HARDMAN&CO.

THE MONTHLY

July 2019

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Governance in business relief

Advisers need to look at the quality of governance behind business relief products

When advisers first start looking at business relief (BR) products, there is much to take in: the rules governing such products; the investment strategies being used; and what the investment risk is. It is easy to lose sight of the fact that, for non-AIM products, the investment is being made directly into a company or partnership, rather than a fund. It is, therefore, essential that governance is part of the diligence process.

Independent directors

In the investment trust/company industry, the concept of independent directors is not only well-known, but an argument that has long been settled. For the vast majority of investment trusts, the fund manager is a separate entity from the company that investors own shares in. The manager supplies services in return for a fee. The board has discretion as to how much the fee might be, or whether the manager should remain in that role. Once upon a time, investment trust boards consisted primarily of people connected to the manager, with all the potential for conflicts of interest that that brought. Over time, it was realised that this was bad practice, and it was deemed that a majority of the board should be independent of the manager.

Most non-AIM BR products have much in common with investment trusts. Most of the companies have no employees, with managers being paid a fee or having expenses covered for both fund management and company management.

What is surprising, then, is that more than half the products in our database invest into companies with no independent directors.

Independent directors in business relief products

Note: This chart refers to data taken for October 2018
Source: Hardman & Co Research

This would seem to be important – in private companies, transparency is usually more limited than for quoted companies. From the research we have undertaken, more than a quarter of products invest in companies that publish abbreviated accounts, rather than full accounts. This is not restricted to the smaller companies: the smallest company publishes full accounts, while some of those with abbreviated

accounts are among the larger in the sector. When information is limited, it is hard for investors to validate that companies are doing what they say they are.

Potential conflicts of interest

There are more concrete areas where potential issues manifest themselves. Many advisers are aware that potential conflicts can arise. At its simplest, these are the same issues as for investment trusts, such as whether the fees or expenses are appropriate. However, the potential for conflicts in BR runs deeper.

For investment trusts, independent directors have a key role to play in ensuring that investors are treated fairly; in the BR area, matters are less clear.

Many companies have participated in related party transactions, which take one of two forms.

The first is buying assets that were previously under the management or control of the fund manager. Mostly, these have been renewable energy assets, such as solar or wind farms that were previously in companies funded through EIS schemes. These can create a potential asymmetry of incentives for the fund manager, who may be due a performance fee for the sale, or could lose market credibility for a poor outcome. While some transactions have been small, others have been significant.

The second transaction is lending to related parties. Typically, this involves making loans to other companies run by the fund manager; for example, to fund the construction of renewable energy projects. Again, there is the potential for inappropriate pricing, although, generally, Hardman & Co views this as being less concerning than for asset transfers. Not only are the loans usually asset backed, but the connection can make diligence both easier and more comprehensive, so there are offsetting benefits.

If a company were quoted, then the independent directors would have a key role to play in ensuring that shareholders were being treated fairly. In the BR area, matters are less clear. While the managers we have spoken to have outlined their process for assessing the transaction price, and made these sound reasonable, independent oversight of this process would give some reassurance.

Setting share prices

Another area that is worth highlighting is the share prices used for transactions. Most of the trades generate revenues from assets that they hold or lend using assets as security. Consequently, share prices are asset based. More than half of products use the net asset value (NAV) from the audited accounts, or the same basis between year-ends.

However, a substantial minority, all of which invest in renewable energy assets, are using a distinct share price. The rationale is understandable: market values of these assets have moved in a way their accounting does not reflect. Where a company has constructed a project, then, if it is successful, the market value should exceed the book value of the investment. However, using valuations that are outside the audit process raises governance questions.

From a governance perspective, the manager that has perhaps the clearest approach uses a named external consultant for the valuation and specifies the key assumptions, most notably the discount rate used. The latter is particularly useful for an external analyst, helping with assessments of whether the company will achieve its target returns and allowing easier comparisons with others in the market.

Unfortunately, they are the exception. Most managers are happy to outline the process they use; however, while this might seem reasonable, the lack of external validation has to be a serious concern for advisers. While the price of electricity has shown some volatility in recent years, the market for the assets appears to have

remained solid. This suggests that, in the current market, market evidence should converge on a clear valuation basis. If circumstances become less benign, this could become more difficult, and an external audit will have more value.

This is not to say that there are no issues in the market at present. Given the comments above, it is not surprising that the growth in NAV per share has lagged the share price growth from these companies. In a strong market for the underlying assets, the premium to NAV may be justified. However, having a rising share price when the NAV per share is falling should require further investigation. An adviser should probably be sure that the premium is justified before recommending such products to clients.

A more concrete example is the Oxford Capital Estate Planning Service product. It has only one independent director, does not publish income statements (only balance sheets) and uses a valuation process that is outside the audit. While we cannot directly link its recent issues to these factors, greater external scrutiny might have made the problems less likely.

In the world of quoted investments, governance is a topic that has been receiving increased attention. It is probably time that it commanded the same attention in the unquoted world as well.

About the author

Brian Moretta is the Head of Tax Enhanced Research at Hardman & Co, and also covers Financials stocks and Investment Funds.

In addition to his role with Hardman & Co, Brian has lectured on actuarial science and financial economics at Heriot-Watt University, is an examiner for the Faculty & Institute of Actuaries, and is on the Bankers without Borders Financial Modelling Reserve Corp.

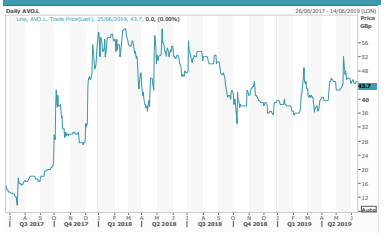
Brian has had a 20-year career in Financial Services, including more than a decade as a fund manager. He specialised in analysing Financial Services companies at SVM Asset Management, as well as managing two traded endowment funds, an equity fund and working on hedge funds.

Brian joined Hardman & Co in February 2013. He holds a PhD in Applied Probability and a BSc in Actuarial Maths and Statistics from Heriot-Watt University.

Company research

Priced at 21 June 2019 (unless otherwise stated).

Healthcare Equipment & Services



Source: Refinitiv

Market data

EPIC/TKR	**AVO**
Price (p)	**45.0**
12m High (p)	62.0
12m Low (p)	31.0
Shares (m)	200.4
Mkt Cap (£m)	90.2
EV (£m)	83.8
Free Float*	61%
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	11.4%
Liquid Harmony Ltd	23.1%
DNCA Investments	6.2%
Brahma AG	4.1%
Barrymore Investments Ltd	4.1%
AB Segulah	3.3%

Diary

Jun'19	Final results
2H'19	Harley Street ready

Analysts

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Grégoire Pavé	020 7194 7628
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ADVANCED ONCOTHERAPY

Further technological advantages of LIGHT

AVO's goal is to deliver an affordable and novel proton beam therapy system (PBT), based on state-of-the-art technology developed originally at CERN. AVO has hit a number of technical milestones, such as the integration of all the module types that constitute the LIGHT accelerator, and accelerated the proton beam to an energy sufficient to treat superficial tumours. Meanwhile, the technical advantages of LIGHT are being highlighted: the lower shielding requirement improves proton beam energy efficiency, which should allow the LIGHT system to be used for less toxic techniques such as FLASH treatment.

- **Strategy:** AVO is developing a compact and modular proton therapy 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, Geneva, and relies on a base of world-class suppliers.
- **High energy efficiency:** AVO announced that simulation tools comparing LIGHT and conventional cyclotrons that use energy degraders show that LIGHT has an energy transition of 95%, compared with 50% for conventional cyclotron at 210MeV. This represents the number of protons delivered to the patient.
- **Potential for FLASH:** In addition, AVO has indicated that the LIGHT system is able to perform the latest and more efficient technique called FLASH irradiation, corresponding to short pulses of electrons at a high dose rate. The pulse is given in less than half a second and it aims to reduce radiotherapy toxicity.
- **2018 results:** At the time of going to press, AVO was due to publish 2018 results. This gives AVO the opportunity to update the market on its commercial strategy for LIGHT, progress at the Harley Street site, and its financial position. We forecast net cash/(debt) of -£1.6m (prior to January's £10m raise).
- **Investment summary:** Demand for PBT is increasing worldwide, and the need for a small, flexible, affordable and close-to-patient system is desirable. AVO has attracted strong manufacturing partners, and discussions with potential customers are advancing. Progress at its flagship Harley Street site has been substantial, and installation of the first LIGHT system is planned for mid-2019. The latest technical update brings further reassurance and has boosted confidence.

Financial summary and valuation

Year-end Dec (£m)	2017	2018E	2019E	2020E	2021E	2022E
Sales	0.0	0.0	0.0	21.5	65.5	111.5
Gross profit	0.0	0.0	0.0	1.9	11.4	27.6
Administration costs	-12.9	-14.0	-13.7	-14.0	-14.3	-14.6
EBITDA	-12.6	-13.6	-14.3	-11.6	-5.0	8.1
Underlying EBIT	-12.9	-14.0	-14.7	-14.2	-7.6	5.5
Statutory EBIT	-14.5	-17.0	-18.0	-18.4	-10.8	2.6
Underlying PTP	-14.9	-14.3	-15.4	-15.7	-9.4	3.7
Statutory PTP	-16.5	-17.3	-18.6	-19.8	-12.7	0.8
Underlying EPS (p)	-15.6	-7.6	-7.0	-5.7	-3.3	1.9
Statutory EPS (p)	-18.9	-9.7	-8.8	-7.4	-4.6	0.8
Net (debt)/cash	-9.2	-1.6	0.9	-6.8	-14.4	-17.7
EV/EBITDA	-7.5	-6.4	-5.9	-7.9	-20.1	12.7

Source: Hardman & Co Life Sciences Research

Financials

Source: Refinitiv

Market data

EPIC/TKR	**AJB**
Price (p)	**390**
12m High (p)	482
12m Low (p)	162
Shares (m)	408
Mkt Cap (£m)	1,590
EV (£m)	1,530
Free Float*	36.5%
Market	LSE full listing

**As defined by LR 6.14 of the Listing Rules*

Description

AJ Bell is one of the largest investment platforms in the UK. It serves both DIY and advised customers, and offers SIPPs, ISAs and general accounts. It aims to be easy to use and very competitively priced.

Company information

CEO	Andy Bell
CFO	Michael Summersgill
Chairman	Les Platts

+44 345 40 89 100

www.ajbell.co.uk

Key shareholders

Invesco Perpetual	25%
Andy Bell	25%
Management and other	23%
Michael Spencer	3%

Diary

25 Jul	3Q trading update
24 Oct	4Q trading update
05 Dec	FY19 results

Analyst

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AJ BELL

Platform for growth

AJ Bell is one of the largest and fastest-growing investment platforms in the UK. It serves both the adviser market and the DIY investor. Having transitioned to updated technology in 2014, it is well placed to ride the growth in the market and pick up disaffected clients from competitor platforms that are only now upgrading. We anticipate strong profit growth on the back of higher revenues and positive operational gearing. The interim results confirmed our expectations and were accompanied by a very confident outlook statement.

- **Strategy:** AJ Bell intends to be the easiest platform for investors and advisers to use, and to offer exceptional value – but not at the expense of service levels. It charges noticeably less than many of its competitors, putting it in a strong position as charges take a higher profile.
- **Plenty of scope for platform expansion:** Investment platforms are an obviously good way to concentrate the administration and custody of investments in one place, while offering a huge variety of investment choice, and freeing investors and advisers to focus on what they do best. There are still plenty of assets not yet corralled, as well as significant underlying growth.
- **Valuation:** We value the business on a DCF basis. At the current price, it is effectively assuming a discount rate of 7.0%, putting it over the top end of our wide range. Our central valuation of £912m would put it on a FY19E PER of 32x, which compares with Transact at 34x and Hargreaves Lansdown at 34x.
- **Risks:** There are inevitably market risks – revenue is linked to the value of assets and, to a lesser extent, the amount of trading on the platform. The business is also sensitive to tax and savings policies, which can have major impacts on investors' behaviour. The robustness of the technology is critical too.
- **Investment summary:** AJ Bell is a very attractive business, in our view. It is well positioned to benefit from the expected continuing growth in savings and the ever- higher proportion of those savings held on platforms. The business is highly cash-generative and holds significant net cash. These positive characteristics would seem to be well reflected in the current price.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
AuA (£bn)	32	40	46	49	55	61
Revenue	64.5	75.6	89.7	104.0	116.0	130.0
Net finance income	0.0	-0.1	0.1	0.0	0.0	0.0
PBT	16.8	21.7	30.1	37.0	41.0	47.0
Tax	-3.5	-4.2	-5.7	-6.7	-7.4	-8.5
Net profit	13.3	17.5	22.6	28.5	33.6	38.6
No. of shares (fully-diluted, m)	394	396	402	408	408	408
EPS (fully-diluted, p)	3.4	4.4	6.1	7.4	8.2	9.5
DPS (p)	2.7	2.9	3.7	4.5	5.4	6.1
PER (x)	115.6	88.3	64.3	52.5	47.4	41.3
Dividend yield	0.7%	0.8%	0.9%	1.2%	1.4%	1.6%
Dividend cover (x)	1.3	1.5	1.5	1.5	1.5	1.5

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Refinitiv

Market data

EPIC/TKR	**AGY**
Price (p)	14.0
12m High (p)	29.0
12m Low (p)	7.3
Shares (m)	636.2
Mkt Cap (£m)	89.1
EV (£m)	28.9
Free Float*	49.7%
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%
SkyGem	15.6%
Odey	6.9%
Blackrock	5.3%

Diary

1H'20	Start Phase 1 Polyvac Peanut trial
2H'20	Start Phase III Grass Trial

Analysts

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ALLERGY THERAPEUTICS

Company matters: new NED

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. The Pollinex Quattro (PQ) platform, an ultra-short-course subcutaneous allergy immunotherapy (SCIT), continues to gain market share despite its availability in the EU on a 'named-patient' (NP) basis only. The company has several products in clinical development, with the aim of ongoing trials to move the platform to full registration under the new regulatory framework. AGY's latest news is that a new NED, Mary Tavener, has joined the Board of Directors, and will succeed Stephen Smith, who has been with AGY since 2002, as chair of the Audit Committee.

- **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.

- **Company matters:** A new NED, Mary Tavener, has been appointed with immediate effect. Mary is also joining the Audit Committee and will succeed Steven Smith as chair of the committee in September. AGY now has four NEDs, in addition to the Chairman, with extensive pharmaceutical industry experience.

- **Mary Tavener:** Mary is joining AGY from Advanced Medical Solutions, the AIM listed wound care specialist, with a market cap of £643.8m, where she was CFO for more than 19 years. Mary is a management accountant by training, with a breadth of executive experience. She will bring a fresh perspective to the Board.

- **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.

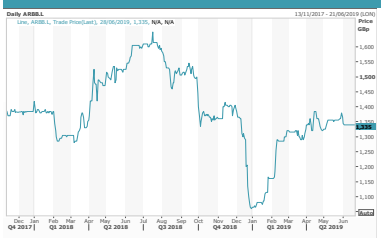
- **Investment summary:** The share price has recovered from the overly pessimistic view of the PQ Birch trial primary endpoint failure in March. However, AGY is still trading on 2019E EV/sales of only 0.8x, which is well below the multiples commanded by its direct competitors. All future trial designs are being improved as a consequence of the PQ Birch trial experience, in the expectation of enhancing the prospects of gaining full regulatory approval.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	48.5	64.1	68.3	74.0	80.0	88.0
R&D investment	-16.2	-9.3	-16.0	-16.0	-20.0	-15.0
Underlying EBIT	-12.3	-2.9	-6.4	-7.2	-9.0	-1.9
Reported EBIT	-12.5	-2.6	-7.4	-8.2	-10.0	-2.9
Underlying PBT	-12.5	-3.0	-6.5	-7.4	-9.3	-2.3
Statutory PBT	-12.2	-2.7	-7.5	-8.4	-10.3	-3.3
Underlying EPS (p)	-2.4	-0.5	-1.1	-1.1	-1.6	-0.5
Statutory EPS (p)	-2.3	-0.4	-1.3	-1.3	-1.6	-0.5
Net (debt)/cash	20.0	18.8	12.5	12.8	0.4	-30.5
Capital increase	11.0	0.0	0.0	10.4	0.3	0.3
P/E (x)	-5.9	-29.8	-12.7	-12.4	-8.9	-28.4
EV/sales (x)	1.2	0.9	0.9	0.8	0.8	0.7

Forecasts have not been revised following the PQ Birch trial result and may be subject to change
Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	**ARBB/ARBN**
Price (p)	1,335
12m High (p)	1,640
12m Low (p)	1,065
Shares (m)	15.4
Mkt Cap (£m)	206
Loans to deposits 2020E	80%
Free Float*	42%
Market	AIM/NEX

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 a 9.85% stake in Secure Trust Bank (STB).

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	6.5%
Miton Asset Mgt.	4.4%
Slater Investments	4.0%
R Paston	3.6%
M&G IM	3.5%

Diary

17 Jul	Interim results

Analyst

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mt@hardmanandco.com

ARBUTHNOT BANKING GROUP

Steady delivery

ABG has been building a series of new income streams in commercial banking and has recently announced that it has completed the first loan for Arbuthnot Specialist Finance (a 70% LTV residential loan on a property near the University of Central Lancashire campus in Preston). This is simply the latest offering to generate revenue (others include Asset Finance, general commercial lending and deposit taking). The group remains well capitalised and has introduced a modest degree of gearing into its capital structure with new Tier 2 debt (£25m vs. equity of £196m). It remains well funded (deposits end-2018 £1.7bn vs. loans of £1.2bn), and we expect strong growth to continue.

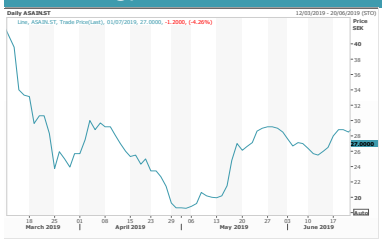
- **ABG News:** On 3 June, ABG announced that it had arranged a £25m loan, which qualifies as Tier 2 capital at a rate of LIBOR +7.75%, with a maturity in 2029. The group remains heavily weighted to equity in its regulatory capital. Nigel Boardman, a former partner in Slaughter and May, joined as a NED on 3 June.
- **Peer news:** Charles Stanley results, on 31 May, saw little share price movement, with modest revenue growth and a 3% rise in reported EPS. On 18 June, 1pm announced Positive Cashflow had achieved its three-year earn-out targets one year early, proving that targeted, well-managed acquisitions can add value.
- **Valuation:** The average of our approaches is £17.42 (previously £17.46), 1.3x 2020E NAV. Since our last report, there has been a small change in the STB share price, which feeds through to the sum-of-the-parts model. Despite the 2019 YTD rally, the current share price is still around the 2018 NAV (1,283p).
- **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, historically, has 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 at book value appears anomalous.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Operating income	34,604	41,450	54,616	67,905	76,790	86,903
Total costs	-35,926	-46,111	-54,721	-64,982	-71,795	-77,484
Cost:income ratio	104%	111%	100%	96%	93%	89%
Total impairments	-1,284	-474	-394	-2,731	-1,860	-2,944
Reported PBT	-2,606	-1,966	2,534	6,780	7,332	10,757
Adjusted PBT	2,982	1,864	3,186	7,416	9,332	12,757
Statutory EPS (p)	86.3	1,127.3	43.9	-134.5	40.5	59.1
Adjusted EPS (p)	13.5	17.1	47.5	40.3	51.1	69.7
Loans/deposits	82%	76%	75%	71%	77%	80%
Equity/assets	5.5%	18.5%	12.8%	9.0%	8.5%	7.8%
P/adjusted earnings (x)	98.9	78.1	28.1	33.1	26.1	19.2
P/BV (x)	1.67	0.88	0.87	1.04	1.04	1.03

Source: Hardman & Co Research

Technology



Source: Refinitiv

Market data

EPIC/TKR	**ASAI.SE**
Price (SEK)	**27.0**
12m High (SEK)	90.0
12m Low (SEK)	15.2
Shares (m)	24.7
Mkt Cap (SEKm)	667.2
EV (SEKm)	782.7
Free Float*	30%
Market	Nasdaq First North

**As defined by AIM Rule 26*

Description

Artificial Solutions (AS) is a leading global vendor of artificial intelligence (AI) software to large enterprises. Headquartered in Sweden, the company comprises ca.104 people.

Company information

CEO	Lawrence Flynn
CFO	Chris Bushnell
Chairman	Åsa Hedin

+46 8 663 5450
www.artificial-solutions.com

ARTIFICIAL SOLUTIONS

New customer wins and equity raise

AS has, in recent weeks, added further blue-chip names to its already exceptionally strong customer list. The Swisscom and Medtronic contracts follow major wins earlier this year. In June, the company also completed a direct placing with institutional investors of 2.74m new shares, raising SEK65.7m, or ca.€6m. Funds will be used to build a regional presence (e.g. the recent Singapore office opening) and on product development, including ways for enterprises to share AI data across implementations. Institutional interest in AS should continue to build, as awareness of its position as an acknowledged market leader in conversational AI grows.

- **Major new contract:** In early June, AS confirmed an agreement with telecoms operator Swisscom, which has Swiss market shares for mobile and broadband in excess of 60%. The Teneo platform will be deployed to create language processing solutions for Swisscom's customers and employees. Swisscom has described Teneo "as one of the most exciting technologies around today".
- **Pipeline:** At the most recent results, management noted that some large deals had slipped into 2Q, Swisscom being one such example. We understand that AS remains in discussions with other sizeable pipeline customers. In 1Q'19, new contracts were signed with a large airline, an Asian postal services organisation and a US public sector entity.
- **Partner channels:** An important strategic initiative has been cultivation of a productive SI partner base. In 1Q, 50% of revenue came from partners; Capgemini and Deloitte were added in 1Q, and more are in prospect. The US public sector win, driven by Deloitte, highlights the value of these relationships.
- **Risks:** Competing with the world's largest technology firms brings challenges: keeping pace with developments, retaining talent and creating company-specific enterprise mindshare vs. major tech brands. Systems integrators are a key route to market but could reduce AS's visibility into lengthy sales cycles.
- **Investment summary:** AS is a vendor of highly advanced AI-based conversational solutions. Major global enterprises use its Teneo technology platform to automate their customer interactions. Against a backdrop of 40% growth in the broader AI market, AS is executing strongly on new customer wins, particularly given the exclusive focus on global enterprises.

Financial summary and valuation

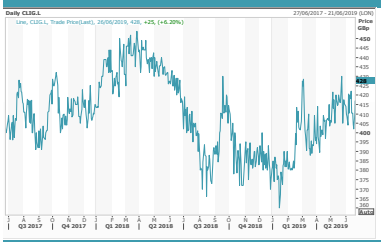
Year-end Dec (€m)	2017	2018	2019E	2020E	2021E
Revenue	7.06	6.09	8.39	11.47	17.96
EBITDA	-6.79	-9.26	-6.86	-2.70	3.44
EBITDA margin	-96%	-152%	-82%	-24%	19%
EBIT	-9.44	-11.58	-9.41	-5.51	0.35
Pre-tax profit	-10.93	-14.24	-8.81	-4.75	1.45
Net income	-10.93	-14.24	-8.81	-4.75	1.45
EPS (diluted, €)	-0.44	-0.58	-0.36	-0.19	0.06
EV/Revenue (x)	10.6	12.2	8.9	6.5	4.2
EV/EBITDA (x)	-11.0	-8.1	-10.9	-27.6	21.7
EV/EBIT (x)	-7.9	-6.4	-7.9	-13.5	213.9

Source: Hardman & Co Research

Analysts

Milan Radia 020 7194 7622
mr@hardmanandco.com

Financials



Source: Refinitiv

Market data

EPIC/TKR	**CLIG**
Price (p)	417.0
12m High (p)	433.0
12m Low (p)	360.0
Shares (m)	26.6
Mkt Cap (£m)	112.2
EV (£m)	93.5
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	Barry Aling

+44 207 860 8346
www.citlon.com

Key shareholders

Directors & staff	16.8%
Blackrock	10.0%
Cannacord Genuity	8.0%
Eschaton Opportunities Fund Management	4.8%
Polar Capital	4.1%

Diary

16 Jul	Pre-close trading statement
16 Sep	Preliminary results statement
9 Oct	1Q FUM announcement
10 Oct	Ex-div date for final

Analyst

Brian Moretta 020 7194 7622
bm@hardmanandco.com

CITY OF LONDON INVESTMENT GROUP

The smooth following the rough

June saw a bounce-back in equity markets after the weakness of May. The MSCI Emerging Markets Index was up almost 7% during the month. Given that much of the global news is dominated by potential trade wars and tariffs, it is not surprising that the market is as fickle as Donald Trump's opinions. Tariffs on Mexico were avoided by the publicising of policies that had been agreed earlier in 2019. Negotiations with China remain ongoing, although the mood about an agreement seems a bit more positive. Tensions seem to be increasing with Iran as well, which appears to be pushing up the oil price.

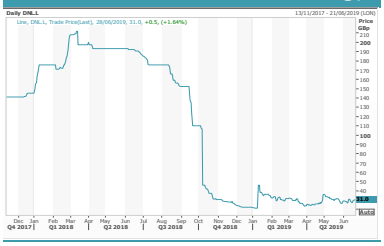
- **Share buybacks:** After several buybacks in May, June saw only one smaller one towards the end of the month. 5000 shares were bought back at 405p each, a total of £20,250. With the company about to enter a close period, further buybacks may be placed on hold until the results are announced.
- **Funds under management (FUM):** As of the end of May, FUM had grown to $5.09bn, from $4.62bn as of the end of December. This was adversely impacted by market movements and should see a recovery for the year-end of June.
- **Valuation:** The prospective P/E of 12.0x is at a discount to the peer group. The historical yield for the ongoing dividend of 6.5% 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)	2016	2017	2018	2019E*	2020E	2021E
FUM ($bn)	4.00	4.66	5.11	5.37	5.77	6.19
Revenue	24.41	31.29	33.93	31.42	34.16	36.24
Statutory PTP	7.97	11.59	12.79	10.88	12.49	13.53
Statutory EPS (p)	23.3	36.9	39.5	34.6	39.8	43.1
DPS (p)	24.0	25.0	27.0	27.0	27.0	27.0
Special dividend (p)				13.5		
P/E (x)	17.9	11.3	10.6	12.0	10.5	9.7
Dividend yield	5.8%	6.0%	6.5%	9.7%	6.5%	6.5%

**2019 figures include a special dividend of 13.5p; Source: Hardman & Co Research*

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**DNL**
Price (p)	**30.5**
12m High (p)	196.0
12m Low (p)	21.0
Shares (m)	61.7
Mkt Cap (£m)	25.8
EV (£m)	18.9
Free Float*	40%
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 already 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	2.4%
IP Group	40.7%
Finance Wales	13.6%
Polar Capital	7.8%
Richard Griffiths	5.5%
Oceanwood Capital	3.7%

Diary

24 Sep	Final results
4Q'19	Alkindi US NDA submission
4Q'19	Chrono. EMA MAA subm.

Analysts

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DIURNAL GROUP

New capital extends cash runway

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 need is currently unmet, with the aim of building a long-term 'Adrenal Franchise'. The first product, Alkindi®, is being launched in key EU markets, and was expected to be followed by the adult version, Chronocort®. After unexpected Phase III results, DNL received positive feedback from the EMA and has cleared the regulatory path for Chronocort in CAH. DNL raised £5.93m gross new capital to progress both drugs through the EU and US regulatory and commercial pathways.

- **Strategy:** DNL aims to create a valuable 'Adrenal Franchise' that can treat patients with chronic cortisol deficiency diseases from birth through to old age. Once Alkindi and Chronocort are established in the EU and the US, the long-term vision is to expand DNL's product offering to other related conditions.

- **Capital increase:** DNL raised £5.93m gross through a Placing of 20.6m shares at 26p – representing a premium of 16% to the previous close – and an Open Offer on the basis of 1 new share for every 16 existing shares. Our forecasts indicate that this will bring sufficient cash until the end of the calendar year.

- **Use of proceeds:** The new capital will be used mainly to advance the key drugs through the commercial and regulatory paths: the European commercial organisation of Alkindi and the filing of a NDA in the US by 4Q'19, together with the filing of an MMA in Europe for Chronocort by around the end of 2019.

- **On track for EMA submission:** Following a Scientific Advice meeting with EMA representatives to discuss the Phase III Chronocort results in CAH patients, the regulator has confirmed that the MAA for Chronocort can be submitted with no further trials needed; hence DNL expects to submit this in 4Q'19.

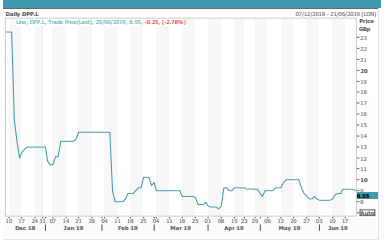
- **Investment summary:** Alkindi, a cortisol replacement therapy designed for children under 18 years of age, is DNL's first drug on the market. It is expected to be followed by Chronocort for adults – a larger market – which now has a clear regulatory pathway in both Europe and the US. Despite this, the share price is still languishing well below valuations determined by peer group and DCF (225p) analyses, possibly due to the need for more capital later in 2019.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	0.00	0.00	0.07	1.14	2.14	5.56
SG&A	-1.99	-3.23	-6.21	-5.50	-7.12	-8.76
R&D	-3.89	-8.34	-10.02	-10.00	-10.85	-10.31
EBITDA	-5.87	-11.56	-16.16	-14.52	-16.03	-14.06
Underlying EBIT	-5.88	-11.56	-16.17	-14.53	-16.05	-14.07
Reported EBIT	-6.99	-12.08	-16.98	-15.38	-16.94	-15.01
Underlying PBT	-5.95	-11.64	-16.30	-14.45	-16.03	-14.09
Statutory PBT	-7.06	-12.16	-16.91	-15.30	-16.92	-15.03
Underlying EPS (p)	-12.48	-17.05	-25.68	-19.81	-12.76	-10.94
Statutory EPS (p)	-15.02	-18.04	-26.78	-21.19	-13.59	-11.81
Net (debt)/cash	26.88	16.37	17.28	4.23	-4.60	-18.04
Capital increase	24.52	0.05	13.40	0.00	5.57	0.00

Source: Hardman & Co Life Sciences Research

Consumer & Leisure



Source: Refinitiv

Market data

EPIC/TKR	**DPP.L**
Price (p)	8.5
12m High (p)	34
12m Low (p)	7
Shares (m)	250
Mkt Cap (£m)	21
EV (£m)	19
Free Float*	64%
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 42 are corporately owned. It is rolling out steadily and trialling a partnership with takeaway.com.

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	13%
Pageant Holdings	17%
Fidelity	10%
Octopus Investments	5%

Diary

Jul'19	1H trading update
Sep'19	Interim results

Analyst

Jason Streets 020 7194 7622
js@hardmanandco.com

DP POLAND

Trialling with takeaway.com

The company raised £5.5m net in a placing in February this year, which should fund store growth through to 2020 and support its innovative online marketing programme. January and February comparisons were tough because of the TV advertising conducted in the same period last year. The growth focus will be on splitting territories and larger cities. DPP is also looking to sell some stores to sub-franchisees and maybe close some underperformers. It has started a trial with takeaway.com.

- **Strategy:** DPP spent its first few years proving the Domino's Pizza model in Poland. It has scope to double the number of operations in the next few years. As stores mature, it should see success in reported profits. It aims to be smarter in marketing than its competitors, using digital media, rather than expensive display advertising.
- **Competitive market:** 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. DPP is now trialling a partnership with takeaway.com. It allows DPP full control of product, service and delivery, while piggy-backing on its marketing spend. Early signs are positive.
- **Valuation:** With no reported profits expected in the next few years, we value DPP on a per-store basis. In our initiation note (18 September 2018), *Fully proven model rolls out*, we derived a ca.£80m central value, to reflect the delay in the maturing of the business; we now discount that for a further year, to £72m, or 29p per share.
- **Risks:** The biggest short-term risk 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, with competitors' spend 20x or even 25x that of DPP. Another hot summer without the World Cup to compensate would not be helpful.
- **Investment summary:** DPP has a powerful retail consumer franchise in a fast-developing economy. A Domino's Pizza franchise takes time to reach profitability, leaving management with a choice 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 (£m)	2016	2017	2018	2019E	2020E
Revenue	7.6	10.4	12.4	12.7	16.3
Store EBITDA	1.5	0.7	0.7	0.4	0.6
Group EBITDA	-1.6	-1.8	-1.9	-2.1	-1.6
EBIT	-2.5	-2.7	-3.9	-3.2	-2.8
Finance costs	0.1	0.1	0.1	0.0	0.0
PBT	-2.5	-2.6	-3.8	-3.2	-2.8
PAT	-2.5	-2.6	-3.8	-3.2	-2.8
EPS (p)	-1.9	-1.9	-2.5	-1.4	-1.1
EPS (adjusted, p)	-1.8	-1.9	-2.6	-1.4	-1.1
Net cash	6.0	4.1	1.7	3.2	-0.2
Shares issued (m)	129	142	150	230	250
EV/Sales (x)	3.6	2.6	1.6	1.5	1.2

Source: Hardman & Co Research

Support Services

Source: Refinitiv

Market data

EPIC/TKR	**FLTA**
Price (p)	189
12m High (p)	282
12m Low (p)	164
Shares (m)	29
Mkt Cap (£m)	55
EV (£m)	53
Free Float*	33%
Market	AIM

**As defined by AIM Rule 26*

Description

Filta Group (Filta) provides cooking oil filtration, fryer and drain management services in North America and Europe to commercial kitchens.

Company information

CEO	Jason Sayers
CFO	Brian Hogan
Chairman	Tim Worlledge

+44 1788 550100
www.filtaplc.com

Key shareholders

Directors	67%
Gresham House	12.5%
Blackrock	5.6%
Ennismore FM	5.0%
Cannacord Genuity	3.7%

Diary

Sep'19	Interim results
Apr'20	Preliminary results

Analyst

Jason Streets 020 7194 7622
js@hardmanandco.com

FILTA GROUP

Strong and transformative year in 2018

Filta provides cleaning services to commercial kitchens in North America, the UK and, more recently, mainland Europe. In addition to buying in the European master franchise, it has made a major step in acquiring Watbio, which will increase the company-owned operations and reinforce the UK side of the business. At the AGM, the company reported that the integration of Watbio would lead FY19 profits to be more 2H-weighted than usual. This was in line with our expectations. Revenues should prove both consistent and persistent, and there is scope for growth for many years, we believe.

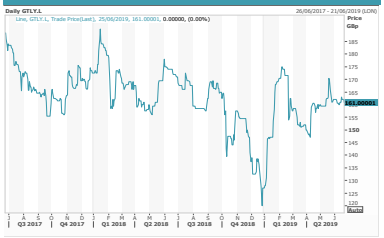
- **Strategy:** Filta provides a professional service, via franchisees, to kitchens to filter their cooking oil – improving taste and saving money. Grease emanating from commercial kitchens also causes problems and needs managing. There is scope for Filta to become the major player in the UK grease management business.
- **FY18 results and outlook:** Filta delivered adjusted EBITDA of £2.64m, up 25% on last year and broadly in line with our expectations. Adjusted EPS was up 7% at 5.4p, and the full-year dividend rose 26% to 1.64p. FY19 is said to have started well, with growth in all core businesses.
- **Valuation:** Filta has no directly comparable companies. We have used a DCF to derive a value range of 226p to 282p per share, using a 10% discount rate and a mid-term (2021-25) growth rate of between 6% and 12%. Our central estimate is 262p. No account is taken of future added-value acquisitions.
- **Risks:** In addition to normal commercial risks, Filta is dependent on the behaviour of its franchisees, which it cannot control but can help to influence by means of thorough training. It has also recently made a sizeable acquisition, the integration of which will inevitably involve managing some unknowns.
- **Investment summary:** Filta is an attractive business, in our view, combining the capital-light franchise model in North America and Europe with company-owned operations in the UK. With only a tiny proportion of the market currently served and with little or no competition, we see potential for years of profitable growth ahead. Please see our initiation report *here*, published on 3 April 2019.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Revenue	7,925	8,469	11,547	14,213	26,363	29,626
EBITDA	594	1,193	2,116	2,642	4,850	5,350
Underlying EBIT	450	1,011	2,059	1,941	4,000	4,550
Reported EBIT	450	-249	1,699	1,782	3,850	4,350
Underlying PTP	376	932	1,968	1,900	3,750	4,300
Statutory PTP	376	-329	1,608	1,742	3,600	4,100
Underlying EPS (p)	1.39	3.66	5.05	5.39	9.88	11.25
Statutory EPS (p)	1.39	-1.51	3.85	4.88	9.37	10.57
Net (debt)/cash	-619	3,271	2,992	2,040	2,723	5,289
Shares issued (m)	22	23	27	27	29	29
P/E (x)	136.1	51.6	37.4	35.1	19.1	16.8
EV/EBITDA (x)	70.3	33.2	22.9	18.8	10.8	9.3

Source: Hardman & Co Research

Business Support Services



Source: Refinitiv

Market data

EPIC/TKR	**GTLY**
Price (p)	**161**
12m High (p)	178
12m Low (p)	118
Shares (m)	110.8
Mkt Cap (£m)	178
EV (£m)	178
Free Float*	>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

Executive Directors	4.9%
Liontrust	10.1%
Miton	5.0%
Premier	3.8%

Diary

16 Jul	Final results

Analyst

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sc@hardmanandco.com

GATELEY (HOLDINGS) PLC

Full-year results coming up

Last month, Gateley issued a trading update ahead of final results, confirming a strong 2H performance – we made no changes to our forecasts. A broad-based law-led professional services group, Gateley 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 and organic revenue growth, and 10% of revenues coming from acquisitions. Gateley made two highly complementary acquisitions this year, for shares and cash, which are adding to the excellent organic growth. A recent placing improved liquidity.

- **Current trading:** The May trading statement noted continued strong trading, FY19 revenues exceeding £102m and EBITDA not less than £19m. This was reassuring and in line with our forecasts, which are unchanged. It also included a reference to increased dividends, and the CEO made further positive comments.
- **News:** The CEO commented, "I am delighted that the business has broken the £100m turnover barrier for the first time and delivered another excellent performance, whilst continuing to take advantage of further opportunities to diversify our revenue streams through complementary acquisitions."
- **Sector:** The legal sector is growing profitably, and more firms (notably DWF recently) are coming to the market, following Gateley's lead. A larger sector is a positive, improving investor understanding and ability to compare. It should favour Gateley (48th to 44th in latest industry rankings), for which we forecast continued growth.
- **Valuation:** The 2019E P/E is 14.3x, falling to 12.4x in 2020E, on numbers we consider conservative. We forecast a 2019 dividend yield of 5%, which should continue to grow. Professional service companies like this have limited capital expenditure, with working capital the main element of cash outflow, as the business grows, allowing the creation of strong returns and high free cashflow generation – an attractive combination.
- **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 team, and a strategy to diversify further in complementary professional services.

Financial summary and valuation

Year-end Apr (£m)	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	17.7	17.1	15.2	14.3	12.4
EV/EBITDA	13.4	11.9	10.5	9.2	7.8
Dividend yield	3.5%	4.1%	4.3%	5.0%	5.5%

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

General Retailers

Source: Refinitiv

Market data

EPIC/TKR	**KOOV**
Price (p)	**5.9**
12m High (p)	27
12m Low (p)	5.9
Shares (m)	402
Mkt Cap (£m)	24
EV (£m)	19
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	Preliminary results

Analyst

Jason Streets 020 7194 7622

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KOOVS PLC

Koovs refinanced for the future

The first part (£3.7m) of the investment by the Future Group (FLFL), which, when completed, will take its stake up to 29.99%, has been received. The second part (£10.5m), in the form of a compulsory convertible, will be subscribed following the approval at the EGM. 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. Calendar 1Q saw GOV +67% as operations began to get back on track.

- **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 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 (£m)	18.5	14.8	27.2	71.1	139.0	254.6
Net sales	12.5	9.6	16.9	44.3	86.6	158.6
Weighted margin	43%	46%	49%	53%	57%	61%
Trading profit	0.3	1.3	3.6	12.1	25.8	70.4
Trading margin	2%	14%	21%	27%	30%	44%
EBITDA	-20.0	-14.5	-19.4	-18.9	-7.8	17.2
No. of shares (m)	175	175	356	420	420	420
EV/sales (x)	1.1	1.5	1.0	0.4	0.2	0.1

Source: Hardman & Co Research

Technology Hardware & Equipment

Source: Refinitiv

Market data

EPIC/TKR	**LWRF.L**
Price (p)	**7.00**
12m High (p)	20.3
12m Low (p)	6.40
Shares (m)	105.0
Mkt Cap (£m)	7.35
EV (£m)	6.85
Free Float*	51%
Market	AIM

**As defined by AIM Rule 26*

Description

LightwaveRF is a manufacturer of smart home devices that has developed a broad range of connected products. Established in 2008, the company is headquartered in the UK. It sells directly to consumers and through a range of distributors and major retail chains.

Company information

CEO	Jason Elliott
CFO	Kevin Edwards
Chairman	Barry Gamble

+44 121 250 3625
www.lightwaverf.com

Key shareholders

Directors	3.51%
Committed Capital	36.7%
Unicorn Asset Mgt.	15.8%
Herald Investment Mgt.	9.15%
Brewin Dolphin Nominees	6.37%

Analyst

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LightwaveRF

Google agreement is a major development

1H'19 revenue, up 120%, shows that management initiatives to expand product availability and consumer brand awareness are paying off. The agreement with Google to jointly market Lightwave lighting products with the Google Mini and Google Nest Hub is a major development. The bundles are already available in Germany, while the UK and other European markets will follow this month. It is intended that Lightwave and Google will engage in a range of initiatives to educate customers on the benefits of using Google Assistant to manage their smart home devices with joint product demos. Along with several other substantial partnerships, this should help to maintain strong momentum.

- **1H'19 results:** Revenue for the period was £2.50m, up 120% YoY, from £1.13m in 1H'18. Gross profit also more than doubled, to £0.95m, representing an increased gross margin of 37.9%, up from 35.3% reported for FY'18. Heavy reinvestment in product and sales and marketing resulted in a pre-tax loss of £1.35m.
- **Distribution channels:** Recent additions are Rexel, a nationwide UK distributor and Tech Data, one of the largest global IT distributors. These partnerships with organisations with technology expertise highlight Lightwave's position as a market leader. Tech Data has already placed a €568,000 order for its European business.
- **Direct-to-consumer:** Alongside the third-party agreements, extensive effort and resources have gone into the direct-to-consumer segment, which has the highest gross margin profile. Social media and other online marketing have been a focus in terms of investment, alongside enhancements to customer support.
- **Risks:** Lightwave will need to remain innovative with respect to competitive trends to maintain strong brand recognition vs. larger players in the market. The product refresh programme remains ambitious, as further upgrades to the first-generation products are rolled out; execution will need to be strong.
- **Investment summary:** The acceleration in growth is encouraging, validating the overhauled sales and marketing strategy, and the reinvestment focus. The company remains on track to deliver EBITDA breakeven in 2020E. Alongside the Google agreement, a number of major initiatives have yet to move into revenue mode – for example, the partnerships with Resideo Inc. and E.ON/ Berkeley Homes.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
Revenue	1.44	3.03	2.81	6.40	12.30	14.40
Gross profit	0.47	1.08	0.83	2.78	5.97	6.59
Gross margin	32.5%	35.5%	29.3%	43.5%	48.5%	45.8%
EBIT	-0.81	-0.80	-2.50	-2.26	0.14	0.65
Pre-tax profit	-0.84	-0.85	-2.54	-2.27	0.14	0.65
Net profit	-0.84	-0.85	-2.54	-2.27	0.14	0.65
EPS (basic, p)	-4.37	-2.39	-3.80	-2.40	0.14	0.62
EPS (diluted, p)	-4.37	-2.39	-3.80	-2.40	0.14	0.62
Shares issued (m)	19.27	35.34	66.95	94.52	105.01	105.01
EV/revenue (x)	4.7	2.3	2.4	1.1	0.6	0.5
EV/EBIT (x)	-8.5	-8.6	-2.7	-3.0	48.0	10.5
P/E (x)	-	-	-	-	n/m	10.3

Source: Hardman & Co Research

Financials

Source: Refinitiv

Market data

EPIC/TKR	**MCL**
Price (p)	149.0
12m High (p)	186.0
12m Low (p)	127.0
Shares (m)	129.8
Mkt Cap (£m)	193.0
EV (£m)	199.1
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 (1 July)	Andy Hayward
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%
JO Hambro	6.74%
Majedie Asset Mgt.	5.34%
Artemis Inv. Mgt.	4.98%
Legal and General	3.22%

Diary

25 Jun	AGM

Analyst

Mark Thomas 020 7194 7622
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MORSES CLUB PLC

Acquisition of U Account

On 24 June, MCL announced the acquisition of U Account for a consideration of £5.8m (cash), plus a deferred consideration over four years of up to £5m. U Account provides digital current accounts and has ca.20,000 customers, mostly those underserved by banks. As well as providing card services with its current accounts through contactless debit cards, U Account offers functionality to help customers manage their finances more effectively. U Account has been loss-making (impacting FY'20E earnings with a loss of £1.4m, to £1.7m), but MCL will offer customers credit and sees the deal as earnings-enhancing in FY'21.

- **MCL news:** The AGM statement reported, "Despite challenging conditions year to date in our core HCC market, current trading remains in line with expectations. Customer numbers are stable, but credit issued is slightly down year-on-year as customers are borrowing less frequently. We are confident in our strategy …"
- **Peer news:** NSF let its *offer for Provident Financial lapse* on 5 June, with insufficient acceptances (which would have created a large minority interest, with regulatory capital implications). Amigo Loans increased the size of its securitisation, saw its CEO leave on health grounds and was subject to a review on BBC's *Panorama*.
- **Valuation:** We detailed a range of valuation approaches and sensitivities in our initiation note, *Bringing home collect into the 21st century*, published on 2 February 2017, and did so again in our results note. The range in absolute valuation methodologies is now 181p to 243p (pre-results 169p to 223p).
- **Risks:** Credit risk is high (albeit inflated by accounting rules), but MCL adopts the right approach to affordability and credit assessment. Regulatory risk is a factor, although high customer satisfaction suggests a limited need for change. MCL was the first major HCC company to get full FCA authorisation.
- **Investment summary:** MCL is operating in an attractive market. It has a dual-fold strategy that should deliver an improved performance from existing businesses and new growth options. It conservatively manages risk and compliance, especially in new areas. The agent network is the competitive advantage over remote lenders. We forecast an 11.2x February 2020 P/E and a 5.5% February 2020 dividend yield, with 1.6x cover (adjusted earnings).

Financial summary and valuation

Year-end Feb (£m)	2016	2017	2018*	2019*	2020E*	2021*E
Reported revenue	90.6	99.6	110.4	117.0	144.1	160.1
Total impairments	-18.8	-24.3	-24.7	-26.2	-37.6	-46.6
Total costs	-53.4	-56.7	-65.6	-67.1	-83.0	-85.5
EBITDA	19.3	19.9	20.1	23.7	23.5	28.0
Adjusted PBT	16.8	17.7	18.6	22.0	21.4	25.4
Statutory PBT	10.4	11.2	15.5	20.2	19.1	23.0
Statutory EPS (p)	6.1	6.6	9.7	12.5	12.1	14.5
Adjusted EPS (p)	10.2	10.8	11.4	13.6	13.2	15.7
P/adjusted earnings (x)	14.5	13.8	13.1	11.0	11.2	9.5
P/BV (x)	3.5	3.1	2.9	2.7	2.5	2.3
P/tangible book	4.3	3.7	3.3	3.2	3.1	2.7
Dividend yield	N/M	4.3%	4.7%	5.2%	5.5%	6.7%

**IFRS9 basis (2018 pro forma); Source: Hardman & Co Research*

Support Services

Source: Refinitiv

Market data

EPIC/TKR	MUR
Price (p)	650
12m High (p)	730
12m Low (p)	450
Shares (m)	9.0
Mkt Cap (£m)	58.9
EV (£m)	56.8
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	Edward Murgitroyd
CFO	Keith Young
Chairman	Ian Murgitroyd

+44 141 307 8400
www.murgitroyd.com

Key shareholders

Directors	32.0%
Ian Murgitroyd (director)	26.7%
Liontrust Inv.	12.0%
Schroder Inv.	11.0%
Mawer Inv.	4.7%
G. E. Murgitroyd	4.3%

Diary

Sep'19	Final results
Oct'19	AGM

Analyst

Mike Foster 020 7194 7633
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MURGITROYD

Global market and global presence

Growth continues to be driven by a number of different inputs. The industry statistics confirm a strong market background. The European Patent Office (EPO) announced (12 March) a 4.6% rise in patent applications in 2018. Murgitroyd has a good footprint in the USA, a strong market. It has expanded its service offering and, although this is slightly lower-margin, it brings a pipeline of higher-margin attorney business opportunities via its larger multi-service clients. Murgitroyd expands its specialisms, in part, through acquisitions. Together, these business streams generate attractive levels of cashflow, after substantial investment in business development functions.

- **Strategy**: Four years of significant investment in the US and pan-European footprint, software and business development, as well as back-office efficiencies, put Murgitroyd in a strong competitive position to help offset any weakness in individual markets. This is a broadly-based business with good cash generation.

- **Did you know**: 26 April was World Intellectual Property day. On this date in 1970, the convention establishing the World Intellectual Property Organization (WIPO) entered into force. The day was established by the WIPO in 2000. This is a highly structured market.

- **Acquisition and Board:** It has previously been announced that Edward Murgitroyd is becoming group CEO. On 5 April, he stood down from the deputy chairmanship, with Willie MacDiarmid taking on that role. He is chair of a JV between Hermes Capital and EDF Renewables, as well as other businesses, and has been CEO and COO of several major quoted businesses.

- **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.

- **Valuation:** This stock offers investors a good cash-generating business, which is international in scope and servicing markets that have low cyclicality. Murgitroyd provides a robust range: both client-service (the fuller-suite range of services) and productivity enhancements.

Financial summary and valuation (NB forecasts under review)

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 (adjusted)	4.2	4.2	4.3	3.9	4.1
EPS (adjusted, 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)	19.4	18.7	18.0	22.6	20.9
EV/Sales (x)	1.3	1.2	1.2	1.1	1.1
EV/EBITDA (x)	12.3	12.6	12.3	13.5	12.6
FCF yield	5.4%	5.0%	6.2%	5.3%	5.0%
Dividend yield	2.1%	2.3%	2.5%	2.6%	3.4%

Source: Hardman & Co Research

Financials

Source: Refinitiv

Market data

EPIC/TKR	**NSF**
Price (p)	35.2
12m High (p)	75.0
12m Low (p)	35.2
Shares (m)	312.0
Mkt Cap (£m)	110
EV (£m)	362
Free Float*	99%
Market	Main

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	13.0%
Marathon Asset Mgt.	12.7%
Tosca Fund	3.9%

Diary

Mid-Jul	Trading update
20 Aug	Interim results

Analyst

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NON-STANDARD FINANCE

Back to Basics

On 17 June, we published *Back to Basics*, looking at where NSF was post its lapsed deal for Provident Financial (PFG). The fundamental outlook for NSF is unchanged. It still has the market-leading network in unsecured branch-based lending and is number two in guarantor loans, both growing strongly. It is number three in home credit. The direct costs of the bid were ca.5% of NSF's market capitalisation, and we estimate a further 2%-3% disruption/extra finance effect. This may be compared with a 28% share price fall to when the deal lapsed. Delivery of consensus earnings and franchise growth expectations will be the key to restoring management credibility and reducing the discount to the peer group.

- **Post-deal strategy:** With the lapsing of the PFG bid, NSF is expected to focus on the operational delivery of the franchise growth in both the Everyday Loans (ELD) and Guarantor Loans (GLD) divisions. In home collect (HCC), we expect profit growth to come from improving impairments and operational efficiency.

- **Peer news:** Amigo loans increased the size of its securitisation, saw its CEO leave on health grounds and were subject to a review on BBC's *Panorama*. The risks of involving a third party in the loan have been known about for many years, and NSF's deal integrations will have ensured it is adopting latest and best practice.

- **Valuation:** We forecast adjusted EPS of 5.65p in 2019, 8.0p in 2020 and 10.34p in 2021, compared with 3.4p in 2017. For this projected growth, investors are paying 4.4x 2020E earnings. Our absolute valuation measures range from 96p to 109p per share. Our sum-of-the-parts model implies a valuation of 87.5p.

- **Risks:** Credit risk remains the biggest threat to profitability (although this is mitigated through high risk-adjusted margins), and NSF's model accepts higher credit risk where a higher yield justifies it. 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 debt funding until 2023, 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 6.2x 2019E P/E and getting a 9.1% yield.

Financial summary and valuation

Year-end Dec (£000)	2017	2018	2019E	2020E*	2021E*
Reported revenue	121,682	168,128	192,108	219,634	251,183
Total impairments	-28,795	-42,688	-48,221	-53,359	-59,316
Total costs	-67,706	-87,792	-92,806	-101,785	-112,969
EBITDA	25,181	37,648	51,081	64,490	78,898
Adjusted PBT	13,203	14,769	21,762	30,248	38,859
Statutory PBT	-13,021	-1,590	-1,121	27,119	37,328
Pro-forma EPS (p)	3.44	3.70	5.65	8.00	10.34
DPS (p)	2.20	2.60	3.20	4.00	5.00
P/adjusted earnings (x)	10.2	9.5	6.2	4.4	3.4
P/BV (x)	0.5	0.5	0.5	0.5	0.5
P/tangible book (x)	1.5	1.9	2.0	1.6	1.2
Dividend yield	6.3%	7.4%	9.1%	11.4%	14.2%

** IFRS9 basis; Source: Hardman & Co Research*

Pharmaceuticals & Biotechnology

Source: Refinitiv

Market data

EPIC/TKR	OXB
Price (p)	722
12m High (p)	1,029
12m Low (p)	575
Shares (m)	76.7
Mkt Cap (£m)	554.0
EV (£m)	508.5
Free Float	59.4%
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	15.2%
M&G	15.1%
Novo Holdings A/S	10.1%
Canaccord Genuity	4.3%
Aviva	3.4%
Hargreaves Lansdown	3.2%

Diary

Sep'19	Interim results

Analysts

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OXFORD BIOMEDICA

De-leveraging the balance sheet

OXB is a specialist, advanced therapy, viral-vector biopharma company. It offers vector manufacturing and development services, while developing proprietary drug candidates, with its LentiVector® platform. 2018 saw significant growth in gross income, primarily through licensing deals, to deliver OXB's first underlying operating profit. OXB is, however, carrying a significant loan of $55m, which is relatively expensive with an interest rate of 9% plus US LIBOR, and also exposes it to forex risk. Equity financing of £53.5m from Novo Holdings A/S has been agreed, allowing repayment of the loan and securing a strategic partner.

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

- **Equity investment:** OXB has signed an agreement with Novo Holdings A/S for an equity investment of £53.5m, at £6.90 per share, representing 10.1% of OXB's enlarged share capital. This greatly strengthens the balance sheet and is a clear demonstration of the industry's confidence in OXB's growth potential.

- **Balance sheet:** With the new cash arriving in early June, the loan is likely to be repaid as soon as possible, leaving the interim balance sheet ungeared, and with gross cash driven by capex timing and the fundraise costs. With the removal of ongoing interest payments, free cashflow forecasts are positive from 2020.

- **Risks:** OXB's mid-term sales model is dependent on successful progress of partners' clinical trials and commercialisation of LentiVector-enabled products. OXB is investing heavily in infrastructure for manufacturing capacity and in personnel, which will affect the bottom line.

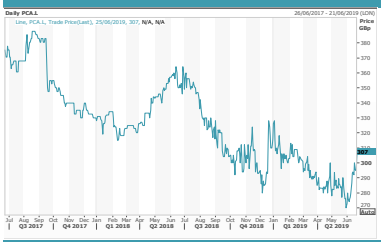
- **Investment summary:** OXB is an exciting company with market-leading technology. It has been extensively validated through large deals with leading (bio)pharmaceutical partners and through grants from the UK government. On expectations of further milestones in 2019, OXB is now profitable, net cash-positive and cashflow-positive at the operating level.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E	2021E
Gross income (as reported)	30.78	39.36	67.84	83.47	104.60	123.04
Group sales	27.78	31.49	39.63	54.13	78.70	89.80
EBITDA	-6.78	-2.63	13.54	14.63	18.53	30.40
Underlying EBIT	-10.45	-7.00	9.18	9.84	13.27	25.16
Statutory EBIT	-11.32	-7.97	7.93	8.50	11.82	23.62
Underlying PBT	-15.34	-16.38	4.57	7.67	13.66	25.71
Statutory PBT	-20.31	-11.76	5.01	5.93	12.21	24.16
Underlying EPS (p)	-21.00	-21.99	10.88	13.68	24.35	43.08
Statutory EPS (p)	-29.95	-14.56	11.57	11.27	22.17	40.75
Net (debt)/cash	-19.05	-22.54	-8.91	34.80	43.82	64.93
Capital increase	17.50	0.39	19.81	52.43	0.10	0.10
P/E (x)	-	-	66.36	52.80	29.65	16.76
EV/sales (x)	-	-	-	9.39	6.46	5.66

Source: Hardman & Co Life Sciences Research

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**PCA**
Price (p)	295
12m High (p)	360
12m Low (p)	280
Shares (m)	45.9
Mkt Cap (£m)	135.4
EV (£m)	232.0
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-centre locations. The York development site comprises 6% of assets.

Company information

Chairman	Stanley Davis
CEO	Neil Sinclair
CFO	Stephen Silvester
Executive director	Richard Starr

+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

Jul'19	4Q'19 dividend paid
Jul'19	AGM
1 Aug	Anticipated REIT status

Analyst

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PALACE CAPITAL

Conversion to REIT status is an important positive

Palace Capital's results, reported on 4 June, showed that 37 new leases were completed. Most importantly, these were 14% above ERV (i.e. the level that previous valuers had estimated). This is one of several factors underpinning significant medium-term expansion in capacity to pay growing dividends. Further, the REIT status enhances the capacity for investment and for dividend payment, through the elimination of corporation tax payable. Total property return was 7.1%, ahead of the MSCI UK Index figure of 4.6%. Like-for-like valuations edged ahead by 0.5%, compared with MSCI UK index capital growth at 0.1%. Cost of debt fell to a competitive 3.3%.

- **REIT status and FY'19 results:** Both items are of great significance for Palace Capital shareholders. REIT status brings a rise in earnings as a function of the REIT nil tax regime. The results confirm the company's continued outperformance.
- **Results and prospects:** Property return was strong – beating the benchmark – as did rents. NAV, though, fell 2%, due primarily to tax and a modest loss on part-disposal of the RT Warren portfolio. We expect a covered dividend next year, ahead of the large benefits from the York development in FY22.
- **Cash paid by tenant for early lease surrender a further positive:** A lease event, announced on 7 May, saw a FY20 profit and cash upgrade. A £2.85m cash premium has been agreed with the tenant. We note that the most recent valuation of this asset was only £2.2m. Economic value has been created.
- **A track record of outperformance:** In the five years to 2018, Palace Capital's accounting return has been in the first or second quartile vs. our small basket of six most comparable regional UK REITs. (Note that, in FY18, this excluded the distorting effect of equity.) Since 2013, NAV has more than doubled.
- **Risks:** The normal risks of real estate apply. The weighted average length of unexpired lease to break is 4.5 years. Generally, covenants are good. Retail exposure (bar Wickes and Booker) is minimal. Gearing, at 34% LTV, is conservative and, although expected to rise as the York development progresses, management has previously stated an intention to keep it below 40%.

Financial summary and valuation

Year-end Mar (£m)	FY17	FY18	FY19	FY20E	FY21E
Net income	12.2	14.9	16.4	19.2	16.8
Finance cost	-3.0	-3.4	-4.6	-4.0	-4.0
Declared profit	12.6	13.3	6.4	11.2	14.8
EPRA PBT (adj., pre-revaluation)	6.4	7.5	8.6	11.2	8.8
EPS reported (diluted, p)	36.5	35.8	11.3	25.4	33.3
EPRA EPS (p)	21.2	18.7	16.5	23.6	19.1
DPS (p)	18.5	19.0	19.0	19.0	19.0
Net cash/debt	-68.6	-82.4	-96.5	-108.6	-123.1
Dividend yield	6.3%	6.4%	6.4%	6.4%	6.4%
Price/EPRA NAV	66.5%	71.1%	72.5%	71.6%	69.4%
EPRA NAV (p)	443.0	414.8	406.6	411.8	425.0
LTV (loan-to-value)	37.3%	29.9%	33.8%	36.3%	38.5%

Source: Hardman & Co Research

Real Estate

Source: Refinitiv

Market data

EPIC/TKR	**PHP**
Price (p)	136
12m High (p)	139
12m Low (p)	106
Shares (m)	1,120
Mkt Cap (£m)	1,520
EV (£m)	2,670
Market	Premium, 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	1.0%
CCLA	5.4%
Blackrock	4.9%
Investec Wealth	3.3%
Vanguard Group	2.8%
Troy Asset	2.3%

Diary

Jul'19	Interim results
Feb'20	Final results

Analyst

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mf@hardmanandco.com

PRIMARY HEALTH PROPERTIES

Onwards and upwards

91% of PHP income is backed by the UK or RoI government. Occupancy consistently exceeds 99%. We are confident that investors will continue to seek out REITs that have a strong asset-class focus, particularly categories that provide security of rising income. PHP achieves all this, and its dividend per share growth rate is accelerating as a result. In total contrast to the wider real estate market, rent reviews on PHP assets are accelerating upwards. PHP's growth avenues are expanding. The March 2019 merger with MedicX Fund – in addition to a £4m p.a. synergy efficiency and over £800m additional investment assets – has added complementary routes to purchase new assets.

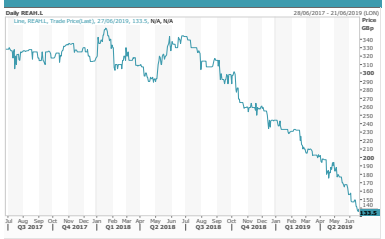
- **Dividend prospects**: The DPS growth is fuelled by an EPRA EPS trend that is rising faster than our model for DPS in the coming years. Cover is building and, at some stage, this should feed through to accelerating DPS growth. Indeed, our DPS growth estimate of 4.5% for 2020 is above the 3.7% we forecast for 2019.
- **Growth in 2019 sees step jump expansion**: PHP's 14 March 2019 merger with complementary MedicX Fund effectively adds well over £800m of investment assets of as high a quality as PHP's, at nil stamp duty cost, bringing synergy efficiencies and taking PHP's investor offering to a new level.
- **Valuation:** The shares trade at a premium to EPRA NAV. At the last balance sheet, assets were valued at a 4.85% net initial yield (NIY), but portfolios of this asset class consistently change hands at lower yields (higher prices). Investors in quoted real estate consistently favour focused investment strategies.
- **Risks:** No development risk is taken on the forward funding, and the strategy is focused tightly on this one sector. 2018 DPS cash cover was over 100%, and grew that year. Undrawn facilities exceed £200m. PHP states a 2.6% marginal interest cost, vs. a 3.9% average cost in 2018, so yield pick-up continues to trend upwards.
- **Investment summary: PHP has seen 22 years of unbroken dividend growth.** Expansion into higher cash-generating RoI assets and a falling debt cost enhance EPRA EPS. Incremental management fees are below portfolio averages. The merger led to strong forecast upgrades.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E
Income	66.5	71.3	76.4	118.3	135.5
Finance costs	-32.5	-31.6	-29.7	-45.3	-50.7
Declared profit	43.6	91.9	74.3	100.7	112.2
EPRA PBT (operating)	26.7	31.0	36.8	60.7	72.2
EPS reported (p)	7.8	15.3	10.5	9.8	9.8
EPRA EPS (diluted, p)	4.7	5.1	5.2	5.9	6.3
DPS (p)	5.12	5.25	5.40	5.60	5.85
Net debt	-663.2	-726.6	-670.2	-1,212.1	-1,333.3
Dividend yield	3.7%	3.9%	4.0%	4.1%	4.3%
Price/EPRA NAV (x)	1.49	1.35	1.29	1.27	1.22
NAV per share (p)	83.5	94.7	102.5	103.3	107.1
EPRA NAV per share (p)	91.1	100.7	105.1	107.4	111.2

Source: Hardman & Co Research

Food Producers



Source: Refinitiv

Market data

EPIC/TKR	**RE.**
Price (p)	**138.5**
12m High (p)	348.0
12m Low (p)	132.0
Shares Ord (m)	40.4
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	55.9
Mkt Cap Prefs (£m)	45.7
EV (£m)	333.4
Free Float	30%
Market	MAIN

Description

R.E.A. Holdings (REA) is engaged in the operation and further development of palm oil plantations in East Kalimantan, Indonesia. The group also owns stone quarrying rights and concessions, and coal mining concessions that are being contracted out to third-party operators.

Company information

Managing Director	Carol Gysin
Chairman	David Blackett

+44 207 436 7877

www.rea.co.uk

Key shareholders

Directors	28.6%
M & G Investment Mgt.	15.0%
Alcatel Bell Pension Fund	10.1%
Artemis UK	8.8%
Aberforth Partners	7.3%

Diary

Sep'19	Interim results

Analyst

Yingheng Chen 020 7194 7638

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R.E.A. HOLDINGS

Strong production continues; deferred 1H pref. dividend

REA's June trading update confirmed that the group's strong FFB production trend in 2018 continued into this year across the group's estates. Own-crop production reached 275,000mt to the end of May'19, a 5.8% increase from the same period in 2018. The management team is also continuing to focus on improving its oil extraction efficiency, with an average OER of 22.9% to end-May'19 and a high of 23.4% in the month. REA also announced the deferral of the half-yearly dividend payment on the group's preference shares (due 30 June 2019).

- **Production:** So far, the weather pattern has been very stable and good for crop production, and the group continues to see a yield rise from the increased fertiliser regime, which started in 2H'16. REA is expecting FFB production of some 900,000mt in FY'19; our expectation is slightly lower, at 870,096mt.
- **Preference share dividend suspended:** Owing to the continual weakness in commodity prices, REA has implemented a series of cost-saving measures. It announced that it would defer the half-yearly dividend payment of its preference shares pending a CPO price improvement as part of a cash conservation measure.
- **Financing:** The management team recognises the need to deleverage REA's indebtedness. Net debt, with the sale of PBJ, was $189.6m at end-FY'18, from $211.7m in FY'17. Net debt to equity was 72.5%, down from 76.5% in FY'17. A further reduction in cost of borrowings should help reduce some funding risk.
- **Sector valuation:** A weak palm oil price has dampened the results from most operators in Asia. The Asian Palm Oil Plantation Index has fallen 9.4% since Jan'18, while the Asian palm plantation sector saw an 18.8% valuation decrease, ending May'19 at $10,933/planted ha, vs. $13,468/planted ha at end-Dec'17.
- **Investment summary:** For investors attracted by palm oil assets, now could be an opportunistic time to review this sector, with the sector valuation down ca.12.8% since the beginning of 2017. We expect REA to have ca.33,423 mature ha by end-2019, as well as stronger agricultural production across the estates, and the plantations to be fully planted by end-2025.

Financial summary and valuation

Year-end Dec ($m)	2016	2017	2018	2019E	2020E	2021E
Sales	79.3	100.2	105.5	133.4	158.1	167.4
EBITDA	16.8	20.7	12.8	29.4	58.7	66.6
Reported EBIT	-5.0	-2.2	-10.7	4.9	32.9	39.8
Adj. pre-tax profit	-18.4	-18.3	-20.3	-13.8	14.5	22.9
EPS (c)	-48.2	-67.7	-54.4	-53.6	4.4	21.6
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
P/E (x)	-	-	-	-	31.7	6.4
Net (debt)/cash	-205.1	-211.7	-189.6	-227.4	-214.7	-194.9
Planted hectares (ha)	42,846	44,094	36,500	36,700	36,700	36,700
Adj. EV/planted ha ($/ha)*	6,753	6,547	7,686	7,549	7,481	7,440
CPO production (mt)	127,697	143,916	217,721	246,847	254,021	269,003

**EV/planted ha includes mkt. cap. of 9% pref. shares; Source: Hardman & Co Research*

Pharmaceuticals & Biotechnology

Source: Refinitiv

Market data

EPIC/TKR	**REDX**
Price (p)	**5.4**
12m High (p)	14.5
12m Low (p)	4.8
Shares (m)	126.5
Mkt Cap (£m)	6.8
EV (£m)	0.3
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	James Mead
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 RXC004 Phase I/IIa
1H'19	Dev. candidate for NASH

Analysts

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REDX PHARMA

Looking to extend its cash runway

REDX is a clinical-stage R&D company focused on drugs targeting oncology and fibrotic disease. 2018 was a year that reset the benchmarks – new management team, restructured organisation focused on two therapeutic areas, and a clean balance sheet. 2019 will be characterised by a number of major milestones, including the recent restart of the Phase I/IIa trial with RXC004 and nomination of RXC006 as the first development candidate in the anti-fibrotic programme. Meanwhile, management is continuing its efforts to reduce operating costs and is considering all options available to strengthen its balance sheet.

- **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.

- **Trial re-started:** The Phase I trial with a reformulation of the porcupine inhibitor RXC004 has resumed using a revised protocol, and REDX has indicated that the first patient is now close to completion and two additional patients are planned for enrolment. Initial safety and tolerability results are anticipated in 2H'19.

- **Interims:** REDX took the opportunity provided by its interim results to update the market with progress in its pipeline and financial position. The main news is the start of the trial with RXC004 with a revised protocol. REDX has also announced a £2.5m short-term loan. Net cash at 30 March was £3.3m.

- **Risks:** REDX has emerged from fiscal 2018 in a clean position, with a focused strategy. The company has limited cash resources, boosted by a short-erm shareholder loan, while it continues to explore the long-term funding of the group to advance the proof-of-concept trials for its development programmes.

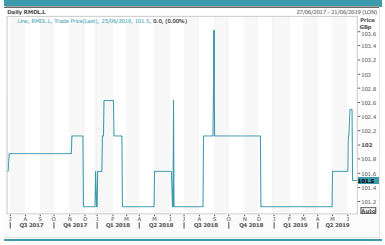
- **Investment summary:** The management team is moving forward with an updated business plan that focuses cash resources on progressing its drug leads in oncology and fibrotic disease to proof-of-concept early clinical development. Big pharma can be willing to pay handsome prices for novel and/or de-risked 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
Other income	2.38	1.29	1.32	1.00	1.00	1.00
R&D investment	-14.32	-13.00	-7.42	-10.61	-10.83	-12.99
SG&A (corp. cost)	-2.21	-5.70	-2.81	-3.04	-3.22	-3.38
Underlying EBIT	-14.15	-17.41	-8.92	-12.65	-13.04	-15.37
Underlying PBT	-14.61	-17.74	-8.90	-12.72	-13.10	-15.37
Statutory PBT	-15.41	1.65	-10.15	-13.03	-13.42	-15.71
R&D tax credit	0.64	-0.12	1.30	1.79	1.83	2.20
Underlying EPS (p)	-17.83	-15.80	-6.01	-3.95	-2.64	-3.09
Statutory EPS (p)	-19.81	1.35	-6.99	-4.06	-2.72	-3.23
Disposals	0.00	30.47	0.00	0.00	0.00	0.00
Net (debt)/cash	3.76	23.81	6.47	8.95	-2.28	-16.55
Capital increase	9.30	11.07	0.00	14.10	0.00	0.00

Source: Hardman & Co Life Sciences Research

Premium Equity Closed-Ended Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	**RMDL/RMDZ**
Price (p)	**102/103.5**
12m High (p)	104.0
12m Low (p)	100.2
Shares (m)	112.20
Mkt Cap (£m)	114
NAV per ord. shr. (p)	98.95
Free Float	100%
Market	LSE Equity Inv. Instruments

Description

RM Secured Direct Lending (RMDL) aims to generate attractive and regular dividends through investment in debt instruments that are backed by real assets, led by exceptional management teams, and that usually demonstrate high cashflow visibility.

Company information

Chairman	Norman Crighton
NED	Guy Heald
NED	Marlene Wood
Inv. Mgr.	RM
CIO	James Robson
Co. Manager	Pietro Nicholls
AIFM	IFM
	(RM)+44 131 6037060
	http://rmdl.co.uk

Key shareholders

CCLA	18%
Quilter	13%
MerianGlobal	13%
Brooks MacDonald	5%
Hawksmoor	5%
CG AM	4%
Charles Taylor	3%
RM (Inv. Mgr.)	0.8%

Diary

Mid-Jul	June Factsheet

Analyst

Mark Thomas 020 7194 7622
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RM SECURED DIRECT LENDING

THIS DOCUMENT IS NOT AVAILABLE TO 'U.S. PERSONS', NOR RESIDENTS OF AUSTRALIA, CANADA, JAPAN OR THE REPUBLIC OF SOUTH AFRICA. NOR SHOULD IT BE TAKEN, TRANSMITTED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO ANY OF THESE CATEGORIES. IN THE UNITED KINGDOM IT IS SUITABLE ONLY TO AN INSTITUTIONAL INVESTOR OR A PROFESSIONALLY ADVISED PRIVATE INVESTOR WHO UNDERSTANDS AND IS CAPABLE OF EVALUATING THE MERITS AND RISKS OF AN INVESTMENT IN THE SECURITIES.

RMDL will seek to meet its investment objective by making investments in a diversified portfolio of loans to UK SMEs and mid-market corporates, and/or to individuals. These loans will generally be, but are not limited to, senior, subordinated, unitranche and mezzanine debt instruments, documented as loans, notes, leases, bonds or convertible bonds. Such loans will typically have a life of two to 10 years. In certain limited cases, loans in which the company invests may have equity instruments attached; ordinarily, any such equity interests would come in the form of warrants or options attached to a loan. Typically, the loans will have coupons that may be fixed, index-linked or LIBOR- linked. For the purposes of this investment policy, UK SMEs include entities incorporated outside of the UK, provided their assets and/or principal operations are within the UK. RMDL is permitted to make investments outside of the UK to mid-market corporates.

The investment adviser for RMDL's assets is RM Funds. RM Funds is a specialist in fixed income, being part of RM Capital, a diversified fixed-income firm. Headquartered in Edinburgh, with offices in London, RM Funds has a team of analysts focused on bottom-up, bespoke credit and lending work, with a focus on secured lending over physical assets or contracted cashflows. RM Funds provides both public and private strategies to allow investors to participate in secure debt investments, aiming to provide above-average returns on a risk-adjusted basis.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RMDL can be accessed through our website, *Hardman and Co Research*. Our initiation report, published on 5 June 2019, can be found on the same site.

Pharmaceuticals & Biotechnology

Source: Refinitiv

Market data

EPIC/TKR	**STX**
Price (p)	**113.5**
12m High (p)	123.8
12m Low (p)	27.0
Shares (m)	117.1
Mkt Cap (£m)	132.9
EV (£m)	123.1
Free Float*	32.6%
Market	AIM

**As defined by AIM Rule 26*

Description

Shield Therapeutics (STX) is a commercial-stage pharmaceutical company delivering innovative specialty pharmaceuticals that address patients' unmet medical needs, with an initial focus on anaemia associated with renal and gastrointestinal disorders.

Company information

CEO	Carl Sterritt
CFO (Interim)	Tim Watts
Chairman	James Karis

+44 207 186 8500
www.shieldtherapeutics.com

Key shareholders

Directors	8.9%
W. Health	47.8%
MaRu AG	10.7%
R. Griffiths	6.9%
C. Schweiger	4.8%
USS	4.4%

Diary

27 Jul	Feraccru PDUFA date

Analysts

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SHIELD THERAPEUTICS

Eyes focused on the FDA

STX is a commercial-stage pharmaceutical company delivering specialty products that address patients' unmet medical needs, with an initial focus on treating iron deficiency (ID) with Feraccru®. Following IPO and EU approval of Feraccru, both in February 2016, STX has made good progress, demonstrating recently in a Phase III trial that oral Feraccru is as effective as intravenous iron. Feraccru is protected up to 2035 by nine patent families. One of its process patents has been opposed by TEVA: following the European Patent Office's (EPO) decision in favour of STX in March 2019, TEVA has appealed the decision.

- **Strategy:** STX's strategy is to out-license the commercial rights to its products to partners with marketing and distribution expertise in target markets. These agreements allow STX to retain its IP and to continue to invest in its R&D pipeline, while benefiting from immediate and long-term value.
- **Pending PDUFA date:** Given that Feraccru was shown in clinical trials to be non-inferior to Injectafer (Daiichi Sankyo) and that it has been approved across Europe for the treatment of ID in adults with or without anaemia, we are expecting the FDA to approve it on or before the PDUFA date – 27 July.
- **TEVA appeal:** In response to TEVA's opposition, the EPO decided in March to maintain Feraccru's 'Process for preparing an iron hydroxypyrone' patent in an amended form. TEVA has appealed this decision, meaning that a hearing is required; no date is set as yet. STX will be initially required to part-fund the appeals process.
- **Risks:** All drug companies carry development risk, although Feraccru carries limited risk because of its simplicity and clinical profile. Feraccru has already received more than one regulatory approval and is generating sales. The main risks are the FDA decision by 27 July on US approval and commercial execution.
- **Investment summary:** STX is at an exciting juncture. It has delivered on all goals set at the time of its IPO in 2016. Feraccru has been validated by regulatory approval, and the commercial deals in Europe are likely to be repeated in the US. Given its advancement since IPO and its potential, Feraccru's benefits over existing iron therapies, and the discrepancy between our rNPV/share of 166p and the current share price of 113.5p, STX is an interesting opportunity.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E
Gross revenues	**0.34**	**0.64**	**11.88**	**2.83**	**2.00**
Sales	0.30	0.64	0.86	0.63	2.00
R&D	-2.03	-4.71	-4.30	-4.73	-2.51
Other income	0.04	0.00	11.03	2.20	0.00
EBITDA	-10.29	-17.92	-1.80	-6.30	-6.45
Underlying EBIT	-10.47	-18.34	-2.25	-6.75	-6.90
Reported EBIT	-12.46	-20.95	-5.17	-9.67	-9.82
Underlying PBT	-10.43	-18.35	-2.24	-6.73	-6.93
Statutory PBT	-15.60	-20.99	-5.15	-9.65	-9.85
Underlying EPS (p)	-9.73	-15.08	0.96	-4.62	-5.60
Statutory EPS (p)	-14.84	-17.43	-1.54	-7.86	-8.03
Net (debt)/cash	20.98	13.30	9.78	6.02	0.83
Capital increase	33.51	11.88	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

Industrial Engineering

Source: Refinitv
Note: Priced at the close of 28 June 2019

Market data

EPIC/TKR	**SIXH**
Price (p)	18.6
12m High (p)	18.6
12m Low (p)	13.0
Shares (m)	113.1
Mkt Cap (£m)	21.1
EV (£m)	34.7
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 and the UK 15%.

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 Pension Fund	5.8%
Miton Group	3.4%
Others	63.4%
Haddeo Partners	20.8%

Diary

Jul'19	Final results

Analyst

Paul Singer 020 7194 7622
ps@hardmanandco.com

THE 600 GROUP

Acquisition of CMS attractive and EPS-enhancing

The Control Micro Systems Inc (CMS) acquisition (US) is strategically attractive. Trading remains good, with a healthy and improved order book, and growth enhanced by new product launches and new market entry. The group remains competitively well positioned, with a world-class reputation in machine tools and laser marking. The shares stand at a discount to the peer group and to a DCF valuation, and offer an appealing yield.

- **Strategic developments:** The CMS acquisition strengthens the competitive position of the group's TYKMA laser marking subsidiary. The $10m consideration was part-funded from the group's cash resources, boosted by monies from the recent pension scheme settlement, a new $3.25m five-term loan and $1m in new shares.

- **Financial impact:** The consideration represents transaction multiples of around 0.9x sales and 5x EBITDA. We believe the deal will be immediately earnings-enhancing (over 10%), even before any synergies or efficiency gains. (We will be adjusting our forecasts post release of the group's final results in early July.)

- **Current trading:** Despite the continued macroeconomic and political (trade war/Brexit) uncertainties, enquiry and quotational activity has remained good, with further progress in the group's order book.

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

- **Investment summary:** The shares offer the opportunity to invest in a de-risked cyclical stock with good operational leverage, enhanced by new product launches and new market entry. Cyclicality has been de-risked through development of repeat/recurring business and activities in high-margin, economically less sensitive spares/services operations. The risk/reward profile is favourable, and the shares stand at a discount to the peer group and to a DCF valuation, with 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)	7.0	7.5	7.5	6.8
Dividend yield		2.7%	3.2%	3.9%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Refinitiv

Market data

EPIC/TKR	**TRX**
Price (p)	**4.5**
12m High (p)	11.9
12m Low (p)	4.3
Shares (m)	1,172.0
Mkt Cap (£m)	52.2
EV (£m)	44.3
Free Float*	41%
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 uses.

Company information

CEO	Steve Couldwell
CFO	Gareth Jones
Chairman	John Samuel

+44 330 430 3052
www.tissueregenix.com

Key shareholders

Directors	4.3%
Invesco	28.8%
Woodford Inv. Mgt.	26.2%
IP Group	13.7%
Baillie Gifford	6.3%

Diary

2H'19	Potential EU approval of OrthoPure XT

Analysts

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gp@hardmanandco.com

TISSUE REGENIX

Credit facilities expand cash runway to 2021

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 repair of soft tissue (dCELL) and bone (BioRinse). Following the acquisition of CellRight in the US in 2017, TRX embarked on a revised commercialisation strategy, which is clearly gaining traction. Sales grew 47% in 2018, reflecting strong demand, particularly for DermaPure in the US. To support further business expansion, including investment in facilities and working capital, credit facilities of up to $20m/£16m have been secured.

- **Strategy:** TRX is building an international regenerative medicine business with a product portfolio using proprietary dCELL and BioRinse technology platforms, underpinned by compelling clinical outcomes. It aims to expand its global distribution network, via strategic partnerships, to drive sales momentum.

- **Credit facilities:** TRX has entered into an agreement with MidCap Financial Trust to access credit facilities composed of a term loan of $15.0m and a revolving credit line of up to $5m. The loan is structured into three tranches, providing cash until 2021 on current forecasts. The first $7.5m/£5.9m tranche has been drawn down.

- **2018 results:** Sales grew 47% to £11.6m (£7.9m 2017 *pro forma*), driven largely by the US performance of DermaPure (+79%). The EBIT loss, at £8.32m, was 14% lower, helped by an overall increase in DermaPure margins. Period-end cash of £7.8m was achieved by tight control of both operating costs and working capital.

- **Risks:** TRX is exposed to many of the risks common to medical device companies, including the regulatory hurdles based on the manufacture and distribution of human tissue products, and the commercial risks of operating in a highly competitive market. A hybrid sales strategy, however, mitigates the latter.

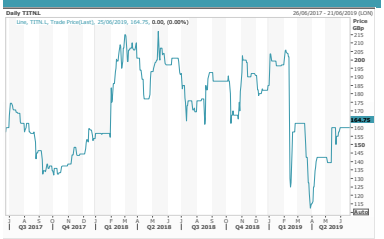
- **Investment summary:** TRX has three near-term value drivers: sales of BioSurgery products in the US; expansion of CellRight and TRX technologies into the orthopaedics/spine and dental markets; and preparation for the EU launch of OrthoPure XT in 2019. Management has been prudent in securing a US dollar loan that relieves some of the working capital pressure during this growth period and is non-dilutive for shareholders.

Financial summary and valuation

Year-end Dec (£m)	*2016	2017	2018	2019E	2020E	2021E
Sales	1.44	5.23	11.62	16.24	21.43	27.66
EBITDA	-10.55	-8.98	-7.15	-6.01	-3.53	-0.34
Underlying EBIT	-10.85	-9.69	-8.32	-7.20	-4.75	-1.59
Reported EBIT	-11.06	-10.82	-8.69	-7.14	-4.70	-1.54
Underlying PBT	-10.74	-9.64	-8.51	-7.51	-5.65	-2.52
Statutory PBT	-10.95	-10.77	-8.88	-7.45	-5.59	-2.47
Underlying EPS (p)	-1.28	-0.90	-0.67	-0.61	-0.42	-0.14
Statutory EPS (p)	-1.30	-1.02	-0.70	-0.61	-0.41	-0.13
Net (debt)/cash	8.17	16.42	7.82	-3.72	-6.77	-14.69
Capital increase	0.00	37.99	0.00	0.00	7.00	0.00
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	8.5	3.8	2.7	2.1	1.6

**11 months to December; Source: Hardman & Co Life Sciences Research*

Construction & Materials



Source: Refinitiv

Market data

EPIC/TKR	**TON**
Price (p)	160.0
12m High (p)	208.0
12m Low (p)	112.5
Shares (m)	11.1
Mkt Cap (£m)	17.7
EV (£m)	16.0
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	15.7%
Family	6.8%

Diary

30 Sep	Year-end
Dec'19	Preliminary results

Analyst

Tony Williams 020 7194 7
tw@hardmanandco.com

TITON HOLDINGS PLC

Put your metacarpi together

Failure to applaud is the original meaning of the idiom 'to sit on your hands'; it originated in the theatre, when an unimpressed audience refused to clap. In the modern lexicon, it means to remain idle when things go awry – and when action is required. Titon has had a charmed run over the past three years but this year has met with a tough South Korean crowd. But "it is not in Titon's nature to sit on its hands", as the Chairman has noted, and its decisive action will produce results in fiscal 2020 and 2021. At that time, expect Titon to attract critical acclaim and applause once more.

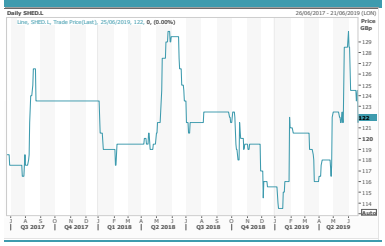
- **Meta 1:** Titon's half-year figures, reported on 15 May, were impressive, with EBITDA rising 29% to £1.35m, EBIT margins widening 200bps to 6.9% and underlying PBT surging 26% to £1.30m. However, the comparatives were flattered by the restatement of fiscal 2018 due to an accounting issue.
- **Meta 2:** On 14 February, Titon issued an unscheduled trading statement in respect of its star-turn South Korean business. There had been a slowdown in the new residential market and a structural shift in product preference, which meant that the trading performance would be substantially lower than forecast, at that time.
- **Meta 3:** In South Korea, Titon has been quick to act, lowering overheads and costs, and enacted a plan to introduce new ventilation units (mechanical and natural) in 2020. The South Korean economy, number 12 in the World, also continues to grow quickly at 2.6% (2019) and 2.9% (2020), according to *Statista* (May 2019).
- **Meta 4:** The UK is a Steady Eddie (supported by 1%-2% Brexit-compliant GDP growth). In Continental Europe and the US, Titon should move from loss to profit this year. However, fiscal 2019 should see PBT sharply below par (South Korea), but revised 2020 and 2021 numbers show Titon returning to double-digit growth.
- **Meta 5:** The Hardman UK Building Materials Sector comprises 23 companies with a market value of £8.53bn and a 9.1x EV/EBITDA ratio on a trailing 12-month basis (priced on 21 June) or 12.6x weighted by market capitalisation. Titon is on just 6.0x (albeit rising to 6.8x). At the same time, the Sector's Total Shareholder Return (TSR) over 12 months is -2.5% actual or 12.3% weighted. Titon is at -18.2%, having been +17.7% in calendar 2018. Investors will stand up and clap again.

Financial summary and valuation

Year-end Sep (£m)	2018	2019E	2020E	2021E
Net revenue	29.9	28.3	30.1	31.8
EBITDA	2.67	2.42	2.47	2.75
Underlying EBIT	2.02	1.71	1.69	1.89
Underlying PBT	2.77	2.21	2.30	2.60
Underlying EPS (p)	18.2	16.1	16.7	18.9
Statutory EPS (p)	18.2	14.5	16.7	18.9
Net (debt)/cash	3.4	3.0	3.7	4.5
Shares issued (m)	11.1	11.1	11.1	11.1
P/E (x)	8.8	9.9	9.6	8.5
EV/EBITDA (x)	6.0	6.8	6.4	5.5
DPS (p)	4.75	4.75	5.00	5.50
Dividend yield	3.0%	3.0%	3.1%	3.4%

Source: Hardman & Co Research

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	SHED
Price (p)	125
12m High (p)	130
12m Low (p)	113
Shares (m)	87.8
Mkt Cap (£m)	114
EV (£m)	176
Market	AIM

Description

Urban Logistics (SHED) focuses on strategically-located (e.g. urban "last mile"), smaller (typically ca.70,000 sq. ft.) single-let industrial and logistics properties, servicing high-quality tenants. The market is in strategic under-supply.

Company information

CEO	Richard Moffitt
Chairman	Nigel Rich

+44 20 7591 1600
https://www.urbanlogisticsreit.com/

Key shareholders

Directors	1.2%
Allianz	11.8%
Rathbone	11.0%
Janus Henderson	10.5%
Sir John Beckwith	8.0%
Premier	7.9%
GLG	4.4%

Diary

12 Jul	AGM
Nov'19	Interim results

Analyst

Mike Foster 020 7194 7633
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URBAN LOGISTICS

6% dividend yield, plus rising NAV

SHED's results (24 May) were robust (as all have been since flotation in 2016). SHED owns "mid-box", "last-mile" distribution warehouses. This asset class is clearly placed to benefit consistently from engrained market trends in logistic requirements. Supply is strictly constrained by the dominant trend – that the cost of new-build is generally above the current valuations placed on assets in SHED's category (last-mile logistics). The acquired NIY of the portfolio was 7.1% and the year-end valuation was 6.0% – SHED buys well. Although the market has moved and despite SHED's 6.0% year-end valuation, there is still scope for the valuation basis to appreciate.

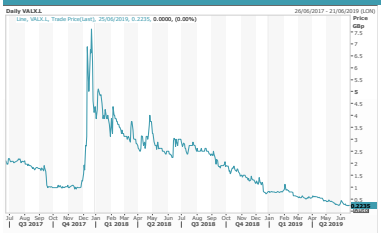
- **EPS dynamics:** 20% of SHED space has short leases. This is a positive, because – in this rising market – current rents are at sub-market levels. SHED adds value through asset management. 80% of tenants are top credit score graded. Occupancy is 100%. We anticipate initiation of FY21 numbers by this September.
- **Sector dynamics:** In SHED's "mid-box" specialism, supply is falling and demand rising. Generally, the current build cost is ahead of current market values of mid-box. SHED's marketplace is broader than the rising demand for logistics space from online (or multichannel) retail, but this driver alone sustains strong demand.
- **Valuation:** The share price valuation, at a discount to EPRA NAV, appears illogical. With rents rising at mid-single-digit levels and with supply/demand tight, we see a strong probability of NAV rises. An asset was sold in May for £9.2m, vs. a book value (end-March) of £8.43m – illustrative of a conservative NAV.
- **Risks:** 5.5-year leases mean that there are reversionary rent rises to come, but also that new leases must be secured. In the past ca.20 years, aggregate rent rises have been minimal. So, once rents and values rebase to higher levels and omni-channel retail growth tails off, new macro drivers need to be found.
- **Investment track record:** SHED listed on AIM in April 2016, and has since built a £185m portfolio of warehouses, generating annualised NAV and dividend returns of 17.7%. Across the market, nationwide, vacancies are low, at ca.5% (and SHED nil), so there are many years of growth "baked in" yet to come. Market rents have risen to ca.25% above SHED's current £4.83 sq. ft. level.

Financial summary and valuation

Year-end Mar (£m)	2017	2018	2019	2020E
Rental income	2.28	5.56	10.80	12.40
Finance costs	-0.60	-0.93	-2.20	-2.80
EPRA operating profit	1.76	4.06	8.30	10.00
Declared profit	4.89	9.86	18.88	18.00
EPS reported (p)	34.12	19.50	22.29	20.52
EPRA EPS (diluted, pre-LTIP, p)	7.82	6.12	7.20	8.21
DPS (p)	6.23	6.32	7.00	7.50
Net debt	16.52	44.39	61.64	67.23
Dividend yield	4.9%	5.0%	5.6%	6.0%
Price/EPRA NAV (x)	1.08	1.02	0.90	0.84
NAV per share (p)	118.23	123.64	137.37	147.54
EPRA NAV per share (p)	116.11	122.49	138.18	148.00

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**VAL**
Price (p)	**0.23**
12m High (p)	3.25
12m Low (p)	0.20
Shares (m)	902.6
Mkt Cap (£m)	2.08
EV (£m)	1.78
Free Float*	100%
Market	AIM

**As defined by AIM Rule 26*

Description

ValiRx (VAL) is a clinical-stage biopharma company focused on novel treatments for cancer. It currently has two products in Phase I/II, and has 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	0.3%
Nicholas Slater	8.0%

Diary

2H'19	Read-out VAL201

Analysts

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	gp@hardmanandco.com

VALIRX

High confidence in VAL201 trial

VAL is a clinical-stage biopharmaceutical company focused on the development of drugs for the treatment of cancer. The company has two leading assets: VAL201 (Phase I/II) – a peptide for advanced prostate cancer; and VAL401 (completed Phase II) – a novel reformulation of risperidone, for advanced lung cancer. Both drugs are targeting multi-billion-dollar markets that are inadequately served by current drugs. VAL indicated that the MHRA authorised a substantial amendment to the dosing protocol for VAL201, potentially enabling increased efficacy. Meanwhile, management is looking to strengthen VAL's financial position.

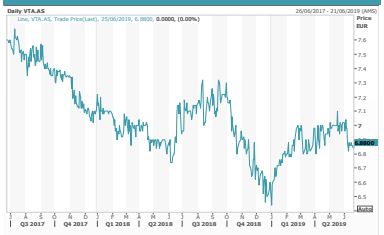
- **Strategy:** VAL operates as a virtual business, outsourcing most of its activities. The core strategy is to develop its therapeutic assets through the clinical pathway, and seek a partner/licensing deal to complete the development programme and regulatory submissions to commercialise the products.
- **2018 results:** VAL took the opportunity with its financial results to update the market on its R&D pipeline. Although the pipeline is progressing well, there is some uncertainty about the long-term cash position, following termination of the subscription agreement with EHGOSF.
- **Trials progress:** In addition to the positive outcome from the Phase II trial with VAL401 in late-stage non-small cell lung cancer, the MHRA authorised an amendment to the trial protocol for VAL201 relating to the dosing strategy. VAL reported that the trial thus far has met all the primary and secondary endpoints
- **Capital increase:** Following the termination of the credit facility provided by ABO, VAL raised £0.3m through the issue of 150 million shares, at a price of 0.2p per share, representing a premium of 33%. In addition, VAL expects to receive £0.15m from the sale of an unlisted security and £0.4m from an R&D tax credit.
- **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. On the back of clinical progress, the company is attracting potential commercial partners to help pay for the costs of late-stage development. This should be the catalyst needed to attract institutional investors into the company.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018	2019E	2020E
Sales	0.08	0.00	0.00	0.00	0.00	0.00
SG&A	-1.64	-1.67	-1.47	-1.68	-1.85	-1.94
R&D	-1.54	-2.38	-1.75	-1.70	-2.20	-2.64
EBITDA	-2.88	-3.94	-2.94	-3.24	-3.91	-4.44
Underlying EBIT	-2.98	-4.04	-3.13	-3.38	-4.05	-4.58
Reported EBIT	-3.03	-3.99	-3.13	-4.37	-4.05	-4.58
Underlying PBT	-2.98	-4.38	-3.57	-3.39	-4.11	-4.84
Statutory PBT	-2.57	-5.57	-3.55	-4.83	-4.11	-4.84
Underlying EPS (p)	-7.96	-6.16	-2.01	-0.62	-0.46	-0.47
Statutory EPS (p)	-6.66	-8.22	-2.00	-0.94	-0.46	-0.47
Net cash/(debt)	0.23	-0.73	0.31	0.06	-2.17	-6.56
Capital increase	2.68	2.61	3.60	3.43	0.50	0.00

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	**VTA .NA, VTA.LN VTAS LN***
Price (€)	6.86/6.86/610p
12m High (€)	7.32/7.28/655p
12m Low (€)	6.44/6.52/585p
Shares (m)	36.6
Mkt Cap (€m)	250
Trail 12-mth. yield	9.0%
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

Mid-Jul	June estimated NAV

Analyst

Mark Thomas 020 7194 7622

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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 rolling 12-month dividend is €0.62 per share (with €0.15/€0.16 per share paid quarterly). 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; the company is therefore excluded from the FCA's restrictions that apply to non-mainstream pooled investments (NMPIs). The Board believes, therefore, 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, as can our recent note on the manager's March presentation.

Personal Products

Source: Refinitiv

Market data

EPIC/TKR	**W7L**
Price (p)	86.5
12m High (p)	267.5
12m Low (p)	72.0
Shares (m)	76.7
Mkt Cap (£m)	66.4
EV (£m)	65.1
Free Float*	36.1%
Market	AIM

**As defined by AIM Rule 26*

Description

Warpaint is a UK-based colour cosmetics specialist that sells creative, design-focused and high-quality cosmetics at affordable prices. The company comprises of two divisions: own-brand (W7, Retra and others) and close-out. It has a presence in more than 67 countries.

Company information

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

+44 1753 639 130

www.warpaintlondonplc.com

Key shareholders

Directors	51.1%
Schroders	12.0%
Blackrock	4.8%
BI Asset Mgt.	4.6%
Canaccord	3.1%

Diary

Sep'19	Interim results

Analyst

Yingheng Chen 020 7194 7638

yc@hardmanandco.com

WARPAINT LONDON PLC

Challenging UK market; encouraging international growth

In the May AGM statement, Warpaint stated that the company continued to see an increase in brand awareness and encouraging growth in international sales, particularly in the EU and the US. However, trading conditions in the UK retail market remain challenging, particularly in the high street, with a reduction in footfall to bricks-and-mortar stores. Warpaint's management team is focusing on implementing its growth strategy and is still cautiously optimistic about the remainder of FY'19. Cash generation remains healthy.

- **Strategy:** In the near term, Warpaint will continue to focus on developing the own brands, W7 and Technic, and on optimising operations in both Retra and LMS. The group believes that further synergies are still possible. It will also concentrate on increasing its product offerings and raising brand awareness across the globe.
- **LMS integration:** Since the LMS acquisition (August 2018), Warpaint has opened a new showroom in Manhattan, which will showcase a full range of W7 and most Technic products. It has also opened a fulfilment centre in the US to shorten the lead time to customers in the Americas. LMS sales were up a strong 36% in 1Q.
- **Valuation:** Warpaint remains profitable and cash-generative, despite a challenging trading environment in the UK. We estimate a 2019 P/E of 8.6x, falling to 7.2x in 2020 on an adjusted basis. Warpaint has never made a loss and has a healthy profit margin. The group also has a progressive dividend policy.
- **Risks:** The biggest short-term risk for Warpaint is the ongoing decline in the retail market, particularly in the bricks-and-mortar stores in the UK, given that the UK is the company's biggest market at present, with over 48.2% of sales in FY'18.
- **Investment summary:** The Warpaint story is quite simple. The group's flagship brand, W7, was created to fulfil the ever-increasing demand for creative, design-focused and high-quality cosmetics at affordable prices. The company deploys a similar strategy to its other own-brand products, with a quick product development time and on-trend products, meaning that Warpaint is well positioned for growth in a fast-growing colour cosmetics sector. Warpaint's RoE appears attractive.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	22.5	32.5	48.5	52.7	57.3	62.6
EBITDA (adjusted)	6.3	8.0	8.9	9.8	11.5	13.1
Operating profit (adjusted)	6.2	7.3	5.3	7.2	8.9	10.6
PBT (adjusted)*	6.1	7.7	8.2	9.0	10.9	12.7
Basic EPS (adjusted, p)*	7.9	9.6	9.1	10.1	12.1	13.9
DPS (p)	1.5	4.0	4.4	5.0	5.8	6.7
P/E (x)*	11.0	9.0	9.5	8.6	7.2	6.2
EV/EBITDA (x)	10.4	8.2	7.3	6.6	5.7	4.9
Dividend yield	1.7%	4.6%	5.1%	5.8%	6.7%	7.7%
RoE	-	20.0%	8.8%	13.0%	15.5%	17.2%

**adjusted for amortisation relating to acquisitions, exceptional costs and acquisition-related impairments*

Source: Hardman & Co Research

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(Disclaimer Version 8 – Effective from August 2018)

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

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