HARDMAN&CO.

THE MONTHLY

January 2019

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About our January feature article

Hardman & Co Healthcare Index

2018 – failed to meet expectations

The Hardman & Co Healthcare Index (HHI) has been running since 2009. Its main function is to highlight the attractions of life sciences investments over the long term. 2018 was a difficult year; however, the index still outperformed its comparative London indices, falling 10.0% to 393.2, compared with -13.0% and -18.2% for the Allshare index and the AIM index, respectively. Furthermore, several (17) companies in our index increased their capital base – 15 of our 50 constituents raised new funds, two issued shares as part consideration for acquisitions, and two had share buybacks – all factors that influence the performance of the index. Even allowing for both capital increases and share buybacks, the 12.5% fall in the index still represented a modest outperformance compared with the decline in the Allshare index. With active industry consolidation, shareholder returns remain attractive.

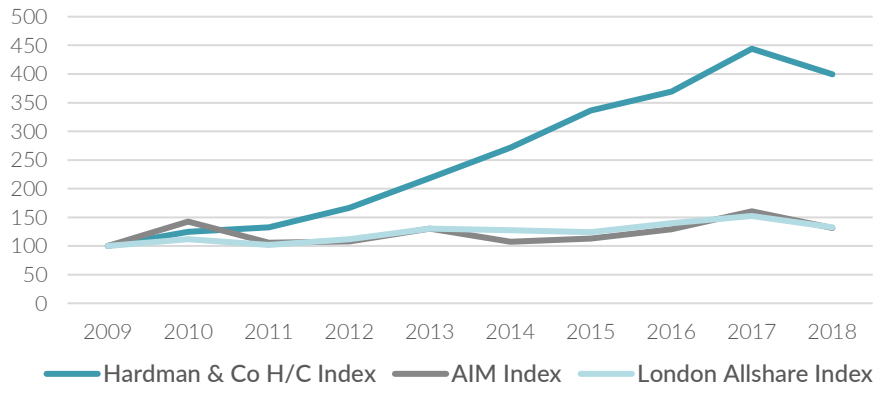
Hardman & Co Healthcare Index

Review of 2018

By Hardman & Co Life Sciences Team

The HHI was established in 2009. Its main function is to monitor the performance and to highlight the attractiveness of life sciences investments over the long term, and to try to identify those stocks that have disruptive technologies that consistently allow them to outperform the index and the markets. Many of the 50 constituents of the index are high risk, still being in the development stage, with micro-capitalisations and a long way from sales and profitability. Despite this, some companies can still make extremely attractive returns for investors, as evidenced by the top-performing stock in 2018, Bioquell (BQE), which saw its shares rise 120%.

Performance of Hardman Healthcare Index – rebased



Source: Hardman & Co Life Sciences Research

During 2018, the HHI fell by 10.0%, which was a better performance than both the London Allshare index (-13.0%) and the AIM index (-18.2%). Even allowing for capital increases and share buybacks, the HHI, at -12.5%, still performed better than these London indices. Since inception, companies that comprise the HHI have shown a CAGR of 16.6%, highlighting the attractiveness of the sector

Comparison of HHI with London markets

@ 31 Dec	2009 Index	2010 Δ	2011 Δ	2012 Δ	2013 Δ	2014 Δ	2015 Δ	2016 Δ	2017 Δ	2018 Δ	CAGR %
Hardman & Co Healthcare index	98.4	24.7%	6.2%	25.9%	31.2%	24.1%	23.9%	9.7%	20.3%	-10.0%	16.6%
AIM index	654.2	42.7%	-25.8%	2.0%	20.3%	-17.5%	5.2%	14.3%	24.3%	-18.2%	3.1%
London Allshare index	2772.0	12.1%	-9.0%	9.5%	16.7%	-2.1%	-2.5%	12.5%	9.0%	-13.0%	3.2%

Source: Hardman & Co Life Sciences Research

Majors performed very strongly during 2018

Comparison with the majors

In order to put the share price movement of our – generally – small market capitalisation index constituent companies into perspective, the following table shows the performance of the four major UK healthcare companies over the same period. Defensive qualities during uncertain economic times, coupled with some specific factors, meant that the majors performed very strongly during 2018, all of them seeing share price appreciation in the teens. Shire was the best performer, as a consequence of it being the target of a takeover by Takeda, which is about to complete.

Share price performance

Listing	Company	Ticker	Share price (p) 31 Dec 2017	Share price (p) 31 Dec 2018	Market cap (£m) 31 Dec 2018	Price change (%)
AIM	Abcam	ABC	1,055.0	1,090.0	2,239.0	3%
AIM	Advanced Medical Solutions	AMS	318.0	275.0	587.1	-14%
AIM	Advanced Oncotherapy*	AVO	57.5	39.5	67.0	-31%
AIM	Allergy Therapeutics*	AGY	28.5	13.6	86.5	-52%
AIM	Alliance Pharma*	APH	67.1	67.0	347.1	0%
Full	Assura	AGR	63.9	52.8	1,264.0	-17%
AIM	Avacta*	AVCT	64.0	30.5	35.2	-52%
Full	Bioquell	BQE	267.5	588.0	132.0	120%
Full	BTG	BTG	762.5	830.0	3,213.7	9%
AIM	Caretech	CTH	430.0	343.0	373.5	-20%
Full	Cathay International	CTI	7.6	7.5	32.9	-2%
Full	Circassia	CIRC	102.5	48.0	171.5	-53%
AIM	Collagen Solutions*	COS	2.8	2.9	9.2	4%
Full	Consort Medical	CSRT	1,168.0	935.0	461.6	-20%
AIM	Deltex Medical Group	DEMG	2.1	0.9	4.4	-58%
AIM	Diurnal*	DNL	146.5	22.0	13.6	-85%
AIM	Eco Animal	EAH	597.5	410.0	275.2	-31%
AIM	EKF Diagnostics	EKF	26.3	27.3	124.3	4%
AIM	Emis	EMIS	1,011.0	913.0	578.0	-10%
AIM	e-Therapeutics	ETX	9.3	6.4	17.1	-31%
AIM	Futura Medical	FUM	29.8	6.2	12.6	-79%
AIM	Genedrive*	GDR	33.5	21.0	7.1	-37%
Full	Genus	GNS	2,531.0	2,146.0	1,395.9	-15%
AIM	Immunodiagnostics	IDH	270.0	182.5	53.7	-32%
AIM	Immupharma	IMM	170.0	11.8	16.4	-93%
Full	IP Group	IPO	142.2	108.6	1,150.2	-24%
AIM	Ixico	IXI	36.5	23.5	11.0	-36%
AIM	Kromek Group	KMK	26.4	26.5	69.0	0%
AIM	Lidco Group	LID	7.4	4.4	10.6	-41%
Full	MD Medical Group	MDMG	10.2	4.5	265.2	-56%
Full	MedicX Fund	MXF	84.0	74.6	330.4	-11%
AIM	Motif Bio	MTFB	41.0	31.4	93.0	-24%
AIM	Omega Diagnostics	ODX	17.0	13.0	16.5	-24%
Full	Oxford BioMedica*	OXB	442.5	707.2	467.4	60%
AIM	Oxford Metrics	OMG	58.3	72.5	90.6	24%
Full	Primary Health Properties	PHP	117.0	111.0	853.6	-5%
AIM	Proteome Sciences	PRM	3.1	2.4	7.2	-22%
AIM	Realm Therapeutics	RLM	37.0	7.0	8.2	-81%
AIM	ReNeuron	RENE	188.0	49.0	15.5	-74%
AIM	Sareum	SAR	0.9	0.5	15.2	-38%
AIM	Scancell	SCLP	12.8	9.1	35.4	-28%
Full	Smith & Nephew	SN.	1,288.0	1,464.0	12,803.2	14%
Full	Spire	SPI	253.6	108.9	436.8	-57%
AIM	Surgical Innovations	SUN	3.6	2.8	21.9	-23%
AIM	Tissue Regenix*	TRX	9.3	6.5	76.2	-30%
AIM	Tristel	TSTL	250.0	247.5	108.2	-1%
Full	Vectura	VEC	117.7	70.0	465.8	-41%
AIM	Venture Life Group	VLG	43.0	44.0	36.8	2%
AIM	Verona Pharma	VRP	104.5	87.5	92.2	-16%
AIM	Yourgene Health*	YGEN	5.1	8.8	36.5	71%

**Client of Hardman & Co Life Sciences*
Source: Hardman & Co Life Sciences Research

Performance of healthcare majors					
Company	Ticker	Share price (p) 31 Dec 2017	Share price (p) 31 Dec 2018	Change (%)	CAGR 2009-2018
AstraZeneca	AZN	5,121	5,873	15%	8.1%
GlaxoSmithKline	GSK	1,323	1,491	13%	1.4%
Shire	SHP	3,900	4,570	17%	15.9%
Smith & Nephew	SN.	1,288	1,464	14%	9.6%

Source: Hardman & Co Life Sciences Research

The market continues to take an optimistic view that AstraZeneca's (AZN) R&D pipeline will deliver, despite a number of Phase III trial setbacks during the year. GlaxoSmithKline (GSK) also improved its performance, with a late rally inspired by the decision to merge its consumer health business with that of Pfizer, as a prelude to spinning off the combined entity as a separate company in about two years' time. In early December, the market capitalisation of AZN overtook that of GSK, something that we had never expected to see without major corporate activity, although the late rally by GSK meant that it finished the year as the bigger company (£80.2bn vs. £74.4bn). The defensive qualities and strong market positions of Smith & Nephew's (SN.) operations led to another good performance. For historical reasons, 25% of the market capitalisation of Smith & Nephew is included in our index.

Some changes required

Loss of four companies in index will require £3.7bn of market cap to be replaced

During 2018, Cambian Group was acquired by Caretech after two years of underperformance in the challenging nursing/specialist care home environment in the UK. As we enter 2019, a change in the constituents of the HHI will be required. Sinclair Pharma and Vernalis have both been acquired recently, and BTG and BQE are in the process of being acquired by Boston Scientific and Ecolab, respectively. The loss of these four companies will require £3.7bn of market capitalisation to be replaced. In order to achieve this, it might be necessary to add some UK-based pharma/healthcare/MedTech companies that have a US listing. More information will be provided when the adjustment is made.

Movers and shakers

16 companies outperformed and 34 underperformed

Of the 50 companies included in the HHI, only 11 saw an increase in their share price during 2018. Compared with the movement in the index, 16 companies outperformed and 34 underperformed. Furthermore, several companies in our index increased their capital base – 17 of our 50 constituents raised new funds, two of which issued shares as part consideration for acquisitions – and two had share buybacks, both of which influence the performance of the index. As mentioned earlier, allowing for both of these, the index fell by 12.5% in 2018.

Given our large portfolio of constituent companies, we usually focus on both the top five (outperformers) and the bottom five (underperformers), and try to offer a short explanation as to why the shares performed in the way that they did.

Best and worst performers in 2018					
---------- Top five ----------			---------- Bottom five ----------		
Rank	Company	Δ	Rank	Company	Δ
1	Bioquell	120%	46	ReNeuron	-74%
2	Yourgene Health	71%	47	Futura Medical	-79%
3	Oxford BioMedica	60%	48	Realm Therapeutics	-81%
4	Oxford Metrics	24%	49	Diurnal	-85%
5	Smith & Nephew	14%	50	Immupharma	-93%

**Client of Hardman & Co Life Sciences*
Source: Hardman & Co Life Sciences Research

The 'top five'

Bioquell

Bioquell benefited from focusing its business…

Bioquell (BQE) is a global provider of specialist bio-decontamination products and services for the life sciences (pharmaceuticals and healthcare) markets. Over the last two years, management has been cleaning up its operations through a series of small disposals of non-core businesses – AirFlow (UK) and MDH Defence – leaving a focused provider of specialist hydrogen peroxide vapour bio-decontamination equipment, modular isolators and associated services. This has attracted the attention of Ecolab, a global leader in water, hygiene and energy technologies and services that protect people and vital resources, with annual sales of approximately $15bn. In November 2018, Ecolab made a recommended cash offer of 590p per share, valuing the entire capital of BQE at ca.£140.5m. We expect this deal to complete shortly. Consequently, BQE was the best-performing stock in the HHI, rising 120% in 2018.

…which then attracted the attention of Ecolab

*Yourgene Health**

Now that the legal shackles have been removed, Yourgene can focus on accelerating operational growth

For the last two years, Yourgene (YGEN, formerly known as Premaitha) has been 'handcuffed' by an ongoing patent dispute with Illumina. Despite a strong case, when it came to court, the judgement went in favour of Illumina. Although YGEN has the right to appeal, given the costs, long time-frame, and detrimental impact on the business, management has decided that it is in the best interests of shareholders to settle out-of-court and to pay Illumina a royalty on tests performed in geographies where patents are held. YGEN raised £3.0m to fund the settlement with Illumina and to provide the working capital needed to move forward. Its strategy remains to expand its IONA (non-invasive pre-natal test) test into territories not covered by Illumina patents, and to expand the range of tests available. Even though the company is likely to require more capital in the future, it will be raised against an improved operating performance and in the absence of the shackles of patent litigation. Consequently, the shares performed well in 2018, rising 71%.

*Oxford BioMedica**

More deals likely from OXB during 2019

For the second year running, Oxford BioMedica (OXB) has appeared in the top five performers. OXB is a specialist advanced therapy viral-vector biopharmaceutical company that offers vector manufacturing and development services to other companies, while retaining its own proprietary drug candidates for out-licensing or partnering. Significant investment has been made in state-of-the-art specialist manufacturing facilities, which has attracted a number of pharma companies, notably Novartis, highlighting OXB's position in the market and the opportunities within it. However, any further deals would likely stretch production capacity. Therefore, management has embarked upon securing, constructing and commissioning a second manufacturing site using a modular design to provide additional clean rooms and significantly increase future capacity. In addition, OXB announced the out-licensing of its Parkinson's gene-therapy candidate (formerly ProSavin, now AXO-Lenti-PD) to Axovant Sciences, Inc (AXON) for a potential total $842.5m/£624.1m (upfront $30m/£22m). This positive news flow was reflected in the share price uplift during 2018.

Oxford Metrics

Over half-way through a five-year investment in growth plan

Oxford Metrics (formerly known as OMG; ticker OMG) develops and markets analytics software that services government, life sciences, entertainment and engineering markets internationally. For example, its helps highways authorities to manage and maintain road networks, hospitals and clinicians to decide therapeutic strategies, and Hollywood studios to create stunning visual effects. The diversity of applications is growing all the time. The company is three years into a five-year core growth plan, with sales from recurring business tripled and profits back above levels in 2016 when the investment commenced. The group is cash-generative, recently announcing a 1.0p special dividend to add to the 25% increase in the ordinary

dividend to 1.5p. The positive operating trends, cashflow and dividend increase resulted in a 24% rise in the shares during 2018.

Smith & Nephew

A very safe haven in uncertain times

Although the underlying operating performance of Smith & Nephew (SN.) is unspectacular – sales growth 2%-3%, flat trading margin – in these uncertain times and volatile markets, the company does represent a safe haven. In addition, there is hope that the ongoing restructuring of the business will generate a little more growth in the future. Added to this, there is the perennial takeover speculation in a MedTech industry that is continually consolidating. Having said that, SN. has been speculated as a take-out candidate in each of my 30 years in the City – one year, it will be right! This safe play in uncertain times led to a 14% increase in the share price in 2018.

The 'bottom five'

Immupharma

Outlook for Lupuzor remains uncertain

What a difference a year makes. During 2017, Immupharma (IMM) was the top-performing stock in our universe, with the market anticipating results from a Phase III trial with its leading asset, Lupuzor, for the treatment of Lupus. Positive data were expected to pave the way to securing a commercialisation partner and a lucrative licensing deal. However, when the results were released in April 2018, the primary end-point was not achieved. Although the company has reported subsequently that there were some differences in results between the European and US arms of the study, the results severely impacted the commercial value of Lupus and the likelihood of finding a commercial partner, which was reflected in the share price, which fell 93% in 2018.

*Diurnal**

Likely to spend some time with the European and US regulators during 2019

Diurnal (DNL) is a commercial-stage specialty pharmaceutical company focused on diseases of the endocrine system. Its two lead products are targeting rare conditions where medical needs are currently unmet, with the aim of building a long-term 'Adrenal Franchise'. 2018 was expected to be a positive year for the company, with the first European launch of Alkindi for adrenal insufficiency including congenital adrenal hyperplasia (CAH) in children and adolescents up to 18 years, followed by data from the European Phase III trial with the adult version, Chronocort. While the launch of Alkindi has gone largely to plan, headline data from its European Phase III trial in CAH failed to meet its primary end-point – to show that Chronocort was superior to standard-of-care. Given the strong Phase II data, this outcome was unexpected. A direct consequence of this has been a delay to the start of the US trial to allow reconsideration about the best end-points for the trial, especially given that the drug was efficacious. The delays, coupled with likely need for further capital in the future, resulted in the share price falling 85% over the course of the year.

Realm Therapeutics

Company up 'for sale' after failure of clinical programme

Expectations were high for Realm (RLM) in 2018, to the extent that the company registered its intention to seek a NASDAQ listing with the SEC during the year, although this was a condition set out in a private placement in October 2017, which was to be used as a platform for further fund raises. However, this listing was followed by the failure of its lead product, PR022, to demonstrate efficacy in a Phase II trial in patients with atopic dermatitis. Consequently, management has put the company up 'for sale', although it would also consider undertaking a merger with another company looking for a listing, that is short of cash, but owns good scientific assets under clinical development. At 30 October 2018, RLM had cash of ca.£15m, compared with a market capitalisation of £8m. The shares fell 81% in 2018.

Futura Medical

Phase III data needed in order to obtain that elusive commercial deal for MED2002

Although news flow from Futura Medical (FUM) on product development was generally positive during 2018, investors have become increasingly frustrated by the lack of progress regarding commercial deals. This follows on from the decision by Church & Dwight to terminate the rights to CSD500 (erectogenic condom) during 2017. FUM has been concentrating resources on development of MED2002 for erectile dysfunction. Publication of pharmacokinetic data demonstrating safety at higher doses and data on dose-related absorption were expected to provide the platform for licensing deals. However, potential partners all want to see Phase III data before committing to a deal, even though they would have to pay more money. Therefore, management took the decision to embark on a Phase III trial with MED2002, which will run until the end of 2019. The delays caused a negative share price reaction, against which the company needed to raise more capital. Although this was successful, it was achieved at a price of 7p, resulting in a 79% fall in the shares in 2018.

ReNeuron

Drug development takes time and money

There is little doubt about the potential afforded by cell-based therapeutics. However, these therapies still have to go through all the same trials and regulatory procedures as a small molecule drug. In addition, the number of companies able to manufacture commercial-scale cell-based therapies are few and far between, which also adds to the development timelines. Although ReNeuron (RENE) appears to be making progress in line with its stated strategy, the shares have been in a long-term downward drift since peaking at 637p in the middle of 2015. The company has ca.£30m cash (30 September 2018) and an annual burn rate of ca.£15m p.a., so it is likely to be coming back to the market for more capital in the next 12 months. The shares fell 74% in 2018.

*Note: *Client of Hardman & Co Life Sciences*

About the authors

Dr Martin Hall

Martin's career in the City started as a healthcare analyst in 1987, working at Morgan Grenfell and then UBS. He joined HSBC in 1992, where he was Head of Global Pharmaceutical/Healthcare Equity Research. In 2005, he set up as an independent Life Sciences Analyst and Corporate Broker under the umbrella of Eden Financial Limited. Martin is acknowledged for his thought-provoking and opinionated research. He joined Hardman & Co in June 2013.

Martin qualified as a pharmacist (B.Pharm.Hons) at the School of Pharmacy, University of London, and has a PhD in Neuropharmacology, also from the University of London. After two years of post-doctoral research under a Royal Society Fellowship at the Collège de France, Paris, he became leader in Biochemical Pharmacology at the Parke-Davis Research Centre in Cambridge. Martin is a member of Royal Pharmaceutical Society of Great Britain.

Dr Dorothea Hill

Dorothea joined the Life Sciences team as an Equity Research Analyst in August 2016. She began her career researching vaccines as part of an international Gates Foundation/Wellcome Trust collaboration, following which she undertook a PhD in genetics and vaccines for meningococcal disease at the University of Oxford. She has broad experience in the field of vaccines research and development, having worked on the molecular biology of bacterial pathogens, antigen discovery, molecular diagnostics, and next-generation sequencing technologies. Dorothea has authored 13 papers, including first author publications in the Lancet Infectious Diseases and in Nature's Scientific Reports. She is passionate about drug development and the commercialisation of medical innovation.

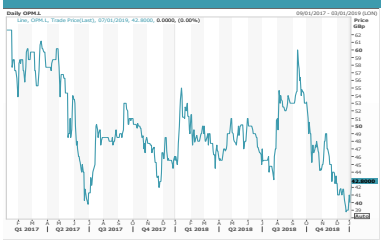
Dr Grégoire Pavé

Greg is an analyst in the Life Sciences team at Hardman & Co, and has considerable experience in the field of drug discovery and development. In 2003, he enrolled in a team-leader post-doctoral position at Imperial College London, working on natural product synthesis. In 2005, he joined Cancer Research Technology, the development and commercial arm of Cancer Research UK, where he was involved in multiple oncology projects. Greg has broad experience in drug discovery and development projects, from target identification and validation through to clinical trials. He has also gained valuable experience in evaluating life science projects and their commercial opportunities. In addition, he has played a role of reviewer in peer-review journals from the American Chemical Society. He is also an author of 14 scientific papers and owner of four patents. Greg joined Hardman & Co in March 2016. He has a PhD in Medicinal Chemistry from the University of Orléans in France, and holds the IMC and PRINCE2 qualifications.

Company research

Priced at 3 January 2019 (unless otherwise stated).

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OPM
Price (p)	42.0
12m High (p)	60.0
12m Low (p)	38.5
Shares (m)	87.6
Mkt Cap (£m)	36.8
EV (£m)	35.9
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

+44 1225 474230

www.1pm.co.uk

Key shareholders (30 Nov)

Lombard Odier	22.5%
Sapia Partners	13.6%
Ronald Russell (director)	12.1%
Mike Nolan (director)	5.1%

Diary

16 January	Interim results

Analyst

Mark Thomas 020 7194 7622

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1PM PLC

2019: further year of delivery

For 1pm, 2018 was about bedding down acquisitions, creating the infrastructure to exploit group synergies and develop growth platforms, building diversified committed funding lines and delivering strong franchise growth. We expect 2019 to deliver further visible financial returns for all this management action. 1pm's multi-year 30% p.a. dividend growth policy shows its confidence in the future. Interim results are due on 16 January, when we expect these positive messages to be reiterated. The shares trade on a 2019E P/E of 5.2x, have a yield of over 2% (nearly 10x covered) and are at 0.7x 2019E book value – a valuation that appears anomalous with 1pm's growth and profitability.

- **Company news:** The 4 December *Trading update* confirmed "continued positive trading momentum and good new business origination across the Group", with results in line with Group expectations. We believe this statement is consistent with our forecast of double-digit pre-tax profit growth in FY19.

- **Market news:** We note comments from *PCF results* on 5 December and *Funding Circle SME income fund* on 18 December about the SME credit cycle turning from the recent very low levels. 1pm has a highly diversified book, its invoice discounting should be low-risk, and it can broke as well as lend on its own-book.

- **Valuation:** Our assumptions are unchanged from those detailed in our note of 12 September 2017, *Financing powerhouse: A lunchtime treat*. The GGM indicates 116p and the DDM 69p (DDM normal payout 77p). The 2019E P/E (5.2x) and P/B (0.7x) 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)	11.3	6.5	6.5	5.3	5.2	4.7
P/B (x)	1.3	0.9	0.8	0.8	0.7	0.6
Dividend yield	0.8%	1.2%	1.2%	1.5%	2.0%	2.6%

Source: Hardman & Co Research

Healthcare Equipment & Services

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**AVO**
Price (p)	39.5
12m High (p)	64.0
12m Low (p)	32.5
Shares (m)	169.6
Mkt Cap (£m)	67.0
EV (£m)	60.0
Free Float*	48%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

Exec. Chairman	Michael Sinclair
CEO	Nicolas Serandour

+44 203 617 8728

www.advancedoncotherapy.com

Key shareholders

Board & Management	13.0%
Yantai CIPU	26.5%
Brahma AG	5.3%
AB Segulah	3.8%
Hargreaves Lansdown	3.6%
Handelsbanken	3.5%

Diary

2Q'19	Final results
1H'19	Harley Street ready

Analysts

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ADVANCED ONCOTHERAPY

2019: Completion of LIGHT system

AVO's goal is to deliver an affordable and novel proton therapy (PT) system, based on state-of-the-art technology developed originally at the CERN. Achievement of major technical milestones has boosted confidence, and the group remains on track with its strategy. AVO has integrated successfully the four types of structure that constitute the LIGHT accelerator and has recorded the proton beam at an energy of 52MeV, sufficient to treat superficial tumours. With further funds of £10m, AVO is paving the way to having its first full machine working at full power of 230MeV at the STFC site in 2019 and ready for regulatory approval.

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

- **Major milestone achieved:** The biggest technical challenges for the proton accelerator have been overcome, with the integration of all four components at CERN's testing facility in Geneva, significantly de-risking the whole project. The accelerator performs as predicted, generating a proton beam to 52MeV.

- **STFC's Daresbury Laboratory**: The installation and assembly of the full LIGHT system have already begun at STFC's Daresbury Laboratory. The complete system will accelerate the proton beam to full energy (up to 230 MeV), which is required for the treatment of deep-seated tumours, and expected in 2019.

- **Towards regulatory approval**: Verification and validation of the LIGHT system will be completed at Daresbury ahead of its submission for regulatory approval, and before it is relocated and installed at its first clinical site in Harley Street, where AVO is targeting first patient treatment by the end of 2020.

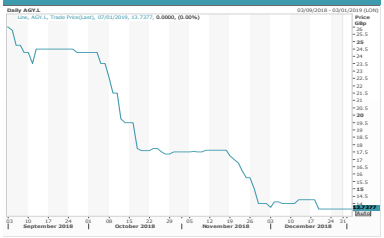
- **Investment summary:** Demand for PT is increasing worldwide, and the need for a small, flexible, affordable and close-to-patient system is desirable. AVO has attracted strong partners, and discussions with potential customers are advancing. Progress at the flagship Harley Street site has been substantial, and installation of the first LIGHT system is planned to start in mid-2019. The latest technical update has brought further assurance and boosted confidence.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	0.0	0.0	0.0			
Administration costs	-6.6	-11.2	-12.9			
Milestones/upfronts	0.0	0.0	0.0			
EBITDA	-6.4	-10.8	-12.6			
Underlying EBIT	-6.6	-11.2	-12.9			
Reported EBIT	-8.5	-13.1	-14.5	Forecasts under review		
Underlying PBT	-6.7	-11.3	-14.9			
Statutory PBT	-8.6	-13.2	-16.5			
Underlying EPS (p)	-7.1	-13.9	-15.6			
Statutory EPS (p)	-12.3	-14.4	-18.9			
Net (debt)/cash	8.0	0.9	-9.2			
Capital increase	21.1	13.5	7.3			

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**AGY**
Price (p)	14.0
12m High (p)	32.0
12m Low (p)	13.5
Shares (m)	636.2
Mkt Cap (£m)	89.1
EV (£m)	76.6
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	0.7%
Abbott Labs	37.8%
Southern Fox	22.7%
Odey	6.9%
Invesco	4.5%

Diary

30 January	Trading update
1Q'19	Ph.III PQ Birch trial
Mar'19	Interims

Analysts

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Grégoire Pavé	020 7194 7628
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ALLERGY THERAPEUTICS

2019: clinical momentum in the offing

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. 2019 is expected to deliver progress in several pipeline areas, notably in PQ Birch, for which top-line Phase III data are now anticipated in 1Q'19. The group is also preparing to undertake a Phase III trial of PQ Grass towards registration in the US – a meeting with the FDA is taking place this month. Launches in the US will present a significant opportunity to AGY.

- **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.

- **AGM update:** In the November 2018 trading statement, it was noted that results from the European Phase III PQ Birch trial are expected to be released in 1Q'19. Following an end-of-Phase II meeting with the FDA, scheduled in January, AGY expects to finalise the protocol for a US pivotal Phase III PQ Grass trial.

- **Trading update:** AGY usually releases a trading update at the end of January, covering results for its traditionally strong first half. We believe that 1H'19 performance has been strong, rebounding from underlying growth of 3.5% in fiscal 2018, to nearer 7% growth to £45.5m (£42.2m), and market share gains.

- **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, and 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 Jun (£m)	2016	2017	2018	2019E	2020E	2021E
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)	-5.9	-29.8	-12.7	-11.5	-9.0	-28.5
EV/sales (x)	1.6	1.2	1.1	1.0	1.0	0.9

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**APH**
Price (p)	**68.0**
12m High (p)	102.5
12m Low (p)	58.0
Shares (m)	515.1
Mkt Cap (£m)	350.3
EV (£m)	436.0
Free Float*	89%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Peter Butterfield
CFO	Andrew Franklin
Chairman	David Cook

+44 1249 466 966

www.alliancepharmaceuticals.com

Key shareholders

Directors	11.0%
Fidelity	9.4%
MVM Life Sci.	7.5%
Slater Inv.	7.2%
Blackrock	6.0%
Artemis	3.5%

Diary

21 January	Trading update
Mar'19	Final results
Apr'19	AGM

Analysts

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ALLIANCE PHARMA

2019: growth driven by international brands

APH is a profitable, cash-generative, specialty pharma business. The proportion of sales generated from higher-margin international star brands is rising rapidly, and will be boosted by the 2018 acquisition of Nizoral in the APAC region, and the UK approval and launch of Xonvea for nausea and vomiting in pregnancy, where conservative management has failed. Investment behind these brands, together with compliance with new regulatory directives, will limit short-term growth, but positions the company well for the medium term. APH is cash-generative, allowing it to pay down debt at a fast rate, and offer a 2018E yield of 2.2%.

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

- **Trading update:** APH is expected to release a trading update on or around 21 January, when it will provide sales data on key products, group cashflow and period-end net debt. Reported sales are expected to be £117.7m (see-through sales £124.7m), driven by Kelo-cote (£19.0m), with net debt of -£85.7m.

- **Growth brands:** APH continues to evolve and will now report on 'international star' brands and 'local' brands (formerly bedrock and local heroes). In 1H'18, international stars represented 32% of sales, and they will be boosted from 2H'18 by the inclusion of Nizoral and, to a lesser extent, Xonvea.

- **Risks:** APH has been working hard to ensure that all its products are compliant with new regulations being introduced over the next two years. This, combined with Brexit-related costs, is expected to increase costs annually by £0.7m, with further one-off costs of ca.£0.8m in 2019 – all allowed for in our forecasts.

- **Investment summary:** Recent acquisitions look set to boost APH's underlying CAGR to 16% in sales and 10% in EPS over the next three years. On the back of this strong performance, the company is expected to continue with its progressive dividend policy. The shares are trading on a 2018E P/E of 14.6x, falling to 13.4x in 2019E, and carry a prospective dividend yield of 2.2%.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
'See-through' sales	48.3	97.5	101.3	124.7	145.5	158.0
Statutory sales	48.3	97.5	101.3	117.7	131.5	143.8
Underlying EBITDA	13.6	26.7	28.2	33.6	37.4	40.6
Underlying pre-tax profit	12.2	23.5	24.8	28.9	32.7	36.6
Statutory pre-tax profit	15.2	22.2	*28.4	*22.3	31.3	35.2
Underlying EPS (p)	4.0	4.0	4.2	4.7	5.1	5.7
Statutory EPS (p)	4.7	3.9	*6.1	*3.3	4.8	5.4
DPS (p)	1.1	1.2	1.3	1.5	1.6	1.8
Net (debt)/cash	-71.5	-76.1	-72.3	-85.7	-66.8	-50.1
Net debt/EBITDA (x)	5.3	2.8	2.6	2.5	1.8	1.2
P/E (x)	17.1	17.1	16.0	14.6	13.4	12.0
Dividend yield	1.6%	1.8%	2.0%	2.2%	2.4%	2.6%

**After inclusion of non-underlying items: £4.4m in 2017 and -£5.3m in 2018*
Underlying numbers exclude exceptional items and share-based payments
Source: Hardman & Co Life Sciences Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**ARBB**
Price (p)	1,065
12m High (p)	1,640
12m Low (p)	1,033
Shares (m)	15.3
Mkt Cap (£m)	159
Loans to deposits	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.£25m-£30m 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

Late Feb'19	Trading statement
Late Mar'19	FY'18 results

Analyst

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ARBUTHNOT BANKING GROUP

Well positioned for 2019 opportunities

In what may prove a turbulent year, ABG is well positioned to exploit any opportunities that emerge. It is well capitalised – we believe it has ca.£25m-£30m of surplus capital (or 25% of its current market capitalisation), and we forecast end-2018 equity to assets of 10%. It is well funded, with deposits exceeding loans by nearly a quarter (surplus deposits of £400m+ end-2018E). The group's private banking provides good risk diversification, and it has established the infrastructure within a range of new SME businesses to grow carefully if others withdraw from the market. Management has a long track record of delivering value, and the shares trade at 0.8x 2018E NAV.

- **Company news: On 19 December,** Banking Competition Remedies Ltd announced that ABG is one of 11 banks eligible to be part of the Incentivised Switching Scheme, which provides funding of up to a maximum total of £275m to SME customers of the business previously described as Williams & Glyn, to switch their business current accounts and loans to 'challenger' institutions.
- **Peer news:** We note comments from *PCF results* on 5 December and *Funding Circle SME income fund* on 18 December about the SME credit cycle turning from recent very low levels. ABG's SME lending remains a tiny proportion of the market, and we believe it has been highly selective on which loans to add and required security cover. Its private banking operations provide diversification.
- **Valuation:** The range of our capital deployed valuation methodologies is now £13.60 (DDM), £22.18 (SoTP) and £22.98 (GGM). The SoTP is down ca.70p from our previous valuations, reflecting the STB market price. The current share price is around 80% of 2018E NAV (1,359p).
- **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 80% book value is an anomaly.

Financial summary and valuation (after 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	-63,686	-75,629
Cost:income ratio	104%	111%	100%	96%	94%
Total impairments	-1,284	-474	-394	-562	-675
Reported PBT	-2,606	-1,966	2,534	4,445	8,160
Adj. PBT	2,982	1,864	3,186	6,445	10,160
Statutory EPS (p)	86.3	1,127.3	43.9	-143.3	47.7
Adj. EPS (p)	13.5	17.1	47.5	35.9	58.4
Loans/deposits	82%	76%	75%	74%	80%
Equity/assets	5.5%	18.5%	12.8%	10.1%	9.0%
P/adj. earnings (x)	78.9	62.3	22.4	29.7	18.2
P/BV (x)	1.32	0.69	0.69	0.78	0.78

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**AVCT**
Price (p)	30.0
12m High (p)	70.5
12m Low (p)	21.0
Shares (m)	115.5
Mkt Cap (£m)	34.6
EV (£m)	19.6
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

21 January	AGM
1H'19	PD-L1/LAG-3 drug candidate selection

Analysts

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AVACTA

2019: more licensing deals expected

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. Towards the end of 2018, AVCT signed a number of licensing deals, including an Affimer therapeutics development and commercial agreement with the global pharma company, LG Chem, worth up to $310m.

- **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.

- **Major licensing agreement:** AVCT has announced a licensing deal with LG for the discovery and development of Affimer therapeutics in oncology and inflammatory disorders, potentially worth up to $310m in upfront payments and near-term and long-term milestones. Royalties would also be payable on net product sales.

- **Reagent deal:** In October, a commercial licence was announced with New England Biolabs, a global leader in enzymes for molecular biology, for a product using Affimer technology for use in research and diagnostics assays. No financial terms were disclosed, but AVCT will receive a royalty on product sales.

- **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 a number of commercial partnerships for its Affimer technology, as well as developing its own proprietary Affimer-based drugs and growing a separate profitable reagents business. The rising number of collaboration deals being discussed and signed is a clear indication of the long-term value of its Affimer technology, which the market is currently only just beginning to recognise.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019	2020E	2021E
Sales	2.17	2.74	2.76	3.17	4.69	8.60
R&D spend	-1.50	-2.60	-3.78	-4.50	-5.50	-6.50
EBITDA	-4.79	-6.66	-9.15	-8.88	-8.72	-7.00
Underlying EBIT	-5.39	-7.60	-10.12	-9.85	-9.69	-7.97
Reported EBIT	-5.66	-7.98	-10.43	-10.19	-10.07	-8.38
Underlying PBT	-5.29	-7.51	-10.08	-9.82	-9.67	-7.99
Statutory PBT	-5.57	-7.89	-10.39	-10.16	-10.05	-8.40
Underlying EPS (p)	-6.46	-8.75	-13.07	-7.42	-7.12	-5.48
Statutory EPS (p)	-6.86	-9.31	-13.55	-7.72	-7.44	-5.83
Net (debt)/cash	19.52	13.17	5.22	7.75	-0.74	-7.32
Capital increase	21.05	0.01	0.05	10.92	0.00	0.00
EV/sales (x)	16.5	13.9	11.0	10.9	9.5	6.4

Source: Hardman & Co Life Sciences Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**BUR**
Price (p)	1,561.0
12m High (p)	2,040.0
12m Low (p)	1,022.0
Shares (m)	218.6
Mkt Cap (£m)	3,413
Total Assets ($m)	1,904
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	8.2%
Invesco Perpetual	15.0%
Woodford Investments	9.5%
Old Mutual	5.0%

Diary

13 March	Full-year results

Analyst

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BURFORD CAPITAL

Next $1.6bn of investments to boost returns

Burford has announced access to almost $1bn of new capital, which, combined with its balance sheet, gives a new and financially attractive structure for how the next $1.6bn of litigation finance investments will be made. The most significant part of this is a new strategic capital relationship with a sovereign wealth fund (SWF). The SWF and Burford have committed a $1bn pool of capital, with the former supplying $667m. Burford will supply the remaining one-third of the capital, but receive 60% of the investment profits. And 50% of the new investments made will be allocated to the pool over the next four years, or until the pool is invested.

- **Burford Opportunities Fund (BOF):** Burford has also announced the raising of $300m of capital for a new private fund. The launch of this had been indicated previously, with the size being restricted due to the additional capital from the strategic partnership described above.

- **Capital requirements**: In addition to the pool, 25% of new litigation finance investments will be allocated to each of BOF and Burford's balance sheet. The net effect is that Burford will fund 42% of future litigation finance investments, but receive 60% of the investment returns.

- **Valuation:** Hardman & Co has made significant upgrades to its earnings estimates on Burford, with increased RoIC, lower invested capital growth and less debt issuance. The prospective 2019 P/E of 16.6x is not excessive for a growth company, with a 25.1% 2019E RoE giving strong metrics all round.

- **Risks:** The investment portfolio is very diversified, with exposure to more than 900 claims. However, 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 ($m)	2015	2016	2017	2018E	2019E	2020E
Revenue	103.0	163.4	341.2	326.5	398.5	571.6
Operating profit	77.2	124.4	285.1	263.0	323.3	482.5
Reported net income	64.5	108.3	249.3	216.2	275.7	432.3
Underlying net income	64.5	114.2	264.8	227.9	287.4	444.0
Underlying RoE	16.0%	22.1%	35.9%	24.6%	25.1%	30.0%
Underlying EPS ($)	0.32	0.55	1.27	1.04	1.31	2.03
Statutory EPS ($)	0.32	0.53	1.20	1.03	1.26	1.98
DPS ($)	0.08	0.09	0.11	0.13	0.15	0.17
Dividend yield	0.4%	0.4%	0.5%	0.6%	0.7%	0.8%
NAV per share ($)	2.12	2.22	3.19	3.92	5.05	7.03
P/E (x) (underlying)	69.3	39.8	17.2	21.0	16.6	10.8
Price/NAV (x)	10.3	9.8	6.8	5.6	4.3	3.1

Source: Hardman & Co Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**CLIG**
Price (p)	385.0
12m High (p)	454.0
12m Low (p)	366.0
Shares (m)	26.9
Mkt Cap (£m)	103.6
EV (£m)	83.9
Market	LSE

Description

City of London (CLIG) 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

+44 207 860 8346

www.citlon.com

Key shareholders

Directors & staff	16.4%
Blackrock	9.9%
Cannacord Genuity	7.9%
Eschaton Opportunities Fund Management	4.7%
Polar Capital	4.1%

Diary

16 Jan	2Q FUM announcement
18 Feb	Interim results
7 Mar	Interim ex-dividend date

Analyst

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CITY OF LONDON INVESTMENT GROUP

Challenging 2018 now history

Global markets set challenges for all investors in 2018. Developed markets held up well until the fourth quarter, but finished the year with the MSCI World Index down 11.2%. Emerging markets struggled almost the whole year, and the MSCI Emerging Index fell 16.6% (both indices capital only). Although the end-year figures are yet to be announced, City of London's FUM movement has so far split those indices. A significant offset has been the strength of the US Dollar, which rose 7% vs. sterling in 2018. Inflows in the diversifying strategies have been somewhat offset by ongoing rebalancing away from emerging markets.

- **News:** The global political environment continues to present many challenges. Fears of a trade war have risen substantially. While the focus is on the US and China, the effect on other EM countries may be higher. Against this, the new Trans-Pacific trade agreement may provide a long-term offset if approved.

- **Operations:** The effect of the inflows and outflows into different areas means that revenue margins declined at a faster rate than expected. However, City of London's usual excellent cost control means that profitability was not affected as much as that of some of its competitors.

- **Valuation:** The prospective P/E of 10.8x is at a significant discount to the peer group. The historical yield of 7.0% 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, although increased diversification is also mitigating this.

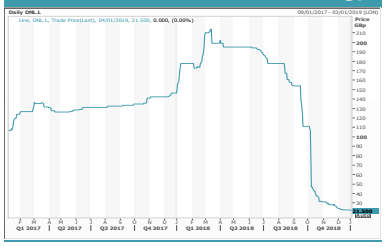
- **Investment summary**: Having shown robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. FY'17 and FY'18 both saw dividend increases and, unless there is significant market disruption, more 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	5.29	5.69
Revenue	25.36	24.41	31.29	33.93	31.95	33.30
Statutory PTP	8.93	7.97	11.59	12.79	11.27	11.91
Statutory EPS (p)	26.4	23.3	36.9	39.5	35.8	37.8
DPS (p)	24.0	24.0	25.0	27.0	30.0	33.0
P/E (x)	14.6	16.5	10.4	9.7	10.8	10.2
Dividend yield	6.2%	6.2%	6.5%	7.0%	7.8%	8.6%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**DNL**
Price (p)	22.0
12m High (p)	215.8
12m Low (p)	21.1
Shares (m)	61.3
Mkt Cap (£m)	13.5
EV (£m)	0.2
Free Float*	19%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

Key shareholders

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

Diary

Mar'19	Interim results
4Q'19	EU Chronocort filing
4Q'19	US Phase III

Analysts

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	gp@hardmanandco.com

DIURNAL GROUP

2019: settling the ship

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'. Alkindi is being launched in EU markets, and this was expected to be followed by Chronocort; however, headline data from its EU Phase III Chronocort trial in CAH did not show superiority over standard-of-care, thereby failing to meet its primary end-point. DNL is seeking 'scientific advice' from the EMA about how to proceed, which should be available in 2Q'19, with a view to altering the US trial protocol.

- **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.

- **Phase III results:** Headline data indicated that Chronocort did not meet its primary end-point of superiority over the standard-of-care in the control of androgens in the European Phase III trial. DNL put on hold the planned US Phase III in CAH and Phase II in AI, and requested advice from the regulators.

- **Additional data released:** The full data set has now been analysed and, despite not meeting its primary end-point, Chronocort was efficacious and conferred many advantages over the standard-of-care, such as improved androgen control in the critical period of the morning and lower levels of androgen over 24 hours.

- **EMA scientific advice:** A regulatory package for Chronocort requesting 'scientific advice' has been submitted to the EMA. It includes additional data from the trial and extended Phase III data currently running, showing the benefits of Chronocort. DNL expects a meeting to take place in 1Q'19, with an outcome in 2Q'19.

- **Investment summary:** Alkindi, a cortisol replacement therapy designed for babies and children, is DNL's first product on the market. It had been expected to be followed by Chronocort for adults – a much larger market. The fall in the share price following this unpredictable outcome looks overdone, but the price is likely to languish until there is clarity from the regulators about how to move Chronocort forward.

Financial summary and valuation

Year-end Jun (£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	-10.83	-7.58	-7.20
EBITDA	-5.87	-11.56	-16.16	-17.28	-11.99	-2.81
Underlying EBIT	-5.88	-11.56	-16.17	-17.29	-12.01	-2.83
Reported EBIT	-6.99	-12.08	-16.98	-18.14	-12.90	-3.76
Underlying PBT	-5.95	-11.64	-16.30	-17.20	-11.99	-2.87
Statutory PBT	-7.06	-12.16	-16.91	-18.05	-12.89	-3.80
Underlying EPS (p)	-12.48	-17.05	-25.68	-22.27	-15.51	-0.83
Statutory EPS (p)	-15.02	-18.04	-26.78	-23.65	-16.96	-2.36
Net (debt)/cash	26.88	16.37	17.28	2.47	-7.79	-11.57
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)	12
12m High (p)	45.2
12m Low (p)	11
Shares (m)	153
Mkt Cap (£m)	18
EV (£m)	16
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

js@hardmanandco.com

DP POLAND

Fully proven model rolls out

DPP announced in December that, while EBITDA for 2018 would be broadly in line with expectations, revenue would be lower, due to unseasonally warm weather and competitive marketing activity by delivery aggregators. The company is cautious about the impact of the above issues continuing into 2019, and so we cut our forecasts for the next few years, effectively pushing back the path to profitability by a year. This means, in our view, that the company is likely to need some additional funding during 2019.

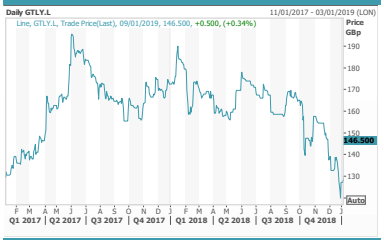
- **Strategy:** DPP has spent its first few years proving the Domino's Pizza model in Poland. With the new commissary up and running, it has scope to double the number of operations over the next few years. As the stores mature, the success should show up in reported profits. DPP's marketing is smarter than that of its competitors – using digital media, rather than expensive display advertising.
- **Competitive market:** DPP has neither the pizza market nor the food delivery market to itself in Poland. While the Domino's formula of focusing on high-quality pizza, delivered swiftly, is hard to beat, the new food delivery aggregators have money to spend and are impacting DPP's above-the-line promotional activity, with aggressive (and possibly unsustainable) marketing activity.
- **Valuation:** With no reported profits expected for the next few years, we value DPP on a per-store basis. In our initiation research (*'Fully proven model rolls out'*, published on 18 September 2018), we derived a central value of around £80m, to reflect the delay in the maturing of the business; we now discount that for a further year, to £72m, or 47p per share.
- **Risks:** The biggest short-term risk to DPP is the deep pockets of the new disruptors: the food delivery aggregators. This has already impacted DPP's growth, as it struggles to get its message across, against competitors spending 20x or even 25x what DPP is spending. With additional financing now required, in our view, current shareholders may get diluted if they do not fully participate.
- **Investment summary:** The story for DPP is quite simple: it has a powerful retail consumer franchise in a fast-developing economy. The nature of a Domino's Pizza franchise is that it takes time to get to profitability, which leaves management with a fine line to draw between growth and short-term losses. Disruptive competitive activity pushes the path to profitability further into the future, but also grows the delivery market. The model remains sound, in our view.

Financial summary and valuation

Year-end Dec (£000)	2016	2017	2018E	2019E	2020E
Revenue	7.6	10.4	12.9	15.0	20.0
Store EBITDA	1.5	0.7	0.8	0.8	1.1
Group EBITDA	-1.6	-1.8	-2.0	-1.5	-0.5
EBIT	-2.5	-2.7	-3.1	-2.6	-1.7
Finance costs	0.1	0.1	0.0	0.0	0.0
PBT	-2.5	-2.6	-3.1	-2.6	-1.7
PAT	-2.5	-2.6	-3.1	-2.6	-1.7
EPS (p)	-1.9	-1.9	-2.0	-1.7	-1.1
EPS adjusted (p)	-1.8	-1.9	-2.0	-1.7	-1.1
Net cash	6.0	4.1	1.1	-2.3	-4.7
Shares issued (m)	129	142	153	153	153
EV/Sales (x)	3.6	2.6	1.3	1.1	0.8

Source: Hardman & Co Research

Business Support Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**GTLY**
Price (p)	**140**
12m High (p)	193
12m Low (p)	132
Shares (m)	110.8
Mkt Cap (£m)	155
EV (£m)	156
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	9.2%
Miton	7.2%
Premier	3.8%

Diary

May'19	Trading update

Analyst

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sc@hardmanandco.com

GATELEY (HOLDINGS) PLC

Strong interim results

Gateley's interim results were 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 interims were notable for strong cash generation, strong organic revenue growth and a significant contribution (10% of revenues) from acquisitions. The announcement of a significant consolidation move in the industry highlights the opportunity for long-term growth at Gateley – it has already made two highly complementary acquisitions this year, for shares and cash.

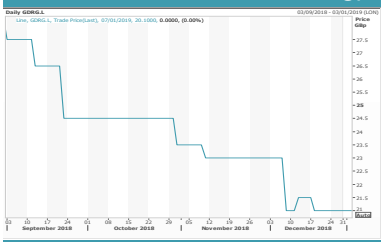
- **Current trading:** Interim results showed a strong performance, with revenue growth of over 20%, half organic and half from acquisitions. The dividend was hiked by 18%, enhancing the yield attractions of the share. In addition, management struck a confident tone at the analysts' meeting, emphasising the progress made since IPO.
- **News:** Gordon Dadd recently announced a merger with Ince. We understand that Ince has been lagging some of its peers, and hence the deal looks to have been done at quite a low valuation, although we await further details of the deal. This, however, highlights to us the opportunity in the sector, and we expect further deals to happen. This can only benefit Gateley.
- **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 2019E P/E is 12.4x, falling to just 10.7x in 2020E, on numbers we believe are conservative. We forecast the dividend yield to surpass 6% in FY20, and it should continue to grow. The group also 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 is likely increasingly to attract investor attention. It is a high-quality professional services group with significant growth potential, an excellent track record of delivery, a strong management, and a strategy to diversify further in complementary professional services.

Financial summary and valuation

Year-end Apr (£000)	2016	2017	2018	2019E	2020E
Sales	67.1	77.6	86.1	102.7	112.9
EBITDA*	12.9	14.9	16.5	19.5	22.1
PBT adjusted	12.0	13.8	14.1	16.0	18.5
EPS (adjusted, p)	9.1	9.4	10.6	11.3	13.0
DPS (p)	5.6	6.6	7.0	8.0	8.8
Net cash	-4.2	-4.8	-0.7	-0.5	6.8
P/E	16.3	15.7	13.9	12.4	10.7
EV/EBITDA	12.4	10.9	9.6	8.0	6.7
Dividend yield	3.8%	4.5%	4.7%	5.7%	6.3%

**Pre-share-based costs*
Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	GDR
Price (p)	21.0
12m High (p)	42.0
12m Low (p)	18.0
Shares (m)	34.0
Mkt Cap (£m)	7.1
EV (£m)	7.0
Free Float*	52%
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	0.5%
Calculus	19.4%
M&G	15.2%
BGF	12.8%
Odey	5.5%
River & Merc.	3.1%

Diary

Mar'19	Interim results
1H'19	Country registrations
1H'20	WHO decision on HCV-ID

Analysts

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GENEDRIVE PLC

2019: commercialising the menu of assays

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 the diagnosis of infectious diseases. Rapid analysis of patient samples aids clinical and public health decision-making, with field testing particularly important in emerging markets. The 2018 fiscal year saw solid operational progress to generate first commercial sales. 2019 will be a year for building sales momentum through commercialisation of its menu of three assays.

- **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 gene-based diagnostics, signing three important commercial agreements, and divesting its 'Services' business unit.

- **2018 recap:** FY'18 was the first reporting period to include product sales, with Genedrive and HCV assay revenues contributing £0.13m to the £1.94m total for the Diagnostics Business (£2.62m). A debt and equity fundraise totalling £6.0m boosted GDR's cash position to an estimated £8.0m in December.

- **Acceleration in 2019:** Achievement of the hepatitis C assay CE marking and the signing of three deals with specialist distributers in 2018 have positioned the company to accelerate sales growth, through launches in new territories and also through increasing market penetration in existing launch countries.

- **Risks:** The platform technology has been de-risked through the receipt of CE marking for its assay for detection of HCV infection. The main risk is commercial, given that it often takes time for new technologies to be adopted. However, partnering with major global and local experts reduces this risk.

- **Investment summary:** Genedrive technology ticks all the boxes of an 'ideal' in vitro diagnostic that satisfies the need for powerful molecular diagnostics at the point of care/need. The hepatitis C market is a very large global opportunity, and the HCV-ID test has excellent potential, 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, GDR is at a very interesting inflection point.

Financial summary and valuation

Year-end Jun (£000)	2015	2016	2017	2018E	2019E	2020E
Sales	4,517	5,063	5,785	1,938	3,480	4,826
Underlying EBIT	-3,858	-5,259	-4,812	-5,276	-3,656	-2,887
Reported EBIT	-4,040	-5,426	-7,292	-7,375	-3,677	-2,918
Underlying PBT	-3,242	-5,828	-5,316	-5,794	-4,262	-3,499
Statutory PBT	-3,424	-6,497	-7,487	-7,788	-4,282	-3,530
Underlying EPS (p)	-28.3	-49.8	-23.1	-26.9	-11.9	-7.4
Statutory EPS (p)	-30.1	-56.2	-34.9	-31.9	-12.0	-7.4
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	903	-3,877	-70	-2,096	-4,010	-5,798
Capital increases	80	0	6,023	0	4,547	0
P/E (x)	-0.9	-0.4	-0.9	-0.8	-1.8	-2.8
EV/sales (x)	1.5	1.4	1.2	3.7	2.1	1.5

Source: Hardman & Co Life Sciences Research

Speciality Chemicals

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**HAYD**
Price (p)	31
12m High (p)	120
12m Low (p)	13
Shares (m)	28.58
Mkt Cap (£m)	8.5
EV (£m)	9.7
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	Laura Redman-Thomas
COO	Keith Broadbent
Interim Exec. Chairman	David Banks
	+44 1269 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

Mar'19	Interims

Analyst

Paul Singer 020 7194 7622
ps@hardmanandco.com

HAYDALE

Enlightenment stalled but financial issues easing

Financial issues are still likely to affect the shares in the near term, despite the group recently obtaining new working capital funding arrangements. Commercial developments are generally progressing well, and 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.

- **Background: The group's financing update on 9 November revealed that** Haydale was required to seek alternative sources of near-term finance to satisfy its ongoing financial obligations for its short- to medium-term commercial adoption.

- **Financial developments:** On 21 December, Haydale announced that the group had secured £1.00m of new working capital through a new £0.75m 16-month loan facility, carrying 11% p.a. interest, from the Development Bank of Wales, and the issue of £0.25m of new equity. We have adjusted our forecasts accordingly.
- **Cost base reduction programme:** As Haydale is continuing to experience extended lead times from its customers in their adoption of its next-generation products in commercial quantities, management continues to resize its overhead base to reflect the near-term sales focus on its graphene and smart inks, and its SiC products. This should be regarded as positive and has led to a reduction in its annualised SG&A costs by ca.£1.0m, the full benefits of which will come through in early 2019.

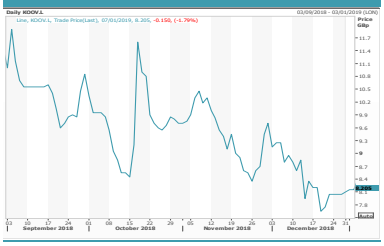
- **Investment summary:** While financial uncertainties prevail, commercial traction is good, and the group has entered FY19 with a healthy order book. Our forecasts for FY19 are still conservative, with strong growth expected in FY20. The shares have performed poorly recently, but the risk/reward balance remains favourable on a long-term basis. The shares are attractively valued compared with their peer group, on P/NAV and EV/sales, and also on a DCF basis.

Financial summary and valuation

Year-end Jun (£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	1.2	0.8

Source: Hardman & Co Research

General Retailers



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	KOOV
Price (p)	8
12m High (p)	57
12m Low (p)	6
Shares (m)	356
Mkt Cap (£m)	28
EV (£m)	21
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	15%
Future Group	16%

Diary

Jun'19	Prelims

Analyst

Jason Streets 020 7194 7622

js@hardmanandco.com

KOOVS PLC

Koovs refinanced for the future

Following on from the investment by the Future Group (FLFL), which, when completed, will take its stake up to 29.99%, the subscription for £12m of new shares and the deal with HT Media for £17m-worth of advertising in exchange for shares, Koovs is now well placed to build on the success it has had to date in creating India's leading fashion e-tailer. The cash injection and the support of Future should enable it to resume its growth path and surf the growth of Indian e-commerce. The interims reported in December covered the period before the new finance was raised.

- **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	1.3	0.5	0.2	0.1

Source: Hardman & Co Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**MCL**
Price (p)	160.0p
12m High (p)	174.0
12m Low (p)	123.0
Shares (m)	129.8
Mkt Cap (£m)	207
EV (£m)	187
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 the 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-Exec. Chairman	Stephen Karle

+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

End-Feb/ early Mar'19	Trading update

Analyst

Mark Thomas 020 7194 7622

mt@hardmanandco.com

MORSES CLUB PLC

2019: positioned for sustainable, diversified growth

2018 perfectly demonstrated MCL's conservative corporate culture, with the unique franchise opportunity presented by the market-leader's restructuring being carefully controlled to deliver sustainable earnings growth. We detailed how this worked in practice in our notes *Quality street* (19 July) and *Sustainable growth from focus on quality* (23 October). As this opportunity has been largely bedded down, management can, in 2019, give its attention to other growth options, including online lending, the Morses Club Card and its customer portal. We expect acquisition opportunities in the Home Collect market and note that committed funding is in place for material growth.

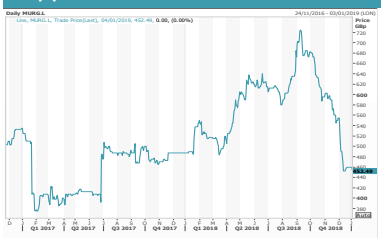
- **Company news:** On 27 November, MCL announced an *Extension to Loan facility* (revolving line +£10m to £50m and up to £15m of mezzanine finance). On 18 December, its *response to FCA announcement* thanked the FCA for its positive comments regarding the home credit sector, and considered that the proposed changes were unlikely to have an adverse impact on the business.
- **Peer news:** Non Standard Finance (NSF) held its annual investor day on 3 December, with a focus on its branch-based business (limited read across to MCL). Since our last monthly, NSF consensus estimates (per the company's website) have risen by ca.1%. The attached link (*FCA announcement*) gives details of the FCA proposals, which contained no surprises on Home Collect.
- **Valuation:** We detailed a range of valuation approaches and sensitivities in our notes, *Building a profitable and sustainable franchise* (October 2017) and *Bringing Home Collect into the 21st Century* (February 2017), and updated these in our results note. The range is now 179p (DDM) to 223p (GGM). Average peer multiples are higher than MCL's.
- **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 a 10.5x February 2020 P/E and a 5.6% February 2020 dividend yield, with 1.7x 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	119.3	129.8
Total impairments	-22.9	-18.8	-24.3	-30.4	-26.0	-29.9
Total costs	-51.4	-53.4	-56.7	-65.6	-69.8	-73.9
EBITDA	16.5	19.3	19.9	22.1	24.8	27.9
Adjusted PBT	13.0	16.8	17.7	19.2	21.8	24.6
Statutory PBT	58.5	10.4	11.2	16.1	18.6	21.7
Statutory EPS (p)	46.5	6.1	6.6	10.1	11.7	13.7
Adj. EPS (p)	8.1	10.2	10.8	11.7	13.4	15.2
P/adj. earnings (x)	19.7	15.6	14.8	13.6	11.9	10.5
P/BV (x)	2.2	3.7	3.4	3.1	3.0	2.8
P/tangible book	2.4	4.6	4.0	3.6	3.4	3.1
Dividend yield	n/m	n/m	4.0%	4.4%	5.0%	5.6%

*Source: Hardman & Co Research * IFRS9 basis*

Support Services



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	MUR
Price (p)	460
12m High (p)	730
12m Low (p)	450
Shares (m)	9.0
Mkt Cap (£m)	41.0
EV (£m)	39.0
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

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

Analyst

Mike Foster 020 7194 7633

mf@hardmanandco.com

MURGITROYD

Strong cash, resilient outlook

For some time, the market has been increasingly competitive – but growing in volume and complexity – thus Murgitroyd has invested to ensure its prospects. As a professional services specialist with a global reach and a record of having invested to flex its products and expand business development, the footing is secure. The shares have recovered well from when 2017 profit downgrades began to emerge, but this remains a 'thinly traded' market. We still believe these 2017 downgrades were the final leg in a protracted period of margin erosion, and the most recent two sets of results confirm this. We consider Murgitroyd to be set for modestly growing profits and EPS, driving higher DPS.

- **Strategy:** The ever-increasing offer of support functions (even including web-based) can add revenue and add to 'stickiness' with large clients, but this is a complex interplay, as this division is inherently lower-margin and Murgitroyd's focus is on rebuilding margins.

- **Forward numbers**: The last set of results (September) delivered PBT in line with expectations, but sales fell 1% (or slightly more on constant currency terms, as half of revenue is in US$). We see cash generation with modest margin rises and low top-line growth as the likely outcome in FY19 and FY20.

- **Valuation:** After a downward trend, margins are now more resilient. Markets are growing, but Murgitroyd's selectivity is designed to prioritise margins, not the top line. Note the net cash position and good cashflow, which should justify the current EV/EBITDA and maybe more. DPS growth should be safe, highlighting a significant dividend yield premium to the market. FY18 free cash yield was 7.0%.
- **Risks:** The offer of a broad suite of services to a broad customer base, in focused markets, balances the group. This is a reasonably stable, growing global market, with pricing pressure as an ongoing feature. This is not new, and Murgitroyd's global strategy is designed around this given feature, delivering cash well.
- **Investment summary:** The shares have recovered well from when 2017 profit downgrades began to emerge. As noted above, we still believe these downgrades were the final leg in a protracted period of margin erosion, and the most recent two sets of results confirm this. This is a price-sensitive marketplace, however, but a growth one. Ongoing strong dividend growth and free cashflow are supportive.

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)	13.7	13.3	13.0	16.0	14.9
EV/Sales (x)	1.0	1.0	0.9	0.9	0.9
EV/EBITDA (x)	8.5	8.7	8.5	9.2	8.7
FCF yield	7.6%	6.9%	8.8%	7.6%	7.0%
Dividend yield	2.7%	3.1%	3.5%	3.7%	4.6%

Source: Hardman & Co Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	NSF
Price (p)	63.3
12m High (p)	78.75
12m Low (p)	52.6
Shares (m)	312.0
Mkt Cap (£m)	198.5
EV (£m)	386.8
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

+44 20 38699026

www.nonstandardfinance.com

Key shareholders

Invesco	28.7%
Woodford Inv. Mgt. (04/09/18)	25.0%
Aberforth Partners (28/08/18)	12.3%
Marathon Asset Mgt.	10.7%
Quilter Cheviot AM	4.1%
ToscaFund	3.8%

Diary

22 January	Pre-close statement
12 March	FY'18 results

Analyst

Mark Thomas 020 7194 7622

mt@hardmanandco.com

NON-STANDARD FINANCE

2019: the year for investment payback

2018 saw strong franchise growth, although financial returns showed more modest increases. The latter reflected heavy investment in front-line services, and in controls and infrastructure across all three businesses. We, and consensus, think 2019 will see a sharply accelerated financial return, as NSF gets payback for recent investments. Our 2019 normalised EPS forecast is ca.70% above 2018. We expect a broad-based improvement, with ca.£3m increases in normalised profits from each division, despite heavy investment continuing, especially in the branch-based and guarantor businesses. In 2019, we expect the market to get comfort in a ca.50% consensus EPS increase 2020 on 2019.

- **Company news:** NSF's investor day focused on Everyday Loans (see our note, *Reading the runes: strong controlled growth*, published on 5 December). The key messages were sustainable growth from using technology, expanding the network and upskilling staff to increase lead generation/conversion, improve efficiency and managing credit. The Woodford stake has increased to over 25%.

- **Peer news:** The attached link (*FCA announcement*) gives details of the FCA proposals, which contained no surprises for NSF. MCL welcomed the news, and said it would have a limited effect on its businesses. The November Amigo securitisation deal indicates low-cost funding opportunities for the future.

- **Valuation:** Our absolute valuation measures for NSF range from 91p to 101p per share. With the IPO of Amigo, there is now a market comparator for the GLD business, and so we have introduced a sum-of-the-parts model (implied valuation 87p). Peer comparators reach up to 79p (average 72p).

- **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 ca.10x 2019E P/E and getting a ca.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	6.42
DPS (p)	1.20	2.20	2.60	3.20
P/adj. earnings (x)	18.9	18.5	16.8	9.9
P/BV (x)	0.8	0.9	0.9	0.9
P/tangible book (x)	2.0	2.7	3.2	3.0
Dividend yield	1.9%	3.5%	4.1%	5.0%

*Source: Hardman & Co Research * IFRS9 basis*

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OXB
Price (p)	645
12m High (p)	1,064
12m Low (p)	440
Shares (m)	66.1
Mkt Cap (£m)	426.3
EV (£m)	428.6
Free Float	63%
Market	LSE

Description

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

Company information

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

Key shareholders

Directors	0.3%
Vulpes	17.7%
M&G	17.7%
Canaccord Genuity	5.1%
Aviva	3.9%
Hargreaves Lansdown	3.7%

Diary

Mar'19	FY'18 results

Analysts

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

OXFORD BIOMEDICA

Near-term value in 2019: bioprocessing sales

OXB is a specialist advanced-therapy lentivirus vector biopharma company. It offers vector manufacturing and development services, and has a proprietary drug pipeline. In addition to LentiVector® service contracts, OXB receives royalties on commercial therapies developed by its partners using the platform. This diversified business model was established following a deal with Novartis for Kymriah in 2017, and solidified through three further partnership and licensing deals in 2018. In the near term, in fiscal 2019, growth in bioprocessing volumes is likely to be the main driver of OXB's value creation, rather than licensing and milestone payments.

- **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.

- **Near-term growth:** OXB's strategy for mid- to long-term growth centres on income from royalties and on out-licensing its gene-based medicine pipeline. In the near term, particularly in 2019, the focus will be on growing bioprocessing sales. This will help pay down debt, and strengthen OXB as a commercial partner.

- **Partnerships:** Top-line growth is being driven by bioprocessing, mostly from Novartis and Orchard Therapeutics. Fiscal 2019 is likely to build on this, as Kymriah is commercialised globally and Orchard progresses towards regulatory submission. Clinical data from the Axovant partnership are also due in 1Q'19.

- **Manufacturing:** Value accretion from bioprocessing in 2019 will be supported by OXB's ongoing manufacturing expansion. The planned opening of new offices and a new warehouse in 1Q'19 should maximise the efficiency of the existing manufacturing capacity, as demand for bioprocessing continues to increase.

- **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 multiple supply agreements (e.g. Novartis, Bioverativ, AXON), positioning the group on the road to significant bioprocessing service income, milestones and royalties. Reported numbers for 2018 will benefit from unrealised gains on its shareholding in Orchard Therapeutics (est. £7.5m).

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	15.13	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	7.94	6.02	15.38
Underlying EPS (p)	-23.91	-21.00	-21.99	15.73	15.81	31.95
Statutory EPS (p)	-25.33	-29.95	-14.56	17.63	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)	-	-	-	-	-	22.4
EV/sales (x)	-	-	-	-	-	17.0

Source: Hardman & Co Life Sciences Research

Real Estate

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**PCA**
Price (p)	310
12m High (p)	365
12m Low (p)	280
Shares (m)	45.9
Mkt Cap (£m)	143
EV (£m)	223
Market	Main, LSE

Description

Palace Capital is a real estate investor, diversified by sector (office, industrial predominate) and location, but not in London, and with minimal exposure to retail. There is an emphasis on city centres. The York development site comprises 6% of assets.

Company information

Chairman	Stanley Davis
CEO	Neil Sinclair
CFO	Stephen Silvester

+44 20 3301 8330

www.palacecapitalplc.com

Key shareholders

AXA	7.7%
Miton	7.4%
J.O. Hambro	7.3%
Stanley Davis (Chairman)	3.6%

Diary

Apr'19	3Q dividend paid
Jun'19	Final results
Jul'19	4Q dividend paid

Analyst

Mike Foster 020 7194 7633

mf@hardmanandco.com

PALACE CAPITAL

£14m acquisition, recycling capital

On 24 December, Palace Capital announced a £14m central Liverpool purchase, on a net initial yield (NIY) of 6.75%. It had reported 1H'19 (six months to September 2018) results on 26 November, which were in line with expectations. The strategy of being overweight offices (51% assets in offices in regional hub locations) and well underweight retail continues to deliver, with total returns (5.3%) once again ahead of market benchmarks (3.3%). Palace Capital is an active manager: in the six months to September 2018, there were 22 lease events, 9% ahead of ERV (estimated rental value).

- **Liverpool office block acquisition for £14m:** One Derby Square is 96% occupied by tenants with excellent covenants, including Pret a Manger, Tesco, Medicash, Reed Specialist Recruitment and Brook Street (UK). 1.15m square feet of Liverpool office space have been taken out of the market since 2014.

- **Share price**: Palace Capital has reminded the market of its presence and, on 19 December, on the second heaviest volume in six months, the shares climbed over 10%. The NIY averages 5.9%, with the shares still trading at a 24% discount to NAV – so that 5.9% translates to 7.8% for shareholders at this price.

- **Results:** The portfolio valuation rose 2.4% in the six months, and EPRA NAV per share grew 1.4%. The 30.3% LTV maintains 'fire power' for attractive investment opportunities and the pending investment into the York development asset. This will deliver a useful income increase and should enhance NAV.
- **Risks:** Estimates were cut slightly at the November results announcement, due to a disposal (at book value) and a small trimming of 2020 income. Palace Capital has been recycling capital, with the major residential disposal shortly to be out of the RT Warren portfolio (note that our EV reflects this as sold). This helps reduce risk.
- **Capital and income focus:** These are important elements of Palace Capital's philosophy. Assets with strong long-term prospects are held, and the reversionary yield stands at 7.6%, compared with 5.9% NIY. Also, value-creating (large-scale York development) and occupier-focused enhancements crystallise higher rents and revaluations. For 2019 and 2020, we estimate £4.5m and £3.0m revaluation profit, respectively.

Financial summary and valuation

Year-end Mar (£m)	2016	2017	2018	2019E	2020E
Income	14.6	14.3	16.7	18.2	19.4
Finance cost	-2.3	-3.0	-3.4	-4.0	-4.7
Declared profit	11.8	12.6	13.3	13.8	12.5
EPRA PBT (adj. pre-revaluation)	8.7	6.3	7.3	9.2	9.5
EPS reported (p)	43.9	36.4	35.9	26.8	24.0
EPRA EPS (p)	31.3	21.2	18.7	16.9	17.5
DPS (p)	16.0	18.5	19.0	19.0	19.2
Net debt	-65.4	-68.6	-82.4	-80.7	-144.0
Dividend yield	5.1%	5.9%	6.%	6.0%	6.1%
Price/EPRA NAV	75.0%	70.0%	74.7%	74.6%	73.4%
NAV (p)	414.3	434.2	400.2	407.5	414.4
EPRA NAV (p)	414.3	443.0	414.8	415.4	422.2

Source: Hardman & Co 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)	1,458
Market	Main, LSE

Description

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

Company information

CEO	Harry Hyman
CFO	Richard Howell
Chairman	Steven Owen

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

Key shareholders

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

Diary

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

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PRIMARY HEALTH PROPERTIES

Robust start to new year – dividend upgrade

PHP's assets offer long-term security. They provide modern buildings for essential primary medical services and will thus be integral within the local community for decades on 'gilt' quality covenants. Performance is not correlated to GDP or property 'cyclical' trends. Over the past cycle, PHP has returned a CAGR of just under 8%, vs. all property's 5%, with a standard deviation (volatility) below all asset classes and around half that of gilts. PHP has paid progressive dividends since flotation 22 years ago. The recently announced 1.4p quarterly dividend equates to 5.6p p.a. (+3.7% vs. 2018), vs. our previous 2019 estimate of 5.55p. We expect underlying rent growth to accelerate.

- **Strategy:** PHP's portfolio is attractive, as it offers good risk/reward, with a likely modest acceleration in rental inflation being imminent. Assets are valued at a net initial yield (NIY) of 4.9%, very similar to the total UK commercial market. We believe the risk/reward is more attractive than that in the overall commercial market. We note the NHS ten-year plan's reaffirmation of primary health delivery.

- **Further expansion into RoI**: RoI assets comprise 6% of the total (UK 94%). Notably, since the first RoI acquisition, in 2016, ca.30% of PHP's total asset purchases have been in RoI, and this proportion is being maintained currently. This is one plank to the modest acceleration in portfolio rental inflation, as income yields are slightly higher than those in the UK. €51m 2.4973% secured notes have recently been issued.

- **Valuation:** The assets are valued in line with the broader commercial market. This seems attractive, given how safe the assets and leases are. The shares stand just above NAV, which is below historical levels. This de-rating may seem, on balance, to be difficult to justify as investors move to a 'risk-off' environment, with DPS growing.

- **Risks:** Debt maturity 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%. 2018 dividends, cash paid, are fully covered, but cover builds to over 100% under any macroeconomic scenario.

- **Investment summary:** Three factors are pulling DPS payments upwards: i) expansion into the higher cash-generating Irish assets; ii) PHP's falling cost of debt; and iii) the growth in portfolio size maintaining the momentum on greater efficiencies, modestly raising profit margins.

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	5.60	5.75
Net debt	-663.2	-726.6	-709.0	-742.7	-837.8
Dividend yield	4.5%	4.6%	4.7%	4.9%	5.1%
Price/EPRA NAV	1.25	1.13	1.09	1.06	1.02
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

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**REDX**
Price (p)	6.3
12m High (p)	22.5
12m Low (p)	3.5
Shares (m)	126.5
Mkt Cap (£m)	7.9
EV (£m)	1.4
Free Float*	81%
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	0.6%
Jon Moulton	18.2%
Seneca Partners	12.6%
AXA	9.7%
Aviva	8.2%
Paul & Thelka Blackmore	4.0%

Diary

1H'19	Resume Ph. I with RXC004
1H'19	Dev. candidate for NASH
1H'19	Dev. candidate for Crohn's

Analysts

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REDX PHARMA

2019: key goal is to resume clinical trial

REDX's new management team is continuing to focus its financial resources on progressing lead candidates in oncology and fibrotic disease into the clinic. Following an extensive internal review led by the new CEO Lisa Anson, the vision of a streamlined pipeline has been reinforced, with the aim of progressing drug candidates to deliver clinical proof-of-concept, a key value inflection point. 2019 is predicted to be a busy year for REDX, with several major milestones due. RXC004 is expected to re-commence the Phase I trial in 1H'19, and to progress in the area of fibrosis with promising data on its porcupine and ROCK2 programmes.

- **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.

- **RXC004 in the clinic:** Following the agreement with the MHRA, REDX is preparing to resume, in 1Q'19, the Phase I/IIa trial with the orally available porcupine inhibitor RXC004 with a revised protocol in colorectal cancer. A lower dose of the drug will be used, and safety and tolerability will be assessed.

- **RXC006 in fibrosis:** REDX has unveiled, for the first time, its second lead asset with the drug development candidate RXC006, an orally bioavailable porcupine inhibitor for the treatment of lung fibrosis and with potential in kidney and liver fibrosis. REDX aims to enter the clinic with RXC006 during 2020.

- **Additional major 2019 milestones:** The anti-fibrotic asset is also expected to deliver two additional development candidates during 2019 (both with lead nominations in 1H'19): the ROCK2 selective product for NASH and the innovative GI-targeting pan-ROCK1/2 inhibitor aimed at Crohn's disease.

- **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 Sep (£m)	2016	2017	2018	2019E	2020E	2021E
Milestones/royalties	2.38	1.29	1.32	1.00	1.00	1.00
Other income	-14.32	-13.00	-7.42	-11.06	-11.29	-13.54
R&D investment	-2.21	-5.70	-2.81	-2.59	-2.74	-2.88
SG&A (corp. cost)	-14.15	-17.41	-8.92	-12.65	-13.03	-15.42
Underlying EBIT	-14.61	-17.74	-8.90	-12.64	-13.02	-15.42
Underlying PBT	-15.41	1.65	-10.15	-12.94	-13.35	-15.76
Statutory PBT	0.64	-0.12	1.30	1.94	1.98	2.37
R&D tax credit	-17.83	-15.80	-6.01	-6.70	-5.72	-3.06
Underlying EPS (p)	-19.81	1.35	-6.99	-6.89	-5.89	-3.22
Statutory EPS (p)	0.00	30.47	0.00	0.00	0.00	0.00
Net (debt)/cash	3.76	23.81	6.47	8.95	-2.56	-16.73
Capital increase	9.30	11.07	0.00	14.10	0.00	0.00

Source: Hardman & Co Life Sciences Research

Automobiles and parts

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**SCE**
Price (p)	15
12m High (p)	21
12m Low (p)	9
Shares (m)	123
Mkt Cap (£m)	18
EV (£m)	16
Free Float*	85%
Market	AIM

**As defined by AIM Rule 26*

Description

Surface Transforms (ST) 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

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SURFACE TRANSFORMS

Recent AGM and progress

We still expect a positive update in spring about engineering sign-off for SOP for OEM5, which has only one test left. It has approved ST's eligibility as a core component supplier. As per the 4 December update, "OEM5 has indicated to Surface Transforms (ST) that it intends to approve, at this stage, a pad/disc combination with a new environmentally friendly pad; this new pad requirement is lengthening the test programme and therefore engineering sign-off is now expected in early 2019, still within the nomination time frame on the target vehicle. The work on passing the OEM3 rig test is also continuing with good progress." We also note the purchase of 675,000 shares by Kevin Johnson, CEO.

- **OEM6 delay:** "Possible, but not yet certain, three to six months' delay to the SOP" the December update referred to; thus we reduce FY19E sales by £0.5m to £1.8m. OEM6 model volume does not change (it is pre-sold), and it is understood that production needs to be before December 2020 for regulatory reasons.
- **Strategic position**: Given that one competitor supplies 99% of the global market, we are highly confident of ST's role in this emerging multi-£bn market. OEM6 has a major order subject to timing (as above). Overseas OEM5 has confirmed ST's acceptability from a commercial perspective and will be completing technical testing in early 1Q'19. Delays are frustrating but positioning is sound.
- **Valuation:** Current orders, including OEM6, take ST to cashflow-positive territory. Manufacturing cell 1 is effectively now complete. Gross margins are stable, in the high 60%s. EV/EBITDA should fall to 5x before cell 1 is full.
- **Risks:** Investment comes ahead of firm orders and profit. The company has no control over the timeline of auto OEMs' new models. Revenues for the six months to end-November 2018 were £0.51m (down 3% YoY), but retrofit and near OEM auto sales are once again well placed for 2H'19E.
- **Finances:** At end-November, the cash balance was £0.74m, on top of which an R&D tax credit of £0.5m is due. Note that we anticipate £1.1m net cash at end-May 2019. In 2H'19, we anticipate a £0.3m reduction in inventory associated with the roll-out of production efficiency. Our FY19E cash from operations, including tax, is £1.2m outflow, with £0.2m outflow from capex in addition.

Financial summary and valuation

Year-end May (£m)	2017	2018	2019E
Sales	0.7	1.4	1.8
EBITDA	-2.4	-1.7	-1.5
EBITA	-2.5	-2.2	-2.0
PBT	-2.5	-2.3	-2.0
PAT	-2.2	-1.8	-1.5
EPS (adj.) (p)	-2.4	-1.7	-1.2
Shareholders' funds	4.0	5.8	5.6
Net (debt)/cash	1.5	0.9	1.1
P/E (x)	loss	loss	loss
EV/sales (x)	22.5	11.5	8.8
EV/EBITDA (x)	na	na	na
DPS (p)	nil	nil	nil

Source: Hardman & Co Research

Industrial Engineering

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**SIXH**
Price (p)	15.0
12m High (p)	18.5
12m Low (p)	13.25
Shares (m)	113.1
Mkt Cap (£m)	17.0
EV (£m)	18.7
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 1922 707110

www.600group.com

Key shareholders

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

Diary

Jun/Jul'19	Final results

Analyst

Paul Singer 020 7194 7622

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THE 600 GROUP

Trading still healthy, with good order book

The 600 Group remains competitively well positioned, with a world-class reputation in machine tools and laser marking. Around 65% of sales are in the US. Business momentum is good, with a healthy order book, and 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 offer an appealing yield.

- **2018/19 interims:** The group recently reported interim revenues up 2% at $32.8m (1H'17/18: $32.2m), with underlying operating profit up 20% to $1.98m (1H'17/18: $1.64m). Pre-tax profit before special items was $1.5m (1H'17/18: $1.1m). The Board declared an interim dividend of 0.25p per share.

- **Trading comment**: The trading update was positive, despite the macroeconomic and political uncertainties, reflecting good enquiry and quotational activity, with a healthy order book – up 5%. Our 2018/19 full-year forecasts were broadly maintained.

- **Prospects:** Growth will be driven primarily organically, with new product developments in both business areas and new geographical market entry continuing. The group has undertaken a UK restructuring programme to reduce capex requirements and further improve margins in the medium term, and opportunities are also available for operational and distribution synergy benefits.

- **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. Management is looking for targeted acquisition opportunities in both business areas.

- **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 Mar ($m)	2017	2018	2019E	2020E
Sales	58.8	66.0	**69.7**	**73.9**
Gross profit	20.5	23.0	**24.4**	**25.8**
EBITDA	4.5	4.9	**5.4**	**6.0**
Underlying EBIT	3.8	4.2	**4.8**	**5.4**
Underlying PTP	2.7	3.1	**3.7**	**4.4**
Underlying EPS (c)	2.7	3.2	**3.1**	**3.6**
Statutory EPS (c)	2.7	3.7	**3.1**	**3.6**
Net (debt)/cash	-17.1	-15.6	**-15.7**	**-8.9**
Dividend (p)	0.00	0.50	**0.60**	**0.72**
P/E (x)	6.8	7.3	6.3	5.5
Dividend yield		2.8%	4.0%	4.8%
EV/EBITDA (x)		6.6	5.8	6.2

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**TRX**
Price (p)	6.5
12m High (p)	12.5
12m Low (p)	5.5
Shares (m)	1,171.7
Mkt Cap (£m)	76.2
EV (£m)	63.9
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	Gareth Jones
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

1Q'19	2018 full-year results
1H'19	Potential EU approval of OrthoPure XT

Analysts

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	gp@hardmanandco.com

TISSUE REGENIX

2019: foundations laid to deliver growth

TRX has a broad portfolio of regenerative medicine products for the biosurgery, orthopaedics, dental and cardiac markets. It has two proprietary decellularisation technology platforms for the repair of soft tissue (dCELL) and bone (BioRinse). As part of the integration process of its 2017 acquisition, CellRight Technologies, management embarked upon a revised commercial strategy to increase sales momentum and market penetration. In 2019, TRX is expected to accelerate the progress achieved in 2018, and to benefit from the US and European commercial distribution agreements made with leading orthopaedic company, Arthrex.

- **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.

- **HTA licence:** A key goal of the CellRight integration process was to obtain a Human Tissue Authority licence to enable importation of CellRight's products into the UK (and, over time, into Europe). This was received in June 2018, allowing TRX to identify global distribution partners for its osteobiologic products.

- **Arthrex:** Having Arthrex as its US and EU distribution partner is a significant achievement for TRX. Being privately owned, there is minimal publicly available financial detail about Arthrex and, as such, it may not be on investors' radars. It has the biggest share of the Sports Medicine market, estimated at ca.33%.

- **Risks:** TRX is exposed to many of the risks common to medical devices companies, including the regulatory hurdles particular to osteobiologics based on animal tissue, and the commercial risks of operating in a highly competitive market. The latter is, however, mitigated by the use of a hybrid sales strategy.

- **Investment summary:** TRX has three value drivers: sales of BioSurgery products in the US; expansion of CellRight and TRX technologies into the orthopaedics/spine and dental markets; and preparation for the OrthoPure XT launch in the EU in 2019. Expansion of its commercial opportunities through established partners is expected to hasten the time to reach a cash-neutral position, 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	11.48	18.96	25.90
EBITDA	-9.86	-10.55	-8.98	-7.92	-2.56	1.54
Underlying EBIT	-10.11	-10.85	-9.69	-9.08	-3.73	0.33
Reported EBIT	-10.24	-11.06	-10.82	-10.08	-4.23	-0.17
Underlying PBT	-9.89	-10.74	-9.64	-9.06	-3.72	0.33
Statutory PBT	-10.03	-10.95	-10.77	-10.06	-4.22	-0.17
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	6.29	0.58	-0.05
Capital increase	19.02	0.00	37.99	0.00	0.00	0.00
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	12.8	5.8	3.5	2.6

**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)	185.0
12m High (p)	217.0
12m Low (p)	148.5
Shares (m)	11.1
Mkt Cap (£m)	20.5
EV (£m)	19.3
Free Float*	97%
Market	AIM

**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 locking for doors and windows. "The home of domestic ventilation systems and door and window hardware".

Company information

Executive Chairman	Keith Ritchie
Chief Executive	David Ruffell

+44 1206 713 800

www.titonholdings.com

Key shareholders

Rights & Issues IT	11.4%
MI Discretionary UF	7.2%
Chairman	8.8%
Other Directors	7.9%
Founder/NED	15.6%
Family	6.9%

Diary

20 February	AGM

Analyst

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TITON HOLDINGS PLC

Good moon rising

Titan is the largest moon of Saturn. It is blessed with a generally smooth surface and few impact craters. It would also look 11.4 times larger than our moon in the night sky. Here, too, its Earth-orbiting eponym possesses similarly attractive characteristics; and it appears much larger than it is. Our supernal Titon is a veteran, too, and well equipped to live long and prosper in what is an asteroid-strewn global geopolitical hubbub.

- **Ignition:** (With apologies to John Fogerty) PBT in the year to 30 September 2018 rocketed ahead 20% to £3m on net revenue up 5% at £30m. DPS was also lifted by 13% to 4.75p with cover at 4.0x. South Korea fired its contribution 27% to £2.1m, which meant it propulsed more than two-thirds of Titon's PBT.

- **Lift-off:** RONA was 20.7% on an adjusted basis with Capital Turn at around 2.0 (which is unearthly). Liquidity was weightless, too, with a Quick Ratio also near 2.0, while net cash is equivalent to 18% of net assets. We also expect Titon to continue to fly cash-positive.

- **Orbit:** We have nudged up our profit forecasts and had a first look at 2021. The volume of new UK housing was up 8.4% to end-October 2018, which is good news for Titon – while in South Korea, GDP is set to grow at 2.6% and 2.5% in 2019 and 2020, respectively, said FocusEconomics this month, a view unchanged from December.

- **Re-entry:** **We all know about** Brexit uncertainty at home but Experian is forecasting annual growth in construction of 1.1% p.a. in 2018 through 2020 with private housebuilding at +3.3% p.a. Meantime, South Korea continues to be an enviably strong economy with other regions seed corn for the future. The Group produces both prosaic and truly innovative products, which is a useful combination and affords protection and good reach.

- **Mission control:** The Hardman UK Building Materials Sector comprises 23 companies with a market value of £6.9bn and a valuation of 7.3x EV/EBITDA on a trailing 12-month basis (priced on 31 December). Titon is on just 6.8x despite its jet-propelled number one Total Shareholder Return (TSR) of 24% in 2018, especially when this is matched against the Sector average of minus 15% – and the fact that only three others soared with a positive TSR.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
Net revenue	23.7	28.0	29.9	31.0	32.9	34.1
EBITDA	2.33	2.46	2.85	2.96	3.27	3.55
Underlying EBIT	1.77	1.85	2.19	2.25	2.49	2.69
Statutory PBT	2.14	2.49	2.98	3.20	3.58	3.89
Underlying EPS (p)	15.2	16.5	19.2	19.4	21.5	22.9
Statutory EPS (p)	15.2	16.5	19.2	19.4	21.5	22.9
Net (debt)/cash	2.4	3.3	3.4	4.0	4.5	5.0
Shares issued (m)	10.9	11.0	11.1	11.1	11.1	11.1
P/E (x)	12.2	11.2	9.7	9.5	8.6	8.1
EV/EBITDA (x)	8.5	7.8	6.8	6.4	5.8	5.2
DPS (p)	3.50	4.20	4.75	4.85	5.25	5.50
Dividend yield	1.9%	2.3%	2.6%	2.6%	2.8%	3.0%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**VAL**
Price (p)	0.8
12m High (p)	6.0
12m Low (p)	0.7
Shares (m)	531.6
Mkt Cap (£m)	4.2
EV (£m)	2.6
Free Float*	100%
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

Apr'19	2018 final results
2H'19	Read-out VAL201

Analysts

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Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

VALIRX

2019: seeking partner for Phase III VAL401 trial

VAL is a clinical-stage biopharmaceutical company focused on the development of therapeutics for the treatment of cancer. The company has two leading assets: 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, for advanced lung cancer. Both drugs are targeted at multi-billion-dollar markets that are inadequately served by current drugs. VAL is actively seeking a partner for VAL401 to conduct the subsequent Phase III trial. New funds of £0.5m have been raised to progress its clinical and pre-clinical assets.

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

- **VAL401:** The main event in 2018 was the successful completion of a Phase II trial with VAL401 in patients with late-stage lung cancer. This confirmed its palliative effect and improvement in quality of life in patients. VAL is now in discussions with potential partners with a view to starting a Phase III trial in 2019.

- **Positive VAL201 data:** Following authorisation from the MHRA to increase the dose of the innovative therapeutic in the Phase I/II trial in advanced prostate cancer, VAL disclosed a statically significant dose-dependent response in biomarker levels. This was established following two independent tests.

- **Addressing the end-points:** Both the level of testosterone and (PSA) were significantly reduced by VAL201 over time. In addition, safety and tolerability were confirmed, with no major adverse events in the liver, kidney and cardiac rhythm. VAL is positive about meeting the primary and secondary end-points.

- **Investment summary:** VAL appears to be under-appreciated by the market. Reasons for this include the lack of institutional shareholders 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

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	VTA .NA, VTA.LN VTAS LN *
Price (€)	6.60/6.56/594p
12m High (€)	7.32/7.28/655p
12m Low (€)	6.46/6.52/590p
Shares (m)	36.6
Mkt Cap (€m)	241
Trail 12-mth. yield	9.4%
Free Float*	70%
Market	AEX, LSE

** Listing 03 September 2018*

Description

Volta Finance 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

Independent Chairman	Paul Meader
Independent Non-Executive 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	BNP Paribas Securities Services SCA, Guernsey Branch

BNP: +44 1481 750853

www.voltafinance.com

Key shareholders

Axa Group	30.4%

Diary

Analyst

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VOLTA FINANCE

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Volta 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 latest quarterly dividend was €0.16 per share (announced 25 October), with the rolling 12-month total at €0.62 per share. 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 current underlying portfolio risk is virtually all to corporate credits. The investment manager for Volta's assets is AXA Investment Managers Paris, which has a team of experts concentrating on the structured finance markets.

On 11 December 2018, Volta announced that, after due enquiry, it was the opinion of the Board that the company's shares qualified as an "excluded security" under the rules; they are therefore excluded from the FCA's restrictions that apply to non-mainstream pooled investments (NMPIs). The Board therefore believes that independent financial advisers can recommend the company's shares to retail investors, although financial advisers should seek their own advice on this issue.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Volta Finance can be accessed through our website (*Volta Finance Ltd Research*). Our initiation report, published on 5 September 2018, can be found on the same site.

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