



HARDMAN & CO.



	15,924.00
15,000.00	51,000.00
46,884.00	46,884.00
37,872.00	37,872.00
480,091.00	512,603.00

THE MONTHLY

March 2019

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'Aaah, we fade to grey'

Visage 1980 or the end of the 'Age of Consensus'

By Keith Hiscock, CEO, and Yingheng Chen, Hardman & Co Analyst

Transparency in forecasts has disappeared

In the investment world, before MiFID II, essentially every institution talked to every broker, and the whole, professional market could see every research note and the forecasts in detail. This was the 'Age of Consensus'. Everyone had the same information (well, everyone except retail investors), and this transparency helped share price formation and liquidity.

Today is very different. Company managements may not appreciate that institutions have typically halved their broker list. As management, you may feel comfortable that you have, for example, eight analysts writing about you – you should feel less so if many of them are not visible to anyone! This article shows how transparency in forecasts has disappeared. Our work shows that, for a typical company with eight analysts, only four forecasts are visible. This demonstrates the risk of confusing coverage with distribution.

MiFID II changes everything, including broker reach

Many brokers have seen their reach go from universal to 'tight'

Most of what has been written about the new environment for investment research has centred on the number of analysts per stock. Indeed, Hardman & Co has been at the forefront of exploring this impact and any consequent effect on liquidity with our own *MiFID II Monitor*. But the more crushing, and far less appreciated, outcome has been on the broker relationship with institutional clients. Many brokers have seen their reach go from universal to 'tight'.

Quantity and quality of research

Volume doesn't necessarily equal value

Some commentators wonder whether the quality of research has gone down. One way to assess this would be to examine the data for the number of pages published collectively in 2018 versus 2017. Recognising that volume doesn't necessarily equal value, if, say, we found that, on average, the figure had halved, then that would be a strong indicator. Unfortunately, these data do not seem to be available.

We have some qualitative evidence, though. The Quoted Companies Alliance recently published its 'Mid and Small-Cap Investor Survey'¹. 62% of institutions surveyed thought there was less research in 2018, compared with 48% that held that view in 2017. What is particularly interesting is that only 28% of companies have noticed that there is less research. Look forward to the next 12 months and the survey shows 71% of institutions think there will be less research, but only 32% of companies share that view.

Distribution of broker research is key...

Two points should be made about these data.

- ▶ Firstly, they are restricted to mid- and small-cap coverage, although there is no reason to believe the large-cap landscape is any different.
- ▶ Secondly, there is a significant variance between the views of institutions and companies. Of the two, we would pay more attention to institutions, since they are the audience at which research is targeted. In fact, the difference may be

¹ PP 22 and 33, 'Mid and Small-Cap Investor Survey 2019: MiFID II - The Search for Research', QCA/Peel Hunt, February 2019

explained by distribution. If you have cut the number of brokers you deal with, of course you're going to see less research.

Companies may not realise this change in broker distribution. In fact, 42% of institutions surveyed would recommend companies change to brokers whose research is more widely distributed². When asked, 'what are the most important questions mid- and small-cap companies should be asking of their brokers or investors in relation to MiFID II', 38% of investors answered, 'How widely does my broker distribute research?'³

The QCA/Peel Hunt survey also focused directly on quality. 37% of institutions felt the quality of research had declined and 35% thought it would get worse in 2019⁴.

Of course, simply measuring the number of analysts is crude – it does not address the issue of length and depth of analysis. Company A might have 10 analysts who wrote a total of 40 pages about it in 2018 – i.e. the notes were largely a cut and paste of the results statements – while company B had only five analysts with a total page count of 100. This suggests that the analysts of B put in more effort to help investors understand the investment case and went beyond repetition. It would be entirely possible that more activity was generated in Company B as a result. Whether or not this is the case, the point is that looking only at the number of analysts might not be a good enough measure.

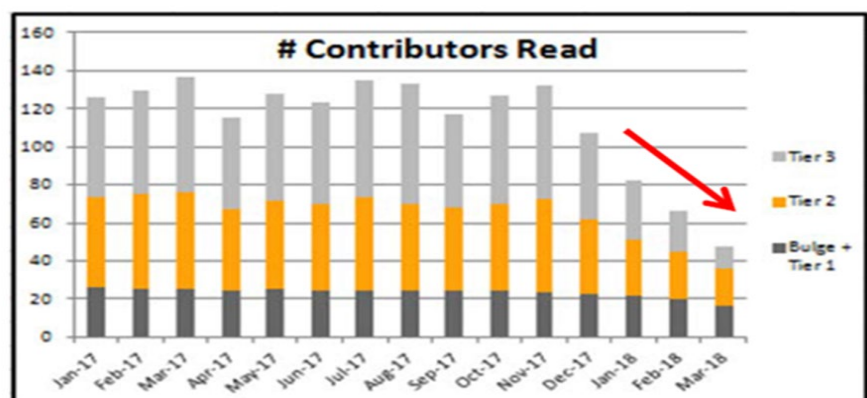
Collapsing distribution of broker research

...and ignoring this can produce misleading conclusions

Ignoring the distribution of broker research can produce misleading conclusions. We have heard many company managements refer to the number of analysts following them and feeling comforted by this. But if it turned out, for example, that of the eight analysts covering a stock, only four had wide distribution, that management confidence would be misplaced.

So how can we judge distribution? One way is to simply ask a broker who pays for the broker's research. Some brokers seem too shy to answer this question. One way to reach an approximate answer is to consider a chart Thomson Reuters Eikon published last summer (see below).

Thomson Reuters: decline in entitled sell-side contributors



Source: Thomson Reuters Eikon

² PP 27, 'Mid and Small-Cap Investor Survey 2019: MiFID II - The Search for Research', QCA/Peel Hunt, February 2019

³ PP 28, 'Mid and Small-Cap Investor Survey 2019: MiFID II - The Search for Research', QCA/Peel Hunt, February 2019

⁴ PP 24, 'Mid and Small-Cap Investor Survey 2019: MiFID II - The Search for Research', QCA/Peel Hunt, February 2019

Briefly explained, this shows that the average top 12 institutional clients of Thomson Reuters Eikon had access to the research and forecasts of 130 brokers (on a pan-European basis) before MiFID II, and that list has been cut by those institutions to about 50. This confirms the dramatic change in the audience for broker research.

Forecasts in the 'Age of Consensus'

Before MiFID II, all professional investors
saw the same number

Another way to judge the decline of distribution is to look at forecasts. This report focuses on this as a way of demonstrating that looking at the number of analysts per company on its own will be misleading.

Before MiFID II came into force, institutional brokers and investment banks bombarded professional investors with research, forecasts and service. Institutions were happy to receive all of this because it was free! Well, not quite. In return, institutions dealt with their favourite brokers (who might even be the ones that produced the best research, the most accurate forecasts and the best service). The commission on that dealing came from the institutions' underlying clients – perhaps the pensioners and unit trust holders. It certainly didn't come from the pocket of the fund manager. The only problem an institutional fund manager had was coping with the volume of calls and the massive post bag.

In terms of forecasts, it meant that these fund managers were all looking at the same screen. Every professional could see every forecast for every company, including the date the analyst's forecast was made, whether it had gone up or down, and how it compared with the peer group, i.e. the consensus. More than that, clever investors realised a forecast made six months ago was not as valid as one made yesterday, and that not all analysts were created equal. A few analysts built reputations for being the most accurate forecasters on a particular stock or sector, while others were always too optimistic or pessimistic. Good fund managers knew that analyst A was brilliant at identifying investment themes early, but hopeless at forecasting profits, while analyst B was good on forecasts, but always got the recommendation wrong. There were even services launched to monitor forecasts, to scientifically prove who was always looking at a glass half full, for example.

The new world of non-consensus

End of transparency...

MiFID II has destroyed the concept of a common consensus. Institutions can now see only the research that they have paid for (with two exceptions). If they have not paid for that research, they will be committing an offence to receive it or even talk about it with the broker. Generally, the compliance officers of institutions have taken that to mean stopping seeing everything from a broker with whom they don't have a commercial relationship, including viewing the broker's forecasts. This means, for example, that the forecasts Fidelity can see might be completely different from those seen by BlackRock. The average of these forecasts could be different too. Thus, there is no longer a consensus. We have seen a growth in 'hidden forecasts', i.e. forecasts that only a select few can see.

What are the two exceptions referred to above, when research can be received for free?

- ▶ The first is a trial period: an institution can have one three-month free trial period in any 12-month period.
- ▶ The second is research that has already been paid for by the company that is being written about. This is covered by clause 12.3 of MiFID II, and such research is considered a 'minor, non-monetary benefit in the hands of the recipient'; generally, this covers research written by the house broker and by a sponsored research house, such as Hardman & Co.

'Aaah, we fade to grey'

...leading to weakening in broker relationship with institutions

Why does this matter?

The end of the transparency that existed in the Age of Consensus is important for two reasons.

- ▶ First, it means that investors have to make decisions with different sets of data. This undermines investor confidence and, ultimately, that impacts liquidity.
- ▶ The second effect is on companies themselves. Yes, weakened investor confidence and lower liquidity are unhelpful. But, more importantly, the loss of visibility of analyst forecasts is one outcome of the weakening in the broker relationship with institutions.

Today, brokers do not have the universal distribution among institutions that they had before MiFID II. A company management may comfort itself that it has eight brokers covering it, but if, on average, institutions can see only four forecasts, the reality is that the effective analyst count is four.

And retail investors never saw consensus, anyway

Before MiFID II came into force, professional investors enjoyed a massive information advantage over retail investors. While an institution could see all research, and every forecast, the retail investor was a second-class citizen. He was not allowed to receive institutional research, he didn't get badgered for a meeting with the analyst, and nor did anyone bother to call him. No, the retail investor had to rely on bulletin boards, blogs and chatrooms, and the crumbs from the institutional table – such as when the *Evening Standard* might report that JPMorgan had upgraded its forecast, or moved to a Buy rating on a stock. The only research and forecasts to which he had access came from sponsored research houses, such as Hardman & Co.

With MiFID II, playing field between retail and professional investor has been levelled

One of the unlikely outcomes of MiFID II is that the playing field between retail and professional investor has been levelled in two ways. First, the professional can't access research for free and generally has less of it and, second, more companies are using sponsored research houses. Historically, sponsored research houses published only on small companies, but, today, the more respected ones, such as Hardman & Co and Edison, are retained by very large companies. For example, Hardman & Co's largest client has a market cap approaching £4bn, with several more over £1bn.

Plenty of companies with absolutely no research or forecasts

Let us not forget that there are a number of companies where there are no forecasts. The table below shows that many companies live in a lonely world without any analysts.

LSE quoted companies with no analyst coverage at December 2018				
Mkt. cap. band (£m)	No. of companies	No. with coverage	No. with no coverage	% with no coverage
0-100	947	381	566	59.8%
100-200	208	125	83	39.9%
200-400	211	128	83	39.3%
400-1,000	213	153	60	28.2%
1,000-2,000	113	90	23	20.4%
2,000-5,000	85	80	5	5.9%
>5,000	83	82	1	1.2%
Total	1,860	1,039	821	44.1%

Note: List includes investment companies
Source: Thomson Reuters Eikon, Hardman & Co Research

'Aaah, we fade to grey'

The smaller the market cap, the greater the likelihood that no analyst publishes

It will be no surprise to readers that the smaller the market cap, the greater the likelihood that no analyst publishes (not even the house analyst!). But it is more common up the market cap scale than you might expect. Partly, this is explained by the inclusion of investment companies/trusts, for most of which earnings forecasts aren't relevant. We even have one constituent with a market cap above £5bn with no coverage – Scottish Mortgage, an investment trust.

LSE quoted companies by listing with no analyst coverage at December 2018

Mkt. cap. band (£m)	Main Market			AIM		
	No. of companies	No. with no coverage	% with no coverage	No. of companies	No. with no coverage	Mkt. cap. band (£m)
0-100	148	102	68.9%	672	337	50.1%
100-200	50	8	16.0%	90	9	10.0%
200-400	92	14	15.2%	53	5	9.4%
400-1,000	114	9	7.9%	45	0	0.0%
1,000-2,000	84	2	2.4%	7	0	0.0%
2,000-5,000	74	1	1.4%	5	0	0.0%
>5,000	82	0	0.0%	0		
Total	644	136	21.1%	872	351	40.3%

Note: List excludes investment companies

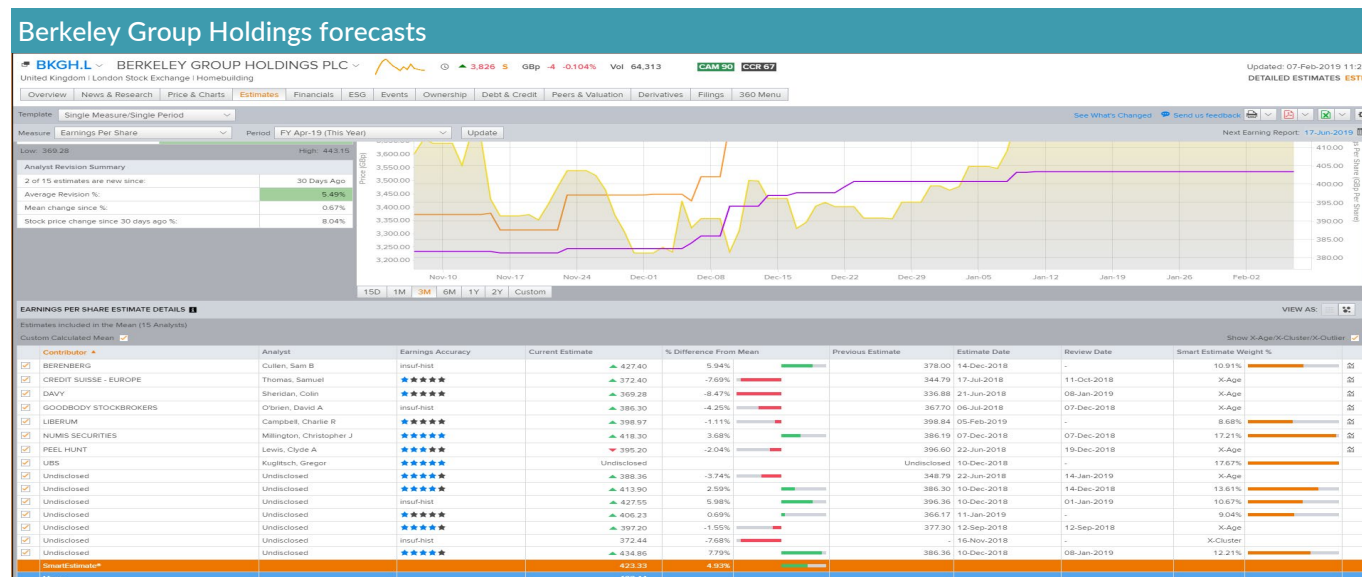
Source: Thomson Reuters Eikon, Hardman & Co Research

The picture looks dramatically better without investment companies, as the table above shows. Nevertheless, the table does demonstrate the difference in coverage for the same size band companies between Main and AIM. For example, 68.9% of companies in the £0-100m size band on Main have no coverage, compared with 50.1% of AIM-listed. This has always been the case. AIM tends to be attractive to a wider investor audience, such as IHT investors and Venture Capital Trust funds; hence there is more liquidity (for the same size companies) and a better commercial case to write research.

An example of hidden forecasts

How much of a problem is the 'hidden forecast'?

Ideally, we would carry out a survey of institutions and put together a whole series of snapshots of what they can see to gauge the seriousness of the problem. However, we can't do that. So perhaps the next best thing is to look at Hardman & Co's own position. Hardman & Co is a subscriber to the Thomson Reuters Eikon service and, just like institutions and brokers, we have a page of detailed estimates for every company on the market (see example below).



Source: Thomson Reuters Eikon

'Aaah, we fade to grey'

The above is a typical snapshot of the detailed estimates page from Hardman & Co's Thomson Reuters Eikon screen. It shows the data for Berkeley Group Holdings, a housebuilder with a market capitalisation of just under £5bn. Hardman & Co is not in the position of an institution. We can see any forecast without paying for it. Even so, our view is restricted. Some brokers have chosen to be anonymous to us, either because they have some mistaken notion that they would otherwise be in breach of MiFID II (the truth is the onus is on the receiver of research, not the provider), or because it is part of a policy of monetising research. Unlike an institution, though, we can see all forecasts – we just don't know who made them! Institutions will typically see less than Hardman & Co, with only the data for the brokers they have paid for being visible.

You would expect there to be lots of analysts covering Berkeley. You would be right. At the last count, there were 15 estimates. But on Hardman & Co's screen, seven of them are declared as broker 'undisclosed', and, although we know, for example, that UBS follows the company, we cannot see its forecast. This is critical information. What if, historically, the analyst with the best forecasting record is greyed out? Is his forecast 388.36p for the next EPS number, or 434.86p? That is a difference of 46.5p, or 11%. We simply don't know. Remember, if you are an institution, you would not even know there is a forecast as high as 434.86 – if you were paying the brokers visible on the Hardman & Co screen, you would think the top of the range was 427.40 from Berenberg.

This example demonstrates that, while the management may think that 15 brokers cover Berkeley Group, if Hardman & Co were an institution, in reality, we would think the number was just seven.

The scale of the problem of hidden forecasts

The more analysts that follow a company, the greater the percentage of forecasts is hidden

If we employ the approach used for Berkeley Group for the whole of the market, what do the data show? We have taken a snapshot at 31 December 2018 for every quoted company (less investment companies and international businesses, such as Boeing, where the London quote is a subsidiary one). Our dataset comprises 1,029 companies where there is at least one forecast.

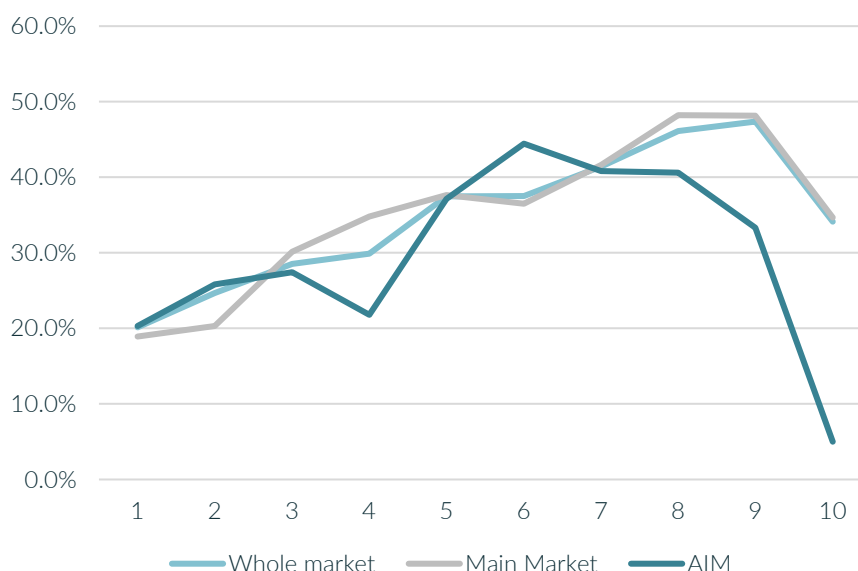
LSE quoted companies by listing with visible analyst coverage at December 2018

Number of analysts	Weighted average of visible estimates				
	Whole market	Main market	No. of companies	AIM	No. of companies
1	0.80	0.81	37	0.80	261
2	1.51	1.59	32	1.48	120
3	2.14	2.10	42	2.18	62
4	2.80	2.61	51	3.13	31
5	3.13	3.12	34	3.14	21
6	3.75	3.81	42	3.33	6
7	4.10	4.09	23	4.14	7
8	4.31	4.14	21	4.75	8
9	4.74	4.67	18	6.00	1
10+	6.59	6.53	208	9.50	4

Source: Hardman & Co Research

The above table shows that, for the typical company with eight analysts showing on the Hardman & Co/Thomson Reuters Eikon screen, only 4.14 forecasts are available for Main-listed companies and 4.75 for AIM.

Percentage of analyst forecasts hidden by number of analysts per company



Source: Thomas Reuters, Hardman & Co Research

The above chart looks at the data another way. It shows what percentage of a company's forecasts are hidden. Broadly, the more analysts that follow a company, the greater the percentage of forecasts is hidden. Some caution should be applied to the figure for 10 analysts, since this includes companies with 10 or more followers. If the chart displayed the results for 11 analysts and above, the chart would peak at 64%.

The conclusion is clear. Managements who are comforted by a reasonable number of analysts covering them, are misleading themselves. The reality for institutional investors is much smaller, often by half.

What can companies do about it?

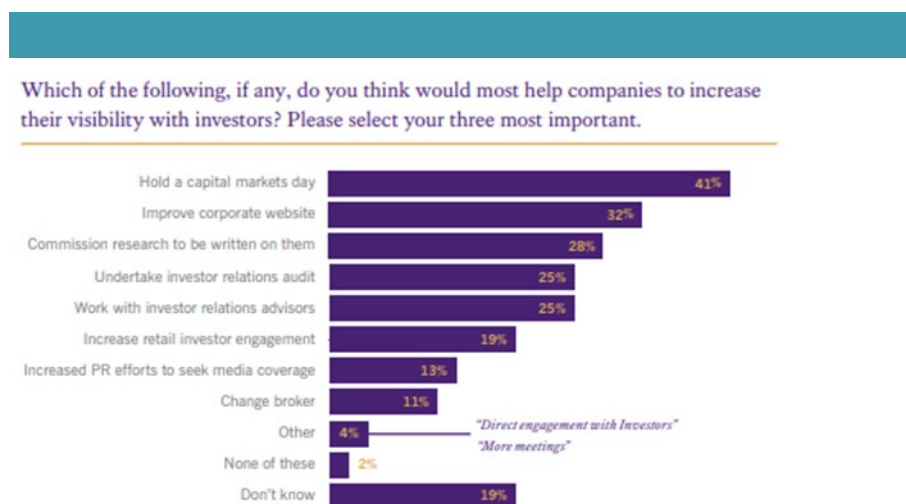
Company managements are beginning to realise that, in the new world post-MiFID II, they will have to do more for themselves to get the attention of investors. In the case of consensus, there are two practical steps to take:

- ▶ Publish the consensus at the time of a trading or results announcement. Even if you just give the middle of the range the night before and the source (e.g. Thomson Reuters Eikon), this improves the market's understanding. Some advisors will be wary that this might end up effectively being a forward-looking forecast; others won't. Seek advice.
- ▶ Appoint a sponsored research house, such as Hardman & Co, to increase the number of forecasts. Importantly, this research will not just be 'available' to every investor, by being posted on a website; it will be actively promulgated. The research and forecasts can be received for free by professional and retail investors alike.

Managements will have to do more to get investor attention

Raising your investor profile in the new world – a tick list

It is worth reiterating the steps companies should be considering in the new world to come to the attention of investors. Again, the QCA/Peel Hunt survey of institutions is helpful:



Source: PP29 of 'Mid and Small-Cap Investor Survey 2019: MiFID II - The Search for Research', QCA/Peel Hunt, February 2019

When thinking about commissioning additional research, either from a sponsored house, such as Hardman & Co, or a second broker, the following issues should be pondered:

- ▶ To whom will the research be available, and how does it get to them? Just hosting it on a website, even if retail can read it, is not enough – it needs to be proactively advertised and pushed.
- ▶ How good is the analyst?
- ▶ How often and how much will be written?
- ▶ Is it respected? What sort of other companies does the house have? If you are a £500m financial services business, for example, employing a house that writes about small-cap miners is unlikely to get the profile you want.

Methodology

Source

Hardman & Co is a subscriber to the Thomson Reuters Eikon market data service. This is one of the most popular services for professional investors; its biggest competitor is Bloomberg. Hardman & Co has access to all the publicly available data on broker forecasts through this service. We collected data for this article from Thomson Reuters Eikon on 31 December 2018.

Dataset and exclusions

Our dataset includes every company listed on the London Stock Exchange's Main and AIM markets. There are approximately 1,937 companies in the complete dataset. However, we decided to exclude two categories of company:

- ▶ Investment companies. Forecasts of future earnings are not really that relevant to most of these vehicles; hence, including them would distort the results of our work. There are more than 343 of these excluded from the list.
- ▶ Companies whose London listing is very much a secondary one. These are typically overseas companies. For example, Boeing is listed on the London market; looking at the London quotation of the company on Thomson Reuters Eikon for the number of analysts is misleading – you should really look at the US listing.

Excluding the two categories above, we were left with 1,029 companies where there is at least one forecast.

Further research

Hardman & Co has produced a series of research pieces on the impact of MiFID II, the relationship between research coverage and liquidity, and the importance of retail investors for liquidity. Publications include:

- ▶ [*After the Love Has Gone – Post-IPO liquidity: how bad is it, does it matter and what can companies do about it? \(Keith Hiscock and Yingheng Chen, July 2018\)*](#)
- ▶ [*The importance of the retail investor \(Keith Hiscock, January 2018\)*](#)
- ▶ [*MiFID II - Impact on research & stock market liquidity \(Keith Hiscock – 2017\)*](#)
- ▶ [*Why broker research coverage of non-clients is collapsing \(Jason Streets – 2016\)*](#)

About the authors



Keith Hiscock is the Chief Executive of Hardman & Co.

He is personally responsible for the firm's relationships with its corporate clients and also for corporate finance. In addition, he is the author of several articles tackling the issues facing companies in today's climate.

Keith has more than 35 years' stockbroking experience and has developed long-standing relationships with many major institutional investors, including Private Client Brokers and Wealth Managers. He started his career at James Capel, at the time the top-ranked research house in London. He was a founding member of Schroder Securities and of Agency Partners, a leading research boutique house, and was a member of the five-man securities board at Evolution. Keith has also advised companies, large and small, on their relationships with the capital markets.



Yingheng Chen is a senior financial analyst at Hardman & Co.

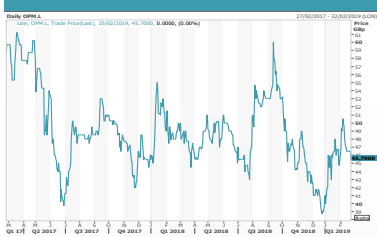
Yingheng has particular experience in the markets for palm oil, cocoa, citrus, coconut, Jatropha and sugar. She worked as a corporate finance analyst at the Agricultural Bank of China, and is fluent in Cantonese and Mandarin. She has a thorough understanding of the Chinese financial and business markets, as well as of those in the UK.

Yingheng joined Hardman & Co in 2008. She holds the Chartered Financial Analyst Level 2 qualification, together with a BSc in Economics from the London School of Economics.

Company research

Priced at 22 February 2019 (unless otherwise stated).

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OPM
Price (p)	45.5
12m High (p)	60.0
12m Low (p)	38.5
Shares (m)	87.6
Mkt Cap (£m)	39.9
EV (£m)	39.0
Free Float*	35.1%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

CEO	Ian Smith
CFO	James Roberts
Chairman	John Newman

+44 1225 474230

www.1pm.co.uk

Key shareholders (30/11/18)

Lombard Odier	22.5%
Sapia Partners	14.8%
Ronald Russell (director)	12.1%

Diary

Jun'19	Trading update
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Analyst

Mark Thomas	020 7194 7622
mt@hardmanandco.com	

1PM PLC

Share price continues to rally

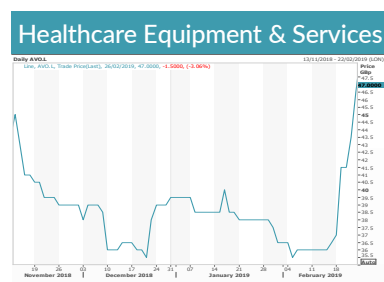
1pm has been transformed in recent years. It now has a broadly diversified portfolio of SME financing products, each delivered by market-specific brands and front-line teams. From small market shares, we believe excellent growth can be delivered without compromising asset standards. Credit appears well controlled, with the transition to IFRS9 highlighting how conservative management has been in its provisioning policies. Funding is diversified, and its duration at least matches each asset class. Management is actively engaged with investors of all types, and the valuation appears to be an anomaly with the group's growth, profitability and risk profile.

- **Company news:** The only company news this month was that Mike Nolan's holding fell below 3%. He is a former senior manager, who held ca.6.3% when he announced his retirement and intention to sell down. We believe the residual holding was seen as a stock overhang, so its halving is welcomed.
- **Peer news:** Corporate credit continues to be robust. CYBG's 1Q *trading update* said an increase in SME impairments was reflective of historical norms following the very low levels of impairment experienced in FY'18. *Lloyds Bank*, in its results, indicated no pressure on commercial lending. Funding Circle announces results on 7 March and has already reported some issues in specific lending cohorts.
- **Valuation:** Our assumptions are unchanged from those detailed in our note of 16 January. The GGM indicates 116p and the DDM 69p (DDM normal payout 77p). The 2020E P/E (5.1x) and P/B (0.7x) appear an anomaly with 1pm's profitability, growth and downside risk, and we note that peers are trading on higher ratings.
- **Risks:** Credit risk is key and is now managed as a group function, but through each business unit according to its own specific characteristics. With the interim results, announced in January, 1pm highlighted how the business model moderates the downside risk. Funding is diversified and at least matches the duration of lending.
- **Investment summary:** 1pm offers strong earnings growth, in an attractive market, where management is tightly controlling risk. Targets to more than double the market capitalisation appear credible, with triggers to a rating being both fundamental (delivery of earnings growth, proof of cross-selling) and sentiment-driven (payback for management actively engaging the investor community). Profitable, growing companies generally trade well above NAV.

Financial summary and valuation

Year-end May (£000)	2016	2017	2018	2019E	2020E
Revenue	12,554	16,944	30,103	33,503	36,854
Cost of sales	-4,480	-6,094	-10,118	-11,264	-12,672
Admin. expenses	-4,290	-6,469	-12,183	-13,603	-14,419
Operating profit	3,418	4,121	7,966	8,914	9,763
PBT	3,346	4,080	7,850	8,708	9,537
Adjusted EPS (p)	6.5	6.5	7.9	8.1	9.0
Total receivables	56,061	73,955	126,069	136,197	149,817
Equity to receivables	43%	39%	38%	41%	42%
Shares in issue (m)	52.5	54.9	86.2	88.5	90.6
P/adjusted earnings (x)	7.0	7.0	5.8	5.6	5.1
P/B (x)	1.0	0.9	0.8	0.7	0.7
Dividend yield	1.1%	1.1%	1.4%	1.9%	2.4%

Source: Hardman & Co Research



Market data

EPIC/TKR	AVO
Price (p)	46.5
12m High (p)	64.0
12m Low (p)	32.4
Shares (m)	194.6
Mkt Cap (£m)	90.5
EV (£m)	83.5
Free Float*	60%
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.advancedonctherapy.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

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

Analysts

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ADVANCED ONCOTHERAPY

First step towards regulatory submission

AVO's goal is to deliver an affordable and novel PT system, based on state-of-the-art technology developed originally at the CERN. Achievement of major technical milestones has boosted confidence, and AVO remains on track with its strategy. It has integrated successfully the four types of structure that constitute the LIGHT accelerator and has recorded the proton beam at an energy of 52MeV, sufficient to treat superficial tumours. Following the £10m capital increase, AVO achieved an important regulatory milestone by receiving ISO 13485 accreditation at the end of January, demonstrating its commitment to safety and high quality, and further endorsing the team's ability to meet its objectives.

- **Strategy:** AVO is developing a compact and modular proton therapy (PT) system at an affordable price for the payor, financially attractive to the operator, and generating superior patient outcomes. AVO benefits from the technology know-how developed by CERN, Geneva, and relies on a base of world-class suppliers.
- **ISO approval:** At the end of January, AVO received ISO 13485 accreditation that sets out the requirements for a quality management system specific to the medical devices industry. It can also be used by internal and external parties, such as certification bodies, to help them with their auditing processes.
- **Development update:** Infrastructure to support the installation and assembly of the full LIGHT system has already started at STFC's Daresbury Laboratory. Once the complete system has been installed and validated, it will be used to support AVO's submission for CE marking, prior to first patients in 2020.
- **Funding update:** In December 2018, AVO raised £10.0m gross through the issue of 25.0m new Ordinary shares at 40p per share, via a Subscription with existing and new shareholders. The Subscription was led by DNCA Investments, which is investing £4.8m, representing 6.2% of the enlarged share capital.
- **Investment summary:** Demand for PT is increasing worldwide, and the need for a small, flexible, affordable and close-to-patient system is desirable. AVO has attracted strong 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 to start in mid-2019. The latest technical update has brought further assurance and boosted confidence.

Financial summary and valuation

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

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	AJB
Price (p)	292
12m High (p)	300
12m Low (p)	162
Shares (m)	407
Mkt Cap (£m)	1,190
EV (£m)	1,133
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

26 Apr	2Q trading update
23 May	Interim results
25 Jul	3Q trading update

Analyst

Jason Streets	020 7194 7622
	js@hardmanandco.com

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 new asset management business should add further momentum, and higher UK savings rates could be the icing on the cake.

- **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 8%, putting it at 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 and Hargreaves Lansdown both trading on 31x.
- **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)	86.5	66.1	48.1	39.3	35.5	30.9
Dividend yield	0.9%	1.0%	1.3%	1.6%	1.8%	2.1%
Dividend cover (x)	1.3	1.5	1.5	1.5	1.5	1.5

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	AGY
Price (p)	14.3
12m High (p)	29.0
12m Low (p)	13.5
Shares (m)	636.2
Mkt Cap (£m)	90.7
EV (£m)	78.2
Free Float*	39%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

CEO	Manuel Llobet
CFO	Nick Wykeman
Chairman	Peter Jensen

+44 1903 845 820

www.allergytherapeutics.com

Key shareholders

Directors	0.7%
Abbott Labs	37.8%
Southern Fox	22.7%
Odey	6.9%
Blackrock	5.3%

Diary

6 Mar	Interim results
1Q'19	Ph.III PQ Birch trial
1H'19	Ph.I Acarovac trial

Analysts

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

ALLERGY THERAPEUTICS

2019 interims – due 6 March

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. The Pollinex Quattro (PQ) platform, the ultra-short course subcutaneous allergy immunotherapy (AIT), continues to gain market share, despite its availability in the EU only on a 'named-patient' basis. 2019 is expected to deliver progress in several areas, notably PQ Birch, for which top-line Phase III data are due in 1Q'19. A trading update has confirmed strong market share gains and cash generation in the traditionally strong 1H period. AGY also has important meetings scheduled with both the EU and US regulators during 1Q'19 regarding PQ grass trials.

- **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.
- **Trading update:** Underlying product sales were particularly strong in 1H'19, rising 10.6% to £46.7m (£42.2m), compared with our forecast of 7.0% growth, suggesting further market share gains. The cash position at the period-end was modestly below forecasts at £31.6m, representing £5.5m cash generation.
- **Clinical/regulatory update:** The statement also highlighted a wave of clinical and regulatory activity during 1H calendar 2019. Key will be the headline data from the European Phase III PQ Birch trial, expected in 1Q'19. In addition, meetings with both the FDA and the German regulators have been scheduled.
- **Risks:** AGY's primary risk lies in the timings of the regulatory approval process, mostly outside of its control, related to the PQ Birch immunotherapy and the European TAV process for full approval. Ongoing trials do represent a risk, but this is limited by the products' use on a named-patient basis.
- **Investment summary:** AGY is approaching an exciting period. It has a clear vision, is gaining market share from competitors, and is leading the race to have its subcutaneous-administered products fully approved and regulated as biologicals – first in Europe and then in the US, where the regulators are demanding change. Read-out from the EU Phase III PQ Birch trial in 1Q'19 will provide the next major value inflection point.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	48.5	64.1	68.3	73.0	78.4	85.5
R&D investment	-16.2	-9.3	-16.0	-18.0	-20.0	-15.0
Underlying EBIT	-12.3	-2.9	-6.4	-7.8	-8.9	-2.0
Reported EBIT	-12.5	-2.6	-7.4	-8.8	-9.9	-3.0
Underlying PBT	-12.5	-3.0	-6.5	-8.1	-9.2	-2.4
Statutory PBT	-12.2	-2.7	-7.5	-9.1	-10.2	-3.3
Underlying EPS (p)	-2.4	-0.5	-1.1	-1.2	-1.6	-0.5
Statutory EPS (p)	-2.3	-0.4	-1.3	-1.4	-1.6	-0.5
Net (debt)/cash	20.0	18.8	12.5	13.8	1.7	-29.0
Capital increase	11.0	0.0	0.0	10.4	0.3	0.3
P/E (x)	-5.9	-29.8	-12.7	-11.5	-9.0	-28.5
EV/sales (x)	1.6	1.2	1.1	1.0	1.0	0.9

Source: Hardman & Co Life Sciences Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	ARBB
Price (p)	1,300
12m High (p)	1,640
12m Low (p)	1,033
Shares (m)	15.3
Mkt Cap (£m)	199
Loans to deposits	80%
Free Float*	42%
Market	AIM

*As defined by AIM Rule 26

Description

Arbuthnot Banking Group (ABG) has a well-funded and capitalised private bank, and has been growing commercial banking very strongly. It holds an 18.6% stake in Secure Trust Bank (STB) and has ca.£25m-£30m to invest in new organic or acquired businesses.

Company information

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

+44 20 7012 2400

www.arbuthnotgroup.com

Key shareholders

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

Diary

28 March	FY'18 results
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Analyst

Mark Thomas	020 7194 7622
	mt@hardmanandco.com

ARBUTHNOT BANKING GROUP

As expected, a positive trading statement

As expected, the 21 February *trading statement* confirmed strong growth, especially in new business lines. Renaissance Asset Finance (RAF) grew loans 21%, Commercial Asset Backed has lent £25m and issued facilities of £43m (first loan in May), Specialist Lending has had its first loan approval, and the Arbuthnot Direct Deposit platform went live at end-February. Given its history in private banking and its tiny market shares in commercial lending, we believe this growth can be achieved without compromising credit quality. The overall group underlying performance is in line with market expectations. There will be a £2.5m gain from adjusting the RAF earn-out provision.

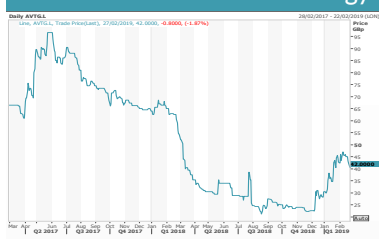
- **Company news:** Following the disposal of its majority stake in STB, the issues for ABG were about deploying the capital it had generated in a diversified and safe way, and whether it could raise the deposit funding to match the strong asset growth. The trading statement has confirmed that these strategic goals are being met, giving confidence in the strong profit growth built into our forecasts.
- **Peer news:** CYBG's 1Q *trading update* confirmed that credit quality remains stable, with an increase in SME impairments reflective of historical norms following the very low levels of impairment experienced in FY'18. Results from *Lloyds* and *Barclays* showed that there was little strain on mainstream corporate credit. Rathbone Brothers' 21 February *results* showed steady FUM inflows.
- **Valuation:** The range of our capital deployed valuation methodologies is now £13.60 (DDM), £22.50 (SoTP) and £22.98 (GGM). The SoTP is unchanged from our previous valuations, reflecting the stable STB market price. Despite the recent rally, the current share price remains below our 2018E NAV (1,359p).
- **Risks:** As with any bank, the key risk is credit. ABG's existing business should see below-market volatility, and so the main risk lies in new lending. We believe management is cognizant of the risk, and has historically been very conservative. Other risks include reputation, regulation and compliance.
- **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been innovative, but also very conservative, in managing risk. Having a profitable, well-funded, well-capitalised and strongly growing bank priced around 80% book value is an anomaly.

Financial summary and valuation (after change in STB treatment)

Year-end Dec (£000)	2015	2016	2017	2018E	2019E
Operating income	34,604	41,450	54,616	66,431	80,300
Total costs	-35,926	-46,111	-54,721	-63,686	-75,629
Cost:income ratio	104%	111%	100%	96%	94%
Total impairments	-1,284	-474	-394	-562	-675
Reported PBT	-2,606	-1,966	2,534	4,445	8,160
Adjusted PBT	2,982	1,864	3,186	6,445	10,160
Statutory EPS (p)	86.3	1,127.3	43.9	-143.3	47.7
Adjusted EPS (p)	13.5	17.1	47.5	35.9	58.4
Loans/deposits	82%	76%	75%	74%	80%
Equity/assets	5.5%	18.5%	12.8%	10.1%	9.0%
P/adjusted earnings (x)	96.3	76.0	27.4	36.2	22.2
P/BV (x)	1.61	0.85	0.84	0.96	0.95

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	AVCT
Price (p)	40.5
12m High (p)	70.5
12m Low (p)	21.0
Shares (m)	115.5
Mkt Cap (£m)	46.8
EV (£m)	36.8
Free Float*	78%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

CEO	Alastair Smith
CFO	Tony Gardiner
Chairman	Eliot Forster

+44 1904 217 046

www.avacta.com

Key shareholders

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

Diary

9 Apr	Interim results
1H'19	PD-L1/LAG-3 drug candidate selection

Analysts

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

AVACTA

Upbeat 'Science Day'

AVCT is a pre-clinical biotechnology company and the proprietary owner of Affimer technology. Affimers represent a radical alternative to the established antibody technology, which continues to dominate the drug industry, despite its limitations. The significant technical and commercial benefits of Affimers are being recognised increasingly through corporate and academic interest, ongoing evaluations and deal flow. AVCT's novel technology was highlighted at a recent 'Science Day', and has been validated by the recent closing of two Affimer therapeutics development and commercial agreements with global pharma companies.

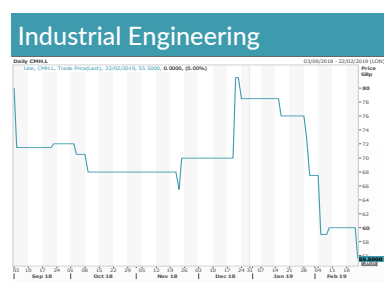
- **Strategy:** AVCT is aiming to commercialise its Affimer technology through licensing for research and diagnostics, and by identifying and developing its own proprietary therapeutic pipeline for partnering. The company has sufficient cash resources to identify an Affimer lead to be ready for first-in-man trials in 2020.
- **'Science Day':** On 14 February, a 'Science Day' in London brought AVCT's researchers and clinical advisers together with analysts and investors, to discuss its Affimer technology, with a particular focus on immune-oncology. Advantages of Affimers – stability, ease of manufacture, high expression – were reiterated.
- **Moderna deal:** Following a period of review, Moderna decided to exercise its option to develop certain Affimers against an undisclosed target. Following its IPO in December 2018, which valued the company at \$7.5bn, Moderna is considered a strong partner in the emerging field of therapeutic mRNA.
- **Risks:** Affimers represent a new disruptive technology, and the potential customer base might take time to recognise their advantages. While all new drug development carries a high risk, AVCT has hit a number of important milestones over the last two years, which have reduced the risk profile greatly.
- **Investment summary:** AVCT has made considerable progress towards its goal of having a number of commercial partnerships for its Affimer technology, as well as developing its own proprietary Affimer-based drugs and growing a separate profitable reagents business. The rising number of collaboration deals being discussed and signed is a clear indication of the long-term value of its Affimer technology, which the market is only just beginning to recognise.

Financial summary and valuation

Year-end Jul* (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	2.17	2.74	2.76	3.17	4.69	8.60
R&D spend	-1.50	-2.60	-3.78	-4.50	-5.50	-6.50
EBITDA	-4.79	-6.66	-9.15	-8.88	-8.72	-7.00
Underlying EBIT	-5.39	-7.60	-10.12	-9.85	-9.69	-7.97
Reported EBIT	-5.66	-7.98	-10.43	-10.19	-10.07	-8.38
Underlying PBT	-5.29	-7.51	-10.08	-9.82	-9.67	-7.99
Statutory PBT	-5.57	-7.89	-10.39	-10.16	-10.05	-8.40
Underlying EPS (p)	-6.46	-8.75	-13.07	-7.42	-7.12	-5.48
Statutory EPS (p)	-6.86	-9.31	-13.55	-7.72	-7.44	-5.83
Net (debt)/cash	19.52	13.17	5.22	7.75	-0.74	-7.32
Capital increase	21.05	0.01	0.05	10.92	0.00	0.00
EV/sales (x)	20.6	16.3	16.1	14.1	9.5	5.2

*AVCT has announced its intention to change its reporting date to December

Source: Hardman & Co Life Sciences Research



Market data

EPIC/TKR	CMH
Price (p)	55
12m High (p)	176
12m Low (p)	51
Shares (m)	8.3
Mkt Cap (£m)	4.6
EV (£m)	8.1
Free Float*	40%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

CEO	Kevin Nolan
CFO	Neil Davies
Chairman	Keith Butler-Wheelhouse

+44 1922 707100

www.chamberlin.co.uk

Key shareholders

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

Diary

Apr'19	Trading update
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Analyst

Paul Singer	020 7194 7622
	ps@hardmanandco.com

CHAMBERLIN

Trading very difficult; forecasts lowered

Prospects are very uncertain, and cost reduction measures are being implemented. However, the group continues to develop its product offering to the automobile turbocharger industry through development of its main operational facilities. The recent technical problems at the new machine shop are now resolved, and Chamberlin remains on track strategically. The recent disposal of Exidor has financially de-risked the group, and the shares remain attractively valued against the peer group on most methodologies.

- **Current trading:** Trading conditions are challenging. Customer schedules for the European turbocharger market have suffered significant reductions; the Board has consequently implemented several cost-reduction measures. Following a reassessment of the likely outturn in 2H of the current financial year, management now expects the loss in this period to be similar to that in 1H (£0.3m). We recently reduced our forecasts to reflect the more challenging operating environment.
- **Strategic developments:** Chamberlin recently announced the sale of Exidor, its Safety Lighting business, to ASSA ABLOY Ltd for a total enterprise value of £10m. At transaction multiples of around 1.3x sales and 15x operating profit, we consider the exit to be at an attractive valuation. The transaction is part of the group's focusing strategy, with proceeds being used to reduce the group's debt, providing additional working capital, and also reducing existing pension liabilities.
- **Risks:** Potential risks include developments with the automotive industry, Brexit uncertainties, foreign currency and raw material price fluctuations. From a financial standpoint, the group has been significantly de-risked, with the Exidor disposal proceeds used to reduce the pension scheme deficit and pay down debt.
- **Valuation:** The shares remain lowly valued, trading on 2020E EV/sales of 0.2x, compared with sector averages of around 1.0x.
- **Investment summary:** Despite the current trading difficulties, as noted above, the disposal of Exidor has de-risked the group. The shares offer the opportunity to invest in a cyclical stock with good operational leverage, but they are likely to tread water until brighter prospects become more evident.

Financial summary and valuation

Year-end Mar (£m)	2017*	2018*	2019E**	2020E**
Sales	32.1	37.7	34.0	35.0
Gross profit	6.9	6.9	3.9	4.1
EBITDA	2.0	1.9	1.1	1.4
Underlying EBIT	0.7	0.4	-0.4	0.0
Reported EBIT	0.4	0.1	-0.4	0.0
Underlying PBT	0.57	0.0	-0.6	-0.1
Underlying EPS (p)	4.5	-5.5	-5.7	-1.3
GAAP EPS (p)	-11.7	-10.2	-5.7	-1.3
Net (debt)/cash	-6.8	-8.9	-3.6	-3.0
P/E (x)	-	-	-	-
EV/sales (x)	0.47	0.40	0.2	0.2
Underlying EBIT	0.7	0.4	-0.4	0.0

*including Exidor, **excluding Exidor; Source: Hardman & Co

Research

Real Estate



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	CSH
Price (p)	99
12m High (p)	113
12m Low (p)	96
Shares (m)	622.4
Mkt Cap (£m)	618.0
EV (£m)	764.0
Market	LSE Premium

Description

Civitas is a REIT investing in English and Welsh social housing. Over 75% (near 100% likely ongoing) is invested in supported living assets.

Company information

CEO (Advisors)	Paul Bridge
Director (Advisors)	Andrew Dawber
CFO (Advisors)	Graham Peck
	+ 44 203 058 4840
	www.civitassocialhousing.com

Key shareholders

Directors	0.03%
Investec Wealth	15.8%
East Riding Yorkshire	5.7%
Killik & Co	3.0%

Diary

Apr'19	Quarterly fact sheet
Jun'19	Final results

Analyst

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	mf@hardmanandco.com

CIVITAS SOCIAL HOUSING

Results, update on C shares and lessee

Civitas's income derives from 20+year commercial leases, all of which are CPI-linked (a small number CPI +1%). Civitas has extensive detailed operational expertise, essential in such a relatively 'new' sector. While some of the lease counterparts are not large organisations, all are Register Providers (RPs), which are tightly regulated organisations – a good thing. In recent weeks, some RPs have announced being subject to a "Regulatory Judgement" from the Regulator of Social Housing. They trade normally – some reinforcing their Boards, but all with full engagement with the Regulator, and covenants not substantively changed (evidenced by JLL the valuer not changing valuation bases).

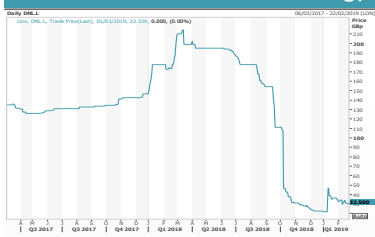
- **The assets:** There is quantified greater affordability of rents in Civitas-owned properties vs. other types of accommodation, a near-lifetime nature of occupancy (currently occupants ca.40 years of age), and leases are long (average 24.7 years).
- **Some recent regulatory involvement:** Civitas, following consultation with valuers JLL, took no NAV impairment post recent Regulatory Judgements, which, in our view principally illustrate the positive aspect of the Regulator's close operational and financial monitoring of the sector. At times, the Regulator even assists the RPs to reposition (non-Civitas) assets.
- **Civitas progress:** Civitas has extensive detailed operational expertise, essential in such a relatively 'new' sector. It now invests in 142 local authorities, supported by 94 care providers. This and the successful investment of its November C share £302m fund raise demonstrate the execution capabilities of the experienced team. IPO dividend projections (5.0p DPS target, 2018) are well on-track.
- **Risks:** Civitas has highlighted regularly (as have we, in previously published research) that it buys assets where rents to occupiers are at sustainable levels, matching affordability and all other criteria of the funders of that cashflow – the local authority Commissioner and, ultimately, central government.
- **Investment case:** Two and a quarter years in from flotation, Civitas has met its dividend target and invested at the net initial yields anticipated: £674m as of end- December and now £682m. All equity raised has thus been invested, very significantly reducing risk to dividend cover, especially as further investment (towards a 35% LTV target) should be significantly beneficial to this cover.

Financial summary and valuation

Year-end Mar (£m)	2018*	2019	2020E	2021E	2022E	2023E
Income	18.6	34.5	49.0	52.4	54.3	55.6
Operating profit	9.7	25.3	39.1	42.6	44.4	45.5
Finance	-3.4	-2.5	-6.6	-9.2	-10.0	-10.2
Revaluation	30.6	7.0	17.0	17.0	17.0	17.0
Profit declared	36.9	29.8	49.5	50.4	51.3	52.2
EPRA profit	6.3	22.8	32.5	33.4	34.3	35.2
EPRA EPS (p)	1.8	5.0	5.2	5.4	5.5	5.6
DPS (p)	3.00	5.00	5.20	5.35	5.50	5.65
IFRS NAV (p)	105.5	110.5	113.3	116.0	118.7	121.5
Property assets	516.2	827.7	1,007.7	1,031.7	1,055.7	1,079.7
Loan to value	cash	17.0%	30.0%	30.0%	30.0%	30.0%
Dividend yield **	n.a.	4.9%	5.0%	5.2%	5.3%	5.3%

* Period from flotation, ** Based on current share price; Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	DNL
Price (p)	32.0
12m High (p)	215.8
12m Low (p)	21.1
Shares (m)	61.7
Mkt Cap (£m)	19.7
EV (£m)	8.5
Free Float*	20%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

CEO	Martin Whitaker
CFO	Richard Bungay
Chairman	Peter Allen

+44 29 2068 2069

www.diurnal.co.uk

Key shareholders

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

Diary

28 Mar	Interim results
End-1Q'19	EMA 'SA' meeting
Early 2Q'19	EMA 'SA' feedback

Analysts

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DIURNAL GROUP

Interims due 28 March

DNL is a commercial-stage specialty pharmaceutical company focused on endocrine system diseases. Its two lead products target rare conditions where medical needs are currently unmet, with the aim of building a long-term 'Adrenal Franchise'. Alkindi is being launched in key EU markets, and this was expected to be followed by Chronocort; however, headline data from its EU Phase III trial in CAH did not show superiority over standard-of-care, thereby failing to meet its primary end-point. At the Interim meeting, we anticipate DNL to provide an update of its SA meeting with the EMA, with an outcome expected in early 2Q'19. In the meantime, an MAA has been submitted for Alkindi in Israel, with approval anticipated towards end-2019.

- **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.
- **MAA for Alkindi in Israel:** Medison Pharma, DNL's marketing and distribution partner in Israel, has submitted a Marketing Authorisation Application (MAA) for Alkindi to the Ministry of Health. The application has been validated and approval is anticipated around end-2019; sales in Israel will then start in 2020.
- **Israeli market:** With an estimated patient population of 1,000, Israel is a significant market for both DNL's products, Alkindi and Chronocort, valued at \$7m. In addition, as part of the in-market protection, a second patent has been granted in Israel for Alkindi, providing an exclusive position until 2034.
- **EMA Scientific Advice:** A briefing package for Chronocort requesting 'Scientific Advice' (SA) has been submitted to the EMA. It includes additional analysis from the trial and the Phase III safety extension currently running, showing the benefits of Chronocort. The meeting is expected to take place in 1Q'19, with feedback in 2Q'19.
- **Investment summary:** Alkindi, a cortisol replacement therapy for children, is DNL's first commercial product. It had been expected to be followed by the adult version, Chronocort, for a much larger market. The share price fall following Chronocort's unexpected Phase III trial outcome looks overdone, but it is likely to languish until there is clarity from the regulators about how to move the product forward. Net cash at 31 December 2018 is expected to be ca.£11m.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	0.00	0.00	0.07	1.12	2.03	5.91
SG&A	-1.99	-3.23	-6.21	-6.41	-7.84	-9.57
R&D	-3.89	-8.34	-10.02	-9.22	-10.01	-9.51
EBITDA	-5.87	-11.56	-16.16	-14.66	-16.00	-13.74
Underlying EBIT	-5.88	-11.56	-16.17	-14.68	-16.01	-13.75
Reported EBIT	-6.99	-12.08	-16.98	-15.53	-16.91	-14.69
Underlying PBT	-5.95	-11.64	-16.30	-14.59	-15.99	-13.80
Statutory PBT	-7.06	-12.16	-16.91	-15.44	-16.88	-14.73
Underlying EPS (p)	-12.48	-17.05	-25.68	-18.75	-20.60	-17.31
Statutory EPS (p)	-15.02	-18.04	-26.78	-20.13	-22.05	-18.83
Net (debt)/cash	26.88	16.37	17.28	4.90	-8.45	-20.46
Capital increase	24.52	0.05	13.40	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

Business Support Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	GTLY
Price (p)	154
12m High (p)	180
12m Low (p)	118
Shares (m)	110.8
Mkt Cap (£m)	171
EV (£m)	171
Free Float*	ca.40%
Market	AIM

*As defined by AIM Rule 26

Description

Gateley provides legal services predominantly through its UK offices. In 2015, it was the first, and remains the only, full-service commercial law firm to float.

Company information

CEO	Michael Ward
Finance Director	Neil Smith
Chairman (non-exec.)	Nigel Payne
	+44 121 234 0000
	www.gateleyplc.com

Key shareholders

Directors	5.5%
Liontrust	9.2%
Miton	7.2%
Premier	3.8%

Diary

May'19	Trading update
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Analyst

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GATELEY (HOLDINGS) PLC

Strong interim results and share price recovery

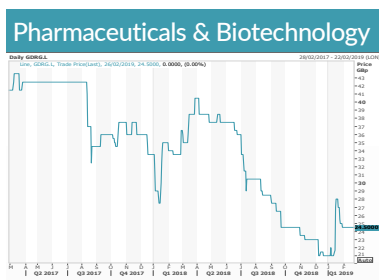
Gateley's recent interim results beat market expectations, leading to upward revisions for this year, and a positive share price reaction subsequently. A broad-based law-led professional services group, Gateley is a leader in serving the UK mid-market. It is delivering on its pre-IPO plan, growing revenue, profit, breadth of service offering and geographical footprint since flotation. The interims were notable for strong cash generation, strong organic revenue growth and a significant contribution (10% of revenues) from acquisitions. Gateley has also made two highly complementary acquisitions this year, for shares and cash, which are adding to the excellent organic growth.

- **Current trading:** Interim results showed a strong performance, with revenue growth of over 20% – half organic and half from acquisitions. The dividend was hiked by 18%, enhancing the yield attractions of the share. In addition, management struck a confident tone at the analysts' meeting, emphasising the progress made since IPO.
- **News:** As we went to press, the company was completing a placing via a bookbuild at 150p per share. Some 3.6% of the group, or 4 million shares, are being sold by directors and employees. This is a placing to reflect investor demand. Former partners who held 70% at IPO are limited to selling 10% of their holding in any 12-month period. Partners/employees will own 53.4% post the deal.
- **Sector:** The legal sector is growing profitably, and more firms are coming to the market, following Gateley's lead. A larger sector is a positive for the group, as it improves investor understanding, and affords the opportunity for comparison. This should favour Gateley, which has improved from 48th to 44th position in the latest industry rankings, and for which we forecast continued growth.
- **Valuation:** The 2019E P/E is 13.7x, falling to just 11.8x in 2020E, on numbers we believe are conservative. We forecast the dividend yield to surpass 5% this year, and it should continue to grow. The group also offers an attractive free cashflow yield with strong cash generation, thanks to limited capex requirements, with working capital being the main cash draw as the business grows.
- **Investment summary:** Gateley is a fully invested, consistent performer in a new and exciting space, which is likely increasingly to attract investor attention. It is a high-quality professional services group with significant growth potential, an excellent track record of delivery, a strong management team, and a strategy to diversify further in complementary professional services.

Financial summary and valuation

Year-end Apr (£000)	2016	2017	2018	2019E	2020E
Sales	67.1	77.6	86.1	102.7	112.9
EBITDA*	12.9	14.9	16.5	19.5	22.1
PBT (adjusted)	12.0	13.8	14.1	16.0	18.5
EPS (adjusted, p)	9.1	9.4	10.6	11.3	13.0
DPS (p)	5.6	6.6	7.0	8.0	8.8
Net cash	-4.2	-4.8	-0.7	-0.5	6.8
P/E	17.0	16.3	14.5	13.7	11.8
EV/EBITDA	12.8	11.3	10.0	8.8	7.4
Dividend yield	3.7%	4.3%	4.5%	5.2%	5.7%

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



Market data

	GDR
EPIC/TKR	
Price (p)	25.0
12m High (p)	42.0
12m Low (p)	18.0
Shares (m)	34.0
Mkt Cap (£m)	8.5
EV (£m)	11.1
Free Float*	42%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

CEO	David Budd
CFO	Matthew Fowler
Chairman	Ian Gilham
	+44 161 989 0245
	www.genedriveplc.com

Key shareholders

Directors	0.5%
Calculus	19.4%
M&G	15.2%
BGF	12.8%
Odey	5.5%
River & Merc.	3.1%

Diary

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

Analysts

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GENEDRIVE PLC

Interim results due 28 March

genedrive plc (GDR) is a commercial-stage company focused on point-of-care molecular diagnostics. Its Genedrive® molecular diagnostic testing platform is at the forefront of this technology, offering a rapid, low-cost, simple-to-use device with high sensitivity and specificity in the diagnosis of infectious diseases. Rapid analysis of patient samples aids clinical and public health decision-making, with field testing particularly important in emerging markets. The first sales of the HCV-ID kit were achieved in 2H'18. A 1H'19 trading statement suggests that commercialisation is on track, with HCV-ID now registered in its first four countries.

- **Strategy:** Now that the Genedrive technology platform has received CE marking, the new management team has completely refocused the company onto the commercialisation pathway for gene-based diagnostics, signing three important commercial agreements, and divesting its 'Services' business unit.
- **Trading statement:** Sales in the six months to December 2018 were £1.5m. GDR stated that this was largely composed of the \$0.90m (£0.68m) order from the US DoD and of grant income. An additional \$0.5m order has been received from the US DoD in 2H'19, acting as good validation of the technology.
- **Cash position:** Cash on the balance sheet at 31 December 2018, at £5.8m, was ahead of our forecast, due in part to tight cost controls. It also reflects the successful raising of a total £5.6m (net) in December 2018, through a Placing of 15.2m Ordinary shares for £3.5m (gross) and the issue of £2.5m loan notes.
- **Risks:** The platform technology has been de-risked through the receipt of CE marking for its assay for detection of HCV infection. The main risk is commercial, given that it often takes time for new technologies to be adopted. However, partnering with major global and local experts reduces this risk.
- **Investment summary:** Genedrive technology ticks all the boxes of an 'ideal' in vitro diagnostic that satisfies the need for powerful molecular diagnostics at the point of care/need. The hepatitis C market is a very large global opportunity, and the HCV-ID test has excellent potential, even in developing countries. With strong partners being signed for different countries, such as the NHS in the UK, and evidence of early sales traction, GDR is at a very interesting inflection point.

Financial summary and valuation

Year-end Jun (£000)	2016	2017	2018	2019E	2020E	2021E
Sales	5,063	5,785	1,938	3,481	4,814	7,062
Underlying EBIT	-5,259	-4,812	-5,276	-3,587	-2,825	-2,912
Reported EBIT	-5,426	-7,292	-7,375	-3,608	-2,856	-2,955
Underlying PBT	-5,828	-5,316	-5,794	-4,193	-3,436	-3,548
Statutory PBT	-6,497	-7,487	-7,788	-4,213	-3,467	-3,591
Underlying EPS (p)	-49.8	-23.1	-26.9	-11.9	-7.4	-7.8
Statutory EPS (p)	-56.2	-34.9	-31.9	-12.0	-7.5	-7.9
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	-3,877	-70	-2,096	-3,941	-5,597	-8,061
Capital increases	0	6,023	0	4,547	0	0
P/E (x)	-0.5	-1.1	-0.9	-2.1	-3.4	-3.2
EV/sales (x)	2.2	1.9	5.7	3.2	2.3	1.6

Source: Hardman & Co Life Sciences Research

General Retailers



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	KOOV
Price (p)	8
12m High (p)	57
12m Low (p)	6
Shares (m)	356
Mkt Cap (£m)	28
EV (£m)	17
Free Float*	40%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

CEO	Mary Turner
CFO	Rob Pursell
Chairman	Waheed Alli
	+44 20 7151 0170
	www.koovs.com

Key shareholders

Waheed Alli (Dir.)	12%
Anant Nahata (Dir.)	11%
Michinoko	5%
Ruffer	5%
Hindustan Times Media	15%
Future Group	16%

Diary

Jun'19	Prelims
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Analyst

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KOOVS PLC

Koovs refinanced for the future

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

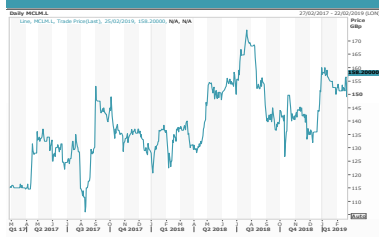
- **Strategy:** Koovs sells affordable fashion online in India. It has an established customer base of half a million active users and has been growing brand recognition rapidly. It has achieved the highest NPS across its vertical. Its success will come on the back of the growing Indian economy breeding 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

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	MCL
Price (p)	155.75
12m High (p)	174.0
12m Low (p)	123.0
Shares (m)	129.8
Mkt Cap (£m)	201.7
EV (£m)	181.3
Free Float*	60%
Market	AIM

*As defined by AIM Rule 26

Description

Morses Club PLC (MCL) is number two in UK home credit. It is growing the business organically and by acquisition, and is developing a range of related products, where it has a competitive advantage.

Company information

CEO	Paul Smith
CFO	Andy Thomson
Non-Exec.	Stephen Karle
Chairman	

+44 330 045 0719

www.morsesclubplc.com

Key shareholders

Hay Wain	36.82%
Woodford Inv. Mgt.	9.33%
Mitton Asset Mgt.	9.03%
JO Hambro	6.74%
Majedie Asset Mgt.	5.34%
Artemis Inv. Mgt.	4.98%
Legal and General	3.22%

Diary

	FY'18/'19
2 May	results
25 Jun	AGM

Analyst

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MORSES CLUB PLC

Trading update/Home Collect acquisitions

The 28 February *statement* confirmed trading in line with expectations. Total credit issued increased 2.4% versus the prior year, to £178.5m (FY 2018: £174.4m), and the gross loan book grew by 7% versus 24 February 2018. Total customer numbers increased by 2.6% to 235,000 as at 23 February 2019 (FY 2018: 229,000). The Morses Club Card now has 30,000 customers, with £15.5m of loan balances on cards (FY 2018: 21,000 and £10.6m, respectively). There were no surprises in the announcement. The conservative corporate culture was outlined in our notes, *Quality street* (19/07/18) and *Sustainable growth from focus on quality* (23/10/18). Funding is in place for further sustained growth.

- **Company news:** MCL also announced the acquisitions of *Eccles Savings and Loans*, on 31 January, and of *Hays Credit LLP*, on 12 February. These add ca.5,700 customers (there were 230,000 at MCL's 1H FY'19). On 26 February, MCL announced the acquisition of *CURO Transatlantic* for a consideration of ca.£8.5m. Curo has a loan book of ca.£19m and 50,000 customers.
- **Peer news:** The January trading statement from Non-Standard Finance (NSF) advised that performance was in line with expectations. *PFG's 15 January trading update* saw an 18.6% fall in its share price (source: LSE). NSF announced a *firm offer for Provident Financial* on 22 February and a possible listing for Loans at Home. PFG's share price rose by 20.76% and NSF's by 13.01% on that day (source: LSE).
- **Valuation:** We detailed a range of valuation approaches and sensitivities in our note, *Building a profitable and sustainable franchise* (October 2017), and updated these in later notes, most recently our results note, *Sustainable growth from focus on quality* (October 2018). The range is now 179p (DDM) to 223p (GGM). Average peer multiples are broadly in line with MCL's.
- **Risks:** Credit risk is high (albeit inflated by accounting rules), but MCL adopts the right approach to affordability and credit assessment. Regulatory risk is a factor, although high customer satisfaction suggests a limited need for change. MCL was the first major HCC company to get full FCA authorisation.
- **Investment summary:** MCL is operating in an attractive market. It has a dual-fold strategy that should deliver an improved performance from existing businesses and new growth options. It conservatively manages risk and compliance, especially in new areas. The agent network is the competitive advantage over remote lenders. We forecast a 10.2x February 2020 P/E and a 5.8% February 2020 dividend yield, with 1.7x cover (adjusted earnings).

Financial summary and valuation

Year-end Feb (£m)	2015	2016	2017	2018	2019E*	2020E*
Reported revenue	89.9	90.6	99.6	116.6	119.3	129.8
Total impairments	-22.9	-18.8	-24.3	-30.4	-26.0	-29.9
Total costs	-51.4	-53.4	-56.7	-65.6	-69.8	-73.9
EBITDA	16.5	19.3	19.9	22.1	24.8	27.9
Adjusted PBT	13.0	16.8	17.7	19.2	21.8	24.6
Statutory PBT	58.5	10.4	11.2	16.1	18.6	21.7
Statutory EPS (p)	46.5	6.1	6.6	10.1	11.7	13.7
Adjusted EPS (p)	8.1	10.2	10.8	11.7	13.4	15.2
P/adjusted earnings (x)	19.2	15.2	14.4	13.3	11.6	10.2
P/BV (x)	2.1	3.6	3.3	3.0	2.9	2.7
P/tangible book	2.4	4.5	3.9	3.5	3.3	3.0
Dividend yield	n/m	n/m	4.1%	4.5%	5.1%	5.8%

*IFRS9 basis; Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OXB
Price (p)	640
12m High (p)	1,064
12m Low (p)	511
Shares (m)	66.1
Mkt Cap (£m)	423.2
EV (£m)	425.5
Free Float	63%
Market	LSE

Description

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

Company information

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

Key shareholders

Directors	0.3%
Vulpes	17.6%
M&G	17.6%
Canaccord Genuity	5.0%
Aviva	3.9%
Hargreaves Lansdown	3.7%
Shah	3.1%

Diary

14 Mar	2018 final results
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Analysts

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OXFORD BIOMEDICA

Sanofi drops OXB programmes amid dynamic sector

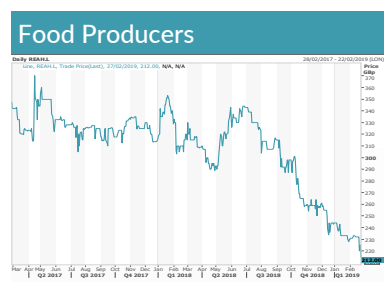
OXB is a specialist lentiviral-vector, advanced-therapy biopharma company. It offers vector manufacturing and development services, and has a proprietary drug pipeline. In addition to LentiVector® service contracts, OXB receives royalties on commercial therapies developed by its partners using the platform or from licensees of its proprietary candidates. Sanofi disclosed a portfolio review at its FY'18 results, which included discontinuation of the two ophthalmology programmes licensed from OXB in 2009, contingent on securing an out-licensing partner. Sanofi appears to be focusing on gene-therapy success in haemophilia.

- **Strategy:** OXB has four strategic objectives: delivery of process development (PD) services that embed its technology in partners' commercial products; commercial manufacture of lentiviral vectors; out-licensing of proprietary candidates; and investment in R&D and the LentiVector platform.
- **Sanofi programmes:** OXB out-licensed two gene-therapy candidates for rare ocular diseases, Stargardt's disease and Usher syndrome, to Sanofi (SAN) in 2009. SAN extended the agreement to cover all ocular diseases in 2014 but announced, with 2018 results, that it would be discontinuing both programmes.
- **Retained rights:** No explanation was provided by SAN, and with no data released from the Phase I/IIa trials, first started in 2011/12, it is not possible to speculate on this decision. However, the fact that SAN has not returned the programme rights is encouraging, as it suggests that SAN can see potential value.
- **Sector deals:** In the context of the competitive landscape, SAN may be choosing to place its gene-therapy focus on haemophilia, including candidates acquired with Bioverativ (\$11.6bn) and partnered with OXB, where it sees a large market. Roche has entered this arena with its proposed acquisition of Spark (ca.\$4.3bn).
- **Investment summary:** OXB is at a very interesting juncture. Heavy investment in state-of-the-art GMP manufacturing facilities for production of gene-therapy vector has resulted in multiple agreements (e.g. Novartis, Bioverativ, AXON), positioning the group on the road to significant bioprocessing service income, milestones and royalties. Reported numbers for 2018 will benefit from unrealised gains (est. £10.6m) on its shareholding in Orchard Therapeutics to £13.6m.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Gross revenues	18.8	30.8	39.4	74.8	79.2	106.0
Sales	15.9	27.8	31.5	46.2	60.8	80.3
EBITDA	-11.7	-6.8	-2.6	15.5	15.9	25.8
Underlying EBIT	-13.4	-10.5	-7.0	11.0	11.1	20.5
Reported EBIT	-14.1	-11.3	-8.0	10.0	9.9	19.2
Underlying PTP	-16.3	-15.3	-16.4	6.7	7.2	16.6
Statutory PTP	-17.0	-20.3	-14.1	16.2	6.0	15.4
Underlying EPS (p)	-23.9	-21.0	-22.0	15.7	15.8	31.9
Statutory EPS (p)	-25.3	-30.0	-18.3	30.1	14.0	30.0
Net (debt)/cash	-17.9	-19.1	-22.5	-2.3	-1.3	12.2
Shares issued (m)	0.1	17.5	0.4	19.4	0.1	0.1
P/E (x)	-	-	-	-	-	20.0
EV/sales (x)	-	-	-	-	-	16.5

Source: Hardman & Co Life Sciences Research



Market data

EPIC/TKR	RE.
Price (p)	210
12m High (p)	344.0
12m Low (p)	210.0
Shares Ord (m)	40.5
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	85.1
Mkt Cap Prefs (£m)	69.8
EV (£m)	406.3
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, which have been contracted out to third-party operators.

Company information

Managing Director	Carol Gysin
Chairman	David Blackett
	+44 207 436 7877
	www.rea.co.uk

Key shareholders

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

Diary

Apr'19	Full-year results
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Analyst

Yingheng Chen	020 7194 7638
	yc@hardmanandco.com

R.E.A. HOLDINGS

Recent trading update

In REA's 2017 Annual Report, the chairman alluded to "...the beginnings of a much-needed recovery in group operations". The company's latest trading update, which was published on 11 February, demonstrated the management team's efforts in bringing the operations back on track. REA reported a record level in group FFB production, at 800,050mt for FY'18, a 50.8% increase YoY, while CPO production increased by over 51%, to 217,721mt. 2018 was a tough year for palm oil producers globally, with the palm oil price hitting a 10-year low, at \$440/mt, in November. The CPO price suffered a 17% drop to an average \$596/mt for 2018, and the PKO price plunged 27.2% for the year.

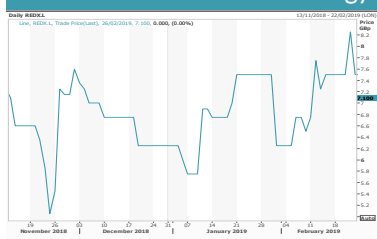
- **Production:** Despite the slightly muted start in the East Kalimantan region in general at the beginning of 2018, REA saw significant FFB production recovery from April 2018 onwards, resulting in a record FFB production level for the group – partly an indication of the recovery in the FFB production pattern and partly the result of the group's much-improved harvesting process and fertiliser regime, started in 2H'16.
- **PBJ:** REA completed the sale of PBJ in August 2018 for a total of \$85m; however, in the trading update, REA reported that it expected a loss of ca.\$8m on the transaction, due mainly to the biological asset valuation gain the estate had achieved under the previous IAS 41 accounting rule.
- **Financing:** On 28 August 2018, REA arranged two new medium-term Rupiah loans of ca.\$32.5m, with an initial rate of 11% p.a., payable over eight years. The new loans are partly to replace existing IDR loans and revolving credits (ca.\$10.2m). In November 2018, REA arranged two further IDR loans of some \$82.2m to replace some shorter-dated facilities of \$59.4m.
- **Risk:** Agricultural risk, commodity price risk and country risk are constants of palm oil production, as investors have witnessed in the last few years, from the severe El Niño weather pattern that hampered production across the whole of Southeast Asia to the more recent plunge in commodity prices. We expect palm oil commodity prices to rebound in 2019, with demand support from the Indonesian biodiesel mandate, as we have seen a ca.\$100/mt price recovery from November 2018.
- **Investment summary:** For investors attracted by palm oil assets, now could be an opportunistic time to review the sector, as commodity prices and demand face a brighter outlook. We expect REA to have ca.34,000ha of mature plantations by end-2019, in addition to stronger agricultural production across the estates.

Financial summary and valuation

Year-end Dec (\$m)	2015R	2016	2017	2018E	2019E
Sales	90.5	79.3	100.2		
EBITDA	14.1	16.8	20.7		
Reported EBIT	-6.6	-5.0	-2.2		
PBT	-12.2	-9.3	-21.9		Forecasts
EPS (c)	-59.0	-48.2	-67.0		under
DPS (p)	0.0	0.0	0.0		review
P/E (x)	-	-	-		pending
Net (debt)/cash	-196.7	-205.1	-211.7		guidance
Planted hectares (ha)	37,097	42,846	44,094		
EV/planted hectare (\$/ha)*	9,814	8,453	8,199		
CPO production (mt)	161,844	127,697	143,916	217,721	

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

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

	REDX
EPIC/TKR	
Price (p)	7.5
12m High (p)	22.5
12m Low (p)	3.5
Shares (m)	126.5
Mkt Cap (£m)	9.5
EV (£m)	3.0
Free Float*	81%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

CEO	Lisa Anson
CFO	Dominic Jackson
Chairman	Iain Ross

+44 1625 469 900

www.redxpharma.com

Key shareholders

Directors	0.6%
Jon Moulton	18.2%
Seneca Partners	12.6%
AXA	9.7%
Aviva	8.2%
Paul & Thelka Blackmore	4.0%

Diary

	Resume Ph. I/IIa with
1H'19	RXC004
1H'19	Dev. candidate for NASH

Analysts

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REDX PHARMA

Confirmation to restart Phase I/II trial

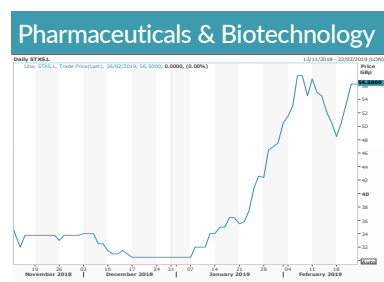
REDX is a clinical-stage biotechnology company focused on drugs targeting oncology and fibrotic diseases. An extensive review, led by the CEO, reinforced the vision of a streamlined pipeline in these two disease areas, with the aim of progressing drug candidates to deliver clinical proof-of-concept. 2019 is predicted to be a busy year for REDX, with several major milestones. While REDX is preparing to restart its Phase I/IIa trial with RXC004 in solid tumours imminently, its ROCK2 selective programme has shown promise in inhibiting fibrosis progression in three independent models. ROCK2 drug candidate nomination is expected in mid-2019.

- **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.
- **In vivo ROCK2 data:** REDX disclosed promising in vivo preclinical data for its ROCK2 programme, showing efficacy in three independent animal models of lung, kidney and liver fibrosis. Studies show that the drug, taken orally, suppresses collagen deposition and the pathway associated with fibrosis.
- **Deinove update:** Following a period of evaluation of a novel topoisomerase inhibitor programme, Deinove returned the rights to REDX, together with all the new data generated. The anti-infective programme is not part of REDX's strategy, and it will seek a potential partner interested in licensing the project.
- **Receipt of outstanding loan:** A total of £869k, including interest, has been received from Redag Crop Protection, corresponding to the repayment of a loan. The loan was originally impaired and derecognised. The new funds will be included in the 2019 comprehensive income and used for working capital.
- **Investment summary:** The strengthened management team is moving forward with a revised business plan that focuses cash resources on progressing its drug leads in oncology and fibrotic disease to proof-of-concept early clinical development. Big pharma can be willing to pay handsome prices for novel and/or de-risked assets with clinical data, reinforcing REDX's strategy. This can generate good returns and shareholder value for companies such as REDX.

Financial summary and valuation

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

Source: Hardman & Co Life Sciences Research



Market data

EPIC/TKR	STX
Price (p)	56.3
12m High (p)	62.0
12m Low (p)	15.0
Shares (m)	116.4
Mkt Cap (£m)	65.5
EV (£m)	55.7
Free Float*	32%
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	8.7%
W. Health	48.1%
MaRu AG	10.8%
R. Griffiths	7.8%
C. Schweiger	4.8%
USS	4.4%

Diary

Mar'19	2018 final results
Mar'19	AEGIS-H2H trial results
Jun'19	AGM
27 Jul	Feraccru PDUFA date

Analysts

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SHIELD THERAPEUTICS

Busy month ahead

STX is a commercial-stage pharmaceutical company delivering specialty products that address patients' unmet medical needs in renal and gastrointestinal disorders. Its initial focus is Feraccru®, a supplement for iron deficiency. Following the IPO and EU approval of Feraccru, both in February 2016, STX has made good progress, and Feraccru is already generating sales in Germany and the UK. STX is now awaiting a game-changing FDA decision on potential US approval (by 27 July 2019). An update from the long-term phase of the Chronic Kidney Disease (CKD) trial has demonstrated maintenance of response at 52 weeks and good tolerability.

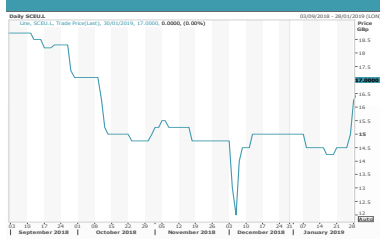
- **Strategy:** STX's strategy is to out-license the commercial rights to its products to expert partners for marketing and distribution in target markets. These agreements allow STX to retain its intellectual property (IP) and to continue to invest in its R&D pipeline, while benefiting from long-term commercial value.
- **Feraccru:** A novel treatment for iron deficiency (ID), Feraccru is approved in Europe in adults with or without anaemia. ID results from the depletion of iron stores in the liver, impacting production of red blood cells (which carry oxygen). Feraccru is well tolerated, even in those who have failed other oral therapies.
- **US regulatory submission:** Positive 16-week data from the Phase III AEGIS-CKD trial in patients with Iron Deficiency Anaemia (IDA) formed part of the NDA submission to the FDA. These data included a 0.57g/dl increase in haemoglobin above the 8-11g/dl baseline, a significant change versus placebo.
- **AEGIS-CKD trial:** The 16-week primary end-point read-out was followed by a 36-week extension phase, during which patients from both arms of the first phase were treated with Feraccru. 36-week efficacy data, released on 29 January 2019, demonstrated maintenance of haemoglobin levels over the follow-up period.
- **Investment summary:** STX is at an interesting juncture. It has delivered on all goals set at the time of its IPO in 2016. Feraccru is a simple product, iron is essential for normal body function, and treatment fits easily into clinical practice. Regulatory approval and the validation by commercial deals in Europe look set to be repeated in the US. Given the potential news flow, a market capitalisation of just £65m makes STX a very interesting investment proposition, in our view.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Gross revenues	0.34	0.64	11.90	0.63	1.93
Group sales	0.30	0.64	0.80	0.63	1.93
R&D	-2.03	-4.71	-4.30	-2.50	-2.50
Other income	0.04	0.00	11.10	0.00	0.00
EBITDA	-10.29	-17.95	-0.77	-6.25	-6.40
Underlying EBIT	-10.47	-18.38	-1.26	-6.74	-6.89
Reported EBIT	-12.46	-20.95	-3.73	-9.21	-9.36
Underlying PBT	-10.43	-18.38	-1.25	-6.73	1.31
Statutory PBT	-15.60	-20.99	-3.72	-9.21	-9.37
Underlying EPS (p)	-9.73	-15.11	0.14	-4.71	-5.61
Statutory EPS (p)	-14.84	-17.43	-1.99	-7.52	-7.67
Net (debt)/cash	20.98	13.30	9.82	4.19	-1.23
Capital increase	33.51	11.88	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

Automobiles & Parts



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	SCE
Price (p)	16.5
12m High (p)	21
12m Low (p)	9
Shares (m)	123
Mkt Cap (£m)	20.2
EV (£m)	19.5
Free Float*	85%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

Non-Exec. Chair.	David Bundred
CEO	Dr Kevin Johnson
Finance Director	Michael Cunningham
	+44 151 356 2141
	www.surfacettransforms.com

Key shareholders

Canaccord Genuity Wealth	15.4%
Unicorn Asset Mgt.	13.4%
Richard Gledhill (director)	11.8%
Richard Sneller	5.6%
Hargreaves Lansdown	5.0%
Barclays Wealth	3.3%

Diary

Sep'19	Full-year results
Nov'19	AGM

Analyst

Mike Foster	020 7194 7633
	mf@hardmanandco.com

SURFACE TRANSFORMS

Results in line

ST's interim results, covering the period to end-November, were reported on 26 February. With key financials released as of a trading update of 4 December, the figures were as expected. We model that cash held will take ST comfortably through to cashflow- positive trading (see section below, "Finances"). Cash as at end-November was, as previously announced, £0.745m. Nonetheless, a feature of the existing ongoing retrofit market, we anticipate a 2H-weighted performance, as last year was too. Major investment in 2017 in production facilities was an essential and well-executed step. OEM "volume" cell one will be fully operational this summer.

- **Revenues:** We and ST still expect a positive update in spring (ST statement) about engineering sign-off and selection for start of production (SOP) for OEM5, with "broadly agreed initial pricing". This has just completed its final test and received VDSA 6.3 status. ST's eligibility as a core supplier has thus been approved.
- **Revenues:** Our already allowed-for delay of six months to SOP was confirmed by OEM6, but there should be no impact on lifetime revenues, and discussions have started for the follow-on OEM6 vehicle.
- **Valuation:** Current orders, including OEM6, albeit delayed (not new news), take ST to cashflow-positive territory. Manufacturing cell 1 is effectively now complete. Gross margins are stable, in the high 60% levels.
- **Risks:** Investment comes ahead of firm orders and profit. The company has no control over the timeline of auto OEMs' new models. As noted, revenues for the six months to end-November 2018 were £0.51m (down 3% YoY), but retrofit and near OEM auto sales are once again well placed for 2H'19E.
- **Finances:** 1H saw a rise in gross margins to 63% (55%) and a rise in administrative costs to £0.70m, from £0.55m. R&D stayed at £1.1m (£1.0m). Note that we anticipate £1.1m net cash at end-May 2019, post the receipt of the regular tax credit for R&D. Our FY19E cash from operations, including tax, is £1.2m outflow, with £0.2m outflow from capex in addition to this.

Financial summary and valuation

Year-end May (£m)	2017	2018	2019E
Sales	0.7	1.4	1.8
EBITDA	-2.4	-1.7	-1.5
EBITA	-2.5	-2.2	-2.0
PBT	-2.5	-2.3	-2.0
PAT	-2.2	-1.8	-1.5
EPS (adjusted) (p)	-2.4	-1.7	-1.2
Shareholders' funds	4.0	5.8	5.6
Net (debt)/cash	1.5	0.9	1.1
P/E (x)	loss	loss	loss
EV/sales (x)	27.8	13.9	10.8
EV/EBITDA (x)	na	na	na
DPS (p)	nil	nil	nil

Source: Hardman & Co Research

Industrial Engineering



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	SIXH
Price (p)	15.0
12m High (p)	18.5
12m Low (p)	13.25
Shares (m)	113.1
Mkt Cap (£m)	17.0
EV (£m)	33.3
Free Float*	72.1%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

Executive Chairman	Paul Dupee
CFO	Neil Carrick

+44 1922 707110

www.600group.com

Key shareholders

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

Diary

Jun/Jul'19	Final results
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Analyst

Paul Singer	020 7194 7622
	ps@hardmanandco.com

THE 600 GROUP

Trading still healthy, with good order book

The 600 Group remains competitively well positioned, with a world-class reputation in machine tools and laser marking. Around 65% of sales are in the US. Business momentum is good, with a healthy order book, and with growth enhanced by new product launches and new market entry. The shares are attractively valued against the peer group on a DCF basis and offer an appealing yield.

- **Trading comment:** The recent interim trading update was positive, despite the macroeconomic and political uncertainties, reflecting good enquiry and quotational activity, with a healthy order book – up 5%.
- **Prospects:** Growth will be driven primarily organically, with new product developments in both business areas and new geographical market entry continuing. A recent update on the laser market from the leading consultant at Industrial Laser Solutions suggests that, despite the effects of slowing global manufacturing, and uncertainties relating to China investment intentions and global tariffs, 2019 market growth should be similar to that in 2018.
- **Restructuring programme:** The group has undertaken a UK restructuring programme to reduce capex requirements and further improve margins in the medium term. Opportunities are also available for operational and distribution synergy benefits.
- **Competitive position:** The 600 Group has strong global brand recognition, with, as a key differentiator, the provision of high-service/customer support. The group is regarded as well positioned within highly competitive and fragmented industries, where barriers to entry are generally low.
- **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. Cyclicalities have been de-risked through further development of repeat/recurring business and activities in high-margin, economically less sensitive spares/services operations. The group remains in a solid financial position. The risk/reward profile is favourable, and the shares are attractively valued and now offer an appealing yield.

Financial summary and valuation

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

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TRK	TRX
Price (p)	6.8
12m High (p)	12.2
12m Low (p)	5.5
Shares (m)	1,171.7
Mkt Cap (£m)	79.1
EV (£m)	71.3
Free Float*	27%
Market	AIM

*As defined by AIM Rule 26

Description

Tissue Regenix (TRX) is a medical device company focused on regenerative medicine. 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.tissuregenix.com

Key shareholders

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

Diary

Mar'19	2018 final results
1H'19	Potential EU approval of OrthoPure XT

Analysts

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Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

TISSUE REGENIX

Full-year results due in March

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

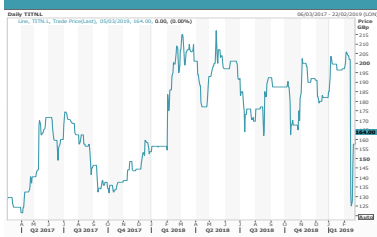
- **Strategy:** To build an international regenerative medicine business with a portfolio of products using proprietary dCELL and BioRinse technology platforms, underpinned by compelling clinical outcomes. TRX is looking to expand its global distribution network, via strategic partnerships, to drive sales momentum.
- **Trading update:** In an update to the market, TRX announced that underlying sales growth in 2018 was just ahead of expectations, rising 47% to £11.6m (£7.9m), driven by the US performance of DermPure. The year-end cash position, at £7.8m, was well ahead of our forecast, helped by tight cost controls.
- **Management change:** Jesus Hernandez, the founder of CellRight Technologies, joined the TRX Board at the time of its acquisition and has led the US operations. In 1Q'19, he will be retiring as CEO of CellRight. Daniel Lee, recently appointed from Scaffold Biologics, will become US President of Operations.
- **Risks:** TRX is exposed to many of the risks common to medical devices companies, including the regulatory hurdles particular to osteobiologics based on animal tissue, and the commercial risks of operating in a highly competitive market. The latter is, however, mitigated by the use of a hybrid sales strategy.
- **Investment summary:** TRX has three value drivers: sales of BioSurgery products in the US; expansion of CellRight and TRX technologies into the orthopaedics/spine and dental markets; and preparation for the OrthoPure XT launch in the EU in 2019. Expansion of its commercial opportunities through established partners is expected to hasten the time to reach a cash-neutral position, now estimated in fiscal 2020.

Financial summary and valuation

Year-end Dec (£m)	*2016	**2016	2017	2018E	2019E	2020E
Sales	0.82	1.44	5.23	11.60	18.96	25.90
EBITDA	-9.86	-10.55	-8.98	-7.92	-2.56	1.54
Underlying EBIT	-10.11	-10.85	-9.69	-9.08	-3.73	0.33
Reported EBIT	-10.24	-11.06	-10.82	-10.08	-4.23	-0.17
Underlying PBT	-9.89	-10.74	-9.64	-9.06	-3.72	0.33
Statutory PBT	-10.03	-10.95	-10.77	-10.06	-4.22	-0.17
Underlying EPS (p)	-1.26	-1.28	-0.90	-0.71	-0.26	0.08
Statutory EPS (p)	-1.28	-1.30	-1.02	-0.79	-0.30	0.04
Net (debt)/cash	19.91	8.17	16.42	7.80	0.58	-0.05
Capital increase	19.02	0.00	37.99	0.00	0.00	0.00
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	12.2	5.6	3.4	2.5

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

Construction & Materials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	TON
Price (p)	162.5
12m High (p)	217.0
12m Low (p)	121.5
Shares (m)	11.1
Mkt Cap (£m)	18.1
EV (£m)	16.8
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

May'19	Interim results
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Analyst

Tony Williams	020 7194 7622
	tw@hardmanandco.com

TITON HOLDINGS PLC

'Even a monkey sometimes falls from a tree'

South Korea has been a winning primate for Titon since 2008 and last year contributed more than two-thirds of its PBT. International and domestic events have conspired to impact the Nation, generally, and Titon specifically. In December, these were nascent but have since matured. The Company alerted the market on 14 February, and we have reduced our current-year PBT forecast by £1m and rebased the rest. We have also borrowed a South Korean proverb to sum it up, believing this event was a one-off i.e. a genuine 'monkey' and 'tree' moment; and Titon has already bounced off 121p.

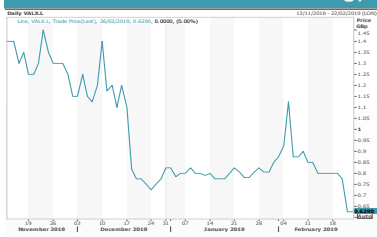
- **History 1:** In calendar 2016, Titon swung a Total Shareholder Return (TSR) of 23%, followed by 52% in 2017 and 18% in 2018, which was a difficult year in the jungle for the industry i.e. the Hardman UK Building Materials Sector generated a TSR of minus 12% last year.
- **History 2:** Titon entered the South Korean market in 2008, and its business grew rapidly to adulthood – and in fiscal 2018, South Korea generated more than two-thirds of Group PBT. Here, too, it is market leader in natural ventilation products. The domestic economy is 12th in the World and growing at around 2.5% p.a.
- **Future 1:** As an export-orientated anthropoid, though, South Korea has been impacted by fluctuations in global trade – actual and politically manufactured. GDP forecasts have been reduced, and there is domestic belt-tightening. Titon's core market in housing has been impacted, and there has been a spike in ventilation product substitution – mechanical for natural – much more quickly than expected.
- **Future 2:** The Company is working hard to realign its business, which will bear fruit in fiscal 2020 and 2021, but not 2019. The changes in Titon's product offering in South Korea are evolutionary but the products per se are very familiar to the Company; and so, after a fallow year in fiscal 2019, in which our estimate of core profitability in South Korea drops 500bps, revenue, profits and margins will rise.
- **Proverbial:** The Hardman UK Building Materials Sector comprises 23 companies with a market value of £7.9bn and an 8.6x EV/EBITDA on a trailing 12-month basis. Titon is on just 5.9x (and, okay, rising to 7.9x a year out). At the same time, the Sector's TSR is minus 6% over the past 12 months (with only nine stocks positive). Titon is at minus 15% (at 26 February) having been minus 36% straight after the Update. This is uncharacteristic and the Company continues to provide remedy.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
Net revenue	23.7	28.0	29.9	28.1	29.9	30.9
EBITDA	2.33	2.46	2.85	2.11	2.52	2.86
Underlying EBIT	1.77	1.85	2.19	1.40	1.74	1.99
Statutory PBT	2.14	2.49	2.98	2.21	2.61	2.91
Underlying EPS (p)	15.2	16.5	19.2	16.0	18.8	21.1
Statutory EPS (p)	15.2	16.5	19.2	16.0	18.8	21.1
Net (debt)/cash	2.4	3.3	3.4	3.7	4.2	4.8
Shares issued (m)	10.9	11.0	11.1	11.1	11.1	11.1
P/E (x)	10.7	9.8	8.5	10.2	8.6	7.7
EV/EBITDA (x)	7.4	6.8	5.9	7.9	6.4	5.5
DPS (p)	3.50	4.20	4.75	4.85	5.25	5.50
Dividend yield	2.2%	2.6%	2.9%	3.0%	3.2%	3.4%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	VAL
Price (p)	0.6
12m High (p)	4.2
12m Low (p)	0.6
Shares (m)	681.6
Mkt Cap (£m)	4.2
EV (£m)	2.6
Free Float*	100%
Market	AIM

*As defined by AIM Rule 26

Description

ValiRx (VAL) is a clinical-stage biopharmaceutical company focused on novel treatments for cancer. It currently has two products in Phase I/II and completed Phase II clinical trials. Its business model focuses on out-licensing or partnering drug candidates after clinical trials.

Company information

CEO	Dr Satu Vainikka
CFO	Gerry Desler
Chairman	Oliver de Giorgio-Miller
	+44 203 008 4416
	www.valirx.com

Key shareholders

Directors	0.3%
N. Slater	3.3%

Diary

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

Analysts

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VALIRX

Capital increase to fund R&D programme

VAL is a clinical-stage biopharmaceutical company focused on the development of therapeutics for the treatment of cancer. The company has two leading assets: VAL201 (Phase I/II) – a peptide for advanced prostate cancer and potential to treat other hormone-induced indications; and VAL401 (completed Phase II) – a novel reformulation of risperidone, for advanced lung cancer. Both drugs are targeted at multi-billion-dollar markets that are inadequately served by current drugs. To support its clinical (VAL 201) and preclinical (VAL 101 and VAL301) programmes, VAL raised £0.5m gross of new capital through the Placing of shares.

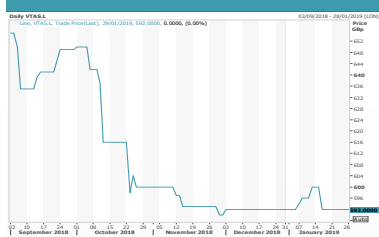
- **Strategy:** VAL operates as a virtual business, outsourcing most of its activities. The core strategy is to develop its therapeutic assets through the clinical pathway, and seek a partner/licensing deal to complete the development programme and regulatory submissions to commercialise the products.
- **Placing:** VAL has raised £0.5m gross through a Placing of 83.33m new Ordinary shares to new and existing shareholders, at an issue price of 0.6p per share. This corresponded to a premium of 23% compared with the previous day of trading. The funds were raised through VAL's new broker, Novum.
- **Use of proceeds:** The new funds will be used to help progress the clinical asset VAL 201, currently in Phase I/II, and also to progress some of its pre-clinical programmes towards the clinic, particularly the lead compounds VAL301 and VAL101, for the treatment of endometriosis and cancer, respectively.
- **VAL301 granted patent:** The patent offices of the Russian Federation and China have both granted a patent allowance for VAL301 for the treatment of hormone-induced, non-oncological abnormal growth and cell proliferation conditions (including endometriosis and benign prostatic hyperplasia). The product, derived from VAL201, is currently in a Phase I/II trial in prostate cancer.
- **Investment summary:** VAL appears to be under-appreciated by the market. Reasons for this include the lack of institutional shareholders and a continuing need for more capital to advance its clinical programmes, thereby building value. Given the clinical progress seen to date, the company should be attracting potential commercial partners and/or institutional investors in order to achieve the real value of its assets.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018E	2019E	2020E
Sales	83	0	0	0	0	0
SG&A	-1,645	-1,666	-1,467	-1,761	-1,849	-1,941
R&D	-1,543	-2,375	-1,747	-1,834	-2,201	-2,641
EBITDA	-2,877	-3,939	-2,938	-3,418	-3,873	-4,405
Underlying EBIT	-2,888	-3,949	-2,948	-3,595	-4,050	-4,582
Reported EBIT	-3,029	-3,987	-3,125	-3,595	-4,050	-4,582
Underlying PBT	-2,889	-4,288	-3,398	-3,592	-4,047	-4,598
Statutory PBT	-2,567	-5,569	-3,554	-3,592	-4,047	-4,598
Underlying EPS (p)	-7.7	-6.0	-1.9	-0.6	-0.5	-0.6
Statutory EPS (p)	-6.7	-8.2	-2.0	-0.6	-0.5	-0.6
Net cash/(debt)	232	-734	311	521	-3,092	-7,168
Capital increase	2,681	2,615	3,602	3,384	0	0

Source: Hardman & Co Life Sciences Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	VTA .NA, VTA.LN VTAS LN*
Price (€)	6.98/6.85/596p
12m High (€)	7.32/7.28/655p
12m Low (€)	6.46/6.52/590p
Shares (m)	36.6
Mkt Cap (€m)	255
Trail 12-mth. yield	8.9%
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	Serge Demay
AXA IM Paris	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%
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Diary

Mid-Mar'19	Feb estimated NAV
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Analyst

Mark Thomas	020 7194 7622 mt@hardmanandco.com
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VOLTA FINANCE

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Volta is a closed-ended, limited liability company registered in Guernsey. Its investment objectives are to seek to preserve capital across the credit cycle and to provide a stable stream of income to its shareholders through dividends that it expects to distribute on a quarterly basis. The latest quarterly dividend was €0.16 per share, with the rolling 12-month total at €0.62 per share. The assets in which Volta may invest, either directly or indirectly, include, but are not limited to, corporate credits, sovereign and quasi-sovereign debt, residential mortgage loans, commercial mortgage loans, automobile loans, student loans, credit card receivables, leases, and debt and equity interests in infrastructure projects. The current underlying portfolio risk is virtually all to corporate credits. The investment manager for Volta's assets is AXA Investment Managers Paris, which has a team of experts concentrating on the structured finance markets.

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

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

Personal Products



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	W7L
Price (p)	92.0
12m High (p)	274.8
12m Low (p)	70.0
Shares (m)	76.7
Mkt Cap (£m)	70.6
EV (£m)	66.0
Free Float*	37.9%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

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

+44 1753 639 130

www.warpaintlondonplc.com

Key shareholders

Directors*	51.1%
Schroder Inv. Mgt.	12.9%
Canaccord Genuity	3.1%
Close Brothers	1.8%
GAM International	1.7%

*includes shares held by directors' wives

Diary

Apr'19	Full-year results
Jun'19	AGM

Analyst

Yingheng Chen 020 7194 7638
yc@hardmanandco.com

WARPAINT LONDON PLC

Soft UK market

In November 2018, the company prudently signalled that group sales for FY'18 were likely to be in the range of £48m-£52m, with adjusted PBT of £8.5m-£10m. In the January trading update, the company confirmed that its expected revenue for FY'18 would be close to the lower end of the range, at £48.5m, with adjusted PBT of £8.25m. Trading conditions in the UK, the biggest geographical region for Warpaint's business, remain challenging, but the company has seen strong growth in its overseas markets. We retain a DPS forecast of 5.5p for FY'18. Warpaint will be announcing its FY'18 results in April.

- **UK trading conditions:** In its October 2018 trading update, Warpaint stated that trading conditions in the UK remained challenging, because of the UK high-street slowdown and ongoing Brexit concerns.
- **International operations:** Warpaint's management has been putting further emphasis on its international operations since 4Q'18. Benefiting from the acquisition of Leeds Marketing, Warpaint saw increasing activities in the US. The company is also expecting a further increase in brand recognition in Eastern Europe and Asia.
- **Valuation:** Despite the reduction in its revenue and PBT forecasts, Warpaint will continue to be profitable for FY'18. With a strong cash position, the management team still intends to pay off the remaining borrowings. Warpaint remains cash-generative and intends to maintain its progressive dividend policy.
- **Risks:** Warpaint's success depends partly on discount retailing growth, and global market conditions remain a significant factor. Post the Retra acquisition (significant exposure to the gifting market), Warpaint has better revenue forecasting visibility; however, it has also increased its exposure to the struggling UK high-street retailers.
- **Investment summary:** Warpaint is benefiting from its two acquisitions, Retra and Leeds Marketing, which enable the group to enter the fastest-growing colour cosmetics market (China) and further expand into the largest colour cosmetics market (US) in the world. It offers investors the opportunity to invest in the fast-growing colour cosmetics sector, with a highly experienced management team, an attractive RoE and a high dividend yield.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Sales	22.5	32.5	48.5	56.8	62.3
EBITDA (adjusted)	6.3	8.0	9.2	11.6	13.5
Operating profit (adjusted)	6.2	7.3	6.2	8.6	10.6
PBT (adjusted)*	6.1	7.7	8.6	11.3	13.3
Basic EPS (adjusted) (p)*	7.9	9.7	9.7	12.6	14.7
DPS (p)	1.5	4.0	5.5	6.6	7.9
P/E (x)*	11.7	9.5	9.5	7.3	6.3
EV/EBITDA (x)	10.5	8.3	7.1	5.7	4.9
Dividend yield	1.6%	4.3%	6.0%	7.2%	8.6%
RoE	-	20.0%	11.6%	15.8%	18.1%

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

Notes

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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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