HARDMAN&CO.

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2018 drug industry statistics

Updating our industry database and generating first cut of global 2018 rankings…

Although the focus of Hardman & Co is predominantly on companies in the small- to mid-sized market capitalisation range, when writing research reports, it is important to position them relative to the industry in which they operate. Apart from Japanese companies, all the major global pharmaceutical companies have reported full-year results for 2018 over the past few weeks; therefore, we have taken the opportunity to update our industry database and generate the first cut of global rankings for 2018. For an industry that requires a long investment cycle – it still takes, on average, 10 years from discovery to launch of a new drug – decisions made many years ago have important consequences on current financial results. Therefore, looking back at operational performance over 20 years reveals how different company strategies have panned out.

Our pharmaceutical database

…basing our analysis on annual accounts of ca.40 multinational companies

Whatever the size of a company, it is imperative to outline the commercial market opportunity that the company's (often disruptive) technology is targeting. While such work requires significant research, it often constitutes only a very small part of the overall report. It does, however, have the advantage of providing us with a global commercial dataset that is reliable and independent of third-party input.

Pharmaceutical sales are defined as anything that requires a prescription (Rx) and specifically excludes Over-The-Counter (OTC) and consumer products. It is important to note that this does include generic drugs and biosimilars, both of which require a prescription.

Our database of pharmaceutical companies and drugs goes back to 1985. All the data are based on net ex-factory sales reported by companies, and exclude all discounts and allowances, returns, chargebacks and government rebates, such as Medicaid and Medicare. All reported numbers are converted into USD at daily average exchange rates – available from the Bank of England website. These data have, therefore, been compiled consistently and with great care, so that direct comparisons among companies can be made.

We have based our analysis on the annual accounts of ca.40 multinational companies, which cover ca.75% of the global pharmaceutical market and ca.90% of the US drug market. Market share statistics have been calculated from our provisional estimate for the global prescription drug market, which cannot be finalised until after the Japanese drug companies and Boehringer Ingelheim report in May 2019.

2018 global pharmaceutical market

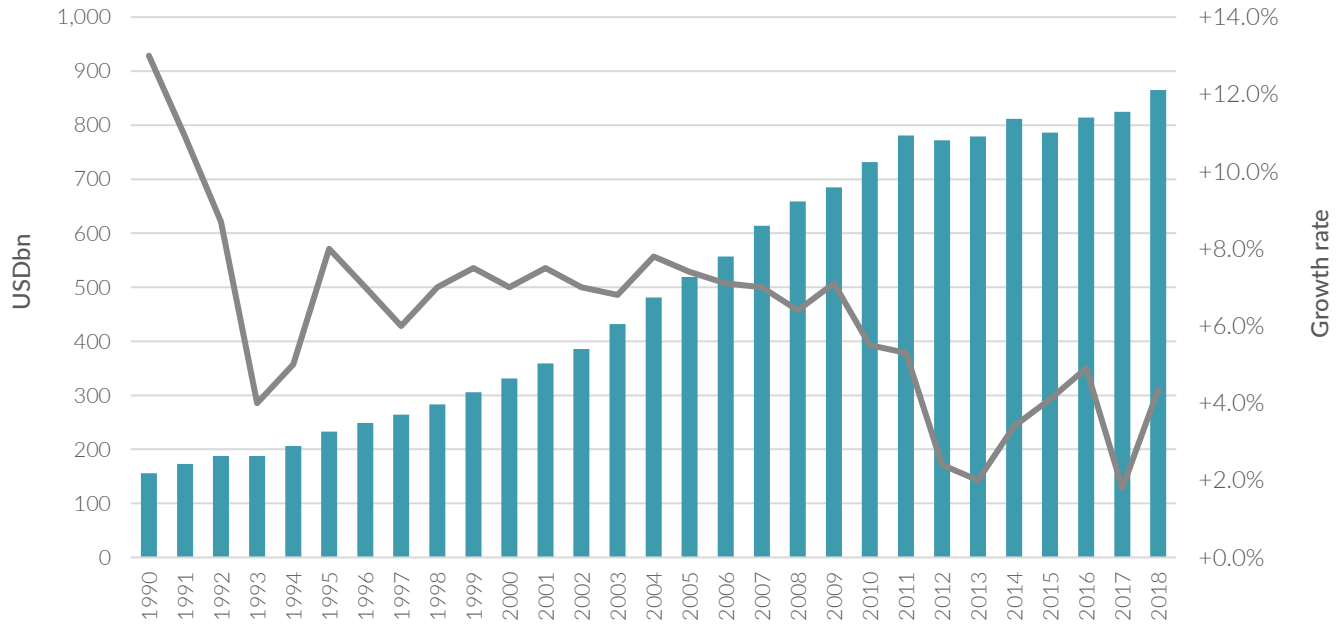
We estimate 4.3% underlying growth for worldwide prescription drug market in 2018…

…boosted to 4.8% as reported in USD terms

Annual reports published by several drug companies over the last two months have cited 5% growth for the global pharmaceutical industry in 2018 (source usually market research organisation IQVIA). This includes a modest currency gain (ca.0.5%) when figures are translated into USD. Based on the reported sales outcomes from most of the top 40 companies in the world, Hardman & Co estimates that the global Rx drug market had underlying growth of 4.3% in 2018, which translates into USD reported growth of 4.8% to $865bn, from $825bn, in 2017. This is consistent with the IQVIA market research estimate, which is for the MAT to September 2018.

Following a 10-year (2003-13) period in which the rate of growth of the drug industry was trending downwards, the last five years have been more volatile. The CAGR of the global pharmaceutical market was 2.12% (from 2013 to 2018) and 2.76% (from 2009 to 2018), lower than many industry commentators had predicted, given the introduction of some high-profile, and high-priced, new drugs.

Global prescription drug market, 1990-2018



Source: Hardman & Co Life Sciences Research

The US market is an important driver of global growth…

…rising 4.3% to $337bn in 2018…

…equating 39% of the global market

Our data suggest that the top 15 ranked drug companies had 52.7% of the world market in 2018, compared with 53.0% in 2017. Historically, the US market has been an important contributor of growth to the global outcome. Hardman & Co estimates that the rate of growth for the US prescription drug market in 2018 was similar to the underlying rate for the global market, increasing 4.3% to $337bn, up from $323bn in 2017, and representing 39% of the global market. Validation of this estimate is derived from the fact that US sales reported by the top 20 companies have grown by a weighted average of 4.2% in 2018.

Difficult year in 2018, with positive demographics, and advances in science and technology, being offset by political uncertainty and pressure on drug prices

2018 was, once again, a difficult year for the industry, due largely to a background of considerable political uncertainty, and government and media attention on drug pricing – particularly in relation to older drugs – as well as a rapidly rising number of generic and biosimilar approvals. However, we continue to believe that innovation will win out in the long term, as evidenced by strong sales growth in biopharmaceuticals (+7.5%), which, in turn, was led by antibody-derived drugs (+16.7%), and explains the continued heavy investment in R&D.

Investment in R&D remains strong

- In 2018, the top 15 companies reinvested 20.8% of pharmaceutical sales into new drug development, compared with 20.3% in 2017.
- The average R&D spend of the top 15 companies was $7.0bn in 2018 ($5.7bn in 2017) – ranging from $9.9bn (Roche) to $3.4bn (Bayer).
- R&D spend of the top 15 companies was $90.7bn ($86.6bn) out of a total estimated spend of $122bn by 40 companies.

Companies are continuing to invest heavily in their futures, as all managements can see that successful innovation pays off with handsome returns (see pages 10-12). Over the last 10 years, the top 15 ranked companies have increased investment in R&D at a CAGR of 2.3%, from $72.3bn (19.3% of pharma sales) to $90.7bn (20.0%). In 2018, the highest relative spenders were Celgene (37.2% of sales), AZN (25.5%), and Bristol-Myers Squibb (24.1%), while the lowest spenders were GlaxoSmithKline (15.4%), and Amgen and Gilead (both 16.2%). It should be noted that the 15 constituent companies that comprise the top 15 are different each year.

Company highlights

Overview

No dramatic changes in rankings in the last 12 months…

There were no dramatic changes in ranking of pharmaceutical companies by Rx drug sales in 2018 compared with 2017. Pfizer remained the world #1 company, although it did see its market share eroded from 5.50% in 2017 to 5.25% in 2018.

Global pharmaceutical industry, 2018 ranking vs. 2008

---- Rank ----				Rx sales	--------- Market share --------		
2018	2008	Company	Ticker	CAGR	2018	2008	Δ
1	1	Pfizer	PFE	+0.8%	5.25%	6.36%	-1.11%
2	5	Roche	ROG	+3.1%	5.19%	5.04%	+0.15%
3	4	Novartis	NOVN	+2.6%	5.17%	5.28%	-0.10%
4	7	Johnson & Johnson	JNJ	+5.2%	4.71%	3.73%	+0.98%
5	8	Merck & Co	MRK	+5.4%	4.32%	3.35%	+0.97%
6	2	Sanofi	SAN	-0.9%	4.06%	5.85%	-1.79%
7	11	AbbVie	ABBV	+6.5%	3.71%	2.60%	+1.11%
8	3	GlaxoSmithKline	GSK	-2.2%	3.51%	5.74%	-2.22%
9	14	Amgen	AMGN	+4.4%	2.60%	2.23%	+0.38%
10	25	Gilead Sciences	GILD	+15.6%	2.51%	0.77%	+1.73%
11	10	Bristol-Myers Squibb	BMY	+2.0%	2.49%	2.69%	-0.19%
12	9	Eli Lilly	LLY	+1.3%	2.48%	2.86%	-0.38%
13	6	AstraZeneca	AZN	-3.7%	2.43%	4.66%	-2.22%
14	15	Bayer	BAYGN	+2.7%	2.21%	2.23%	-0.01%
15	20	Novo Nordisk	NOVN	+7.1%	2.05%	1.36%	+0.69%
		Global Rx market		**+2.8%**	**52.7%**	**54.7%**	**-2.0%**

Source: Hardman & Co Life Sciences Research

Risers in 2018 – increased market share

► **Roche:** The company is benefiting from being at the forefront of drugs derived from antibodies, with three drugs in the top 10, all of which play an important role in the combination approach to treating many forms of cancer. Overall sales growth of 7% was above the industry average, driving market share to 5.19% in 2018. Pressure is mounting from the introduction of biosimilars.

► **AbbVie:** The company can do no wrong at present, the enormous contribution from Humira (rheumatoid arthritis) being supported by successful recent launches of Mavyret (hepatitis C) and Imbruvica (lymphoma/leukaemia). These drove sales growth of 15% in 2018, and an increase in market share to 3.71%, from 3.42%. The introduction of three Humira biosimilars could temper short-term prospects.

► **Bristol-Myers Squibb (BMY):** The recovery of BMY continues. Strong growth in Opdivo (lung cancer) and Eliquis (stroke/blood clots) led to further market share gains in 2018, from 2.33% to 2.49%. BMY has benefited from its early investment into antibody therapeutics. In the event that the company closes its proposed acquisition of Celgene, BMY would be propelled into the top five globally and the top three in the US market.

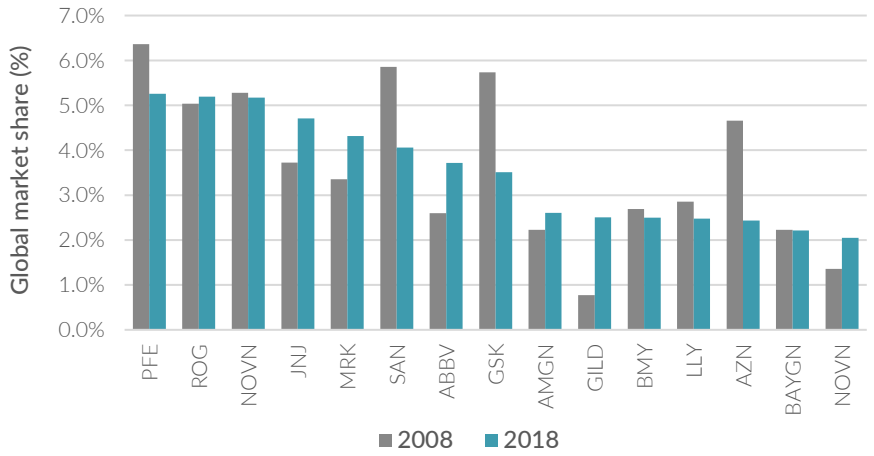
Fallers in 2018 – decreased market share

► **Pfizer (PFE):** There was no obvious reason for PFE's loss of share in 2018, apart from the lack of growth in Lyrica (Alzheimer's) and the loss of US patent protection on Viagra. Another observation is PFE's lack of participation in the fast-growing antibody market.

► **Gilead Sciences (GILD):** GILD's leading position in anti-viral therapies for hepatitis C and HIV/AIDS was short-lived, with sales being eroded by increased competition. The market share of GILD fell back from 3.11% in 2017 to 2.51% in 2018, and it is now ranked #10 globally.

► **Teva:** The troubles at Teva continue, necessitating a significant restructuring of the business. Loss of sales and market share (from 2.30% to 1.76%) has seen the company fall out of the top 15 in 2018. This demonstrates how difficult it is for a company dominated by sales of generic drugs to overcome the loss of patent on one of its few branded products (Copaxone).

Global ranking and market share, 2008-18 – winners and losers



Source: Hardman & Co Life Sciences Research

Upcoming changes

Takeda/Shire Pharmaceuticals

...but consolidation will cause changes in the ranking in 2019

Completion of Takeda's (4502) acquisition of Shire Pharmaceuticals (SHP) in January 2019 will bring about a change in the rankings. Sales of these two companies were broadly similar in 2018 at ca.$15.0bn, which ranked them #19 and #18, respectively. The combined entity is forecast to have sales in excess of $30bn in 2019, which would rank it in the top 10.

Pharmaceutical industry – evolution of global ranking, 2003-18

	2003		2008		2013		2018	
#	Company	Share	Company	Share	Company	Share	Company	Share
1	Pfizer	8.95%	Pfizer	6.36%	Novartis	6.02%	Pfizer	5.25%
2	GlaxoSmithKline	6.88%	Sanofi	5.85%	Pfizer	5.81%	Roche	5.19%
3	Merck & Co	4.76%	GlaxoSmithKline	5.74%	Roche	5.03%	Novartis	5.17%
4	Johnson & Johnson	4.52%	Novartis	5.28%	Merck & Co	4.81%	Johnson & Johnson	4.71%
5	Aventis	4.39%	Roche	5.04%	Sanofi	4.77%	Merck & Co	4.32%
6	Novartis	4.38%	AstraZeneca	4.66%	GlaxoSmithKline	4.28%	Sanofi	4.06%
7	AstraZeneca	4.24%	Johnson & Johnson	3.73%	Johnson & Johnson	3.61%	AbbVie	3.71%
8	Roche	3.41%	Merck & Co	3.35%	AstraZeneca	3.30%	GlaxoSmithKline	3.51%
9	Bristol-Myers Squibb	3.23%	Eli Lilly	2.86%	Eli Lilly	2.64%	Amgen	2.60%
10	Eli Lilly	2.77%	Bristol-Myers Squibb	2.69%	AbbVie	2.41%	Gilead Sciences	2.51%
11	Wyeth	2.77%	Abbott Labs	2.60%	Teva	2.35%	Bristol-Myers Squibb	2.49%
12	Abbott Labs	2.45%	Schering-Plough	2.50%	Amgen	2.34%	Eli Lilly	2.48%
13	Takeda	2.21%	Wyeth	2.46%	Novo Nordisk	1.91%	AstraZeneca	2.43%
14	Sanofi	2.04%	Amgen	2.23%	Bayer	1.91%	Bayer	2.21%
15	Amgen	1.82%	Bayer	2.23%	Takeda	1.90%	Novo Nordisk	2.05%
		58.8%		**57.6%**		**53.1%**		**52.7%**

Source: Hardman & Co Life Sciences Research

The US market in 2018

We estimate the US pharmaceutical market grew 4.3% in 2018 and represented 39% of the global market

Hardman & Co estimates that the US pharmaceutical market grew 4.3% in 2018 to $337bn ($323bn) and represented 39% of the global market. The US rate of growth was consistent with the global rate of growth, driven by the record number of new drugs approved by the FDA, positive demographics and technology advances. These are offsetting the declines in market share experienced by some large players, notably Pfizer and Teva, and pricing pressure led by the Trump administration. As a cross-check for the accuracy of our market estimate, the weighted average rate of growth for the top 20 companies in the US in 2018 (with only Boehringer Ingelheim still to report) was 4.2%. Our data are derived from monitoring companies with sales in the US of more than $1.5bn, which represents an estimated 91% of the market.

In 2018, Rx drug sales for the top 15 ranked companies grew above average, at 5.2%, and represented 69.1% of the US market, as shown in the following table. Taking a longer-term view and interrogating the data over a 10-year period, these companies have seen their market share increase by 8.2 percentage points (ppts) over this period, with the likes of Gilead, Celgene and Novo Nordisk entering the ranking. However, compared with the market share of the top 15 companies in 2008, at 71.1%, which comprised a different company composition, the market share in 2018 fell 2.0ppts to 69.1%.

US pharmaceutical industry, 2018 ranking vs. 2008

---- Rank ----				Rx sales	--------- Market share --------		
2018	2008	Company	Ticker	10y CAGR	2018	2008	Δ
1	5	Roche	ROG	+6.1%	7.04%	5.35%	+1.69%
2	3	Johnson & Johnson	JNJ	+4.6%	6.91%	6.05%	+0.86%
3	12	AbbVie	ABBV	+9.2%	6.39%	3.64%	+2.74%
4	1	Pfizer	PFE	+1.6%	6.07%	7.15%	-1.08%
5	8	Amgen	AMGN	+4.3%	5.17%	4.68%	+0.49%
6	4	Merck & Co	MRK	+2.1%	4.86%	5.46%	-0.60%
7	41	Gilead Sciences	GILD	+18.9%	4.81%	1.17%	+3.64%
8	9	Novartis	NOVN	+3.1%	4.34%	4.39%	-0.06%
9	2	GlaxoSmithKline	GSK	-2.1%	3.95%	6.73%	-2.78%
10	10	Bristol-Myers Squibb	BMY	+1.8%	3.73%	4.31%	-0.58%
11	11	Eli Lilly	LLY	+2.2%	3.67%	4.07%	-0.41%
12	7	Sanofi	SAN	-0.2%	3.67%	5.14%	-1.48%
13	32	Celgene	CELG	+20.3%	2.97%	0.65%	+2.33%
14	27	Shire Pharma	SHP	+17.0%	2.92%	0.84%	+2.08%
15	22	Novo Nordisk	NOVO	+11.2%	2.56%	1.21%	+1.35%
		US Rx market		**+2.9%**	**69.1%**	**60.9%**	**+8.2ppts**

Source: Hardman & Co Life Sciences Research

Company highlights

Risers

- **Roche** became the top-ranked drug company in the US in 2018, with a 7.04% market share, on the back of 14% sales growth, led by its mAb therapies. The company's CAGR over the last 10 years has been double that of the market.
- **AbbVie's** sales grew 18% in 2018, moving the company up to #3 (#5 in 2017), with a 6.39% market share. The reasons are the same as those driving its global presence.
- **Celgene's** global performance is being driven by that from the US, where the company derives two-thirds of its sales.

Fallers

- For the third year running, **PFE** has seen an erosion of its market share, such that the company has dropped from #1 to #4 in the ranking. Although PFE has had three small molecule new chemical entities (NCEs) approved by the FDA, two of these are orphan drugs and too small to offset the lack of momentum from established drugs.

- **GILD** is struggling with increased competition and lack of exclusivity in its core anti-viral franchises, and with seven of its top 15 drugs experiencing sales declines in 2018, most notably Harvoni and Epclusa (both hepatitis C), and Atripla (AIDS/HIV). Overall US sales declined 13%, with GILD falling from #4 in 2017 to #7 in 2018 in the US ranking.

Different strategies

Last decade ideal for highlighting different strategies employed by management teams

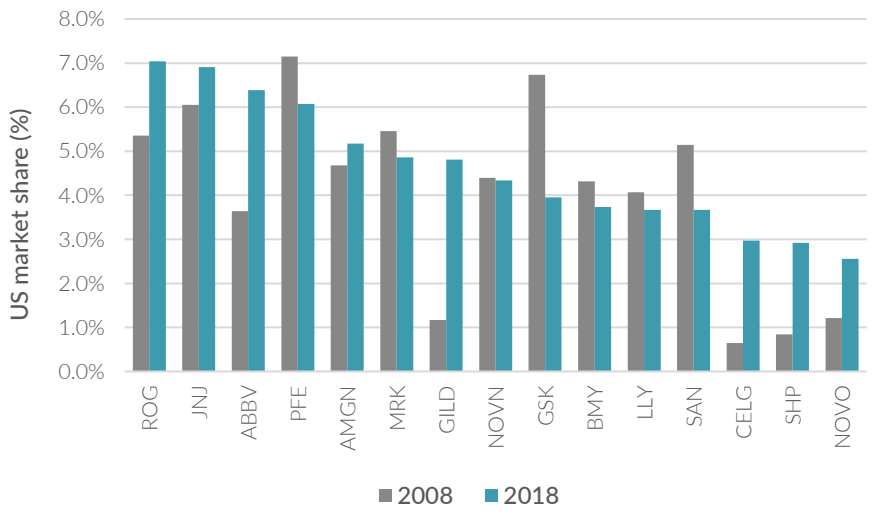
The table above and the chart below highlight the ranking of the top 15 companies by US Rx drug sales in 2018 compared with 2008, emphasising the change in market share over this period. The last decade accentuates how the different strategies employed by company management teams have panned out:

- **Organic growth:** Success is being generated largely by the launch of new drugs from in-house development and by embracing new technologies, e.g. Roche, AbbVie, GILD, Celgene and Novo Nordisk.

- **Buy-and-build:** Sales growth, and entry into the leading group of companies, has been through acquisitions, e.g. SHP and Teva. However, sometimes this is a step too far, as evidenced by Teva falling out of the top 15 US companies in 2018. All eyes are now focused on whether Takeda's acquisition of SHP will be successful.

- **Defensive:** Market share has been retained by acquiring smaller competitors, often to offset the loss of patent expiry on major drugs, e.g. Pfizer, Merck & Co and Sanofi.

US ranking and market share, 2008-18 – winners and losers



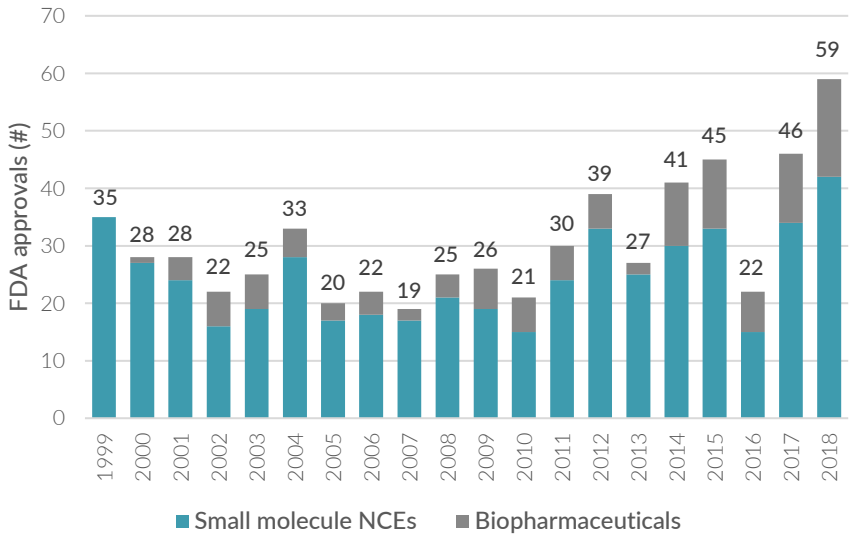
Source: Hardman & Co Life Sciences Research

FDA approvals in 2018

A new record year for FDA activity

2018 proved to be another exceptional year for FDA activity, with the approval of 59 NCEs, easily surpassing the previous record set in 2017, when 46 new drugs were approved. The composition of this was 42 small molecule NCEs and 17 biopharmaceuticals/biologicals. The 20-year track record for new drug approvals by the FDA can be seen in the following chart.

FDA new drug approvals, 1999-2018



Source: FDA, Washington Analysis Group, Hardman & Co Life Sciences Research

- The approval of 59 NCEs represented a rise of 28% in 2018, continuing the positive trend since the low point in 2016.
- 42 (71%) were traditional small molecule NCEs and 17 (29%) were novel biopharmaceuticals.
- In contrast, there were 808 approvals of generic drugs, down 5% from the record 847 approved in 2017. As a reminder, 'user fees' for generic drugs (GDUFA) were introduced in 2013, and revised in 2017.
- Exiting FDA Commissioner, Scott Gottlieb, has a stated goal to improve efficiency at the agency, particularly with respect to oncology drugs and generics, and the rate of approvals seen over the last two years reflects this approach.
- Interestingly, there have been 356 NCEs approved by the FDA over the last 10 years. This averages out at just 0.91 new drug approvals per company p.a.
- According to Washington Analysis Group, at the end of 2018, there were 27 (37 at 31 December 2017) NCEs pending approval, and it cautions that, unless there are a considerable number of priority review applications and/or resubmitted NCEs early in the year, the total approvals for 2019 will be lower. This situation has been exacerbated by the public shutdown encountered in the early part of the year.
- From all the new drugs approved by the FDA in 2018, none made a significant/meaningful contribution to the IP owners' sales.

Top-selling drugs in 2018

- The biggest-selling drug in 2018 was, once again, Humira (AbbVie), with sales approaching $20bn (+8%).
- The top 10 drugs in 2018 accounted for 9.5% of the world market – the same as in 2017.
- Biopharmaceuticals represented ca.25% of the world market in 2018, with sales of $219bn, and growth of 7.5%.
- Within biopharmaceuticals, drugs derived from monoclonal antibodies (mAb) were the growth drivers, with 2018 sales of $116bn, up 16%.
- The biggest-ever drug in history is still Lipitor, with cumulative ex-factory sales since launch of $156bn.

Top 10 best sellers

Humira remains well out in front

In 2018, the top 10 best-selling drugs recorded ex-factory sales of $82.1bn and represented 9.5% of the global pharmaceutical market. Way out in front was Humira (adalimumab, AbbVie), with reported sales of $19.9bn and growth of 8.2%. Since it was launched 16 years ago, this drug has generated cumulative sales of $133.0bn. Humira was the first 'humanised' mAb to be approved by the FDA, and is indicated for the treatment of autoimmune diseases such as rheumatoid arthritis, Crohn's disease and psoriasis.

Global top 10 best-selling drugs in 2018

Rank	Drug	Primary indication	Marketer	Sales ($m)	Growth
1	Humira	Arthritis	ABBV	19,936	8.2%
2	Revlimid	Multiple myeloma	CLGN	9,685	18.3%
3	Keytruda	Advanced melanoma	MRK	7,171	88.3%
4	Herceptin	Cancer	ROG	7,132	0.1%
5	Avastin	Cancer	ROG	6,996	2.9%
6	Rituxan/MabThera	Cancer	ROG	6,897	-8.1%
7	Opdivo	NSCLC	BMY	6,735	36.1%
8	Eliquis	Stroke/blood clots	BMY	6,438	32.1%
9	Prevnar	pneumococcal vaccine	PFE	5,802	3.6%
10	Remicade	Arthritis	JNJ	5,326	-15.7%

Source: Hardman & Co Life Sciences Research

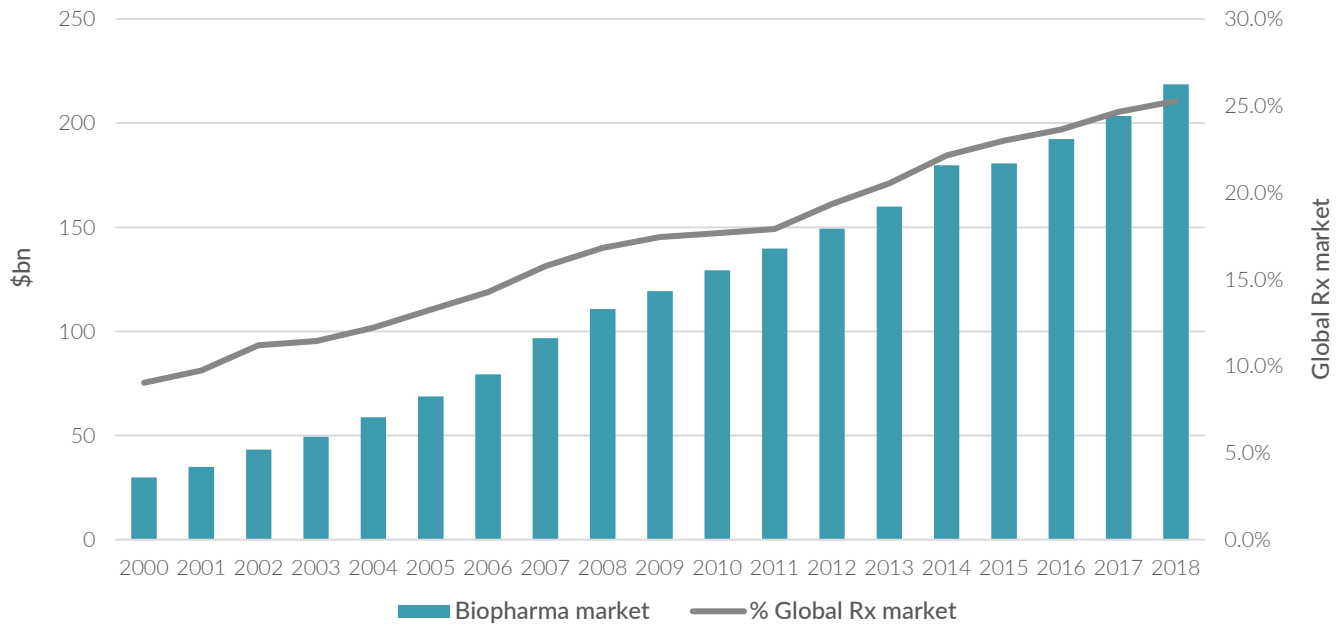
The fastest-growing drug within the top 10 was Keytruda (pembrolizumab, Merck & Co), rising 88% to $7.2bn, as it becomes included in more combination cancer schedules. Revlimid (lenalidomide, Celgene) for multiple myeloma should also be highlighted for its growth rate of 18.3% to $9.7bn, and demonstrating how innovation can transform a company's fortunes, and attract the attention of a predator (BMY).

Biopharmaceuticals

Above-average rate of growth for biopharmaceuticals in 2018

Within the overall global prescription market, drugs classified as biopharmaceuticals (ca.130 + vaccines) had reported sales of $218.7bn in 2018, and now represent 25.3% of the entire market. The growth rate in 2018 was again above average, at 7.5%. Every year since 2000, biopharmaceuticals have represented a greater proportion of the global pharmaceutical market. The steady growth in the annual sales of biopharmaceutical drugs, together with their rising proportion of the global Rx drugs market, is demonstrated in the following graphic.

Evolution of biopharmaceutical sales, 2000-18



Source: Hardman & Co Life Sciences Research

For clarification, we classify a biopharmaceutical as a drug derived from biological sources, which may be through extraction or semi-synthesised, and would include the likes of monoclonal antibodies (mAb), vaccines and blood products.

Over the last 10 years, the biopharmaceutical market has grown at a compound rate of 7.0%, compared with 2.8% for the entire Rx drug market.

Evolution of global biopharmaceuticals market, 2003-18

2018 rank	Drug	2003 ($m)	2008 ($m)	2013 ($m)	2018 ($m)	CAGR 2008-18
1	Vaccines	7,318	17,088	21,946	28,731	5.3%
2	Insulin/analogues	6,282	13,732	24,877	26,894	7.0%
3	Humira	280	4,521	10,659	19,936	16.0%
4	Enbrel	1,599	6,445	8,790	9,034	3.4%
5	Keytruda	0	0	0	7,171	-
6	Herceptin	876	4,680	6,558	7,132	4.3%
7	Avastin	0	4,785	6,746	6,996	3.9%
8	Rituxan/MabThera	2,065	5,443	7,498	6,897	2.4%
9	Obdivo	0	0	0	6,735	-
10	Human Growth Hormone	2,431	4,658	5,646	5,562	1.8%
	Total biopharmaceuticals	**49,472**	**110,757**	**159,977**	**218,687**	**+7.0%**
	% global Rx market	9.0%	16.8%	20.5%	25.3%	+2.8%

Source: Hardman & Co Life Sciences Research

Antibody-derived therapeutics

There are 80 approved drugs derived from antibodies...

...which had sales of ca.$115.8bn in 2018, with growth of 16.7%

There are now 80 approved drugs on the market derived from mAb. Seven of the top 10 drugs in 2018 were based on mAb. In 2018, drugs derived from mAb were the fastest-growing sub-segment of the Rx market, with growth of 16.7% to ca.$115.8bn, and representing 13% of the entire market. There are currently 80 (71 in 2017) regulatory-approved mAb drugs. The following table shows the ranking of the top 10 drugs by ex-factory sales. The table highlights also that drugs derived from mAb have generated cumulative sales approaching a staggering $787bn since the first one was launched in 1995. These figures are expected to rise further in coming years, given the large numbers currently in late-stage clinical trials.

Top 10 antibody drugs, 2018							
2018 rank	Drug	Generic name	Company	2017 ($m)	2018 ($m)	Growth	Cumulative ($m)
1	Humira	adalimumab	AbbVie	18,427	19,936	+8.2%	133,050
2	Keytruda	pembrolizumab	Merck & Co	3,809	7,171	+88.3%	13,003
3	Herceptin	trastizumab	Roche	7,128	7,132	+0.1%	80,901
4	Avastin	bevacizumab	Roche	6,797	6,996	+2.9%	77,884
5	Rituxan/MabThera	rituximab	Roche	7,508	6,897	-8.1%	95,355
6	Opdivo	nivolumab	Bristol-Myers Squibb	4,948	6,735	+36.1%	15,938
7	Remicade	infliximab	Johnson & Johnson	6,315	5,326	-15.7%	78,139
8	Stelara	ustekinumab	Johnson & Johnson	4,011	5,156	+28.5%	20,605
9	Soliris	eculizumab	Alexion Pharma	3,144	3,563	+13.3%	19,096
10	Cosentyx	secukinumab	Novartis	2,071	2,837	+37.0%	6,297
	Total mAb sales			**99,237**	**115,767**	**+16.7%**	**786,518**

Source: Hardman & Co Life Sciences Research

It is clear that certain companies embraced this technology early on and are reaping the benefits. Roche was one of the first to buy in to biotechnology through its innovative deal with Genentech. The rewards from these investments are considerable. The question for companies and investors alike is, therefore, 'what is the next technology on which companies should be focusing?'

Entry of biosimilars

Increase in FDA approved biosimilars

However, a combination of patent expiry and increased activity at the FDA with respect to the approval of biosimilars is likely to influence the future growth rate of biopharmaceuticals and, in particular, mAbs. The following table indicates that there have been 14 biosimilars approved, up from six in 2017, by the FDA for a number of the current top-selling drugs.

FDA-approved biosimilars				
Generic	Original brand	Marketer	Biosimilar	Company
2016				
infliximab	Remicade	Johnson & Johnson	Inflectra	Celltrion
adalimumab	Humira	AbbVie	Amjevita	Amgen
2017				
infliximab	Remicade	Johnson & Johnson	Renflexis	Samsung Bioepis
adalimumab	Humira	AbbVie	Cyltezo	Boehringer Ingelheim
bevacizumab	Avastin	Roche	Mvasi	Amgen
trastizumab	Herceptin	Roche	Ogivri	Mylan/Biocon
infliximab	Remicade	Johnson & Johnson	Ixifi	Pfizer
2018				
erythropoetin	Epogen/Procrit	Amgen	Retacrit	Pfizer
pegfilgastrim	Neulasta	Amgen	Fulphilia	Mylan/Biocon
filgastrim	Neupogen	Amgen	Nivistym	Pfizer
adalimumab	Humira	AbbVie	Hyrimoz	Novartis
pegfilgastrim	Neulasta	Amgen	Udenyca	Coherus
rituximab	Rituxan	Roche	Truxima	Celltrion/Teva
trastizumab	Herceptin	Roche	Herzuma	Celltrion/Teva

Source: Washington Analysis Group, Hardman & Co Life Sciences Research

The $100bn club

Six drugs have generated cumulative ex-factory sales of >$100bn since launch

Although most analysis is done on sales made in an individual year and the growth that has been generated, the strength of our database allows us to look at the ex-factory sales in a slightly different way – cumulative sales since launch – which also provides an idea of return on R&D investment. In the entire history of pharmaceuticals, the number of drugs that have achieved ex-factory sales in excess of $100bn since launch remains at six. Lipitor remains the biggest-ever-selling drug, with cumulative sales of $156.1bn since its launch in 1997.

About the authors

Dr Martin Hall

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

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

Dr Dorothea Hill

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

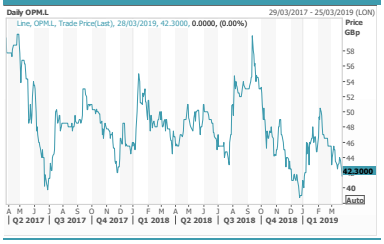
Dr Grégoire Pavé

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

Company research

Priced at 25 March 2019 (unless otherwise stated).

Financials



Source: Refinitiv Eikon

Market data

EPIC/TKR	**OPM**
Price (p)	42.0
12m High (p)	60.0
12m Low (p)	38.5
Shares (m)	87.6
Mkt Cap (£m)	36.8
EV (£m)	35.9
Free Float*	35.1%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Ian Smith
CFO	James Roberts
Chairman	John Newman
	+44 1225 474230
	www.1pm.co.uk

Key shareholders (30/11/18)

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

Diary

Jun'19	Trading update

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

1PM PLC

Steady stream of incremental good news continues

1pm has continued its steady stream of announcements of incremental benefits from being a larger group. This month, we saw experienced senior manager appointments and an extension of its invoice finance funding facility. By being part of a bigger group, 1pm is likely to be attractive to a broader range of talent, and it is in a far stronger position to negotiate better financing terms. We expect further positive business announcements in due course, with the next financial update being the June trading statement. Despite the shares issued to fund acquisitions, we forecast FY'20 adjusted EPS 38% above the 2017 level. The valuation appears anomalous with this earnings growth profile.

- **Company news:** On 14 March, 1pm announced two key *senior management appointments*: Carol Roberts to head the Asset division and Lorraine Neyland to head Risk function. On *5 March*, it announced its £37m back-to-back invoice finance funding facility had been extended (two years), with an additional £5m option.
- **Peer news:** In the SME finance space, Funding Circle's share price rose 7% on its 7 March *results*, Orchard Funding's rose 1% on its 11 March *results* and PCF's rose 3% on its 8 March AGM *trading statement*. A range of speakers at the AltFi London Summit reported no current deterioration in credit quality, although there were some early lead indicators that suggested rising impairments in due course.
- **Valuation:** Our assumptions are unchanged from those detailed in our note of *16 January*. The GGM indicates 116p and the DDM 69p (DDM normal payout 77p). The 2020E P/E (4.7x) and P/B (0.6x) appear anomalous with 1pm's profitability, growth and downside risk, and we note that peers are trading on higher ratings.
- **Risks:** Credit risk is key and is now managed as a group function, but through each business unit according to its own specific characteristics. With the interim results, announced in January, 1pm highlighted how the business model moderates the downside risk. Funding is diversified and at least matches the duration of lending.
- **Investment summary:** 1pm offers strong earnings growth, in an attractive market, where management is tightly controlling risk. Targets to more than double the market capitalisation appear credible, with triggers to a 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)	2016	2017	2018	2019E	2020E
Revenue	12,554	16,944	30,103	33,503	36,854
Cost of sales	-4,480	-6,094	-10,118	-11,264	-12,672
Admin. expenses	-4,290	-6,469	-12,183	-13,603	-14,419
Operating profit	3,418	4,121	7,966	8,914	9,763
PBT	3,346	4,080	7,850	8,708	9,537
Adjusted EPS (p)	6.5	6.5	7.9	8.1	9.0
Total receivables	56,061	73,955	126,069	136,197	149,817
Equity to receivables	43%	39%	38%	41%	42%
Shares in issue (m)	52.5	54.9	86.2	88.6	90.7
P/adjusted earnings (x)	6.5	6.5	5.3	5.2	4.7
P/B (x)	0.9	0.8	0.8	0.7	0.6
Dividend yield	1.2%	1.2%	1.5%	2.0%	2.6%

Source: Hardman & Co Research

Healthcare Equipment & Services

Source: Refinitiv Eikon

Market data

EPIC/TKR	**AVO**
Price (p)	37.0
12m High (p)	64.0
12m Low (p)	32.4
Shares (m)	194.6
Mkt Cap (£m)	72.0
EV (£m)	65.0
Free Float*	60%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

Exec. Chairman	Michael Sinclair
CEO	Nicolas Serandour
	+44 203 617 8728
	www.advancedoncotherapy.com

Key shareholders

Board & Management	11.4%
Liquid Harmony Ltd	23.1%
DNCA Investments	6.2%
Brahma AG	4.1%
Barrymore Investments Ltd	4.1%
AB Segulah	3.3%

Diary

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

Analysts

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

ADVANCED ONCOTHERAPY

First step towards regulatory submission

AVO's goal is to deliver an affordable and novel PT system, based on state-of-the-art technology developed originally at CERN. Achievement of major technical milestones has boosted confidence, and AVO remains on track with its strategy. It has integrated successfully the four types of structure that constitute the LIGHT accelerator and has recorded the proton beam at an energy of 52MeV, sufficient to treat superficial tumours. Having achieved an important regulatory milestone by receiving ISO 13485 accreditation, AVO is confident that construction work at Harley Street remains on schedule, with installation of the LIGHT system to start mid-19, allowing first patient treatment in 2H'20.

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

- **Development update:** Infrastructure to support the installation and assembly of the full LIGHT system has already started at STFC's Daresbury Laboratory. Once the complete system has been installed and validated, it will be used to support AVO's submission for CE marking, prior to first patients in 2020.

- **Harley Street:** Work is focused on the Landlord fit-out, which includes the steel framing, roofing, fitting of lifts, air extractors, water pipes and general electricity work. Howard de Walden Estate, the freeholder of the site, continues to bear the cost of construction. Installation of LIGHT is still scheduled from mid-2019.

- **Risks:** With funding secured, AVO's ability to maintain the fast pace of its development plan has improved. Execution risk remains, but the more complex technical challenges have now been overcome. Integration of the remaining CCL units is a technically easy step towards getting a fully functional accelerator.

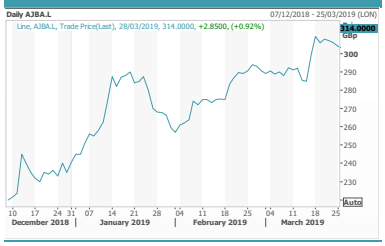
- **Investment summary:** Demand for PT is increasing worldwide, and the need for a small, flexible, affordable and close-to-patient system is desirable. AVO has attracted strong manufacturing partners, and discussions with potential customers are advancing. Progress at its flagship Harley Street site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

Financial summary and valuation

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

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv Eikon

Market data

EPIC/TKR	**AJB**
Price (p)	**307**
12m High (p)	315
12m Low (p)	162
Shares (m)	407
Mkt Cap (£m)	1,252
EV (£m)	1,194
Free Float*	36.5%
Market	LSE full listing

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

Description

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

Company information

CEO	Andy Bell
CFO	Michael Summersgill
Chairman	Les Platts

+44 345 40 89 100
www.ajbell.co.uk

Key shareholders

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

Diary

26 Apr	2Q trading update
23 May	Interims
25 Jul	3Q trading update

Analyst

Jason Streets 020 7194 7622
js@hardmanandco.com

AJ BELL

Platform for growth

AJ Bell is one of the largest and fastest-growing investment platforms in the UK. It serves both the adviser market and the DIY investor. Having transitioned to updated technology in 2014, it is well placed to ride the growth in the market and pick up disaffected clients from competitor platforms that are only now upgrading. We anticipate strong profit growth on the back of higher revenues and positive operational gearing. The new asset management business should add further momentum, and higher UK savings rates could be the icing on the cake.

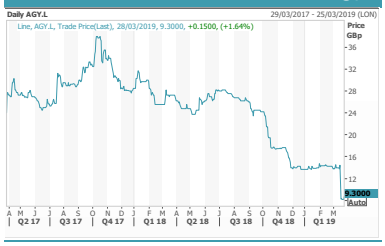
- **Strategy:** AJ Bell intends to be the easiest platform for investors and advisers to use, and to offer exceptional value – but not at the expense of service levels. It charges noticeably less than many of its competitors, putting it in a strong position as charges take a higher profile.
- **Plenty of scope for platform expansion:** Investment platforms are an obviously good way to concentrate the administration and custody of investments in one place, while offering a huge variety of investment choice, and freeing investors and advisers to focus on what they do best. There are still plenty of assets not yet corralled, as well as significant underlying growth.
- **Valuation:** We value the business on a DCF basis. At the current price, it is effectively assuming a discount rate of 8%, putting it at the top end of our wide range. Our central valuation of £912m would put it on a FY19E PER of 32x, which compares with Transact and Hargreaves Lansdown both trading on 31x.
- **Risks:** There are inevitably market risks – revenue is linked to the value of assets and, to a lesser extent, the amount of trading on the platform. The business is also sensitive to tax and savings policies, which can have major impacts on investors' behaviour. The robustness of the technology is critical too.
- **Investment summary:** AJ Bell is a very attractive business, in our view. It is well positioned to benefit from the expected continuing growth in savings and the ever- higher proportion of those savings held on platforms. The business is highly cash-generative and holds significant net cash. These positive characteristics would seem to be well reflected in the current price.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
AuA (£bn)	32	40	46	49	55	61
Revenue	64.5	75.6	89.7	104.0	116.0	130.0
Net finance income	0.0	-0.1	0.1	0.0	0.0	0.0
PBT	16.8	21.7	30.1	37.0	41.0	47.0
Tax	-3.5	-4.2	-5.7	-6.7	-7.4	-8.5
Net profit	13.3	17.5	22.6	28.5	33.6	38.6
No. of shares (fully-diluted, m)	394	396	402	408	408	408
EPS (fully-diluted, p)	3.4	4.4	6.1	7.4	8.2	9.5
DPS (p)	2.7	2.9	3.7	4.5	5.4	6.1
PER (x)	91.0	69.5	50.6	41.3	37.3	32.5
Dividend yield	0.9%	1.0%	1.2%	1.5%	1.7%	2.0%
Dividend cover (x)	1.3	1.5	1.5	1.5	1.5	1.5

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Refinitiv Eikon

Market data

EPIC/TKR	**AGY**
Price (p)	8.7
12m High (p)	29.0
12m Low (p)	7.3
Shares (m)	636.2
Mkt Cap (£m)	55.2
EV (£m)	26.1
Free Float*	39%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Manuel Llobet
CFO	Nick Wykeman
Chairman	Peter Jensen

+44 1903 845 820
www.allergytherapeutics.com

Key shareholders

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

Diary

1H'19	Ph.I Acarovac trial

Analysts

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gp@hardmanandco.com

ALLERGY THERAPEUTICS

Take an objective view

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. The Pollinex Quattro (PQ) platform, an ultra-short-course subcutaneous allergy immunotherapy (AIT), continues to gain market share despite its availability in the EU on a 'named-patient' basis only. The aim of ongoing trials is to move the platform to full registration under the new regulatory framework. Positive outcomes in Phase III allergy trials are notoriously difficult to achieve because the primary endpoint is always subjective. Prudently, AGY included an objective secondary endpoint, which was highly significant, paving the way for regulatory discussion.

- **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.
- **Phase III PQ Birch trial:** The long-awaited results from the B301 Phase III Birch trial in 582 patients have been released. The study failed to reach its primary endpoint, which was based on subjective symptom scores, with no statistical difference between the active and placebo arms.
- **Objective endpoint:** Even though objective endpoints are not required for regulatory approval, AGY took the prudent decision to include one within the protocol of its B301 study. This demonstrated a highly statistically significant difference in immune response markers, IgG and IgG4, between the two arms.
- **Regulatory process:** Under the regulatory framework, there is a strong desire to have 'named-patient' products moved to full marketing approval. Even though the primary endpoint was not achieved, the strong objective endpoint, indicating a sustained immune response, could prove helpful in regulatory discussions.
- **Investment summary:** The market is likely to take a pessimistic view because of the failure to achieve the primary endpoint. However, regulators will not want to remove a product from the market that has resulted in improved clinical outcomes for thousands of allergy patients. Therefore, greater emphasis may be placed on the positive biomarker secondary endpoints, which are objective measures of immune response.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	48.5	64.1	68.3	74.0	80.0	88.0
R&D investment	-16.2	-9.3	-16.0	-16.0	-20.0	-15.0
Underlying EBIT	-12.3	-2.9	-6.4	-7.2	-9.0	-1.9
Reported EBIT	-12.5	-2.6	-7.4	-8.2	-10.0	-2.9
Underlying PBT	-12.5	-3.0	-6.5	-7.4	-9.3	-2.3
Statutory PBT	-12.2	-2.7	-7.5	-8.4	-10.3	-3.3
Underlying EPS (p)	-2.4	-0.5	-1.1	-1.1	-1.6	-0.5
Statutory EPS (p)	-2.3	-0.4	-1.3	-1.3	-1.6	-0.5
Net (debt)/cash	20.0	18.8	12.5	12.8	0.4	-30.5
Capital increase	11.0	0.0	0.0	10.4	0.3	0.3
P/E (x)	-3.7	-18.4	-7.9	-7.7	-5.5	-17.5
EV/sales (x)	0.5	0.4	0.4	0.4	0.3	0.3

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

Financials

Source: Refinitiv Eikon

Market data

EPIC/TKR	**ARBB**
Price (p)	1,310
12m High (p)	1,640
12m Low (p)	1,033
Shares (m)	15.3
Mkt Cap (£m)	197
Loans to deposits	80%
Free Float*	42%
Market	AIM

**As defined by AIM Rule 26*

Description

Arbuthnot Banking Group (ABG) has a well-funded and capitalised private bank, and has been growing commercial banking very strongly. It holds an 18.6% stake in Secure Trust Bank (STB).

Company information

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

+44 20 7012 2400
www.arbuthnotgroup.com

Key shareholders

Sir Henry Angest	56.1%
Liontrust	6.5%
Miton Asset Mgt.	4.4%
Slater Investments	4.0%
R Paston	3.6%
M&G IM	3.5%

Diary

May	AGM
July	Interim results

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

ARBUTHNOT BANKING GROUP

2018 results: capital deployed for growing returns

The main issue for ABG in 2018 was profitably deploying the capital it had generated from the partial sale of its stake in Secure Trust Bank (STB). The 28 March *results* showed the considerable progress made against this objective. Underlying EPS rose from 17.6p to 40.3p, loans grew 17% to £1,225m, and deposits increased by 23% to £1,714m. New businesses are diversifying income and credit risk. Commercial Banking reported a £2.5m profit (2017 £2.1m loss), Asset Based Lending facilities totalled £43m at end-December, Specialist Finance made its first advance in 2019, and Arbuthnot Direct is live. The Group is well funded (loans 71% of deposits) and capital ratios are strong (Core Tier 1 15.9%).

- **Results:** The key financial highlights were: i) PBT £6.8m (2017 £2.5m), underlying PBT £7.4m (£3.2m); ii) operating income up 24% to £67.9m; iii) costs up 19%; and iv) impairments of £2.7m (2017 £3.0m on IFRS9 basis). The statutory numbers reflect the change in accounting of the Secure Trust stake (£26m mark to market loss in 2018, around half of which has since been re-couped).
- **Peer news:** STB's *results* on 28 March led to a 6% rise in the share price. Brooks Macdonald's *interim results* on 14 March saw a 3% share price rise, with a similar reaction to PCF's *trading update* on 8 March. Close Brothers' share price was unchanged on its *interim report* on 12 March. On 14 March, CCFS and One Savings Bank announced an all-share combination with an associated *presentation.*
- **Valuation:** The range of our capital deployed valuation methodologies, like our forecasts, is under review. On pre-result numbers, the average was £19.69. Despite the 2019 YTD rally, the current share price is still just around the 2018 NAV (1,283p).
- **Risks:** As with any bank, the key risk is credit. ABG's existing business should see below-market volatility, and so the main risk lies in new lending. We believe management is cognizant of the risk, and has historically been very conservative. Other risks include reputation, regulation and compliance.
- **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been innovative, but also very conservative, in managing risk. Having a profitable, well-funded, well-capitalised and strongly growing bank priced at book value appears anomalous.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019E*
Operating income	34,604	41,450	54,616	67,905	80,300
Total costs	-35,926	-46,111	-54,721	-64,982	-75,629
Cost:income ratio	104%	111%	100%	96%	94%
Total impairments	-1,284	-474	-394	-2,731	-675
Reported PBT	-2,606	-1,966	2,534	6,780	8,160
Adjusted PBT	2,982	1,864	3,186	7,416	10,160
Statutory EPS (p)	86.3	1,127.3	43.9	-134.5	47.7
Adjusted EPS (p)	13.5	17.1	47.5	40.3	58.4
Loans/deposits	82%	76%	75%	71%	80%
Equity/assets	5.5%	18.5%	12.8%	9.0%	9.0%
P/adjusted earnings (x)	97.0	76.6	27.6	32.5	22.4
P/BV (x)	1.62	0.85	0.85	1.02	0.96

**pre-results forecasts, which are under review; Source: Hardman & Co Research*

Industrial Engineering

Source: Refinitiv Eikon

Market data

EPIC/TKR	**CMH**
Price (p)	41
12m High (p)	176
12m Low (p)	41
Shares (m)	8.3
Mkt Cap (£m)	3.4
EV (£m)	7.0
Free Float*	40%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Kevin Nolan
CFO	Neil Davies
Chairman	Keith Butler-Wheelhouse

+44 1922 707100

www. chamberlin.co.uk

Key shareholders

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

Diary

Apr'19	Trading update

Analyst

Paul Singer 020 7194 7622

ps@hardmanandco.com

CHAMBERLIN

Trading very difficult; forecasts lowered

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

- **Current trading challenging:** Customer schedules for the European turbocharger market have suffered significant reductions, and the Board has implemented several cost-reduction measures. After a reassessment of the likely outturn in 2H, management now expects the loss in this period to be similar to 1H (£0.3m). We recently reduced our forecasts to reflect the challenging operating environment.

- **Strategic developments:** Chamberlin recently announced the sale of Exidor (Safety Lighting business) to ASSA ABLOY Ltd for a £10m enterprise value. At transactions of ca.1.3x sales and 15x operating profit, we consider the exit to be at an attractive valuation. This is part of its focusing strategy, with proceeds being used to reduce debt, providing additional working capital and reducing existing pension liabilities.

- **Risks:** Potential risks include developments with the automotive industry, Brexit uncertainties, foreign currency and raw material price fluctuations. From a financial standpoint, the group has been significantly de-risked, with the Exidor disposal proceeds used to reduce the pension scheme deficit and pay down debt.

- **Valuation:** The shares remain lowly valued, trading on 2020E EV/sales of 0.2x, compared with sector averages of around 1.0x.

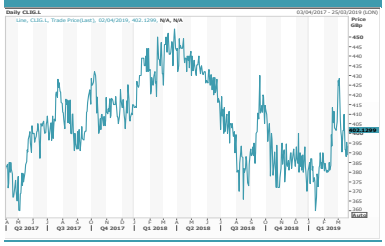
- **Investment summary:** Despite the current trading difficulties, as noted above, the disposal of Exidor has de-risked the group. The shares offer the opportunity to invest in a cyclical stock with good operational leverage, but they are likely to tread water until brighter prospects become more evident.

Financial summary and valuation

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

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

Financials



Source: Refinitiv Eikon

Market data

EPIC/TKR	**CLIG**
Price (p)	393.5
12m High (p)	454.0
12m Low (p)	360.0
Shares (m)	26.9
Mkt Cap (£m)	105.9
EV (£m)	87.2
Market	LSE

Description

City of London (CLIG) is an investment manager specialising in using closed- end funds to invest in emerging and other markets.

Company information

CEO	Barry Olliff
CFO	Tracy Rodrigues
Chairman	David Cardale

+44 207 860 8346
www.citlon.com

Key shareholders

Directors & staff	16.7%
Blackrock	10.0%
Cannacord Genuity	8.0%
Eschaton Opportunities Fund Management	4.8%
Polar Capital	4.1%

Diary

16 Apr	3Q FUM announcement
16 Jul	Pre-close trading statement
16 Sep	Preliminary results statement
9 Oct	1Q FUM announcement

Analyst

Brian Moretta 020 7194 7622
bm@hardmanandco.com

CITY OF LONDON INVESTMENT GROUP

Careful management allows special dividend

Emerging markets news continues to be dominated by progress on trade talks between the USA and China. Much of this appears to be speculative: negotiations are clearly under way, but it is not clear what news is either side-testing how concessions will play politically or just media hot air. It does appear that progress is being made, but with some political pressure off in the USA after the Mueller report, the impetus for a 'quick win' may have lessened. Other news, such as the elections in Thailand, a small tick-up in the oil price and a possible defeat of IS in Syria, does not appear to have had any wider effects on markets.

- **Market moves:** City of London's February FUM was $5.18bn. So far, March has seen a small increase in emerging markets, while world indices are pretty much flat. In aggregate, this should be a slight positive for City of London's FUM for March.
- **Valuation:** The prospective P/E of 11.7x is at a significant discount to the peer group. The historical yield of 6.9% is attractive and should, at the very least, provide support for the shares in the current markets.
- **Risks:** Although emerging markets can be volatile, City of London has proved to be more robust than some other EM fund managers, aided by its good performance and strong client servicing. Further EM volatility could increase the risk of such outflows, although increased diversification is also mitigating this.
- **Investment summary**: Having shown robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. FY'17 and FY'18 both saw dividend increases and, unless there is significant market disruption, more should follow in the next few years.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019E*	2020E	2021E
FUM ($bn)	4.00	4.66	5.11	5.17	5.56	5.97
Revenue	24.41	31.29	33.93	31.00	33.03	35.05
Statutory PTP	7.97	11.59	12.79	10.61	11.79	12.79
Statutory EPS (p)	23.3	36.9	39.5	33.8	37.5	40.7
DPS (p)	24.0	25.0	27.0	40.5	27.0	27.0
P/E (x)	16.9	10.7	10.0	11.7	10.5	9.7
Dividend yield	6.1%	6.4%	6.9%	10.3%	6.9%	6.9%

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

Real Estate

Source: Refinitiv Eikon

Market data

EPIC/TKR	**CSH**
Price (p)	95
12m High (p)	113
12m Low (p)	95
Shares (m)	622.5
Mkt Cap (£m)	591.0
EV (£m)	729.0
Market	LSE Premium

Description

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

Company information

CEO (Advisors)	Paul Bridge
Director (Advisors)	Andrew Dawber
CFO (Advisors)	Graham Peck

+ 44 203 058 4840

www.civitassocialhousing.com

Key shareholders

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

Diary

Apr'19	Quarterly fact sheet
Jun'19	Final results

Analyst

Mike Foster 020 7194 7633

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CIVITAS SOCIAL HOUSING

Investment returns support dividend projections

Civitas's income derives from 20+year commercial leases, all of which are CPI-linked. It has grown faster than anticipated at IPO (2016), and a follow-on equity raise was a success. By the nature of this specialist market, many of the lease counterparts are specialists, and thus not large organisations. All are registered providers (RPs) and are tightly regulated. In the past four months, a number of lessees (and lessees at peer-group REITs), such as Westmoreland Supported Housing Association (WS), have announced that they are subject to a "Regulatory Judgement" from the Regulator of Social Housing (RSH); they trade normally.

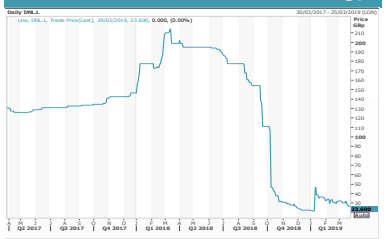
- **Returns on funds deployed support dividend projections:** At the IPO (2016), a 5.0p dividend payout was projected for the year, when full deployment occurred (the year just ended). This is totally on track. FY20E sees further deployment of the follow-on equity raise, plus an element of debt finance, but supporting EPS growth.
- **Progress:** Civitas invests in 144 local authorities (99 December 17), with 98 (59) care providers. Deployment, including its November 2017 C-share £302m fund raise, shows the team's execution capabilities. In this new and growing market, the Regulator's actions have a *de-minimis* EPS impact, and enhance visibility of lessees' models.
- **WS lessee:** Civitas highlights that its assets' rents to occupiers are at/below the local median, and directly meets the needs/criteria of the funders of that cashflow (ultimately, HMG). After consultation with JLL (its valuers), Civitas takes no NAV impairment; the latest quarterly NAV/share marks a modest increase.
- **Risks:** Central government meets tenant rents and other costs, paid to the property's relevant RP, which has long leases with Civitas. Risks relate to possible structural voids (under-provided market where "institutional" alternatives are less attractive) or whether properties are over-rented. We believe this is not the case.
- **Investment summary:** It is an important investment attribute that 100% of income is CPI-linked. Dividends should grow, in line with inflation. Our estimates assume CPI inflation at sub-2%, and it would appear that this is conservative. A strong, experienced team is proving its worth.

Financial summary and valuation

Year-end Mar (£m)	2019	2020E	2021E	2022E	2023E
Income	34.5	49.0	52.4	54.3	55.6
Operating profit	25.3	39.1	42.6	44.4	45.5
Finance	-2.5	-6.6	-9.2	-10.0	-10.2
Revaluation	7.0	17.0	17.0	17.0	17.0
Profit declared	29.8	49.5	50.4	51.3	52.2
EPRA profit	22.8	32.5	33.4	34.3	35.2
EPRA EPS (p)	5.0	5.2	5.4	5.5	5.6
DPS (p)	5.00	5.20	5.35	5.50	5.65
IFRS NAV (p)	110.5	113.3	116.0	118.7	121.5
Property assets	827.7	1007.7	1031.7	1055.7	1079.7
Loan to value	17.0%	30.0%	30.0%	30.0%	30.0%
Dividend yield*	5.3%	5.5%	5.7%	5.8%	5.9%

**Based on current share price; Source: Hardman & Co Research*

Pharmaceuticals & Biotechnology



Source: Refinitiv Eikon

Market data

EPIC/TKR	**DNL**
Price (p)	26.9
12m High (p)	202.0
12m Low (p)	21.1
Shares (m)	61.7
Mkt Cap (£m)	16.6
EV (£m)	5.3
Free Float*	20%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

Key shareholders

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

Diary

Early 2Q'19	EMA 'SA' feedback
4Q'19	Chronocort EU MMA
4Q'19	Readout US Ph III Alk.

Analysts

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Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

DIURNAL GROUP

EMA advice expected early 2Q'19

DNL is a commercial-stage specialty pharmaceutical company focused on endocrine system diseases. Its two lead products target rare conditions where medical needs are currently unmet, with the aim of building a long-term 'Adrenal Franchise'. Alkindi is being launched in key EU markets, and Chronocort was expected to follow; however, headline data from its EU Phase III trial in CAH did not show superiority over standard-of-care, thereby failing to meet its primary endpoint. Management had a positive meeting with the EMA SA about Phase III with Chronocort, with an outcome expected in early 2Q'19. Cash at the end of the period was £6.9m.

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

- **Interims:** Results were in line with expectations, with planned increases in marketing and R&D, to give an underlying EBIT of -£9.7m (-£7.3m). More important was the update on the commercial plans for Alkindi in the US, with NDA submission in 4Q'19 and the plan for Chronocort in Europe and the US.

- **EMA SA:** A briefing package for Chronocort requesting 'scientific advice' (SA) has been submitted to the EMA. It includes additional analysis from the trial and the Phase III safety extension currently running, showing the benefits of Chronocort. The meeting has already taken place, and feedback is expected in early 2Q'19.
- **New distribution agreement:** A marketing and distribution agreement has been signed with Anthrop Pharmaceuticals AB, a specialist of niche medicines distribution, for the commercialisation of Alkindi in the Nordic region. The market opportunity is estimated at $3.3m for Alkindi in the countries concerned.

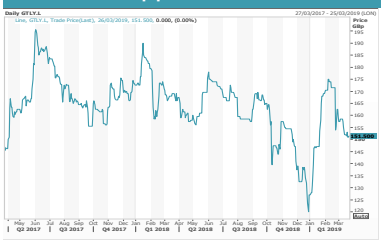
- **Investment summary:** Alkindi, a cortisol replacement therapy for children, is DNL's first commercial product. It had been expected to be followed by the adult version, Chronocort, for a much larger market. The share price fall following Chronocort's unexpected Phase III trial outcome looks overdone, but it is likely to languish until there is clarity from the regulators about how to move the product forward. Net cash at 31 December 2018 is expected to be ca.£11m.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	0.00	0.00	0.07	1.12	2.03	5.91
SG&A	-1.99	-3.23	-6.21	-6.41	-7.84	-9.57
R&D	-3.89	-8.34	-10.02	-9.22	-10.01	-9.51
EBITDA	-5.87	-11.56	-16.16	-14.66	-16.00	-13.74
Underlying EBIT	-5.88	-11.56	-16.17	-14.68	-16.01	-13.75
Reported EBIT	-6.99	-12.08	-16.98	-15.53	-16.91	-14.69
Underlying PBT	-5.95	-11.64	-16.30	-14.59	-15.99	-13.80
Statutory PBT	-7.06	-12.16	-16.91	-15.44	-16.88	-14.74
Underlying EPS (p)	-12.48	-17.05	-25.68	-20.37	-22.22	-18.86
Statutory EPS (p)	-15.02	-18.04	-26.78	-21.75	-23.67	-20.38
Net (debt)/cash	26.88	16.37	17.28	4.44	-9.87	-22.86
Capital increase	24.52	0.05	13.40	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

Business Support Services



Source: Refinitiv Eikon

Market data

EPIC/TKR	**GTLY**
Price (p)	**152**
12m High (p)	180
12m Low (p)	118
Shares (m)	110.8
Mkt Cap (£m)	168
EV (£m)	168
Free Float*	>40%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Michael Ward
Finance Director	Neil Smith
Chairman (non-exec.)	Nigel Payne

+44 121 234 0000
www.gateleyplc.com

Key shareholders

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

Diary

May'19	Trading update

Analyst

Steve Clapham 020 7194 7622
sc@hardmanandco.com

GATELEY (HOLDINGS) PLC

Strong interim results and share price recovery

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

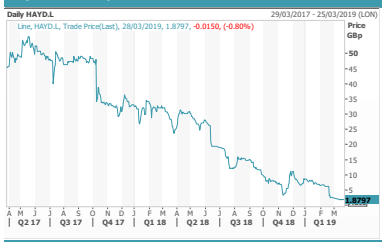
- **Current trading:** Interim results showed a strong performance, with revenue growth of over 20% – half organic and half from acquisitions. The dividend was hiked by 18%, enhancing the yield attractions of the share. In addition, management struck a confident tone at the analysts' meeting, emphasising the progress made since IPO.
- **News:** Directors and employees sold 4 million shares last month (3.6% of the company) in a secondary placing, resulting in PDMRs (person discharging managerial responsibilities) now holding 36% of the company, still a highly significant level. This should help improve liquidity, always an issue in companies of this size, with significant internal ownership a positive.
- **Sector:** The legal sector is growing profitably, and more firms, notably DWF recently, are coming to the market, following Gateley's lead. A larger sector is a positive, as it improves investor understanding and ability to compare. This should favour Gateley, which has improved from 48th to 44th position in the latest industry rankings, and for which we forecast continued growth.
- **Valuation:** The 2019E P/E is 13.5x, falling to just 11.6x in 2020E, on numbers we believe are conservative. We forecast the dividend yield to surpass 5% this year, and it should continue to grow. Professional service companies like this have limited capital expenditure, with working capital the main element of cash outflow, as the business grows, allowing the creation of strong returns and high free cashflow generation.
- **Investment summary:** Gateley is a fully invested, consistent performer in a new and exciting space, which is likely increasingly to attract investor attention. It is a high-quality professional services group with significant growth potential, an excellent track record of delivery, a strong management team, and a strategy to diversify further in complementary professional services.

Financial summary and valuation

Year-end Apr (£m)	2016	2017	2018	2019E	2020E
Sales	67.1	77.6	86.1	102.7	112.9
EBITDA*	12.9	14.9	16.5	19.5	22.1
PBT (adjusted)	12.0	13.8	14.1	16.0	18.5
EPS (adjusted, p)	9.1	9.4	10.6	11.3	13.0
DPS (p)	5.6	6.6	7.0	8.0	8.8
Net cash	-4.2	-4.8	-0.7	-0.5	6.8
P/E (x)	16.7	16.1	14.3	13.5	11.6
EV/EBITDA (x)	12.6	11.2	9.8	8.6	7.3
Dividend yield	3.7%	4.4%	4.6%	5.3%	5.8%

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

Speciality Chemicals



Source: Refinitiv Eikon

Market data

EPIC/TKR	**HAYD**
Price (p)	**2.0**
12m High (p)	120
12m Low (p)	2.0
Shares (m)	317.7
Mkt Cap (£m)	6.4
EV (£m)	1.0
Free Float*	100%
Market	AIM

**As defined by AIM Rule 26*

Description

Haydale is involved in the production and functionalisation of nanomaterials, with key growth areas silicon carbide (75% of revenues), functionalised inks and graphene composites.

Company information

CEO	Keith Broadbent
CFO	Laura Redman-Thomas
Chairman	David Banks

+44 1269 842946
www.haydale.co.uk

Key shareholders

Quilter Plc	11.0%
Anthony Best	8.3%
Nichola Audley Money-Kyrle	5.1%
Davis & Monique Newlands	4.1%
Others	71.5%
Quilter Plc	11.0%

Diary

Aug'19	Final results

Analysts

Paul Singer 020 7194 7622
ps@hardmanandco.com

HAYDALE

A material change

New and experienced management is refocusing and re-orientating the business with a major cost-saving programme. Commercial developments are progressing well, and medium-term financial issues have now been addressed. The long-term risk/reward balance remains favourable. The shares are attractively valued but are likely to tread water until there is clear evidence that the new management team is delivering on its objectives

- **Commercial developments**: A revised business plan sees the group focusing on three businesses: i) silicon carbide nanofibers (SiC) in the US is developing export and new markets with a new high-margin product launch in March 2019, following major investment in 2018 (SiC is expected to see overall 30% sales growth in the medium term); ii) functionalised inks (15% of revenues) focuses on a number of sectors, including biomedical sensors and pressure sensor inks in the Far East and the UK, with high-margin product launches; iii) graphene composites (10% of revenues) is a significant market — thermal improvement and mechanical strength — but traction remains slow, despite providing a longer-term market opportunity.
- **Financial developments:** The group has recently completed a £5.8m fund raise with a deep-discounted opening offer, and funds being used for working capital, balance sheet support and growth investments. We have adjusted our forecasts, which are in line with management's objective to achieve cash breakeven by December 2020, and evidence in the 2020/21 results. Gross margins should attain ca.65%, with the group remaining in a net cash position in the medium term.
- **Cost base reduction programme:** New management continues to resize its overhead base to reflect the changes in sales focus to silicon carbide and smart inks, as opposed to graphene composites. This includes reducing the group's central costs, e.g. marketing and travel, and has already led to a reduction in its annualised SG&A costs of more than £1.0m, with more to come.
- **Investment summary:** Haydale remains well positioned competitively, with a proprietary and recently enhanced nanomaterial functionalisation plasma process. Surface chemistry modification capability has been increased from 4% to 20%. Commercial traction is good, with a healthy order book, and the group has been financially derisked. While the risk/reward balance remains favourable on a long-term basis, the shares are likely to tread water until there is clear evidence that the new management team is delivering on its objectives.

Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019E	2020E
Sales	3.0	3.4	3.9	5.3
Gross profit	2.1	2.0	2.2	3.4
Grant income	0.9	0.8	0.7	0.7
EBITDA	-4.3	-4.9	-4.6	-2.2
Underlying EBIT	-5.0	-5.7	-5.5	-3.1
Reported EBIT	-5.3	-6.0	-5.8	-3.4
Underlying PTP	-5.3	-5.8	-5.4	-3.0
Underlying EPS (p)	-0.3	-22.4	-2.8	-0.8
Statutory EPS (p)	-0.3	-23.7	-3.0	-0.9
Net (debt)/cash	0.8	4.2	4.7	1.0
EV/sales (x)	2.8	2.4	3.9	5.3

Source: Hardman & Co Research

General Retailers

Source: Refinitiv Eikon

Market data

EPIC/TKR	**KOOV**
Price (p)	**7.5**
12m High (p)	28
12m Low (p)	6
Shares (m)	356
Mkt Cap (£m)	31
EV (£m)	20
Free Float*	40%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Mary Turner
CFO	Rob Pursell
Chairman	Waheed Alli

+44 20 7151 0170
www.koovs.com

Key shareholders

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

Diary

Jun'19	Prelims

Analyst

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KOOVS PLC

Koovs refinanced for the future

Following on from the investment by the Future Group (FLFL), which, when completed, will take its stake up to 29.99%, the subscription for £12m of new shares and the deal with HT Media for £17m-worth of advertising in exchange for shares, Koovs is now well placed to build on the success it has had to date in creating India's leading fashion e-tailer. The cash injection and the support of Future should enable it to resume its growth path and surf the growth of Indian e-commerce. In March, Koovs announced a profitable deal with FLFL to host its Brand Factory format online.

- **Strategy:** Koovs sells affordable fashion online in India. It has an established customer base of half a million active users and has been growing brand recognition rapidly. It has achieved the highest NPS across its vertical. Its success will come on the back of the growing Indian economy breeding millions of online shoppers.
- **Partner benefits:** FLFL is a huge, nationwide bricks-and-mortar fashion retailer. It is also a vertically integrated business manufacturing its own brands, as well as selling well-known international labels. With Koovs leveraging FLFL's scale and distribution, its revenue and margins should improve much faster.
- **Valuation:** Conventional valuation metrics are unhelpful. We take our forecast EBITDA for Dec-22, apply a Boohoo/ASOS multiple and discount the value back to today. Even at a 25% discount, the EV comes out at £357m, including the funds to be raised. The current price is a poor indicator of the inherent value.
- **Risks:** Now it is refinanced, we see the two key risks being slower uptake of e-commerce in India than we forecast, and damaging discounting by Koovs' direct and indirect competitors. Koovs also needs to manage the relationship with FLFL successfully to optimise its benefits.
- **Investment summary:** With the money raised and the new partners on board, Koovs becomes an exciting way to play the last big world retail market to move online. The prize, if it gets it right, is a billion-pound company and more. It is likely to be a bumpy, exciting ride, but investors have the reassurance of a highly experienced management team in charge, and the backing of two major Indian corporations straddling both retail and media.

Financial summary and valuation

Year-end Mar (£m)	2017	2018	2019E	2020E	2021E	2022E
Visits (m)	79	66	116	166	246	312
Conversion	1.6%	1.4%	1.4%	2.3%	2.8%	3.5%
No. of orders (m)	1.25	0.92	1.62	3.74	6.75	10.93
AOV (£)	14.75	16.37	16.74	19.00	20.58	23.29
GOV (£m)	18.5	14.8	27.2	71.1	139.0	254.6
Net sales	12.5	9.6	16.9	44.3	86.6	158.6
Weighted margin	43%	46%	49%	53%	57%	61%
Trading profit	0.3	1.3	3.6	12.1	25.8	70.4
Trading margin	2%	14%	21%	27%	30%	44%
EBITDA	-20.0	-14.5	-19.4	-18.9	-7.8	17.2
No. of shares (m)	175	175	356	420	420	420
EV/sales (x)	1.1	1.5	1.0	0.4	0.2	0.1

Source: Hardman & Co Research

Technology Hardware & Equipment

Source: Refinitiv Eikon

Market data

EPIC/TKR	**LWRF.L**
Price (p)	**8.00**
12m High (p)	20.3
12m Low (p)	6.50
Shares (m)	95.8
Mkt Cap (£m)	7.67
EV (£m)	7.47
Free Float*	30%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Jason Elliott
CFO	Kevin Edwards
Chairman	Barry Gamble

+44 121 250 3625
www.lightwaverf.com

Key shareholders

Directors	3.85%
Committed Capital	30.7%
Unicorn Asset Mgt.	17.3%
Herald Investment Mgt.	10.0%
Brewin Dolphin Nominees	8.00%

Analyst

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LightwaveRF

Switched on

Against a backdrop of strong growth in consumer adoption of smart home products, Lightwave's next-generation products are seeing favourable industry reviews and accelerating sales. An almost three-fold increase in direct-to-consumer revenue to £1.24m in 2018 (£0.35m in 2017) was followed by overall revenue growth in 1Q'19 of £1.15m, almost equalling the £1.17m revenue generated in the whole of 1H'18. Led by an experienced new CEO, digital marketing and distribution initiatives are among the highest priorities. New partnerships with Resideo Inc for Honeywell Home and with E.ON and Berkeley Group, plus a further relationship with NICEIC, are all potentially sizeable initiatives that should contribute materially to medium-term revenue growth.

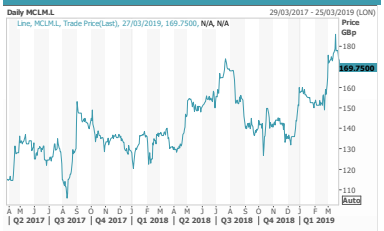
- **Strong market growth: Consumer interest in smart home technologies has never been** greater, yet penetration remains in its relative infancy. Ease of use and instant access to content offered by Amazon Alexa/Echo, Google Home and Apple HomeKit are having a dramatic impact on consumer appetite for smart devices. Market forecasts expect substantial growth, in one case to ca.$160bn globally by 2022.
- **Next-generation products:** Lightwave has created a solid reputation in the lighting automation and smart socket segments, particularly with its most recent Generation 2 products. The process of upgrading older products and releasing entirely new offerings will continue into 2019. The Lightwave Cloud platform is also being enhanced, especially from a device interoperability perspective.
- **Growing retail presence: Lightwave products are available in Apple Stores in 11 countries,** including the UK, and on Apple's online stores across Europe, which has been highly positive for the company's brand recognition. Many of the product ranges are available on Amazon, as well as in Screwfix, John Lewis, Currys, B&Q, and many other specialist online and physical retailers.
- **Risks:** Lightwave is a small vendor that will need to succeed in its online marketing initiatives to drive and maintain greater brand recognition against several large players in the market. At the same time, it will need to execute on an ambitious product refresh programme, as it upgrades its first-generation products to the specification of its Generation 2 products.
- **Investment summary:** Lightwave's financial performance in recent years has been relatively flat, but these metrics do not yet reflect the benefits of the substantial product investment/device launches that took place in 2018 or the more prevalent online and instore retail presence. Growth rates have accelerated in recent months, indicating that strategic initiatives are starting to bear fruit. This should start to be reflected in the valuation, as further data points on this traction emerge.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
Revenue	1.44	3.03	2.81	6.40	12.30	14.40
Gross profit	0.47	1.08	0.83	2.78	5.97	6.59
Gross margin	32.5%	35.5%	29.3%	43.5%	48.5%	45.8%
EBIT	-0.81	-0.80	-2.50	-2.26	0.14	0.65
Pre-tax profit	-0.84	-0.85	-2.54	-2.27	0.14	0.65
Net profit	-0.84	-0.85	-2.54	-2.27	0.14	0.65
EPS (basic, p)	-4.37	-2.39	-3.80	-2.40	0.14	0.65
EPS (diluted, p)	-4.37	-2.39	-3.80	-2.40	0.14	0.65
Shares issued (m)	19.27	35.34	66.95	94.52	100.98	100.98
EV/revenue (x)	5.2	2.5	2.7	1.2	0.6	0.5
EV/EBIT (x)	-9.2	-9.4	-3.0	-3.3	52.3	11.4
P/E (x)	-	-	-	-	nm	12.3

Source: Hardman & Co Research

Financials



Source: Refinitiv Eikon

Market data

EPIC/TKR	**MCL**
Price (p)	173.5
12m High (p)	180.0
12m Low (p)	123.0
Shares (m)	129.8
Mkt Cap (£m)	224.7
EV (£m)	235.4
Free Float*	60%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Paul Smith
CFO	Andy Thomson
Non-Exec. Chairman	Stephen Karle
	+44 330 045 0719
	www. morsesclubplc.com

Key shareholders

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

Diary

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

Analyst

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MORSES CLUB PLC

CURO Transatlantic (CTL) deal

On 26 February, MCL announced the acquisition of *CURO Transatlantic* for a consideration of ca.£8.5m. We reviewed this deal in our note, *Home collect and online lending acquisitions*, published on 15 March. We believe the acquisition significantly accelerates MCL's online proposition with scale (ca.£10m net loan book), a much-enhanced decision engine, infrastructure, experienced staff (including analytics) and carefully selected customers (ca.50,000) – and all bought for a discount to book. A significant enhancement to FY'21 earnings looks likely. Our note also reviewed the two small home collect acquisitions that MCL completed in February.

- **Company news:** The 28 February *trading update* noted that: i) total credit issued increased 2.4% to £178.5m; ii) the gross loan book has grown by over 7% (including 2% from acquisitions); iii) customer numbers rose 2.6% to 235k; and iv) the Morses Club Card now has 30k customers (FY'18 21k). Results will be on 2 May.
- **Peer news:** Jonathan Davidson, Executive Director of Supervision, gave a speech on 21 March on *What can the consumer credit sector expect from the FCA*. Encouragingly, none of his comments would see changes to MCL's model. H&T's 12 March *results* were well received, with a 5% share price appreciation on the day. Branch/online lender, Oakham Ltd, went into administration on 28 February.
- **Valuation:** We detailed a range of valuation approaches and sensitivities in our note, ***Building a profitable and sustainable franchise*** (October 2017), and updated these in later notes, most recently *Home collect and online lending acquisitions*. The range is now 169p (DDM) to 219p (GGM). Average peer multiples are broadly in line with MCL's. We will roll forward our base valuation year with the May results.
- **Risks:** Credit risk is high (albeit inflated by accounting rules), but MCL adopts the right approach to affordability and credit assessment. Regulatory risk is a factor, although high customer satisfaction suggests a limited need for change. MCL was the first major HCC company to get full FCA authorisation.
- **Investment summary:** MCL is operating in an attractive market. It has a dual-fold strategy that should deliver an improved performance from existing businesses and new growth options. It conservatively manages risk and compliance, especially in new areas. The agent network is the competitive advantage over remote lenders. We forecast a 12.1x February 2020 P/E and a 5.2% February 2020 dividend yield, with 1.6x cover (adjusted earnings).

Financial summary and valuation

Year-end Feb (£m)	2015	2016	2017	2018	2019E*	2020E*
Reported revenue	89.9	90.6	99.6	116.6	119.3	143.3
Total impairments	-22.9	-18.8	-24.3	-30.4	-27.0	-36.0
Total costs	-51.4	-53.4	-56.7	-65.6	-68.8	-81.7
EBITDA	16.5	19.3	19.9	22.1	25.2	27.5
Adjusted PBT	13.0	16.8	17.7	19.2	21.8	23.2
Statutory PBT	58.5	10.4	11.2	16.1	18.7	20.3
Statutory EPS (p)	46.5	6.1	6.6	10.1	11.7	12.8
Adjusted EPS (p)	8.1	10.2	10.8	11.7	13.5	14.3
P/adjusted earnings (x)	21.4	16.9	16.1	14.8	12.9	12.1
P/BV (x)	2.3	4.1	3.7	3.4	3.3	3.0
P/tangible book	2.6	5.0	4.4	3.9	3.7	3.4
Dividend yield	nm	nm	3.7%	4.0%	4.6%	5.2%

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

Support Services

Source: Refinitiv Eikon

Market data

EPIC/TKR	MUR
Price (p)	514
12m High (p)	730
12m Low (p)	450
Shares (m)	9.0
Mkt Cap (£m)	46.2
EV (£m)	44.1
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 US.

Company information

CEO	Edward Murgitroyd
CFO	Keith Young
Chairman	Ian Murgitroyd

+44 141 307 8400
www.murgitroyd.com

Key shareholders

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

Diary

Sep'19	Final results
Oct'19	AGM

Analyst

Mike Foster 020 7194 7633
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MURGITROYD

Recent results: strong cash, resilient outlook

Murgitroyd's last two results announcements have been in line with expectations, and its global market remains in steady expansion. As part of its interim results of 21 February was the announcement of the earnings-enhancing Chapman IP and Board changes. We continue to focus on the importance of margin expansion. The gross margin rose to 56.0% (53.7%); we consider this a robust outcome for this type of service business, and it is back to 2014 levels. To pick out just two points from the 1H results: i) global Support Services sales rose 19% (the first time this division's share has risen above 40%); and ii) total revenue from US-based clients rose by just under 7%, to £11.50m.

- **Strategy**: Four years of significant investment in the US and pan-European footprint, software and business development, as well as back-office efficiencies, put Murgitroyd in a strong competitive position to help offset any weakness in individual markets. This is a broadly-based business with good cash generation.
- **Numbers**: The 1H gross margin rise to 56.0% is an important milestone, which should be seen in the context that global Support Services sales rose 19% (the first time this share has risen above 40%). This is a slightly lower-margin business and is a growing part of the mix in providing larger clients (in particular) with a fully-rounded service.
- **Acquisition and Board:** Chapman IP is a UK attorney practice, purchased for £6.6m cash. The CEO and CFO roles are now split: Edward Murgitroyd, after four years as CEO of the operating business, becomes group CEO; Keith Young remains as Finance Director. Helga Chapman, founder of Chapman IP, becomes NED. Two other long-serving directors step down (now and at the AGM).
- **Risks:** The offer of a broad suite of services to a broad customer base, in focused markets, balances the group. This is a reasonably stable, growing global market, with pricing pressure as an ongoing feature. This is not new, and Murgitroyd's global strategy is designed around this given feature, delivering cash well.
- **Investment summary:** The shares had established a valuation floor and are recovering, but cashflow and dividend yields are notably above market averages. Recent results indicate firmly the turnaround of former protracted periods of margin erosion. The growth strategy appears to be bearing fruit.

Financial summary and valuation (NB forecasts under review)

Year-end May (£m)	2014	2015	2016	2017	2018
Sales	38.4	39.8	42.2	44.3	43.9
EBITDA	4.6	4.5	4.6	4.2	4.5
PBT (adjusted)	4.2	4.2	4.3	3.9	4.1
EPS (adjusted, p)	33.6	34.8	35.3	28.7	30.8
DPS (p)	13.3	14.8	16.0	17.0	21.0
Net (debt)/cash	-0.4	0.7	2.8	2.2	2.8
Net debt/EBITDA (x)	0.1	cash	cash	cash	cash
P/E (x)	15.2	14.8	14.4	17.9	16.7
EV/Sales (x)	1.2	1.1	1.1	1.0	0.9
EV/EBITDA (x)	9.1	9.3	9.1	9.8	9.3
FCF yield	7.0%	6.4%	8.1%	7.0%	6.5%
Dividend yield	2.5%	2.8%	3.1%	3.4%	4.2%

Source: Hardman & Co Research

Financials

Source: Refinitiv Eikon

Market data

EPIC/TKR	**NSF**
Price (p)	55.0
12m High (p)	75.0
12m Low (p)	52.6
Shares (m)	312.7
Mkt Cap (£m)	181
EV (£m)	424
Free Float*	99%
Market	Main

**As defined by AIM Rule 26*

Description

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

Company information

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

+44 20 38699026
www.nonstandardfinance.com

Key shareholders

Invesco (22/02)	28.6%
Woodford Inv. Mgt. (22/02)	25.7%
Aberforth Partners (22/03)	12.97%
Marathon Asset Mgt. (14/03)	12.83%
Tosca Fund (27/03)	3.04%

Diary

May	AGM
8 May	Final date for acceptance of offer
29 May	Last day offer unconditional

Analyst

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NON-STANDARD FINANCE

2018 full-year results

On 8 March 2019, NSF released its *full year results*, with an accompanying *presentation*. The release noted "Underlying results ahead of consensus forecasts with strong growth in operating profit in all three divisions". The company's "normalised" figures (defined as before fair value adjustments, amortisation of acquired intangibles and exceptional items) were: revenue up 39% to £166.5m; operating profit (including a charge of £1.4m for deferred consideration on the acquisition of George Banco) up 51% to £35.9m; pre-tax profit up 12% to £14.8m; and EPS up 8% to 3.7p. The recommended final dividend of 2.00p per share (2017: 1.70p), making a total dividend for the year of 2.60p per share (2017: 2.20p), was up 18% over the prior year. Current trading: "good start to the year and in-line with management's expectations".

- **Statutory figures:** Revenue £158.8m (2017: £107.8m), operating profit £19.5m (2017: £3.8m), reported loss before tax £1.6m (2017: £13.0m) is after fair value adjustments, amortisation of acquired intangibles and exceptional items; reported loss per share after same items of 0.5p (2017: loss per share of 3.3p).
- **Operational highlights:** "Total net loan book up 29% to £310.3m with growth in all three divisions: Branch-based lending: up 25% with 12 new branches opened, Guarantor Loans: up 61% with all loans now being booked onto a single loan management platform, Home credit: up 2% with technology-driven efficiencies supporting a more streamlined operating structure".
- **Impairments & Funding:** Lower rate of impairment for the group as a whole was 25.6% of normalised revenue (as defined above, 2017: 27.1%). An additional £70m of committed funding was secured from Alcentra and RBS, making £330m in total.
- **Branch-based lending:** The release reported the "net loan book" (defined as before fair value adjustments but after deducting any impairment due) "up 25% to £186.2m, impairment stable at 21.5% of revenue, 12 new branches opened taking the total to 65, 99 new staff added, over 1.6 million loan applications processed, up 59%, over 61,000 active customers, up 30%".
- **Guarantor loans:** The release noted the "net loan book" (same definition) "up 61% to £83.1m, rate of impairment as a percentage of revenue well below the market leader, over 758,000 loan applications processed, up 66%, move to a single loan management platform for new loans completed on time and on budget, added 31 new staff and moved to larger premises in Trowbridge".

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E
Revenue	94,674	119,756	166,502		
Impairments (incl. IFRS9)	-26,155	-28,795	-42,688		
Total costs (excl. depreciation)	-49,600	-67,706	-87,792		
EBITDA	19,369	25,181	37,648		
PBT	13,056	13,203	14,769	Forecasts under review	
Statutory PBT (co. basis)	-9,342	-13,021	-1,590		
Pro-forma normalised EPS (p)	3.37	3.44	3.70		
Dividend (p)	1.20	2.20	2.60		
P/adjusted earnings (x)	17.2	16.9	15.7		
P/BV (x)	0.7	0.7	0.8		
P/tangible book	1.8	2.3	3.0		
Dividend yield	2.2%	4.0%	4.7%		

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Refinitiv Eikon

Market data

EPIC/TKR	OXB
Price (p)	684
12m High (p)	1,064
12m Low (p)	511
Shares (m)	66.1
Mkt Cap (£m)	452.3
EV (£m)	461.2
Free Float	63%
Market	LSE

Description

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

Company information

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

Key shareholders

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

Analysts

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OXFORD BIOMEDICA

Deal-making drives first annual profit

OXB is a specialist, advanced therapy, viral-vector biopharmaceutical company. It offers vector manufacturing and development services, while developing proprietary drug candidates. OXB also receives royalties on commercial products developed with its LentiVector® platform. 2018 delivered significant growth in gross income, primarily through licensing income from new partnership deals with Axovant Sciences (AXON) and Bioverativ (BIVV). Licensing income was of a magnitude that delivered OXB's first full-year underlying operating profit, despite weaker-than-anticipated bioprocessing/commercial sales and investment to increase capacity.

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

- **FY'18 results:** Strong EBIT in fiscal 2018 of £9.2m (-£7.0m) was the result of successful deal-making, particularly in the first half. 'Other income' of £28.2m (£7.9m), at a ca.100% margin, included upfronts from BIVV and AXON, grants from Innovate UK, royalties from sales of Kymriah, and other milestones.

- **Bioprocessing:** Sales of bioprocessing services and commercial development (CD) of vector (in the 'platform' business segment) showed strong growth of 25.8% to £39.6m (£31.5m). However, this was £6.6m below forecasts, in part due to slower-than-anticipated demand for large clinical batches from OXB's partners.
- **Risks**: OXB's mid-term sales model and its ability to pay off debt are dependent on successful progress of partners' clinical trials and commercialisation of LentiVector-enabled products. OXB is investing heavily in infrastructure for manufacturing capacity and in personnel, which will affect the bottom line.

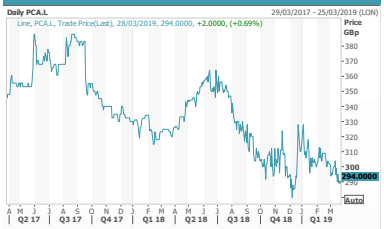
- **Investment summary:** OXB is an exciting company with market-leading technology. It has been extensively validated through large deals with leading (bio)pharmaceutical partners and through grants from the UK government. It is not yet out of the woods, however, being dependent on regular income from partners, themselves operating in an opportunity-rich but nascent sector.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E	2021E
Gross income (as reported)	**30.78**	**39.36**	**67.84**	**83.09**	**104.60**	**123.04**
Group sales	27.78	31.49	39.63	54.13	78.70	89.80
EBITDA	-6.78	-2.63	13.54	14.26	18.53	30.40
Underlying EBIT	**-10.45**	**-7.00**	**9.18**	**9.47**	**13.27**	**25.16**
Statutory EBIT	-11.32	-7.97	7.93	8.12	11.82	23.62
Underlying PBT	-15.34	-16.38	4.57	5.39	9.22	21.25
Statutory PBT	-20.31	-11.76	5.01	4.04	7.77	19.70
Underlying EPS (p)	-21.00	-21.99	10.88	12.53	18.79	37.67
Statutory EPS (p)	-29.95	-14.56	11.57	10.49	16.61	35.33
Net (debt)/cash	-19.05	-22.54	-8.91	-9.12	-1.86	17.65
Capital increase	17.50	0.39	19.81	0.10	0.10	0.10
P/E (x)	-	-	-	-	36.39	18.16
EV/sales (x)	-	-	-	-	5.86	5.14

Source: Hardman & Co Life Sciences Research

Real Estate



Source: Refinitiv Eikon

Market data

EPIC/TKR	**PCA**
Price (p)	293
12m High (p)	360
12m Low (p)	280
Shares (m)	45.9
Mkt Cap (£m)	135.0
EV (£m)	217.0
Market	Main, LSE

Description

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

Company information

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

+44 20 3301 8330
www.palacecapitalplc.com

Key shareholders

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

Diary

Apr'19	3Q'19 div. paid
Jun'19	Final results
Jul'19	4Q'19 div. paid

Analyst

Mike Foster 020 7194 7633
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PALACE CAPITAL

Hudson Quarter, York, development commences

Palace Capital has recently commenced construction of its mixed residential and commercial development at Hudson Quarter, having secured a new £26.5m debt facility and fixed price contract. Supply in this location is tight, and the projected gross development value of £65m would thus appear robust. The current site book value is £16.8m. The building contract is £35m (part of a total projected cost of £37m, pre-interest). We note that the full benefit of Hudson Quarter will be derived during FY22, when Palace Capital will receive substantial free cash. This is one of several factors underpinning significant medium-term expansion in capacity to pay growing dividends.

- **Palace Capital's value optimisation has been made with care:** Palace Capital acquired the development site inside York city walls some years ago as part of a broader portfolio. It has worked up the planning and has now secured finance, and, in February, selected a (fixed price) building contractor, post site clearance.

- **Yield, location and active asset management:** The yield on the assets is above market. Annualised contracted rental income is £17.4m p.a., 6.2% of the book value of the real estate assets. 2H'19 gross rent income was £18.4m annualised. There is significant reversionary potential (ERV: £21.1m p.a.).

- **Northern Powerhouse**: The characteristics of "Northern Powerhouse" cities' commercial real estate markets have improved, with supply/demand and rents for quality stock in prime locations responding well, which should continue. There is also strong new build, and little sign of this overpowering new take-up demand.

- **Risks:** The normal risks of real estate apply. The weighted average length of an unexpired lease to break is around 5.4 years. Generally, covenants are good. Retail exposure (bar Wickes and Booker) is minimal. Gearing, at 30% LTV (loan-to-value), is conservative, and although expected to increase as the York development progresses, management has previously stated an intention to keep it below 40%.

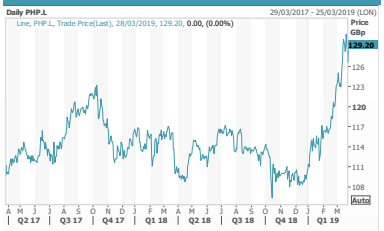
- **Investment case:** Running yield and upside potential in income and capital are attractive, as is sectoral (minimal retail bar Wickes and Booker) and geographical positioning. Although the dividend is uncovered, the York development site is well positioned for FY22 to deliver cash and capital- and income-uplift to more than cover a progressive dividend. We anticipate it will raise NAV by ca.20p by FY22.

Financial summary and valuation

Year-end Mar (£m)	2017	2018	2019E	2020E
Income	14.3	16.7	18.0	18.7
Finance cost	-3.0	-3.4	-3.9	-4.1
Declared profit	12.6	13.3	10.7	9.4
EPRA PBT (adj. pre-revaluation)	6.3	7.3	9.2	9.4
EPS reported (p)	36.4	35.9	20.0	17.2
EPRA EPS (p)	21.2	18.7	16.8	17.2
DPS (p)	18.5	19.0	19.0	19.0
Net debt	-68.6	-82.4	-87.2	-116.3
Dividend yield	6.3%	6.5%	6.5%	6.5%
Price/EPRA NAV	66.1%	70.6%	70.7%	70.2%
NAV (p)	434.2	400.2	407.7	410.5
EPRA NAV (p)	443.0	414.8	414.2	417.1

Source: Hardman & Co Research

Real Estate



Source: Refinitiv Eikon

Market data

EPIC/TKR	**PHP**
Price (p)	129
12m High (p)	129
12m Low (p)	106
Shares (m)	1,110
Mkt Cap (£m)	1,432
EV (£m)	2,570
Market	Premium, LSE

Description

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

Company information

CEO	Harry Hyman
CFO	Richard Howell
Chairman	Steven Owen

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

Key shareholders

Directors	1.0%
CCLA	5.4%
Blackrock	4.9%
Investec Wealth	3.3%
Vanguard Group	2.8%
Troy Asset	2.3%

Diary

Jun'19	AGM
Jul'19	Interim results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PRIMARY HEALTH PROPERTIES

All-share merger with MedicX Fund – EPS upgrade

PHP and MedicX Fund (MXF) completed an all-share recommended merger on 14 March 2019. The latter is a UK REIT investing in assets similar to PHP, and focused entirely on UK and RoI primary medical assets. To date, PHP has expanded its presence strongly in this very specialist asset category. The merger adds to capabilities for sourcing investments and enhances cost (fee- and finance-related) efficiencies. 91% of PHP's income is backed by the UK or RoI government. Occupancy consistently exceeds 99%. The complementary merger initially creates a stated £4.0m p.a. synergy saving and enhances PHP's market presence.

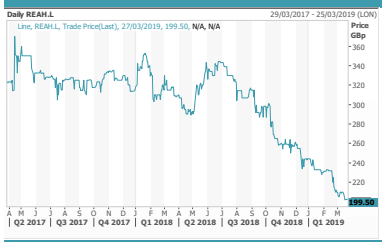
- **Growth in 2019 sees significant expansion**: PHP's merger with complementary MXF effectively adds well over £800m of investment assets of as high a quality as PHP's, at nil stamp duty cost, saving £4m p.a. in synergy efficiencies and adding complementary routes to purchase new assets.
- **Strategy:** PHP purchases modern standing stock, and forward-funds repeat development partners. No development risk is taken, on the forward funding, and the strategy is focused tightly on this sector. The PHP-MXF offer, just completed, was 'all-shares', on the basis of 0.77 new PHP per one MXF share.
- **Valuation:** The shares trade at a premium to historical EPRA NAV. In the time frame of the table below, PHP shares have always traded at above NAV and EPRA NAV. At the last balance sheet, assets were valued at a net initial yield (NIY) of 4.85%.
- **Risks:** Debt maturity is over eight years, from a wide variety of bank and bond sources. PHP reduced cost of debt again in 2018. 2018 DPS cash cover was over 100%, and grew that year. Undrawn facilities exceed £200m.
- **Investment summary: PHP has seen 22 years of unbroken dividend growth.** Expansion into higher cash-generating Irish assets and a falling debt cost enhance EPRA EPS. PHP has stated its marginal rate of interest (new £ debt) to be 2.6%, vs. the 3.9% average cost in 2018. Management fees on incremental growth are below portfolio averages. Given the cost of debt and the incremental asset yields, recent acquisitions have been positive to EPS, and the merger even more so.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Income	66.5	71.3	76.4	118.3	135.5
Finance cost	-32.5	-31.6	-29.7	-45.3	-50.7
Declared profit	43.6	91.9	74.3	100.7	112.2
EPRA PBT (operating)	26.7	31.0	36.8	60.7	72.2
EPS reported (p)	7.8	15.3	10.5	9.8	9.8
EPRA EPS (diluted, p)	4.7	5.1	5.2	5.9	6.3
DPS (p)	5.12	5.25	5.40	5.60	5.85
Net debt	-663.2	-726.6	-670.2	-1,212.1	-1,333.3
Dividend yield	4.0%	4.1%	4.2%	4.3%	4.5%
Price/EPRA NAV (x)	1.41	1.28	1.23	1.20	1.16
NAV per share (p)	83.5	94.7	102.5	103.3	107.1
EPRA NAV per share (p)	91.1	100.7	105.1	107.4	111.2

Source: Hardman & Co Research

Food Producers



Source: Refinitiv Eikon

Market data

EPIC/TKR	**RE.**
Price (p)	**202.5**
12m High (p)	344.0
12m Low (p)	202.0
Shares Ord (m)	40.5
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	82.0
Mkt Cap Prefs (£m)	68.4
EV (£m)	400.6
Free Float	30%
Market	MAIN

Description

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

Company information

Managing Director	Carol Gysin
Chairman	David Blackett

+44 207 436 7877

www.rea.co.uk

Key shareholders

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

Diary

Apr'19	Full-year results
[illegible]	AGM

Analyst

Yingheng Chen 020 7194 7638

yc@hardmanandco.com

R.E.A. HOLDINGS

Recent trading update

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

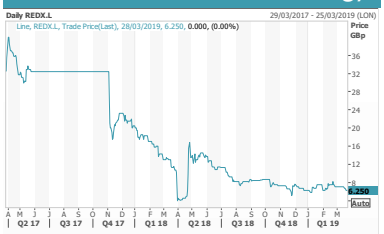
- **Production:** Despite the generally slightly muted start in the East Kalimantan region at the beginning of 2018, REA saw significant FFB production recovery from April 2018 onwards, resulting in a record FFB production level for the group – partly an indication of the recovery in the FFB production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

Financial summary and valuation

Year-end Dec ($m)	2015R	2016	2017	2018E	2019E
Sales	90.5	79.3	100.2		
EBITDA	14.1	16.8	20.7		
Reported EBIT	-6.6	-5.0	-2.2		
Pre-tax profit	-12.2	-9.3	-21.9	Forecasts	
EPS (c)	-59.0	-48.2	-67.0	under	
DPS (p)	0.0	0.0	0.0	review	
P/E (x)	-	-	-	pending	
Net (debt)/cash	-196.7	-205.1	-211.7	guidance	
Planted hectares (ha)	37,097	42,846	44,094		
EV/planted hectare ($/ha)*	9,660	8,320	8,070		
CPO production (mt)	161,844	127,697	143,916	217,721	

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

Pharmaceuticals & Biotechnology



Source: Refinitiv Eikon

Market data

EPIC/TKR	**REDX**
Price (p)	5.7
12m High (p)	22.5
12m Low (p)	3.5
Shares (m)	126.5
Mkt Cap (£m)	7.2
EV (£m)	0.8
Free Float*	81%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

Key shareholders

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

Diary

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

Analysts

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Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

REDX PHARMA

RXC004: Phase I/II trial to restart imminently

REDX is a clinical-stage biotechnology company focused on drugs targeting oncology and fibrotic diseases. An extensive review, led by the CEO, reinforced the vision of a streamlined pipeline in these two disease areas, with the aim of progressing drug candidates to deliver clinical proof-of-concept. 2019 is predicted to be a busy year for REDX, with several major milestones. REDX received authorisation from the MHRA to re-commence the Phase I/IIa trial of RXC004 in solid tumours with a revised protocol at a lower dose. Safety and tolerability will be specifically monitored before starting a combination study with a checkpoint inhibitor.

- **Strategy:** REDX is focused on the discovery and early clinical development of small molecule therapeutics in oncology and fibrotic disease. It is also focused on taking assets through proof-of-concept clinical trials and then partnering them for late-stage development and commercialisation.

- **Trial with RXC004 to re-commence:** The news was expected, and it has now been confirmed: REDX has received formal approval from the MHRA to restart the Phase I/IIa trial with its oral porcupine inhibitor, RXC004, in patients with advanced solid tumours. The study is expected to resume soon, in 1H'19.

- **Revised trial:** REDX learned a significant amount from the first patient dosed with RXC004, and this provides the basis of a revised protocol, at a lower dose. REDX is on track with its development plan. It will assess safety and tolerability of RXC004 as a monotherapy, and then in combination with a checkpoint inhibitor.
- **Conference attendance:** March was a busy month, with participation at three major conferences, where REDX presented its cancer and fibrosis portfolio: Keystone Cancer Immunotherapy at Whistler, Canada; Bio-Europe Spring in Vienna, Austria; and the famous AACR annual meeting held in Atlanta, USA.

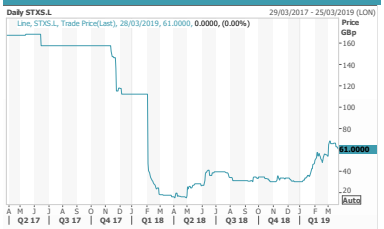
- **Investment summary:** The strengthened management team is moving forward with a revised business plan that focuses cash resources on progressing its drug leads in oncology and fibrotic disease to proof-of-concept early clinical development. Big pharma can be willing to pay handsome prices for novel and/or de-risked assets with clinical data, reinforcing REDX's strategy. This can generate good returns and shareholder value for companies such as REDX.

Financial summary and valuation

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

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Refinitiv Eikon

Market data

EPIC/TKR	**STX**
Price (p)	**62.0**
12m High (p)	73.0
12m Low (p)	15.0
Shares (m)	116.4
Mkt Cap (£m)	72.2
EV (£m)	62.4
Free Float*	32%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Carl Sterritt
CFO (Interim)	Tim Watts
Chairman	James Karis
	+44 207 186 8500
	www.shieldtherapeutics.com

Key shareholders

Directors	8.7%
W. Health	48.1%
MaRu AG	10.8%
R. Griffiths	7.8%
C. Schweiger	4.8%
USS	4.4%

Diary

3 Apr	Fiscal 2018 results
Jun'19	AGM
27 Jul	Feraccru PDUFA date

Analysts

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	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

SHIELD THERAPEUTICS

Positive update on patent opposition

STX is a commercial-stage pharmaceutical company delivering specialty products that address patients' unmet medical needs in renal and gastrointestinal disorders. Its initial focus is Feraccru®, a supplement for iron deficiency. Following the IPO and EU approval of Feraccru, both in February 2016, STX has made good progress, and Feraccru is already generating sales in Germany and the UK. STX is now awaiting a game-changing FDA decision on potential US approval (by 27 July 2019). One of two objections raised with the European Patent Office (EPO) by a competitor against Feraccru's patents was successfully resolved this month.

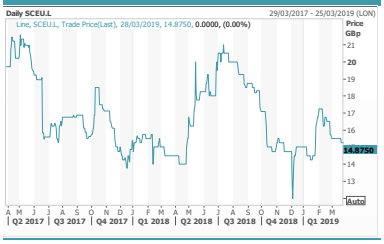
- **Strategy:** STX's strategy is to out-license the commercial rights to its products to expert partners for marketing and distribution in target markets. These agreements allow STX to retain its intellectual property and to continue to invest in its R&D pipeline, while benefiting from long-term commercial value.
- **Feraccru:** A novel treatment for iron deficiency (ID), Feraccru is approved in Europe in adults with or without anaemia. ID results from the depletion of iron stores in the liver, affecting the production of red blood cells (which carry oxygen). Feraccru is well tolerated, even in those who have failed with other oral therapies.
- **Patent oppositions:** In January, objections were filed with the EPO concerning two of Feraccru's recently submitted manufacture and process patents, which provide protection until 2035 and 2032. The same party has also filed objections to patents concerning Auryxia (Akebia), another iron deficiency anaemia drug.
- **Positive EPO decision:** The EPO has decided in favour of STX regarding its process patent. The decision follows a hearing, and takes into account STX's preferred minor amendment, meaning that the patent continues to provide protection until 2032. A hearing has not yet been undertaken concerning the manufacturing patent.
- **Investment summary:** STX is at an interesting juncture. It has delivered on all goals set at the time of its IPO in 2016. Feraccru is a simple product, iron is essential for normal body function, and treatment fits easily into clinical practice. Regulatory approval and the validation by commercial deals in Europe look set to be repeated in the US. Given the potential news flow, a market capitalisation of £65m makes STX an interesting proposition.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Gross revenues	**0.34**	**0.64**	**11.90**	**2.83**	**2.00**
Sales	0.30	0.64	0.80	0.63	2.00
R&D	-2.03	-4.71	-4.30	-4.73	-2.50
Other income	0.04	0.00	11.10	2.20	0.00
EBITDA	-10.29	-17.95	-0.77	-6.28	-6.37
Underlying EBIT	-10.47	-18.38	-1.26	-6.77	-6.87
Reported EBIT	-12.46	-20.95	-3.73	-9.24	-9.34
Underlying PBT	-10.43	-18.38	-1.25	-6.76	1.31
Statutory PBT	-15.60	-20.99	-3.72	-9.23	-9.35
Underlying EPS (p)	-9.73	-15.11	0.14	-4.67	-5.59
Statutory EPS (p)	-14.84	-17.43	-1.99	-7.54	-7.64
Net (debt)/cash	20.98	13.30	9.82	4.16	-1.20
Capital increase	33.51	11.88	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

Automobiles & Parts



Source: Refinitiv Eikon

Market data

EPIC/TKR	**SCE**
Price (p)	15.5
12m High (p)	21
12m Low (p)	9
Shares (m)	135
Mkt Cap (£m)	20.9
EV (£m)	18.1
Free Float*	85%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

Non-Exec. Chair.	David Bundred
CEO	Dr Kevin Johnson
Finance Director	Michael Cunningham

+44 151 356 2141

www.surfacetransforms.com

Key shareholders

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

Diary

Sep'19	Full-year results
Nov'19	AGM

Analyst

Mike Foster 020 7194 7633

mf@hardmanandco.com

SURFACE TRANSFORMS

£1.9m placing

Surface Transforms (ST) has successfully placed 12.3m new shares at 15.5p, the current share price, enlarging its issued share capital by 10% exactly. The two larger shareholders (among other shareholders) have taken substantial shares in the new equity. The funds give high visibility of funding through to cashflow inflection. Currently, revenue derives from near-OEMs, track cars and retrofits. This is a stable – indeed growing – income stream, but the "game changer" and move to cashflow-positive status will come when the first major global OEM order is agreed for start of production. OEM6's order does take ST to that cashflow-positive situation, but it has been delayed (not new news here).

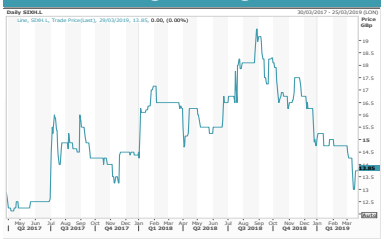
- **OEM5:** We and ST expect a positive update in spring (ST statement) on engineering sign-off and selection for start of production (SOP) for another global OEM: OEM5. It is stated that there is "broadly agreed initial pricing"; this has just completed its final test and received VDSA 6.3 status, thus approving ST's eligibility as a core supplier.
- **OEM6:** As of December 2018, ST factored in a six-month delay to the SOP of the car originally scheduled for SOP in June 2019, which implied SOP in March 2019 for ST. The delay has nothing to do with any brake system parts. Discussions are continuing on the precise new SOP date. This makes ST less influenced by the SOP timing.
- **Valuation:** Current orders, including OEM6, albeit delayed (not new news), take ST to cashflow-positive territory. Gross margins are stable, in the high 60% levels. Our EV is based on year-end May 2019E.
- **Risks:** Investment comes ahead of firm orders and profit. ST has no control over the timeline of auto OEMs' new models, but once models are announced, sales should have significant visibility. Revenues for the six months to end-Nov'18 were £0.51m (-3% YoY), but retrofit and near OEM auto sales are once again well placed for 2H'19E.
- **Finances:** 1H saw a rise in the gross margin to 63% (55%) and a rise in administrative costs to £0.70m, from £0.55m. R&D stayed at £1.1m (£1.0m). Note that we anticipate £2.8m net cash at end-May 2019, post the receipt of the regular tax credit for R&D. Our FY19E cash from operations, including tax, is £1.2m outflow, with £0.2m outflow from capex in addition to this.

Financial summary and valuation

Year-end May (£m)	2017	2018	2019E
Sales	0.7	1.4	1.8
EBITDA	-2.4	-1.7	-1.5
EBITA	-2.5	-2.2	-2.0
PBT	-2.5	-2.3	-2.0
PAT	-2.2	-1.8	-1.5
EPS (adjusted, p)	-2.4	-1.7	-1.2
Shareholders' funds	4.0	5.8	5.6
Net (debt)/cash	1.5	0.9	2.8
P/E (x)	loss	loss	loss
EV/sales (x)	26.2	13.0	10.0
EV/EBITDA (x)	na	na	na
DPS (p)	nil	nil	nil

Source: Hardman & Co Research

Industrial Engineering



Source: Refinitv Eikon

Market data

EPIC/TKR	**SIXH**
Price (p)	13.8
12m High (p)	18.5
12m Low (p)	13.0
Shares (m)	113.1
Mkt Cap (£m)	15.6
EV (£m)	28.8
Free Float*	72.1%
Market	AIM

**As defined by AIM Rule 26*

Description

The 600 Group is a designer and manufacturer of industrial products active in machine tools, components and laser marking. The US represents around 65% of group sales and the UK 15%.

Company information

Executive Chairman	Paul Dupee
CFO	Neil Carrick

+44 1922 707110
www.600group.com

Key shareholders

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

Diary

Jun'/Jul'19	Final results

Analyst

Paul Singer 020 7194 7xxx
ps@hardmanandco.com

THE 600 GROUP

Share price decline unmerited on current fundamentals

The most recent share price decline is unmerited on unchanged fundamentals. Business momentum is good, with a healthy order book, and with growth enhanced by new product launches and new market entry. The 600 Group remains competitively well positioned, with a world-class reputation in machine tools and laser marking. Around 65% of sales are in the US. The shares stand at a discount to the peer group and to a DCF valuation, and we now believe they offer an appealing yield.

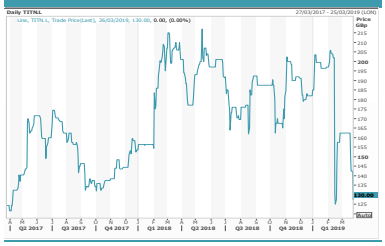
- **Recent developments**: Trading remains healthy, despite the macroeconomic and political (trade war/Brexit) uncertainties, reflecting good enquiry and quotational activity, with a healthy order book – up 5%. Furthermore, the company has just announced the successful restructuring of its 2020 Loan Notes and associated Warrants to extend both the redemption and exercise dates, respectively, by 24 months to 14 February 2022. This transaction frees up the money from the buyout of the pension scheme liability, likely this April, to use for possible acquisitions, and also provides greater financial flexibility for the group.
- **Prospects:** Growth will be driven primarily organically, with new product developments in both business areas and new geographical market entry continuing. A recent update on the laser market from the leading consultant at Industrial Laser Solutions suggests that, despite the effects of slowing global manufacturing, and uncertainties relating to China investment intentions and global tariffs, 2019 market growth should be similar to that in 2018.
- **Restructuring programme:** The group has undertaken a UK restructuring programme to reduce capex requirements and further improve margins in both 2H'18/'19 and the medium term. Opportunities are also available for operational and distribution synergy benefits.
- **Competitive position:** The 600 Group has strong global brand recognition, with, as a key differentiator, the provision of high-service/customer support. The group is regarded as well positioned within highly competitive and fragmented industries, where barriers to entry are generally low.
- **Investment summary:** The shares offer the opportunity to invest in a de-risked cyclical stock with good operational leverage, enhanced by new product launches and new market entry. Cyclicality has been de-risked through further development of repeat/recurring business and activities in high-margin, economically less sensitive spares/services operations. The group remains in a solid financial position. The risk/reward profile appears favourable. The shares stand at a discount to the peer group and to a DCF valuation, and we now believe they offer an appealing

Financial summary and valuation

Year-end Mar ($m)	2017	2018	2019E	2020E
Sales	58.8	66.0	69.7	73.9
Gross profit	20.5	23.0	24.4	25.8
EBITDA	4.5	4.9	5.4	6.0
Underlying EBIT	3.8	4.2	4.8	5.4
Underlying PTP	2.7	3.1	3.7	4.4
Underlying EPS (c)	2.7	3.2	3.1	3.6
Statutory EPS (c)	2.7	3.7	3.1	3.6
Net (debt)/cash	-17.1	-15.6	-15.7	-8.9
Dividend (p)	0.00	0.50	0.60	0.72
P/E (x)	4.9	5.3	5.8	5.0
Dividend yield		3.8%	4.4%	5.3%

Source: Hardman & Co Research

Construction & Materials



Source: Refinitiv Eikon

Market data

EPIC/TKR	**TON**
Price (p)	127.5
12m High (p)	217.0
12m Low (p)	121.5
Shares (m)	11.1
Mkt Cap (£m)	14.1
EV (£m)	12.9
Free Float*	97%
Market	AIM

**As defined by AIM Rule 26*

Description

Titon designs, manufactures and supplies a comprehensive range of passive and powered ventilation products; plus, handles, hinges and locking for doors and windows. "The home of domestic ventilation systems and door and window hardware".

Company information

Executive Chairman	Keith Ritchie
Chief Executive	David Ruffell

+44 1206 713 800

www.titonholdings.com

Key shareholders

Rights & Issues IT	11.4%
MI Discretionary UF	7.2%
Chairman	8.9%
Other Directors	7.9%
Founder/NED	15.7%
Family	6.8%

Diary

May'19	Interim results

Analyst

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TITON HOLDINGS PLC

I'll climb any mountain

Not the title but a line from the song, 'When the going gets tough, the tough get going'. And, yes, after three glorious years, Titon has had tough going in South Korea in 1Q'19. Typically, though, it has taken a brace of issues – neither in its own gift – full on. New products will be launched later this year to counter the shifts in its core marketplace; and South Korea remains a huge and vibrant economy (and 12th in the World). Meantime, the cost apportionment issue is irritating but already history. Titan Titon was established in 1972 and has been in South Korea, its biggest earner, since 2008. It will swim any sea.

- **2014-18:** In June 2014, Titon bottomed at 50p per share. On 14 March 2016, in the maiden Hardman & Co note, the price was 101.5p. A year ago, the shares hit 217p. In the past three calendar years, its Total Shareholder Return (TSR) has been 23%, 52% and 18%, respectively; and in 2018, the Sector, as below, generated a TSR of -12%.
- **14 February:** The Group issued a profit warning pertaining to its star turn, South Korea (more than two-thirds of PBT in fiscal 2018), as the domestic housing market entered a soggy patch, with housing permits falling 13.7% during calendar 2018; and there was an element of product competition. The shares fell first to 130p and then to 121.5p (intra-day on 15 February), before rallying to 162.5p on 26 February.
- **19 March:** Titon informed the market that certain product costs, and thus gross profits, at Titon Korea, had not been correctly recorded over time. This means that its net assets, at 30 September 2018, will be reduced by approximately £1.1m i.e. 6.8%. This is a one-off and will actually assist EBIT in fiscal 2019. The shares, however, closed 12% lower at 142.5p on 20 March and at 127.5p on 25 March.
- **New NED:** On a positive note, Titon has, as promised, appointed a new independent Non-Executive Director in 62-year old Bernd Ratzke – with immediate effect. Bernd is a corporate M&A lawyer, a member of the Law Society in England and a former partner and Head of Corporate at Baker & McKenzie. At the same time, Titon Chairman Keith Ritchie invested his dividends in 1,997 new shares; and holds 8.9%.
- **Tomorrow:** The Hardman UK Building Materials Sector comprises 23 companies with a market value of £8.1bn and a 9.0x EV/EBITDA on a trailing 12-month basis. Titon is on just 4.5x (and, okay, rising to 6.0x a year out). At the same time, the Sector's TSR is -4% over the past 12 months (with only nine stocks positive). Titon is at -37% (at 25 March), having been at +18% in calendar 2018. This is alien territory for tough Titon, which will let nothing stand in its way – to stand and deliver.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
Net revenue	23.7	28.0	29.9	28.1	29.9	30.9
EBITDA	2.33	2.46	2.85	2.11	2.52	2.86
Underlying EBIT	1.77	1.85	2.19	1.40	1.74	1.99
Statutory PBT	2.14	2.49	2.98	2.21	2.61	2.91
Underlying EPS (p)	15.2	16.5	19.2	16.0	18.8	21.1
Statutory EPS (p)	15.2	16.5	19.2	16.0	18.8	21.1
Net (debt)/cash	2.4	3.3	3.4	3.7	4.2	4.8
Shares issued (m)	10.9	11.0	11.1	11.1	11.1	11.1
P/E (x)	8.4	7.7	6.7	8.0	6.8	6.0
EV/EBITDA (x)	5.8	5.2	4.5	6.0	4.9	4.1
DPS (p)	3.50	4.20	4.75	4.85	5.25	5.50
Dividend yield	2.7%	3.3%	3.7%	3.8%	4.1%	4.3%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Refinitiv Eikon

Market data

EPIC/TKR	**VAL**
Price (p)	**0.54**
12m High (p)	4.2
12m Low (p)	0.5
Shares (m)	681.6
Mkt Cap (£m)	3.7
EV (£m)	2.7
Free Float*	100%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

Key shareholders

Directors	0.3%
N. Slater	3.3%

Diary

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

Analysts

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VALIRX

Partners found for VAL401

VAL is a clinical-stage biopharmaceutical company focused on the development of therapeutics for the treatment of cancer. The company has two leading assets: VAL201 (Phase I/II) – a peptide for advanced prostate cancer and potential to treat other hormone-induced indications; and VAL401 (completed Phase II) – a novel reformulation of risperidone, for advanced lung cancer. ValiSeek, VAL's joint venture partner for the VAL401 programme, has agreed Letters of Intent with two partners to progress VAL401 further in the clinic. VAL provided a recent update on its peptide therapeutic with a unique mechanism of action: VAL201 (with headline results expected in late 1H'19) and VAL301.

- **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.

- **Partners found for VAL401:** Following the completion of the Phase II trial with VAL401 in June 2018, ValiSeek, VAL's joint venture partner for the VAL401 programme, has agreed Letters of Intent with two partners to further finance and progress the product in a subsequent trial.

- **VAL201 update:** The peptide that is currently in a Phase I/II at University College London Hospital for the treatment of advanced prostate cancer is going apace and is currently in dose escalation study to find the maximum tolerated acute dose. Results of the trial are expected in late 1H'19.

- **VAL301 update:** The product, derived from VAL201, is currently in late stage preclinical development for the non-invasive treatment of endometriosis. Studies show a good efficacy in reducing endometrial lesions by up to 50% in animal models, and this without side effects.

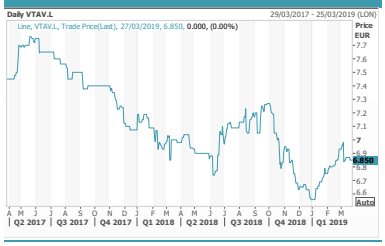
- **Investment summary:** VAL appears to be under-appreciated by the market. Reasons for this include the lack of institutional shareholders and a continuing need for more capital to advance its clinical programmes, thereby building value. Given the clinical progress seen to date, the company should be attracting potential commercial partners and/or institutional investors in order to achieve the real value of its assets.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	0.08	0.00	0.00	0.00	0.00	0.00
SG&A	-1.64	-1.67	-1.47	-1.76	-1.85	-1.94
R&D	-1.54	-2.38	-1.75	-1.83	-2.20	-2.64
EBITDA	-2.88	-3.94	-2.94	-3.42	-3.87	-4.41
Underlying EBIT	-2.98	-4.04	-3.13	-3.59	-4.05	-4.58
Reported EBIT	-3.03	-3.99	-3.13	-3.59	-4.05	-4.58
Underlying PBT	-2.98	-4.38	-3.57	-3.59	-4.05	-4.60
Statutory PBT	-2.57	-5.57	-3.55	-3.59	-4.05	-4.60
Underlying EPS (p)	-7.96	-6.16	-2.01	-0.57	-0.52	-0.58
Statutory EPS (p)	-6.66	-8.22	-2.00	-0.57	-0.52	-0.58
Net cash/(debt)	0.23	-0.73	0.31	0.52	-3.09	-7.17
Capital increase	2.68	2.61	3.60	3.38	0.00	0.00

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv Eikon

Market data

EPIC/TKR	**VTA .NA, VTA.LN VTAS LN***
Price (€)	6.82/6.85/587p
12m High (€)	7.32/7.28/655p
12m Low (€)	6.46/6.52/585p
Shares (m)	36.6
Mkt Cap (€m)	249
Trail 12-mth. yield	9.1%
Free Float	70%
Market	AEX, LSE

**Listing 03 September 2018*

Description

Volta Finance is a closed-ended, limited liability investment company that pursues a diversified investment strategy across structured finance assets (primarily CLOs). It aims to provide a stable stream of income through quarterly dividends.

Company information

Independent Chairman	Paul Meader
Independent Non-Executive Directors	Graham Harrison Stephen Le Page Atosa Moini Paul Varotsis
Fund Managers AXA IM Paris	Serge Demay A Martin-Min François Touati
Co. sec. /Administrator	BNP Paribas Securities Services SCA, Guernsey Branch

BNP: +44 1481 750853

www.voltafinance.com

Key shareholders

Axa Group	30.4%

Diary

Mid-Apr'19	March estimated NAV

Analyst

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VOLTA FINANCE

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Volta is a closed-ended, limited liability company registered in Guernsey. Its investment objectives are to seek to preserve capital across the credit cycle and to provide a stable stream of income to its shareholders through dividends that it expects to distribute on a quarterly basis. The rolling 12-month dividend is €0.62 per share (with €0.15/€0.16 per share paid quarterly). The assets in which Volta may invest, either directly or indirectly, include, but are not limited to, corporate credits, sovereign and quasi-sovereign debt, residential mortgage loans, commercial mortgage loans, automobile loans, student loans, credit card receivables, leases, and debt and equity interests in infrastructure projects. The current underlying portfolio risk is virtually all to corporate credits. The investment manager for Volta's assets is AXA Investment Managers Paris, which has a team of experts concentrating on the structured finance markets.

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

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

Personal Products

Source: Refinitiv Eikon

Market data

EPIC/TKR	**W7L**
Price (p)	97.5
12m High (p)	267.5
12m Low (p)	72.0
Shares (m)	76.7
Mkt Cap (£m)	74.8
EV (£m)	70.2
Free Float*	36.1%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

+44 1753 639 130
www.warpaintlondonplc.com

Key shareholders

Directors*	51.1%
Schroder Inv. Mgt.	12.9%
Bi Asset Mgt.	5.3%
Canaccord Genuity	3.1%
Close Brothers	1.8%

**includes shares held by directors' wives*

Diary

Apr'19	Full-year results
Jun'19	AGM

Analyst

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WARPAINT LONDON PLC

Soft UK market

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

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

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Sales	22.5	32.5	48.5	56.8	62.3
EBITDA (adjusted)	6.3	8.0	9.2	11.6	13.5
Operating profit (adjusted)	6.2	7.3	6.2	8.6	10.6
PBT (adjusted)*	6.1	7.7	8.6	11.3	13.3
Basic EPS (adjusted, p)*	7.9	9.7	9.7	12.6	14.7
DPS (p)	1.5	4.0	5.5	6.6	7.9
P/E (x)*	12.4	10.1	10.1	7.7	6.6
EV/EBITDA (x)	11.2	8.8	7.6	6.4	5.4
Dividend yield	1.5%	4.1%	5.6%	6.8%	8.1%
RoE	-	20.0%	11.6%	15.0%	17.4%

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

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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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