The Monthly

May 2018

Feature article:

Defensive stocks – the mixed record over the last decade

By Nigel Hawkins, Hardman & Co Analyst

Hardman Clients

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Advanced Oncotherapy
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Chamberlin
City of London Investment Group
Civitas Social Housing
Collagen Solutions
Diurnal
Engitix Ltd
Evgen Pharma
Gateley (Holdings)
Genedrive
Inland Homes
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

Prior to the financial crisis of 2008/09, it was widely believed in the stock market that certain sectors – most notably utilities, pharmaceuticals, food retailing and tobacco – were far less vulnerable to market downturns.

The reality has been very different, as the figures below indicate, with three of the FTSE-100 companies under review – BT Group (especially over the last 18 months), Centrica and Tesco – enduring a desperately difficult decade.

It is fair to ask how this long-standing market shibboleth – part of stock market folklore for generations – has been tarnished.

Last month's publications

Date	Company	Sector
4 Apr	**Arbuthnot Banking Group (ARBB):** 2017: capital deployed, adding value	Financials
5 Apr	**Tissue Regenix (TRX):** CellRight hits the right note	Life Sciences
9 Apr	**UK Housebuilding Sector - Spring 2018:** Bombogenesis: happening now?	Building and Construction
11 Apr	**Global Pharmaceuticals:** 2017 industry statistics	Life Sciences
12 Apr	**Chamberlin (CMH):** Trading healthy, technical issues improving	Industrial Engineering
12 Apr	**Genedrive plc (GDR):** Progressing commercialisation plans	Life Sciences
17 Apr	**Avacta Group (AVCT):** Commendable rate of progress	Life Sciences
19 Apr	**Alliance Pharma (APH):** Entering the US market	Life Sciences
19 Apr	**City of London Investment Group (CLIG):** Robust performance in volatile quarter	Financials
20 Apr	**ValiRx (VAL):** 2017: a pivotal year	Life Sciences
25 Apr	**Inland Homes Plc (INL):** INL:DNA (interim results)	Construction & Materials

Source: Hardman & Co Research

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Defensive stocks – the mixed record over the last decade

- There has been a long-held market belief that, in times of severe market pessimism, investors could rely on four defensive sectors – utilities, pharmaceuticals, food retailing and tobacco – to outperform a falling market. In 2008/09, with the near-collapse of the banking sector, and, specifically, the unimaginable £45.5bn taxpayer injection into RBS, confidence was low.

- While the FTSE-100 has risen by ca.20% since late April 2008 – the period leading up to the financial crisis – the decade-long record of the so-called defensive stocks has been very mixed. This article assesses how nine of the most high-profile FTSE-100 defensive stocks have performed.

- By far the most notable outperformers in this group have been AstraZeneca and British American Tobacco. The former's share price has been driven by both regular bid speculation and investor demand for pharmaceutical companies perceived to have prosperous pipelines. British American Tobacco has benefited from its global stretch, through the selling of increased volumes of tobacco products to third-world countries.

- Since 2008, shares in GlaxoSmithKline, Imperial Brands and National Grid have broadly tracked the FTSE-100 Index, which has risen by a compound rate of below 2% per year over the period. While BT's shares have slightly trailed the FTSE-100, the stock has performed particularly badly of late. In SSE's case, its shares are slightly down on its April 2008 rating.

- Of the nine FTSE-100 stocks under review, two have been very poor performers. Leading grocer, Tesco, has seen its share price almost halve over the decade – and that is after a rally in recent weeks. Centrica's share price performance over the period is similar, as it faces various woes in the UK gas market.

- The 10-year stock data show significant differences between the nine FTSE-100 stocks under review. A £1m investment in AstraZeneca in April 2008 would now be worth ca.£2.4m; the same amount invested in Centrica would be worth ca.£500k. Hence, based on stock-picking alone, there is a difference of almost 5x (although some adjustments may be needed to reflect rights issues and similar events).

Background

How defensive are defensive stocks?

Prior to the financial crisis of 2008/09, it was widely believed in the markets that certain sectors – most notably utilities, pharmaceuticals, food retailing and tobacco – were far less vulnerable to market downturns.

The reality has been very different, as the figures below indicate, with three of the FTSE-100 companies under review enduring a desperately difficult decade: the FTSE-100 itself rose by a rather modest ca.20% over the period.

It is fair to ask how this long-standing market shibboleth – part of stock market folklore for generations – has been severely tarnished.

Strange bed-fellows indeed…

What is particularly noticeable about this data is how the so-called defensive stocks have performed so very differently: AstraZeneca and British American Tobacco – a strange combination, it must be said – have outperformed very strongly, as the table below illustrates, while shares in Centrica and Tesco have virtually halved.

The decade-long evidence

The decade-long evidence

Company	Share price performance since April 2008
AstraZeneca	+140%
British American Tobacco	+103%
BT	+12%
Centrica	-49%
GlaxoSmithKline	+27%
Imperial Brands	+1%
National Grid	+10%
SSE	-2%
Tesco	-45%

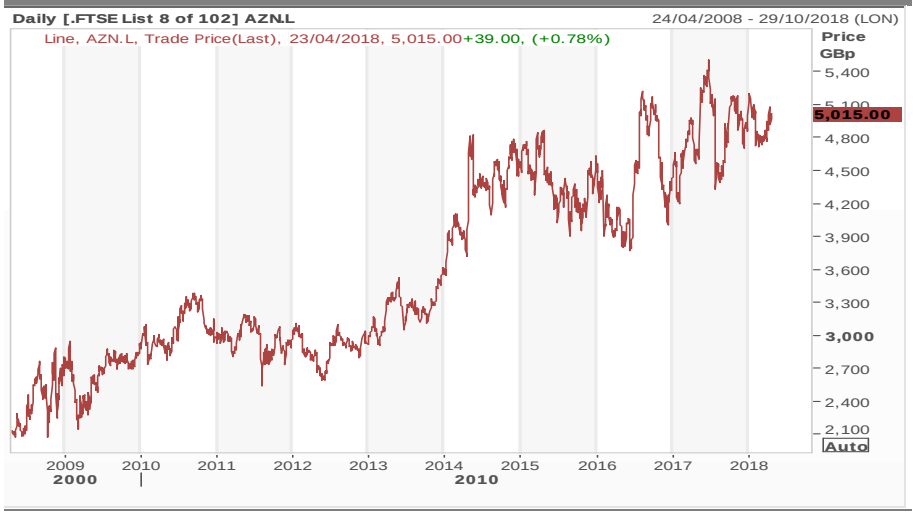
Source: Hardman & Co Research

The 10-year share price graphs below show how well both British American Tobacco and AstraZeneca (especially), have performed.

AstraZeneca thrives…

In AstraZeneca's case, its shares have moved continuously upwards since 2008. Much of this was on the back of bid speculation, culminating in an approach from Pfizer in May 2015, which was rebuffed. In its defence, AstraZeneca highlighted an attractive drug pipeline, which now needs to deliver. If it fails to do so, given the recurring theme of pharmaceutical industry consolidation, bid speculation is likely to return. Regarding AstraZeneca's financial performance, over the 10-year period, both reported and core EPS have declined (CAGR -5.6% and -2.2%, respectively), while DPS has increased 4.0% over the same period.

AstraZeneca: 10-year share price performance graph



Source: Eikon Thomson Reuters

Shares in British American Tobacco have also risen in recent years, as the company continues to develop its global operations, despite many effective anti-smoking lobbies in many western countries.

British American Tobacco: 10-year share price performance graph

Source: Eikon Thomson Reuters

Four of the FTSE-100 companies under review – Glaxo SmithKline, Imperial Brands, National Grid and SSE – have, in very broad terms, tracked the market since April 2018.

BT struggles…

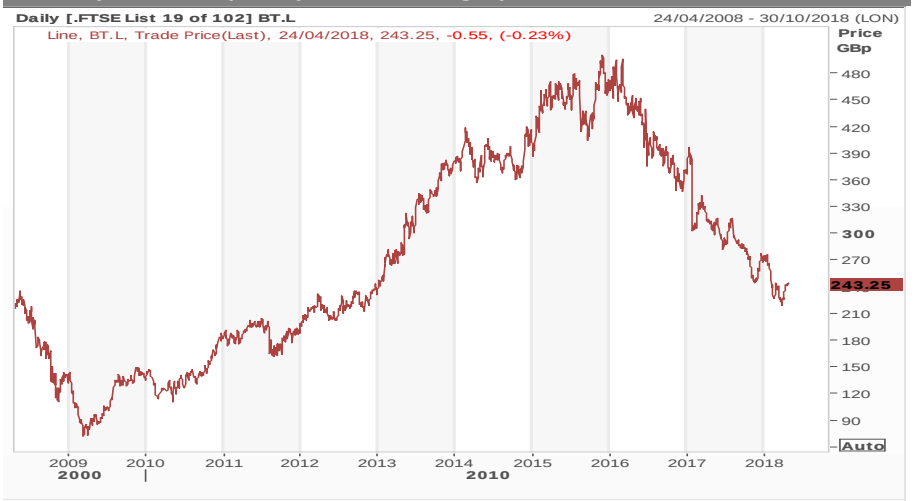
While, overall, BT shares are slightly up over the 10-year period, they have underperformed the FTSE-100 Index. However, most significantly, they have halved since the start of 2016, as a series of negative factors – ranging from accounting issues in Italy to pension fund deficits – have depressed the share price.

Tesco's margin challenge…

Another utility, Centrica, has seen its share price fall progressively since 2014, with no obvious recovery in sight. As for Tesco, one of the market's star performers before 2008, it has seen a decade of real difficulty, especially over the last six years, when various negative issues, especially rapidly falling operating margins, have come to the fore. The planned Sainsbury/ASDA tie-up, if approved, would provide further challenges.

The graphs below track the relative share prices of BT, Centrica and Tesco; they highlight a decade of real disappointment for their investors.

BT: 10-year share price performance graph



Source: Eikon Thomson Reuters

Centrica: 10-year share price performance graph

Source: Eikon Thomson Reuters

Tesco: 10-year share price performance graph

Source: Eikon Thomson Reuters

The outperformers

AstraZeneca: Compared with its long-standing rival, GlaxoSmithKline, shareholders in AstraZeneca have benefited substantially over the last decade. Although earnings have declined and dividend growth has been modest, AstraZeneca's drugs portfolio is perceived to have expanded. Products for cardiovascular and metabolic diseases lie at the heart of its portfolio, and expectations are high for its oncology-related drugs. Corporate activity in the sector has been the key share price driver.

British American Tobacco: In recent years, British American Tobacco has delivered very strong financial results, due mainly to the success of its various Global Drive Brand initiatives. While, in many western countries, tobacco consumption is falling, elsewhere, British American Tobacco's top line is prospering. It now supplies around one-eighth of the global tobacco market, which encompasses around 1 billion adult smokers.

The market trackers (broadly)

BT: The last 18 months have been very depressing for BT's shareholders, after a period when confidence was high. Ongoing political debate about broadband provision – and how much BT will have to spend to modernise its network – allied to fears about regulatory issues relating to Openreach continue to weigh heavily. The Italian accounts fiasco has been well documented, but more news on the ca.£14bn pension fund deficit is due shortly. Even so, underlying earnings growth has proved elusive for many years.

GlaxoSmithKline: Compared with its impressive late 1990s' performance, GlaxoSmithKline has endured a challenging decade. A combination of factors is responsible, including the expiry of several key patents driving payors towards cheaper generic alternatives, the absence of new 'blockbuster' products in the pipeline, and the failure of management to use what was a very strong balance sheet to buy in new technologies. For example, GlaxoSmithKline preferred to take a profit on its investment in Gilead Sciences rather than buy out the other 80%; today Gilead ($107bn) is a bigger company than GlaxoSmithKline ($101bn) by market capitalisation. Importantly, under new leadership, GlaxoSmithKline is reassessing its strategy, but the jury is still out given that it has just been forced to buy out the consumer/OTC share of its JV with Novartis.

Imperial Brands: With a far less global profile than that of British American Tobacco, shares in Imperial Brands have been comparatively unexciting performers since 2008/09. Its market is more westernised and, as such, does not generate the level of growth that could be expected elsewhere. Furthermore, anti-smoking initiatives – ranging from new legislation to tighter branding requirements – have stunted progress. The popularity of vaping is also having an impact.

National Grid: As the monopoly provider of UK electricity transmission services, National Grid enjoys favourable price-regulated returns, which – with its UK gas operations and US energy business – provide the core of its revenues. Given the ongoing Ofgem price review process, along with the Labour Party's re-nationalisation proposals, National Grid faces undoubted challenges. Its share price also responds to changes in UK and US bond yields – both are close comparators.

SSE: In recent years, SSE has faced a series of challenges, which have held back its share price performance. Low generation returns, regulatory pricing reviews, fears over renewable subsidies, a very thin dividend cover and political intervention are all areas where SSE is vulnerable. However, as a major renewable energy player, SSE remains well placed – and may well be involved in corporate activity within the sector.

The underperformers

Centrica: Having seen its share price halve over the decade, Centrica remains severely challenged. A decade ago, a takeover by Russia's Gazprom was a possibility. Nowadays, though, the shares are weighed down by concerns about falling gas demand, the proposed UK retail price controls, which will adversely affect gas margins, and a thinning dividend cover. Furthermore, recent progress in the US energy market has stalled; political worries are also to the fore.

Tesco: Prior to 2008, there was real concern about the ongoing building of new, out-of-town supermarkets, and relatively little talk about new entrants and any impact they might have on UK operating margins. A decade on, Tesco faces far greater challenges. New competitors, notably Aldi and Lidl, have arrived – and Amazon may crank up its activities. For Tesco, its UK market share, at ca.29%, remains robust, but its margins have been hammered – comfortable operating margins of 5% in the past are now below 3%; this has been a key factor in the precipitous share price decline.

And finally…

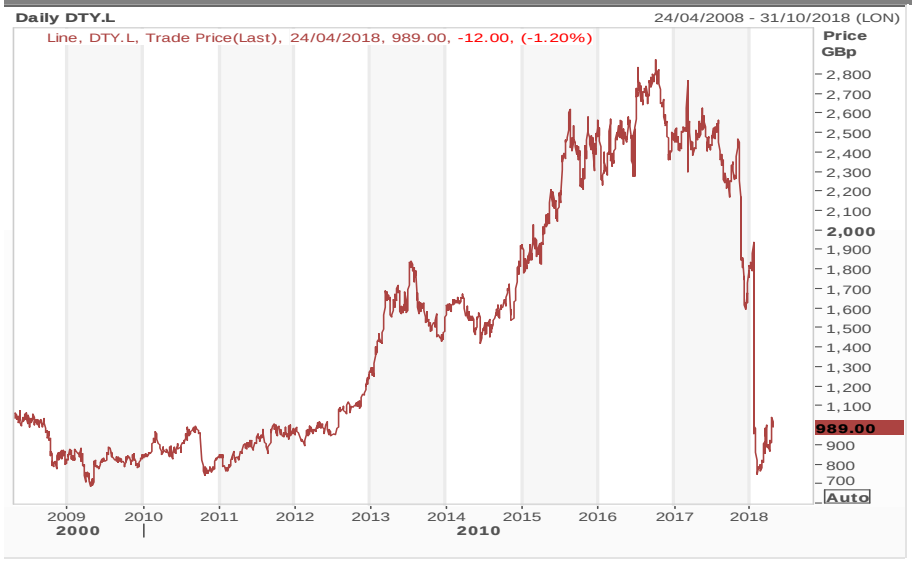
A whimsical addition…

In an uncertain financial environment, it might be thought that Dignitas, the UK's leading funeral operator, which is capitalised at a modest ca.£500m, might prosper; not so – the reality is summarised below.

As the graph below demonstrates, Dignity's share price has declined significantly since the end of 2017.

Dignity: Given the certainty of deaths, it seems odd that Dignity has announced a major profit warning and the fundamental re-structuring of the business. However, having raised prices consistently over the last decade, it was hardly surprising that undercutting would take place. Funerals organised by the Co-op are now very popular. Undoubtedly, the latter's activities have seriously disconcerted Dignity – as the share price decline indicates.

Dignity: 10-year share price performance graph



Source: Eikon Thomson Reuters

Conclusion

Some FTSE-100 companies will look back on the previous decade as one of relative prosperity, in which they delivered material – and substantial – benefits to shareholders.

Persimmon booms…

For example, within this category is the UK's leading housebuilder, Persimmon, whose shares have quadrupled over the decade, driven in part by the Help-to-Buy policy. Persimmon's main rival, Taylor Wimpey, was on its knees in late 2008, with a share price of just 11p, compared with almost 200p currently.

Against that background, the performance of the so-called defensive stocks has been neither impressive nor reassuring, especially if the AstraZeneca and British American Tobacco outperformances are overlooked.

Tin hats offer poor protection…

The old 'tin-hat' myth of migrating to defensive stocks when market pessimism abounds has not endured.

About the author

Nigel Hawkins undertakes analysis of the Utilities sector at Hardman & Co, along with working on some special projects.

He has been an investment analyst since 1989, focusing on the UK/EU privatised water and electricity sectors, as well as the gas and telecom companies. He has worked at Hoare Govett, Yamaichi and Williams de Broe.

Before joining the City, he worked as Political Correspondence Secretary to Lady Thatcher at 10 Downing Street, between 1984 and 1987. Prior to that, he qualified as an Associate of the Institute of Chartered Secretaries and Administrators (AICS), and he graduated in Law, Economics and Politics from Buckingham University.

Company research

Priced at 24 April 2018 (unless otherwise stated).

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**OPM**
Price (p)	49.0
12m High (p)	60.6
12m Low (p)	40.3
Shares (m)	83.8
Mkt Cap (£m)	41.1
EV (£m))	40.2
Free Float*	35%
Market	AIM

**As defined by AIM Rule 26*

Description

1pm (OPM) 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

Jul'18	Trading update

Analyst

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1pm plc

Further funding shows confidence in outlook

We reviewed 1pm in detail in our note, "Financing powerhouse: A lunchtime treat", and its January results in "Delivering Value Added Strategy." We believe the May 2019E P/E of 5.9x and P/B of 0.8x are an anomaly for a profitable, growing company. In April, the block dicsounting facility was increased by £14.5m to £62m. Combined with the British Business Bank (BBB) facility (£35m) announced in March and access to international retail funding via the Mintos marketplace (February), 1pm has built significant funding firepower. It also shows increasing confidence in the business by government, block and retail investors, as well as management.

- **1pm news:** 1pm has been building a broad base of funding, including block funders, the government (via BBB) and a digital platform (via Mintos). The funding at least matches lending duration, and its average cost has been falling. Such funding would have been unavailable to the constituent elements and is a key benefit from the enlarged group. It is a lead indicator of expected growth.
- **Peer news:** 1pm has diversified its funding by source, nature and geography. PCF chose the bank licence route and announced, on 16 April, that it had passed £100m in deposits. Small niche lenders have material growth opportunities.
- **Market news:** UK finance reported 5% growth in asset-backed and invoice finance in 2017. 1pm's market share of this total (£23bn) is around 0.1%. Even on tighter definitions of its market, its share is negligible. Significant growth can be seen without compromising asset quality and exploiting group synergies.
- **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 5.9x 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)	13.2	7.6	7.6	6.2	5.9
P/B (x)	1.5	1.1	0.9	0.9	0.8
Yield	0.7%	1.0%	1.0%	1.2%	1.6%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**ABZA**
Price (p)	19.0
12m High (p)	54.7
12m Low (p)	15.0
Shares (m)	213.6
Mkt Cap (£m)	40.6
EV (£m)	33.8
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
Jun'18	2018 results
2H'18	Further 'Abzena *Inside*' data

Analysts

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Abzena

Initial signs of investment benefits

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 1Q'18 results, scheduled for release on 1 May.

- **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)	44.5
12m High (p)	75.0
12m Low (p)	9.5
Shares (m)	150.5
Mkt Cap (£m)	67.0
EV (£m)	60.0
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

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Advanced Oncotherapy

Awaiting closure of distribution agreement

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. Advanced discussions are still ongoing for the commercialisation of the LIGHT system in China and other SE territories with Liquid Harmony, a Yantai CIPU entity. This does not change the conditional receipt of £16.5m due to AVO.

- **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.
- **Distribution agreement:** As negotiations with new potential participants advance in China, Yantai CIPU has requested a further extension of the long stop date for the distribution agreement. This does not change the contract between AVO and Yantai CIPU, or the conditional receipt of £16.5m due to AVO.
- **Commercialisation:** A statement from AVO highlighted that Liquid Harmony, which is an affiliate entity of Yantai CIPU, is still in advanced discussions with a major medical equipment distribution company: "[AVO] possesses all of the right attributes and fundamentals on which we can build upon our strategy".
- **Risks:** The funding risk has now greatly reduced, although release of cash from the People's Republic of China requires approval from the Government. The more complex technical challenges of the LIGHT project have been overcome, but there is still some risk in completing integration of the four structures.
- **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)	25.5
12m High (p)	39.5
12m Low (p)	23.0
Shares (m)	594.1
Mkt Cap (£m)	151.5
EV (£m)	128.9
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

16 Feb	Hardman PQ Grass report
3Q'18	Ph.II PQ Grass trial
2H'18	Ph.III PQ Birch trial
Sept'18	Finals

Analysts

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dmh@hardmanandco.com
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Allergy Therapeutics

Awaiting grass trial results

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Pollinex Quattro (PQ) Grass, the subcutaneous allergy immunotherapy (AIT), continues to gain market share despite being available in the EU only on a 'Named Patient' basis. A Phase III trial, designed to obtain approval for PQ Birch as a biologic in Europe, is well advanced. The Phase II PQ Grass trial (G205) will report shortly, early in 2H calendar 2018, with data on safety and dose-response. The market seems to be awaiting these data, since they will underpin progression towards licensing in Europe and the US, and thus provide the next inflection point.

- **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

- **Grass trial:** The Phase II PQ Grass trial (G205) completed recruitment in February 2018. The trial is evaluating dose-response and safety towards licensing applications in both Europe and the US and underpins progression of AGY towards its entry to the US market.

- **Awaiting data:** Management has stated that it expects headline data from G205 early in 2H calendar 2018. This reflects the next major value inflection point for AGY, and, as such, the share price has been drifting down since preliminary results in October 2017, while the market awaits these results.

- **Interims:** Underlying sales grew 1.3% to £42.2m (£40.4m) in fiscal 1H'18 despite an unexpectedly weak pollen season, which suggests further market share gains. Careful control of costs (marketing -2% at CER) and working capital, plus timing of the planned increase in R&D spend, generated a cash position of £25.8m.

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

Financial summary and valuation

Year-end June (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	43.23	48.51	64.14	68.0	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)	78.2
12m High (p)	79.4
12m Low (p)	47.0
Shares (m)	475.0
Mkt Cap (£m)	371.5
EV (£m)	4349.9
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 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	12.5%
MVM Life Sciences	11.7%
Artemis	10.1%
Fidelity	9.4%
Slater Invests.	7.3%
River & Merc	5.0%
GVQ IM	5.0%
Strategic Equity Cap.	3.0%

Diary

Apr'18	Annual report
May'18	AGM

Analysts

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Alliance Pharma

Entering the US market

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. Full-year results supported the January trading statement, with strong sales of Kelo-cote and MacuShield underpinning EBITDA growth, and helping to generate strong underlying operational cashflow. The acquisition of Vamousse (third international growth brand) appears to be integrating well already and opens up the US market.

- **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.

- **2017 results:** APH continued its year-on-year growth trend, with group sales of £103.3m (£97.5m), an increase of 6%. At constant currency, sales grew 3%, benefiting from exceptional sales of its two international growth brands, Kelo-cote (+34% to £13.3m) and MacuShield (+38% to £7.3m).

- **Net debt:** Strong operational cashflow reduced underlying group debt ahead of expectations. However, end-of-period acquisitions were financed in cash, giving net debt of -£72.3m at 31 December 2017. Net debt/EBITDA was 2.6x, comfortably within APH's 3.0x covenant limit.

- **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 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 16.1x and carry a prospective dividend yield of 1.9%, 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	15.9	22.2	*28.4	**28.4	29.9	33.7
Underlying EPS (p)	4.2	4.1	***5.5	4.8	5.3	5.9
Reported EPS (p)	4.9	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	0.5
P/E (x)	18.2	18.5	13.9	16.1	14.5	12.9
EV/sales (x)	9.0	4.5	4.2	3.7	3.4	3.2
EV/EBITDA (x)	32.0	16.3	15.4	13.4	12.3	11.3
Dividend yield	1.4%	1.6%	1.7%	1.9%	2.1%	2.3%

**Includes £5m Sinclair settlement less costs; **Includes £1.5m profit on disposal of 60% share of Unigreg JV; ***Includes one-time benefit from the lowering of tax rates in France and the US*

Source: Hardman & Co Life Sciences Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**ARBB**
Price (p)	1,485
12m High (p)	1,599
12m Low (p)	1,245
Shares (m)	15.3
Mkt Cap (£m)	221
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

Sir Henry Angest	56.1%
Liontrust Inv. Ptnrs. LLP	6.3%
Prudential plc	4.2%
Slater Investments	4.0%
R Paston	3.6%
Miton	2.7%

Diary

10 May	AGM
17 July	Interim results

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

Arbuthnot Banking Group

Strong growth outlook, shares 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, which will see further investment in 2018/19. Despite this investment, we still expect 2019 profits to be 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 appears an anomaly with this track record and the opportuinities available to the group.

- **Outlook:** ABG is only a third of the way through deploying its surplus capital. With the initiatives outlined recently, we see accelerated investment in 2018 (reducing our earnings forecast), but we still predict ca.30% profit growth. Our new 2019 profit forecast is higher than we had previously estimated for 2018.

- **Other news:** The private bank CEO is stepping down for personal reasons but is staying on the Board until August. His duties will be divided among several Group executives until a suitable replacement is found. Given the handover period and depth of management, we do not see this as a material issue.

- **Market news**: The most recent data from UK finance indicates UK SME bank deposits at end-2017 totalling £64bn (ABG SME deposits £308m, 0.5%). SME loans totalled £83bn (ABG SME loans £305m, 0.4%). From such small market shares, we believe ABG can grow rapidly without compromising credit quality.

- **Valuation:** The range of our base-case valuation methodologies is now £14.76-£27.13 (previously £15.34-£26.41). The further investment modestly reduced near-term earnings-based models, while the rise in STB's share price increased the sum-of-parts. 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)	110.0	86.8	31.3	26.4	15.7
P/BV (x)	1.84	0.97	0.96	0.95	0.92

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**AVCT**
Price (p)	31.0
12m High (p)	98.0
12m Low (p)	30.0
Shares (m)	68.4
Mkt Cap (£m)	22.1
EV (£m)	13.8
Free Float*	59%
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

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Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

Avacta

Continuing to hit objectives

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 looks 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, 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.

- **2015 objectives:** In 2015, AVCT set out a number of objectives to advance the potential use of Affimer technology in both therapeutics and diagnostics. In just two years, the company has made incredible progress and looks set to enter the clinic with a potentially valuable and novel bi-specific Affimer asset in 2020.

- **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$)	0.56
12m High (A$)	0.57
12m Low (A$)	0.31
Shares (m)	482.0
Mkt Cap (A$m)	270.2
EV (A$m)	251.7
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
Sept'18	2018 finals
1H'19	PTSD trial results

Analysts

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Bionomics

New oncology data

BNO is an Australian biopharmaceutical company specialising in ion channel drug discovery for central nervous system (CNS) disorders such as anxiety, post-traumatic stress disorder (PTSD) and Alzheimer's disease. BNO also offers contract and partnered drug discovery based on its proprietary platforms: MultiCore and ionX. As such, the sales model includes fees-for-service, licensing income and royalties from successful partnered products. BNO's strategic focus is clinical development to Phase III of its lead candidate in PTSD – it is seeking to divest its clinical oncology programmes, on which it released new data last month.

- **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.

- **Off-strategy assets:** BNC101 is in a Phase Ia trial for colorectal cancer (CRC), targeting the LGR5 receptor on cancer stem cells (CSCs). CSCs are thought to be responsible for tumour relapse following conventional treatments. BNC105 is currently being investigated in a Phase I trial in chronic lymphocytic leukemia.

- **New data:** BNO's posters at the AACRC meeting included new data consistent with BNC101 having a pharmacodynamic effect in patients, measured as a statistically significant decrease in MMP-9/TIMP-1 ratio, a marker of improved CRC prognosis. *Ex vivo*, BNC105 induced apoptosis in patient-derived AML cells.

- **Deal news flow:** BNO has reiterated that it is on track for an oncology deal by its Jun'18 year-end. We believe BNO has been in discussion with potential partners for at least 11 months. Although, to our knowledge, no CSC-directed therapy has yet been approved, prior deals have been of high value.

- **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)	1488.0
12m High (p)	1492.0
12m Low (p)	733.5
Shares (m)	208.2
Mkt Cap (£m)	2,865
Total assets ($m)	1,318
Free Float*	86%
Market	AIM

**As defined by AIM Rule 26*

Description

Burford Capital (BUR) 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 May	AGM
22 June	Final dividend paid

Analyst

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Burford Capital

Invesco concludes position adjustment

April has been a quiet month for news flow from Burford. During the month, Invesco Perpetual completed a block sale of approximately 2.59m Burford shares. This reduces its stake to 17.8% of the outstanding shares. Invesco has been steadily reducing its stake over time – at the IPO, it held a 45% stake, and, a year ago, this was 26%. We understand the sales are due to risk management, as the very good performance of the shares has led to them being a larger proportion of Invesco's portfolios. Invesco has indicated that the level is now comfortable, maintaining its position in the current context of its funds.

- **Asia:** Burford has been slowly developing its operations in Asia, and last year added its first employee in Singapore. A recent forum showed that publicity of the recent enabling of litigation finance means awareness is high, but detailed knowledge is still weak. That is expected to change as the market develops.
- **Risks:** The investment portfolio is still diversified, with exposure to over 500 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%	0.5%	0.6%	0.7%	0.8%	0.9%
NAV per share ($)	2.12	2.22	3.19	3.83	5.05	7.00
P/E (x) (underlying)	61.1	35.1	15.1	23.7	13.7	9.6
Price/NAV (x)	9.1	8.7	6.0	5.0	3.8	2.8

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 (CMH) 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

Jun'18	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)	444.9
12m High (p)	454.0
12m Low (p)	360.0
Shares (m)	26.9
Mkt Cap (£m)	119.7
EV (£m)	104.1
Market	LSE

Description

City of London (CLIG) 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 July	Pre-close trading statement
17 Sept	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

City of London published a trading statement in April, covering 3Q'18. Over a volatile quarter for markets, City of London's FUM rose by 1.7% to $5.4bn. Most of this increase came from inflows, with asset gains of $115m in the developed market and GTAA strategies offset by a $38m outflow from emerging markets. There was a small positive market contribution, with the MSCI Emerging Markets Index up 1% in the quarter. Short-term performance was mixed. The market volatility led to discounts widening in emerging markets. In developed markets, strong NAV movements contributed to outperformance.

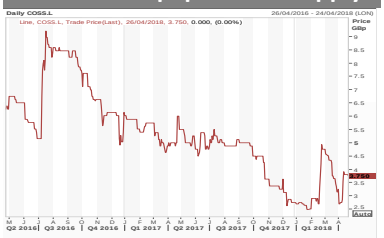
- **New business:** The pipeline continues to be active, with the $400m of potential business being in line with the previous statement. City of London indicates that the opportunities are spread across all the product areas, suggesting that the recent underperformance has not had an effect.
- **Operations:** With new business being at a lower fee rate than existing business, the average fee rate declined to 80bps. The rising exchange rate has also affected profitability, with the run rate for operating profit before profit share and EIP declining to £1.5m per month.
- **Valuation:** The prospective P/E of 11.1x is at a significant discount to the peer group. The historical yield of 5.6% is very attractive and should, at the very least, provide support for the shares in the current volatile markets.
- **Risks:** Although Emerging Markets can be volatile, City of London has proved to be more robust than some other emerging market fund managers, aided by its good performance and strong client servicing. Further EM volatility may increase the risk of such outflows, however.
- **Investment summary:** Having shown a robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. FY2017 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)	16.9	19.1	12.1	11.1	10.9	10.1
Yield	5.4%	5.4%	5.6%	6.1%	6.7%	7.4%

Source: Hardman & Co Research

Healthcare Equipment & Supply



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**COS**
Price (p)	3.8
12m High (p)	6.5
12m Low (p)	2.3
Shares (m)	324.5
Mkt Cap (£m)	12.2
EV (£m)	8.3
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

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gp@hardmanandco.com

Collagen Solutions

Disappointing month

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. Meanwhile, a strategic review of operations has resulted in a restructuring of the group, and a delay to the closing of important new deals resulted in a disappointing trading statement for full-year 2018.

- **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.

- **Cash balance:** Broadly static absolute costs on the lower sales base will lead to higher-than-forecast EBIT losses for fiscal 2018. This will flow through to the cashflow statement and affect the cash position at the year-end. Compared with our forecast of £6.1m, management indicated that period-end cash was ca.£5m.

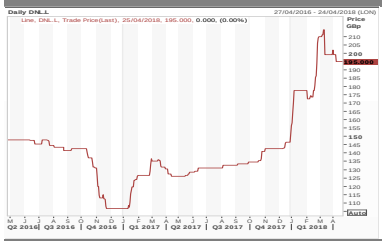
- **Investment summary:** ChondroMimetic fulfils COS's stated strategy to move further up the value chain. Exceptional eight-year clinical outcomes differentiate it from competing therapies. In order to maximise returns, COS needs to conclude commercial arrangements in readiness for a European launch 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
Sept'18	Full-year results
4Q'18	Alkindi US reg. submission

Analysts

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Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

Diurnal Group

Funded for commercialisation

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 regulatory approval, the launch of Alkindi in key European markets through its own commercial infrastructure is imminent. Meanwhile, the company is pushing forward with Alkindi and Chronocort clinical trials in the US. To maintain this positive momentum, DNL raised £10.5m gross new funds via a Placing and, concomitantly, converted all of its £3.66m of debt into equity.

- **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.

- **Capital increase:** During April, DNL completed its Placing to raise a total of £10.5m gross (£10.1m net) new capital at 190p per share (discount of 11.2%). Simultaneously, IP Group converted its outstanding loan of £3.66m into equity, leaving DNL with net cash of ca.£20.0m.

- **Use of proceeds:** The new funds will be used to progress the commercialisation of Alkindi in Europe and complete the Phase III trial in the US. Proceeds will also be used to complete the European Phase III trial in Europe for Chronocort and start its US Phase III trial, as well as a Phase II in adrenal insufficiency.

- **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.

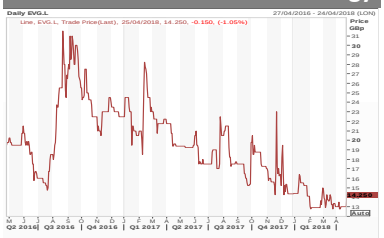
Financial summary and valuation

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)	13.0
12m High (p)	29.3
12m Low (p)	12.2
Shares (m)	93.3
Mkt Cap (£m)	12.1
EV (£m)	9.7
Free Float*	64%
Market	AIM

**As defined by AIM Rule 26*

Description

Evgen Pharma (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
Jun'18	2018 finals
2H'18	SAS trial read-out

Analysts

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	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

Evgen Pharma

Sulforaphane in the literature

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 and breast cancer, with read-outs expected in 2018. Two recent research articles provide additional evidence of the potential of sulforaphane in both conditions.

- **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.

- **Breast cancer:** An open access research article in PLOS One highlighted that sulforaphane enhanced the anti-cancer effect of doxorubicin in a rat breast cancer model. In addition, the study revealed that sulforaphane protected the heart from doxorubicin toxicity via activation of the Nrf2 pathway.

- **Vascular cognitive impairment (VCI):** An article was published in the Journal of Cerebral Blood Flow & Metabolism showing additional evidence of the sulforaphane-mediated neuroprotection against chronic brain ischemic injuries through the nrf2 activation, in line with EVG's's Phase II study.

- **Collaboration:** EVG has announced a collaboration whereby Imperial College London will investigate further the mechanism of the action of SFX-01 through advanced chemical proteomics technology. The project is being funded mainly by Imperial College via a research grant.

- **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)	160
12m High (p)	200
12m Low (p)	152.5
Shares (m)	106.9
Mkt Cap (£m)	171
EV (£m)	171
Free Float*	40.3%
Market	AIM

**As defined by AIM Rule 26*

Description

Gateley (GTLY) provides legal services predominantly through its 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%
Unicorn	5.0%
Miton	7.2%
Premier	3.9%
Peter Davies esq. (dir.)	2.5%
Michael Ward esq. (dir.)	2.5%
Neil Smith	0.5%

Diary

May'18	Trading update

Analyst

Stephen Clapham 020 7194 7622
sc@hardmanandco.com

Gateley (Holdings) Plc

Shares steady as she goes

Gateley is a broad-based UK legal services group. It floated on the AIM in mid-2015. It is a leader in the UK legal mid-market, and has demonstrated long-term double-digit revenue growth. Recent interim results confirmed this continuing trend, with reported near 10% revenue growth. Profit and EPS growth was slower, as the group has invested in new people, with fee earner numbers up 17%. Lateral hires can take some time to contribute fully, but management is confident of a stronger 2H. Our forecasts have remained steady.

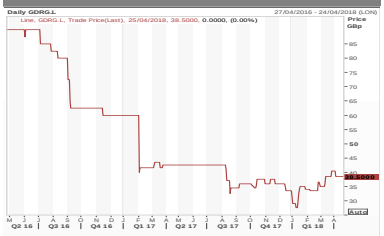
- **Current trading:** Interim results showed revenue growth of 10% (mainly organic), but EBITDA growth of 6.3% was subdued by a continued investment in people to meet client needs. New, laterally hired senior professionals can take some time to make a full contribution, but management is confident that this should come through in 2H and beyond. The interim dividend was unchanged from the prior year, but we continue to forecast a full-year rise.
- **News:** There has been little news flow since the interims, other than sector acquisitions by peers. Gateley reported interims showing a strong top-line improvement, creating the opportunity to invest in the business for future growth. In March, the largest shareholder, Liontrust, announced that it had increased its stake to over 10%.
- **Forecasts:** We forecast revenue growth of 7% for 2018 and 8% for 2019, leading to EPS growth of 9% and 8%, respectively. The legal profession has been 2H-weighted, and this continues, with a lower-percentage 2H weight this year (vs. previous years) required to achieve our forecasts.
- **Valuation:** The 2018E P/E is just over 14x, falling to a little over 13x next year, on conservative numbers. The 4.4% dividend yield this year should continue to grow, while the group offers a free cash flow yield of 7.5% this year. This cash generation is 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	84.0	90.0
EBITDA*	11.3	12.9	14.9	16.3	17.5
PBT adj.	10.5	12.0	13.8	14.2	15.3
EPS (adj., p)	8.3	9.1	10.1	11.1	12.0
DPS (p)	5.1	5.6	6.6	7.0	7.4
Free cashflow	3.0	13.4	6.0	12.8	11.5
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	19.3	17.6	15.9	14.4	13.3
EV/EBITDA	15.9	13.3	11.8	10.5	9.6
Dividend yield	3.2%	3.5%	4.1%	4.4%	4.6%

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)	38.5
12m High (p)	43.5
12m Low (p)	25.0
Shares (m)	18.7
Mkt Cap (£m)	7.2
EV (£m)	8.1
Free Float*	47%
Market	AIM

**As defined by AIM Rule 26*

Description

Genedrive (GDR) 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

Jul'18	Trading update
Oct'18	Finals
Nov'18	AGM

Analysts

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genedrive plc

Making commercial progress

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.

- **Interims:** Sales fell 9% in 1H'18 to £2.63m (£2.88m); however, Genedrive-related income increased 8% to £1.29m (£1.24m), helped by early completion of the US Department of Defense (DoD) contract. EBIT of -£2.4m (-£2.1m) was 12% better than forecast. Cash at the period-end was £4.6m.

- **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.

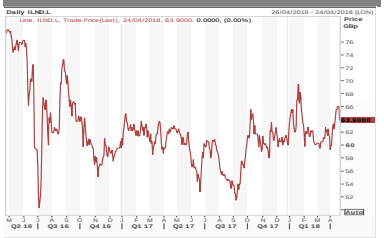
- **Investment summary:** Genedrive technology ticks all the boxes described for an 'ideal' *in vitro* diagnostic that satisfies the need for powerful molecular diagnostics outside the hospital setting. The hepatitis C market is a global opportunity, which is very large, even in developing countries. 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	5,630	7,950
Underlying EBIT	-3,858	-5,259	-4,812	-5,566	-3,808	-2,716
Reported EBIT	-4,040	-5,426	-7,292	-5,687	-3,966	-2,937
Underlying PBT	-3,242	-6,330	-5,007	-5,972	-4,223	-3,139
Statutory PBT	-3,424	-6,497	-7,487	-6,093	-4,381	-3,360
Underlying EPS (p)	-28.3	-54.6	-21.4	-26.6	-17.4	-10.7
Statutory EPS (p)	-30.1	-56.2	-34.9	-27.3	-18.2	-11.7
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	903	-3,877	-70	-3,665	-6,190	-8,176
Capital increases	80	0	6,023	0	1,250	0
P/E (x)	-1.4	-0.7	-1.8	-1.4	-2.2	-3.6
EV/sales (x)	1.8	1.6	1.4	1.6	1.4	1.0

Source: Hardman & Co Life Sciences Research

Construction & Materials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**INL**
Price (p)	63.9
12m High (p)	70.50
12m Low (p)	50.75
Shares (m)	202.1
Mkt Cap (£m)	129.1
EV (£m)	197.2
Free Float*	99.0%
Market	AIM

**As defined by AIM Rule 26*

Description

Inland Homes (INL) 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

Sept'18	Final results

Analyst

Tony Williams 020 7194 7622
tw@hardmanandco.com

Inland Homes plc

INL:DNA (interim results)

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. The company also possesses great 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). Do the math.

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

- **Core 2:** Like DNA, Inland also 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**.** Its Board also uniquely 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.

- **Investment summary:** 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 some 40%.

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)	7.5	12.6	9.0	8.4	7.2	6.2
DPS (p)	1.00	1.30	1.70	2.20	2.60	3.00
Yield	1.6%	2.0%	2.7%	3.4%	4.1%	4.7%
NAV (p)	44.44	57.66	64.62	69.69	73.74	79.19
EPRA NAV adjust. (p)	43.92	92.34	96.22	103.88	110.79	119.46
EPRA discount	na	31%	34%	38%	42%	47%

Source: Hardman & Co Research

General Retailers

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**KOOV**
Price (p)	12
12m High (p)	57
12m Low (p)	6
Shares (m)	175
Mkt Cap (£m)	21
EV (£m)	19
Free Float*	31%
Market	AIM

**As defined by AIM Rule 26*

Description

Koovs (KOOV) 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-September	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 Mar (£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)	144.0
12m High (p)	154.8
12m Low (p)	105.5
Shares (m)	129.5
Mkt Cap (£m)	186.5
EV (£m)	172.5
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

Late June	AGM

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

Morses Club PLC

Sustainable growth, conservatively managing risk

MCL's 26 April results noted a rise in credit issued of 21%, growth in the gross loan book of 12% (net loan book 19%) and customer numbers up 6%. Profits were materially ahead of our forecast. It is creating long-term value, carefully assessing risk and returns, and prioritising resources to the most enhancing areas. The unique opportunity in home collect credit (HCC) is clearly the current priority. The modest online lending pilot is being rolled out carefully to ensure risk is effectively controlled and investment proportionate to returns. Our forecasts and valuation are under review (current valuation range is 157p-198p).

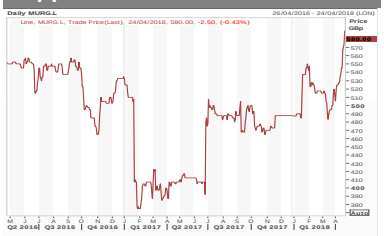
- **FY18 results:** Revenue grew 17%. Impairments rose as a percentage of revenue (to 26.1% from 24.4%) but were lower in 2H. Management has focused growth on the best-quality customers. Efficiency improved 6%. Underlying HCC profit (excluding Dot Dot and territory build costs) grew 29%.
- **Outlook:** The results confirmed MCL's strategy to deliver sustainable growth. There is upside from the agents hired in FY18, and Morses Club Card has grown (Feb 2018: 21k customers, £10.6m loan balances, vs. Feb 2017: £10k, £3.9m). New online portal products should help customer retention and acquisition.
- **IFRS9:** The results confirmed guidance that IFRS9 would see a ca.4%-6% reduction in receivables. In their results updates, NSF reported an HCC reduction from £51m to £41m, PFG £391m to £347m and IPF 11-13%. MCL's reduction is under half peers', reflecting conservative accounting under IAS 39.
- **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". The range is now 157p (DDM) to 198p (GGM). This, and our forecasts, are under review.
- **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 5.3% February 2019 dividend yield, with 1.6x cover (adj. earnings).

Financial summary and valuation (forecasts under review)

Year-end Feb (£000)	2015	2016	2017	2018	2019E
Reported revenue	89.9	90.6	99.6	114.1	125.8
Total impairments	-22.9	-18.8	-24.3	-31.4	-34.0
Total costs	-51.4	-53.4	-56.7	-63.4	-68.5
EBITDA	16.5	19.3	19.9	20.7	24.9
Adjusted PBT	13.0	16.8	17.7	18.1	21.6
Statutory PBT	58.5	21.2	11.2	13.4	14.8
Statutory EPS (p)	46.5	6.1	6.6	8.3	9.2
Adj. EPS (p)	8.1	10.2	10.8	11.2	13.3
P/adj. earnings (x)	17.7	14.1	13.3	12.3	10.8
P/BV (x)	1.9	3.4	3.0	2.8	2.7
P/tangible book	2.2	4.1	3.6	3.2	3.1
Dividend yield	n/m	n/m	4.4%	4.9%	5.3%

Source: Hardman & Co Research

Support Services



Source: Eikon Thompson Reuters

Market data

EPIC/TKR	**MUR**
Price (p)	580
12m High (p)	590
12m Low (p)	380
Shares (m)	9.0
Mkt Cap (£m)	52.0
EV (£m)	50.0
Free Float*	53%
Market	AIM

**As defined by AIM Rule 26*

Description

Murgitroyd (MUR) 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)	27.0%
State Street nominee	17.6%
Chase nominee	6.9%
HSBC nominee	4.8%
E Thompson (Ms)	4.3%

Diary

Early summer 2018	Trading update
Sept'18	Final results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

Murgitroyd

Resilient attractions

Murgitroyd has not been without pricing and margin headwinds. After incremental, evolutionary re-calibration of the range of services (geographically more in the USA and more in the support areas), the hard work is paying off. We note the recent share price rise. Interim results were particularly reassuring, but $ weakness is a meaningful headwind going forward. The US tax legislation reduces base corporation tax rates to 21% – so this is a meaningful issue for Murgitroyd, as almost exactly 50% of revenues derive from the USA.

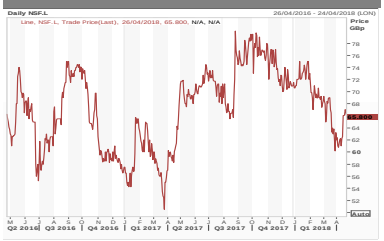
- **Long term**: Group revenues and dividends have grown each year since incorporation in 2001. In uncertain macroeconomic times, this is attractive and likely to continue. Margins, well below the 10.2% level of FY16, are recovering, and we see scope for some further progress.
- **Revenue trends**: With $ 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 estimate an increase of just 1% in FY18.
- **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 are 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. MUR 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)	17.2	16.6	16.4	20.2	18.8
EV/Sales (x)	1.3	1.2	1.1	1.1	1.1
EV/EBITDA (x)	10.8	11.2	10.8	11.9	11.2
FCF yield	5.9%	5.3%	7.2%	6.0%	5.0%
Dividend yield	2.3%	2.5%	2.8%	2.9%	3.1%

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

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	NSF
Price (p)	66.0
12m High (p)	80.0
12m Low (p)	60.2
Shares (m)	314
Mkt Cap (£m)	206
EV (£m))	289
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

14 May	AGM

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

Non-Standard Finance

Loan growth, reducing impairments, investment

The 2017 results in March reported like-for-like loan book growth of 30% (21% in branch business, 53% in home collect, 35% in guarantor loans). This drove underlying revenue growth of 48%. Credit quality improved with impairments up just 22%, and normalised operating profit growth of 71%. We expect the May 14 AGM trading update to confirm strong growth trends. NSF continues to invest heavily in both revenue growth opportunities but also in controls and infrastructure. Despite this investment we expect adjusted pre-tax profits to nearly double 2019 on 2017. The average of our absolute measures is now ca100p.

- **NSF news:** NSF announced on 8 November 2017 a buy-back programme of up to 5m shares. It has continued the programme through April with the cumulative number of share bought back now 4.3m (cost £3.5m). Once completed we estimate the buy-back will enhance earnings by ca 2%.

- **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.

- **Other news:** The National Minimum wage for over 25s rose 5% to £7.83 from £7.50 in April. This is broadly double the level of inflation. Ramsdens Holdings trading update said it anticipates results slightly ahead of expectations. The PFG rights issue, perhaps unsurprisingly given the price, saw a 96% take up.

- **Valuation:** We reviewed a range of valuation metrics (and sensitivity to assumptions) in our initiation, Carpe diem, and results note Strong profit growth path confirmed . Our absolute valuation measures are around100p per share. Relative measures are distorted by unknown IRFS 9 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 ca10x 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)	19.6	19.2	17.7	10.3
P/BV (x)	0.9	0.9	0.9	0.9
P/tangible book (x)	2.1	2.8	2.8	2.6
Yield (%)	1.8%	3.3%	3.7%	4.7%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**OXB**
Price (p)	12.0
12m High (p)	13.2
12m Low (p)	4.4
Shares (m)	3,283.7
Mkt Cap (£m)	394.1
EV (£m)	397.2
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

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Dorothea Hill 020 7194 7626
dmh@hardmanandco.com
Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

Oxford Biomedica

Supply to meet demand

OXB is a specialist advanced-therapy lentivirus-based vector 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, and was followed post-period-end by a collaboration and licence agreement (adopting a similar structure) with Bioverativ Inc (BIVV). Investment in manufacturing is being made to increase capacity and meet demand from further such deals.

- **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.

- **FY results:** Growth in gross income (sales plus all other income) was key, rising 28% to £39.4m (£30.8m). This included grant income of £2m and licensing fees from Novartis (both original and new deals). Total operating costs increased 12% to -£46.4m (-£41.2m). The EBITDA loss was greatly reduced at -£2.6m (-£6.8m).

- **Placing:** Post-period-end, OXB raised £20.5m gross (ca.£19.3m net) through the issue of 174.4m new Ordinary 1p shares, at a price of 11.75p per share, with existing and new shareholders in the UK and the US. The stated use of proceeds is investment in new facilities to meet demand for vector bioprocessing.

- **Risks:** The mid-term sales model, plus 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	-0.92	15.63
Statutory PBT	-16.98	-20.31	-11.76	-9.47	-2.08	14.36
Underlying EPS (p)	-0.48	-0.42	-0.42	-0.15	0.10	0.60
Statutory EPS (p)	-0.51	-0.60	-0.29	-0.19	0.06	0.56
Net (debt)/cash	-17.90	-19.05	-22.54	-20.40	-31.81	-17.70
Capital increase	0.14	17.50	0.39	19.40	0.10	0.10
P/E (x)	-	-	-	-	-	26.7
EV/sales (x)	-	-	-	-	-	20.5

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**NIPT**
Price (p)	4.5
12m High (p)	14.4
12m Low (p)	4.0
Shares (m)	321.2
Mkt Cap (£m)	14.5
EV (£m)	28.7
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	23.9%
Helium Rising Stars	7.4%
Harwood Capital	5.3%
Ken Chang	4.0%
Calculus Capital	3.9%
Hargreave Hale	3.8%

Diary

May'18	Trading update
Jul'18	2018 finals

Analysts

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Premaitha Health

Trading update imminent

Premaitha (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. While the patent judgement in favour of Illumina was disappointing, some uncertainlty has been removed by the award of costs and establishment of an escrow reserve. NIPT is continuing to develop a strong business in geographical locations less accessible to Illumina, and is expected to release a trading update to the market shortly.

- **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 been focusing on expanding into territories outside Illumina's patent reach and has made enormous strides in Africa and the Middle East, where a number of new laboratories will be coming on stream in fiscal 2019.

- **Trading update:** The market was distracted by the adverse patent judgement towards the end of last year, which resulted in a delay to the announcement of interim results and operational progress. At the time of going to press, a trading update was expected, which will allow a better assessment of performance.

- **Financials:** Our focus will be on progressive growth in the number of tests being performed and the average price achieved per test. Moreover, the update is likely to provide a clearer picture of the current cash position and the utilisation of the secured loan facility being provided by Thermo Fisher Scientific (TMO).

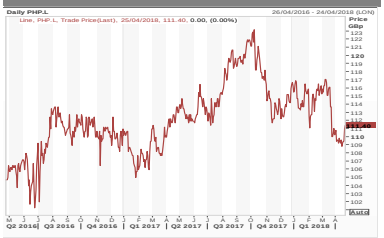
- **Investment summary:** NIPT continues to de-risk its exposure to Illumina by broadening its pre-natal screening capability internationally and in markets where Illumina does not hold patents. Acceleration of the business by means of test throughput, while tightly controlling costs, is improving the 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)	111
12m High (p)	123
12m Low (p)	105
Shares (m)	730
Mkt Cap (£m)	810
EV (£m)	1430
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

Aug'18	Interims
Feb'19	Full-year results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

Primary Health Properties

NAV-enhancing fund raise – into FTSE 250

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. PHP's long-term dividend growth is enhanced by its success at incrementally raising efficiencies, in both operating costs (where PHP has the second-lowest EPRA cost ratio in the broader sector) and finance costs, where finance costs are falling. Operating cost ratios are driven down further by spreading portfolio costs over a greater size, financed through new shares and debt. We are recalculating estimates. Short-term dilution does not slow likely dividend growth.

- **Fund raise and capital deployment**: PHP successfully raised £115m – to be spent on its existing tight range of health assets. A key component is the ongoing success in sourcing assets with the assistance of its network of UK and RoI contacts, and its developer partners. £100m p.a. is a likely quantum.

- **Capital deployment**: Ten properties were acquired in 2017 for £71.9m – a large average lot size. 2018E onwards should match or beat this. 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.

- **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.

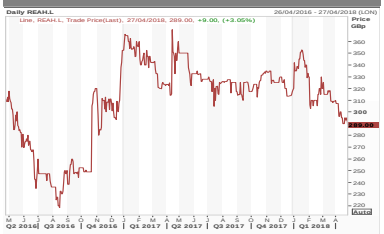
- **Investment summary**: The fund raise has attracted a diversified range of high-quality investors, as well as being well received by existing shareholders, with 82% take-up under the Open Offer. We are recalculating estimates, and we continue to model rising dividends, 100% covered in near-future years.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018E	2019E
Net rental income	62.2	66.6	71.3		
Finance cost	-33.7	-32.5	-31.6		
Declared profit	56.0	43.7	91.9		
EPRA PBT (adj. pre-revaluation)	21.7	26.7	31.0		
EPS reported (p)	12.57	7.78	15.30		
EPRA EPS (p)	4.87	4.77	5.17	Forecasts under	
DPS (p)	5.000	5.125	5.250	review	
Net cash (debt)	-694.7	-663.2	-726.6		
Dividend yield	4.3%	4.4%	4.5%		
Price/EPRA NAV	1.32	1.27	1.15		
NAV (p)	77.4	83.5	94.7		
EPRA NAV (p)	87.5	91.1	100.7		

Source: Hardman & Co Research

Food Producers



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	RE.
Price (p)	295.0
12m High (p)	365.0
12m Low (p)	282.0
Shares Ord (m)	40.5
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	119.5
Mkt Cap Pref (£m)	79.9
EV ($m)	504.5
Free Float	38.4%
Market	Main

Priced at: 27 April 2018

Description

REA Holdings (REA) is engaged in the operation and further development of palm oil plantations in East Kalimantan, Indonesia. The group also operates a stone quarry, and owns coal mining concessions, which have been contracted out to significant coal mine operators.

Company information

Managing Director	Carol Gysin
Chairman	David Blackett

+44 (0)20 7436 7877
www.rea.co.uk

Key shareholders

Emba Holdings Ltd	27.45%
M & G Investment Mang.	14.97%
Alcatel Bell Pension Fund	10.32%
Artemis Investment Mang.	8.83%

Diary

13 June	AGM

Analyst

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R.E.A. Holdings

2017 results

On 27 April 2018, REA announced its 2017 full-year results. Own FFB production increased 13.3% YoY to 530,565mt, and there was a 12.7% increase in CPO production for the year. Total FFB processed was up 12.4% YoY to 630,600mt, again driven by an improved performance (18.6%) in 2H'17 (342,123mt) over 1H'17 (288,477mt). Revenue was up 26% to $100.2m ($79.3m); this reflected strong crops recovery from the El Niño weather pattern in 2015-16. On 24 April, the company announced it had reached an agreement for the sale of its PBJ estate to Kuala Lumpur Kepong Berhad (KLK). The gross estimated proceeds are ca.$85m.

- **Industry comparison:** REA registered a 13.8% increase in FFB produced YoY (own and third party). This performance was in line with some of the leading sector operators, First Resources (14.1%), KL Kepong (10.8%), United Plantations (13.5%) and MP Evans (9%).
- **Noticeable oil extraction rate (OER) improvements:** REA's CPO (OER) was 23.4% for 2H'17, up 1.3% from 1H'17, and resulting in the annual OER remaining at 22.8% (parallel to 2016). CPKO OER also improved in 2H'17, climbing 2.4% to 39.6%, giving a full-year CPKO OER of 38%.
- **PBJ transaction:** The agreement reached with KLK for the sale of PBJ estate is expected to realise gross proceeds of ca.$85m and net proceeds of ca.$57m after repayment of external borrowings and expenses associated with the sale. PBJ has 11,602ha of fully titled area, of which 7,062ha is currently planted. The company is expecting to have 7,482ha planted at the completion of the sale.
- **Risks:** Agricultural risk, commodity price risk and country risk are constants of palm oil production. FY17 net debt of $211.7m (76.5% of total equity) is expected to reduce upon the completion of the PBJ sale.
- **Investment summary:** Following the expected completion of the PBJ transaction, REA will have some 10,000ha of fully titled land still to develop. The company believes that the remaining fully titled land and land allocations will bring the company's retained oil palm planting to an eventual total planted area of 50,000ha. The divestment of PBJ will enable REA to concentrate operations on the remaining plantation areas in near contiguous locations.

Financial summary and valuation

Year-end Dec ($m)	2015R	2016	2017	2018E
Sales	90.5	79.3	100.2	
EBITDA	14.1	16.8	20.1	
Reported EBIT	-6.6	-5.0	-2.2	
PBT	-12.2	-9.3	-21.9	Forecasts
EPS (cents)	-59.0	-48.2	-67.0	under
Adj. EPS (cents) *	-11.2	1.4	0.0	review
DPS (p)	0.0	0.0	0.0	
Net (debt)/cash	-196.7	-205.1	-211.7	
Planted ha	37,097	42,846	44,094	
EV/planted ha ($/ha) **	13,599	12,061	11,615	
CPO production (mt)	161,844	127,697	143,916	

**An estimate of earnings before applying the IAS 41 amendment*
***EV/planted ha includes mkt. cap. of the 9% pref. shares and 15% DSN*
R = restated
2018 forecasts: a detailed report will be published shortly
Source: Hardman & Co Research

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

Chairman	Iain Ross
CEO	Lisa Anson
CFO	Dominic Jackson
	+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

Jun'18	Interims
1H'18	Soft Rock drug candidate
2H'18	Resume Ph. I with RXC004

Analysts

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Redx Pharma

Raft of news

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. The company has announced recently that the first patient has been treated with RXC004, a porcupine inhibitor indicated for a number of tumour types, in a Phase I/IIa proof-of-concept clinical trial; a decision has been taken to provisionally suspend patient recruiting due to the occurrence of an adverse event in the first patient dosed. A poster at the AACR is presenting pre-clinical data of the synergy between RXC004 and a PD1 CPI in cancer.

- **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:** REDX has announced the appointment of Lisa Anson as CEO, having 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 suspend temporarily the Phase I/IIa trial with RXC004 in light of an adverse event 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.
- **AACR Poster:** REDX presented a poster at the American Association for Cancer Research (AACR) annual meeting in Chicago (14-16 April) highlighting the mechanism of action of the porcupine inhibitor RXC004, and its effect in enhancing the immune response, providing a rationale for the current trial.

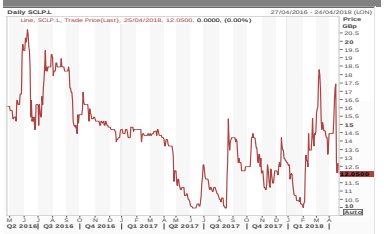
- **Investment summary:** REDX had already started the process of refining its strategy, but recent events have simply accelerated this evolutionary process. The revised business plan focuses cash resources on early clinical development of its drug leads in oncology and fibrotic disease. The commencement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

Financial summary and valuation

Year-end Sept (£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)	12.3
12m High (p)	17.0
12m Low (p)	9.7
Shares (m)	374.5
Mkt Cap (£m)	45.9
EV (£m)	33.1
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	5.1%
Calculus Capital	13.4%
City Financial	5.8%
Legal & General	4.9%
Hygea VCT	3.5%

Diary

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

Analysts

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Scancell Holdings

Capital increase to progress clinical programmes

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 has 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). These shares were admitted to AIM on 20 April. In addition, there is a 1-for-19 Open offer at 12p per share to existing shareholders, which could raise a further £2m.

- **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.

- **New technologies:** SCLP has announced an agreement to acquire a number of novel monoclonal antibodies to tumour-associated glycans (sugars), together with a proprietary human antibody technology (both from the University of Nottingham). These are complementary to SCLP's existing platforms.

- **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	3.1	-5.7
Capital increase	0.00	5.79	0.00	11.6	0.5	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)	15
12m High (p)	24
12m Low (p)	14
Shares (m)	114
Mkt Cap (£m)	17
EV (£m)	15
Free Float*	86%
Market	AIM

**As defined by AIM Rule 26*

Description

Surface Transforms (SCE) 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
Sept'18	Full-year results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

Surface Transforms

Well positioned with a range of potential clients

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 among 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 has 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 progresses well, and an additional £1m revenue for dealer spares has also been added. Including this, the contract value rises to the £2m level.

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	15.0	8.3
EV/sales (x)	21.4	11.4	5.9	2.1	1.2
EV/EBITDA (x)	loss	loss	loss	12.5	6.6
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)	16.5
12m High (p)	16.5
12m Low (p)	9.1
Shares (m)	112.9
Mkt Cap (£m)	18.6
EV (£m)	32.2
Free Float*	72.1%
Market	AIM

**As defined by AIM Rule 26*

Description

The 600 Group (SIXH) 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	2017/18 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 geopolitical 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)	7.9	6.3	6.6	6.1
EV/sales (x)	0.6	0.6	0.6	0.5
EV/EBITDA (x)	-	-	7.8	7.0

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**TRX**
Price (p)	11.5
12m High (p)	16.8
12m Low (p)	5.5
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

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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

May'18	AGM

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Tissue Regenix

CellRight hits the right note

TRX has a broad portfolio of regenerative medicine products for the biosurgery, orthopaedics, dental and cardiac markets. The company has two proprietary decellularised technology platforms for the repair of tissues and bone. 2017 was a dynamic year for the group, growth being boosted by the acquisition of CellRight Technologies. This was borne out by full-year results. Although sales were in line with forecasts, control of costs reduced the EBIT loss and generated a stronger balance sheet. Management is continuing to integrate and streamline the business, and is seeking distribution partnerships to maximise the opportunities.

- **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.

- **2017 results:** Recent results represented the first set of numbers based on a December year-end. On a *pro forma* basis, group sales grew 39%, with DermaPure up 38% and CellRight up 21%. Careful cost control generated an underlying EBIT loss of £9.7m (-£13.4m), £3.7m better than forecast, giving net cash of £16.4m.

- **Integration:** TRX moved quickly to integrate its existing San Antonio operation within established facilities acquired with CellRight. Also, the manufacturing technology transfer for DermaPure has been completed successfully. In addition, some progress has been made to make CellRight's products available in the EU.

- **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: with ARMS Medical for urology and gynaecology and with Arthrex in orthopaedics.

- **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)	177.0
12m High (p)	215.0
12m Low (p)	129.0
Shares (m)	11.08
Mkt Cap (£m)	19.62
EV (£m)	16.35
Free Float*	99.6%
Market	MAIN

Description

Titon (TON) designs, manufactures and supplies a comprehensive range of passive and powered ventilation products, as well as 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

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

Diary

11 May	Interims
Dec'18	Final results

Analyst

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Titon Holdings Plc

Kim Jung-titon

War is good for absolutely nothing. But even last autumn, the perennially bellicose Supreme Leader of North Korea, Kim Jong-un, threatened it. Since then, he has clearly been to anger management and, on 27 April, will attend a summit in South Korea. Later, he will hob-nob with Supreme US Leader, Donald Trump. When your largest net profit earner is 195 kilometres from Kim's bunker, risk of war is bad for business. Amity, however, is very good; and at breathtaking pace.

- **DEFCON 5:** Last November, Kim fired an ICBM into the Sea of Japan and the DEFense readiness CONdition, the state of alert for the US military, was raised to 4, i.e. a 'double take'. It is now back to 5 (the lowest), even though no-one is holding their breath about full de-nuclearisation in North Korea.

- **South Korea Summit:** As far as anyone knows, 'The Little Rocket Man' (age 35) has never been to South Korea, but this will change on 27 April; and he will meet South Korea President Moon Jae-in (age 65). The latter's first anniversary in situ comes around on 9 May – and it has been an eventful year.

- **South Korea Summit 2:** The nation is Titon's largest net profit contributor and it enjoyed a very good year in 2017, with a 42% increase in segmental profit (to £1.7m) and a 77% hike in solely South Korean associates (to £0.6m). Here, too, domestic GDP is growing at ca.3% p.a. (data from FocusEconomics).

- **UK:** Growth is below trend, with GDP set to rise by between 1% and 2%. The government's finances, however, are at their best levels since 2007, with a budget deficit at £42.6bn, i.e. this peaked at £103bn in 2010. At the same time, Experian forecasts construction output in the UK to grow at an average 1.1% p.a. in 2018 through 2020, with private housebuilding at 3.0% p.a.

- **Peace time:** The unique Hardman UK Building Materials Sector comprises 22 companies with a market value of £8.4bn and a valuation of 9.0x EV/EBITDA on a trailing 12-month basis. Titon is still at a significant discount here, on 6.6x in 2017, having inexplicably fallen 18% from its 52-week high. That said, it has still generated a 25% Shareholder Return (TSR) over the past 12 months – which compares with a Sector average of 7%. Titon's interim results are on 11 May.

Financial summary and valuation

Year-end Sept (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	22.3	23.7	28.0	29.3	31.2	33.2
EBITDA	2.13	2.33	2.46	2.67	2.85	3.12
Underlying EBIT	1.56	1.77	1.85	2.02	2.15	2.37
Statutory PTP	1.87	2.14	2.49	2.81	3.08	3.39
Underlying EPS (p)	12.6	15.2	16.5	17.7	19.0	21.0
Statutory EPS (p)	12.6	15.2	16.5	17.7	19.0	21.0
Net (debt)/cash	2.9	2.4	3.3	3.7	4.1	4.6
Shares issued (m)	10.8	10.9	11.0	11.1	11.1	11.1
P/E (x)	14.0	11.6	10.8	10.0	9.3	8.4
EV/EBITDA (x)	7.8	7.3	6.6	6.0	5.4	4.8
DPS (p)	3.00	3.50	4.20	4.80	5.75	6.00
Yield	1.7%	2.0%	2.4%	2.7%	3.2%	3.4%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**VAL**
Price (p)	3.1
12m High (p)	7.8
12m Low (p)	0.9
Shares (m)	407.5
Mkt Cap (£m)	12.7
EV (£m)	12.3
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

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Key shareholders

Directors	0.5%

Diary

8 May	AGM
Sept'18	Interims

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ValiRx

Progress with it clinical assets

VAL is a clinical-stage biopharmaceutical company focused on the development of therapeutics for the treatment of cancer. The company's two leading assets are in clinical trials: VAL201 (Phase I/II) – a peptide for advanced prostate cancer and potential to treat other hormone-induced indications; and VAL401 (Phase II) – a novel reformulation of risperidone, in trials for lung cancer. Both drugs are targeted at multi-billion-dollar markets that are inadequately served by current drugs. The aim is to progress the clinical data and exit via a collaboration or commercial out-licensing to a larger partner.

- **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.

- **2017 results:** VAL made substantial progress with all of its clinical candidates during 2017, with completion of the VAL401 Phase II trial. Full-year results were better than expected, with the net loss reducing 34% to -£3.02m (-£4.75m) and a net cash position also better than forecast at £0.31m (-£0.73m).

- **GeneICE update:** Following optimisation of the manufacturing process for VAL101 through a consortium of partners led by VAL, the company reported that the product induces programmed cell death (apoptosis) in cancer cell models and that it is the reagent that will be taken forward in 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	-3,168	-3,611	-4,051
Reported EBIT	-3,029	-3,987	-3,125	-3,345	-3,788	-4,228
Underlying PBT	-2,889	-4,288	-3,398	-3,200	-3,656	-4,114
Statutory PBT	-2,567	-5,569	-3,554	-3,377	-3,834	-4,291
Underlying EPS (p)	-7.7	-6.0	-1.9	-0.7	-0.8	-0.9
Statutory EPS (p)	-6.7	-8.2	-2.0	-0.7	-0.8	-0.9
Net (debt)/cash	232	-734	311	-2,514	-5,903	-9,662
Capital increase	2,681	2,615	3,602	120	0	0

Source: Hardman & Co Life Sciences Research

Notes

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

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

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