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The Monthly

July 2018

Feature article: 'After the Love Has Gone'

Earth, Wind & Fire, 1979

Or post-IPO liquidity – how bad is it, does it matter and what can companies do about it?

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

Hardman & Co Clients

1pm Plc
Abzena
Advanced Oncotherapy
Allergy Therapeutics
Alliance Pharma
Arbuthnot Banking
Avacta
BigDish Ventures
Bionomics Ltd
Burford Capital
Chamberlin
City of London Investment Group
Civitas Social Housing
Collagen Solutions
Diurnal
Evgen Pharma
Gateley (Holdings)
Genedrive
Haydale Graphene
Incanthera
Inland Homes
International Lithium
Koovs Plc
Morses Club
Murgitroyd
NatureBank
Non-Standard Finance
Obtala
Oxford BioMedica
Plus 500
Premaitha Health
Primary Health Properties
R.E.A. Holdings
Redx Pharma
Scancell Holdings
Surface Transforms
The 600 Group
Tissue Regenix
Titon Holdings
Valirx
Warpaint

- We have analysed every IPO on the London Stock Exchange (LSE) between January 2015 and February 2018.
- Our analysis proves that, as expected, liquidity does dry up after float. The scale varies between markets and sectors.
- For example, the average company with an initial market capitalisation (IMCAP) in the range of £500-£1,000m sees 18% of its shares change hands in the first month. After that, between 2% and 4% are traded.
- An observer would expect a positive correlation between IMCAP and liquidity, since investors typically prefer larger companies. This is not borne out by our analysis – the R2 suggests virtually no correlation.
- Similarly, one would expect that, the more new money raised as a proportion of the IMCAP, the higher the subsequent liquidity. Our analysis shows this is not the case.
- Post-IPO liquidity should matter to shareholders and advisors.
- There are number of ways to stimulate post-IPO liquidity, ranging from capital markets days to sponsored research.
- This is an excerpt from a larger Hardman & Co Insight to be published shortly, which will include the full methodology.

Last month's publications

Date	Company	Sector
4 June	**Bionomics (BNO):** A big deal in oncology?	Life Sciences
5 June	**Chamberlin (CMH):** Trading strong, technical issues largely resolved	Industrial Engineering
12 June	**Incanthera Limited:** Pre-IPO research – targeting the warheads	Life Sciences
13 June	**Evgen Pharma (EVG):** Encouraging interim data from the STEM trial	Life Sciences
13 June	**Warpaint London Plc (W7L):** Painting a bright future	Personal Products
14 June	**Oxford BioMedica (OXB):** Gene-therapy for Parkinson's: clinical progression	Life Sciences
18 June	**Redx Pharma (REDX):** "Focus, Realism and Results" – Ian Ross, Chairman	Life Sciences
18 June	**Koovs (KOOV):** Successful fund raising	General Retailers
26 June	**Avacta (AVCT):** Gearing up the management team	Life Sciences
26 June	**Non-Standard Finance (NSF):** 1H'18 preview: costs 1H-weighted, revenue 2H	Financials
27 June	**Genedrive plc (GDR):** Preventing hearing loss in newborns	Life Sciences

Source: Hardman & Co Research

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'After the Love Has Gone', *Earth, Wind & Fire, 1979*

Or post-IPO liquidity – how bad is it, does it matter and what can companies do about it?

After a while, we all get bored with the familiar, and our attention turns to the new and unfamiliar. The same is true of the capital markets; this month's new issue soon fades into the background, and the attention of investment banks, brokers and investors moves onto the next thing. As the months roll by, liquidity dries up. Given the shift in economics from secondary revenue to primary, brokers and investment banks have little incentive to support their recent deals, other than the hope that the company might come back for another fundraising soon.

Weak liquidity is a disincentive for investors to get involved in the first place, since they can become trapped in a stock, making it difficult to get an Initial Public Offering (IPO) away in the first place. And, of course, it also makes it more difficult for the company to raise further money from investors, or for the original shareholders to sell down. Liquidity is, after all, what markets are all about.

Most commentators would expect liquidity to dry up after float. However, we are not aware of any research in the UK that seeks to confirm or assess this. This article will assess whether this hunch is true, before considering whether it matters, and the ways in which companies and their advisors can address the challenge.

Examining post-IPO liquidity seems particularly apposite, since new rules set by the Financial Conduct Authority (FCA), 'Reforming the availability of the information in the UK equity IPO process'[1], come into force on 1 July 2018.

Background

If questioned, most people involved in the capital markets would assume that, after a short flurry of excitement in a company's shares post-IPO, things die down. Is this true, and does it matter?

We have analysed three years of LSE data to answer the question, looking at 206 floats. Our findings might surprise many commentators.

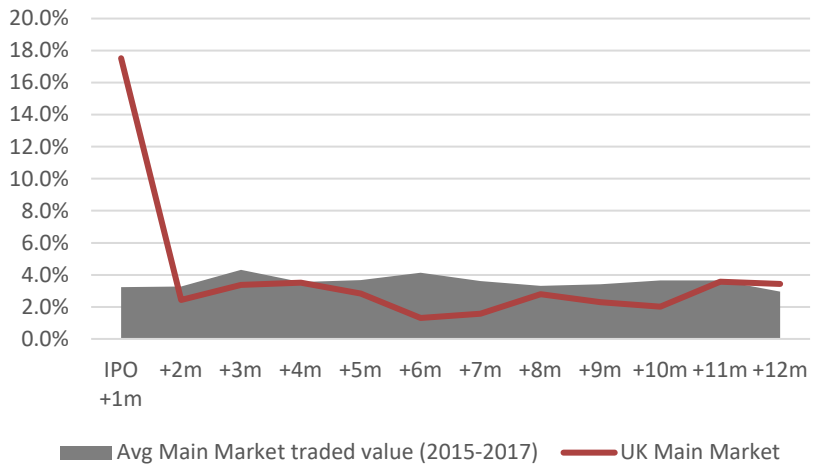
What we found – by LSE market

As most commentators might expect from anecdotal evidence, after the flurry of excitement in the first couple of months post float, liquidity falls away. Just how much it recedes, nobody can tell you. Our analysis shows that the reality can be shocking. Perhaps the 'worst' example is companies with an IMCAP in the £500-£1,000m range.

[1] FCA 'Reforming the availability of the information in the UK equity IPO process'; PS17/23, October 2017

Post-IPO liquidity for companies with an IMCAP of £500-£1,000m

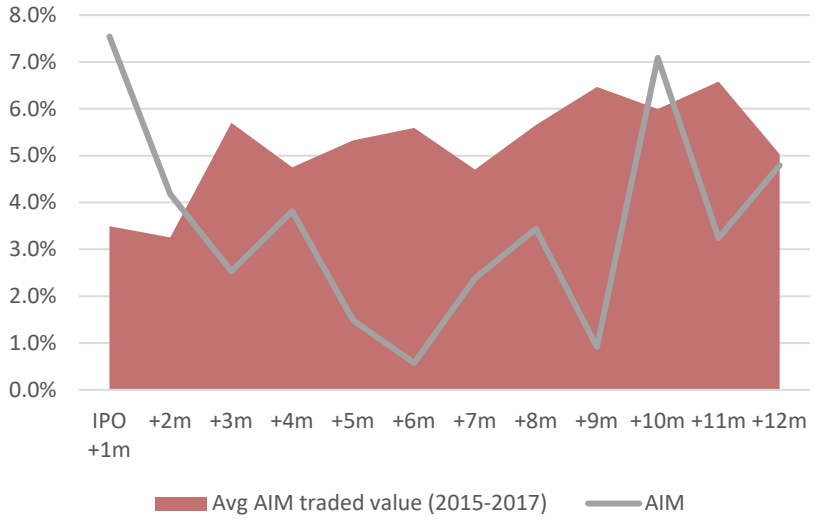
Volume traded as % of initial mkt. cap. (Main Market, £500m-£1bn)



Source: London Stock Exchange, Hardman & Co Research

Main Market companies in this size basket typically see nearly 18% of their shares change hands in the first month after IPO, but this rapidly falls to 2%-4%, and is less for the average of companies that have been on the market for a long while in this size basket (represented by the shaded area in the chart above).

Volume traded as % of initial mkt. cap. (AIM, £500m-£1bn)



Source: London Stock Exchange, Hardman & Co Research

AIM companies trade less than Main Market companies to start with, but, after month one, there is little to choose between them.

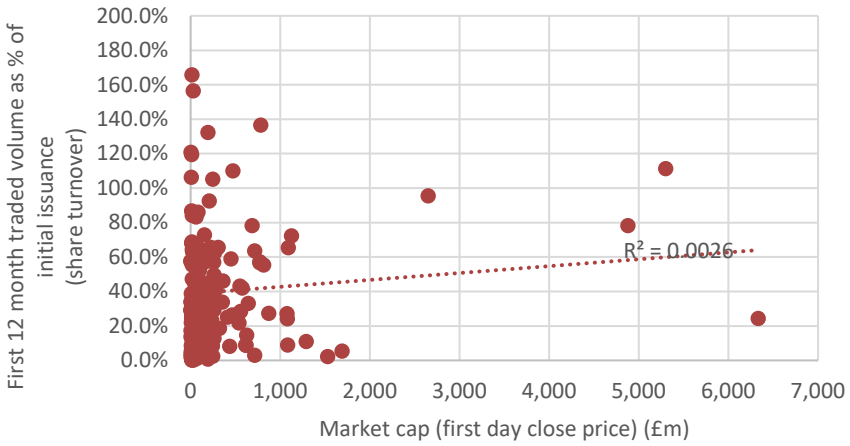
The data for other subsets of our universe are less dramatic, but, nonetheless, significant.

Size matters, doesn't it – surely, the larger the company's IMCAP, the greater the subsequent liquidity? – No

One would assume that the bigger the float, in terms of market capitalisation, the greater the subsequent liquidity.

First 12-month traded volume compared with IMCAP

12-month trading volume as % of initial issuance with mkt. cap.



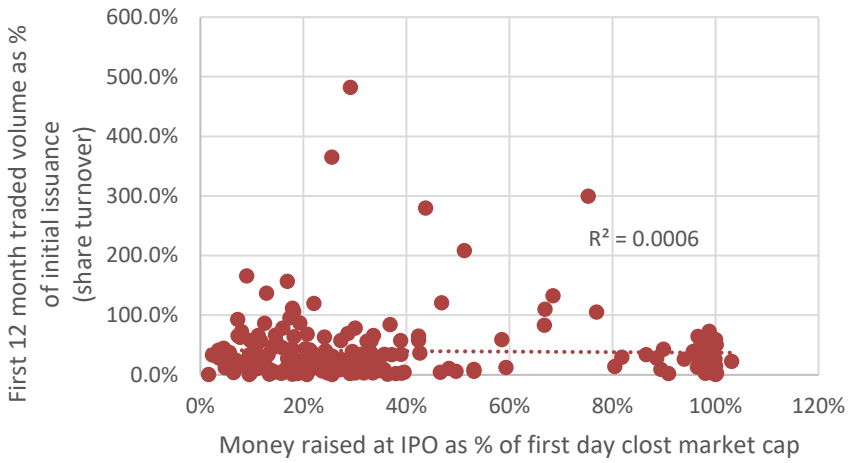
Source: London Stock Exchange, Hardman & Co Research

The data displayed above show that there is very little correlation. The coefficient of determination for this data, (R^2=0.0026), suggests that there is virtually no relationship between the axes.

Then, surely, the greater the percentage of IMCAP raised in new money, the greater the liquidity? – No

Again, one would assume that the greater the percentage of IMCAP raised as new money, the greater the subsequent liquidity, since new shareholders will not be locked in.

First 12-month trading volume as % of initial issuance with money raised



Source: London Stock Exchange, Hardman & Co Research

Again, the data show no real correlation. The coefficient of determination for this data, (R^2=0.0006), suggests that there is virtually no relationship between the axes. Most companies raise up to 40% of their IMCAP in new money. There is also a bunching near 100% – these are generally new funds and investment companies that did not exist before IPO.

Does weakening post-IPO liquidity matter? – Yes

We say 'yes' for two reasons.

First, if larger investors anticipate that there will be little after-market in a company's shares, they will be more reluctant to become involved in the first place. Anything that might improve after-market liquidity will most likely encourage these investors to participate in the IPO.

Second, if the management wants to come back for a further fundraising, or pre-IPO shareholders want to sell down, liquidity will determine how successful this might be. As an example, academic studies suggest that there is a positive correlation between liquidity and rating, and an inverse one with the spread (the difference between the price at which investors can buy and sell shares – a key component of the total cost of owning shares).

Indeed, one might ask, 'Why bother listing if you don't want a market in your shares?'. As we wrote in our previous note on liquidity, 'A market without goods or services changing hands, i.e. liquidity, is not a genuine market'[2].

What can companies do to boost post-IPO liquidity (or, what should investors encourage companies to do)?

Managements of companies that have just IPO'd are often grateful to get back to the day job, to the one they are most comfortable with, i.e. running their business. This is understandable, but a mistake. Successfully completing an IPO is not the end, but

[2] Hardman & Co, October 2017, 'Liquidity – little understood, even before MiFID II'

just the beginning, of a long-term engagement with the capital markets, investors, brokers, IR houses and the press.

One of the authors of this paper recently attended the maiden results meeting for analysts after a company's IPO. It was a strange experience, in the sense that, if attendees had known no more, they would have got the impression that things were a little tough, but broadly fine. There was very little clue from management's attitude that the share price had halved that morning and was down 60% since float. Investors are unlikely to appreciate this approach.

To get the full benefit of being quoted on the capital markets, companies need to engage. They need to understand that the market for investor airtime is very competitive (and trying to pull the wool over investors' eyes is pointless). Investors have a huge choice regarding where to deploy their money (the LSE alone has 2,025 quoted companies), and managements must gain their attention – and, perhaps more importantly, earn their trust.

Engagement can take many forms:

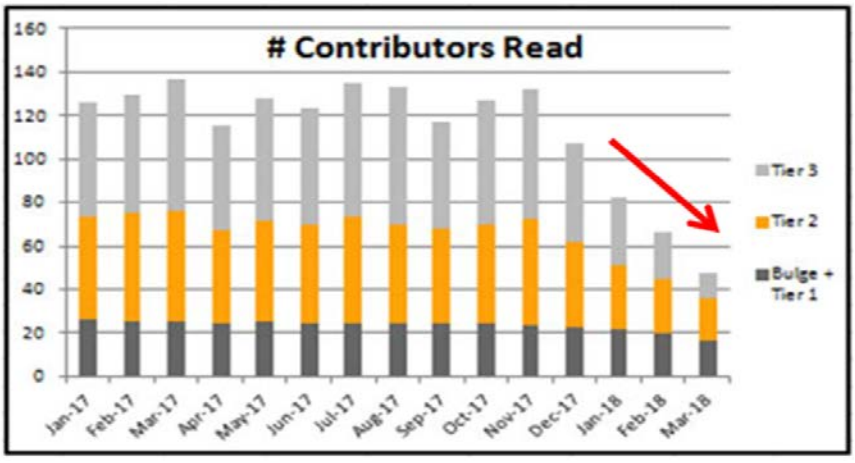
1. Work more closely with investor relations advisors – choose a good one and trust their experience.

2. Get the press to write about you. This is getting trickier, particularly for anything outside the FTSE100. The *Financial Times* has a column on UK small-caps once a week.

3. Hold a capital markets day to explain your business – these are becoming increasingly popular, often following on from an AGM.

4. Get some more research written about you – MiFID II is reducing the volume of research written, particularly about small companies, as well as the effectiveness of broker distribution. The chart below shows how the average top-12 Thomson Reuters clients have cut the number of brokers from which they take research by 60%.

Thomson Reuters: decline in entitled sell-side contributors



Source: Thomson Reuters

Make sure that research is widely available. The research of a sponsored house, such as Hardman & Co, mirrors the institutional distribution of a broker or

investment bank, but goes far wider, reaching out to family offices, wealth managers, private client brokers and retail investors.

5. Find ways of interacting with wider audiences than just with institutions. For example, some advisors may have better access to wealth managers and private client brokers than is the case for institutional brokers. Consider one of the retail investor shows (the *Financial Times* wrote up the recent Mello event in Derby for its effectiveness).

6. Allow retail investors into your thinking more often than at just the AGM. Perhaps it is understandable that managements are reluctant to allow retail investors to attend the analyst results meetings (primarily, they invite analysts with a deep knowledge of the company and sector to drill down), but there is no reason why a recording of the meeting, and slides used, cannot be put on the company website.

7. Remember, the retail investor is more important than most commentators and market professionals understand. Our note earlier this year highlighted both the importance of small investors to share price formation and how dangerous it can be to ignore them[3].

[3] Hardman & Co, 22 January 2018 'ONS survey underlines importance of the retail investor'

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.

Keith has over 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 and a member of the 5-man securities board at Evolution. Keith has also advised companies, large and small, on their relationships with the capital markets. Keith was part of the group of investors that acquired Hardman & Co in late 2012. He holds an MA in Philosophy, Politics & Economics from the University of Oxford.

Yingheng Chen is a Senior Financial Analyst at Hardman & Co.

She also works alongside Doug Hawkins at Hardman Agribusiness, which was founded in 2009 as a joint venture with Hardman & Co, and provides capital market advisory services for businesses and investors in the agriculture supply chain.

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 June 2018 (unless otherwise stated).

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**OPM**
Price (p)	46.75
12m High (p)	55.0
12m Low (p)	39.8
Shares (m)	83.8
Mkt Cap (£m)	39.2
EV (£m)	38.3
Free Float*	38%
Market	AIM

**As defined by AIM Rule 26*

Description

1pm is a finance company/broker providing over 16k 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
Chair	John Newman
	+44 1225 474230
	www.1pm.co.uk

Key shareholders

Lombard Odier (17/7/17)	19.91%
Ronald Russell (director 27/10/17)	12.40%
Sapia Partners (19/1/18)	12.00%
Henderson Global (17/7/17)	11.78%
Mike Nolan (director 3/11/17)	6.31%
Charles Stanley (4/9/17)	4.99%

Diary

Early Sep	FY'18 results

Analyst

Mark Thomas 020 194 7622
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1pm plc

Delivering growth, integration and synergy benefits

We reviewed 1pm in detail in our note, "Financing powerhouse: A lunchtime treat", and its January results in "Delivering Value Added Strategy." The May 2019E P/E of 5.6x and P/B of 0.7x appear an anomaly for a profitable, growing company. Since the results, 1pm has built significant funding firepower across a diversified range of sources. We believe this indicates management expectations for strong demand for its financing solutions. It also shows increasing confidence in the business by government, block and retail investors. The 27 June trading statement was very positive, with EPS up over 20%, new business up 70%, and good visibility on 2019 revenue from business already on the books.

- **1pm news:** The 27 June trading statement noted revenue up 75% (marginally above expectations, over 30% organic,), PBT (in line with expectations, our estimate +95%), and EPS up over 20%. New business grew 70% (44% kept on balance sheet, 56% broked). The cost of funds was 4.0% (2017 5.3%) and will reduce further. The group promised strong organic growth, the effective integration of deals and group synergistic benefits, and is delivering on them all.
- **Peer news:** PCF results, announced at the end of May, saw strong growth, with modest credit deterioration. The acquisition of Virgin Money by CYBG is partially about exploiting the SME opportunity that 1pm is targeting.
- **Market news:** On 8 June, the FLA reported 7% market, asset-backed finance growth April 2018 on April 2017. At the smaller ticket end (where 1pm competes), the growth was 10%. UK Finance reported, on 12 June, that SME advances were £93bn, with 1pm having a tiny market share.
- **Valuation:** We detailed the assumptions in our valuation approaches in our initiation note, "Financing powerhouse: A lunchtime treat". The GGM indicates 103p and the DDM 73p (DDM normal payout 81p). The 2019E P/E of 5.6x and P/B of 0.7x appear inconsistent with the group's profitability and growth.
- **Investment summary:** 1pm offers strong earnings growth, in an attractive market, where management is tightly controlling risk. Targets to more than double the market capitalisation appear credible, with triggers to a re-rating being both fundamental (delivery of earnings growth, proof of cross-selling) and sentiment-driven (payback for management actively engaging the investor community). Profitable, growing companies generally trade well above NAV.

Financial summary and valuation

Year-end May (£000)	2015	2016	2017	2018E	2019E
Revenue	5,534	12,554	16,944	29,596	32,946
Cost of sales	-2,503	-4,480	-6,094	-9,849	-10,820
Admin. expenses	-1,394	-4,290	-6,469	-10,834	-11,983
Operating profit	1,637	3,418	4,121	8,619	9,822
Pre-tax profit	1,620	3,346	4,080	7,946	9,048
Adj. EPS (p)	3.7	6.5	6.5	7.9	8.3
Total receivables	24,991	56,061	73,955	150,893	169,000
Eq. to receivables	49%	43%	39%	32%	33%
Shares in issue (m)	36.9	52.5	54.9	86.4	88.5
P/adj. earnings (x)	12.6	7.2	7.2	6.0	5.6
P/B (x)	1.4	1.0	0.9	0.8	0.7
Yield	0.7%	1.1%	1.1%	1.3%	1.7%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**AGY**
Price (p)	28.0
12m High (p)	39.5
12m Low (p)	23.0
Shares (m)	594.1
Mkt Cap (£m)	166.4
EV (£m)	143.7
Free Float*	37%
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	0.9%
Abbott Labs	40.5%
Southern Fox	21.4%
Odey	7.4%
Invesco	5.7%

Diary

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

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Allergy Therapeutics

Positive house-dust mite immunotherapy data

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Its subcutaneous allergy immunotherapies (SCITs), such as Pollinex Quattro (PQ) Grass, continue to gain market share despite being available in the EU only on a 'named-patient' basis. AGY is in the process of gaining full approval for its SCITs in Europe. This month, data from the Phase I trial of the modified house-dust mite MPL immunotherapy, an updated version of the original available on a named-patient basis, were released, demonstrating a 43% (n=141) decrease in combined symptom scores after one year, without any serious adverse events.

- **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.
- **Regulatory process:** AGY has undertaken a Phase I study of Acarovac MPL (monophosphoryl lipid A), the house-dust mite SCIT, towards approval of this updated version of the SCIT on a named-patient basis, initially in Spain. These results are ahead of the expected timelines.
- **Phase I data:** Results from the observational study in 10 sites across Spain showed a 43% decrease in combined symptom medication score, compared with baseline, in 141 patients evaluated at one year (p-<0.0001). No patients presented with serious adverse events, and none needed to stop treatment.
- **House-dust mite SCIT:** Acarovac Quattro, the version of Acarovac Plus that includes MPL, is a perennial house-dust mite vaccine to treat allergic rhinitis. Acarovac Plus is available in Spain on a named-patient basis, and full approval will make Acarovac Quattro unique in a $1.5bn p.a. global market.
- **Investment summary:** AGY is in an exciting period, with a clear vision, gaining market share from competitors, and leading the race to have its products fully approved and regulated as biologicals – first in Europe, then in the US, where the regulators are demanding change. Read-out from the EU Phase III birch and US and EU Phase II grass trials will provide the next major value inflection points.

Financial summary and valuation

Year-end June (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	43.23	48.51	64.14	68.0	77.0	86.5
R&D investment	-3.12	-16.22	-9.30	-18.0	-16.0	-8.0
Underlying EBIT	2.91	-12.34	-2.89	-9.7	-5.9	8.1
Reported EBIT	1.41	-12.53	-2.60	-10.4	-6.6	7.4
Underlying PBT	2.84	-12.45	-2.97	-9.8	-6.0	8.0
Statutory PBT	0.65	-12.21	-2.67	-10.5	-6.7	7.3
Underlying EPS (p)	0.48	-2.36	-0.47	-1.7	-1.0	1.2
Statutory EPS (p)	0.02	-2.29	-0.42	-1.8	-1.1	1.2
Net (debt)/cash	20.14	20.04	18.80	8.5	3.2	14.0
Capital increase	20.08	10.97	0.03	0.3	0.3	0.3
P/E (x)	58.0	-11.9	-59.7	-16.9	-28.9	23.2
EV/sales (x)	3.3	3.0	2.2	2.1	1.9	1.7

Source: Hardman & Co Life Sciences Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**ARBB**
Price (p)	1,605
12m High (p)	1,640
12m Low (p)	1,245
Shares (m)	15.3
Mkt Cap (£m)	245
Loans to deposits (2018E)	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.£60m to invest in new organic or acquired businesses.

Company information

Chair/CEO	Sir Henry Angest
CFO	Andrew Salmon
Group FD	James Cobb
	+44 20 7012 2400
	www.arbuthnotgroup.com

Key shareholders (co website)

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

Diary

17 July	Interim results

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

Arbuthnot Banking Group

Asset-backed business off to storming start

ABG is delivering the strong profit and franchise growth that had been promised, with underlying profits virtually doubling in 2017, to £8m. The May AGM statement confirmed all is on track and provides comfort to our forecast 2019 profits being more than double those generated in 2017. The asset-backed financing business launched early, and has already announced material deals. The share price around NAV appears an anomaly with ABG's storng track record and the opportuinities available to a well-capitalised, well-funded, conservatively managed group, whose management interests are closely aligned to shareholders.

- **ABG news:** ABG's May AGM statement noted the asset-based lending division was open to business almost two months ahead of schedule. On 7 June, ABG announced an initial deal with OSET bikes. This was quickly followed by the 20 June £12m facility to support Sullivan Street's acquisition of ISS Facility Services.

- **Peer news:** The agreed takeover of Virgin Money by CYBG is partially about leveraging the SME opportunity that ABG is seeking to exploit. Rathbone Brothers acquired Speirs & Jeffrey, Scotland's largest independent wealth manager, on 14 June (ca.4% discretionary FUM in initial consideration).

- **Market news**: On 8 June, the FLA reported 7% market, asset-backed finance growth April 2018 on April 2017. At the smaller ticket end (where ABG competes), the growth was 10%. UK Finance reported, on 12 June, that SME deposits were £173bn and advances £93bn, with ABG having a tiny market share.

  Valuation: The range of our capital deployed valuation methodologies is now £14.76-£26.69. The highest model (sum-of-the-parts) has seen a small decline from our last report (£26.71), with a modest fall in the market value of the STB holding. The share price is below 2019E NAV (1,621p), despite the recent rise.

- **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been innovative, but also very conservative, in managing risk. Having a profitable, well-funded, well-capitalised and strongly growing bank priced around book value is an anomaly.

Financial summary and valuation (2018 under review)

Year-end Dec (£000)	2015	2016	2017	2018E	2019E
Operating income	34,604	41,450	54,616	68,479	80,696
Total costs	-35,926	-46,111	-54,721	-65,735	-73,248
Cost:income ratio	104%	111%	100%	96%	91%
Total impairments	-1,284	-474	-394	-1,175	-1,400
Reported PBT	-2,606	179	6,971	8,942	15,393
Adj. PBT	2,982	4,009	7,623	8,942	15,393
Statutory EPS (p)	86.3	1,127.2	43.9	56.3	94.3
Adj. EPS (p)	13.5	17.1	47.5	56.3	94.3
Loans/deposits	82%	76%	75%	80%	80%
Equity/assets	5.5%	18.5%	12.8%	11.4%	10.5%
P/adj. earnings (x)	118.9	93.9	33.8	28.5	17.0
P/BV (x)	1.99	1.05	1.04	1.03	0.99

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**AVCT**
Price (p)	29.0
12m High (p)	91.6
12m Low (p)	28.0
Shares (m)	69.0
Mkt Cap (£m)	20.0
EV (£m)	11.7
Free Float*	60%
Market	AIM

**As defined by AIM Rule 26*

Description

Avacta (AVCT) is a pre-clinical stage 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	6.1%
IP Group	24.8%
Lombard Odier	10.8%
Aviva	9.6%
Ruffer LLP	7.1%
JO Hambro	6.7%

Diary

Oct'18	Finals
Jan'19	AGM
1H'19	PD-L1/LAG-3 drug candidate selection

Analysts

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Avacta

Strengthening the Board

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 through increased corporate interest, ongoing evaluations and deal flow. AVCT recently strengthened its Board with the appointment of Eliot Forster, ex-Immunocore CEO, as non-executive Chairman. This move provides greater expertise in maximising the potential of the Affimers as a therapeutic platform.

- **Strategy:** AVCT is aiming to commercialise its Affimer technology through bespoke research tools and collaborative deals, and by identifying and developing its own proprietary therapeutic leads. AVCT has sufficient cash resources to identify an Affimer lead to be ready for first-in-man trials in 2019.

- **New Chairman:** Dr Eliot Forster has been appointed non-executive Chairman. He brings a wealth of experience in the development of novel therapeutics, and an extensive network. He has an entrepreneurial aptitude and, while at Immunocore, secured the largest-ever Series A biotech financing round in the EU.

- **FIT collaboration:** AVCT, together with its research collaborator, FIT Biotech, has completed successfully a proof-of-concept study using a single dose of Affimer DNA, using the FIT gene delivery technology. This opens up many opportunities and highlights again the benefits of Affimers over mAbs.

- **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.

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

Financial summary and valuation

Year-end July (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	1.81	2.17	2.74	3.00	3.50	5.40
R&D spend	-0.03	-1.50	-2.60	-3.25	-4.50	-5.50
EBITDA	-2.28	-4.79	-6.66	-7.95	-9.30	-9.20
Underlying EBIT	-2.85	-5.39	-7.60	-9.02	-10.37	-10.27
Reported EBIT	-5.51	-5.66	-7.98	-9.44	-10.84	-10.78
Underlying PBT	-2.83	-5.29	-7.51	-8.98	-10.37	-10.32
Statutory PBT	-5.48	-5.57	-7.89	-9.40	-10.84	-10.84
Underlying EPS (p)	-4.38	-6.46	-8.75	-11.55	-12.92	-12.48
Statutory EPS (p)	-9.72	-6.86	-9.31	-12.17	-13.59	-13.23
Net (debt)/cash	7.33	19.52	13.17	4.50	-5.98	-16.01
Capital increase	0.02	21.05	0.01	0.06	0.00	0.00
EV/sales (x)	16.0	13.4	10.6	9.7	8.3	5.4

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
Ticker	**BNO**
Price (A$)	0.52
12m High (A$)	0.64
12m Low (A$)	0.34
Shares (m)	482.8
Mkt Cap (A$m)	251.0
EV (A$m)	246.2
Free Float*	89%
Market	ASX

**As defined by ASX Rule 1.1 Condition 7*

Description

Bionomics (BNO) is an Australian biopharma company specialising in development of ion channel drugs for disorders of the central nervous system and for cancers. In addition to a strong proprietary pipeline that includes ion channel allosteric modulators for anxiety, the company offers contract drug development services.

Company information

CEO	Deborah Rathjen
CFO	Steven Lydeamore
Chairman	Errol De Souza
	+618 8354 6100
	www.bionomics.com.au

Key shareholders

Directors	0.7%
BVF Partners	10.2%
Ausbil Investment	8.1%
PPM	5.5%

Diary (fiscal)

2H'18	BNC101 trial data
Sep'18	2018 FY results
1H'19	PTSD trial results
3Q'19	Agitation trial data

Analysts

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Bionomics

A big deal in oncology?

BNO is an Australian biopharmaceutical company specialising in ion channel drug discovery for central nervous system (CNS) disorders such as anxiety and post-traumatic stress disorder (PTSD). BNO also offers contract and partnered drug discovery based on its proprietary technology platforms: MultiCore and ionX. The group sales model includes fees-for-service, licensing income and royalties from successful partnered products. Its strategic focus is on development of its lead candidate, BNC210, to completion of Phase II in PTSD. BNO is seeking to divest or out-license its off-strategy oncology programmes, BNC101 and BNC105.

- **Strategy:** BNO's recently refined strategy is to focus on development of its ion channel drug candidates, particularly allosteric modulators. It intends to partner its priority CNS candidate for late-stage development and commercialisation, and to monetise its clinical-stage, non-ion channel, oncology programmes.

- **Off-strategy assets:** Management has reiterated that it is in formal discussions for an oncology deal, a position originally announced at least eight months ago. The deal could take the form of a strategic partnership for clinical development of BNC101 from Phase Ia and/or of BNC105, currently in two Phase I trials.

- **New data:** New clinical information on BNC101 was presented at the AACR meeting in April 2018, which included data consistent with a pharmacodynamic effect of BNC101 in colorectal cancer patients. *In vitro* BNC105 data were also presented. BNO reiterated that the new data could assist partnering discussions.

- **Risks:** BNC101 is compelling as a first-in-class drug targeting the stem cell marker LGR5. However, there are significant risks in development of any drug, and there are no licensed cancer stem cell-targeting drugs. BNC105 has been through three trials in solid cancers but has failed primary end-points previously.

- **Investment summary:** BNO has a clear strategy to invest in developing its drug candidates to a stage that both interests big pharma and generates good potential returns for shareholders. Hardman & Co estimates the post-tax NPV of the two oncology assets to be around A$21m/$16m, and A$651m for the whole pipeline. The next inflection point is likely to be the BNC101 data in 2H'18.

Financial summary and valuation

Year-end June (A$m)	2015	2016	2017	2018E	2019E	2020E
Sales	6.79	7.14	5.53	5.90	6.20	6.50
R&D investment	-23.18	-24.77	-24.22	-24.00	-12.00	-12.00
Other income	1.35	2.59	14.62	14.81	34.41	34.60
EBITDA	-22.65	-24.95	-10.11	-10.35	21.25	21.55
Underlying EBIT	-24.37	-26.88	-11.86	-12.09	19.51	19.80
Reported EBIT	-24.35	-27.42	-12.36	-12.60	19.00	19.30
Underlying PBT	-24.28	-26.28	-12.62	-13.16	18.61	19.38
Statutory PBT	-24.27	-26.82	-13.13	-13.67	18.10	18.88
Underlying EPS (¢)	-4.06	-3.51	-1.30	-1.42	4.73	4.90
Statutory EPS (¢)	-3.27	-3.42	-0.14	-1.55	4.60	4.77
Net (debt)/cash	11.78	23.14	24.26	17.68	41.23	65.50
Capital increase	0.27	28.22	0.14	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

Industrial Engineering

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**CMH**
Price (p)	91
12m High (p)	176
12m Low (p)	55
Shares (m)	8.3
Mkt Cap (£m)	7.6
EV (£m)	16.4
Free Float*	40%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Kevin Nolan
CFO	David Roberts
Chairman	Keith Butler-Wheelhouse

+44 1922 707110
www. chamberlin.co.uk

Key shareholders

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

Diary

24 July	AGM
Nov '18	Interims

Analyst

Paul Singer 020 7194 7622
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Chamberlin

Trading strong, technical issues largely resolved

Chamberlin remains on track strategically, and the technical problems at the new machine shop are now largely resolved. The group has consequently delivered a significantly improved performance in the second half of 2017/18. Prospects are most encouraging, and the group continues to develop its product offering to the automobile turbocharger industry through expansion of its main operational facilities. We are maintaining our 2018/19 forecasts. The shares remain attractively valued against the peer group on most methodologies.

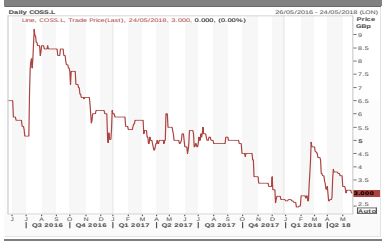
- **2017/18 results as previously indicated:** Revenues were up 17% to total £37.7m for the year. Although gross margins decreased to 18.2%, 2H margins were 20.3%, compared with 15.9% in 1H. Underlying EBIT for the full year was £0.4m.
- **Outlook:** We are maintaining our 2018/19 forecasts: demand for petrol engine turbocharger components is strong, and new products for machining are also being introduced into the market. The group is well positioned to deliver a further improvement in performance during the year, as margins recover.
- **Risks:** Potential risks include developments with the automotive industry, foreign currency and raw material price fluctuations. From a financial standpoint, we note that the group has a significant pension scheme deficit and, with limited free cashflow, the deficit is likely to remain at a relatively high level.
- **Valuation:** The shares remain lowly valued, trading on calendar 2018E EV/sales and EV/EBITDA of around 0.4x and 5.5x, respectively, compared with sector averages of 1.0x and 7.7x. Our DCF valuation also suggests that the shares are significantly undervalued.
- **Investment summary:** The company has repositioned itself from a traditional engineering company to become a key supplier to the automotive turbocharger sector. The shares offer the opportunity to invest in a cyclical stock with high operational leverage.

Financial summary and valuation

Year-end March (£m)	2017	2018	2019E	2020E
Sales	32.1	37.7	40.8	41.9
Gross profit	6.9	6.9	8.5	8.9
EBITDA	2.0	1.9	3.5	3.9
Underlying EBIT	0.7	0.4	1.6	2.0
Reported EBIT	0.4	0.1	1.6	2.0
Underlying PBT	0.57	0.0	1.3	1.7
Underlying EPS (p)	4.5	-5.5	13.0	16.5
GAAP EPS (p)	-11.7	-10.2	13.0	16.5
Net (debt)/cash	-6.8	-8.9	-8.3	-7.2
P/E (x)	-	-	7.0	5.5
EV/sales (x)	0.47	0.40	0.4	0.4
EV/EBITDA (x)	-	8.2	4.7	4.2

Source: Hardman & Co Research

Healthcare Equipment & Supply



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**COS**
Price (p)	3.0
12m High (p)	5.7
12m Low (p)	2.0
Shares (m)	324.5
Mkt Cap (£m)	9.7
EV (£m)	5.9
Free Float*	69%
Market	AIM

**As defined by AIM Rule 26*

Description

Collagen Solutions (COS) develops, manufactures and supplies medical grade collagen biomaterials, tissues and devices. Its products are used in research, *in vitro* diagnostics, medical devices and regenerative medicine. The company provides R&D and contract services to a global and diverse customer base.

Company information

CEO	Jamal Rushdy
CFO	Hilary Spence
Chairman	David Evans
	+44 141 648 9100
	www.collagensolutions.co.uk

Key shareholders

Directors + management	19.5%
Seneca	13.2%
Calculus Capital	9.5%
Rathbones IM	4.9%
Livingbridge	4.6%
Helium Rising Stars	4.0%

Diary

10 July	Finals
2H'18	ChondroMimetic CE Mark

Analysts

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Collagen Solutions

Final results – due 10 July

COS is a biomaterials company developing and manufacturing medical grade collagen components for use in medical devices, research and regenerative medicine. A number of investment initiatives have been introduced to accelerate the rate of growth, including global commercial infrastructure and development of a pipeline of finished medical devices. ChondroMimetic, for repair of small cartilage lesions, is in the process of being filed in Europe. Following delays to the closing of important new deals, which resulted in a disappointing trading statement for full-year 2018, there has been a strategic review of operations, and a CBO has been appointed.

- **Strategy**: Management has embarked on an investment strategy through a series of initiatives to increase the growth opportunities. This strategy is moving COS from a reliable, quality collagen supplier to one that also has proprietary products that will make it profitable, and cash-generative, at a faster pace.

- **Trading update:** At the time of its interim results, management indicated that full-year results were highly dependent on closing a number of deals that were under discussion. In a trading statement, COS stated that this had not been achieved. Consequently, sales were ca.£3.5m, vs. our forecast of £4.2m.

- **Restructuring:** Following a strategic review of operations and capabilities, COS announced a group restructuring. Consequently, the New Zealand facility will concentrate activities on tissue collection and processing, with manufacturing being transferred to Glasgow. Cash costs of £150k will lead to £200k p.a. savings.

- **Chief Business Officer:** The strategic review was carried out with the help of Louis T. Ruggiero, who has significant sales and management experience in the healthcare products sector, including in orthopaedic devices as the CEO of Ossur Americas. A CBO position has been created, with Mr Ruggiero appointed in April.

- **Investment summary:** ChondroMimetic fulfils COS's stated strategy to move further up the value chain. Exceptional eight-year clinical outcomes differentiate it from competing therapies. In order to maximise returns, COS needs to conclude commercial arrangements in readiness for a European launch in 2H'18, and with a strong partner capable of undertaking the trials needed to obtain regulatory approval for the product in the US.

Financial summary and valuation

Year-end March (£000)	2015	2016	2017	2018E	2019E	2020E
Sales	973	3,130	3,946	3,505		
Underlying EBITDA	-663	-374	-1,209			
Underlying EBIT	-793	-721	-1,658			
Underlying PBT	-920	-983	-1,790			
Statutory PBT	-1,102	-866	-1,614	Forecasts under review		
Underlying EPS (p)	-0.98	-0.64	-1.04			
Statutory EPS (p)	-1.17	-0.57	-0.95			
Net (debt)/cash	3,282	2,384	7,072	2,113		
Capital increase	5,422	207	6,462			
P/E (x)	-3.8	-5.9	-3.6			
EV/sales (x)	8.6	2.7	2.1			
EV/EBITDA (x)	-	-	-			

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**DNL**
Price (p)	191.5
12m High (p)	216.0
12m Low (p)	130.0
Shares (m)	61.3
Mkt Cap (£m)	117.4
EV (£m)	100.2
Free Float*	19%
Market	AIM

**As defined by AIM Rule 26*

Description

Diurnal (DNL) is a UK-based specialty pharma company targeting patient needs in chronic, potentially life-threatening, endocrine (hormonal) diseases. Alkindi has received regulatory approval from the European Commission, with first sales expected in 2Q'18, 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

20 Sep	Full-year results
3Q'18	US Phase III Chronocort
4Q'18	Alkindi US reg. submission

Analysts

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Diurnal Group

Alkindi launched in Germany

DNL is a commercial-stage specialty pharmaceutical company focused on diseases of the endocrine system. Its two lead products target rare conditions where medical needs are currently unmet, with the aim of building a long-term 'Adrenal Franchise'. Following approval from the European Commission, the launch of Alkindi in key European markets through DNL's own commercial infrastructure has started, with Germany the first country. The initial target population will be patients from birth to six years of age. Discussions are ongoing with health authorities in other major European countries for a timely launch. Pricing is in line with our expectations.

- **Strategy**: DNL's strategic goal is to create a valuable 'Adrenal Franchise' that can treat patients with chronic cortisol deficiency diseases from birth through to old age. Once Alkindi and Chronocort are established in the EU and the US, the long-term vision is to expand its product offering to other related conditions.
- **First commercial product:** DNL has announced the launch in Germany of its first commercial product, Alkindi, for the paediatric replacement therapy of adrenal insufficiency, with an initial target population of patients from birth to six years of age. Pricing is in line with our expectations, at $6.4k p.a.
- **Next step:** Discussions are ongoing with various health authorities in Europe to prepare for further launches. Due to the small estimated patient population of 4,000 across Europe (from birth to six years), and to retain the full value of Alkindi, DNL is commercialising Alkindi itself in the major European countries.
- **Risks:** While there is a risk with all drugs in development that they might fail clinical trials or not be approved by the regulators, DNL was considered to have unusually low risk, as its products are formulation variants of well-established drugs. This stance has been validated with the EU approval of Alkindi.
- **Investment summary:** Alkindi, a cortisol replacement therapy designed for babies and children, will be DNL's first product on the market. It will be followed soon by Chronocort for adults. The cortisol replacement market is for conditions that need life-long treatments, and has a potential value of $3.5bn. DNL will hit a number of valuation inflection points during 2018 with its upcoming news flow.

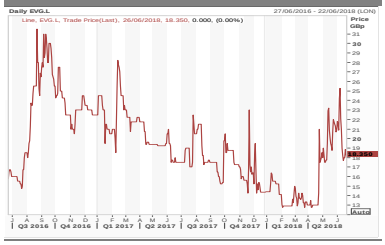
Financial summary and valuation

Year-end June (£m)	*2015	2016	2017	2018E	2019E	2020E
Sales	0.00	0.00	0.00	0.13	3.25	15.60
SG&A	-1.00	-1.99	-3.22	-6.03	-7.59	-9.21
R&D	-2.23	-3.89	-8.34	-10.50	-10.00	-7.00
EBITDA	-2.98	-5.87	-11.54	-16.41	-14.66	-2.18
Underlying EBIT	-2.99	-5.88	-11.55	-16.41	-14.66	-2.18
Reported EBIT	-2.99	-6.99	-12.07	-16.96	-15.23	-2.78
Underlying PBT	-3.02	-5.95	-11.64	-16.45	-14.58	-2.15
Statutory PBT	-3.02	-7.06	-12.16	-17.00	-15.15	-2.75
Underlying EPS (p)	-8.49	-12.48	-17.05	-23.86	-18.35	0.22
Statutory EPS (p)	-8.72	-15.02	-18.04	-24.86	-19.28	-0.75
Net (debt)/cash	6.05	26.88	16.37	17.22	4.27	-0.03
Capital increase	9.25	24.52	0.05	14.22	0.00	0.00

**Year to July*

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**EVG**
Price (p)	18.0
12m High (p)	29.3
12m Low (p)	12.2
Shares (m)	93.3
Mkt Cap (£m)	16.8
EV (£m)	13.2
Free Float*	64%
Market	AIM

**As defined by AIM Rule 26*

Description

Evgen (EVG) is a virtual pharmaceutical company using its proprietary technology, Sulforadex, to create new synthetic and stable variants of the natural product, sulforaphane. The lead product, SFX-01, is now in two Phase II trials.

Company information

CEO	Dr Stephen Franklin
CFO	Richard Moulson
Chairman	Barry Clare
	+44 151 705 3532
	www.evgen.com

Key shareholders

Directors	2.7%
North West Fund	17.4%
Rising Stars	12.8%
AXA	7.1%
South Yorkshire	4.0%
Seneca	3.8%

Diary

2H'18	Full data STEM read-out
2H'18	Full data SAS read-out
Dec'18	Interims

Analysts

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gp@hardmanandco.com

Evgen Pharma

STEM trial on track

EVG is a virtual pharmaceutical company focused on the development of a synthetic version of a natural product, sulforaphane, which is known to modulate key signalling pathways involved in cellular protection and inflammation. EVG has created new and stable variants of sulforaphane using its proprietary technology, Sulforadex, enabling it to be used as a therapeutic for the first time. SFX-01 is in Phase II trials for both subarachnoid haemorrhage (SAH) and ER+ breast cancer, with read-outs due near the end of 2018. The interim results meeting provided an opportunity for management to reiterate encouraging data from the STEM trial.

- **Strategy:** EVG is focused on the clinical development of synthetic and stable variants derived from sulforaphane using its proprietary technology, Sulforadex. Lead candidate SFX-01 is undergoing Phase II trials for SAH and resistant breast cancer – both strategic entry portals for other uses in neurology and oncology.

- **Results:** It might be too early to draw any firm conclusions, but initial data from the open-label STEM trial in breast cancer provide reassurance that the study may hit its primary end-point of safety, tolerability and signs of efficacy in this hard-to-treat population. Net cash at 31 March 2018 was £3.6m.

- **Plans:** EVG is planning the next steps in anticipation of positive outcomes from its clinical trials in both conditions. A Phase IIb/III for second-line treatment in metastatic breast cancer is likely to be with a partner. In contrast, EVG intends to run the Phase III in SAH itself and retain the full value of the programme.

- **Risks:** As with all drug development companies, there is a risk that products will fail in clinical trials. However, sulforaphane has been through a number of encouraging clinical trials, despite its stability and dosing limitations. Therefore, coupled with two potential targets, EVG's risk profile is arguably reduced.

- **Investment summary:** SFX-01 will be entering multi-billion-dollar global markets that are currently unsatisfied. EVG intends to out-license its drugs to the pharma majors for global commercialisation. A recent capital increase has ensured that EVG has sufficient cash to get beyond results from the ongoing trials. The EV of EVG afforded by the market does not reflect adequately the development stage of SFX-01 and the lower-than-usual risk profile.

Financial summary and valuation

Year-end March (£000)	2016	2017	2018	2019E	2020E	2021E
Sales	0	0	0	0	0	0
SG&A	-620	-949	-1,063	-1,218	-1,279	-1,356
R&D	-612	-2,500	-3,250	-2,850	-3,278	-3,441
EBITDA	-1,224	-3,432	-4,296	-4,051	-4,539	-4,780
Underlying EBIT	-1,232	-3,449	-4,313	-4,068	-4,556	-4,797
Reported EBIT	-2,434	-3,658	-4,532	-4,185	-4,679	-4,925
Underlying PBT	-2,015	-3,435	-4,307	-4,064	-4,556	-4,797
Statutory PBT	-3,217	-3,644	-4,526	-4,181	-4,679	-4,925
Underlying EPS (p)	-3.9	-3.9	-4.6	-3.6	-4.1	-4.3
Statutory EPS (p)	-6.3	-4.2	-4.8	-3.8	-4.2	-4.4
Net (debt)/cash	7,126	3,859	2,455	-83	-4,038	-8,125
Capital increases	8,565	0	2,185			

Source: Hardman & Co Life Sciences Research

Business support services

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**GTLY**
Price (p)	172
12m High (p)	193
12m Low (p)	152
Shares (m)	108
Mkt Cap (£m)	184
EV (£m)	183
Free Float*	40.3%
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

Non-Exec. Chairman	Nigel Payne
CEO	Michael Ward
FD, Secretary	Neil Smith

+44 121 234 0000
www.gateleyplc.com

Key shareholders

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

Diary

17 July	Final results

Analyst

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sc@hardmanandco.com

Gateley (Holdings) Plc

Sector starting to grow with more IPOs

Gateley is a broad-based commercial law and complementary professional services group. It is a leader in the UK mid-market, and has seen double-digit revenue and profit growth over more than 10 years. Its recent trading update confirmed that FY18 results will meet market expectations, and was accompanied by its third acquisition since IPO, the first in the legal sector. The EPS-enhancing deal is highly complementary and was done with a mix of shares and cash, an option not available pre-IPO. We have fine-tuned our next-year EBITDA forecasts upwards.

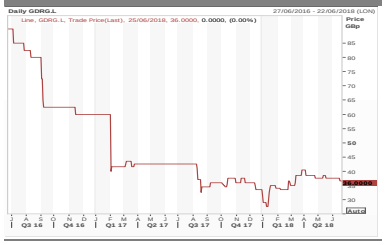
- **Current trading:** The trading update confirmed that the group's strong organic growth continues and that full-year profits will be in line with market expectations. Interims showed growth in revenue of 10% (mainly organic) and of 6.3% in EBITDA, and full-year numbers will be somewhat better, while next year will be boosted by the latest and largest acquisition to date, which is immediately earnings-enhancing.
- **News:** The group announced the final earnout on the Hamer acquisition, of roughly 50% of the original acquisition cost and half the maximum payment. The sector is at last starting to grow, with a new London IPO, Knights, formerly backed by James Caan, and others rumoured. DWF confirmed it is considering an IPO (rumoured at £1bn!) and others are in the trade press. This is positive.
- **Forecasts**: We forecast organic revenue growth of 7% for this year and next, leading to EPS growth of ca.8%. The GCL acquisition is EPS-enhancing, and we expect revenue synergies will further enhance earnings looking out beyond the FY19 year. Full-year numbers on 17 July will allow us to refine our forecasts.
- **Valuation:** Current-year P/E is under 16x, falling to a little over 14x next year, on conservative numbers. The dividend yield of over 4% this year should continue to grow, while the group offers a free cashflow yield of nearly 7%, with cash generation largely a function of low capital expenditure requirements.
- **Investment summary:** Gateley is an established, fully invested, consistent performer in a new and exciting space, which is likely increasingly to attract investor attention. It is a high-quality professional services group with significant growth potential, an excellent track record of delivery, a strong management, and a strategy to diversify further in complementary professional services.

Financial summary and valuation

Year-end April (£m)	2015	2016	2017	2018E	2019E
Sales	60.9	67.1	77.6	83.0	96.0
EBITDA*	11.3	12.9	14.9	16.0	18.4
EPS (adj., p)	8.3	9.1	10.1	10.9	12.0
DPS (p)	5.1	5.6	6.6	7.0	7.4
Net cash	-19.2	-4.2	-4.9	-0.1	3.2
P/E	20.8	18.9	17.0	15.8	14.3
EV/EBITDA	16.9	14.3	12.6	11.5	9.9
Div. yield	3.0%	3.3%	3.8%	4.1%	4.3%

Source: Gateley accounts, Hardman & Co Research
** 11.5p FY19E post share-based payments*

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**GDR**
Price (p)	36.5
12m High (p)	42.5
12m Low (p)	25.0
Shares (m)	18.8
Mkt Cap (£m)	6.9
EV (£m)	8.3
Free Float*	47%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

Key shareholders

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

Diary

Jul'18	Trading update
Oct'18	Finals

Analysts

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Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

genedrive plc

Preventing hearing loss in newborns

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

- **Strategy**: Now that the Genedrive technology platform has received CE Marking, the new management team has completely re-focused the company onto the commercialisation pathway for diagnosis of infectious diseases, signing two important commercial agreements with Sysmex, a major global player.

- **Hearing loss in newborns:** There is a major unmet need in developed countries to prevent the adverse reactions that occur in a small minority of patients in the course of life-saving antibiotic treatment. Reactions can be severe, and lead to irreversible and complete hearing loss. Current testing technology is too slow.

- **NIHR grant:** GDR will develop, and implement as part of a collaboration, a new diagnostic based on detection of the DNA sequence of the human mitochondrial gene RNR1. Results will be rapid (within one hour, no sample prep necessary), accurate, and run on the portable, point-of-care Genedrive technology device.

- **Risks:** The platform technology has been de-risked through the receipt of CE Mark for its first two assays (hepatitis C and tuberculosis). The main risk is commercial, given that it often takes time for new technologies to be adopted. However, partnering with major global and local players reduces this risk.

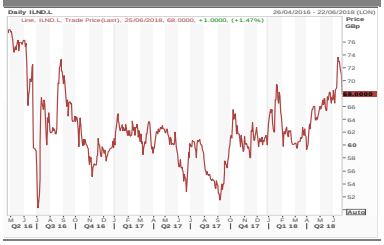
- **Investment summary:** Genedrive technology ticks all the boxes described for an 'ideal' *in vitro* diagnostic that satisfies the need for powerful molecular diagnostics outside the hospital setting. The hepatitis C market is a global opportunity, which is very large, even in developing countries. With strong partners being signed for different countries, such as the NHS in the UK, and evidence of early sales traction, there is, in our opinion, a valuation anomaly existing.

Financial summary and valuation

Year-end June (£000)	2015	2016	2017	2018E	2019E	2020E
Sales	4,517	5,063	5,785	4,869	3,447	4,826
Underlying EBIT	-3,858	-5,259	-4,812	-4,664	-3,681	-2,709
Reported EBIT	-4,040	-5,426	-7,292	-4,784	-3,837	-2,927
Underlying PBT	-3,242	-6,330	-5,007	-4,994	-4,146	-3,180
Statutory PBT	-3,424	-6,497	-7,487	-5,114	-4,302	-3,399
Underlying EPS (p)	-28.3	-54.6	-21.4	-21.5	-16.4	-10.1
Statutory EPS (p)	-30.1	-56.2	-34.9	-22.2	-17.1	-11.0
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	903	-3,877	-70	-2,362	-5,175	-6,947
Capital increases	80	0	6,023	0	1,250	0
P/E (x)	-1.3	-0.7	-1.7	-1.7	-2.2	-3.6
EV/sales (x)	2.0	1.8	1.6	1.9	2.7	1.9

Source: Hardman & Co Life Sciences Research

Construction & Materials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**INL**
Price (p)	68.0
12m High (p)	70.50
12m Low (p)	50.75
Shares (m)	202.1
Mkt Cap (£m)	137.4
EV (£m)	205.4
Free Float*	99.0%
Market	AIM

**As defined by AIM Rule 26*

Description

Inland Homes is a brownfield regeneration specialist, housebuilder and mixed-use developer. Its core skills are acquiring largely unconsented sites, principally in southern England, taking them through planning to breaking ground, development and sale.

Company information

Chairman	Terry Roydon
CEO	Stephen Wicks
CFO	Nishith Malde

+44 1494 762 450
www.inlandhomesplc.com

Key shareholders

M H Dixon	7.90%
Janus Henderson	5.02%
P&KS	3.07%
Management	12.76%

Diary

Sep'18	Final results

Analyst

Tony Williams 020 7194 7622
tw@hardmanandco.com

Inland Homes plc

The A Team

Colonel John 'Hannibal' Smith, leader of the A-Team, is famous for the precept: "I love it when a plan comes together". Also a fan of equivalence, Colonel Stephen Wicks at Inland put his counterpart's ontology into practice in Week 23 when Inland sold its Brooklands College site. The record £95m consideration is a 'land-and-build' package. Inland has a plan; and this is a great example of fulfilment.

- **Season 1:** Last month, the company sold its Brooklands College site in Ashford, Middlesex, to A2 Dominion, one of the largest housing associations in the UK. The transaction, which is the largest in Inland's history, is a land-and-build deal worth £94.7m, with the land consideration being £29.7m in cash, payable to the company on completion.

- **Season 2:** Inland will also undertake the development phase on behalf of A2 Dominion. This is expected to take four years and will comprise 357 one-to-five storey houses, 619 square metres of commercial space and the provision of 442 square metres of educational space plus open areas, etc. etc.

- **Season 3:** Such transactions allow the company "to recognise land profits while simultaneously securing self-funding, cash positive construction contracts which provide a balance to open market speculative housebuilding". Note, too, Inland Partnerships' forward order book is around £100m.

- **Season 4:** As part of the deal, too, the commercial space (as above) will be transferred back to Inland for a nominal sum once construction is complete. Elsewhere, the company has 550 houses under construction for private sale and – within two years – expects to be producing over 1,000 units p.a. To help with this activity, it recently promoted MD Gary Skinner (49) to the Main Board. Gary joined Inland in February 2016.

- **Season 5:** Plan beats no plan and, in one fell swoop, Inland has delivered a key example of one coming together – enunciating its strategy. Nor is this hard to love; and we look forward to more. "Give me a minute, I'm good. If I've got an hour, I'm great. You give me six months, I'm unbeatable" was another of Colonel John 'Hannibal' Smith's aphorisms.

Financial summary and valuation

Year-end June (£m)	2015	2016	2017	2018E	2019E	2020E
Total revenue	114	102	91	131	159	180
Underlying PBT	19.5	15.7	19.6	18.8	22.1	25.5
Underlying EPS (p)	8.56	5.09	7.09	7.60	8.90	10.30
Statutory EPS (p)	14.67	14.01	7.82	7.60	8.90	10.30
Net (debt)/cash	-34.9	-54.6	-68.0	-66.4	-62.4	-55.4
Shares in issue (m)	202.2	201.8	202.0	202.1	202.1	202.1
P/E (x)	7.9	13.4	9.6	9.0	7.6	6.6
DPS (p)	1.00	1.30	1.70	2.20	2.60	3.00
Yield	1.5%	1.9%	2.5%	3.2%	3.8%	4.4%
NAV (p)	44.44	57.66	64.62	69.69	73.74	79.19
EPRA NAV adjust. (p)	43.92	92.34	96.22	103.88	110.79	119.46
EPRA discount	na	26%	29%	34%	38%	42%

Source: Hardman & Co Research

General Retailers

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**KOOV**
Price (p)	21
12m High (p)	57
12m Low (p)	6
Shares (m)	175
Mkt Cap (£m)	37
EV (£m)	36
Free Float*	31%
Market	AIM

**As defined by AIM Rule 26*

Description

Koovs is an online retailer of western 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.)	19%
Anant Nahata (Dir.)	23%
Michinoko	11%
Ruffer	11%
Hindustan Times Media	5%
Times of India	4%

Diary

Before end-Sep'18	Prelims

Analyst

Jason Streets 020 7194 7622
JS@hardmanandco.com

Koovs plc

Successful start to fundraising process

Koovs sells affordable western fashion online in India. It has an established customer base of half a million active users and has been growing brand recognition rapidly. It has achieved the highest net promoter score (NPS) across its vertical. To exploit the Indian e-commerce opportunity, Koovs needs to raise a substantial amount of capital. In June, it announced a major deal with HT Media, which will see it becoming a major shareholder and which, we believe, will help the fundraising process markedly.

- **Advertising deal**: HT has agreed to provide Koovs with £24m of advertising and media services over two years in exchange for £16.8m-worth of equity, provided Koovs raises a minimum of £6m cash of new equity. The balance of the media spend is to be provided in cash by Koovs.

- **Two-year structure:** The equity will be subscribed for in four equal tranches over two years, with the price determined as the average traded price of Koovs' shares over the prior three months. If the share price rises sustainably on the back of the deal, then future tranches will be at a higher price.

- **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:** The company still needs to raise more finance; it has been diligently preserving cash but it needs a further ca.£27m to flourish. Once refinanced, we see the two key risks being slower uptake of e-commerce in India than we forecast and damaging discounting by Koovs' indirect competitors.

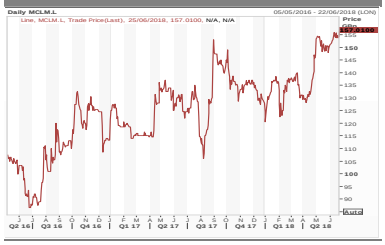
- **Investment summary:** Once the money is raised, Koovs will be an exciting way to play the last big world retail market to move online. The prize, if it gets it right, is a billion-pound company and more. It is likely to be a bumpy, exciting ride, but investors have the reassurance of a highly experienced management team in charge and the backing of a major Indian digital media player.

Financial summary and valuation

Year-end March (£m)	2017	2018E	2019E	2020E	2021E	2022E
Visits (m)	79	65	116	166	246	312
Conversion	1.6%	1.4%	1.4%	2.3%	2.8%	3.5%
No. of orders (m)	1.25	0.89	1.62	3.74	6.75	10.93
AOV (£)	14.75	16.37	16.74	19.00	20.58	23.29
GOV	18.5	14.5	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	1.2	3.6	12.1	25.8	70.4
Trading margin	2%	11%	21%	27%	30%	44%
EBITDA	-20.0	-14.4	-19.4	-18.9	-7.8	17.2
No. of shares (m)	175	175	398	398	398	398
EV/sales (x)	1.1	1.5	0.8	0.3	0.2	0.1

Source: Hardman & Co Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**MCL**
Price (p)	154.75
12m High (p)	157.0
12m Low (p)	105.5
Shares (m)	129.5
Mkt Cap (£m)	200.4
EV (£m)	180.0
Free Float*	46%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

Non Ex. Chr.	Stephen Karle
CEO	Paul Smith
CFO	Andy Thomson

+44 330 045 0719

www. morsesclubplc.com

Key shareholders (28/02/18)

Hay Wain	36.82%
Woodford Inv. Mgt.	8.79%
Miton Asset Mgt.	7.47%
Artemis Inv. Mgt.	6.95%
Majedie Asset Mgt.	5.34%
JO Hambro	5.32%
Blackrock	3.03%

Diary

Oct'18	Interim results

Analyst

Mark Thomas 020 7194 7622

mt@hardmanandco.com

Morses Club PLC

Regulatory clarity

Our detailed review of MCL's results (FY18: carefully controlled, sustainable growth, published on 16 May) noted the adjusted pre-tax profits were £1m ahead of our expectations. MCL has focused resources on optimising the potential from the market leader's self-inflicted woes and, while increasing its agent franchise by over 20%, impairments as a percentage of revenue fell in 2H on 1H. Historical conservative provisioning sees the conversion to IFRS9 having a much smaller impact on receivables than peers. New business streams are being introduced to continue sustainable growth. Our range of valuation methodologies is 171p-197p.

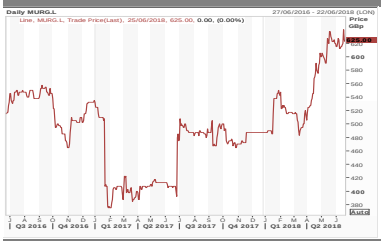
- **MCL news:** On 31 May, MCL's RNS, responding to the FCA's high-cost credit review, noted, "We do not envisage any significant financial or operational impact on our business, which has always had customer forbearance at its heart." The end-June AGM statement confirmed trading in line with expectations.
- **Peer news:** NSF's RNS response was, "We do not anticipate that the Proposals will have a material impact on the Group's future financial performance." Provident Financial issued a press comment whose key takeaway was, "We believe the FCA's focus … aligns with how we serve our customers."
- **Market news:** The FCA issued its high-cost credit review on 31 May. Regarding home collect credit, it commented, "Generally, consumers are mainly positive …. Many said that they would be significantly worse-off if this line of credit were unavailable to them." Its HCC remedies are mainly procedural.
- **Valuation:** We detailed a range of valuation approaches and sensitivities in our notes, "Building a profitable and sustainable franchise" and "Bringing-home-collect-into-the-21st-century", and updated these in our results note. The range is now 171p (DDM) to 197p (GGM).
- **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. The valuation has material upside, and we forecast a 5.0% February 2019 dividend yield, with 1.7x cover (adj. earnings).

Financial summary and valuation

Year-end Feb (£000)	2015	2016	2017	2018	2019E*	2020E*
Reported revenue	89.9	90.6	99.6	116.6	119.0	127.2
Total impairments	-22.9	-18.8	-24.3	-30.4	-26.6	-27.6
Total costs	-51.4	-53.4	-56.7	-65.6	-69.2	-74.3
EBITDA	16.5	19.3	19.9	22.1	24.9	27.3
Adjusted PBT	**13.0**	**16.8**	**17.7**	**19.2**	**21.4**	**23.6**
Statutory PBT	58.5	21.2	11.2	16.1	18.2	20.7
Statutory EPS (p)	46.5	6.1	6.6	10.1	11.4	13.0
Adj. EPS (p)	8.1	10.2	10.8	11.7	13.2	14.6
P/adj. earnings (x)	19.1	15.1	14.3	13.2	11.7	10.6
P/BV (x)	2.1	3.6	3.3	3.0	3.0	2.7
P/tangible book	2.3	4.5	3.9	3.4	3.3	3.0
Dividend yield	n/m	n/m	4.1%	4.5%	5.0%	5.5%

*Source: Hardman & Co Research * IFRS9 basis*

Support Services



Source: Eikon Thompson Reuters

Market data	
EPIC/TKR	**MUR**
Price (p)	630
12m High (p)	630
12m Low (p)	380
Shares (m)	9.0
Mkt Cap (£m)	57.0
EV (£m)	55.0
Free Float*	53%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information	
CEO	Keith Young
CFO	Keith Young
Chairman	Ian Murgitroyd
	+44 141 307 8400
	www.murgitroyd.com

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

Diary	
Sep'18	Final results
Oct'18	AGM

Analyst	
Mike Foster	020 7194 7633
	mf@hardmanandco.com

Murgitroyd

Resilient attractions

Murgitroyd has not been without pricing and margin headwinds; however, the solid prospects and cash generation are rightly just starting to be recognised. Services provided comprise a menu running from value/cost focus to more attorney-driven projects. Murgitroyd has a global footprint, with a cost-engineered flexible offering. Interim results were reassuring, accompanied by a large dividend rise. Murgitroyd experienced particularly strong headwinds from 2014 to 2017, especially on margins, but the resilience coming through at the interims is expected to be built upon in the second half year, now ended.

- **Long term**: Murgitroyd's markets offer volume resilience. Forecasts may eventually benefit from falling US tax rates, but we do not assume this for FY18. Recent years' growth has been assisted by broadening support functions, but group-wide margins should start to expand again.
- **Revenue trends**: Since March 2018, the dollar's recovery has been a helpful 'following wind' to Murgitroyd, whose dollar revenue is growing and now reaches 50% of group totals. We model group-wide organic constant currency sales growing a modest 1% in FY18, but believe this should prove conservative.
- **Revenue and divisional trends**: Larger clients' revenues rose in 1H'18, with continuing growth in support services, and sales up 4.4% (35.6% of group sales). Between FY13 and FY16, these registered a 10.5% CAGR (raising share of total sales from 29%), but growth at the rest of the group has been modest.
- **Risks**: The offer of a broad suite of services to a broad customer base, in focused markets, balances out any weakness in individual markets. There are, however, pricing pressures, so the ever-increasing offer of support functions (even including web-based) can add revenue and add to 'stickiness' with large clients.
- **Investment summary, tax and risks**: Ongoing strong dividend growth and free cashflow are supportive. Long term, there is good scope for margin expansion into double digits, with the expanded range of products and re-focused geography. Murgitroyd has strong resources for growth.

Financial summary and valuation

Year-end May (£m)	2014	2015	2016	2017	2018E
Sales	38.4	39.8	42.2	44.3	46.0
EBITDA	4.6	4.5	4.6	4.2	4.5
PBT (adj.)	4.2	4.2	4.3	3.9	4.1
EPS (adj.) (p)	33.6	34.8	35.3	28.7	30.8
DPS (p)	13.3	14.8	16.0	17.0	19.0
Net (debt)/cash	-0.4	0.7	2.8	2.2	2.6
Net debt/EBITDA (x)	0.1	cash	cash	cash	cash
P/E (x)	18.7	18.1	17.8	22.0	20.5
EV/Sales (x)	1.4	1.3	1.2	1.2	1.1
EV/EBITDA (x)	12.0	12.5	12.0	13.1	12.5
FCF yield	5.7%	5.1%	6.8%	5.7%	4.8%
Dividend yield	2.1%	2.3%	2.5%	2.7%	3.0%

Source: Hardman & Co Research

Note: our estimates are adjusted to exclude acquisition transaction costs

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**NSF**
Price (p)	63.0
12m High (p)	80.0
12m Low (p)	58.2
Shares (m)	313
Mkt Cap (£m)	197
EV (£m))	385
Free Float	99%
Market	Main

Description

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

Company information

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

Tel: +44 20 38699026

www.nonstandardfinance.com

Key shareholders (31 Jan'18)

Invesco	28.5%
Woodford Investment	26.8%
Marathon Asset Mgt.	10.7%
Aberforth Partners	10.2%
Quilter Cheviot AM	3.6%
ToscaFund	3.0%

Diary

2 August	Interim results

Analyst

Mark Thomas 020 7194 7622

mt@hardmanandco.com

Non-Standard Finance

FCA review – no material impact

The 18 June trading statement confirmed a continuation of the 2017 trends, leaving our strong growth forecasts unchanged. In our note, Everyday Loans: a heart of gold, published in May, we reviewed the heart of the group, Everyday Loans (EL; 80% of 2017 normalised operating profits). We believe it has strong competitive advantages in sales, costs and credit. EL has delivered strong profitability, while many lenders in this space are making losses. We previewed the 1H results in our 1H'18 Results Preview note, highlighting the 1H'18 bias in terms of costs but 2H'18 bias in terms of revenue. NSF's 2019E P/E of ca.10x is an anomaly given its strong growth/profitability outlook.

- **NSF news:** NSF's RNS response to the FCA review was, "We do not anticipate that the Proposals will have a material impact on the Group's future financial performance." NSF also hosted an investor site visit on 18 June. The associated trading update confirmed trading in line with management's expectations.

- **Peer news:** MCL's RNS response noted, "We do not envisage any significant financial or operational impact on our business, which has always had customer forbearance at its heart." Provident Financial's press comment's key takeaway was, "We believe the FCA's focus … aligns with how we serve our customers."

- **Market news:** The FCA issued its high-cost credit review on 31 May. Regarding home collect credit, it commented, "Generally, consumers are mainly positive …. Many said that they would be significantly worse-off if this line of credit were unavailable to them." Its HCC remedies are procedural, rather than punitive.

- **Valuation:** We reviewed a range of valuation metrics (and sensitivity to assumptions) in our initiation and results notes, Carpe diem and Strong profit growth path confirmed. Our absolute valuation measures are ca.100p per share. Relative measures are distorted by an unknown IRFS9 adjustment in consensus.

- **Investment summary:** Substantial value should be created as i) competitors have withdrawn, ii) NSF is well capitalised, with significant debt funding, iii) it has positive macroeconomic drivers, and iv) it has an experienced management team delivering technological efficiency without compromising the key F2F model. Targets of 20% loan book growth and 20% RoA for each operating division seem credible, and investors are paying ca.10x 2019E P/E.

Financial summary and valuation

Year-end Dec (£000)	2016	2017	2018E	2019E
Reported revenue	94,674	119,756	166,098	197,000
Total impairments	-25,705	-28,795	-39,728	-46,208
Total costs	-49,600	-67,706	-85,596	-93,760
EBITDA	19,369	25,181	35,443	50,638
Adj profit before tax	13,056	13,203	14,424	24,798
Stat profit before tax	-9,342	-13,021	-4,196*	11,348*
Pro-forma EPS (p)	3.37	3.44	3.72*	6.42*
DPS (p)	1.20	2.20	2.50	3.15
P/adj. earnings (x)	18.7	18.3	16.9	9.8
P/BV (x)	0.8	0.9	0.9	0.9
P/tangible book (x)	2.0	2.6	2.6	2.5
Yield	1.9%	3.5%	4.0%	5.0%

*Source: Hardman & Co Research *IFRS9*

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**OXB**
Price (p)	1000
12m High (p)	1064
12m Low (p)	266
Shares (m)	65.7
Mkt Cap (£m)	657.0
EV (£m)	642.1
Free Float	63%
Market	LSE

Description

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

Company information

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

Key shareholders

Directors	0.3%
Vulpes	17.7%
M&G	17.7%
Canaccord Genuity	5.07%
Aviva	3.9%
Hargreaves Lansdown	3.7%

Diary

Aug'18	Interims

Analysts

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Oxford Biomedica

Gene-therapy for Parkinson's: clinical progression

OXB is a specialist advanced-therapy lentivirus vector biopharma company. It offers vector manufacturing and development services, and also has a proprietary drug pipeline. In addition to LentiVector® service contracts, OXB receives royalties on commercial therapies developed by its partners using the LentiVector platform. A partnership deal structure was established with Novartis for Kymriah™ in 2017, and was followed by a collaboration and licence agreement with Bioverativ Inc in February 2018. The latest deal, on 6 June 2018, is the first involving OXB's proprietary platform: it will advance the Parkinson's disease gene-therapy to the clinic.

- **Strategy**: OXB has four strategic objectives: delivery of process development (PD) services that embed its technology in partners' commercial products; commercial manufacture of lentiviral vector; out-licensing of proprietary candidates; and investment in R&D and the LentiVector platform.
- **New licensing deal:** In the second deal of 2018, OXB has out-licensed its Parkinson's gene-therapy candidate (formerly ProSavin, now AXO-Lenti-PD) to Axovant Sciences, Inc (AXON) for a potential total $842.5m/£624.1m (upfront $30m/£22m). This is potentially a large market, with significant unmet need.
- **Valuation:** Our sum-of-the-parts valuation has been upgraded following the deal with AXON. The new estimated group enterprise value is £616m (cf. £316m previously), with a risk-adjusted valuation of £9.60 per share (cf. £4.47 previously), of which £1.24 can be attributed directly to this deal.
- **Risks:** The mid-term sales model and the ability to pay off debt are dependent on successful progress of partners' clinical trials and commercialisation of LentiVector-enabled products, for receipt of bioprocessing milestones and royalty payments. All gene-therapy candidates are subject to significant clinical risk.
- **Investment summary:** OXB is at a very interesting juncture. Heavy investment in state-of-the-art GMP manufacturing facilities for production of gene-therapy vector has resulted in supply agreements with Novartis, Bioverativ and AXON, on top of existing partnerships, positioning the group on the road to significant bioprocessing service income, milestones and royalties.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	15.91	27.78	31.49	43.80	58.20	79.30
EBITDA	-11.73	-6.78	-2.63	15.25	15.73	25.51
Underlying EBIT	-13.35	-10.45	-7.00	10.82	10.89	20.20
Reported EBIT	-14.08	-11.32	-5.67	9.76	9.72	18.94
Underlying PBT	-16.25	-15.34	-15.88	6.44	6.82	16.17
Statutory PBT	-16.98	-20.31	-11.76	5.38	5.65	14.90
Underlying EPS (p)	-23.91	-21.00	-21.19	15.26	15.47	31.55
Statutory EPS (p)	-25.33	-29.95	-14.56	13.64	13.69	29.62
Net (debt)/cash	-17.90	-19.05	-22.54	-2.69	-4.90	5.23
Capital increase	0.14	17.50	0.39	19.40	0.10	0.10
P/E (x)	-	-	-	-	-	31.7
EV/sales (x)	-	-	-	-	-	25.2

Source: Hardman & Co Life Sciences Research

Real Estate

Source: Eikon Thompson Reuters

Market data

EPIC/TKR	**PHP**
Price (p)	112
12m High (p)	118
12m Low (p)	105
Shares (m)	730
Mkt Cap (£m)	818
EV (£m)	1440
Market	Main, LSE

Description

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

Company information

CEO	Harry Hyman
CFO	Richard Howell
Chairman	Alun Jones

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

Key shareholders

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

Diary

Aug' 18	Interims
Feb' 19	Full-year results

Analyst

Mike Foster 020 7194 7633
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Primary Health Properties

Full tank and clear road

PHP's portfolio totals 309 assets, with a gross value of ca.£1.375bn and a contracted rent roll of ca.£73.5m. The pipeline of investments was recently stated at £151m, and our model assumes a rate of £100m p.a. of acquisitions. As the £115m equity raise of recent months is deployed, therefore, EPS is materially enhanced. Visibility into PHP continuing its stand-out dividend track record is very high. It is now in its 22nd year of stock market listing and its 22nd year of dividend rises. PHP is securing an incremental lengthening of its finance maturity, currently 6.3 years.

- **Visibility of profit growth**: Rents are supported by upward-only leases, typically of 20-year-plus duration. Effectively government-backed, with no exposure to macroeconomic cycles, the portfolio is consistently ca.99% let. PHP is incrementally raising efficiencies in operating and financing costs.
- **Capital deployment**: 2018E onwards, investment is accelerating. Ten properties were acquired in 2017 for £71.9m – a large average lot size. Our estimates still leave loan to value at a modest 47.7% end-2020, and there is scope for this to be raised further, meaningfully enhancing EPRA EPS.
- **Valuation**: PHP delivers steadily growing income, with a good proportion on guaranteed or RPI uplifts. With investors seeking secure income, the rating is also enhanced by good NAV progression. In 2017, PHP's total asset NAV plus dividends returned 16.4% (vs. 9.7% in 2016). The dividend history is remarkable.
- **Risks**: There is no rental-income or void risk. With debt costs low, the policy is lengthening the debt maturity profile, thereby reducing refinancing risk, while still lowering the cost of debt as some historical higher-rate debt expires. The average debt maturity is rising – funded from a variety of sources.
- **Investment summary**: The 1.4% positive cash return on gross UK investment remains healthy (this calculation is based on all-debt funding). RoI assets yield over 100bps more and debt is 50bps cheaper. Note the 82% take-up under the recent Open Offer. DPS cover is 99% (100% excluding performance incentive fee, PIF) in 2019E, 106% 2020E. Our figures are stated post £0.5m p.a. estimated PIF.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Net rental income	67.4	72.5	78.5	84.5	91.0
Finance cost	-32.5	-31.6	-31.5	-31.0	-31.0
Declared profit	43.7	91.9	55.8	70.8	78.4
EPRA PBT (adj. pre-revaluation)	26.7	31.0	36.4	42.4	48.4
EPS reported (p)	7.8	15.3	8.0	9.2	9.8
EPRA EPS (diluted, convertible)(p)	4.7	5.1	5.2	5.5	6.0
DPS (p)	5.12	5.25	5.40	5.55	5.70
Net cash (debt)	-663.2	-726.6	-709.0	-742.0	-841.0
Dividend yield (%)	4.5	4.7	4.8	5.0	5.1
Price/EPRA NAV	1.28	1.16	1.08	1.05	1.01
NAV (p)	83.5	94.7	97.6	101.3	105.2
EPRA NAV (p)	91.1	100.7	103.7	106.8	110.7

Source: Hardman & Co Research

Food Producers

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**RE.**
Price (p)	341.0
12m High (p)	361.0
12m Low (p)	282.0
Shares Ord (m)	40.5
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	138.1
Mkt Cap Pref (£m)	76.3
EV ($m)	520.9
Free Float	30%
Market	Main

Description

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

Company information

Managing Director	Carol Gysin
Chairman	David Blackett
	+44 20 7436 7877
	www.rea.co.uk

Key shareholders

Directors	28.55%
M & G Investment Mgt.	14.97%
Alcatel Bell Pension Fund	10.32%
Artemis Investment Mgt.	8.83%
Aberforth Partners	7.30%

Diary

10 July	General Meeting
Sep'18	Interim results

Analyst

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R.E.A. Holdings

Trading update

On 25 April, REA announced that REA Kaltim (REAK) had entered into a conditional agreement for the sale of a 95% holding in the PBJ estate to KLK. Expected gross proceeds of $85m are anticipated to evolve at ca.$57m net of repayment of external borrowings and transaction costs. This represents an elegant solution to deleveraging the balance sheet, focusing on a more contiguous plantation area, and freeing up capital for the remaining landbank. A circular has been posted to shareholders ahead of a general meeting on 10 July for the purpose of approving the proposed sale.

- **Strategy**: REA saw a significant improvement in cropping in the first five months of the year, reporting a 29.6% increase of own crop, to 263,000mt, compared with 2017. There are indications that the current crop rate will continue into at least August. Should the current harvest rate continue, we would expect to raise our forecasts.
- **Strategy**: REAK, the principal division of REA, has a total landbank of some 110,000ha. Following the PBJ transaction, REA will focus on the development of the company's 10,000ha readily plantable landbank. This should bring the proprietary plantations to ca.50,000ha by 2021 or 2022, when fully developed.
- **Palm oil price:** The average CPO price achieved by the group for the first five months has been 11% lower, at $554/mt FOB net of export levy and duty. The global palm oil price has weakened in the same period compared with 2017, and the CIF Rott price closed at $615/mt on 22 June. At this price, palm oil may become attractive in the energy sector.
- **Risks:** Agricultural risk, commodity price risk and country risk are constants of palm oil production. The deleveraging of the balance sheet, to give 2018 projected net debt to equity of 66.5% (76.5%) with the sale of the PBJ estate, will help to reduce funding risk, which is a standard threat to plantation projects.
- **Investment summary:** REA has scope to develop a planted estate of some 50,000ha. We believe the group's financial performance will undergo significant change from 2019. We are assuming some 34,000ha of mature plantations for end-2019, coupled with stronger agricultural production across the estates, and a firmer CPO price. If these factors align as anticipated, then this will mark the point at which the business becomes self-sustaining.

Financial summary and valuation

Year-end Dec ($m)	2015R	2016	2017	2018E	2019E
Sales	90.5	79.3	100.2	119.9	134.4
EBITDA	14.1	16.8	20.7	39.1	44.9
Reported EBIT	-6.6	-5.0	-2.2	15.9	21.5
Pre-tax profit	-12.2	-9.3	-21.9	1.4	10.6
EPS (cents)	-59.0	-48.2	-67.0	-23.2	-4.2
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	-196.7	-205.1	-211.7	-178.2	-189.8
P/E (x)	-	-	-	-	-
Planted hectares (ha)	37,097	42,846	44,094	39,974	42,976
EV/planted hectare ($/ha) *	14,043	13,093	12,705	13,970	12,953
CPO production (mt)	161,844	127,697	143,916	183,616	200,079

Source: Hardman & Co Research

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

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**REDX**
Price (p)	11.4
12m High (p)	28.6
12m Low (p)	3.5
Shares (m)	126.5
Mkt Cap (£m)	14.4
EV (£m)	4.4
Free Float*	76%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Lisa Anson
CFO	Dominic Jackson
Chairman	Iain Ross
	+44 1625 469 900
	www.redxpharma.com

Key shareholders

Directors	0.5%
Jon Moulton	18.2%
Seneca Partners	12.5%
AXA	9.8%
Aviva	8.4%

Diary

2H'18	Submit revised protocol for Phase I with RXC004
Nov'18	Final results

Analysts

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Redx Pharma

Progress with the pipeline

REDX's new management team is focusing its financial resources (ca.£10m) on progressing its lead candidates in oncology and fibrotic disease into the clinic. Although the first patient was treated recently in a Phase I/II proof-of-concept trial with its porcupine inhibitor RXC004, some on-target adverse events (anticipated at higher doses) were observed, which caused management to take the prudent decision to stop patient recruitment and prepare a revised protocol to the MHRA for end-2018. Meanwhile, REDX is continuing to progress its development strategy, with a new CEO now on board and a period-end cash balance of £10.3m.

- **Strategy:** REDX focuses on discovery and early clinical development of small molecule therapeutics in the fields of oncology and fibrotic disease. It aims to bring assets through proof-of-concept clinical trials and then partner them with the drug major(s) for late-stage development and commercialisation.

- **Interims:** REDX reported progress on its R&D pipeline, which is now focused on two key high value-added areas of cancer and fibrotic disease. Management has tightened control on costs, with a lower spend in SG&A and R&D, reducing the annual cash burn by ca.£5m p.a.

- **RXC004 trial:** A decision was made to temporarily suspend the Phase I/IIa trial with RXC004 in light of adverse events in the first patient dosed. Early data suggest a higher exposure and longer half-life in humans that could not have been predicted. A lower dose protocol is expected to be submitted in 2H'18.

- **Risks:** REDX has emerged from a difficult period in much better shape, allowing management to concentrate on bringing the assets to important value inflection points. While all early-stage pharma/biotech companies carry substantial risks, REDX's strategy was validated by the disposal of the BTK programme, for $40m.

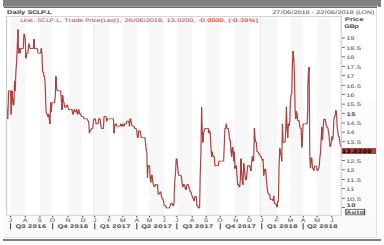
- **Investment summary:** REDX had already started the process of refining its strategy, but recent events have simply accelerated this evolutionary process. The revised business plan focuses cash resources on early clinical development of its drug leads in oncology and fibrotic disease. The commencement of clinical trials represents an important milestone not yet reflected in the valuation.

Financial summary and valuation

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

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**SCLP**
Price (p)	13.3
12m High (p)	19.4
12m Low (p)	9.7
Shares (m)	384.6
Mkt Cap (£m)	51.2
EV (£m)	40.1
Free Float*	81%
Market	AIM

**As defined by AIM Rule 26*

Description

Scancell (SCLP) is a clinical-stage company focused on the discovery and development of two proprietary immunotherapy platforms, ImmunoBody and Moditope, with the potential to be used as therapeutic cancer vaccines.

Company information	
CEO	Dr Cliff Holloway
CSO	Prof. Lindy Durrant
Chairman	Dr John Chiplin
UK HQ	+44 1865 338 069
US Office	+1 858 900 2646
	www.scancell.co.uk

Key shareholders	
Directors	5.0%
Calculus Capital	13.0%
City Financial	5.7%
Legal & General	4.7%
Hygea VCT	3.4%

Diary	
2Q'18	US IND SCIB1 + CPI
4Q'18	SCIB1 Phase II
Sep'18	Finals

Analysts

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gp@hardmanandco.com

Scancell Holdings

Preparing for melanoma combination trial

SCLP is a clinical-stage biotechnology company developing two distinct flexible cancer immunotherapy platforms, each with broad applications: ImmunoBody® is a DNA vaccine that stimulates high-avidity anti-tumour CD8 T-cells for use as a monotherapy or in combination with checkpoint inhibitors (CPIs); Moditope® targets modified antigens and stimulates powerful anti-tumour CD4 T-cell responses for use in advanced and hard-to-treat cancers. The company raised £8.7m of gross new capital by way of a Placing, Subscription and Open offer in order to support and progress its clinical trial programmes.

- **Strategy**: SCLP is developing two proprietary immuno-oncology platforms that target cancer cells directly to produce potent T-cell responses. Both technologies are highly flexible, potentially targeting many types of cancer. The initial aim is to complete proof-of-concept trials in multiple indications.

- **Capital increase:** SCLP completed a Placing, Subscription and Open offer of 72.55m new Ordinary shares at 12p to raise gross new funds of £8.7m (est. £8.0m net) to provide the funding to plan and progress capital trial programmes for both its proprietary platform technologies.

- **Use of proceeds:** The new capital will provide the working capital to progress its clinical programmes and for general corporate expenses. Of note, SCLP will start a late-stage melanoma combination study with SCIB1 + checkpoint inhibitor in 4Q'18, and a first-in-man breast clinical trial with Modi-1 in 1H'19.

- **Moditope patent:** SCLP has been granted a patent from the European Patent Office for its Moditope immunotherapy platform, effective from 13 June 2018. This endorses Moditope as a new class of cancer vaccine capable of inducing potent immune responses to stress-induced post-translational modifications.

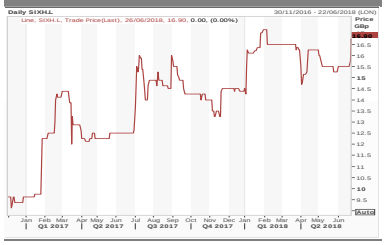
- **Investment summary:** SCLP is trading on an EV of ca.£40m, compared with a cumulative investment of £36m to get the company to where it is today, which is low compared with its relevant peers. SCLP's proprietary technologies are in the 'hot' area of immuno-oncology and targeting markets of significant unmet medical need. Recent deals have demonstrated the price that big pharma is willing to pay for validated assets in the field.

Financial summary and valuation

Year-end April (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	0.00	0.00	0.00	0.0	0.0	0.0
R&D investment	-2.12	-2.01	-2.77	-3.5	-5.9	-7.8
SG&A	-0.75	-1.00	-1.73	-2.0	-2.1	-2.2
Underlying EBIT	-2.87	-3.01	-4.50	-5.5	-8.0	-10.0
Reported EBIT	-2.96	-3.04	-4.55	-5.6	-8.1	-10.1
Underlying PBT	-2.74	-2.99	-4.44	-5.5	-8.0	-10.0
Statutory PBT	-2.83	-3.03	-4.50	-5.5	-8.0	-10.1
Underlying EPS (p)	-1.03	-1.12	-1.34	-1.5	-1.8	-2.2
Statutory EPS (p)	-1.07	-1.14	-1.36	-1.5	-1.8	-2.2
Net (debt)/cash	3.06	6.53	2.67	9.8	3.8	-5.0
Capital increase	0.00	5.79	0.00	11.6	1.2	0.0
P/E (x)	-	-	-	-	-	-

Source: Hardman & Co Life Sciences Research

Industrial Engineering



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**SIXH**
Price (p)	16.0
12m High (p)	16.5
12m Low (p)	9.1
Shares (m)	112.9
Mkt Cap (£m)	18.0
EV (£m)	31.6
Free Float*	72.1%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

Executive Chairman	Paul Dupee
CFO	Neil Carrick

+44 1922 707110
www. 600group.com

Key shareholders

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

Diary

Jun'18	2016/17 final results

Analyst

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The 600 Group

Moving into a new growth phase

The 600 Group is competitively well positioned, with a world-class reputation in Machine Tools and Laser Marking. 65% of sales are in the US. Business momentum is healthy, with growth enhanced by new product launches and new market entry. Cyclicality is being de-risked through further development of repeat/recurring business and activities in high-margin, economically less sensitive spares/services operations. The risk/reward profile is favourable, and the shares are attractively valued against the peer group, on a sum-of-parts methodology and on a DCF basis.

- **Competitive positioning:** 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.
- **Growth prospects:** Growth will be driven primarily organically, with new product developments in both business areas and new geographical market entry. The group also intends to develop its business interests by targeted strategic acquisitions and JVs in the high-growth industrial laser systems market.
- **Trading update/financials:** The 2017/18 interim trading update was positive, with results much as expected, reflecting the healthy operating environment. The group's pension fund is in an accounting surplus, with a value of £46m, and a cash refund to the group (or an insurance buyout) a medium-term possibility.
- **Risks:** The potential risks that could have a material impact on the group's performance are the global macroeconomic environment, Taiwan geo-political issues and Brexit developments. Other risks include competition developments with the industry, currency and raw material price fluctuations.
- **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. The group is in a solid financial position, with its pension fund in surplus. The risk/reward profile is favourable, and the shares are attractively valued on most methodologies.

Financial summary and valuation

Year-end Mar (£m)	2016	2017	2018E	2019E
Sales	45.3	47.0	50.5	53.5
Gross profit	15.4	16.4	18.0	19.2
EBITDA	2.9	3.6	3.7	4.1
Underlying EBIT	2.4	3.1	3.2	3.6
Reported EBIT	-0.3	3.1	3.2	3.6
Underlying PTP	1.5	2.1	2.3	2.8
Underlying EPS (p)	1.7	2.1	2.1	2.3
Statutory EPS (p)	1.6	2.0	3.0	2.3
Net (debt)/cash	14.3	13.6	10.6	9.7
P/E (x)	9.4	7.5	7.7	7.1
EV/sales (x)	0.6	0.6	0.6	0.6
EV/EBITDA (x)	-	-	8.5	7.7

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**TRX**
Price (p)	11.0
12m High (p)	16.0
12m Low (p)	5.5
Shares (m)	1,171.6
Mkt Cap (£m)	128.9
EV (£m)	112.5
Free Float*	27%
Market	AIM

**As defined by AIM Rule 26*

Description

Tissue Regenix (TRX) is a medical device company focused on regenerative medicine. Its patented dCELL technology removes DNA, cells and other material from animal/human tissue, leaving an acellular tissue scaffold – not rejected by the body – that can be used to repair diseased or worn-out body parts. Its products have multiple applications.

Company information

CEO	Steve Couldwell
CFO	-
Chairman	John Samuel
	+44 330 430 3052
	www.tissueregenix.com

Key shareholders

Directors	4.3%
Invesco	28.7%
Woodford Inv. Mgt.	26.0%
IP Group	13.7%
Baillie Gifford	4.2%

Diary

Sep'18	Interims

Analysts

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Tissue Regenix

Expanding access in the EU and US markets

TRX has a broad portfolio of regenerative medicine products for the biosurgery, orthopaedics, dental and cardiac markets. The company has two proprietary decellularised technology platforms for repair of tissues and bone. 2017 was a dynamic year for the group, growth being boosted by the CellRight Technologies acquisition. Distribution partnerships maximise the opportunity: in the UK, TRX has been granted a Human Tissue Authority (HTA) licence and signed a distribution agreement with Pennine Healthcare Ltd. It was also recognised in the US with the Group Purchasing Organisation (GPO) Supplier Horizon award from Premier, Inc.

- **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.
- **Horizon award:** In June, TRX was awarded the GPO Supplier Horizon award at Premier's Breakthrough conference, which took place in Tennessee, US. Premier members, who have experienced, directly, use of products in clinical settings and their creation of value, vote for the awards.
- **Premier agreement:** During May, the BioSurgery division in the US extended its GPO agreement with Premier, initially approved in 2016, for a further three years under a Tissue, Implantable Products contract. This maintains access to around 3,900 hospitals and to more than 150,000 provider organisations.
- **Pennine:** TRX has been granted a Human Tissue Authority (HTA) licence to import and distribute the CellRight portfolio in the UK. To drive commercialisation, management has signed a three-year, non-exclusive distribution agreement with Pennine, in order to further penetrate the UK orthopaedic market.
- **Investment summary:** TRX is building commercial momentum through three value drivers: sales of BioSurgery products in the US; expansion of combined CellRight and TRX technologies in Dental, Orthopaedics and Spine; and preparation for the OrthoPure XT launch in Europe. Early signs of the CellRight benefits are providing the momentum to reach sustainable profitability.

Financial summary and valuation

Year-end Dec (£m)	*2016	**2016	2017	2018E	2019E	2020E
Sales	0.82	1.44	5.23	12.00	19.30	26.36
EBITDA	-9.86	-10.55	-8.98	-9.23	-4.03	-0.01
Underlying EBIT	-10.11	-10.85	-9.69	-10.39	-5.20	-1.21
Reported EBIT	-10.24	-11.06	-10.82	-10.49	-5.30	-1.31
Underlying PBT	-9.89	-10.74	-9.64	-10.34	-5.20	-1.22
Statutory PBT	-10.03	-10.95	-10.77	-10.44	-5.30	-1.32
Underlying EPS (p)	-1.26	-1.28	-0.90	-0.81	-0.38	-0.05
Statutory EPS (p)	-1.28	-1.30	-1.02	-0.82	-0.39	-0.06
Net (debt)/cash	19.91	8.17	16.42	5.42	-1.66	-3.83
Capital increase	19.02	0.00	37.99	0.00	0.00	0.00
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	21.5	9.4	5.8	4.3

**Year to January; **11 months to December*

Source: Hardman & Co Life Sciences Research

Construction & Materials

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**TON**
Price (p)	201.0
12m High (p)	217.0
12m Low (p)	129.0
Shares (m)	11.1
Mkt Cap (£m)	22.3
EV (£m)	19.0
Free Float	97%
Market	Main

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	6.9%

Diary

30 Sep'18	Year-end
Dec'18	Final results

Analyst

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Titon Holdings Plc

Singapore (no sling)

The City State was the venue for the truly astonishing Trump/Kim Jong-un summit on 12 June. Nor were strong arms needed; and there was an absence of broken bones. A pacific North Korea would be a huge step towards a safer world and not bad, either, if you generate three-quarters of your net profit in its southern neighbour, which was doing pretty well anyway.

- **Healthy:** Titon's PBT in the half year to 31 March 2018 knotted 15% on a constant currency basis to £1.34m, on revenue up 16% to £14.5m. The dividend also rose 17% to 1.75p, with bandaged cover of 4.1x. Herein, too, South Korea tied its contribution up 13% to £0.9m in 1H, i.e. 74% of net profit.

- **Rude healthy:** RoNA in 1H was 18.9%, on a re-set basis, with capital turn (we like this 'un') above 2.0 and liquidity un-fractured, i.e. a quick ratio of 1.93. Meantime, net cash is equivalent to 16% of net assets. Titon is also looking forward to further muscle strength in 2H – in line with expectations.

- **Biceps:** In South Korea, ex-any peace dividend, GDP will grow 2.9% p.a. this year and 2.8% in 2019, says FocusEconomics, with a fresh eye on a potential geopolitical bonus. Okay, UK GDP is more flaccid and below trend but consensus forecasts are clustered around 1% to 2% p.a. growth through 2020.

- **Breaks:** Peace has yet to conclusively break out on the Korean Peninsula but life continues as normal in South Korea. At home, there is continued Brexit uncertainty but Experian is forecasting annual growth in UK construction of 1.1% in 2018 through 2020, with private housebuilding rising at 3.0% p.a. Its other geographical locales, meantime, are green breaks that will ultimately make Titon stronger as they embrace its prosaic and innovative products.

- **To be continued:** The unique Hardman UK Building Materials Sector comprises 23 companies with a market value of £8.4bn and our average valuation of 8.8x EV/EBITDA on a trailing 12-month basis. Titon is in the lower third of the table at 7.7x – despite the third-best Total Return to Shareholders (TSR) of 31.0% over 12 months; note, too, the Sector TSR average is just 3.6%.

Financial summary and valuation

Year-end Sep (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	22.3	23.7	28.0	28.6	30.2	31.9
EBITDA	2.13	2.33	2.46	2.81	3.04	3.26
Underlying EBIT	1.56	1.77	1.85	2,13	2.29	2.43
Statutory PTP	1.87	2.14	2.49	2.91	3.20	3.50
Underlying EPS (p)	12.6	15.2	16.3	18.0	19.5	21.0
Statutory EPS (p)	12.6	15.2	16.3	18.0	19.5	21.0
Net (debt)/cash	2.9	2.4	3.3	3.7	4.1	4.6
Shares issued	10.8	10.9	11.1	11.1	11.1	11.1
P/E (x)	16.0	13.2	12.3	11.1	10.3	9.6
EV/EBITDA (x)	9.1	8.5	7.7	6.6	6.0	5.4
DPS (p)	3.00	3.50	4.20	4.90	5.75	6.00
Yield	1.5%	1.7%	2.1%	2.4%	2.9%	3.0%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**VAL**
Price (p)	3.0
12m High (p)	7.8
12m Low (p)	0.9
Shares (m)	455.0
Mkt Cap (£m)	13.7
EV (£m)	13.2
Free Float*	99%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

Key shareholders

Directors	0.5%

Diary

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

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ValiRx

Focusing on the commercialisation of VAL401

VAL is a clinical-stage biopharmaceutical company focused on the development of therapeutics for the treatment of cancer. The company's two leading assets are in clinical trials: VAL201 (Phase I/II) – a peptide for advanced prostate cancer and potential to treat other hormone-induced indications; and VAL401 (Phase II) – a novel reformulation of risperidone, in trials for lung cancer. Both drugs are targeted at multi-billion-dollar markets that are inadequately served by current drugs. Following completion of the Phase II trial with VAL401, the main focus is now on building up the commercial package in readiness for out-licensing.

- **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.
- **Advisory board:** A group of oncologists and end-of-life care specialists has been consulted to gather opinion on the clinical results and potential impact of VAL401 in late-stage cancer patients. In addition to its anti-cancer aspect, the consensus was that the supportive benefits of VAL401 were just as important.
- **VAL401:** VAL401 achieved an overall response rate of 60% and improved the quality of life in patients with late-stage lung cancer. There was some evidence to show that VAL401 improves the disease symptoms, suggesting a palliative effect, and could be a good candidate for a combination study.
- **Risks:** New and/or first-in-class drugs carry the risk that they might fail in clinical trials. However, the substantial safety history of the active ingredient in VAL401 and the consistent safety record in the VAL201 trial mitigate these risks. More capital will be needed to further its proprietary assets along the value chain.
- **Investment summary:** VAL appears to be under-appreciated by the market. Reasons for this include the lack of institutional support and a continuing need for more capital to advance its clinical programmes, thereby building value. Given the clinical progress seen to date, the company should be attracting potential commercial partners and/or institutional investors in order to achieve the real value of its assets.

Financial summary and valuation

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

Source: Hardman & Co Life Sciences Research

Personal Products

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**W7L**
Price (p)	255
12m High (p)	260
12m Low (p)	150.0
Shares (m)	76.7
Mkt Cap (£m)	195.7
EV (£m)	193.7
Free Float*	34.7%
Market	AIM

**As defined by AIM Rule 26*

Description

Warpaint is a UK-based colour cosmetics specialist that sells creative, design-focused and high-quality cosmetics at affordable prices. The company comprises of two divisions: own-brand (W7, Retra and others) and close-out. It has a presence in more than 60 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*	50.6%
Schroder Inv. Mgt.	10.1%
BlackRock Inv. Mgt.	9.9%
Hargreave Hale	3.1%
J O Hambro Capital Mgt.	2.0%
Columbia Threadneedle	1.8%

**includes shares held by directors' wives*

Diary

Sep'18	Interim results

Analyst

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Warpaint London PLC

Painting a bright future

Hardman & Co has initiated coverage on Warpaint, a UK-based colour cosmetics specialist that sells creative, design-focused and high-quality cosmetics at affordable prices (please see our initiation report). Warpaint's flagship brand, W7, has established a loyal customer base, and brand awareness is growing rapidly. The company believes that, with Retra Holdings now being well integrated into the group, it is well placed for the next phase of development – namely new product development and increasing market share, both domestically and internationally, particularly in its two key markets, the USA and China. Warpaint has never made a loss and has a very healthy profit margin; it is also net debt-free.

- **Strategy**: In the near term, Warpaint will be focusing on continuing to develop the W7 brand and on the integration of Retra, as well as maximising any possible synergies. The company will also concentrate on increasing its product offerings and expanding brand awareness across the globe.
- **Forecasts:** We forecast sales to grow ca.69% to ca.£55m in 2018, given the boost from Retra. On a like-for-like basis, we expect W7 to grow 11.6%. 2H'18 order books for both W7 and Retra are ahead of the previous year. We are expecting a slight increase in the gross margin in FY18, from 38.8% to 39.5%, and to 40% in FY19.
- **Valuation:** The Retra acquisition fits well with the company's growth strategy: it enhances client access and provides cost savings for both sides of the businesses. Our DCF model indicates a share price range between 219.5p and 276.7p. Warpaint also has a highly competitive dividend yield versus the sector.
- **Risks:** For Warpaint to remain successful, several key factors have to be considered: i) the continuing growth in the discount retail sector; ii) the fact that the full effect of the integration of Retra has yet to be analysed; iii) the company's ability to deliver new and innovative products.
- **Investment summary:** Warpaint has made considerable progress in the last six months, since the acquisition of Retra. The company is well positioned to maximise the benefit of the additional assets. It also has a much faster growth rate than the rest of the colour cosmetics sector, and has a very attractive RoE. Warpaint offers the opportunity to invest in the fast-growing colour cosmetics sector, with a highly experienced management team.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Sales	22.5	32.5	55.1	62.3	69.4
EBITDA (adj.)	6.3	8.0	13.2	15.4	17.4
Operating profit (adj.)	6.2	7.3	10.7	13.0	14.9
PBT (adj.)*	6.1	7.7	12.7	15.1	17.1
Adj. basic EPS (p)*	7.9	9.7	13.9	16.5	18.5
DPS (p)	1.5	4.0	5.5	6.6	7.9
P/E (x)*	32.4	26.3	18.3	15.5	13.8
EV/EBITDA (x)	30.9	24.3	14.6	12.5	11.2
Dividend yield	0.6%	1.6%	2.2%	2.6%	3.1%
RoE	-	20.0%	19.6%	21.2%	21.5%

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

Notes

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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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