THE MONTHLY

October 2018

Feature article: Homing in on iconoclastic new trends

By Mike Foster, Hardman & Co Analyst

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October feature article

Homing in on iconoclastic housing trends

People need to feel they have a 'place in the world'

We are in the midst of the Conference season for political parties and trade unions in Britain. We all have a lot on our minds, with generational constitutional issues to the fore, but these have come to the fore after many years of concerns building up about citizens' 'place in the world'.

Their homes are in too short supply and town centres need some new thinking

The most directly relevant example of peoples' 'place in the world' is the home they live in and the town centres they visit. Both these are crucial factors that political will can improve – or can let drift. In this article we look at housing. Hardman will be publishing on the possible imminent trends in town centres and other segments of the UK property market, shortly. Here, we share our thoughts – and enthusiasm – on the current new trends in rental housing supply.

New money and new ideas are having a demonstrable effect, but the numbers need to grow significantly

Radically new sources of supply have come to deliver housing and to make changes to town centres just in the past three years, or less. This is likely to prove to be only the start of new investment – and it does not rely on the usual febrile excitement of property booms. Indeed, it benefits from the absence of such a boom. There is plenty to be optimistic about.

£2bn into housing from REITs in the past two years

From near nothing two years ago to £2bn now – that's a huge change but still a drop in the ocean. Supply needs to be expanded…

We have a UK housing shortage, yet there are always new methods of expanding supply. This certainly is the case right now. In one way, money is not the problem. It might seem controversial to say that substantial investment is available for expanding housing supply, but consider that, in the past 23 months, some £2bn of equity has been raised by a sector of the investment world that did not exist two years ago: the stockmarket-quoted REITs (real estate investment trusts) investing in residential real estate. This is a whole new seam of investment, with much more to come – iconoclastic indeed.

… but the excitement comes from the fact this new source of supply works 'with the grain' of local authorities, occupiers, carers and investors

Investing institutions seek vehicles to provide long-term, secure income streams. Social or affordable private housing generates such income streams. This demand is being supplied – right now. The investment supply is also into homes as places to deliver care, in a much more personalised setting. Developers have the expertise and land is available (much from public sector owners). One thing needed is money but the other is the ability of investors to bring together different agencies – local authorities, planners and developers. Investors by their nature are able to embrace the mantle of the 'middleman' and the public sector can choose to embrace that too, or watch from the sidelines.

Growing interest in homes as vehicles in which to deliver care effectively

The expansion in housing which is not for private sale to an owner occupier or buy-to-let investor has gained one more type of supporter. One such fund out of several possible examples, Civitas Social Housing, has raised £652m (*click here* to read our Civitas Social Housing initiation note) and has deployed all this equity to expand supply through a combination of new build and providing finance into the Registered Provider (housing associations) sector. This is all going into housing for social rent, occupied irrespective of the individual's ability to pay rent from their own resources. Importantly, in the case of the supported living sector (for people with long term disabilities) where Civitas and others operate, the cost of care reduces significantly when the individual lives in one of their houses as opposed to a large institutional setting.

It is innovative thinking as well as cash

The new REITs' £2bn is a minor sum, but, within this, it is the novel ways – creating new methods to provide this new, additional floorspace – that are important.

Private rent as a long term home for middle income families....

PRS REIT and its partners make it seem like eventually several £bn of this can be delivered, affordably....

Another REIT in this category (PRS REIT) is funding mainstream housing for family rent, typically on transport arteries into conurbations, on large regeneration sites adjacent to social amenities including schools. Rent typically is ca.£750 per month for a three-bed house, taking up ca.30%-35% of family income. These are family homes intended for long-term, secure rental occupation. They are built at optimal cost because land is part of a larger mixed-ownership site, and the rental side provides visibility and cashflow right from the initiation of the site. This is something that private sales of houses, one at a time, cannot provide. The rental build, in volume, speeds the capital turn of the whole site, and the renters benefit from the consequent good deals from land vendors and materials suppliers, as well as the efficient management of such contiguous sites. Just one such developer (there is only one volume developer in the UK), which is connected with this REIT, is well on its way to becoming the same in size as the UK's seventh biggest housebuilder.

...as in Continental Europe

Iconoclastic maybe, but this is much more akin to what is being done in the European Continent already (via other investment vehicles). We are gradually becoming more like the Continental Europeans in this regard.

£20bn into housing from a range of private-sector investors in the next several years

We see scope for £20bn to be available for development

Hardman & Co sees scope for £20bn (not the current £2bn) to be available for these types of development. This comes, in large part, just by moving assets seeking long-term, secure income from open-ended, non-quoted real estate investment vehicles into REITs, and also other sources of pension, insurance, overseas and other investment. £20bn is only 100,000 houses – but it's a start.

This is far from just about money, however. The other major potentially constraining factor is the availability of land, materials and labour – all at the 'right' price. With regard to speeding up the deployment of the housebuilders' landbanks, the early involvement – and cash – from building for rental occupancy is a real positive. The housebuilders get to 'turn' their capital more quickly and can therefore sell the land cheaply to get the whole site going. A significant stock of developable land is owned by the public sector: by local authorities or government bodies. They – even more than the private housebuilders – hold land. Volume building of private or social rental housing can be done to a timetable that maximises the efficiencies of production. That is not the case for build-for-sale, where market fluctuations cause the build programmes to move ahead with greater or lesser speed.

Private-sector investors seek exactly the same as the long- term renters – families or individuals

So, the excellent news is that private-sector investors seek exactly the same as the long- term renters – families or individuals – who are large in number. But there is also money available in the public sector. This is where we see a more confusing outlook.

The public sector

Social housing is under-geared, financially

The Public Works Loan Board provides competitive funding lines to local government to invest specifically in commercial property (i.e. not residential). A study by Revo and Carter Jonas, a national property consultancy, reported that local authorities spent £3.8bn on commercial property assets between 2013 and 2017. Nearly half of this was spent on the acquisition of office space. Retail, including shopping centres and retail warehouses, accounted for nearly £1.2bn of the spend. There may be a defensive rationale here, as regards business rate income. Much of the investment was made into the geographical area covered by the local authority, and owning retail may enable the local authority to invest in a vacant or failing centre to boost occupancy and income from local rates. This does seem a risk, and also potentially misses a much more sustainable option for changed use.

So, there is cheaper money for local authorities' commercial property investment but, since 2013, central government has banned local authorities from borrowing against their own social housing assets to build more social housing. One way of looking at this is that social housing is under-geared, financially. There are still plenty of residential assets owned by local authorities, but very few new ones built, because the local authorities cannot borrow (in any material way) against those assets.

Councils' borrowing ban for social housing

Funding to local government to invest in commercial property, not residential…

There is not exactly a ban on borrowing for social housing, but rather a cap on any new borrowing, which was imposed in 2013, and this has only seen some modest and temporary easing. We commenced the segment above referring to the cheap finance from the Public Works Loan Board to local government to invest specifically in commercial property. As noted, this excludes residential. We can understand the argument that lending routes for residential are already substantial: UK banks' balance sheets total £3.8tr, and UK residential mortgage loans outstanding total £1.4tr (interestingly up 16% in 10 years, while house prices have risen 23% in those 10 years – source: Land Registry data).

- At 37% of UK financial institution lending, it is fair to say that residential finance is available to private-market purchasers. They struggle to afford the prices.
- In the investment sector, we have seen that substantial money is available and returns (at around 5%, with some modest debt gearing) are attractive. With volume-driven efficiency benefits, rents are attractive too (ca.£750 per month for a family house).
- Yet, in the public sector, money is available for commercial, but not residential, investment.

A number of research papers evidence the build up of an attack on this prohibition

On 14 August, the UK government released a Green Paper on social housing, reforming its former proposals on Right to Buy in a small way, but still we note the following:

- it prohibits local authorities from keeping the vast majority of Right to Buy sales proceeds; and
- it keeps an extremely low ceiling on the amount local authorities can borrow secured on the equity in the social housing stock they own.

Below, we provide a link to extracts from the local authorities' briefing on the Green Paper:

https://www.local.gov.uk/parliament/briefings-and-responses/social-housing-green-paper-briefing-15-august-2018

The local authorities' briefing on the Green Paper can be seen in full in the link below:

https://www.local.gov.uk/sites/default/files/documents/The%20social%20housing%20green%20paper%20%E2%80%93%20Local%20Government%20Association%20briefing%2015%20August%202018%20WEB.pdf

"The Government must go beyond the limited measures announced so far, scrap the housing borrowing cap, and enable all councils, across the country, to borrow to build once more. This would trigger the renaissance in council house-building which will help people to access genuinely affordable housing.

Right to Buy clearly is a political issue and politics elsewhere has moved on greatly since George Osborne re-instigated an invigorated Right to Buy

We have long called for reforms to Right to Buy in order to allow councils to build more homes, and there are some positive signs in the consultation. But we must go much further so that councils can deliver the affordable homes that our residents need and deserve, including allowing councils to set discounts locally and to keep 100 per cent of receipts from homes sold.

Last year, politics inspired little and provided no new ideas....

It is good that the Government has listened to our concerns and dropped plans to force the sale of council homes. We have worked hard to demonstrate the need to scrap this policy which would have forced councils to sell off large numbers of the homes desperately needed by low-income families in our communities."

The Budget

...and seemingly little direction on ways to provide residential supply of the right type

Hardman & Co's contention is that there seems to be little direction by the government regarding ways in which its own assets can be arranged to provide residential supply of the right type. In fact, last year, quite the reverse seemed to be the case.

There was one straw in the wind. November 2017 saw a small liberalisation in selected Councils/ local authorities...

On 22 November 2017, Inside Housing outlined: "Philip Hammond unveiled the policy while delivering a flurry of new housing measures in his Autumn Budget today. It follows months of discussions with Stoke, Sheffield and Newark & Sherwood councils about bespoke deals, including a raising of borrowing caps. .....

A report commissioned by the Association of Retained Council Housing and the National Federation of ALMOs published this summer said lifting HRA borrowing caps would deliver at least 15,000 new homes. In May [2017], previous housing minister Gavin Barwell said the Conservatives would invite 'innovative' councils to bid for increased borrowing headroom. Former chancellor George Osborne offered councils £300m of additional HRA borrowing capacity in 2014. However, that programme was wound down after £220m was allocated to build just 3,000 homes."

....then it seems to be have been wound down

Private investors have poured significant funds via REITs into social and private rented housing.

So, once the Conference season is over, the Budget is upon us. Let us look for a bold move. Sometimes, the riskiest thing to do is to try to avoid risking the bold move. Private investors have gone from near-nothing to £2bn spend in two years. There was private money into lending but there was minimal into equity – which has now seen that at £2bn and rising. Private investors have created a private-sector developer of private-rented family housing, where the rents charged only need be some ca.30% higher than old-style social housing rent levels. That developer now stands at the size of around the seventh largest UK housebuilder – and is growing fast. We could be at the start of a new epoch, but the old icons need breaking.

We could be at the start of a new epoch, but the old icons need breaking

We already, therefore have boldness from the private sector, but there are other segments that could be sparked back to life with some of that spirit. The 'toe-in-the water' for local authorities to borrow against their own assets should be pursued. The private sector has shown that such investment would pay reasonable and attractive financial dividends as well as handsome social dividends. This truly would be a public investment yielding returns to make its growth sustainable. The REITs have illustrated a new and scalable way forward – on budget.

Let us look now for the bold move to spread

About the author

Mike Foster is an equity analyst at Hardman & Co, and covers a wide range of clients in the Support Services, Building and Property sectors.

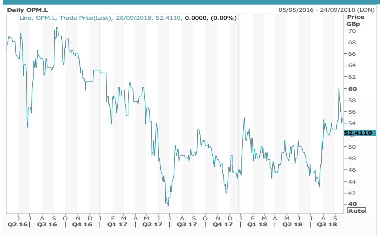
He spent his early career working in fund management with British Rail Pension Fund and Eagle Star Investment Management. He then spent two decades in sell-side research at several firms, including Peel Hunt and Credit Lyonnais. He has covered sectors including Construction, Support Services and Real Estate. In his fund management career, he was responsible for both bond and equity portfolios.

Mike was part of the group of investors that acquired Hardman & Co in late 2012. He holds a BA (Hons) in Geography from the University of Cambridge.

Company research

Priced at 24 September 2018 (unless otherwise stated).

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OPM
Price (p)	54.5
12m High (p)	60.0
12m Low (p)	42.0
Shares (m)	83.8
Mkt Cap (£m)	45.7
EV (£m)	44.8
Free Float*	51%
Market	AIM

**As defined by AIM Rule 26*

Description

1pm is a finance company/broker providing almost 20k UK SMEs with a variety of products, including loans, lease, hire purchase, vehicle and invoice finance. Advances range from £1k-£500k. The company distributes directly, via finance brokers and vendor suppliers.

Company information

CEO	Ian Smith
CFO	James Roberts
Chairman	John Newman

Tel +44 1225 474230

www.1pm.co.uk

Key shareholders

Lombard Odier (31/5/18)	22.84%
Sapia Partners (31/5/18)	12.66%
Ronald Russell (director 27/10/17)	12.25%
Mike Nolan (director 31/5/18)	6.30%
Charles Stanley (31/5/18)	3.53%

Diary

25 October	AGM

Analyst

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1PM PLC

Strong results, credit scenario sensitivities robust

We reviewed the results to-end May in our note, *Group synergies coming through* published on 12 September 2018. In FY'18, management delivered results exactly as promised. Loan origination was up 72%, revenue rose 78%, pre-tax profits increased 93%, and EPS grew 24%. The synergies from being a bigger group are emerging. Funding costs have fallen rapidly. Perhaps of greater importance, cross-group sales leads were £13m in 4Q FY'18. A retiring director's 6% stake may be viewed as a stock overhang, but the implied May 2019E P/E of 6.7x and price to book of 0.9x appear an anomaly given the downside risk highlighted in our notes.

- **Company news:** The results confirm all the company promises. Strong franchise growth has been delivered, and provisioning remains conservative ("general" provisions are over a third of the charge). Our updated credit sensitivity scenario indicates 2020E EPS above 2017 even in a hard landing.
- **IFRS9/credit sensitivity review:** 1pm also announced that the effect of transitioning to IFRS9 would be 0.25% of NAV – tiny by comparison with peers and reflecting historical conservative provisioning. We reviewed this and gave several credit risk scenarios in our note, *Give credit where it is due*, published on 5 September.
- **Valuation:** We detailed the assumptions in our valuation approaches in our initiation note, *Financing powerhouse: a lunchtime treat*. The GGM indicates 116p and the DDM 70p (DDM normal payout 78p). The 2019E P/E (6.7x) and P/B (0.9x) appear an anomaly with 1pm's profitability, growth and downside risk.
- **Risks:** Credit risk is a key factor and is managed by each business unit according to its own specific characteristics, with a group overview of controls. Funding is widely diversified and at least matches the duration of lending. Acquisitions would appear well priced and delivery of synergies provides earnings upside.
- **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.

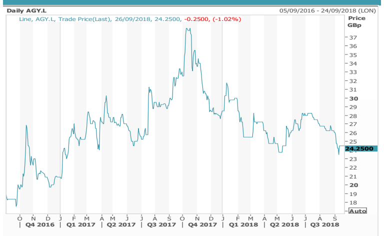
Financial summary and valuation

Year-end May (£000)	2015	2016	2017	2018	2019E	2020E
Revenue	5,534	12,554	16,944	30,103	33,503	36,854
Cost of sales	-2,503	-4,480	-6,094	-10,118	-11,264	-12,672
Admin. expenses	-1,394	-4,290	-6,469	-12,183	-13,603	-14,419
Operating profit	1,637	3,418	4,121	7,966	8,914	9,763
Pre-tax profit	1,620	3,346	4,080	7,850	8,708	9,537
Adj. EPS (p)	3.7	6.5	6.5	7.9	8.1	9.0
Total receivables	24,991	56,061	73,955	126,069	141,197	155,317
Eq. to receivables	49%	43%	39%	38%	40%	41%
Shares in issue (m)	36.9	52.5	54.9	86.2	88.4	90.5
P/adj. earnings (x)	14.7	8.4	8.4	6.9	6.7	6.1
P/B (x)	1.6	1.2	1.1	1.0	0.9	0.8
Yield	0.6%	0.9%	0.9%	1.2%	1.6%	2.0%

Source: Hardman & Co Research

HARDMAN&CO.

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	AGY
Price (p)	24.0
12m High (p)	39.5
12m Low (p)	23.0
Shares (m)	636.2
Mkt Cap (£m)	152.7
EV (£m)	140.2
Free Float*	39%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Manuel Llobet
CFO	Nick Wykeman
Chairman	Peter Jensen

+44 1903 845 820
www.allergytherapeutics.com

Key shareholders

Directors	0.8%
Abbott Labs	37.8%
Southern Fox	22.7%
Odey	6.9%
Invesco	4.5%

Diary

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

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ALLERGY THERAPEUTICS

2018 full-year results: solid growth

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. The Phase III trial, designed to obtain approval for PQ Birch as a biologic in Europe, is well advanced and will report data by the end of 2018. As discussed at the interim stage, underlying sales growth was affected by a low pollen season in central Europe. Full-year results suggest that this has remained a difficult market, but one in which AGY has continued to gain market share.

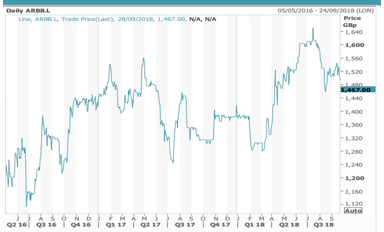
- **Strategy:** AGY is a fully integrated pharmaceutical company focused on the treatment of allergies. There are three parts to its strategy: continued development of its European business via investment or opportunistic acquisitions; the US PQ opportunity; and further development of its pipeline.
- **FY'18 results:** Underlying sales growth in the year to end-June 2018 was 3.5%, which was boosted to 6.6% on a reported basis to £68.3m (£64.1m). Given a weak and short pollen season in spring/summer 2017 and a correspondingly tough market, this was a good performance, with 1ppt market share growth.
- **Profit:** Careful control of marketing and operational costs, combined with timing of R&D, resulted in stronger net cash of £12.5m (£18.8m) at 30 June 2018. As a result, pre-tax profit emerged at -£6.5m in 2018, compared with our forecast -£9.1m. Excluding R&D, operating profit improved 26% to £9.6m.
- **Risks:** AGY's primary risk lies in the timings of the regulatory approval process, mostly outside of its control, related to the PQ Birch immunotherapy and the European TAV process for full approval. Ongoing trials do represent a risk, but this is limited by the products' use on a named-patient basis.
- **Investment summary:** AGY is going through an exciting period. It has a clear vision, is gaining market share from competitors, and is 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 PQ Birch trial in 2018 will provide the next major value inflection point.

Financial summary and valuation

Year-end June (£m)	2015	2016	2017	2018	2019E	2020E
Sales	48.5	64.1	68.3	73.0	78.4	85.5
R&D investment	-16.2	-9.3	-16.0	-18.0	-20.0	-15.0
Underlying EBIT	-12.3	-2.9	-6.4	-7.8	-8.9	-2.0
Reported EBIT	-12.5	-2.6	-7.4	-8.8	-9.9	-3.0
Underlying PBT	-12.5	-3.0	-6.5	-8.1	-9.2	-2.4
Statutory PBT	-12.2	-2.7	-7.5	-9.1	-10.2	-3.3
Underlying EPS (p)	-2.4	-0.5	-1.1	-1.2	-1.6	-0.5
Statutory EPS (p)	-2.3	-0.4	-1.3	-1.4	-1.6	-0.5
Net (debt)/cash	20.0	18.8	12.5	13.8	1.7	-29.0
Capital increase	11.0	0.0	0.0	10.4	0.3	0.3
P/E (x)	-10.2	-51.2	-21.8	-19.6	-15.4	-48.8
EV/sales (x)	2.9	2.2	2.1	1.9	1.8	1.6

Source: Hardman & Co Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	ARBB
Price (p)	1,500
12m High (p)	1,640
12m Low (p)	1,285
Shares (m)	15.3
Mkt Cap (£m)	229
EV (£m)	80%
Free Float*	42%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

+44 20 7012 2400

www.arbuthnotgroup.com

Key shareholders

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

Diary

October	Trading statement

Analyst

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ARBUTHNOT BANKING GROUP

Strong growth in new business lines

Announcements through September show that the new business lines are already delivering excellent franchise growth. The revenue from these initiatives will be more visible in 2019. ABG and STB announced, on 8 August, that the presence of managements on each other's boards was to end, and the STB stake will be treated as a financial asset, which will be written down to its 8 August market value (ca.£20m discontinued businesses loss). Although there is no change in the economic or cash outturns, the net effect is likely to be lower underlying accounting profits. There is a minimal impact on regulatory capital, as STB was a supervisory deduction.

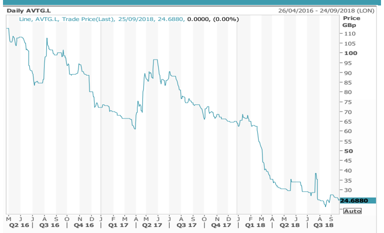
- **Company news:** The new businesses are announcing material news deals with the asset-backed business, providing working capital facilities of £5m to Morris Angel & Son (5 September) and a seven-figure facility to The Majestic Shower Company (20 September). Strong growth in new business was in our forecasts.
- **Peer news:** Brooks MacDonald results (20 September) saw high-teen AUM growth. Close Bros sold its consumer finance business (14 September). Rathbone Brothers completed its acquisition of Speirs & Jeffrey (31 August). 1pm results (12 September) showed good lending growth, with no sign of credit deterioration.
- **Valuation:** The range of our capital deployed valuation methodologies is now £13.01 (DDM), £23.01 (sum-of-the-parts) and £26.78 (GGM). We believe the GGM best captures the profitability and growth of the business. The current share price is below 1H'18 NAV (1,540p).
- **Risks:** As with any bank, the key risk is credit. ABG's existing business should see below-market volatility, and so the main risk lies in new lending. We believe management is cognizant of the risk and has historically been very conservative. Other risks include reputation, regulation and compliance.
- **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been innovative, but also very conservative, in managing risk. Having a profitable, well-funded, well-capitalised and strongly growing bank priced around book value is an anomaly.

Financial summary and valuation (before change in STB treatment)

Year-end Dec (£000)	2015	2016	2017	2018E	2019E
Operating income	34,604	41,450	54,616	66,431	80,300
Total costs	-35,926	-46,111	-54,721	-64,886	-75,429
Cost:income ratio	104%	111%	100%	98%	94%
Total impairments	-1,284	-474	-394	-562	-675
Reported PBT	-2,606	179	6,971	8,926	12,935
Adj. PBT	2,982	4,009	7,623	10,926	14,935
Statutory EPS (p)	86.3	1,127.2	43.9	56.6	79.4
Adj. EPS (p)	13.5	17.1	47.5	67.3	90.1
Loans/deposits	82%	76%	75%	74%	80%
Equity/assets	5.5%	18.5%	12.8%	11.4%	10.4%
P/adj. earnings (x)	111.1	87.7	31.6	22.3	16.6
P/BV (x)	1.86	0.98	0.97	0.97	0.94

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	AVCT
Price (p)	23.5
12m High (p)	72.0
12m Low (p)	21.0
Shares (m)	115.5
Mkt Cap (£m)	27.1
EV (£m)	12.0
Free Float*	78%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Alastair Smith
CFO	Tony Gardiner
Chairman	Eliot Forster

+44 1904 217 046
www.avacta.com

Key shareholders

Directors	3.9%
IP Group	18.2%
Baillie Gifford	8.5%
JO Hambro	7.5%
Carlton Intl.	7.3%
Fidelity	5.9%

Diary

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

Analysts

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

AVACTA

Final results due 2 October

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

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

- **Finals:** At the time of going to press, AVCT was about to announce full-year 2018 results. No major surprises are expected, and the balance sheet was strengthened by a recent Placing of shares. It also provides management with the opportunity to update the market on progress against a series of challenging milestones.

- **Capital increase:** AVCT raised gross new capital of £11.6m via a Placing of 46.5m Ordinary shares @ 25p per share with existing and new shareholders in July. The price represented a discount of 19% to the average 30-day closing price of 30p. 48% of the cash will be used to prepare a therapeutic Affimer for the clinic.

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

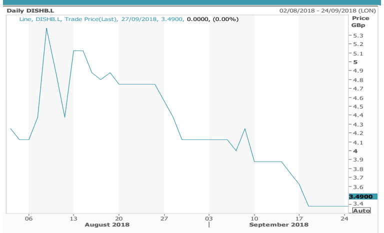
- **Investment summary:** AVCT has made considerable progress towards its goal of having its own proprietary Affimer-based drugs and growing a profitable reagents business. By itself, the company has identified potential leads and completed both in vitro and in vivo pharmacokinetic pre-clinical, efficacy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

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	1.81	2.17	2.74	3.00	3.50	5.40
R&D spend	-0.03	-1.50	-2.60	-3.25	-4.50	-5.50
EBITDA	-2.28	-4.79	-6.66	-7.95	-9.30	-9.20
Underlying EBIT	-2.85	-5.39	-7.60	-9.02	-10.37	-10.27
Reported EBIT	-5.51	-5.66	-7.98	-9.44	-10.84	-10.78
Underlying PBT	-2.83	-5.29	-7.51	-8.98	-10.35	-10.27
Statutory PBT	-5.48	-5.57	-7.89	-9.40	-10.81	-10.78
Underlying EPS (p)	-4.38	-6.46	-8.75	-11.55	-7.88	-7.42
Statutory EPS (p)	-9.72	-6.86	-9.31	-12.17	-8.30	-7.87
Net (debt)/cash	7.33	19.52	13.17	4.50	4.94	-5.09
Capital increase	0.02	21.05	0.01	0.06	10.92	0.00
EV/sales (x)	13.0	10.9	8.6	7.8	6.7	4.4

Source: Hardman & Co Life Sciences Research

Software & Computer Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	DISH
Price (p)	3.4
12m High (p)	5.6
12m Low (p)	3.4
Shares (m)	285.8
Mkt Cap (£m)	9.7
Free Float	34.7%
Market	Main Market

Description

BigDish Plc is an early-stage revenue-generating tech company that has developed a yield management platform for the restaurant industry. The company currently has operations in the Philippines, Indonesia and Hong Kong, and in the southwest of the UK following the recent acquisition of Pouncer.

Company information

Chairman	Aidan Bishop
CEO	Joost Boer
CFO	Stuart Kemp

www.bigdishplc.com

Key shareholders

Directors	29.4%
Oyster Trust Sarl	14.0%
LAC Venture	13.6%
Neil Norman	3.5%

Diary

Jun'19	Full year results

Analyst

Yingheng Chen 020 7194 7638
yc@hardmanandco.com

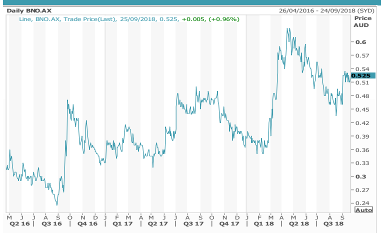
BIGDISH PLC

Growth set to gather pace

BigDish Plc is an early-stage revenue-generating technology company that has developed a yield management platform for the restaurant industry. BigDish's proprietary platform allows restaurants to maximise their sales by offering available tables to diners at a discount, primarily during off-peak hours. It offers restaurants the ability to set their discounts and availabilities best suited to the restaurants' needs. With this reservation platform, restaurants can select the level of discount and the maximum number of discount diners for any given moment. The discount is generally between 10% and 50%, which allows the restaurants to drive diners to book at off-peak times. Read our initiation report *here*.

- **IPO:** On 2 August, BigDish successfully IPO-ed on the London Main Market, raising total gross proceeds of £2.2m (£1.84m net) in a Placing of 49,391,796 shares at 4.5p per share. As part of the fundraising, BigDish has acquired Pouncer Media Ltd (Pouncer), a UK-based discount reservation platform for restaurants, based in Bournemouth, for a total consideration of $1.31m.
- **Focus on increasing brand recognition and growth:** BigDish currently has operations in the Philippines (Manila), Indonesia (Jakarta) and Hong Kong, as well as in the UK, where Pouncer operates. With the fundraising, it is planning to make a heavy push on its marketing and advertising effort in order to increase its brand recognition and accelerate its growth path.
- **Valuation:** Valuing an early-stage tech company such as BigDish is inevitably difficult in the absence of historical financials. We have therefore benchmarked BigDish against other relevant recent transactions in the sector, and this indicates a potential valuation of £24.5m-£35m.
- **Risks:** As an early-stage technology company with a limited proven track record, BigDish might need to compete with other, more established market players in the restaurant reservation and discounting sector. BigDish and Pouncer have yet to reach breakeven, given their early development stage.
- **Investment summary:** BigDish has developed a value-added service for the restaurant industry. With operations in three countries, the company is at an inflection point where we would expect growth to gather pace as investment in marketing and advertising campaigns accelerates. BigDish's model is easily saleable across cities and countries. It is worth noting that tech platforms such as BigDish have attracted significant interest from major players in the global consumer technology sector.

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

Ticker	BNO
Price (A$)	0.52
12m High (A$)	0.64
12m Low (A$)	0.34
Shares (m)	482.9
Mkt Cap (A$m)	251.1
EV (A$m)	247.6
Free Float*	89%
Market	ASX

**As defined by ASX Rule 1.1 Condition 7*

Description

Bionomics (BNO) is an Australian biopharmaceutical 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%

Diary

2H'18	PTSD trial data
1Q'19	Agitation trial data
1Q'19	Merck trial

Analysts

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BIONOMICS

FY'18 – focus on PTSD drug development

BNO is an Australian biopharmaceutical company specialising in ion channel drug discovery for central nervous system (CNS) disorders such as anxiety and post-traumatic stress disorder (PTSD). BNO also offers contract and partnered discovery based on its proprietary technology platforms: MultiCore and ionX. The group sales model includes fees-for-service, licensing income and royalties from successful partnered products. In the 2018 fiscal year, its strategy has been to focus on development of its lead candidate, BNC210, to completion of Phase II in PTSD. The RESTORE trial is due to read out soon – a potential value inflection point.

- **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.

- **Full-year results:** Sales (R&D payments and service fees) declined 28% to A$4.0m in FY'18, as payments from the MSD research collaboration ceased on successful completion of research activities. Other income totalled A$1.4m, returning to underlying levels following the US$10m/A$13m milestone in FY'17.

- **R&D investment:** Operational focus in the period was on clinical trials, with the lead candidate, BNC210, progressing in the Phase II PTSD RESTORE trial to full recruitment and to completion of treatment. Data are due in September. The trial of BNC210 in hospitalised elderly patients with agitation is progressing well.

- **Risks:** BNC210 has therapeutic potential in large patient populations with unmet need. However, there are significant risks in development of any drug, and late-stage clinical trials are expensive. In addition, there are no approved specific cancer stem cell-targeting drugs, and BNC101 is yet to be out-licensed.

- **Investment summary:** BNO has a clear strategy to invest in developing its CNS drug candidates to a stage that both interests big pharma and generates good potential returns for shareholders. Hardman & Co estimates the post-tax NPV of the whole drug pipeline to be ca.A$650m. The next inflection point is likely to be BNC210 data in CY 2H'18, or potentially news about the oncology assets.

Financial summary and valuation

Year-end June (A$m)	2015	2016	2017	2018	2019E	2020E
Sales	6.79	7.14	5.53	3.95	3.60	3.30
R&D investment	-23.18	-24.77	-24.22	-25.25	-20.20	-12.12
Other income	1.35	2.59	14.62	1.36	47.56	34.46
EBITDA	-22.65	-24.95	-10.99	-25.20	25.45	19.91
Underlying EBIT	-24.37	-26.88	-12.73	-26.87	23.79	18.24
Reported EBIT	-24.35	-27.42	-13.23	-27.43	23.25	17.70
Underlying PBT	-24.28	-26.28	-13.50	-28.35	22.42	17.36
Statutory PBT	-24.27	-26.82	-13.13	-32.82	21.89	16.83
Underlying EPS (¢)	-4.06	-3.51	-1.48	-4.28	5.57	4.12
Statutory EPS (¢)	-3.27	-3.42	-1.43	-5.10	5.56	4.12
Net (debt)/cash	11.78	23.14	24.26	3.50	31.81	52.08
Capital increase	0.27	28.22	0.14	0.41	0.00	0.00

Source: Hardman & Co Life Sciences Research

BURFORD CAPITAL

Quiet autumn, as usual

The autumn is usually quiet for news from Burford, and 2018 is no exception. An article in *American Lawyer* suggests that Burford continues to develop plans to provide corporate-like equity to law firms. Full details are not available, but the principle would seem to be to spin off the non-legal functions of a law firm into a separate company. That entity could then receive external funding. Having another option for financing legal firms will obviously help to support Burford's growth. Investors might be aware that, in the UK, corporate structures are permitted for law firms, but that is an exception internationally.

- **Other market news:** Although not directly affecting Burford, another litigation finance firm, Vannin Capital, has announced its intention to float in the UK. Although it operates in the same business area, it would appear to have some substantial differences in its strategy and how it accounts for claims.
- **Valuation:** The prospective 2019E P/E of 23.3x is not excessive for a company with such strong growth prospects. A 21.6% RoE suggests strong metrics all round, with a highly productive deployment of capital.
- **Risks:** The investment portfolio is still diversified, with exposure to more than 900 claims, but it retains some very large investments, which means revenue could be volatile. As the company matures, we would expect that to decrease, but not to disappear. The Petersen case shows that this volatility is not simply a negative.
- **Investment summary:** Burford has already demonstrated an impressive ability to deliver good returns in a growing market, while investing its capital base. As the invested capital continues to grow, the litigation investment business will continue to produce strong earnings growth.

Financial summary and valuation

Year-end Dec ($m)	2015	2016	2017	2018E	2019E	2020E
Revenue	103.0	163.4	341.2	323.4	361.6	489.6
Operating profit	77.2	124.4	285.1	259.8	286.4	400.5
Reported net income	64.5	108.3	249.3	213.1	232.6	337.6
Underlying net income	64.5	114.2	264.8	224.8	244.3	349.3
Underlying return on equity	16.0%	22.1%	35.9%	24.2%	21.6%	25.1%
Underlying EPS ($)	0.32	0.55	1.27	1.08	1.17	1.68
Statutory EPS ($)	0.32	0.53	1.20	1.02	1.12	1.62
Dividend per share ($)	0.08	0.09	0.11	0.13	0.15	0.17
Yield	0.3%	0.3%	0.4%	0.5%	0.5%	0.6%
NAV per share ($)	2.12	2.22	3.19	4.10	5.09	6.71
P/E (x) (underlying)	86.8	49.9	21.5	25.3	23.3	16.3
Price/NAV (x)	12.9	12.3	8.6	6.7	5.4	4.1

Source: Hardman & Co Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**BUR**
Price (p)	1954.0
12m High (p)	2040.0
12m Low (p)	1022.0
Shares (m)	208.2
Mkt Cap (£m)	4,069
Total Assets ($m)	1,653
Free Float*	90%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Christopher Bogart
CIO	Jonathan Molot
Chairman	Sir Peter Middleton

+1 212 235 6820

www.burfordcapital.com

Key shareholders

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

Diary

5 December	Interim dividend payment

Analyst

Brian Moretta 020 7194 7622

bm@hardmanandco.com

Industrial Engineering

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	CMH
Price (p)	70
12m High (p)	176
12m Low (p)	55
Shares (m)	8.3
Mkt Cap (£m)	5.8
EV (£m)	14.5
Free Float*	40%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Kevin Nolan
CFO	David Roberts
Chairman	Keith Butler-Wheelhouse

+44 1922 707110

www. chamberlin.co.uk

Key shareholders

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

Diary

Nov'18	Interims

Analyst

Paul Singer 020 7194 7622

ps@hardmanandco.com

CHAMBERLIN

Trading strong, technical issues largely resolved

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

- **AGM statement:** 'Revenues for the first three months of the current financial year are in line with management expectations. Demand at the Walsall foundry continues to be strong, driving increased production volumes.' The company has reaffirmed market estimates, but profitability will be weighted towards 2H.

- **Outlook:** We are maintaining our 2018/19 forecasts. Demand for petrol engine turbocharger components is strong, and new products for machining are also being introduced into the market. The group is well positioned to deliver a further improvement in performance during the year, as margins recover.

- **Risks:** Potential risks include developments with the automotive industry, foreign currency and raw material price fluctuations. From a financial standpoint, we note that the group has a significant pension scheme deficit and, with limited free cashflow, the deficit is likely to remain at a relatively high level.

- **Valuation:** The shares remain lowly valued, trading on 2019E EV/sales and EV/EBITDA of around 0.3x and 4.1xm respectively, compared with sector averages of 1.0x and 7.0x. Our DCF valuation also suggests that the shares are significantly undervalued.

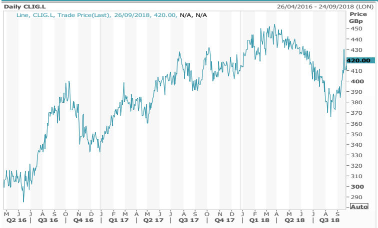
- **Investment summary:** The company has repositioned itself from a traditional engineering company to become a key supplier to the automotive turbocharger sector. The shares offer the opportunity to invest in a cyclical stock with high operational leverage.

Financial summary and valuation

Year-end March (£m)	2017	2018	2019E	2020E
Sales	32.1	37.7	40.8	41.9
Gross profit	6.9	6.9	8.5	8.9
EBITDA	2.0	1.9	3.5	3.9
Underlying EBIT	0.7	0.4	1.6	2.0
Reported EBIT	0.4	0.1	1.6	2.0
Underlying PBT	0.57	0.0	1.3	1.7
Underlying EPS (p)	4.5	-5.5	13.0	16.5
GAAP EPS (p)	-11.7	-10.2	13.0	16.5
Net (debt)/cash	-6.8	-8.9	-8.3	-7.2
P/E (x)	-	-	6.2	4.8
EV/sales (x)	0.47	0.40	0.3	0.3
EV/EBITDA (x)	-	8.2	4.1	3.7

Source: Hardman & Co Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**CLIG**
Price (p)	412.0
12m High (p)	454.0
12m Low (p)	366.0
Shares (m)	26.9
Mkt Cap (£m)	110.9
EV (£m)	91.2
Market	LSE

Description

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

Company information

CEO	Barry Olliff
CFO	Tracy Rodrigues
Chairman	David Cardale

www.citlon.com

Key shareholders

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

Diary

8 Oct	1Q FUM announcement
11 Oct	Ex-div. date for final dividend
22 Oct	AGM
16 Jan	2Q FUM announcement

Analyst

Brian Moretta 020 7194 7622
bm@hardmanandco.com

CITY OF LONDON INVESTMENT GROUP

Strengthening cash position to boost returns

City of London has released its annual results for 2018. As headline figures were given in the July trading statement, there were no big surprises in these results. FUM grew 9.5% in US Dollar terms over the year to $5.1bn. With Sterling strengthening relative to the US Dollar and lower fee margins, revenue growth was a little behind this at 8.4%. Total expenses grew at 8.2%, giving net 8.9% growth in operating profit to £12.5m. EPS growth was 7.0%, lower than the 10% increase in earnings due to fewer shares being held by employee benefits schemes.

- **Cash:** City of London usually has excellent cash conversion. The 2018 figure of 120% was boosted by changes in working capital, notably a £1.4m increase in trade payables. The year-end cash balance of £19.7m is more than 40% up on a year ago, with suggestions that some might be returned to shareholders.

- **Management and board changes:** The coming year is going to see significant changes. In early 2019, Tom Griffith, who is currently Deputy CEO, will become Group CEO in advance of Barry Olliff's retirement at the year-end. David Cardale will also be stepping down as Chairman, to be replaced by Barry Aling.

- **Valuation:** The prospective P/E of 9.9x is at a significant discount to the peer group. The historical yield of 6.6% is attractive and should, at the very least, provide support for the shares in the current markets.

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

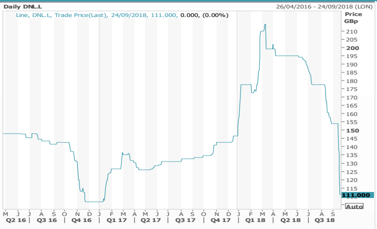
- **Investment summary:** Having shown robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. FY2017 and FY2018 both saw dividend increases and, unless there is significant market disruption,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

Financial summary and valuation

Year-end Jun (£m)	2015	2016	2017	2018	2019E	2020E
FUM ($bn)	4.20	4.00	4.66	5.11	5.55	6.01
Revenue	25.36	24.41	31.29	33.93	34.29	36.32
Statutory PTP	8.93	7.97	11.59	12.79	13.15	14.26
Statutory EPS (p)	26.4	23.3	36.9	39.5	41.8	45.3
Dividend (p)	24.0	24.0	25.0	27.0	30.0	33.0
P/E (x)	15.6	17.7	11.2	10.4	9.9	9.1
Yield	5.8%	5.8%	6.1%	6.6%	7.3%	8.0%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	DNL
Price (p)	111.0
12m High (p)	215.8
12m Low (p)	110.0
Shares (m)	61.3
Mkt Cap (£m)	68.0
EV (£m)	50.7
Free Float*	19%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Martin Whitaker
CFO	Richard Bungay
Chairman	Peter Allen

+44 29 2068 2069
www.diurnal.co.uk

Key shareholders

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

Diary

3Q'18	US Phase III Chronocort
4Q'18	EU Ph III Chronocort readout
4Q'18	Alkindi US reg.

Analysts

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DIURNAL GROUP

Focus on near-term milestones

DNL is a commercial-stage specialty pharmaceutical company focused on diseases of the endocrine system. Its two lead products target rare conditions where medical needs are currently unmet, with the aim of building a long-term 'Adrenal Franchise'. Following approval from the European Commission, Alkindi is being launched in key European markets through DNL's own commercial infrastructure, starting with Germany, and now also available in the UK. Results included the initial sales figure for Alkindi, which largely represented pipeline fill. The next few months will be characterised by a number of important value inflection points.

- **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 US, the long-term vision is to expand DNL's product offering to other related conditions.
- **Results:** Reported operating losses of £16.8m (-£11.5m) largely reflect the increased investment in R&D. This fell through the cashflow statement, leaving the company with net cash at the end of June of £17.3m, including the completion of a Placing for £10.5m gross in March.
- **First sales:** The results provide the first 46 days' sales figure for Alkindi in Germany, at £73k. For the main European countries, there will be a staged roll-out, influenced by conclusion of pricing negotiations on a country-by-country basis. From 3 September, Alkindi has also become available in the UK.
- **4Q'18 milestones:** Important value inflection points are due before the end of calendar 2018: headline data for Phase III Chronocort in the EU; start of Chronocort Phase III in the US; and readout of the US Phase III for Alkindi, which will be followed by submission of the regulatory package to the FDA.
- **Investment summary:** Alkindi, a cortisol replacement therapy designed for babies and children, is DNL's first product on the market. It will be followed shortly by Chronocort for adults. The cortisol replacement market is for conditions that need life-long treatments, and it has a potential value of $3.5bn. DNL will be reporting on a number of potential valuation inflection points during the remainder of 2018.

Financial summary and valuation

Year-end June (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	0.00	0.00	0.07	1.54	5.53	17.23
SG&A	-1.99	-3.23	-6.21	-7.77	-9.40	-11.13
R&D	-3.89	-8.34	-10.02	-9.54	-6.68	-6.35
EBITDA	-5.87	-11.56	-16.16	-15.99	-11.09	-1.96
Underlying EBIT	-5.88	-11.56	-16.17	-16.01	-11.11	-1.97
Reported EBIT	-6.99	-12.08	-16.98	-16.86	-12.00	-2.91
Underlying PBT	-5.95	-11.64	-16.30	-15.92	-11.09	-2.01
Statutory PBT	-7.06	-12.16	-16.91	-16.77	-11.98	-2.94
Underlying EPS (p)	-12.48	-17.05	-25.68	-20.86	-14.52	0.12
Statutory EPS (p)	-15.02	-18.04	-26.78	-22.25	-15.97	-1.41
Net (debt)/cash	26.88	16.37	17.28	3.55	-6.17	-9.38
Capital increases	24.52	0.05	13.40	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

Consumer & Leisure

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**DPP.L**
Price (p)	29
12m High (p)	45.2
12m Low (p)	24.5
Shares (m)	153
Mkt Cap (£m)	44
EV (£m)	42
Free Float*	66%
Market	AIM

**As defined by AIM Rule 26*

Description

DP Poland (DPP) has the master franchise for Domino's Pizza in Poland. It has 60 stores, of which 36 are corporately owned. It is rolling out steadily on the back of very strong revenue performance.

Company information	
CEO	Peter Shaw
CFO	Maciej Jania
Chairman	Nicholas Donaldson

+44 20 3393 6954
www.dppoland.com

Key shareholders	
Directors	5.2%
Cannacord Genuity	14%
Pageant Holdings	10%
Fidelity	10%
Octopus Investments	5%

Diary	
Jan'19	Trading update
Mar'19	Final results
May'19	AGM

Analyst

Jason Streets 020 7194 7622
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DP POLAND

Fully proven model rolls out

DPP has proved that the Domino's formula works as well in Poland as it does elsewhere in the world; its mature stores are substantially profitable. With 60 stores now open in Poland but only seven mature corporately owned stores, the strength of the operation does not show up in the group profit figures. The remarkable thing about the Domino's franchise is the seemingly endless growth in same-store sales. DPP has laid the foundations of a very substantial business but, so far, there is little showing above the surface. We believe it will – in time.

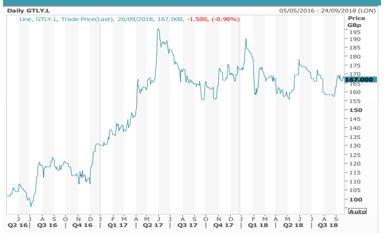
- **Strategy:** DPP has spent the first few years of its existence proving the Domino's Pizza model in Poland and honing its operations. With the new commissary up and running, it has scope to double the number of operations over the next few years. As the stores mature, the success should show up in reported profits.
- **Competitive market:** DPP has neither the pizza market nor the food delivery market to itself in Poland. Both are established, but current evidence shows that the Domino's formula of focusing on high-quality pizza, delivered swiftly, is as hard to beat in Poland as it is in the rest of the world.
- **Valuation:** We are not expecting reported profits for the next few years, so we have looked at valuing DPP on a per-store basis. We value stores of different maturity separately and also look at the value of future stores. We derive a central value of around £80m, or 52p per share.
- **Risks:** In the short term, DPP faces cost pressures, especially on labour, but so do its competitors. Finding franchisees and finance for them is a hurdle. Longer term, we see general competitive behaviour as the biggest threat to our forecasts. There is also some country political risk.
- **Investment summary:** The story for DPP is quite simple: it has a powerful retail consumer franchise in a fast-developing economy. The share price has reflected the ups and downs of any startup business that would typically be sheltered from public scrutiny. DPP seems to have it all running smoothly now, and we believe the profits will follow as the existing stores mature.

Financial summary and valuation

Year-end Dec (£000)	2016	2017	2018E	2019E	2020E	2016
Revenue	7.557	10.378	13.853	18.433	23.592	7.557
Store EBITDA	1.526	0.715	0.866	1.836	2.767	1.526
Group EBITDA	-1.580	-1.785	-1.700	-0.400	0.450	-1.580
EBIT	-2.546	-2.703	-2.776	-1.516	-0.716	-2.546
Finance costs	0.053	0.068	0.012	-0.009	-0.023	0.053
PBT	-2.493	-2.635	-2.765	-1.525	-0.739	-2.493
PAT	-2.493	-2.635	-2.765	-1.525	-0.739	-2.493
EPS (p)	-1.93	-1.85	-1.81	-1.00	-0.48	-1.93
EPS adjusted (p)	-1.81	-1.85	-1.76	-0.94	-0.42	-1.81
Net cash	6.0	4.1	1.4	-0.9	-2.3	6.0
Shares issued (m)	129	142	153	153	153	129
EV/Sales (x)	5.6	4.0	3.0	2.3	1.8	5.6

Source: Hardman & Co Research

Business support services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	GTLY
Price (p)	165
12m High (p)	193
12m Low (p)	158
Shares (m)	108
Mkt Cap (£m)	187
EV (£m)	188
Free Float*	ca.40%
Market	AIM

**As defined by AIM Rule 26*

Description

Gateley 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

CEO	Michael Ward
Finance Director	Neil Smith
Chairman (non-exec)	Nigel Payne

+44 121 234 0000
www.gateleyplc.com

Key shareholders

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

Diary

December 2018	Interims

Analyst

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GATELEY (HOLDINGS) PLC

Strong results and positive outlook

Gateley delivered final results ahead of market expectations, leading to upward revisions for this year. A broad-based law-led professional services group, it is a leader in serving the UK mid-market. It is delivering on its pre-IPO plan, growing revenue, profit, breadth of service offering and geographical footprint since flotation. The FY18 results were notable for strong cash generation, strong organic revenue growth and the maintenance of high margins. The group has already made two highly complementary acquisitions this year, both achieved using a mix of shares and cash, an option not available pre-IPO.

- **Current trading:** Full-year results showed a strong performance, with EBITDA (pre- share-based costs) of £16.5m vs. our £16.0m expectation – a useful "beat". Dividend was in line with, while EPS was slightly ahead of, our forecasts, with strong organic revenue growth across all service lines. Staff numbers increased 11% to meet growing demand, demonstrating attractiveness to new joiners.

- **News:** The group has now announced two positive acquisitions in FY19, financed ca.50% with equity to align vendors' interests with the group/investors. GCL (legal services, 45% equity) expands market-leading housebuilding and property exposure southwards. Kiddy, a Human Capital consultancy, gives exposure to large corporates on a rating lower than recently floated peer, MindGym.

- **Sector:** The legal sector is growing profitably, and more firms are coming to the market, following Gateley's lead. A larger sector is a positive for the group, as it improves investor understanding, and affords the opportunity for comparison. This should favour Gateley, which has improved from 48th to 44th position in the latest industry rankings, and where we forecast continued growth.

- **Valuation:** The current-year P/E is just above 14x, falling to just 12.5x next year, on conservative numbers. The dividend yield is forecast to reach close to 5% next year, and should continue to grow, while the group offers an attractive free cashflow yield with strong cash generation, thanks to limited capex requirements, with working capital being the main cash draw as the business grows.

- **Investment summary:** Gateley is a fully invested, consistent performer in a new and exciting space, which increasingly is likely to attract investor attention. It is a high-quality professional services group with significant growth potential, an excellent track record of delivery, strong management, and a strategy to diversify further in complementary professional services.

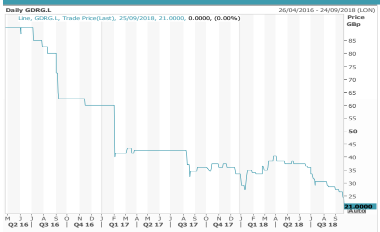
Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Sales	67.1	77.6	86.1	100.1	110.0	67.1
EBITDA	12.9	14.9	16.5	18.9	21.9	12.9
PBT (adj.)	12.0	13.8	14.1	15.9	18.3	12.0
EPS (adj., p)	9.1	9.4	10.6	11.5	13.2	9.1
DPS (p)	5.6	6.6	7.0	7.5	8.1	5.6
Net cash	-4.2	-4.8	-0.7	-1.0	6.4	-4.2
PE (x)	18.2	17.5	15.5	14.4	12.5	18.2
EV/EBITDA (x)	13.7	12.1	10.7	9.7	8.0	13.7
Dividend yield	3.4%	4.0%	4.2%	4.5%	4.9%	3.4%

Source: Hardman & Co Research

HARDMAN&CO.

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	GDR
Price (p)	24.5
12m High (p)	42.0
12m Low (p)	21.5
Shares (m)	18.9
Mkt Cap (£m)	4.6
EV (£m)	7.0
Free Float*	48%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	David Budd
CFO	Matthew Fowler
Chairman	Ian Gilham

+44 161 989 0245
www.genedriveplc.com

Key shareholders

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

Diary

Nov'18	Finals

Analysts

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gp@hardmanandco.com

GENEDRIVE PLC

FIND evaluation of performance

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

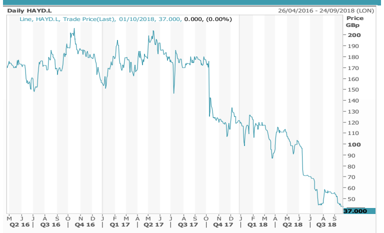
- **Strategy:** Now that the Genedrive technology platform has received CE Marking, the new management team has completely re-focused the company onto the commercialisation pathway for diagnosis of infectious diseases, signing two important commercial agreements with Sysmex, a major global player.
- **Trading update:** GDR reported diagnostic sales of £1.9m in fiscal 2018 (£2.6m fiscal 2017), marginally below our £2.0m forecast. The expected decline was due to the successful completion of its US Department of Defense contract, which will be lower again in 2019. Cash at 30 June was £3.5m, vs. our forecast of £3.3m.
- **FIND study:** GDR has entered into a study agreement with the Foundation for Innovation of New Diagnostics (FIND) to evaluate the diagnostic accuracy of its HCV test kit across diverse genotypes in Cameroon and Georgia. FIND will lead the studies, with GDR supplying product in-kind to support the study.
- **Risks:** The platform technology has been de-risked through the receipt of CE Marking for its first two assays (hepatitis C and tuberculosis). The main risk is commercial, given that it often takes time for new technologies to be adopted. However, partnering with major global and local players reduces this risk.
- **Investment summary:** Genedrive technology ticks all the boxes described for an 'ideal' in vitro diagnostic that satisfies the need for powerful molecular diagnostics outside the hospital setting. The hepatitis C market is a global opportunity, which is very large, even in developing countries. With strong partners being signed for different countries, such as the NHS in the UK, and evidence of early sales traction, there is, in our opinion, a valuation anomaly.

Financial summary and valuation

Year-end June (£000)	2015	2016	2017	2018E	2019E	2020E
Sales	4,517	5,063	5,785	4,869	3,447	4,826
Underlying EBIT	-3,858	-5,259	-4,812	-4,664	-3,681	-2,709
Reported EBIT	-4,040	-5,426	-7,292	-4,784	-3,837	-2,927
Underlying PBT	-3,242	-6,330	-5,007	-4,994	-4,146	-3,180
Statutory PBT	-3,424	-6,497	-7,487	-5,114	-4,302	-3,399
Underlying EPS (p)	-28.3	-54.6	-21.4	-21.5	-15.9	-9.1
Statutory EPS (p)	-30.1	-56.2	-34.9	-22.2	-16.6	-10.0
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	903	-3,877	-70	-2,362	-5,175	-6,947
Capital increases	80	0	6,023	0	1,250	0
P/E (x)	-0.9	-0.4	-1.1	-1.1	-1.5	-2.7
EV/sales (x)	1.5	1.4	1.2	1.4	2.0	1.4

Source: Hardman & Co Life Sciences Research

Speciality Chemicals



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	HAYD
Price (p)	36
12m High (p)	120
12m Low (p)	36
Shares (m)	27.2
Mkt Cap (£m)	11.7
EV (£m)	7.5
Free Float*	100%
Market	AIM

**As defined by AIM Rule 26*

Description

Haydale is involved in the production and functionalisation of nanomaterials, predominantly graphene and silicon carbide micro-fibres. Europe represents around 21% of sales, the US 55% and the Far East 20%.

Company information

CEO	To be appointed
CFO	Matt Wood
COO	Keith Broadbent
Interim Executive Chairman	David Banks

+44 01269 842946
www.haydale.co.uk

Key shareholders

Lynchwood Nominees	7.8%
Advanced Waste & Water Technology Environ' Ltd *	7.2%
Credit Suisse Group	5.2%
Cheviot Capital	4.5%
Directors	3.4%
Others	71.8%

*Previously Everpower Ltd

Diary

Dec'18	AGM

Analysts

Paul Singer 020 7194 7622
ps@hardmanandco.com

HAYDALE

Exuberance, reality; enlightenment now to follow

Haydale is competitively well-positioned within the nanomaterial industry, with a unique patented functionalisation process – currently focused on, but not limited to, graphene. Commercial developments for graphene and silicon carbide are progressing well and, while timings of commensurate news releases may be lagging, the long-term risk/reward balance remains favourable. The shares are attractively valued compared with their peer group, on P/NAV and EV/sales, and also on a DCF basis.

- **Competitive position:** Haydale is competitively well-positioned – a top-quartile status – within the nanomaterial industry, with a unique process for graphene functionalisation, addressing a diverse range of industries and geographies.

- **Strategy:** The group's key strategic objective is now to further accelerate the transition of the business into a sales and marketing organisation from an R&D-focused operation. The group plans to further commercialise its functionalisation process by providing solutions to both raw material producers and industrial corporations, initially in non-regulated markets.

- **Management changes:** Recent senior management changes and expansion, including the appointment of Keith Broadbent as COO, should be deemed positive, and will allow experienced and key personnel to concentrate fully on the principal activities of business development and monetisation of commercial deals.

- **Investment summary:** Commercial traction is good, and the group has entered FY19 with a healthy order book, which was increased post year-end, and cautious optimism. We believe our forecasts are conservative for FY19, with strong growth expected in FY20. The shares have performed poorly recently, largely reflecting the difficulties in revealing the positive commercial news. The risk/reward balance remains favourable on a long-term basis, with net cash at £4.2m, and with additional debt facilities of £1.4m. The shares are attractively valued vs. their peer group, on P/NAV and EV/sales, and also on a DCF basis

Financial summary and valuation

Year-end June (£m)	2017	2018	2019E	2020E
Sales	3.0	3.4	4.0	6.0
Gross profit	2.1	2.0	2.6	4.2
Grant income	0.9	0.8	0.9	0.9
EBITDA	-4.3	-4.9	-4.4	-3.1
Underlying EBIT	-5.0	-5.7	-5.3	-4.0
Reported EBIT	-5.3	-6.0	-5.6	-4.3
Underlying PTP	-5.3	-5.8	-5.2	-3.9
Underlying EPS (p)	-0.3	-22.4	-17.2	-12.8
Statutory EPS (p)	-0.3	-23.7	-18.2	-13.8
Net (debt)/cash	0.8	4.2	-0.2	-3.2
EV/sales (x)	2.8	2.4	1.9	1.2

Source: Hardman & Co Research

KOOVS PLC

Koovs refinanced for the future

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

- **Strategy:** Koovs sells affordable 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.
- **Partner benefits:** FLFL is a huge, nationwide bricks-and-mortar fashion retailer. It is also a vertically integrated business manufacturing its own brands, as well as selling well-known international labels. With Koovs leveraging FLFL's scale and distribution, its revenue and margins should improve much faster.
- **Valuation:** Conventional valuation metrics are unhelpful. We take our forecast EBITDA for Dec-22, apply a Boohoo/ASOS multiple and discount the value back to today. Even at a 25% discount, the EV comes out at £357m, including the funds to be raised. The current price is a poor indicator of the inherent value.
- **Risks:** Now it is refinanced, we see the two key risks being slower uptake of e-commerce in India than we forecast, and damaging discounting by Koovs' direct and indirect competitors. Koovs also needs to manage the relationship with FLFL successfully to optimise its benefits.
- **Investment summary:** With the money raised and the new partners on board, Koovs becomes an exciting way to play the last big world retail market to move online. The prize, if it gets it right, is a billion-pound company and more. It is likely to be a bumpy, exciting ride, but investors have the reassurance of a highly experienced management team in charge, and the backing of two major Indian corporations straddling both retail and media.

Financial summary and valuation						
Year-end Mar (£m)	**2017**	**2018**	**2019E**	**2020E**	**2021E**	**2022E**
Visits (m)	79	66	116	166	246	312
Conversion	1.6%	1.4%	1.4%	2.3%	2.8%	3.5%
No. of orders (m)	1.25	0.92	1.62	3.74	6.75	10.93
AOV (£)	14.75	16.37	16.74	19.00	20.58	23.29
GOV	18.5	14.8	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	1.3	3.6	12.1	25.8	70.4
Trading margin	2%	14%	21%	27%	30%	44%
EBITDA	-20.0	-14.5	-19.4	-18.9	-7.8	17.2
No. of shares (m)	175	175	356	420	420	420
EV/sales (x)	1.1	1.5	1.0	0.4	0.2	0.1

Source: Hardman & Co Research

General Retailers

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**KOOV**
Price (p)	**10**
12m High (p)	57
12m Low (p)	6
Shares (m)	356
Mkt Cap (£m)	36
EV (£m)	17
Free Float*	40%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information	
CEO	Mary Turner
CFO	Rob Pursell
Chairman	Waheed Alli

+44 20 7151 0170
www.koovs.com

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

Diary	
Dec'18	Interims

Analyst

Jason Streets 020 7194 7622
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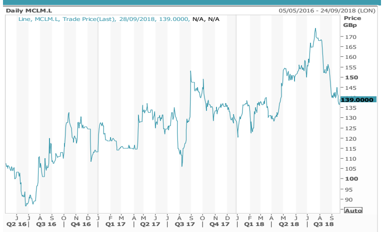
Financial Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	MCL
Price (p)	139.0p
12m High (p)	174.0
12m Low (p)	123.0
Shares (m)	129.5
Mkt Cap (£m)	180.0
EV (£m)	159.6
Free Float*	60%
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

CEO	Paul Smith
CFO	Andy Thomson
Non-Ex Chairman	Stephen Karle

Tel: +44 330 045 0719

www. morsesclubplc.com

Key shareholders

Hay Wain	36.82%
Woodford Inv. Mgt.	9.33%
Miton Asset Mgt.	9.03%
Artemis Inv. Mgt.	6.95%
JO Hambro	6.74%
Majedie Asset Mgt.	5.34%
Blackrock	4.15%
Legal and General	3.22%

Diary

4 October	Interim results

Analyst

Mark Thomas 020 7194 7622

mt@hardmanandco.com

MORSES CLUB PLC

Looking forward to interim results on 4 October

We expect the 4 October results to confirm steady growth, controlled risk and delivery in line with expectations. We note that, over recent months, there has been steady buying by a number of MCL's major holders. Our valuation range remains 171p to 197p. We reviewed MCL's strategic focus on quality in our note, *Quality Street*, published on 19 July 2018. In that note, we detailed MCL's focus on quality, giving practical examples of how the group aims to generate sustainable profit growth. Conservatism runs throughout MCL's lending, accounting, agents, customer selection and new product development.

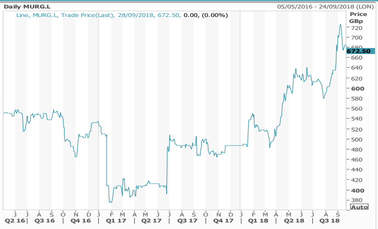
- **Company news:** MCL will announce its interim results on 4 October. The trading statement indicated i) total credit issued up by 4% to £85.7m, ii) cash collections up 12%, iii) impairments expected to be within MCL's IAS39 guidance range, and iv) customer numbers (229k) stable with the continuation of improved quality.
- **Peer news:** On 3 September, NSF announced increased debt facilities, indicating that debt market appetite for lenders like MCL remains strong. We note that Woodford Inv. Mngt has reduced its holding in PFG (25.0% to 23.6%) and NSF (26.4% to 23.9%). The Richmond representative director stepped down at Amigo.
- **Valuation:** We detailed a range of valuation approaches and sensitivities in our notes, *Building a profitable and sustainable franchise* , and *Bringing Home Collect into the 21st Century,* and updated these in our results note. The range is now 171p (DDM) to 197p (GGM).
- **Risks:** Credit risk is high (albeit inflated by accounting rules) but MCL adopts the right approach to affordability and credit assessment. Regulatory risk is a factor, although high customer satisfaction suggests a limited need for change. MCL was the first major HCC company to get full FCA authorisation.
- **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. We forecast an 8.5x February 2020 P/E and a 6.1% February 2020 dividend yield, with 1.9x cover (adjusted earnings).

Financial summary and valuation

Year-end Feb (£m)	2015	2016	2017	2018	2019E*	2020E*
Reported revenue	89.9	90.6	99.6	116.6	119.0	133.0
Total impairments	-22.9	-18.8	-24.3	-30.4	-26.6	-29.1
Total costs	-51.4	-53.4	-56.7	-65.6	-69.2	-75.6
EBITDA	16.5	19.3	19.9	22.1	24.9	30.1
Adjusted PBT	13.0	16.8	17.7	19.2	21.4	26.4
Statutory PBT	58.5	10.4	11.2	16.1	18.2	23.6
Statutory EPS (p)	46.5	6.1	6.6	10.1	11.4	14.8
Adj. EPS (p)	8.1	10.2	10.8	11.7	13.2	16.3
P/adj. earnings (x)	17.1	13.6	12.9	11.8	10.5	8.5
P/BV (x)	1.9	3.3	2.9	2.7	2.7	2.4
P/tangible book	2.1	4.0	3.5	3.1	3.0	2.6
Dividend yield	n/m	n/m	4.6%	5.0%	5.5%	6.1%

*Source: Hardman & Co Research * IFRS9 basis*

Support services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	MUR
Price (p)	680
12m High (p)	730
12m Low (p)	470
Shares (m)	9.0
Mkt Cap (£m)	61.0
EV (£m)	59.0
Free Float*	53%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Keith Young
CFO	Keith Young
Chairman	Ian Murgitroyd

+44 141 307 8400
www.murgitroyd.com

Key shareholders

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

Diary

Feb'19	Interim results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

MURGITROYD

Recent results: strong cash, resilient outlook

Results announced on 11 September were in line with expectations, as is the outlook. For some time, the market has been increasingly competitive – but growing in volume and complexity – and Murgitroyd has invested to ensure its prospects, which appear strong and broad-based. As the Chairman stated in the results: "Four years of significant investment in our pan-European footprint, software and business development, as well as back-office efficiencies, have put us in a strong competitive position to help offset any weakness in individual markets and to remain at the cutting edge of client-service and productivity."

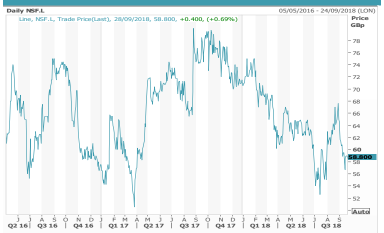
- **Strategy:** We look for group-wide margins to start to expand again, and a broadening of support functions sold to clients, albeit this revenue is probably a lower gross margin generator. The benefit to the group's large client retention and overall expansion is clear.
- **Results**: Underlying EPS rose 21% and PBT was up 7% with a tax fall. PBT was in line with the 1% sales fall, stemming from exiting a lower-margin contract. Note that 2017 organic, constant-currency sales fell modestly. 2018 DPS rose 24%. We exclude a one-off, non-cash provision of £0.5m on a single trade receivable.
- **Valuation:** The shares have made a robust recovery from when the downgrades to 2017 profit estimates became apparent. At the time, these were presented as the final leg in a protracted period of margin erosion, and the most recent two sets of results confirm a much more robust outlook, which is beginning to be priced in.
- **Risks:** The offer of a broad suite of services to a broad customer base, in focused markets, balances out any weakness in individual markets. There are, however, pricing pressures, so the ever-increasing offer of support functions (even including web-based) can add revenue, and also add to 'stickiness' with large clients.
- **Investment summary:** While the shares have recovered well this year, from an oversold position, the prospects are for good cashflow from a secure market, with ca.50% of revenue derived from the USA. Ongoing strong dividend growth and free cashflow are supportive. Margins have been under pressure for some years, however. More recently, this has consolidated to a more resilient trend.

Financial summary and valuation

Year-end May (£m)	2014	2015	2016	2017	2018
Sales	38.4	39.8	42.2	44.3	43.9
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	21.0
Net (debt)/cash	-0.4	0.7	2.8	2.2	2.8
Net debt/EBITDA (x)	0.1	cash	cash	cash	cash
P/E (x)	20.0	19.3	19.0	23.6	22.2
EV/Sales (x)	1.5	1.4	1.3	1.3	1.2
EV/EBITDA (x)	12.9	13.4	12.9	14.0	13.4
FCF yield	5.4%	4.8%	6.3%	5.3%	5.0%
Dividend yield	2.0%	2.2%	2.4%	2.6%	3.1%

Source: Hardman & Co Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**NSF**
Price (p)	58.4
12m High (p)	78.75
12m Low (p)	50.5
Shares (m)	312.7
Mkt Cap (£m)	182.6
EV (£m)	371.0
Free Float*	99%
Market	Main

**As defined by AIM Rule 26*

Description

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

Company information

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

Tel: +44 20 38699026

www.nonstandardfinance.com

Key shareholders

Invesco	28.7%
Woodford Inv. Mgt. (4/9)	23.9%
Aberforth Partners (28/8)	12.3%
Marathon Asset Mgt.	10.7%
Quilter Cheviot AM	4.1%
ToscaFund	3.8%

Diary

November	Capital Markets Day

Analyst

Mark Thomas 020 7194 7622

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NON-STANDARD FINANCE

Increased facilities show debt market confidence

The £70m incremental debt facilities announced this month show lenders' confidence in NSF. We reviewed the 1H'18 results in our note, *Jam today, more tomorrow,* published on 9 August 2018. NSF delivered payback on prior and current investments, with normalised operating profits up 79% (statutory operating profit moved from a loss of £1.1m to a profit of £7.0m). Pre-tax profits were held back by the group locking in long-term, more expensive funding but, as these funds are deployed, pre-tax profits are expected to rise. We believe the re-pricing and volume opportunities that NSF has in a downturn provide material counter-cyclicality.

- **Company news:** NSF announced, on 3 September, £70m of additional debt funding, taking total facilities to £330m. Of the increase, £60m was in the term loan facility and £10m was in its RBS revolving credit facility, showing confidence in NSF. On 4 September, Woodford Inv Mgt reduced its stake by 1.5% to 23.9%.
- **Peer news:** We note that Woodford Investment Management has also reduced its holding in PFG (13 September: 25.0% to 23.6%). The Richmond representative director stepped down at Amigo, whose share price has been weak following poorly received results (30 August) and Wonga's move into administration.
- **Valuation:** Our absolute valuation measures for NSF range from 91p to 103p per share. With the IPO of Amigo, there is now a market comparator for the GLD business, and so we are introducing a sum-of-the-parts model (implied valuation 89p). Peer comparators reach up to 91p.
- **Risks:** Credit risk remains the biggest threat to profitability, and NSF's model accepts higher credit risk where a higher yield justifies it. NSF is innovative, and may incur losses piloting new products, customers and distribution. Regulation is a market issue; management is taking appropriate action to mitigate this risk.
- **Investment summary:** Substantial value should be created, as i) competitors have withdrawn, ii) NSF is well capitalised, with committed six-year debt funding, iii) macro drivers are positive, and iv) NSF has a highly experienced management team, delivering operational efficiency without compromising the key F2F model. Targets of 20% loan book growth and 20% EBIT RoA appear credible, and investors are paying 9.1x 2019E P/E and getting a 5.5% yield.

Financial summary and valuation

Year-end Dec (£000)	2016	2017	2018E*	2019E*
Reported revenue	94,674	119,756	167,852	200,978
Total impairments	-26,155	-28,795	-39,252	-47,259
Total costs	-49,600	-67,706	-87,246	-94,135
EBITDA	19,369	25,181	37,132	53,192
Adj. prof. before tax	13,056	13,203	14,660	24,725
Stat. prof. before tax	-9,342	-13,021	-4,850	11,275
Pro-forma EPS (p)	3.37	3.44	3.78	6.41
DPS (p)	1.20	2.20	2.60	3.20
P/adj. earnings (x)	17.3	17.0	15.4	9.1
P/BV (x)	0.7	0.8	0.9	0.9
P/tangible book (x)	1.9	2.4	3.0	2.7
Dividend yield	2.1%	3.8%	4.5%	5.5%

*Source: Hardman & Co Research * IFRS9 basis*

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OXB
Price (p)	918
12m High (p)	1064
12m Low (p)	415
Shares (m)	66.0
Mkt Cap (£m)	606
EV (£m)	601
Free Float	63%
Market	LSE

Description

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

Company information

CEO	John Dawson
CFO	Stuart Paynter
Chairman	Lorenzo Tallarigo

+44 1865 783 000
www.oxfordbiomedica.co.uk

Key shareholders

Directors	0.3%
Vulpes	17.6%
M&G	17.6%
Canaccord Genuity	5.0%
Aviva	3.9%
Hargreaves Lansdown	3.7%

Diary

Mar'19	FY'18 results

Analysts

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Grégoire Pavé 020 7194 7628
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OXFORD BIOMEDICA

Partnering strategy delivering profitability

OXB is a specialist advanced therapy viral-vector biopharmaceutical company. It offers vector manufacturing and development services, while retaining proprietary drug candidates. OXB will also receive royalties on commercial products developed with its LentiVector® platform. The first half of 2018 delivered significant growth in gross income, primarily through licensing income on signing new partnership deals with Axovant Sciences (AXON) and Bioverativ (BIVV). OXB out-licensed its proprietary Parkinson's gene-therapy to AXON in a $842.5m deal, and the $105m BIVV deal is for haemophilia gene-therapy development.

- **Strategy:** OXB has four strategic objectives: delivery of process development (PD) services that embed its technology in partners' commercial products; commercial manufacture of lentiviral vector; out-licensing of proprietary candidates; and investment in R&D and the LentiVector platform.

- **Interim results:** Excellent progress in signing partnership deals boosted gross income (sales and other income) by 118% to £36.0m in the six months to June 2018. This was the first period in which OXB received royalties (undisclosed) from Novartis, demonstrating pull-through from the partnering strategy.

- **EBITDA-positive:** 1H'18 was the first period in which OXB has been EBITDA-positive, with earnings up 522% to £9.4m (-£2.2m). Irregular payments of licensing income will underly lumpy profitability in the next three years. Underlying EPS is expected to be ca.15.7p for the full year.

- **Manufacturing expansion:** In March, OXB raised £20.5m gross (ca.£19.3m net) via a Placing of 174.4m (3.49m after 1-for-50 consolidation) Ordinary shares, at a price of 11.75p (587.5p) per share. The planned use of proceeds is investment in new facilities to meet the growing demand for vector bioprocessing.

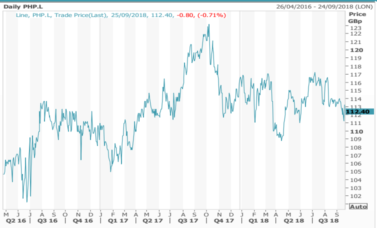
- **Investment summary:** OXB is at a very interesting juncture. Heavy investment in state-of-the-art GMP manufacturing facilities for production of gene-therapy vector has resulted in supply agreements with Novartis, BIVV, AXON, and in cystic fibrosis, on top of existing partnerships – positioning the group on the road to significant bioprocessing service income, milestones and royalties.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	15.91	27.78	31.49	46.21	60.80	80.30
EBITDA	-11.73	-6.78	-2.63	15.45	15.93	25.78
Underlying EBIT	-13.35	-10.45	-7.00	11.03	11.08	20.47
Reported EBIT	-14.08	-11.32	-5.67	12.92	9.92	19.20
Underlying PTP	-16.25	-15.34	-16.38	6.67	7.18	16.64
Statutory PTP	-16.98	-20.31	-11.76	8.56	6.02	15.38
Underlying EPS (p)	-23.91	-21.00	-21.99	15.74	15.82	31.96
Statutory EPS (p)	-25.33	-29.95	-14.56	18.57	14.05	30.04
Net (debt)/cash	-17.90	-19.05	-22.54	-2.28	-1.27	12.21
Shares issued (m)	0.14	17.50	0.39	19.40	0.10	0.10
P/E (x)	-	-	-	-	-	28.1
EV/sales (x)	-	-	-	-	-	22.8

Source: Hardman & Co Life Sciences Research

Real Estate



Source: Eikon Thomson Reuters

Market data

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

Description

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

Company information

CEO	Harry Hyman
CFO	Richard Howell
Chairman	Steven Owen

+44 20 7451 7050
www.phpgroup.co.uk

Key shareholders

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

Diary

18 October	Capital markets day
Feb'19	Full-year results
Apr'19	AGM
Jul'19	Interim results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PRIMARY HEALTH PROPERTIES

Growing the footprint

PHP invests in Government-backed, long up-only leases, and has secured its investors 21 years of dividends growing in each year since flotation. Two years ago, it extended into the Republic of Ireland (RoI), and it now has €100m assets in newly built primary medical properties in that jurisdiction. More background to this market will be given on 18 October at a capital markets day – no doubt no new financial information, but a better understanding of the details and scope for this relatively recently opened market opportunity. On 19 September, PHP made its first (UK) keyworker accommodation acquisition – on a similarly long, secure lease.

- **First keyworker accommodation purchase:** A freehold acquisition has been completed, for £22.8m (19 September), adjacent to a large hospital in Northumbria. It is let on a long lease, and thus represents a very similar investor metric and covenant to the primary health assets.
- **RoI**: On 5 September, PHP acquired three modern, purpose-built primary healthcare centres for €38.6m. The remaining unexpired lease is 21 years. As is the norm in this market segment, the very large majority of rental income is secured against a government-backed healthcare tenant.
- **Valuation:** The secure income REIT sector (and, thus, PHP) should be judged by i) dividend yield, ii) sustainable growth of DPS, and iii) the underlying assets' attractions to future tenants. PHP's yield is in line, and we consider the assets and segment of superior attraction. DPS growth has been modest but is accelerating.
- **Risks:** The debt maturity profile has lengthened YoY (5.9 years' average), reducing refinance risk YoY, while also still lowering cost of debt. Were rent growth to remain subdued, DPS growth should remain at ca.3%, but cover rebuilds to over 100% under any scenario. Indeed, 2018 dividends, cash-paid, are fully covered.
- **Investment summary:** PHP is in its 22nd year of stockmarket listing and its 22nd year of dividend rises. Investment, including the now fast-growing, higher-yielding market in RoI, added to deployment of equity and ongoing cost optimisation, all underpin good support for dividend growth for some years to come.

Financial summary and valuation

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

Source: Hardman & Co Research

R.E.A. HOLDINGS

1H’18 interims: back on track

REA’s interims showed signs that the group’s high-quality palm oil estates in East Kalimantan are returning to normal production levels, following the difficult operating conditions created by the post-El Niño weather conditions, and the impact created by the sudden departure of a senior operating officer in the estate in 1Q’17. We can now see the new management team’s efforts in bringing the operations back on track. Revenue increased 4% to $48.2m (1H’17: $46.3m), despite a 17.9% decrease in the CIF palm oil price since the beginning of the year. The group also completed the sale of the PBJ estate to KLK on 31 August 2018.

- **Production:** REA reported a significant increase in FFB production for the period, a 35% increase to 324,955mt (1H’17: 241,235mt). The oil extraction rate improved, averaging 22.8% (1H’17: 22.1%), producing 89,638mt of CPO, an increase of 40% compared with 1H’17 (63,867mt).
- **Strategy:** REA Kaltim, the principal division of REA, is developing a land bank of ca.100,000ha. At the current accelerated rate of development, the proprietary plantations should be completed by 2021 or 2022, at ca.50,000ha. With the completion of the sale of PBJ (and hence a much-improved financial position), REA management’s focus is now on increasing the estates’ productivity and efficiency.
- **Financing:** On 28 August, REA arranged two new medium-term Rupiah loans of ca.$32.5m, with an initial rate of 11% p.a. payable over eight years. The new loans are partly to replace existing IDR loans and revolving credits (ca.$10.2m), which had considerably higher interest rates averaging over 12%, and partly for working capital.
- **Risk:** Agricultural risk (El Niño weather pattern in 2015/16) and commodity price risk (downward trend of palm oil price since 1Q’17). Net debt at end-June 2018 was $192.3m (1H’17: $214.5m). We expect this to reduce further towards the end of 2018, but it could rise again as REA aims for the completion of its plantations.
- **Investment summary:** REA has scope to develop a planted estate of some 50,000ha. We believe the group’s financial performance will undergo significant change from 2019. We are assuming some 34,000ha of mature plantations for end-2019, coupled with stronger agricultural production across the estates, and a firmer CPO price. If these factors align as anticipated, then this will mark the point at which the business becomes self-sustaining.

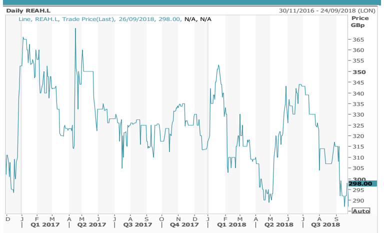
Financial summary and valuation

Year-end Dec ($m)	2015	2016	2017	2018E	2019E
Sales	90.5	79.3	100.2		
EBITDA	14.1	16.8	20.7		
Reported EBIT	-6.6	-5.0	-2.2		
Pre-tax profit	-12.2	-9.3	-21.9	Forecasts	Forecasts
EPS (c)	-59.0	-48.2	-67.0	under	under
DPS (p)	0.0	0.0	0.0	review	review
P/E (x)	-	-	-	pending	pending
Net (debt)/cash	-196.7	-205.1	-211.7	guidance	guidance
Planted hectares (ha)	37,097	42,846	44,094		
EV/planted hectare ($/ha)*	12,868	11,897	11,542		
CPO production (mt)	161,844	127,697	143,916		

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

Source: Hardman & Co Research

Food Producers



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	RE.
Price (p)	298.0
12m High (p)	360.5
12m Low (p)	282.0
Shares Ord (m)	40.5
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	120.7
Mkt Cap Prefs (£m)	76.0
EV (£m)	477.4
Free Float	30%
Market	Main

Description

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

Company information

Managing Director	Carol Gysin
Chairman	David Blackett

+44 207 436 7877

www.rea.co.uk

Key shareholders

Directors	28.55%
M & G Investment Mgt.	14.97%
Alcatel Bell Pension Fund	10.32%
Artemis UK	8.83%
Aberforth Partners	7.3%

Diary

Apr’19	Full-year results
Jun’19	AGM

Analyst

Yingheng Chen 020 7194 7638
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REDX PHARMA

RXC004: trial to resume

REDX's new management team is continuing to focus its financial resources on progressing its lead candidates in oncology and fibrotic disease into the clinic. When the first patient was treated with RXC004, its porcupine inhibitor, in a Phase I/IIa proof-of-concept trial, some on-target adverse events (anticipated at higher doses) were observed, and management took the prudent decision to halt patient recruitment. Based on a draft modified protocol using significantly lower doses, REDX has received positive feedback from the MHRA. REDX is currently preparing the final protocol with the aim of re-starting the clinical study in 1H'19.

- **Strategy:** REDX is focused on the discovery and early clinical development of small molecule therapeutics in oncology and fibrotic disease. It is also focused on taking assets through proof-of-concept clinical trials and then partnering them for late-stage development and commercialisation.

- **Positive meeting with MHRA:** Following suspension of the trial in March 2018, the Medicines and Healthcare products Regulatory Agency (MHRA) has agreed, in principle, with the proposed plan to re-start the Phase I/IIa study at a significant lower dose of RXC004, with the aim to start the clinic in 1H'19.

- **Development strategy for RXC004:** REDX proposes to focus the development of RXC004 in combination with a checkpoint inhibitor (CPI) in cancer patients with advanced disease. This is to utilise the specificity of the Wnt pathway in converting immune 'cold' tumours to 'hot', and improving the CPI response rate.

- **Risks:** After a difficult period, REDX has emerged in much better shape. While all early-stage pharma/biotech companies carry substantial risks and are capital-intensive, the rewards can be substantial, as evidenced by the successful disposal of the company's BTK programme for $40m in cash in 2017.

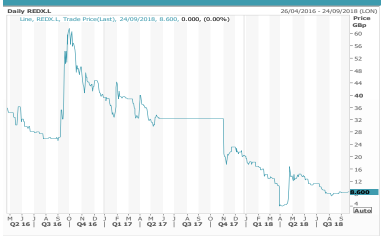
- **Investment summary:** The strengthened management team is moving forward with a revised business plan that focuses cash resources on progressing its drug leads in oncology and fibrotic disease to proof-of-concept early clinical development. Big pharma can be willing to pay handsome prices for novel and/or de-risked assets with clinical data, reinforcing REDX's strategy. This can generate good returns and shareholder value for companies such as REDX.

Financial summary and valuation

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

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**REDX**
Price (p)	8.6
12m High (p)	28.6
12m Low (p)	3.5
Shares (m)	126.5
Mkt Cap (£m)	10.9
EV (£m)	3.9
Free Float*	69%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Lisa Anson
CFO	Dominic Jackson
Chairman	Iain Ross

+44 1625 469 900
www.redxpharma.com

Key shareholders

Directors	0.5%
Jon Moulton	18.2%
Seneca Partners	12.5%
AXA	9.8%
Aviva	8.4%
Paul & Thelka Blackmore	4.0%

Diary

Dec'18	Full-year results
1H'19	Resume Ph. I with RXC004

Analysts

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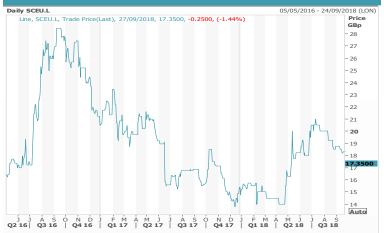
gp@hardmanandco.com

Automobiles and parts



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	SCE
Price (p)	18
12m High (p)	24
12m Low (p)	14
Shares (m)	123
Mkt Cap (£m)	23
EV (£m)	21
Free Float*	86%
Market	AIM

**As defined by AIM Rule 26*

Description

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

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

+44 151 356 2141
www.surfacetransforms.com

Key shareholders	
Hargreave Hale	15.4%
Unicorn Asset Mgt.	13.4%
Richard Gledhill (director)	11.8%
Richard Sneller	5.6%
Hargreaves Lansdown	5.0%
Barclays Wealth	3.3%

Diary	
Feb'19	Interim results
Sep'19	Full-year results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

SURFACE TRANSFORMS

Recent results and progress

Results announced on 17 September were in line with expectations as is the outlook. The company is the only alternative to the current near-monopoly supplier of this product which is at the start of a growth curve. April 2019 is start of production for its first major marque client – Aston Martin. The carbon ceramic disks are to be fitted on a super-car which is entirely pre-sold. The SCE factory has a proven record of delivery of technically very demanding product into its existing retro-fit and 'near OEM' clients. To date, these last two provide the entire revenue.

- **Strategy:** The company is finalising the understandably exhaustive performance- testing bespoke to each potential client. The factory is on the path to readiness for sales of ca. £16m, which enables a number of OEMs to become strong customer partners to Surface Transforms.
- **Capacity allocation model:** OEM production cell 1 is potentially completely allocated to Aston Martin, OEM 3 and OEM 5. OEM 2 and OEM 4 follow in the wake of OEM 3, and will require additional capacity. Once an OEM announces a model, volumes are virtually assured.
- **Valuation:** Current orders take Surface Transforms to cash flow positive territory. Down the line, when cell 1 fills up, cell 2 can be readily commissioned next to cell 1, costing £7m, generating £16m plus sales per cell, on gross margins which are well over 60%. EV/EBITDA falls below 10x before cell 1 is full.
- **Risks:** Investment comes ahead of firm orders, and ahead of profit. The company has no control over the timeline of auto OEMs' new models. Surface Transforms receives revenue from a number of sources, but is still in cash burn. The larger modern factory has been commissioned – a further major de-risking
- **Investment summary:** This is a large, growing market, 99% supplied by one player – a fact that gives great support to Surface Transforms' prospects. As volumes rise, prices fall, which is the trigger to utilisation on greater volume models. Surface Transforms is progressing with development for six auto OEMs. Current revenue is from a well-established business selling to retrofit and 'near OEMs'. Note: at year end there was significant cash due in imminently.

Financial summary and valuation

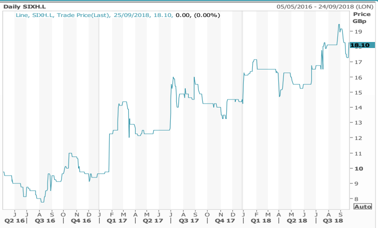
Year end May (£m)	2017	2018	2019E
Sales	0.7	1.4	2.5
EBITDA	-2.4	-1.7	-1.1
EBITA	-2.5	-2.2	-1.7
PBT	-2.5	-2.3	-1.7
PAT	-2.2	-1.8	-1.3
EPS (adj.) (p)	-2.4	-1.7	-1.1
Shareholders' funds	4.0	5.8	5.8
Net (debt)/cash	1.5	0.9	1.7
P/E (x)	loss	loss	loss
EV/sales (x)	37.5	15.8	8.4
EV/EBITDA (x)	na	na	na
DPS (p)	nil	nil	nil

Source: Hardman & Co Research

THE 600 GROUP

Trading healthy, pension buyout, dividend restored

Industrial Engineering



Source: Eikon Thomson Reuters

Market data

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

**As defined by AIM Rule 26*

Description

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

Company information

Executive Chairman	Paul Dupee
CFO	Neil Carrick

+44 1924 415000
www. 600group.com

Key shareholders

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

Diary

Dec'18	Interims

Analyst

Paul Singer	020 7194 7622

ps@hardmanandco.com

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

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

- **Dividend restored:** The group has restored its dividend at 0.5p per share, payable on 28 September 2018. This reflects the resolution of the pension scheme, the good operational performance and the favourable commercial outlook. The group's future dividend policy is based upon stability, with growth largely in line with earnings.

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

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

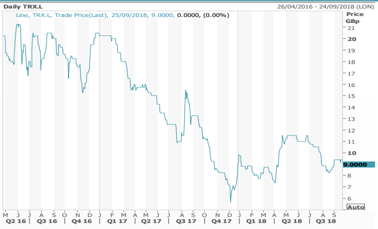
- **Investment summary:** The shares offer the opportunity to invest in a de-risked cyclical stock with good operational leverage, enhanced by new product launches and new market entry. Cyclicality has been de-risked through further development of repeat/recurring business and activities in high-margin,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

Financial summary and valuation

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

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	TRX
Price (p)	9.2
12m High (p)	12.5
12m Low (p)	5.5
Shares (m)	1,171.7
Mkt Cap (£m)	107.3
EV (£m)	90.9
Free Float*	27%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

CEO	Steve Couldwell
CFO interim/CFO incoming	Paul Below/ Gareth Hywel
Chairman	John Samuel

+44 330 430 3052
www.tissueregenix.com

Key shareholders

Directors	4.3%
Invesco	29.0%
Woodford Inv. Mgt.	26.0%
IP Group	13.8%
Baillie Gifford	4.3%

Diary

Analysts

Martin Hall 020 7194 7631
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Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

TISSUE REGENIX

Strategy delivering growth above expectations

TRX has a broad portfolio of regenerative medicine products for the biosurgery, orthopaedics, dental and cardiac markets. The company has two proprietary decellularisation technology platforms, for the repair of tissues and bone. 2017 was a dynamic year for the group, growth being boosted by the acquisition of CellRight Technologies in August 2017. As part of the integration process, management embarked upon a revised strategy to increase sales momentum and market penetration. Interim results ahead of market expectations indicate that the company has made good progress in executing its growth ambitions.

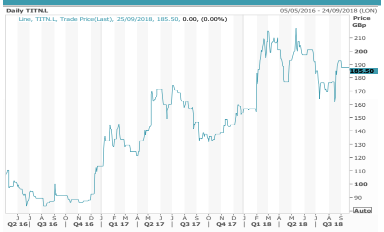
- **Strategy:** To build an international regenerative medicine business with a portfolio of products using proprietary dCELL and BioRinse technology platforms, underpinned by compelling clinical outcomes. TRX is looking to expand its global distribution network, via strategic partnerships, to drive sales momentum.
- **Interims:** Although reported group sales growth of 305% to £5.6m (£1.4m) in 1H'18 looks spectacular, it is biased by the acquisition and impacted by currency. A true reflection of underlying growth is the still impressive 61% growth on a *pro forma* basis, as if CellRight had been acquired on 1 January 2017.
- **EBIT:** Even though a full six months of CellRight costs were included in 1H'18, the focus of the new management team on controlling costs is evident from the modest rise in absolute SG&A spend, such that the underlying EBIT loss was reduced to £4.0m (£5.0m).
- **CellRight:** The integration strategy is already delivering success, with sales in the orthopaedics and dental division (US) growing 46% to \$4.5m/£3.2m (\$3.1m *pro forma*), well ahead of our forecast of \$4.0m/£3.0m.
- **Investment summary:** TRX is building commercial momentum through three value drivers: sales of BioSurgery products in the US; expansion of combined CellRight and TRX technologies in dental, orthopaedics and spine; and preparation for the OrthoPure XT launch in the EU in 2019. Early signs of the benefits derived from CellRight are apparent, which should hasten the time to reach a cash-neutral position and sustainable profitability, now estimated in fiscal 2020.

Financial summary and valuation

Year-end Dec (£m)	*2016	**2016	2017	2018E	2019E	2020E
Sales	0.82	1.44	5.23	11.42	18.86	25.76
EBITDA	-9.86	-10.55	-8.98	-7.95	-2.61	1.46
Underlying EBIT	-10.11	-10.85	-9.69	-9.11	-3.78	0.26
Reported EBIT	-10.24	-11.06	-10.82	-10.11	-4.28	-0.24
Underlying PBT	-9.89	-10.74	-9.64	-9.09	-3.77	0.26
Statutory PBT	-10.03	-10.95	-10.77	-10.09	-4.27	-0.24
Underlying EPS (p)	-1.26	-1.28	-0.90	-0.71	-0.26	0.08
Statutory EPS (p)	-1.28	-1.30	-1.02	-0.79	-0.30	0.04
Net (debt)/cash	19.91	8.17	16.42	6.27	0.51	-0.19
Capital increase	19.02	0.00	37.99	0.00	0.00	0.00
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	17.4	8.0	4.8	3.5

*Year to 31 January. **11 months to 31 December. Source: Hardman & Co Life Sciences Research

Construction & Materials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	TON
Price (p)	187.5
12m High (p)	217.0
12m Low (p)	132.0
Shares (m)	11.1
Mkt Cap (£m)	20.8
EV (£m)	19.5
Free Float*	97%
Market	MAIN

**As defined by AIM Rule 26*

Description

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

Company information

Chairman	Keith Ritchie
CFO	David Ruffell

+44 1206 713 800
www.titonholdings.com

Key shareholders

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

Diary

30 September	Year-end
Dec'18	Final results

Analyst

Tony Williams	020 7194 7622
	tw@hardmanandco.com

TITON HOLDINGS PLC

"Good, better, best………

……never let it rest, until your good is better and your better best" as my Great Auntie Cis used to say. Equally sagacious is Great Uncle Titon as he closed off another successful fiscal year (to 30 September) and remains top of the leader board in terms of Total Return to Shareholders (TSR) over the past 12 months i.e. 41.5% against a peer group at less than 1%. Virtue has its own reward.

- **Better:** In the 12 months to 30 September 2018, we expect 14% growth in EBITDA – and 17% in both pre-tax profit and the dividend per share to be reported. Our family of numbers also points to positive cashflow and a tidy sum of net cash on the household balance sheet (£3.7m).
- **Best:** South Korea is the most vocal sibling within Group net profit (74% at the last count) and it places 11 amongst world economics. The Nation is also forecast to grow GDP 2.8% in both 2018 and 2019, says FocusEconomics. Yes, the 2018 number is off 0.1% but this is largely due to global trade tensions.
- **Good:** The UK accounted for 36% of Segment Profit last time. No, Titon's home market is not without its clan challenges, including a possible and internecine 'no deal' Brexit. Yet even the most prodigal son has read about consensus GDP growth forecast at between 1% and 2% in 2018 through 2020.
- **Good (work in progress):** UK Construction output is set to dip this year by 2.1% in real terms (+5.2% in 2017), according to patriarch Experian. The volume of Private Housing Output, however, is forecast to increase 3% this year and next; and by 4% in 2020. Housing is a core domestic sector for Uncle Titon.
- **Best encore:** The Hardman UK Building Materials Sector comprises 23 members with a generational value of £8.1bn and an average 8.9x EV/EBITDA on a trailing 12-month basis. Titon is below the salt in the table at 7.9x – despite the best TSR at 41.5% over the past 12 months, in a Sector where the average has no big father figure i.e. just 0.6%.

Financial summary and valuation

Year-end September (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	22.3	23.7	28.0	28.6	30.2	31.9
EBITDA	2.13	2.33	2.46	2.81	3.04	3.26
Underlying EBIT	1.56	1.77	1.85	2.13	2.29	2.43
Statutory PBT	1.87	2.14	2.49	2.91	3.20	3.50
Underlying EPS (p)	12.6	15.2	16.3	18.0	19.5	21.0
Statutory EPS (p)	12.6	15.2	16.3	18.0	19.5	21.0
Net (debt)/cash	2.9	2.4	3.3	3.7	4.1	4.6
Shares issued (m)	10.8	10.9	11.1	11.1	11.1	11.1
P/E (x)	14.9	12.3	11.5	10.4	9.6	8.9
EV/EBITDA (x)	8.9	8.6	7.9	6.9	6.3	5.8
DPS (p)	3.00	3.50	4.20	4.90	5.75	6.00
Yield	1.6%	1.9%	2.2%	2.6%	3.1%	3.2%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	VAL
Price (p)	1.9
12m High (p)	7.8
12m Low (p)	0.9
Shares (m)	531.6
Mkt Cap (£m)	10.1
EV (£m)	8.5
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 completed Phase II clinical trials. Its business model focuses on out-licensing or partnering drug candidates after clinical trials.

Company information

CEO	Dr Satu Vainikka
CFO	Gerry Desler
Chairman	Oliver de Giorgio-Miller

+44 203 008 4416
www.valirx.com

Key shareholders

Directors	0.5%

Diary

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

Analysts

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dmh@hardmanandco.com

Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

VALIRX

Capital increase to fund R&D programme

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 (completed Phase II) – a novel reformulation of risperidone, in trials for lung cancer. Both drugs are targeted at multi-billion-dollar markets that are inadequately served by current drugs. New funds of £1.15m gross have been raised to progress the clinical asset VAL201 and also to advance the pre-clinical programmes towards the clinic.

- **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.
- **Placing:** VAL has raised £1.15m gross through a Placing of 76.67m new Ordinary shares to new and existing shareholders, at an issue price of 1.5p per share. This corresponded to a premium of 40% compared with the previous day of trading. The funds were raised through VAL's new broker, Novum.
- **Use of proceeds:** The funds will be used to help progress the clinical asset VAL 201, currently in Phase I/II and also to move forward some of its pre-clinical programmes towards the clinic, particularly the lead compounds VAL301 and VAL101, for the treatment of endometriosis and cancer, respectively.
- **Risks:** New and/or first-in-class drugs carry the risk that they might fail in clinical trials. However, the substantial safety history of the active ingredient in VAL401 and the consistent safety record in the VAL201 trial mitigate these risks. More capital will be needed to further its proprietary assets along the value chain.
- **Investment summary:** VAL appears to be under-appreciated by the market. Reasons for this include the lack of institutional support and a continuing need for more capital to advance its clinical programmes, thereby building value. Given the clinical progress seen to date, the company should be attracting potential commercial partners and/or institutional investors in order to achieve the real value of its assets.

Financial summary and valuation

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

Source: Hardman & Co Life Sciences Research

VOLTA FINANCE

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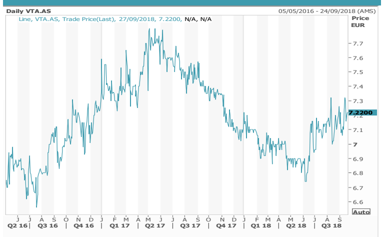
Volta Finance is a closed-ended, limited liability company registered in Guernsey. Its investment objectives are to seek to preserve capital across the credit cycle and to provide a stable stream of income to its shareholders through dividends that it expects to distribute on a quarterly basis. The assets in which Volta may invest, either directly or indirectly, include, but are not limited to: corporate credits; sovereign and quasi-sovereign debt; residential mortgage loans; commercial mortgage loans; automobile loans; student loans; credit card receivables; leases; and debt and equity interests in infrastructure projects. The investment manager for Volta's assets is AXA Investment Managers Paris, which has a team of experts concentrating on the structured finance markets.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Volta Finance can be accessed here. Our initiation report, published on 5 September 2018, can be found on the same site.

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	VTA .NA, VTA.LN VTAS LN *
Price (€)	7.22 / 7.26 / 649p
12m High (€)	7.75 / 7.80 / 655p
12m Low (€)	6.74 / 6.74/ 635p
Shares (m)	36.6
Mkt Cap (€m)	264
Trail 12-mth. yld.	8.6%
Free Float*	100%
Market	AEX, LSE

** Listing 03 September 2018*

Description

Volta is a closed-ended, limited liability investment company that pursues a diversified investment strategy across structured finance assets (primarily CLOs). It aims to provide a stable stream of income through quarterly dividends.

Company information

Chairman	Paul Meader
Independent Directors	Graham Harrison Stephen Le Page, Atosa Moini, Paul Varotsis
Fund Managers AXA IM Paris	Serge Demay A Martin-Min François Touati
Co sec /Administrator	Sanne Group (Guernsey)

Sanne Group: +44 1481 710557
www.voltafinance.com

Key shareholders

Axa Group	30.4%

Diary

Late October	Sept monthly report
Late October	FY results

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

Personal Products

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**W7L**
Price (p)	267.5
12m High (p)	274.8
12m Low (p)	179.1
Shares (m)	76.7
Mkt Cap (£m)	205.3
EV (£m)	200.7
Free Float*	34.7%
Market	AIM

**As defined by AIM Rule 26*

Description

Warpaint is a UK-based colour cosmetics specialist that sells creative, design-focused and high-quality cosmetics at affordable prices. The company comprises two divisions: own-brand (W7, Retra and others) and close-out. It has a presence in more than 56 countries worldwide.

Company information

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

+44 1753 639 130
www.warpaintlondonplc.com

Key shareholders

Directors*	53.5%
Schroder Inv. Mgmt.	10.1%
BlackRock Inv. Mgmt.	9.9%
Hargreave Hale	3.1%
J O Hambro Capital Mgmt.	2.0%
Columbia Threadneedle	1.8%

**includes shares held by directors' wives*

Diary

Apr'19	Full-year results
Jun'19	AGM

Analyst

Yingheng Chen 020 7194 7638
yc@hardmanandco.com

WARPAINT PLC

1H'18 interims: delivering the results

On 17 September, Warpaint announced its interim results for the six months ended June 2018. Reported revenue was up 38.7% to £18.4m (1H'17: £13.3m). The company's two divisions, own-brand and close-out, represented 84% and 16%, respectively, of the total revenue. Exports now account for 56% of sales, of which sales to the EU grew by 110% to £6.7m. Both of the company's leading brands, W7 and Technic, are 2H-biased due to the nature of the gifting market, and around two-thirds of FY revenue will be concentrated in the second half. While costs remain relatively flat, we expect profitability to be very much 2H-weighted also.

- **Interim results:** Group gross profit increased 30% to £6.7m, and the gross margin fell slightly to 36.5%. The net cash position increased by £2.1m to £4.6m. Warpaint declared a 1.5p interim dividend – a 7.1% increase – in keeping with its progressive dividend policy.
- **Retra:** Retra is now fully integrated, and its revenue contribution was £4.1m for 1H'18, of which Technic accounted for £2.9m. Since the acquisition, Retra has grown its presence by attending trade shows. As a result, the Christmas order book had increased significantly at end-June 2018, ahead of the prior period.
- **Acquisitions:** The past 12 months have been an exciting period for Warpaint, with the acquisition of Retra in Nov 2017, and then the acquisition of US distribution business, Leeds Marketing, in Aug 2018. We think these new add-ons will allow Warpaint better access to/control of the largest colour cosmetics market in the world (the US).
- **Risks:** For Warpaint to remain successful, several key factors have to be considered: i) continuing growth in the discount retail sector; ii) the successful integration of the new acquisitions; and iii) the company's ability to deliver new and innovative products.
- **Investment summary:** With Retra now fully integrated and after the recent acquisition of Leeds Marketing, Warpaint is well positioned to maximise the benefit of the additional assets. The company enjoys a much faster growth rate than the rest of the colour cosmetics sector globally, and has a very attractive RoE. Warpaint offers the opportunity to invest in the fast-growing colour cosmetics sector, with a highly experienced management team.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Sales	22.5	32.5			
EBITDA (adj.)	6.3	8.0			
Operating profit (adj.)	6.2	7.3			
PBT (adj.)*	6.1	7.7	Forecast	Forecast	Forecast
Basic EPS (adj.) (p)*	7.9	9.7	Under	Under	Under
DPS (p)	1.5	4.0	Review	Review	Review
P/E (x)*	34.0	27.6	Pending	Pending	Pending
EV/EBITDA (x)	32.0	25.2	guidance	guidance	guidance
Dividend yield	0.6%	1.5%			
RoE	-	20.0%			

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

Notes

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