HARDMAN&CO.

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How small- and mid-cap quoted companies make a substantial contribution to markets, employment and tax revenues

This article has been co-written by Hardman & Co and the Quoted Companies Alliance

Introduction

SMQC make massive contribution to society and stock market

Politicians and business leaders often refer to small and mid-size quoted companies (SMQCs) as being pivotal to the future of the British economy. But the definition of "small and mid-size" can cover a huge range of companies, and the difference between the UK's largest companies and the rest is stark, as we present in this paper.

In particular, we examine the companies quoted on the UK's public equity markets to highlight the difference in size between the largest 100 companies and the rest.

We also present data that show the massive contribution that SMQC make to our society and to the stock market.

In particular, we note the following for SMQCs.

- They represent 93% of all the companies quoted on the London Stock Exchange (LSE) by number (when investment companies and certain other categories are excluded – see 'Our sample' for more detail).
- They collectively have a market capitalisation of £428bn by value, representing 20% of the total market capitalisation of the LSE (with the same exclusions)[1].
- They employ over 3 million workers.
- They account for a substantial proportion of the workforce of all quoted companies in many regions of the UK.
- They contributed at least £26.5bn in taxes in 2017/18, we estimate, considering just Corporation Tax, Income Tax and National Insurance (NI), and ignoring VAT and Business Rates.

The landscape of quoted companies

On the last trading day of February 2019, the LSE had a total of 2,068 companies listed on its markets (the Main Market and AIM)[2]. However, this list includes investment companies and international companies whose London quote is a secondary one, and which are not really relevant for this piece of work. Filtering these companies out leaves 1,349 companies.

[1] As at the close on 28 February 2019
[2] LSE: 'Companies defined by mifir identifiers list on LSE'
https://www.londonstockexchange.com/statistics/companies-and-issuers/companies-and-issuers.htm

Hardman/QCA SMQC list has 1,249 constituents

Our 'Hardman/QCA SMQC List' excludes the 100 largest companies by market capitalisation, leaving just SMQCs. The table below shows that SMQCs form a critical part of the universe of companies quoted on the LSE. The 433 companies listed on the Main Market represent 81% of all the 'filtered' companies listed, while all 816 AIM companies are SMQCs. Adding the two markets together, we find that 93% of the companies by number in our filtered list are SMQCs.

LSE quoted companies, by number

	LSE			Hardman/QCA SMQC List	
	All companies	Excluded	Filtered all companies	Small and Mid-cap	%
Main Market	1,156	623	533	433	81%
AIM	912	96	816	816	100%
Total	2,068	719	1,349	1,249	93%

Source: LSE, Hardman & Co, Quoted Companies Alliance

Using the same criteria to look at market capitalisations, we find that the Hardman/QCA SMQC List accounts for 20% of the entire capitalisation of the filtered list.

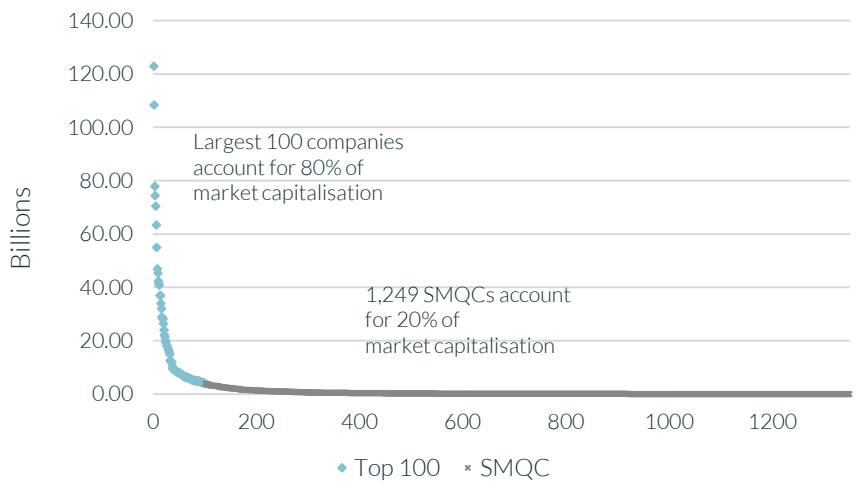
LSE quoted companies by market capitalisation, in £bn

	LSE			Hardman/QCA SMQC List	
	All companies	Excluded	Filtered all companies	Small and Mid-cap	%
Main Market	3,768	1,712	2,056	342	17%
AIM	96	9	87	87	100%
Total	3,864	1,721	2,143	429	20%

Source: LSE, Hardman & Co, Quoted Companies Alliance

Another way to illustrate the distribution of companies is to rank them by market capitalisation, which the following figure does. The blue dots are the 100 largest companies, the grey the SMQCs.

Market capitalisation as at end-February 2019



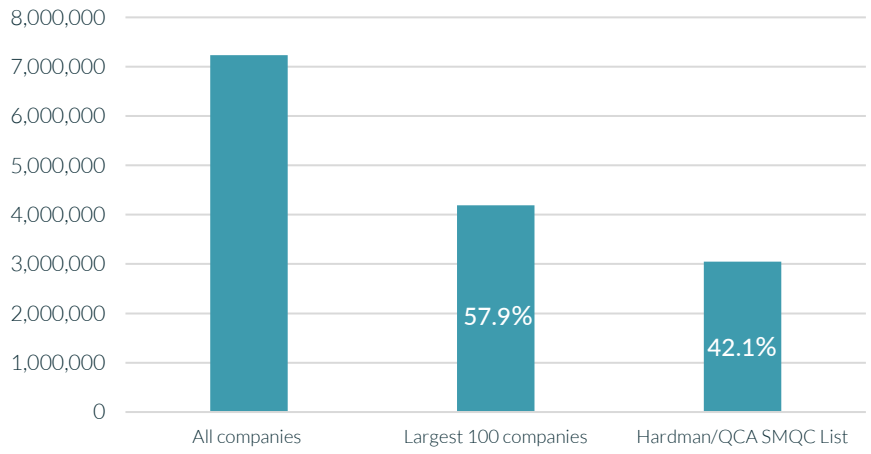
Source: LSE, Hardman & Co, Quoted Companies Alliance

Employment

SMQCs represent 42.1% of all quoted company employees

We have carried out an intensive exercise regarding employment using Thomson Reuters data, with samples of that data cross-checked against published accounts, and the figures from annual accounts used where Thomson Reuters is missing data. We collected data for all companies for their years ending during calendar 2019. For more detail, and the caveats to this data, see our methodology section later.

Employees by quoted company universe



Source: LSE, Hardman & Co, Quoted Companies Alliance, company accounts

Our survey showed that, excluding investment companies and international companies whose London quote is a secondary one, quoted LSE companies had 7,235,156 employees (N.B. we have excluded companies whose registered offices are not in the United Kingdom; these companies employ an additional 642,249 staff, some of whom may be in the United Kingdom) .

Clearly, not all these 7.2m employees are in the UK, but, unfortunately, there is no way of getting a definitive answer as to what that proportion might be. Nevertheless, employees in quoted companies must represent a large part of the labour force. Data from the Office for National Statistics show total employment in the United Kingdom at December 2018 of 32,714,000.[3] Of these, 83.6% (27,341,000) work in the private sector and 16.4% (5,373,000) in the public sector.

If we exclude the 100 largest companies by market capitalisation and just consider the Hardman/QCA List of SMQCs, we find the number of employees falls to 3,045,747. Again, we cannot know the proportion of these in the UK, but it is likely to be much higher than the figure for the 100 largest companies. It is significant that SMQCs represent 42.1% of all employees in our filtered list.

Employment by region

In many regions, SMQCs account for the bulk of quoted company employees

Understanding how the quoted company labour force is distributed by region in the UK is a difficult exercise, because companies are not required to publish such data. Some do; most do not. Thus, we have used the location of the head office as a proxy. Some companies have workforces spread across the country, while others have a very strong regional bias. We have had to use the location of the headquarter (HQ) as a proxy and assume all employees work in that region. This will inevitably exaggerate the importance of London. For example, Rolls-Royce is headquartered in Buckingham Gate, London, but probably only a few hundred of its 23,435 UK workforce are based there.

[3] Source: Office for National Statistics, Labour Force Survey

The table below shows the distribution by region, using the HQ as the locator. Despite all the caveats outlined above, one aspect strikes us: in many regions, SMQCs account for the bulk of quoted company employees.

Quoted company employment by region, 2018

Region	All companies	% of UK employment	Small- and mid-cap companies	% of UK employment	Small- and mid-cap as % of all companies
Northern Ireland	3,194	0.0%	3,194	0.1%	100.0%
Wales	20,791	0.3%	11,455	0.4%	55.1%
North East	56,632	0.8%	42,972	1.4%	75.9%
North West	128,412	1.8%	90,240	3.0%	70.3%
South West	167,238	2.3%	112,848	3.7%	67.5%
West Midlands	176,902	2.4%	170,637	5.6%	96.5%
East Midlands	194,197	2.7%	109,549	3.6%	56.4%
Yorkshire and The Humber	212,784	2.9%	98,453	3.2%	46.3%
Scotland	330,071	4.6%	220,425	7.2%	66.8%
East of England	795,682	11.0%	199,455	6.5%	25.1%
South East	1,330,994	18.4%	350,993	11.5%	26.4%
London	3,818,259	52.8%	1,635,526	53.7%	42.8%
Sub-total	**7,235,156**	**100.0%**	**3,045,747**	**100.0%**	**42.1%**
EMEA	565,109		143,364		
UK Offshore Territories	52,901		52,901		
AMER	18,973		11,285		
APAC	5,266		5,266		
Total	**7,877,405**		**3,258,563**		

Source: LSE, Hardman & Co, Quoted Companies Alliance, company accounts

We have also shown the number of employees for quoted companies whose HQ is not in the UK.

Tax paid

SMQCs in UK contributed at least £26.5bn to public purse in 2017/18, we estimate

In 2017/18, we estimate that SMQCs in the UK contributed at least £26.5bn to the public purse – about 5% of the total. This figure includes estimates of Corporation Tax, Income Tax and NI. It does not take into account VAT and Business Rates.

Corporation Tax

In 2017/18, HMRC collected £54.4bn in Corporation Tax[4]. Of this, £1.8bn was paid by offshore companies, leaving a net figure of £52.6bn. Our data suggest that £43.7bn in corporation taxes was paid by the quoted sector. Much of this will not be to HM Treasury, but rather to its overseas equivalents, and companies are not required to disclose the identity of recipients. The figure for SMQCs is probably more reliable, given their UK-centric focus. If we assume all of the tax line was paid in the UK (admittedly a large assumption), then SMQCs contributed £4.8bn in Corporation Tax to the public purse.

To produce our estimates, we collected data for tax paid by every company quoted on the LSE. See our methodology section later for more detail.

Income Tax and NI

Income Tax and NI are the largest generators of tax revenue for HMRC. In 2017/18, Income Tax receipts totalled £180bn[5], while NI (from employers and employees) contributed a further £130.9bn. Data showing what proportion of this is derived from UK quoted companies and, in particular SMQCs, are not available.

[4] HMRC TAX & NIC RECEIPTS 21/3/19
[5] HMRC TAX & NIC RECEIPTS 21/3/19

Nevertheless, we can make an educated guess:

- we assume average remuneration is the same for the total UK workforce and quoted companies;
- we take the total number of employees reported by SMQCs whose HQ is in the UK (3,045,747);
- we assume only 75% of these employees are in the UK (2,284,310);
- we divide 2,284,310 into the ONS number for all UK employees (32,714,000, remembering that public and private employees/employers pay Income Tax and NI); and
- we multiply the ratio generated in the fourth bullet above by the totals for Income Tax and NI collected.

Then, we calculate that SMQCs must generate £12.6bn in Income Tax and £9.1bn in NI, a full 7.0% of those taxes collected.

VAT

Value-added tax (VAT) generated £125.3bn in 2017/18[6]. As it is based on value-added and as tax paid on inputs by a company is deducted from tax collected on sales, it is difficult for us to calculate. Sales by all quoted companies in our survey year amounted to £1,737bn, of which £408bn came from SMQCs. Clearly, a portion of these sales was outside the UK and would not attract UK VAT. The difficulty of estimating is shown if we multiply quoted sales by 20% – the result is £348bn, nearly three times the total VAT generated. Thus, we cannot produce a reliable figure.

Business Rates

Business Rates generated £27.8bn in 2017/18[7]. Quoted companies will pay Business Rates, like every other property occupier in the UK. However, there is, again, no reasonable basis on which to apportion the total figure between quoted and unquoted companies.

Tax paid in summary

£bn UK tax revenue by source 2017/18

	UK total	SMQC estimate	%
Corporation Tax	54.4	4.8	8.8%
Income Tax	180.0	12.6	7.0%
NI	130.9	9.1	7.0%
VAT	125.3	N/A*	N/A*
Business Rates	27.8	N/A*	N/A*
Total	518.4	26.5	5.1%

Source: Office for National Statistics, Hardman & Co, Quoted Companies Alliance, company accounts
**data not available*

[6] HMRC TAX & NIC RECEIPTS 21/3/19
[7] HMRC TAX & NIC RECEIPTS 21/3/19

Our sample

1,349 companies in our sample

The LSE's 'Companies defined by MiFIR identifiers list on LSE', published at the end of February 2019, totals 2,068 companies.

For our analysis in this paper, we have excluded the following:

- Investment companies (equity investment instruments and non-equity investment instruments). They have very few employees, and would probably be excluded by the casual observer.
- Companies whose main listing is elsewhere, such as Boeing and Honeywell.
- REITs, for the same reasons as investment companies.
- Companies that are listed in the 'Admission to trading only' segment.
- Companies that are suspended.

After applying these filters, we are left with 1,349 companies listed on both the Main Market and AIM.

Methodology and caveats – employment

Quoted companies are required to report employment numbers. Hardman & Co has used a combination of searches on Thomson Reuters (verified by sample cross-references with company accounts) and manual collection where the data are missing, to produce employment numbers.

Not all companies report to the same year-end. To construct our data, we have used annual accounts for the year ending at some month in 2018. Thus, some data will be based on the reports to January 2018, but none will be to January 2019.

Unfortunately, the data produced by the Office for National Statistics (ONS) are not directly comparable with those for quoted companies, for a number of reasons:

- Quoted companies are not required to specify whether an employee is full- or part-time; some do, but most do not.
- Quoted companies are not required to specify the geographical location of employees; again, some do, and some do not. We would suggest that the larger the company, the greater the proportion of employees outside the UK.
- ONS measures employment as the number of people in paid work, which differs from the number of jobs, because some people have more than one job.
- ONS statisticians survey employees by geographical distribution in the UK. Quoted companies have no requirement to disclose data in this way. Thus, the nearest proxy we can use is to allocate employment to a region based on the location of the head office. This is necessarily arbitrary. It will tend to exaggerate employment in London, since many companies whose workforce is outside London base their HQ there. For example, Rolls-Royce is headquartered at Buckingham Gate, London; it has 54,500 employees, but only 43% are in the UK, and the vast bulk of these are outside London.

Methodology and caveats – tax

- Corporation Tax: to calculate Corporation Tax collected, we used the same data collection methodology as for employee numbers. Companies have no requirement to specify in which country the tax was paid.

- Income Tax and NI: we used the data collected on employees and divided these numbers into total UK employees to produce a ratio to apply to total tax collected. We assumed that only 75% of SMQC employees were based in the UK.

About Hardman & Co

We are a rapidly growing, innovative corporate research & consultancy business, based in London, serving the needs of both public and private companies.

Our expert team of nearly 35 sector analysts and market professionals collectively has over 400 years of experience. This depth of knowledge and a reputation for integrity have built trust with investors. With effective communication and precision distribution, we help companies disseminate their investment message to interested investors, as well as advise them on strategy.

Our smaller, boutique structure allows us to provide first-class customer service and to deliver a wide range of ad-hoc services for multiple clients with different needs.

www.hardmanandco.com

About the Quoted Companies Alliance

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small and mid-size quoted companies (SMQCs).

We campaign: we campaign on issues that matter to small and mid-size quoted companies to influence policy and regulation. We run seven ExpertGroups that bring together individuals from companies and advisory firms in the market around specific issues to help shape our policy work.

- **We inform:** through our guides, events, newsletters and other communications, we arm our members with all the information their businesses demand, allowing them to make the best decisions for their companies.

- **We interact:** we provide a forum for small and mid-size quoted company directors to network and share ideas with other directors, fund managers, brokers and advisors. Through our *events*, we help put small and mid-size quoted companies in touch with leading players in the market.

www.theqca.com

About the authors

Keith Hiscock is the Chief Executive of Hardman & Co.

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

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

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

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

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

Ben Calvert, intern at Hardman & Co

Ben was awarded a First-Class Honours Maths degree from the University of Warwick in 2018. He made a substantial input to the collection and analysis of data for this report.

Tim Ward, CEO of Quoted Companies Alliance

Tim is CEO of the Quoted Companies Alliance, the independent membership organisation championing the interests of small to mid-size quoted companies. His past roles have included Head of Issuer Services at the London Stock Exchange, Finance Director at FTSE International, the index company, and various management roles at a smaller quoted company. Tim is a Chartered Accountant, has a MBA from Henley Business School and is a qualified executive coach and mentor

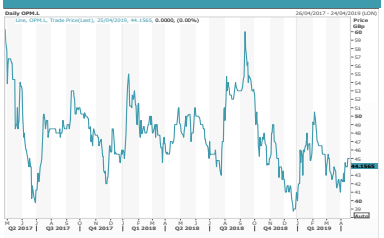
Anthony Robinson, Head of Policy & Communications at Quoted Companies Alliance

Anthony is responsible for overseeing policy development, campaigns and stakeholder engagement. He joined the organisation in February 2018. Previously, Anthony worked for the Confederation of British Industry (CBI), covering financial services policy, and was team leader for communications on the organisation's EU referendum campaign. Before that, he was based for six years in Shanghai, China, where he worked with European multinational firms on their Chinese government relations. Anthony has a Bachelor's degree in Politics and a Master's degree in Global Political Economy, both from the University of Sussex.

Company research

Priced at 24 April 2019 (unless otherwise stated).

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**OPM**
Price (p)	44.5
12m High (p)	60.0
12m Low (p)	38.5
Shares (m)	87.6
Mkt Cap (£m)	39.0
EV (£m)	38.1
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

Group synergies increasingly visible

In recent months, 1pm has issued a steady stream of announcements of incremental benefits from being a larger group, most recently experienced senior manager hires 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:** There was no company regulatory news this month. Over the past few months, though, we have seen how the acquisitions have led to lower funding costs on better terms, economies of scale, cross-sales, and continued robust credit. The stock overhang from a former senior manager selling down his stake is now minimal, and we expect the June trading update to confirm strong growth.
- **Peer news:** In the SME finance space, the Funding Circle announced that *FCIF would no longer be re-investing in FC originated loans*, with two new institutional funding options. *Trading* was in line with expectations. We note FC has ca.3x 1pm's loss rate for a lower revenue yield. Arbuthnot Banking Group's SME businesses all reported strong *results*. SME debt investment companies reported small NAV accretions.
- **Valuation:** Our assumptions are unchanged from those detailed in our note of *16 January*. The GGM indicates 116p and the DDM 69p (DDM normal payout 77p). The 2020E P/E (5.0x) 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)	6.9	6.9	5.6	5.5	5.0
P/B (x)	1.0	0.9	0.8	0.7	0.6
Dividend yield	1.1%	1.1%	1.5%	1.9%	2.5%

Source: Hardman & Co Research

Healthcare Equipment & Services

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**AVO**
Price (p)	45.5
12m High (p)	64.0
12m Low (p)	32.4
Shares (m)	194.6
Mkt Cap (£m)	88.5
EV (£m)	72.8
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

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

Analysts

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ADVANCED ONCOTHERAPY

2018 final results due in May

AVO's goal is to deliver an affordable and novel proton beam therapy system (PBT), based on state-of-the-art technology developed originally at the world-renowned CERN. 2018 was characterised by the achievement of a number of technical milestones, the successful integration of all the module types that constitute the LIGHT accelerator, and the acceleration of the proton beam to an energy of 52MeV, sufficient to treat superficial tumours. Meanwhile, AVO has started to gear up its commercial infrastructure through the recruitment of a Chief Commercial Officer (CCO) with experience in PBT solutions.

- **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.
- **2018 results:** AVO is expected to announce its 2018 results during May. This gives AVO the opportunity to update the market on its commercial strategy for the LIGHT system, progress at the Harley Street site, and its financial position. Net cash/(debt) of -£1.9m is forecasts, prior to January's £10m raise.
- **Senior management appointment:** In preparation for the commercialisation of LIGHT, AVO has appointed Moataz Karmalawy as CCO, and President for its US operations. Previously, he was General Manager worldwide for Particle Therapy Treatment at Varian Medical, a global leader and ranked #2 in PBT.
- **From development to commercialisation:** Given his experience at Varian and Philips Medical, Moataz adds a wealth of knowledge in the commercialisation of PBT solutions. This appointment shows a shift in strategy, from development to commercialisation, and is a vote of confidence in LIGHT's attractive proposition.
- **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
Sales	0.0	0.0	0.0	0.0
Gross profit	0.0	0.0	0.0	0.0
Administration costs	-6.6	-11.2	-12.9	-14.0
EBITDA	-6.4	-10.8	-12.6	-13.6
Underlying EBIT	-6.6	-11.2	-12.9	-14.0
Statutory EBIT	-8.5	-13.1	-14.5	-17.0
Underlying PTP	-6.7	-11.3	-14.9	-14.3
Statutory PTP	-8.6	-13.2	-16.5	-17.3
Underlying EPS (p)	-7.1	-13.9	-15.6	-7.6
Statutory EPS (p)	-12.3	-14.3	-18.9	-9.7
Net (debt)/cash	8.0	0.9	-9.2	-1.9
Capital increase	21.1	13.5	7.3	20.5

Source: Hardman & Co Life Sciences Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**AJB**
Price (p)	**370**
12m High (p)	381
12m Low (p)	162
Shares (m)	408
Mkt Cap (£m)	1,510
EV (£m)	1,450
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

23 May	Interim results
25 Jul	3Q trading update

Analyst

Jason Streets 020 7194 7622
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AJ BELL

Platform for growth

AJ Bell is one of the largest and fastest-growing investment platforms in the UK. It serves both the adviser market and the DIY investor. Having transitioned to updated technology in 2014, it is well placed to ride the growth in the market and pick up disaffected clients from competitor platforms that are only now upgrading. We anticipate strong profit growth on the back of higher revenues and positive operational gearing. The 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 7%, putting it just over the top end of our wide range. Our central valuation of £912m would put it on a FY19E PER of 32x, which compares with Transact at 34x and Hargreaves Lansdown at 42x.
- **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	49.8	45.0	39.1
Dividend yield	0.9%	1.0%	1.2%	1.2%	1.4%	1.7%
Dividend cover (x)	1.3	1.5	1.5	1.5	1.5	1.5

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**AGY**
Price (p)	9.1
12m High (p)	29.0
12m Low (p)	7.3
Shares (m)	636.2
Mkt Cap (£m)	57.9
EV (£m)	28.9
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
1H'20	Ph.1 Polyvac Peanut trial
2020	Ph.3 PQ Grass trial

Analysts

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ALLERGY THERAPEUTICS

Phase III PQ Grass trial to start in 2020

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 with the new Paul Ehrlich Institut (PEI) regulatory framework in the EU, and to gain FDA approval in the US. Both the FDA and the PEI have now agreed on the dose and other design features for the Phase III PQ Grass trial, which is expected to commence in the second half of 2020.

- **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 Grass trial:** Positive outcomes in Phase III allergy trials are notoriously difficult to achieve because the primary endpoint is always patient-reported outcomes, a subjective measure of efficacy. The recent results from the Phase III Birch trial will need to be considered for the Phase III Grass trial design.
- **Positive regulatory meetings:** Following discussions with the FDA and the PEI, patient numbers and statistical approaches, in addition to the Phase III dose, have been agreed. These are key elements of the trial design. The trial should begin in the second half of 2020, giving time to incorporate learnings from the birch trial.
- **Next steps:** This trial will be very important towards regulatory approval of PQ Grass in Europe and the US. It will evaluate the safety and efficacy of PQ Grass during the 2020/21 allergy season, and is likely to include an objective measure of efficacy such as immunoglobulin levels, a biomarker of an immune response.
- **Investment summary:** The market has taken an overly pessimistic view of the PQ Birch trial primary endpoint failure, leaving AGY trading on 2019E EV/sales of only 0.4x. This is well below the multiples commanded by its direct competitors, despite the fact that AGY's existing sales would be affected only minimally by the trial result. The commercial operations are profitable, and the PQ Grass trial design will be improved as a result of the Birch trial experience.

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)	-3.9	-19.4	-8.3	-8.1	-5.8	-18.5
EV/sales (x)	0.6	0.5	0.4	0.4	0.4	0.3

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

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**ARBB**
Price (p)	1,335
12m High (p)	1,640
12m Low (p)	1,285
Shares (m)	15.3
Mkt Cap (£m)	200
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 a 9.85% stake in Secure Trust Bank (STB).

Company information

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

+44 20 7012 2400
www.arbuthnotgroup.com

Key shareholders

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

Diary

May'19	AGM
Jul'19	Interim results

Analyst

Mark Thomas 020 7194 7622
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ARBUTHNOT BANKING GROUP

2018 results: continued good progress

The 28 March results showed the great progress made in profitably deploying the capital ABG generated from the partial sale of its stake in Secure Trust Bank (STB). We detailed them in our 30 April note, *2018 results: growth and diversity*. Underlying EPS rose from 17.6p in 2017 to 40.3p, loans grew 17% to £1,225m, and deposits increased by 23% to £1,714m. Commercial Banking reported a £2.5m profit (2017 £2.1m loss), Asset-Based Lending facilities were £43m at end-December, Specialist Finance got its first loan sanctioned 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:** Since the results, ABG has sold a further 1.05m shares in STB, raising £15.3m gross proceeds. Its stake is now 9.85%. The sale will release capital (the stake was a statutory deduction from Tier 1), which can then be re-deployed. There will be a £0.8m fall in dividend income, ahead of redeployment earnings.

- **Peer news:** STB has seen a strong share price rally since its results on 28 March, also assisted by the reduction in the share overhang with the ABG share sale. The challenger bank (CCFS/OSB) appears to be progressing steadily. Most wealth manager shares have seen some upside in the month.

- **Valuation:** The average of our approaches is now £17.54 (previously £19.69), 1.3x 2020E NAV. The business development and new divisional disclosure see a lower proportion of profits from the highly-rated private bank. Despite the 2019 year-to- date rally, the current share price is still around the 2018 NAV (1,283p).

- **Risks:** As with any bank, the key risk is credit. ABG's existing business should see below-market volatility, and so the main risk lies in new lending. We believe management is cognisant of the risk and, historically, has been very conservative. Other risks include reputation, regulation and compliance.

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

Financial summary and valuation (2019 under review)

Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E*
Operating income	34,604	41,450	54,616	67,905	80,295	89,903
Total costs	-35,926	-46,111	-54,721	-64,982	-74,795	-80,484
Cost:income ratio	104%	111%	100%	96%	93%	90%
Total impairments	-1,284	-474	-394	-2,731	-1,860	-2,944
Reported PBT	-2,606	-1,966	2,534	6,780	7,838	10,757
Adjusted PBT	2,982	1,864	3,186	7,416	9,838	12,757
Statutory EPS (p)	86.3	1,127.3	43.9	-134.5	43.5	59.7
Adjusted EPS (p)	13.5	17.1	47.5	40.3	54.2	70.4
Loans/deposits	82%	76%	75%	71%	77%	80%
Equity/assets	5.5%	18.5%	12.8%	9.0%	8.5%	7.9%
P/adjusted earnings (x)	100.7	79.5	28.6	33.7	25.1	19.3
P/BV (x)	1.68	0.89	0.88	1.06	1.05	1.03

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

Technology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**ASAI.SE**
Price (SEK)	**25.9**
12m High (SEK)	44.1
12m Low (SEK)	0.5
Shares (m)	22.0
Mkt Cap (SEKm)	418
EV (SEKm)	595
Free Float*	20%
Market	Nasdaq First North

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Lawrence Flynn
CFO	Chris Bushnell
Chairman	Åsa Hedin

+46 8 663 5450

www.artificial-solutions.com

Analyst

Milan Radia 020 7194 7622

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ARTIFICIAL SOLUTIONS

Enterprise-grade artificial intelligence

Artificial Solutions is a vendor of highly advanced artificial intelligence (AI)-based conversational solutions. Its Teneo technology platform is used by major global enterprises to automate their interactions with their own customers; these include Shell, AT&T, Vodafone, Volvo and Telenor – an enviable list and testimony to the proven technology leadership of the Teneo platform and its scalability. Strong growth rates are driven by expansion of existing customer deployments and new wins. The AI market overall is growing at ca.40% p.a., and Artificial Solutions' management expects to substantially outperform this metric over the next few years, based on contracted order backlog and the pipeline of new opportunities.

- **AI market growth is rapid:** Industry forecasts are anticipating in excess of a 40% CAGR for global industry revenue over the next five years. Against this backdrop, Artificial Solutions expects to exceed this growth rate, based on usage-based revenue growth from existing customer deployments and new customer additions, the latter partly from proof-of-concepts converting into live deployments.
- **An acknowledged leader in the AI segment:** An independent survey of 700 CIOs of large enterprises in 2018 saw Artificial Solutions being ranked third in a list of emerging technology companies to watch and being classed as leader in its segment. The major systems integrators are also seeing this, and actively selling the Teneo platform and bringing deals to the company.
- **Valuation:** Artificial Solutions commenced trading on the Nasdaq First North exchange in Stockholm in March 2019. A DCF analysis produces a mid-point implied fair equity value of €97m, while a detailed valuation of the company's intellectual property (IP) assets, comprising patents and software licences, undertaken in 2016, came in at $96m.
- **Risks:** Competing with some of the world's largest technology companies brings challenges, such as keeping pace with developments, retaining talented people and creating enterprise mindshare vs. strong brands. Systems integrators are a route to market but may reduce the company's visibility into potentially lengthy sales cycles, but, to date, Artificial Solutions has proven adept at managing these factors.
- **Investment summary:** Standalone AI companies with a Tier 1 enterprise customer base and strong systems integrator engagement are a rarity. Artificial Solutions has the technology platform and an experienced management to monetise the opportunity. The recurring revenue model means that revenue will build progressively over time, even as large deals are announced. The recent share price volatility is due to retail transactions following the reverse takeover transaction.

Financial summary and valuation

Year-end Dec (EURm)	2017	2018	2019E	2020E	2021E
Revenue	7.06	6.09	8.39	11.47	17.96
Gross profit	3.67	3.23	4.62	6.54	10.60
Gross margin	52%	53%	55%	57%	59%
EBITDA	-6.79	-9.26	-6.86	-2.70	3.44
EBIT	-9.44	-11.58	-9.41	-5.51	0.35
Pre-tax profit	-10.93	-14.24	-8.81	-4.75	1.45
Net income	-10.93	-14.24	-8.81	-4.75	1.45
EPS (diluted, p)	-0.50	-0.65	-0.40	-0.22	0.07
EV/revenue (x)	8.1	9.4	6.8	5.0	3.2
EV/EBITDA (x)	-8.4	-6.2	-8.3	-21.2	16.6
EV/EBIT (x)	-6.1	-4.9	-6.1	-10.4	164.1

Source: Hardman & Co Research

Industrial Engineering

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**CMH**
Price (p)	44
12m High (p)	176
12m Low (p)	41
Shares (m)	8.3
Mkt Cap (£m)	3.6
EV (£m)	7.2
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%

Analyst

Paul Singer 020 7194 7622

ps@hardmanandco.com

CHAMBERLIN

Trading very difficult; forecasts recently 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.

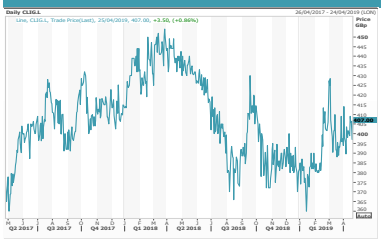
- **Valuation:** The shares remain lowly valued, trading on 2020E EV/sales of 0.2x, compared with sector averages of around 1.0x.

- **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.

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	0.3	0.3

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

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**CLIG**
Price (p)	406.5
12m High (p)	444.0
12m Low (p)	360.0
Shares (m)	26.9
Mkt Cap (£m)	109.4
EV (£m)	90.7
Market	LSE

Description

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

Company information

CEO	Barry Olliff
CFO	Tracy Rodrigues
Chairman	Barry Aling

+44 207 860 8346
www.citlon.com

Key shareholders

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

Diary

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

Analyst

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CITY OF LONDON INVESTMENT GROUP

Market bounce gives FUM bounce

City of London has announced its FUM as of 31 March for 3Q'19. They were positive on all counts, with strong markets complemented by net inflows into most strategies, and outperformance as well. Overall, FUM grew by 11% to $5,268m, supported notably by the MSCI Emerging Markets Index, which was up 10%. The EM strategy also saw welcome net inflows of $45m, with Developed Markets receiving another $101m, and Opportunistic Value $7m. These three strategies also outperformed due to narrowing discounts and some positive NAV movements. The Frontier strategy was the exception, with no net flows and underperformance.

- **Operations:** Fixed costs were unchanged at a monthly run-rate of £1.1m. Fund flows, unfortunately, brought down the revenue margin from 77 to 76 basis points. Nevertheless, the monthly operating profit before profit share/EIP still increased to £1.5m.

- **Board change:** Due to other commitments, Mark Driver will be retiring from the board on 30 June, to be replaced by Peter E. Roth, with effect from 1 June. The latter is a Managing Partner of Rothpoint Group llc and a trustee of the Guggenheim Credit Income Fund.

- **Valuation:** The prospective P/E of 11.7x is at a significant discount to the peer group. The historical yield of 6.6% is attractive and should, at the very least, provide support for the shares in the current markets.

- **Risks:** Although emerging markets can be volatile, City of London has proved to be more robust than some other EM fund managers, aided by its good performance and strong client servicing. Further EM volatility could increase the risk of such outflows, although increased diversification is also mitigating this.

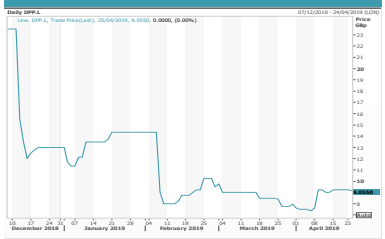
- **Investment summary**: Having shown robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. FY'17 and FY'18 both saw dividend increases and, unless there is significant market disruption, more should follow in the next few years.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019E*	2020E	2021E
FUM ($bn)	4.00	4.66	5.11	5.37	5.77	6.19
Revenue	24.41	31.29	33.93	31.42	34.16	36.24
Statutory PTP	7.97	11.59	12.79	10.88	12.49	13.53
Statutory EPS (p)	23.3	36.9	39.5	34.6	39.8	43.1
DPS (p)	24.0	25.0	27.0	27.0	27.0	27.0
Special dividend (p)				13.5		
P/E (x)	17.4	11.0	10.3	11.7	10.2	9.4
Dividend yield	5.9%	6.2%	6.6%	10.0%	6.6%	6.6%

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

Consumer & Leisure



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**DPP.L**
Price (p)	9
12m High (p)	36
12m Low (p)	7
Shares (m)	250
Mkt Cap (£m)	22
EV (£m)	19
Free Float*	64%
Market	AIM

**As defined by AIM Rule 26*

Description

DP Poland (DPP) has the master franchise for Domino's Pizza in Poland. It has 60 stores, of which 42 are corporately owned. It is rolling out steadily and trialling a partnership with takeaway.com.

Company information

CEO	Peter Shaw
CFO	Maciej Jania
Chairman	Nicholas Donaldson

+44 20 3393 6954
www.dppoland.com

Key shareholders

Directors	5.2%
Cannacord Genuity	13%
Pageant Holdings	17%
Fidelity	16%
Octopus Investments	3%

Diary

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

Analyst

Jason Streets 020 7194 7622
js@hardmanandco.com

DP POLAND

Trialling with takeaway.com

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

- **Strategy:** DPP has spent its first few years proving the Domino's Pizza model in Poland. It has scope to double the number of operations over the next few years. As the stores mature, the success should show up in reported profits. DPP aims to be smarter than its competitors in its marketing – using digital media, rather than expensive display advertising.
- **Competitive market:** The new food delivery aggregators have money to spend and are impacting DPP's above-the-line promotional activity, with aggressive (and possibly unsustainable) marketing activity. DPP is now trialling a partnership with takeaway.com. It allows DPP full control of product, service and delivery, while piggy-backing on its marketing spend. Early signs are positive.
- **Valuation:** With no reported profits expected for the next few years, we value DPP on a per-store basis. In our initiation research, published on 18 September 2018, Fully proven model rolls out, we derived a central value of around £80m, to reflect the delay in the maturing of the business; we now discount that for a further year, to £72m, or 29p per share.
- **Risks:** The biggest short-term risk to DPP is the deep pockets of the new disruptors: the food delivery aggregators. This has already impacted DPP's growth, as it struggles to get its message across, against competitors spending 20x or even 25x what DPP is spending. Another hot summer without the world cup to compensate would not be helpful.
- **Investment summary:** DPP has a powerful retail consumer franchise in a fast-developing economy. A Domino's Pizza franchise takes time to reach profitability, leaving management with a choice between growth and short-term losses. Disruptive competitive activity pushes the path to profitability further into the future, but also grows the delivery market. The model remains sound, in our view.

Financial summary and valuation

Year-end Dec (£000)	2016	2017	2018	2019E	2020E
Revenue	7.6	10.4	12.4	12.7	16.3
Store EBITDA	1.5	0.7	0.7	0.4	0.6
Group EBITDA	-1.6	-1.8	-1.9	-2.1	-1.6
EBIT	-2.5	-2.7	-3.9	-3.2	-2.8
Finance costs	0.1	0.1	0.1	0.0	0.0
PBT	-2.5	-2.6	-3.8	-3.2	-2.8
PAT	-2.5	-2.6	-3.8	-3.2	-2.8
EPS (p)	-1.9	-1.9	-2.5	-1.4	-1.1
EPS (adjusted, p)	-1.8	-1.9	-2.6	-1.4	-1.1
Net cash	6.0	4.1	1.7	3.2	-0.2
Shares issued (m)	129	142	150	230	250
EV/Sales (x)	3.6	2.6	1.7	1.7	1.3

Source: Hardman & Co Research

Support Services

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**FLTA**
Price (p)	230
12m High (p)	282
12m Low (p)	176
Shares (m)	29
Mkt Cap (£m)	67
EV (£m)	64
Free Float*	33%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Jason Sayers
CFO	Brian Hogan
Chairman	Tim Worlledge

+44 1788 550100
www.filtaplc.com

Key shareholders

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

Diary

Jun'19	AGM
Sep'19	Interim results
Apr'20	Preliminary results

Analyst

Jason Streets 020 7194 7622
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FILTA GROUP

Strong and transformative year in 2018

Filta Group (Filta) provides cleaning services to commercial kitchens in North America, the UK and, more recently, mainland Europe. The company reported a strong set of figures for FY18 in April, in line with our expectations. In addition to buying in the European master franchise, it has made a major step in acquiring Watbio, which will increase the company-owned operations and reinforce the UK side of the business. Revenues should prove both consistent and persistent, and there is scope for continuing growth for many years, in our view.

- **Strategy:** Filta provides a professional service, via franchisees, to kitchens to filter their cooking oil – improving taste and saving money. Grease emanating from commercial kitchens also causes problems and needs managing. There is scope for Filta to become the major player in the UK grease management business.

- **FY18 results and outlook:** Filta delivered adjusted EBITDA of £2.64m, up 25% on the previous year and broadly in line with our expectations. Adjusted EPS was up 7%, at 5.4p, and the full-year dividend rose 26%, to 1.64p. The new year is said to have started well, with growth in all core businesses.

- **Valuation:** Filta has no directly comparable companies. We have used a DCF to derive a value range of 226p to 282p per share, using a 10% discount rate and a mid-term (2021-25) growth rate of between 6% and 12%. Our central estimate is 262p. No account is taken of future added-value acquisitions.

- **Risks:** In addition to normal commercial risks, Filta is dependent on the behaviour of its franchisees, which it cannot control but can help to influence by means of thorough training. It has also recently made a sizeable acquisition, the integration of which will inevitably involve managing some unknowns.

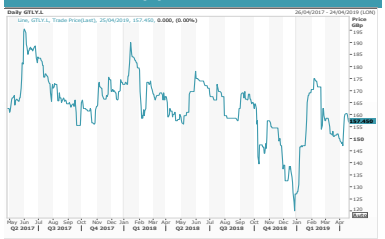
- **Investment summary:** Filta is an attractive business, in our view, combining the capital-light franchise model in North America and Europe with company-owned operations in the UK. With only a tiny proportion of the market currently served, and with little or no competition, we see potential for years of profitable growth ahead. Please see our initiation report, *Strong and transformative year in 2018*, published on 15 April 2019.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Revenue	7,925	8,469	11,547	14,213	26,363	29,626
EBITDA	594	1,193	2,116	2,642	4,850	5,350
Underlying EBIT	450	1,011	2,059	1,941	4,000	4,550
Reported EBIT	450	-249	1,699	1,782	3,850	4,350
Underlying PTP	376	932	1,968	1,900	3,750	4,300
Statutory PTP	376	-329	1,608	1,742	3,600	4,100
Underlying EPS (p)	1.39	3.66	5.05	5.39	9.88	11.25
Statutory EPS (p)	1.39	-1.51	3.85	4.88	9.37	10.57
Net (debt)/cash	-619	3,271	2,992	2,040	2,723	5,289
Shares issued (m)	22	23	27	27	29.2	29
P/E (x)	162.0	61.5	44.5	42.7	23.3	20.4
EV/EBITDA (x)	83.5	40.1	27.6	23.1	13.3	11.6

Source: Hardman & Co Research

Business Support Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**GTLY**
Price (p)	**158**
12m High (p)	180
12m Low (p)	118
Shares (m)	110.8
Mkt Cap (£m)	176
EV (£m)	176
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
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GATELEY (HOLDINGS) PLC

Strong interim results and share price recovery

It has been a pretty quiet month, with little investor-sensitive news at Gateley. Its recent interim results beat market expectations, leading to upward profit revisions. 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.

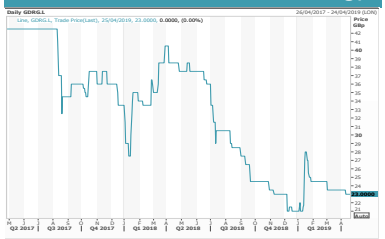
- **Current trading:** Interim results showed a strong performance, with revenue growth of over 20% – half organic and half from acquisitions. The dividend was hiked by 18%, enhancing the yield attractions of the share. In addition, management struck a confident tone at the analysts' meeting, emphasising the progress made since IPO.
- **News:** Directors and employees sold 4 million shares (3.6% of the company) in February, in a secondary placing, resulting in PDMRs 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 14.1x, falling to just 12.2x in 2020E, on numbers we believe are conservative. We forecast the dividend yield to reach 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	17.5	16.8	14.9	14.1	12.2
EV/EBITDA	13.2	11.7	10.3	9.0	7.6
Dividend yield	3.6%	4.2%	4.4%	5.0%	5.6%

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

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**GDR**
Price (p)	23.0
12m High (p)	39.5
12m Low (p)	18.0
Shares (m)	34.0
Mkt Cap (£m)	7.8
EV (£m)	10.3
Free Float*	42%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	David Budd
CFO	Matthew Fowler
Chairman	Ian Gilham

+44 161 989 0245

www.genedriveplc.com

Key shareholders

Directors	1.7%
Calculus	19.4%
M&G	15.2%
BGF	12.8%
Odey	5.5%
River & Merc.	5.4%

Diary

1H'20	WHO decision on HCV-ID prequalification

Analysts

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GENEDRIVE PLC

First commercial sales in new focus area: bio-threats

genedrive plc (GDR) is a commercial-stage company focused on point-of-care (PoC) molecular diagnostics. Its Genedrive® molecular diagnostic platform is at the forefront of this technology, offering a rapid, low-cost, simple-to-use device with high sensitivity and specificity in the diagnosis of infectious diseases. Rapid analysis of patient samples greatly aids clinical and public health decision-making, particularly in remote areas of developing countries. Strategic progress in 2018 generated the first product sales in hepatitis C and, in 1H'19, has delivered the first product sales in the Bio-threat market to the US Department of Defense (DoD).

- **Strategy:** Now that the Genedrive technology platform has received CE marking, management has completely re-focused the company onto the commercialisation pathway for gene-based diagnostics in Hepatitis C, tuberculosis, Bio-threats, and antibiotic-induced hearing loss (AIHL), divesting its Services unit in June 2018.

- **Interim results:** The mix of group sales in the period was significantly changed compared with 1H'18, with a considerably greater contribution from product sales in 1H'19. 1H'19 was the first reporting period to include commercial product sales from the DoD and was the first full period without the Services business.
- **Sales:** Product sales (consisting of the Genedrive unit, HCV assay, and DoD sales in 1H'19) contributed £0.8m (£0.0m) to the £1.5m gross income in the six-month period. This included the first, unanticipated, commercial order from the DoD, of $0.9m/£0.7m. Together, product sales were in line with forecasts.

- **Risks:** The platform technology has been de-risked through the receipt of CE marking for its assay for detection of HCV infection. The main risk is commercial, given that it often takes time for new technologies to be adopted. However, partnering with major global and local experts reduces this risk.

- **Investment summary:** Genedrive technology ticks all the boxes of an 'ideal' *in vitro* diagnostic that satisfies the need for powerful molecular diagnostics at the point of care/need. The hepatitis C market is a very large global opportunity, and the HCV-ID test has excellent potential, even in developing countries. With strong partners being signed for different countries, such as the NHS in the UK, and evidence of early sales traction, GDR is at a very interesting inflection point.

Financial summary and valuation

Year-end Jun (£000)	2016	2017	2018	2019E	2020E	2021E
Group sales	5,063	5,785	1,938	2,529	4,055	7,014
Underlying EBIT	-5,259	-4,812	-5,276	-4,435	-2,979	-205
Reported EBIT	-5,426	-7,292	-7,375	-3,820	-3,010	-247
Underlying PBT	-5,828	-5,316	-5,794	-5,046	-3,867	-1,112
Statutory PBT	-6,497	-7,487	-7,788	-4,107	-3,897	-1,155
Underlying EPS (p)	-49.8	-23.1	-26.9	-14.8	-9.3	-1.5
Statutory EPS (p)	-56.2	-34.9	-31.9	-11.4	-9.4	-1.6
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	-3,877	-70	-2,096	-3,765	-5,922	-5,741
Capital increases	0	6,023	0	3,318	0	0
P/E (x)	-0.5	-1.0	-0.9	-1.6	-2.5	-15.1
EV/sales (x)	2.0	1.8	5.3	4.1	2.5	1.5

Source: Hardman & Co Life Sciences 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 being 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

Analyst

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 UK, with high-margin product launches; iii) graphene composites (10% of revenues) are 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 to be evidenced 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: Eikon Thomson Reuters

Market data

EPIC/TKR	**KOOV**
Price (p)	**7.1**
12m High (p)	24
12m Low (p)	6
Shares (m)	356
Mkt Cap (£m)	25
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	Preliminary results

Analyst

Jason Streets 020 7194 7622

js@hardmanandco.com

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, it announced a profitable deal with FLFL to host its Brand Factory format online.

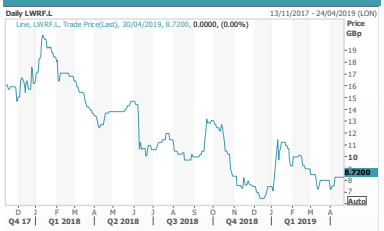
- **Strategy:** Koovs sells affordable fashion online in India. It has an established customer base of half a million active users, and has been growing brand recognition rapidly. It has achieved the highest NPS across its vertical. Its success will come on the back of the growing Indian economy breeding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

Market data

EPIC/TKR	**LWRF.L**
Price (p)	**8.75**
12m High (p)	20.3
12m Low (p)	6.50
Shares (m)	97.0
Mkt Cap (£m)	8.49
EV (£m)	8.29
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	3.79%
Committed Capital	31.6%
Unicorn Asset Mgt.	17.1%
Herald Investment Mgt.	9.90%
Brewin Dolphin Nominees	6.89%

Analyst

Milan Radia 020 7194 7622
mr@hardmanandco.com

LIGHTWAVERF

Continued strong growth

Lightwave's financial progress confirms that the extensive overhaul of its sales and marketing strategy is now bearing fruit. The 2Q'19 trading update for the three months ended 31 March noted that quarterly revenue had doubled year-over-year to £1.35m, a similar growth rate to that seen in 1Q'19. Management expects FY'19 revenue to be more than double the £2.8m outturn for FY'18. The AGM statement, announced on 25 April, included further distribution agreements, with more in the pipeline. The strong growth rates are being driven by a combination of direct sales, e-commerce and telesales, with the greater retail and wholesale presence expected to be expanded further. Continued solid execution will be critical, but current trends are favourable.

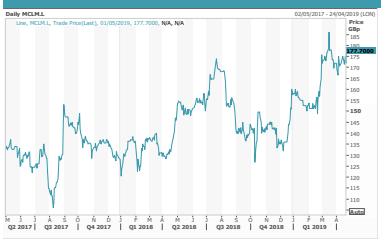
- **Distributor agreements continue to be added:** Last week, Lightwave announced a new agreement with Rexel to supply its 230 branch UK network that distributes products to the electrical trade. Central to the strategy of Lightwave management is avoiding the narrow distributor dependencies that have held back the company's growth rates in the past.
- **Growing retail presence:** Lightwave products are today 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 physical and online retailers.
- Favourable demand trends: 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.
- **Risks:** Lightwave will need to remain innovative with respect to competitive trends to maintain strong brand recognition against larger players in the market. The product refresh programme remains ambitious, as further upgrades to the first-generation products are rolled out; execution on this front will need to be strong to maintain the favourable industry response to the Generation 2 products so far.
- **Investment summary:** The CEO, Jason Elliott, joined the company in July 2018. He made substantial changes to the sales and marketing strategy, including driving greater breadth into the retail and distribution network, and social media-centric advertising aimed at the demographics most likely to adopt smart home technologies. The end result has so far been a marked acceleration in growth, with EBITDA profitability now firmly in view.

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)	5.7	2.7	2.9	1.3	0.7	0.6
EV/EBIT (x)	-10.3	-10.4	-3.3	-3.7	58.1	12.7
P/E (x)	-	-	-	-	N/M	13.5

Source: Hardman & Co Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**MCL**
Price (p)	174.0
12m High (p)	186.0
12m Low (p)	127.0
Shares (m)	129.8
Mkt Cap (£m)	225.3
EV (£m)	236.0
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

25 Jun	AGM

Analyst

Mark Thomas 020 7194 7622

mt@hardmanandco.com

MORSES CLUB PLC

Results 2 May

MCL reported results on 2 May (year-end February). The company's *trading update* noted i) total credit issued rose 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). We also expect an update on the initial integration of CURO Transatlantic (CTL) and the market for further home collect deals (see our note of 15 March 2019, *Home collect and online lending acquisitions*). We expect the results to once again show that the group's approach is conservative but that it pro-actively and rapidly responds to growth opportunities.

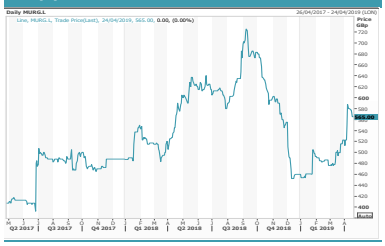
- **Company news:** There have been no company regulatory announcements this month. We believe management has been focused on the operational integration of CTL and its rapid return to lending. Historical financials show the online, profitable, growth potential is significant, especially as the businesses bought by MCL are no longer encumbered by historical pay-day lending mis-selling issues.
- **Peer news:** In the broad non-standard consumer finance space, there have been multiple announcements by both sides in the PFG/NSF bid situation. We do not believe any have an operational impact on MCL. Amigo announced, at the end of March, that it was not intending to counter-offer for PFG, and *offered some clarity* in its position regarding certain FCA comments. Again, there is no MCL read-across.
- **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 12.2x 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	17.0	16.1	14.8	12.9	12.2
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	n/m	n/m	3.7%	4.0%	4.6%	5.2%

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

Support Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	MUR
Price (p)	560
12m High (p)	730
12m Low (p)	450
Shares (m)	9.0
Mkt Cap (£m)	50.4
EV (£m)	48.3
Free Float*	53%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Edward Murgitroyd
CFO	Keith Young
Chairman	Ian Murgitroyd

+44 141 307 8400
www.murgitroyd.com

Key shareholders

Directors	32.0%
Ian Murgitroyd (director)	26.7%
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
mf@hardmanandco.com

MURGITROYD

Strong market: strong cash, resilient outlook

As part of its interim results announcement of 21 February was the announcement of the earnings-enhancing Chapman IP and Board changes. We plan to update on Chapman in the future, but nearer to hand, industry statistics confirm a strong market background. The European Patent Office (EPO) announced (12 March) a 4.6% rise in patent applications in 2018. The US remained the top country of origin, accounting for 25% of total filings, followed by Germany, Japan, France and China. Murgitroyd has a good footprint in all those jurisdictions, particularly the US. As an aside, the EPO China figures were interesting. Murgitroyd's main drivers are global, with the US as half the business.

- **Strategy**: Four years of significant investment in the US, a pan-European footprint, software and business development, and 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.

- **China market**: Murgitroyd is a global player. However, there were some interesting China figures in the EPO announcement. China rose by 8.8% – the lowest rate in the past five years. There was slower growth in its computer technology, electrical machinery and energy, and audio-visual technology.

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

- **Risks:** The offer of a broad suite of services to a broad customer base, in focused markets, balances the group. This is a reasonably stable, growing global market, with pricing pressure as an ongoing feature. This is not new, and Murgitroyd's global strategy is designed around this given feature, delivering cash well.

- **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)	16.7	16.1	15.5	19.5	18.1
EV/Sales (x)	1.3	1.2	1.2	1.1	1.1
EV/EBITDA (x)	10.5	10.7	10.5	11.5	10.7
FCF yield	6.3%	5.8%	7.3%	6.3%	5.9%
Dividend yield	2.4%	2.6%	2.8%	3.0%	3.8%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OXB
Price (p)	695
12m High (p)	1,064
12m Low (p)	575
Shares (m)	66.2
Mkt Cap (£m)	460.0
EV (£m)	468.9
Free Float	63%
Market	LSE

Description

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

Company information

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

Key shareholders

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

Diary

29 May	AGM

Analysts

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

OXFORD BIOMEDICA

Kymriah 1Q performance augurs well

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. In 2018, significant growth in 'other income' from new partnership deals was the primary driver of OXB's first full-year underlying operating profit. Following a slower-than-anticipated start in 2018, Novartis's Kymriah, for which OXB provides vector, performed well in 1Q'19. This could provide additional support to OXB's 'other income' line in 2019.

- **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.

- **Income:** OXB's gross income is composed of group sales and 'other income', which includes licensing fees (e.g. milestones), grants and royalties from sales of Kymriah by Novartis. Kymriah's weaker-than-anticipated sales in 2018 did not affect OXB's group sales, which were protected by a reservation agreement.

- **Kymriah:** Sales in the three months to end-March were $45m ($12m), an increase of 275%, which was better than expected given the manufacturing complications encountered by Novartis for DLBCL. This represented 61% growth on 4Q'18, which augurs well for OXB's 'other income' line in 2019.

- **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.

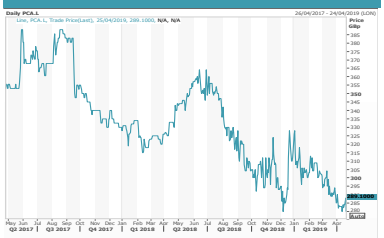
- **Investment summary:** OXB is an exciting company with market-leading technology. It has been extensively validated through large deals with leading (bio)pharmaceutical partners and through grants from the UK government. It is not yet out of the woods, however, being dependent on regular income from 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	83.47	104.60	123.04
Group sales	27.78	31.49	39.63	54.13	78.70	89.80
EBITDA	-6.78	-2.63	13.54	14.63	18.53	30.40
Underlying EBIT	-10.45	-7.00	9.18	9.84	13.27	25.16
Statutory EBIT	-11.32	-7.97	7.93	8.50	11.82	23.62
Underlying PBT	-15.34	-16.38	4.57	5.76	9.22	21.25
Statutory PBT	-20.31	-11.76	5.01	4.41	7.77	19.70
Underlying EPS (p)	-21.00	-21.99	10.88	13.09	18.79	37.65
Statutory EPS (p)	-29.95	-14.56	11.57	11.05	16.60	35.32
Net (debt)/cash	-19.05	-22.54	-8.91	-8.74	-1.48	18.03
Capital increase	17.50	0.39	19.81	0.10	0.10	0.10
P/E (x)	-	-	-	-	37.00	18.46
EV/sales (x)	-	-	-	-	5.96	5.22

Source: Hardman & Co Life Sciences Research

Real Estate



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**PCA**
Price (p)	290
12m High (p)	360
12m Low (p)	280
Shares (m)	45.9
Mkt Cap (£m)	133.0
EV (£m)	215.0
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

Mid-May	Portfolio and trading update
Jun'19	Final results
Jul'19	4Q'19 div. paid

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PALACE CAPITAL

Property update anticipated mid-May

Palace Capital has results due to be announced later in June but, prior to that, we anticipate a portfolio and trading update to be made. Palace Capital has recently commenced construction of its mixed residential and commercial development at Hudson Quarter, inside York city walls. We note that the conservative balance sheet enables Hudson Quarter to be developed on-balance sheet while keeping Palace Capital's LTV under 40%. The full benefit of Hudson Quarter will be derived during FY22, when Palace Capital will receive significant 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:** The York assets' location is in a city with tight supply and good demand. Palace Capital's main asset exposure is to regional offices. Again, supply/demand characteristics here are strong.
- **Location and active asset management:** Many of the top 10 assets (by value and rental income) are along the M62 corridor. A recent (5 April) *Property Week* survey placed 10 out of the top 20 UK non-London office "hotspots" in that M62 corridor. "Northern Powerhouse" commercial real estate opportunities grow.
- **Historical performance strength**: In each the past five years, Palace Capital's accounting return has been in the first or second quartile versus our small basket of six most comparable regional UK REITs. (Note that, in FY18, this excludes the distorting effect of equity.) Since 2013, NAV has more than doubled.
- **Risks:** The normal risks of real estate apply. The weighted average length of unexpired lease to break is ca.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 this below 40%.
- **Investment case:** The 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	6.4%	6.6%	6.6%	6.6%
Price/EPRA NAV	65.1%	69.6%	69.7%	69.2%
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: Eikon Thomson Reuters

Market data

EPIC/TKR	**PHP**
Price (p)	132
12m High (p)	132
12m Low (p)	106
Shares (m)	1,110
Mkt Cap (£m)	1,465
EV (£m)	2,600
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	1.8%
BlackRock	6.9%
Investec Wealth	5.2%
Charles Stanley	4.1%
Hargreaves Lansdown	4.0%
CCLA	3.5%

Diary

Jun'19	AGM
Jul'19	Interim results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PRIMARY HEALTH PROPERTIES

A joined-up health service

PHP and MedicX completed an all-share recommended merger on 14 March 2019. The market response to this has been positive. The businesses are complementary, and capabilities are expanded. This particularly applies to asset sourcing. Meanwhile, PHP remains in expansion mode, undistracted by the successful delivery of the merger. On 18 March 2019, PHP announced its latest asset acquisition, for £4.6m. This takes PHP's portfolio to 484 assets (seven of which are under construction). It also introduces the tenant CWC, an interesting mode for integrated social health care. We anticipate that the merger will result – in due course – in an expanded shareholder list.

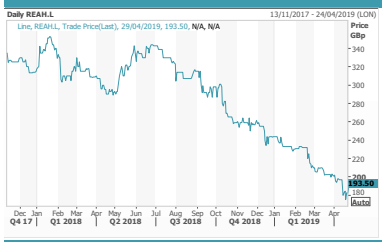
- **Growth in 2019 sees step jump expansion:** On 18 March, PHP announced its latest forward-funding acquisition, which represents a capital commitment of £4.6m. This asset is in Kew, London, and has come through as part of the merger with MedicX. The completion date is October this year.
- **Positioning:** 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 gross value is £2.3bn, and the contracted rent roll exceeds £125m now.
- **A joined-up health service:** A part of the Kew asset is let to CWC. CWC is a "social prescribing charity". It works with the NHS and London Local Authorities in the delivery of new primary care centres, integrated with social and community care in local communities, taking some minor ailment work off the NHS.
- **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 yield net of cost, 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	-1212.1	-1333.3
Dividend yield	4.0%	4.1%	4.2%	4.3%	4.5%
Price/EPRA NAV (x)	1.44	1.31	1.26	1.23	1.19
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: Eikon Thomson Reuters

Market data

EPIC/TKR	**RE.**
Price (p)	**193.5**
12m High (p)	350.0
12m Low (p)	171.6
Shares Ord (m)	40.5
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	78.1
Mkt Cap Prefs (£m)	68.2
EV (£m)	390.4
Free Float	30%
Market	MAIN

Description

R.E.A. Holdings (REA) is engaged in the operation and further development of palm oil plantations in East Kalimantan, Indonesia. The group also owns stone quarrying rights and concessions, and coal mining concessions, 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

Jun'19	AGM
Sep'19	Interim results

Analyst

Yingheng Chen 020 7194 7638

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R.E.A. HOLDINGS

FY'18 results: record FFB production

REA's FY'18 results showed a marked recovery in the group's FFB production, with a 50.8% increase YoY, to a record level of 800,050mt, while CPO production increased by over 51%, to 217,721mt. However, revenue increased by only 5.2%, to $105.5m ($100.2m); crop growth was strong but was significantly dampened due to commodity prices, with the palm oil price hitting a 10-year low, at $440/mt, in November 2018. 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 to 2018, REA saw significant FFB production recovery from April 2018 onwards, resulting in record FFB production – partly an indication of the recovery in the FFB production pattern, and partly the result of REA's much-improved harvesting process and fertiliser regime, started in 2H'16. REA is expecting FFB production of some 900,000mt in FY'19.

- **PBJ:** REA completed the sale of PBJ in August 2018 for $85m, reporting a ca.$10.4m profit on the transaction – significantly different from the estimated $8m loss reported in the February trading update, and due mainly to the calculation of a deferred tax balance and the reclassification of recognition of translation gains.

- **Financing:** The management team recognises the need to deleverage REA's indebtedness. Net debt, with the sale of PBJ, was $189.5m at end-FY'18, from $211.7m in FY'17. Net debt to equity was 72.5%, down from 76.5% in FY'17. A further reduction in cost of borrowings should help reduce some funding risk.

- **Risks:** Agricultural risk, commodity price risk and country risk are constants of palm oil production. 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 ($m)	2015R	2016	2017	2018	2019E
Sales	90.5	79.3	100.2	105.5	
EBITDA	14.1	16.8	20.7	12.8	
Reported EBIT	-6.6	-5.0	-2.2	-10.8	Forecasts
Pre-tax profit	-12.2	-9.3	-21.9	-5.5	under
EPS (c)	-59.0	-48.2	-67.0	-54.4	review
DPS (p)	0.0	0.0	0.0	0.0	pending
P/E (x)	-	-	-	-	guidance
Net (debt)/cash	-196.7	-205.1	-211.7	-189.5	
Planted hectares (ha)	37,097	42,846	44,094	36,500	
EV/planted hectare ($/ha)*	9,660	8,320	8,070	9,246	
CPO production (mt)	161,844	127,697	143,916	217,721	

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

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**STX**
Price (p)	**86.7**
12m High (p)	90.7
12m Low (p)	15.00
Shares (m)	117.0
Mkt Cap (£m)	101.5
EV (£m)	91.7
Free Float*	32.6%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

Key shareholders

Directors	8.8%
W. Health	47.9%
MaRu AG	10.7%
R. Griffiths	7.8%
C. Schweiger	4.8%
USS	4.4%

Diary

Jun'19	AGM
27 Jul	Feraccru PDUFA date

Analysts

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SHIELD THERAPEUTICS

Feraccru approval extended in Switzerland

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 (ID). 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. It was recently announced that the approved indication for Feraccru had been extended to include all adults with ID, with or without anemia, in Switzerland.

- **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 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.

- **Swiss label:** In Switzerland, where Feraccru is commercialised by STX's partner Ewopharma, the Swiss Agency for Therapeutic Products has granted an extension to the approved indication for Feraccru, from adults with inflammatory bowel disease with iron deficiency anaemia to all adults with ID, with or without anaemia.

- **Global approvals:** This follows an equivalent extension made by the EMA in March 2018. Feraccru is now approved for treatment of all adults with ID, with or without anaemia, in the EU, Iceland, Norway, Liechtenstein and Switzerland. A game-changing FDA decision on Feraccru in the US is due by 27 July this year.

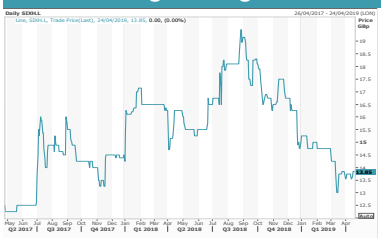
- **Investment summary:** STX is at an interesting juncture. It has delivered on all goals set at the time of its IPO in 2016. Feraccru is a simple product, iron is essential for normal body function, and treatment fits easily into clinical practice. Regulatory approval and the validation by commercial deals in Europe look set to be repeated in the US. Given the potential news flow, a market capitalisation of £102m makes STX an interesting proposition, in our view.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Gross revenues	**0.34**	**0.64**	**11.88**	**2.83**	**2.00**
Sales	0.30	0.64	0.86	0.63	2.00
R&D	-2.03	-4.71	-4.30	-4.73	-2.51
Other income	0.04	0.00	11.03	2.20	0.00
EBITDA	-10.29	-17.92	-1.80	-6.30	-6.45
Underlying EBIT	-10.47	-18.34	-2.25	-6.75	-6.90
Reported EBIT	-12.46	-20.95	-5.17	-9.67	-9.82
Underlying PBT	-10.43	-18.35	-2.24	-6.73	1.31
Statutory PBT	-15.60	-20.99	-5.15	-9.65	-9.85
Underlying EPS (p)	-9.73	-15.08	0.96	-4.62	-5.60
Statutory EPS (p)	-14.84	-17.43	-1.54	-7.86	-8.03
Net (debt)/cash	20.98	13.30	9.78	6.02	0.83
Capital increase	33.51	11.88	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

Industrial Engineering



Source: Refinitv 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 7622
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%. The company has also 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 frees up the money from the buyout of the pension scheme liability to use for possible acquisitions, and 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 is favourable. The shares stand at a discount to the peer group and to a DCF valuation, and we now believe they offer an appealing yield.

Financial summary and valuation

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

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	TRX
Price (p)	5.9
12m High (p)	12.0
12m Low (p)	5.5
Shares (m)	1,171.7
Mkt Cap (£m)	69.1
EV (£m)	61.3
Free Float*	27%
Market	AIM

**As defined by AIM Rule 26*

Description

Tissue Regenix (TRX) is a medical device company focused on regenerative medicine. Patented decellularisation technologies remove DNA, cells and other material from animal/human tissue and bone, leaving scaffolds that can be used to repair diseased or worn-out body parts. Its products have multiple uses.

Company information

CEO	Steve Couldwell
CFO	Gareth Jones
Chairman	John Samuel

+44 330 430 3052
www.tissueregenix.com

Key shareholders

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

Diary

1H'19	Final results
1H'19	Potential EU approval of OrthoPure XT

Analysts

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TISSUE REGENIX

Expanded GPO coverage secured

TRX has a broad portfolio of regenerative medicine products for the biosurgery, orthopaedics, dental and cardiac markets. It has two proprietary decellularisation technology platforms for the repair of soft tissue (dCELL) and bone (BioRinse). Following its acquisition of CellRight, management embarked on a revised commercial strategy to increase sales momentum, and it has recently secured expanded Group Purchasing Organisation (GPO) coverage in the US for DermaPure. TRX should benefit in 2019 from the US and European commercial agreements made with leading orthopaedic company, Arthrex, in 2018.

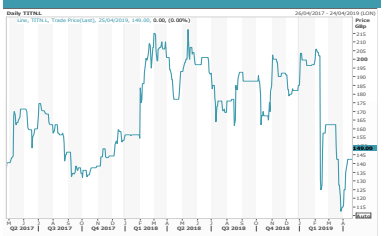
- **Strategy:** TRX is building an international regenerative medicine business with a product portfolio using proprietary dCELL and BioRinse technology platforms, underpinned by compelling clinical outcomes. It aims to expand its global distribution network, via strategic partnerships, to drive sales momentum.
- **Trading update:** In a market update, TRX announced that underlying sales growth in 2018 was just ahead of expectations, rising 47% to £11.6m (£7.9m), driven by the US performance of DermaPure. The year-end cash position, at £7.8m, was well ahead of our forecast, helped by efficient cash management.
- **EBIT upgrade:** To achieve the stated year-end cash position of £7.8m, £1.5m ahead of forecasts, TRX has managed to control operating costs or working capital. However, given that working capital was already tightly controlled, we have assumed that operating costs have reduced, and raised our EBIT accordingly.
- **Risks:** TRX is exposed to many of the risks common to medical device companies, including the regulatory hurdles particular to osteobiologics based on animal tissue, and the commercial risks of operating in a highly competitive market. A hybrid sales strategy, however, mitigates the latter.
- **Investment summary:** TRX has three value drivers: sales of BioSurgery products in the US; expansion of CellRight and TRX technologies into the orthopaedics/spine and dental markets; and preparation for the EU launch of OrthoPure XT in 2019. 2019E EV/sales of 3.7x is not demanding for a growth company, in our view.

Financial summary and valuation

Year-end Dec (£m)	*2016	**2016	2017	2018E	2019E	2020E
Sales	0.82	1.44	5.23	11.60	18.67	25.73
EBITDA	-9.86	-10.55	-8.98	-6.58	-1.58	2.55
Underlying EBIT	-10.11	-10.85	-9.69	-7.74	-2.76	1.34
Reported EBIT	-10.24	-11.06	-10.82	-8.74	-3.26	0.84
Underlying PBT	-9.89	-10.74	-9.64	-7.71	-2.75	1.35
Statutory PBT	-10.03	-10.95	-10.77	-8.71	-3.25	0.85
Underlying EPS (p)	-1.26	-1.28	-0.90	-0.59	-0.17	0.17
Statutory EPS (p)	-1.28	-1.30	-1.02	-0.68	-0.22	0.13
Net (debt)/cash	19.91	8.17	16.42	7.82	3.12	3.42
Capital increase	19.02	0.00	37.99	0.00	0.00	0.00
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	13.3	6.0	3.7	2.7

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

Construction & Materials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**TON**
Price (p)	142.5
12m High (p)	217.0
12m Low (p)	112.5
Shares (m)	11.1
Mkt Cap (£m)	15.8
EV (£m)	14.6
Free Float*	97%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

Executive Chairman	Keith Ritchie
Chief Executive	David Ruffell

+44 1206 713 800

www.titonholdings.com

Key shareholders

Rights & Issues IT	11.4%
MI Discretionary UF	7.2%
Chairman	8.8%
Other Directors	7.9%
Founder/NED	15.7%
Family	6.8%

Diary

15 May	Interim results

Analyst

Tony Williams 020 7194 7622

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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; plus there was an element of product competition. The shares fell first to 130p and then 121.5p (intra-day on 15 February), before rallying to 162.5p on 26 February.
- **19 March:** Titon announced that certain product costs and gross profits at Titon Korea had not been correctly recorded over time. This means net assets, at 30 September 2018, will be reduced by circa £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 then at 112.5p on 28 March; before rallying back to today's 142.5p.
- **New NED:** On a positive note, Titon appointed (25 March) a new independent Non-Executive Director in 62-year old Bernd Ratzke. He is a former Head of Corporate at Baker & McKenzie. Preceding this, on 19 March, Titon Chairman Keith Ritchie invested his dividends in 1,997 new shares at 165p (and holds 8.8%) followed by NED Kevin Sargeant, on 11 April, with a maiden purchase of 10,000 shares at 140p.
- **All relative:** The Hardman UK Building Materials Sector comprises 23 companies with a market value of £8.54bn and a 9.2x EV/EBITDA on a trailing 12-month basis. Titon is on just 5.1x (and, okay, rising to 6.8x a year out). At the same time, the Sector's TSR is -1% over the past 12 months (albeit +9% weighted). Titon is -18% (all data here are at 24 April 2019), 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)	9.4	8.6	7.4	8.9	7.6	6.8
EV/EBITDA (x)	6.5	5.9	5.1	6.8	5.5	4.7
DPS (p)	3.50	4.20	4.75	4.85	5.25	5.50
Dividend yield	2.5%	2.9%	3.3%	3.4%	3.7%	3.9%

Source: Hardman & Co Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	VTA .NA, VTA.LN VTAS LN*
Price (€)	6.94/6.92/598p
12m High (€)	7.32/7.28/655p
12m Low (€)	6.44/6.52/585p
Shares (m)	36.6
Mkt Cap (€m)	253
Trail 12-mth. yield	8.9%
Free Float	70%
Market	AEX, LSE

**Listing 03 September 2018*

Description

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

Company information

Independent Chairman	Paul Meader
Independent Non-Executive Directors	Graham Harrison Stephen Le Page Atosa Moini Paul Varotsis
Fund Managers 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-May'19	April 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: Eikon Thomson Reuters

Market data

EPIC/TKR	**W7L**
Price (p)	107.5
12m High (p)	267.5
12m Low (p)	72.0
Shares (m)	76.7
Mkt Cap (£m)	82.5
EV (£m)	81.2
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 of two divisions: own-brand (W7, Retra and others) and close-out. It has a presence in more than 67 countries.

Company information

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

+44 1753 639 130
www.warpaintlondonplc.com

Key shareholders

Directors	51.1%
Schroders	12.0%
BI Asset Management	5.3%
Blackrock	4.8%
Canaccord	3.1%

Diary

21 May	AGM
Sep'19	Interim results

Analyst

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WARPAINT LONDON PLC

FY'18 results: remains profitable despite weak UK market

Warpaint, the UK-based colour cosmetics specialist, announced its 2018 full-year results in April. Revenue increased by 49.2% to £48.5m (FY'17: £32.5m); however, on a like-for-like basis, revenue was down 3.2%, assuming a full-year contribution from Retra in 2017. A weak UK retail market affected sales. Internationally, though, revenue increased by 8% on a like-for-like basis; growth was particularly strong in the US and Europe. The gross margin was down by 3.3ppts to 35.5% (FY'17: 38.8%), due to product mix sold across the group during the year. Cash generation remains healthy, with free cashflow of ca.£3.9m in FY'18. Warpaint announced a full-year dividend of 4.4p, up 10% on FY'17.

- **Strategy:** In the near term, Warpaint will continue to focus on developing the own brands, W7 and Technic, and on optimising operations in both Retra and LMS. The group believes that further synergies are still possible. It will also concentrate on increasing its product offerings and raising brand awareness across the globe.

- **LMS integration:** Since the acquisition of LMS in August 2018, Warpaint has opened a new showroom in Manhattan, which will showcase a full range of W7 and most Technic products. It has also opened a fulfilment centre in the US to shorten lead time to customers in the Americas. The group has seen an encouraging start in 1Q, with sales from LMS up 36%.

- **Valuation:** Warpaint continues to be profitable and cash-generative, despite a challenging trading environment in the UK. We estimate a 2019 P/E of 10.6x, falling to 8.9x in 2020 on an adjusted basis. The group has never made a loss and has a healthy profit margin. The group also has a progressive dividend policy.

- **Risks:** The biggest short-term risk for Warpaint is the ongoing decline in the retail market, particularly in the bricks-and-mortar stores in the UK, given that the UK is the company's biggest market at present, with over 48.2% of sales in FY'18.

- **Investment summary:** The Warpaint story is quite simple. The group's flagship brand, W7, was created to fulfil the ever-increasing demand for creative, design-focused and high-quality cosmetics at affordable prices. The company deploys a similar strategy to its other own-brand products, with quick product development time and on-trend products, meaning that Warpaint is well positioned for growth in a fast-growing colour cosmetics sector. Warpaint's RoE appears attractive.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	22.5	32.5	48.5	52.7	57.3	62.6
EBITDA (adjusted)	6.3	8.0	8.9	9.8	11.5	13.1
Operating profit (adjusted)	6.2	7.3	5.3	7.2	8.9	10.6
PBT (adjusted)*	6.1	7.7	8.2	9.0	10.9	12.7
Basic EPS (adjusted, p)*	7.9	9.6	9.1	10.1	12.1	13.9
DPS (p)	1.5	4.0	4.4	5.0	5.8	6.7
P/E (x)*	13.7	11.2	11.8	10.6	8.9	7.7
EV/EBITDA (x)	12.9	10.2	9.1	8.3	7.1	6.2
Dividend yield	1.4%	3.7%	4.1%	4.7%	5.4%	6.2%
RoE	-	20.0%	8.8%	13.0%	15.5%	17.2%

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

Source: Hardman & Co Research

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