HARDMAN&CO.

THE MONTHLY

August 2020

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Feature article: Buying British

Introduction from Hardman & Co

For this Monthly, we are delighted that Rooney Nimmo and 24Haymarket have allowed us to reproduce a recent report they jointly published, entitled *An analysis of UK exits (2015-2019)*, which provides a granular analysis by sector of the activity in our dynamic private companies world.

We hope you find the insights of interest.

About the authors

Rooney Nimmo is a boutique international law firm, specialising in investment, transformation and growth across global markets. As global transaction advisers, the firm advises high growth companies and investors, institutional funds, multi-national banks and FTSE 100 companies across its offices.

24Haymarket is a London-based investment firm that focuses on early-stage growth equity and venture capital companies underserved by the institutional market. The 24Haymarket Investor Network invests both its financial and human capital in developing industry leaders of the future.

For any questions or further discussion around the report, please contact:

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Key findings

Brexit bounce – COVID bounce?

In 2016, Brexit occurred, and yet the data shows no significant variance in deal volumes post 2016, with the only consistent year of decreases, across the board, happening in 2018. In fact, across the baskets, there were year-on-year increases in deal volume, achieving £250 million-£5,000 million enterprise values (EVs) in 2018-2019.

Companies buy companies

Among the companies that make up this report, 773 were bought by other trading companies – representing 63% of the total.

British businesses are most likely acquired by British businesses

Of the sample involving British companies or companies with significant UK exposure, statistically, the acquirer was from the UK, followed by the US, France, Canada and China.

80% of companies sold below an EV of £500m

Of the companies that make up the sample, the number of deal values that exceeded £500 million was 240, which is 20%.

TMT is the most active sector

Unsurprisingly, TMT was the most active sector in the sample. Its 218 exits meant it was comfortably ahead of the second most-active sector (Industrials – 120).

This document analyses the following:

Enterprise Value Baskets	Specific Sectors
£50 million-£100 million (across all sectors)	Consumer Goods (£50 million EV-)
£101 million-£250 million (across all sectors)	Financial Services (£50 million EV-)
£251 million-£500 million (across all sectors)	Industrials (£50 million EV-)
£501 million-£1,000 million (across all sectors)	Life Sciences (£50 million EV-)
£1,001 million-£5,000 million (across all sectors)	TMT (£50 million EV-)
£5,001 million- (across all sectors)	

The underlying data in this report is provided by MarktoMarket (MTM), a 24Haymarket portfolio company and data-as-a-service provider of private company valuations. MTM offers an "end-to-end" solution to produce efficient and auditable private company valuations.

Buying British: An analysis of UK exits (2015-2019)

Introduction from John Nimmo, Founding Partner, Rooney Nimmo

john.nimmo@rooneynimmo.co.uk

For over a decade, we have advised some of the most sophisticated stakeholders in venture capital and institutional investment across the UK, USA and China, and, most recently, Africa.

Fundamental to our practice is our team of experienced practitioners, who can support our clients across a range of legal practice areas. This capability lends itself well to delivering potential and value to key stakeholders across global markets.

An exit does not happen overnight. There must be a concerted effort months, or years, in advance in preparation for the opportunity. However, we expect that the COVID disruption will skew the typical exit planning timetables and increase uncertainty. This report gives stakeholders valuable insight into the data behind such a process, and how our findings can be implemented.

We are delighted to publish this detailed report with 24Haymarket, whose understanding and delivery of private equity investment is market-leading and with whom we have worked closely for many years. Please get in touch if you have any questions or need planning help.

Introduction from Paul Tselentis, CEO, 24Haymarket

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24Haymarket offers a unique proposition as a private capital partner that we call to bear in all the transactions we take on – deep experience, a vast network, and complete transparency. More importantly, our goals are aligned with those of our partners.

The UK is rightfully recognised as a global leader in many markets, especially across the five key sectors analysed in this report.

We are confident in the future of the UK as a business destination post-Brexit and post-COVID because the fundamentals are strong. Recorded M&A activity between 2018-2019 strengthens that belief and offers parallels for post-COVID opportunities.

The key findings of this report are clear in their significance, but challenging in their delivery. This report offers all stakeholders critical insights into market trends and potential roadmaps.

Our team and membership have spent their careers working within or advising many of the companies and investors that appear in this report. Its conclusions are significant, and we are delighted to have the opportunity to make a meaningful contribution.

All-sector enterprise value (EV) baskets

EV basket overview

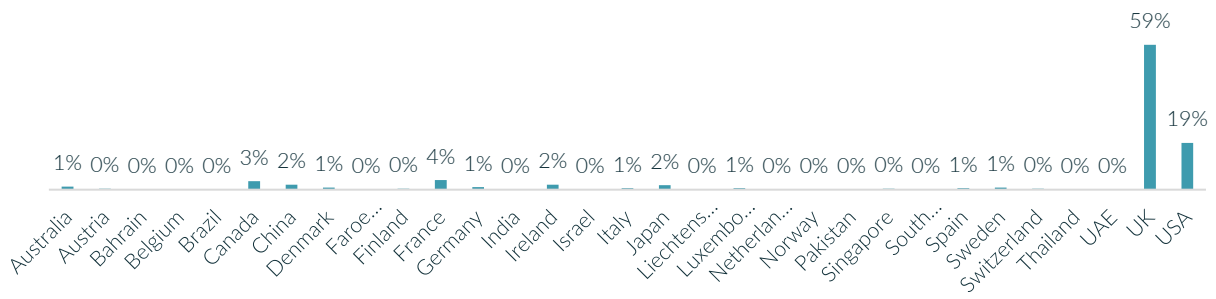
Across all sectors, aggregated into value baskets					
£50 million-£100 million	**£101 million-£250 million**	**£251 million-£500 million**	**£501 million-£1,000 million**	**£1,001 million-£5,000 million**	**£5,001+ million**
487 companies sold 40% of sample*	337 companies sold 28% of sample*	157 companies sold 13% of sample*	106 companies sold 9% of sample*	105 companies sold 9% of sample*	29 companies sold 2% of sample*
UK buyers are the most common	UK buyers are the most common	UK buyers are the most common	UK buyers are the most common	UK buyers are the most common	UK buyers are the most common
366 different acquirers from 23 countries	281 different acquirers from 19 countries	140 different acquirers from 20 countries	96 different acquirers from 17 countries	97 different acquirers from 15 countries	29 different acquirers from 5 countries
Average EV value is c.£73 million	Average EV value is c.£161 million	Average EV value is c.£358 million	Average EV value is c.£739 million	Average EV value is c.£2,027 million	Average EV value is c.£17,541 million
66% Trading Companies / 34% Investors	62% Trading Companies / 38% Investors	61% Trading Companies / 39% Investors	58% Trading Companies / 42% Investors	61% Trading Companies / 39% Investors	79% Trading Companies / 21% Investors

**numbers may not add up due to rounding*

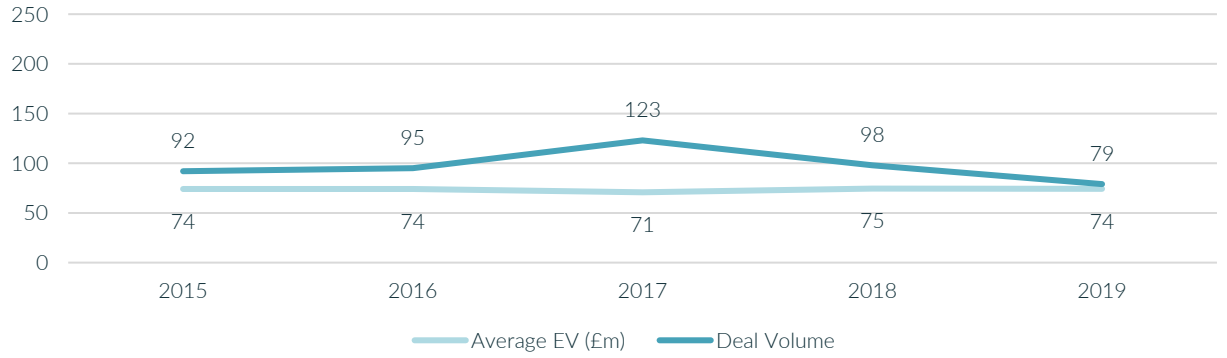
Basket 1 (£50 million-£100 million)

Being the most active basket, with 487 companies eligible, it was almost 1.5x the size of the next most active (Basket 2 – 337). The average EV across the basket was £73 million. Average annual EVs were tight throughout the years, with a range of £71 million-£75 million. Inflexion Private Equity, Lloyds Development Capital (LDC) and Graphite Capital were the most active investors; however, trading companies made up 66% of all acquirers.

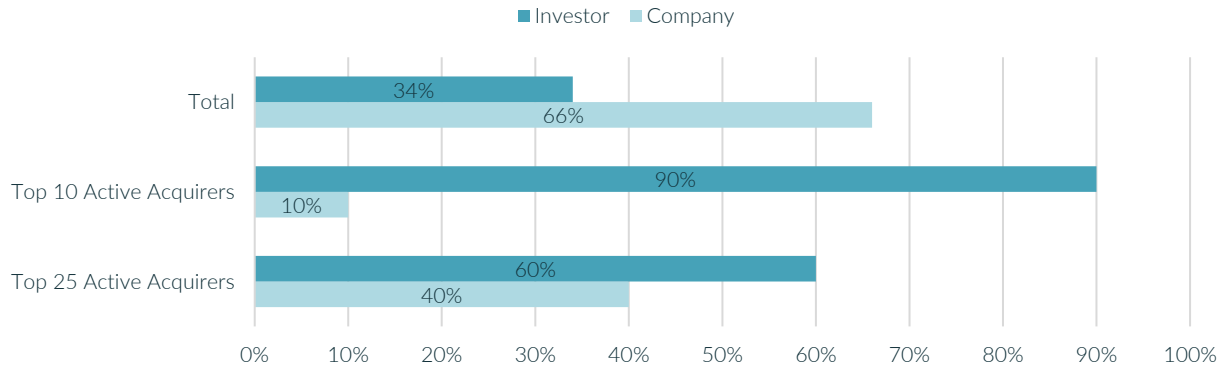
Acquirer geography



Yearly averages



Types of acquirers

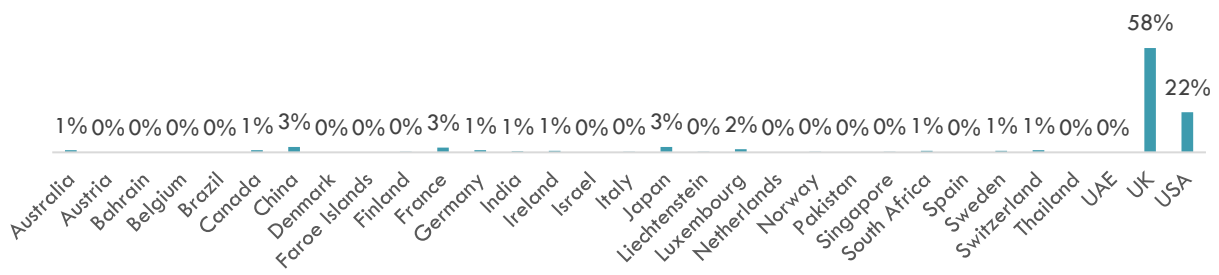


Note: Numbers may not add up due to rounding.

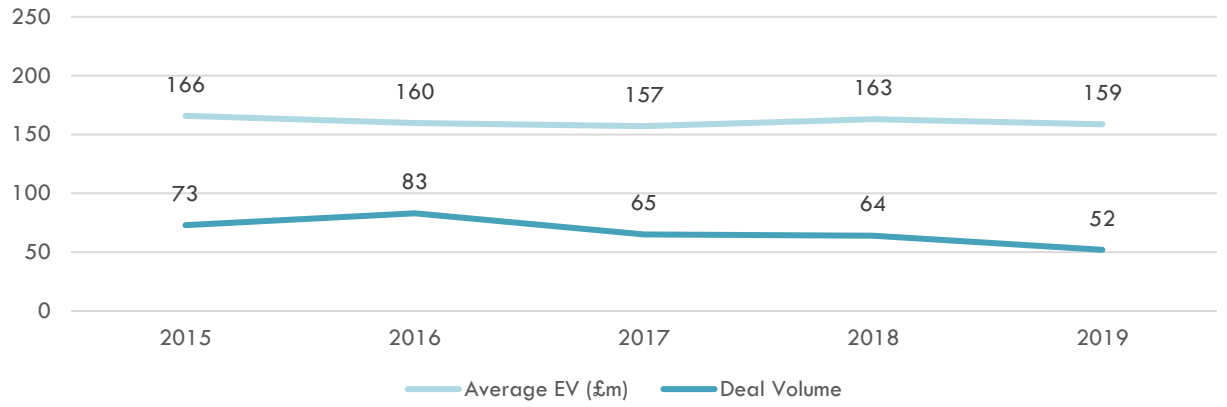
Basket 2 (£101 million-£250 million)

The second most active basket across the sample, 337 deals met the criteria. The basket showed little variance in average annual EVs across the years, with a 6% range. There was a steady decline in deal volumes after 2016, with a 37% drop from 2016-2019. LDC was, once again, a major market participant, followed closely by Exponent Private Equity and Vitruvian Partners. Trading companies, again, were most active with 62% of deals attributed to them.

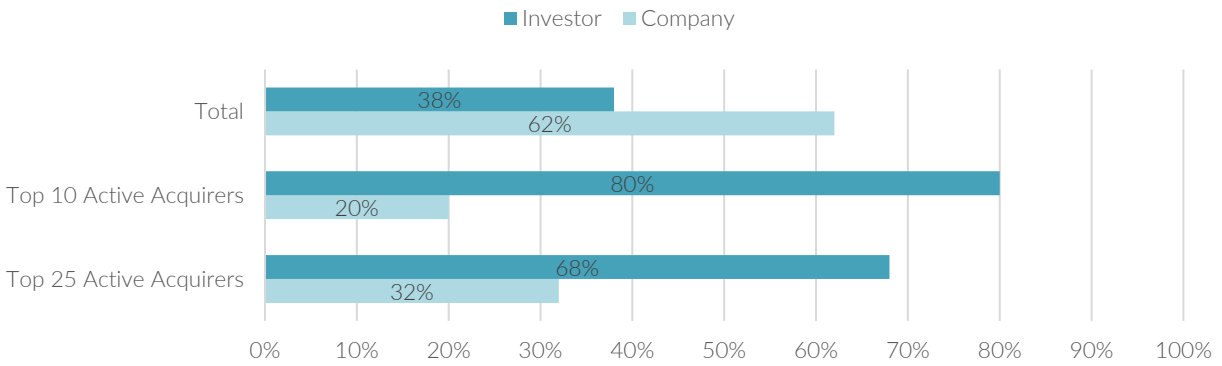
Acquirer geography



Yearly averages



Types of acquirers

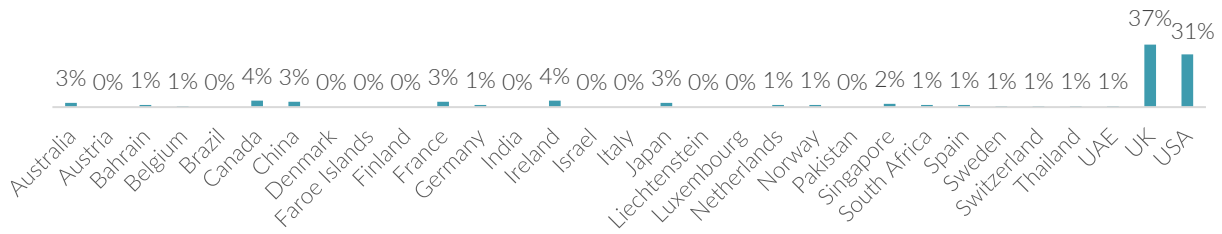


Note: Numbers may not add up due to rounding.

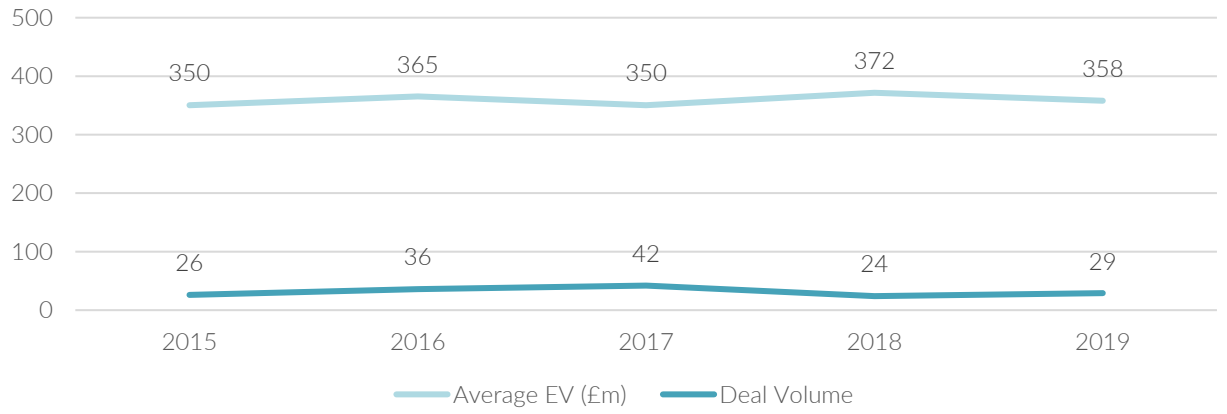
Basket 3 (£251 million-£500 million)

Amongst the 157 companies within the basket, no year saw an average annual EV above the basket mid-point. The closest year was 2018, at £372 million. Across deal volumes, there was only one year recording a decline (-43% in 2018), yet annual average EVs consistently rose and fell each year. Intermediate Capital and HG Capital led, with three deals each and thirteen different acquirers completed two deals each. Only 39% of all deals were completed by investors, however.

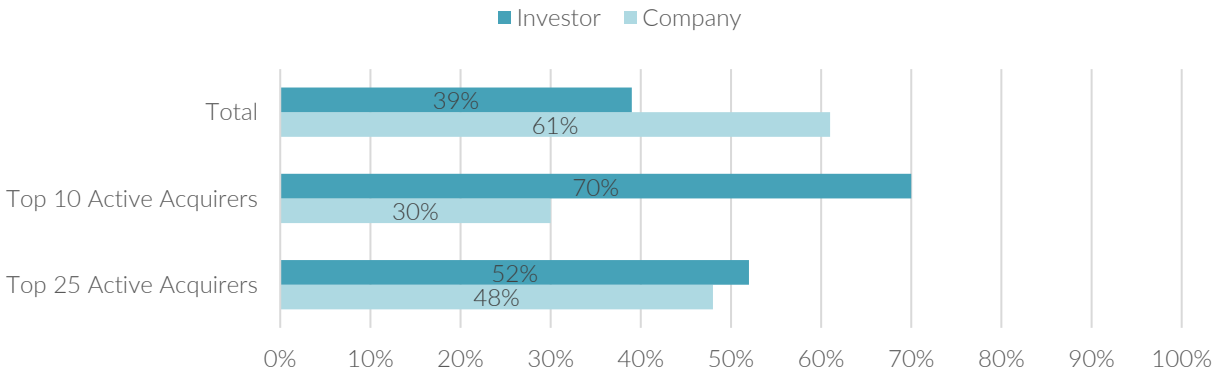
Acquirer geography



Yearly averages



Types of acquirers

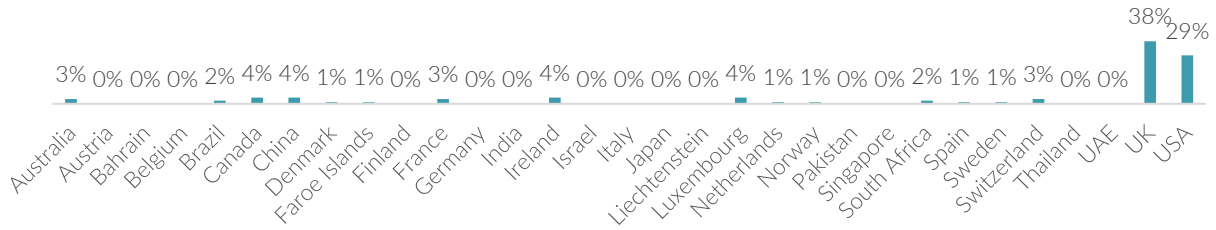


Note: Numbers may not add up due to rounding.

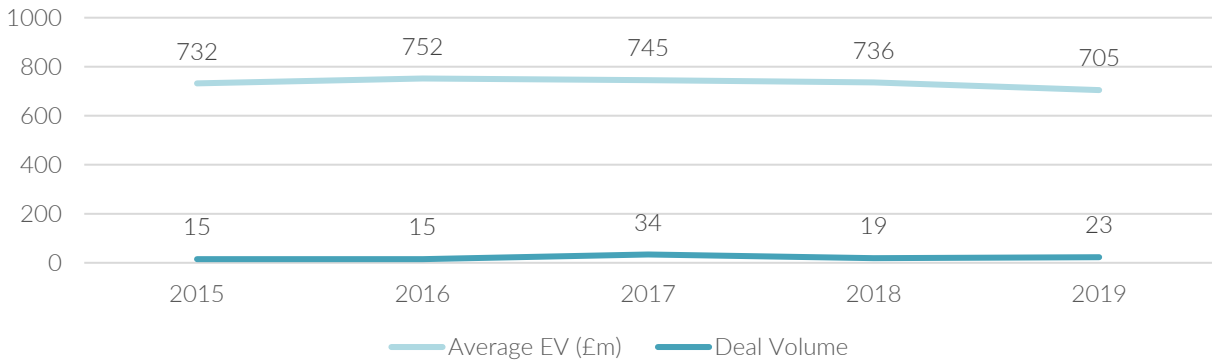
Basket 4 (£501 million-£1,000 million)

In this basket, only 106 eligible companies were sold over the period. Percentage variances in deal EVs were single figures, and yet deal volumes saw a significantly broader range, with treble-digit percentage increases recorded (albeit with a sharp immediate decline). CVC was the most active, with three deals, and followed by eight different acquirers who recorded two deals each. The company/investor proportion was slightly more even than the previous basket (58%/42%, respectively).

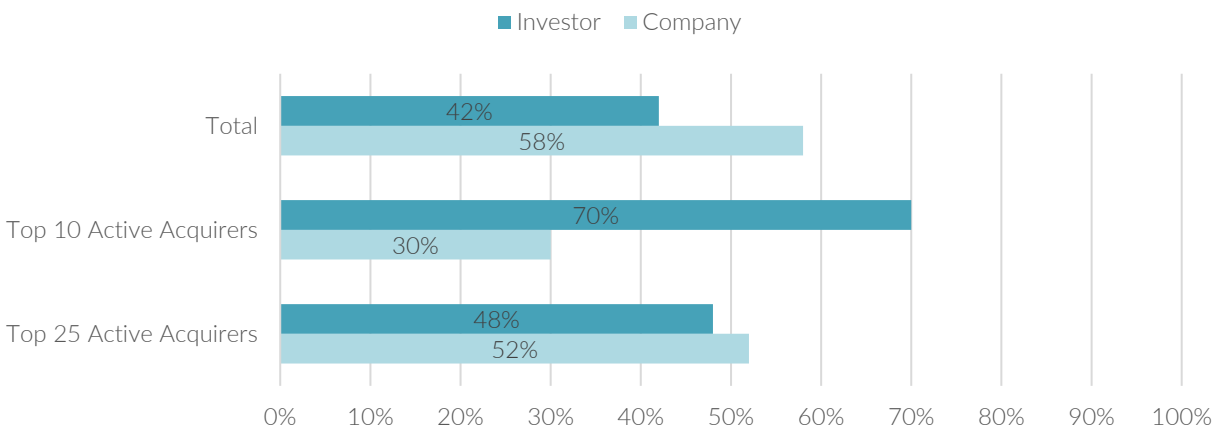
Acquirer geography



Yearly averages



Types of acquirers

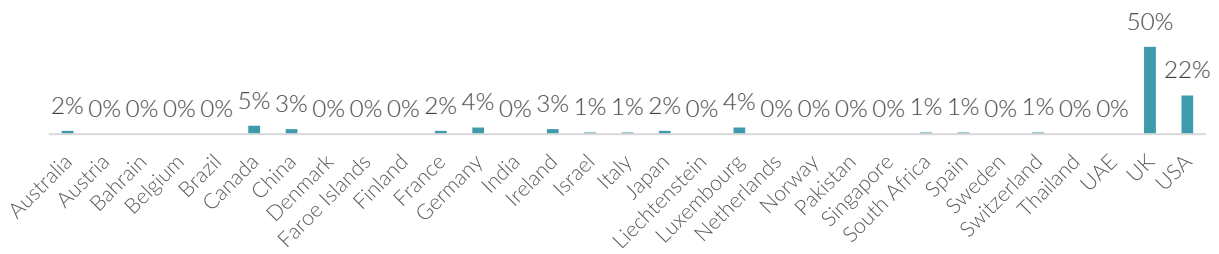


Note: Numbers may not add up due to rounding.

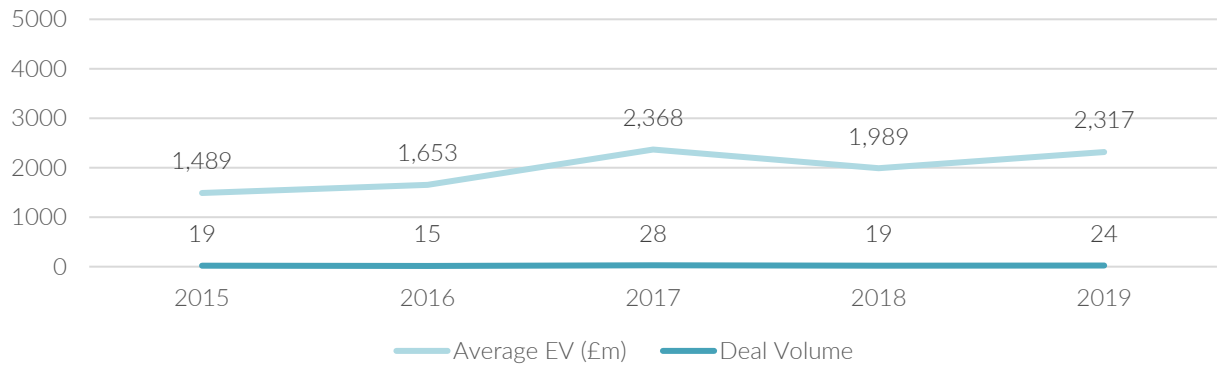
Basket 5 (£1,001 million-£5,000 million)

Within Basket 5, 105 deals were completed – a mere 1% drop in deals compared with Basket 4. Basket average EV (£2,027 million) was well below the midpoint, because only two years saw an average annual EV above £2,000 million (2017 and 2019). Eight different acquirers recorded two deals within the basket, including Allianz Group, Bain Capital, KKR and Michael Kors. Once again, trading companies took the lion's share, with 61% of deals.

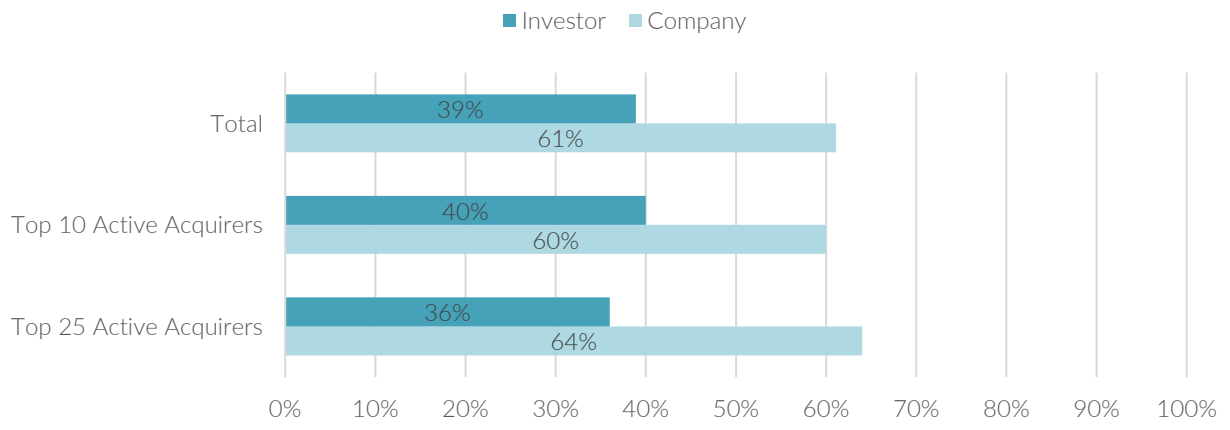
Acquirer geography



Yearly averages



Types of acquirers

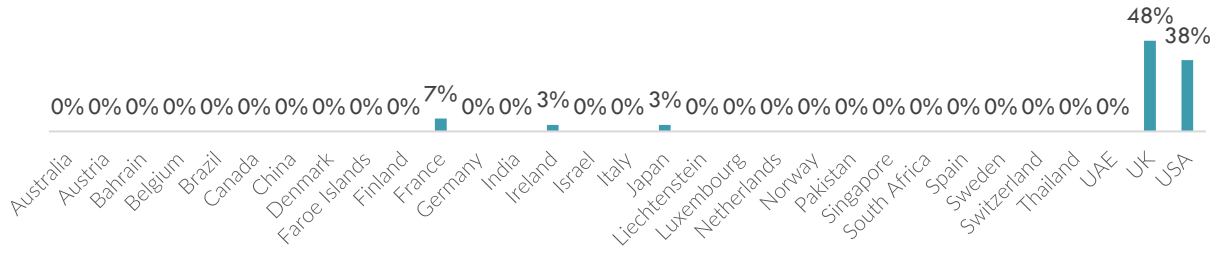


Note: Numbers may not add up due to rounding.

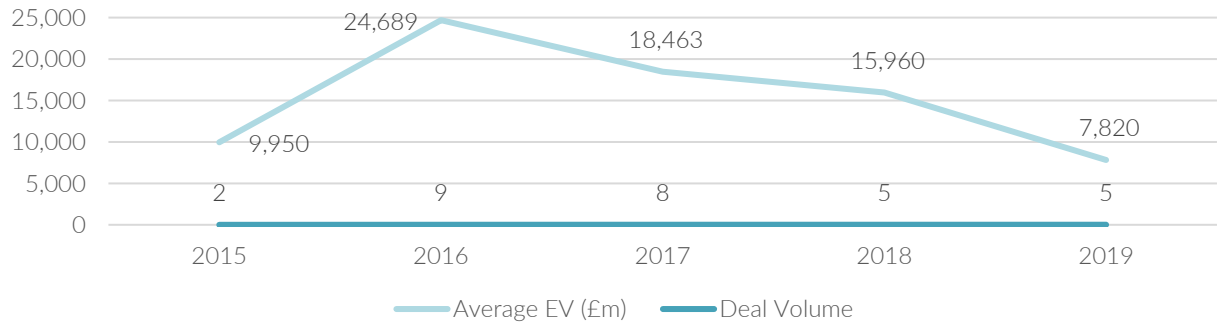
Basket 6 (£5,001 million-)

The only basket to have fewer than 100 deals over the sample, 29 deals occurred within Basket 6. Total average EV was high (£17,541 million). There were also some large fluctuations in yearly average EVs, with increases of 148% and decreases of 51% being recorded. Deal volumes rose and then fell, with no change in deal volumes 2018-2019. No acquirer completed more than one deal, with AB Inbev, British American Tobacco and Royal Dutch Shell paying the most of all acquirers in the basket. 79% of deals were completed by companies.

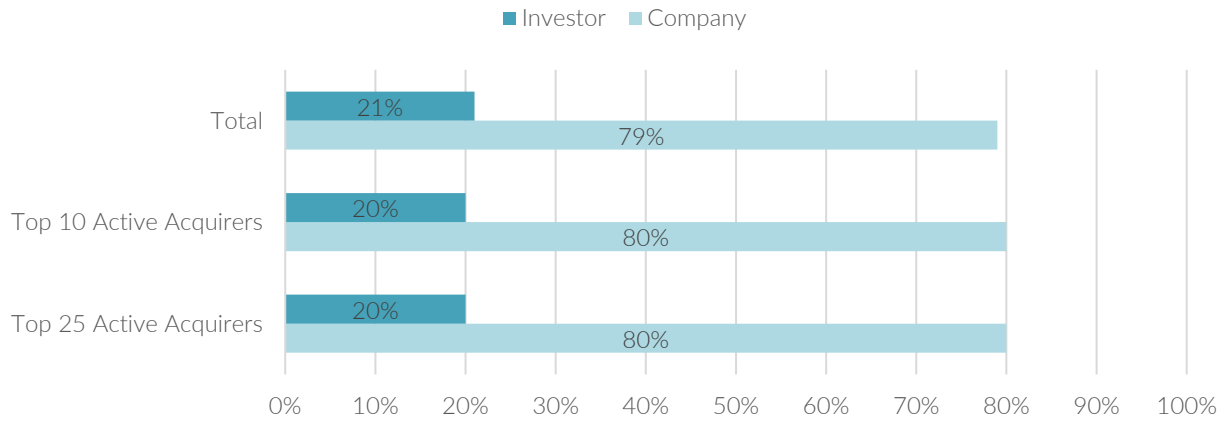
Acquirer geography



Yearly averages



Types of acquirers



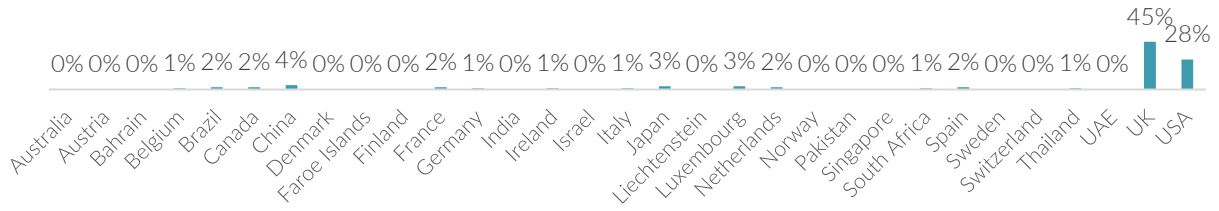
Note: Numbers may not add up due to rounding.

Sectors

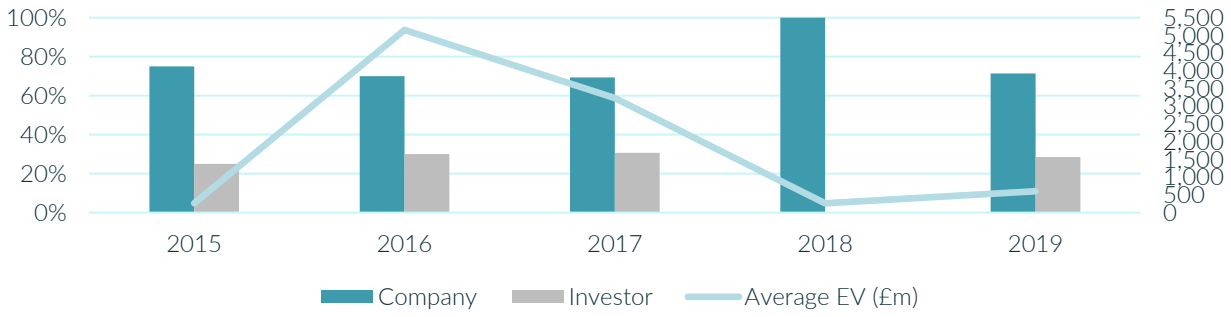
Consumer goods

Over the sample, 96 deals were recorded in the sector. Average EVs over the years were erratic, with year-on-year increases of 1,851% and decreases of 92% recorded. However, the 2019 figures are robust – showing an average EV of £602 million (the third highest annual average) across 14 deals (up 129% and 100% from 2018). For deals below £500 million, the average EV was £130 million; however, for the next bracket, it was £771 million and, for deals over £1,000 million, it was £18,591 million. 86 different acquirers were active and, within them, 73% were trading companies.

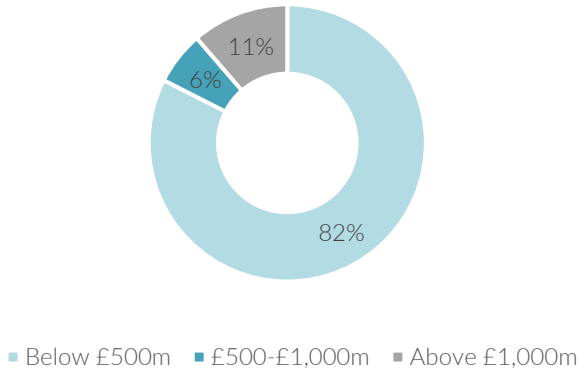
Acquirer geography



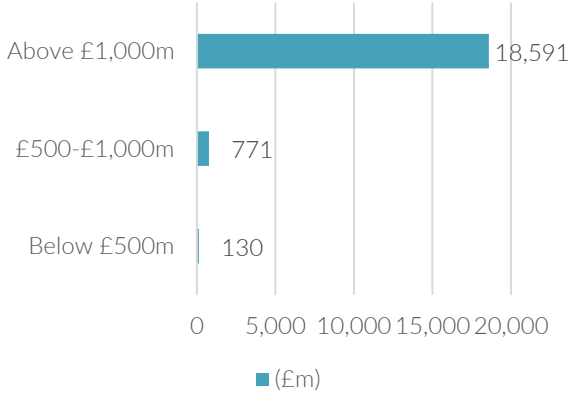
Yearly averages



Sector EV distribution



EV sub-basket averages

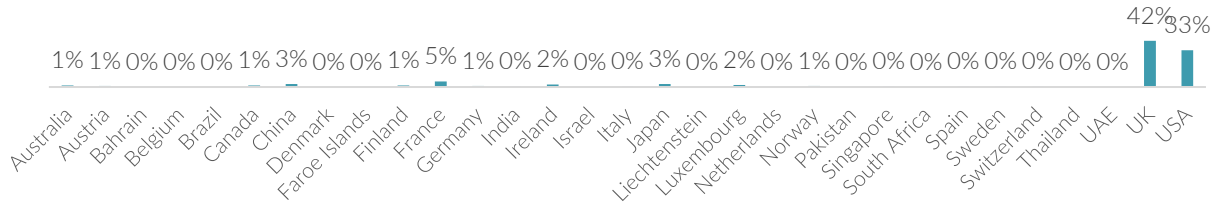


Note: Numbers may not add up due to rounding.

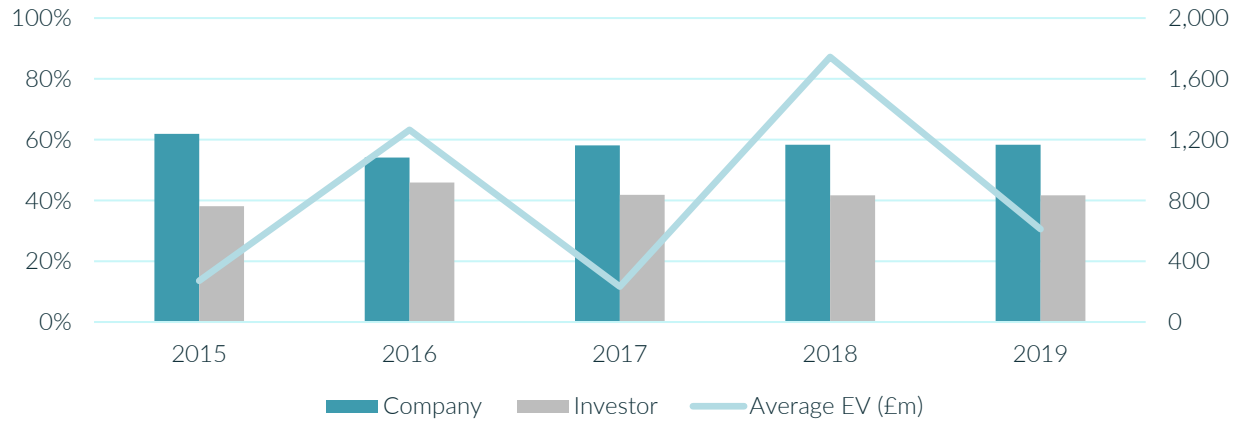
TMT

With 218 eligible deals completed over the period, TMT was the most active sector in this report. Average EV and deal volumes continued to change, with year-on-year variances of +648% and -82% recorded across average EVs and +45% and -50% across deal volumes. In 2019, there was a 65% and 50% decrease in average EV and deal volumes, respectively. For deals below £500 million, the average size was £143 million, for the next bracket £670 million, and finally £5,841 million. 179 different acquirers entered the market, 58% of which were trading companies.

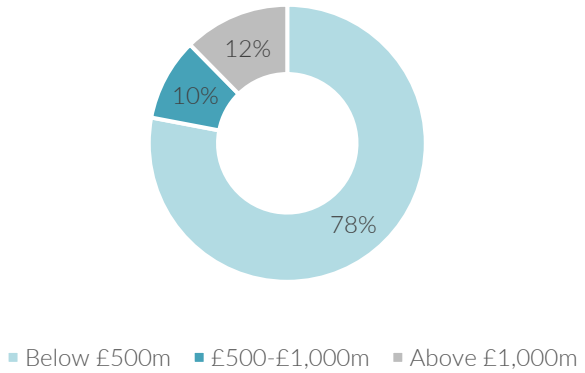
Acquirer geography



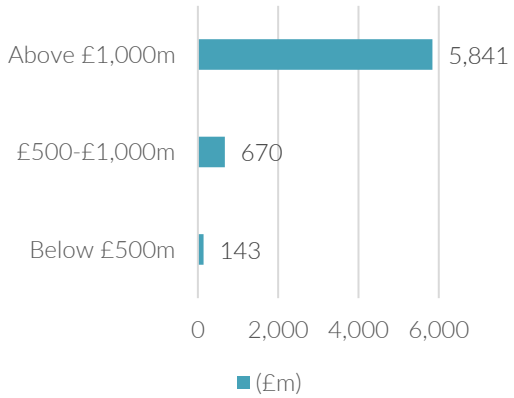
Yearly averages



Sector EV distribution



EV sub-basket averages

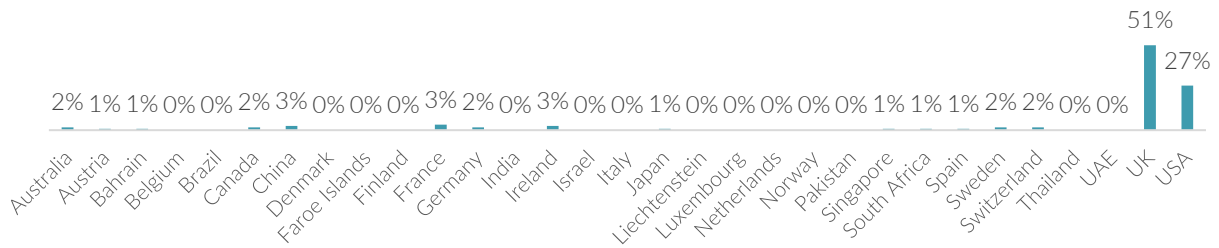


Note: Numbers may not add up due to rounding.

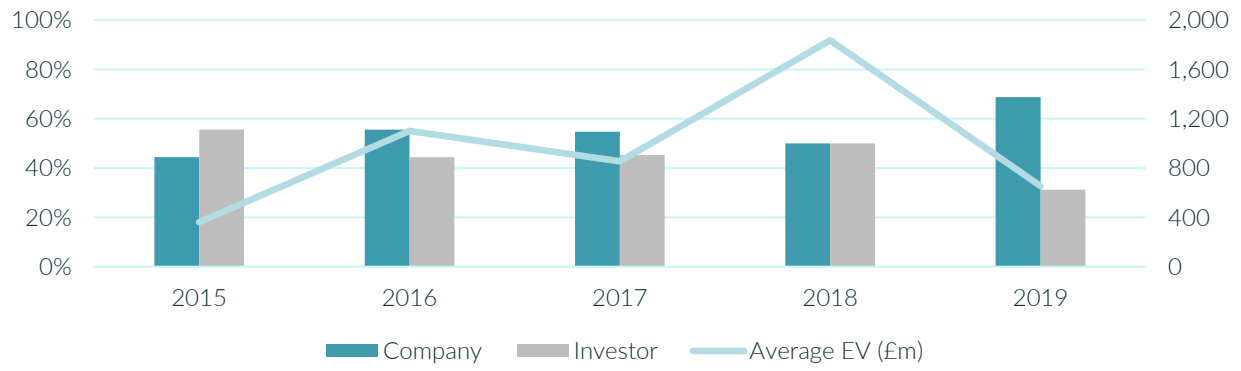
Financial services

Financial services, naturally, generated high average EVs, but that did not stop significant year-on-year movement. Average EVs saw rises of 205% and 115%, with only one year decreasing more than 50% (-64% in 2018-2019). Deal volumes saw only one year of decreases (2017-2018), with 2018-2019 remaining flat. For deals below £500 million, the average size was £148 million, £723 million in the next bracket, and £3,411 million for all deals above £1,000 million. There were 104 different acquirers across 119 deals, with trading companies constituting 55% of all acquirers.

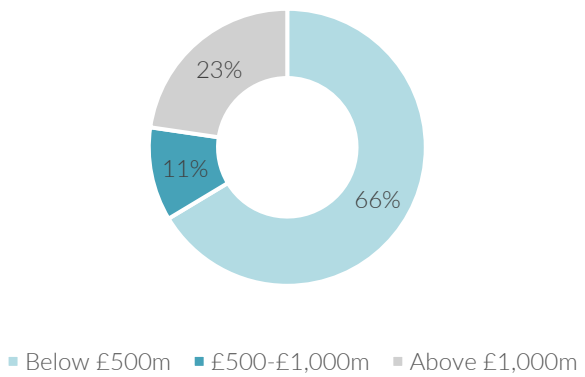
Acquirer geography



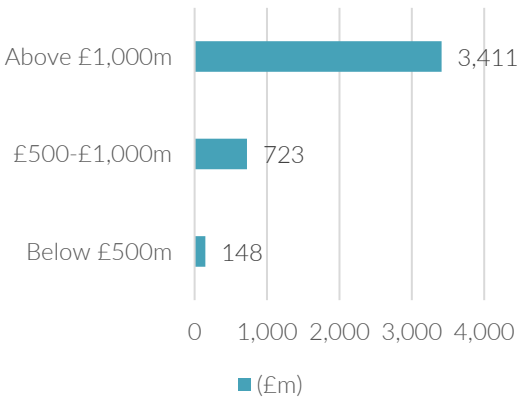
Yearly averages



Sector EV distribution



EV sub-basket averages

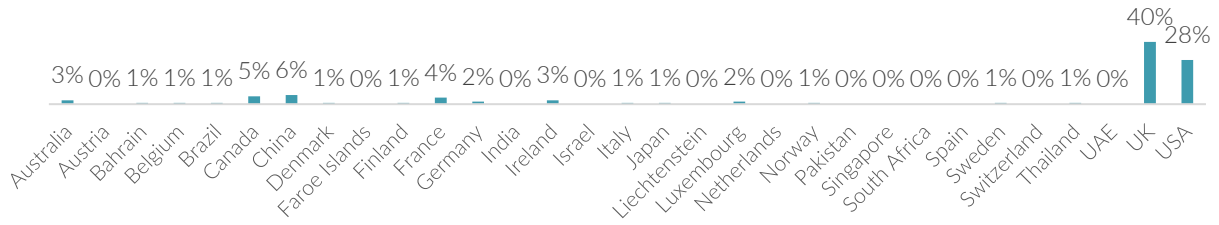


Note: Numbers may not add up due to rounding.

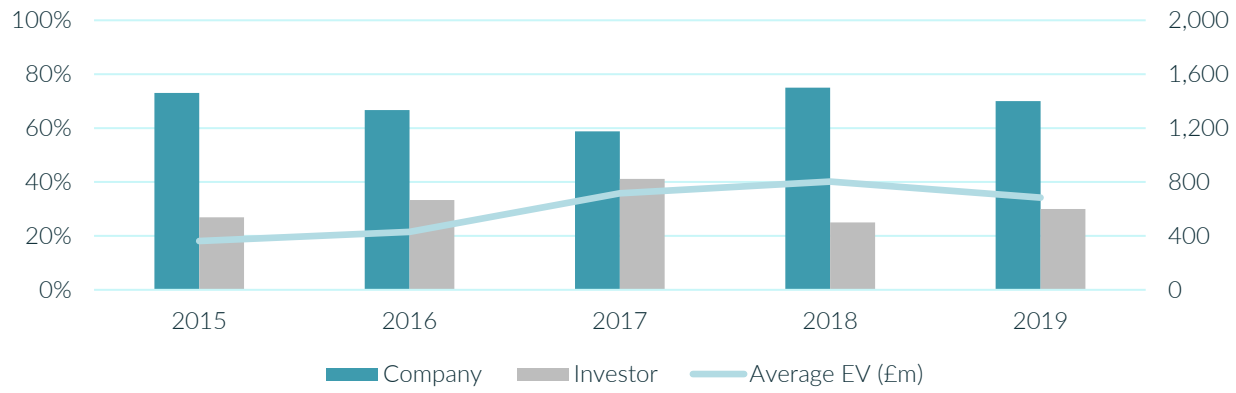
Industrials

The Industrials sector recorded the second-most deals across the five sample sectors (120), and yet no year saw an average EV of above £1,000 million. £803 million was the highest average EV across the sample (2018 – 16 deals) and £362 million the lowest (2015 – 26 deals). 2019's figures saw a £684 million average EV across 20 deals (2018-2019 was -15% and +25%, respectively). For deals below £500 million, the average size was £142 million, £780 million in the next bracket, and £4,292 million for all deals above £1,000 million. Only 33% of the deals were taken by investors.

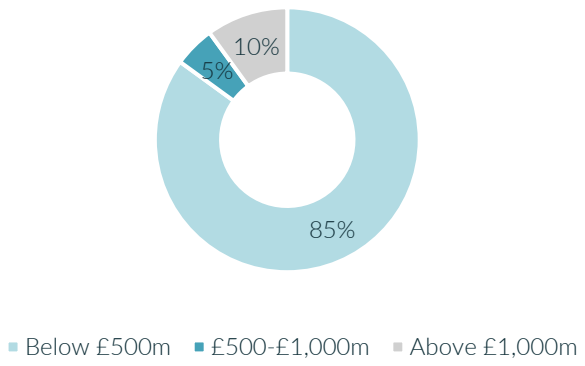
Acquirer geography



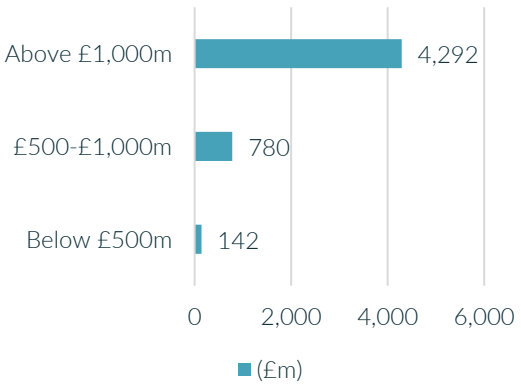
Yearly averages



Sector EV distribution



EV sub-basket averages

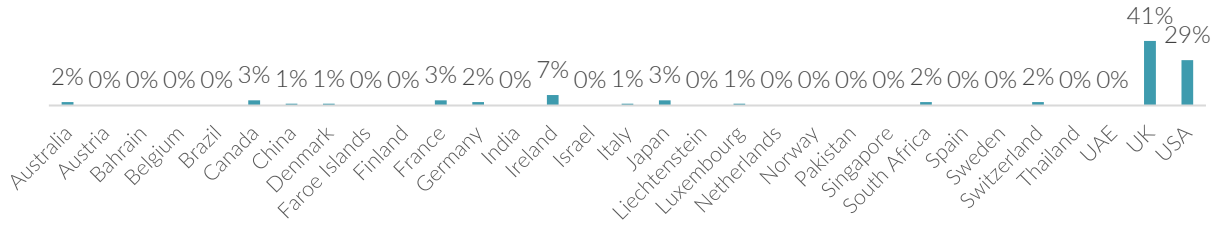


Note: Numbers may not add up due to rounding.

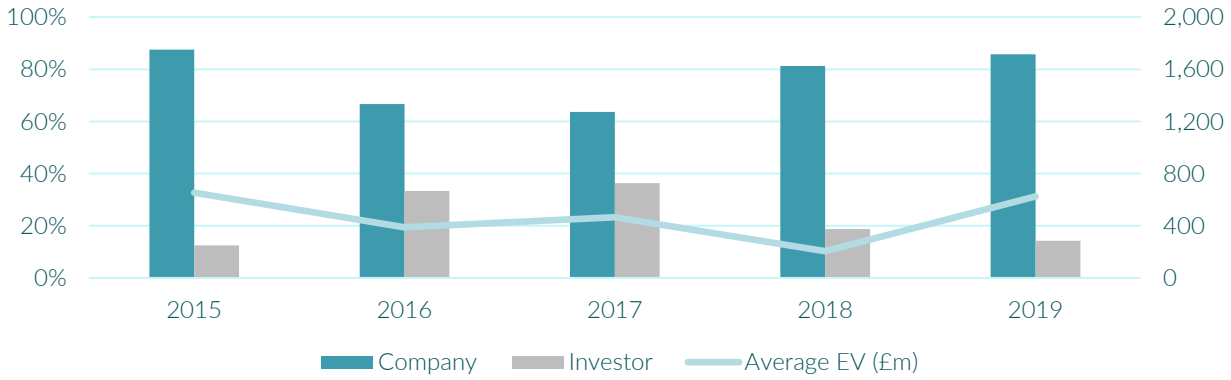
Life sciences

Life sciences was the least active sector of all, with only 90 deals recorded. Like Industrials, it had no yearly average EV over £1,000 million. Highs of £654 million (2015 – 24 deals) and lows of £205 million (2018 – 16 deals) were recorded, with a strong showing for 2019, with an average EV of £625 million across 7 deals for the year. For deals below £500 million, the average size was £166 million, £693 million in the next bracket, and £3,386 million for all deals above £1,000 million. 78 acquirers completed 90 deals, with 76% of all deals being taken by trading companies.

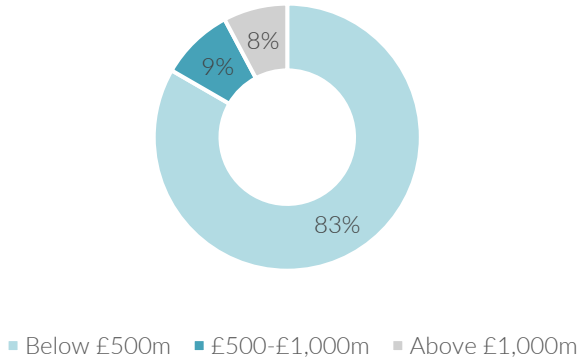
Acquirer geography



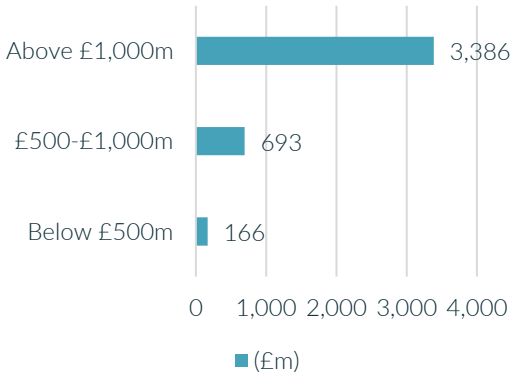
Yearly averages



Sector EV distribution



EV sub-basket averages



Note: Numbers may not add up due to rounding.

Conclusion

Of the many conclusions provided by the research in this report, the following are most significant.

Brexit bounce – COVID bounce?

The data shows no significant drop in deal volumes post 2016, with the only consistent year of decreases, across the baskets, happening in 2018. This can be expected with the looming horizon of a "No-Deal Brexit", such as there was then. Subsequently, across the baskets, there were year-on-year increases for deals achieving £250 million-£5,000 million EVs in 2018-2019. This corroborates the increase in M&A transactions Rooney Nimmo advised on in 2019. This offers COVID parallels – once the trading companies begin their recovery, coupled with foreign exchange and consolidation opportunities for sector leaders seeking to innovate.

Companies buy companies

Amongst the companies that make up this report, 773 were bought by other trading companies – representing 63% of the total. With reports of record dry powder at private equity firms[1], there is an implication of demand without supply for such investors. Certainly, the sheer volume of acquisitions by trading companies denotes sufficient deal flow; so investors have perhaps been looking elsewhere for capital allocation. There is likely to be a pressing need for innovation within market leaders post-COVID; therefore, knowing which market participants and their competitors are active (or not) focuses the target list for management teams as preparations to exit begin.

British businesses are most likely acquired by British businesses

In short, there were 1,221 exits involving British companies or companies with significant UK exposure. Statistically, the acquirer will be from the UK, followed by the USA, France, Canada and China. Much value remains in encouraging British businesses to expand overseas, most likely in one or more of the most active countries, and there are significant governmental resources supporting such expansion. However, perhaps there would be equal merit in deploying such resources across the UK to guard against IP and asset expatriation through (possible) international M&A post-COVID.

80% of companies sold below an EV of £500 million

Within the sample, the number of EVs that exceeded £500 million was 240, which is 20%. The level of activity in and around the £500 million EV figure indicates a preference for buyers. That there was only a 1% drop between Baskets 4-5 is positive; however, it was followed by a 72% drop between Baskets 5-6. For a sector leader, £500 million is not an especially high acquisition price if such an acquisition offers post-COVID/digital economy value and competitive advantage.

TMT is the most active sector

Unsurprisingly, TMT was the most active sector in the sample. Its 218 exits meant it was comfortably ahead of the second-most active sector (Industrials – 120). Curiously, though, not once did it record the highest yearly average EV (Consumer – £5,155 million (2016)). The figures for TMT 2019 were strong relative to the other sectors, as it was only 12% lower than the highest 2019 average sector EV (Industrials). This should give the market confidence – especially as a good number of the sector sample includes traditional businesses who have incorporated technology into their products/services.

[1] *https://www.ft.com/content/2f777656-9854-11e9-9573-ee5cbb98ed36*

Methodology

This report scope covers the period of 1 January 2015 to 31 December 2019

This report considers deals that conform to at least two of the following criteria:

- Achieved an EV of above £50 million
- Was classified in the MarktoMarket database under the following sectors:
  - Consumer
  - TMT
  - Financial Services
  - Industrials
  - Life Sciences
- Public information is available (even if just price)

Transaction types in this report include:

- Primary investment/buy-outs
- Management buy-outs
- Management buy-ins
- Bolt-ons
- Corporate divestitures
- Public-to-private buy-outs
- Trade acquisitions
- Strategic acquisitions
- Financial acquisitions

It does not include:

- Financial instruments (i.e. bonds, loan portfolios)
- Property assets (however, businesses whose nature is to operate services beyond maintenance within properties they own are included)
- Companies that have completed an IPO (sometimes classified as an exit)

Company = a company whose main focus is not to make investments or, if it is (say a financial services firm), the acquisition is a strategic investment.

Investor = a company whose primary focus is to make investments.

Rationale

The rationale for these overlapping, but distinct, groupings is that an EV of £50 million pre-supposes enough relevant characteristics relating to revenues, staffing and any other comparable characteristics when comparing such an eight-figure EV with, say, a ten-figure EV company.

Providing findings on each EV basket across all sectors enables management, investors and professional advisers the opportunity to understand where they may find the most suitable acquirer at each stage and when/if they reach the market sweet spot for acquisitions.

Indeed, understanding:

- where the most likely buyer in each basket/sector is (is it in North America, Europe, Asia or elsewhere?);
- knowing what the previous appetite has been; and
- how much capital (broadly) each acquirer is willing to part with within the sector is critical in planning for the exit.

Finding a buyer is hard enough and, in a buyer's market, getting the best price is even harder. An exit will most likely happen when the question "*why should I make the acquisition?*" is turned into *"why shouldn't I?"*. Therefore, doing the simple things more efficiently and the difficult things more intelligently to achieve the rhetorical, rather than the conditional, seems to be the most logical path to achieving this potential and value.

Disclaimer – Rooney Nimmo

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About the authors

Rooney Nimmo

Rooney Nimmo is a boutique, international law firm, specialising in investment, transformation and growth across global markets. As global transaction advisers across the UK, USA, China and Africa, our staff have advised management and investors on deals, ranging from eight- to ten-figure EVs across many sectors.

Our mission is to do the simple things more efficiently and the difficult things more intelligently. We have delivered for global sector leaders, high-growth companies (including pre-revenue), educational, financial and investment institutions, as well as governments – often in periods of significant commercial and operational importance, due to our corporate and commercial nous..

24Haymarket

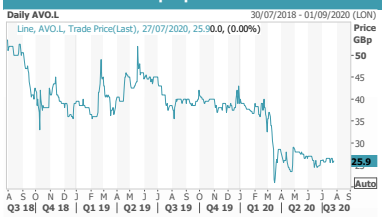
24Haymarket is an investment firm that focuses on early-stage growth equity and venture capital investments. The premise of 24Haymarket's Investor Network is to assemble the pre-eminent talent in the UK business community to invest their financial and human capital to develop industry leaders of the future.

We focus on investment opportunities underserved by institutional venture capital firms, providing intelligent, aligned capital, as well as commercial acceleration at a crucial point in the "scale-up" journey for young companies.

Company research

Priced at 24 July 2020 (unless otherwise stated).

Healthcare Equipment & Services



Source: Refinitiv

Market data	
EPIC/TKR	**AVO**
Price (p)	**26.0**
12m High (p)	52.0
12m Low (p)	21.8
Shares (m)	306.4
Mkt Cap (£m)	79.7
EV (£m)	122.9
Free Float*	68%
Market	AIM

**As defined by AIM Rule 26*

Description

AVO is developing next-generation proton therapy systems for use in cancer radiotherapy. The first system is expected to undergo CE marking within a year. Standard radiation procedures have evolved over many years. PBT delivers radiation via a beam of proton particles, rather than a beam of photons used in conventional radiotherapy (X-rays).

Company information

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

Key shareholders

Liquid Harmony (Board)	18.5%
Other Board members	9.6%
P. Glatz	6.4%
DNCA Investments	4.9%
Lombard Odier	4.1%
Brahma AG	3.2%
Barrymore Inv.	3.2%

Diary

4Q'20 est.	Investor day

Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

ADVANCED ONCOTHERAPY

Funded through to clinical events

AVO's goal is to deliver an affordable and novel proton therapy (PT) system, called LIGHT, based on state-of-the-art technology developed originally at the world-renowned CERN. Over the past two years, the project has been significantly de-risked through important technical milestones. AVO is working on the verification and validation phase, prior to LIGHT being used on the first patients to support CE certification. A recent equity issue, new loan facilities and some commercial announcements earlier in 2020 highlight the increasing confidence that is building in AVO's ability to achieve its goal to deliver LIGHT in the near future.

- **Strategy:** AVO is developing a compact and modular PT system, which is affordable for the payor, financially attractive to the operator, and generating superior patient outcomes. AVO benefits from technology know-how developed by ADAM (CERN spin-off), and relies on a world-class supplier base.
- **AGM update:** The performance in 2019 was in line with expectations, higher operating costs being offset by lower share-based payments. Recent capital increases via an equity issue and new loan facilities have strengthened AVO's finances. The Board confirmed that it was preparing for an investor day later in 2020.
- **Commercial update:** AVO has seen significant commercial traction, with three collaborations announced in early 2020. Its flexible, customer-focused business model can generate four potential revenue streams: sale of LIGHT systems, maintenance contracts, software licence fees and project management fees.
- **Risks:** The more complex technical challenges have been overcome, and progress towards assembling a fully functional accelerator is under way. The annual report highlights the upcoming challenges and how they are being mitigated, with new funding giving financial flexibility to reach the finishing line, despite COVID-19.
- **Investment summary:** The EV of £123m equates only to the amount invested into LIGHT to date, which reflects neither the enormous technical challenges that have been overcome, nor the market potential – our DCF valuation is 229p. The market will wake up to this opportunity, as assembly of the first LIGHT system reaches its conclusion and AVO applies for CE certification. Commercial deals indicate that buyers are comfortable about the timing of LIGHT delivery.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019E	2020E	2021E	2022E
Sales	0.0	0.0	0.0	11.2	57.1	105.8
Gross profit	0.0	-1.9	0.0	1.0	10.0	26.6
Administration costs	-12.9	-15.7	-19.0	-23.1	-23.9	-25.5
EBITDA	-14.1	-21.4	-18.6	-21.8	-16.4	-4.5
Underlying EBIT	-14.5	-21.8	-20.7	-25.0	-20.0	-8.2
Statutory EBIT	-14.5	-21.8	-20.7	-25.6	-19.3	-6.5
Underlying PTP	-16.5	-21.9	-21.8	-27.4	-24.7	-14.2
Statutory PTP	-16.5	-21.9	-21.9	-27.9	-24.0	-12.5
Underlying EPS (p)	-17.6	-14.0	-9.8	-8.9	-7.5	-4.0
Statutory EPS (p)	-9.2	-2.0	-43.3	-65.2	-90.8	-86.8
Net (debt)/cash	8.1	21.1	25.4	15.1	0.0	25.0
EV/EBITDA (x)	-6.3	-3.8	-6.6	-6.6	-10.4	6.2

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Refinitiv

Market data

EPIC/TKR	**AGY**
Price (p)	**14.5**
12m High (p)	15.8
12m Low (p)	7.3
Shares (m)	636.2
Mkt Cap (£m)	92.4
EV (£m)	68.2
Free Float*	41%
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	20.2%
SkyGem	19.5%
River & Mercantile	4.8%

Diary

23 Sep	Final results
Nov'20	AGM
2H'21	Ph. I peanut vaccine trial

Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

ALLERGY THERAPEUTICS

New record for product sales

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Pollinex Quattro (PQ) is an ultra-short-course subcutaneous allergy immunotherapy (SCIT) platform, which continues to make strong market share gains in a competitive environment. Several products using the PQ platform are in late-stage development in order to move them to full registration under new EU and US regulations. The company has released a reassuring trading update stating that sales hit a new record in 2020 and that it has the cash resources to fund its upcoming R&D programme to get products approved by the regulators.

- **Strategy:** AGY is a fully integrated pharmaceutical company focused on the treatment of allergies. There are three parts to its strategy: i) continued development of its European business via investment or opportunistic acquisitions; ii) the US PQ opportunity; and iii) further development of its pipeline.

- **Trading update:** Sales in the past quarter were affected by the difficulty associated with patients attending hospitals during the COVID-19 lockdown. Despite this, June returned to "normal", and underlying sales in fiscal 2020 have grown 7% to £78.2m. AGY has strong gross cash of £37.0m to fund its future R&D investment.

- **EBIT:** The consequence of record sales, coupled with the benefits of operational efficiencies and a short delay to the start of some clinical studies, is that AGY will report a strong EBIT in 2020, well above previous market expectations. Caution is needed with 2021 forecasts in the event of a second wave of COVID-19.

- **COVID-19 tests:** With financial support from government and official institutions in Spain, AGY has invested in expanding its microbiological diagnostic facilities (AT Immunolab) to run COVID-19 tests. At full capacity, its real-time SARS-COV-2 test is expected to be able to perform 200,000 tests a year.

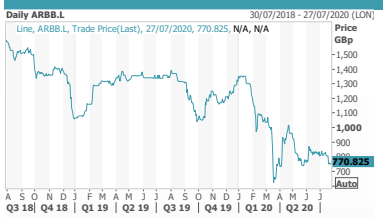
- **Investment summary:** Despite COVID-19, AGY has reported another record year for sales in fiscal 2020, with June reassuringly returning to "normal" levels. Operating efficiencies and the timing of R&D investment have led to a strong EBIT performance. AGY is trading on an EV/sales of only 0.82x 2021E, which, in our view, is too low for a company with a long and profitable product history, and well below the multiples commanded by its direct competitors.

Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	64.1	68.3	73.7	78.2	83.0	88.0
R&D investment	-9.3	-16.0	-13.0	-7.0	-17.0	-22.0
Underlying EBIT	-3.6	-7.4	-2.2	4.1	-4.6	-7.9
Reported EBIT	-2.6	-7.4	3.8	7.3	-4.6	-7.9
Underlying PBT	-3.7	-7.5	-2.3	3.9	-5.0	-8.4
Statutory PBT	-2.7	-7.5	3.7	7.1	-5.0	-8.4
Underlying EPS (p)	-0.6	-1.3	-0.4	0.4	-1.1	-1.6
Statutory EPS (p)	-0.4	-1.3	0.5	0.9	-0.9	-1.4
Net cash/(debt)	18.8	12.5	25.0	24.2	16.3	4.6
Equity issues	0.0	0.0	10.6	0.3	0.3	0.3
P/E (x)	-24.7	-11.5	-35.7	38.7	-13.7	-9.0
EV/sales (x)	1.06	1.00	0.93	0.87	0.82	0.78

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	**ARBB/ARBN**
Price (p)	752/765
12m High (p)	1,428
12m Low (p)	625
Shares (m)	15.4
Mkt Cap (£m)	116
Loans to deposits, 2019	76%
Free Float*	42%
Market	AIM/Aquis

**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 Arb. Latham	James Cobb

+44 207 012 2400
www.arbuthnotgroup.com

Key shareholders

Sir Henry Angest	56.1%
Liontrust	7.0%
Slater Investments	3.9%
Miton Asset Mgt.	3.6%
R Paston	3.6%
M&G IM	3.5%

Diary

Oct'20 (TBC)	Trading statement

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

ARBUTHNOT BANKING GROUP

2020 interim results: credit robust, rate sensitivity

We reviewed ABG's results in our 20 July note, *2020 interim results: credit robust, rate sensitivity*. We noted that three things make ABG resilient to the forthcoming economic storm: low-risk assets (e.g. falling percentage of private bank Stage 2 & 3 loans), strong capital (surplus now £66m) and surplus deposits (£0.6bn more than loans). Profits before tax fell from £2.9m to £0.2m, as the base-rate cut squeezed margins (£2.7m cost) and with a £1m incremental COVID-19-related impairment. Our 2020 base-case scenario is now for a small loss (previously breakeven). The shares trade at 60% of NAV, implying value destruction to perpetuity.

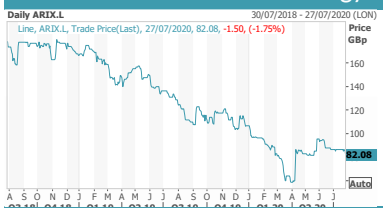
- **1H'20 results:** Gross interest income rose from 1H'19's £35.2m to £39.0m, while interest expense rose from £6.5m to £9.3m. Fee income was flat. Costs rose from £33.8m to £35.1m. Net impairments increased from £1.3m to £1.7m, including £1m incremental COVID-19-related effects. As expected, there was no dividend.
- **Outlook:** There are too many moving parts to rely on single projections. We have introduced a range of scenarios. Our central case is a £1.5m pre-tax loss in 2020. Given the news flow, we have narrowed our expectations, so the upside scenario profit is now £3m (was £6m) and the downturn scenario is a £10m (was £15m) loss.
- **Valuation:** Our forecast scenarios, and multiple valuation approaches, see a broad range of valuations. Our base-case range is 871p to 1,658p, the higher end down due to the fall in the STB value. Our upside scenario is 1,044p to 1,918p, and our downside 783p to 1,412p. The share price is 60% of the 1H'20 NAV (1,248p).
- **Risks:** Short term, the impact of lower base rates is critical. Going forward, the key risk is credit. Historically, ABG has been very conservative in lending criteria and security taken. Its financial strength means that ABG can take time to optimise recoveries. 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 a number of 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 below book value is an anomaly.

Financial summary and valuation (see our note *2020 interim results: credit robust, rate sensitivity* for range of scenario forecasts for 2020 and 2021)

Year-end Dec (£000)	2015	2016	2017	2018*	2019*	2020E*
Operating income	34,604	41,450	54,616	67,905	72,465	70,293
Total costs	-35,926	-46,111	-54,721	-64,982	-70,186	-68,973
Cost:income ratio	104%	111%	100%	96%	97%	98%
Total impairments	-1,284	-474	-394	-2,731	-867	-4,400
Reported PBT	-2,606	-1,966	2,534	6,780	7,011	-1,500
Adjusted PBT	2,982	1,864	3,186	4,388	5,800	500
Statutory EPS (p)	86.3	1,127.3	43.9	-134.5	41.1	-8.2
Adjusted EPS (p)	13.5	17.1	47.5	22.7	32.8	2.3
Loans/deposits	82%	76%	75%	71%	77%	76%
Equity/assets	5.5%	18.5%	12.8%	9.0%	8.0%	7.2%
P/adjusted earnings (x)	55.7	44.0	15.8	33.1	22.9	320.1
P/BV (x)	0.94	0.50	0.49	0.59	0.56	0.61

**IFRS9 basis; 2020E is central case within range of scenarios; Source: Hardman & Co Research*

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**ARIX**
Price (p)	**86**
12m High (p)	129
12m Low (p)	58
Shares (m)	135.6
Mkt Cap (£m)	115.2
NAV/share (p)	148.5
Premium/discount to NAV	-42%
Free Float	70%
Market	Main

Description

Arix Bioscience (ARIX) is a publicly listed biotechnology venture capital (VC) company. It provides an opportunity for all investors to participate in a balanced portfolio of diverse biotech innovation via a single stock. With a global portfolio of 16 companies and five IPOs achieved since launch in 2016, ARIX is a dynamic and modern approach to life sciences VC investing.

Company information

Exec. Chairman	Naseem Amin
MD	Jonathan Tobin
MD	Christian Schetter
COO	Robert Lyne
Finance Director	Marcus Karia

+44 207 290 1050

www.arixbioscience.com

Key shareholders

Directors	0.1%
Link Fund Solutions	19.8%
Fosun	8.2%
Ruffer	6.1%
Takeda Ventures	5.5%

Diary

8 Sep	Interim results

Analyst

Martin Hall 020 7194 7622

mh@hardmanandco.com

ARIX BIOSCIENCE

Focusing on results – due 8 September

ARIX is a listed global VC company that presents an opportunity for institutional and retail investors to participate in the high risk-reward profile of early-stage biotech investing. The interim 2020 period has just completed, and we are forecasting a 10% increase in NAV to £222m, from £202m at 31 December 2019. This compares with £138m investment into its portfolio – currently 16 companies. After both investments and divestments during the first half of 2020, we estimate ARIX to have a cash position of ca.£50m to support its portfolio. Strong gains have been registered by some portfolio companies, notably Imara, during 1H'20.

- **Strategy:** ARIX sources benefits from an established network and a strong scientific reputation. The portfolio is diversified by therapeutic area, treatment modality, stage of discovery/development and geography to balance the risk-reward profile. Value is realised when ARIX successfully exits its investments.

- **Interims:** Interim results will be dominated by some strong share price performances within its listed portfolio. Operational changes announced earlier in 2020 will generate only a modest administration saving in 1H'20. These will result in a 10% increase in NAV, estimated to be £222m at 30 June.

- **VelosBio:** In July, US-based portfolio company, VelosBio, announced a $137m Series B financing round from a top-tier syndicate of investors to advance the clinical development of its lead antibody-drug conjugate, VLS-101, and other ROR1-directed oncology drugs. ARIX invested a further $4m/£3.3m at a significant valuation uplift compared with its Series A investment.

- **Amplyx:** Unlisted portfolio company, Amplyx, has released headline results from its Phase II trial with fosmanogepix as a first-line treatment for patients with invasive fungal infections caused by *Candida*. The primary efficacy endpoint was met, demonstrating a treatment success rate of 80%. Fosmanogepix was well tolerated, with no treatment-related serious adverse events.

- **Investment summary:** This summary highlights the anticipated outcome when ARIX reports its interim results on 8 September. 1H'20 performance has been very solid, with some strategic divestments having been made. For example, the valuation of Harpoon at 30 June was almost the same as at 31 December, despite the opportunistic disposal of £6.5m shares during the period. Since end-June, some volatility has returned to the share prices of some listed portfolio companies, reducing ARIX's current NAV, but leaving the shares trading at a 42% discount.

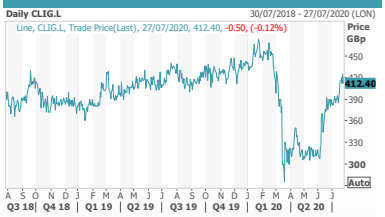
Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Change in FV of investments	5.5	51.2	-58.6	*2.4	-	-
Operating income	1.9	1.3	0.5	0.2	0.2	0.0
Administrative expenses	-11.0	-11.7	-9.7	-7.0	-5.5	-5.6
Operating profit/(loss)	-7.2	37.5	-70.6	-4.1	-7.2	-7.6
Profit/(loss) before tax	-7.2	37.5	-70.6	-3.6	-6.8	-7.3
Underlying EPS (p)	-9.5	27.2	-49.9	-2.5	-4.6	-4.9
Net cash/(debt)	74.9	91.2	53.7	45.1	33.6	22.0
Capital increase	105.1	83.5	0.0	0.0	0.0	0.0
NAV/share (p)	152.3	200.4	149.1	148.5	-	-

**Based on share prices and forex at close of business on 24 July 2020*

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	**CLIG**
Price (p)	**412.5**
12m High (p)	474.0
12m Low (p)	275.0
Shares (m)	26.6
Mkt Cap (£m)	109.6
EV (£m)	97.1
Market	LSE

Description

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

Company information

CEO	Tom Griffith
Head of Finance	Deepranjan Agrawal
Chairman	Barry Aling

+44 207 860 8346
www.citlon.com

Key shareholders

Directors & staff	18.0%
APQ Capital	6.2%
Blackrock	5.4%
Cannacord Genuity	5.0%
Eschaton Opportunities Fund Management	4.8%
Polar Capital	3.0%

Diary

14 Sep	Preliminary results
7 Oct	1Q FUM announcement
8 Oct	Ex-div. date final dividend
19 Oct	AGM

Analyst

Brian Moretta 020 7194 7622
bm@hardmanandco.com

CITY OF LONDON INVESTMENT GROUP

Market recovery boosts FUM

City of London has announced a pre-close update for FY'20. While the third quarter of the financial year was tough for markets, the final quarter saw a strong bounceback. FUM increased by 25% to $5.50bn. After a volatile year in both directions, the net movement over the year as a whole was a 2% rise, with net inflows offsetting weak markets. The Developed Markets strategy was the standout, with inflows equal to 76% of the FUM at the start of the year. The EM strategy continued to see slow but steady outflows, although there have been signs of improvement in the second half of the year.

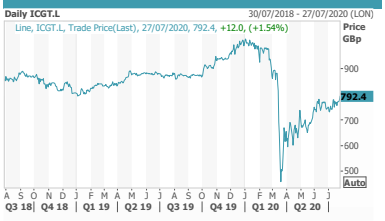
- **Performance:** Despite the market volatility and widening of discounts across the board in closed-ended funds, the two largest strategies outperformed throughout the year as a whole. The smaller Opportunistic Value and Frontier strategies both underperformed.
- **Karpus:** At the general meeting, shareholders overwhelmingly approved the transaction. Completion is still expected to be on or around 1 October, as originally announced.
- **Valuation:** The 2021E P/E of 9.1x is at a discount to the peer group. The underlying 2021E yield of 7.3% is very attractive, in our view, 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 market 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, FY'18 and FY'20 all saw dividend increases. With the expected EPS boost from Karpus in 2021, the prospects for future dividend increases look very good.

Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019*	2020E	2021E	2022E
FUM ($bn)	4.66	5.11	5.39	5.50	9.54	10.17
Revenue	31.29	33.93	31.93	32.36	51.68	60.70
Statutory PTP	11.59	12.79	11.40	8.75	24.35	30.16
Statutory EPS (p)	36.9	39.5	34.9	28.0	45.2	49.1
DPS (p)	25.0	27.0	27.0	28.0	30.0	33.0
Special dividend			13.5			
P/E (x)	11.2	10.4	11.8	14.8	9.1	8.4
Dividend yield	6.1%	6.5%	9.8%	6.8%	7.3%	8.0%

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

Closed-Ended Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	ICGT
Price (p)	780
12m High (p)	1,015.0
12m Low (p)	460.0
Shares (m)	68.88
Mkt Cap (£m)	536
NAV p/sh (p)	1,114
Discount to NAV	32%
Market	Premium equity closed-ended inv. funds

Description

ICG Enterprise Trust (ICGT) is a listed private equity (PE) investor providing shareholders with access to a portfolio of European and US investments in profitable, cash-generative unquoted companies. It invests in companies managed by ICG and other leading PE managers, directly and through funds. It strikes a balance between concentration and diversification, risk and reward.

Company information

Chair	Jane Tufnell
Audit Cte. Chr.	Alastair Bruce
NED	Lucinda Riches
	Sandra Pajarola
	Gerhard Fusenig
Inv. Mgr.	Oliver Gardey, Colm Walsh
Contact	James Caddy
	+44 203 545 2000
	www.icg-enterprise.co.uk

Key shareholders (pre-placement)

None over 3%

Diary

Oct'20	Interim results

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

ICG ENTERPRISE TRUST PLC

ICGT provides shareholders with access to the long-term returns generated by investing in private companies, with the benefit of the daily liquidity of an LSE quote. ICG Enterprise listed on the London Stock Exchange in 1981.

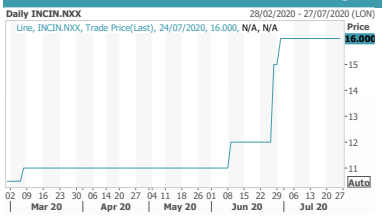
ICGT targets businesses that benefit from long-term structural trends, rather than relying on cyclical economic growth. It is able to do this, in particular, in its high-conviction investments by selecting co-investments and secondaries that exhibit defensive growth characteristics. ICGT also backs PE managers that share its investment philosophy, to ensure that its stated "defensive growth" strategy is also prevalent in its fund portfolio.

ICGT is externally managed by Intermediate Capital Group (ICG), a leading global alternative asset manager with €46bn of assets under management across 21 strategies. ICG focuses on providing capital to help companies grow. It develops long-term relationships with its business partners to deliver value for shareholders, clients and employees. It invests across the capital structure, with an objective of generating income and consistently high returns, while protecting against investment downside. ICG has more than 300 employees, based in offices in 13 countries across the world.

On 17 June 2020, ICGT gave a *quarterly update* for the three months ending 30 April 2020, which captured a significant element of the markets' COVID-19-related falls. ICGT's NAV fell 4% in the quarter to 1,100p. On 22 June, it announced the *disposal of its investment in Roompot*, generating an uplift to the NAV of 1.3%, by 14p.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RECI can be accessed through our website, *Hardman and Co Research*. Our initiation report, *Outperformance through every stage of cycle*, was published on 6 July 2020, and can be found on the same site.

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**INC**
Price (p)	**16.0**
12m High (p)	16.0
12m Low (p)	9.5
Shares (m)	60.9
Mkt Cap (£m)	9.7
EV (£m)	9.3
Free Float	38%
Market	AQSE Growth

Description

Incanthera (INC) is a specialist oncology company that offers two distinct programmes. The initial focus is on a value-added proprietary formulation sun cream, Sol, that prevents skin cancers. It also owns a novel, targeted, drug delivery platform to deliver cytotoxic warheads directly to cancer cells, in the expectation of improving clinical outcomes, with fewer side effects.

Company information

Exec. Chairman	Tim McCarthy
CEO	Simon Ward
COO	Pawel Zolniercyk
CFO	Laura Brogden

+44 1618 175 005
www.incanthera.com

Key shareholders

Directors	9.3%
North West Fund	26.6%
University of Bradford	12.3%
Immupharma plc	11.9%

Diary

Dec'20	Interim results

Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

INCANTHERA

New patent filing for Sol

INC is a spin-out from the Institute of Cancer Therapeutics (ICT) at the University of Bradford to exploit development opportunities generated by ICT. This has provided the company with its core pro-drug delivery platform technology, to which additional technologies/products have been acquired, all focused on producing better clinical outcomes for cancer patients. INC is developing an advanced topical skin product, Sol, that prevents sun damage developing into skin cancers. The goal is to have Sol ready for commercialisation with a partner in the near term. INC is listed on the Aquis Exchange.

- **Strategy:** INC is a specialist oncology company using a novel pro-drug approach to deliver cytotoxic warheads directly to tumour cells. It intends to develop drugs to a suitable valuation inflection point and then out-license them for late-stage trials, in return for development milestones and royalties.

- **Focus on Sol:** INC is developing lead candidate, Sol, a topical cream containing an active ingredient known to prevent skin cancer, for the skincare market. An optimised programme of work is aimed at preparing the product to be ready for commercialisation – a significant value inflection point.

- **Patent filing:** INC has announced that it has filed a new patent application covering the use of its novel technology in Sol for the prevention and treatment of solar keratosis and related cancers of the skin. In the event that this patent is granted, IP protection would be extended to 2041.

- **Risks:** Investments in small, early-stage pharmaceutical companies carry a significant risk, and additional capital will be required for future expansion of clinical programmes. This additional capital may come from commercialisation of Sol, and/or INC may need to raise more capital in the future.

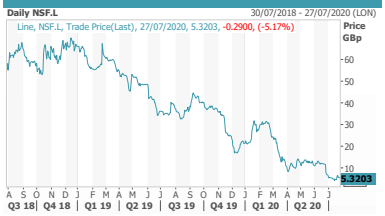
- **Investment summary:** INC offers distinct technology with the potential to attract the attention of the majors, especially given management's strategy to out-license products early. The focus, initially, will be on a patent-protected, value-added, sun cream, which represents a relatively quick and low-risk cosmetics project. The current EV suggests that there is good upside potential when comparing INC with a group of UK-listed peers working in the same field.

Financial summary and valuation

Year-end Mar (£000)	2017	2018	2019	2020	2021E	2022E
Sales	0	603	0	0	0	0
SG&A	-676	-1,223	-1,337	-683	-526	-473
R&D	-365	-143	-299	-250	-345	-250
EBITDA	-954	-864	-1,879	-1,091	-757	-612
Underlying EBIT	-1,075	-984	-2,012	-1,226	-891	-743
Reported EBIT	-1,075	-984	-2,012	-1,226	-891	-743
Underlying PBT	-1,075	-984	-2,012	-1,226	-891	-743
Statutory PBT	-1,075	-984	-2,012	-1,226	-891	-743
Underlying EPS (p)	-4.0	-2.3	-4.8	-2.3	-1.3	-1.1
Statutory EPS (p)	-4.0	-2.3	-4.8	-2.3	-1.3	-1.1
Net (debt)/cash	88	143	176	392	120	-382
Equity issues	309	1,021	2,398	1,168	350	0

Source: Hardman & Co Life Sciences Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	**NSF**
Price (p)	**5.6**
12m High (p)	44.7
12m Low (p)	3.0
Shares (m)	312.0
Mkt Cap (£m)	18
EV (£m)	321
Free Float	99%
Market	Main

Description

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

Company information

CEO	John van Kuffeler
CFO	Jono Gillespie
Non-Exec. Chair	Charles Gregson

+44 203 869 9026
www.nonstandardfinance.com

Key shareholders

Alchemy	29.95%
Marathon Asset Mgt.	11.24%
Neil Utley	7.00%
HSBC	6.47%
Tosca Fund	4.75%
Basswood	3.25%

Diary

Aug'20	Announcement re discussions with shareholders on potential equity raise

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

NON-STANDARD FINANCE

June trading continues recovery path

Since the FY'19 results, reported at end-June (see our note, *FY'19 solid; outlook – broad range of outcomes*), NSF's 15 July *trading update* reported June collections at 89% of January/February levels, with a particularly strong performance in home credit. Net cash of £12m was generated in June (end-month balance £72m). Lending continues to build from its COVID-19 trough, reducing the rate of loan book decline. Based on the current trajectory, NSF expects the overall loan book should stabilise during 4Q'20. Discussions with debt and equity financers continue to progress. The mid-month share price dip reflected the completed sale by one large shareholder.

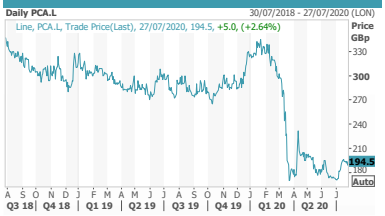
- **Long-term opportunity:** Finance is key to whether NSF grows strongly, moderately or at all. NSF expects "positive" discussions with lenders to conclude over the coming weeks. Discussions with equity investors to strengthen the balance sheet and fund further growth are described as "encouraging".
- **Peer news:** MCL recommenced lending to new Home Collect Customers on *13 July*. Its 16 July *trading update* reported that the fall in credit issued was on a declining trend (72% YoY in April, 50% in May and 30% in June). June collections were at 91% normal rates. All these trends are similar to NSF's.
- **Valuation:** Near-term earnings, and dividend progression, are unlikely to be reflective of the long-term business outlook and are likely to be highly variable. For a profitable, growing business, the long-term Gordon Growth Model implies a value above book (2019 tangible book value £40m, market capitalisation £18m).
- **Risks:** Credit risk remains the biggest threat to profitability (this is mitigated through high risk-adjusted margins and good customer relationships), and NSF's model accepts higher credit risk where a higher yield justifies it. COVID-19 also presents potential threats to income, with a focus on lowest-risk customers.
- **Investment summary:** Notwithstanding short-term uncertainty, substantial medium- and long-term value should be created, as i) demand for, and pricing of, non-standard finance is likely to be strong for at least the next couple of years, following the fall-out from the COVID-19 crisis, ii) NSF has substantial committed medium-term debt funding, iii) competitors have withdrawn (and potentially more may do so), and iv) NSF has a highly experienced management team. We will be providing a range of forecasts/valuations with our full results note.

Financial summary and valuation (2020/21 central case sees a range of forecast scenarios in our note, *FY'19 solid; outlook – broad range of outcomes*)

Year-end Dec (£000)	2017	2018	2019*	2020E*	2021E*
Reported revenue	121,682	168,128	184,611	163,457	176,144
Total impairments	-28,795	-43,738	-46,660	-64,181	-49,797
Total costs	-69,203	-89,082	-95,786	-91,946	-90,303
EBITDA	23,684	33,714	42,165	7,331	36,044
Adjusted PBT	13,203	12,607	14,707	-22,886	5,928
Statutory PBT	-13,021	-2,365	-75,976	-27,133	1,697
Pro-forma EPS (p)	3.44	3.06	3.66	-6.04	1.64
DPS (p)	2.20	2.60	0.70	-	1.00
P/E (adjusted, x)	1.6	1.6	1.5	-0.9	3.4
P/BV (x)	0.1	0.1	0.1	0.2	0.2
P/tangible book (x)	0.2	0.3	0.4	0.8	0.7
Dividend yield	39.2%	46.3%	12.5%	0.0%	17.8%

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

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**PCA**
Price (p)	**190**
12m High (p)	350
12m Low (p)	170
Shares (m)	45.9
Mkt Cap (£m)	87
EV (£m)	195
Market	Main, LSE

Description

Palace Capital is a real estate investor, diversified by location, but with no London exposure and with minimal exposure to retail. There is an emphasis on city-centre locations. The York development site comprises 6% of assets.

Company information

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

+44 203 301 8330
www.palacecapitalplc.com

Key shareholders

Directors	5.0%
AXA	7.7%
Miton	7.4%
J.O. Hambro	7.3%
Stanley Davis (Chairman)	3.6%

Diary

7 Aug	AGM
Nov'20	Interim results

Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

PALACE CAPITAL

Three years' outperformance of MSCI index

Rent collection is encouraging, and the positioning into offices and other sectors, such as industrials, is robust. This is particularly the case as the regional bias is to city centres where there is every prospect of solid rent prospects. The whole sector is naturally pricing in market-wide uncertainty. Nonetheless, Palace Capital's sector spread has already demonstrated outperformance: the REIT has outperformed the MSCI total returns index in each of the past three years. The development asset is progressing very well, and we see every prospect of good profits, even in the light of COVID-19.

- **FY'20 results:** A very healthy 84% of rents due end-June were paid (or are being paid monthly) on time. Unsurprisingly, asset values were down but, from here, we expect stable valuations at Palace Capital's office assets. Asset total return outperformed the benchmark.

- **Robust balance sheet:** Year-end LTV stood at 38%. Loan covenants are fully compliant. £20m gross cash is held, with no facilities maturing until 2022. By that point, Hudson Quarter will have generated significant cash for reinvestment, thereby enhancing ongoing income.

- **Valuation:** This is a strongly positioned regional REIT. We see its measured development as a significant Palace Capital upside, but the market does not price as such. Price to historical NAV for Palace Capital is 27ppts below the (unweighted) average for the regional REIT universe.

- **Risks:** LTV is set for ca.40% at the peak of the development of apartments and offices within the York city walls. The latter can be retained or sold, thereby ensuring enhanced income, as well as LTV reduced towards 30%. Current markets are uncertain, and Palace Capital has not commented on calendar 2020.

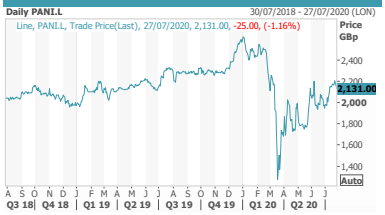
- **Investment summary:** The sectoral and regional exposures point to outperformance in capital values, rental change and total returns. While markets do all present challenges and reduced clarity, we note that this positioning and the embedded value-adding specific future events are major positives. In current markets, short-term NAV prospects are volatile.

Financial summary and valuation

Year-end Mar (£m)	2017	2018	2019	2020	2021E
Net income	12.2	14.9	16.4	18.8	14.9
Finance cost	-3.0	-3.4	-3.7	-4.3	-3.8
Declared profit	12.6	13.3	6.4	-9.1	6.6
EPRA PBT (adj. pre-reval'n.)	6.4	7.3	8.6	10.2	7.1
EPS reported (diluted, p)	36.5	35.8	11.3	-11.8	14.3
EPRA EPS (p)	21.2	18.7	16.5	23.4	15.4
DPS (p)	18.5	19.0	19.0	12.0	10.5
Net (debt)/cash	-68.6	-82.4	-96.5	-104.4	-123.8
Dividend yield	9.7%	10.0%	10.0%	6.2%	5.5%
Price/EPRA NAV	42.8%	45.8%	46.5%	52.2%	51.6%
EPRA NAV (p)	443.0	414.8	406.6	364.2	368.9
LTV	37.3%	29.9%	33.8%	37.9%	41.6%

Source: Hardman & Co Research

Closed-Ended Investments Funds



Source: Refinitiv

Market data

EPIC/TKR	**PIN**
Price (p)	**2,150**
12m High (p)	2,620
12m Low (p)	1,274
Shares (m)	54,089
Mkt Cap (£m)	1,163
NAV p/sh (p)*	2,865.3
Discount to NAV*	25%
Market	Premium equity closed-ended investment funds

**Manager valuations: 1% Dec'19, 98% Mar'20, 1% Jun'20*

Description

The investment objective of Pantheon International Plc (PIP) is to maximise capital growth by investing in a diversified portfolio of private equity (PE) assets and directly in private companies.

Company information

Chairman	Sir Laurie Magnus
Aud. Cte. Chr.	David Melvin
Sen. Ind. Dir.	Susannah Nicklin
Inv. Mgr.	Pantheon
Managers	Helen Steers
Contact	Vicki Bradley
	+44 203 356 1800
	www.piplc.com

Key shareholders (31 May'19)

USS	8.2%
Merian	7.0%
Esperides SA SICAV- SIF	5.7%
East Riding of Yorkshire	4.7%
APG Asset Mgt.	4.4%
Investec Wealth	4.4%
Private Syndicate pty.	3.8%
Brewin Dolphin	3.4%

Diary

6 Aug	Report and Accounts

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

PANTHEON INTERNATIONAL

PIP is an investment trust that invests in a diversified portfolio of PE assets managed by third-party managers across the world. PIP is the longest-established PE fund-of-funds on the London Stock Exchange, and has outperformed the FTSE All-Share and MSCI World indices since its inception in 1987.

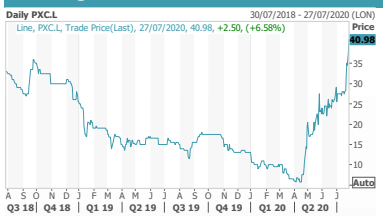
PIP is managed by Pantheon, one of the world's foremost PE specialists. Founded in 1982, with assets under management (AUM) of $49.1bn (as at 31 December 2019), and a team of 100 investment professionals globally (total staff of 341 as at 30 June 2020), Pantheon is a recognised investment leader, with a strong track record of investing in PE funds over various market cycles in both the primary and secondary markets, as well as a track record of co-investments.

PIP actively manages risk by the careful selection and purchase of high-quality PE assets in a diversified and balanced portfolio, across different investment stages and vintages, and by investing in carefully selected funds operating in different regions of the world.

PIP, like all PE investors, is reliant on calculating its NAV on underlying manager valuations. This can see a delay in market rating changes feeding through to PIP's NAV. In its *30 April monthly performance report*, PIP noted NAV of 2,794.9p, based off 94% of December 2019 valuations, which were then adjusted down by £122m (226.3p per share) to reflect underlying manager feedback and market movements since. That report detailed the methodology used in assessing the manager's provision. The *26 May performance update* reported that the provision had been left unchanged to end-April. It was then reversed with the end-May performance report, released on *8 July*, as the actual valuations for March then accounted for 95% of valuations. By adopting the provision when it did, and then releasing it later, PIP tried to give an NAV more reflective of the extreme market movements seen at the time.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Pantheon can be accessed through our website, *Hardman and Co Research*. Our *initiation report*, published on 6 September 2019, and our reports, *History of value added to portfolio by holding Pantheon*, published on 26 November 2019, and *2020 interim results consistency in delivery*, published on 2 March 2020, can be found on the same site.

Mining



Source: Refinitiv

Market data

EPIC/TKR	**PXC**
Price (p)	**39.00**
12m High (p)	43.33
12m Low (p)	5.00
Shares (m)	62.46
Mkt Cap (£m)	24.36
EV (£m)	23.24
Free Float*	84.30%
Market	AIM

**As defined by AIM Rule 26*

Description

Phoenix Copper (PXC) is developing the former Empire deposit and the surrounding area in central Idaho into a potentially world-class copper and polymetallic mine. First production is expected in late 2021.

Company information

Chairman	M. Edwards-Jones
CEO	Ryan McDermott
CFO	Richard Wilkins
CTO	Roger Turner

+44 7590 216 657
www.phoenixcopperlimited.com

Key shareholders

Martin Hughes (Cheviot)	21.59%
Directors	8.70%
Hargreaves Lansdowne	6.54%
Pershing Nominees	6.29%

Diary

Aug'20	Assay drilling results
3Q'20	Updated resources

Analyst

Paul Mylchreest 020 7194 7622
pm@hardmanandco.com

PHOENIX COPPER LTD

A potential world-class copper-silver-gold mine

PXC continues to advance its strategy for the staged development of the potentially world-class polymetallic mine in mining-friendly Idaho, US. In a change to planned mine scheduling, the initial Red Star silver mine will provide cashflow to develop the Empire near surface copper (oxide ore) mine and explore the much larger sulphide ore body at depth. Only ca.1% of the deposit has been explored so far. Our current estimated DCF valuation of 31p/share, based on the initial silver mine only, is under review due to the current surge in the silver price.

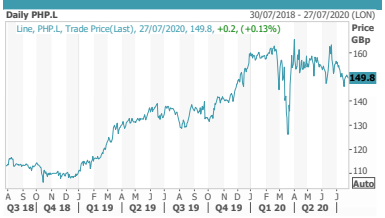
- **Strategy:** PXC focuses on near-term cashflow, and will maximise returns/minimise risk to shareholders by developing a potentially world-class copper-gold-silver deposit in stages. Empire was formerly a very high-grade underground copper mine (recovering 3.64% Cu), shut down due to WW2.
- **Recent announcements:** PXC's recent interim results saw a reduced loss before tax of $0.57m ($0.67m), which was slightly better than expected. Initial metallurgical tests showed gold and silver recoveries of 98% and 78%, respectively, without needing to use or permit a hazardous cyanide operation.
- **Red Star update:** The Red Star mine development is being fast-tracked, with production possible by end-2021. The first three drill holes led to an inferred resource of 103,500 tonnes of ore and 0.58m oz. of silver. This year's programme will see a further 20 holes to enlarge the resource (initial results imminent).
- **Risks:** PXC is subject to normal risks for a junior mining company. These include volatility in copper and zinc prices, operational risks in executing the mining plan, running downstream processing facilities and funding risks. We believe that jurisdictional risk is significantly reduced in PXC's case due to the Idaho location.
- **Investment summary:** Our current DCF valuation (pending revision) is 31p/share, based solely on the silver mine, a cautious (for now) 15% discount rate and a long-term silver price of $19.00/oz. PXC's share price is highly geared to the upside thesis for silver (and copper), with each $1.00/oz adding an estimated 6.2p-6.3p/share.

Financial summary and valuation

Year-end Dec ($m)	2017	2018	2019	2020E	2021E	2022E
Sales	0	0	0	0	0	48,800
Underlying EBIT	-1.058	-1.654	-1.105	-1.282	-2.082	0.787
Reported EBIT	-1.058	-1.654	-1.105	-1.282	-2.082	0.787
Underlying PTP	-1.056	-1.652	-1.128	-1.380	-5.069	-2.708
Statutory PTP	-1.056	-1.652	-1.128	-1.380	-5.069	-2.708
Underlying EPS (c)	-8.20	-5.82	-2.76	-2.44	-3.30	7.15
Statutory EPS (c)	-8.20	-5.82	-2.76	-2.44	-3.30	7.15
Net (debt)/cash	1.904	0.113	-0.589	-0.953	-26.530	-8.895
Average shares (m)	16.498	28.273	40.862	56.436	82.086	82.086
P/E (x)	n/a	n/a	n/a	n/a	n/a	7.0
Dividend yield	n/a	n/a	n/a	n/a	n/a	n/a
FCF yield	n/a	n/a	n/a	n/a	n/a	49.7%

Source: Hardman & Co Research

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**PHP**
Price (p)	**140**
12m High (p)	161
12m Low (p)	115
Shares (m)	1,314
Mkt Cap (£m)	1,840
EV (£m)	2,800
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), now 7% of assets.

Company information

CEO	Harry Hyman
CFO	Richard Howell
Chairman	Steven Owen

+44 207 451 7050
www.phpgroup.co.uk

Key shareholders (pre fund raise)

Directors	1.0%
Blackrock	6.7%
CCLA	5.3%
Investec Wealth	5.0%
Vanguard Group	2.7%
Troy Asset	2.3%

Diary

Feb'21	Final results
Apr'21	AGM

Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

PRIMARY HEALTH PROPERTIES

Oversubscribed equity issue at premium to NAV

On 9 July, PHP launched a £120m proposed placing, at a point in the REIT's development that is underpinned by a strong and broad pipeline. The placing was expanded to £140m as a result of investor appetite. The short-term pipeline stands at £92m, and there is also growth from active management of existing assets. The pipeline is effectively entirely partners' new developments, thereby providing visibility without having to compete for existing stock in the marketplace against other bidders. This is more than helpful, not least because of the active market for such second-hand modern stock bidding up valuations.

- **A stand-out performer**: NB: 1H'20 results are published as we go to press. April's trading update was positive, and 1Q saw 2.4% annualised rent increases. PHP benefits from falling debt cost and earnings-accretive expansion. Financial resilience through COVID-19 illustrated PHP's index-linked, gilt-style character.

- **Expansion**: PHP will deploy into new development funding, but also refers to the opportunities to buy standing assets. This is a growing sector. Last September, PHP raised growth equity at 128p; most of this has been deployed. Earlier this year, peer REIT Assura also raised new growth equity.

- **Valuation:** The rating reacted positively to 2019 strategy execution, including the MedicX merger and the reduction in debt costs. The progressive dividends are – and will remain, we estimate – fully covered by earnings. This is not the first time investor appetite has exceeded initial targets for equity issuance.

- **Risks:** The recent placing helps to maintain an appropriate LTV in the short term, reducing the 30 June 2020 ratio by around 5.0ppts, from 45.8% to ca.41% on a pro-forma basis. Interest cover is over 2.8x. No development risk is taken, and the long leases are upwards-only rents.

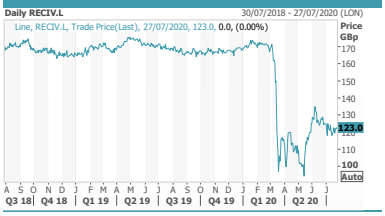
- **Investment summary:** We believe the initial earnings dilution of the equity issue, which we estimate at ca.1% this year, is well worth it, considering the growth pipeline in place and the reduction in LTV. Growth in the UK and RoI physical estate is continuing, and – unlike most other real estate sectors – is likely to accelerate as health spending accelerates.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E
Income	71.3	76.4	115.7	134.0	143.0
Finance costs	-31.6	-29.7	-43.7	-45.0	-44.8
Declared profit	91.9	74.3	-70.2	115.2	139.0
EPRA PBT	31.0	36.8	59.7	75.2	84.0
EPS reported (p)	15.3	10.5	-6.4	9.2	10.6
EPRA EPS (diluted, p)	5.1	5.2	5.4	5.9	6.4
DPS (p)	5.25	5.40	5.60	5.90	6.12
Net (debt)/cash	-726.6	-670.2	-1,120.8	-1,109.0	-1,242.6
Dividend yield	3.7%	3.9%	4.0%	4.2%	4.4%
Price/EPRA NAV (x)	1.40	1.33	1.30	1.23	1.17
IFRS NAV per share (p)	94.7	102.6	101.0	107.3	111.9
EPRA NAV per share (p)	100.7	105.1	107.9	113.5	118.1

NB: Estimates are pre announcement of 1H'20 results. EPRA EPS and NAV adjusted per PHP definition
Source: Hardman & Co Research

Diversified Financial Services



Source: Refinitiv

Market data

EPIC/TKR	**RECI**
Price (p)	**123.0**
12m High (p)	175.5
12m Low (p)	94.4
Shares (m)	229.3
Mkt Cap (£m)	282
NAV p/sh (p)	150.9
Disc. to NAV	19%
Market	Premium equity closed-ended inv. funds

Description

Real Estate Credit Investments (RECI) is a closed-ended investment company that aims to deliver a stable quarterly dividend via a levered exposure to real estate credit investments, primarily in the UK, France and Germany.

Company information

Chairman	Bob Cowdell
NED	Susie Farnon
NED	John Hallam
NED	Graham Harrison
Inv. Mgr.	Cheyne Capital
Head of team	Ravi Stickney
Main contact	Richard Lang
	+44 207 968 7328
	www.recreditinvest.com

Key shareholders (pre-placement)

Bank Leumi	8.6%
AXA SA	8.4%
Close Bros	8.2%
Premier AM	8.2%
Fidelity	8.0%
Canaccord Genuity Group	7.7%
Smith and Williamson	6.7%

Diary

Mid-Aug	July factsheet

Analysts

Mark Thomas	020 7194 7622
	mt@hardmanandco.com
Mike Foster	020 7194 7622
	mf@hardmanandco.com

REAL ESTATE CREDIT INVESTMENTS

RECI is a closed-ended investment company. To achieve the investment objective, the company invests, and will continue to invest, in real estate credit secured by commercial or residential properties in Western Europe, focusing primarily on the UK, France and Germany.

Investments may take different forms, but are likely to be:

- Secured real estate loans, debentures or any other forms of debt instruments (together "Secured Debt"). Secured real estate loans are typically secured by mortgages over the property or charges over the shares of the property-owning vehicle. Individual secured debt investments will have a weighted average life profile ranging from six months to 15 years. Investments in secured debt will also be directly or indirectly secured by one or more commercial or residential properties, and will not exceed an LTV of 85% at the time of investment.

- Listed debt securities and securitised tranches of real estate-related debt securities – for example, residential mortgage-backed securities and commercial mortgage-backed securities (together "MBS"). For the avoidance of doubt, this does not include equity residual positions in MBS.

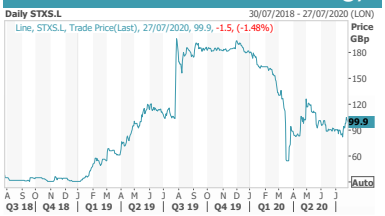
- Other direct or indirect opportunities, including equity participations in real estate, save that no more than 20% of the total assets will be invested in positions with an LTV in excess of 85% or in equity positions that are uncollateralised. On specific transactions, the company may be granted equity positions as part of its loan terms. These positions will come as part of the company's overall return on its investments, and may or may not provide extra profit to the company, depending on market conditions and the performance of the loan. These positions are deemed collateralised equity positions. All other equity positions in which the company may invest are deemed uncollateralised equity positions.

RECI is externally managed by Cheyne Capital Management (UK) LLP, a UK investment manager authorised and regulated by the FCA. As at 29 February 2020, Cheyne had 161 employees, of which 32 were in the Real Estate Team, and AUM of $7.2bn, of which $3.4bn was managed by the Real Estate Team. It has offices in London, New York, Bermuda, Berlin, Dubai, Dublin and Zurich. Cheyne invests across the capital structure – from the senior debt to the equity positions. It has expertise in the structuring, execution and management of securitisation transactions, involving a broad range of assets, including portfolios comprised of traditional asset classes, such as commercial and residential mortgages, as well as mortgage-backed securities and the management of commercial real estate portfolios, focused on Europe and the UK.

RECI gave a *market update* (including a detailed review of COVID-19-related exposures) on 15 May and issued *its end-May* factsheet on 5 June.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RECI can be accessed through our website, *Hardman and Co Research*. Our initiation report, published on 28 August 2019, and our notes, *Delivering on its promises*, published on 17 December 2019, and *Getting a balanced view on outlook*, published on 21 May 2020, can be found on the same site.

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**STX**
Price (p)	**101.0**
12m High (p)	196.0
12m Low (p)	54.0
Shares (m)	117.2
Mkt Cap (£m)	118.4
EV (£m)	109.2
Free Float*	41%
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	Tim Watts
CFO	tba
Chairman	Hans Peter Hasler

+44 207 186 8500
www.shieldtherapeutics.com

Key shareholders

Directors	3.9%
W. Health	47.8%
MaRu AG	10.7%
C. Sterritt	8.8%
Blackrock	4.3%
Jupiter	3.7%

Diary

Aug'20	AGM
Mid-2020	US Accrufer deal
2H'20	Accrufer launch
4Q'20	Paediatric study to start

Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

SHIELD THERAPEUTICS

Interim results – due August

STX is a commercial-stage company delivering specialty products that address patients' unmet medical needs, with an initial focus on treating iron deficiency (ID) with ferric maltol. Its lead product, Feraccru/Accrufer, is approved with a broad label in the US and Europe. The new CEO set out a clear vision along with the 2019 results, reassuring the market that the company had a 12-month cash runway, excluding any upfront payments associated with a US licensing deal. Interim results are due to be announced in August, which are expected to confirm that, being a virtual company, COVID-19 has had only minimal direct impact on STX.

- **Strategy:** STX's strategy is to out-license the commercial rights to its products to partners with marketing and distribution expertise in target markets. These deals allow STX to retain its intellectual property and to keep investing in its R&D pipeline, while benefiting from immediate and long-term value.

- **1H'20 sales:** Given that Germany was one of the first countries in Europe to emerge from lockdown, the impact on Feraccru royalties received from Norgine is thought to be modest. We are forecasting 1H'20 sales of £0.30m (£0.28m). In addition, STX received licensing income of ca.£8.7m from ASK Pharma (China).

- **EBIT and cash:** Underlying EBIT from operations in 1H'20 is expected to be ca.-£3.8m (-£3.9m), boosted by the licensing income to a reported EBIT of £5.0m (-£1.6m). Given the cash received from ASK Pharma, net cash at 30 June is forecast at £6.8m (£4.1m at 31 December).

- **PT20 trial publication:** In July, clinical data from a randomised, double-blind, placebo-controlled, dose-ranging, Phase IIb study of PT20 (iron-based phosphate binder) in patients with haemodialysis-dependent chronic kidney disease were published. STX has agreed with the FDA that PT20 requires only one further pivotal Phase III trial for regulatory filing for marketing approval.

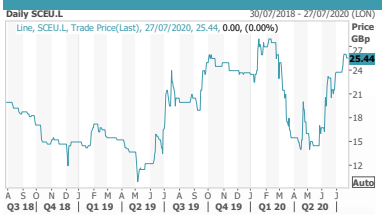
- **Investment summary:** Feraccru is a new alternative to intravenous iron for patients reluctant to attend hospitals due to the risk of COVID-19, which provides STX's marketing partners with a new opportunity. STX is continuing to work diligently towards signing a US commercial partner for Accrufer, which will represent the next major value infection point.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Gross revenues	0.64	11.88	0.72	9.92	5.06	13.15
Sales	0.64	0.86	0.62	1.15	5.06	13.15
R&D	-4.71	-4.30	-2.50	-3.24	-3.81	-4.19
Other income	0.00	11.03	0.10	8.77	0.00	0.00
EBITDA	-18.48	-2.47	-6.41	1.43	-3.94	0.38
Underlying EBIT	-18.90	-3.26	-9.04	-0.67	-6.04	0.38
Reported EBIT	-20.95	-5.17	-9.04	-0.67	-6.04	0.38
Underlying PBT	-18.91	-3.26	-9.07	-0.70	-6.09	0.33
Statutory PBT	-20.99	-5.16	-9.07	-0.70	-6.09	0.33
Underlying EPS (p)	-15.58	0.09	-7.52	-0.18	-4.71	0.82
Statutory EPS (p)	-17.43	-1.55	-7.52	-0.18	-4.71	0.82
Net (debt)/cash	13.30	9.63	4.12	3.43	-8.89	-19.19

Source: Hardman & Co Life Sciences Research

Automotive



Source: Refinitiv

Market data

EPIC/TKR	**SCE**
Price (p)	**25**
12m High (p)	28
12m Low (p)	13
Shares (m)	155
Mkt Cap (£m)	38.5
EV (£m)	35.5
Free Float*	86%
Market	AIM

**As defined by AIM Rule 26*

Description

Surface Transforms (ST) is 100% focused on the manufacture and sale of carbon ceramic brake discs. It has recently announced a number of OEM contracts.

Company information

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

+44 1513 562 141

www.surfacetransforms.com

Key shareholders

Directors	14.0%
Richard Sneller	12.3%
Unicorn	10.9%
Cannaccord Genuity	10.0%
Richard Gledhill esq. (director)	9.6%
Hargreaves Lansdown	4.2%

Diary

Late Sep'20	Interim results
Mar'21	Preliminary results

Analyst

Mike Foster 020 7194 7622

mf@hardmanandco.com

SURFACE TRANSFORMS

A positive AGM update

Last month, we outlined a number of positive positions for the revenue roadmap and ST's position in this potential £2bn market. Happily, the market is beginning to take a more rounded view of this, and the shares have recovered strongly, reinforcing our expectation of positive prospects for the company. There have been two contracts won in recent weeks, but the price rise is not at all reliant on these – it reflects the strategic position. OEM 5 starts to contribute its £1.8m p.a. revenue starting some way into 2021, with the date entirely as scheduled. This takes it to cash generation in 2021 and profits in 2022, we estimate.

- **Multi-year contracts and strong margins:** All remains on track regarding the contract commencement dates as outlined at the time of the fund raise. Cost engineering is also on track. It is important to understand that the backbone to the estimates (below) are multi-year contracts with prices set.
- **Existing orders and active discussions on OEM 3:** OEM 6 is on stream for 2023, and we therefore estimate a further contractual rise in revenues post 2022. The contracts (bar Valkyrie) are multi-year. There are active discussions with OEM 3 about potential work, resulting from successful technical testing.
- **£50m mid-term pipeline reconfirmed by ST:** OEM 1, 5 and 6 have stated effective demand for further models in the next five years. Further, the ongoing retrofit and near OEM work have restarted. There are also other OEMs globally, and thus a £50m pipeline for the medium term is anticipated.
- **Supply chain de-risking:** ST has relocated its small German office nearer suppliers and OEMs. It is also planning to put a small warehouse in place as a Brexit component. The recent presentation highlights strengthening of the established dual source supply chain, which is incremental.
- **Investment case and underlying current market:** This is a large, growing market, 99%-supplied by one, highly profitable player. COVID-19 has had an impact – as anticipated. Some start of production dates for future OEM programmes have been pushed back, but there are no new delays currently. Half-year revenue is on track. £2.25m net was secured in the equity raise.

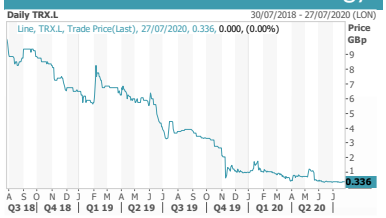
Financial summary and valuation

Year-end May*/ December**(£m)	FY19*	*7-month 19E***	FY20E**	FY21E**	FY22E**
Sales	1.00	1.45	1.60	4.00	5.70
EBITDA	-2.60	-1.41	-1.55	-0.10	1.00
EBITA	-2.94	-1.70	-2.25	-0.80	0.30
PBT	-3.04	-1.76	-2.25	-0.80	0.30
PAT	-2.12	-1.32	-2.25	-0.25	0.85
EPS (adjusted, p)	-1.64	-0.97	-1.20	-0.16	0.55
Shareholders' funds	6.90	5.62	6.52	6.27	7.12
Net (debt)/cash	1.60	0.18	2.65	2.65	3.60
P/E (x)	loss	n/a	loss	loss	45.4
EV/sales (x)	35.5	n/a	21.8	8.9	6.2
EV/EBITDA (x)	loss	n/a	loss	loss	29.5
DPS (p)	nil	nil	nil	nil	nil

**May year-end; **Change of year-end to December*

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**TRX**
Price (p)	**0.34**
12m High (p)	4.45
12m Low (p)	0.25
Shares (m)	7,033
Mkt Cap (£m)	23.9
EV (£m)	10.8
Free Float*	59%
Market	AIM

**As defined by AIM Rule 26*

Description

Tissue Regenix (TRX) is a pioneering international medical device company focused on the development of regenerative products based on its two platform technologies – dCELL and BioRinse. These 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 applications.

Company information

CEO (interim)	Gareth Jones
Finance Director	Kirsten Lund
Chairman (interim)	Jonathan Glenn

+44 330 430 3052
www.tissueregenix.com

Key shareholders

Directors	3.9%
Lombard Odier	15.0%
IP Group	13.7%
R.Griffiths	10.1%

Diary

Sep'20	Interim results

Analyst

Martin Hall 020 7194 7622
mh@hardmanandco.com

TISSUE REGENIX

Investment programme initiated

TRX is focused on the development and commercialisation of two proprietary decellularisation technology platforms for repair of soft tissue (dCELL) and bone (BioRinse). Its broad portfolio of commercialised regenerative medicine products is targeting the biosurgery, orthopaedics and dental markets. Over the past two years, the company has revised its commercial strategy, realigned its supply chain, and restructured operations to service the strong product demand and overcome capacity constraints. The recent equity raise has provided the capital needed for the phased capacity expansion and sufficient working capital for the foreseeable future.

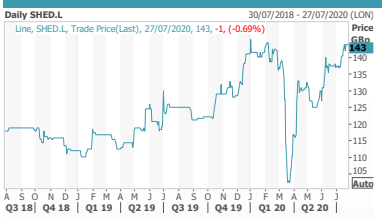
- **Strategy:** TRX is building an international regenerative medicine business around its proprietary technology platforms, underpinned by compelling clinical outcomes. It plans to develop production capabilities, enabling the business to expand its global distribution network, via strategic partnerships, to drive sales momentum.
- **Interims:** Despite the fact that TRX has had to contend with operational, financing, a cyber security incident and COVID-19-related issues, we believe that the company will deliver broadly flat sales for 1H'20. The main driver has been the delay to elective procedures in the US due to COVID-19.
- **Expansion:** The tangible benefits of increasing to two-shift manufacturing in San Antonio, coupled with outsourcing some DermaPure production, only began to materialise in 4Q'19. Phased investment has commenced to increase the number of clean rooms in San Antonio, which should benefit from 1H'21.
- **Risks:** With proper funding now in place, the main risk is timing and commercial execution. As with all businesses, the impact of the current global COVID-19 pandemic is unquantifiable until there is further clarity around timing and the effect on elective surgical procedures.
- **Investment summary:** TRX has a portfolio of innovative regenerative products with regulatory approval in both the US and EU. Realignment of the commercial strategy to maximise sales potential through strategic and distribution partnerships has been successful, resulting in increased demand for products. Having secured the required funding to invest in scaling the manufacturing facilities, the market will start to take note when management delivers on future milestones.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	5.23	11.62	13.03	Forecasts under review		
EBITDA	-9.01	-7.09	-6.13			
Underlying EBIT	-9.72	-8.27	-7.18			
Reported EBIT	-10.82	-8.69	-7.20			
Underlying PBT	-9.67	-8.46	-7.64			
Statutory PBT	-10.77	-8.88	-7.66			
Underlying EPS (p)	-0.90	-0.67	-0.60			
Statutory EPS (p)	-1.02	-0.70	-0.61			
Net (debt)/cash	16.42	7.82	0.09			
Equity issues	40.25	0.00	0.00			
P/E (x)	-	-	-			
EV/sales (x)	-	2.3	1.1			

Source: Hardman & Co Life Sciences Research

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**SHED**
Price (p)	**144**
12m High (p)	148
12m Low (p)	104
Shares (m)	189
Mkt Cap (£m)	272
EV (£m)	302
Market	AIM

Description

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

Company information

CEO	Richard Moffitt
Chairman	Nigel Rich

+44 20 7591 1600
www.urbanlogisticsreit.com

Key shareholders

Directors	0.6%
Rathbone	6.0%
Janus Henderson	4.6%
Sir John Beckwith	4.4%
Allianz	4.2%
Legal General	4.0%

Diary

Oct'20	Trading update
Nov'20	Interim results

Analyst

Mike Foster 020 7194 7622
mf@hardmanandco.com

URBAN LOGISTICS

Really well placed for current markets

The £130m equity fund raise, completed in March, is being put to work in a measured way. A strong further pipeline remains. The REIT is in exactly the right asset class. It is achieving NIYs well over 6% and has a track record of raising rents well, and, indeed, recycling some assets for good profits (typically 50%). With another good set of results and a confident forward statement achieved, we note that the rating, at below prospective NAV, stands out. With another strong dividend rise announced and a positive forward statement, we also find it noteworthy that the 2020 dividend yield is well over 5%.

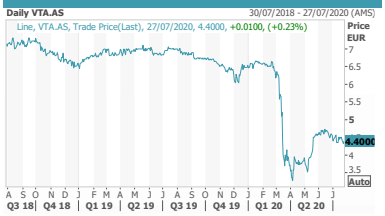
- **Deployment:** Nearly 80% of the equity from the March fund raise is already invested. We estimate LTV approaching 30% by March 2021 but, at this point, we are finalising calibrating the rate of investment. One site has extra development potential.
- **Forward estimates:** Given investment to date, the EPRA EPS for the current year is indicated to be at least as high as last year's dividend per share. Once budgeting is finalised for the capital investment, we will be in a strong position to confirm forward estimates. We anticipate progress in the dividend.
- **Valuation:** A combination of the rising rents and likely tightening capitalisation rates brings every expectation of an NAV rise this year. Not only does the stock trade at below prospective NAV, on assets valued below replacement cost, but we estimate that the 2020 dividend rise of 0.6p is set to continue to increase.
- **Risks:** Tenant sectoral exposure is biased towards food, pharmaceuticals, staple goods and large logistics firms, which are household names. At year-end, the balance sheet had £151m loan facilities put in place. Deployment does affect 2021 profits, but most equity is deployed.
- **Investment track record**: Since listing on the AIM in April 2016, Urban Logistics has generated annual NAV and dividend returns of 16.0%. Market rents are ca.9% above the REIT's current levels, as evidenced by two recent reviews. Market vacancies are only ca.5%, and Urban Logistics' vacancy is nil – so rental reviews are set to continue to enhance EPS.

Financial summary and valuation

Year-end Mar (£m)	2018	2019	2020	2021E
Rental income	5.56	10.77	12.60	
Finance costs	-0.93	-2.19	-2.72	
EPRA operating profit	3.40	8.15	6.46	
Declared profit	9.86	18.88	18.40	Finalising
EPS reported (p)	19.54	22.12	19.60	based on
EPRA EPS (dil., post LTIP, p)	6.12	7.15	7.77	rate of
DPS (p)	6.32	7.00	7.60	new equity
Net (debt)/cash	-44.39	-61.64	57.58	deployment
Dividend yield	4.39%	4.86%	5.28%	
Price/EPRA NAV (x)	1.16	1.06	1.06	
NAV per share (p)	123.62	137.37	137.19	
EPRA NAV per share (p)	122.49	138.18	137.19	

Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	**VTA .NA, VTA.LN, VTAS LN**
Price (€)	4.39/4.45/402p
12m High (€)	6.74/7.04/642p
12m Low (€)	3.20/3.38/285p
NAV (€)	5.87
Shares (m)	36.6
Mkt Cap (€m)	160
2019 yield	14.1%
Free Float	70%
Market	AEX, LSE

Description

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

Company information

Ind. Chairman	Paul Meader
Ind. 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

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Key shareholders

Axa Group	30%
BBVA Madrid & BNP WM	7%
Ironside Partners & Deutsche	6%

Diary

Mid-Aug'20	July estimated NAV

Analyst

Mark Thomas 020 7194 7622
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VOLTA FINANCE

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Volta is a closed-ended, limited liability company registered in Guernsey. Its investment objectives are to seek to preserve capital across the credit cycle and to provide a stable stream of income to its shareholders through dividends that it expects to distribute on a quarterly basis. The current dividend policy (target 8% NAV) was outlined on *11 May 2020*. 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 credit. 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, therefore, is excluded from the FCA's restrictions that apply to non-mainstream pooled investments (NMPIs).

In terms of COVID-19, Volta has made a number of announcements. The 11 March 2020 company *monthly report* included a detailed review of the February performance and the consequences of the COVID-19 crisis on the fund. A further *intra-month trading update* was issued on 24 March 2020. The *dividend was initially cancelled* on 2 April and *NAV announced* on 14 April, reporting a 32.4% monthly decline for March. On *11 May*, a (smaller) dividend was declared and a target 8% NAV payout announced. The *April NAV performance*, reported on 14 May, was +5.7% and *May*'s NAV was +4.5%.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Volta Finance can be accessed through our website, *Hardman & Co Research*. Our *initiation report*, published on 5 September 2018, can be found on the same site, as can our notes, *Investment opportunities at this point of the cycle* (14 January 2019), *9%+ yield in uncertain times* (7 October 2019), *Follow the money* (3 February 2020), the manager's *March 2019* and *June 2019* presentations, and a *Q&A with Hardman analyst* (12 May 2020), as well as links to our Directors Talk interviews on the company.

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

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