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Feature article:

The Quest for Dividends

By Nigel Hawkins, Hardman & Co

The Dow Jones Index has just breached the 20,000 mark, the first time in its 131-year history that it has done so, whilst the FTSE-100 Index has also been at record levels in recent weeks. The election of the controversial Donald Trump as the new US President, and more specifically the impact of his planned expansionist economic policies, have boosted stock markets, both in the US and in the UK.

Nonetheless, at the UK corporate level, many challenges remain, especially since interest rates are expected to rise, albeit very slowly. Clearly, for many investors, the issue of dividend payments remains key. In 2016/17, FTSE-100 companies are expected to pay out *c*£75 billion in dividends. In some cases, dividend cuts will occur, although it will be Shell's mid-term dividend policy that will be crucial, given the annual *c*£7.6 billion cost of its dividend payments: future movements in oil prices will be critical …

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24 Jan	**City of London Investment Group (CLIG)** Q2 statement shows robust profitability	Financials
20 Jan	**Allergy Therapeutics (AGY)** Investment driving market share gains	Life Sciences
19 Jan	**Diurnal Group (DNL)** Infacort® – On track to market	Life Sciences
17 Jan	**Sinclair Pharma (SPH)** Demanding targets exceeded	Life Sciences
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Source: Hardman Research

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The Quest for Dividends

Boom Times in Financial Markets

The Dow Jones Index has just breached the 20,000 mark, the first time in its 131-year history that it has done so, whilst the FTSE-100 Index has also been at record levels in recent weeks. The election of the controversial Donald Trump as the new US President, and more specifically the impact of his planned expansionist economic policies, have boosted stock markets, both in the US and in the UK.

Nonetheless, at the UK corporate level, many challenges remain, especially since interest rates are expected to rise, albeit very slowly. Clearly, for many investors, the issue of dividend payments remains key. In 2016/17, FTSE-100 companies are expected to pay out *c*£75 billion in dividends. In some cases, dividend cuts will occur, although it will be Shell's mid-term dividend policy that will be crucial, given the *c*£7.6 billion annual dividend cost: future movements in oil prices will be critical.

Looking forward, prospective dividend cover for individual FTSE-100 stocks will be closely analysed, especially for those companies whose underlying dividend cover is 1.4x or below. Combined with a high prospective yield, say above 5%, and the market will be factoring in a substantial chance of a dividend cut; in some cases, the drag on the share price will be pronounced.

Dividend Payment Drivers in 2017

In projecting future dividend payments, it is pertinent to address the key issues that will drive dividend payments in 2017 – and beyond. Key issues impacting dividend flows include:

- **Oil Prices.** Given the amount of Shell's overall dividend payments, notwithstanding those of BP, pension funds are very beholden to the trend in global oil prices, which only a year ago plummeted to below $30 per barrel – they have almost doubled subsequently.
- **Interest Rates.** The Trump administration, through the Federal Reserve, seems set to preside over higher interest rates: any rises, though, are expected to be both modest and gradual. For the banking sector, as demonstrated recently in the US, higher interest rates would be good news – and would raise banks' dividend growth expectations.
- **Currency Trends.** The unexpected Brexit vote last June caused major ructions on the currency front, with the £ plunging against the $, which boosted the overseas earnings – and share price ratings - of leading exporters.
- **Brexit Developments.** Once Article 50 (2) is triggered, negotiations for the UK to exit the EU will begin in earnest. The Government envisages a clean break from the Single Market: this could adversely impact exporters to mainland Europe. Changes to tariff levels could be very price-sensitive for some sectors.
- **EU Elections.** At least three crucial EU elections are scheduled for this year. In the spring, there will be a General Election in Holland. The unpredictable French Presidential election will follow in May, which could propel Martine Le Pen – an avowed anti-EU candidate – to the Presidency. And, later in the year, there will be a pivotal General Election in Germany.

The Outlook for 2017

The last few weeks have seen both the US and UK stock markets on a high. Both the Dow Jones and the FTSE-100 enjoyed a strong Q4 2016, although the latter has faced several major profit warnings of late. Income-orientated investors are now looking carefully at the prospects for dividend growth for both this year and stretching into 2018. In doing so, difficult assumptions need to be made about a variety of financial and political events, most notably with respect to the performance of the US economy under an administration that is set to be radically different from its predecessor – one of the drivers for the recent upsurges in US stock prices.

In the UK, the resilient post-Brexit recovery of the FTSE-100 has driven market yields to below 4%. Simultaneously, yields on 10-year government stocks, partly on the perception of higher interest rates, have risen recently so that that the yield gap has narrowed significantly. Some investors will argue that achieving material capital appreciation from UK equities will be difficult, given the current strength of the FTSE-100. Others who are chasing secure dividend streams will focus on those FTSE-100 stocks, with an above average market yield but which offer relative security.

Rising operating costs are a real risk for many companies in 2017 and beyond. Higher imported raw material prices due to the weak £, the impact of a higher minimum wage and increased business rates are all additional costs that many companies will either have to absorb or pass through to their customers.

Furthermore, dividend growth expectations may be pared back by pension deficit issues. Recent research suggests that pension fund contributions by FTSE-100 stocks currently equate to just 20% of total dividend payments, despite the widespread concern about pension fund deficits.

Given that several well-known FTSE-100 companies have serious pension fund deficit issues, most notably BT and BAe Systems, some companies may need to make substantial additional payments to curb their pension fund deficit – at the expense of higher dividends. Whilst BT – on the back of a serious global revenue-related profit warning - recently promised 10% growth in its dividend both for 2016/17 and for the subsequent year, it is certainly possible that this pledge could be de-railed by a soaring pension fund deficit.

The Table below shows the prospective dividend payments of four of the biggest hitters in the FTSE-100 Index, led by HSBC with a £137 billion market capitalisation but with a prospective yield of 5.6%. Also included are the two oil majors, Shell and BP, and the EU's most valuable utility, National Grid.

Key Dividends Dates

Company	Prospective Dividend (p)	Yield (%)
BP	31.0	6.5
HSBC	38.0	5.6
National Grid	44.0	4.8
Shell	140.0	6.4

Source: Hardman & Co

Key Market Data

In stock market history, January 2017 is likely to be long-remembered. It is destined to enter the record books as the month when the Dow Jones - after 131 years – scaled the seemingly unconquerable peak of 20,000. The FTSE-100, too, reached its high just a few weeks earlier as markets around the world re-bounded.

In the UK's case, apart from a very short-lived all-time high in 2015, the FTSE-100 Index is currently trading around the level it reached in late 1999, when the dotcom boom was at its peak – and when telecom stocks were all the rage so much so that Vodafone had become the world's fourth most valuable company in history, after such names as Microsoft, Cisco and General Electric. Seventeen years on, a lot has changed – including the disappearance of some famous industrial names - but the quest for dividend growth continues.

In effect, the FTSE-100 has now cast aside the profound doubts – and uncertainties – that had pervaded the market after the Brexit decision in June 2016. Undoubtedly, UK companies with large US earnings benefited from the relative appreciation of the $ - and their $-denominated earnings – against the £.

However, shares in some sectors, notably house-builders, took rather longer to recover. In fact, despite well-publicised problems at Bovis, the latest house-building data has been quite favourable with impressive levels of completion. On the travel front, EasyJet has been especially badly hit by post-Brexit currency factors, notwithstanding the various terrorist attacks in leading EU cities.

Significantly, the experience of many smaller stocks outside the FTSE-100 has been less satisfactory; many are very dependent upon exports to mainland Europe. There is real concern that trade barriers will be erected, which – despite the benefits of the falling £ - would mean an erosion in competitiveness. To that extent, share price recovery has been less evident, although some individual stocks have prospered.

The Graph below shows how the FTSE-100 has performed over the last 12 months. The key movement was on June 24th, the day that the Brexit vote – to widespread surprise - was confirmed.

FTSE 100 graph (1-year)

Source: Eikon Thomson Reuters

Sector Analysis of Dividend Payment Capacity

In assessing dividend payment potential, it is instructive to focus on those sectors, which historically have delivered the lion's share of dividend payments – many, such as utilities, are inherently defensive stocks; others, such as GSK (GlaxoSmithKline) and BHP Billiton for example, are far more growth-orientated.

Oil

The bellwether for UK dividend payments is undoubtedly Shell, which has not reduced its dividend since the end of World War 2 in 1945. Rising oil and gas prices in recent months seem very likely to save the dividend for the moment, despite Shell's worsening cash flow profile following its controversial BG acquisition. In the wake of its Macondo disaster in the Gulf of Mexico in 2010 which caused it to pass its dividend for that year, BP is now building up a decent long-term dividend profile, dependent though it is on prevailing oil prices.

House-building

With shares in both Persimmon and Barratt Developments falling by *c*25% of their market capitalisation in the immediate aftermath of Brexit, house-building stocks are now less volatile. However, dividend cover remains low for several sector companies including Taylor Wimpey, although this figure is distorted by substantial returns of value to shareholders. Persimmon, though, remains well-placed with a strong balance sheet and good dividend growth prospects: it is half-way through its nine-year £2.76 billion return of funds to its shareholders.

Insurance

Whilst Prudential's shares have performed strongly over the last year, some of the smaller FTSE-100 insurance companies may be hard-pushed to meet their dividend expectations. Both Direct Line and Admiral have very low dividend cover, with yields correspondingly high at *c*7%: the numbers for Legal and General are a little better. And Standard Life, whose shares have fallen back over the last year, may also need to re-visit its dividend policy.

Mining

For the mining sector generally, 2016 was a memorable year, especially after the major challenges of previous years. Anglo-American, Glencore – both of whom had stellar years - and the two largest mining stocks, BHP Billiton and Rio Tinto, delivered tremendous shareholder value, mainly on the back of higher selling prices which improved cash flows: iron ore price rises have boosted Rio Tinto in particular.

During the dark days preceding 2016, many mining companies had cut their dividends, including BHP Billiton and Rio Tinto. The recent recovery in prices has removed much of the negativity about the dividend payment potential of major mining companies; of course, if the Chinese economy suffers a sharp down-turn, this optimism may well dissipate quite quickly.

Utilities

As defensive stocks, utilities are disproportionately valued on their dividend growth profile. Within the UK electricity sector, the most important dividend payer is National Grid, which currently offers a prospective yield of 4.8%, based on a full-year 2016/17 dividend of 44p. As a surrogate gilt investment, movements in its share price are closely correlated with movements in Treasury 10-year bonds.

The dividend growth prospects for the two other FTSE-100 energy utilities are less rosy. Centrica cut its interim dividend in 2015, whilst SSE's dividend cover is down to a modest 1.3x.

On the waterfront, the two leading quoted companies are Severn Trent and United Utilities, both of whom plan to grow their dividend at least in line with inflation – and probably above. The smallest privatised water company, Pennon, owns Viridor, a leading waste company, whose earnings are more volatile.

Banks

In the lead-up to the bank reporting season, dividend issues will be to the fore, along with solvency ratios and £billion write-offs, notably that made by the 72% publicly-owned RBS for the mis-selling of toxic mortgage securities in the US; *c*£3 billion is expected to be provided. RBS has not reported a net profit since the injection of £45.5 billion of taxpayers' money almost a decade ago.

Nowadays within the sector, HSBC stands alone in terms of market capitalisation, with a valuation of £137 billion. Currently, its prospective yield is 5.6%. Barclays, after a tricky period for investment banks, is growing its dividend whilst Lloyds, in which the Government now has a minimal holding, resumed dividend payments in May 2015: its previous dividend payment had been as far back August 2008.

Telecoms

The telecoms sector contains two leading FTSE-100 dividend payers – Vodafone and BT. Given the serious economic problems in mainland Europe in recent years, it is not surprising that Vodafone has struggled following the disposal of its highly valuable Verizon stake in the US. BT, too, is facing challenges, following its recent profit warning from its Global Services division and serious accountancy issues in Italy. However, it seems committed to substantial dividend growth both for 2016/17 and for 2017/18.

Others

Aside from the above, discerning investors will also be focussing on any dividend announcements by three high-profile FTSE -100 companies, each of whom has faced major challenges over the last two years – Tesco, Pearson and Capita.

In Tesco's case, it has suffered from a sharp fall in operating margins, which has had a pronounced downward impact on earnings – even though its market share is only slightly below that achieved during its heyday. Tesco hopes to resume dividend payments shortly following the passing of its dividend in 2014/15 on the back of a raft of negative business developments.

Pearson has been one of the most prominent stock market casualties of the New Year, during a time when the Dow Jones has reached record levels. Pearson's announcement in mid-January that a seriously depressed US education market is performing well below expectations has seen its shares plunge by almost 25% since the start of the year. Its future dividend payment capability looks stretched.

Capita was the worst performing FTSE-100 stock of 2016 and it has not been helped in recent days by BT's pessimism about the awarding of public sector contracts. Capita's prospective yield is well above the market average and a cut in its dividend is certainly possible, especially in the light of its major profit warning last September.

Cost Pressures – A Theme for 2017

Throughout 2017, the issue of rising costs may well be a defining feature; they are expected to impact future dividend payment capacity. Companies located in the UK - and very dependent on domestic sales - are vulnerable in this respect.

Within the rising cost pipe-line - over and above general inflationary trends - is the impact from:

- **Rising Interest Rates.** Clearly, the most highly geared companies are the most vulnerable if borrowing costs were to rise appreciably, which would flow through to the bottom line;
- **Higher Import Costs.** The post-Brexit plunge in the £ undoubtedly benefitted exporters. Conversely, it pushed up the price of imported raw materials: some of these costs are now being reflected in higher UK selling prices. Several companies have issued warnings to this effect, most notably Unilever.
- **Minimum Wage Increases.** A substantial increase in the minimum wage is bound to push up the wage bill of those companies employing large numbers of low-paid individuals. Hotel and restaurant businesses, along with many retail outlets, will be directly affected by this development;
- **Increases in Business Rates**. In the south of England, large increases in business rates are expected as Local Authorities seek to address the impact of reduced central government funding. Amongst the most affected sectors will be southern-based retailers;
- **Rising Pension Costs.** Many defined benefit pension schemes run by FTSE-100 companies are in heavy deficit, partly because of the very low returns from Government bonds which underpin the discount factor calculation. BT and BAe Systems are the most affected in this respect – and materially higher annual contributions may be required to bring down the deficit.

In summary, each of the above - or a combination of them – may well impact the level of future dividend payments, especially for companies with low dividend cover. Consequently, share prices are likely to respond quite aggressively to any material variance from expectations in respect of the cost base – notwithstanding any general economic downturn.

About the Author

Nigel Hawkins is the utilities sector analyst at Hardman & Co, which he joined in February 2016.

He has been involved in the utilities sector since the late 1980s, both as a feature writer at Utility Week magazine and as an analyst at Libertas Capital. Prior to that he was the telecoms analyst at Williams de Broë. Between 1989 and 1995, he worked at Hoare Govett as the water and electricity analyst.

Company Research

Share prices at 26th January 2017

(unless otherwise stated).

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	ABZA
Price (p)	40.0
12m High (p)	66.0
12m Low (p)	31.0
Shares (m)	137.8
Mkt Cap (£m)	55.1
EV (£m)	45.8
Free Float*	29%
Market	AIM

**As defined by AIM Rule 26*

Description

Abzena is a UK-based Life Sciences company engaged in the provision of services to enable the discovery and development of better bio-pharmaceuticals. Embedding its 'know-how' into customers' products is expected to generate a long-term royalty stream.

Company information

CEO	John Burt
CFO	Julian Smith
Chairman	Ken Cunningham

+44 1223 903 498
www.abzena.com

Key shareholders

Directors	2.1%
Invesco	26.4%
Woodford	23.0%
Imperial	19.8%
Ballie Gifford	3.3%

Diary

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Abzena

ThioBridge attracts a new partner

Abzena is an integrated group offering a broad range of services and technologies to improve the chances of discovering and developing effective biopharmaceutical drugs. With strong footprints in both the US and UK, the company provides a fee-for-service offering with the additional opportunity to embed its technology – 'Abzena *Inside*' – into commercial products, on which it will derive a long-term royalty stream. Abzena has signed a licensing deal with a US biopharmaceutical company for the use of its ThioBridge technology. This deal has a potential value exceeding $300m and has significantly boosted market confidence in the company.

- **Strategy:** Abzena has a dual strategic objective of providing enabling technology on a fee-for-service basis and, where possible, to secure technology agreements from embedding its patented technology and 'know-how' into customers' final products to generate future licence revenues and, potentially, royalties.

- **ThioBridge:** Antibody Drug Conjugates (ADCs) link the tumour targeting properties of antibodies with a cytotoxic payload, but do have some drawbacks. Abzena has developed ThioBridge technology to produce more homogenous and stable ADCs thereby overcoming many of the inherent issues.

- **Licensing agreement:** Abzena has announced a new licensing deal with a San Diego-based biopharmaceutical company for the development of up to 10 ADCs targeted at various cancers. The deal is potentially worth up to $300m in access fees, and development and regulatory milestones. It also comprises a Service Agreement with Abzena's Chemistry division.

- **Risks:** There are inherent clinical trial and commercialisation risks in drug development. Any product emerging under the agreement would become part of the 'Abzena *Inside*' portfolio. However, in all probability, not all 10 of the potential ADCs under the agreement will reach commercialisation.

- **Investment summary:** The market reacted very positively to this news which was long overdue. The agreement represented further validation of Abzena's technology, increased market confidence that more deals will be done, and highlighted the undervaluation of the stock, with the fast-growing service business alone more than justifying the current market capitalisation.

Financial summary and valuation

Year end March (£m)	2014	2015	2016	2017E	2018E	2019E
Sales	5.18	5.41	9.57	18.84	24.80	30.26
R&D investment	-2.60	-2.99	-4.22	-4.26	-4.34	-4.47
Underlying EBIT	-1.14	-5.30	-8.21	-8.44	-7.06	-4.44
Reported EBIT	-1.56	-5.30	-10.90	-8.83	-7.49	-4.91
Underlying PBT	-1.11	-5.22	-7.96	-8.37	-7.07	-4.50
Statutory PBT	-1.53	-5.22	-10.66	-8.75	-7.50	-4.96
Underlying EPS (p)	-4.3	-6.6	-6.4	-5.5	-4.5	-2.6
Statutory EPS (p)	-7.5	-6.6	-8.9	-5.8	-4.8	-3.0
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	2.8	15.8	13.7	2.7	-6.9	-14.6
Capital increase	10.7	19.0	20.0	0.0	0.0	0.0
EV/sales (x)	7.7	7.4	4.2	2.1	1.6	1.3

Source: Hardman & Co Life Sciences Research

Healthcare Equipment & Services

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	AVO
Price (p)	63.5
12m High (p)	209.0
12m Low (p)	47.0
Shares (m)	72.5
Mkt Cap (£m)	46.0
EV (£m)	43.3
Free Float*	62%
Market	AIM

**As defined by AIM Rule 26*

Description

Developing next generation proton therapy systems for use in radiation therapy of cancers. The first system is expected to be installed in Harley Street, London during 2017/18; to be operated through a joint venture company with CircleHealth.

Company information

Exec. Chairman	Michael Sinclair
CEO	Nicolas Serandour

+44 203 617 8728
www.advancedoncotherapy.com

Key shareholders

Board & Management	17.8%
Brahma AG	13.7%
MK Trust	6.9%
Banca Profilio	6.4%
Aviva Investors	4.5%
AB Segulah	4.4%

Diary

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Advanced Oncotherapy

Harley Street construction start imminent

AVO is focused on delivering a more affordable, novel proton-based radiotherapy system, based on technology originally developed at the world renowned CERN. Planning Permission for its Harley Street site has been granted, and building work is expected to commence this month, with completion due March 2018. Meanwhile, individual modules are being tested and integrated in Geneva. This has resulted in the proton souce being integrated and successfully tested with the sophistacated Radio Frequency Quadruple. AVO is progressing and expanding the oportunity of its non-dilutive financing package with a strategic partner.

- **Development update:** In December, AVO announced that it had successfully integrated the proton source with the RFQ. On testing, this work demonstrated the predicted acceleration of the proton beam through the source with results matching computer-generated predictive measurements.
- **Non-dilutive financing:** The company is progressing the 'non-dilutive' financing package which was part of the re-negotiation of the Metric Capital loan facility. AVO has announced discussions commence in September 2016 with a potential strategic partner. These are continuing and the scope has been expanded.
- **Harley Street site:** Planning permission for the Harley Street site was granted by Westminster City Council in October 2016. AVO's partner, Howard de Walden Estates, is expected to commence building work imminently, for completion of the site by March 2018.
- **Sinophi Healthcare:** AVO signed an exclusive distributor agreement with Sinophi in 2015 for China, with binding orders for two LIGHT machines. Sinophi has now indicated to the company that it wishes to terminate the purchase orders. AVO will be taking appropriate action to protect its position.
- **Investment summary:** The stock came under considerable pressure following the share issue. Having seen a good recovery over the last month, the shares have had another setback following the uncertainty surrounding the Sinophi orders. Meanwhile, LIGHT development work continues apace and Harley Street is moving forward. The company has also improved corporate governance with the appointment of two non-executive directors.

Financial summary and valuation

Year end Dec (£m)	2013	2014	2015	2016E	2017E	2018E
Sales	0.07	0.11	0.00			
EBITDA	-2.04	-5.06	-6.41			
Reported EBIT	-3.17	-6.45	-8.51			
Underlying PBT	-2.37	-5.06	-6.72			
Statutory PBT	-3.96	-7.56	-8.63	Forecasts under review		
Underlying EPS (p)	-14.77	-14.91	-7.13			
Statutory EPS (p)	-24.66	-22.29	-12.25			
Net (debt)/cash	-3.04	0.48	7.96			
Capital increase	2.44	10.16	21.06			
P/E (x)	-6.8	-6.7	-14.1			
EV/sales (x)	-	-	-			
EV/EBITDA (x)	-	-	-			

Source: Hardman & Co Life Sciences Research

hardman&co

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	AGY
Price (p)	26.5
12m High (p)	28.5
12m Low (p)	17.5
Shares (m)	593.4
Mkt Cap (£m)	157.3
EV (£m)	138.4
Free Float*	38%
Market	AIM

**As defined by AIM Rule 26*

Description

AGY provides information to professionals related to prevention, diagnosis and treatment of allergic conditions with special focus on allergy vaccination and a successful treatment dealing with 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	40.5%
Southern Fox	21.1%
Odey	7.4%
Invesco	5.7%
Blackrock	3.2%

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Allergy Therapeutics

Positive trading update – Market share gains

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Pollinex Quattro continues to gain market share despite being available in Europe only on a 'Named Patient' basis. Trials to obtain full regulatory approval as a biological have progressed well in the EU, and are back on-track in the US with a planned new safety trial. AGY remains on course to have the first short-course allergy vaccine approved in both Europe and the US. Meanwhile, an excellent trading performance in 1H'17 shows that AGY is continuing to gain market share from its international peers.

- **Trading update:** Sales in the six months to December 2016 were more than £2m ahead of market expectations, with exceptional underlying growth of +18% to £40.4m (£29.0m). Weakness in sterling boosted the reported numbers by about £6.0m. This strong performance has continued into the second half.
- **Net cash:** At 31st December 2016, AGY had a cash balance of £27.8m, up from £23.4m at 30th June, and ca.£3.0m above forecasts. Assuming that debt has not changed significantly, net cash was £23.3m at the end of the period from £18.9m at 30th June, showing the cash generation from traditionally strong 1H trading.
- **Regulatory update:** Management has made important progress with the FDA and a revised programme of trials to get Grass MATA MPL approved in the US has been agreed in principle, with part of this being conducted in Europe. Meanwhile, the final trial for the EU submission is set to start in 3Q 2017.
- **Forecasts changes:** Following the strong first half sales performance, we have increased our underlying sales growth expectation from +11.5% to +13%, which is still conservative and implies only +2% growth for 2H'17. Coupled to this we have corrected for forex, which adds £7.5m to reported sales numbers.
- **Investment summary:** AGY has reported another exceptional underlying sales performance in 1H'17 against a flat market, giving significant market share gains in some countries. It has also made considerable progress towards US regulatory approval with a revised trial programme. Despite this, the shares still trade stubbornly below those of international peers that are losing market share and do not have access to the new short-course immunotherapy (SCIT) technology.

Financial summary and valuation

Year end June (£m)	2014	2015	2016	2017E	2018E	2019E
Sales	41.96	43.23	48.51	62.5	69.1	77.8
R&D spend	-2.96	-3.12	-16.22	-10.5	-15.0	-16.0
Underlying EBIT	1.39	2.91	-12.06	-4.2	-7.3	-8.1
Reported EBIT	1.21	1.41	-12.38	-4.2	-7.3	-8.1
Underlying PTP	1.27	2.84	-12.17	-4.3	-7.5	-8.3
Statutory PTP	1.08	0.65	-12.06	-4.3	-7.5	-8.3
Underlying EPS (p)	0.20	0.48	-2.31	-0.9	-1.5	-1.6
Statutory EPS (p)	0.16	0.02	-2.29	-0.9	-1.5	-1.6
Net (debt)/cash	2.25	20.14	18.86	10.9	0.7	-12.4
Shares issued	0.00	20.08	10.97	0.3	0.3	0.3
P/E (x)	129.4	54.9	-11.5	-29.1	-18.1	-16.4
EV/sales (x)	3.3	3.2	2.9	2.2	2.0	1.8

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	APH
Price (p)	48.6
12m High (p)	55.4
12m Low (p)	40.5
Shares (m)	472.6
Mkt Cap (£m)	229.7
EV (£m)	305.8
Free Float*	76%
Market	AIM

**As defined by AIM Rule 26*

Description

Alliance Pharma acquires, markets and distributes medical and healthcare brands in the UK and Europe (direct sales) and the RoW (via distributor network), through a buy and build strategy, generating relatively predictable strong cash flows.

Company information

CEO	John Dawson
CFO	Andrew Franklin
Chairman	Andrew Smith

+44 1249 466 966
www.alliancepharmaceuticals.com

Key shareholders

Directors	12.5%
MVM Life Sciences	11.8%
Aviva	9.2%
Fidelity	8.9%
Artemis	8.0%
Nigel Wray	7.7%

Dairy

23 Jan	Trading update
29 March	Finals
25 May	AGM

Analysts

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Alliance Pharma

Positive trading update

Alliance Pharma's buy-and-build strategy to evolve into a profitable, cash generative, specialty pharma business is clearly bearing fruit. Acquisition of the dermatology and woundcare products from Sinclair Pharma was transformational, doubling the size of the company and providing a more internationally-oriented business. The enlarged group is also a more attractive and credible partner for attracting in–licensing and M&A opportunities. 2017 looks set to be an exciting year for the group. Not only is there solid growth potential in the re-focused group, but approval of Diclectin in the UK also offers significant growth potential.

- **Strategy:** Since inauguration, APH has adopted a buy-and-build model thereby establishing a strong track record of 32 deals over 18 years to assemble a portfolio of >90 products. It is investing to accelerate growth through three multi-market brands, with infrastructure supported by its passive products.

- **Diclectin:** The 'unknown entity' for the future is the potential of Diclectin, which has been in-licensed for the UK and nine European countries, to achieve its commercial opportunity in morning sickness. For APH territories, this represents an estimated £40m market penetration, equivalent to 40% current group sales.

- **Forecasts:** Early evidence of success for the multi-market growth brand strategy was evident in the 2016 sales: Kelo-cote (+18%) is APH's first £10m sales product and MacuShield is up +40%. Sales forecasts have increased, but near-term investment in marketing/infrastructure will temper the profit growth rate.

- **Forex:** Translation of overseas sales benefited reported numbers by +£4.2m in 2016. This has a knock-on effect in future years which are forecast on a CER basis to provide a true picture of underlying growth. The benefit is not so great at the profit level given the natural hedge with overseas COGS and marketing costs.

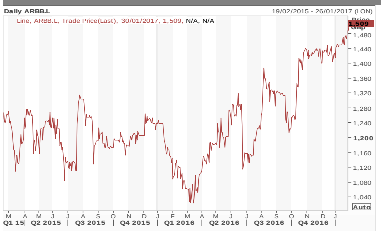
- **Investment summary:** APH is forecast to have a CAGR in EPS of 9% and DPS of 10% over the next three years. The shares are trading on a 2017 P/E of 11.3x and carry a dividend yield of 2.7%, covered 3.2x. Internationalisation of the business coupled with the accelerated growth strategy augurs well and underpins forecasts. Management intends to invest in Diclectin, initially in the UK in 2017 and 2018, given its potential to transform medium-term prospects.

Financial summary and valuation

Year end Dec (£m)	2014	2015	2016E	2017E	2018E	2019
Sales	43.5	48.3	97.5	103.0	112.0	121.0
Operating profit	12.4	13.1	26.2	28.4	31.0	36.0
Reported pre-tax profit	10.2	15.2	22.3	24.0	26.8	32.0
Underlying EPS (p)	3.3	3.9	4.1	4.3	4.8	5.7
Reported EPS (p)	3.2	4.7	3.9	4.0	4.4	5.3
DPS (p)	1.0	1.1	1.2	1.3	1.5	1.6
Net (debt)/cash	-21.1	-71.5	-76.1	-63.9	-47.4	-27.4
Net debt/EBITDA (x)	1.6	5.3	2.8	2.2	1.5	0.7
P/E (x)	14.8	12.4	11.9	11.3	10.1	8.5
EV/sales (x)	7.0	6.3	3.1	3.0	2.7	2.5
EV/EBITDA (x)	23.2	22.5	11.4	10.5	9.4	8.1
Dividend Yield (%)	2.1	2.3	2.5	2.7	3.0	3.3

Source: Hardman & Co Life Sciences Research

Speciality Finance



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	ARBB
Price (p)	1,488
12m High (p)	1,717**
12m Low (p)	1,265 **
Shares (m)	15.3
Mkt Cap (£m)	227m
Loans to deposits (2016E)	70%
Equity Leverage ratio (2016E)	18%
Free Float* (%)	43.4%
Market	AIM

*As defined by AIM Rule 26 ** pre £3 spec div*

Description

ABG has a well-funded and capitalised private bank and has been growing very strongly. It holds an 18.9% stake in Secure Trust Bank (STB). It has c£85m to invest in new organic or acquired businesses.

Company information

Chair / CEO	Sir Henry Angest
COO	Andrew Salmon
Group FD	James Cobb

Tel: +44 (0)20 7012 2400
www.arbuthnotgroup.com

Key shareholders

Sir Henry Angest	55.1%
Liontrust Inv Ptnrs LLP	5.2%
Unicorn Asset Mgmnt	4.8%
Prudential plc	5.7%
R Paston	3.5%

Diary

Feb-17	Trading state
23 Mar-17	FY16 results

Analysts

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mt@hardmanandco.com
Dr Brian Moretta 020 7929 3399
bm@hardmanandco.com

Arbuthnot Banking Group

Surplus capital and liquidity give growth options

Arbuthnot Banking Group (ABG) has three legs to its business, each offering good growth options. First, the Private Bank, Arbuthnot Latham (AL) has invested heavily in staff, products and new offices including the acquisition of Renaissance Asset Finance (completion likely Q217). Secondly, ABG owns a 18.9% stake in Secure Trust Bank the rapidly growing challenger bank (market value £79m). Finally, we estimate ABG has c£85m of surplus capital. With strong liquidity, ABG has the capacity for significant organic or inorganic growth. Our capital fully deployed valuation basis has 32% upside.

- **STB news flow:** There was no RNS news flow from ABG this month. STB's 13 January trading statement reported that results were expected to be in line with market expectations (a 10th year of 30%+ ROE). It is pulling back from unsecured lending but is positive in all other areas pricing.
- **Peers news flow:** Rathbone Brothers trading statement reported strong growth in AUM. 1PM interim results on 19th Jan reported continued good credit in SME finance. Hansard Global has announced a strategic alliance in UAE (ABG has also targeted the Middle East with an office in Dubai).
- **Market news flow:** Finance & Leasing Association data (to Nov) shows 13% annual growth in asset finance new business. In Dec 2016, UK banks on the Standardised Approach to Capital saw the residential development lending risk weighted rise to 150% (from 100%) - an opportunity for well capitalised banks.
- **Valuation:** Our base case is £16.37 (previously 1630p with a small move in Secure Trust's share price). Our methodology uses 2017 estimates which are depressed by investment. The 2018 higher earnings / NAV take our base case £18.66. Our capital fully deployed model indicates £19.66.
- **Investment summary:** ABG offers strong franchise and continuing-business (normalised) profit growth. Its balance sheet strength give it wide ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been both innovative but also very conservative in managing risk. Our base case valuation has 10% upside, rising to 26% using 2018 estimates or 32% on the full deployment of capital.

Financial summary and valuation

Year end Dec (£000)	2013	2014	2015	2016E	2017E	2018E
Operating income	100,020	92,049	34,815	40,865	50,719	66,143
Total costs	(76,231)	(66,165)	(35,926)	(44,163)	(47,630)	(56,472)
Cost income ratio	76%	72%	103%	108%	94%	85%
Total impairments	(18,807)	(11,953)	(1,284)	(846)	(1,072)	(1,425)
Reported pre-tax	15,713	13,931	(2,395)	(298)	7,095	14,086
Adj pre-tax	18,528	15,327	3,187	5,952	9,595	15,586
Statutory EPS (p)	77.3	58.0	86.3	1,120.3	41.5	84.7
Adj EPS (p)	92.1	78.2	20.5	24.4	55.4	93.2
Loans / deposits (%)	76%	97%	82%	70%	78%	83%
Equity / assets (%)	6.1%	7.8%	5.5%	17.6%	15.3%	13.1%
P/Adj Earnings (x)	16.2	19.0	72.7	60.9	26.9	16.0
P/BV (x)	3.4	2.0	1.8	1.0	1.0	0.9

*Source: Hardman & Co Research * Includes fully consolidated STB **NAV increased with STB share sales*

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	AVCT
Price (p)	70.5
12m High (p)	123.0
12m Low (p)	68.8
Shares (m)	68.4
Mkt Cap (£m)	48.2
EV (£m)	31.9
Free Float*	57%
Market	AIM

**As defined by AIM Rule 26*

Description

Avacta is a pre-clinical stage biotechnology company developing biotherapeutics based on its proprietary Affimer protein technology which benefits from near-term revenues from research and diagnostic reagents

Company information

CEO	Alastair Smith
CFO	Tony Gardiner
Chairman	Trevor Nicholls

+44 1904 217 046
www.avacta.com

Key shareholders

Directors	4.2%
IP Group	24.8%
Henderson	11.8%
Aviva	9.8%
Baillie Gifford	7.7%
Ruffer LLP	7.1%

Diary

17 Oct	Hardman report
Apr-17	Interims

Analysts

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Avacta

Comprehensive review of progress in 2016

Avacta is the proprietary owner of Affimer technology for the development of bio-therapeutics, diagnostic tests and research reagents. Affimers represent a revolutionary alternative to the established antibody technology which dominates the drug industry despite its limitations. Avacta has made considerable progress towards its strategic goal to have a first-in-man Affimer therapeutic by the end of 2019. Meanwhile, its reagent business is continuing to deliver on three initial areas of strategic focus. There will be greater recognition of the long-term potential of Affimers in the enterprise value as Avacta signs more licensing/collaboration deals.

- **Strategy**: To commercialise its Affimer technology through a combination of bespoke research and diagnostic tools, collaborative deals and by developing its own proprietary therapeutic Affimer lead compounds. With ca.£17m on deposit, the company has the resource to deliver on its stated strategy.
- **AGM update**: Management provided a comprehensive update for investors on the company's progress and achievements in fiscal 2016 at its AGM. There is clearly an increasing awareness and level of interest in Affimer technology as evidenced by the multiple paid-for ongoing evaluations and collaborations.
- **Therapeutics:** In just 12 months, Avacta has identified its first Affimer leads, completed animal efficacy and pharmacokinetic studies, both with positive outcomes, expanded its immuno-oncology pipeline, and commenced immunogenicity studies which are expected to complete during 2017.
- **Partnerships:** Avacta continues to see progress with its declared partners using Affimers for new reagents, diagnostics and bio-pharmaceuticals. Collaborators that undertook early custom Affimer evaluations are increasingly returning with multiple repeat orders, which may lead to potential licensing deals.
- **Investment summary:** The enterprise value of Avacta does not reflect the value that big pharma is prepared to pay for disruptive technologies and assets. Several recent deals have reaffirmed the median up-front payments in the order of US$17m and US$40m for pre-clinical and Phase I assets respectively. Licensing deals for both therapeutics and reagent assets will further validate the technology, as will moving an Affimer therapeutic into man.

Financial summary and valuation

Year end July (£m)	2014	2015	2016	2017E	2018E	2019E
Sales	3.18	1.81	2.17	3.00	3.40	3.80
EBITDA	-1.33	-2.34	-4.59	-6.20	-6.68	-7.26
Underlying EBIT	-1.86	-2.91	-5.39	-7.50	-8.03	-8.66
Reported EBIT	-2.07	-5.57	-5.66	-7.80	-8.36	-9.03
Underlying PBT	-1.83	-2.89	-5.29	-7.43	-7.99	-8.67
Statutory PBT	-2.04	-5.54	-5.57	-7.72	-8.32	-9.04
Underlying EPS (p)	-3.07	-4.50	-6.46	-9.59	-10.24	-11.05
Statutory EPS (p)	-3.57	-9.84	-6.86	-10.03	-10.72	-11.58
Net (debt)/cash	11.48	7.33	19.52	11.58	2.82	-6.61
Capital increases	14.54	0.02	21.05	0.00	0.00	0.00
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	-	-	-	-

Source: Hardman & Co Life Sciences Research

Burford Capital

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	BUR
Price (p)	634.0
12m High (p)	660.0
12m Low (p)	207.0
Shares (m)	208.2
Mkt Cap (£m)	1320.2
Total assets ($m)	756.8
Free Float*	86%
Market	AIM

**As defined by AIM Rule 26*

Description

Burford Capital is a leading global finance and professional services firm focussing on law. Its businesses include litigation finance, insurance, law firm lending, corporate intelligence and judgement enforcement, bankruptcy litigation funding, advisory and professional services and a wide range of professional activities.

Company information

CEO	Christopher Bogart
CIO	Jonathan Molot
Chairman	Sir Peter Middleton

+1 (212) 235-6820
www.burfordcapital.com

Key shareholders

Directors / Management	14%
Invesco Perpetual	25.9%
Woodford Investments	10.0%
Fidelity Worldwide	8.7%
Aberdeen Asset	4.9%

Diary

14 Mar 2017	Full year results

Analysts

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Positive judgement from the secondary market

On 3rd January Burford announced that on 30th December it had sold an interest in the Petersen claim to a third party investor at a price that implied a valuation of more than ten times Burford's investment. The claim has been progressing well and, having passed a significant milestone in 2016, would have been expected to rise in value regardless of any transaction. This is the second secondary market transaction that Burford has completed, each demonstrating a gain over the existing valuation. In this report we discuss the implications for valuations, both for this specific case and for the portfolio as a whole.

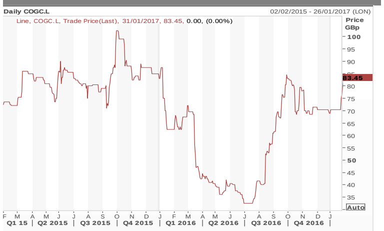
- **Earnings**: Although the multiple of investment is well ahead of Burford's likely valuation of it, the statement suggests that the actual monetary gain will be small. We have upgraded our expected revenue by $4m to reflect this gain, giving a 5% upgrade to 2016E.
- **Balance sheet:** Burford have invested a sum 'of less than $18m' into the Petersen claim. There may be an effect on the valuation, but this is very hard to quantify. The asset was likely to be revalued upwards anyway, and, as discussed in this report, this is unlikely to reflect the full transaction value.
- **Valuation:** With the recent deal enhancing earnings and supported by helpful currency moves, Burford's rating remains good value despite the strong share price performance. The prospective P/E for 2018E is only 14.6 times, while an 18% RoE with strong growth suggests excellent metrics all round.
- **Risks:** The investment portfolio is fairly diversified, but retains some very large investments, which means revenue may be volatile. As the company matures we would expect that to decrease, but not to disappear. The Petersen case shows that this volatility is not simply a negative.
- **Investment summary:** Burford has already demonstrated an impressive ability to deliver good returns in a growing market while investing its capital base. As the invested capital continues to grow, the litigation investment business will continue to produce strong earnings growth.

Financial summary and valuation

Year end Dec ($m)	2013	2014	2015	2016E	2017E	2018E
Revenue	60.7	82.0	103.0	131.0	167.3	190.2
Operating Profit	42.5	60.7	77.2	100.9	125.7	141.8
Reported net income	2.6	45.4	64.5	81.2	100.7	116.0
Underlying net income	40.1	53.0	64.5	81.2	100.7	116.0
Underlying Return on Equity	11.7%	12.1%	16.3%	17.4%	18.6%	18.2%
Underlying EPS ($)	0.20	0.26	0.32	0.39	0.48	0.56
Statutory EPS ($)	0.01	0.22	0.32	0.40	0.48	0.56
Dividend per share ($)	0.05	0.07	0.08	0.09	0.11	0.12
Yield	0.6%	0.9%	1.0%	1.1%	1.3%	1.5%
NAV per share ($)	1.72	1.87	2.12	2.40	2.79	3.34
P/E (x) (underlying)	40.7	30.9	25.3	20.5	16.5	14.3
Price/NAV (x)	4.6	4.3	3.8	3.3	2.9	2.4

Source: Hardman & Co Research

Pharmaceuticals & Biotech



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	COG
Price (p)	76.5
12m High (p)	87.0
12m Low (p)	30.0
Shares (m)	20.4
Mkt Cap (£m)	15.6
EV (£m)	14.3
Free Float*	53%
Market	AIM

**As defined by AIM Rule 26*

Description

Cambridge Cognition is a neuroscience technology company which develops and commercialises a complementary suite of near-patient assessment solutions to improve the understanding, diagnosis and treatment of neurological and psychiatric disorders.

Company information

CEO	Dr Steven Powell
CFO	Nick Walters
Chairman	Michael Lewis
UK	+44 1223 810 700
US	+1 844 377 2917

www.cambridgecognition.com

Key shareholders

Directors	0.3%
Euroblue	20.9%
Octopus	14.6%
M.Buxton	14.1%
Hargreave Hale	7.8%

Diary

13-Oct	Hardman research
Mch-17	Finals
Jun-17	AGM

Analysts

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Cambridge Cognition Holdings

US approval for CANTAB Mobile

Cambridge Cognition is a technology company that has developed a suite of computer-based cognitive assessments to improve the understanding, diagnosis and treatment of neurological and psychological diseases. Demand for these products is increasing in the fields of drug development, academic research and occupational health. The company's integrated product offering covers every stage of drug development and it has invested in infrastructure to support an accelerated growth strategy. Despite this, the shares are rated at the lower end of an international peer group, which suggests that there is further upside potential.

- **Strategy:** Given COG's comprehensive range of validated tests, management has embarked on an accelerated growth strategy for each of its business areas: Research, Clinical trials, Healthcare. Licensing-in/acquisition of complementary tests, technologies and products has enhanced the overall offering.

- **FDA approval:** COG has received 510(k) clearance from the US FDA for CANTAB Mobile, its 10 minute touchscreen test to detect clinically-relevant memory impairment. This allows commercialisation of the product which has received interest from 1° and 2° care organisations and corporate health providers.

- **Contract wins:** In 4Q 2016, COG announced three new contracts for its cloud-based CANTAB Connect worth in total ca.£3m, with about one-third accruing in 2016. There is increased interest in this product for use in clinical trials to measure abuse potential of putative drugs to satisfy increasingly demanding regulations.

- **Valuation:** Recent share price appreciation has left COG trading on a 2016 EV/sales of 2.1x. Given that it has the most comprehensive product offering, long-term experience and strong sales growth, it should trade on a similar rating to its fast growing competitor, Cogstate, on 3.4x prospective EV/sales for 2016E.

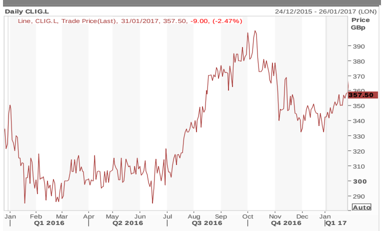
- **Investment summary:** Two business areas are profitable, and the third is forecast to be profitable within three years following a change of emphasis and launch of new products. Commercial access to the US market following FDA approval is an important step. Given its similar global experience and growth profile, the stock should be trading more in-line with Cogstate, which recently issued a strong quarterly report, suggesting that there is further upside.

Financial summary and valuation

Year end Dec (£000)	2013	2014	2015	2016E	2017E	2018E
Sales	4,148	5,802	5,042	6,842	8,039	10,049
Underlying EBIT	-1,989	-212	-591	166	535	1,240
Reported EBIT	-2,952	-304	-867	90	451	1,148
Underlying PBT	-2,021	-203	-591	168	538	1,242
Statutory PBT	-2,984	-295	-867	92	454	1,150
Underlying EPS (p)	-14.10	-0.49	-3.01	0.87	2.63	6.08
Statutory EPS (p)	-21.27	-1.05	-4.65	0.48	2.22	5.63
DPS (p)	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt)/cash	2,261	1,519	756	1,866	2,041	2,826
Capital increases	4,413	0	78	1,139	0	0
P/E (x)	-	-	-	87.9	29.1	12.6
EV/sales (x)	3.4	2.5	2.8	2.1	1.8	1.4

Source: Hardman & Co Life Sciences Research

Financial Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	CLIG
Price (p)	358.8
12m High (p)	400.1
12m Low (p)	285.0
Shares (m)	26.9
Mkt Cap (£m)	96.5
EV (£m)	86.3
Market	LSE

**As defined by AIM Rule 26*

Description

City of London is and investment manager specialising in using closed end funds to invest in emerging markets.

Company information

CEO	Barry Olliff
CFO	Tracy Rodrigues
Chairman	David Cardale

Telephone number
www.citlon.com

Key shareholders

Directors & staff	20.3%
BlackRock	9.2%
Hargreave Hale	4.9%
Slater Investments	3.7%
Polar Capital	3.3%
Shareholder 5	%

Diary

20 Feb-17	Half-year results
2 Mar-17	Ex-dividend date for interim
17 Mar-17	Interim dividend paid
11 Apr-17	Q3 Trading update

Analysts

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City of London Investment Group

Q2 statement shows robust profitability

City of London has issued a trading statement for the first half of the 2017 financial year. As we noted previously, emerging market equities performed poorly in November, offsetting some of the good performance in the previous quarter and the MSCI Emerging Markets Index finished the half up 4.5%. City of London's FUM were $4.1bn at 31 December, up 2.5% from the $4.0bn as of the end of June. Investment performance has been challenging in the main emerging strategy market, with country allocation and underlying CEF performance contributing to a lagging of the market.

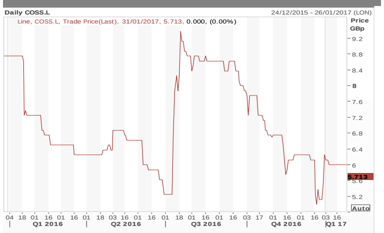
- **Operations**: The company indicates a current monthly run rate of operating profit before profit share of £1.4m, a slight decrease from the £1.5m rate in October reflecting the weak market. Overall the first half PBT is approximately £5.8m, a great improvement on the £3.6m in FY2016.
- **New business:** There is an active pipeline in excess of $400m across all the company's product areas. The company notes greater interest in the non-emerging market CEF strategies over the last 12 months, suggesting continued improvement in diversification.
- **Valuation:** The prospective P/E of 10.1 times is at a significant discount to the peer group. The historic yield of 6.7% is very attractive and should at the very least provide support for the shares in the current volatile markets. At current market levels we'd expect dividend cover to be restored in 2017.
- **Investment summary:** City of London has continued to show robust performance in challenging market conditions. The valuation remains reasonable. At current FUM and exchange rates, dividend cover will be more than restored in FY2017 adding to investor's comfort.

Financial summary and valuation

Year end Jun (£m)	2013	2014*	2015	2016	2017E	2018E
FUM ($bn)	3.71	3.90	4.20	4.00	4.40	4.88
Revenue (£m)	29.36	24.22	25.36	24.41	29.90	32.67
Statutory PTP	6.27	5.20	6.61	5.85	8.81	9.58
Statutory EPS (p)	24.9	20.7	26.4	23.3	35.4	38.5
Dividend (p)	24.0	24.0	24.0	24.0	25.0	26.0
P/E (x)	14.4	17.3	13.6	15.4	10.1	9.3
Yield	6.7%	6.7%	6.7%	6.7%	7.0%	7.2%

Source: Hardman & Co Research

Healthcare Equipment & Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	COS
Price (p)	6.0
12m High (p)	10.3
12m Low (p)	4.6
Shares (m)	179.6
Mkt Cap (£m)	10.8
EV (£m)	9.6
Free Float*	74%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Jamal Rushdy
CFO	Gill Black
CSO	Stewart White
Chairman	David Evans

+44 141 648 9100
www.collagensolutions.co.uk

Key shareholders

Directors + management	26.0%
Helium Rising Stars	7.6%
Northern Venture Trust	7.4%
Calculus Capital	6.3%
Legal & General	5.8%

Diary

21 Dec 2016	Hardman report
Jly-17	Finals
Aug-17	AGM

Analysts

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Collagen Solutions

Creation of SAB; new project award

Collagen Solutions is a biomaterials company developing and manufacturing medical grade collagen components for use in medical devices, *in vitro* diagnostics, and regenerative medicine. New leadership has introduced a number of initiatives and is investing in global commercial infrastructure to build on its strong base business and to execute on a scalable growth strategy. Emphasis on development of its proprietary product pipeline continues, with the creation of a Scientific Advisory Board and the announcement of a third Medical Research Scotland funded project.

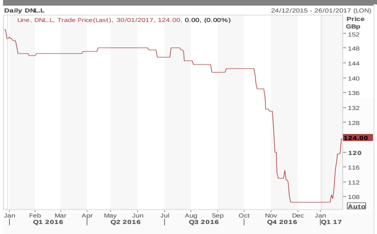
- **Strategy:** Under new leadership, strategy has been re-focused and multiple initiatives introduced to increase the growth opportunities. The strategy to move COS from a reliable collagen supplier to one that also has proprietary products will move it into profitability and cash generative at a faster pace.
- **Medical Research Scotland award:** Grant funding for a new research project at the School of Engineering, University of Glasgow has been awarded, to be undertaken as a PhD studentship. It will research the application of collagen as a scaffold to aid healing of bone in critical size defects.
- **SAB:** COS has established a Scientific Advisory Board with three appointees: Dr Andrew Lynn, founder of Orthomimetics Ltd; Dr Tom Buckland, who brings end-to-end medical device commercial expertise; and Prof William Walsh, who has extensive academic and industry experience in orthopaedics and surgery.
- **Risks:** Timing of development & manufacturing contracts, supply agreements, customers' regulatory delays, and potential competition from alternate biomaterials. However, sequential half year sales growth and ca.70% of 2017 sales already secured suggest that risks to forecasts have been minimised.
- **Investment summary:** 2016 was transformational for COS: the new leadership team realigned strategy onto an accelerated growth platform, yet maintaining core objectives. Investment in new opportunities (e.g. the in-licensed Orthomimetics family) and R&D continues to build a strong pipeline that should drive long term growth, whilst delivering short term financial objectives.

Financial summary and valuation

Year end March (£000)	2014	2015	2016	2017E	2018E	2019E
Sales	24	973	3,130	4,110	5,170	6,720
Underlying EBITDA	-364	-663	-374	-601	73	777
Underlying EBIT	-381	-793	-721	-1,048	-454	231
Underlying PBT	-381	-920	-983	-1,172	-682	28
Statutory PBT	-480	-1,102	-866	-1,222	-732	-22
Underlying EPS (p)	-0.87	-0.98	-0.64	-0.77	-0.49	-0.11
Statutory EPS (p)	-1.10	-1.17	-0.57	-0.80	-0.51	-0.14
Net (debt)/cash	1,492	3,282	2,384	1,366	-284	-1,277
Capital increase	3,374	5,422	207	1,027	1,000	0
P/E (x)	-6.9	-6.1	-9.4	-7.8	-12.4	-52.9
EV/sales (x)	-	8.1	2.5	1.9	1.5	1.2
EV/EBITDA (x)	-	-	-	-	-	10.2

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	DNL
Price (p)	125
12m High (p)	153
12m Low (p)	105
Shares (m)	52.2
Mkt Cap (£m)	65.3
EV (£m)	38.4
Free Float*	17%
Market	AIM

**As defined by AIM Rule 26*

Description

Diurnal is a UK-based specialty pharma company targeting patient needs in chronic, potentially life threatening, endocrine (hormonal) diseases. It has two products in late-stage clinical trials which are expected to be submitted to the regulators for approval in the next 12 months

Company information

CEO	Martin Whitaker
CFO	Richard Bungay
Chairman	Peter Allen

+44 (0) 29 2068 2069
www.diurnal.co.uk

Key shareholders

Directors	3.3%
IP Group	45.6%
Finance Wales	22.1%
Invesco	12.5%
Oceanwood Capital	7.7%

Diary

27 Oct 2016	Hardman Initiation
Jun-17	FY-17
4Q-17	Infacort MA expected

Analysts

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Diurnal Group

Infacort – Instigated pre-launch activities

Diurnal is a clinical stage specialty pharmaceutical company focused on diseases of the endocrine system, with two lead candidates – Infacort® and Chronocort® – targeted at rare diseases with unmet medical need through which it aims to build a long-term 'Adrenal Franchise'. The cortisol replacement market is for conditions that need life-long treatment, with a global potential value of $3.5bn. Diurnal has signed agreements with two strategic partners, putting in place the foundations of the commercial infrastructure for the commercialisation of the paediatric product Infacort. DNL anticipates market authorisation in Q4'17 and sales from Q1'18

- **Strategy**: Diurnal's strategic goal is to create a valuable 'Adrenal Franchise' that can treat patients with chronic cortisol deficiency diseases. Once Infacort and Chronocort are established in Europe and the US, the long-term vision is to expand the product offering to other conditions linked to the endocrine system.
- **Marketing strategy:** Diurnal has the ambition to commercialise Infacort by itself in major European territories, gaining the full commercial value of Infacort. The market authorisation dossier was submitted to the EMA in December 2016, suggesting market authorisation late in 2017, and sales early 2018.
- **Pre-launch activity:** Diurnal is building up the foundation of Infacort commercialisation in Europe and other territories by signing two agreements with strategic partners, both part of the UDG healthcare group, to support the development of the sales networks and the supply chain.
- **Strategic partners:** Part of the UDG healthcare group, Ashfield and Sharp are global specialists in commercialisation services and packaging, respectively. They will bring extensive expertise in developing the commercial infrastructure for a prompt and effective market introduction of Infacort.
- **Investment summary:** A risk-adjusted DCF model of its two leading products suggests that Diurnal should be trading at 400p per share, with an EV of £209m. This is supported by relative valuation analysis compared to peer group of similar stage development companies in the field of endocrinology, with Corcept (CORT.OQ) being a good example of valuation potential when sales are achieved.

Financial summary and valuation

Year end June (£m)	*2014	*2015	2016	2017E	2018E	2019E
Sales	0.00	0.00	0.00	0.00	1.04	3.43
SG&A	-0.99	-1.55	-1.99	-5.71	-7.43	-9.19
R&D	-0.93	-1.82	-3.89	-8.94	-9.03	-9.12
EBITDA	-0.93	-2.98	-5.87	-14.64	-15.52	-15.22
Underlying EBIT	-0.94	-2.99	-5.88	-14.65	-15.52	-15.22
Reported EBIT	-0.94	-2.99	-6.99	-15.16	-16.06	-15.79
Underlying PBT	-0.98	-3.02	-5.95	-14.76	-15.71	-15.51
Statutory PBT	-0.98	-3.02	-7.06	-15.27	-16.25	-16.08
Underlying EPS (p)	-3.72	-8.49	-12.48	-26.10	-27.91	-27.50
Statutory EPS (p)	-4.13	-8.72	-15.02	-27.09	-28.94	-28.59
Net (debt)/cash	-0.34	6.05	26.88	13.30	-0.86	-15.52
Capital increases	0.00	9.25	24.52	0.00	0.00	0.00

**Year to July*

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	EVG
Price (p)	21.0
12m High (p)	35.0
12m Low (p)	14.5
Shares (m)	73.1
Mkt Cap (£m)	15.4
EV (£m)	8.2
Free Float*	50%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Dr Stephen Franklin
CFO	John Bradshaw
Chairman	Barry Clare

+44 151 705 3532
www.evgen.com

Key shareholders

Directors	3.2%
North West Fund	22.1%
Rising Stars	16.3%
AXA	8.9%
South Yorkshire	5.2%
Seneca	4.8%

Diary

14 Dec 16	Hardman report
May-17	Finals
Jun-17	AGM

Analysts

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Evgen Pharma

SFX-01 – First patient dosed in second Phase II trial

Evgen is a virtual pharmaceutical company focused on the development of a synthetic version of sulforaphane, which is known to modulate key signalling pathways involved in cellular protection and inflammation. Evgen's proprietary technology, Sulforadex, creates new and stable variants of sulforaphane, enabling it to be used as a therapeutic for the first time. Lead compound, SFX-01, is in Phase II for subarachnoid haemorrhage (SAH) and Evgen just announced that the first patient has been dosed in the breast cancer STEM Phase II trial. This is a multi-centre (15 site) trial being perfromed in five countries.

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

- **Sulforaphane:** An established natural product known to modulate signalling pathways involved in cellular protection (oxidative stress response) and inflammation. However, use of sulforaphane as a therapeutic has been held back by its instability, a problem resolved using the Sulforadex technology.

- **SFX-01:** First of a potential series of stable synthetic variants of sulforaphane. Patient recruitment has commenced, for both Phase II clinical trials in subarachnoid haemorrhage and ER+ metastatic breast cancer. Headline results are expected during 1H 2018.

- **Phase II breast cancer:** The first patient has been dosed with SFX-01 in the STEM trial. The combination therapy will recruit 60 ER+ breast cancer patients. By targeting cancer stem cells, SFX-01 offers the potential to delay or reverse the resistance that develops to current breast cancer therapies.

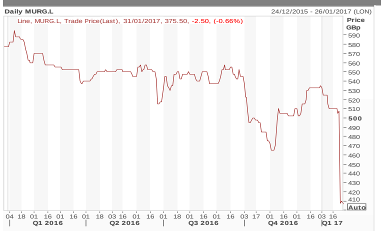
- **Investment summary:** SFX-01 is being targeted initially at conditions which have multi-billion dollar potential and where there is an unsatisfied medical need. There is also potential to use it in other indications. Evgen intends to out-license its drugs to the pharmaceutical majors for global commercialisation. The enterprise value afforded to Evgen by the market does not reflect properly the development stage of SFX-01 and the lower than usual risk profile.

Financial summary and valuation

Year end March (£000)	2015	2016	2017E	2018E	2019E
Sales	0	0	0	0	0
SG&A	-312	-338	-980	-1,010	-1,050
R&D	-484	-612	-3,029	-2,181	-3,054
EBITDA	-789	-942	-4,002	-3,183	-4,096
Underlying EBIT	-796	-950	-4,010	-3,191	-4,104
Reported EBIT	-1,246	-2,434	-4,135	-3,322	-4,241
Underlying PBT	-1,853	-1,733	-3,999	-3,187	-4,106
Statutory PBT	-2,303	-3,217	-4,124	-3,318	-4,244
Underlying EPS (p)	-6.2	-3.3	-4.9	-3.9	-5.0
Statutory EPS (p)	-7.8	-6.3	-5.1	-4.1	-5.2
Net (debt)/cash	-903	7,126	3,264	543	-3,221
Capital increases	0	8,565	0	0	0

Source: Hardman & Co Life Sciences Research

Support Service



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	MUR
Price (p)	377
12m High (p)	605
12m Low (p)	370
Shares (m)	9.0
Mkt Cap (£m)	33.9
EV (£m)	32.4
Free Float*	53%
Market	AIM

**As defined by AIM Rule 26*

Description

Murgitroyd is a global business, engaged in providing a range of intellectual property advisory services such as patents, trademarks, translations. The largest market exposure is in the US.

Company information

CEO	Keith Young
CFO	Keith Young
Chairman	Ian Murgitroyd

0141 307 8400
www.murgitroyd.com

Key shareholders

Directors	32.0%
Ian Murgitroyd (director)	27.0%
State Street nominee	17.6%
Chase nominee	6.9%
HSBC nominee	4.8%
E Thompson (Ms)	4.3%

Diary

Jun-17	Trading Update

Analyst

Mike Foster 020 7148 0545
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Murgitroyd

Yield attraction – H2 recovery

On Monday 30th January, Murgitroyd interims showed revenue up 5% (like for like +4% but adjusting for US$ strength, a minimal fall in revenue). Profits fell 30% (although some was a result of acquisition costs). The interim dividend has been increased 5% and we anticipate final will likely be raised too. On 24th it had issued a profit warning driven in part by lower than expected revenue growth. There were also H1 costs, in part acquisition related. As Murgitroyd stated: "the combination of the acquisition, a significant increase in the level of investment in business development, sales and marketing, and lower than anticipated revenue growth means that interim earnings are also behind management's budgeted level." Operating cash flow and the dividend are robust features.

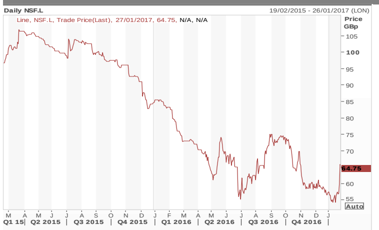
- **Confidence for H2 and onwards**: The chairman stated with the results that "the Board remains confident that it can deliver sustainable long-term growth and value to shareholders, reflected in the continuation of the progressive dividend policy." Our estimates reflect H2 profits to be 95% of comparable prior year.
- **Difficult markets**: Markets' pricing remains unhelpful with clients seeking more for less. The main driver to the significant 2017 downgrade does appear to be also a result of revenue falling short of expectations. So too is a profit shift to H2. Last month we wrote "Thus, with a story of 'swings and roundabouts'." Clearly we were overly sanguine about the balance between these difficult forces and Murgitroyd's ability to match expectations of its efficiency increase accommodating this. Whilst H1 was poor, profits improve from here.
- **Valuation**: 2017 sees downgrades but also a push of profits into H2. The former H2 2017 estimates of £2.2m have been maintained unchanged. The true benchmark is FY18, which reduces 12%. The rating offers recovery scope once investors become more confident 2017 represents the nadir. Our 2017 estimates were £4.5m PBT, with £4.8m 2018 and are reduced as outlined below.
- **Investment summary**: Free cash flow yield remains a strong feature and this is being translated into ongoing strong dividend growth. The dividend yield – on a safe and steady global business – is particularly attractive. Maybe the profit warning's timing unsettled, but on calmer reflection, the prospects do underpin the current valuation. This is a safe business we consider – ungeared – but one where customers have over some years become ever more price conscious.

Financial summary and valuation

Year end May (£m)	2014	2015	2016	2017E	2018E
Sales (£m)	38.4	39.8	42.2	44.0	45.5
EBITDA (£m)	4.6	4.5	4.6	4.1	4.5
PBT (£m)	4.2	4.2	4.3	3.7	4.2
EPS (p)	33.6	34.5	35.0	30.1	33.8
DPS (p)	13.3	14.8	16.0	16.8	17.8
Net (debt)/cash (£m)	(0.4)	0.7	2.8	1.7	2.7
Net debt/EBITDA (x)	0.1	cash	cash	cash	cash
P/E (x)	11.2	10.9	10.8	12.5	11.2
EV/Sales (x)	0.8	0.8	0.7	0.7	0.7
EV/EBITDA (x)	7.0	7.1	7.0	7.9	7.2
FCF Yield (%)	6.8	6.3	6.8	5.4	5.9
Dividend Yield (%)	3.5	3.9	4.2	4.5	4.7

Note: our estimates adjust to exclude acquisition transaction costs *Source: Hardman & Co*

Financial Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	NSF
Price (p)	65.5
12m High (p)	99.25
12m Low (p)	54.4
Shares (m)	317
Mkt Cap (£m)	208
EV (£m)	276
Free Float*	99%
Market	Main

**exc director's current holdings*

Description

In the UK non-standard lending market, NSF has the market leading network in unsecured branch-based lending, is number three in home credit, and a scalable platform in the growing guaranteed loans market.

Company information

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

Tel: +44 (0)2038699026

www.nonstandardfinance.com

Key shareholders

Invesco	26.69%
Woodford Investment	22.02%
Marathon Asset Mgt	10.18%
Secure Trust Bank	7.42%
Toscafund Asset Mgt	3.71%
Jupiter Asset Mgt	2.99%

Diary

Mar-17	FY16 results

Analysts

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Dr Brian Moretta 020 7929 3399
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Non-Standard Finance

Delivering the franchise growth

We reviewed NSF in our initiation note titled Carpe Diem issued on 11 November 2016. In the UK, unsecured, non-standard lending market, NSF has the leading network in branch-based lending, is number three in home credit, and has a growing guaranteed loans business. It's medium term targets of 20% loan book growth and a 20% pre-tax return on assets for each operating division looks credible. NSF is under-geared and its existing debt facilities will fund our projected growth through to mid-2018. The January operational update reported loan growth of 17-18%. Our valuation methodologies indicate 54% upside.

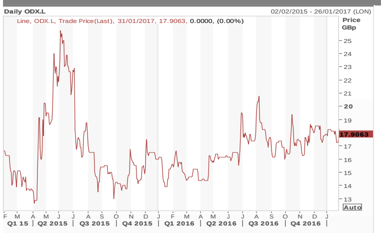
- **Strategy:** NSF has acquired national franchises in home collect, branch-based lending and guarantor loans. It is now extending the geographic, product, staff/agent and customer reaches to generate volume growth. These and wider pricing and efficiency gains should more than offset a higher impairment charge that will likely accompany strong loan book growth.
- **NSF operational update 17 January:** NSF reported loans were up 18-19% in each division. The branch business new loan yields were 55% (51% in April). Agent numbers in home collect were 785 (forecast 750). Technology and branch investments have continued. Whilst we made no material change to our forecasts, the shares rose 3% on the day and have risen further since.
- **Peer news flow:** PFG's trading statement (17 Jan) reported 7% receivables growth in home credit, a mix-driven drop in yield and stable credit. FY results were expected to be "in line". Morses Club acquired Shelby Finance to accelerate its online lending. H&T rose 5% on its trading statement (10 Jan).
- **Valuation:** The average of our absolute approaches is 101p (54% upside). The greatest upside (73%) is in our Gordon Growth model which we believe best captures NSF's long-term growth and value added prospects. Peer valuations have 12% upside but we believe the whole sector is under-valued.
- **Investment summary:** Substantial value should be created as: (i) competitors' have withdrawn (ii) NSF is well-capitalised with access to significant debt funding; (iii) positive macro-economic drivers, and (iv) NSF has an experienced management team delivering technological efficiency without compromising the key F2F model. Targets of 20% loan book growth, 20% ROA for each of its operating divisions appear credible and investors are paying just 9.6x 2018 PE.

Financial summary and valuation

Year end Dec (£000)	2015	2016E	2017E	2018E
Reported revenue	9,201	80,856	102,872	140,560
Total impairments	(3,858)	(24,759)	(30,046)	(36,412)
Total costs	(15,370)	(55,282)	(63,842)	(71,056)
EBITDA	(5,799)	12,021	17,232	33,538
Reported pre-tax	(16,092)	(5,906)	920	16,861
Adj pre-tax (pro for)		15,702	20,327	25,789
Statutory EPS (p)	(21.3)	(1.5)	0.2	4.3
Adj EPS (p)	1.3	4.8	5.6	6.8
P/ Adj Earnings (x)	50.4	13.6	11.7	9.6
P/BV (x)	0.8	0.8	0.8	0.8
P/tangible book	2.2	2.0	2.0	1.8
Yield	0.0%	2.0%	3.4%	4.6%

*Source: Hardman & Co Research * Includes fully consolidated STB **NAV increased with STB share sales*

Healthcare Equipment & Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	ODX
Price (p)	17.5
12m High (p)	21.0
12m Low (p)	13.5
Shares (m)	108.7
Mkt Cap (£m)	19.0
EV (£m)	17.6
Free Float*	81%
Market	AIM

**As defined by AIM Rule 26*

Description

Omega Diagnostics Group is a medical diagnostics company involved in Food Intolerance, Allergy & Autoimmune, and Infectious Disease. It has an established core diagnostics business where the offering is being significantly expanded and is developing a point-of-care molecular diagnostics test for use in HIV that offers fast and accurate results.

Company information

CEO	Andrew Shepherd
CFO	Kieron Harbinson
Chairman	David Evans

+44 1259 763 030
www.omegadiagnostics.com

Key shareholders

Directors	5.8%
Legal & General	12.9%
Liontrust	8.0%
Octopus Invests.	6.1%
Mobeus Partners	6.0%

Diary

29 Nov 2016	Hardman report
Jun-17	Finals

Analysts

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dmh@hardmanandco.com
Gregoire Pave 020 7148 1434
gp@hardmanandco.com

Omega Diagnostics Group

Pune manufacturing facility receives accreditation

Omega Diagnostics Group has an established core business providing high quality *in vitro* diagnostic tests within three core areas of competence – Food Intolerance, Allergy & Autoimmune, Infectious Disease – that are sold in over 100 countries. The group offers steady low single-digit growth which is profitable and cash generative. Investment in new products has seen the launch of a new panel of automated allergy tests and progress on Visitect CD4 for monitoring of HIV positive patients. Management is aware of the opportunities to accelerate growth of the business, particularly Allersys, which has drawn the attention of its partner.

- **Strategy**: Omega's established core business of providing over 100 *in vitro* diagnostic tests to over 100 countries provides a steady, profitable and cash generative business. Global healthcare demand for preventative measures is generating a number of high growth opportunities.

- **New allergy tests:** Following considerable investment, Omega recently received CE Mark and launched a new panel of tests for 41 of the most common allergens to be run on Immunodiagnostics' IDS-iSYS platform. First orders prompted an approach from partner IDH about changing their commercial relationship.

- **Immunodiagnostics:** Following further discussions, IDH has confirmed that it would like to expand its distribution relationship for Allersys. Currently, it has exclusive distributor rights for eight European countries and the US. Further discussions will focus on how a more global reach can be achieved to the satisfaction of both parties.

- **Pune accreditation:** The new manufacturing facility has received certificates of accreditation form BSI confirming it is ISO compliant. This ensures that the product conforms to international recognised quality standards and is a pre-requisite for CE Mark. Meanwhile, the malaria test can now be sold in India.

- **Investment summary:** Being an established player with a wide range of tests available globally makes ODX attractive. Careful management and re-investment of resources is resulting in an exciting period of new product launches. Expansion of the current relationship with IDH for Allersys towards a more extensive global distribution arrangement makes sense.

Financial summary and valuation

Year end March (£m)	2013	2014	2015	2016	2017E	2018E
Sales	11.26	11.59	12.11	12.74	14.32	15.00
EBITDA	1.05	1.75	1.67	1.66	1.52	1.66
Underlying EBIT	0.38	1.07	1.35	1.34	1.18	1.30
Reported EBIT	0.31	0.94	0.67	0.67	0.51	0.63
Underlying PBT	0.35	1.08	1.36	1.33	1.17	1.28
Statutory PBT	0.28	0.96	0.68	0.66	0.50	0.61
Underlying EPS (p)	0.77	1.19	1.30	1.14	1.14	1.25
Statutory EPS (p)	0.67	0.99	0.05	0.93	0.52	0.63
Net (debt)/cash	-1.19	2.37	1.42	0.89	0.13	-0.56
Capital increases	0.00	3.75	0.00	0.00	0.00	0.00
P/E (x)	22.8	14.8	13.5	15.3	15.4	14.0
EV/sales (x)	1.6	1.5	1.5	1.4	1.2	1.2

Source: Hardman & Co Life Sciences Research

Travel & Leisure

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	PPH
Price (p)	734
12m High (p)	815
12m Low (p)	556
Shares (m)	42.2
Mkt Cap (£m)	310
EV (£m)	883
Free Float*	26%
Market	Main

*As defined by AIM Rule 26

Description

PPHE owns, co-owns, leases, franchises and manages a portfolio of 4* hotels with 8,300 rooms in Europe, with a strong emphasis on Central London. Real net asset value per share is significantly higher than the share price.

Company information

CEO	Boris Ivesha
CFO	Chen Moravsky
Chairman	Eli Papouchado

+31207178600
www.pphe.com

Key shareholders

Red Sea (Board)	44%
Molteno (Board)	19%
AroundTown Property H	9%
Hargreave Hale	6%

Diary

Jan-17	Q4 IMS
Feb-17	2016 Final

Analysts

Steve Clapham 020 7929 3399
sc@hardmanandco.com

PPHE Hotel Group

Busy Month Ahead

January saw no news from PPHE and we are looking forward to the company's trading update, due out end-January. This will be important in guiding investors on the openings of the new London hotels. Recent valuations in relation to refinancings boosted asset value well above our expectations, which is the most relevant information for long term shareholders and we are hopeful that the new openings will further boost the asset backing, although forecasting the quantum will likely have to wait for the final results.

- **Profit Forecasts:** A trading statement is due shortly, and given that we have trimmed forecasts last year, we are hopeful that the year-end will have gone in line with expectations. A key variable is the opening of the new hotels which will be a drag on the current year.
- **Full year results:** We expect the company to report end February, and we shall have greater clarity then on the combined impact of the new openings and the recent Croatian acquisition. Weaker sterling should help the H2 results, but opening delays will likely be a drag in H1 2017, albeit now in forecasts.
- **New openings:** The Park Plaza Waterloo has opened and has 81 reviews on Trip Advisor, of which 52 are excellent and 10 are very good. Hence there has been some volume, and the reception sounds favourable, but we await financial details. No news yet on the Park Royal opening timing.
- **Valuation:** The market cap continues to stand at a significant discount to the value of the hotel assets whose recent valuation showed a huge uplift. A value of £17 per share is in prospect, as the group opens its new assets. Hence the current discount will widen unless the shares perform.
- **Investment summary:** The discount to the real asset value seems anomalous in our view, although gearing used to be a pushback from investors. Financing deals illustrate that lenders are comfortable with the assets and any perceived refinancing risk has been effectively eliminated. The special dividend was a further indication of confidence, and the asset value continues to grow.

Financial summary and valuation

Year end Dec (£m)	2014	2015	2016E	2017E
Sales	165.7	169.3	258.3	300.0
EBITDA	76.1	80.1	86.9	103.0
Operating profit	56.5	61.0	60.9	75.0
Underlying PBT	26.8	30.1	24.0	37.0
EPS (p)	64.6	72.3	45.6	81.3
DPS (p)	19.0	20.0	120.0	21.0
Net (debt)/cash (€m)	-374.6	-397.7	-580.1	-555.7
Net debt/EBITDA (x)	4.9	5.0	6.7	5.4
P/E (x)	11.4	10.2	16.1	9.0
EV/EBITDA (x)	9.0	8.8	10.4	8.5
Dividend Yield (%)	2.6	2.7	16.3	2.9

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	NIPT
Price (p)	8.1
12m High (p)	16.6
12m Low (p)	6.5
Shares (m)	228.2
Mkt Cap (£m)	18.5
EV (£m)	18.9
Free Float*	74%
Market	AIM

**As defined by AIM Rule 26*

Description

NIPT is a molecular diagnostics company using latest DNA analysis techniques to develop tests for non-invasive pre-natal screening. Its flagship IONA® test is the first non-invasive *in vitro* CE Marked diagnostic for pre-natal screening to estimate the risk of a foetus having Down's syndrome or other genetic conditions.

Company information

CEO	Stephen Little
CFO	Barry Hextall
Chairman	Adam Reynolds

+44 161 667 6865
www.premaithahealth.com

Key shareholders

Directors	10.9%
Helium Rising Stars	12.8%
Hargreave Hale	8.0%
Calculus Capital	5.6%

Diary

10 Jan	Hardman report
Jan-17	Completion Yourgene
Jly-17	Patent hearing

Analysts

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Premaitha Health

Yourgene – Imminent closure of the acquisition

Premaitha uses the latest advances in DNA sequencing technology for non-invasive prenatal screening tests. IONA uses complex statistical analyses to determine the likelihood that a fetus is carrying a disorder such as Down's syndrome or other prenatal genetic abnormalities. The opportunity to grow IONA in Asian markets was well recognised, but the acquisition of Yourgene Bioscience will accelerate this process and, in particular, act as a springboard into China and India. Financial difficulties at its major customer in Europe is a frustration, but this will be offset by reshaping its distribution footprint via an established lab group in fiscal 2018.

- **Strategy**: Premaitha is using the latest DNA analysis technology for non-invasive prenatal screening (NIPT) with a focus on the global commercialisation of its flagship IONA test. Longer-term, this diagnostic technology could be developed and used also for the early detection of other diseases, such as cancer.

- **Yourgene:** Premaitha has announced the acquisition of Yourgene Bioscience, a Taiwanese NIPT testing company, to accelerate access to the fast growth markets in SE Asia. It will also act as a springboard into the large potential markets of China and India. The consideration is 76 million shares (ca.£6.8m).

- **Interims:** Although results confirmed IONA's continued progress, they were tempered by news that Esperite, its largest customer, is in financial difficulties and unlikely to buy any more IONA in fiscal 2017. Offsetting this, reshaping EU distribution via an established lab chain would put 2018 on a stronger footing.

- **Risks:** The acquisition of Yourgene makes strategic sense, accelerates growth aspirations in SE Asia, and lowers the potential risk from the Illumina patent case. It will require shareholder approval at an EGM and, being an overseas company, subsequent approval from the Taiwan government.

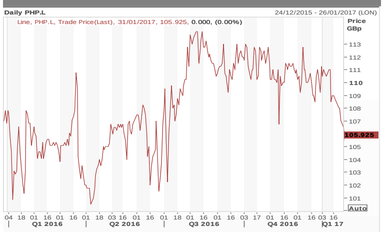
- **Investment summary:** Premaitha continues to broaden the availability of IONA internationally and the imminent conclusion of the Yourgene acquisition will accelerate this in important growth markets. While still confident of winning the Illumina patent defence, this deal also lowers the impact of losing the case. Financial difficulties at Esperite is a significant blow with lost sales and unpaid invoices, but momentum looks set to return in fiscal 2018.

Financial summary and valuation

Year end March (£m)	2014	2015	2016	2017	2018E	2019E
Sales	0.00	0.00	2.45	3.70	13.30	32.40
EBITDA	-1.44	-4.08	-5.32	-5.21	-1.69	4.93
Underlying EBIT	-1.53	-4.34	-5.87	-5.92	-2.55	3.91
Reported EBIT	-1.53	-7.54	-11.83	-6.10	-2.73	3.73
Underlying PBT	-1.53	-7.45	-5.96	-6.09	-2.83	3.62
Statutory PBT	-1.53	-7.45	-12.12	-6.27	-3.01	3.44
Underlying EPS (p)	-4.13	-4.90	-2.71	-2.53	-0.93	1.13
Statutory EPS (p)	-4.13	-4.08	-2.14	-2.03	-0.78	0.95
Net (debt)/cash	-1.99	2.71	3.97	-6.09	-13.46	-12.74
Capital increases	0.00	7.48	7.72	6.50	1.64	0.00
EV/sales (x)	-	-	-	5.0	1.4	0.6
EV/EBITDA (x)	-	-	-	-	-	3.8

Source: Hardman & Co Life Sciences Research

Real estate



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	PHP
Price (p)	105
12m High (p)	111
12m Low (p)	95
Shares (m)	598
Mkt Cap (£m)	627
EV (£m)	1293
Market	Main, LSE

Description

Long term investment into UK and Eire modern primary health properties (e.g. doctor surgeries). PHP is a REIT.

Company information

CEO	Harry Hyman
CFO	Phil Holland
Chairman	Alun Jones

020 7451 7050
www.phpgroup.co.uk

Key shareholders

Harry Hyman (director)	2.8%
Unicorn	4.9%
Black Rock	4.7%
Investec Wealth	4.5%
CCLA	4.1%

Diary

End Aug 2016	Quarterly dividend
Feb-17	Final results

Analyst

Mike Foster 020 7148 0545
mf@hardmanandco.com

Primary Health Properties

Market update scheduled for November

Results are due 16th February. Ahead of that, it is worth looking at the 'bigger picture'. PHP offers certainty in an uncertain world. It however is near 100% Sterling (UK) assets and income (a tiny foothold in Republic of Ireland is expanding). The end users are not like metropolitan restaurants benefiting from weak Sterling. It is noteworthy the average lease is some 19 years' duration and 17 years unexpired. Property Week has recently pointed to a reduction in lease lengths agreed with tenants across UK real estate – as uncertainty (for tenants) escalates. PHP is well placed therefore.

- **A good year**: 2016 saw PHP achieve a total shareholder return of 8%. The median in the sector was -1%: PHP ranked 8th out of 50. We consider it has proved itself in this year when the security of these assets, based on long leases and top quality covenants, proved particularly attractive.
- **Valuation:** The wider property markets' downturn over Brexit highlights the PHP attraction. Thus, shares are good value, despite NAV premium. The share price premium to NAV only goes to reflect what assets are changing hands for in the market – with official valuations still lagging 'reality', we consider. That said, the challenge in 2017 may prove to be how PHP compares to a resurgent real estate sector if investors read positive impacts from Sterling depreciation.
- **Risks**: PHP has relatively modest gearing financially. It is however somewhat exposed in 2019 and more in future years, if rates rise. The Bank of England has indicated that risks of inflation and recession are balanced and we see the 'lower for longer' mantra on interest rates remaining in place. PHP has raised significant equity so it is looking to invest this. Even in the absence of putting the new equity to work, the dividend is covered well.
- **Investment summary:** Recent expansion to a whole new market - Eire - is not essential to EPS growth but gives scope for upside as we model modest roll-out. EPRA NAV grew 3.2% H1. This is steady growth, but eventually when rent increases accelerate, the NAV growth will accelerate. Something more for 2018, but the attractions are strong. We pointed to its strong 2016 ranking. As we have shown in a recent Monthly – over the long term PHP's returns are well up the rankings too.

Financial summary and valuation

Year end Dec (£m)	2013	2014	2015	2016E	2017E
Income (£m)	42.0	60.0	63.1	67.8	72.5
Interest (£m)	(26.9)	(35.5)	(33.7)	(30.0)	(29.7)
Declared profit	20.2	36.9	56.0	45.2	49.3
PBT Adj.(pre rev (£m)	9.5	18.2	21.7	29.7	34.3
EPS Reported (p)	5.7	8.3	12.6	8.3	8.3
EPS Adj. (p)	2.7	4.1	4.8	5.4	5.7
DPS (p)	4.8	4.9	5.0	5.1	5.3
Property acquisitions	291.0	75.0	29.5	100.0	65.0
Net (debt)/cash (£m)	(587.0)	(655.0)	(695.0)	(665.0)	(722.0)
Dividend Yield (%)	4.6	4.6	4.7	4.8	5.0
Price/NAV	1.53	1.55	1.34	1.25	1.20
NAV (p)	68.5	69.5	78.0	84.0	87.0

Source: Hardman & Co Research

Software & Computing services

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	PURP
Price (p)	190
12m High (p)	200
12m Low (p)	72
Shares (m)	244
Mkt Cap (£m)	463
EV (£m)	438
Free Float*	66%
Market	AIM

*As defined by AIM Rule 26

Description

A hybrid estate agent delivering services through local property experts and delivered through personal contac and the internet. Originally UK it now has added offices in Australia and is growing rapidly

Company information

CEO, Founder	Michael Bruce
CFO	Neil Cartwright
Chairman	Paul Pindar

0800 810 8008
www.purplebricks.com

Key shareholders

Directors	26.8%
Woodford trusts	29.2%
Michael Bruce (CEO)	16.9%
Old Mutual (historic data)	7.0%
Kenny Bruce (director)	5.0%
Paul Pindar (director)	4.9%

Diary

Apr-17	Trading update

Analyst

Mike Foster 020 7148 0545
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Purplebricks

Hitting all its demanding targets

Last month we stated that Purplebricks had demonstrated at the recent Interims the continuing success of the model. The valuation is about confidence in the robustness of the model – for customers as well as investors – and on that basis, Purplebricks is firing on all cylinders. Last month we also stated: "We are increasingly positive about the ability to raise those UK market share estimates of some 10% of the total UK sales market – given that our initial target is likely to be reached circa four years from now." We are not planning on changing our estimates, but the propensity is to raise the numbers. This is of course still in marked contrast to the business models Purplebricks is competing with.

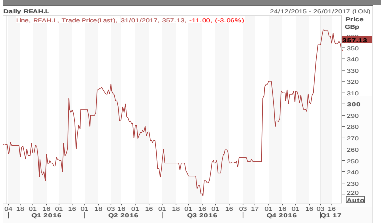
- **Successful model**: The sector-wide pressure continues. Both in sales and in lettings (London at any rate) the market has become a 'buyers' market. Purplebricks is growing market share so we see this both as the main criterion of success this year and next but also a way to keep forward estimates reasonably underpinned in the face of what remains a difficult market.
- **Valuation**: Again we do have to refer back to last month's comment. We stated "We continue to see these shares as undervalued, with investors being able to count on many years of growth visibility. A 2020 PE in single figures is too low (given Rightmove's rating for example). With net cash of £29m and generating net cash, this is a disruptive business." Short term, a share price in the range approaching 200p does however reflect a strong view of the next couple years' progress. We consider this justified but would not wish to see the rating move too far up from here just yet.
- **Investment summary:** Purplebricks is proving that it provides better cheaper more efficient service to its customers. It has plenty of scope medium term to surprise on the upside. We consider our 10% of UK sales market target to be eminently achievable and our numbers as yet include nothing for lettings which is growing well at an early stage. We see scope for a third territory at some stage. The model keeps proving its superiority.

Financial summary and valuation

Year end Apr (£m)	2015	2016	2017E	2018E	2019E	2020E
Sales (£m)	3.4	18.6	44.5	70.5	108.0	150.5
EBITDA pre share based	(5.4)	(9.7)	(3.8)	10.7	31.2	54.0
Operating profit (£m)	(5.4)	(9.8)	(5.5)	7.7	26.7	49.5
PBT (£m)	(5.4)	(9.8)	(5.5)	7.7	26.7	49.5
EPS (p)	na	(10.3)	(2.2)	2.5	8.7	15.8
DPS (p)	-	-	0.0	0.0	0.0	0.0
Net (debt)/cash (£m)	4.6	30.5	24.7	32.3	59.4	105.9
Net debt/EBITDA (x)	cash	cash	cash	cash	cash	cash
P/E (x)	na	na	na	76.0	21.8	12.0
EV/Sales (x)	na	23.5	9.8	6.2	4.1	2.9
EV/EBITDA (x)	na	na	na	40.9	14.0	8.1
Div Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

We estimate nil dividends but this is under review *Source: Hardman & Co Research*

Food Producers



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	RE.
Price (p)	358.0
12m High (p)	366.0
12m Low (p)	218.3
Shares Ord (m)	40.5
Shares Prefs (m)	63.6
Mkt Cap Ord (£m)	145.0
Mkt Cap Pref (£m)	62.2
EV ($m)	464.9
Free Float* (%)	33.9%
Market	Main

**As defined by AIM Rule 26*

Description

R.E.A. is engaged in the operation and further development of palm oil plantations in East Kalimantan, Indonesia. The Group also operates a stone quarry, and owns coal mining concessions which have been contracted out to significant coal mine operators.

Company information

Managing Director	Mark Parry
Chairman	David Blackett

+44 (0)20 7436 7877
www.rea.co.uk

Key shareholders

Directors	31.95%
M & G Investment Mang.	14.97%
Alcatel Bell Pension Fund	10.32%
Artemis UK	8.83%

Diary

Apr-17	2016 Results

Analysts

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R.E.A. Holdings

Questions over supply keeps Palm Oil trending firm

The expected rebound in Crude Palm Oil (CPO) production, as the affects of the El Nino are finally banished, is being delayed and this is maintaining the CPO price of around $800/tonne (CIF Rotterdam).

- **Severe flooding in Johor:** 9,000 people have been evacuated from Johor, the 3rd largest palm growing state in Malaysia, and this has meant the Malaysian Palm Oil Board has predicted a month on month fall of 11.4% in production. This has meant upward pressure on both the CPO spot price and the price of the February futures contract.
- **Performance of CPO:** With the USD enjoying a bullish period, the Ringitt has weakened and this is again bullish for the CPO price. With a weaker currency, and the previously mentioned supply issues, CPO has moved consistently upwards from $600/tonne (CIF Rotterdam) to above $800/tonne over the last 12 months. Only the increasing world supply of soybeans, and the resultant falling price of soybean oil, has implemented any downward pressure on the CPO price.
- **Share price performance:** REA Holdings' share price moved to 366p on the 5th of January 2017; its 12-month high. It is now trading at 358p, a 39.3% increase from the price level of 257p on the 1st of February 2016. The Bursa Malaysia Asian Palm Oil Plantations Index is up 6.4% over the same period. REA's 9% preference share has also performed strongly over 2016, trading currently at 97.7p, up 23.2% from a year ago.

Financial summary and valuation

Year end Dec ($m)	2013	2014	(Restated) 2015	2016E	2017E
Sales	111	126	91	88	124
EBITDA	39	43	15	19	41
Reported EBIT	27	32	-4	0	21
Pre-tax Profit	25	24	-9	-10	7
EPS (cents)	16	40	-53	-40	-10
Dividend per share(p)	7.25	7.75	0.00	0.00	4.00
Net (debt)/cash	-164.4	-179.2	-196.7	-206.0	-209.9
P/E (x)	24.3	9.5	-	-	-
Planted Hectares (ha)	33,830	34,614	37,097	43,097	47,097
EV/Planted Hectare ($/ha)*	12,150	11,875	11,080	10,787	8,727
CPO Production (mt)	147,649	169,466	163,880	136,850	186,235

**EV/planted Hectare include market capitalisation of the 9% Cumulative Pref. Shares*

Source: Hardman Agribusiness

hardman&co

Food Producers

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	RGD
Price (p)	34
12m High (p)	59
12m Low (p)	30
Shares (m)	70.1
Mkt Cap (£m)	23.8
EV (£m)	28.8
Free Float*	22%
Market	AIM

**As defined by AIM Rule 26*

Description

Food manufacturing. Global sales, but predominantly UK. Cake decoration, premium bakery and food ingredients

Company information

Exec chairman	Pieter Totte
CFO	David Newman

020 3056 1516
www.realgoodfood.com

Key shareholders

Directors	6%
NB Ingredients	32%
Omnicane Inlt Inv Ltd	30%
Pieter Totte (director)	4%

Diary

Feb-17	Trading update

Analysts

Mike Foster 020 7148 0545
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Real Good Food

Hard miles

Real Good Food is in a position to point to the future benefits of its efficiency-boosting investments and we see top line growth picking up. As to the important December – January trading: we are not relying on too much strength. Many of the Real Good Food customers remain under pressure. It is spending on investment but a good part of this is to maintain margins in the face of real pressures. These 'hard miles' are worth it. The example of the successful Napier Brown disposal – securing an excellent strategic price for a business which had seen much investment – must not be forgotten.

- **With large global markets to go for, there is plenty of mileage in this story:** but investment is still required, to cover off required efficiency improvements and to continue to raise the profile of the group in its higher value-added segments of operation. These 'hard miles' are worth it. The example of the successful Napier Brown disposal – securing an excellent strategic price for a business which had seen much investment – must not be forgotten.
- **Trading:** At the start of January we stated that a trading update was anticipated in a month. We do expect this update shortly. Trading in December / January is important. Following the interim results we trimmed estimates. We hope not to have to do so again. Margins are under pressure but only relatively modestly so. Our numbers assume relatively modest growth.
- **Valuation:** Can Real Good Food shares return to the mid 40s pence levels seen in March and again October 2016? We believe they can. The current share price takes more than fully on board the real headwinds of ingredient prices rising, the need for its capital expenditure (which is in place) to raise efficiencies in the face of labour costs rising and the investments fir the future raising the profile of the brand as a whole. These are all well containable by the current strategic plans in place. We anticipate sales and profit growth despite these headwinds and despite the costs associated with the investments. Debt is modest. The free cash flow is what, we believe, lets the investment proposition down. The investment phase is heightened currently so we continue to see 2019E as a year where strong cash flow comes through. When that happens, the low rating – especially on EBITDA measures – will be apparent. At the moment 2019 seems a long way away.

Financial summary and valuation

Year end Mar (£m)	2014	2015	2016	2017E	2018E
Sales	272.6	104.5	100.4	109.4	115.5
EBITDA	2.4	4.8	4.0	6.2	7.2
Operating profit	0.2	3.0	2.2	4.0	4.6
PBT (Adj)	-1.2	1.9	2.0	3.3	3.8
EPS (p)	-0.4	1.3	2.0	3.2	3.7
DPS (p)	0.0	0.0	0.0	0.2	0.6
Net (debt)/cash (£m)	-31.3	-30.1	-5.0	-10.0	-10.8
Net debt/EBITDA (x)	13.0	6.3	1.3	1.6	1.5
P/E (x)	n.a.	26.0	17.0	10.7	9.2
EV/EBITDA (x)	12.0	6.0	7.2	4.6	4.0
FCF Yield (%)	4.3	-15.0	6.0	-0.8	-1.2
Dividend Yield (%)	0.0	0.0	0.0	0.6	1.8

NB PBT Adj., pre revaluation, performance fee *Source: Hardman & Co Research*

hardman&co

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	REDX
Price (p)	36.6
12m High (p)	67.8
12m Low (p)	23.0
Shares (m)	93.7
Mkt Cap (£m)	34.3
EV (£m)	30.2
Free Float*	56%
Market	AIM

**As defined by AIM Rule 26*

Description

Redx Pharma is a drug discovery and development company focused on creating best-in-class new drugs in the areas of cancer, infection and autoimmune disease. The company's work has been endorsed by partnerships with global pharma companies and the NHS.

Company information

CEO	Neil Murray
Interim FD	Andrew Booth
Chairman	Frank Armstrong

07491 651 406
www.redxpharma.com

Key shareholders

Directors	11.7%
Seneca Partners	11.4%
Jon Moulton	10.7%
AXA Framlington	9.8%
Aviva	7.2%
Alderley Park Holdings	4.7%

Diary

12 Dec 2016	Hardman report
Feb-17	Finals
H1-17	FiM RXC004

Analysts

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Redx Pharma

Porcupine inhibitor: clinical trial application

Although Redx has only been in operation since late 2010, it has already created several valuable drug candidates that are about to begin clinical development. Progress into the clinic will enhance significantly the value of these drug candidates as well as providing further technical validation of the company's approach. Redx has followed recent announcements that RXC004, its porcupine inhibitor, enhances the effect of a PD-1 checkpoint inhibitor and progress with its Gram-negative bacteria programme, with news that the company has identified RXC005 to be its wild type and mutant BTK inhibitor drug development candidate.

- **Strategy:** To discover 'best-in-class' drugs in therapeutic areas of significant commercial interest and, on a selective basis, to take those assets through early clinical development. Redx is focused on licensing out assets to drug major(s) for late-stage development and commercialisation to secure optimal returns.

- **Porcupine (PORC) inhibitor:** With RXC004, Redx is targeting a cell signaling pathway that controls the spread and recurrence of cancer as well as resistance to other treatments. In pre-clinical studies, Redx has demonstrated the implication of PORC inhibitor in the field of immuno-oncology, particularly in combination with a checkpoint inhibitor. In early 2017, Redx is planning to commence a first-in-man study with RXC004 for hard-to-treat cancers.

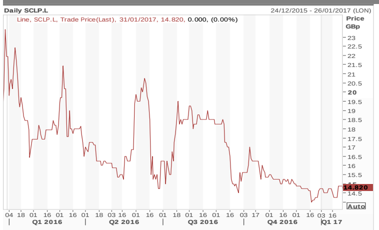
- **First clinical trial:** Redx is currently finalising with the UK regulatory agency (MHRA) a clinical trial application for RXC004. The trial will assess the safety and tolerability of RXC004 in humans. The primary focus will be as a monotherapy agent for pancreatic, biliary and gastric cancers. A combination therapy with an anti PD-1 checkpoint inhibitor will also be incorporated in the trial to confirm the synergetic effect of RXC004 in humans.

- **Second porcupine inhibitor identified:** In addition, a second molecule PORC inhibitor has also been identified. The compound belongs to a new class of inhibitor coming from Redx's research lab. The new PORC inhibitor is currently being assessed in non-cancer indications: fibrotic diseases such as pulmonary fibrosis, diabetic nephropathy and non-alcoholic steatohepatitis.

- **Risks:** Clearly not without financial risk, however, Redx's strategy and breadth of portfolio reduces the binary risk seen with single product companies. Also, timing of licensing deals is difficult to predict, but management has established already a track record of securing deals (including AstraZeneca, NHS, Horizon, Pierre Fabre). There is clear precedent that pharma/biotech is willing to pay high prices for assets, reflecting the level of de-risking undertaken by the developer.

- **Investment summary:** Redx offers investors access to a highly versatile and successful discovery engine, geared specifically towards clinically differentiating its assets to achieve potentially best-in-class and first-in-class status, which in turn should translate into highly valuable assets. Redx, which has a programme that is moving to clinical study and another that potentially could reach clinical studies in the next 12-15 months, is gearing up the value and bringing Redx into the clinical stage arena. Redx is due to report FY 2016 numbers early in February.

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	SCLP
Price (p)	14.6
12m High (p)	21.8
12m Low (p)	12.8
Shares (m)	261.6
Mkt Cap (£m)	38.2
EV (£m)	31.7
Free Float*	75%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

Exec Chairman	John Chiplin
CEO	Richard Goodfellow
CSO	Prof. Lindy Durrant
US Office	+1 858 900 2646
UK HQ	+44 1865 338 069
	www.scancell.co.uk

Key shareholders

Directors	6.6%
Calculus Capital	18.5%
Share Nominees	8.5%
Hargreaves Lansdown	7.2%
Barclayshare Nominees	5.7%
Lynchwood Nominees	4.8%

Diary

26 Sept	Hardman report
31 Jan	Interims

Analysts

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Scancell Holdings

New partnership in lung cancer

Scancell is a clinical stage pharmaceutical company developing two distinct flexible cancer immunotherapy platforms, each with broad applications. ImmunoBody is a DNA vaccine which stimulates high avidity anti-tumour T-cells for use as a monotherapy or in combination with checkpoint inhibitors. Moditope targets modified antigens and stimulates powerful anti-tumour T-cell responses for use in advanced and hard-to-treat cancers. Both platforms are targeting multi-billion dollar markets. Scancell has just announced a partnerhip with Addario Lung Cancer Medical institute to advance its lung cancer vaccine trials.

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

- **Addario partnership:** Scancell is going to collaborate with the Addario Lung Cancer Medical Institute (ALCMI) and the Bonnie J. Allario Lung Cancer Foundation (ALCF) on the use of SCIB2 from its ImmunoBody platform for the treatment of non-small cell lung cancer (NSCLC).

- **NSCLC trial:** ALCMI will assist Scancell in the design and development of its planned Phase I/II SCIB2 trial which is expected to start in 2018 and complete in 2010. The CDC estimates that lung cancer accounts 27% of all deaths in the US from cancer and it remains one of the most difficult cancers to treat.

- **Interims:** At the time of going to press, Scancell was about to release its interim results for fiscal 2017. The main focus will be on its capital position of the company. It is known by the market that more capital will be required to advance its proprietary assets further along the value chain.

- **Investment summary:** Scancell is trading on an EV of £32m, compared to a cumulative investment of ca.£20m to get the company where it is today, which is low compared to its relevant peers. Scancell's proprietary technologies are in the 'hot' area of immuno-oncology and targeting markets of significant unmet medical need. Given that big pharma is willing to pay handsomely for such validated assets, we foresee considerable upside potential in the shares.

Financial summary and valuation

Year end Apr (£m)	2014	2015	2016	2017E	2018E	2019E
Sales	0.00	0.00	0.00	0.0	0.0	0.0
R&D investment	-1.68	-2.00	-1.85	-3.6	-6.0	-9.7
Underlying EBIT	-2.45	-2.87	-3.00	-6.0	-8.6	-12.5
Reported EBIT	-2.50	-2.96	-3.04	-6.0	-8.6	-12.6
Underlying PBT	-2.42	-2.74	-2.99	-6.0	-8.5	-12.5
Statutory PBT	-2.47	-2.83	-3.03	-6.0	-8.5	-12.5
Underlying EPS (p)	-1.00	-1.03	-1.08	-2.0	-1.8	-2.6
Statutory EPS (p)	-1.03	-1.07	-1.10	-2.0	-1.8	-2.6
Net (debt)/cash	5.57	3.06	6.53	22.7	15.0	3.7
Capital increase	6.16	0.00	5.79	21.7	0.0	0.0
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	-	-	-	-

Source: Hardman & Co Life Sciences Research

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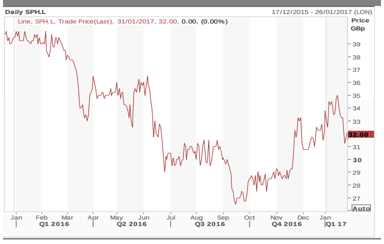
Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	SPH
Price (p)	32.0
12m High (p)	40.0
12m Low (p)	26.0
Shares (m)	502.1
Mkt Cap (£m)	160.7
EV (£m)	143.8
Free Float*	56%
Market	AIM

**As defined by AIM Rule 26*

Description

Sinclair operates in the aesthetics market with a portfolio of products targeting unmet clinical needs for natural looking and minimally-invasive treatments. It is well established in Europe, has an affiliate in Brazil, the second largest market, and is now entering the US.

Company information	
CEO	Chris Spooner
CFO	Alan Olby
Chairman	Grahame Cook

+44 20 7467 6920
www. sinclairpharma.com

Key shareholders	
Directors	2.3%
Toscafund	29.2%
Lansdowne Partners	11.9%
Abingworth LLP	5.9%
Ballie Gifford	3.3%

Diary	
17 Jan	Hardman report
21 March	Finals
May-17	AGM

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Sinclair Pharma

Trading update – Demanding targets exceeded

Sinclair is a pure-play aesthetics company with a concentrated and highly competitive portfolio of differentiated injectable aesthetics products, which target unmet clinical needs for effective, high quality, longer duration, natural looking and minimally-invasive treatments, which is a significant growth opportunity. Sinclair has an established sales and marketing presence in Europe, direct sales in Brazil, and operates through an international group of distributors in other markets, including SE Asia and the US. With the benefit of a strong balance sheet, Sinclair is investing in an accelerated growth phase and margin expansion.

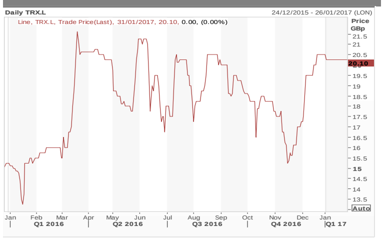
- **Pre-close update:** Sales in the 12 months to December 2016 were about £2m ahead of market expectations, with underlying growth of +37% to £37.8m (£25.0m *pro-forma*). Weakness in sterling boosted the reported numbers by £3.5m, bringing reported sales growth to +51%.
- **Products:** All key products saw strong growth. Silhouette Soft (+47%) reflected good performance across several markets. Silhouette InstaLift has started well in the US with an initial stocking order ahead of expectations. Exceptional growth was recorded by Ellansé (+69%), with Perfectha (+30%) performing well.
- **Net cash:** Following the group reorganisation, management always planned to invest in commercial infrastructure and marketing support to drive future growth. However, the cash burn in 2H'16 was about £1.0m lower than forecast at -£7.5m, leaving the group with £16.8m net cash at 31st December 2016.
- **Forecast changes:** No changes from our report published on 17th January. Higher sales have benefited the P&L, with EBITDA now -£6.5m for 2016. Strong underlying growth, coupled with continued sterling weakness has a knock-on effect, with EBITDA and EBIT forecast to be positive in 2017 & 2018 respectively.
- **Investment summary:** The market should be very reassured that management has more than delivered on what were demanding growth targets. The company is continuing to invest in growth but is still expected to deliver EBITDA profit next year and overall profitability in fiscal 2018. The risk/reward profile is very favourable which should be reflected by a change in market sentiment.

Financial summary and valuation

Year end Dec (£m)	2015	2016E	2017E	2018E	2019E
Sales	25.0	37.8	47.8	61.5	76.9
Gross profit	0.0	0.0	0.0	0.0	56.9
EBITDA	-7.9	-6.5	2.1	11.5	22.1
Underlying EBIT	-16.4	-12.0	-3.4	6.0	16.6
Reported EBIT	-18.2	-8.9	-5.1	4.3	14.9
Underlying PTP	-16.4	-17.5	-6.8	3.1	14.8
Underlying EPS (p)	-3.3	-3.3	-1.2	0.7	2.4
Statutory EPS (p)	-3.7	-2.6	-1.5	0.4	2.1
Net (debt)/cash	75.4	16.8	5.1	10.5	8.0
P/E (x)	-	-	-	-	13.2
EV/sales (x)	5.8	3.8	3.0	2.3	1.9
EV/EBITDA (x)	-	-	-	12.5	6.5

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	TRX
Price (p)	20.3
12m High (p)	22.5
12m Low (p)	15.0
Shares (m)	760.1
Mkt Cap (£m)	153.9
EV (£m)	140.4
Free Float*	34%
Market	AIM

**As defined by AIM Rule 26*

Description

TRX is a medical device company in regenerative medicine. Its patented dCELL technology removes DNA, cells & other material from animal/human tissue leaving an acellular tissue scaffold, not rejected by the body, which can then be used to repair diseased or worn out body parts. Its products have multiple applications.

Company information

CEO	Antony Odell
CFO	Paul Devlin
Chairman	John Samuel

+44 330 430 3052
www.tissueregenix.com

Key shareholders

Directors	6.9%
Invesco	27.8%
Woodford Inv. Mgmt.	19.3%
Techtran Group	13.6%
Baillie Gifford	6.6%

Diary

9 Dec 2016	Hardman report
1H-17	CE Mark OrthoPure XT
May-17	Finals

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Tissue Regenix

Appointment of finance director

TRX has a broad portfolio of regenerative medicine products developed from decellularised human and porcine tissues for the wound care, orthopaedics, and cardiac markets. Sales of DermaPure have continued to gain traction in the US following launch in 2014 – growth in the first half of 2016 was +128%. Meanwhile, progress towards regulatory approval of the orthopaedics products continues apace, particularly in Europe, which will aid FDA approval in coming years. TRX is well placed to deliver on its strategy, with launch of OrthoPure XT in Europe expected during the first half of 2017.

- **Strategy**: To build a regenerative medicine business with a portfolio of products using the dCELL platform, underpinned by compelling clinical and economic outcomes designed to drive higher adoption rates, whilst retaining the strategic and corporate flexibility that the three therapeutic corporate entities provide.

- **Forecasts:** TRX is changing its reporting period from January to December, so the next set of numbers will be for the 11 month period to December 2016. The adjustment is complex because MedTech companies tend to have strong sales in their last fiscal month. Details published in our report dated 9th December.

- **CFO:** In January, the Board appointed Paul Devlin as CFO and Company Secretary. He joins TRX from an assignment at a private equity house. Prior to this he was FD at Fletchers Bakeries Ltd, taken over by Finsbury Foods. Paul brings considerable experience in M&A and business transformations.

- **Risks: Clinical and regulatory** (ongoing clinical trials in order to achieve approvals), financial (further funding for OrthoPure US trial costs but these could be through partnerships), and commercial (roll out of DermaPure, SurgiPure and OrthoPure) but mitigated by use of a hybrid sales strategy.

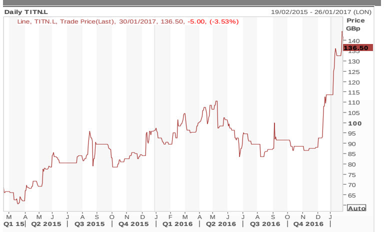
- **Investment summary:** TRX is building commercial momentum through three clear value drivers: good sales of DermaPure (chronic wounds), earlier CE Mark for the OrthoPure XT tendon product, and launch of SurgiPure (hernia repair). This is de-risking the business for investors, but also attracting the attention of potential acquirers. Our DCF valuation is 32p per share, heavily influenced by near-term R&D and marketing investment.

Financial summary and valuation

Fiscal year (£000)	*2014	*2015	*2016	+2016E	++2017E	++2018E
Sales	6	100	816	1,300	5,567	13,124
R&D	-3,356	-3,296	-3,676	-5,270	-8,000	-8,000
Underlying EBIT	-6,483	-8,189	-10,106	-11,540	-13,940	-9,184
Reported EBIT	-6,577	-8,369	-10,242	-11,815	-14,236	-9,500
Underlying PBP	-6,209	-8,021	-9,893	-11,418	-13,866	-9,129
Statutory PBT	-6,303	-8,201	-10,029	-11,694	-14,162	-9,445
Underlying EPS (p)	-0.9	-1.2	-1.3	-1.45	-1.7	-1.0
Statutory EPS (p)	-0.9	-1.2	-1.3	-1.48	-1.7	-1.1
Net cash/(debt)	18,483	10,257	19,907	7,600	11,942	1,682
Capital increases	8	5	19,019	0	20,000	0
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	-	-	24.2	10.3

**Year to January; + 11-months to December (current); ++Year to December*
Source: Hardman & Co Life Sciences Research.

Construction & Materials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	TON
Price (p)	144.5
12m High (p)	144.5
12m Low (p)	81.5
Shares (m)	10.9
Mkt Cap (£m)	15.8
EV (£m)	13.3
Free Float	97%
Market	MAIN

**As defined by AIM Rule 26*

Description

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

Company information

Executive Chairman	Keith Ritchie
Chief Executive	David Ruffell

01206 713 800
www.titonholdings.com

Key shareholders

DUFM	19.0%
Chairman	9.0%
Other Directors	8.2%
Founder/NED	16.0%
Family	7.3%

Diary

15 Feb-17	AGM

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Titon Holdings

Titan Titon

In classical Greek mythology, the Titans were a race of immortal giants who ruled the World before the Olympians and were renowned for their great strength and knowledge. When a company returns 68% to shareholders over the past 12 months it is worthy of such a sobriquet - not to mention 27% in the opening weeks of the New Year; different spelling, same meaning.

- **So good we named it twice:** founder John Anderson's first choice, in 1972, was 'Titan' but it had already been registered. He, thus, alighted on 'Titon' (reputedly the American spelling) and, similarly, adopted the original Corinthian helmet as the Company's logo. The latter personified protection for the immortal and was a life saver for the corporeal.

- **TSR:** in the past 12 months, Titon has generated a Total Shareholder Return of 68% and; since the start of 2017, the moniker is 27%. By comparison, the Hardman UK Building Materials Sector had generated a TSR of just 10% over 12 months and 4% in 2017 to date (Bloomberg data at 26 January).

- **The Sector:** the Hardman UK Building Materials Sector comprises 22 companies with a total market value of £7.1 billion (and net cash of £650 million). It is valued at 9.6x EBITDA on a trailing 12 month basis (TTM) or 8.2x adjusted for outliers; and Titon is fourth cheapest at 5.7x.

- **Economic outlook:** in the Brexit hinterland, UK GDP should grow by circa 1.0% this year and in 2018, says Experian, with construction remaining positive in both years (0.6% and 1.6% respectively). Meantime, in South Korea, the Bank of Korea is forecasting slightly slower GDP growth in 2017 in the "mid 2%" range (after +2.6% in 2016 when construction was also strong) and nearer 3% per annum from 2018.

- **Summary:** not the stuff that myths are made. In March last year we initiated coverage of Titon at 93.1 pence per share dubbing it "small, fresh and perfectly formed" - and it has now touched 144.5 pence. Yet, the Company is still fourth cheapest of 22 in the Sector. The Titans comprised the first pantheon of Greek deities and it can't be long until Titon enters the building materials equivalent.

Financial summary and valuation

Year-end Sept (£m)	2014	2015	2016	2017E	2018E	2019E
Sales	19.3	22.3	23.7	24.4	24.9	26.2
EBITDA	1.70	2.13	2.33	2.46	2.54	2.67
Underlying EBIT	1.14	1.56	1.77	1.88	1.93	2.03
Statutory PTP	1.33	1.87	2.14	2.28	2.38	2.53
Underlying EPS (p)	8.5	12.6	15.2	15.9	16.5	17.7
Statutory EPS (p)	8.5	12.6	15.2	15.9	16.5	17.7
Net (debt)/cash	2.1	2.9	2.4	2.6	3.0	3.5
Shares issued	10.8	10.8	10.9	10.9	10.9	10.9
P/E (x)	17.0	11.5	9.5	9.1	8.7	8.2
EV/EBITDA (x)	8.0	6.1	5.7	5.3	5.0	4.6
DPS (p)	2.50	3.00	3.50	3.75	4.00	4.50
Yield	1.7	2.1	2.4	2.6	2.8	3.1

Source: Hardman & Co Research

Notes

Notes

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