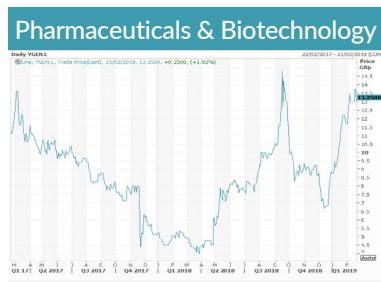




22 February 2019



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	YGEN
Price (p)	13.3
12m High (p)	16.0
12m Low (p)	3.6
Shares (m)	459.0
Mkt Cap (£m)	60.8
EV (£m)	59.3
Free Float*	71%
Market	AIM

*As defined by AIM Rule 26

Description

Yourgene Health is an international molecular diagnostics business for research into, and the development and commercialisation of, gene analysis techniques for pre-natal screening and other clinical applications in the early detection, monitoring and treatment of disease.

Company information

CEO	Lyn Rees
CFO	Barry Hextall
Chairman	Adam Reynolds
	+44 161 667 6865
	www.yourgene-health.com

Key shareholders

Directors	20.1%
Thermo Fisher	9.0%
S.Myers	7.4%

Diary

Jul'19	Finals
Sep'19	AGM

Analysts

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

YOURGENE HEALTH

EBITDA-positive in fiscal 2020

Yourgene Health (YGEN) is an international molecular diagnostics group that uses the latest advances in DNA sequencing technology for non-invasive prenatal screening tests (NIPT). Its flagship IONA test uses complex statistical analyses to determine the likelihood that a fetus is carrying a genetic disorder, such as Down's syndrome. YGEN has been held back by a patent infringement case and a complicated balance sheet. However, settlement of the patent case with Illumina and repayment of debt to Thermo Fisher (TMO) have transformed YGEN, allowing it to focus entirely on the enormous global growth opportunity for prenatal screening tests.

- **Strategy:** YGEN is focused on the global commercialisation of NIPT, which use the latest DNA analysis technology to predict certain fetal abnormalities. With two brands, the company is well positioned to expand the use of this technology into other aspects of reproductive health and into oncology.
- **Reduced operating costs:** Total operating costs are a combination of R&D and SG&A spend. Investment in R&D was lower than predicted in fiscal 2018, which has a knock-on effect on forecasts. Also, SG&A has been streamlined to generate £1m of annualised savings. YGEN is now set to be EBITDA-positive in fiscal 2020.
- **Financing flexibility:** Clearance of the TMO debt has strengthened the balance sheet and provided management with the capacity to establish more normal banking facilities and/or seek asset finance. While this may not obviate the need for more capital, it does provide greater flexibility regarding its timing.
- **Risks:** Both of the uncertainties that have caused the stock to severely underperform have been removed over the last six months, and the company can now focus on the global growth opportunity. Further capital may be required at some point in the future, but this will be raised from a position of strength.
- **Investment summary:** Despite two years of patent uncertainty, YGEN has continued to expand the availability of its NIPT tests and services. With the handcuffs removed, management can now focus on making these tests available on the two largest sequencing platforms in the world. YGEN looks set to become EBITDA-positive in 2020 and profitable in 2021. The stock should command prospective EV/sales of 5x-10x, suggesting an EV of £60m-£120m.

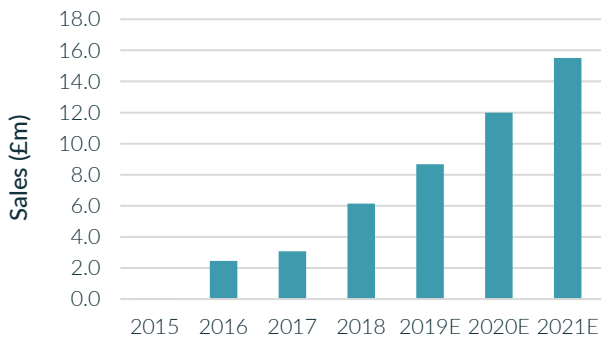
Financial summary and valuation

Year-end Mar (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	2.45	3.08	6.15	8.68	12.00	15.50
EBITDA	-5.32	-5.07	-4.72	-3.06	0.40	2.10
Underlying EBIT	-5.87	-5.80	-5.76	-4.24	-1.16	0.40
Reported EBIT	-11.83	-7.60	-8.60	4.81	-1.41	0.15
Underlying PBT	-5.96	-6.04	-6.35	-5.04	-1.16	0.37
Statutory PBT	-12.12	-7.85	-9.54	3.81	-1.41	0.12
Underlying EPS (p)	-2.71	-2.56	-1.96	-1.06	-0.23	0.07
Statutory EPS (p)	-5.56	-3.34	-2.99	0.82	-0.28	0.02
Net (debt)/cash	2.20	-6.20	-15.96	1.55	-1.00	0.64
Capital increases	7.72	10.61	0.00	9.64	0.00	0.00
EV/sales (x)	-	19.3	9.7	6.8	4.9	3.8
EV/EBITDA (x)	-	-	-	-19.4	149.7	28.2

Source: Hardman & Co Life Sciences Research

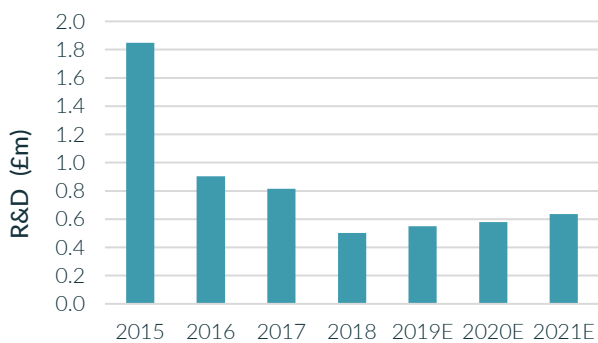
Yourgene Health

Sales



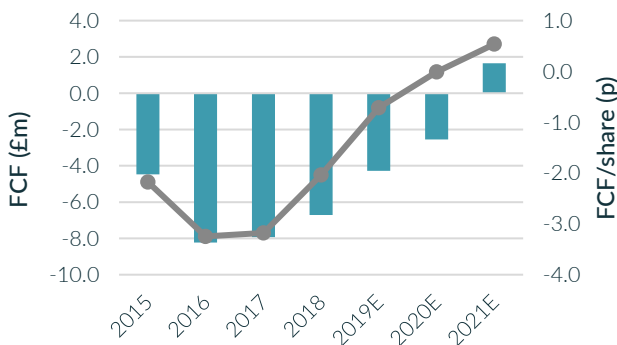
- ▶ Sales are derived from the supply of test kits or a full service for blood samples sent to the company's laboratory for testing
- ▶ Growth will be driven by expanding availability of the prenatal tests into new markets, a strategy significantly enhanced by the Illumina settlement
- ▶ Sales represents the outcome between increasing volumes and price sustainability in different markets
- ▶ The average price per test is an important KPI that can be readily monitored

R&D investment



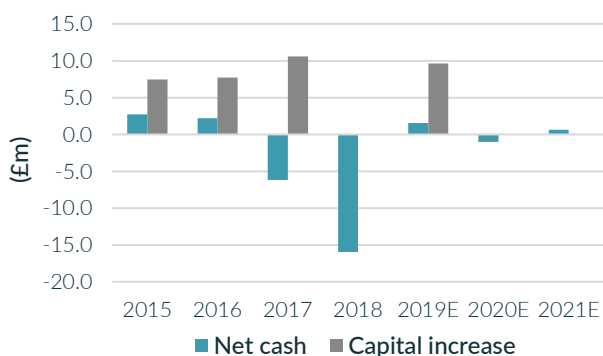
- ▶ An estimated £8m has been invested in R&D to get IONA to where it is today – widely available with CE marking
- ▶ Further development to improve IONA functionality and increase YGEN's offering will continue in future
- ▶ As part of the patent settlement, YGEN will need to invest to make IONA available on the Illumina NGS platform
- ▶ Longer-term, YGEN intends to broaden its product range into reproductive health and oncology

Free cashflow and FCF/share



- ▶ Excluding the litigation costs, the average monthly cash burn has been £435k over the last five years – for fiscal 2020 it is forecast to fall to £185k
- ▶ Cashflow over the next 18 months will be impacted by the necessary capex on Illumina sequencing equipment as part of the patent settlement
- ▶ Profitability and cashflows are quite sensitive to small changes in sales forecasts
- ▶ YGEN is forecast to turn cashflow-positive in fiscal 2021

Balance sheet



- ▶ Following the debt/warrant restructuring, YGEN is forecast to end fiscal 2019 with net cash of ca.£1.5m
- ▶ To provide a comfortable base and allow for contingencies in the run-up to cashflow-breakeven, our forecasts suggest that YGEN may need to raise up to £5.0m of new capital for fiscal 2020 and 2021, depending on the rate of growth. However, the company has flexibility regarding the timing

Source: Company data; Hardman & Co Life Sciences Research

Forecasts revised

Operating costs

R&D spend

R&D spend was lower than predicted in fiscal 2018...

...which has a knock-on effect on forecasts

When YGEN publishes its preliminary announcement of full-year results, it states an overall number for operating costs, which is a combination of SG&A and R&D spend. Therefore, we have to wait until publication of the audited accounts to ascertain the actual R&D spend, which is subtracted from the total costs to generate the cost of SG&A. In fiscal 2018, there was a fall in R&D investment to -£0.50m from -£0.82m, which we had not picked up from the annual report. This reduction was a surprise, because the figure for fiscal 2017 was for former Premaitha Health alone, whereas the figure for fiscal 2018 included a full-year contribution following the acquisition of Yourgene Biosciences. The consequence of this is that our forecasts for R&D investment were far too high, but, conversely, the SG&A spend was too low. The revised forecasts below show the rebalancing between R&D and SG&A.

SG&A

The target £1m of SG&A savings had not been fully reflected in our forecasts

In addition, when the company issued (3 December 2018) its interim statement for fiscal 2019, management stated "...further £1m annualised cost reduction being implemented...". Although our forecasts, published on 19 February, did reflect some savings in SG&A, the company is expecting to make even greater savings than we had anticipated in fiscal 2020. However, in fiscal 2021, further investment reduces the overall benefit in that year. These changes can be seen in the following table.

Turning EBITDA-positive

Now set to be EBITDA-positive in fiscal 2020

The consequence of these changes is that the company looks set to become EBITDA -positive in fiscal 2020, rather than in fiscal 2021, as we had previously indicated.

Yourgene Health – revisions to forecasts									
Year-end Mar (£m)	2018		2019E		2020E		2021E		
	old	new	old	new	old	new	old	new	
SG&A	-7.17	-8.46	-7.09	-8.35	-7.02	-7.38	-7.02	-8.06	
R&D	-1.80	-0.50	-1.80	-0.55	-1.90	-0.58	-2.05	-0.63	
Operating costs	8.97	-8.97	-8.90	-8.90	-8.92	-7.96	-9.07	-8.70	
Change		n/c		n/c		+11%		+4%	
EBITDA	-4.72	-4.72	-3.06	-3.06	-0.64	0.40	1.54	2.10	
Underlying EBIT	-5.76	-5.76	-4.24	-4.24	-2.13	-1.16	0.02	0.40	
Net cash/(debt)	-15.96	-15.96	1.55	1.55	-1.52	-1.00	0.26	0.64	

Source: Hardman & Co Life Sciences Research

Changes do not obviate the need for more capital...

...but management has greater flexibility on timing

YGEN now has the capacity to seek more normal banking arrangements

Need for more capital

Changes to the operating costs reflected in the table above do largely fall through the cashflow statement and the forecast net debt position at the end of fiscal 2020 has reduced from -£1.5m to -£1.0m. Our report of 19 February also highlighted that, based on forecasts, YGEN would need to raise more capital to fund fiscal 2020. Our revised forecasts still suggest that this might be the case, but there is probably greater flexibility on its timing, and is also dependent on YGEN's growth initiatives.

In addition, the biggest influence on timing with respect to the need for more capital is related to the patent settlement payments to Illumina and the purchase of new sequencing equipment from Illumina. Given that the balance sheet has been strengthened by the repayment of the outstanding TMO loans and, therefore, the security charge has been lifted, YGEN now has the capacity to arrange more normal banking facilities and/or asset/vendor finance. This, too, would provide increased flexibility with respect to a capital increase through the issue of equity.

Financial forecasts

Profit & Loss

- ▶ **Sales:** Sales are based on the number of tests performed and an estimate of the average price achieved per test. Fiscal 2019 forecasts are based on a 75% increase in the number of tests sold/performed at a modestly reduced average price.
- ▶ **COGS:** Increasing volumes are expected to result in lower GOGS, hence improving gross margins.
- ▶ **SG&A:** Management is expecting to make £1m of savings during fiscal 2020, although there will be further investment in fiscal 2021 when IONA, on the Illumina NGS platform, is launched.
- ▶ **Exceptional items:** As a direct consequence of the revised financial agreement with TMO, the excess loans and accrued interest, totalling £9.3m, are being written back through the P&L in fiscal 2019.

Profit & Loss						
Year-end Mar (£m)	2016	2017	2018	2019E	2020E	2021E
Test sales	2.08	3.08	5.40	8.68	12.00	15.50
Research income	0.00	0.00	0.75	0.00	0.00	0.00
Pass-through sales	0.37	0.00	0.00	0.00	0.00	0.00
Total sales	2.45	3.08	6.15	8.68	12.00	15.50
COGS (Test)	-1.38	-1.80	-2.97	-4.03	-5.21	-6.41
% sales	66.3%	58.3%	48.4%	46.4%	43.4%	41.4%
Reported COGS	-1.75	-1.80	-2.97	-4.03	-5.21	-6.41
SG&A	-5.67	-6.26	-8.46	-8.35	-7.38	-8.06
% sales	nm	nm	nm	96.2%	61.5%	52.0%
R&D	-0.90	-0.82	-0.50	-0.55	-0.58	-0.63
% sales	43.4%	26.5%	8.2%	6.3%	4.8%	4.1%
EBITDA	-5.32	-5.07	-4.72	-3.06	0.40	2.10
Depreciation	-0.56	-0.72	-1.05	-1.18	-1.56	-1.71
Amortisation	0.00	-0.01	-0.16	-0.16	-0.16	-0.16
Other income	0.00	0.00	0.03	0.00	0.00	0.00
Underlying EBIT	-5.87	-5.80	-5.76	-4.24	-1.16	0.40
EBIT margin	nm	nm	nm	-48.9%	-9.7%	2.6%
Share-based costs	-0.12	-0.33	-0.14	-0.25	-0.25	-0.25
Exceptional items	-5.83	-1.47	-2.69	9.30	0.00	0.00
Statutory EBIT	-11.83	-7.60	-8.60	4.81	-1.41	0.15
Net interest	-0.08	-0.25	-0.58	-0.80	0.00	-0.02
Net financials	-0.08	-0.25	-0.94	-1.00	0.00	-0.02
Underlying pre-tax profit	-5.96	-6.04	-6.35	-5.04	-1.16	0.37
Extraordinary items	-0.20	0.00	0.00	0.00	0.00	0.00
Statutory pre-tax profit	-12.12	-7.85	-9.54	3.81	-1.41	0.12
Tax payable/credit	0.04	-0.01	0.06	0.05	0.02	-0.01
Underlying net income	-5.92	-6.05	-6.29	-4.99	-1.13	0.36
Statutory net income	-12.13	-7.88	-9.60	3.86	-1.38	0.11
Ordinary 0.1p shares:						
Period-end (m)	228.2	321.2	321.2	492.3	492.3	492.3
Weighted average (m)	218.1	236.3	321.2	470.9	492.3	492.3
Fully-diluted (m)	277.1	326.8	452.4	562.4	583.8	583.8
Underlying basic EPS (p)	-2.71	-2.56	-1.96	-1.06	-0.23	0.07
Statutory basic EPS (p)	-5.56	-3.34	-2.99	0.82	-0.28	0.02
U/I fully-diluted EPS (p)	-2.14	-1.85	-1.39	-0.89	-0.19	0.06
Stat. fully-diluted EPS (p)	-4.38	-2.41	-2.12	0.69	-0.24	0.02
DPS (p)	0.00	0.00	0.00	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

Balance sheet

The new financial and commercial agreement with TMO has resulted in a number of changes directly to the balance sheet.

- ▶ **Capital increase:** Exercise of the tranche of TMO warrants has resulted in a £3.8m rise in the capital increases for fiscal 2019, from £6.0m to £9.8m.
- ▶ **Warrant reserve:** This represented the accrued interest on the TMO loans, which has been written off, along with the excess of loans over the £3.8m generated through the exercise of the warrants.
- ▶ **Loans:** The outstanding TMO loan capital, together with the warrant reserve (accrued interest), has all been paid back or written off. The only debt remaining on the balance sheet represents some modest financial leases.
- ▶ **Cash:** At the period-end, YGEN is forecast to have only a modest amount of cash (ca.£1.5m).

Balance sheet						
@31 Mar (£m)	2016	2017	2018	2019E	2020E	2021E
Shareholders' funds	-0.28	2.78	-6.68	15.54	14.15	14.26
Cumulated goodwill	0.00	0.00	0.00	0.00	0.00	0.00
Total equity	-0.28	2.78	-6.68	15.54	14.15	14.26
Share capital	31.17	32.27	32.27	49.23	49.23	49.23
Reserves	-31.46	-29.49	-38.95	-33.70	-35.08	-34.97
Provisions/liabilities	5.55	3.50	0.96	0.46	0.46	0.46
Deferred tax	0.00	0.29	0.26	0.00	0.00	0.00
Long-term loans	3.13	7.38	16.18	0.25	0.25	0.25
Short-term debt	0.00	0.12	0.06	0.06	0.06	0.06
less: Cash	5.34	1.30	0.28	1.86	-0.70	0.95
less: Deposits	0.00	0.00	0.00	0.00	0.00	0.00
less: Non-core investments	0.00	0.00	0.00	0.00	0.00	0.00
Invested capital	3.06	12.76	10.50	14.45	15.62	14.08
Fixed assets	1.94	2.89	1.92	1.64	2.58	1.87
Intangible assets	0.00	1.54	1.38	1.38	1.38	1.38
Capitalised R&D	0.00	0.00	0.00	0.00	0.00	0.00
Inventories	0.46	0.43	0.28	0.33	0.46	0.59
Trade debtors	0.96	0.90	0.89	0.54	0.75	0.97
Other debtors	0.70	2.39	1.66	1.74	1.83	1.92
Tax liability/credit	1.09	1.10	1.15	0.44	0.12	0.13
Trade creditors	-1.10	-2.32	-2.20	-2.54	-3.28	-4.04
Other creditors	-0.99	-1.17	-1.59	3.89	4.77	4.24
Debtors less creditors	0.66	0.89	-0.09	4.08	4.18	3.22
Invested capital	3.06	12.76	10.50	14.45	15.62	14.08
Net cash/(debt)	2.20	-6.20	-15.96	1.55	-1.00	0.64
Net debt/equity	-7.79	-2.23	2.39	0.10	-0.07	0.04
NAV/share (p)	-0.13	1.17	-2.08	3.30	2.87	2.90
Stock days	81	51	19	14	14	14
Debtor days	85	111	61	30	20	20
Creditor days	183	348	278	215	204	208

Source: Hardman & Co Life Sciences Research

Cashflow

- ▶ **Operational cashflow:** There is a noticeable downward trend in the cash burn from operations, until the company becomes cash-generative in fiscal 2021.
- ▶ **Capex:** The increase in capital expenditure over the forecast period reflects the purchase of sequencing equipment from Illumina to satisfy the terms of the legal settlement with that group.
- ▶ **Capital increases:** YGEN raised £2.9m (net) in April 2018, and a further £2.9m (net) in October 2018 to fund working capital requirements. In addition, the £3.8m raised through the exercise of the TMO warrants is included, even though it was used immediately to repay part of the outstanding loans, and no cash was actually moved between the companies.
- ▶ **'Acquired' cash:** This simply reflects the write-down by TMO of the excess loans and accrued interest, and is replicated in the P&L account under exceptional items.

Cashflow						
Year-end Mar (£m)	2016	2017	2018	2019E	2020E	2021E
Underlying EBIT	-5.87	-5.80	-5.76	-4.24	-1.16	0.40
Depreciation	0.56	0.72	1.05	1.18	1.56	1.71
Amortisation	0.00	0.01	0.16	0.16	0.16	0.16
Inventories	-0.01	0.12	0.15	-0.06	-0.13	-0.13
Receivables	-1.37	0.18	0.08	0.35	-0.21	-0.22
Payables	1.01	0.45	0.30	0.33	0.74	0.76
Change in working capital	-0.38	0.75	0.53	0.62	0.41	0.41
Exceptionals/provisions	0.04	-2.05	-2.53	-1.00	-1.02	0.00
Disposals	0.00	0.01	0.00	0.00	0.00	0.00
Other	-1.44	-1.16	0.00	0.00	0.00	0.00
Company op. cashflow	-7.10	-7.52	-6.56	-3.28	-0.06	2.67
Net interest	0.01	0.01	-0.02	-0.10	0.00	-0.02
Tax paid/received	0.00	-0.01	0.03	0.00	0.00	0.00
Operational cashflow	-7.08	-7.51	-6.55	-3.38	-0.06	2.64
Capital expenditure	-1.15	-0.41	-0.16	-0.90	-2.50	-1.00
Sale of fixed assets	0.00	0.00	0.00	0.00	0.00	0.00
Free cashflow	-8.23	-7.92	-6.72	-4.28	-2.56	1.64
Dividends	0.00	0.00	0.00	0.00	0.00	0.00
Acquisitions	0.00	-9.54	0.00	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00	0.00
Other investments	0.00	-2.36	0.00	0.00	0.00	0.00
Cashflow after investments	-8.23	-19.82	-6.72	-4.28	-2.56	1.64
Share repurchases	0.00	0.00	0.00	0.00	0.00	0.00
Share issues	7.72	10.61	0.00	9.64	0.00	0.00
Currency effect	0.00	0.00	0.00	0.00	0.00	0.00
Acquired cash/(debt)	0.00	0.80	-3.04	12.72	0.00	0.00
Change in net cash/(debt)	-0.51	-8.40	-9.76	18.08	-2.56	1.64
Hardman& Co FCF/share (p)	-3.25	-3.18	-2.04	-0.72	-0.01	0.54
Opening net cash	2.71	2.20	-6.20	-15.96	1.55	-1.00
Closing net cash	2.20	-6.20	-15.96	1.55	-1.00	0.64

Source: Hardman & Co Life Sciences Research

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at <http://www.hardmanandco.com/legals/research-disclosures>. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

No part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, photocopying, recording or otherwise, without prior permission from Hardman & Co. By accepting this document, the recipient agrees to be bound by the limitations set out in this notice. This notice shall be governed and construed in accordance with English law. Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the FCA under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259.

(Disclaimer Version 8 – Effective from August 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public...'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

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

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

