, growing year-over-year at 49% in the period.

However, matters get more complicated when enterprises are using more customised and complex applications, with a greater degree of interaction with other IT platforms. An obvious example here would be Enterprise Resource Planning (ERP) systems, which plug into all aspects of large companies, including production and supply chain systems. To simply unplug an on-premise ERP installation that has been tweaked and refined over a long period of time is fraught with risk. In these scenarios, a careful hybrid Cloud journey is the only practical solution for most companies focused on a progressive and measured shift in IT architectures.

***…but ultimately, for investors, the shift to Cloud is a positive***

For many legacy software vendors, these constraints and issues have offered a degree of breathing space to allow them to upgrade their product offerings and/or make strategic acquisitions as necessary. Ultimately, for investors, this shift to the Cloud is good news. Companies may have some upfront product and platform investments to make, and revenue sacrifices to bear, as they shift to recurring revenue models, but the upside is much-improved revenue visibility, reduced forecast risk from lumpy software licence sales and improved portfolios of product offerings. Sage is an example of a leading UK software company that is considerably along this journey already.

## Data

***Dramatic increases to come in the amount of "data" that is captured and analysed***

Perhaps the broadest theme in the technology sector today is the critical importance of "data". The scope and tools to collect, aggregate and process data, and utilise it to assist decision-making, have increased dramatically in recent years. Open-source databases are playing an important role in this context. Estimates suggest that less than 10% of data is tagged today and only 1%-2% is actually analysed – so there is a long way to go before the available data is even adequately harnessed.

The declining costs of storage and connectivity, coupled with an ever-increasing number of collection points, ranging from the Internet of Things (e.g. sensors), social media through to traditional enterprise applications, are resulting in a veritable explosion of 'data'. More advanced analytics are needed to turn this data, whether structured or unstructured, into useful or actionable information. Use cases are now emerging where data is being effectively utilised to provide predictive insights to enterprises across many industries and disciplines.

There is considerable interest at present in technologies such as artificial intelligence (AI), together with its machine-learning and deep-learning subsets. Autonomous driverless cars have also captured much publicity – good and bad. Without going into the details of these areas, one key common feature is that they are all fully reliant on data in one way or another. These systems absorb large amounts of data to simulate human behaviour, in the case of AI, or create models that essentially encode what has happened in the past in order to predict what will happen to those same factors going forward, in the case of machine learning. As it happens, these

technologies are building on decades of research and development, but the ability to aggregate and process data on a huge scale has unlocked their potential.

Similarly, driverless cars are generating enormous amounts of data from their sensors as they travel. The data is analysed (some locally in the vehicle, some centrally) in real-time, and the vehicle is able to proceed. Considering the near exponential being seen in connected devices (already in excess of 11 billion), each generating plenty of data, the data explosion is unlikely to abate any time soon.

***The attractions of highly-connected data centres***

Among the segments most directly exposed to these favourable themes are the data centre operators, in particular carrier-neutral data centres. These are very secure, with large amounts of power that house the servers where content and data (or enterprise data) reside (whether Netflix or Spotify content). The Cloud platforms are present in their own hyperscale data centres, as well as the carrier-neutral facilities – the latter for computing for latency-sensitive applications and mission-critical applications.

Not all data centres are the same, however, with connectivity density a key differentiator. The highly-connected facilities tend to have premium pricing and benefit from high levels of network connections across telecom service providers, internet service providers and, increasingly, depending on location, submarine cables. In a European context, Interxion is one of the leading providers of carrier-neutral data centres.

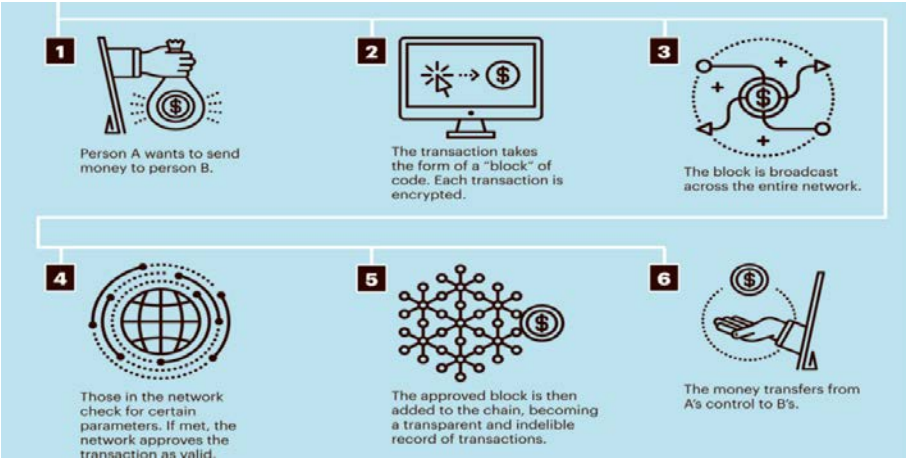
## Blockchain

***Blockchain: a fundamental component of future process architectures…***

Against the backdrop of the roller-coaster ride offered by cryptocurrencies, the underlying technology for Bitcoin, called blockchain, has quietly been establishing itself as a fundamental component of future process architectures. Governments and enterprises alike are growing in their understanding of the potential benefits.

A blockchain is essentially a ledger that is maintained on a decentralised basis by a network of nodes. By design, anything recorded on a blockchain cannot be amended, creating a permanent record of the transaction history of an asset once it has been added to the blockchain. The links between blocks and their content are protected by cryptography – so previous transactions cannot be destroyed or forged.

**Blockchain – how it works**




*Source: Centre for Entrepreneurship & Technology at UC Berkeley*

Each node has an identical copy of the ledger, making any attempt at hacking into the ledger to amend any details of a transaction virtually impossible, as every copy of the ledger on every node would need to be hacked and amended simultaneously. That said, if the owners of an asset on a blockchain were to lose their private keys or have them stolen, then their ownership would be relinquished. However, this is no different from losing or shredding a bearer bond certificate.

These attributes make blockchain potentially highly compelling – where there is a need, for example, for proof of ownership or authenticity to avoid a fraudulent sale. Evidently, at the point that the first entry is made, a stringent verification process would need to take place. Property transactions, legal documents, contracts, fine wines, or any valuable item with a serial number are all examples of assets that could be placed in a blockchain.

***…and financial services vertical will ultimately be a major adopter of blockchain***

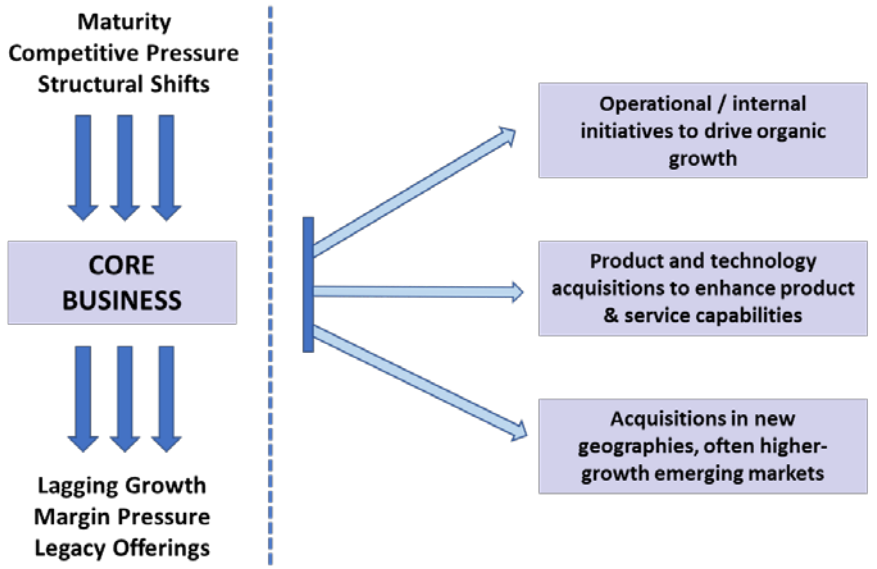
The financial services vertical will ultimately be a major adopter of blockchain, although the constraint here is that multiple market participants will need to agree to formats and commit their transaction flow to get these platforms off the ground. This is proving to be relatively slow at present, while a number of initiatives are still progressing through regulatory sandboxes. Nonetheless, over time, we expect blockchain to become prevalent in the payments segment, especially in cross-border and transaction settlement processes.

## M&A

***Technology companies benefit from scope to realign activities through M&A…***

In a fast-moving industry landscape, the extent to which company management teams are proactively seeking out sustainable pockets of growth is important. Technology companies tend to be cash-generative and, therefore, benefit from scope to realign "portfolios" of activities, organically and through M&A. We particularly favour companies that have demonstrated an ability to drive incremental growth in this way.

**Organic versus acquisition-led growth**




*Source: Hardman & Co Research*

So, the logical next step for many companies could be an expansion of presence in new markets where growth rates are higher and where competitive pressure is lower. This requires management teams to look beyond their natural comfort zone in Europe, possibly with a bias to emerging markets. This does not have to necessarily be via acquisitions, but could also be through organic initiatives, to the extent that the latter can make a meaningful difference over a reasonable time frame. However, there have to be synergies and mechanisms to exploit the available higher growth rates from the core business. Isolated purchases of operations in far-reaching locations can only be justified for companies with global reach and international operations that can leverage this incremental presence.

There has been a catalogue of substantial M&A transactions in the European technology sector over the past six to 12 months. Some of this activity has been "product-centric" – structural shifts in the technology sector are changing the way that applications are deployed, how data is processed and analysed, and the mechanisms by which content is delivered and accessed. These trends are creating pressures on companies that may have under-invested in newer technology capabilities and serve as examples of drivers of the consolidation activity. Tactical considerations have also played a role, whether relating to utilisation of overseas cash balances or a drive for returns through leverage – the latter being a focus for private equity owners.

***…with preferred targets tending to be specialist vendors with differentiated product offerings***

For strategic and trade acquirers alike, the preferred targets tend to be specialist vendors with a differentiated product offering and a strong track record of innovation (albeit, in certain cases, with the execution issues this has created). Within the UK, in the last 12 to 18 months, examples of takeovers in these categories include AVEVA (acquisition of majority stake by Schneider), Fidessa (acquisition by ION Trading), Imagination Technologies (purchased by Canyon Bridge) and Lombard Risk Management (acquired by Vermeg).

## About the author

*Milan Radia is a leading technology research analyst focusing on the coverage of European data centre operators, software vendors, payment processors and IT service providers.*

*He has 25 years of equity market experience at major investment banks and in asset management, and has worked on many high-profile successful IPOs and other capital markets transactions. In recent years, Milan has won several significant awards. In 2017, he was ranked the No.1 earnings estimator in the UK for his sector in the Thomson Starmine Awards. This followed No.1 Starmine rankings for Europe in 2010 and 2011 and a No.2 ranking in the UK in 2011. In 2015, Milan and his team were ranked no.1 in the Extel Awards by corporate management teams for UK Small & Midcap technology research. Milan has also been techMARK Analyst of the Year and achieved top 3 Institutional Investor sector rankings for his coverage of the software and telecoms sectors.*

*Milan started his career at Prudential Portfolio Managers, where he was latterly a fund manager responsible for portfolios worth in excess of £350m. Milan is a regular presenter and panellist at major industry conferences, and is a long-time member of the voting panel for the UK Tech Awards.*

# Company research

Priced at 24 May 2018 (unless otherwise stated).

## Financials

*Source: Eikon Thomson Reuters*

## Market data

| EPIC/TKR | OPM |
|---|---|
| Price (p) | 48.0 |
| 12m High (p) | 55.0 |
| 12m Low (p) | 39.8 |
| Shares (m) | 83.8 |
| Mkt Cap (£m) | 40.2 |
| EV (£m)) | 39.3 |
| 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-£250k. The company distributes directly, via finance brokers and vendor suppliers.

## Company information

| | |
|---|---|
| CEO | Ian Smith |
| CFO | James Roberts |
| Chair | John Newman |

Tel number: ++44 1225 474230

www.1pm.co.uk

## Key shareholders

| | |
|---|---|
| Lombard Odier (17/7/17) | 19.91% |
| Ronald Russell (director 27/10/17) | 12.40% |
| Sapia Partners (19/1/18) | 12.00% |
| Henderson Global (17/7/17) | 11.78% |
| Mike Nolan (director 3/11/17)) | 6.31% |
| Charles Stanley (4/9/17) | 4.99% |

## Diary

| | |
|---|---|
| End-June | Trading update |

## Analyst

Mark Thomas 020 194 7622

mt@hardmanandco.com

# 1pm plc

## Continuing to increase funding ahead of growth

**We reviewed 1pm in detail in our note, "Financing powerhouse: A lunchtime treat", and its January results in "Delivering Value Added Strategy." The May 2019E P/E of 5.8x and P/B of 0.8x appear an anomaly for a profitable, growing company. Since the results, 1pm has built significant funding firepower across a diversified range of sources. We believe this is indicative of management expectations for strong current demand for its financing solutions, and this supports our 14% profit growth forecast 2019 on 2018. It also shows increasing confidence in the business by government, block and retail investors.**

- **1pm news:** Over the past couple of months, 1pm has been building a broad base of funding, including block funders, the government (via BBB) and a digital platform (via Mintos). This month, we note there has been a further draw-down on the Loan Note programme used to fund the loan book. Diversified, committed, long-term funding to support strong growth has been put in place.
- **Peer news:** CYBG results on 15 May were positive in that they reported a strong rise in SME yields and a continued improvement in SME asset quality. The tone of the presentation and meeting highlighted SME opportunities.
- **Market news:** UK Finance's March Business Finance Update reported stable bank loans and overdrafts to UK businesses (at £269bn). This finance continues to grow much more slowly than asset and invoice finance businesses. Market Invoice's strong growth in 2018 indicates alternative providers have credibility.
- **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 5.8x and P/B of 0.8x 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) | 12.9 | 7.4 | 7.4 | 6.1 | 5.8 |
| P/B (x) | 1.4 | 1.1 | 0.9 | 0.9 | 0.8 |
| Yield | 0.7% | 1.0% | 1.0% | 1.3% | 1.7% |

*Source: Hardman & Co Research*

**Pharmaceuticals & Biotechnology**

*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| EPIC/TKR | **ABZA** |
| Price (p) | 19.5 |
| 12m High (p) | 54.7 |
| 12m Low (p) | 15.0 |
| Shares (m) | 213.6 |
| Mkt Cap (£m) | 41.6 |
| EV (£m) | 34.8 |
| Free Float* | 22% |
| Market | AIM |

**As defined by AIM Rule 26*

**Description**

Abzena (ABZA) is a UK- and US-based Life Sciences company engaged in the provision of services to enable the discovery and development of better biopharmaceuticals. Embedding its proprietary technologies into customers' products could generate a long-term royalty stream.

**Company information**

| | |
|---|---|
| CEO | John Burt |
| CFO | Julian Smith |
| Chairman | Ken Cunningham |
| | +44 1223 903 498 |
| | www.abzena.com |

**Key shareholders**

| | |
|---|---|
| Directors | 1.7% |
| Invesco | 25.8% |
| Woodford | 23.7% |
| IP Group | 16.8% |
| Canaccord Genuity | 10.4% |

**Diary**

| | |
|---|---|
| 1H'18 | Andecaliximab Phase II |
| 4 June | 2018 results |
| 2H'18 | Further 'Abzena *Inside*' data |

**Analysts**

Martin Hall 020 7194 7632
mh@hardmanandco.com
Dorothea Hill 020 7194 7626
dmh@hardmanandco.com
Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

# Abzena

## 2018 finals – due 4 June

**ABZA is a global life sciences group offering a broad range of integrated services and technologies to enable the development of better biopharmaceutical drugs. The company has an integrated fee-for-service offering, which also provides an opportunity to embed its technology, 'Abzena Inside', into commercial drugs that could generate a long-term royalty stream. ABZA is investing for the future in state-of-the-art facilities and equipment in both the UK and US to drive a faster path to profitability and cashflow breakeven. Initial benefits are evident from a markedly strengthened order book. Meanwhile, trial news due from Gilead is overdue.**

- **Strategy:** ABZA has a dual strategic objective of providing enabling technology on a fee-for-service basis and, wherever possible, securing technology agreements from embedding its 'know-how' into customers' final commercial products to generate a significant long-term royalty stream.

- **Trading update:** 2018 sales were marginally below (-£0.4m) forecasts at £22.0m (£18.6m). Stronger manufacturing (+60% vs. +50%) offset lower chemistry (+15% vs. +22%), while difficult biology sales (-14%) were highlighted previously. Careful control of costs left net cash at £6.8m, against our forecast of £6.6m.

- **Halozyme:** ABZA received a modest setback when Halozyme decided to terminate its collaboration and licence agreement for the use of ABZA's ThioBridge linker technology for the development of antibody drug conjugates. This was a surprise given the promising data reported previously with HTI-1511.

- **Gilead:** An announcement by Gilead had been expected during 1Q'18 on results from its Phase II trial in gastric cancer with andecaliximab. This putative drug is the most advanced using 'Abzena *Inside*' technology. The next update could come with Gilead's 2Q'18 results., scheduled for release late July.

- **Investment summary:** ABZA is developing a value-added service business that is being supported by a capital investment programme. This strategy augurs well for long-term growth prospects but, after the short-term operational volatility seen in 2018, investors appear to be taking a wait-and-see approach. The recent trading update was in line with our forecasts and provided early signs that the capital investment programme is delivering a stronger order book.

**Financial summary and valuation**

| Year-end March (£m) | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Sales | 5.41 | 9.57 | 18.00 | 21.4 | 29.3 | 38.7 |
| R&D investment | -2.99 | -4.22 | -2.90 | -3.8 | -3.0 | -3.0 |
| EBITDA | -4.51 | -6.82 | -7.50 | -11.9 | -6.2 | -0.3 |
| Underlying EBIT | -4.80 | -7.62 | -8.60 | -14.2 | -9.8 | -4.6 |
| Reported EBIT | -5.30 | -10.90 | -9.70 | -15.4 | -11.0 | -5.9 |
| Underlying PBT | -4.72 | -7.37 | -8.60 | -14.1 | -9.8 | -4.6 |
| Statutory PBT | -5.22 | -10.66 | -9.50 | -15.2 | -11.0 | -5.9 |
| Underlying EPS (p) | -5.9 | -5.9 | -6.0 | -6.5 | -4.4 | -2.0 |
| Statutory EPS (p) | -6.6 | -8.9 | -6.6 | -7.1 | -4.9 | -2.6 |
| Net (debt)/cash | 15.8 | 13.7 | 3.5 | 6.8 | -5.0 | -10.4 |
| Capital increase | 19.0 | 20.9 | 0.0 | 23.8 | 0.0 | 0.0 |
| EV/sales (x) | 6.1 | 3.4 | 1.8 | 1.5 | 1.1 | 0.8 |

*Source: Hardman & Co Life Sciences Research*

**Healthcare Equipment & Services**

*Source: Eikon Thomson Reuters*

**Market data**

| EPIC/TKR | AVO |
|---|---|
| Price (p) | 53.5 |
| 12m High (p) | 75.0 |
| 12m Low (p) | 9.5 |
| Shares (m) | 150.5 |
| Mkt Cap (£m) | 80.5 |
| EV (£m) | 73.5 |
| Free Float* | 42% |
| 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**

| | |
|---|---|
| Jun'18 | Finals |
| 3Q'18 | Beam able to treat superficial tumours |

**Analysts**


| | |
|---|---|
| Martin Hall | 020 7194 7632 |
| | mh@hardmanandco.com |
| Dorothea Hill | 020 7194 7626 |
| | dmh@hardmanandco.com |
| Grégoire Pavé | 020 7194 7628 |
| | gp@hardmanandco.com |


# Advanced Oncotherapy

## New UK assembly and testing site

**AVO is focused on delivering a more affordable, novel, proton-based radiotherapy system, based on technology developed originally at the world-renowned CERN. Major technical milestones were achieved in 2017, and AVO remains on track with its development plan. Confidence has been enhanced significantly with integration of the first three structures and overcoming the technical challenge of accelerating the proton beam. This month, AVO disclosed that a lease had been signed with the STFC facility for assembly and testing for CE-mark registration of the first LIGHT system. In addition, AVO received the first tranche of £6.5m from Yantai CIPU.**

- **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.

- **New UK site:** AVO has signed a lease with the UK Government's Science and Technology Facilities Council (STFC) to establish a testing and assembly site at the Daresbury Laboratory, a long-time partner. This relationship will enable AVO to speed up the CE marking regulatory validation of its LIGHT system.

- **STFC site:** Based in Daresbury, Cheshire, this renowned site, with established infrastructure, will be home to the first LIGHT system. It is in preparation to receive the first components, expected to arrive from June. It is an addition to the CERN facility, and AVO and Thales are in discussions to assess their options.

- **Distribution agreement:** AVO has received the first tranche of £6.5m from Yantai CIPU, through its affiliate entity, Liquid Harmony. The remaining £10m is expected to be received in the following weeks. The proceeds will be used, in part, to repay the Blackfinch loan of £6.7m, including interest.

- **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) | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|
| Sales | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Administration costs | -5.1 | -6.6 | -11.2 | -12.5 | -13.4 | -13.6 |
| Milestones/upfronts | 0.0 | 0.0 | 0.0 | 0.0 | 16.5 | 0.0 |
| EBITDA | -5.1 | -6.4 | -10.8 | -12.1 | 3.5 | -13.1 |
| Underlying EBIT | -5.2 | -6.6 | -11.2 | -12.5 | 3.1 | -13.6 |
| Reported EBIT | -6.5 | -8.5 | -13.1 | -14.5 | 0.7 | -16.2 |
| Underlying PBT | -5.1 | -6.7 | -11.3 | -13.9 | 0.3 | -16.6 |
| Statutory PBT | -7.6 | -8.6 | -13.2 | -15.9 | -2.1 | -19.2 |
| Underlying EPS (p) | -14.9 | -7.1 | -13.9 | -15.9 | 1.2 | -8.5 |
| Statutory EPS (p) | -22.3 | -12.3 | -14.4 | -17.8 | -0.4 | -10.0 |
| Net (debt)/cash | 0.5 | 8.0 | 0.9 | -10.5 | 2.8 | -17.7 |
| Capital increase | 10.2 | 21.1 | 13.5 | 5.8 | 26.2 | 8.0 |

*Source: Hardman & Co Life Sciences Research*

Pharmaceuticals & Biotechnology

*Source: Eikon Thomson Reuters*

## Market data

| | |
|---|---|
| EPIC/TKR | **AGY** |
| Price (p) | 26.5 |
| 12m High (p) | 39.5 |
| 12m Low (p) | 23.0 |
| Shares (m) | 594.1 |
| Mkt Cap (£m) | 156.7 |
| EV (£m) | 135.1 |
| Free Float* | 37% |
| 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 | 0.9% |
| Abbott Labs | 40.5% |
| Southern Fox | 21.4% |
| Odey | 7.4% |
| Invesco | 4.8% |

## Diary

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

## Analysts


| | |
|---|---|
| Martin Hall | 020 7194 7632 |
| | mh@hardmanandco.com |
| Dorothea Hill | 020 7194 7626 |
| | dmh@hardmanandco.com |
| Grégoire Pavé | 020 7194 7628 |
| | gp@hardmanandco.com |


# Allergy Therapeutics

## Opening the door to registration

**AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Pollinex Quattro (PQ) Grass, the subcutaneous allergy immunotherapy (SCIT), continues to gain market share despite being available in the EU only on a 'Named Patient' basis. As part of a programme designed to get PQ Grass formally approved in both Europe and the US, AGY has announced positive results from its Phase II dose-ranging clinical trial. It has identified the optimum dose needed to move forward into the final Phase III efficacy trials, and aims for this to become the first SCIT product to be registered in these important pharmaceutical markets.**

- **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.

- **G205 trial:** As part of an agreed programme with both the Therapieallergene-Verordnung (TAV) and the US Food and Drug Administration (FDA), AGY has undertaken a Phase II dose-ranging study with Modified Allergen Tyrosine Absorbed (MATA) MPL (PQ Grass) to identify the optimal dose for Phase III.

- **Results:** Headline data provided everything that AGY could have hoped for: a strong dose-response relationship ($p<0.001$); extremely well tolerated; and an excellent adherence rate (>95%). Results also allowed the company to identify the optimal dose for Phase III trials, subject to regulatory discussions.

- **Next steps:** This trial was extremely important because it was a required step in the programme towards regulatory approval of PQ Grass in both Europe and the US. Although overall protocols for the Phase III trials in the EU and US might be slightly different, they are likely to use the same dose, and start in 1H'19.

- **Investment summary:** Success in the Phase II G205 trial was important for moving PQ Grass to the next stage. The resounding results will make upcoming discussions with the respective regulators somewhat easier, paving the way for commencement of the final Phase III trials which, in turn, open the door to PQ Grass becoming the first registered ultra-short-course allergy immunotherapy product in both Europe and the US.

## Financial summary and valuation

| Year-end June (£m) | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Sales | 43.23 | 48.51 | 64.14 | 68.0 | 77.0 | 86.5 |
| R&D investment | -3.12 | -16.22 | -9.30 | -18.0 | -16.0 | -8.0 |
| Underlying EBIT | 2.91 | -12.34 | -2.89 | -9.7 | -5.9 | 8.1 |
| Reported EBIT | 1.41 | -12.53 | -2.60 | -10.4 | -6.6 | 7.4 |
| Underlying PBT | 2.84 | -12.45 | -2.97 | -9.8 | -6.0 | 8.0 |
| Statutory PBT | 0.65 | -12.21 | -2.67 | -10.5 | -6.7 | 7.3 |
| Underlying EPS (p) | 0.48 | -2.36 | -0.47 | -1.7 | -1.0 | 1.2 |
| Statutory EPS (p) | 0.02 | -2.29 | -0.42 | -1.8 | -1.1 | 1.2 |
| Net (debt)/cash | 20.14 | 20.04 | 18.80 | 8.5 | 3.2 | 14.0 |
| Capital increase | 20.08 | 10.97 | 0.03 | 0.3 | 0.3 | 0.3 |
| P/E (x) | 56.4 | -11.5 | -58.1 | -15.4 | -26.3 | 21.1 |
| EV/sales (x) | 3.2 | 2.9 | 2.2 | 2.0 | 1.8 | 1.6 |

*Source: Hardman & Co Life Sciences Research*

Pharmaceuticals & Biotechnology

*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| EPIC/TKR | **APH** |
| Price (p) | 90.0 |
| 12m High (p) | 92.4 |
| 12m Low (p) | 48.3 |
| Shares (m) | 475.4 |
| Mkt Cap (£m) | 427.9 |
| EV (£m) | 496.3 |
| Free Float* | 65% |
| 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 | 12.0% |
| MVM Life Sciences | 11.7% |
| Fidelity | 9.5% |
| Slater Invests. | 7.2% |
| GVQ IM | 5.0% |
| Artemis | 4.8% |
| River & Merc | 3.3% |

**Diary**

| | |
|---|---|
| Jul'18 | 1H trading update |
| Sep'18 | Interims |

**Analysts**

| | |
|---|---|
| Martin Hall | 020 7194 7632 |
| | mh@hardmanandco.com |
| Dorothea Hill | 020 7194 7626 |
| | dmh@hardmanandco.com |
| Grégoire Pavé | 020 7194 7628 |
| | gp@hardmanandco.com |

# Alliance Pharma

## Disposal of Chinese JV

**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 and MacuShield – and a bedrock of solid, local, low-growth products. The acquisition of Vamousse (third international growth brand) appears to be integrating well already and opens up the US market. APH also aquired Ametop (anasthetic gel) in late 2017, and has recently disposed of its rights to Forceval in China through selling its share of the Chinese JV, Unigreg. The company continues to market Forceval in the UK.**

- **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.

- **Disposal:** APH has agreed to sell its 60% interest in the Unigreg JV in China and therefore to dispose of its rights to Forceval (nutrient supplement to be taken in pregnancy) in China. Forceval reached £3.5m total sales in 2017 in both the UK and international territories. APH will continue to market the brand in the UK.

- **Financial impact:** APH has divested its share of the Unigreg JV for a cash consideration of £2.9m, of which £2.4m is payable on completion. The deal will also result in the repayment of £1.5m outstanding loans to APH.

- **Recent acquisitions:** Towards the end of 2017, APH completed two product acquisitions: Vamousse (head lice), its third international growth brand, and Ametop (local anaesthetic gel). Initial considerations of £9.7m and £5.6m, respectively, and inventories of £0.7m, were paid from cash resources.

- **Investment summary:** Recent acquisitions are forecast to boost APH to generate an underlying CAGR of 8% in both sales and EPS over the next three years. On the back of this solid performance, the company is expected to continue with its progressive dividend policy. The shares are trading on a 2018E P/E of 18.9x and carry a prospective dividend yield of 1.6%, covered 3.3x.

**Financial summary and valuation**

| Year-end Dec (£m) | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Sales | 48.3 | 97.5 | 103.3 | 118.0 | 127.0 | 135.0 |
| EBITDA (underlying) | 13.6 | 26.7 | 28.2 | 32.6 | 35.3 | 38.4 |
| Reported pre-tax profit | 15.2 | 22.2 | *28.4 | **28.4 | 29.9 | 33.7 |
| Underlying EPS (p) | 4.0 | 4.0 | 4.2 | 4.8 | 5.3 | 5.9 |
| Reported EPS (p) | 4.7 | 3.9 | 6.1 | 4.8 | 5.0 | 5.6 |
| DPS (p) | 1.1 | 1.2 | 1.3 | 1.5 | 1.6 | 1.7 |
| Net (debt)/cash | -71.5 | -76.1 | -72.3 | -54.0 | -38.2 | -21.1 |
| Net debt/EBITDA (x) | 5.3 | 2.8 | 2.6 | 1.7 | 1.1 | 0.6 |
| P/E (x) | 22.7 | 22.6 | 21.2 | 18.9 | 17.1 | 15.2 |
| EV/sales (x) | 10.3 | 5.1 | 4.8 | 4.2 | 3.9 | 3.7 |
| EV/EBITDA (x) | 36.5 | 18.6 | 17.6 | 15.2 | 14.1 | 12.9 |
| Dividend yield | 1.2% | 1.3% | 1.5% | 1.6% | 1.8% | 1.9% |

**Includes £5m Sinclair settlement less costs;*
***Includes £1.5m profit on disposal of 60% share of Unigreg JV*
*Source: Hardman & Co Life Sciences Research*

## Financials

*Source: Eikon Thomson Reuters*

## Market data

| | |
|---|---|
| EPIC/TKR | **ARBB** |
| Price (p) | 1,5250 |
| 12m High (p) | 1,556 |
| 12m Low (p) | 1,245 |
| Shares (m) | 15.3 |
| Mkt Cap (£m) | 233 |
| 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.£60m to invest in new organic or acquired businesses.

## Company information

| | |
|---|---|
| Chair/CEO | Sir Henry Angest |
| CFO | Andrew Salmon |
| Group FD | James Cobb |

Tel: +44 (0)20 7012 2400
www.arbuthnotgroup.com

## Key shareholders (co website)

| | |
|---|---|
| Sir Henry Angest | 56.1% |
| Liontrust | 7.5% |
| Prudential plc | 4.1% |
| R Paston | 3.5% |

## Diary

| | |
|---|---|
| 17 July | Interim results |

## Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

# Arbuthnot Banking Group

## Strong growth outlook, shares still below NAV

**ABG's 2017 results, reported on 28 March, delivered the strong profit and franchise growth that had been promised, with underlying profits virtually doubling, to £8m. Further plans for a property fund, asset-based lending and Arbuthnot Direct (online savings) were outlined. The AGM statement confirmed all is on track and provides comfort to our forecast 2019 profits being more than double those generated in 2017. The group has a long history of adding value through innovative investment, and the share price below NAV, despite its recent rise, appears an anomaly with this track record and the opportuinities available to the group.**

- **AGM statement:** ABG's 10 May AGM statement was positive, with "customer loans and deposits at the end of April increasing 18% and 37% respectively compared to the same time last year." We also note that "Asset Based Lending division is now open for business …. almost two months ahead of schedule."

- **Peer news:** Rathbones' 1Q results (10 May) reported a 5% rise in Investment Management income and a 3% rise in closing FUM. CYBG's results (15 May) reported rising SME yields and improving SME credit. Close Brothers' 22 May trading update confirmed loan growth, as well as stable bank margins and credit.

- **Market news**: UK Finance reported flat business borrowing over 12 months. Within industry sectors, manufacturing continued to show strong growth, at 8.8%, while construction contracted by 6.7% in the year. It also reported 3.4% growth in SME deposits (to £362bn), a target market for ABG.

- **Valuation:** The range of our capital deployed valuation methodologies is now £14.76- £26.71. The highest model (sum-of-the-parts) has seen a small decline from our last report (£27.13), with a modest fall in the market value of the STB holding. The share price is below NAV (1,547p), despite the recent rise.

- **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 below book value is an anomaly.

## Financial summary and valuation (2018 under review)

| Year-end Dec (£000) | 2015 | 2016 | 2017 | 2018E | 2019E |
|---|---|---|---|---|---|
| Operating income | 34,604 | 41,450 | 54,616 | 68,479 | 80,696 |
| Total costs | -35,926 | -46,111 | -54,721 | -65,735 | -73,248 |
| Cost:income ratio | 104% | 111% | 100% | 96% | 91% |
| Total impairments | -1,284 | -474 | -394 | -1,175 | -1,400 |
| Reported PBT | -2,606 | 179 | 6,971 | 8,942 | 15,393 |
| Adj. PBT | 2,982 | 4,009 | 7,623 | 8,942 | 15,393 |
| Statutory EPS (p) | 86.3 | 1,127.2 | 43.9 | 56.3 | 94.3 |
| Adj. EPS (p) | 13.5 | 17.1 | 47.5 | 56.3 | 94.3 |
| Loans/deposits | 82% | 76% | 75% | 80% | 80% |
| Equity/assets | 5.5% | 18.5% | 12.8% | 11.4% | 10.5% |
| P/adj. earnings (x) | 113.0 | 89.2 | 32.1 | 27.1 | 16.2 |
| P/BV (x) | 1.89 | 0.99 | 0.99 | 0.97 | 0.94 |

*Source: Hardman & Co Research*

**Pharmaceuticals & Biotechnology**

*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| EPIC/TKR | **AVCT** |
| Price (p) | 34.0 |
| 12m High (p) | 98.0 |
| 12m Low (p) | 30.0 |
| Shares (m) | 69.0 |
| Mkt Cap (£m) | 23.5 |
| EV (£m) | 15.2 |
| 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 | Trevor Nicholls |
| | +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**

| | |
|---|---|
| 1H'18 | Sloan Kettering feasibility |
| Aug'18 | Trading update |
| Oct'18 | 2018 finals |

**Analysts**

| | |
|---|---|
| Martin Hall | 020 7194 7632 |
| | mh@hardmanandco.com |
| Dorothea Hill | 020 7194 7626 |
| | dmh@hardmanandco.com |
| Grégoire Pavé | 020 7194 7628 |
| | gp@hardmanandco.com |

# Avacta

## Another objective hit

**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 through increased corporate interest, ongoing evaluations and deal flow. Meanwhile, AVCT has made stunning progress in its strategic goal to enter first-in-man trials in 2020, which now look likely to be with a valuable bi-specific Affimer immuno-oncology asset.**

- **Strategy:** AVCT is aiming to commercialise its Affimer technology through bespoke research tools and collaborative deals, and by identifying and developing its own proprietary therapeutic leads. AVCT has sufficient cash resources to identify an Affimer lead to be ready for first-in-man trials in 2019.

- **Interims:** Sales increased 16% to £1.47m (£1.26m), driven by a 50% rise in Life Sciences (custom service and reagent Affimers). Investment in personnel and US business development infrastructure generated an underlying EBIT loss a little ahead of forecasts, at -£4.28m (-£3.71m). Net cash was £0.5m better, at £8.3m.

- **FIT collaboration:** AVCT, together with its research collaborator, FIT Biotech, has completed successfully a proof-of-concept study using a single dose of Affimer DNA, using the FIT gene delivery technology. This opens up many opportunities and highlights again the benefits of Affimers over mAbs.

- **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.

- **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 | 3.15 | 3.60 | 5.49 |
| R&D spend | -0.03 | -1.50 | -2.60 | -3.40 | -4.50 | -5.50 |
| EBITDA | -2.28 | -4.79 | -6.66 | -8.13 | -9.40 | -9.25 |
| Underlying EBIT | -2.85 | -5.39 | -7.60 | -9.20 | -10.47 | -10.32 |
| Reported EBIT | -5.51 | -5.66 | -7.98 | -9.62 | -10.94 | -10.83 |
| Underlying PBT | -2.83 | -5.29 | -7.51 | -9.15 | -10.48 | -10.37 |
| Statutory PBT | -5.48 | -5.57 | -7.89 | -9.58 | -10.94 | -10.89 |
| Underlying EPS (p) | -4.38 | -6.46 | -8.75 | -11.74 | -13.07 | -12.55 |
| Statutory EPS (p) | -9.72 | -6.86 | -9.31 | -12.36 | -13.74 | -13.30 |
| Net (debt)/cash | 7.33 | 19.52 | 13.17 | 4.31 | -6.22 | -16.29 |
| Capital increase | 0.02 | 21.05 | 0.01 | 0.06 | 0.00 | 0.00 |
| EV/sales (x) | 17.7 | 14.8 | 11.7 | 10.2 | 8.9 | 5.8 |

*Source: Hardman & Co Life Sciences Research*

Pharmaceuticals & Biotechnology

*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| Ticker | **BNO** |
| Price (A$) | 0.58 |
| 12m High (A$) | 0.64 |
| 12m Low (A$) | 0.34 |
| Shares (m) | 482.8 |
| Mkt Cap (A$m) | 280.0 |
| EV (A$m) | 275.2 |
| Free Float* | 89% |
| Market | ASX |

**As defined by ASX Rule 1.1 Condition 7*

**Description**

Bionomics (BNO) is an Australian biopharma company specialising in development of ion channel drugs for disorders of the central nervous system and for cancers. In addition to a strong proprietary pipeline that includes ion channel allosteric modulators for anxiety, the company offers contract drug development services.

**Company information**

| | |
|---|---|
| CEO | Deborah Rathjen |
| CFO | Steven Lydeamore |
| Chairman | Errol De Souza |
| | +618 8354 6100 |
| | www.bionomics.com.au |

**Key shareholders**

| | |
|---|---|
| Directors | 0.7% |
| BVF Partners | 10.2% |
| Ausbil Investment | 8.1% |
| PPM | 5.5% |

**Diary**

| | |
|---|---|
| 2H'18 | BNC101 trial data |
| Sep'18 | 2018 finals |
| 1H'19 | PTSD trial results |
| 3Q'19 | Agitation trial data |

**Analysts**

Martin Hall 020 7148 1433
mh@hardmanandco.com
Dorothea Hill 020 7148 1433
dmh @hardmanandco.com
Grégoire Pavé 020 7148 1434
gp@hardmanandco.com

# Bionomics

## Third Phase II trial of BNC210 begins

**BNO is an Australian biopharmaceutical company specialising in ion channel drug discovery for central nervous system (CNS) disorders such as anxiety and post-traumatic stress disorder (PTSD). BNO also offers contract and partnered drug discovery based on its proprietary technology platforms: MultiCore and ionX. The group sales model includes fees-for-service, licensing income and royalties from successful partnered products. Its strategic focus is on development of its lead candidate, BNC210, to completion of Phase II in PTSD. This month, it started a third Phase II trial of BNC210 in a new CNS indication – agitation in the elderly.**

- **Strategy**: BNO's recently refined strategy is to focus on development of its ion channel drug candidates, particularly allosteric modulators. It intends to partner its priority CNS candidate for late-stage development and commercialisation, and to monetise its clinical-stage, non-ion channel, oncology programmes.

- **New BNC210 trial:** Recruitment for a third clinical trial of BNC210, this time for agitation in the elderly, was started this week. BNO had not previously specified that it was planning a trial in this indication – one of the defining features of BNC210 is its potential application in a spectrum of under-served CNS disorders.

- **Agitation:** Characterised by emotional liability, restlessness and aggressive behaviours, agitation is a set of symptoms related to anxiety, which, in the elderly, is often associated with diseases such as Alzheimer's. It is thought to account for >10% of the healthcare and societal costs of Alzheimer's treatment.

- **Phase II trial in agitation:** The trial has been designed for rapid recruitment and a short duration of treatment. Headline data are expected in the first three months of 2019; these will follow PTSD results, expected in the second half of 2018. Around 40 hospitalised elderly patients with agitation will be treated.

- **Investment summary:** BNO has a clear strategy to invest in developing its drug candidates to a stage that interests big pharma and generates good potential returns for shareholders. Of note is the number of times that companies developing novel CNS therapies have been acquired by major pharma.

**Financial summary and valuation**

| Year-end June (A$m) | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Sales | 6.79 | 7.14 | 5.53 | 5.90 | 6.20 | 6.50 |
| R&D investment | -23.18 | -24.77 | -24.22 | -24.00 | -12.00 | -12.00 |
| Other income | 1.35 | 2.59 | 14.62 | 14.81 | 34.41 | 34.60 |
| EBITDA | -22.65 | -24.95 | -10.11 | -10.35 | 21.25 | 21.55 |
| Underlying EBIT | -24.37 | -26.88 | -11.86 | -12.09 | 19.51 | 19.80 |
| Reported EBIT | -24.35 | -27.42 | -12.36 | -12.60 | 19.00 | 19.30 |
| Underlying PBT | -24.28 | -26.28 | -12.62 | -13.16 | 18.61 | 19.38 |
| Statutory PBT | -24.27 | -26.82 | -13.13 | -13.67 | 18.10 | 18.88 |
| Underlying EPS (¢) | -4.06 | -3.51 | -1.30 | -1.42 | 4.73 | 4.90 |
| Statutory EPS (¢) | -3.27 | -3.42 | -0.14 | -1.55 | 4.60 | 4.77 |
| Net (debt)/cash | 11.78 | 23.14 | 24.26 | 17.68 | 41.23 | 65.50 |
| Capital increase | 0.27 | 28.22 | 0.14 | 0.00 | 0.00 | 0.00 |

*Source: Hardman & Co Life Sciences Research*

## Financials

*Source: Eikon Thomson Reuters*

## Market data

| | |
|---|---|
| EPIC/TKR | **BUR** |
| Price (p) | 1510.0 |
| 12m High (p) | 1606.0 |
| 12m Low (p) | 844.0 |
| Shares (m) | 208.2 |
| Mkt Cap (£m) | 3,144 |
| Total assets ($m) | 1,318 |
| Free Float* | 86% |
| Market | AIM |

**As defined by AIM Rule 26*

## 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/Management | 9.8% |
| Invesco Perpetual | 17.8% |
| Woodford Investments | 10.0% |
| Old Mutual | 6.0% |

## Diary

| | |
|---|---|
| 22 June | Final dividend paid |

## Analyst

Brian Moretta 020 7194 7622
bm@hardmanandco.com

# Burford Capital

## Team expansion continues

**In May, Burfod Capital announced two senior hires that will strengthen its management team; both will be based in New York. David Perla has a very interesting background, with a track record of innovation in the legal industry. He co-founded and led Pangea3, a legal process outsourcing provider, from 2004 until its sale to Thomson Reuters in 2012. He will take a senior role as Managing Director responsible for orgination and marketing on a global basis. Greg McPolin also worked at Pangea3 from 2005, becoming its General Manager in 2012. His role will focus on originating new business with law firms and companies based in the US.**

- **Other news**: Burford was named the best Commercial Litigation Funding Provider in Corporate Counsel's annual readers' poll. Chambers and Partners has started ranking litigation funders in the US, ranking six firms and placing Burford in Band 1.
- **Risks:** The investment portfolio is still diversified, with exposure to over 800 claims, but it 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 Teinver 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 ($m) | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Revenue | 103.0 | 163.4 | 341.2 | 268.8 | 410.9 | 558.7 |
| Operating profit | 77.2 | 124.4 | 285.1 | 204.7 | 335.0 | 468.9 |
| Reported net income | 64.5 | 108.3 | 249.3 | 157.3 | 281.4 | 406.4 |
| Underlying net income | 64.5 | 114.2 | 264.8 | 169.0 | 293.2 | 418.1 |
| Underlying RoE | 16.0% | 22.1% | 35.9% | 18.5% | 26.9% | 29.6% |
| Underlying EPS ($) | 0.32 | 0.55 | 1.27 | 0.81 | 1.41 | 2.01 |
| Statutory EPS ($) | 0.32 | 0.53 | 1.20 | 0.76 | 1.35 | 1.95 |
| DPS ($) | 0.08 | 0.09 | 0.11 | 0.13 | 0.15 | 0.17 |
| Yield | 0.4% | 0.4% | 0.5% | 0.6% | 0.7% | 0.8% |
| NAV per share ($) | 2.12 | 2.22 | 3.19 | 3.83 | 5.05 | 7.00 |
| P/E (x) (underlying) | 67.1 | 38.5 | 16.6 | 26.0 | 15.0 | 10.5 |
| Price/NAV (x) | 10.0 | 9.5 | 6.6 | 5.5 | 4.2 | 3.0 |

*Source: Hardman & Co Research*

## Industrial Engineering

*Source: Eikon Thomson Reuters*

## Market data

| | |
|---|---|
| EPIC/TKR | **CMH** |
| Price (p) | 100.0 |
| 12m High (p) | 176.0 |
| 12m Low (p) | 55.5 |
| Shares (m) | 8.3 |
| Mkt Cap (£m) | 8.3 |
| EV (£m) | 15.1 |
| 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 its sales are exported.

## Company information

| | |
|---|---|
| CEO | Kevin Nolan |
| CFO | David Roberts |
| Chairman | Keith Butler-Wheelhouse |

+44 01922 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

| | |
|---|---|
| 5 June | 2017/18 finals |

## Analyst

Paul Singer 020 7194 7622
ps@hardmanandco.com

# Chamberlin

## Trading healthy, technical issues improving

**Chamberlin remains on track strategically, as good progress is made towards resolving the technical problems at the new machine shop. The group has consequently delivered a significantly improved performance in the second half of 2017/18. 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. We are maintaining our 2018/19 forecasts. The shares remain attractively valued against the peer group on most methodologies.**

- **2017/18 forecasts:** Revenues in 2H were 10% higher than in 1H and are expected to total £37.7m for the year, an increase of 17% YoY. Underlying EBIT moved from a loss in 1H to a profit in 2H, and EBIT for the full year is now expected to be around £0.4m, ahead of market expectations of around £0.2m.
- **Outlook:** Demand for petrol engine turbocharger components is strong, with consequent progressively increasing production from the Walsall foundry, as the technical issues at the company's new machining facility continue to improve. New products for machining are also being introduced into the market.
- **Risks:** Potential risks include developments with the automotive industry, foreign currency and raw material price fluctuations. From a financial standpoint, we note 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 0.3x and 4.0x, 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) | 2016 | 2017 | 2018E | 2019E |
|---|---|---|---|---|
| Sales | 29.1 | 32.1 | 37.7 | 40.8 |
| Gross profit | 5.9 | 6.9 | 6.8 | 8.2 |
| EBITDA | 1.5 | 2.0 | 1.9 | 3.5 |
| Underlying EBIT | 0.4 | 0.7 | 0.4 | 1.6 |
| Reported EBIT | 0.1 | 0.4 | 0.4 | 1.6 |
| Underlying PBT | 0.1 | 0.6 | 0.0 | 1.3 |
| Underlying EPS (p) | 1.5 | 4.5 | 0.4 | 13.1 |
| GAAP EPS (p) | -4.4 | -11.7 | -4.2 | 13.1 |
| Net (debt)/cash | -3.2 | -6.8 | -9.3 | -8.7 |
| P/E (x) | - | - | - | 4.5 |
| EV/sales (x) | 0.7 | 0.6 | 0.3 | 0.3 |
| EV/EBITDA (x) | - | - | 6.2 | 3.2 |

*Source: Hardman & Co Research*

## Financial Services

*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| EPIC/TKR | **CLIG** |
| Price (p) | 431.0 |
| 12m High (p) | 454.0 |
| 12m Low (p) | 387.3 |
| Shares (m) | 26.9 |
| Mkt Cap (£m) | 116.0 |
| EV (£m) | 100.4 |
| 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 (0) 207 711 1566 |
| | www.citlon.com |

| Key shareholders | |
|---|---|
| Directors & staff | 15.8% |
| Blackrock | 9.9% |
| Canaccord Genuity Group | 7.9% |
| Polar Capital | 4.1% |

### Diary

| | |
|---|---|
| 17 Jul | Pre-close trading statement |
| 17 Sep | Preliminary results |
| 8 Oct | 1Q FUM announcement |
| 11 Oct | Ex-div date for final dividend |


### Analyst

Brian Moretta 020 7194 7622

bm@hardmanandco.com


# City of London Investment Group

## Robust performance in volatile quarter

**Over April, the weakness in emerging market (EM) equities weighed on City of London's AUM, which declined by 1% to $5.37bn, from $5.42bn. Unfortunately, this weakness has continued into May, with the MSCI Emerging Markets Index declining by 2.6% to 29 May. It isn't hard to find reasons for this happening. The absolute quantum of the goods included in the tariffs announced by the US and in the Chinese response are small relative to the total. However, the direction of travel is not great, and the rhetoric is rather discouraging. Although all sides seem likely to suffer, export-based EM economies are probably more vulnerable.**

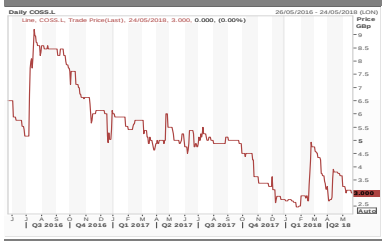
- **Argentina:** Events in Argentina have taken a dramatic turn. Inflation had been picking up for some time, and weakness in the Peso exchange rate provoked the central bank to raise short-term interest rates to 40%. The position appears to have stabilised, but further actions will be needed to keep it that way.
- **Valuation:** The prospective P/E of 10.7x is at a significant discount to the peer group. The historical yield of 5.8% 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 EM 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 saw the first dividend increase since FY2012 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 | 5.53 | 5.99 | 6.47 |
| Revenue | 25.36 | 24.41 | 31.29 | 33.67 | 34.18 | 36.14 |
| Statutory PTP | 8.93 | 7.97 | 11.59 | 12.91 | 13.18 | 14.24 |
| Statutory EPS (p) | 26.4 | 23.3 | 36.9 | 40.2 | 40.8 | 44.1 |
| Dividend (p) | 24.0 | 24.0 | 25.0 | 27.0 | 30.0 | 33.0 |
| P/E (x) | 16.3 | 18.5 | 11.7 | 10.7 | 10.6 | 9.8 |
| Yield | 5.6% | 5.6% | 5.8% | 6.3% | 7.0% | 7.7% |

*Source: Hardman & Co Research*

## Healthcare Equipment & Supply



*Source: Eikon Thomson Reuters*

## Market data

| | |
|---|---|
| EPIC/TKR | **COS** |
| Price (p) | 3.0 |
| 12m High (p) | 6.5 |
| 12m Low (p) | 2.3 |
| Shares (m) | 324.5 |
| Mkt Cap (£m) | 9.7 |
| EV (£m) | 4.8 |
| Free Float* | 69% |
| 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 provides R&D and contract services to a global and diverse 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 | 17.2% |
| Seneca | 13.2% |
| Calculus Capital | 9.5% |
| Rathbones IM | 4.9% |
| Livingbridge | 4.6% |
| Helium Rising Stars | 4.0% |

## Diary

| | |
|---|---|
| Jul'18 | Finals |
| 2H'18 | ChondroMimetic CE Mark |

## Analysts


| | |
|---|---|
| Martin Hall | 020 7194 7632 |
| | mh@hardmanandco.com |
| Dorothea Hill | 020 7194 7626 |
| | dmh@hardmanandco.com |
| Grégoire Pavé | 020 7194 7628 |
| | gp@hardmanandco.com |


# Collagen Solutions

## New Chief Business Officer (CBO) position

**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 development of a pipeline of finished medical devices. ChondroMimetic for repair of small cartilage lesions is in the process of being filed in Europe. Following delays to the closing of important new deals, which resulted in a disappointing trading statement for full-year 2018, there has been a strategic review of operations and a CBO has been appointed.**

- **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, and cash-generative, at a faster pace.

- **Trading update:** At the time of its interim results, management indicated that full-year results were highly dependent on closing a number of deals that were under discussion. In a trading statement, COS stated that this had not been achieved. Consequently, sales were ca.£3.5m, vs. our forecast of £4.2m.

- **Restructuring:** Following a strategic review of operations and capabilities, COS announced a group restructuring. Consequently, the New Zealand facility will concentrate activities on tissue collection and processing, with manufacturing being transferred to Glasgow. Cash costs of £150k will lead to £200k p.a. savings.

- **Chief Business Officer:** The strategic review was carried out with the help of Louis T. Ruggiero, who has significant sales and management experience in the healthcare products sector, including in orthopaedic devices as the CEO of Ossur Americas. A CBO position has been created, with Mr Ruggiero appointed in April.

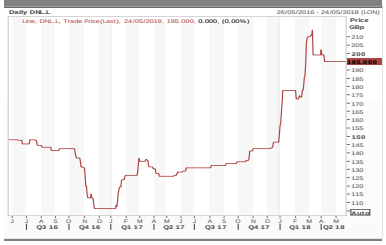
- **Investment summary:** ChondroMimetic fulfils COS's stated strategy to move further up the value chain. Exceptional eight-year clinical outcomes differentiate it from competing therapies. In order to maximise returns, COS needs to conclude commercial arrangements in readiness for a European launch in 2H'18, and with a strong partner capable of undertaking the trials needed to obtain regulatory approval for the product in the US.

## Financial summary and valuation

| Year-end March (£000) | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Sales | 973 | 3,130 | 3,946 | 3,505 | | |
| Underlying EBITDA | -663 | -374 | -1,209 | | | |
| Underlying EBIT | -793 | -721 | -1,658 | | | |
| Underlying PBT | -920 | -983 | -1,790 | | | |
| Statutory PBT | -1,102 | -866 | -1,614 | Forecasts under review | | |
| Underlying EPS (p) | -0.98 | -0.64 | -1.04 | | | |
| Statutory EPS (p) | -1.17 | -0.57 | -0.95 | | | |
| Net (debt)/cash | 3,282 | 2,384 | 7,072 | 2,100 | | |
| Capital increase | 5,422 | 207 | 6,462 | | | |
| P/E (x) | -3.8 | -5.9 | -3.6 | | | |
| EV/sales (x) | 8.6 | 2.7 | 2.1 | | | |
| EV/EBITDA (x) | - | - | - | | | |

*Source: Hardman & Co Life Sciences Research*

Pharmaceuticals & Biotechnology



*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| EPIC/TKR | **DNL** |
| Price (p) | 195.0 |
| 12m High (p) | 216.0 |
| 12m Low (p) | 125.0 |
| Shares (m) | 61.3 |
| Mkt Cap (£m) | 119.6 |
| EV (£m) | 102.9 |
| 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 has received regulatory approval from the European Commission, with first sales expected in 2Q'18, while Chronocort is in Phase III trials.

**Company information**

| | |
|---|---|
| CEO | Martin Whitaker |
| CFO | Richard Bungay |
| Chairman | Peter Allen |
| | +44 (0) 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**

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

**Analysts**

Martin Hall 020 7194 7632
mh@hardmanandco.com
Dorothea Hill 020 7194 7626
dmh@hardmanandco.com
Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

# Diurnal Group

## Launch of Alkindi in Germany

**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. The initial target population is patients from birth to six years of age. Discussions are ongoing with health authorities in other major European countries for a timely launch. Pricing is in line with our expectations.**

- **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.

- **First commercial product:** DNL announced the launch in Germany of its first commercial product, Alkindi, for the paediatric replacement therapy of adrenal insufficiency, with an initial target population of patients from birth to six years of age. Pricing is in line with our expectations, at $6.4k p.a.

- **Next step:** Discussions are ongoing with various health authorities in Europe to prepare for further launches. Due to the small estimated patient population of 4,000 across Europe (from birth to six years), and to retain the full value of Alkindi, DNL is commercialising Alkindi itself in the major European countries.

- **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.

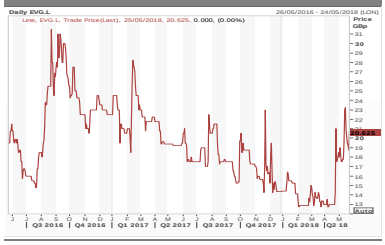
**Financial summary and valuation**

| 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 | -2.15 |
| Statutory PBT | -3.02 | -7.06 | -12.16 | -17.00 | -15.15 | -2.75 |
| Underlying EPS (p) | -8.49 | -12.48 | -17.05 | -23.86 | -18.35 | 0.22 |
| Statutory EPS (p) | -8.72 | -15.02 | -18.04 | -24.86 | -19.28 | -0.75 |
| Net (debt)/cash | 6.05 | 26.88 | 16.37 | 17.22 | 4.27 | -0.03 |
| Capital increase | 9.25 | 24.52 | 0.05 | 14.22 | 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) | 20.7 |
| 12m High (p) | 29.3 |
| 12m Low (p) | 12.2 |
| Shares (m) | 93.3 |
| Mkt Cap (£m) | 19.3 |
| EV (£m) | 16.9 |
| 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**

| | |
|---|---|
| 1H'18 | Interim data STEM trial |
| 13 June | 2018 finals |
| 2H'18 | SAS trial read-out |

**Analysts**

Martin Hall 020 7194 7632
mh@hardmanandco.com
Dorothea Hill 020 7194 7626
dmh@hardmanandco.com
Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

# Evgen Pharma

## 2018 finals – due 13 June

**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's proprietary technology, Sulforadex, creates new and stable variants of sulforaphane, enabling its use as a therapeutic for the first time. SFX-01, the lead product, is being investigated in two Phase II trials, for subarachnoid haemorrhage (SAH) and breast cancer, with read-outs expected in 2018. June will be busy, with 2018 full-year results and anticipated interim analysis of the STEM trial results.**

- **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.
- **Grant of patents:** The European patent describing a method of stabilising sulforaphane, the active ingredient of SFX-01, has been granted by the European Patent Office, giving protection until January 2028. It is the second process patent to be granted in Europe and it expand the IP estate.
- **STEM trial:** Interim results of the STEM trial are expected imminently and could be communicated at the same time as the 2018 results. The Phase II study is evaluating safety and efficacy of SFX-01 in patients with advanced breast cancer who originally responded to hormone treatment but then relapsed.
- **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) | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Sales | 0 | 0 | 0 | 0 | 0 | 0 |
| SG&A | -312 | -620 | -949 | -1,063 | -1,105 | -1,161 |
| R&D | -484 | -612 | -2,500 | -3,250 | -4,550 | -5,233 |
| EBITDA | -789 | -1,224 | -3,432 | -4,296 | -5,638 | -6,376 |
| Underlying EBIT | -796 | -1,232 | -3,449 | -4,313 | -5,655 | -6,393 |
| Reported EBIT | -1,246 | -2,434 | -3,658 | -4,532 | -5,886 | -6,635 |
| Underlying PBT | -1,853 | -2,015 | -3,435 | -4,307 | -5,655 | -6,393 |
| Statutory PBT | -2,303 | -3,217 | -3,644 | -4,526 | -5,886 | -6,635 |
| Underlying EPS (p) | -6.2 | -3.9 | -3.9 | -4.6 | -5.0 | -5.6 |
| Statutory EPS (p) | -7.8 | -6.3 | -4.2 | -4.8 | -5.2 | -5.9 |
| Net (debt)/cash | -903 | 7,126 | 3,859 | 2,455 | -2,353 | -7,631 |
| Capital increases | 0 | 8,565 | 0 | 2,185 | 0 | 0 |

*Source: Hardman & Co Life Sciences Research*

**Business support services**

*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| EPIC/TKR | **GTLY** |
| Price (p) | 169 |
| 12m High (p) | 200 |
| 12m Low (p) | 152. |
| Shares (m) | 108 |
| Mkt Cap (£m) | 182 |
| EV (£m) | 179 |
| Free Float* | 40.3% |
| Market | AIM |

**As defined by AIM Rule 26*

**Description**

Gateley provides legal services predominantly through its 9 UK offices. In 2015, it was the first, and remains the only, full-service commercial law firm to float.

**Company information**

| | |
|---|---|
| Non-Exec Chairman | Nigel Payne |
| CEO | Michael Ward |
| FD, Secretary | Neil Smith |

+44 (0) 121 234 0000
www.gateleyplc.com

**Key shareholders**

| | |
|---|---|
| Directors | 5.5% |
| Liontrust | 10.6% |
| Miton | 7.2% |
| Premier | 3.9% |

**Diary**

| | |
|---|---|
| 17 July 2018 | Final Results |

**Analyst**

Stephen Clapham 020 7194 7622
sc@hardmanandco.com

# Gateley (Holdings) Plc

## Good trading update + positive legal acquisition

**Gateley is a broad-based commercial law and complementary professional services group. It is a leader in the UK mid market, and has seen double-digit revenue and profit growth over more than 10 years. Its trading update confirmed that FY18 results will meet market expectations, and was accompanied by its third acquisition, the first in the legal sector since IPO. The EPS-enhancing deal is highly complementary and was done with a mix of shares and cash, an option not available pre-IPO. We have fine-tuned our next-year forecasts upwards.**

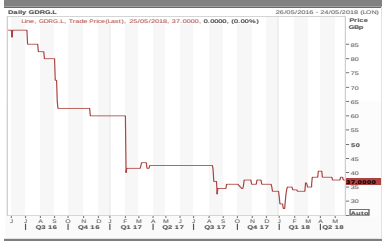
- **Current trading:** The trading update confirmed that the group's strong organic growth continues and that full-year profits will be in line with market expectations. Interims showed growth in revenue of 10% (mainly organic) and of 6.3% in EBITDA, and full-year numbers will be somewhat better, while next year will be boosted by the latest and largest acquisition to date, which is immediately earnings-enhancing.
- **News:** The group announced its third acquisition since IPO, GCL Solicitors LLP, a specialist in legal advice for land and property clients, whose business is highly complementary with Gateley's property service lines, including complementary acquisition, Hamer. Gateley is confident of revenue synergies across many existing Gateley legal and non-legal disciplines.
- **Forecasts**: We forecast organic revenue growth of 7% for this year and next, leading to EPS growth of ca.8%. The GCL acquisition is EPS-enhancing, and we expect revenue synergies will further enhance earnings looking out beyond the FY19 year. Full-year numbers on 17 July will allow us to refine our forecasts.
- **Valuation:** The current year P/E is just over 15x, falling to a little over 14x next year, on conservative numbers. The dividend yield of over 4% this year should continue to grow, while the group offers a free cashflow yield of over 7%, with cash generation largely a function of low capital expenditure requirements.
- **Investment summary:** Gateley is a high-quality professional services group with significant growth potential, an excellent track record of delivery, a strong management, and a strategy to diversify further in complementary professional services. Its 2018E dividend yield of over 4% is attractive given interest rates.

**Financial summary and valuation**

| Year-end Apr (£m) | 2015 | 2016 | 2017 | 2018E | 2019E |
|---|---|---|---|---|---|
| Sales | 60.9 | 67.1 | 77.6 | 83.0 | 96.0 |
| EBITDA* | 11.3 | 12.9 | 14.9 | 16.0 | 18.4 |
| PBT Adjusted | 10.5 | 12.0 | 13.8 | 13.9 | 16.0 |
| EPS (Adj., p) | 8.3 | 9.1 | 10.1 | 10.9 | 12.0 |
| DPS (p) | 5.1 | 5.6 | 6.6 | 7.0 | 7.4 |
| Free cash flow | 3.0 | 13.4 | 6.0 | 12.8 | 12.4 |
| Net assets** | 0.0 | 12.7 | 17.4 | 20.9 | 25.3 |
| Net cash | -19.2 | -4.2 | -4.9 | -0.1 | 3.2 |
| P/E | 20.4 | 18.6 | 16.8 | 15.5 | 14.1 |
| EV/EBITDA | 16.7 | 14.1 | 12.4 | 11.3 | 9.7 |
| Dividend yield | 3.0% | 3.3% | 3.9% | 4.1% | 4.4% |

*Source: Gateley accounts, Hardman & Co Research*
** 11.5p FY19E post share-based payments ** LLP basis 2015*

Pharmaceuticals & Biotechnology



*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| EPIC/TKR | **GDR** |
| Price (p) | 37.5 |
| 12m High (p) | 43.5 |
| 12m Low (p) | 25.0 |
| Shares (m) | 18.7 |
| Mkt Cap (£m) | 7.0 |
| EV (£m) | 7.9 |
| Free Float* | 47% |
| 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 | 16.2% |
| M&G | 13.1% |
| Odey | 12.8% |
| Hargreave Hale | 7.0% |
| River & Merc. | 5.6% |

**Diary**

| | |
|---|---|
| 4 June | General Meeting |
| Oct'18 | Finals |
| Nov'18 | AGM |

**Analysts**

| | |
|---|---|
| Martin Hall | 020 7194 7632 |
| | mh@hardmanandco.com |
| Dorothea Hill | 020 7194 7626 |
| | dmh @hardmanandco.com |
| Grégoire Pavé | 020 7194 7628 |
| | gp@hardmanandco.com |

# genedrive plc

## Disposal of service business

**genedrive plc (GDR) is a commercial-stage company focused on point-of-care/need molecular diagnostics and biomarkers. 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 signed three commercial deals for its Genedrive HCV ID Kit to date, paving the way to accessing the multi-million-dollar market hepatitis C diagnosis market.**

- **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.

- **Disposal:** GDR has announced the proposed disposal of its services business, as part of management's strategic decision to focus entirely on the Genedrive technology platform and the near patient molecular diagnostic market. Subject to shareholder approval, it will boost the balance sheet by £1.9m (gross).

- **Genedrive HCV:** GDR has signed two distribution deals for its HCV ID Kit with Sysmex for Africa and specific countries in SE Asia, and with ARKRAY for India. Sysmex has undertaken an independent verification field study, incorporated systems and processes, generated its first order, and re-ordered the kit.

- **Risks:** The platform technology has been de-risked through the receipt of CE Mark 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 a major global player reduces this risk significantly.

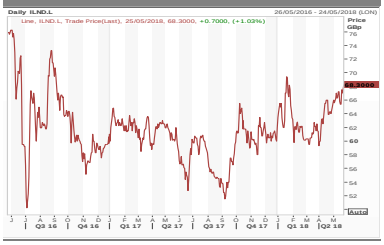
- **Investment summary:** Genedrive technology ticks all the boxes described for an 'ideal' *in vitro* diagnostic that satisfies the need for powerful molecular diagnostics outside the hospital setting. The hepatitis C market is a global opportunity, which is very large, even in developing countries.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

**Financial summary and valuation**

| Year-end June (£000) | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Sales | 4,517 | 5,063 | 5,785 | 5,130 | 2,562 | 4,905 |
| Underlying EBIT | -3,858 | -5,259 | -4,812 | -5,566 | -3,783 | -2,698 |
| Reported EBIT | -4,040 | -5,426 | -7,292 | -5,687 | -3,941 | -2,919 |
| Underlying PBT | -3,242 | -6,330 | -5,007 | -5,963 | -4,179 | -3,100 |
| Statutory PBT | -3,424 | -6,497 | -7,487 | -6,085 | -4,337 | -3,321 |
| Underlying EPS (p) | -28.3 | -54.6 | -21.4 | -26.6 | -17.2 | -10.5 |
| Statutory EPS (p) | -30.1 | -56.2 | -34.9 | -27.2 | -18.0 | -11.5 |
| DPS (p) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net (debt)/cash | 903 | -3,877 | -70 | -1,981 | -4,105 | -6,105 |
| Capital increases | 80 | 0 | 6,023 | 0 | 1,250 | 0 |
| P/E (x) | -1.3 | -0.7 | -1.8 | -1.4 | -2.2 | -3.6 |
| EV/sales (x) | 1.7 | 1.6 | 1.4 | 1.5 | 3.1 | 1.6 |

*Source: Hardman & Co Life Sciences Research*

Construction & Materials



*Source: Eikon Thomson Reuters*

## Market data

| | |
|---|---|
| EPIC/TKR | **INL** |
| Price (p) | 68.2 |
| 12m High (p) | 70.50 |
| 12m Low (p) | 50.75 |
| Shares (m) | 202.1 |
| Mkt Cap (£m) | 137.8 |
| EV (£m) | 205.8 |
| 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 |
| | 01494 762 450 |
| | www.inlandhomesplc.com |

## Key shareholders

| | |
|---|---|
| M H Dixon | 8.41% |
| Janus Henderson | 5.02% |
| P&KS | 3.07% |
| Management | 12.76% |

## Diary

| | |
|---|---|
| Sep'18 | Final results |

## Analyst

Tony Williams 020 7194 7622
tw@hardmanandco.com

# Inland Homes plc

## INL:DNA (no test required)

**Deoxyribonucleic acid is a thread-like chain of nucleotides carrying the genetic instructions used in growth and development. In essence, it stores bio information and the DNA backbone is resistant to cleavage. Inland and its organic make-up are of the terrestrial and what occupies it: identify; separate; build; and vend. No test is required, either, on this connexion and continuity of purpose.**

- **Make-up:** DNA was first isolated by Friedrich Miescher in 1869, with Inland's sequester in 2005 and IPO morphing in 2007. The chain of nucleotides, however, runs back much further to Country & Metropolitan plc (C&M), which was founded in 1990 by Stephen Wicks, CEO of Inland. C&M was sold to Gladedale in 2005 for £72m (C&M's float price was £6.9m). It's genealogical.

- **Core 1:** A brownfield regeneration specialist in the UK genetic pool, which means it finds land, procures it, wins reproductive planning and sells it 'scientifically ready' to housebuilders; which saves them significant laboratory time and reduces the capital lock-up experiment (popular mechanics).

- **Core 2:** Like DNA, Inland possesses four master developer nucleobases, meaning that not only is it a land experimenter and improver but it also builds houses in its own right, works as a residential contractor and develops commercial premises**.** Uniquely, too, its Board holds 13% of Inland's shares.

- **Interim results:** On 28 March, another empirical milestone was passed, with Inland's half-year results for the period ended 31 December 2017. These were tidily structured results. Revenue rose four-fifths to £61m, with underlying EBIT doubling – and margins clearing 10%. In turn, pre-tax profit rose 8% to £5.4m, underlying EPS added 18% and the dividend was raised 30%. NAV per share increased 14% and adjusted EPRA by a further 6% to 97.63p.

- **Acid test:** The company is unique in structure and its biological make-up is diverse from the more conventionally structured UK housebuilders. The unique material properties of DNA have made it an attractive molecule for material scientists and engineers interested in micro and nano-fabrication. Inland investors can do the same; and do so at a discount of more than 30%.

## 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 | 202.1 | 202.1 |
| P/E (x) | 8.0 | 13.4 | 9.6 | 9.0 | 7.7 | 6.6 |
| DPS (p) | 1.00 | 1.30 | 1.70 | 2.20 | 2.60 | 3.00 |
| Yield | 1.5% | 1.9% | 2.5% | 3.2% | 3.8% | 4.4% |
| 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 | 26% | 29% | 34% | 38% | 42% |

*Source: Hardman & Co Research*

## General Retailers

*Source: Eikon Thomson Reuters*

## Market data

| | |
|---|---|
| EPIC/TKR | **KOOV** |
| Price (p) | 15 |
| 12m High (p) | 57 |
| 12m Low (p) | 6 |
| Shares (m) | 175 |
| Mkt Cap (£m) | 26 |
| EV (£m) | 25 |
| Free Float* | 31% |
| Market | AIM |

**As defined by AIM Rule 26*

## Description

Koovs is an online retailer of western 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.) | 19% |
| Anant Nahata (Dir.) | 23% |
| Michinoko | 11% |
| Ruffer | 11% |
| Hindustan Times Media | 5% |
| Times of India | 4% |

## Diary

| | |
|---|---|
| Before end-Sep'18 | Prelims |


## Analyst

Jason Streets 020 7194 7622
JS@hardmanandco.com


# Koovs plc

## Poised to clean up – the emerging ASOS of India

**Koovs sells affordable western fashion online in India. It has an established customer base of half a million active users and has been growing brand recognition rapidly. It has achieved the highest net promoter score (NPS) across its vertical. Its success will come on the back of the growing Indian economy breeding millions of online shoppers. Having spent a few days with Koovs in Delhi, we believe all the ingredients are in place; only the pace is uncertain. To exploit this opportunity, Koovs needs to raise a substantial amount of capital.**

- **Strategy:** Koovs has been honing its digital strategy: it now has 1.9 million followers on Facebook and 0.5 million on Instagram. It has a new, flexible tech platform and takes 80% of its orders through its mobile app. The success of its work is measured in the high NPS and 40% repeat customer orders.

- **Setback:** The 2016 demonetisation punctured the hyper growth of India's online businesses but it has begun to recover strongly in the past six months. We have every reason to believe that India's retail e-commerce business will multiply many times over from here.

- **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:** The company needs to raise more finance; it has announced that it expects to secure an interim loan of £1.5m from the Chairman, which can fund the business until August 2018. Once refinanced, we see the two key risks being slower uptake of e-commerce in India than we forecast and damaging discounting by Koovs' indirect competitors.

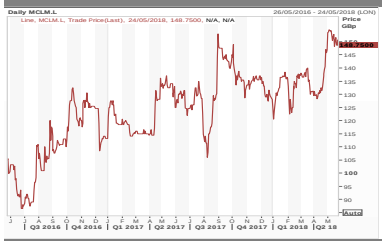
- **Investment summary:** Before the new capital is raised, Koovs is a short-dated call option on the financing happening. Once the money is raised, it is an exciting way to play the last big world market to move online. The prize, if it gets it right, is a billion-pound company and more. It is likely to be a bumpy, exciting ride, but investors have the reassurance of a highly experienced management team in charge.

## 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 | 398 | 398 | 398 | 398 |
| EV/sales (x) | 1.1 | 1.5 | 0.8 | 0.3 | 0.2 | 0.1 |

*Source: Hardman & Co Research*

## Financials



*Source: Eikon Thomson Reuters*

## Market data

| EPIC/TKR | MCL |
|---|---|
| Price (p) | 150.0 |
| 12m High (p) | 157.0 |
| 12m Low (p) | 105.5 |
| Shares (m) | 129.5 |
| Mkt Cap (£m) | 194.3 |
| EV (£m) | 173.8 |
| 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 (0)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

| | |
|---|---|
| 26 June | AGM |

## Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

# Morses Club PLC

## Optimising the opportunity

**Our detailed review of MCL's results (FY18: carefully controlled, sustainable growth, published on 16 May) noted the adjusted pre-tax profits were £1m ahead of our expectations. MCL has focused resources on optimising the potential from the market leader's self-inflicted woes and, while increasing its agent franchise by over 20%, impairments as a percentage of revenue fell in 2H on 1H. Historical conservative provisioning sees the conversion to IFRS9 having a much smaller impact on receivables than peers. New business streams are being introduced to continue sustainable growth. Our range of valuation methodologies is 171p-197p.**

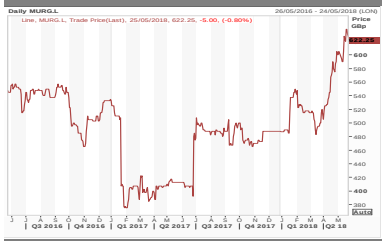
- **MCL focus on quality:** The key message in our note is MCL's focus on quality. It used the market opportunity to upgrade the quality of its agents. Its lending book saw improved impairments 2H on 1H, despite new business strain. The online lending pilot was carefully controlled to learn lessons at a modest risk.
- **Peer news:** NSF's 14 May trading update noted strong loan growth in home credit and that impairments are as expected. NSF also reported "The large numbers of new agents recruited in 2017 are continuing to increase the number of customers on their book.
- **Market news:** Andrew Bailey, CEO at FCA, gave a speech on 2 May on "High-cost credit: what next". We particularly note two comments: "the provision of credit can nevertheless have a socially valuable function." "I do not take the view that credit should not be available to this part of the population."
- **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 5.1% 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 | 21.2 | 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) | 18.4 | 14.5 | 13.8 | 12.7 | 11.3 | 10.2 |
| P/BV (x) | 2.0 | 3.5 | 3.1 | 2.9 | 2.9 | 2.6 |
| P/tangible book | 2.3 | 4.3 | 3.7 | 3.3 | 3.2 | 2.9 |
| Dividend yield | n/m | n/m | 4.3% | 4.7% | 5.2% | 5.7% |

*Source: Hardman & Co Research * IFRS9 basis*

## Support Services



*Source: Eikon Thompson Reuters*

## Market data

| EPIC/TKR | MUR |
|---|---|
| Price (p) | 630 |
| 12m High (p) | 630 |
| 12m Low (p) | 380 |
| Shares (m) | 9.0 |
| Mkt Cap (£m) | 57.0 |
| EV (£m) | 55.0 |
| 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 |
| | 0141 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 | 4.3% |

## Diary

| | |
|---|---|
| Early summer'18 | Trading update |
| Sep'18 | Final results |

## Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

# Murgitroyd

## Resilient attractions

**Murgitroyd has not been without pricing and margin headwinds; however, the solid prospects and cash generation are rightly just starting to be recognised. Services provided comprise a menu running from value/cost focus to more attorney-driven projects. There has been incremental work undertaken to expand this range. Interim results were reassuring. It is worth noting that 50% of revenues are in US$, so exchange rates and the US tax legislation, reducing base corporation tax rates to 21%, are both meaningful issues for Murgitroyd.**

- **Long term**: Group revenues and dividends have grown each year since incorporation in 2001. In uncertain macroeconomic times, this is attractive and likely to continue. Margins, well below the 10.2% level of FY16, are recovering, and we see scope for some further progress.
- **Revenue trends**: With $ revenue growing and now reaching 50% of the total, currency affects the results as reported. We model historical organic constant currency sales growth at just under 4% in FY16, down 3% in FY17 and up just 1% in FY18. We anticipate initiating FY19 shortly.
- **Revenue and divisional trends**: Larger clients' revenues rose, with continuing growth in support services, and sales up 4.4% (comprising 35.6% of group sales). Between FY13 and FY16, these registered a 10.5% CAGR (raising share of total sales from 29%), but growth at the rest of the group has been modest.
- **Risks**: Medium term, Murgitroyd's market growth and resilience is a positive, as is cash generation. Pricing is difficult, however, as clients clearly seek value. Murgitroyd has broadened its offering and undertakes more support service work. Margins tend to be lower in these segments, however, but growth is good.
- **Investment summary, tax and risks**: Ongoing strong dividend growth and free cashflow are supportive. Previous years have seen revenue and pricing pressure. We note that the tax rate was 26%, 33% and 26% in FY16, FY17 and 1H'18, respectively; with ca.50% US profit exposure, we estimate falling rates into FY19. We plan to initiate FY19 shortly. 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 | 18.0 |
| 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) | 18.7 | 18.1 | 17.8 | 22.0 | 20.5 |
| EV/Sales (x) | 1.4 | 1.3 | 1.2 | 1.2 | 1.1 |
| EV/EBITDA (x) | 12.0 | 12.5 | 12.0 | 13.1 | 12.5 |
| FCF yield | 5.7% | 5.1% | 6.8% | 5.7% | 4.8% |
| Dividend yield | 2.1% | 2.3% | 2.5% | 2.7% | 2.8% |

*Note: our estimates are adjusted to exclude acquisition transaction costs* *Source: Hardman & Co*

## Financials

*Source: Eikon Thomson Reuters*

## Market data

| EPIC/TKR | NSF |
|---|---|
| Price (p) | 64.7 |
| 12m High (p) | 80.0 |
| 12m Low (p) | 58.2 |
| Shares (m) | 313 |
| Mkt Cap (£m) | 202 |
| EV (£m)) | 391 |
| 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 (0)2038699026

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

| | |
|---|---|
| Early August | Interim results |

## Analyst

Mark Thomas 020 7194 7622

mt@hardmanandco.com

# Non-Standard Finance

## Core business: long-term competitive advantages

**The 14 May trading statement confirmed a continuation of the 2017 trends, leaving our strong growth forecasts unchanged. In our note, Everyday Loans: a heart of gold, published that day, we also 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. As a result, EL has delivered strong profitability, while many lenders in this space are making losses. EL also has multiple levers to deliver sustainable earnings through an economic downturn. NSF's 2019E P/E of ca.10x is an anomaly with its growth/profitability outlook.**

- **NSF news:** NSF's AGM statement of 14 May reported rapid loan growth in each division (including guarantor loans at record levels and being on course for 20% growth in home collect). Impairment is in line with previous guidance and, with long-term funding in place, management is "confident" in the full-year outlook.

- **Peer news:** Morses Club (MCL) results showed credit issued growth of 21%, loan book growth of 12% and customer numbers up 6%, as the group took advantage of the PFG opportunity. NSF reported 53% growth in its home collect business. The different growth profile sees a greater impact of IFRS9 on NSF than on MCL.

- **Market news:** Andrew Bailey, CEO at FCA, gave a speech on 2 May on "High-cost credit: what next" . We note two comments in particular: "the provision of credit can nevertheless have a socially valuable function." "I do not take the view that credit should not be available to this part of the population."

- **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 access to 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 of its operating divisions seem credible, and investors are paying ca.10x 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 |
| Pre-tax | 13,056 | 13,203 | 14,424 | 24,798 |
| Statutory pre-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) | 19.2 | 18.8 | 17.4 | 10.1 |
| P/BV (x) | 0.8 | 0.9 | 0.9 | 0.9 |
| P/tangible book (x) | 2.1 | 2.7 | 2.7 | 2.5 |
| Yield | 1.9% | 3.4% | 3.9% | 4.9% |

*Source: Hardman & Co Research *IFRS 9*

Pharmaceuticals & Biotechnology

*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| EPIC/TKR | **OXB** |
| Price (p) | 15.0 |
| 12m High (p) | 15.5 |
| 12m Low (p) | 4.9 |
| Shares (m) | 3,283.8 |
| Mkt Cap (£m) | 492.6 |
| EV (£m) | 495.6 |
| 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 |
| | 01865 783 000 |
| | www.oxfordbiomedica.co.uk |

**Key shareholders**

| | |
|---|---|
| Directors | 0.3% |
| Vulpes | 18.7% |
| M&G | 18.0% |
| Aviva | 7.3% |
| Hargreaves Lansdown | 3.9% |

**Diary**

| | |
|---|---|
| Aug'18 | Interims |

**Analysts**

Martin Hall 020 7194 7631
mh@hardmanandco.com
Dorothea Hill 020 7194 7626
dmh@hardmanandco.com
Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

# Oxford Biomedica

## Kymriah approved in a second indication

**OXB is a specialist lentiviral vector-focused advanced therapy biopharma company. It offers vector manufacturing and development services, and is developing its own proprietary drug candidates. In addition to LentiVector® service contracts, OXB will receive royalties on commercial therapies developed with its platform. This deal structure was established with Novartis for Kymriah™ in 2017. This month, Kymriah was approved in a second indication, a form of the blood cancer non-Hodgkin lymphoma called DLBCL, by the FDA in the US. This makes it the only CAR-T cell therapy to have been licensed in more than one indication.**

- **Strategy**: OXB has four strategic objectives: delivery of process development 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 approval:** The US licence for Kymriah in r/r diffuse large B-cell lymphoma (DLBCL) adult patients allows Novartis to market it for around 7,500 patients in the US. At a price of $373,000 and 15% market share, this could mean potential sales of around $420m per year, and significant royalties to OXB.
- **Share consolidation:** OXB has proposed a 1-for-50 consolidation of its share capital, to be approved by shareholders at a GM on 29 May. The stated aim is to reduce volatility in trading activity and to make OXB shares more attractive to a broader range of investors. Also, management's focus could be on the US market.
- **Risks:** The mid-term sales model and the ability to pay off debt are dependent on successful progress of partners' clinical trials and commercialisation of LentiVector-enabled products, for receipt of bioprocessing milestones and royalty payments. All gene-therapy companies are subject to significant clinical risk.
- **Investment summary:** OXB has transitioned to a commercial-stage company. Heavy, ongoing investment in state-of-the-art GMP manufacturing facilities for production of gene therapy vector has resulted in commercial supply agreements with Novartis and a licence agreement with BIVV, on top of existing partnerships. The next value inflection points include the completion of Orchard Therapeutics' pivotal trial and further approvals of Novartis's Kymriah.

**Financial summary and valuation**

| Year-end Dec (£m) | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Sales | 15.91 | 27.78 | 31.49 | 42.30 | 58.00 | 65.80 |
| EBITDA | -11.73 | -6.78 | -2.63 | 0.41 | 6.18 | 19.98 |
| Underlying EBIT | -13.35 | -10.45 | -7.00 | -4.02 | 1.33 | 14.67 |
| Reported EBIT | -14.08 | -11.32 | -5.67 | -5.08 | 0.17 | 13.41 |
| Underlying PBT | -16.25 | -15.34 | -15.88 | -8.41 | -2.97 | 10.36 |
| Statutory PBT | -16.98 | -20.31 | -11.76 | -9.47 | -4.13 | 9.10 |
| Underlying EPS (p) | -0.48 | -0.42 | -0.42 | -0.15 | 0.03 | 0.44 |
| Statutory EPS (p) | -0.51 | -0.60 | -0.29 | -0.19 | 0.00 | 0.40 |
| Net (debt)/cash | -17.90 | -19.05 | -22.54 | -20.40 | -31.87 | -22.28 |
| Capital increase | 0.14 | 17.50 | 0.39 | 19.40 | 0.10 | 0.10 |
| P/E (x) | - | - | - | - | - | 33.8 |
| EV/sales (x) | - | - | - | - | - | 24.8 |

*Source: Hardman & Co Life Sciences Research*

**Pharmaceuticals & Biotechnology**

*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| EPIC/TKR | **NIPT** |
| Price (p) | 7.3 |
| 12m High (p) | 14.4 |
| 12m Low (p) | 3.5 |
| Shares (m) | 386.8 |
| Mkt Cap (£m) | 28.2 |
| EV (£m) | 42.6 |
| Free Float* | 67% |
| Market | AIM |

**As defined by AIM Rule 26*

**Description**

Premaitha (NIPT) is a molecular diagnostics company using latest DNA analysis techniques to develop tests for non-invasive pre-natal screening. Its flagship IONA® test is the first non-invasive *in vitro* CE Marked diagnostic for pre-natal screening to estimate the risk of a foetus having Down's syndrome or other genetic conditions.

| Company information | |
|---|---|
| CEO | Stephen Little |
| CFO | Barry Hextall |
| Chairman | Adam Reynolds |
| | +44 161 667 6865 |
| | www.premaithahealth.com |

| Key shareholders | |
|---|---|
| Directors | 25.1% |
| Harwood Capital | 4.4% |
| Steven Myers | 4.1% |
| Ken Chang | 3.3% |
| Calculus Capital | 3.3% |
| Hargreave Hale | 3.1% |

| Diary | |
|---|---|
| Jul'18 | 2018 finals |
| Oct'18 | AGM |

**Analysts**

Martin Hall 020 7194 7632
mh@hardmanandco.com
Dorothea Hill 020 7194 7626
dmh@hardmanandco.com
Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

# Premaitha Health

## New contracts and share subscription

**NIPT uses the latest advances in DNA sequencing technology initially for non-invasive pre-natal screening tests. Its IONA test uses complex statistical analyses to determine the likelihood that a foetus is carrying a disorder such as Down's syndrome or other pre-natal genetic abnormalities. NIPT is continuing to develop a strong business in geographical locations less accessible to Illumina, and, in a trading update to the market, stated that total test volumes had increased >100% in fiscal 2018. Moreover, it announced new contracts in India and Kenya. The balance sheet has been stregthened by a £2.5m share subscription.**

- **Strategy:** NIPT is focused on the global commercialisation of its flagship IONA non-invasive pre-natal screening test, which uses the latest DNA analysis technology to predict certain foetal abnormalities. This technology has the potential for expanded use in other aspects of reproductive health.

- **Geographical expansion:** NIPT has focused on expanding into territories outside Illumina's patent reach, making enormous strides in Africa and the Middle East, with new laboratories coming on stream in fiscal 2019. This has been enhanced by the announcement of new contracts in Kenya and India.

- **Trading update:** Progress in expanding its geographical footprint was highlighted in a trading update for fiscal 2018. Total test volumes increased over 100%, with average prices being maintained at a solid level, moving the test business towards EBITDA breakeven at the end of the year.

- **Subscription:** Concomitantly with the trading update, NIPT announced a subscription for 55.53m new Ordinary shares, at 4.5p, to raise £2.5m (gross) new funds, with 38% taken up by Directors. In addition, 10.1m shares were issued to, principally, directors in lieu of outstanding fees of £0.5m.

- **Investment summary:** NIPT continues to de-risk its exposure to Illumina by broadening its pre-natal screening capability internationally and in markets where Illumina does not hold patents. Acceleration of the business by means of test throughput, while tightly controlling costs, is improving the margins and moving the company much closer to cashflow breakeven.

**Financial summary and valuation**

| Year-end March (£m) | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Sales | 0.00 | 2.45 | 3.08 | | | |
| EBITDA | -4.08 | -5.32 | -5.06 | | | |
| Underlying EBIT | -4.34 | -5.87 | -5.80 | | | |
| Reported EBIT | -7.54 | -11.83 | -7.60 | | | |
| Underlying PBT | -7.45 | -5.96 | -6.04 | At the time of going to press, | | |
| Statutory PBT | -7.45 | -12.12 | -7.85 | forecasts were in the process | | |
| Underlying EPS (p) | -4.90 | -2.71 | -2.56 | of being updated | | |
| Statutory EPS (p) | -4.08 | -2.14 | -1.94 | | | |
| Net (debt)/cash | 2.71 | 2.20 | -6.20 | | | |
| Capital increases | 7.48 | 7.72 | 10.61 | | | |
| EV/sales (x) | - | - | 10.4 | | | |
| EV/EBITDA (x) | - | - | - | | | |

*Source: Hardman & Co Life Sciences Research*

## Real estate

*Source: Eikon Thomson Reuters*

## Market data

| | |
|---|---|
| EPIC/TKR | **PHP** |
| Price (p) | 112 |
| 12m High (p) | 118 |
| 12m Low (p) | 105 |
| Shares (m) | 730 |
| Mkt Cap (£m) | 818 |
| EV (£m) | 1440 |
| Market | Main, LSE |

## Description

Primary Health Properties (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 | Alun Jones |

020 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

| | |
|---|---|
| August 2018 | Interims |
| February 2019 | Full-year results |

## Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

# Primary Health Properties

## Expanding the portfolio

**Our figures are updated for the £115m fund raise, which was at 108p, compared with historical EPRA NAV of 101p. The pipeline of investments was recently stated at £151m, and our model asumes a rate of £100m p.a. of acquisitons. While yield compression has taken valuations in the sector to net initial yields tighter than 5%, acquisitions that PHP secures are still strongly earnings-enhancing. As the equity raised is deployed, therefore, EPS is enhanced. While short-term EPS dilution is inevitable, the expansion adds to efficiencies and shareholder value. Our figures are stated post an assumed £0.5m p.a. performance incentive fee (PIF).**

- **Fund raise/capital deployment**: PHP raised £115m in new shares in an oversubscribed issue at 108p (ahead of NAV). Naturally new shares have a short-term EPS-dilutive impact. They are accretive to longer-term EPS. Long-term dividend growth is enhanced by its success at incrementally raising efficiencies.

- **Capital deployment**: Ten properties were acquired in 2017 for £71.9m – a large average lot size. 2018E onwards should beat this and across the sector there are signs of an expansion in new development. Our estimates still leave loan to value at a modest 47.7% end-2020. Were this to be 60%, EPS would be enhanced 5.5%.

- **Valuation**: PHP's initial focus remains on steadily growing income, with a good proportion on guaranteed or RPI uplifts. This focus then also steadily enhances capital values. In 2017, PHP's total asset NAV plus dividends returned 16.4% (vs. 9.7% in 2016), and it has had 21 years (since the IPO) of unbroken dividend rises.

- **Risks**: There is no rental-income or void risk. With debt costs low, the policy is lengthening the debt maturity profile, thereby reducing refinancing risk, while still lowering the cost of debt as some historical higher-rate debt expires. The average debt maturity is 6.3 years and rising – funded from a variety of sources.

- **Investment summary**: The 1.4% positive cash return on gross UK investment remains healthy (this calculation is based on all-debt funding). RoI assets yield over 100bps more and debt is 50bps cheaper. Note the 82% take-up under the recent Open Offer. DPS cover is 99% (100% excluding PIF) in 2019E, 106% 2020E.

## Financial summary and valuation

| Year-end Dec (£m) | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|
| Net rental income | 67.4 | 72.5 | 78.5 | 84.5 | 91.0 |
| Finance cost | -32.5 | -31.6 | -31.5 | -31.0 | -31.0 |
| Declared profit | 43.7 | 91.9 | 55.8 | 70.8 | 78.4 |
| EPRA PBT (adj. pre-revaluation) | 26.7 | 31.0 | 36.4 | 42.4 | 48.4 |
| EPS reported (p) | 7.8 | 15.3 | 8.0 | 9.2 | 9.8 |
| EPRA EPS (diluted, convertible) (p) | 4.7 | 5.1 | 5.2 | 5.5 | 6.0 |
| DPS (p) | 5.125 | 5.250 | 5.400 | 5.550 | 5.700 |
| Net cash (debt) | -663.2 | -726.6 | -709.0 | -742.0 | -841.0 |
| Dividend yield | 4.5% | 4.7% | 4.8% | 5.0% | 5.1% |
| Price/EPRA NAV | 1.28 | 1.16 | 1.08 | 1.05 | 1.01 |
| NAV (p) | 83.5 | 94.7 | 97.6 | 101.3 | 105.2 |
| EPRA NAV (p) | 91.1 | 100.7 | 103.7 | 106.8 | 110.7 |

*Source: Hardman & Co Research*

## Food Producers

*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| EPIC/TKR | **RE.** |
| Price (p) | 321.0 |
| 12m High (p) | 361.0 |
| 12m Low (p) | 282.0 |
| Shares Ord (m) | 40.5 |
| Shares Prefs (m) | 72.0 |
| Mkt Cap Ord (£m) | 130.0 |
| Mkt Cap Pref (£m) | 79.2 |
| EV ($m) | 513.8 |
| Free Float | 30% |
| Market | Main |

### Description

R.E.A. 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 (0)20 7436 7877
www.rea.co.uk

### Key shareholders

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

### Diary

| | |
|---|---|
| 13 June | AGM |
| Sep'18 | Interim results |

### Analyst

Yingheng Chen 020 7194 7636
yc@hardmanandco.com

# R.E.A Holdings

## An elegant solution

**The announcement of improved full-year results for 2017 was complemented by the announcement 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 de-leveraging the balance sheet, focusing on a more contiguous plantation area, and freeing up capital for the remaining landbank. The transaction value compares favourably with market valuations of strongly performing Indonesian operators.**

- **Strategy:** REA Kaltim, 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.
- **Changing fortunes:** The 2017 results evidence improving trends in estate productivity and operational efficiency. Nevertheless, further recovery is expected, and needed, over 2018, if 2019 is to prove the transition year we have projected.
- **Valuation:** The share price of the REA Ordinaries has responded well to news of the PBJ disposal, and the valuation is now in line with sector peers, at $12.5k per planted ha, adjusted for the electricity operations and the coal and stone assets. Readers should also note that DSN has not ruled out returning to acquire more of REAK.
- **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 that 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 ($m) | 2015R | 2016 | 2017 | 2018E | 2019E |
|---|---|---|---|---|---|
| Sales | 90.5 | 79.3 | 100.2 | 119.9 | 134.4 |
| EBITDA | 14.1 | 16.8 | 20.7 | 39.1 | 44.9 |
| Reported EBIT | -6.6 | -5.0 | -2.2 | 15.9 | 21.5 |
| Pre-tax profit | -12.2 | -9.3 | -21.9 | 1.4 | 10.6 |
| EPS (cents) | -59.0 | -48.2 | -67.0 | -23.2 | -4.2 |
| Dividend per share (p) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net (debt)/cash | -196.7 | -205.1 | -211.7 | -178.2 | -189.8 |
| P/E (x) | - | - | - | - | - |
| Planted hectares (ha) | 37,097 | 42,846 | 44,094 | 39,974 | 42,976 |
| EV/planted hectare ($/ha) * | 13,851 | 12,898 | 12,515 | 13,761 | 12,759 |
| CPO production (mt) | 161,844 | 127,697 | 143,916 | 183,616 | 183,617 |

*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) | 10.0 |
| 12m High (p) | 43.0 |
| 12m Low (p) | 10.0 |
| Shares (m) | 126.5 |
| Mkt Cap (£m) | 12.2 |
| EV (£m) | 2.6 |
| 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% |
| Seneca Partners | 12.5% |
| AXA | 9.8% |
| Aviva | 8.4% |
| John Moulton | 7.4% |

**Diary**

| | |
|---|---|
| May'18 | Interims |
| 2H'18 | Submit revised protocol for Phase I with RXC004 |

**Analysts**

Martin Hall 020 7194 7632
mh@hardmanandco.com
Dorothea Hill 020 7194 7626
dmh@hardmanandco.com
Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

# Redx Pharma

## New CEO on board

**The new Board & Management team of REDX 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. A revised study with a lower dosing regimen is being prepared. Meanwhile, REDX starts the month with Lisa Anson (ex-president of AstraZeneca UK) as its new CEO.**

- **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.

- **New CEO appointed:** As from 1 June, REDX has a new CEO, Lisa Anson, who had been President of AstraZeneca (AZN) UK since 2012. She will bring a wealth of experience, having held a variety of senior management roles at AZN in the UK and the US. Lisa is also President of the ABPI.

- **Clinical update:** 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.

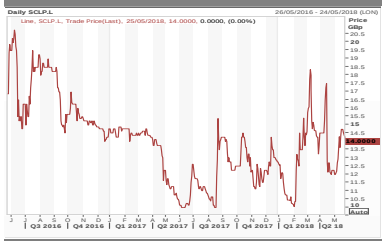
- **Investment summary:** REDX had already started the process of refining its strategy, but recent events have simply accelerated this evolutionary process. The revised business plan focuses cash resources on early clinical development of its drug leads in oncology and fibrotic disease. The commencement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

**Financial summary and valuation**

| Year-end Sep (£000) | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E |
|---|---|---|---|---|---|---|
| Milestones/royalties | 0 | 0 | 0 | 0 | 0 | 0 |
| Other income | 6,157 | 2,648 | 2,380 | 650 | 1,000 | 1,000 |
| R&D investment | -8,342 | -9,463 | -14,315 | -13,000 | -8,715 | -11,079 |
| SG&A (corp. cost) | -1,815 | -2,008 | -2,212 | -5,150 | -3,150 | -3,276 |
| Underlying EBIT | -4,000 | -8,823 | -14,147 | -17,500 | -10,865 | -13,355 |
| Underlying PBT | -4,249 | -9,112 | -14,606 | -21,671 | -10,837 | -13,329 |
| Statutory PBT | -4,263 | -8,825 | -15,407 | 1,709 | -10,860 | -13,372 |
| R&D tax credit | 910 | 650 | 637 | 520 | 523 | 665 |
| Underlying EPS (p) | -7.5 | -14.6 | -17.8 | -18.7 | -8.2 | -8.8 |
| Statutory EPS (p) | -7.6 | -14.1 | -19.8 | 2.0 | -8.2 | -8.9 |
| Net (debt)/cash | 892 | 7,436 | 3,758 | 23,800 | 4,241 | 1,740 |
| Capital increase | 4,383 | 13,447 | 9,296 | 11,170 | 0 | 10,000 |

*Source: Hardman & Co Life Sciences Research*

**Pharmaceuticals & Biotechnology**



*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| EPIC/TKR | **SCLP** |
| Price (p) | 14.3 |
| 12m High (p) | 17.0 |
| 12m Low (p) | 9.7 |
| Shares (m) | 384.6 |
| Mkt Cap (£m) | 54.8 |
| EV (£m) | 43.8 |
| 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**

Martin Hall 020 7194 7632
mh@hardmanandco.com
Dorothea Hill 020 7194 7626
dmh@hardmanandco.com
Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

# Scancell Holdings

## Open offer raises an extra £1.2m

**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 has announced a capital increase by way of a Placing, Subscription and Open offer to raise up to a maximum of £9.5m gross new funds 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 Placing and Subscription of 62.41m new Ordinary shares at 12p to raise gross new funds of £7.5m (est. £6.9m net in April 2018). In addition, there is a 1-for-19 Open offer at 12p per share to existing shareholders, which has had a good uptake and raised a further £1.2m (gross).

- **Use of proceeds:** The principal use of funds will be to progress the clinical programmes for both its vaccine technologies. Among others, SCLP will start a late-stage melanoma combination study with SCIB1 + checkpoint inhibitor in 4Q'18, and commence a first-in-man breast clinical trial with Modi-1 in 1H'19.

- **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

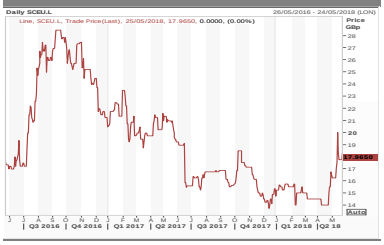
- **Investment summary:** SCLP is trading on an EV of ca.£33m, compared with a cumulative investment of £36m to get the company to where it is today, which is low compared with its relevant peers. SCLP's proprietary technologies are in the 'hot' area of immuno-oncology and targeting markets of significant 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) | 18 |
| 12m High (p) | 24 |
| 12m Low (p) | 14 |
| Shares (m) | 114 |
| Mkt Cap (£m) | 21 |
| EV (£m) | 19 |
| 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 (0) 151 356 2141
www.surfacetransforms.com

## Key shareholders

| | |
|---|---|
| Directors | 15.1% |
| *(13.8% of enlarged share capital)* | |
| 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

| | |
|---|---|
| Summer 2018 | Trading update |
| Sep'18 | Full-year results |

## Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

# Surface Transforms

## Advanced negotiations on range of potential OEMs

**Surface Transforms manufactures and sells carbon ceramic brake discs. These have not only performance and safety benefits, but also weigh less and thus are more environmentally friendly, reducing fuel consumption and emissions. 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. The Aston Martin Valkyrie is on track for an early 2019 start of production (SOP). Potential client OEM 3 remains solid, albeit with testing still ongoing. OEM 5 is developing well. Current revenue is from a well-established business selling to retrofit and 'near OEMs'.**

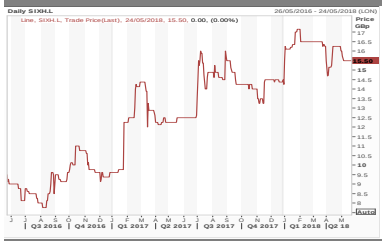
- **A large market at an inflection point:** We are in the early stages of dramatic demand growth. The company is the only alternative to the current near-monopoly supplier, which is substantially owned by the family behind BMW. Surface Transforms is progressing with development for six auto OEMs.
- **Capacity allocation model:** OEM production cell 1 is potentially completely allocated between Aston Martin, OEM 3 and OEM 5. OEM 2 and OEM 4 will follow in the wake of OEM 3, and will require additional capacity. OEM 1 is a lower-priority target, with no current capacity allocated.
- **2020E and 2021E:** SOP for aerospace sales is now expected in 2020 – a further 12-month delay – with expected revenues of £1.5m p.a. Real capacity utilisation of the OEM production cell starts in 2020. We estimate £1m sales in 2020 for OEM 3 and £2m for OEM 5. Each have scope for £4m-plus sales by 2021.
- **Risks:** Investment comes ahead of firm orders and well 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 and risks:** This is a large, growing market, 99% supplied by one player. This is a most anomalous position for an auto OEM market – being resolved by Surface Transforms. Aston Martin prospects are progressing, and an additional £1m revenue for dealer spares has also been added. Including this, the contract value rises to the £2m level. More OEM contracts are awaited.

## Financial summary and valuation

| Year-end May (£m) | 2017 | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| Sales | 0.7 | 1.4 | 2.8 | 7.5 | 10.9 |
| EBITDA | 2.3 | 1.7 | 0.9 | 1.2 | 2.1 |
| EBITA | 2.4 | 2.0 | 1.4 | 0.8 | 1.6 |
| PBT | 2.4 | 2.0 | 1.4 | 0.8 | 1.6 |
| PAT | 2.2 | 1.5 | 1.0 | 1.1 | 2.0 |
| EPS (adj.) (p) | 2.3 | 1.4 | 0.8 | 1.0 | 1.8 |
| 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 £4.7m, FY22E.* *Source: Hardman & Co Research*

Industrial Engineering



*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| EPIC/TKR | **SIXH** |
| Price (p) | 16.0 |
| 12m High (p) | 16.5 |
| 12m Low (p) | 9.1 |
| Shares (m) | 112.9 |
| Mkt Cap (£m) | 18.0 |
| EV (£m) | 31.6 |
| 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 01922 707110
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**

| | |
|---|---|
| Jun'18 | 2016/17 final results |

**Analyst**

Paul Singer 020 7194 7622
ps@hardmanandco.com

# The 600 Group

## Moving into a new growth phase

**The 600 Group is 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. Cyclicality is being de-risked through further development of repeat/recurring business and activities in high-margin, economically less sensitive spares/services operations. The risk/reward profile is favourable, and the shares are attractively valued against the peer group, on a sum-of-parts methodology and on a DCF basis.**

- **Competitive positioning:** 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.
- **Growth prospects:** Growth will be driven primarily organically, with new product developments in both business areas and new geographical market entry. The group also intends to develop its business interests by targeted strategic acquisitions and JVs in the high-growth industrial laser systems market.
- **Trading update/financials:** The 2017/18 interim trading update was positive, with results much as expected, reflecting the healthy operating environment. The group's pension fund is in an accounting surplus, with a value of £46m, and a cash refund to the group (on an insurance buyout) a medium-term possibility.
- **Risks:** The potential risks that could have a material impact on the group's performance are the global macroeconomic environment, Taiwan geo-political issues and Brexit developments. Other risks include competition developments with the industry, currency and raw material price fluctuations.
- **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. The group is in a solid financial position, with its pension fund in surplus. The risk/reward profile is favourable, and the shares are attractively valued on most methodologies.

**Financial summary and valuation**

| Year-end March (£m) | 2016 | 2017 | 2018E | 2019E |
|---|---|---|---|---|
| Sales | 45.3 | 47.0 | 50.5 | 53.5 |
| Gross profit | 15.4 | 16.4 | 18.0 | 19.2 |
| EBITDA | 2.9 | 3.6 | 3.7 | 4.1 |
| Underlying EBIT | 2.4 | 3.1 | 3.2 | 3.6 |
| Reported EBIT | -0.3 | 3.1 | 3.2 | 3.6 |
| Underlying PTP | 1.5 | 2.1 | 2.3 | 2.8 |
| Underlying EPS (p) | 1.7 | 2.1 | 2.1 | 2.3 |
| Statutory EPS (p) | 1.6 | 2.0 | 3.0 | 2.3 |
| Net (debt)/cash | 14.3 | 13.6 | 10.6 | 9.7 |
| P/E (x) | 9.4 | 7.5 | 7.7 | 7.1 |
| EV/sales (x) | 0.6 | 0.6 | 0.6 | 0.6 |
| EV/EBITDA (x) | - | - | 8.5 | 7.7 |

*Source: Hardman & Co Research*

Pharmaceuticals & Biotechnology

*Source: Eikon Thomson Reuters*

| Market data | |
|---|---|
| EPIC/TKR | **TRX** |
| Price (p) | 11.5 |
| 12m High (p) | 15.5 |
| 12m Low (p) | 5.6 |
| Shares (m) | 1,171.6 |
| Mkt Cap (£m) | 134.7 |
| EV (£m) | 118.3 |
| Free Float* | 27% |
| Market | AIM |

**As defined by AIM Rule 26*

**Description**

Tissue Regenix (TRX) is a medical device company focused on regenerative medicine. Its patented dCELL technology removes DNA, cells and other material from animal/human tissue, leaving an acellular tissue scaffold – not rejected by the body – that can be used to repair diseased or worn-out body parts. Its products have multiple applications.

| Company information | |
|---|---|
| CEO | Steve Couldwell |
| CFO | - |
| 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 | |
|---|---|
| Martin Hall | 020 7194 7632 |
| | mh@hardmanandco.com |
| Dorothea Hill | 020 7194 7626 |
| | dmh@hardmanandco.com |
| Grégoire Pavé | 020 7194 7628 |
| | gp@hardmanandco.com |


# Tissue Regenix

## GPO contract agreement extended

**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 repair of tissues and bone. 2017 was a dynamic year for the group, growth being boosted by the acquisition of CellRight Technologies. Management continues to integrate and streamline the business and is seeking distribution partnerships to maximise the opportunity. This month, TRX extended its agreement with the US Group Purchasing Organisation (GPO) Premier, Inc. for DermaPure, providing continued access to the in-patient network.**

- **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.
- **Integration:** TRX moved quickly to integrate its existing San Antonio operation within established facilities acquired with CellRight Technologies. Manufacturing technology transfer for DermaPure, a product used in acute and chronic wound care, orthopaedic, and other applications, has been successfully completed.
- **Premier agreement:** The TRX Biosurgery subsidiary has extended its GPO agreement with Premier, initially approved in 2016, for a further three years under a Tissue, Implantable Products contract. This maintains access to around 3,900 hospitals and to more than 150,000 provider organisations.
- **Partnerships:** TRX is looking at more ways to maximise the opportunities for the enlarged group by broadening the product offering and through geographical expansion. To this end, management has signed two US distribution deals, including with ARMS Medical for DermaPure in urology and gynaecology.
- **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 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 | 12.00 | 19.30 | 26.36 |
| EBITDA | -9.86 | -10.55 | -8.98 | -9.23 | -4.03 | -0.01 |
| Underlying EBIT | -10.11 | -10.85 | -9.69 | -10.39 | -5.20 | -1.21 |
| Reported EBIT | -10.24 | -11.06 | -10.82 | -10.49 | -5.30 | -1.31 |
| Underlying PBT | -9.89 | -10.74 | -9.64 | -10.34 | -5.20 | -1.22 |
| Statutory PBT | -10.03 | -10.95 | -10.77 | -10.44 | -5.30 | -1.32 |
| Underlying EPS (p) | -1.26 | -1.28 | -0.90 | -0.81 | -0.38 | -0.05 |
| Statutory EPS (p) | -1.28 | -1.30 | -1.02 | -0.82 | -0.39 | -0.06 |
| Net (debt)/cash | 19.91 | 8.17 | 16.42 | 5.42 | -1.66 | -3.83 |
| Capital increase | 19.02 | 0.00 | 37.99 | 0.00 | 0.00 | 0.00 |
| P/E (x) | - | - | - | - | - | - |
| EV/sales (x) | - | - | 22.6 | 9.9 | 6.1 | 4.5 |

**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) | 204.0 |
| 12m High (p) | 217.0 |
| 12m Low (p) | 129.0 |
| Shares (m) | 11.1 |
| Mkt Cap (£m) | 22.6 |
| EV (£m) | 19.3 |
| 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 |

01206 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

Tony Williams 020 7194 7622
tw@hardmanandco.com

# Titon Holdings Plc

## .....long live the summit

**Jong-un, North Korea's Supreme leader; it was to be on 12 June. The smart money says there will be another one, brokered by China. On or off, up or down, though, Titon prospers perennially in – an extraordinarily resilient – South Korea and in its latest half year generated three-quarters of its net profit in this Nation.**

- **Results:** PBT in the half year to 31 March 2018 scaled 15% on a constant currency basis to £1.34m, on revenue up 16% to £14.5m. The dividend also rose 17% to 1.75p, with tent cover at 4.1x. Herein, too, South Korea raised its contribution 13% to £0.9m in 1H and contributed 74% of Titon's net profit.

- **Metrics:** RoNA in 1H was 18.9%, on an adjusted basis, with capital turn above 2.0 (we like this 'un') and liquidity pinnacle-less, i.e. a quick ratio of 1.93. Meantime, net cash is equivalent to 16% of net assets. Titon is also looking forward to further elevation in 2H – in line with expectations.

- **Forecasts:** We have nudged up our profit and earnings forecasts, and the UK will lead seasonal hiking in 2H and, while domestic GDP is below trend and vertex, it should rise at 1% to 2% p.a. through 2020. In South Korea, ex-any peace dividend, GDP will grow 2.9% p.a. this year and next (FocusEconomics).

- **Risks:** Peace has yet to break out on the Korean Peninsula but life continues as normal in South Korea. At home, there is continued Brexit uncertainty but Experian is forecasting annual growth in construction of 1.1% in 2018 through 2020, with private housebuilding increasing at 3.0% p.a. Elsewheres on the map are seed corn for the future – for a group that produces prosaic and truly innovative products. This is a useful combination and affords good reach.

- **On a clear day:** The unique Hardman UK Building Materials Sector comprises 23 companies with a market value of £8.5bn and our average valuation of 8.9x EV/EBITDA on a trailing 12-month basis. Titon is in the lower half of the table at 7.9x – despite the third-best Total Return to Shareholders (TSR) of 26.5% over 12 months; note, too, the Sector TSR average is just 2.1%.

## 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 issued | 10.8 | 10.9 | 11.1 | 11.1 | 11.1 | 11.1 |
| P/E (x) | 16.2 | 13.4 | 12.5 | 11.3 | 10.4 | 9.7 |
| EV/EBITDA (x) | 9.3 | 8.7 | 7.9 | 6.7 | 6.1 | 5.5 |
| DPS (p) | 3.00 | 3.50 | 4.20 | 4.90 | 5.75 | 6.00 |
| Yield | 1.5% | 1.7% | 2.1% | 2.4% | 2.8% | 2.9% |

*Source: Hardman & Co Research*

**Pharmaceuticals & Biotechnology**

*Source: Eikon Thomson Reuters*

**Market data**

| | |
|---|---|
| EPIC/TKR | **VAL** |
| Price (p) | 2.5 |
| 12m High (p) | 7.8 |
| 12m Low (p) | 0.9 |
| Shares (m) | 455.0 |
| Mkt Cap (£m) | 11.4 |
| EV (£m) | 10.9 |
| 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**

Martin Hall 020 7194 7632
mh@hardmanandco.com
Dorothea Hill 020 7194 7626
dmh@hardmanandco.com
Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

# ValiRx

## Further capital increase

**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. New funds of £0.95m gross have been raised through VAL's new broker Novum, and proceeds will be used to progress both clinical and pre-clinical assets.**

- **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.

- **Capital increase:** During May, VAL completed a Placing to raise a total of £0.95m gross new capital through the issue of 47.5m new Ordinary shares at 2p per share. The new capital was raised by its new broker, Novum Security Ltd, which was granted 1.8m warrants at 2.5p per share in lieu of fees.

- **Use of proceeds:** The new funds will be used to progress the Phase I/II clinical study with VAL201 in advanced prostate cancer. Proceeds will also be used to complete the preparatory works on VAL's pre-clinical assets, VAL 101 and VAL301, prior to entering the clinic.

- **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*

# Notes

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*Hardman & Co Research Limited (trading as Hardman & Co)*
*35 New Broad Street*
*London*
*EC2M 1NH*

*+44 (0) 20 7194 7622*
*Follow us on Twitter @HardmanandCo*

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# Hardman & Co team

## Management team

**+44 (0)20 7194 7622**

| | | | |
|---|---|---|---|
| John Holmes | jh@hardmanandco.com | +44 (0)20 7194 7629 | Chairman |
| Keith Hiscock | kh@hardmanandco.com | +44 (0)20 7194 7630 | CEO |

## Business development and investor engagement

**+44 (0)20 7194 7622**

| | | | |
|---|---|---|---|
| Richard Angus | ra@hardmanandco.com | +44 (0)20 7194 7635 | Business development |
| David Banks | db@hardmanandco.com | +44 (0)20 7194.7622 | Corporate Advisory/Finance |
| Max Davey | md@hardmanandco.com | +44 (0)20 7194 7622 | Investor engagement |
| Antony Gifford | ag@hardmanandco.com | +44 (0)20 7194 7622 | Investor engagement |
| Ann Hall | ah@hardmanandco.com | +44 (0)20 7194 7622 | Business development |
| Gavin Laidlaw | gl@hardmanandco.com | +44 (0)20 7194 7627 | Investor engagement |
| Vilma Pabilionyte | vp@hardmanandco.com | +44 (0)20 7194 7637 | Business development |

## Analysts

**+44 (0)20 7194 7622**

| | | | |
|---|---|---|---|
| **Agriculture** | | **Bonds / Financials** | |
| Doug Hawkins | dh@hardmanandco.com | Brian Moretta | bm@hardmanandco.com |
| Yingheng Chen | yc@hardmanandco.com | Mark Thomas | mt@hardmanandco.com |
| **Building & Construction** | | **Consumer & Leisure** | |
| Tony Williams | tw@hardmanandco.com | Steve Clapham | sc@hardmanandco.com |
| Mike Foster | mf@hardmanandco.com | Mike Foster | mf@hardmanandco.com |
| | | Jason Streets | js@hardmanandco.com |
| **Life Sciences** | | **Media** | |
| Martin Hall | mh@hardmanandco.com | Derek Terrington | dt@hardmanandco.com |
| Dorothea Hill | dmh@hardmanandco.com | | |
| Grégoire Pavé | gp@hardmanandco.com | | |
| **Mining** | | **Oil & Gas** | |
| Paul Mylchreest | pm@hardmanandco.com | Angus McPhail | am@hardmanandco.com |
| **Property** | | **Services** | |
| Mike Foster | mf@hardmanandco.com | Mike Foster | mf@hardmanandco.com |
| **Special Situations** | | **Tax Enhanced Services** | |
| Steve Clapham | sc@hardmanandco.com | Brian Moretta | bm@hardmanandco.com |
| Paul Singer | ps@hardmanandco.com | | |
| Yingheng Chen | yc@hardmanandco.com | | |
| **Technology** | | **Utilities** | |
| Milan Radia | mr@hardmanandco.com | Nigel Hawkins | nh@hardmanndco.com |

**Hardman & Co**

35 New Broad Street
London
EC2M 1NH

Tel: +44(0)20 7194 7622

www.hardmanandco.com